

# DEMOS

[NEWS EMBARGO: 6am 16/7/10. Check against delivery]

## **Liberalism in Government**

Nick Clegg, 16<sup>th</sup> July, 2010

Last year, I wrote a pamphlet for Demos, arguing that the liberal moment had come. I argued that demands for a new approach to politics, for a radical redistribution of power, would soon have to be met by a liberal agenda.

That moment arrived on May 7<sup>th</sup>.

Our challenge now is to seize this moment, the liberal moment, and to ensure that we help to deliver a liberal parliament - a great reforming parliament that carries out a fundamental redistribution of power to the people.

Liberal ideas have of course influenced politicians in other parties since the Liberal party was last in office. Think of Roy Jenkins, as Labour Home Secretary, one of the great Liberal reformers. And today, James Purnell, since his escape from Westminster, has been pursuing his idea of 'power egalitarianism', which overlaps strongly with liberal thinking. The Prime Minister has described himself as a liberal Conservative.

Now that the Liberal Democrats are in government, liberal ideas are being deployed directly. What you are seeing is liberalism in action. And I can tell you that as Deputy Prime Minister, my liberal instincts are stronger than ever. Our goal is clear.

By the time of the next election, on 7th May 2015, Britain will be a more liberal nation.

This goal will be delivered in partnership with the Conservative Party. Our two parties are distinct and independent, but we are united in our zeal for reform.

David Cameron and I just this week wrote an article together arguing in favour of a radical redistribution of power. Sometimes the differences between us are on matters of substance; but very often they are merely questions of language. David Cameron's eloquent description of what he calls the Big Society is what I would call the Liberal Society.

Today I want to show how we are setting about working towards the goal of a more liberal Britain, against an extremely difficult economic backdrop, in alliance with

our Conservative coalition partners. I will address four themes:

- 1) Liberalism as a philosophy for government.
- 2) Liberal Economics: the liberal thinking animating our economic policy
- 3) Liberal State: the role of the state in a liberal society
- 4) Liberal Politics: the liberalization of politics and our political system

### Liberalism

In my Demos pamphlet, I wrote that ‘the job of a liberal government is to disperse power’. Liberalism is based on the simple, profound belief that power should rest in the hands of people. Power is too often hoarded by elites, beyond the reach of citizens. When liberals see power hoarded in centralized political institutions, corporate monopolies, or unaccountable bureaucracies, we instinctively reach for the sledgehammer.

I recognize that recent political history is littered with examples of politicians who were strong decentralisers in opposition but centralisers once they were settled in their Whitehall departments. It is not enough to declare a decentralizing agenda: we have to deliver on it.

Now that we are in government, I hope you will see that we meant it, and that this is an aspiration we share with our Conservative coalition partners. This Government is deeply committed to the decentralization of power - in politics, economics and in public services. To take just a few examples:

- more powers for Local Authorities
- greater autonomy in our schools
- a radical dispersal of power in the NHS
- locally-based partnerships to promote enterprise

This desire to put power in the hands of people is based on an optimistic assessment of human nature, and human capability. It is an article of faith for liberals that people with power and capability will make better choices about how to lead their lives than government, or other institutions.

A free society is a better society, so long as people have the resources and opportunities to make the best of their lives.

Indeed, I believe illiberal politics is usually based on pessimism. When politicians or political parties fall prey to the idea that people are not capable of creating good lives and good communities for themselves, they resort to central government *fiat* and regulation.

I think the last government sometimes fell into this trap. One of the problems we face today is that the people do not trust politicians; but it is perhaps an even greater problem that politicians very often do not trust the people.

I said a moment ago that individual liberty requires not only freedom from interference but also resources. Independence requires knowledge, health, money, skills – these are described by the Nobel prize winner Amartya Sen as capabilities.

These capabilities do not emerge out of thin air. So liberal societies, populated by powerful citizens, must attend to the production and distribution not only of cash, but more importantly to the production and distribution of capabilities.

As Sen puts it:

“Responsible adults must be in charge of their own well-being; it is for them to decide how to use their capabilities. But the capabilities that a person does actually have...depends on the nature of social arrangements, which can be crucial for individual freedoms. And there the state and the society cannot escape responsibility.”

I agree. This is a vital element of the liberal approach, as opposed to libertarians, or neo-liberals if you prefer. Libertarians believe that simply clearing away obstacles will set people free. Liberals understand that for a person to have power over their life, they need capabilities too.

There is one further point to make on liberalism as a governing philosophy, which relates to responsibility. The Government’s programme will be based on the core values of freedom, fairness and responsibility. These values strongly reinforce each other.

It should be clear, for example, that responsibility goes hand in hand with freedom. Liberal societies only function when people take responsibility for themselves, and for others. An irresponsible society necessarily becomes either an anarchic or authoritarian one.

Jo Grimond, one of my predecessors, wrote that: ‘a corollary of freedom, just as important as order, is responsibility. Freedom entails the acceptance of responsibility. Responsibility is meaningless without freedom’.

