

IPPR

Introduction

Can I start by thanking IPPR for the invitation to speak here.

You have been at the heart of the economic debates in our country for more than twenty years since you were established.

And there is no more important debate than that which lies behind next Tuesday's Autumn Statement.

I have been making an argument since the Party conference that we must build a different kind of economy in the future based on the values of the British people of responsibility, long-termism, something for something.

I believe it is a crucial long-term argument.

But to get to that economic future we need to build a bridge from the present economic crisis.

Seventeen months ago, at the time of the Government's emergency budget, some people agreed with Labour that David Cameron and George Osborne were cutting spending and raising taxes too far and too fast, endangering our recovery.

But there were plenty of others who disagreed with us.

Today, I want to ask them to think again and look afresh at the evidence.

Having spent much of the last year travelling to every corner of Britain and listening to people, I know that many of those who disagreed with us on economic policy did so for genuine reasons.

They have told me that we should have done more for manufacturing.

That we didn't get it right on bank regulation.

That we should have acknowledged earlier that we would have made cuts.

And I know these concerns were part of the reason why some people decided that, whatever the risks, it might be worth giving this Conservative-led Government's approach the benefit of the doubt.

After the global financial crisis, Britain was faced with a deficit of over £150 billion.

People rightly felt that it had to be dealt with.

And they are still right to feel so.

But what has changed, why the Government no longer deserves the benefit of the doubt, is that even on this measure – the central test they set themselves – the plan isn't working.

It isn't working because their failure to get businesses growing, to see more jobs created, has locked them, and the country, into a vicious cycle on the deficit.

With low growth, more people out of work claiming benefits, and less paying tax, and higher borrowing as a result.

In particular to those that were willing to give the Government the benefit of the doubt 17 months ago, I want to convince you today:

That the Government's plan is not working.

That, despite all the difficulties, there can be an alternative.

And that the alternative is the plan for growth and jobs we need.

It's not as if the Government wasn't warned.

The August 2010 Bloomberg speech given by Ed Balls, Labour's Shadow Chancellor, has turned out to be extremely prescient.

He was willing to break the consensus and he called it right.

But we want the government to do the right thing.

And that is what my speech is about today.

It isn't working – the context

Seventeen months ago George Osborne delivered his emergency budget.

He did so against the backdrop of an economy emerging from a recession caused by the global financial crisis.

There was momentum in the recovery, with growth reaching 1.1% in the second quarter of 2010.

Unemployment remained a major concern, but it had started to fall.

There was a large budget deficit that had to be brought down and difficult decisions that had to be made.

It isn't working – the promise

So tough times, but a recovery underway.

While we had argued for a balanced approach to bringing down the deficit, including significant tax rises and spending cuts, the new government believed more drastic action was required.

George Osborne made the case in his June 2010 Budget that it was necessary to go £40bn further and faster.

Because if we failed to do so, he said we would face a loss of market confidence.

He dismissed worries about the effects this would have on the recovery.

And said his approach meant: "a credible plan to cut our budget deficit goes hand in hand with a steady and sustained economic recovery, with low inflation and falling unemployment."

He believed the Bank of England would be able to compensate for the impact of his decisions on tax and spending.

And he argued that growth in exports would compensate for his squeeze on consumer spending and public sector cuts.

We believed he was making the wrong judgement, engaging in a dangerous gamble.

We feared it would undermine the recovery.

But it wasn't an argument about whether or not we need to see the deficit reduced.

It was a practical one, of how we best make it happen.

Of course the Government thought we were wrong.

But so did some others.

It is those people I want to make the case to today.

It isn't working – what actually happened

A case based on George Osborne's own tests: growth, jobs, low inflation and his borrowing targets.

Let's look at the facts.

On growth, after the Emergency Budget we saw one more quarter of growth, before growth faltered in the final quarter of 2010.

It has flatlined since then.

In the face of flat growth the Government pointed to stable unemployment figures as a silver lining.

Until they too turned.

They've now been rising since March 2011.

Worse, a fortnight ago we learned that there are now more than one million young people out of work.

The failure to meet the test on jobs risks creating another lost generation.

And today we hear Nick Clegg is scrabbling around trying to re-create the Future Jobs Fund just 18 months after David Cameron scrapped it.

A humiliation for a Prime Minister who just yesterday was saying we didn't need the Future Jobs Fund.

And a tragedy for the young people who have faced the last 18 months without the hope for work that the Future Jobs Fund provided.

On inflation, the CPI has now been 4% or above for the entirety of 2011.

For the last two months it has been 5% or over, in part because of the decision to raise VAT.

So on growth, jobs and inflation it is clear that the last 17 months have not seen the scenario George Osborne set out.

And the failures on growth, unemployment and inflation has had real effects on the deficit.

The Government's own forecasts told us the cost of that failure back in March: £46bn additional borrowing in the coming years.

More recent forecasts have put the figure at over £100bn.

When a further rise in planned borrowing is confirmed by the Office for Budget Responsibility next week, it will be a catastrophic blow to the Government's credibility.

The Autumn Statement will mark a crucial moment in the economic course of our country.

