

The case against the ‘growth deniers’

**– how Labour can win the argument
that there is an alternative**

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* Check against delivery *

INTRODUCTION

I am very grateful to Bloomberg for giving me the opportunity to come here this morning to respond to the bullish speech given from this same platform by George Osborne 10 days ago.

That speech is the clearest articulation of the Cameron-Clegg Coalition strategy for this parliament.

In it, their Chancellor repeated his claim that fiscal retrenchment through immediate and deep public spending cuts to reduce the fiscal deficit would build financial market confidence in the UK economy, keep interest rates low and secure economic recovery by boosting private investment.

And the Chancellor once again declared that his was the only possible credible course ahead – dismissing anyone who doubts that fiscal deflation on this scale and at this delicate stage in the economic cycle is necessary or wise.

I was in America when I read about the speech, travelling across New England.

And after seeing first hand the worried and increasingly pessimistic mood in the US – in the media and in conversation with friends - it jarred to read the British Chancellor saying he was “cautiously optimistic about the economic situation”.

The prevailing attitude I saw in America was not optimism but fear.

Every newspaper I read highlighted people’s worries about their business, their jobs or their home and the growing concerns of US policymakers and business leaders and financial analysts at the emerging signs of a double-dip recession - and not just any recession.

They fear what Americans – especially on the Eastern seaboard – like to call a ‘Perfect Storm’.

A perfect storm where continued de-leveraging by banks and the private sector meets premature fiscal retrenchment from governments and a drastic tightening of consumer spending... as tax rises, benefit cuts and rising unemployment hit home.

And it is these fears – not just in the US but round the world – which in recent days have caused equity markets to fall sharply, bond markets to surge, well summed up by Wednesday’s Financial Times front page headline ‘Market jitters over growth’.

This is a risky and dangerous time for the world economy. History teaches us that economic recovery following a large-scale financial crisis can be slow and stuttering.

In the US, the debate is not about fiscal tightening but whether further stimulus is needed to prevent a double-dip. And the world will be watching closely when Federal Reserve Chairman Ben Bernanke speaks this afternoon in Jackson Hole to see what message he

sends about the future course of US monetary policy and whether he can revive flagging confidence in the US recovery.

Here in Britain we have seen, in recent days, MPC member Martin Weale warn of the risk of a double-dip recession as a result of the current fiscal tightening.

But whether our economy continues to recover or slips back into sustained slow growth – even recession again – is not just a concern for Treasury ministers and financial analysts.

Whether our leaders make the right calls now on growth and jobs, the deficit, public spending and welfare reform will determine the future of our country for the next decade or more and shape the kind of society we want to be.

I do believe we face a choice as a country – on the economy and the future of our public services and the welfare state.

And today I want to respond to what I believe was a fundamentally flawed speech ten days ago:

- wrong in its analysis of the past;
- reckless in its diagnosis of the current situation; and
- dangerous in its prescription for the future.

This week's IFS analysis of the June Budget has confirmed what we already knew – that the Coalition's economic and fiscal strategy is deeply unfair.

In this speech I will argue that it is also unnecessary, unsafe for our economy and unsafe for our public services too.

Of course we need to deal with the deficit and there is no doubt that we must cut waste where it is found. There is no dispute about that.

We do need a credible and medium-term plan to reduce the deficit and to reduce our level of national debt - a pre-announced plan for reducing the deficit based on a careful balance between employment, spending and taxation - but only once growth is fully secured and over a markedly longer period than the government is currently planning.

I believe that – by ripping away the foundations of growth and jobs in Britain – David Cameron, Nick Clegg and George Osborne are not only leaving us badly-exposed to the new economic storm that is coming, but are undermining the very goals of market stability and deficit reduction which their policies are designed to achieve.

Far from learning from our history it is my fear that the new Coalition government is set to repeat the mistakes of history – and that George Osborne's declaration of 'cautious optimism' on this platform a fortnight ago may go down in history alongside Norman Lamont singing in his bath.

But it is not too late to change course.