This, then, is the liberal political vision: a society made up of powerful, responsible citizens.

### Liberal Economics

This vision animates the legislative agenda of the government in a wide range of areas, from civil liberties and criminal justice, to the environment and public service

reform.

But I want to look first at the economy, and in particular the colossal challenge of repairing the public finances. We are facing the biggest budget deficit since the Second World War. Britain will in 2010, carry the biggest deficit in Europe. For the financial year 2010/11, the structural deficit will be around 8 per cent of GDP. If we do not take action to tackle the deficit, by the end of this parliament we will be paying £70bn just to service our debts.

Everybody accepts that decisive action was required. The Labour government had set out plans for spending reductions representing two-thirds of the cuts proposed by the Coalition government – without specifying what those cuts would be.

David Cameron and I, along with our colleagues in both parties, decided that Labour's plans did not go far enough. In our view, there was a clear and present danger to the economic sovereignty of the nation. It was called an emergency budget for a reason. It was a budget aimed squarely at retaining democratic control over the public finances. As a nation, we faced a real risk of losing control of the management of our economy to unaccountable financial markets.

I understand that these economic judgements are contested ones. Reasonable people can disagree about our assessment, our judgement, of the relative risks involved here.

But let me be crystal clear about where the Liberal Democrats stand. This was a Coalition budget, not a Conservative budget. The Liberal Democrats stand full-square behind the Budget judgement.

There would be, to my mind, absolutely nothing liberal about handing over £70 billion to the bond markets to service the debt we inherited from the previous government. That is money that should go on public services – on schools and on hospitals – not bond dealers' bonuses.

The action we have taken on fiscal policy is also intended to keep down the cost of borrowing. The deficit outlook we inherited as a government was likely to force up interest rates, which would deal a devastating blow to families and businesses. Affordable borrowing – for the government, but also for businesses and families – is vital to the economic recovery.

There is some concern that the budget measures risk creating a 'double dip' recession. The opposite is the case. If we had not taken action in the budget, and interest rates had risen, that would have been the quickest route to an early double dip recession.

We are also committed as a Government to unlocking bank lending. Capital is the lifeblood of the economy, as we were reminded so brutally two years ago. We will be taking the necessary measures to get capital flowing again to British businesses.

Of course, getting there will be a painful process. Nobody could possibly have wanted to enter government to find a huge budget deficit waiting. The temptation, especially for politicians, is to delay the pain, to put off decisions that will be unpopular. That is a temptation to which the previous government succumbed, and the mess we are now clearing up is their legacy. But by acting now, we are very much more likely to see strong economic growth in the medium-term. It is pain for gain.

It is absurd to claim that there is a chasm between the Government and the Opposition on the budget measures. We learn, courtesy of Lord Mandelson's memoirs – produced, it has to be said, with a speed and efficiency sadly lacking by Labour in government – of Alistair Darling's plans for last November's Pre Budget Report.

Mr Darling wanted to cut income tax at the bottom and reduce corporation tax - while raising VAT over successive years to 19 per cent. He also opposed a rise in National Insurance on the grounds that it would be a 'tax on jobs'. If this sounds familiar, it might be because Mr Darling's preferred options are uncannily similar to those in last month's emergency budget.

It is a shame Mr Darling could not persuade Gordon Brown. It is also shameful for Labour to attack the Coalition for measures their own chancellor wished to implement.

Let me now set out some of the thinking behind some of the tax changes, which are a good example of liberalism in action. The Government increased the income tax threshold by £1,000 to £7,475 and raised Capital Gains Tax by a full ten percentage points to 28 per cent. As you know, the coalition government has pledged to prioritise cuts to taxes on income, particularly low income, rather than cuts in inheritance tax.

In the budget we also announced that we would examine the case for switching aviation tax from per-passenger to a per-plane duty, as well as a review of the climate change levy to give more certainty and support to the price of carbon.

These reforms and reviews are in line with long-standing liberal views about taxation, and two preferences in particular:

- for taxing 'unearned' income rather than 'earned' income; and
- for taxing pollution rather than people

I don't want to overstate the case on the basis on one emergency budget. But I do think it is reasonable to claim that the contours of a distinctly liberal approach to tax – of a fiscal liberalism – are now visible.

Liberal State

There have been some fears expressed that the Budget represents an ideological exercise, designed to shrink the state. But the Coalition deficit reduction plans are driven by economic necessity, not by ideology.

Too often, political philosophy is boiled down into these kind of binary questions: are you pro-state or anti-state? Do you want a small state or big state? The answer to these questions is then used as a proxy for a political position.

To be on the left, in this analysis, is to be in favour of a big state, high public spending and high taxation to pay the bills. To be on the right is to believe the opposite to all of these.

For liberals, the questions are essentially meaningless. A liberal state cannot be equated to a particular level of government spending as a proportion of GDP. It is perfectly possible to have a state that spends small amounts on a highly authoritarian state apparatus. It is perfectly possible to have a state that spends large amounts in a manner that is liberating.

