

Public lecture at the London School of Economics and Political Science (LSE) by Lord Mandelson, Monday 14 September 2009

### **New thinking for Britain's next decade**

Before the summer I said that we are now the underdogs in politics. I posed the question whether our response to that fact was to give into defeatism or to fight back.

I know what the answer will be from our friends in Progress. It is not a question of whether we fight back but how we fight back. That will be the subject of my remarks to you today.

The economic and political challenges that the global financial crisis have presented to us are formidable but they are not ones that we in the Labour Party have been cowed by. They pose us with new tests of our policy resourcefulness and our character that we should be confident about as we frame the electoral choice the country will face in the coming year.

This means new policies, not business as usual.

The first step – the foundation of all that we do - must be to continue to set out clearly how we are taking Britain out of recession through to recovery and build the new economy of the future. That means continuing to provide real help for businesses and the unemployed. It means actively investing in economic growth for the future. And it means a responsible plan for paying down debt without eating into the fabric of people's lives.

Next, it is imperative that we continue to be the change-makers in British politics. As modern social democrats we must constantly rethink the role of the state in delivering our social objectives in new times.

Finally, we must do more to take the fight to the Tories.

What has been instructive is how the past year has exposed the limits of David Cameron's modernising rhetoric. The veil is being lifted. Their only answer to the global financial crisis has been one of retrenchment, regardless of the social consequences, recalling Conservative governments of the past. It is our job to expose them and the risk they pose to our economic future and the future of our frontline public services.

#### Three pillars

Led by Gordon Brown, Britain has driven the fightback against the global downturn. Our efforts helped prevent recession turning into a 1930s Great Depression.

But, despite signs that the economy is picking up, our work is far from done. The task ahead is to build the new economy that will emerge from the global whirlwind that has hit us.

There are three pillars upon which we build future prosperity:

First, while the freefall in the economy may have been brought to an end, the effects of the recession are not yet behind us. This is why maintaining government spending and investment is vital.

We know, for example, that to borrow the extra pound today in order to keep young people in work, training and study will save many pounds of extra public borrowing in future if our society ended up having to cope with the social catastrophe of long term unemployment, as we did in the 1980s.

Second, government must actively invest in the economic growth of the future. It is growth that will be the biggest antidote to debt and will determine how far and fast we are able to pay it down in the future.

We need continued government action if we are to create the right competitive conditions for the UK economy to generate future jobs.

We are not advocating a return to the mistakes of centralised planning or an attempt to pick winners. Rather, working in partnership with business, science and university research, the government should be backing the winning ideas and technology-based innovations on which our nation's future depends.

And, third, a responsible approach to reducing the fiscal deficit that will not eat into the fabric of people's lives. In order to fight the crisis all leading economies have had to borrow more. The costs of not doing so would have been colossal in human terms and in the damage done to our economy, resulting in lost growth for many years to come.

Our duty is not just to pass on sound finances, but also a strong society, and secure people, with the capacity to prosper. So we must not lose our nerve in the face of high borrowing that we have had to take on to deal with the costs of the recession.

But, of course, there will be pressures on spending once we are safely through the recession. The Prime Minister has said more than once that cutting the deficit will mean tough choices. The Chancellor has already set a plan of how we will halve the deficit over the course of four years once we are through the recession.

We will have to prioritise and economise.

The choices Labour makes will aim to sustain our investment in the nation's priorities – an approach of “frontline first”. Our top priority will be to protect essential services and activities on which the vast majority of people who, for example, cannot afford private education and private healthcare depend.

The public can be assured that Labour's approach will be based on clear values and principles, in order to ensure social fairness, promote social mobility, and find the cash for productive social investments in the nation's future such as education at all levels, including early years, and also research and vital public infrastructure.

Effective state, not big state

Making these choices will not be easy, especially for a social democratic party so committed to public services as we are. As we take decisions we must avoid falling into the political traps our opponents wish to set for us.