So today I will set out the building blocks of an alternative economic strategy that is rooted in economic history and analysis as well as our country's shared values.

POLITICS, ECONOMICS AND HISTORY

First, let me say why I think it is so important for me – and indeed every other candidate who seeks to lead the Opposition – to stand up now and challenge the current consensus that – however painful – there is no alternative to the Coalition's austerity and cuts.

Because as someone who was at the heart of the decision on whether Britain should join the Euro, it seems incredible to me that such fundamental and far-reaching economic decisions are being taken by the coalition government with so little debate and – let us be clear – with no mandate from the British people for their rise in VAT or immediate and deep spending cuts.

Yes, there is plenty of discussion up and down the country about where the axe should fall on public services – as my opposite number Michael Gove has discovered.

There are intense disputes, not least within the Conservative Party, about whether welfare reform can deliver the impact and savings claimed by Iain Duncan Smith.

And there are very important arguments taking place about the universality of benefits, and the age at which pension-related entitlements should kick in.

These are all important debates.

But the fundamental questions we face now – Is it right to be cutting billions of pounds from public services and taking billions of pounds out of family budgets this financial year and next? what will that do to jobs and growth? and ultimately, what will that mean for the deficit? – are almost ignored.

Yes, there are some important warning voices – Anatole Kaletsky, Paul Krugman, Lord Skidelsky, David Blanchflower to name a few – who have written powerful critiques on the comment pages of the broadsheets.

But for the most part, the political and media consensus has dictated that the deficit is the only issue that matters in economic policy, that the measures set out in the Budget to reduce it are unavoidable, and that there is no alternative to the timetable the Budget set out.

Interviewers look aghast when I tell them that cutting public spending this financial year and pre-announcing a rise in VAT is economically foolish, when growth and consumer confidence is so fragile. 'But what would you cut instead?' they demand.

So strong and broad is this consensus that a special name has been given to those who take a different view – 'deficit-deniers' – and some in the Labour Party believe our very credibility as a party depends on hitching ourselves to the consensus view.

I am not one of them.

The history of British policymaking in the last hundred years has taught us that on all the other occasions when major economic misjudgements were made, broad-based political, media, financial and popular opinion was in favour of the decision at the time, and the dissenting voices of economists were silenced or ignored.

In 1925, Chancellor Winston Churchill decided to return sterling to the 'gold standard' on the grounds that there was no credible alternative which the financial markets would support and that a return to gold would boost confidence and private investment.

He was supported by the broad mass of economic opinion - including the Governor of the Bank of England, Montagu Norman and the leadership of the Labour Party. Only John Maynard Keynes stood out against the consensus at the fateful 11 Downing Street dinner where Churchill made the decision.

But Keynes famously lost the argument and, as he correctly predicted in *The Economic Consequences of Mr Churchill*, the result was deflation, rising unemployment, the general strike and then Conservative election defeat.

In 1931, two years after the biggest financial crisis of the last century, Labour Prime Minister Ramsay MacDonald said spending cuts were unavoidable to slash the deficit, ease pressure on sterling and satisfy the markets, in the hope of triggering a private sector led recovery.

He wrote: "We are compelled to devise special measures to meet the temporary difficulties. The critics will have to face facts and deal honestly with the interests of the country."

Labour MPs rebelled, and MacDonald formed a national coalition government with the Conservatives to drive the plan through with broad media support.

Again, Keynes stood outside this consensus, writing that: "Every person ... who hates social progress and loves deflation ... feels that his hour has come and triumphantly announces how, by refraining from every form of economic activity, we can all become prosperous again."

And the result of MacDonald's plan?

The promised private sector recovery failed to materialise. Unemployment soared. Debt rose. Britain faced years of low growth. The parallels with today's situation are striking.

Again in 1949 and 1967, the decisions of the then Labour governments to resist and delay inevitable devaluation was widely supported by both the press and the Conservative opposition.

In 1981, Geoffrey Howe and Margaret Thatcher told the country: "*There is no alternative*" as they proposed dramatic hikes in interest rates and taxes to tackle inflation and strengthen the public finances, even as 364 economists famously wrote to The Times newspaper to criticise the plan.

