

Nick Clegg's speech on winning people over for deficit reduction

Tuesday 16 March 2010

Liberal Democrat Leader Nick Clegg's speech to the IPPR on deficit reduction is below.

Check against delivery

Something big is missing from the public debate about the deficit.

The public.

Politicians, economists and business leaders have been firing pot-shots at one another for well over 18 months on this issue.

But so far it has been a process largely confined to a political and economic bubble in Westminster, Whitehall and the City of London.

The debate has been cut off from the realities of people's everyday lives.

We have had groups of economists trading letters in the newspapers about the best time to begin fiscal contraction.

We have had Alistair Darling and George Osborne, Gordon Brown and David Cameron using these disparate economic analyses to score points off one another in TV studios and the House of Commons.

We have had lists of demands from the CBI and the Institute of Directors.

We have had commentary from the Institute for Fiscal Studies.

Half of the debate has been political posturing, and the other half elevated economic theorising.

There is an enormous risk ahead.

In a democracy, dramatic change cannot be imposed from above or it will fail.

It has to be led by a process of political engagement.

You only have to look at the scale of industrial unrest in Greece to see that it is impossible to reduce a public deficit quickly if you do not find a way to persuade people to go along with the process.

And you only have to look at the success of the fiscal contraction in Canada, where a purposeful attempt was made to engage the public, to see that it is possible to rally support for deficit reduction, and it makes it easier to achieve the necessary cuts.

My point is simple:

If we do not find a way to take the people of Britain with us on this difficult journey of deficit reduction...

We will not be able to make the journey.

We will instead follow Greece down the road to economic, political and social disruption.

In my view, regardless of the outcome of the next election...
It is unrealistic to presume that this level of change can be driven through by the standard procedures of Westminster politics.

Our current government was elected with the support of just 22% of eligible voters.
How can a government elected without majority support ever command majority support for something as painful as deficit reduction on the scale required?

If a government tries to ram through major change to public spending solely through the usual Westminster combination of machismo and threats from the Whips, it will not only fail...

It could find itself torn to pieces.

The debate on public spending has been too narrowly focused on timing.
It has forgotten the biggest and most essential ingredient of all: how to win public support.

Economists and politicians alike need to remember what public spending is.
Yes: your approach to public spending says a lot about your political identity.
But no: that doesn't mean the sole purpose of public spending is for ideological positioning.
Yes: the big numbers and the economic trends are important.
But no: that doesn't mean public spending is just numbers on a balance sheet that can be increased or decreased at will to fit with an economic theory.

Public spending is not just numbers.
Public spending is nurses' and doctors' salaries.
It is text books and computers in the classroom.
It is police on the streets and judges in the court room.
It is the difference between decent tanks and soldiers dying from roadside bombs.
Public spending is the difference for millions of families between making ends meet and having to go without.
Reducing it is going to be extremely difficult.
And it will be painful.

The scale of the deficit we are dealing with at the moment is enormous.
£175bn this year.
12 and a half percent of GDP.
A deficit of which the Government thinks up to £80bn is structural, meaning it will not be eliminated by anticipated economic growth.

One of the worst myths being peddled by some within both Labour and Conservative parties at the moment is that the deficit can be eliminated simply through better management, efficiency drives and waste reduction.

As if we can reduce public spending by as £80bn or more a year without anyone noticing.
That is not true, and it is wrong to pretend otherwise.
Even efficiencies usually mean redundancies, and that means more people out of

work.

The truth is that to eliminate the deficit, we are going to have to look in detail at everything the government does...

And some of them will simply have to stop.

This is an unprecedented challenge in the modern era.

We need to bring about the biggest fiscal contraction in post-war political history.

This will mean enormously tight spending rounds for many years to come.

Liberal Democrats will be setting out in advance of the election a full plan for £15bn a year of savings that can be delivered by 2012...

Assuming the economy is in a strong enough position by then to bear this level of fiscal restraint.

But we are the first to admit that our plan does not yet go far enough.

Even by end of the next Parliament, there will be another £10-15bn of savings to find over what we have announced and the Government has already found.

With another £40bn of savings in today's prices that need to be identified by 2018.

And those figures, enormous though they are, are all built on the presumption of decent growth and that the government's proposed 8-year timetable for deficit reduction remains appropriate.

Liberal Democrats believe we may need to revisit both the timetable and the level of savings required...

