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PARLIAMENTARY DEBATES
(HANSARD)

HOUSE OF LORDS
OFFICIAL REPORT

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The first time a Member speaks to a new piece of parliamentary business, the following abbreviations are used to show their party affiliation:

Abbreviation	Party/Group
CB	Cross Bench
Con	Conservative
Con Ind	Conservative Independent
DUP	Democratic Unionist Party
GP	Green Party
Ind Lab	Independent Labour
Ind LD	Independent Liberal Democrat
Ind SD	Independent Social Democrat
Lab	Labour
Lab Ind	Labour Independent
LD	Liberal Democrat
LD Ind	Liberal Democrat Independent
Non-afl	Non-affiliated
PC	Plaid Cymru
UKIP	UK Independence Party
UUP	Ulster Unionist Party

No party affiliation is given for Members serving the House in a formal capacity, the Lords spiritual, Members on leave of absence or Members who are otherwise disqualified from sitting in the House.

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House of Lords

Thursday, 4 June 2015.

11 am

Prayers—read by the Lord Bishop of Norwich.

Oaths and Affirmations

11.06 am

Several noble Lords took the oath or made the solemn affirmation, and signed an undertaking to abide by the Code of Conduct.

BBC Royal Charter

Question

11.07 am

Asked by **Lord Fowler**

To ask Her Majesty's Government what plans they have to consult the public on the renewal of the BBC royal charter.

The Parliamentary Under-Secretary of State, Departments for Business, Innovation and Skills and for Culture, Media and Sport (Baroness Neville-Rolfe) (Con): My Lords, the Secretary of State for Culture, Media and Sport is currently considering a range of options for how the charter review might be conducted. An announcement will be made in due course. There is no set process, but of course we are determined to conduct a robust and thorough process with significant opportunities for the public to contribute.

Lord Fowler (Con): I am grateful to the Minister, but did she see the reports of 12 May, which appeared in every newspaper and clearly resulted from an official briefing, that the Government intended, in the words of the *Daily Telegraph*, to declare “war” on the BBC? Does the Minister recognise that many people in this country profoundly disagree with such a policy, value the high standards of the BBC and its international reputation and will strongly oppose any attempt to undermine these?

Baroness Neville-Rolfe: My Lords, war has not been declared on the BBC. The BBC makes an enormous and valuable contribution to many people's lives as the nation's broadcaster and in its overseas services, with 308 million people around the world and 96% of the UK population watching it each week. It is also a very well-understood and supported cultural institution, which I know is important to this House. The arrangements will be looked at fully and from every perspective in the charter review. I think the process starts today with the kind of comments that I know will be made in this House.

Lord Lea of Crondall (Lab): My Lords, is the Minister aware that it is a bit rich for many members of the

Conservative Party to complain when the BBC does not reflect everything said by the *Daily Mail*, when, as far as I can see, it is compelled each morning to regurgitate everything said by the *Daily Mail*, the *Daily Telegraph*, the *Daily Express*, the *Sun* et cetera on “What the Papers Say”?

Baroness Neville-Rolfe: My Lords, the underlying point is about impartiality. The BBC is required by the royal charter and agreement to deliver impartial news. Under the terms of the agreement, the BBC must do all it can to ensure that controversial subjects are treated with due accuracy and due impartiality. This is, of course, one of the issues for the charter review. I think there has been some long-standing suspicion that the views are sometimes skewed, and not in a way favourable to our party.

Lord Low of Dalston (CB): My Lords, I saw a report in the *Spectator* which suggested that music and entertainment services provided by the BBC could be put out to subscription and that the only thing the licence fee should continue to support was the BBC's news and current affairs output. Does that reflect the Government's thinking?

Baroness Neville-Rolfe: My Lords, funding, governance and all other aspects, especially ensuring that we continue to have some of the best public broadcasting in the world, are all matters for the charter review, which will be getting under way very soon.

Lord Pearson of Rannoch (UKIP): My Lords—

Baroness Bonham-Carter of Yarnbury (LD): My Lords—

Lord Morris of Aberavon (Lab): My Lords—

The Lord Privy Seal (Baroness Stowell of Beeston) (Con): My Lords, the House seems to be calling for the noble Lord, Lord Pearson, but we have plenty of time and we have not heard from the Liberal Democrat Benches either. I suggest that we hear first from the noble Lord, Lord Pearson, and then move to the Liberal Democrats.

Lord Pearson of Rannoch: My Lords, I am most grateful. Have the Government examined the News-watch.co.uk website, which shows how the BBC has so far failed to allow fair debate between the two sides in the forthcoming EU referendum and thus to respect its present charter? Might it be good to involve the public in the next charter by allowing the licence fee-payers to elect the BBC's trustees and, through them, the chairman and the director-general?

Baroness Neville-Rolfe: My Lords, I have not seen the News-watch website that was referred to, but I will obviously take the opportunity to look at it as part of my induction into this vital area. All aspects of the kind that the noble Lord describes will be looked at in

[BARONESS NEVILLE-ROLFE]
the review. As I said, I think that the comments from this House will be very helpful to us in coming to the right conclusions.

Baroness Bonham-Carter of Yarnbury: My Lords, does the Minister not agree that a BBC funded by the licence fee is essential in a changing world as a safeguard for British creativity? The creative industries are the fastest growing sector of the UK economy and a crucial part of our continued prosperity and the economic recovery.

Baroness Neville-Rolfe: My Lords, I very much agree with the noble Baroness's point about the power and importance of the creative industries, and of course the BBC plays a huge part in that, not least around the world because of the respect that it is accorded.

Lord Morris of Aberavon: My Lords, are there plans to consult on the BBC's partial funding of the Welsh television channel S4C?

Baroness Neville-Rolfe: My Lords, the Government are committed to strong Welsh language broadcasting, although the funding arrangements for the future are clearly for the charter review. I am sure they will be looked at in that context. It is really important to safeguard Welsh language broadcasting. When I was on maternity leave, I was a big fan of "Pobol y Cwm", which you can get in the south-west, where I was spending some time.

Lord Dobbs (Con): My Lords, if the noble Baroness were to go round any of the market squares of eastern Europe and talk to anybody over the age of 45, she would discover how vital the BBC has been in emphasising British and western cultural values. The same could now be said of all the villages and madrassahs in places such as Afghanistan, where they gather round a television still in their coffee shops. For those of us who believe that the BBC, in some of its areas, needs a good and perhaps vigorous nudging, will she ensure that that crucial element of soft power which the BBC represents is not undermined but indeed enhanced?

Baroness Neville-Rolfe: My Lords, I agree with my noble friend. I have spent a lot of time in the towns of central Europe and I know just how important the BBC is to them. Indeed, I was very pleased to hear that while there were a lot of concerns about the World Service, the funding has actually gone up since the new arrangements were brought in.

Baroness King of Bow (Lab): I draw attention to my entry in the register of Members' interests, as I work for Channel 4. Turning to the BBC, it is, as my noble friend Lord Bragg put it yesterday,

"not so much the family silver as the family itself"—[*Official Report*, 3/6/15; col. 432.]

As the Minister herself mentioned, a staggering 96% of the British population uses a BBC service every week. Given that, when going into negotiations on the licence fee, will the Government take into account the

range and breadth of the BBC's offer, so appreciated by the British public, because any wholesale reduction in funding will inevitably damage content and tarnish the family silver, if not the family? Lastly, did the Minister's response to the noble Lord, Lord Low, not indicate a lack of clarity in the Government's thinking?

Baroness Neville-Rolfe: My Lords, good points have been made, but we are embarking on a charter review and we need to consult the public, business and distinguished people such as your Lordships. Nothing is ruled in and nothing is ruled out, but the underlying variety which the BBC produces, here and around the world, is obviously incredibly important and helps our place in the world.

General Election: Postal Voting Fraud

Question

11.16 am

Asked by **Lord Lexden**

To ask Her Majesty's Government what assessment they have made of the extent of postal voting fraud at the recent general election.

Baroness Chisholm of Owlpen (Con): My Lords, the Government are not aware of any issues in relation to postal voting at the recent general election, although no formal assessment has been made. The Electoral Commission will produce a report on the general election in the coming months, which will include any concerns around the use of postal votes at the general election. A range of measures is in place to combat electoral fraud in the UK.

Lord Lexden (Con): Do the Government agree with Mr Nazir Afzal, the former chief crown prosecutor for north-west England, who said last month:

"One of the big problems is that victims who have their votes", stolen or,

"taken from them won't come forward ... We need the police to be much more proactive"?

He added that consideration should be given to establishing,

"a national, high-profile police hotline".

Will the Government also ensure that the large number of complaints by registered overseas electors who failed to receive the postal votes for which they applied are fully investigated and the results made public?

Baroness Chisholm of Owlpen: My Lords, we are in the early stages of a discussion with the Electoral Commission about how to take forward the manifesto commitment to ensure that it puts greater priority on tackling fraud. Obviously, all these issues will be considered in that discussion. On my noble friend's second point concerning overseas voters, for the 2015 general election—as with future general elections—postal votes were able to be sent out as soon as practicable,

19 working days before the day of poll. These changes were made specifically to meet the needs of overseas voters.

Lord Morgan (Lab): My Lords, does the noble Baroness acknowledge that the greatest electoral fraud of all was committed by the Ministers of the last Government, Liberal Democrat and Conservative, in wilfully adopting policies that kept millions of people off the electoral register?

Baroness Chisholm of Owlpen: My Lords, I do not accept that. The latest figures published by the National Police Chiefs' Council and the Electoral Commission, on 19 March 2015, show that police forces had only 272 cases of alleged electoral fraud in the UK in 2014, out of a total of 29 million votes cast.

Lord Pearson of Rannoch (UKIP): My Lords, is not the first past the post system pretty much an undemocratic fraud, when the Government are elected by only 24% of the electorate and UKIP gets only one MP with 4 million votes? I might add that, although of course your Lordships' House is appointed under patronage, with no pretence of democracy, we have only three Peers here whereas the Liberal Democrats now have 100, even though they got only a measly 2.4 million votes.

Baroness Chisholm of Owlpen: My Lords, I am not quite sure how that is about electoral fraud, which is what we are discussing today.

Lord Rennard (LD): My Lords, given the widespread abuse of the postal voting system and the ease with which it was possible to cheat in the most recent Tower Hamlets mayoral election, will the Government accept the need to review our election laws to provide more safeguards for democratic principles? If so, what is the justification for the abolition of the Political and Constitutional Reform Select Committee, which examines such matters?

Baroness Chisholm of Owlpen: My Lords, the Tower Hamlets situation was dealt with in the courts, so I do not want to comment on that. I am sorry, but can the noble Lord just repeat the other part of the question?

Lord Rennard: I understand. If election law were to be revised, in the previous Parliament the Political and Constitutional Reform Select Committee in the other place would have looked at that revised law. However, the Government are now abolishing that Select Committee, which I believe cannot be justified. What is the justification for the abolition of that Select Committee?

Baroness Chisholm of Owlpen: My Lords, as is known, the Government do not get involved in Select Committees, so that is not a point for me to answer here.

Baroness Warsi (Con): My Lords, I would not want to refer my noble friend to the case of the Tower Hamlets mayoral election, but could she write to me, if she cannot answer me today, about whether the

Government's understanding of the law in relation to undue spiritual influence is clear? Can the Government be sure that the law in relation to undue spiritual influence at the time of elections is being consistently applied across different religious communities?

Baroness Chisholm of Owlpen: My Lords, I will certainly get back to my noble friend on that question. The Government consider tackling electoral fraud to be a very high priority and they believe that more needs to be done to safeguard the integrity of elections. Indeed, this will certainly be looked into in the future with the Electoral Commission.

Lord Beecham (Lab): Given the large number of people not currently registered and the likelihood that that number will grow with the introduction of individual registration, how much are the Government prepared to invest in supporting local authorities in ensuring that people do register?

Baroness Chisholm of Owlpen: My Lords, in 17 local authorities where there is a feeling that there is a problem at the moment, £500,000 has been made available to increase the completeness and accuracy of the electoral register. This should improve research and intelligence gathering, and help with the production of videos to educate the public.

Armed Forces: Airborne Maritime Patrol Question

11.23 am

Asked by **Lord Empey**

To ask Her Majesty's Government what plans they have to improve the United Kingdom's airborne maritime patrol capability.

The Minister of State, Ministry of Defence (Earl Howe) (Con): My Lords, we have been clear for some time that the right point to look again at the requirement for a maritime patrol aircraft is in the forthcoming strategic defence and security review, the SDSR. That decision will be informed by the latest threat assessments and the conclusions come to in recent years. We continue to embed around 30 former Nimrod air crew in the maritime patrol communities of allied air forces in order to reduce the time and risks associated with regenerating a capability.

Lord Reid of Cardowan (Lab): My Lords—

Lord Empey (UUP): Steady on. Does the Minister not agree with me that one does not need a review to know that, as an island nation with a sea-borne nuclear deterrent capability, we are not even in a position to secure our own deterrent, because we do not have the capability to do so? I understand that all things have to be reviewed, but this is such a no-brainer. It is obviously of great concern if we cannot protect our own sea lanes against an increasingly aggressive Russian naval force. Will the Minister go back to his

[LORD EMPEY]

right honourable friend in the other place and say that we should be proceeding now to prepare the necessary facilities to ensure that we have adequate protection for our nuclear deterrent as well as for our shores?

Earl Howe: My Lords, I absolutely do not accept that we cannot protect our own sea lanes. We have acknowledged that we have a capability gap, following the decision not to bring the Nimrod MRA4 into service, but at the same time we made it clear that we chose to accept that gap because we knew that we could mitigate it through employment of other assets, as well as through co-operation with allies. Even taking operational activity into account, we remain of the view that the SDSR is the right context in which to take a decision of this significance.

Lord Reid of Cardowan: My Lords, does the noble Earl accept that there is an ingenuity in the MoD in producing euphemisms? I was once told that something was being put not into mothballs, but into a “state of extended readiness”. When he mentions the capability gap, will he accept that the maritime patrol aircraft and its facilities is not an optional add-on for a nuclear deterrent but an essential component providing surveillance, security and secrecy of location? What is the point of having a continuous at-sea submarine-based nuclear deterrent if it does not have those features? This has all the hallmarks not of a minor housekeeping problem for the MoD but of a major strategic blunder.

Earl Howe: My Lords, I emphasise again that this matter will be looked at very closely in the context of the SDSR—indeed, some preparatory work has already been done. I do not accept the noble Lord’s contention that we are without protection in this important area. We have the use of other military assets, as I said, including Type 23 frigates, submarines and Merlin anti-submarine warfare helicopters, and we rely on the assistance that we get from our allies and partners.

Lord Craig of Radley (CB): My Lords, the Minister mentioned that some preparatory steps are being taken in the MoD. What date is the MoD planning for the introduction, assuming an agreement through the review that he mentioned?

Earl Howe: My Lords, I think that the noble and gallant Lord will accept that we must not leap ahead of ourselves too much. However, I can tell him that the capabilities required from a future maritime patrol aircraft have been studied by the MoD over the past two and a half years. The study has received representations from a number of defence industrial organisations, which have allowed us to understand better the nature of the platforms in existence, as well as the timeframe in which novel technologies are likely to mature.

Baroness Jolly (LD): My Lords, given the Minister’s response just now, can he reassure the House in the mean time how we will be able to meet our international

obligations on search and rescue—for example, were an aircraft to crash in the furthest corner of our sector of the Atlantic?

Earl Howe: My Lords, a range of other military aircraft provide search and rescue radar capability to the Armed Forces. We have the E-3D Sentry system, which admittedly is optimised for the air-to-air role, but its radar has a maritime search mode. C-130 Hercules aircraft are fitted with radar systems that, combined with visual search, provide basic maritime search capabilities. RAF Sea King helicopters, and Royal Navy Merlin and Lynx helicopters all possess short-range surface search radar for use in maritime search operations.

Lord Rosser (Lab): I welcome the Minister to his first Defence Question since his appointment. He has moved from the health of the nation to the health of our Armed Forces. He referred to the strategic defence and security review and our maritime patrol capability. Can he confirm that, in pursuit of a bipartisan approach to defence policy, Her Majesty’s loyal Opposition will also be involved in the consultations on the SDSR, which the Government told us last Thursday in this House are now taking place?

Earl Howe: My Lords, I hope I can reassure the noble Lord. We will be looking for opportunities to consult a wide range of stakeholders, including industry, naturally, academics and parliamentarians. The Opposition will be welcome to feed in their ideas in the course of that process.

Lord West of Spithead (Lab): My Lords, the surveillance of our offshore economic zone and our waters is much broader than just the submarine issue. There is a real resource and money issue. We have already sent two Border Force cutters to the Mediterranean, one of our offshore patrol vessels for fishery protection has gone to the West Indies, and there is insufficient money in the defence budget. If we are going to provide this capability, what capabilities are going to be removed because there is just not enough money to do the things we need to do without going up to at least the 2% of GDP and, ideally, more?

Earl Howe: My Lords, it is important to emphasise that the SDSR will be underpinned by a very robust assessment of the threats that face us and the needs that we have to meet those threats. On the noble Lord’s wider point, the Ministry of Defence is just one organisation with a role in the security of the UK’s territorial waters. Under the UK national strategy for maritime security we have a ministerial working group chaired by the FCO. That has been established to focus on maritime security in its entirety.

Lord Davies of Stamford (Lab): My Lords—

Noble Lords: Order!

FIFA
Question

11.31 am

Asked by Lord Bach

To ask Her Majesty's Government what criminal investigations the Crown Prosecution Service and Serious Fraud Office have undertaken in the last five years into allegations of corruption and other illegal behaviour involving FIFA.

The Minister of State, Ministry of Justice (Lord Faulks) (Con): My Lords, the Crown Prosecution Service does not conduct criminal investigations. The Serious Fraud Office has not opened a criminal investigation into allegations relating to FIFA. While the SFO has not opened such an investigation, it is actively reviewing material in its possession. It also stands ready to assist the US and Swiss authorities in their investigations, although, by international convention, the SFO would not comment on such matters.

Lord Bach (Lab): My Lords, I thank the Minister for his Answer. Of course, by its nature this scandal is international and has been brewing for many years. We have excellent investigative and prosecuting authorities in this country. Does the Minister agree that this is the appropriate time for a thorough investigation of any possible British connection, whether through the banking system, British nationals or in any other way? Will Her Majesty's Government ensure that sufficient resources are made available for any such investigation?

Lord Faulks: My Lords, this is a fast-unfolding story. I am sure we can be generous enough to acknowledge the major contribution the United States Department of Justice has made to this matter. In the mean time, we stand ready to assist. It is a fast-developing situation. The SFO has been aware of allegations relating to FIFA for some years. It is keeping the situation under review and is ready to assist in any way it can. We do not think there is a lack of resources. Although the SFO is involved in a number of high-profile and difficult cases, including the LIBOR manipulation, resources are not an issue in this case.

Lord Thomas of Gresford (LD): My Lords, soliciting a bribe is a crime. Will the SFO make inquiries of the members of the England bid team for the 2018 World Cup, which achieved only two votes out of 22 from the committee, about whether they were approached by anybody for a sweetener in relation to their bid?

Lord Faulks: The Swiss authority's investigation is particularly focused on the 2018 World Cup bid on the basis that the jurisdiction is based on FIFA being a Swiss private company. If there is any information that we have in this country, we stand ready to assist on that, too.

Lord Faulkner of Worcester (Lab): Will the Minister heed those who are calling for the bidding process for the 2018 and 2022 World Cups to be reopened? Will the Government make it clear that they wish to see that happen?

Lord Faulks: It depends on what is found in relation to those bids for 2018 and 2022. The Government are most concerned, as is the FA, to find out whether there was any transgression in that case. Of course we cannot rule out the possibility of those bids being reopened.

Lord Soley (Lab): My Lords, given the growth of corruption in world bodies generally, and given that this is the year of Magna Carta, should we all not just be celebrating what the United States and Swiss authorities have done—for the reason, I understand, that the offence was alleged to have started there—but looking for a way in which international justice can make its mark in the world? Frankly, it is needed now more than it has ever been.

Lord Faulks: I agree with the noble Lord. We provide mutual legal assistance to a number of countries in accordance with treaty obligations. There are always difficulties with criminal jurisdictions extending beyond one country to another, but I entirely accept that co-operation should be the order of the day where these matters are concerned.

Lord Geddes (Con): My Lords, would the Minister join me in congratulating my noble friend Lord Courtown on persuading Mr Blatter to resign when he did?

Lord Faulks: I suppose there might be some slight dispute over cause and effect, but nevertheless I join my noble friend.

Lord Wallace of Saltaire (LD): My Lords, does Her Majesty's oversight of criminal law extend to offshore financial centres under United Kingdom sovereignty? From what has already come out, it is clear that a number of these illegal payments flowed through offshore financial centres that are British Overseas Territories. Do the Government intend to investigate that, or do they regard it as outside their jurisdiction?

Lord Faulks: It will be a question of fact in relation to each allegation as to whether it comes within the jurisdiction. As the noble Lord may well be aware, the Bribery Act 2010 came into force in July 2011, which has to some extent extended criminal jurisdiction. The timing of any alleged offence will be crucial, but if there are any offences we are not going to be restrained if there is a prima facie case of infringement of criminal law within this jurisdiction.

Baroness Deech (CB): My Lords, will the Minister take this opportunity to acknowledge the fearless part played in this by British investigative journalism, and the importance of a fearless and not overregulated British press?

Lord Faulks: I have absolutely no difficulty in acknowledging that, particularly the contributions by the *Sunday Times* and "Panorama".

Lord Reid of Cardowan (Lab): My Lords, should we not also place on record our appreciation for the initiative and courage of a Member of this House, my noble friend Lord Triesman, in raising this issue a long time ago and being thoroughly abused for it in many quarters at the time?

Lord Faulks: Equally, I am more than happy to raise that. We should also note that such is the momentum behind this investigation that we have some of the main culprits starting to turn against each other, so we can say that this investigation really has traction.

Assisted Dying Bill [HL]

First Reading

11.37 am

A Bill to enable competent adults who are terminally ill to be provided at their request with specified assistance to end their own life; and for connected purposes.

The Bill was introduced by Lord Falconer of Thoroton, read a first time and ordered to be printed.

Conscientious Objection (Medical Activities) Bill [HL]

First Reading

11.38am

A Bill to clarify the extent to which a medical practitioner with a conscientious objection may refrain from participating in certain medical activities; and for connected purposes.

The Bill was introduced by Lord Rowe-Beddoe (on behalf of Baroness O'Loan), read a first time and ordered to be printed.

European Union Citizens (Electoral Rights) Bill [HL]

First Reading

11.38 am

A Bill to make provision to allow European Union citizens who are resident in the United Kingdom to vote in parliamentary elections and to become Members of Parliament; and for connected purposes.

The Bill was introduced by Lord Balfre, read a first time and ordered to be printed.

Divorce (Financial Provision) Bill [HL]

First Reading

11.39 am

A Bill to amend the Matrimonial Causes Act 1973 and make provision in connection with financial settlements following divorce.

The Bill was introduced by Baroness Deech, read a first time and ordered to be printed.

Cohabitation Rights Bill [HL]

First Reading

11.39 am

A Bill to provide certain protections for persons who live together as a couple or have lived together as a couple; to make provision about the property of deceased persons who are survived by a cohabitant; and for connected purposes.

The Bill was introduced by Lord Marks of Henley-on-Thames, read a first time and ordered to be printed.

Queen's Speech

Debate (6th Day)

11.39 am

Moved on Wednesday 27 May by Baroness Bottomley of Nettlestone

That an humble Address be presented to Her Majesty as follows:

“Most Gracious Sovereign—We, Your Majesty’s most dutiful and loyal subjects, the Lords Spiritual and Temporal in Parliament assembled, beg leave to thank Your Majesty for the most gracious Speech which Your Majesty has addressed to both Houses of Parliament”.

Lord Gardiner of Kimble (Con): My Lords, this is the final day of the debate on the humble Address, and the advisory speaking time is seven minutes. That will allow the House to rise at a respectable time, and I hope that noble Lords making their contributions will be mindful of that.

The Commercial Secretary to the Treasury (Lord O'Neill of Gatley) (Con) (Maiden Speech): My Lords, I begin by thanking your Lordships for the warm and generous welcome I have received from everyone in this House. It is a privilege to serve as a member of Her Majesty’s Government, and it is a particular honour to make my maiden speech opening this debate following Her Majesty’s gracious Speech. I have been told that the conventions of a maiden speech require the speaker to be both brief and uncontroversial. Let me warn noble Lords—though some already know me—that only about 50% of that comes naturally to me.