Take education. A centralized, dictat-driven school system with no diversity, no choice, and no flexibility would be illiberal no matter how much it cost. A system that allows for choice, freedom, and diversity is a liberal one – with the price tag a separate question.

Michael Gove's plans to allow for greater autonomy in schools, along with more localized diversity of provision and more choice for parents is a quintessentially liberal approach. This is an area where the state needs to back off.

But the education system is also failing to promote social mobility. Too often, poor children end up with a poor education, compared to their more affluent peers. Here is an area where the state does need to intervene more aggressively, by providing a targeted pupil premium, giving more power to the most disadvantaged children in the system.

So: less state intervention in the running of schools, more state intervention in promoting social mobility. Is the state getting smaller or bigger in this scenario? To my mind, it's a ludicrous way of framing the question. The liberal test for any form of state intervention is whether it liberates and empowers people.

So it makes no sense whatsoever to use a phrase like 'small state liberal'. Someone with a fixed view about the size of the state is not a liberal. It is not the size of the state - it is what the state does that matters. Does it hoard and exercise its own power, or disperse power and build capability in our citizens?

Similarly, a liberal cannot have a simple 'for' or 'against' view of regulation. It is clear that in many areas, we have not had enough regulation in the last decade – the banks and

the housing market being the most obvious examples. On the other hand, we have seen far too much regulation for small businesses, and too much micro-management in the day-to-day lives of ordinary people. A liberal cannot say that a state is too big - but we can certainly say the state has become too big for its boots. Labour over-regulated in some areas, but under-regulated in others.

### Liberal Politics

Last – but most definitely not least – I want to turn my attention to the urgent question of political reform. It is clear that a rotten political system has lost the confidence of the public, and rightly so. Power is hoarded in Downing Street, Westminster and Whitehall; the First Past the Post voting system is past its sell-by date; and the House of Lords is running behind the rest of society's progress by approximately one hundred years.

As I have said, the driving liberal mission is to place more power in the hands of people. In politics this means:

- More power to select, and deselect, their representatives
- More power to choose local priorities, rather than being dictated to from the centre
- More power for people to express their political preferences

In all of these areas, this parliament will see great progress. The referendum on the voting system next May will give people the chance to choose a new voting system. The proposal to equalize the size of parliamentary constituencies will give each vote a more equal weight.

The decentralization drive will put more power in the hands of local authorities, but also in the hands of community groups, neighbourhood associations and local public services.

House of Lords reform has been on the liberal agenda for well over a century. I am not going to hide my impatience on this issue. In some ways, I feel like we are back to help finish the job we as liberals started in 1911. We need a House of Lords that is fit for purpose, and fit for the 21<sup>st</sup> century. I am acutely aware that this is an area of reform that has defeated countless previous administrations over the last few decades. But those administrations did not have Liberal Democrats in them.

I am delighted, however, that today there is cross-party support for many of the measures I have mentioned. I look forward to working with people from all parties on the urgent task of political reform.

We should not imagine, however, that political reform is only concerned with the systems and structures of politics – urgent though that reform is. We also need to reform the conduct of political life.

For too long, British politics has been stuck in a stale, artificial duopoly. Differences of opinion within parties have been denied or hidden, disagreements between parties have been artificially inflated by what Grimond called 'the distorting pressures of parliament'.

Politicians have seen little contradiction between lecturing the nation on the need for civility and responsibility while operating in a House of Commons that has too often resembled a cross between a bear-pit and a football terrace.

The fact of emergence of coalition government is changing the way politics is conducted, in a hugely positive direction. Of course it is challenging for all of us in government. It is challenging for the civil service. And it poses a challenge to the opposition parties too. But I am hugely excited not only by the measures being undertaken by the coalition government, but the way in which we are undertaking them.

The biggest change is in the way political decisions are made. Open discussion is encouraged, not thwarted. We want robust dialogue and dissent in politics: indeed, from a liberal perspective, argument is a critical tool of progress. But we do not need poisonous tribalism.

Sometimes we can agree to disagree. A compromise might sometimes be the best way forward, rather than representing a defeat for politician X and a victory for politician Y. Sometimes – and here I am going to court great controversy – we might even change our minds.

It is too easy for politicians to fall into the trap of knee-jerk opposition, to spend all their time in a combat stance, to stop listening to those with whom they disagree. But the time for this kind of politics has passed. There is a thirst for a new and different way of doing politics, and I think we are responding. Politics is changing before our eyes, and I am genuinely afraid that the Labour party is blind to the transformation.

### Conclusion

This parliament will be a challenging one. But it is also set to be a truly reforming parliament – a liberal parliament. By 2015:

- power will have been radically redistributed towards people
- our civil liberties will have been restored
- our broken political system will be repaired
- our economy will be balanced, green and growing

If the coalition Government succeeds, by 2015 Britain will be a more liberal nation, a

nation of stronger citizens living in a fairer society. I am under no illusions about the scale of this ambition. But I am also in no doubt that we can achieve it.

A liberal Britain. That is the goal. That is my mission.

Thank you.

[ends]