And the consequences? The deepest recession since the Second World War, massive social unrest, five years of rising youth unemployment, 3 million jobs lost in Britain's manufacturing industries and whole communities scarred for a generation.

And finally in 1990, Margaret Thatcher and John Major decided to join the European Exchange Rate Mechanism in the face of heavy financial market pressure, a decision supported by the CBI, the TUC, the Governor of the Bank of England, the leadership of the Labour Party – and widely acclaimed by the press.

Again, there were one or two voices – Alan Walters on the right, Bryan Gould on the left – who stood against the tide, but they were largely ignored.

And the result? Interest rates stuck in double figures as the UK suffered the longest recession since the war.

So the first lesson I draw from history is to be wary of any British economic policy-maker or media commentator who tells you that there is no alternative or that something has to be done because the markets demand it.

Adopting the consensus view may be the easy and safe thing to do, but it does not make you right and, in the long-term, it does not make you credible.

We must never be afraid to stand outside the consensus – and challenge the view of the Chancellor, the Treasury, even the Bank of England Governor – if we believe them to be wrong.

But there is a second lesson too – which is also very pertinent at the present time for the Labour opposition and those of us who aspire to be the next Labour leader: it's not enough to be right if you don't win the argument.

For – as Keynes found in 1925 and 1931 and Alan Walters found in 1990 – being right in the long run and well-judged by history is no great comfort.

Up to now, this is Labour's current predicament. Only last week the Guardian ICM poll reported public support for Coalition action to cut the deficit.

Of course, the impact of immediate cuts to public spending on jobs and the recession has not yet fed through. And while it is one thing for the public to support deficit reduction when they are told that it will come from cutting "waste" in public spending, it is quite another when the cuts mean local school building projects stopped, or a new local play facility cancelled.

As the impact of deflation on jobs and the economy feeds through over the coming months, and the reality of the Government's cuts programme, tax rises and benefit cuts begins to bite, I have no doubt that public opinion will become increasingly concerned.

But, in my view, to sit back and wait for the pain to be felt is a huge trap for Labour.

Because in the meantime, the clear strategy of the Coalition Government is to persuade the public both that there is no alternative, and that – however much George Osborne

boasted of his own fiscal austerity before this audience – all their decisions are the fault of the previous government.

In my view Labour cannot sit back and allow this to happen.

Leadership is about changing and leading public opinion rather than being driven by it.

That is why I say it is time for Labour to take on and win the argument with David Cameron, Nick Clegg, George Osborne and others who share their views.

Not through warm words and wishful thinking.

And not only by highlighting that the VAT rises and benefit and spending cuts are unfair – because if the Tories can persuade people they are both unavoidable and Labour’s fault, we won’t win that argument either.

The last Labour government succeeded when we combined our values with economic rigour, when we were both radical and credible in our approach.

When I made the case for Bank of England independence, sticking to Tory spending plans in 1997, not joining the Euro, or raising tax to pay for the NHS I did so based on sound analysis – and we won the argument over time.

That is why we need now to win the argument for an alternative economic plan that is rooted in economic history and analysis, as well as our values and principles.

And I am clear that we cannot start waging the argument for a credible alternative path for growth, jobs, continued recovery and the eventual reduction of the deficit without first setting out why we believe the new government has got it so fundamentally wrong.

That is why it is vital that we first show that the Tory cuts are not just unfair, but both unnecessary and economically-unsafe.

THE OSBORNE BLOOMBERG SPEECH

So let me turn to George Osborne’s speech and his triumphant espousal of the current consensus.

In his speech he makes four main claims:

- that the current economic situation – and the decisions he says he must now take – are all Labour’s fault;
- that the demand from the international money markets for fiscal consolidation is so strong that Britain and other countries must cut the deficit to avoid a ‘Greek-style’ financial crisis;
- that – as a direct result of his deficit reduction plan – Britain is re-entering a period of sustainable growth, with the private sector, in his words, “confounding predictions that [it] cannot generate jobs”;

- and that anyone who argues for a slower, less steep plan for reducing the deficit is a 'deficit-denier' who would 'wreck' recovery.