My only regret today is that my parents are no longer around to see me here. They were true working-class Tories, which may surprise some people. They would have been not only proud but, frankly, slightly astonished that their continuous attempts to get me to focus on the *Daily Telegraph* at the breakfast table during my younger years, and not on the latest Manchester United programme, eventually bore some fruit. Indeed, one of my cousins told me just yesterday that even many years later my dad was still, in my absence, apparently pondering whether I would ever get a proper job. That showed me that they appeared to know that an individual and society’s collective productivity is what drives wealth and sustains success. This Government have put productivity as a priority for the next five years.

I was brought up in south Manchester, where I attended the local primary and junior school. When I reflect back—which, of course, I have especially done in the past few days—it is still clear to me that many of those school friends were at least as naturally gifted as I may have been, but for a variety of reasons, so many of them did not achieve their potential. I was lucky enough to go on to university and then achieve a career in the City, ending up as chief economist of Goldman Sachs. My time there overlapped with the rapid growth in the so-called large emerging economies, especially Brazil, Russia, India and China, which nearly 14 years ago now I was lucky enough to describe as “the BRICs”.

During those 18 years I started to understand the factors that drive economic growth. Economic theory tells us there are two things that make a country's GDP grow—the size of its labour force, and its productivity—and I believe that this basic theory is right. The labour force is primarily driven by a country's population, which is of course limited by physical factors. Importantly in that regard, the UK seems reasonably well blessed for the next couple of decades compared with many of our developed country—and in particular G7—friends. Productivity is trickier, but we can try to influence that with good policy, and I believe that if we are bolder and truly ambitious, we can do something about it.

I am therefore very excited to have joined the Government at this time to help drive the changes that this country needs to try to increase our productivity, whether that is having the right infrastructure, giving our children the best education, giving our workforce the skills they need for the 21st century, getting more women into the workforce, having a more effective policy on housing supply, providing better long-term incentives to invest, or providing even more effective and—importantly, perhaps—less strangling regulation.

During my time in the City, I also saw that successful interconnected urban areas—often, areas beyond the capital city—are vital to economic growth. The UK was, and frankly still is, underperforming in this regard. So, when I left Goldman, among the things that came on to my plate, I was very attracted to an offer to chair an independent commission on the growth of our cities outside of London. I pay tribute in this regard to my noble friend Lord Heseltine, whose work in this area has of course been groundbreaking. His was one of the very first voices to say that government policy on the industrial cities of the north should not be one of managed decline. He was a true pioneer in trying to help them to enable themselves to redevelop.

That can-do, positive, growth-oriented approach has been at the heart of what I ended up somewhat inelegantly calling “ManSheffLeedsPool”, which, of course, has now become better known as the northern powerhouse, not least because it includes other important northern cities such as Hull and the cities of the north-east—strong, interconnected cities across the north of England. I have been lucky enough to be asked to help deliver this, and to use my experience in the emerging world—especially, although not only, China—to help improve the UK's economic performance.

Importantly, I will also continue to lead the review into antimicrobial resistance that I have been leading for the past nine months, for which we will make our final recommendations in about 12 months' time. I hope that noble Lords will continue to feed into the extremely productive work that the review is carrying out, which in itself will help to improve the productivity of not only the UK but the whole world.

I believe that this country could be on the edge of something exciting and special. It is an honour and privilege to be asked to serve in Her Majesty's Government, and I look forward to contributing to the work of this House.

Turning to the legislative agenda, last week in this Chamber we heard Her Majesty's gracious Speech, setting out this Government's legislative programme, which will build on the foundations laid in the previous Parliament to get Britain back towards prosperity. Our legislation is designed for everybody in the country, meeting their needs and helping them to fulfil their ambitions at each stage of their lives. Important things were achieved in the previous Parliament. The deficit has come down, and the economy has improved. The record on jobs, in particular, has been strong. There are 2 million new jobs and, importantly, in the past 12 months we have had the strongest employment increase among the G7 countries. Today, we have the highest employment record in the UK's modern history.

However, the work is far from finished. The fiscal deficit is still too high, and the same is true of our external current account deficit. Our trade remains overly reliant on slow-growing emerging European markets. We need to do more with my friends in the emerging world. There are big infrastructure decisions that we have yet to make. Our businesses are still hampered by excessive regulation, and of course, there is so much to do to improve the competitiveness of our cities outside of London. The cities commission that I chaired showed that if the largest metro areas outside of London—not just northern powerhouse, but others too—could grow at the same strong rate as London, the UK's national growth trend could be boosted by 0.2%. This may seem immediately significant only to the economics geeks among your Lordships but, to put it in perspective, it will translate into an extra £79 billion to the British economy by 2030.

Our productivity challenge is well known. I do not need to labour too long on the statistics, but our output per hour is 17% below the G7 average; 27% below that of France; similarly, 28% below that of Germany; and, even higher, 31% below that of the US. In my judgment, there are some valid questions about the accuracy of our productivity statistics but that should not be an excuse. We can and should do a lot better. If we could get our productivity rates up, we could enter a virtuous circle to the benefit of all.

Against that background, today I shall briefly address the measures in the Government's legislative programme dealing with business, economic affairs and transport.

When businesses do well, so does the country, so we want to help businesses every step of the way. Our enterprise Bill will remove another £10 billion of red

[LORD O'NEILL OF GATLEY]

tape from businesses. Our target for cutting red tape will cover the activities of more regulators so that they contribute to our deregulation target too. We will make it easier for small businesses to solve late-payment disputes with other businesses. We will also create a faster, simpler, more efficient business rates appeals system, to be in place for the next business rates revaluation in 2017.

Moving on to the tax lock, we also want to let people keep more of the money they earn to spend or invest as they see fit. We will keep the manifesto commitment not to increase the rates of national insurance contributions, income tax or VAT. The commitments for income tax and VAT will be delivered through a finance Bill and, for NICs, we will introduce a national insurance contributions Bill, preventing any increase in the class 1 rate above the current rates.

We believe it is important to keep improving the transparency, accountability and governance of the Bank of England. To keep us ahead of the game, a Bank of England Bill will address the recommendations of the Warsh review, complete the transition to eight meetings of the Monetary Policy Committee a year and formalise changes to the Bank's top team. Further changes are under discussion between the Treasury and the Bank, and we will announce them shortly.

This Government believe that strikes, many of which disrupt essential public services, should be the result only of a clear mandate. The trade unions Bill will therefore introduce a 50% threshold of those eligible to vote for ballot turnout. In the health, education, fire and transport sectors, it will also introduce a voting threshold of 40% in support of strike action in order for that vote to be legitimate. Other measures will tackle the intimidation of non-striking workers, reform the rules on ballot mandates and make changes to the role of the certification officer.

Noble Lords will recall that in 2013 the Prime Minister delivered a deal in Brussels which saw the EU budget cut in real terms for the first time while protecting our rebate. The mechanism by which individual member states finance this budget is known as the Own Resources Decision. The new ORD was agreed unanimously by member states in 2014. This fully reflects the financing aspects of the Prime Minister's historic deal, including protecting our rebate. In common with previous practice, legislation is required for the UK to approve this, and we will introduce this in the form of the European Union (Finance) Bill.

I turn now to an important topic for the country and a Bill which, if executed correctly, could be highly advantageous; namely, the HS2 Bill. As is known from a number of my past public comments, I believe that other significant transport projects are vital for the success of the northern powerhouse. However, let me point out that, just in the past few days, a significant number of the leading local policymakers of all the northern cities that will be linked by HS2 have repeated their highly favourable stance to this project.

HS2 will connect eight of Britain's top 10 cities. It will more than double capacity on some of our busiest routes and support up to 100,000 new jobs, 25,000 of which will be in construction alone. The cross-party

support shown to HS2, both here and in the other place, is notable. I would like to pay tribute to the work of the noble Lord, Lord Adonis, and others in this regard. This Bill will provide the Government with the legal powers to acquire the land needed for phase 1 of HS2, to build it and to operate it. As a hybrid Bill, it will also enable both Houses to hear petitions based on specific issues relating to HS2, although not about the general principle. I look forward to working with my noble friend Lord Ahmad of Wimbledon on this important issue.

The Department for Transport is also taking forward the buses Bill to enable combined authorities with directly elected mayors to franchise their own buses. It is right that local areas that have ambitious plans to grow and develop should be given franchising powers as they consider necessary to deliver an integrated transport system.

In conclusion, this Government's legislative programme has three primary objectives: first, to help working people at every stage of their lives; secondly, to put the public finances on a stable, sustainable footing by running a surplus; and thirdly, to deliver a step-change in the nation's productivity. A dynamic, growing economy, underpinned by sound finances and solid investment, is by far the best way to give the people of this country a better standard of living. The measures set out by Her Majesty last week will help us achieve exactly that.

11.57 am

Lord Mendelsohn (Lab): My Lords, it is a great honour and pleasure to follow such an impressive maiden speech. The Minister is known to me and I was very pleased to hear of his appointment and delighted that he has now taken up ministerial office. The Minister earned an undergraduate degree at the University of Sheffield and a PhD from the University of Surrey. He enjoyed a meteoric rise through the investment banking industry, ending at Goldman Sachs. He should also be known for his services to education, for philanthropy and for his very important work on cities.

Many have previously sought to woo the Minister into political service. I had always hoped that the colour of the shirt of the football team he adores so much was always likely to be a sure indication of his devotions. A recent *FT* article on his appointment described his political views as "opaque". Well, from where I sit, he has turned into a Blue—not the most comfortable of places for a Manchester United devotee.

The Minister is an engaging speaker, as we witnessed. An online commercial listing to book the Minister to speak—an old listing, I hasten to say—provides his CV and, to help with your search, has a tab you can press if you are interested to find "similar speakers". I pressed it. He will be pleased to know that among the eight speakers listed were Franz Beckenbauer and Myleene Klass. He may be comforted to know that the list also included Steve Forbes.

The Minister is a great addition to this house and to the Government. His fantastic work on cities and growth is truly to be admired. I wish him well and wish him every success in his post.

It is always a pleasure to see the noble Baroness, Lady Neville-Rolfe, in her place. I look forward to hearing what she will say later. I congratulate her on her extended role in the Government and hope that the courteous and generous way in which we were able to debate fully on areas of disagreement and collaboratively on areas of agreement will continue in this Parliament.

As someone who still pursues an active life in business, I refer noble Lords to my entries in the register of interests. I am looking forward to this debate and to the maiden speech of the noble Lord, Lord King of Lothbury.

On behalf of these Benches, I want to provide some context to how we will look at the measures proposed in Queen's Speech and refer to some matters which we hope the Government will consider in their plans. We are yet to be convinced that the gracious Speech provides a strategy to build the productive and sustainable economy that the country needs. There is, for example, a considerable problem with foreign direct investment and its impact on productivity. Our performance is good and has been for many decades, but in the past five years we have clearly seen foreign direct investment's contribution to UK performance, measured by GDP per head, become a drag on productivity. The coalition Government ended with a wide deficit still in place in public sector finances and external imbalances. Alone among the major economies, this twin-deficit problem is in double-digit territory. A current account deficit represents a country selling its assets and/or incurring debt to finance spending. This is a reasonable strategy if such investments are likely to create a return and to pay off in the long term, but the UK's problem is that we have been seen to be on a consumption binge. Household savings are weak; household debt is rising steeply and projected to deteriorate further. We may continue to grow but there will be costs and many potential risks and shocks to the system ahead.

The plain truth is that the UK economy has not recovered because of the successful fiscal austerity programme of the Government—quite the contrary: the UK economy recovered because the last Government abandoned the fiscal consolidation programme three years ago and left it for the next Government to deal with. The way in which they dealt with austerity was not balanced. The Minister is in charge of infrastructure, so we hope that he will succeed in delivering effective and long-term investment and making a significant difference.

The likely occurrence of bumps ahead is indicated not just by frequent reports of uneven confidence in different sectors of the economy but by the proposed national insurance contributions Bill and finance Bill. We will not oppose measures that lock the main rates of tax until 2020, as we oppose additional taxes on working people. We want to see the tax burden shared fairly and soberly, with any scope for tax cuts focused only on middle and lower earners. We will not oppose the measures on the national minimum wage even though it is worth pointing out that they provide no additional benefit, as life, frankly, is just too short.

We support efforts to get people back to work, to achieve full employment and to get the social security bill under control. We will look carefully at the full

employment and welfare benefits Bill, especially in light of what may be said in the emergency Budget.

We will not oppose the European Union (Finance) Bill, whose purposes we support, and we will clearly support measures in the Bank of England Bill that help ensure that the Bank is able to fulfil its role of overseeing monetary policy and financial stability. We will await the publication of further details.

It is important that the business and economic dimensions are considered in relation to other Bills in the legislative plan, including especially the Cities and Local Government Devolution Bill. We will probe this Bill to make sure that the important economic opportunities are fulfilled and made available to all.

I am concerned that the trade unions Bill masks a much darker purpose that the 20-year trends do not support. No one can accuse me of being in the pocket of the unions and I believe that they require more than just reform, but there lurks something nasty and unpleasant in the construction of this Bill and in its lack of natural justice. The Government should expect some energetic engagement on it.

The centrepiece Bill, which is the expression of the Government's growth agenda, is the enterprise Bill. I am bound to say that it is a little limited in its scope, but there may be a case for doing a few things well. However, we will naturally support measures that take us beyond where we currently are. We will naturally support, too, measures to make life easier for small businesses, including tackling late payments, as indeed we will support measures to improve the business rates system and address issues around pay-offs for public sector workers. I especially look forward to a detailed analysis and scrutiny of the suggested £10 billion of savings which we have heard about. I am pleased that further measures are planned for small businesses and am grateful for being given a second bite at the cherry on late payments, which is a terrible scandal, with £40 billion to £50 billion of cash failing to circulate properly in the economy and drive economic performance. Having personally examined the Australian arrangements in relation to our debates on the previous Bill, which became the Small Business, Enterprise and Employment Act, I look forward to understanding the Government's argument for the new proposals.

The Queen's Speech is quite bold in its language but modest in its scope. The country needs to strive constantly for a low-cost and more business-friendly environment; a more skilled labour force; better economic infrastructure; an industrial policy that fosters competitiveness, innovation and entrepreneurship; balanced and long-term investments; to make the case for the positive role of business in creating prosperity, employment and fulfilment; and, most crucially, to address the productivity failure of the past five years, which will undoubtedly be the greatest challenge for the next 10.

We will rigorously scrutinise every Bill that is before this House. We will be constructive and collaborative where we can be but our economy and businesses need more than what is on offer and we will not shirk from suggesting what can be done within the bounds of the conventions. We will not hesitate to challenge the Government when the occasion demands.

12.05 pm

Baroness Kramer (LD): My Lords, it is a pleasure to join in the welcome to the noble Lord, Lord O'Neill. There could not have been a more difficult set of circumstances under which to make a maiden speech, and he did so quite brilliantly. He has achieved a great deal in a very distinguished career and he brings great experience and financial expertise to this House.

As he will gather from my remarks, I hope that he will act as a reality check on a Government who show every sign of veering away from the balanced and fair coalition strategy on the economy and finance that has brought us through one of the worst financial crises in our history and advanced the rebuilding of our economy.

When the IMF and the OECD praised the success of the coalition in bringing down the deficit and restoring financial stability, they praised an approach in which everyone contributed—the rich as well as the middle and, indeed, the poor; and with tax increases as well as cuts in public spending. The broadest shoulders took on a significant burden and we were all in it together. That approach not only promoted fairness but bolstered economic recovery and dynamism across the country.

However, with the Liberal Democrats gone, the Tory Government are now clear that fairness and balance have been abandoned. Ideologically driven welfare cuts are at the heart of the Tory strategy and the Government have trumpeted their determination to cut £12 billion from the welfare budget—not to eliminate the deficit but over and above eliminating the deficit. They have not even had the grace so far to name those cuts—only about £1 billion are identified in the gracious Speech. So what are the rest? Perhaps the Government will admit that this is not considered economic policy but is essentially a sop to a Tory right wing that bitterly resented the elements of fairness and balance that brought that success in the coalition years.

The noble Lord, Lord O'Neill, also told us with enthusiasm—which I understand—of the new NIC and finance Bills to enact into law measures to prevent his own Government raising income tax, VAT and national insurance for the next five years. Frankly, the premise that any Government has to pass a law to regulate their own tax behaviour is quite extraordinary. However, the issues go deeper. I suggest to the noble Lord, Lord O'Neill, that, back in the days when he was involved in asset management, if a chief executive had locked his company into paying a dividend no matter what the state of the company, the industry and the country, he would have dumped the stock and called for the resignation of the CEO—and yet he has just announced the government and Treasury equivalent. Do he and the Government really believe that volatility, instability and crises are ended?

Gordon Brown believed that he had ended boom and bust for ever, and consequently the Labour Government made disastrous decisions on public spending that drove a financial crisis into a deep recession. Now we are faced with a string of issues and instability—a Greek exit from the euro; a possible EU exit by Britain, which would surely be a self-inflicted injury

on an extraordinary scale; Russia's ambitions; ISIL; a weakening Chinese economy; and never mind the unknowns—that same arrogance has now returned to the Treasury, and this time it has a Tory face. That is a fundamental threat and I hope that the noble Lord, Lord O'Neill, will use his expertise and experience to temper some of this arrogance before, once again, we are on a trajectory of failed decisions that restrict our ability to respond to and remedy the crises that inevitably will come.

There is some limited reform of the financial system in the Government's proposals, notably in the Bank of England Bill. Let me suggest that the Government could do worse than enact more completely the recommendations of the Parliamentary Commission on Banking Standards, of which I was privileged to be a member. But yet more needs to be done. We have the return to the private sector of RBS. This is surely an opportunity to look at doing that in a way which will increase the diversity—preferably the regional diversity—of banking in the UK. We need better arrangements to deal with systemic risk, particularly that posed by central counterparties for clearing derivatives—an area in which the noble Lord will have real expertise. We lack a sufficient regulatory framework to deal with abuses in personal financial services, the latest being the behaviour of so-called debt management companies. We will press the Government to address these and a wide range of similar issues.

The noble Lord, Lord O'Neill, referred to the importance of the full employment Bill. I am most interested to know how he reconciles that with the Government's targets to reduce net immigration to the tens of thousands when, as he knows, it is the import of relevant skills that is absolutely critical as an element of growth.

As a Liberal Democrat, I am obviously pleased that our policy of lifting the starting rate of income tax continues, although I note that when we were part of the Government we did not need a law to make it happen. I am amazed that the Tories trust themselves so little that they need a law to make them do it.

My noble friend Lord Teverson will talk much more extensively on transport issues but obviously I am delighted, after my time as a Transport Minister, that HS2 progresses, as does the devolution of transport powers to cities. The policy owes a great deal to the noble Lord, Lord Heseltine, but perhaps I may also mention that it owes a great deal to Nick Clegg personally—as does the whole process of devolution.

We on these Benches will be constructive, as is our duty and our wont, but our role is to scrutinise and revise. What a tragedy for the country if the hard-earned successes of the coalition years are now squandered to pacify a right-wing ideology.

12.12 pm

Lord Birt (CB): My Lords, a new Government have a unique opportunity to set a clear strategic direction for the longer term and thus to achieve real, fundamental and enduring change, as Clement Attlee and Margaret Thatcher once did. I hope that this new Government will begin first by articulating a long-term plan for reducing our nation's indebtedness. Earlier this year,

the noble Lord, Lord Deighton, set out in a Written Answer the aggregate debt of the G7 countries in 2012, which was the last year for which comparable figures were at that point available. Aggregate debt is not just government debt but all debt; it includes private households as well as the finance and general business sectors.

The picture unveiled by the noble Lord, Lord Deighton, was truly gory, and the OECD's updated figures for 2013 appear to show the same grim picture. Two countries stand out from the crowd: Japan and the UK. Japan is higher up the naughty step than we are, but the UK, by a wide margin, is far more indebted than other G7 countries, with total aggregated debt of seven times GDP—a truly shocking figure.

We appear suddenly to have a welcome, if belated, consensus that when the sun shone the last Government but one should have saved, not spent. This Government accept, I think, that when the global tsunami struck, private-sector debt was also too high and that as a country we were massively overexposed to debt in the financial sector, as the bank rescues all too dramatically illuminated.

In his Answer, the noble Lord, Lord Deighton, suggested that overall levels of private and commercial-sector debt should not threaten our financial stability, but he declined to set any explicit targets for the future. Would the Minister set out in her concluding remarks how we will know when we have reached the point of comfort as a nation for both sector and aggregate debt? We have in total 45% more debt than Germany. Would we, for instance, like to reduce down to current German levels, or even beyond? How long should we take to do that? What principles should guide us? Perhaps the Minister will say.

Our approach to bringing down the deficit, as we must, should also be strategic and not technical. On many occasions in my life, working in both the public and private sectors, I have had to drive or preside over spending reductions. In reducing public spending the focus should be not on capacity reductions but on maintaining desirable public outcomes more cost efficiently and by myriad means: promoting competition, ending duplication, improving processes, sharing services, harnessing technology and much more.

We should also be suspicious of the shallow, much repeated assertion that spending cuts must equal capacity cuts. In most areas of the economy, more can and is being done for less. I continue to see substantial evidence that that can be true in the public sector, too. But there is a problem to overcome if we are to achieve that goal. In my time in government, I saw how weak Whitehall was at analysing cost structures—I say this surrounded by a phalanx of former Permanent Secretaries to the Treasury. It was a world away from best private-sector practice, and I see no reason to believe that it is much better now. Not only the departments but the Treasury itself needs a more muscular value-for-money capability, and now is the time that it needs it most. If we focus just on cuts we will make a grievous error, for in healthy organisations you invest even as you cut. You prioritise, keeping within your means in the here and now, but at one and the same time you plan for the longer term.

As a nation we must be clear-sighted about our long-term priorities. With black clouds on every horizon, with the world a troubled and volatile place, the first responsibility of government is to design, to build and to maintain a security and defence capability that will meet our future needs. Next, we must improve the health of our economy, as well as safeguard our defence. We must identify why our national productivity has been lower than that of comparable countries for so long. For certain, as the noble Lord, Lord O'Neill, suggested in his punchy maiden speech, we must invest in the future skills our economy will need. We must accelerate spend on our road and rail infrastructure, on which we are by far the worst compared with our competitors, and we must end the shameful delay in creating appropriate national strategic airport capacity. Let us be alert to the pace at which much of Asia moves, and let us not be left badly behind.

Finally, a new Government must ask themselves what capabilities and accountabilities they need at the centre, not only to drive and to monitor a massive and unavoidable programme of change right across Whitehall but to improve our national planning. Who in government foresaw that our population would grow by 7.5% in 10 years, and in the middle of highly adverse economic circumstances? Who forecasted and planned for this? I suggest that no one did. We need at the centre of government a proper focus on long-term and integrated planning.

Now is the moment to begin to drive the UK, over the next five to 10 years, to a more harmonious and stable place—a UK with a more balanced, productive, less indebted economy, and with a more alert, agile and efficient state. This can be achieved, but only if we seize the moment and start now.

12.19 pm

Lord Higgins (Con): My Lords, it is a great pleasure to welcome the noble Lord, Lord O'Neill of Gatley, to the House and congratulate him on his maiden speech. It is not an easy thing to make a maiden speech from the Front Bench and to combine those things adequately. I had the same experience when I entered the House but I had the disadvantage of doing so in opposition. I am delighted that the noble Lord has the chance to do so in government.

One looks forward with great pleasure to the maiden speech of the noble Lord, Lord King of Lothbury, who will certainly make a major contribution to our debates, not least, of course, as far as banking is concerned. I also look forward to hearing the maiden speech of the noble Baroness, Lady Altmann, in due course, although she is not down to speak today. When I served for a decade or so on the Front Bench as the main spokesman on pensions, I benefited enormously from her comments outside the House. It is very good indeed that we shall have the opportunity to hear her views first-hand rather than from the sidelines.

We are lucky to have those who are now joining us at a time which I think is more difficult than any I can remember in the last 50 years or so as regards both the mass of difficult problems at home and impending dangers—the well-known expression—abroad. I benefited

[LORD HIGGINS]

greatly from a very good article by Professor Vernon Bogdanor, *The Crisis of the Constitution*, in which he analyses the way in which we have a whole series of interlocking crises. We have a Scottish problem following in the aftermath of the referendum, a European problem with the anticipated referendum, a human rights problem, an English problem in terms of English votes and so on and a crisis of representation in a multi-party system. This is all extremely difficult and the problem arises from the way in which each of these crises interlock. As I say, this is well analysed in the article to which I referred.

In the short time I have I want to concentrate on two things: the deficit on the one hand and the European referendum and our lead in Europe on the other. I am afraid that there is still enormous confusion in the press between the deficit and debt. The two are not the same. The extraordinary thing about the deficit is that it has been overwhelmingly at the centre of our economic problems for the last five years, and will continue to be so for the next five years, but there is no mention of it in the gracious Speech. That is curious. What the Government are planning to do will be immensely difficult to achieve over the next five years, not least because so many areas have been ruled out as far as making economies is concerned. I do not know whether legislating at this stage in the proceedings to make that a solid situation we cannot go back on is very helpful.

