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This morning I want to share a few reflections on what I believe to be the critical question facing the country – how to shape the economy of the future. And I want to warn against two options facing us – an echo of Thatcherism on the one hand and denial on the other - neither of which I believe are the right road to take.

I don't accuse the new government of Thatcherism in terms of social policy or being completely unchanged since the 1980s. Clearly, they have moved on in some areas. But there is an echo of Thatcherism in some of the policy measures announced and in the Government's sense of its own role in the economy.

Their deficit reduction plan has no view about how these measures impact upon the private sector, upon growth or on the critical role Government has to play in securing the jobs and industries of the future.

This isn't a question of dry economics. It's about people's chances in life. It's about their sense of whether work and effort is rewarded. It's about whether all parts of the country share in the economic future or just some. And it's about whether we have a society in which people can have confidence about the future.

The economic argument since the election has been mostly framed by a narrative set out on a daily basis by the Government.

Their main point is an accusation that Labour was profligate and economically incompetent in Government. That by our actions we made the recession worse, not better. And that we left a huge problem for the incoming Government, requiring them to take drastic action.

It is claimed that the Government's actions are born out of necessity, not choice. They don't really want to be making these cuts or imposing these taxes. They simply have to. And this argument is used to absolve the Government of all responsibility for their decisions. Everything from the VAT rise to the cancellation of new schools is blamed on the previous Labour Government.

And finally, it is said that, however harsh the medicine, it is necessary for economic recovery. Without it, recovery would be endangered and if you oppose the measures taken, by definition you're not living in the real world.

I want to take issue with this argument point by point.

The first point is how parochial this view is. It is as though recession only took place in Britain, not across the world. Yet in most of the world in 2008 and 2009 countries were coping with a banking collapse, with the drying up of credit, with failing businesses and rising unemployment. And for an open trading economy like Britain's our ability to recovery from the recession depends not only on our own actions but on what is happening in the rest of the world.

The Labour Government did not forget about or abandon economic competence when in office. We presided over a long period of prosperity which saw GDP per capita rise faster in the UK than in any other country in the G7 between 1997 and 2009 – even after you take into account the global financial crisis.

We transformed cash starved public services where children were being taught in portakabins and patients being treated in corridors. We cut NHS waiting times. We cut child poverty and we introduced a much better balance between work and family life.

And when tough times came we made a deliberate decision to act to stop recession turning into depression. We worked with other nations to do so. As Paul Krugman has remarked, in 2008 and 2009 it looked as though the world had learned from history. And although there was undoubtedly human and economic pain during the recession, the action taken worked.

In this recession, unemployment was about half a million lower than expected. In the early 1990s recession 2.9 million people were claiming unemployment benefits. Today it is around half that number.

In this recession repossessions ran at just over half the rate of the early 1990s.

And business failures were also around half the rate of the recession of the 1990s.

The Labour Government acted quickly to get aid to industry. Not every scheme worked perfectly but the aim was clear – to do what we could to get the country through.

Time to Pay – flexible help from the tax authorities to businesses helped - 200,000 businesses involving £5 billion in business tax payments.

An Enterprise Guarantee Scheme was launched to get help to small businesses struggling to get credit - and the new Government has decided to keep it.

Labour politicians keep being asked by the Conservatives and Lib Dems when we are going to apologise to the country for what we did during the recession. But we must not allow them to trash our economic record. We are not going to apologise for acting to stop people losing their homes, for helping to keep unemployment down or for adopting a flexible and sensible attitude on tax to struggling businesses.

The global downturn took its toll on Britain's economy and the public finances. Tax revenues fell, benefit payments rose and a fiscal stimulus was needed to stop recession turning into depression. This was not a loss of control of the public

finances. It was a choice we made because we were a Government determined not to roll over in the face of the deepest worldwide recession since the war.

And this point about choice is very important. It is not true that Governments lose all power of decision making in tough economic times. Yes there are very difficult outside pressures but as history and international examples show, how to respond is matter of choice, a matter of judgement.

We made our choice, and the actions taken by the Labour Government helped steer us through very tough economic times.

The new Government on the other hand has *chosen* to put Britain at the head of a new drive for austerity. It has chosen to cut faster and cut deeper than we would. And it has done so with no accompanying plan for growth or for jobs.

We know from the Treasury's own figures their plans will destroy jobs in the public and private sectors. And yet they make huge assumptions about the private sector stepping up to the plate and creating millions of jobs with no plan for how it is to be done.

This is faith based economics, with the Conservatives in the role of the High Priest and the Lib Dems displaying the zeal of the convert. It imposes enormous pain on the country and takes a huge risk with our future.

It cannot be blamed on the Labour government because it is based on judgements and choices which the Conservatives and Lib Dems have shared.

And therefore they must take the responsibility for the pain that those choices will inflict.

