

## IfG remarks 20<sup>th</sup> May 2025 – Nick Clegg

The central facts about the Coalition Government formed fifteen years ago this month were that it was a coalition – the first in almost a hundred years – and that it was born at a time of economic and political turmoil. The 2010 election was defined by the fiscal crisis that followed the great financial crash of 2008, and the crisis of legitimacy that followed the MPs expenses scandal. Together they created a political landscape that was ripe for change, and a government that was uniquely assembled to deliver it.

It is hard to recall now just how fraught that feverish spring was; how fragile Europe's economies felt, how uncertain we were that the UK could escape the spiraling sovereign debt crisis engulfing Europe. The collapse of Lehman Brothers, the first run on a British bank in centuries, the RBS bailout. In a nation bruised by recession and soaring unemployment, the spectre of further economic hardship loomed over everything.

And then – in the space of just three days – there were riots in the streets of Athens, a thousand-point drop in the Dow Jones, a 110 billion Euro bailout package – and an election in Britain which returned no overall majority. The bond markets were circling. Britain was burdened with the largest deficit in peace-time history. A hung parliament fed the sense of underlying instability.

That was the context in which we entered the negotiations and throughout the five days it took to sew together the Coalition, the sensation that things were perilously close to slipping out of control was ever present.

And the peril was real. It is a well-worn trope that the newly elected head of government, flushed with victory, emerges ashen-faced from their first national security briefing. I had a similar experience when a Treasury official coolly explained that the shattered British banking sector's total liabilities were almost five times the size of our entire economy.

From that first press conference in the Rose Garden onwards, we strived to project the confidence that we knew people – and markets – needed to see. Many observers predicted that the Coalition would collapse within months. Given the precarious state of the country, the need to show that multi-party Government could function and function well was never lost on me, not for a moment. Nor was the knowledge that a sizeable portion of British voters – 1 in 4 of whom had voted for the Liberal Democrats – had entrusted us to deliver change in the way politics, and Government, was done in this country.

Even though this is an anniversary event, my hope is that we spend as much time looking forward as we do looking back. I will not avoid the failures as well as successes of the Coalition, which remains one of the most unusual – and I would argue one of the most successful – Governments over the last couple of decades. But I am temperamentally averse to lengthy retrospection, and it is my view that experience in governing is hard-earned – so it's good to put it to productive use informing future decisions, as much as it is raking over the past.

The passage of time is a gift: it distinguishes the important from the insignificant, which is just as well since the daily cut and thrust of Westminster often does the reverse, elevating the insignificant over the important.

So what, then, does perspective reveal?

The most immediate observation is that the Coalition was bookended by two momentous shocks: the financial crisis in 2008 which preceded it; and Brexit in 2016 which succeeded it. What is striking, from our current vantage point, is that the Coalition was a five-year haven of stability between these seismic events.

It is striking too how the common assumptions about coalition government – that it would be unstable and cautious – turned out to be quite wrong. It was in fact *more* stable than successive single party governments that followed it, not less. It lasted a full half decade, considerably longer than the May, Johnson, Truss and Sunak premierships which followed it in chaotic succession.

And it was a highly reformist government – across education, the public sector, energy, fiscal policy, constitutional reform and more.

From the pupil premium to support children with the greatest needs, to the provision for the first time of universal infant free school meals; from the massive increase in investment in renewables to the development of a modern industrial policy; from same sex marriage legislation to the fixed term Parliament Act; from far reaching pensions reform to an unprecedented lifting of the income tax burden on low earners, the Coalition demonstrated something which so many of its critics had discounted: that multiparty government in Britain could produce *both* political stability *and* policy reform.

That was, in part, because genuine deliberation was built into the structures we had to create to sustain the Coalition. The Quad – where Danny Alexander and I would thrash out the most contentious policies with David Cameron and George Osborne, especially around budget time – was a highly effective decision-making forum, so much so that the Institute for Government is, I understand, recommending it as a model for other Governments to consider.

Less visible were the cabinet sub-committees, which provided fora for detailed policy scrutiny from Ministers across the Coalition. Discussions in cabinet were on occasion – shock, horror – real discussions. And the constant back and forth between David Cameron and myself – from our weekly “bilats” to the ongoing flow of paperwork, messages and telephone calls – created a forcing function to drive agreement across often stark political and departmental differences. All this served to strengthen our decision making, since ideas were constantly challenged even if they came from the very top. And it gave the lie to the lazy assumption, most often aired from the Right, that majoritarian Government was necessary for decisive government.