The Tories and their friends are yearning for people to think that because there is a need for public spending constraint in the future we face an era of deep, savage, indiscriminate across-the-board spending cuts whoever is in power. The Tories contemplate this with thinly disguised zeal because as a matter of principle they want to create a “small state”. We, in contrast, will continue to work hard to create the economic conditions that will enable us to maintain frontline service delivery.

But we should also not allow ourselves to be painted as a party that is oblivious to economic conditions. That has never been the New Labour approach to our nation's finances under Gordon Brown and it never will be.

We start from a position of credibility given that the big success story of British social democracy in the last twelve years has been the rescue, revival, and rehabilitation of public

services as a vital part of our national life. Britain's welfare state and public services survived the Thatcher/Major era – but only just.

Since 1997 Labour has, in effect, saved the NHS, transformed educational standards and dramatically widened access to educational opportunity. These achievements are now taken for granted, almost discounted by those to the right and left of us.

It has led to public service innovation, with the introduction and dramatic expansion of Sure Start and Children's Centres, for example, and modernised the delivery of existing services with for example, the establishment of NHS Trusts and Academies. And all this has required a huge injection of additional cash.

The New Labour mantra of “invest and reform” summed up a policy which has seen public spending on the NHS double in real terms since we took office. Per pupil funding in schools has also doubled. At the same time public service delivery has been opened up to a diversity of providers with a new range of choice for patients, parents and service users.

This was absolutely the right thing to do for our country. We did indeed fix the roof while the sun was shining, remedying the legacy left by our predecessors.

Spending grew not because increased spending was a political end in itself but because this was required to correct the historic under-investment we inherited and to respond to the public's demand for improved services.

But, even without the global financial crisis, public spending could not have continued to grow at the exceptional rates of the past decade. And having substantially renewed our infrastructure, our school buildings and the hospital estate, the profile of capital spending will not need to be the same as the last ten years.

It would not be right to turn the remarkable and necessary period of catch-up in public service provision over which Labour has presided into some kind of eternal doctrine: that social democracy is about high growth in public spending for its own sake, against which everything else we do is secondary.

Our 1997 manifesto described the New Labour approach as being “wise spenders, not big spenders”. This is and remains a core New Labour principle. We do not believe that we should try to solve problems simply by throwing money at them. We need to be: “effective state” social democrats, not “big state” social democrats.

#### Progressive reform

In this light, and in contrast to the Tories, the defining question for social democrats in the future is how do we continue to deliver quality public services in a period of public spending constraint?

We reject the argument of those on the right who argue that the state is an obstacle to human freedom and who espouse a vision of the good society based on a smaller state, shrinking public services and essential support delivered somehow through the voluntary sector with top-ups and opt-outs for the wealthy few.

Equally, we unashamedly reject those who espouse the centralising or controlling state, arguing that the solution to every problem in our economy and society is to have more state. What matters is not big or small government, but whether it values opportunity for all, responsibility from all, fairness across society.

Our conception of the role of government must evolve yet further. It is clear to me that we must continue to transfer power to parents, pupils, and patients as we explained in our policy

programme, Building Britain's Future earlier this year. We must recognise that the solution to many of the challenges facing our country will have to be found in the communities in which people live, working in partnership with public services, rather than an expanded central state.

We should approach the task with the mindset of insurgents who are restless with the status quo, not incumbents.

In the initial phase of the Labour Government we gave priority to centrally driven change through national targets linked to increased spending. To achieve a quick turnaround in standards there was no alternative.

Then the emphasis switched to decentralisation and devolution of power. The establishment of NHS Trusts and school Academies were powerful symbols of this switch.

More recently, the Government has emphasised the role of service guarantees and entitlements with means of redress available to individual citizens where services fall short. For example, the right to be seen within 18 weeks in the NHS or offered alternative provision. The right to see a cancer specialist within two weeks or go private on the NHS. The right to a healthcheck.

These entitlements, backed up by the offer of an alternative provider, will ensure that future reforms build on the improvements of the last 12 years and there will be no going back. Our plans to create real rights and entitlements are the new frontier of public service reform.

Labour, then, have always been committed "state reformers" and should feel no nervousness about the label. Rather, today's challenges require us to accelerate the pace of reform.

