

David Cameron announces 'triple lock' approach to restore Conservative credibility on the economy

David Cameron will today deliver his first speech on the economy since becoming Conservative Party leader to an audience of business leaders at Bloomberg.

He will say that the Conservatives have learned their lesson since the ERM and that he will never take risks with people's mortgages and livelihoods by putting economic stability at risk. He will announce a macro-economic framework designed to provide a "triple lock" on economic stability, including:

- . **Independent setting of interest rates by the Bank of England.**
He will announce that he will never allow political interference to tarnish Bank of England Independence and that he will not hand over the Bank of England's power to set interest rates to the ECB.
- . **Independent assessment of fiscal rules.** There will be an independent panel to judge the Golden Rule.
- . **Independent statistics.** The Office for National Statistics will be given independence.

David Cameron will say:

Check against Delivery

“Six hundred and ninety Wednesdays ago, my Party lost its reputation for economic competence.

I was there that day, working in the Treasury. You may have seen the TV footage.

The events leading up to that day were bad for our economy, disastrous for our Party, but most important of all...

...made life really difficult for the millions of families who faced high interest rates, negative equity, and repossessions.

No matter that the policy was backed by the CBI and by Gordon Brown and the Labour Party.

That was thirteen years ago.

We've learned our lesson.

I will never let that happen again.

We will never again take risks with people's mortgages and with people's livelihoods by putting economic stability at risk.

So I'm announcing today a new Conservative economic framework to protect people's mortgages and livelihoods...

... with a triple lock on economic stability.

We will take the politics – and the politicians – out of the crucial long-term judgments that affect mortgage rates.

OUR CURRENT STABILITY

In Britain today we're living through a long period of economic stability.

Our economy has grown consistently, each year and each quarter, for over thirteen years.

Because of that growth, we are on average wealthier and better paid than ever before.

With that growth we can afford better public services and a better standard of living.

But to ensure that growth continues, we need two things:

...economic competitiveness

...and economic stability.

ECONOMIC COMPETITIVENESS

In an increasingly competitive world we're not doing nearly as well as we should.

Britain has fallen in the world competitiveness rankings from 4th to 13th.

The reasons are clear.

We have a growing burden of taxation, with some of the highest business taxes in the OECD...

...where just five years ago Britain had some of the lowest.

Despite Gordon Brown's promise that:

"The objective of any government is to lower rather than increase the tax burden on ordinary families"[\[1\]](#).

...families know that their tax burden has risen.

And the Chancellor has now promised it will rise further still.

We have a growing regulatory burden, costing Britain's economy an estimated £40 billion a year.

We've fallen from 13th to 51st in the World Economic Forum's regulation league table...

...and we dropped from 11th to 26th on bureaucracy.

Our business investment is the lowest since records began.

We need to do much more to develop a well-educated and highly skilled workforce. And we desperately need a twenty-first century transport infrastructure.

This country is crying out for a consistent, credible set of policies to improve our competitiveness for the long term...

...so our economy can create the investment and jobs that guarantee rising living standards.

Only then can we continue to generate the wealth to pay for the investment we need in our public services.

I'm confident that a renewed Conservative Party can produce the ideas we need to make our economy more competitive.

It's one of the six big challenges Britain faces...

...and so early in the New Year, I will be announcing details of our Policy Group on Economic Competitiveness.

It will think radically, and for the long term about the action we need to take to enable strong economic growth and more wealth creation.

ECONOMIC STABILITY

But before we can tackle the long term challenge of making Britain competitive in the modern world...

... we must first show that people can have confidence in Conservative economic policy.

That we will never risk high mortgage rates, or high inflation, or risk letting the public finances get out of control.

That we'll never put the stability of the British economy at risk.

We need to establish a clear and credible framework for macroeconomic policy and economic stability...

...so that the growth which began under the last Conservative

government will continue under the next Conservative government.

We need to show we have learnt from the past in order to give people confidence about the future.

MACROECONOMIC FRAMEWORK

Our current macroeconomic framework has evolved since the early 1990s.

The introduction of inflation targeting, and of the independent Inflation Report in 1992 was the basis of the current system.

Between 1993 and 1997, fiscal policy followed a ‘growth rule’ to ensure that the public finances were sustainable and that interest payments were reduced.

That framework led to the so-called “golden economic inheritance” that greeted Gordon Brown on his arrival at the Treasury in 1997.

That inheritance consisted of healthy public finances, a budget surplus, low and falling debt, low interest rates, and inflation of just 1.5%.

The framework was built on by Labour through the operational independence of the Bank of England in 1997...

...and the introduction of the fiscal rules in 1998.

The “golden rule” states that over the cycle, borrowing can only be used to fund investment, not to fund current spending.