If borrowing conditions worsen dramatically, if growth does not match up to Treasury expectations or if the structural element of the deficit turns out to be larger than estimated.

Let's be absolutely straightforward about this.

There is no serious doubt that at some point in the next eight years...

The government is going to have to stop spending as much as 10% of what it spends today.

This is not just a huge challenge for the mandarins and the politicians who will have to pore over the books of every department in search of cuts to make...

It is a huge challenge for every citizen of the United Kingdom...

All the millions of people who have to adjust to a new kind of environment for public spending.

We have to ease the pain.

We have to make sure people are bought into, not alienated by, the process of deficit reduction.

And ensure that cuts do not undermine fairness, but strengthen it.

I have identified three principles on which the process of deficit reduction should be based.

They are timing, consultation and fairness.

By sticking to these three principles, I believe we can buy people into the process of governmental change ahead.

First: timing.

This has, at least, been the subject of extensive debate, but good economics has been crowded out by political dogma.

My approach is simple:

We must get the timing right because if we cut public spending too quickly, we risk undermining a nascent recovery...

And undermining the growth in tax receipts that is so desperately needed.

It's like cutting back a tree – do it at the wrong time of year, and you will kill the tree.

Do it at the right time, and you help it to grow strong.

That is why Vince Cable and I have set out five objective economic conditions that we will assess when judging when public spending should begin to be cut.

These are: the rate of growth; the level of unemployment; credit conditions; the extent of spare capacity in the economy and the cost of Government borrowing.

Our working assumption is that the conditions will be right for cuts from 2011-12, but not before.

So in our first year of office, we will recycle the money from any cuts we can identify...

Like taking the top 20% of claimants out of the tax credit system...

Into an economic stimulus and job creation package...

To help kick-start the economy on a greener footing.

This jobs plan will be fiscally neutral...

But it will get up to 100,000 people back into work.

Demonstrating a clear commitment from government to put jobs and growth first.

Ensuring there is a clear benefit to individuals from the initial cuts we make...

And helping win public support for change.

The second principle on which deficit reduction plans should be based is consultation.

It would be completely wrong for officials and ministers of whatever government is elected on May 6 to lock themselves in a room for a few months and announce a plan.

The outcome would be instant anger and alienation.

Imagine it:

Knowing nothing for week after week about whether your job was secure...

Your benefits were protected...

Or your school was safe...

Waiting for the announcements, unclear about the future and unable to influence the outcome.

And when the announcements came...

It would be like twenty Budget days come all at once.

Everyone desperately trying to work out from the small print how they will be affected.

You simply cannot cancel one in ten pounds of government spending without asking people – the people who run public services and the people who use them – how best to do it.

I believe Britain must learn from the approach taken by the Liberal government in Canada in the 1990s.

At that time, Canada had an annual budget deficit a tenth the size of its economy...

Almost as large as the UK's is today.

Rather than making cuts behind closed doors, the Liberal Government realised that if people were to understand what needed to be done they had to talk to them.

They held a massive consultation.

About every last line of public spending.

Asking the people who really knew: what to cut and what to protect.

And they managed to eliminate that vast deficit in four years...

Taking the people with them.

Liberal Democrats will follow Canada's lead.

After the election, we will hold an emergency budget and interim spending review which will put in place cuts which could be realised within the financial year, such as scrapping the Child Trust Fund or restricting tax credits, to release money for our job and infrastructure package.

Subject to our five economic tests being met, that interim spending review will also put into place the cuts for 2011-12 identified in our manifesto.

Then, throughout the summer and early autumn...

We will hold a comprehensive spending review of all departments...

Consulting for three or four months with people in every part of Britain...

In every industry...

Of every age.

Not just to win support...

But to seek ideas.

The people who use public services and the people who run them know far better than ministers and mandarins what is needed and what is not.

Last autumn I set up a website called Ask the People in the Know, where I sought ideas from public servants about how and where to cut.

We were flooded with hundreds of suggestions.

From wasteful procurement practices to unnecessary projects.

People out there in the country are full of ideas.

We just need to harness those ideas, using the innovative capacity of everyone in Britain to tackle this unprecedented national challenge.

The third essential principle is fairness.

It's a fundamental British value.

It's something everyone instinctively understands.

It must be right at the centre of our minds when we look for savings that can be made.

Not just because it is right in principle...

But also because it is the only way to maintain solidarity...

And ensure continued public support for deficit reduction.

No-one will support cuts to public spending that seem to have an unfair impact on the people most in need of help.