Having said that, we need to stress that the deficit is a UK problem. Remarks by leaders in the Scottish nationalist field both during the campaign and since seem to indicate that Scotland will be exempt from the cuts that will be necessary if we are to cure this United Kingdom problem. Indeed, one gets the impression that it will be a case of having austerity in England but not in Scotland. We must face up to the fact that Scotland is already in a privileged position. The Smith commission report would seek to maintain the present balance. We have to look again at the Barnett formula and we should not rule that out. Indeed, the great Lord Barnett himself—greatly missed—felt that it needed to be changed. Therefore, I hope that we can take some action as far as that is concerned.

Finally, I turn to the question of the European referendum and the remarks made in the Queen's Speech, which says that the Government will,

"pursue reform of the European Union for the benefit of all member states".

There is a whole series of issues, not least freedom of movement, on which clearly the Prime Minister will need to negotiate. The crucial thing is that we must take a lead, as the Queen's Speech says, in the interests of Europe. We must face the fact that the present structure of Europe, dependent as it is on the eurozone, is fundamentally flawed.

We should be taking a lead in planning for a situation where if a country has to leave the eurozone, it can still remain in Europe—that is very important—but also that there is a planned process of exit. I believe fundamentally that there is no prospect of the Greek economy becoming competitive at the present exchange rate. Indeed, this view is shared by a number of others, including Alan Greenspan in the United States. We ought

to press the European Union to make sure that there is an escape mechanism for countries that are not going to be competitive. We cannot have a situation where they go on being bailed out for ever and the European economy as a whole, and particularly our own, is adversely affected as a result.

12.26 pm

Lord Reid of Cardowan (Lab): My Lords, I am genuinely delighted to welcome the Minister to the Dispatch Box, for three reasons. First, he deserves it. Indeed, he deserves to be in the premier league on this side but at least he is on the red Benches, which should be some consolation to him. Secondly, it enables us to continue our occasional discussions on the great affairs of state, which of course involve the future of Manchester United Football Club. Thirdly, he majored on the truth that up to this stage dare not speak its name—productivity.

We are seven years on from the biggest recession in modern times—seven years during which we have had the slowest recovery—and five years of that, courtesy of the blessed Fixed-term Parliaments Act, have effectively been a general election campaign. I listened to the speeches, I read the articles and I looked at the manifestos and there was a great deal of advice on how to spend money, how to allocate resources and how to distribute wealth but nothing—nothing—on how to create wealth, from any of the parties, incidentally. So I am glad that the Minister is now majoring—now that the Government are safely berthed, as they see it, for another five years—on how to face the storms ahead, not least of which is productivity.

I want to make three points specifically on productivity and I do so from a background that has nowhere near the expertise that the Minister brings to the subject. First, there seems to be a danger of exploitation squeezing out exploration when it comes to productivity. Productivity has to do much more than just find more efficient ways of doing the same things. It needs exploration as much as—perhaps more than, in the present circumstances—exploitation. Sacrificing one for the other is not only unproductive but strategically very dangerous.

In that context, how productivity is measured therefore matters a lot. The Minister mentioned his scepticism about some statistics. I also have a great deal of scepticism about the means by which we measure productivity: the rate of output per worker per unit time, or labour productivity; and the residual of output not explained by the amount of inputs used in production—that is, the total factor production. These of course feature large in debate among the experts but they tend to assume that radical changes in modes of production do not need to be matched by radically improved means of measurement. I doubt that is the case.

The practical results of inadequate measures are real enough, though. Ordinary people feel the spectre of labour being substituted for technology and vice versa as exploitation far more widely than high-priced experts who are often indulging in groupthink—the very phenomena which enabled us to stumble into the recession last time around. As a result, people's job

anxieties are needlessly provoked and capital is poorly invested. Exploitation squeezes out exploration at all levels. It is remarkable that rather than investing capital surpluses in necessary innovation, last year share buybacks—buying back our own shares—amounted to \$903 billion for the S&P 500. The failure to reinvest capital manifests itself in all sorts of small but significant ways: for instance, in unproductive labour being employed in the revival of hand car washes because of the failure to invest in highly successful technology, which is also, by the way, environmentally very sound.

These examples evidence two major failings sapping productivity. First, there is the failure to invest in research-intensive innovation that is vital to our competitive future—for instance, in UK biotech. Secondly, there is the failure to liberate labour for more productive endeavour by withholding capital investment, even in exploiting well-established technologies. Both are of course linked. Productivity measures are—to coin a phrase—not entirely fit for purpose, given the strategic challenge ahead of us. They are skewed to exploitation squeezing out exploration. The Chancellor, or the Minister, may well be spurred into action at long last on productivity but would be well advised to assure himself that he is using instruments calibrated for the real economy, not financial groupthink.

Secondly, unless we learn to innovate at the pace, intensity and scale fit for the strategic challenges ahead, our problems will grow, not our productivity. For centuries, British ingenuity and innovation have enabled us to sit astride the spokes at any given contemporary period of the globalised world. The shipping lanes we opened were complemented by financial services that underpinned confidence in growing trade. We constantly evolved, building coaling stations and laying submarine cables, which in turn allowed us to dominate the world's communications, and developing engines to propel ships, trains, planes et cetera. At the heart of that is a language and ethos for pragmatism, which we share for the better conduct of business and science the world over. However, something has stalled. A deep, wide and persistent productivity disease has taken hold and we cannot afford that.

The third and final point is the advent of cyberspace. Success in the cyber environment, an environment characterised by constant entrepreneurial innovation, makes this issue more essential than ever. Yet according to the European Union *Innovation Union Scoreboard 2014*, despite the fanfares for Shoreditch and the Silicon Roundabout, the UK is an EU follower in cyberspace, not a leader. The evidence suggests that however world-class our research and education are, they simply fail to translate into innovation that sells. In particular, I say to the Minister that this includes an overweening financial services sector, which the Bank for International Settlements and the IMF warn can undermine productivity severely because its interests are served by generating short-term transactions, not investment in research and development or capital-intensive industries in the real economy.

If we are honest, we may be able to face these things. If we are dishonest and ignore these productivity inhibitors, as all parties did in the election, things will only get worse. Our fitness for the cyber environment is a benchmark that we must set for ourselves at

“excellent” and “world-leading”. Reaching such benchmarks needs some very practical and sustained effort, and that effort needs to start now.

12.34 pm

Lord Newby (LD): My Lords, it is a great pleasure to be able to speak in today's debate before I re-enter the Stygian world of the Whips' office. I welcome the noble Lord, Lord O'Neill, and congratulate him on his maiden speech. I wish him well. I also look forward to the maiden speech of the noble Lord, Lord King of Lothbury. I will say something about the economy and then something, given that it has attracted considerable interest, about the attitude on these Benches towards the passage of business in your Lordships' House.

Although the economic position inherited by this Government is incomparably stronger than that inherited by the coalition in 2010, a combination of deep-seated problems and external risks means that we are definitely not out of the woods. As far as the macroeconomic position is concerned, great progress has been made in reducing the deficit, and clearly more needs to be done, but I urge the Government not to bring about an accelerated elimination of the deficit on the back of very significant welfare cuts for the working poor and modest earners. That is neither economically necessary nor socially justifiable.

It is said that the only reason the Conservatives included the provision of £12 billion of welfare cuts in their programme was that they knew that, in any second coalition, the Liberal Democrats would not let them get away with it. They are now embarrassed and confused because they have not the faintest idea how they will make the cuts. I will make the Minister an offer. If the Government would still like the Liberal Democrats to scupper these proposals, I am sure that, with colleagues from across the House, we are still prepared to oblige. Perhaps the Minister will tip me the wink when the welfare reform legislation comes forward, and I will see what I can do.

In terms of the deep-seated economic problems facing the country, the last Government began to tackle some of them with some success, but much needs to be done. I will briefly mention three issues, all of them falling within the Minister's priority of productivity. The first relates to innovation. Although the UK is a world-leading innovator in the service sector, we consistently spend less than our major competitors in this area in manufacturing. We are in fact 19th in the OECD for total expenditure and 24th for government R&D spending. We should be looking to increase the Government's own investment in R&D to bring us much further up the OECD table. In particular, it is extremely important that we invest further in the extremely successful Technology Strategy Board, the Catapults and the sector research bodies, and that we commit to doing so over the long term.

Secondly, the housing shortage is now becoming a crisis. On current policies, the problem will get worse during the course of this Parliament rather than better. It is a particularly acute problem in London and in the social housing sector. I was therefore depressed to see that the Conservative manifesto devoted just three sentences, one of them descriptive, to affordable housing. Many changes will be needed in this area if we are

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going to really deal with this problem. I mention only one, which lies at the door of the Treasury and is an institutional mindset which is deeply damaging. The Treasury currently does not regard housing as part of our national infrastructure—as I discovered when I asked for a brief on infrastructure from Treasury officials last year. This must change, and the Minister is ideally placed to change it. I hope he will.

Thirdly, there is the northern powerhouse. The Chancellor, in his guise as the thieving magpie of Liberal Democrat policies, has very sensibly identified the need to give greater government impetus to the development of the north by latching on to Nick Clegg's advocacy of greater powers for the northern cities. This is greatly to be welcomed. However, not only must the northern cities and indeed other cities be given greater powers, as is planned, but if the infrastructure of the north, particularly the transport infrastructure, is to match that of London, greater powers on their own are not enough. More resources are going to be needed if we are going to transform trans-Pennine rail links, for example, than simply giving northern cities greater powers.

Much has been said already in these debates about the Salisbury/Addison convention and how the opposition parties should behave in this Parliament. Let me make it clear that, for my part, I would not support any suggestion from any of my colleagues that we should seek to frustrate the Government by filibustering or by mounting a full-frontal attack on every aspect of the Government's legislation. But what we shall do is to challenge aspects of legislation with which we disagree. In doing so, we will be guided by the traditions of the House. As a young and impressionable Treasury spokesman in your Lordships' House, I learnt about these traditions during the period of the last Labour Government.

Several episodes stand out in my mind. I remember with affection the vote called on the then Financial Services and Markets Bill by the noble Lord, Lord Saatchi, at 10.45 pm on 9 May 2000. I also remember the noble Baroness, Lady Noakes, catching me almost literally napping when she called a vote at 11.35 pm in Committee on the then Banking Bill on 26 January 2009. I also remember the memorable day when the noble Lord, Lord Davies of Oldham, rang me in my office having suffered a big defeat on the first day in Committee the previous day, on an amendment to the statistics Bill, to sue for peace. In that case, the Government had brought forward a Bill which seemed calculated to give Ministers more control over official statistics when they were pledged to reduce it. A cross-party group led by the noble Lord, Lord Moser, sought fundamentally to redraft the Bill. As a result of this early defeat in Committee, the Bill was largely redrafted. I think that everybody, perhaps even the noble Lord, Lord Davies, agreed that this was the Lords doing its work.

My experience in government was that, when the Government lost the argument, they tended to lose the vote. There have been a number of the Government's flagship proposals which we have already debated in these Queen's Speech debates where the Government have already lost the arguments. They can expect a busy time in the Division Lobbies in the months ahead.

12.41 pm

Baroness Wall of New Barnet (Lab): My Lords, I, too, would like to congratulate the noble Lord on his entrance into this House, and know that he will play a major role. As somebody who comes from the other side of the north-west divide, I was delighted to hear his rich south Manchester accent is still prevailing. It is really important that we keep the flag flying for the north-west.

I want to focus my contribution in this interesting and wide-ranging debate on important policies on an issue that some businesses are succeeding in and some are trying hard to do so, while many still struggle to understand the value that it would have for their business and, importantly, to many of their staff of both genders. I refer to getting the balance right—women in business. It is a fact that women play a vital role in business across all sectors, not least in the advanced manufacturing and engineering sector, and in all the STEM roles. Manufacturing is an important component for a balanced economy, and women are a vital component for a balanced workforce. We need 1 million more women in STEM roles by 2020 to meet the skills shortage and to achieve 30% critical mass of women carrying out those STEM roles. WISE has been very helpful in providing me with information to put this speech together; that organisation is very anxious about the state of science and engineering, particularly from its own aspect.

In 2014, there were 14.2 million women in the workforce overall, representing 46.5%. However, in STEM occupations there are only 689,000, representing only 12.8% of the STEM workforce. Currently, fewer than one in five, or 13%, of those working in STEM occupations in the United Kingdom are female, with fewer than one in 10 STEM managers who are women. In some areas, such as ICT and science and engineering, the percentage of women is actually falling.

I am keen to discuss what works. By taking positive action to support their female workforce, companies can target improvements in their recruitment of women, in reducing their resignations and holding on to them as important members of society, and increasing the number of women in senior executive roles. Many leading companies in the advanced manufacturing and engineering sector are implementing diversity strategies to ensure that they can recruit, retain and, very importantly, progress their female talent to deliver business growth.

A number of companies use Skills 4, which I support. Its career development programme to support female talent to progress their careers is usually successful. It is now offered as an open programme in partnership with WISE to allow smaller companies and individual women to access the rights and opportunities to grow. A number of companies are focused on improving their gender balance across a range of activities. For example, Atkins supports a women's professional network and a women's leadership council which guide women and act as role models and mentors. The Skills 4 career development programme and returners programme support women returning to the workforce following maternity leave or carer leave. They also offer a wide range of part-time and flexible working schemes.

If businesses are serious about aspiring to have 30% of women on boards, they must take serious action to support and progress women to the top of their careers to ensure that they will be there when the places need to be taken up.

My noble friend Lord Davies of Abersoch, working collaboratively with business, agreed and got co-operation from business to set a target of 25% of women on the boards of businesses. There has been good progress in the FTSE 100, and it is believed this target will soon be achieved. However, this will be difficult to achieve in the STEM sector due to the small percentage of women in that sector, which means that the pipeline is not there and we need to create successful role models. There have been a number of key successful government initiatives to support women in STEM, but we do not have a real strategy across the key government departments—the Department for Education and the Department for Business, Innovation and Skills—to ensure long-term success.

The right honourable Nicky Morgan, the returning Minister for Women and Equalities and Secretary of State for Education, is in a good place to influence this. She stated that, looking forward, the Government have ambitions and plans which include continuing to close the gender pay gap, increasing the number of women on boards and in public life and increasing free childcare to 30 hours for working parents of three to four year-olds. This is all key, nobody would disagree with it and all of us would support it, but it has to happen rather than be talked about. There is a need for a joined-up government strategy across education, skills and businesses that we all want to succeed to make gender balance an integral part of mainstream policy rather than what often seems an add-on programme, particularly in apprenticeships where there is a chronic gender divide.

Who benefits? The compelling business case is clear and well researched. Diverse teams help drive customer insight, a further reach into new markets, team working, safety and risk management. It is well known that teams involving people from different backgrounds make better decisions than homogenous groups. Companies with three or more women in senior management perform better on nine criteria of organisational excellence, including leadership, accountability and innovation.

We urgently need young women to consider a career in STEM. This is the only way we will have that future and that pipeline will be filled. I congratulate the Minister on her dual role, which is obviously onerous but I am sure she will do extremely well. I urge her to work very hard with the new Minister to make sure that we have joined-up government. We need to stop saying the right things and start taking the right decisions.

12.50 pm

Lord King of Lothbury (CB) (Maiden Speech): My Lords, I am extremely grateful for your Lordships' patience in allowing me to wait until after the general election before burdening the House with my views, and for the warm welcome that I have received. Parliament is a forbidding place for a central banker—our experience is usually confined to appearances in the other place before the Treasury Committee. I can report that,

contrary to that body, the Economic Affairs Committee of this House offered not only greater decorum but also a superior quality of discussion.

With the general election behind us, I shall say a word about the economic challenges facing the country. Before that, I add my welcome to the noble Lord, Lord O'Neill, who will be responsible for many of the policies aimed at improving the performance of our economy. He will add expertise to the experience of the House at a time when economic issues loom large in our politics, especially in relation to Europe.

Over the past five years, the UK economy has expanded by almost 10%, faster than official statisticians initially estimated but still slower than expected at the beginning of the previous Parliament. The task now, as then, is to rebalance the UK economy away from private and public consumption and toward investments and exports. Monetary policy is in good hands, fiscal policy is tackling the structural deficit and banking is being reformed.

We have made progress, but we face two challenges. The first is to raise productivity throughout the economy—easy to say, hard to do. Several noble Lords today have made convincing contributions to explain what we need to do. Despite recent official data, we should be optimistic about the long-run growth rate of the British economy. Innovation is our strength. If we support research and encourage its application to commercial ventures, I believe that we will make up the output lost in the financial crisis. We have not yet fully resolved the problem of “Invented in Britain; developed abroad”, and I hope that the Government will look closely at any inhibitions to the development of British discoveries at home.

The second challenge is the continuing slow recovery of the world economy. No major economy has found it easy to generate a sustainable recovery. Indeed, most countries today could argue that if only the rest of the world was growing at its normal rate then they would be fine but, since it is not, they are not. With interest rates close to zero and fiscal policy constrained by high debt levels, many countries have resorted to pushing down their exchange rate. One does not have to employ the emotive language of “currency wars” to see that this is a zero-sum game. And one of the costs is that the appreciation in sterling's effective rate of over 10% over the past 18 months is holding back the rebalancing of our economy.

Most problematic is the position of monetary union in Europe. The first crisis weekend to deal with Greece was almost exactly five years ago. Since then, the crisis has spread to other countries. It ebbs and flows with little sign of any permanent solution and, as all the options for the euro area are unpalatable, the inevitable result is drift. This feeds directly into the problems facing the Government in renegotiating our relationship with the European Union.

I hope that the Government will approach those negotiations not with a British shopping list but with a simple principle for the future of the European Union: the nature and speed of political integration required for monetary union to survive is wholly different from that appropriate for countries outside the euro area. The reality is that for the foreseeable future there will

[LORD KING OF LOTHBURY]

be two types of member of the EU: those in the monetary union and those outside it. This is not a temporary state but one that will continue for a considerable time. Failure to recognise that reality will threaten not only monetary union but the wider Union, too.

I echo the views of the noble Lord, Lord Higgins. I think that a deal could be based on a binding declaration that countries outside the euro area would not prevent further political integration among the “ins” in return for a guarantee that those steps would not apply to the “outs”. That is not a British demand, but an attempt to save Europe from itself. This is as much a challenge for Chancellor Merkel as it is for our Prime Minister. It will be her taxpayers who foot the bill for greater integration of the euro area.

There are two challenges: raising productivity at home and, in Europe, a more realistic approach to the development of the Union. In both cases the process would be helped by what John Maynard Keynes once described as “ruthless truth-telling”. We in this House can show that it is not only the child but also men and women of a certain age who can say that the emperor has no clothes. Interest groups at home and a few of our partners in Europe may not always like what we say, but they will listen. And who knows, with good arguments, we might even change some minds.

12.55 pm

Lord Turnbull (CB): My Lords, I am delighted to welcome the noble Lord, Lord King of Lothbury, to the House and to congratulate him on his excellent maiden speech. It was well worth waiting for. The noble Lord's career divides neatly into two parts of roughly 20 years as a distinguished academic economist and 20 years at the heart of the Bank of England. As its governor for 10 years, he became a key figure not just in the UK but globally as part of a small group of world policymakers who, by developing innovative monetary policy techniques, prevented a recession from spiralling into a depression, for which we must be grateful. Since he left the Bank two years ago and was made a life Peer, he has wisely followed one of the teachings of the Lords spiritual: when a bishop retires, he leaves the diocese, at least for a time. He has wisely judged that now is the right time to re-engage in the public debate, and we welcome that.

Some people may have found writing a maiden speech daunting, but in the case of the noble Lord, Lord King, it must have come as a relief as two of the passions of his life, English cricket and Aston Villa, bombed out so badly over the weekend, but at least he can remember the name of the football club he supports. With the simultaneous arrival of the noble Lord, Lord O'Neill, the collective experience of the House in finance, economics and taxation has been enormously enhanced, and I look forward to their respective, possibly contrasting, contributions.

The electorate clearly thought that the Conservatives' record in office was more credible than Labour's. The latter party was punished heavily, I believe, for its refusal to acknowledge the flaws in its economic management in the middle of the last decade. The electorate clearly also thought that the Conservatives'

policy programme was the more attractive. Nevertheless, the Conservatives do not, in my view, have a monopoly of superior wisdom. There are elements of their programme that are objectionable, and there are elements of Labour's programme that are more attractive.

Let us start with fiscal policy. A position in which the stock of debt was increasing far faster than money GDP was clearly unsustainable, and the priority was, rightly in my view, to get to a point where the debt/GDP ratio was no longer rising, and as now is beginning to fall. I do not agree, however, that it is an urgent priority to eliminate the overall deficit, both current and capital, in four years and then to go on running a surplus. The Labour proposal that only the current deficit should be eliminated is more logical.

Why do I take this more dovish attitude to public-sector debt? First, one cannot make a sensible judgment without looking at the asset side of the Government's balance sheet as well as the liabilities. The UK Government debt ratio is around the median of the G7, but the UK also has serious gaps in its infrastructure, including in power generation, roads, and above all in social housing. There is a serious illogicality in the Government's position. It is promoting HS2 and the northern powerhouse on the grounds that these are investments that will make the economy more productive. If that is so, they will create the means to service the debt to pay for them.

Secondly, I dislike intensely the language of reducing the debt so that we do not impoverish later generations. In an economy where 70% of government debt is owned by UK citizens, we are witnessing a transfer process. Tax is being collected from and interest is being paid to many of the same people or their pension funds. It is true that if that is carried to an extreme, the weight of this extra tax burden can reduce the effectiveness of the economy, but that is far short of the alarmist impoverishment claim. I believe that the narrative of debt reduction is being used to provide a smoke-screen for another objective: to reduce the size of the public sector. There is a case for that, but it should be made explicitly and not be hidden behind a bogus argument.

My second area of concern is housing, where I believe that neither party has it right. Fortunately, I do not need to deal with the objections to the Government's right-to-buy scheme, as they were dealt with very effectively by the noble Lord, Lord Kerslake, and other noble Lords earlier this week. The proposals coming from Labour on rent control and letting control were a ghastly throwback to the failed policies of the last century. Nevertheless, there was one area in which Labour rather than the Conservatives correctly diagnosed the problem: the relative weight of taxation on higher-value housing. It cannot be fair that a £3 million house, which is 100 times more valuable than a £30,000 house, pays only three times the tax. Council tax is based on relative values as they were a quarter of a century ago.

In that time, relative house prices across the country have shifted substantially. This not just a Kensington issue but a national one; it is as just as much about the relative contributions of Beckenham and Birkenhead. However, having identified a valid issue, Labour produced a deeply objectionable response. Its mansion tax was

based on class rather than economics, grafting a tax on absolute values on to a system of relative values. The correct answer, which neither party has shown the courage to adopt, is to start by undertaking a national revaluation and then to redesign the bands, adding two or three more at the top end.

The other flaw is the position of housing in the overall system of taxation. Housing is a capital asset that pays no capital gains tax on people's first residence, nor any tax on imputed income. The same money invested in businesses or financial assets pays both. It is not surprising that people have been incentivised to pile into residential property. We get this wrong, because we fail to understand the difference between the cost of a house as bought on the market and the cost of building a house. Many people can afford to pay the cost of building a house, but the problem is with land, and until we tackle that all those schemes and subsidies, tax reliefs and rights to buy will simply make things worse.

As a former Permanent Secretary to the Treasury, I cannot be expected to applaud the legislation to freeze our main tax rates. Why do legislators need legislation to force them to implement what they have legislated? This is now the fourth of these legal duties, after the reduction in child poverty, the decarbonisation target and the commitment on international aid. What has happened to good old-fashioned accountability? Far from increasing trust in politicians, these arrangements merely serve to advertise their untrustworthiness. The tax proposal has many dangers in it. If it is to be strictly enforced, it will create extortion opportunities for predatory parties such as the SNP and DUP and could bring to the UK the farcical shut-downs of the US Congress. If there are sensible safety valves and waivers, what is the point?

Finally, one parting shot: we should scrap the Smith commission and start again. Grafting tax powers on top of an already overgenerous grants system will make the outcome even more unfair. The *sine qua non* of any new system if it is to generate fiscal responsibility is that £1 of extra spending in Scotland must be funded at the margin by £1 of extra tax in Scotland.

1.03 pm

Lord Haskel (Lab): My Lords, as a fellow Mancunian, I welcome the Minister to the House and congratulate him on his maiden speech.