And from the Left, much of the mythology around the Coalition’s economic record also proved to be wrong. The inevitable fiscal adjustment required after the 2008 crisis was not, as alleged, a

vicious ideological assault on the size of the state: in fact, by 2015 public spending as a percentage of GDP was *higher* than it had been on average under the previous Labour governments. What's more, Gordon Brown and Alistair Darling had enshrined into law in early 2010 – by way of the Fiscal Responsibility Act – a legal obligation to reduce the deficit by half over four years. In the event – much though Labour condemned the fiscal adjustments they would have made had they remained in Government – the Coalition reduced the deficit more slowly than that Brown/Darling plan. In truth, much of the fiscal contraction introduced by the Coalition involved slowing the increase of public spending which had expanded rapidly in the last 18 months of the Brown Government – from 40.3% of GDP to 46.4% of GDP. By Spring 2015 public spending as a percentage of GDP stood at 42% which was very much in line with long term trends of the size of the state.

Nor did this fiscal adjustment, contrary to repeated allegations, lead to lower growth: GDP growth surged to amongst the highest in the G7 from the end of 2012 right through to 2016. Asserting that there has been “no growth” since 2010 – as Ministers are still wont to do – is in technical jargon a very big porky pie. The tragedy that the UK went from being the fastest growing economy in 2016 to the slowest in a matter of months thanks to the Brexit vote remains one of the greatest acts of economic self-harm in modern times – and a convenient veil for the critics of the Coalition to rewrite history.

That we were able to deliver all this – a significant fiscal adjustment, the restoration of growth, a dramatic reduction in the unemployment rate we inherited after the financial crisis, and a continued repair job to the stricken financial system – as fairly as possible remains an unusual feat for which the Lib Dems in the Coalition deserve a great deal of credit.

I remember well how nonplussed the Conservatives were about our insistence that the Treasury publish the full distributional analyses of each budget – a practice which they promptly abandoned after the Coalition ended – which showed for instance that the top 1% paid more in tax between 2010-2015 than they ever had done under the previous 13 years of Labour rule.

Of course, this doesn't mean we fixed everything economically. Productivity remained damaged after 2008 – as it still is today - and real terms wages only started to outpace prices towards the very end of the Coalition before being knocked back by the Brexit vote. And although it was necessary to tighten fiscal policy at a time when the public deficit was soaring higher and faster than it had since the Second World War, and a sovereign debt crisis was burning through Europe's economies – I am very aware that the decisions we made in the Coalition had real effects on people's lives. We strove to minimize those effects and mitigate their consequences where possible, but the state is an unwieldy thing, and there are decisions which I regret today.

Still, the caricature of the Coalition's core economic policy has always obscured more than it illuminated. I suspect this is one reason why the Labour leadership is having such a hard time leading the party on its core economic policy: for years they fed the faithful the false assertion that fiscal discipline is morally repugnant; then made implausible commitments not to raise any major taxes; and now find themselves in a fiscal doom loop chasing speculative OBR projections.

It would be easier to have some sympathy with the decisions the Labour government has made in recent months – on welfare reform, increasing tuition fees, on local government funding, on departmental spending limits – if they hadn't been so insufferably sanctimonious in condemning similar measures during the Coalition. This is what happens when you appear to have few bedrock principles about the balance of spending and borrowing, and instead flip almost overnight from condemning fiscal orthodoxy to becoming its hapless prisoner.

But if the Coalition delivered stable government, and sensible economics, it was clearly bad politics for the Liberal Democrats.

For one thing, we fell short on our central mission of political reform. One of the key motivations for the Lib Dems was our view that in order to try to prise open the closed shop of British politics – on everything from party funding and House of Lords reform to fixed-term elections and electoral boundary reform – we had to somehow get one of the other two establishment parties over a barrel.

The basic symmetry of the Coalition – an agenda for economic reform, on the one hand, and a serious crack at political and constitutional reform, on the other – did not hold: we ended up doing a lot of the former, and not nearly as much of the latter.