1. 'All Labour's fault'

So first, is the current economic situation all Labour's fault, the consequence irresponsible levels of public spending and borrowing in the early part of the last decade?

And Labour's fault too for increasing the fiscal deficit during the financial crisis by nationalising the banks, cutting VAT and boosting public spending.

First, no matter how George Osborne seeks to re-write history for his political ends, it is a question of fact that we entered this financial crisis with low inflation, low interest rates, low unemployment and the lowest net debt of any large G7 country - and the second highest levels of foreign investment too.

Yes, we borrowed in the last decade to invest in the transformation of our public service infrastructure – and rightly so – but where we needed to raise money to pay for increased current spending on nurses, doctors and the New Deal, we raised the taxes to pay for them – the NI rise for the NHS, the windfall tax on the privatised utilities. And when handed the windfall from the sale of the 3G mobile spectrum, we used it to pay down the national debt.

Of course we did not get everything right. We should have ignored Tory and City claims that we were being too tough on financial regulation and been much tougher still. And there is no doubt that house price inflation was rising too fast in 2007 - despite the actions we took to implement the Barker report.

But in the main I believe that our decisions were far-sighted and responsible, which was why we were the government that made the Bank of England independent and the only government in British history to maintain and meet our fiscal rules for more than a decade. The increase in the trend growth rate was confirmed by the National Audit Office. And there was no significant structural deficit in the public finances until the collapse of tax revenues from the City of London in 2008.

Moreover, even despite that loss of revenues, our low debt position, our low inflation and low interest rates meant that we were the only government in post-war British history which – faced with recession and deflation – had both the will and the means to fight it through a classic Keynesian response.

Everything we did was intended to pump money into the economy, protect jobs and support household finances: stopping the banks collapsing; subsidising mortgages; cutting VAT; funding new apprenticeships and job opportunities; giving people cash incentives to buy new cars; supporting viable businesses; postponing tax payments; bringing forward public spending; quantitative easing by the Bank of England.

And as a result, we came through that storm without seeing the spiralling rates of inflation, interest rates, unemployment and repossession which have accompanied previous British recessions.

Not only that, but our actions led the world to follow suit, stopped the collapse of the global banking system, and took us back from the brink of depression.

And the effects of our actions are clear to see from the data on jobs, growth and the public finances from the first half of this year, before George Osborne's 'Emergency Budget':

- faster than expected economic growth in the second quarter of the year;
- unemployment falling not rising;
- and public borrowing now markedly lower than Alistair Darling forecast back in March.

But rather than continue with a strategy that was working, George Osborne is doing the exact opposite.

As the second storm looms on the horizon, everything he is doing is designed to suck money out of the economy and cut public investment, while his tax rises and benefit cuts will directly hit household finances at the worst possible time. It is the exact reverse of the policy which allowed Britain and the rest of the world to weather the first storm.

George Osborne was fond of saying – wrongly – that the Labour government had failed to fix the roof while the sun was shining. What he is now doing is the equivalent of ripping out the foundations of the house just as the hurricane is about to hit.

2. 'Satisfying the markets'

So what of George Osborne's second contention – strongly supported by Nick Clegg – that the demand from the international money markets for fiscal consolidation is so strong that Britain and other countries must cut the deficit to avoid a 'Greek-style' financial crisis?

On this platform, the Chancellor went so far as to say that "the biggest downside risk to the recovery" was a loss of market confidence and a sharp rise in market interest rates. And he claimed that this risk had now been averted as a result of his Budget package for deficit reduction.

I do not have to tell this audience that what matters for credibility is not how tough politicians talk, but if their plans work and can be delivered.

Above all, stability requires a credible medium term path for fiscal sustainability and stable growth. What undermines confidence is uncertainty over whether a sudden fiscal adjustment is deliverable and over the impact it will have on consumer and investor confidence.