Yes, the election and its surprises are behind us, but our economic problems remain. My noble friend Lord Mendelsohn reminded us of them. We all know the answer, which many noble Lords have given: productivity. Yes, raising productivity is the main determinant of our standard of living, so why has it not happened? Could it be that productivity contains so many different ingredients, spread across so many government departments, that it is just too difficult to bring it all together? However, that is what leaders do. Yes, progress is often incremental, but sometimes it happens when leaders bring different elements together so that the whole is greater than the sum of the parts. That is true of productivity. The irony is that many of the elements required to raise productivity are already here, waiting to be harnessed by leadership.

What are those ingredients? The Minister listed some. We have an excellent science base in our universities and research organisations. Nurtured and supported in an age of productivity, it will become even better. We know that government spending on science pays, and it is a good example of investment crowding in. The noble Lord, Lord King, spoke of that. We have in place Innovate UK—the old Technology Strategy Board—which the noble Lord, Lord Newby, mentioned. I declare an interest as a past honorary president of its Materials Knowledge Transfer Network, and so I know the excellent work it does. In an age of productivity, there would be more nurture and more support for those organisations.

Another ingredient is skills. The gracious Speech promised us 3 million more apprenticeships. However, in an age of productivity the number would be less important than the standard; vocational education would be given the same priority as other sectors, instead of being the poor relation. The numbers are important as regards raising the number of firms offering good apprenticeships. The age of productivity in the digital 21st century requires digital skills and education. What has to be done is laid out in your Lordships' own ad hoc committee report on digital skills.

Steps towards the age of productivity have already been taken in finance. We have an embryo industrial bank and the Business Growth Fund, and once our priorities change to productivity instead of austerity, new areas of finance will present themselves. Although sometimes misdirected, the City's contribution, too, is important in an age of productivity. The UK would have much to lose by its decline—and much to gain from directing its ingenuity towards productivity. The noble Lord, Lord Reid, queried the data, and I agree. Much production is hidden in intangible production, but we raised that with the Minister's predecessor on many occasions.

In an age of productivity, a national infrastructure commission would address our chronic underinvestment, as mentioned by the noble Lord, Lord Birt, and tax incentives would encourage productive investment over rent-seeking investment, as the noble Baroness, Lady Kramer, mentioned. The Minister spoke of cutting red tape. By the three internationally accepted measures we are among the most lightly regulated OECD countries. In an age of productivity, sensible regulation is important. Other attitudes, too, have to change: we need longer-term business leadership where productivity growth replaces financial engineering, as the noble Lord, Lord Reid, said. I put it to the Minister that the means of achieving this ambition of raising productivity is all around us. It needs to be harnessed.

The Minister is new, but your Lordships have heard this from me many times. However on this occasion I have an important ally: the Governor of the Bank of England. In the quarterly *Inflation Report* published this May, the Bank draws our attention to the fact that productivity has hardly moved in the last seven years; the Minister gave us the numbers. It speaks of the disproportionate number of low-skilled and low-paid jobs that require little investment. The point is that we cannot achieve sustainable increases in our standard of living by employing more and more people for

[LORD HASKEL]

longer hours on low pay. The message is that, when interest rates go up and the supply of cheap labour runs down, do not expect the Bank of England to keep things going by printing money and easing monetary policy.

The governor expects us to become more productive, and he is right. If productivity goes up by 0.5% a year, after five years we would still have £104 billion to find in cuts. A rise of 4% a year—ambitious but not impossible from a low start—would leave the Chancellor with £18 billion to give away. It can be done. We already have some wonderfully productive companies showing us the way. Unipart even has its own university of productivity, and McKinsey tells us that three-quarters of potential productivity growth comes from adopting these better management practices. So why are the Government not encouraging this?

The Minister reminded us that in the gracious Speech there are Bills to get Britain working. I am so ancient that I can remember something similar from Barbara Castle's day, when she was the Minister for productivity. When Gordon Brown was Chancellor, he had a team in the Treasury doing this. The coalition claimed to have an industrial strategy. The Government's proposals are therefore nothing new.

So what is missing? What is missing is an understanding that productivity is not just economics. Both Ministers have been in business—they know that productivity has to be a way of life and a culture, because it affects every aspect of a company's business. And so it must be for Britain. It has to become our way of life, instead of austerity.

I put it to the Minister that this age of productivity is the real one-nation politics. It raises the standard of living of us all. It is business friendly. It would have the support of the Bank of England. The time has come for our culture to move from the age of austerity to the age of productivity.

1.12 pm

Baroness Noakes (Con): I extend the warmest of welcomes to my noble friend Lord O'Neill of Gatley, and to his role at the Treasury, and I congratulate him on his maiden speech. We are very lucky to have his expertise on our Benches. I also welcome back to her enlarged ministerial role my noble friend Lady Neville-Rolfe.

It was good to hear the maiden speech of the noble Lord, Lord King of Lothbury, which brought back happy memories of my years on the Court of the Bank of England. His huge expertise will be of great value to your Lordships' House.

The last five years have been marked by the outstanding economic leadership of my right honourable friend the Chancellor. I particularly welcome the commitment in the gracious Speech to continue with the long-term economic plan, and to bring the finances under control and reduce the deficit. We have made a lot of progress in the last five years but there is much still to do, and I am glad that we now have the opportunity to complete that task.

There is a temptation for any new Government to launch large legislative programmes, and I would like to offer the Government a few words of advice.

Please do not feel it is necessary to legislate. The electorate did not vote for lots of legislation. Businesses are certainly not gagging for more legislation. Businesses in particular want to be left alone to get on with their role of job creation and wealth creation. The Government should be especially wary of gesture legislation. Here I agree with the remarks of the noble Baroness, Lady Kramer, and the noble Lord, Lord Turnbull, in respect of legislating not to put taxes up—legislating not to do something you are not going to do anyway. That is actually an abuse of legislative time.

Noble Lords who have heard me speak before will not be surprised to learn that there is one Bill about which I am hugely enthusiastic, and that, of course, is the European Union Referendum Bill. Today, I will say only that it is important that we have an informed debate about the economic benefits or otherwise of our membership of the European Union and the opportunities and risks involved in withdrawal. It is far from a self-evident truth that there is a net economic benefit to our remaining in membership; indeed, many studies show quite the reverse. I sincerely look forward to that debate.

I know that the Government's deregulatory heart is in the right place—we have had two rather large Bills already this year that had deregulation at their heart, and we are now promised even more in the enterprise Bill. If it really is necessary to legislate again, so be it; but the more important thing is to achieve real reductions in regulation. In that light, I certainly welcome the Government's announcement that they will cut another £10 billion of red tape over the Parliament. Will my noble friend the Minister say how much of that £10 billion is expected to deliver for small and medium-sized enterprises? Not all regulatory savings are equal; those which benefit SMEs can be more equal than others.

In the limited time available today, I will refer to two bits of legislation in the gracious Speech that trouble me, and one thing the absence of which I regret. I will start with my regret. Yet again, the Government have missed an opportunity to signal the merger of income tax and national insurance—an idea that has much support, not least from the Office of Tax Simplification. Taxpayers find the different rates and thresholds baffling, and businesses bear the brunt of complex and burdensome administration. A brave Government would set a course towards a merger.

The gracious Speech has confirmed that the Government remain set upon legislation for High Speed 2. Earlier this year, a report from your Lordships' Economic Affairs Committee concluded that the Government have yet to make a case for continuing with this project. For a cost of a minimum of £50 billion, we might shave 20 minutes off the travelling time between London and Birmingham. HS2 does not even connect to the northern powerhouse. The Government would be very wise to look again at this project with a cold and analytical eye.

That is the first thing I find difficult in our legislative programme. The second—and, the Whips will be pleased to know, only other—thing I have difficulty with is the commitment to increase the amount of free childcare

to 30 hours a week for working parents of three and four year-olds. I am quite sure this policy is popular with those who are eligible: any policy that has other taxpayers picking up the tab for something you would otherwise pay for is bound to be popular. But this is evidence-free policy-making, and the Minister who defended the policy on Radio 4 earlier this week merely asserted that it was the “right thing to do”, and offered no rationale.

I could support the policy if it increased maternal employment, but the evidence base shows at best a weak employment effect. I could support the policy if it was about improving the life chances of children, but that would require eligibility to be based on the disadvantaged status of children, not the working status of their parents. This policy will work only if the Government accept that the private sector providers who are crucial to delivering it are currently inadequately funded. Put simply, free childcare will require a lot more money. The report of your Lordships' Select Committee on Affordable Childcare, on which I served, sets all this out. I am genuinely surprised that the Treasury has endorsed a statist policy that has so many obvious question marks over the value for money it could deliver.

I conclude by welcoming the policies that are directed at restoring prosperity to our country. We have been saved from mansion taxes, from the 50p rate of tax, from the persecution of non-doms and from policies that viewed businesses as predators, rather than creators of wealth. Now, let us get on and prosper—and with as little interference as possible.

1.19 pm

Baroness Liddell of Coatdyke (Lab): My Lords, sometimes when I wander the corridors of this building, I feel a bit like my namesake, Alice Liddell, and I have a sense that I have wandered through the looking glass. I feel that when I see names such as those of my noble friend Lord Desai and the noble Lord, Lord Skidelsky, on the speakers list, when I pass my noble friend Lord Peston in the corridor and when I come in and hear the maiden speeches of the noble Lords, Lord O'Neill and Lord King. I am enough of a geek that the only autograph I ever asked for in my life was that of John Kenneth Galbraith, but I have managed to get out a bit more since then.

Many of the areas that I wish to cover have already been touched on, but I want to talk about growth, innovation and productivity.

The existing growth industry that I want to talk about is tourism. I suspect that some colleagues are saying, “She got the day wrong. Tourism was yesterday; we did culture yesterday”. The noble Lord, Lord Lee of Trafford, in his excellent speech yesterday referred to tourism as the Cinderella industry. I think that it is time to bring Cinderella to the ball, which means bringing it to the Treasury and to BIS. For too long it has languished in the Department for Culture, Media and Sport, yet it is one of our most successful growth industries. Inbound tourism is worth £24 billion a year to the UK economy and, indeed, it is continuing to break records at a time when domestic demand is softening. It is growing faster than many sectors of the economy, including manufacturing, construction and

retail, yet we consign it to a department where it does not appear in the title and it does not even have a Minister. The Minister for Sport is presumably to do tourism at half-time. That is not good enough.

In terms of employment generation, a third of all UK jobs generated between 2010 and 2012 were in tourism. For politicians—I say this with a bit of guilt myself—the generation of jobs is the easiest part of growing the economy. Things such as zero-hours contracts help to grow jobs, but the hard bit is growing productivity, and some of that in the service sector has been drifting. It is interesting to look at how competitive the marketplace is for tourism. Australia spends £90 million a year on tourism, and £20 million alone on tourism from China. VisitBritain's grant in aid for everything that it does is less than that.

I have a proposal to put to the Ministers on the Treasury Bench. It does not involve legislation—one thing on which I agree with the noble Baroness, Lady Noakes, is that we do not need more legislation. I believe that we need a machinery-of-government change. Tourism should be recognised as the third-largest service sector and it should be moved to BIS, where it would work together with our major inward investors in UKTI. That would get proper recognition for the one industry that can generate jobs not just in the northern powerhouse but in Cornwall, Galloway, Orkney and Shetland. It has the Heineken effect and it is time that we allowed it to grow up.

The other area that I want to talk about—innovation—was touched on by a number of noble Lords, not the least of whom was the noble Lord, Lord Newby. I declare an interest as a non-executive director of the Offshore Renewable Energy Catapult. The catapults were brought into being largely because of an idea from my noble friend Lord Mandelson, who asked Hermann Hauser to look at how we harnessed research and innovation and to make it into something commercial. There are now a number of catapults and in many instances they are proving extremely successful. The High Value Manufacturing Catapult has galvanised that sector and is doing extremely well. However, if you wish to innovate, you have to be prepared to have long lead times.

The area that, unashamedly, I am particularly interested in is offshore renewable energy and particularly offshore renewable wind. I am a Scot. We have two former Secretaries of State for Scotland sitting on the Front Bench, and I bet that the Barons whose statues are up there are glad that we are not here to talk about Scotland. The decline in the North Sea means that a skill shift needs be addressed rapidly to prevent employment dipping and those skills being lost to other markets. Offshore renewable energy is a classic area where that can be done. I want to say something to the noble Lord, Lord O'Neill, that I think will shock him: he will be used to the short term of industry but the short term of government is even more pernicious. If we are to change this industry, we have to invest now and invest for the long term.

Finally, I turn to productivity in general, about which there have been quite a few remarks in our discussion this morning. There is a very interesting pattern in the productivity dip in the United Kingdom. Is it not bizarre that here, with particularly liberalised

[BARONESS LIDDELL OF COATDYKE]

labour markets, our productivity has not risen as fast as that of France, where it has gone up 2% and where the labour markets are particularly illiberal? One part of productivity is investment. Indeed, if we look at vehicle manufacturing, we see a significant increase in productivity because there is investment in technology, techniques, training and skills. The Minister talked about the significance of education in that regard. The other side of the coin is that in chemicals and pharmaceuticals, many of which are in that northern powerhouse, there is a dip in productivity. We have also had a dip in productivity in the financial services sector. The Minister is very good on acronyms—he gave us BRIC and MINT—and I would like to ask him to give us an acronym for productivity. We need something that we can coalesce around.

Solving this productivity problem is not a short-term but a long-term game, and I think that we need to take party politics out of it. We need to work together for the good of this country on issues such as productivity. The Finns do it wonderfully. They have a “Committee for the Good of Finland”. I think that we need a “Committee for the Good of Britain”. I cannot think of anyone better to convene it than the noble Lord and the noble Baroness on the Treasury Bench, but I challenge the Minister to come up with an acronym for it.

1.27 pm

Lord Teverson (LD): My Lords, I, too, congratulate the noble Lords, Lord O'Neill and Lord King, on their speeches. I am going to talk primarily about transport but I want to take up one point from the excellent speech of the noble Lord, Lord King. He talked about the “euro ins” and the “euro outs”. That is sometimes a bit of a dangerous argument. One forgets that a lot of those euro outs are trying to get in: they are the future ins of the euro. As he mentioned, the Greek crisis has gone on for some five years now. We all thought that the euro was going to melt down, and it may be a surprise to people out there on the streets of the United Kingdom to hear that the number of members of the euro has gone up over that period rather than going down, with the addition of two member states. So we have to look at the analysis in terms of the aspiration of the outs, rather than just seeing them as permanent outs, as perhaps we ourselves will be.

Transport is the plumbing of the nation. There is no doubt about that, and I congratulate my noble friend Lady Kramer on the work that she did on transport in government. A lot of good things came out of that. Broadband and transport are absolutely key to productivity and to the way that the economy works.

I was pleased to see two Bills mentioned in the Queen's Speech and in the Government's programme. The Liberal Democrats, along with many other Members of this House, have strongly supported HS2. I understand that it is contentious but it is clear to me that in terms of capacity and investment in infrastructure that will last for more than 100 years, this is something that has to happen in some way. Getting that increased capacity through changes in the existing west coast, east coast

or even central railway would be utterly disruptive to the nation in terms of the economy, commuters, long-distance travellers, business, leisure and freight. It would be a disaster to enter into that investment other than by trying to find a new way of adding capacity—and why add capacity that is old-fashioned rather than new technology?

There is one thing that we often forget. We think of HS1 primarily as an intercontinental railway into Europe. One of its great successes recently has been fast transport into areas that have been hard-pressed economically, in particular east Kent. Those services have been hugely popular, with local authorities demanding that they be increased rather than trying to push them away. That is an example of how that can work. On the other hand, when it comes to connecting up the northern powerhouse, the nomenclature of HS3 is perhaps rather dangerous given the brand image of HS2 in so many areas. We should be quite clear how important it is and that it will be about making a much more conventional railway work properly and to the advantage of those communities.

The other programme is the buses Bill. I suspect that we will not have a full Chamber for that and that it will not be discussed in Committee on the Floor of the House. However, I very much welcome the Bill, in that it transfers to other combined authorities some of the advantages that Transport for London has over controlling buses. My question to the Minister is whether there would be an option—as in the devolution Bill that is coming to the House for Second Reading on Monday—for unitary counties to bring in that power as well.

Transport is very important in terms of sustainability and is responsible for about a quarter of our national CO₂ emissions. Therefore, we need to look to sustainable transport systems. I congratulate the Conservatives on having in their manifesto a target of 2050—that may be slightly late—for zero-carbon vehicles. I also congratulate them for effectively saying that they will continue their £38 billion programme for other improvements through railway capital expenditure over the next five years. Sometimes we forget that a huge investment programme is taking place outside HS2. We should shout about that much more loudly. It is policy that is, I think, agreed widely round the House, but we sometimes forget that.

In the Infrastructure Act, which we passed towards the end of the last Parliament, a commitment was brought in—it was rather resisted by the coalition Government to begin with, although I am sure many of us put pressure on to get the change—for a cycle and walking strategy. I would be very interested to hear from the Minister when an investment strategy for those areas of sustainable transport, which is so increasingly important, will be published so that we can start to look at and implement that important programme.

As someone who lives in the far south-west of Cornwall, when I talk about sustainable transport I am also going to talk about the resilience of rail links into our regions, not least Devon and Cornwall and the still outstanding matter of a decision on how to secure the resilience of the line into the far south-west,

while still protecting and providing transport for cities such as Torbay. I look forward to understanding how that might move forward.

On airports, we look forward to Sir Howard Davies's report and to finding out how sustainable that proposal might or might not be.

In the last minute that I have, I want to talk about access to transport. One of the great contrasts that I see, as a rural dweller, is that "poor" regions such as London have £3 billion of subsidy for Transport for London for people who travel in this area. The buses for the poor people of London have some £450 million-worth of subsidy. The rich "rollercoasters" of Cornwall, however, have a subsidy of £5 million, and in Devon, £7 million. It is a complete contrast in terms of public investment and subsidy of services. I would not argue against the subsidy in London; it is clearly important due to all the externalities there would be if we did not have those systems. However, there is an imbalance there that, along with reduced local government expenditure, has caused those services to decrease over the years. It is vital to the economy that people are able to get to work, go to college and go to training courses on public transport. This is one area that we have to tackle to make sure that there is greater equality of opportunity economically in the regions.

I am going to leave it at that and make one small point outside transport. One business model that we so often look at and praise in this Chamber, and in Parliament generally, is that of small businesses. Clearly, they are exceptionally important—I have been involved in a number over time. I believe very strongly that we so often forget about middle-sized businesses and their importance. In the United Kingdom economy we have a shortage of those important middle-sized businesses. They are able to invest, offer careers to their employees, export, and offer wealth and income that is spread across all regions rather than being concentrated in a few areas. An important part of the German economy and of the very alive economy of northern Italy is based around that type of business model. I hope that the Government will find a way to make sure not just that small businesses thrive but that the middle sector of business becomes an important and hugely contributing part of our British economy.

1.36 pm

Lord Leigh of Hurley (Con): My Lords, I am delighted to be speaking today on the Queen's Speech debate on business and the economy, and declare all my business interests as in the register. The noble Lord, Lord Teverson, will be pleased to note that most of my remarks focus on middle-sized businesses.

I am delighted to be speaking, not least because it could have all been so very different. Instead of a Government who recognise the role that business plays in our economy and our communities, we could have had one who saw business as inherently bad; one seeking to split businesses up into producers and predators and pit large businesses against small; a Government whose principal role was perceived as regulating rather than enabling businesses to excel. I am thankful that those of us in business do not have to contend with the radical proposals made by the party opposite, such as the extraordinary suggestion to force business owners

to give employees first dibs on buying a business put up for sale by its owners, or the proposal mooted by the leader at the time for compulsory work councils for businesses employing over 49 people. I am thankful that we do not have to contend with a Government intervening on pricing or with other anti-business measures, particularly the idea of greater taxation on medium and larger businesses, which would be to the detriment of small businesses. Those of us on this side of the House who understand aspiration know that that aspiration applies equally in business. However, I will leave it to the party opposite to explain those proposals and confirm that it no longer supports them.

As the Minister knows, this does not mean that there are not challenges ahead and important issues that need to be addressed by this Government. I would like to run through just a few of these that I hope might be picked up in the legislation introduced by the gracious Speech.

First, we need to keep our foot to the floor in encouraging entrepreneurship and making sure that the UK is seen as the place to start a business and grow it; otherwise, the momentum gained in the last Parliament could stall. One way to do this is to liberalise the entrepreneurs' relief, which, to their credit, was brought in by the last Labour Government. Currently, a 5% minimum shareholding is required to be eligible for that relief. This discriminates against smaller shareholders and distorts economic activity. Indeed, I have seen one company recently refuse to take in fresh equity because it would dilute certain shareholders below 5%. The employment test for that relief should be scrapped. Business mentors, angel investors and academics who invest not just capital but time and advice should not be prejudiced against being eligible for that relief.

Specifically, the absurd lifetime cap of £10 million should be abolished. We are talking about creating a market for the world's most ambitious entrepreneurs, who want to start not just one business but many, some of which will be global titans. Scrapping the limit will encourage them to do this in the UK.

To further support entrepreneurship and the growth of companies, I am delighted to see the inclusion in the Queen's Speech of the enterprise Bill, promising as it does to cut down on red tape and, as we have heard, saving businesses £10 billion in this Parliament. I was a member of the DTI—as it was it then—deregulation task force in 1996 and the area that I focused on, as it happens, was business rates. I am therefore delighted to hear that this matter is finally going to be addressed and use this opportunity to welcome to the House the noble Lord, Lord O'Neill of Gatley, whose appointment is welcomed not just here but by the business community and the financial community worldwide as recognition of the importance attributed to this area by this Government. I am also delighted that my noble friend Lord Maude of Horsham, who created the DTI deregulation task force, will be at the forefront of BIS and will, with the Minister, continue our efforts to spread the wings of UK business still further.

In addition to cutting red tape, the Bill should enforce greater transparency with respect to regulators to make sure that they comply with their statutory obligations. I want to emphasise that the reach of the

[LORD LEIGH OF HURLEY]

Bill must extend to the financial services, as I am sure that the noble Lord, Lord O'Neill, will recognise, and in particular to the FCA. After a financial crisis such as we have had, it is vital that the regulator acts to restore trust in what is still a very important industry in the UK, yet I am increasingly concerned that the FCA is pursuing an agenda that, at least in respect of smaller firms, is lacking in transparency and accountability. Decisions made by an ombudsman or individual within the FCA can have extremely wide implications and affect the availability of financial products to the detriment of both consumer and provider. I ask the Minister to ensure that the enterprise Bill looks at this area, which is threatening growth in the UK's financial services industry.

I have expressed concern in this House in the past that insolvency practitioners become administrators. I hope that this will be addressed. I would also like to lend my support to the trade unions Bill. To improve business confidence further, our labour laws must work in the interests of employers and employees alike, not the trade union bosses. Introducing a 50% minimum voter turnout threshold for strike action is therefore fair and proportionate. I accept the assertion made by the noble Lord, Lord Mendelsohn, that he is not personally financed by unions, but others are.

Having just come through a credit crunch, we need to look again at the supply of business finance in our economy, so hats off to the Government for creating the British Business Bank and the business growth fund, mainly on the equity side, but we should be concerned about the return of "covenant-light" lending from the banks and, specifically, from debt funds. Some of these covenant-light loans are originated on the assumption that if they turn bad they can later be offloaded to vulture funds without any cost to the debt providers. This is bad news for the borrower. It is far better to make sure that the terms of the loans do not allow their sale and are more responsible in the first place. This is crucial for financial stability. We need to learn from 2007-08 that covenant-light loans will inevitably lead to reckless borrowing. I am sorry to advise your Lordships' House that such loans are back in the market. I therefore urge the Treasury and the Bank of England to revisit controls over covenant-light lending with some urgency. I at this point express my great delight that the noble Lord, Lord King of Lothbury, a world expert on this matter and to whom this country owes so much, has made his maiden speech today.

Likewise, it is time to take a serious look at tightening the rules on tax deductibility of debt interest, because what we have now is simply an incentive to load debt on to the balance sheet of companies. This is not in the interests of the long-term viability of the businesses concerned or of the country as a whole. With the OECD looking at this issue, in a piece of work championed by the Prime Minister no less, it is time for the UK to come in from the cold and bring its approach more into line with the emerging global consensus on debt relief, where at least deductions are limited.

Therefore, there is much still to be done. One thing we can be sure of is that the election result and the Queen's Speech that has followed are undeniably good

news for business and the UK economy. I believe that the growth that we have enjoyed recently will continue unabated and we should be proud that Britain has shown the way in how to run a competitive economy that benefits all its people, businesses and workers alike. Long may this continue.

1.45 pm

Baroness Drake (Lab): My Lords, the Governor of the Bank of England recently stressed that productivity performance is the single most important driver of prosperity and growth in wages, but productivity in the UK has not improved in eight years, breaking a trend of around 2% annual growth. The *FT* reports the Conference Board as showing that, on the measure of total-factor productivity, the UK has suffered three consecutive annual falls. The drop in productivity growth is a global problem, but, as the IMF observed, it is deeper in Britain than in any other member of the G7. The ONS reports that UK productivity slow-down is three times as great as in the rest of the G7.