So we need to choose cuts that have a fair impact.

We need to keep the door open to limited new spending, where it is essential for fairness.

And we need to put fairness into our tax system, too.

So people do not feel they are being forced to pay through the nose for disappearing services.

Identifying cuts that have a fair impact is challenging.

But possible.

Our proposal for restraint in public sector pay, for example.

Instead of proposing a blanket freeze, like the Conservatives, or a 1% pay rise like Labour...

We propose a cash limit on pay rises of £400.

That will ensure the lower your salary, the higher percentage pay rise you are eligible for.

For an NHS manager on £90,000, £400 is a tiny increase.

But for a janitor on £12,000, it would be a substantial 3% pay rise.

This proposal is not only right in principle, because it means those with the broadest shoulders take the greatest strain...

It is also right for practical purposes because it is fair, and will therefore secure broader support for pay restraint that may have to last for several years.

In other areas, it is only possible to make cuts fair if you redirect some of the money into alternate spending.

Liberal Democrats will not, for these reasons, put every penny we can save into deficit reduction...

We will use one third of that money for alternate spending...

To really enshrine fairness in our society.

We propose a pupil premium, worth £2.5bn a year for our schools, targeted at helping children from the most deprived backgrounds, but making it possible for schools to cut class sizes and increase one-to-one tuition to the benefit of everyone.

We propose 3,000 more police on the beat

We propose a pay rise for our troops, especially those at the more junior ranks.

If all people hear is austerity and cuts...

They will lose hope.

If people see that there are choices being made...

That some cuts are being used to improve their lives or the lives of those in tremendous need...

They will be readier to support the process.

And rightly so.

Fairness must not just be constrained to what government spends money on, however.

We need to put fairness into our tax system, too, to win support.

That is where our fair tax package comes in.

Liberal Democrats propose the most radical reform of our tax system in a generation. We will ensure no-one pays tax on the first £10,000 they earn, paid for by closing loopholes that unfairly benefit those at the top and increasing taxes on polluting aircraft.

That means complete freedom from income tax for 3.6m low earners and pensioners. And £700 in the pockets of tens of millions more.

This is the right thing to do for the sake of fairness, correcting the imbalance that has long meant the poorest pay a higher proportion of their income in tax than the richest.

It is the right thing to do for economic recovery, too, as it will put money back in the pockets of millions of people who are currently struggling...

And the evidence suggests a high proportion of that money will be spent, circulating in the economy and driving consumer demand.

But our tax changes are also part of a grand bargain between a future government of whatever composition...

And the British people who want to see they are being looked after and supported even as the deficit is reduced and public spending falls.

Most people recognise that paying taxes is a social obligation, by which we contribute to shared services that we depend on as a community.

But how can anyone feel positive about paying taxes when they see the wealthiest people getting out of paying their dues?

And how much anger will it create if people feel they are paying too much tax at the same time as losing public services on which they depend?

Our tax package offers a way forward: the means by which public support for this long and difficult process can be won and maintained.

Tax cuts for millions will sweeten the very bitter pill of the largest fiscal contraction in modern history.

If we do not implement these changes...

It will be impossible to rally people behind public sector spending cuts...

And any serious attempt to cut the deficit will fail.

By making the tax system fair...

We can ensure people see the benefit of change...

We can ensure that cuts to public spending do not hurt individual families who cannot take the strain.

And we can ensure that the process of reducing the deficit carries public opinion instead of alienating already disenfranchised voters from the political process.

Reducing the deficit will be one of the biggest challenges for the next government, whatever its complexion.

With several public sector unions already campaigning against government proposals

for spending restraint...

While business organisations campaign for tax cuts...

It is clear that the political challenge will be as large, if not larger, than the practical challenge.

Deficit reduction will take the best part of a decade.

It will take great courage and effort to maintain public support for restraint and austerity for such a long period of time.

One-off bribes such as those Labour is predicted to include in the budget will not sustain support over the long term.

But I believe if fairness is put first in identifying cuts...

If tax reform is brought forward to put money back the pockets of the millions of people who depend on public services...

If government makes the effort to ask the people who run public services and the people who use them for their ideas on how and what to cut...

And if growth is nurtured by maintaining public spending for one more year, while recovery is still fragile...

It will be possible.

We will be able to reduce the deficit...

Protect the nation's financial position...

And build a stronger, fairer and more united Britain.

ENDS