As Ed Balls set out last week, this will mean an expanded role for City Academies to ensure that we continue to drive up school standards. Equally, Andy Burnham sees building on the Foundation Trust model as central to a future NHS. We will step up the pace of reform in the knowledge that we will sustain the national coalition in favour of public investment and public provision by ensuring diversity of supply and choice, with services meeting the ever rising demands and needs of citizens. These principles are key planks of Labour's plans for the next Parliament.

There is still a large quantum of higher productivity and improvement in service standards to be obtained from the massive catch-up investment that public services have received in the last decade. We expect, and ask for, ever increasing productivity in the private sector. Now that we have built up the infrastructure in our public services, the same expectations must apply to the public sector.

The huge catch-up investment in public services the government has made during the last decade should make higher productivity and higher standards possible even in a period of public spending constraint.

One of the keys to unlocking this potential is to put greater power in the hands of users over the services they receive. This means looking at areas where we can extend choice, diversity of provision and the principle of individual budgets. For example, we are working to give power to give power to patients through individual budgets for those with long-term and chronic conditions who can become expert in managing their own care.

As recommended in the Darzi report we want to pay for quality, year on year increasing the proportion of the payments made to hospitals which is linked to patient satisfaction and quality outcomes.

The focus in Building Britain's Future on individual service entitlements can only be achieved with a new power for frontline professional s to trust their own judgement in delivering change.

The way forward is not to get rid of individual service entitlements as the Tories propose. It is to set a framework that allies these entitlements that the public rightly expects to the creation of a greater space for our public servants in how they deliver the services for which they are responsible. These are boundaries we in Government must respect. If we want innovation from our public servants we must ensure they have freedom and scope to achieve it.

Of course, reform is no panacea or easy solution to tackling the deficit and, yes, sometimes reform costs money. But a renewed focus on reform must be a core ingredient in the mix if we are to continue to deliver quality public services in a different climate for public spending.

I am determined that my department plays its part:

- On student support, we are targeting benefits to those most in need.
- There will be more shared contributions with government, employers and individuals each contributing as in skills and university funding.
- We are working to simplify government as we are committed to do in our upcoming reform of the skills system and our continued drive for simplified business support.
- We will decentralise and empower as we will complete the transition to a demand led further education system.
- And a comprehensive review of the role played by national level institutions such as HEFCE, the Skills Funding Agency, the Research Councils, and Technology Strategy Board and their relationship to central government will have the aim of cutting out overlapping bureaucracy and duplicated programmes.

The Tories: retrenchers, not reformers

So the new economic context presents a challenge for us and for every Secretary of State in his or her department. But it also presents a challenge for our opponents.

Politics is about elaborating alternatives and as we move into a new stage of the electoral cycle, there will be ever growing focus on the choice between the parties – assuming the media ever get round to opening up the debate rather than take the election's result for granted.

When, before 1997, Labour moved to the centre we were able to show genuinely different instincts on tax and spend, on markets, on trade unions, on public ownership, on defence, on education and public services.

People knew our values had been adapted to modern needs. You could not say the same about Cameron's Conservatives in 2009. Their instincts, it turns out, have not changed.

The gap between the early modernising rhetoric of David Cameron and the entrenched instincts of his party has been exposed in their response to the recession. Look at what has been kept from the first phase of David Cameron's leadership in the past year and what has been thrown overboard.

Gone is the pretence of public spending not being sacrificed in favour of tax cuts. Gone is the support for the principle of tax credits and any meaningful language of concern for the 'have-nots' in society. 'Vote blue, go green' has been consigned to the wheelie-bin.

Kept is the commitment to an inheritance tax favouring the wealthiest few in the country. Kept is the commitment to a tax break for married couples even if there is no word on how it is to be paid for. Kept is the determination to sit on the margins in Europe, whatever the cost to business and jobs back home.

David Cameron has followed a policy of concealment, not change. But the two faces of his Conservative Party are increasingly on show. The one they want to present to the public of a revamped Tory party. And the other that betrays the reality of traditional right-wing Conservatism.