The Government have announced through Her Majesty's gracious Speech a series of supply-side reforms. The MPC offers three possible explanations for the problem: low interest rates and lenders' reluctance to crystallise losses, allowing inefficient businesses to survive; weak business investment; and the growing proportion of lower-skilled employees, which has been bad for output per hour. I comment on this latter explanation.

The UK has a flexible labour market, and the Chancellor's further drive to deregulate it has not made productivity rise. Indeed, it fell in the last quarter of 2014. Wages may have begun to increase, but productivity has to improve if growth in real earnings is to be sustained. The Government should consider raising the national minimum wage to much nearer the living wage as part of their portfolio of measures to drive inefficient firms to be more productive, to reduce welfare expenditure and to raise the living standards of lower earners.

According to the Centre for Policy Studies, the evidence suggests that increases in labour costs in low-paying firms have been met by increases in labour productivity, not from reductions in employment but from increases in total-factor productivity, and that raising wages at the lower end of the labour market can improve productivity. One hundred and forty research projects from the Low Pay Commission show that the minimum wage had little negative effect on employment even when the rate increased faster than average wages. Yet some sectors and businesses remain stuck in a low-pay, low-productivity cycle that is self-perpetuating. The way in which some companies operate means that increasing numbers of workers are reliant on in-work benefits. In 2014, around 1.2 million over-21s earned the minimum wage, a proportion doubled since 1999, and a further 1.1 million earned within 50p of that minimum. This year, nearly £30 billion will be spent on tax credits to top up the low wages of those in work. Taxpayers are subsidising company pay bills. Seventy per cent of tax credits are paid to in-work families and by far the biggest increase in the tax credit bill has gone to such families, not to out-of-work families.

The CPS, whose head of economic research argues the case for raising the national minimum wage as part of a portfolio of measures, demonstrates using data from the Labour Force Survey and the IFS that for every £1 increase in low wages the Government get a 50p fiscal boost due to lower welfare payments and higher tax revenue from higher incomes. Only a quarter of FTSE 100 companies have signed up to the living wage.

Too many British businesses operate on low wages and low productivity. The overall rate of return for British companies in 2014 hit its highest level in nearly 20 years. Profits drive growth and employment. Successful businesses are the bedrock of a growing economy. However, recent growth has within it declining labour productivity and a polarisation of jobs. The employer benefits from flexibility, but risks are transferred from the employer, through the employee, to the taxpayer. When an employer has a limited obligation in the wages they pay, the universal credit system takes the downside risk. This is a disincentive on employers to increase their productivity. Simply cutting tax credits without increasing the minimum wage will simply make working families poorer and reduce productivity even further.

Yes, low-paid workers should be able to keep more of what they earn and be better off in work. The Government are focused on increasing the personal tax allowance to address low pay. However, they are also reducing the work allowance—it is frozen for three years—which is the amount a family can earn before benefits are reduced and is crucial to making work pay. It is an inefficient way of improving incomes for many working families, because increases in net income as a result of reduced income tax payments increase household income brought to account for some benefit purposes and universal credit, thereby reducing the value of benefits received and offsetting the reduced income tax gains.

If low earners were taxed less and paid a higher national minimum wage, public expenditure on in-work benefits would be less, incentives to work would almost certainly be stronger, and companies would be incentivised to increase productivity. It would also benefit the many part-time employees on very low earnings who pay little or no income tax and so benefit little from increases in the personal tax allowance.

I conclude by congratulating the noble Lord, Lord O'Neill of Gatley, on his maiden speech. I hope his desire to increase productivity and drive growth throughout the north and other areas of the country remains a passion, because it certainly should be a passion.

1.52 pm

Lord German (LD): My Lords, before I address the remarks made by the noble Lord, Lord O'Neill, in his excellent opening speech, I should like to add a supporting measure to the comments on tourism made by the noble Baroness, Lady Liddell. As a Minister for economic affairs in Wales with responsibility for tourism, I resisted every attempt to push that portfolio into the culture and sport portfolio. The main reason for that was that tourism is an economic driver and contributes

7% of GDP in Wales. A huge amount of its growth is possible through tourism and it was important to maintain it as an economic driver.

I wish to address my remarks to the comments made by the noble Lord, Lord O'Neill, and many other noble Lords about the productivity issue, particularly the need to see it as one of the principal inhibitors of growth in our economy. I shall focus on one factor on the issue of increasing productivity, and that is in-work progression—helping people to progress within work both financially and in self-esteem. I wish to link these remarks to the full employment and welfare benefits Bill and to address some of the wider implications of that Bill. As the Bill has both the words “employment” and “welfare benefits” in its title, and as it spans the responsibilities of BIS and the DWP, I apologise if I stray across the subject areas scheduled for debate both yesterday and today.

The elephant in the room facing Treasury Ministers is the proposed £12 billion cuts in the welfare bill. I shall not venture into the landscape of where the Government are going to make those savings—after all, all efforts to find the answer to that question failed during the general election, as they did in this House yesterday—but the Prime Minister's announcement a few days ago that child benefit and child tax credits will not be touched leaves the only credible answer to the question of where the cuts are to come as housing benefit and disability benefit. In themselves, these cuts will work to the detriment, with job-related impacts, in particular relating to in-work progression.

These issues are closely linked to the real progress that we can make on ensuring employment opportunities for our country. The challenge for the Government will be not only to get people into jobs but to ensure that they can have in-work progression in the number of hours of work they are offered and in their rate of pay. The full employment and welfare benefits Bill presumes that the savings in the welfare benefits element will go in part or in full to pay for the promises in the full employment element. The Treasury question to be asked at the outset is whether the envisaged cuts in welfare are savings to contribute to deficit reduction or savings to be reallocated to other areas of government.

The information we have so far on the Bill is that the savings from the welfare element are specifically to fund new apprenticeships and to increase support for the troubled families initiative. The IFS's analysis of the matter is that that would account for £130 million a year to put to those issues. Is the £12 billion still a separate amount? I would value an answer to that question from a Treasury Minister.

The Government's Bill is about a series of sticks and carrots, incentives and sanctions, to meet their policy objectives but there appear to be more sticks than carrots. The policy of providing more opportunities for jobs is laudable, but it requires an appropriate mix of incentives and sanctions. There is no doubt that the previous Government achieved a great deal in sourcing jobs and getting people into work, but the challenge now is not only getting people through the doorway into work but ensuring that they have an income which permits them not to fall back on to state benefits.

[LORD GERMAN]

The current statistics are stark. The noble Baroness, Lady Drake, mentioned £30 billion of tax credits and, according to the House of Commons Library, over £5 billion last year was paid out in housing benefit alone to people in work. The figures and the numbers are growing and this is a recurring feature of universal credit as it is rolled out. I agree that work remains the best route out of poverty and that is why universal credit is so important. Its successful implementation will mean a route into meaningful employment.

However, there are potential incentives the Government can provide to assist working households to increase their earnings. That might mean through a continuation of the Access to Work programme of support to get people into work and to help them to get the skills and self-esteem that they need to progress within work.

As to the sector facing the most difficulties in accessing a job—those with disabilities—yesterday in your Lordships' House the noble Baroness, Lady Campbell, told us that 52% of working-age people with a disability are out of work and that many wish to work. There are some incredible examples of where people with a disability have found work and are contributing fully to the economic life of our country. However, for many there is a need for support. The Access to Work programme paints disability with a single brush and the Government intend to make this worse by trying to get more users out of the same amount of money.

Each person with a disability has different needs. For a deaf person it could be the provision of sign language; for a wheelchair user it could mean physical adaptations, including widening doors and putting in ramps. The Government's ambition is to halve the disability employment gap. Does that mean that the Government's target is that 25% or less of people with disabilities will be unemployed? More importantly, what is their target? Is it to increase the rate of employment among people with disabilities from 48% to 75%? That is a big challenge.

The big challenge of improving productivity is closely linked to these elements of work progression. The dramatic cuts which are threatened to in-work benefits will have a major impact not only on helping people into work but on enabling them to progress in employment and creating that sustainable productive economy which is the wish of all Members of this House.

1.59 pm

Lord Aberdare (CB): My Lords, I shall speak about two topics that were less prominent in the gracious Speech than I hope they will be in the Government's overall programme for business and the economy: namely, apprenticeships and digital skills. Both are vital to tackling the challenge of improving UK competitiveness and productivity, which was so rightly emphasised by the noble Lord, Lord O'Neill, in his fine speech and by several other noble Lords.

I welcome the Government's target of 3 million new apprenticeships and the commitment, via the full employment and welfare benefits Bill, to report annually on progress towards its achievement. However, I have some questions about how it can be achieved and how the Government will ensure that quantity is matched

by increased quality. Reaching the 3 million target will require significant growth in the number of apprenticeships on offer, particularly from small and medium-sized enterprises. Many SMEs, and, indeed, larger employers, have been distinctly wary about offering apprenticeships. They worry about the costs involved, the bureaucratic and management burdens, and their ability to provide continuing work for an apprentice over the length of time involved.

A real effort is needed to persuade more firms, especially SMEs, to offer apprenticeships. Possible initiatives might include a sustained, high-profile marketing campaign to sell the benefits of apprenticeships, including powerful case studies; an enhanced system of incentives, including for approved independent bodies helping to broker apprenticeships, such as chambers of commerce or local enterprise partnerships; and specific support and encouragement for mechanisms designed to make apprenticeships easier for small employers, such as employer-led apprenticeship training agencies which undertake the tasks of recruiting and managing apprentices on behalf of a consortium of small employers, either on a geographic or a sectoral basis.

Apprenticeships need also to be of high quality. We need more higher-level, longer-term apprenticeships, as the Government have recognised, and, above all, apprenticeships need to lead on to actual, sustainable jobs. Like the noble Lord, Lord German, I find it startling that there seem to be no clearly defined ladders of progression through the various levels of training: for example, from traineeships on to apprenticeships and then into full-time jobs. Surely there should be some sort of account management for young people entering work experience, so that on completion of each stage they receive guidance on possible progression routes that they might follow at the next stage. This links to the need for a much better system of careers advice and guidance than currently exists. I hope that the plan included in the same Bill to provide Jobcentre Plus adviser support in schools across England will help address this.

Another concern is the challenge of proliferating apprenticeship standards. According to the Federation for Industry Sector Skills & Standards, which is the single certifying authority for all apprenticeships in England, there are currently 200 standards under development by 96 so-called trailblazer groups. It is estimated that ultimately some 1,500 standards may be needed, with at least 150 development groups. We need clearly defined processes for managing this complexity and avoiding unnecessary duplication, and for maintaining all the standards after their development groups have disbanded. I therefore hope that the Minister will be able to tell us something about how the Government plan to persuade more employers, especially SMEs, to offer apprenticeships and to ensure that the overall quality and sustainability of apprenticeships is raised.

Digital skills are equally important to productivity and competitiveness. I had the privilege last year of serving on your Lordships' Select Committee on Digital Skills, along with the noble Lord, Lord Haskel, who has already spoken, and the noble Lord, Lord Macdonald of Tradeston, who is about to speak. The committee published its report in February with recommendations

specifically aimed at this new Government. The copious evidence we received made it absolutely plain that the need for digital skills is not confined to what might be called technical sectors, let alone the information technology sector itself, nor only to people wishing to become technologists.

Digital skills are universally required by every sector—from robotics to fashion design—by every worker and increasingly by every citizen. The Tech Partnership, recognised by government as the industrial partnership for the digital industries—and so a key player in meeting the digital skills challenge—now comprises more than 500 employers from every industry sector across the UK economy. There are huge and growing opportunities in the digital economy, and the UK is in many respects well-positioned to grasp them, but at the same time the risks to our competitiveness of not stepping up to the challenges in this area are drastic. The Tech Partnership estimates that 134,000 new tech specialist workers are needed in the UK workforce every year, but employers are finding it hard to recruit for these jobs. A further alarming constraint is that only 17% of entrants into the sector are women.

The committee's report identified the need for an overarching and ambitious digital agenda for the UK, co-ordinated by government acting as “conductor of the orchestra” of all the different interests involved, particularly in business and education, and with a Cabinet-level Minister having overall responsibility. Key elements of such an agenda would include recognition of high-speed broadband access as a utility service, so that everyone, whether in a remote rural area or one of the so-called urban “not-spots” where broadband coverage is currently poor, should be able to use the internet freely and effectively. Digital literacy should be seen as a third critical skills dimension, along with literacy and numeracy. Digital skills should be embedded within every level of education and training in schools, colleges and universities, as well as in all apprenticeships.

Now is not the time to rehearse all the recommendations of the committee's report. The only other one I will mention is the recommendation that:

“Regional and sub-regional strengths are recognised and encouraged”.

In that context I welcome the Government's commitment to the concept of the northern powerhouse. There are already good examples of effective regional technology clusters in the north, such as Sunderland Software City, a private sector, publicly backed organisation whose aim is,

“to generate a sustainable software industry in the region and drive the development of world class software businesses”.

The title of the committee's report is *Make or Break: The UK's Digital Future* and I believe that that phrase in no way exaggerates the importance of this issue. I hope that the Minister will be able to say how the Government plan to address it, across all departments, with urgency, vigour and commitment, and in partnership with other key players in business, education and the regions, as a central part of their efforts to enhance UK productivity.

2.06 pm

Lord Macdonald of Tradeston (Lab): My Lords, I follow the noble Lord, Lord Aberdare, in concentrating on the full employment and welfare benefits Bill, which hopes to achieve full employment by helping to create 2 million new jobs. The gracious Speech gave Ministers new duties to report annually on job creation and apprenticeships and to report progress towards, among other things, the Government's target of 3 million new apprenticeships by the end of this Parliament in 2020. The duty to report annually to Parliament is particularly welcome in relation to apprenticeships. As the noble Lord, Lord Aberdare, explained, concerns persist about their availability and standards, and about whether apprenticeships are now defined too widely, to the detriment of school leavers.

By outlining some of these concerns, my hope is that, through the discipline of annual reporting, such concerns will be addressed and progress better measured. If so, we can reinforce the achievements of previous Governments, which were significant. Like many noble Lords, I was saddened by the long decline of traditional craft apprenticeships. In 1997, the new Labour Government found apprenticeship starts had fallen to just 65,000 a year. However, by the end of the third Labour Government in 2010, new starts had risen to 280,000 a year. Even so, the demand by young people for places still far outstripped supply.

The growing cross-party consensus and the need to improve and expand vocational training was further strengthened by the coalition Government, which pledged to increase the number of apprenticeships to 2 million across the last Parliament. But it was the way in which the coalition achieved its target which raised questions that the new Government should now address directly through their annual reports to Parliament. For instance, research funded by the Local Government Association, which is to be published by the Institute for Public Policy Research this month, claims that, since 2010, 42% of apprenticeship starts have been by people over the age of 25, rather than by young people starting work. The IPPR also reports that two-thirds of those starting intermediate and advanced-level apprenticeships were already employed by their companies. The concern is that public money is being used by companies to train their existing staff, which is not an apprenticeship as commonly understood. The LGA says that,

“too many new apprenticeships are low skilled and taken by older people already in work with their employer. Too few new apprentices are school-leavers trying to get their first job”.

Can the Minister say whether the Government share this concern? At present, only about 10% of companies offer apprenticeships and about half of large UK companies employ no apprentices. Given the money and responsibility devolved by the coalition Government to companies, which I support, can we expect the first annual report on apprenticeships to show increased corporate involvement?

That greater employer involvement is especially important in key sectors of the economy such as construction and engineering, where the skills gaps are alarming. The construction industry is expected to create 180,000 extra jobs in the next few years, which is good news. The problem is that the number of building

[LORD MACDONALD OF TRADESTON]

workers retiring will be more than 400,000 by the end of this decade. Perhaps even a skills gap of that size can be closed by importing still more building workers from abroad, but little wonder the Local Government Association says that too few school leavers,

“are getting the construction skills to build the homes and roads our local communities need”.

When it says “too few”, that perhaps refers to just 7,300 apprenticeships across the whole construction industry in 2013, despite those potential vacancies numbered in the hundreds of thousands. There is a similar yawning skills gap in engineering. By 2022, to satisfy the estimated need for 1.8 million people with engineering skills, the number of apprentices and graduates entering the industry will have to double. Can the Minister offer evidence of significant progress in boosting apprenticeships in construction and engineering?

As we have heard, another related concern of great importance is the urgent need to develop digital skills. My noble friend Lord Reid cited the UK's underperformance in cyberspace. My noble friend Lord Haskel and the noble Lord, Lord Aberdare, in discussing productivity, told the House that earlier this year your Lordships' Select Committee on Digital Skills, of which I was also a member, published its report, entitled *Make or Break: The UK's Digital Future*. We heard evidence that the impact of digital technology on the labour market might put 35% of UK jobs at risk of being automated over the next two decades. The committee recommended that the new Government of May 2015 should develop an ambitious digital agenda to enable the UK to compete with the leading digital economies by the end of this Parliament. We also concluded that a better co-ordinated response across government was a high priority for action in schools, colleges, universities—indeed, in almost every sector of our economy—to ensure that the UK adapts rapidly to this unstoppable digital revolution. Specifically on apprenticeships, we suggested that a government objective should be the inclusion of a digital skills element in all apprenticeships.

I look forward to the Government's response to our report on digital skills and the subsequent debate in your Lordships House on its recommendations. The UK's pervasive skills shortages and the profound impact of the digital revolution require a strong, co-ordinated response across government. I hope that our make-or-break agenda for action is seen as a constructive contribution to future strategy. If in doubt, the Minister might ask her colleague, the noble Earl, Lord Courtown, who was a member of our committee and who knows a great deal about the subject.

2.13 pm

Baroness Wheatcroft (Con): My Lords, I add my voice to those who have congratulated my noble friend Lord O'Neill of Gatley and the noble Lord, Lord King of Lothbury, on their maiden speeches. In my former life I used to listen to them both intently and I shall continue to do so. My noble friend Lord O'Neill is, of course, known for his acronyms and the noble Baroness, Lady Liddell, suggested that he should come up with some more. I am confident that he will bring

us all the PIES: productivity increases, infrastructure investment and economic sustainability. I will say a few words on each.

A lot has already been said about productivity. Recently, the Bank of England's experts produced an article trying to analyse what the causes were. Of course, they talked about low skill sets and pointed out that, after Spain, we have the lowest proportion of unskilled labour of any country in the OECD, but they confessed that they were unable to explain the full extent of the productivity shortfall. I will throw in one suggestion: too often, our management is not up to scratch. There is real reluctance in this country to part with people who clearly are not the right people in the right jobs. There is a big contrast with the United States in that. When Jack Welch ran General Electric, he was renowned for saying to one-10th of his managers every year that both they and the company would be better off if they changed direction. While not advocating a 10th every year, too often we do not have the right management taking our companies in the right direction.

We have too much regulation and the gracious Speech promised us a Bill to cut red tape. In our new Business Secretary, Sajid Javid, we have somebody who actually knows about business. As he said, he grew up living over the shop. I have every confidence that he will slice through the red tape. I hope, too, that our new Government will be able to bring us the Transatlantic Trade and Investment Partnership. It has stalled so often, but if we can get it through it will bring huge benefits to this country.

I should like to think that the local enterprise partnerships, which are already proving so successful in parts of this country, will now be built on by the Government. They vary incredibly in what they can do and in the calibre of people working there. They could do a great deal more for small businesses. As others have said, much of our future lies in growing the small businesses that we have. At their best, local enterprise partnerships can really help there; they need government help and to benefit from talking to each other. The Federation of Small Businesses has produced an in-depth report looking at how these organisations function and suggesting ways that they might do better. Too often, they are governed by big business and do not cater for the needs of small business.

What else could we do that would benefit productivity? How about remuneration? A new report has come out this week from the Chartered Management Institute, which refers to an,

“unacceptable discrepancy between pay and performance”, in Britain. It looked at 72,000 employees and found that 30% of those rated as “not meeting expectations” were paid a bonus. That is quite hard to understand. When it looked at higher-paid people and directors, it found that it was not 30% of people who had not met expectations who received bonuses, but more than 40%. Clearly, we need to look at remuneration again.

The noble Baroness, Lady Drake, spoke at length about low pay and the link between low pay and productivity. While it is not an issue for government to legislate on, as others have remarked—we do not want too much legislation—it is up to shareholders to begin to put more pressure on companies to distribute the rewards of growth a little more fairly. It cannot be

right that the gap between the top and the bottom is now so great that the people at the bottom are being subsidised by taxpayers while the people at the top get huge bonuses. I would like to see shareholders really wake up to this and do a bit more.

Going back to those PIES, on infrastructure we have heard about HS2. My noble friend Lord O'Neill pointed out that he has not always been the strongest advocate of HS2 beyond all else—perhaps the east-west connection is at least equally important—but there are much smaller things that impede this country's efficiency. Since it was in the Conservative manifesto, I see no harm in reminding people that we are apparently pledged to fill 18 million potholes before 2021. I do not know who counted them but it is there in black and white.

We have done a good job so far on economic sustainability but there is a long way to go. I point to one issue where I have concerns. We have got through one financial crash but where will the next one come from? A former chairman of the Federal Reserve in the States, Paul Volcker, said that he could think of only one financial innovation that had been of any benefit to the public in the past 20 years, and that was the ATM. I am inclined to agree.

I am fearful about algorithmic trading. I do not know whether noble Lords have read *Flash Boys* by Michael Lewis. It is quite a scary tome and points to something that is the very antithesis of investment—and investment is what we need. Therefore, I ask the Minister to investigate whether the regulators are looking at this carefully enough.

2.20 pm

Lord Clement-Jones (LD): My Lords, it is a pleasure to follow the noble Baroness, Lady Wheatcroft. I agree with much of what she said.

These debates are often much more about what is not in the gracious Speech than what is in it, especially in the context of business and the economy. The UK's creative industries have been one of the great success stories of the past five years. Significant policies benefiting these industries were developed during the coalition Government. I pay tribute to Vince Cable for all his work as the Business Secretary.

I want to see creative businesses continue to thrive across the whole country so that our economy can continue to reap the benefits. It is vital that we do not lose the momentum. Will this Government build on the achievements of the last? That is the question. I welcome the fact that both the Minister and Ed Vaizey are Ministers shared jointly now by DCMS and BIS to ensure that creative industry policy is fully joined up. To maintain that momentum we need to encourage clustering of creative businesses developed through alliances between central government, local authorities, universities and the private sector in our major cities. Our cities and many counties need greater powers, especially over finance. I therefore welcome in principle the proposed cities and local government Bill as part of the Government's northern powerhouse strategy. I add my welcome to that of others to the noble Lord, Lord O'Neill, whose presence in government is so welcome and whose passion for delivery of the northern powerhouse strategy is so apparent.

The noble Baroness and Ed Vaizey represent valuable continuity for the sector. I welcome John Whittingdale to his new role, with his enthusiasm for intellectual property and live music in particular, and his background of 10 years as Culture, Media and Sport Committee chairman. I am sure that a brief spell for Sajid Javid at the DCMS has given him a useful insight into the fundamental relationship between the arts and our creative industries.

Many noble Lords have talked about development of digital skills being vital. Expansion of digital platforms has highlighted the growing convergence of creative content and the tech sector. Skills in the arts and sciences are increasingly drawn together. Will the Government promote the value of creative subjects in schools and ensure that they are rewarded for offering a broad and balanced curriculum? The number of apprenticeships created and taken up in the creative industries has expanded hugely in the past few years. I hope that they will enhance the co-ordination of action on skills by merging the two skills councils, Creative and Cultural Skills and Creative Skillset, into a single powerful and effective body. Will the Home Office break the habit of a lifetime and ensure with BIS that the tech and creative industries are able to fill the gaps in high-end skills, from abroad if necessary?

As we have heard today, our broadcasters are the linchpin of the creative industries and there are some key questions in that regard. Will the Government maintain Channel 4 in public ownership? Will they follow up the consultations started in March on Section 73 of the Copyright, Designs and Patents Act, which requires public service broadcasters to give away their most valuable product—their channels—to the pay-TV cable platform in the UK, and repeal it? We had a mini debate on the BBC today and contributions on the BBC were made yesterday. Under John Whittingdale's chairmanship, the Culture, Media and Sport Committee produced a valuable report on the future of the BBC with many useful observations and recommendations, including on governance and extension of the licence fee to iPlayer-only users, which can, and no doubt will, be taken forward into the charter discussions—and so too, I hope, will the committee's views on the need for open and transparent discussions on the charter. Will there be a full and open debate on any decriminalisation proposals and will the potential financial cost of such a policy to the BBC be fully recognised? We need strenuously to protect the independence of the BBC. Currently, the licence fee is the best way of doing that. However, that does not mean that it needs to rise faster than inflation.