Put simply, I significantly underestimated just how powerful the resistance to change from the Labour-Conservative duopoly, and their outriders in the media, would be. This inertial drag kept us mired in a series of losing battles against those who benefited from the status quo.

We were strung along by the Conservatives in negotiations on party funding reform. They connived with Labour to block elections to the House of Lords. And the alternative vote referendum was a disaster: the Tories were always bound to campaign against it, but what was more surprising was how significant parts of the Labour party joined them even though a change to the alternative vote was in Labour's own election manifesto. Ed Miliband as Labour leader barely lifted a finger. And so we lost a once-in-a-generation chance to prise open the suffocating grip of First Past the Post politics.

There are people who will say much of this failure was due to errors on my part, and of the Lib Dems in Coalition: that if only we had chosen a different PR system to put on the referendum ballot everything would have turned out differently. In my view, it wouldn't have made the blindest bit of difference – and in any event wasn't available to us in the pre-Coalition talks from Labour or the Conservatives.

With hindsight, I suppose it's fair to say that we might have stood a better chance of convincing the country of the need to change the electoral system – a subject of overwhelming indifference to the vast majority of voters even at the best of times – if the referendum hadn't taken place in the immediate aftermath of the first spending round and the controversy around tuition fees. But then again I was under remorseless pressure to move forward with the referendum as fast as possible lest the moment be lost. Such are the realities of practical politics.

It is also fair to say I misjudged the downward pull exerted on smaller parties in coalitions – from the Democrats 66 in the Netherlands to the Free Democrats in Germany, and many more – especially progressive parties in government with erstwhile opponents on the center-right. For many supporters, it turns out the initial sense of betrayal and disorientation of coalition outweighs any material or policy benefits. It is notable that the largest decline in Lib Dem support came immediately after the Coalition was formed – an even more dramatic drop than in the wake of specific policy controversies like tuition fees. Perhaps the somewhat dispiriting realization is that people often say they want politicians to work together – but the moment you do, you find there is a heavy price to pay. Compromise is quickly branded betrayal.

This pattern seems to be near-universal. The leader of the Free Democrats told me last year he could endlessly repeat lists of policy achievements he secured in the last Coalition government in Germany, but the sense of anger that they were in bed with the Greens – a party for which they had particular contempt – was just too much for his supporters to bear. And when the leader of the Democratic Alliance in South Africa asked me whether he should go into coalition with the ANC, I told him he definitely should for the sake of his country – but he shouldn't necessarily expect to get thanked for it.

And that remains the reason I would have done it all again – it was right for the country. I believe that political capital should be used, not hoarded. And so did my party, which voted overwhelmingly in favor of entering into coalition. That made the loss of seats and standing we experienced in the aftermath even more painful: large numbers of councillors and MPs lost their seats, and their associated livelihoods, having demonstrated considerable fortitude in seeing through the collective decision to form the Coalition in the first place. But they - we - did the right thing for Britain at a difficult time, and surely that's the reason you go into politics in the first place.

This likely won't be the last time the party faces such a choice. The Lib Dems are in rude health once again under the leadership of Ed Davey – beating Conservatives across their heartlands – and one day they will again need to decide whether political capital should be used in government or nurtured in opposition. Politics without power is like a car without fuel, so it is my enduring hope that they will opt for the former – notwithstanding the short term partisan risks – even as they learn from the past.

Which brings us to the key question: what can be learned from the Government of 2010-2015 which is of any relevance to today?

Clearly the circumstances are dramatically different from 2010. Back then, Nelson Mandela, Fidel Castro and Margaret Thatcher were all still with us, Netflix was a company that sent you DVDs by mail and Tik Tok did not exist. It really was a different time, and it would be foolish to stretch any analogies too tightly over a decade and a half.

Yet despite the momentous changes in the interim – Brexit, Trump 1 and 2, the pandemic, war in Ukraine – we find ourselves facing some familiar challenges. A systemic economic shock

radiating from the US – last time it was subprime mortgages, this time it's protectionism – and public hunger for multiparty politics in a system still built for two-party rule. With that in mind, there are a few observations that might usefully be applied today:

The first is that growth doesn't come from edicts in Whitehall – it comes from millions of decisions taken in the private sector every day, when entrepreneurs, innovators and consumers have confidence in the future. That is essentially what the Coalition gave the private sector – the confidence to make the many decisions that in aggregate drive growth. It sounds easy enough. Yet the evidence since then would suggest it is surprisingly hard.