The “sustainable investment rule” states that net debt should remain at less than 40 per cent of GDP.

Even at the time, the rules contained a theoretical weakness, because the Treasury retained control over key assumptions...

The Chancellor can determine the length of the cycle and the definition of investment.

So there was always the potential for the rules to lose credibility because of political interference.

LOSS OF CREDIBILITY

And that’s exactly what has happened

The current fiscal rules now suffer a serious and growing problem of public credibility.

In July, citing data revisions, the Chancellor announced a change in the timing of the economic cycle at a meeting of the Treasury Select Committee.

He made this announcement without prior discussion or consultation and without a formal statement to the House of Commons.

To say the least this was an inappropriate way to announce such an important change.

Its effect was simple.

It meant that the golden rule would not be broken in the present cycle, thus preventing political embarrassment for the Chancellor.

But on the following day, data on the Public Finances were released showing that the UK was in deficit on the golden rule under the old definition.

The credibility of the sustainable investment rule has also been brought into question...

...because of off-balance sheet accounting treatment of some major contingent liabilities...

...for example PFI debt and Network Rail liabilities.

The Institute for Fiscal Studies estimates that without a change in policy, the sustainable investment rule “is likely to be breached in 2008-9.”

But were the additional off-balance sheet liabilities to be included, the rule would be breached even sooner.

In fact, further research estimates that total Government liabilities amount to 1.3 trillion, or more than our annual GDP.

So the sustainable investment rule actually covers under two fifths of total Government liabilities – only a part of total Government debt.

So I think it's time to update Britain's macroeconomic framework again...

...to provide greater credibility...

...to lock in stability...

...and to provide the foundation for competitiveness and revived economic growth.

CONSERVATIVE MACROECONOMIC FRAMEWORK

So today I can announce a Conservative macroeconomic framework designed to provide a triple lock on economic stability:

Independent setting of interest rates...

Independent assessment of the fiscal rules...

...And independent statistics.

This triple lock on economic stability will take the politics – and the politicians...

...out of the crucial economic judgments that affect the long-term stability of our economy.

Our approach will create the foundations for low inflation, low interest rates, high employment, and high and sustainable income growth.

Let me spell out our ‘triple-lock’ on stability and set out in more

detail in the policy document we're publishing today.

INTEREST RATES

The first lock on stability is already in place and is well respected.

We support the independence of the Bank of England to set interest rates by reference to a fixed inflation target.

We will never let that independence be tarnished by political interference or by using undue influence.

And we will not hand over the Bank of England's power to set interest rates to the European Central Bank.

Under the Conservatives, the United Kingdom will retain its own currency and interest rates will be set in the United Kingdom, for the United Kingdom.

No other party is prepared to make this pledge.

FISCAL RULES

Our second lock on stability is an independent panel to judge the golden rule.

Rules to ensure that the public finances are kept in order are a good idea.

We will strengthen them and restore confidence in them by establishing a new Fiscal Projections Committee to judge whether the rules are being met. It will be independent and report to

Parliament twice a year, at the same time as the Budget and the pre-Budget Report.

With independent judges, the verdict on the fiscal rules will be clear. We will not break them.

So the public finances will be safe with us.

NATIONAL STATISTICS

The third lock on economic stability is independence for the Office for National Statistics.

I welcome the recent announcement by the Chancellor on this subject.

It's something we've been calling for for a while...

...so it's good to see he too believes in consensus politics.

Only with truly independent statistics can the business community and the public believe the figures.

But there are a number of questions the Chancellor needs to answer:

Who will appoint the National Statistician?

Will the National Statistician, like the Comptroller and Auditor General, be an officer of the House of Commons?

Who will appoint the external members of the Governing Board and will they be in a majority?

Will the National Statistician be given responsibility for preparing the National Accounts...

...so that an independent view is taken of things such as PFI, Network Rail and public sector pension liabilities?

Will the National Statistician be given responsibility for labour market analyses?

Genuinely independent national statistics will bring credibility to Government statistics.

This will in turn improve the standing of the Sustainable Investment Rule...

...which is now discredited by the Government's use of off-balance sheet financing.

We will make statistics truly independent – reporting to Parliament, with a responsibility for all Government statistics.

CONCLUSION

This approach to economic stability shows that we have learnt the lessons of the past.

So I say today to everyone with a mortgage...

...everyone saving to buy their own home...

...everyone with their own business...

...that the Conservative Party has changed.

We've learned our lesson. We'll never again put your home, your business, your future at risk by undermining economic stability.

With our triple-lock on economic stability providing the foundation...

...we can build a strong and vibrant economy...

...ready to meet the challenges of an ever-more competitive world...

...and ready to create jobs, wealth and opportunity for everyone in our country.”