Investment in the UK's creative industries can only really make a difference if their intellectual property rights, particularly those relating to the protection of their online materials, are properly understood and enforced. It was good to see the acknowledgement in the Conservative manifesto of the importance of intellectual property and of proper behaviour by search engines. However, I was rather baffled by some of the statements in the manifesto. It says:

“We will protect intellectual property by continuing to require internet service providers to block sites that carry large amounts of illegal content”.

[LORD CLEMENT-JONES]

I do not recall that we were able to persuade the last Government to bring in any legislation to do that. The legislation remained unenforced on the books, so I think there are questions to be asked about that. Is it not crucial that we should educate consumers on the importance of intellectual property and support initiatives designed to get voluntary agreement from the advertisers and credit card companies not to advertise on infringing sites? Will the Government continue to support the long-term funding of the Police Intellectual Property Crime Unit, or PIPCU, which carries out such vital work? Will they increase sanctions relating to online offences in line with the recent government review of penalties for online copyright infringement, *Penalty Fair*?

I regret that we shall spend the next two years arguing about membership of the EU. I hope that, at the same time, the Minister will find time to work with our EU partners to ensure that proposals for copyright reform as part of the single digital market proposals do not damage our creative industries by limiting territorial licensing.

I very much hope that the Government will continue discussions with artists and creators on extending the law governing unfair contracts to include intellectual property contracts. I very much hope that, when possible under EU law, the application of public lending rights to remote e-lending will be extended.

I have little time left but I very much hope that the Government will continue to promote the value of live music despite the powers created in the Anti-social Behaviour, Crime and Policing Act, which are already being used disproportionately. I agree 100% with the noble Baroness, Lady Liddell, and with the comments made by my noble friend Lord Lee yesterday, on the importance of our tourism industry, which so far, even after five years of the last Government, has been treated as a Cinderella and holds such promise for job creation in the years up to 2020. Time will tell. I look forward to future debates and discussion on all these policy areas.

2.28 pm

Lord Desai (Lab): My Lords, I congratulate my noble friend Lord King of Lothbury on his joining the House and on his brilliant maiden speech. I think that we have known each other for more than 40 years, although I do not know the exact figure, so it is good to see him in this place.

I also welcome the Minister, the noble Lord, Lord O'Neill, who made a brilliant maiden speech, as we expected. When I saw him in the Royal Gallery I told him that we intend to give him a very hard time—and I think now is the time to start. Let me say to him first of all that he promised to cut red tape and save £10 billion. I have been here 24 years and I have heard that about 10 times. The gains are illusory and the red tape is seldom cut because the committee appointed to cut red tape does not care to meet as often as the Government would like. Therefore, red tape shall continue to be slashed and cut and we shall go on having fun along the way.

I have been a friend of austerity, much to many other friends' dismay. I advocated it before the election of 2010 and I stick by that. The debate is no longer

about whether or not we should have austerity but about the pace and the size. As the noble Lord, Lord Turnbull, said, he prefers my party's time shape of austerity and deficit reduction to the Government's, but we are no longer questioning that the deficit has to be reduced. That is at least one plus. I know that the OECD is saying that the deficit should not be reduced so rapidly, and so is the IMF. When those two agree, I really think something should be done. We have to doubt their advice. It is frequently wrong.

One thing that will determine the time shape of the deficit is not the economics but the politics. Since the Government are going to embark on this EU referendum saga, whatever the result will be—and I believe it will be a decision to stay—the Government's trouble will start the day they win the referendum because their Back Benches will give them hell. I was here during the Major Government and I remember how much a Conservative Back-Bench rebellion can affect government performance. So I say to Ministers: do what you can do in the first two years and later your lives are not going to be comfortable.

That having been said, I add my words to the warnings other people have given. It is possible to believe six impossible things before breakfast and say many inconsistent things before the election, but once the election is won we ought to pause and say that this mad promise not to raise taxes—income tax, VAT and NIC—is not only irrational and fiscally irresponsible but unnecessary to implement. If the Government are going to implement this mad proposal, they will make their lives much more difficult than before. Again following the speech of the noble Lord, Lord Turnbull, and I think some other noble Lords said this as well, if we revalue properties across the UK—the challenge that the Thatcher Government flunked 30 years ago and we had the saga of the poll tax—the Government could promise to cut the rate of council tax and increase their revenue. That is a combination I do not normally offer to people. It is a real tax-cutting thing but just revalue properties and you will be able to harness the capital gains people have made over the number of years. You can even say, "Thanks to a Tory Government, people have got richer so we are going to tax them". That may actually reduce your burden.

I have a wheeze, a little scheme—it may or may not work—which is now that interest rates are so low, it will be possible for the Government to issue 100-year bonds like the Spanish Government have done at a 0.5% rate of interest or whatever and repay the existing debt, which has a much higher service charge. I do not know whether it is possible. Some experts may doubt it, but whatever the service charge of that debt is, and I think it is about 4% or 4.5%, you could reduce it much more and release some money for spending on good things such as HS2 or something like that. Maybe the Minister will put me down properly and tell me that my numbers are completely wrong.

I will say something about productivity. This is a snare and a delusion. When we had an economy largely producing solid things—in agriculture, manufacturing or even transport—it was possible to define productivity somewhat precisely. Then we had the sort of growth model where we all got hung up on productivity and total factory productivity and all that. That is no

longer the economy we have—not only us, even the US economy is finding productivity growth low. The noble Lord, Lord O'Neill, said that there are statistical problems. They are not statistical, they are conceptual. If a large part of your economy is in services, there is no way of defining productivity. I do not know what the productivity is of a childcare worker or somebody who takes care of the elderly or a physical fitness instructor or your shopping manager or whatever it is. We really have to say that there are jobs which, even if we use the old classical terminology, are surplus-producing sectors and there are jobs that are welfare-enhancing. Only the surplus-producing sector can help productivity as normally defined, and the larger your welfare-enhancing labour force, the lower your productivity level and growth. That is a short lecture. I cannot take another 35 minutes with this.

Lastly, as my noble friend Lord Reid said, we may be on the verge of another big asset bubble and another crash. The merger and acquisition numbers are frightening. Again as my noble friend Lord Reid said, people are buying and selling existing equities and bonds but they are not investing in any new productive activity. This is a classic effect of a sort of Wicksellian cycle in which we have a very low interest rate and any profit rate would make it feasible to borrow. People are borrowing and buying equities back and forth. This will crash, no doubt, and I hope that when it does, the noble Lord, with his expertise in the financial markets, will be able to get us out of it.

2.37 pm

Lord Skidelsky (CB): My Lords, it is always a great pleasure to follow the noble Lord, Lord Desai. We seem to be yoked together like a pair of terrible twins, perhaps on the theory that at least we understand what each other is saying even if no one else does. It is a great pleasure to welcome the noble Lord, Lord King, to this House, and the very powerful speech of the noble Lord, Lord O'Neill, promises strenuous mental exercise over the coming months and years.

Praise where praise is due: there are several good things in the gracious Speech. It is strong on aspiration and there are some sound implementing measures promised. It is a good idea to take people working 30 hours a week on minimum wages out of income tax. Can the Minister explain how many are expected to benefit from that measure?

I particularly welcome the goal of building a northern powerhouse, and look forward to the Cities and Local Government Devolution Bill, which will provide for an elected mayor of Greater Manchester and possibly elected officials in other conurbations. Elected mayors are vital to the strength of local government. Some of us on the House's Economic Affairs Committee hearing evidence about HS2 were struck by the weakness of the northern voice. It would have been better, I think, to have started the scheme by reducing transport costs in the north of England rather than spending a huge amount of money in the next five years reducing train times from London to Birmingham by 15 minutes. Elected mayors in the big cities will help to redress the London bias which has too long dominated our economic life.

I welcome the aspiration in the gracious Speech to "full employment" and job security. I emphasise aspiration because there is no indication of how either goal is to be achieved. In particular, how does the aim of job security square with the large increase in insecure jobs over the last five years through temporary work, exploitative self-employment, zero-hour contracts, agency work and so on? Evidence suggests that about 5 million working-age adults are in such precarious jobs, and they account for much of the increased employment of which the Government boast.

This growing population of the working poor contributes to the amply documented rise in inequality, which has been growing since the 1980s and has accelerated since the onset of the crisis. Austerity has contributed significantly to this by reducing the share of income going to wage earners. The gap between rich and poor is now almost as great as it was before the First World War. This is morally unacceptable, socially divisive and economically destructive. In particular, it is a major cause of the collapse in productivity, to which noble Lords have alluded. I quote the Government's briefing:

"Fixing the UK's long-running productivity weakness is one of the government's biggest challenges over the next five years".

The noble Lord, Lord O'Neill, powerfully reinforced that, as did other noble Lords. Treating productivity as a long-run problem, however, disguises the fact that the most urgent problem is the collapse in short-run productivity. Between 2000 and 2008, productivity increased by about 2% a year, but since 2010 it has not grown at all. That is what is wrong with the argument of the noble Lord, Lord Desai, as it is not just a long-term problem based on the increase in unmeasurable service costs; it is what has happened in the last five years. That is what we ought to address, because most of the new jobs created since 2010 have been low-productivity jobs. How many people understand that the welcome fall in unemployment is the mirror image of the redeployment of many of the unemployed to low-productivity jobs? Real wages, as we know, have fallen since the coalition took office and apropos the noble Baroness, Lady Wheatcroft, most minimum wage jobs are not in companies that have shareholders. That is not the main problem here.

I do not want to rake over the coals of my long dispute with the coalition on economic policy. I do not doubt the Government's commitment to sustainable growth but they see growth purely in terms of supply-side policy. It was assumed from the start that public austerity, by promoting the switching of production from the less efficient public sector to the more efficient private sector, would increase the efficiency of the economy. However, what that ignores is the effects of the policies on demand. At best, the Government have seen the problem of demand as a very short-run problem, not taking into account that a prolonged demand shortfall has lingering effects on supply. Economists have a rather horrible word for this: hysteresis, a word from engineering denoting the reduced capacity of a machine when it is disused or underused for any length of time. This has been happening to our productive system. Many, if admittedly not all, of our supply problems stem from the way that the labour market has adjusted to the austerity policies of the last five years.

[LORD SKIDELSKY]

The Government still hanker for supply-side solutions. Of course supply is very important but it is not the only thing. They promise to introduce a bill to freeze benefit rates and reduce benefit caps for two years, in order, they say:

“To ensure that it pays to work rather than to rely on benefits”.

Of course you can always force people to work by reducing benefits but you will then get wages chasing benefits downwards in a vicious circle. What good does that do for productivity? The Government promise 3 million extra apprenticeships, which is very good, but those apprentices will need jobs to go to. Rather than the mean-spirited assault on benefits, the Government should bring forward investments in infrastructure that provide decent jobs. The Government promise a British investment bank, something that I have been advocating since 2010—better late than never—but are silent about its scope and financing. I suggest that investment projects should be targeted at the areas of higher than average unemployment, as part of the rebalancing and northern powerhouse strategy. To boost demand, the Government should take steps to raise middle and lower incomes, which will provide confidence for firms to invest. Raising the minimum wage would be a step in that direction.

It seems to me that the Government's post-crash growth strategy relies dangerously on recreating the pre-crash levels of private debt. This is a perilous course, which risks another collapse at no distant future. In short, is that what we want? Is this the best that we can do? I think not. Let us try to do better. Let this House give voice to that better future which the leaders of the defeated parties failed to offer at the last election.

2.45 pm

Lord Farmer (Con): My Lords, I join others in congratulating my noble friend Lord O'Neill of Gatley and the noble Lord, Lord King of Lothbury, on their excellent maiden speeches. I welcome particularly the strengthened contribution which my noble friend brings to the Front-Bench Treasury team and which both noble Lords will bring to future economic debates in this House.

My noble friend Lord O'Neill underlined in his speech the need for improved productivity, as we have heard much of today, if our economy is to prosper. In this respect, I would like to contribute to this debate from the somewhat unusual angle of government family policy. I was delighted by the emphasis in Her Majesty's gracious Speech on giving every child the best start in life. The Prime Minister made this a cornerstone of our election campaign, reiterating what he has always maintained: that the best start begins with a strong family. It is completely appropriate that a debate on the economy includes an emphasis on strong families, because they are the absolute bedrock of a successful nation. Sound management of the economy requires investment to ensure that families are productive and able to add value, instead of costing money. Helping families to get relationships right creates wealth, while failed relationships dissipate it.

With this in mind, I want to talk about the need to counter the biggest and most downplayed assault

on our social fabric: family breakdown. As my honourable friend Fiona Bruce said this week in the other place:

“States have a vested interest in making families stronger. They make a contribution to society by producing a competitive labour force, caring for family members ... playing an instrumental role in healthy child and youth development and putting a heart into local communities”.—[*Official Report, Commons, 2/6/15; col. 531.*]

Yet one-third of all children have experienced the breakdown of their parents' relationships. That is nearly 5 million children and in percentage terms twice the OECD average and over six times as high as it is in Finland. Costing nearly £50 billion a year, it really is the elephant in the room when discussing the wider economy.

Much is made of the costs of families with complex needs, estimated to be £9 billion per year, to justify the troubled families programme. Help to turn their lives around is essential, but the tax credits and benefits bill associated with family splits across the country is almost £14 billion, with housing costs of £5 billion and health and social care costs of £16 billion. Much of this net loss to the Exchequer could be turned into tax receipts if families could be stabilised and helped to become net contributors to the economy. So as we embark on the first 100 days of a majority Conservative Government who are relentlessly focused on getting our economy on a sound footing, we must develop family policy that goes way beyond childcare and parental leave.

Making progress on this agenda will require a Cabinet-level family champion. Just as with the equalities brief, we cannot leave this to impact assessments, welcome though the new family test for all policy is. We need a Secretary of State with clear accountability, and resource at a departmental level, to prioritise the stability as well as quality of relationships and to promote fatherhood. Every government department has a role to play. For example, the Ministry of Justice should prioritise parenting and relationship support in prisons to reduce reoffending. The National Audit Office estimates that this costs between £9.5 billion and £13 billion every year—the same amount as the London Olympics. Yet reoffending rates are significantly reduced when a prisoner returns to a stable family environment.

The Department for Work and Pensions must address family breakdown as a driver of welfare dependency through its ownership of the wider social justice agenda. Communities and Local Government must ensure that couple work is included in the troubled families programme, and local authorities should address family breakdown as a root cause of poverty in local child poverty strategies.

The Department for Environment, Food and Rural Affairs should also acknowledge the strain on farming families and couples from the challenges of the rural economy, where depression and suicide are higher. Business, Innovation and Skills Ministers should work with employers to provide relationship support to reduce absenteeism. Lloyds Bank and others already do webinars on couple relationships as well as parenting.

Finally, the Department for Education and the Department of Health should work jointly on children's and young people's mental health. Family conflict and

breakdown contribute significantly to the onset of mental health problems, so not least because of the huge associated costs this should be a priority area. But it is not. Friedli and Parsonage have calculated the lifetime cost of childhood mental disorder very conservatively at £150,000 per case, so just one year's cohort of children with conduct disorder is costing us £5.25 billion.

As well as better mental health provision integrated into schools and other settings, we specifically need community-based infrastructure, such as children's centres, to be far more responsive to the problems besetting many families. I have described in the past how they should become family hubs where anyone can go with a family or relationship issue.

To remove all doubt about this issue, people do seek help for their relationship anxieties. Just this week, Citizens Advice revealed that personal relationship issues in particular are putting enormous strains and pressure on GPs, who spend almost a fifth of their consultation time, and almost £400 million, on non-medical matters. GPs have nowhere to send people, hence broadening children's centres into family hubs could ease significant pressures on our health service and help to contribute to the £22 billion of savings the NHS has to find.

Family relationships are not the soft centre of social policy but are at the hard edges where costs multiply. Strengthening families puts backbone into our nation and is indispensable to the sound management of our economy.

2.53 pm

Baroness Donaghy (Lab): My Lords, my contribution to this debate will concentrate on employment relations and on why I believe that the Government have missed the point about them. Of course our economic success depends on improving our dire productivity record and rebalancing our economy so that we are not so reliant on the service sector, as well as on staying in a reformed Europe, making the most of our talent through training and improving pay inequalities, particularly for women. Therefore, it is with a feeling of near despair that I see in the Queen's Speech proposals to take away workers' rights in some areas and to have another go at trade unions. There are 31 million people at work and only 6 million in trade unions. Why does the Minister think that existing employment law, already the tightest in Europe, is in any way inhibiting job creation? Some of our most successful enterprises are strongly unionised, with a record of consultation, co-operation and flexibility. Why do the Minister's Government seem to think it is possible to separate workers from trade unions? Whenever the words "worker" or "working people" are mentioned, Ministers go misty-eyed and husky of voice, with moistened lips; mention the phrase "trade unions", and they take on attack mode.

We live in a country where workers can earn 80 times less than their boss. It is unequal and unfair. The contrast in Germany could not be greater: Angela Merkel speaks at the congress of trade unions and spends at least half a day listening to debates. Mark Carney, the Governor of the Bank of England, came to the TUC last September and thanked workers—trade

unionists all—for their sacrifices and answered questions from delegates afterwards. What is wrong with this co-operative model? You would expect a former chair of ACAS to say these things, and I want to ask the Minister what consideration will be given to ACAS funding. A lot of extra work was passed on to ACAS by the previous Government, most of it welcome. ACAS is good value, and has the trust and confidence of participants and the country, but it needs to be funded adequately. I can do no more than quote the noble Lord, Lord Marland, when he was the Parliamentary Under-Secretary of State at BIS:

"We all agree that ACAS is a terrific institution ... That is why we intend to put much more in the way of resources into it ... We know it acts fairly and properly, it has a good track record, and we are keen to support it".—[*Official Report*, 5/12/12; col. GC 197.]

If extra work is to be given to the certification office, which is part of the ACAS family, I hope also that adequate funding will come with it.

Turning to the issue of political funds, I realise that this will press all the buttons about the party of the rich and the party in hock to the trade unions, so reason goes out of the door. Without state funding, which is unlikely to happen, we are faced with the unfortunate situation where the Conservatives receive £19 million from 27 of the 59 wealthiest asset managers included in the *Sunday Times* rich list and the Labour Party receives a substantial part of its income from trade unionists. Lady Thatcher introduced a requirement that trade unions should ballot their members every 10 years to see if members wished to retain or create a political fund. It takes a huge amount of time and money to set up the ballot, and not one has ever failed, but this is not enough for some Conservatives. They want to keep picking and picking at what they see as a running sore on the body politic, while blithely accepting cash from the least regulated financial area in the country.

For the record, the majority of trade unions with a political fund are not affiliated to the Labour Party. They are required to have a political fund if they wish to campaign on behalf of their members. What are the Government's intentions regarding the non-affiliated unions? Will they be hit for six, so that it does not look too obvious that this is an attack on the Labour Party, or will they be exempt from the new requirements? The majority of trade unionists do not pay into a Labour Party-affiliated fund. Civil Service unions and teaching unions do not affiliate.

I was active in NALGO for 33 years, when it was not affiliated to the Labour Party. We were required, by a court of law, to set up a political fund because of the new legislation and we did that. I was chair of the general political fund at one time, and when it was agreed to merge with COHSE and NUPE, which were both affiliated to the Labour Party, the new union, UNISON, had to devise a solution to recognise the different cultures of the former partner unions. We came up with an elegant solution, which I have described before. Members could opt for the Labour Party-affiliated fund, the general political fund, both funds or neither fund—four choices. When the legislation is before us, I shall be very interested to see how non-affiliated unions will be treated and whether an opting-in process will make the 10-year ballot requirement redundant. This subject

[BARONESS DONAGHY]

area may seem esoteric and faintly embarrassing to some noble Lords, but any proposed changes could have an important impact on trade union resources and income for the Labour Party.

The issue of strikes and public services was raised recently in a Question from the noble Lord, Lord Carrington of Fulham. The new Secretary of State for BIS was elected on less than 50% of his potential vote, and police commissioners and Members of the European Parliament as well as local councillors will never reach the required threshold of 50%—so why apply it to trade union ballots? It is clear that the Conservative Government intend to ban strikes in public services without appearing to breach any international codes on the right to strike. I caution the Government on this; it will not stop strikes, but it will prevent trade unions keeping some control over events. If you give people no achievable outlet, they will find other ways in which to protest.

Finally, the Queen's Speech talks about the security of a job but not about job security. It talks about reforming trade unions, but not about improving management skills. There is no hint of trying to improve employment relations—not even a crumb of comfort for the HR community. As a fellow of the Chartered Institute of Personnel and Development, I would say that it presents a rather barren picture of the world of work.

3 pm

Lord Shutt of Greetland (LD): My Lords, today is allocated to discussing matters relating to business, economic affairs and transport. They are of course related. I want to speak about transport, and one specific area in relation to transport—railways. Even more specifically, I want to talk about the case for further electrification of our existing railways. Yes—infrastructure. By and large, it is not about legislation. I shall leave for a moment on one side the case for building HS2 and HS3.

Before I rise to the theme, I want to thank and congratulate the maiden speakers, the noble Lords, Lord King and Lord O'Neill of Gatley, and welcome the noble Lord, Lord O'Neill, to his ministerial task. I note that he referred to the northern powerhouse, and I have learnt from him today that it is more than just TransPennine. Geographically, at least, it includes the north-east. But what is the definition of northern powerhouse? It sounds like something that I would be rather in favour of, but what is it? What is the substance, or is it something akin to the American dream?

The UK has lagged behind the rest of Europe on electrification. The clear case is for clean-up, for a speedier and cheaper service once the capital costs have been dealt with, and because there will be scope for more trains. It is all well understood. Following the electrification of the east coast main line, completed as far back as 1991, there has been little further progress, or certainly not much progress in completed work. If we look at the period of the Government before last, from 1997 to 2010, electric wires were put up over only 8 miles from Crewe to Kids Grove. In the last five years, it has not been hugely better, but 45 miles have been

electrified, from Liverpool to Manchester and Liverpool to Wigan. However, there are plans and work is taking place.

The last Labour Government did announce plans in 2009, with the Great Western main line, hinting at the Midland main line and further electrification in the north-west of England. In 2010, perhaps understandably, several schemes that had not been started were stalled, only to be given the go-ahead later. I had the privilege of announcing in this House the Great Western electrification to Cardiff, back in 2011. It was a day when the noble Earl, Lord Attlee, was indisposed, and I had the task of announcing it there. In 2012, further electrification was announced, from Cardiff to Swansea, the Welsh valleys and the northern hub, which must be a friend of the northern powerhouse. Then there was the TransPennine line via Huddersfield to Leeds and York and the Midlands main line, Southampton to Nuneaton. Work is going on, but I learn that there have been delays.

What will the route mileage electrified become, in the period 2015 to 2020? Does the Minister think that there is any impediment to that tremendous list of electrification being achieved—and where next? The electrification plans should not stop at those announced in 2012 to 2014; electrification is a long process, and the electrifiers need keeping in business. Teams should not be disbanded, as happened years ago. There are many places, some gleams in the eye, along with other thoughts by planners, politicians and all-party parliamentary groups, as well as railwaymen. When the present announcements have been achieved, what will happen? Is the programme going to be kept rolling, particularly in terms of in-filling schemes? There are some major schemes, and I would not wish to stand up here without mentioning the Calder Valley line as one of many that come to mind.

Following on from earlier planning, the Government have a real chance of delivering significant electrification of our railways based on the present plans—but they must not stop.

3.06 pm

Lord Low of Dalston (CB): My Lords, I add my word of welcome to the new Minister to his position. I have heard him on the radio frequently; he is a big hitter, and will add much authority—I nearly said “much-needed authority”—to the Government and to our proceedings in this House. To judge from his speech this morning, he will add much dynamism as well. I also congratulate the noble Lord, Lord King of Lothbury, on a maiden speech every bit as distinguished as we would expect.

The Prime Minister and the Conservative Party are to be congratulated on their surprise victory—a surprise, I believe, as much to themselves as to anybody else, although people are now coming out of the woodwork to claim that they saw it coming. I myself believed that it was the one outcome that could not possibly come to pass. Mr Clegg has described it as the triumph of “grievance and fear” over liberal values. I have great respect for our Lib Dem colleagues, but I have to say to them that if that is the case it is something that they have connived at for the last five years.

In truth, the election was won on a fraudulent prospectus of over-promising and under-delivering. The record for competence, especially economic competence, was rubbish, with the loss of our AAA credit rating and flagship deficit reduction and immigration targets missed by miles. Instead of the much-denied top-down reorganisation of the health service, we got a top-down reorganisation of the health service, only a costly one of byzantine confusion—and the jury is still out on universal credit, with major question marks still hanging over its deliverability.