Indeed, a curious feature of the current British political landscape is that the private sector is now not really spoken for. Labour seems to think growth is invented in Whitehall, and that stern admonitions to regulators and quangos to “deliver” it should do the trick. The Conservatives have forfeited the right to speak for business after the calamity of Brexit and the dysfunctional Governments which followed it. Reform are economically all over the place – protectionists in one breath and free marketeers in the other, depending on who they're talking to. And the Liberal Democrats appear a little more comfortable talking about the distribution of wealth rather than the difficult choices about how it can be generated in the first place. I think there is a real opportunity for whichever party can set out a compelling modern economic policy – one that recognizes the absolutely central role the private sector plays in shaping the country's destiny and offers both the clarity and the competence that businesses need to plan, hire and invest.

As I saw first-hand in Silicon Valley there is a tremendous demand for precisely the kind of resources Britain can mobilize – world class universities, researchers, and entrepreneurs. We are standing at the edge of a quite different economic era, one which will be increasingly shaped by competition over the production and use of AI. The combination of skilled workers, a culture of inventiveness and an open economy ought to put Britain in a strong position to prosper in this uncertain future. But we have squandered a great deal of confidence in the UK as a place to do business over the last decade, so the belief in private sector endeavour which existed at the time of the Coalition is in urgent need of rediscovery.

The second point is that it is possible to be both fiscally pragmatic and fiscally credible. In fact, the more credible you are, the more scope you have to cut your cloth as you go along.

Like the current Chancellor, the Coalition held great store in the fiscal plan we laid out at the outset. Yet the Eurozone crisis rumbled on. And when we were hit by a massive spike in inflation in 2011-2012 – one of those significant macroeconomic events that is entirely forgotten in much commentary today – and growth continued to splutter, the Treasury put great pressure on me to chase our tail, fiscally speaking, and agree to a whopping £13bn of additional cuts in the next budget to meet George Osborne's original deficit reduction timetable. I refused, and said instead we would simply need to take an extra year to reach our goal of halving the deficit – which is what we did.

This was politically difficult, not least because securing the country's fiscal position was one of the animating imperatives of the Coalition. But being as clear as we had been about the

centrality of fiscal policy allowed us to adjust course when growth stalled early on. In other words, far from being dogmatic we were – because of the internal dynamics of the coalition and the role of the Lib Dems – far more pragmatic and adaptable than our critics ever understood. This is strikingly different from the current government, who have given up pounds of flesh on the basis of an OBR projection that few think will hold true.

The third observation is that story telling matters enormously for the success of any Government. For the first period of the Coalition, we embraced a compelling story – Britain had been badly battered by the financial crisis, voters had been let down by the expenses scandal, and so it was time to put country before party. This gave people a simple reason to believe in the programme for government: we were putting political differences aside to fix things that everyone knew needed fixing. But the narrative was worn bare by the passage of time and by the inevitable intrusion of controversies, unpredicted events, and partisan tensions within the Coalition. By the end, I was left parading a list of policy achievements – not telling a story – which left voters cold. Events washed over us and we ended up badly listing.

Labour should pay heed lest they commit a similar error. If you are running a government you must above all have a clear story about where the country has come from, where it is, and where you want it to go. Narrative – a beginning, middle and end - is the essential motive force of politics. It becomes even more important in government, when there is rather less tolerance for the comforting fictions that opposition parties tell themselves and their supporters.

The final observation from my time in Government which is relevant to today is that Europe remains the perennial question in UK politics. It never goes away. David Cameron and I had thought we'd "parked" our differences on Europe with the 2011 European Union Act, which only allowed for a referendum if the UK was asked to pool new powers in a new EU Treaty. But the civil war in the Conservative Party ground on. I refused to reopen the EU Act, refused to agree to a referendum in absence of a new EU Treaty, and Cameron made his infamous Bloomberg speech committing to a referendum if the Conservatives won the next election. I had privately resolved that if the Conservatives and Lib Dems would have to negotiate another Coalition agreement I would not countenance an EU referendum in the absence of a new EU treaty, a pending veto which perhaps Conservative high command thought they might use as an alibi to get themselves off the hook. In the event, of course, the Lib Dems were decimated in the 2015 election, the block we had placed on a Brexit referendum was removed, and the rest is unfortunate history.