Time and time again in recent years, we have seen the markets lose confidence – usually in emerging market economies – because they see fiscal adjustment plans which look tough but lack credibility and end up being self-defeating. A vicious circle begins of slower growth, investor flight, further reduced projections for growth, a worsening fiscal position, and further loss of market confidence.

Hence Spain's decision, announced earlier this month by Prime Minister Zapatero, to reverse cuts in infrastructure spending and put back in place some projects that were suspended – a decision designed to support growth, jobs and confidence.

In Greece the markets have looked at the draconian spending cuts that the rest of Europe has demanded from the Greek government, seen the resulting general strikes and riots in the streets, decided that those spending cuts are undeliverable, that the Greek economy will struggle to grow within the Euro area, and have lost confidence accordingly.

The Greek crisis may have started with concerns over the government's ability to service its debt, but it is now a more fundamental question about whether its economy can grow and its society can remain stable.

By contrast – outside the Eurozone and with long-term real interest rates at record lows for both 10 year and 30 year bonds – Britain faces no difficulty servicing its debts as recent debt auctions have demonstrated - and the term structure of our debt is long thanks to the brilliant work of the Debt Management Agency.

As US economist Brad DeLong said last month:

“History teaches us that when none of the three clear and present dangers that justify retrenchment and austerity – interest-rate crowding-out, rising inflationary pressures on consumer prices, national overleverage via borrowing in foreign currencies – are present, you should not retrench.”

And yet in recent months, as Britain has followed the rest of Europe down a reckless commitment to immediate deficit reduction, we are now seeing very real worry in financial markets as fears of stagnation or even a double-dip recession grow.

Before the general election we were told regularly by the Conservatives – and also by some newspapers – that the UK economy was at grave risk of being ‘downgraded’ by the international credit rating agencies because the deficit was not paid down fast enough.

Last week Moody's raised the prospect of downgrades for economies across Europe – including the UK – for precisely the opposite reason: because of the threat of lower growth and higher unemployment on deficits.

The fact is that savage cuts that hit the economy or are politically undeliverable won't achieve sustainable deficit reduction or build market confidence. A slower, steadier plan, which does not put jobs, growth or services at risk, is more likely to succeed and have market credibility.

3. ‘The prospects for growth’

Which brings us to the issue of George Osborne's cautious optimism.

In the Bloomberg speech, his third, and definitely his boldest contention, was that – as a direct result of his deficit reduction plan, and indeed impossible without it – Britain was re-entering a period of sustainable growth.

He said:

“The much-needed rebalancing of our indebted economy – away from government and towards the private sector, away from consumption and towards business demand, away from imports and towards exports – is beginning.”

I would like him to point to the precedent from British economic history which says that, with slowing growth in our main trading partners and companies de-leveraging, it is possible for public sector retrenchment to stimulate private sector growth and job creation.

The 1930s and 1980s proved the opposite. And indeed, the new government economic forecaster, the OBR, has admitted the cuts will depress jobs in both public and private sectors - starting with the loss of jobs building new schools.

The data for the second quarter for GDP may have been strong, but the signs are not encouraging for the second half of this year.

Even in the days since the Bloomberg speech, we have seen increasing signs of economic slowdown in Britain, and UK consumer confidence, business optimism and mortgage starts are all down.

For all George Osborne’s talk of ‘deficit-deniers’ – where is the real denial in British politics at the moment?

We have a Chancellor who believes that he can slash public spending, raise VAT and cut benefits – he can take billions out of the economy and billions more out of people’s pockets, he can directly cut thousands of public sector jobs and private sector contracts, and none of this will have any impact on unemployment or growth.

Against all the evidence, both contemporary and historical, he argues the private sector will somehow rush to fill the void left by government and consumer spending, and become the driver of jobs and growth.

This is ‘growth-denial’ on a grand scale.

It has about as much economic credibility as a Pyramid Scheme.

For George Osborne read Bernie Madoff: he’ll take your money and take your job, but don’t worry – if you wait long enough, he promises you’ll get it all back from someone else.

4. ‘There is no alternative’

Then - having blamed the Labour government for his cuts plan, and insisted the markets are guiding his hand - George Osborne went on to make a further bold claim.