The Prime Minister is now impaled on a number of promises that he probably did not expect to have to keep. On public expenditure, the figures simply do not add up. How are £7 billion worth of tax cuts, raising the threshold for inheritance tax to £1 million, subsidising the sell-off of housing association property and £8 billion more a year on the NHS to be squared with the removal of £30 billion from the budget is anyone's guess, especially given the absurd lock on raising VAT, income tax and national insurance. Perhaps the Chancellor will tell us on 8 July, but I am not holding my breath. Against this background, seven-day working, along with extra doctors and nurses for the health service, is surely for the birds. If anyone else had exhibited such a cavalier approach to the nation's finances, they would have been torn to shreds.

It is widely agreed by economists that the Government's austerity measures at the beginning of the previous Parliament delayed the recovery by two years, entailing a permanent loss of resources to the economy conservatively estimated at 5%. When the recovery failed to materialise, the Chancellor abandoned his austerity policy, and the pace of the recovery quickened up to the present time. The Chancellor and his followers never tire of describing this as his long-term economic plan and claiming credit for holding to it. Indeed, the Chancellor achieved the singular feat of persuading people to accept a policy of austerity on the grounds that, although unpalatable, it is good for us, even when he has abandoned it himself. This is only a long-term economic plan if by "long-term plan", you mean shrinking the state in the first two years of a Parliament with a view to expanding the economy again in the run-up to a general election.

The noble Lord, Lord Desai, and I had a slight difference of opinion over this when we last debated it shortly after the Budget when the noble Lord gave the Chancellor credit for sticking to his guns. It is true that the slowdown in the pace of deficit reduction in 2012 owed as much to disappointing tax receipts as to the Government reducing their expenditure. However, the Chancellor could have stuck to his original deficit reduction plan by raising taxes to compensate for this, or cutting spending still further, but the important point is that he chose not to do so.

Labour is said to be facing an existential crisis stemming from the unravelling of traditional class identities, its failure to come to terms with Scottish nationalism and its failure to speak to those left behind by the damaging effects of market individualism and global market forces. It certainly faces a herculean challenge which will not be overcome by vague appeals to back aspiration. It is said that Labour's dilemma is that it needs to appeal to different audiences

simultaneously, but I am not so sure. I think the problem was that it simultaneously colluded with the narrative on austerity and Labour's part in the crisis while cautiously hinting at something a bit more radical, with the result that the trumpet gave forth a very uncertain sound. Whenever the Labour Party was taxed with the deficit, all it could do was go on about the good things it had done with it. It had just about screwed itself up to say that the deficit did not cause the crash but did not seem to be able to take the crucial step of explaining that it was the crash that caused the deficit. If Labour's analysis is so poverty stricken, how can it expect anyone to get the message? Yet whenever I heard a strong lead being given in opposition to austerity, people resonated strongly with it. This is what happened in Scotland, and people voted for it. Labour needs to learn the lesson from this and stop giving so many mixed messages.

I fear that the Government are about to make the same mistake that they made at the beginning of the previous Parliament and inflict another bout of austerity. A number of speakers have anticipated this concern. This would not only be wrong in itself but risks choking off the recovery, which is not so strong that it can easily withstand another austerity shock. Attention focuses principally on stagnant productivity these days, but this should be viewed against the background of a host of other deep-seated problems with the British economy. It was reassuring to note the Minister's awareness of them in his speech.

Investment is too low, the economy is unbalanced, our manufacturing base is too small and we rely too heavily on the service sector, particularly financial services. We have chronic balance of payment problems, debt levels remain too high, but growth, rather than further consolidation, is a much better way of addressing this. The recovery is too dependent on consumption artificially boosted to unsustainable levels by rising asset values and asset sales. There is even ominous talk of another crisis, worse than the previous one, looming. I was not sure how far this ominous talk was loose talk. The noble Lords, Lord Desai and Lord Skidelsky, referring to it this afternoon should lead us to take it very seriously.

The IMF has just said that deficit reduction is no longer the priority that it was, so there are many good reasons to be concerned at the prospect of a further round of austerity on economic grounds. It would seem to be counterproductive, even in the Government's terms of delivering a programme of one-nation compassionate Conservatism. What price seven-day working in the NHS then?

3.15 pm

Lord Horam (Con): My Lords, I add my warm welcome to the two maiden speakers, the noble Lords, Lord O'Neill and Lord King. Both are economists, as am I. I tend to think that economists ought to run the country, but I doubt that I would carry the House with that thought. None the less, the noble Lords are very welcome, particularly since we are having an economic debate. Perhaps we could leave it that economists might be rather better than lawyers at running the country; that might be something that the House would agree to.

[LORD HORAM]

A recent issue of the *Spectator* purported to list the top priorities of what it called “Cameron’s inside gang”. It did not actually spell out what “Cameron’s inside gang” was, which might have been more interesting, but it listed the priorities. They were,

“keeping economic growth going, getting an acceptable deal from Europe, securing the Union at home, showing that their policies benefit the poorest in society and ensuring that more houses are actually built”.

That rather cheered me up: first because there were only five priorities. Usually Governments have a long laundry list of issues that they say they are going to prioritise, but five is quite enough. Secondly, I rather agree with the priorities. You can say, with Groucho Marx, that if you do not like them, I have others—but if I had to settle for five at the point of a gun, those five are not too bad.

My problem is—and this is what I want to say a few words about—the difficulty there will be in achieving priority one, keeping economic growth going, and priority five, getting houses built. On economic growth, the US recovery is proving feeble, the BRIC countries, which were made famous by the noble Lord, Lord O’Neill, are slowing down and our exports are suffering. Jaguar Land Rover sales fell by 20% in the first quarter. Manufacturing is not doing particularly well at the moment. The international situation is not very promising and growth is rather fragile.

I am also concerned about the Government’s stance. Here I get into questions of Keynesian economics and so forth. The Government are saying that they are giving top priority to growth, according to the *Spectator*, but the economic section in the manifesto is all about deficit reduction, and the Queen’s Speech also centred on this. This reminds me of the beginning of the last Parliament, when priority was given to deficit reduction, and expenditure, particularly capital expenditure, was cut pretty drastically. The result was that the rather feeble growth went into reverse. Macroeconomists at the Lords seminar on austerity under the chairmanship of the noble Lord, Lord Bilimoria, which I attended before Christmas, suggested that this might have cost us 4% in GDP growth over the two years at the beginning of the last Parliament.

Only after the infamous “omnishambles” Budget did the Chancellor realise that the advice he was getting was wrong and quietly change tack, becoming rather more Keynesian. As someone who learned his economics in Cambridge during the post-war Keynesian heyday of the 1950s, I can only commend that, as well as his political flexibility—but I do not want to see the emphasis on deficit reduction repeated in the first Budget of this Parliament. That would be a serious mistake.

I would much prefer the Government to stick to their general proposition that they will give priority to maintaining economic growth and, consistent with that overriding objective, keep firm control of current government expenditure and endeavour to reduce the deficit year on year. I believe that the Chancellor now has real credibility as a result of his success—plus, for the first time in many years, a decent majority in Parliament—and the markets would not mark him down for adopting such a posture. It would be

much more sensible that trying to meet the rather implausible figures that were mentioned in the Queen’s Speech.

My second and final point is about housing policy. The fact is that housing policy in the UK has been a disaster for the last 40 to 50 years. In 1968 we built 425,000 houses. Last year it was 140,000, but we need 250,000 a year. As a result, prices have soared and we spend £24 billion a year on housing benefit—a huge sum that, if it were spent on actually building houses, would revolutionise the situation. As John Kay, the *FT* columnist, put it the other day, the trends over the past 40 to 50 years,

“are ... entirely explicable by reference to changes in ... policy”.

In other words, it is our fault—or rather the fault of Governments and Parliaments over the past 40 or 50 years.

Now the Government want to go back to selling more social housing—this time, that owned by housing associations. This is a mistake. It does nothing to increase supply: indeed, it will reduce it. I therefore endorse the remarks made on Tuesday by the noble Lords, Lord Kerslake and Lord Best, in this Queen’s Speech debate. Since the Government appear determined to bring forward a Bill to transfer housing in this way, I beg them to subject it to pre-legislative scrutiny so that expert opinion on housing can be fully heard by both Houses of Parliament. Then we will see exactly what people who really know about the housing situation think.

To be fair to the Government, they have relaxed planning controls and encouraged the assembly of large parcels of land. I believe that the cost of land is a fundamental issue that has to be tackled in a radical way if we are to get more housing. I also believe, as the noble Lord, Lord Kerslake, said, that in Greg Clark we have an extremely able Secretary of State to deal with these matters. The fact is, though, that if we are going to get a decent housing situation for our children and particularly our grandchildren, with the sort of benefits that we enjoyed when we were young, we must have a much bigger and bolder effort by government to deal with the housing problem. Harold Macmillan did it in the 1950s when he oversaw the building of 300,000 houses a year, and if the Government are going to be truly a one-nation Conservative Government, they should be emulating him.

3.23 pm

Lord Monks (Lab): My Lords, I add my congratulations to the Minister on his maiden speech. He brings, among many other things, a much-needed lustre to a group much mocked and reviled in recent years in this House and more widely: I refer of course to supporters of Manchester United. Congratulations, too, to the noble Lord, Lord King, on his debut.

I had hoped that the Conservatives had exhausted their supply of bile against British trade unions and that the ludicrous dollop of red tape in the recent lobbying Act was the final scrape of that particular barrel. Clearly, though, there is plenty of bile left, as the original step-by-step approach of the 1980s is reappearing. A new Bill is proposed that aims to hobble trade union action still further. We are threatened

with more curbs on balloting, with thresholds that no other organisations have to satisfy, as has been mentioned by my noble friend Lady Donaghy. Labour agencies would be allowed to bust strikes, which is something that those agencies do not even want because they do not want a reputation like that. We are threatened with changes in facility time for representatives along with contracting in to political contributions rather than contracting out, an old threat that has been revived as an attack on unions' campaigning ability, whether or not they are anything to do with the Labour Party. This agenda is tribal hostility, no more, no less.

Noble Lords will be thinking, as I am a former general secretary of the TUC, "He would say this, wouldn't he?". After all, who today is afraid of the union wolf? It may still be bad but it is not very big—not as big as it used to be. However, join me for a moment in reflecting on the following truths. There are 6.4 million people in trade unions. I see that just this week the Royal College of Midwives joined the TUC: that is the kind of people that trade union members are today. Collective bargaining covers 30% of the workforce. Union membership is not just confined to the public sector, as I often hear; it remains the norm in most UK companies with more than 500 employees. Last time I looked, 41 of the FTSE top 50 were unionised companies; I could list them but your Lordships know all the household names that I would refer to. Thousands of agreements are made every year. Strikes are infrequent and relations are generally constructive.

So why are the Government so set on clouting unions again? Why is that a priority at this time? There are many features of the British labour market that work far less well than collective bargaining and the trade union role. The Minister and others in today's debate have rightly put productivity at the heart of the country's problems and of the Government's programme, and I welcome that. We lag alarmingly behind comparable countries and it is not easy to turn things round. One thing that it is unwise to do, though, is pick a fight with one of the component parts of improving productivity, the trade unions. That was a gap in what the Minister said earlier—the need to involve and engage people, not just train them, though that is very important. Bringing people with you, getting their morale up and making them feel respected and worth something is very important if we are to make it to the premier league of productivity. Unions are an important part of that, not just something that is marginal or that can be given a kick now and again with no consequences.

It is not just productivity where the union role is important. Take inequality, which has alarmed even the IMF, the World Economic Forum and the CBI in recent months and years. When union membership was higher and collective bargaining covered 70% of the workforce, directors and other top executives knew that they could not help themselves to an annual, possibly double-digit pay increase, often regardless of performance, without facing the possibility of a wave of militancy of people claiming comparability. In the past 30 years, though, too many have adopted a self-service culture, feeling free to help themselves to a large chunk of the company income. To a large extent, that is now recognised across the political spectrum.

In the 1920s, a period of union weakness, Stanley Baldwin, the Conservative Prime Minister, worried about boardroom greed and rising inequality. His solution was to build up institutions for collective bargaining through the then new Ministry of Labour. Baldwin also acted to bring in contracting in to the political levy, so he stops well short of being one of my political heroes. But what he did on collective bargaining is certainly relevant to today, and I hope that the more fair-minded and long-sighted Members on the Benches opposite and more widely will recognise that that is important.

We need influential and constructive trade unions to sort out decent living wages. It cannot all be done by law and it will not all be done by voluntarism. We need proper information and consultation arrangements. We need decent contracts with people that respect them, rather than just putting them on humiliating zero-hours casual bargain-basement contracts of the kind that are too prevalent today. A genuine one-nation Government would recognise that the need to boost productivity and promote long-termism in business cultures is interfered with by any tribal instincts of some in the Conservative Party to give unions a kicking.

This Bill deserves tough scrutiny in the House. I hope that we see a bit more of the spirit of Baldwin and rather less of the venom of the 1980s. Is that just too much to ask?

3.30 pm

Baroness Smith of Newnham (LD): My Lords, I welcome the Government's commitment to a long-term economic plan and to reduce the deficit, but I have to agree with the excellent speech of the noble Lord, Lord Low of Dalston, suggesting that there is a long-term economic plan because the short-term economic plan did not get very far in the last Parliament. As a Liberal Democrat, I obviously welcome the fact that the deficit was halved as a percentage of GDP in the last Parliament, along with the commitment to getting rid of the deficit and beginning to reduce public debt. However, the Lib Dems were also committed to doing that fairly, as my noble friend Lady Kramer noted earlier. It is to be hoped that the Conservative Government will indeed reduce the deficit fairly, although, as the noble Lord, Lord Fowler, pointed out yesterday, to announce £12 billion of cuts without saying where they will fall is a perilous venture, so we are in perilous waters.

There is a further pledge to legislate to cap tax rates. As the noble Lord, Lord Desai, said a few moments ago, that is a mad promise. Suddenly, alongside unfunded manifesto commitments, here is something that will put pressure on many government departments, particularly those that are not ring-fenced. The two I want to mention today are the Ministry of Defence and the Foreign Office. As my noble friend Lady Harris noted on Tuesday, cuts have consequences, and so, too, do unfunded spending commitments. As the noble Lord, Lord Fowler, rightly warned in his contribution, protecting the NHS in the manifesto, without clear funding, means that public spending in other areas will be reduced. The Treasury will have to look at reducing spending,

"on the police and on defence".—[*Official Report*, 3/6/15; col. 430.]

[BARONESS SMITH OF NEWNHAM]

This is also a problem for the Foreign and Commonwealth Office, despite the Government's avowed commitment to continue to play a leading role in global affairs. There is a real danger to Britain's place in the world if the salami-slicing of the FCO's funding commitments continues.

The commitment, or lack thereof, to defence is, if anything, even more serious. The Prime Minister pressed others to commit 2% of GDP to defence at last year's NATO Wales summit. That is a minimum and is not intended merely as an aspiration; nor is it a maximum figure. It is the minimum requirement and one that the Prime Minister argued for. At a time of global insecurity, credible defence commitments are crucial now more than ever. Will the Minister take back to the Chancellor the importance of ensuring that the welcome, albeit vague, commitment in the gracious Speech to,

"do whatever is necessary to ensure that our courageous Armed Forces can keep Britain safe",

is delivered on? It is essential that this commitment is met, ideally with a firm 2% commitment on 8 July in the emergency Budget.

Of course, some may say that the economy is growing and therefore a 2% commitment is not as important as people have said, but I beg to differ. If this country genuinely seeks to be at the forefront of the NATO alliance, it must step up to the plate and deliver on its own commitments. After all, the time of a growing economy is surely the time when we should be delivering on them. As the Chancellor used to say to the Labour Party, you should fix the roof while the sun is shining. Now is the time to make that commitment.

The UK's place as a key and engaged member of the European Union is also crucial to our place in the world and to our economy. The pledge to hold an in/out referendum and the prior renegotiation pose a threat to the UK economy by raising uncertainty. The noble Lord, Lord King of Lothbury, warned in his excellent maiden speech against having a laundry list of suggestions in the renegotiation. I am sure that that is right. We need a swift renegotiation and a clear commitment to staying in the EU. Brexit would be an even greater problem for the UK economy. Membership of the EU is clearly in the national interest in terms of our economic stability as well as our place in the world more generally.

The free movement of people is also vital to our economy, yet it is a freedom that is often seen as a cost to the British economy rather than as a benefit. In his excellent and powerful maiden speech, the Minister, the noble Lord, Lord O'Neill of Gatley, pointed out that economic growth depends on two things: productivity, which has been much mentioned already in the House, and the size of the labour force. The free movement of people and the fact that we are a magnet for those who want to come and work here is very significant to the British economy. We do not talk sufficiently about the merits of immigration or of free movement, both of which are important to our economic prosperity. These issues should be considered rather more fully than appears to be the case in the gracious Speech or in the nature of the debate today.

I hope that the Minister will accept that our economy is stronger for being an integral part of the European Union, just as the United Kingdom is better together, as almost everyone in this House and many Members of the other place—although not the newly elected 56 members of the SNP—would agree. If Britain is better together, the UK is better as part of the European Union. We are better when we work with our EU partners and allies. This country has prevaricated for too long about making a wholehearted contribution and commitment to the European Union. The time has come for us to do that. We need to be in the EU for our own economic prosperity. We have been talking about a growing economy. If that is to continue, it needs to be as a full part of the European Union. We need to hear "yes" and we need to hear it said loud and clear, and I hope that the Minister and her team recognise that, along with those in the Foreign and Commonwealth Office who accept that Britain is better off in the European Union.

3.36 pm

Lord Bilimoria (CB): My Lords, with just 1% of the world's population today, the UK is the fifth largest economy in the world. Having endured the worst recession in a century, we have recovered remarkably well. We have low inflation, low interest rates, high employment rates and a growing economy. We are the envy of Europe. But as so many noble Lords, including our maiden speakers the noble Lords, Lord O'Neill of Gatley and Lord King of Lothbury, have said, raising productivity is a serious challenge. As the noble Lord, Lord Leigh of Hurley, said, we are very lucky to have Jim O'Neill in the House of Lords. I have known him for many years. He was very helpful to me when I was the founding chair of the UK India Business Council, and we both served together for many years on the UK-India Round Table, where he was instrumental in getting Teach For India off the ground. It is now hugely popular, as our very own Teach First is here. He has been tasked by the Government to create the northern powerhouse. Well, in the noble Lord, Lord O'Neill, we have a northern powerhouse in our midst, and we welcome him to the House.

Where is Britain going to be in 2020? Our productivity must improve, because we lag way behind others. We may be the fifth largest economy in the world, but in purchasing-power parity terms—in per capita GDP—we are 27th in the world. How do we address this? Wearing my hat as the proud chancellor of the University of Birmingham and my various roles at the University of Cambridge, I was surprised to see no mention of higher education in the gracious Speech. We have the best universities in the world, along with the United States, and we are in danger of taking this for granted, because we way underinvest in higher education compared with the US, OECD and EU averages. The Minister, the noble Baroness, Lady Neville-Rolfe, who I congratulate on her reappointment—and I look forward to working with her—was on the board of the UK India Business Council when I was the chair, and a great board member she was too. Can she please explain the glaring omission of higher education? Can she reassure us that universities are going to be a top priority and that this Government will increase funding for universities to increase our competitiveness and productivity?

The noble Lord, Lord King, is a great West Ham supporter. I am sorry, it is not the Prime Minister speaking; I meant Aston Villa supporter. We are so fortunate to have him in the House because he will add huge value. He talked in his great speech about innovation being one of Britain's greatest strengths, yet when it comes to innovation and research and development, as other noble Lords have said, we invest way below the US, EU and OECD average as a percentage of GDP, and indeed way below South Korea. The coalition Government's patent box initiative is tinkering around the edges. We need to encourage far more serious investment through our universities and business to really increase our productivity and competitiveness through innovation and R&D. Does the Minister agree?

We also need to encourage entrepreneurship. In India, Prime Minister Narendra Modi now has a Minister for Entrepreneurship in his Government. That is how important it is. As Secretary of State Sajid Javid has said, SMEs are the engine of our economy, and we need to have that focus on entrepreneurship, creativity and innovation. One of the reasons why the United States constantly bounces back so rapidly from any crisis is its huge strength in productivity, higher education, research and development, and innovation.

The Government are rightly targeting full employment as a goal. One way in which this could be achieved is by having a more balanced economy, where manufacturing is a priority. In my own business, Cobra Beer, I am first and foremost proud to be a British manufacturer. In India, Prime Minister Modi has his Make in India campaign, and has set an aim to increase the manufacturing share of GDP from 16% to 22% by 2022. Does the Minister agree that we also should set a specific target to increase manufacturing as a percentage of GDP?

It is not necessary for the Government to legislate that they are not going to increase certain taxes; the noble Baroness, Lady Kramer, made valid points about that. However, surely the Government should also be articulating that they will reduce certain taxes? The most important one is the 45% top rate of income tax, which should be brought down to 40%, which is where it was under both a Brown and a Blair Labour Government. Does the Minister agree?

One area where I fundamentally disagree with the Government is immigration. The gracious Speech mentions that immigration will be a priority to be controlled, and we all know that illegal immigration needs to be controlled and bogus colleges shut down. On the other hand, the Prime Minister, the Home Secretary and the Government continue to stick to their target of reducing immigration to the tens of thousands. However, by having no control over EU immigration this will not be possible, and continuing to include international students in net immigration figures is absolutely foolish and illogical. Even our new Universities Minister, Jo Johnson, with whom I look forward to working, has acknowledged the drastic drop in the number of students from India.

The negative immigration rhetoric is hampering our universities and our businesses. Sir Venki Ramakrishnan, the president-elect of the Royal Society, the pre-eminent institution for scientists in the world, is a Nobel laureate from Trinity College Cambridge and of Indian origin.

The City of London would not be the number one financial centre in the world were it not for immigration. People and capital in business vote with their feet in our global world. Britain would be insignificant without immigration.

In terms of priorities, the Government should commit to spending 2% of our GDP on defence in this dangerous world, and it is negligent even to think of cuts to our defence or our Armed Forces today. Does the Minister agree?

Today, Britain is a remarkable nation, with the best of the best capabilities in every field you can imagine, whether it is advanced manufacturing, aerospace, financial services, beer, our lawyers, our accountants, our creative industries, our Oscar-winning film industry, designers and architects—I could go on. I spoke at the Milan expo recently and saw our brilliant GREAT Britain campaign in action. Our pavilion at the expo, the beehive, is by far the most impressive and creative of all pavilions from all over the world.

To conclude, the Government speak of aspiration. We need to be much bolder. The 200th anniversary of the Battle of Waterloo will be on 18 June. The Duke of Wellington's motto could not be more appropriate: *Virtutis Fortuna Comes*—fortune favours the brave. If we as a country aspire by 2020 to be far more productive and competitive than we are today, we need that aspiration, which will lead to achievement, which will lead to inspiration, which in turn will lead to aspiration: a virtuous circle.

3.44 pm

The Earl of Arran (Con): My Lords, I will say just a few words on a part of the United Kingdom so far scarcely mentioned—it is called the West Country—where there is still a sense of deep shock at how at how quickly the events of the general election changed from the predictions of the pollsters to an outcome which, for the first time for a generation, shows the peninsula with a blue political colour-scheme, save only for fortress Exeter. The implications of that will take time to assess, but we do not forget that the coalition has not been unkind to our local economy and that many of the coalition members have worked hard to highlight that the deficiencies of our infrastructure should be remedied.

It is interesting to note that the 5.2 million population of Scotland currently receives £2,000 per head more than the 5.3 million population of the south-west. Perhaps many felt, when faced with their voting choice, that the risk of this becoming an even wider gap was too big to stomach.

What next? Do we risk again becoming the forgotten peninsula—the Cinderella of the west—or will we hold Whitehall to the commitments that were made during the pre-election period? That we most certainly will. In simple terms our message is easy to understand. The south-west cannot function without effective infrastructure. Some 90% of transport needs are on the roads, but we still have only one 21st century route, in the M5. When that is disrupted, paralysis quickly follows and many hours of business are lost before normal service is resumed. The case for a second artery—the A30/A303—has been argued for 30 years.

[THE EARL OF ARRAN]

It was nearly approved 15 years ago. It is ready to go. The maths are also simple: £2 billion expenditure equals a payback of £40 billion and 40,000 jobs. The Treasury has confirmed these figures. We cannot wait another five to 10 years before this work starts.

The rail network is in a similar state of under-investment. We have the oldest rolling stock in the United Kingdom—it predates the Ford Fiesta—and journey times that are an embarrassment when we greet national or international investors. We have been promised some new train sets, but this decision is still subject to Treasury approval. These commitments simply must be honoured. When considering rail, it would be wrong to ignore how vital both the national and the local networks are to our economies. In my own area of north Devon, the Tarka line carries nearly 1 million passengers a year, many of whom are students travelling to Exeter and back. The potential for growth in local rail initiatives such as the West Somerset Railway and the Lynton and Barnstaple Railway is quite simply huge. Again, they are vital lifelines for supporting economic growth.