And we heard yesterday that the OBR accepts the Budget will lead to 160,000 extra public sector job losses by 2014 and that the near term outlook for GDP is not as good as it was before the Budget. These are consequences of the new Government's decisions. They cannot be pinned on the Labour Government.

But even if one believes the actions taken by the Labour Government were right, what about the deficit?

Of course deficits cannot be run for ever, but it is absurd to justify the austerity programme launched in the UK by suggesting we are in the same position as Greece.

We have transparent national accounts. Our ratio of debt to GDP is much lower. And we are a far bigger stronger economy.

In the period before the election the yields on our debt were getting lower, not higher.

And as the first report of the OBR confirmed, borrowing, although still high, was falling and that report also said that our plans would meet the aim we had set out of halving the deficit within four years.

Labour's plan involved tax measures such as the 50p rate and the National Insurance increase, it involved a plan for growth, and it also involved cuts.

Although some new Ministers parade this information as though it were some hidden secret plan, in my former department we set out £900m worth of cuts in the Pre Budget Report in December 2009.

On top of that the Government planned to save some £4bn from public sector pay and pensions.

And savings of £350m in DCSF and £360m in the Department of Justice were announced from things like NDPBs and reforming legal aid.

So it is simply untrue to say we did not acknowledge the issue, did not set out any plans for cuts or put in place any programme to deal with the deficit.

LABOUR'S RESPONSE

Of course we would not have gone about tackling the deficit in the same way as the Tories and Lib Dems. The balance between cutting spending and taxation measures would have been different. We would have inflicted much less pain on families and communities and tried to protect essential services. It would have been done in a very different way on a different timescale with very different priorities. And you would not have had an instant IFS response showing us implementing regressive measures.

But it is also true to say that had we won the general election there would still have been difficult decisions to come.

Unless we absorb that I believe there is a danger of being tuned out by the electorate. By contrast, acknowledging it increases the chance of our fight against what the government is doing being heard.

"Fight the cuts" is a tempting slogan in Opposition, and there are indeed some that must be fought. But if that is all we are saying the conclusion will be drawn that we are wishing the problem away.

As the pain of Government cuts bites, public opposition to them will grow, but people will still want to know what we would do differently - and they won't believe us if our answer is just that we could make it all go away.

In fact, that is the position the Tories and the Lib Dems would prefer us to adopt. They want Labour to retreat to its comfort zone and allow them to say that they alone are capable of facing up to Britain's problems.

We must not play the role the Conservatives and Lib Dems are seeking to allocate us. I do not believe for a minute that they are the only people capable of addressing Britain's problems and we must not abdicate the ground that allows them to make that claim.

And it is important that our current debate about the future faces up to this.

Out of the current situation we must fashion the new. And that must be an economy with aspiration at its core, ambitious for its industries, open in its nature and with opportunity for its people.

Of course it is right to acknowledge where we went wrong in Government. After all, as one wise local member said to me, if we had all the right answers, how come we lost?

And all of us could pick decisions or positions adopted that damaged us or we disagreed with – though we would not all pick the same things.

But the bigger point is that going through each difficult decision taken in Government and telling people it was all a mistake or even contrary to our values is in the end not leadership. Leadership is and always must be about the future. And our economic story is the foundation of this future, everything from tax and spend to skills and trade.

We could be in Opposition for one term or a lot longer. There is no God given right for Labour to govern, no electoral pendulum that necessarily swings back our way. Sure, the Government will take unpopular decisions. But always, an electorate will want to be sure the alternative is up to the task and one that they can believe in.

So while the echoes of Thatcherism that the VAT increase, freezing Child benefit and the Government's stance on the economy represents is the wrong road for the country, so too would denial be the wrong road for us.

And I hope that the discussion taking place in our own ranks now can become more of a debate about the future and less of a debate about the past, more about how Labour would govern in today's and tomorrow's economic times, more about how we would have a future economy where every part of the country could achieve its aspirations, not just some and less about what people say they were against a year or five years ago.

INDUSTRY AND GROWTH

There is an alternative to both the echo of Thatcherism and to denial and that alternative is a compelling vision of the economy of the future where not only the ends are willed but the means are used.

The crucial question the Coalition seems incapable or unwilling to address is where is the growth of the future going to come from? What role does Government have to play in securing such growth?

This is the vital task facing our country. And Labour must grasp this issue because we are a party of wealth creation as well as a party of wealth distribution.

We know from the OBR's documents, the coalition Government is making truly heroic assumptions about the private sector investment that will pour forth while they pull back the state.

I am an optimist about our future but rarely in recent decades have we seen the levels of private sector investment that the government are now relying on over the next few years.

And yet at the same time as making these huge assumptions they have set out no concept of the Government's role in trying to make this investment happen beyond cutting spending and getting out of the way.

This is a massive gamble with our future. Deficit reduction and growth are not at opposite ends of the spectrum. One reinforces the other. And of course a deficit reduction plan that does little to encourage an overall increase in economic activity runs the risk of imposing huge pain for little economic benefit.