Most critically, a clear choice has opened up between the parties on the issues that will frame and decide the next election – the economy and public services.

Look at the Tories' response to the recession. Whilst Gordon Brown and Alistair Darling took the decisive action needed, their opposite numbers were left floundering. David and George got the big judgements wrong.

If we had followed the course the Tories urged on us, the recession would have been deeper and longer, and the costs to our public finances far worse. We would have seen Northern Rock, its savers and mortgage-holders, go to the wall. There would have been no funding for the Enterprise Finance Guarantee Scheme that has given real help to small businesses. There would have been no VAT cut to stimulate demand. There would have been no money for the car scrappage scheme.

It is no use the Tories claiming different. They opposed the fiscal stimulus and wanted to take £5 billion out of the economy straightaway in the middle of a severe downturn.

At the G20 finance ministers' meeting last weekend there was unanimity that the stimulus should continue. Yet alone, and in their haste for cuts, the Tories are arguing for its immediate withdrawal before recovery is fully underway.

To do so when we are not out of the woods would risk triggering an economic relapse and would make the problem of tackling the deficit and bringing the debt down in the medium term more difficult, not less. It shows the risk the economic judgement of David Cameron and George Osborne poses to the economy.

The same dogma which has seen them isolated in their opposition to the economic stimulus is now preventing them from having anything to say on how an active government needs to play its part in investing in economic growth for the future. I enjoy having Ken Clarke as my shadow but not because he has a single fresh policy or new idea to rub together.

The fact is that a new generation of Conservatives is now foaming at the mouth with excitement at the turn of economic events. They believe this releases them from the need to remake the image of the Conservative Party as a “nice” party with a genuine concern for fairness and commitment to public services.

It presents them, instead, with their longed-for opportunity to take forward the mission that Margaret Thatcher, Nigel Lawson, Keith Joseph, and Norman Tebbit started in 1979, but failed to complete after 18 years in government. Now they see their chance and it is clear that the modern Conservative Party – the face David Cameron does not want us to see – is seizing it with both hands.

If we have learnt anything in this recession, it is that everyone needs the security of strong public services and active government, not just the poorest. The Tory approach to public services is a direct threat to middle Britain and the services on which families rely.

The consequences would be savage. That is why the Tories want to sugar the pill. An unspoken Faustian pact is on offer. The Tories will spend less on public services. But in return less will be expected of public services. Less will be required of those who work in public services. Less spending, less real reform is what the Tories offer.

On the NHS, the cave-in to producer interests has been craven. They have sided with the BMA against extended GP opening hours. Difficult NHS reforms undertaken by the Government have been opposed every step of the way by David Cameron.

Instead, they want to turn the NHS into one big quango without any prospect of reform. And they would abandon the NHS entitlements that Labour has established, including the right to see a cancer specialist within two weeks of diagnosis.

The test for political parties over the next few years is whether they can make the tough decisions that protect the frontline. It's clear from our plans to create real rights and guarantees in the NHS that we will do this. Why are the Tories so unwilling? Why do they want to scrap even the most basic guarantees? That is the question they must answer if anyone is to believe they are serious about protecting frontline services.

In schools, the same principle is being applied where the Tories are proposing to drop the SATS test in the last year of primary school. Accountability to parents is to be sacrificed in favour of the producer interest. It's part of the same unspoken pact.

And the big claims made for Michael Gove's school reforms are undermined when the small print reveals that at the heart of them lies a £4.5 billion cut to the funding of school building projects.

## Conclusion

So there is much at stake. There is a real choice to be had between the progressive reform offered by Labour and the ideologically-driven retrenchment and deep cuts offered by the Tories.

Between policies to achieve economic growth, and the Tories' abandonment of these in favour of "free markets".

And between Labour's priority of middle Britain and people's needs for accountable public services, and the Tories' desire to cut taxes for the wealthy few.

But Labour will only win this argument by demonstrating its continued commitment to fiscal responsibility and remaining the change-makers in British politics.

That is our task.

So let us start the fight back now.