I have argued that the Coalition’s plans for rapid deficit reduction now are not just unfair but also unnecessary and economically very risky indeed.

The Chancellor says that there is no alternative to his timetable for deficit reduction, and that anyone who argued for a slower, less steep plan for reducing the deficit was a deficit-

denier, someone who wanted to “*wreck the economy*” and condemn it to “*ruin [and] disaster*”.

George Osborne includes in his charge Alistair Darling and David Miliband, who have suggested the lesser plan of halving the deficit over four years.

I told Gordon Brown and Alistair Darling in 2009 that – whatever the media clamour at the time – even trying to halve the deficit in four years was a mistake.

The pace was too severe to be credible or sustainable.

As both history and market realities teach us, the danger of too rapid deficit reduction is that it proves counter-productive:

- tipping us back into recession, unemployment rising and the deficit and debt getting worse into the medium-term.

- and requiring cuts to public spending which would hamper our long-term economic future by cutting university places or scientific research and development; or be deeply unfair, dismantling the very basis of the NHS and universal welfare state that the Attlee government established.

Yet George Osborne is planning to go £40 billion further and faster this year than even Alistair Darling’s plans.

If I have explained this morning why I disagree with the Cameron-Clegg strategy and why I believe their economic plan is a prescription for disaster, it does beg the question: what is the alternative?

It was never enough for Keynes just to rail against the government of the day and their ill thought out plans. He wanted to argue the better course of action.

So it is Labour’s responsibility to set out a clear plan for growth, a more sensible timetable for deficit reduction, and a robust explanation of why that will better support our economy and public finances.

Even halving the deficit over four years represents comfortably the biggest and fastest cut in the deficit since the period after the Second World War, but without the peace dividend to fund it.

In a recent article in the Financial Times, the historian Niall Ferguson wrote:

“People are nervous of world war-sized deficits when there isn’t a war to justify them.”

But this is precisely the case I made to Gordon Brown and Alistair Darling last year – we have just experienced the biggest global financial crisis in a century, an event as momentous in historical and financial terms as war, famine or a natural disaster.

Our economies were saved from catastrophe only by government intervention to nationalise banks and to absorb huge financial liabilities from the private financial sector. To attempt to repair the damage of such an event and return the national debt to its

previous level in just a few years is not only dangerously incredible in the eyes of financial markets but places an intolerable burden on current users of public services.

Just think if Clement Attlee's government at the end of the Second World War had decided that the first priority was to reduce the debts built up during the war – there would have been no money to fund the creation of the NHS, no money to rebuild the railways and housing destroyed in the Blitz, no money to fund the expansion of the welfare state.

All the things the Labour movement is proudest of about that post-war government would have been jettisoned.

And why weren't they?

Because they recognised that when a country has been through an once-in-a-generation event - like the Second World War - where the costs involved are a second thought next to equipping the armed forces and saving people's lives, homes and freedom – then the government needs a once-in-a-generation approach to the resulting debt: a slower, steadier pace of reduction which meant they could also fund the improvements in health, education and welfare that the post-war generation demanded and deserved.

So when George Osborne says that there is no alternative to their timetable and that anyone who disagrees is a deficit-denier, I say this:

If it was possible for our post-war government to have the wisdom and foresight to recognise the benefits of a slower, steadier approach to reducing an even bigger debt, then it does not behove you to close off all debate.

As for the argument that by taking a longer period to repay the debt, we unfairly burden future generations, Nobel prize-winning economist Paul Krugman puts it well:

“People who think that fiscal expansion today is bad for future generations have got it exactly wrong. The best course of action, both for today's workers and for their children, is to do whatever it takes to get this economy on the road to recovery.”

That is why – on the grounds of prosperity and fairness – I believe Labour does need a credible and medium-term plan to reduce the deficit and to reduce our level of national debt, but only once growth is fully secured and over a markedly longer period than George Osborne is currently planning.

For the medium-term, a credible and pre-announced plan for reducing the deficit needs a careful balance between employment, spending and taxation.