I acknowledge that at times in Government, we were too hesitant about an active industry policy. Scarred by failed interventions in the 1970s, determined to avoid accusations of "picking winners" we held back from developing a strong enough idea about what we should do to try to build Britain's capability in key areas of the future.

But in the later part of our Government that changed, a change born of a recognition of the challenge Britain faced as we recover from the global downturn.

In today's world we need to mobilise business, education, our communities and government to secure the country's prosperity.

We sought through a combination of tax policy, planning reform, trade policy, skills and research and a number of other measures to drive forward UK capability in the industries and jobs of tomorrow.

We brought together the Universities, Science and Business – a change which I am glad the new Government has not sought to undo.

We developed a plan for the digital economy. A low carbon industrial strategy. We opened negotiations with wind turbine manufacturers to try to get them to make the next generation of enormous new turbines here in the UK.

We sought to make the UK a hub for low carbon transport, securing Toyota's first European built hybrid and Nissan's first mass produced electric car.

We switched emphasis in skills policy to creating technician level apprentices and even in the teeth of the recession found money to plan an extra 20,000 Higher Education places next year.

We put Government money into nuclear manufacturing research, space and satellites and we backed new technologies like printed electronics and composites.

We worked on improving supply chains to help SMEs meet key demands.

We identified the need for enormous infrastructure investment and established Infrastructure UK to co-ordinate it.

In short, we saw it as essential that Government played its part in creating not only the right business and industry environment but also in helping underpin the UK's capability in key technologies and employment growth areas of the future.

To say we were late to the game would be a criticism I would accept. But to dismiss these policies in terms better suited to what was happening in the 1970s, to decry it as vote buying or waving a chequebook around is, I believe both mistaken and dangerously complacent.

There is an essential role for Government in a modern industrial economy. It is about creating capability, ensuring the right infrastructure is there, ensuring the right skills are there, the right planning environment, the right research excellence and having the will to make it happen.

And yes, that will require Government funding in some cases. Markets may produce good outcomes in the round but they won't always get every decision right.

The new Government have talked a lot about what they won't do in these areas but have said next to nothing about what they will do.

They seem to ignore the role of growth in getting the deficit down and the government's role in rebalancing the economy.

We can see that in the decision not to give Sheffield Forgemasters a loan of £80m which would have had the potential to give the UK a huge advantage in the international civil nuclear supply chain. This was never about aid to one company. It was about ensuring that UK industry as a whole was well placed to win both domestic and export orders in a growing field.

That was one bad decision, but the broader danger is that in making far steeper cuts than are needed and in instinctively rejecting what we were doing either for reasons of ideology or the old "not invented here" syndrome, they could make a much bigger mistake.

And so ripping up planning reforms designed to get over Britain's long term problem of major projects taking years to get started has the potential to build more delay into the process.

And removing £3 billion in tax support for manufacturing by cutting capital allowances for investment is hardly going to help with rebalancing the economy.

Going back on the coalition agreement and abolishing RDAs isn't good for business or growth either. There are serious questions about this policy which have gone unanswered.

What funds will there be for this multiplicity of local enterprise partnerships that the government wants to see? Is the new growth fund they have announced in addition to RDA budgets or simply instead of them and therefore a reduction in overall support for regional economies?

And amid all the talk about dumping strategies and getting rid of quangos, how do we avoid a hiatus of local decision making while the government reorganises and starts again with many more bodies chasing far less money?

And on bank lending, an absolutely crucial issue for business and for future growth, if the accusation is that the banks ran rings round the last government then what proposals do the Government have which will actually guarantee an increase in lending to businesses?

The point in all of this is that there is a huge risk that the Government tears up the roots of future growth and jobs by turning away from the state's important and active role in the modern economy.

Looking to a future when financial services is likely to be responsible for a lower proportion of our GDP than in the past, it is even *more* important now that government seeks to make the UK a success in the digital economy, in modern manufacturing and in the transition to low carbon.

That the state will have to tighten its belt is an inevitability. That it turns away from its role in shaping the industrial future most certainly is not.

Whether the Government wants to call this industrial activism or not isn't the point. It is the task itself that is important.

If our Government neglects the role of growth in reducing the deficit, Britain will endure much more pain than is necessary. And that pain will be inflicted in a way that could mean Britain misses out on huge opportunities to build something better, stronger and more sustainable out of the current situation.

That would be a tragic mistake.

On the other hand, for Labour this represents an opportunity because if the Government is going to vacate this ground it will fall to us to set out a compelling vision of the kind of economy we can be in the future, to make the talk of rebalancing the economy real, to inspire people with the opportunities this can bring to every part of the country and to speak up for using the power of government to make it happen.

If they won't do it, we should. The choice before us is not simply an echo of Thatcherism on the one hand or denial on the other. It's forging a better economy with more opportunity and more balanced growth that makes Britain stronger in the future – and that is something worth fighting for.

Ends