Today the Prime Minister hopes that the question of our long-term European vocation will not raise its ugly head again – replaced instead by the ducking and weaving we have seen over the last few weeks, and at yesterday's UK-EU Summit, as the Government negotiates for trade scraps from the high tables in Washington and then Brussels. Whilst no one should begrudge the Government's attempts to eke out concessions from the larger economies to its East and West, we should be under no illusion that Britain is now reduced to the negotiating status of a mid-size state with far less leverage over the Europeans and Americans than at any time in the last 150 years. All this is made worse by the Government's needless red lines against the EU's Customs Union and Single Market without which a major resuscitation of the British economy

will always prove difficult. Fear of the red wall appears to have produced red lines which just don't make much sense in the real world. For those who believe we can do better there will – again – be a moment to choose for Britain: are we a satellite state of the US or a leading member of our own continent? The answer for now seems to be that we're trying to be both. But in truth we will be neither until we decide to be one of them.

For generations we have fancied ourselves a bridge between Europe and America. But a bridge connects to solid ground. A Eurosceptic minority in Britain have spent a generation chipping away at one end, only for nationalists in America to tear up the foundations on the other, and now we risk teetering unmoored in the middle – stranded on a bridge to nowhere.

I am afraid that our current strategic ambiguity is a luxury we will not be able to indulge much longer. It will come as no surprise that my preference would be a full-throated return to a reformed European Union which will mutate fast in the years ahead if it is to survive at all -- by incorporating Ukraine into its membership, developing hard as well as soft power, and focusing more ruthlessly on the priorities which count in defence, energy and innovation. This will allow us to resume our place as a valuable trading, security, and intellectual partner in the project that has delivered 75 years of peace on the continent – and which could now do with our help as much we could do with theirs.

The global financial crisis and Brexit permanently altered the trajectory of the British economy and consequently a great many lives as well. While they were different in their origins, both served to remind the UK of its true position: one country in a global economy, with rather less control over our own destiny than we might hope, and now every bit as exposed to the daily outrages emanating from Washington D.C. as we are to the European politics over which we have little say.

Nor has our political system evolved at all to accommodate the plurality of opinion across British society: in the 2010 general election the Lib Dems secured their highest vote ever, 24% of the popular vote. Yet we were rewarded with barely 8% of seats in the House of Commons. Today, the Lib Dems – focusing with ruthless efficiency on the parts of the country where they have support – find their vote and seat share more aligned.

But the telltale signs of a political system hopelessly unrepresentative of the shifting pluralism of multiparty politics is as glaring as ever, as we saw in the recent local elections. First past the post still distorts and misrepresents the public mood, and in a time of six party politics seems likely to deliver ever more bizarre and irrational results. I tried – and failed – to crowbar changes into the stultifying British political system by way of coalition Government. Perhaps the ramparts of the Conservative-Labour duopoly will be overwhelmed by new insurgents in novel ways. Or perhaps it will take another coalition for political reform to finally have its day.

Seen chiefly through this lens, the Coalition failed to prepare Britain for the world in which we now live. But there is another way of looking at it, which is that in the midst of a reckoning with Britain's place in the world – caught between the grinding forces of history at a time of considerable peril – we managed to assemble a majority for stability that crossed party political

lines, showed that there are big things upon which decent minded opponents can agree, and achieved a great deal of what we hoped: real reforms in education, environment and tax justice, changes to the way the country is governed, all while steering the country's finances away from the rocks – and leaving the economy on a surer footing than we found it.

As is always the case, there will be critics from right and left who will continue to hold a very different assessment of the Coalition government. Happily it is no longer my responsibility to try and persuade them otherwise, which leaves me free to conclude with this: it was the privilege of a lifetime to serve as the leader of the Liberal Democrats and the Deputy Prime Minister of the United Kingdom of Great Britain and Northern Ireland, and to be a leader of the unusual – and hugely successful - government that was formed fifteen years ago. Thank you.