We need to do more to raise taxes fairly – such as starting the top rate of tax at £100,000 and reversing the cancelled part of the NI rise. I support an international transaction tax and think David Miliband is right to propose a new wealth tax on the largest estates.

And we will need to set out tough spending cuts in some areas, as I did in the schools budget where I identified in detail the savings which could be made in school and non-school budgets alike while protecting frontline service delivery.

But by far the biggest influence on deficit reduction and the balance between taxation and spending is economic growth and the number of taxpayers in jobs paying their fair share.

That is why the priority this year and next must be growth and jobs.

The Coalition should act quickly and aggressively to reverse George Osborne's cuts in support for the economy, and his increases in household bills.

We need to reinstate vital investments now which support jobs and recovery:

- the Future Jobs Fund
- the September school leavers guarantee
- the youth jobs guarantee
- the Building School for the Future capital programme

And we need urgently to revive the G20 process to support global growth and accelerate progress on international coordination of financial regulation.

THE BIG SOCIETY

But whatever our competing visions for the economy, growth and deficit reduction, there is also a wider and more fundamental issue at stake which could be easily forgotten or postponed as we focus on how best to protect the current status quo in terms of growth, jobs and living standards.

It is the fairness of our society.

How we confront the current financial storm and whether we can reduce the deficit and preserve a universal welfare state and strong public services will, in my view, have a profound impact on how we can tackle the greatest long-term economic challenge we face: the rising inequality in every developed nation in the face of technological change and international competition.

And this is why the debate we must have about when and how to reduce the deficit is not just about economics and jobs but about the future of our country and the competing visions of our political parties.

David Cameron and George Osborne – and Nick Clegg too – are using their crusade to cut the deficit to make a wider ideological argument that the post-war welfare settlement – of universal public services and universal benefits – has somehow failed: a symbol of the over-spending Labour government which must be scaled back, dismantled and replaced with more private provision and co-payments for services.

With Conservative colleagues from the Thatcherite right – and Orange Book liberals too – they have an excuse in the deficit for the programme they have always wanted to pursue for ideological reasons: to shrink the state and leave the vulnerable relying on charity.

So instead of the private and voluntary sectors working alongside an empowering and enabling public sector, the involvement of charities and businesses is being boosted not to enhance public provision but to undermine it. Each new policy, fresh initiative or hasty

Bill pushed through Parliament sees the state being withdrawn from support for the economy, the family and public services.

It will not surprise you that I have a very different vision and take a very different view of the importance of sustaining public services and protecting those on lowest incomes as we ensure borrowing comes back down.

David Cameron has a narrow view of the role of the state – that it stifles society and economic progress. I have a wider view of the role of state – a coming together of communities through democracy to support people, to intervene where markets fail, to promote economic prosperity and opportunity.

He has a narrow view of justice – you keep what you own and whatever you earn in a free market free for all. My vision of a just society is a wider view of social justice that goes beyond equal opportunities, makes the positive case for fair chances, recognises that widely unequal societies are unfair and divisive and relies on active government and a modern welfare state to deliver fair chances for all.

Far from thinking that electoral success is based on the shedding or hiding of values, I believe we now need to champion those values and the importance of a fairer Britain – to show we are on peoples' side after all.

Labour's next leader needs a much stronger, clearer vision of the fairer Britain we will fight for – very different from the unfairness and unemployment the Coalition's savage and immediate cuts will cause.

So over the coming months, it is not just an economic argument we need to win: over the pace and scale of deficit reduction; over how to protect jobs and growth in our economy; and over Labour's responsibility for the situation we find ourselves in.

It is also an argument over fairness and the role of the state to deliver economic strength and social justice in the 21st century.

It is my contention that our opposition and our vision for government must be credible as well as radical and based on our values.

We must make clear that vision of a better Britain is rooted in a robust and credible economic analysis and an alternative economic plan.

We must persuade people in their heads as well as their hearts to come back to Labour again.

And by comparison, we must expose the Coalition's plans as heartless and wrong-headed.

That is the challenge for Labour's next leader.

ENDS