It will be the moment that we learn that the biggest economic gamble in a generation has failed.

That is my case to those who disagreed with us back in June 2010.

Yes the Government's argument that if you have a credit card bill you need to pay it off as quickly as possible sounded attractive.

And yes any family, faced with a debt, needs to be very careful with its budget and make some savings.

But everyone knows you can't pay off a credit card bill if you lose your job, or see your income fall.

If that happens your plan to pay down the debt simply will not work.

Indeed even David Cameron and George Osborne, having spent months complacently arguing that their "plan had taken Britain out of the danger-zone" and made us a "safe haven", admit that their plan is off track.

That there is a problem with growth.

And that borrowing will be higher than they hoped.

David Cameron says that "High levels of public and private debt are proving to be a drag on growth".

He doesn't seem to understand that he's got it the wrong way round.

It is the failure to get growth which is leading him to miss his deficit targets.

And I have to say when he says this week that "getting the deficit down turned out to be harder than anyone believed" it wasn't like he wasn't warned.

Not just by Labour, but by Nobel prize winning economists.

It isn't working – whose fault is it

So everyone, including David Cameron, now agrees the plan is off track.

The problem is he is too out of touch to realise what that means.

Out of touch with the millions of families still in work and working hard whose living standards are squeezed harder and harder each year.

We hear today that the government may freeze working tax credits which provide vital support to hard pressed working families.

These are working people, doing the right thing, expecting something for something from our economy, who now find that they are the silent victims of David Cameron's failed plan.

We cannot go on like this.

But if we are to understand what needs to be done, we need to understand why the plan is off track.

We need to ask why, when the recovery was underway just 17 months ago, we have ended up in such a serious situation.

The Government has had a series of answers.

Firstly that it was the responsibility of the last government.

Then one quarter's bad figures were the fault of the snow.

And now they blame the eurozone.

They argue that the plan was working, but that the crisis we have seen in Europe knocked the UK economy off track.

We agree that developments in the eurozone will have an impact on Britain in the months and years to come.

But the facts are clear, David Cameron is simply wrong to blame the consequences of his decisions on the slowdown in the eurozone.

Firstly, timing.

Our economy has flatlined for a year now.

But the present eurozone crisis only developed later – with the impact on euro-area itself only being significant in the second quarter of 2011.

Secondly, what has happened to our exports.

If the Government was right and growth in the UK was being held back by developments in the eurozone, it would simply be the failure to meet export targets that explained our stalled economy.

In fact the opposite is true, it is only trade which has been keeping UK growth positive.

Overall growth is being held back by the scale of shrinking domestic demand.

It's not just austerity itself that has failed.

It is austerity rhetoric that has failed.

That is what has had a chilling effect on our economy.

Consumer confidence is now at record lows, nearly half the level it was in May 2010.

And it's been like that for months and months.

Third, Britain's relative performance has been poor.

The eurozone crisis has affected a lot of economies around the world.

But the UK's has grown even less than these other economies have.

Over the last 12 months, only earthquake-hit Japan has grown more slowly in the G7 and only Portugal, Greece and Cyprus have grown more slowly in the EU.

So for reasons of timing, what has happened to our exports, and relative performance, it's clear that the failure on growth and unemployment has not been the result of developments in the eurozone.

That is why I ask those who took George Osborne's word for it last year, to look again at what is really happening.

Even the biggest supporter of the Government will be worrying about how the evidence is piling up that David Cameron and George Osborne are getting it wrong.

And beginning to wonder when either of them are going to take responsibility for what is going on.

Can there be an alternative – there's nothing that can be done

So I have set out the case for why the Government's plan is not working.

But there is another claim we need to address if we are to persuade people to think again.

The claim that there is no alternative.

Indeed the claim that there *can be* no alternative.

You hear it a lot these days.

People saying, we're just in for a bad few years.

It's one of those things.

It can't be helped.

Pretty much that's what you hear the Government saying.

'Things might be bad under us, but you can't hope for anything better.'

Of course, there are hard times ahead whoever is in power.

But it was the depression of the 1930s that broke the idea that government was powerless in the face of hard times.

What did people say after the failure of government in that era?

They said 'never again'.

Never again government shrugging its shoulders in the face of economic difficulty.

Yet here we are once again.

Can there be an alternative – brink of bankruptcy

What do I say to those outside Government who say George Osborne's gamble has not paid off, but we have no choice to plough on regardless?

To those who say that one more pound of additional borrowing would leave Britain in economic peril.

That any change in approach will result in the cost of UK borrowing immediately rising to unsustainable levels?

The evidence doesn't support this view.

Of course what we see happening in parts of the eurozone is a deep concern.

But we should be extremely wary of those who peddle simplistic parallels between ourselves and Greece or Italy.

There are structural differences between the UK and eurozone.

We have our own independent central bank which is the lender of last resort.

And we have a floating exchange rate.

That is why Mervyn King has pointed out: "I don't think you can compare the UK with Greece".

What's more, as the Managing Director of the IMF has said, "growth is necessary for fiscal credibility".

No-one should be in any doubt, that the problems of the eurozone have been triggered by concerns about growth, as well as about debt levels.

In Portugal and Spain for instance, the anxiety of the markets is based on worries about long term lack of growth as well as debt.

So the markets' concerns about countries in Europe are about much more than the pace of deficit reduction, and they should not be used to justify the closing down of debate in the UK.

Indeed, specifically on the question of varying the pace of deficit reduction, the IMF itself has said the UK has room for manoeuvre.

And just this morning we learnt that a Tory MP on the Treasury Select Committee agreed.

Why is that room for manoeuvre important?

Because it shows it is possible to combine tough deficit reduction with a plan for growth.

Now there are those who say that even if George Osborne should theoretically change course, he can't because markets would lose faith in his ability to deliver on any plan.

But let us be clear where the Government will end up on Tuesday if they do not change course.

Refusing to choose a slower deficit path that protect jobs and growth.

Instead they will be dragged to higher borrowing by the costs of their failure on unemployment and growth.

Far better to change course and have a credible deficit reduction plan based on higher growth and employment, rather than a failing plan based on low growth and high unemployment.

What is the alternative?

So for those that look again, and are convinced that it is wrong to say that there can be no alternative, what is the alternative available to them?

The truth is the government knows it needs one, but is hamstrung by not wanting to admit it.

So we will look at what they propose in the Autumn Statement but the evidence so far is not encouraging

A housing announcement which simply restored 10% of the cut in the housing budget

An infrastructure scheme which relies on others to act – and which is likely to take quite some time to take effect.

A welcome reversal of the Government's mistake on youth jobs, but with a catastrophic mistake

And vague promises on credit easing.

Some of these measures may make sense,

But they don't add up to an alternative.

So what does our economy need?

Labour has set out a five point plan for jobs and growth.

Including cutting VAT to get the economy moving.

Levying a bank bonus tax to get the young unemployed back to work.

And moving forward essential capital investment.

Some people have criticised our plan for being too small to make a difference.

Others, for being too expensive.

To those who say it is too small, I say look at the previous VAT cut which had a real effect when introduced in 2008, according to respected analysis.

On youth unemployment, a similar programme, the Future Jobs Fund, created 100,000 jobs and led to falling long term youth unemployment.

In stark contrast to the rise of 77% that we have seen since its abolition.

And advancing capital spending would have real effects, as the Government's own Office for Budget Responsibility has said.

To those who say it is too expensive, the answer is the cost of not acting is the more expensive choice, economically and socially.

That is proved by the government missing its borrowing targets by billions of pounds.

Of course, Britain would be helped not just by changing course on austerity at home but changing course on the collective austerity that our Government is trying to impose internationally too.

The G20 summit did agree that various countries could take action to favour growth but only "if conditions materially worsen"

This isn't good enough.

We should have a British government that is demanding and leading internationally co-ordinated action.

This wouldn't just be good for growth it would be good for market confidence

Above all for next Tuesday, the alternative we need involves the Government recognising that their economic gamble has failed.

And then accepting the need to change course.

The alternative – in fiscally constrained times

But no one should get the wrong idea here.

When I say that David Cameron's big gamble has failed, that does not mean we can go back to the way things were.

There are huge implications from the financial crisis in 2008 and the new crisis which has developed in the last 18 months for the next Labour government, for our own priorities of social justice.

Indeed the failure of the Tory austerity plan means the next Labour government is likely to inherit borrowing levels that still need to be reduced.

So even then resources will have to be focused significantly on paying down that deficit.

That is why so much of the agenda Labour will set out in the next three years will not just be an agenda for change from the failed economic policies of this government.

It will be an agenda for different way of delivering social justice.

That is why I talk about the need for long term change in the way our economy is run.

So that we can create good jobs at good wages, with sustainable long-term business models.

A better, more responsible, capitalism would mean the taxpayer does not have to pay the price for financial failure by bailing out the banks or paying the welfare costs of spiralling unemployment.

It is our route to social justice in straitened times.

What's at stake:

Let me end by saying why it matters so much that David Cameron changes course.

It matters because I genuinely fear a return to the experiences of the early 1980s, in particular the lost generation of young people.

Those worries are only compounded by the news this morning that the number of young people not in education, employment or training has risen to a record of over 1.1 million

Young people out of work isn't just bad for them, it is a waste of potential, and it stores up problems in our society.

So if our only answer is to shrug our shoulders in response to this, we will be failing not just the next generation but our country too.

I believe those with power have a responsibility to those without.

Never to shrug their shoulders.

Never to say there is no alternative.

And when things haven't worked to change course.

That's why I say David Cameron needs to change course next week.

It is time for Mr Cameron and Mr Osborne to stop blaming the snow, the Royal Wedding, and the eurozone crisis for Britain's economic emergency.

It is time for our out of touch Government to look at the mounting economic evidence.

Next Tuesday must be the moment they take responsibility, and think again.

Nothing less will do from Mr Osborne and Mr Cameron.

That is the responsibility on this Government.

It is a responsibility which we will do everything we can to make them face up to.