It would be enough for most Members of your Lordships' House to have to live with infrastructure deficiencies such as the ones I have just mentioned; however, they are not quite the end of our woes. What is now taken for granted across the country—simple access to mobile telephones and decent broadband speeds—is still absent in many of our rural, and surprisingly urban, areas. If the south-west is to improve its productivity outputs, which currently languish 10% behind the UK average, the quickest solution, which would attract the greatest support from businesses big and small, is broadband and mobile infrastructure investment. It would create a bow wave of exciting business activities. In the last five years, the south-west has created nearly 60,000 new jobs in the private sector. A high percentage of these people are self-employed, and many are working already in international markets. Broadband will ignite these businesses, enabling them to be the new generation of entrepreneurs and demonstrate that the south-west can deliver significant value to the UK economy.

In the run-up to the general election, a number of bold statements were made on—here we go again—housing. It was said that 200,000 houses a year will be built, and the right-to-buy provisions extended. Fine words, but how and when? In north Devon, the gap between affordable housing delivery and the housing waiting list becomes bigger and bigger. The current right-to-buy arrangements have not seen a like-for-like replacement of affordable dwellings. Planning delays can hold up vital schemes for three to five years and cost thousands of pounds, which could be invested in more dwellings. The impact on my local economy is most damaging in the recruiting of skilled key workers. In the rural economy these problems are multiplied, fuelling an exodus of the next generation and destroying family succession for many in the farming industry. The housing issue is a time bomb, as so many of your Lordships have said this afternoon. Radical reform is necessary, starting with yet another major reform of our heavily overbureaucratic and protracted planning system.

This is not a list of whinges and whines. It is simply a list of some of the promises made by the Government during the election—promises that, both politically and economically, must be kept, for to renege on them would be both irresponsible and most unwise.

3.51 pm

Viscount Hanworth (Lab): I wish to talk about the dangers of our current economic circumstances, which have been exacerbated over the past five years of a Conservative Administration. I believe that we are heading for a crisis that will impoverish the nation, and from which it will take a long time to recover. I should like to examine this situation in the context of competing economic theories.

In the years following the end of the Second World War, until the 1970s, Keynesian macroeconomic theory held an unassailable position. Keynesian theory placed its emphasis on the supply side of the economy and on the role of central government in regulating economic demand through fiscal controls. It gave little recognition to the monetary and financial aspects of the economy. The theory had shown how an economy could be lifted out of a recession, but the problem in the UK in those post-war years was with an overheating economy.

A monetary aspect of Keynesian theory to which little attention was paid in the early post-war years concerned a theoretical curiosity described as the liquidity trap. The liquidity trap denotes a situation in which injections of cash by the central bank into commercial banks fail to decrease already low interest rates. Therefore, an expansionary monetary policy becomes ineffective. I shall return later to this matter, because it fits our present economic circumstances.

In the 1970s, economists began to espouse monetarist doctrines that were utterly at variance with the Keynesian nostrums. The doctrines were accompanied by a free-market ideology that advocated a widespread deregulation of economic and financial activities. Markets were deemed to be rational and self-regulating. These ideas, which were readily adopted on the right wing of British politics, had an appealing simplicity.

One of the simplifications of the monetarist theory was the assumption that the rate at which the stock of money circulates throughout the economy could be regarded as constant. In that case, since it was geared to the circulation of money, economic activity could be regulated by controlling the available quantity of money. The theory took little account of the towering edifice of credit and of derived money that can be generated by the financial sector on the basis of the so-called high-powered money provided by the Treasury and the central bank. In the latter years of the Thatcher Administration, the nostrums of the monetarists were utterly negated by the growth of this edifice. This was the result of the financial innovations that the Conservatives' deregulation of the banking system encouraged. It was the unstable nature of this vastly inflated financial structure that caused the crisis that occurred in 2007 and 2008, during the subsequent Labour Administration, the effects of which continue to afflict us.

One of the myths perpetrated by the Conservatives during the recent electoral campaign is that the financial collapse was Labour's responsibility rather than theirs.

The blame that falls on a Labour Administration is a failure to recognise the extent to which the hypertrophy of Britain's financial sector was endangering the nation. The blame must rest squarely on the Conservatives for having unleashed the malign forces in the first place. Thereafter, over the past five years, they may be blamed for having done next to nothing to diminish the dangers posed by our financial sector.

It is important to understand the manner in which the activities of Britain's financial sector are serving to perpetuate the pathologies of our economy. These activities have succeeded in averting a balance of payments crisis that would otherwise have overtaken us long ago. In the process, they have created the circumstances that will eventually give rise to much greater difficulties.

The UK's current account—which captures the value of flows of income and goods between the UK and the rest of the world—has now reached a record deficit of 6% of gross domestic product. The overall balance of payments has been maintained, as it must be inevitably, by adjustments on the capital account. These consist of the sales to foreigners of purely financial assets, of residential properties and of the public utilities and manufacturing enterprises that remain in British hands.

The result of this process has been the maintenance of a high value of the pound versus other currencies. The overvalued pound makes it generally difficult and often impossible for British companies to export their manufactured products. The reductions in the value of the pound that occurred between 2008 and 2010 have not materially altered this circumstance.

The prolonged overvaluation of the pound has left Britain with a severely diminished industrial sector, which satisfies an ever-decreasing proportion of our own domestic demand. A major crisis will arise when the supply of assets for sale overseas has been depleted and when the remnant of our industrial sector will be too small to engage in any effective import substitution. I believe that the crisis will be upon us sooner than most of us are liable to expect.

I now wish to return to the matter of the Keynesian liquidity trap. This was little more than a theoretical curiosity in the early post-war economic environment but it now has a very tangible embodiment. It is represented by our commercial banks, which have benefited from large injections of money from the central bank via operations that are nowadays described as quantitative easing. The banks had been expected to supply some of the money to industrial enterprises for the purpose of investment but they have not done so. Instead, they have retained most of the money, albeit that some of it has already found its way into financial assets.

The existence of the liquidity trap has some disconcerting implications. The abundant surplus of money, if it is not to be deployed in stimulating an investment boom, will surely be available for fuelling a further boom in financial and capital assets. Such a boom will favour those who are in possession of such assets, and they are the richer members of our society. What we will see is a worsening of the already sickening inequalities of our society.

To avert an impending economic crisis, or, at least, to reduce its severity, we need to reduce the value of the pound, and we must cease to sell our assets overseas. We need to ensure that the money that has been pumped into the economy finds its way into industrial investment. In short, we should observe the nostrums of Keynesian economics.

3.57 pm

Lord Fox (LD): My Lords, before I begin, I should draw attention to the Members' register of interests and the fact that I am a member of the executive team of GKN plc and that I hold shares in Smiths Group plc, a former employer. They are both global engineering companies with a strong manufacturing footprint in the United Kingdom.

I feel very fortunate to participate in today's debate, it having been graced by two such excellent maiden speakers. The noble Lords, Lord O'Neill and Lord King, should be congratulated, as indeed they have been, on those speeches. I feel less fortunate in coming in as speaker number 35 in this debate, not least because I am following some absolutely excellent speeches from other Members. However, I will try my best not to repeat what has been said and to add a few other points.

A large proportion of the debate has focused on productivity, as, I am afraid, I was intending to do. The diagnosis is agreed and it was set out by the noble Lord, Lord O'Neill, very clearly at the beginning: the UK is very much falling behind the G7 in productivity. So we agree on the diagnosis, although the noble Lord, Lord Desai, begged to differ a little and tried to split up the sector. There are statistics that to some extent support what he said. The manufacturing statistics and data put out by the Engineering Employers' Federation, for example, show that manufacturing and advanced manufacturing are delivering productivity at a rate different from that of some of the other sectors, particularly the services sector. Therefore, perhaps it is not a one-pace economy and we have to think about these things in a number of different ways.

Then, the economic big guns were rolled out. In a way that is perhaps heartening, almost all of them have had a different suggestion as to the solution to the productivity problem. This kind of confirmed what I found when I started to really look at this. I went to the Bank of England's writing on it and was even more heartened when I found that it confessed to being puzzled by the situation. It does worry me a little when the Bank of England is puzzled. It cited the position in the cycle, where we are in fact growing capacity ahead of the need for that capacity. It cited the redeployment of people from productive tasks to business development. It talked about lower investment—I will come back to lower investment in more detail in a minute—and the inefficient allocation of capital. For a scientist, not an economist, all these things seem feasible. However, at the end of it all, the Bank of England did say that it was puzzled. This illustrates, as this debate has illustrated, that more work is necessary if we are going to explain the issues around the productivity gap. I ask the Minister to confirm that her team, and perhaps the Treasury and DBIS together, are working on a better understanding of some of the key issues.

[LORD FOX]

For us to work together on this, we have to have confidence in the statistics. A number of doubts have been expressed about those statistics. Sometimes, if the message is not what we want to hear, we throw doubt on statistics. It could not possibly be true, for example, that France is more productive than us—or is it? We need to start to have some focus on the key levers that we ought to be pulling in this area.

As an aside, I want to talk a little about investment. The availability of capital, particularly for SMEs, is a key issue. Finance for working capital, for expansion and for start-up is vital. It does seem that, during the recession, this had dried up. The tendency has been to blame banks and banks alone for this drying up. I suggest that banks are not necessarily the right sort of lender for many of these kinds of activities. Their risk profile, particularly of late, often does not match the sort of financial package that people are looking for. As noted today by several other speakers, we need to be in a position where we are fostering a more diverse source of capital and a broader pool of finance.

The Competition and Markets Authority is, to some extent, looking at SME banking. Its interim report is, I think, due some time in the autumn. I ask those in the ministerial team whether they would be able to bring back some of those interim findings. Perhaps using the expertise of the noble Lord, Lord O'Neill, in this area the team can lend some light to how we can put in place quite quickly some broader mechanisms to deliver finance to SMEs.

My second and much briefer point is around the industrial strategy, because I have not heard anything about it. There was nothing in the Queen's Speech and nothing today. I am a little disappointed because it is very much an important centrepiece of what Government can do in conjunction with business. Noble Lords will be aware that, during the last Parliament, industrial strategies were established between Government and 11 key business sectors. I declare an interest that my own company was involved in two of those. There was a tremendous level of co-operation, discussion and exchange of shared ideals between the various segments involved. It should be acknowledged that that is really important work. The aim of industrial strategies is to establish the structures and relationships to give business the confidence to invest in the future, invest in the necessary R&D and capital, and to foster the development of the skills that we will need, not just in 10 years' time but now.

I would like to take this opportunity to ask the Minister to assure us that these long-term initiatives—along with the work around Catapult and innovation centres, which is another important part of innovation fostering—and the focus on STEM skills will continue to be an important part of the work that goes ahead. We need continuity and a sense of certainty to encourage business to participate in investing in the long term in this country. I hope that the Minister can give business that sense of continuity.

4.05 pm

Lord Broers (CB): My Lords, as a microelectronics engineer who spent his first 20 years in industry, it is perhaps appropriate that I follow the noble Lord,

Lord Fox, and a lot of what I shall say resonates with what he has just said.

It is a great privilege to speak in this debate. With other noble Lords, I was immensely impressed by the outstanding maiden speeches of the noble Lords, Lord O'Neill and Lord King. It is hugely encouraging that they have come to join us and help us in finding ways to strengthen our economy.

Like many other noble Lords, I wish to concentrate on manufacturing. The best way to reduce our deficit and bring our economy into balance is surely to increase our manufacturing output. To do this, we need to make our products more innovative and attractive to customers, reshore a significant fraction of our manufacturing and, most importantly, improve our productivity. Much has been gained over the past few years and there have been signs of a real renaissance in our manufacturing capability. Disappointingly, however, output has levelled off during the past year and, once again, manufacturing is lagging behind the financial and services sector, leaving our economy unbalanced. It is vital that we maintain our focus on manufacturing.

During the past two weeks, I have chaired for the fourth time the national manufacturing debate at Cranfield University, this year with the theme of reshoring. I also chaired a session of a Westminster Employment Forum focused on higher apprenticeships. Many of the critical factors affecting our manufacturing performance surfaced at these events and I want to talk about three of them.

First is the need to maintain and grow the support to the catapults, just mentioned. We now have seven catapults already producing innovative advances derived from research in industry and academia that will lead to better products and more efficient manufacturing, and two that began operations this April. Dick Elsy, the director of the first catapult, the High Value Manufacturing Catapult, told us at Cranfield about the success of this flagship example. It now operates at seven different sites and works on manufacturing processes that range from the production of Rolls-Royce turbine engines to plastic electronics. It is pleasing that the TSB, now Innovate UK, was able to exceed the original funding limits and allow it to expand. The other catapults are also doing well, although there is a worry that the regulations governing the provision of government funding to these centres places constraints on their operation that may impair entrepreneurship, but hopefully Innovate UK will keep an eye on this and not let it dull their performance.

As many of your Lordships will know, the catapults are a UK version of the German Fraunhofer centres, but we have a very long way to go before we will compete with the power of those German equivalents. Hermann Hauser, who proposed the catapults, points out that there are 77 Fraunhofers versus our seven to nine catapults. Each of the Fraunhofers is about the same size as the catapults, with more than €3 billion of support, and there are 55 potential Fraunhofers in waiting. He thinks that it is important that there should be a steady increase in the number of catapults—about two or three a year. These have the potential for being the life-blood of our manufacturing recovery, but only if they continue to receive adequate support.

The second factor affecting our manufacturing performance that I wish to talk about, as many other noble Lords have done, is skills, and specifically the need for coherence in the two branches of our higher education system: the university branch and the apprentice branch. One of the speakers at the employment forum that I chaired described our higher education system as a series of pieces from a jigsaw puzzle, mostly of high quality but none of them fitting together. In particular, the qualifications for the different levels of apprenticeship are not adequately defined, especially with respect to the theoretical knowledge required to attain a given level.

It is felt by senior industrialists who I have spoken to that the Government need to help in determining these standards. At present they are established in an ad hoc manner by individual companies and the standards of attainment are too variable—they are all over the place and, to be blunt, not fit for purpose. There is also a tendency for the vocational or apprentice branch to be considered only by those who cannot get into a university. The result of this has been a serious shortage of what Europeans call master craftsmen. This was emphasised at Cranfield as a serious issue that may limit our ability to reshore manufacturing. The strong emphasis that the Government place on apprenticeships is admirable, but the qualifications needed to reach the different levels of apprenticeship need to be defined and enforced.

Finally, I wish to stress the need to place more emphasis on the needs of medium-sized businesses. It was pointed out at Cranfield that it was unfortunate in many ways that we almost universally refer to SMEs, small and medium-sized enterprises, as if they were the same and have the same needs. They are not the same. We are better at creating and supporting companies than we are at supporting and growing companies that are already established. I have raised this issue before. Our financial sector needs to learn how to assess the potential of these businesses and fund them, and not leave it to the Americans to have free access to our successful mid-sized companies just as they are ready to take off, thereby depriving us of the boost they could make to our manufacturing output.

4.11 pm

Lord Harrison (Lab): My Lords, like many others on this side of the House, I am less than transported by the Government's proposed Bills for the forthcoming Session. However, I welcome the noble Lord, Lord O'Neill, not only as a man of the north but for his interests in strengthening transport links to not only the north and beyond but across to the east and the west. There are many successful large cities and big towns in the north. If that is true of the north, I hope he agrees—I believe he does—that it is also true of other areas throughout the United Kingdom and that there has been a failure to develop the east-west links which are so vital. One colleague would talk about the south-west and others would talk about the A14, for instance.

However, the noble Lord omitted to talk about the Airports Commission and the forthcoming decision that will have to be made. I encourage him not to proceed into the pusillanimity that David Cameron

has exhibited by kicking this issue into the next Parliament. We need decisions. The airports need to be part of an integrated transport response to the changing and growing needs of our economy. Perhaps in his reply the Minister will mention more about regional airports and what the Government intend to do there.

Like others, I shall talk principally about small businesses and access to finance. Next Thursday, the noble Baroness, Lady Neville-Rolfe, and I will have a debate on the question of late payment of commercial debt. I warn her that it is no longer satisfactory to invoke the Prompt Payment Code as a way of solving that problem, which has been with us for far too long. I remind her that some two years ago, at the behest of the German ambassador in London, I attended a meeting with the German business bank on the eve of our setting up of the British Business Bank. However, I am at a loss to explain what is happening in the UK and what our bank has been doing. The British Business Bank was finally set up, as I understand it, in November 2014. Why so late? There was an explanation about waiting for the European Commission, but I do not understand why that did not apply to the German business bank. Why has there been so little help for manufacturing? The Minister, Matthew Hancock, agreed that only 13% of the moneys so far lent had been to manufacturing. That is another theme highlighted by the noble Lord, Lord Broers.

In addition, the Commons, in its report of 10 February, talked about the British Business Bank and said that, "support is too complicated for business to understand or too poorly communicated for businesses to be aware of".

It concluded that businesses seeking support find,

"a complex and unclear offer ... from the Government".

Will we do something about that? In that same report, there are concerns about the Green Investment Bank. It is a bank inhibited by a lack of borrowing powers. What do the Government propose to do about freeing up the Green Investment Bank?

During the spring, I had the pleasure of attending the World Bank and IMF parliamentary conference in Washington and of meeting Christine Lagarde. She and others are proposing a symposium or conference in Paris on climate change. What UK initiatives are we producing at that important meeting? What are we doing to fulfil the aim by our Prime Minister to be the greenest Administration ever?

The leitmotif of the noble Lord, Lord O'Neill, was productivity. He talked about the problems of being the second-poorest in terms of productivity in the G7 and being 17% behind—in deficit—compared to other countries. Even France, which is often invoked in UK political circles as a nutcase when it comes to the economy, clearly is more productive than we are. I ask the Minister to take on board the memorable formulation by my noble friend Lord Haskel that we need to replace the age of austerity with an age of productivity. We must clothe ourselves in the habit of productivity. In order to tackle productivity, the noble Lord, Lord O'Neill, suggests that we must do more in education. I suggest that we have a chaotic education system which leaves out higher education, as the noble Lord, Lord Broers, pointed out.

[LORD HARRISON]

We need to improve infrastructure. We have become pothole Britain. A Roman legion marching in Britain today would be subject to turned ankles and shattered shins. The noble Lord, Lord Horam, pointed out how the lack of housing is incapacitating our ability to revive the economy. Even the *Telegraph* yesterday had a report about how the City is snared in London from bringing in new customers and operators because of the lack of housing. The noble Lord, Lord O'Neill, boasts of coining the expression "BRICs", but we need more bricks and mortar, and a bit more housing, to provide for peoples locally. I ask that local councils stop being attacked. They are often loaded with more and more work to do, and responsibilities, while being deprived of the money that is so important.

I conclude in agreeing with others who have spoken on the European question, to which we will return in time. I hope that we make a proper decision at the end of all this debate and that the noble Lord, Lord O'Neill, will join us in ensuring that we have a European future.

4.19 pm

Earl Attlee (Con): My Lords, I have very much enjoyed listening to the speeches today, in particular the two maiden speeches. I was also struck by your Lordships' very interesting comments on the problems of productivity.

I take issue with the comments made by the noble Baroness, Lady Kramer, about welfare. We spend about £100 billion on welfare—more than health and several times what we spend on defence. If we do not adjust welfare we will have to cut something else even harder, which could have adverse effects on the economy. The noble Baroness suggested that my party is lurching to the right. The bad news for her is that my right honourable friend the Prime Minister has firmly pitched his tent on the centre ground and he has no intention of moving it.

Towards the end of the last Parliament I initiated a QSD on cyclist fatalities in London caused by HGVs. I was grateful for the participation of the noble Lord, Lord Davies of Oldham, who is in his place. Sadly, since Dissolution there have been a few more of these dreadful accidents. They are simply not tolerable. I can tell the Minister, my noble friend Lord Ahmad, that I will be on the warpath this Parliament. The impression I get is that Ministers would be happy if they could show a measureable reduction in the number of these accidents and fatalities. We do not appear to have a policy or set of policies to get us towards zero—by "zero", I mean that in some years there are no fatalities. I believe that we can get to nearly zero by using sensor technology. The sooner we get to that point, the more lives we can save in absolute terms. We must not forget the very serious life-changing injuries as well.

I expect that Ministers will still be being briefed that the sensor technology available is simply not good enough to be mandated. That is not surprising, since central government has not promulgated a set of performance or evaluation criteria for manufacturers to work out what they need to do to be mandated. In short, industry does not really know what it has to do,

although some manufacturers and suppliers think that they have the solution, which they do not. I do not need an answer this evening, not least because I will be tabling a whole range of helpful Written Questions for my noble friend the Minister to answer.

I was very pleased to hear the comments made by the Minister, my noble friend Lord O'Neill, about HS2. I was rather less enthusiastic about the comments made by my noble friend Lady Noakes in her otherwise excellent speech. She did a rather good job of criticising HS2; I just did not agree with her. The construction industry needs to have a steady and continuous stream of mega-works to be sustainable. That is to the benefit not just of front-line construction workers, but of the enablers: the architects, engineers and all the other specialists who work on these mega-projects. They have already done a considerable amount of work on HS2 phase 1 and they will be on to HS2 phase 2. We also must not forget the plant-hire industry, which hires all the necessary cranes and construction equipment. We have constructed the Olympic park; we are now building Crossrail. After Crossrail we will have HS2 phase 1 and then phase 2 to build. But if we do not build HS2 phase 1, what is the construction industry going to do in terms of mega-projects?

On affordability, we are currently spending around £3 billion on Crossrail per annum. When I was having a pop at the noble Baroness, Lady Kramer, I pointed out that we are spending £100 billion on welfare, so it is not as if we cannot afford HS2—we can.

I appreciate that my noble friend Lady Noakes could not give a full argument against HS2, but she mentioned time savings of 20 minutes to get to Birmingham. She will recognise that those time savings are also applicable to those passengers going north of Birmingham. HS2 is not just about time saving for the few, but about increasing capacity, because otherwise we will run out of capacity on the west coast main line. The noble Lord, Lord Berkeley, is in his place. He will want space for freight trains to run on the west coast main line. We have absolutely got to build HS2. But it is also about connecting all our great cities in this country. As far as I am concerned, there is a very strong case for HS2. The report from your Lordships' Select Committee on Economic Affairs is a bit unfortunate. No doubt we will debate it fairly thoroughly in due course.

In his interesting speech from the opposition Front Bench, the noble Lord, Lord Mendelsohn, mentioned late payment of commercial debt. This was the subject of my maiden speech many years ago. I can see no good reason why we cannot have a system whereby all normal trading invoices are paid by the end of the month following the month of the invoice. This whole business is simply a waste of effort with the purchase ledger section in one business and the credit control section in another all undertaking perfectly pointless activity. In addition, some commercial organisations, especially in the haulage industry, can run up several months of credit with their customer and the customer goes bust, which can then send the haulage company out of business. Therefore, as I say, there is a very strong case for moving gradually to a system whereby invoices are paid by the end of the month following the month of the invoice.

Finally, I turn to how this House will operate in this Parliament. We are not in a new situation. I am confident that noble Lords on the Benches opposite will recognise the need to act responsibly and that my noble friends on the Front Bench will recognise that for our Parliament to work effectively the Government in this House must be defeated from time to time.

4.26 pm

Lord Watson of Invergowrie (Lab): My Lords, the outcome of the general election came as a massive blow to me, as it did to all noble Lords on the Labour Benches. It was a major defeat for the Labour Party; there is no point trying to dress it up any other way. Even a month on, I admit that it still hurts.

As I began to get involved in competitive sports as a young boy, I remember that my father said to me, "Winning is everything". But he qualified those remarks by saying, "Winning is everything within the game or within the contest, whatever it is. Once it's over, your true mark is shown by how you react. Never gloat if you win, never sulk if you lose". Those words have stayed with me ever since. It is regrettable that my father never had a chance to offer advice to the Prime Minister, because anybody watching Prime Minister's Questions yesterday will have seen a sneering, patronising display aimed at the interim leader of the Opposition, which I believe did no credit to the Prime Minister or to Parliament.

The inquest within the Labour Party into what happened in the general election is ongoing, but I have no doubt that the main reason for our defeat is the very subject we are discussing today—the economy. Labour never managed to achieve economic credibility in the minds of enough people, and I believe that can be traced back to the period immediately following the 2010 general election. The coalition parties banged on about "the mess we inherited" and it stuck. It stuck despite being completely untrue. That is something about which the Liberal Democrats should be examining their consciences now.

As my noble friend Lord Hanworth said, the economic crisis was not caused by Gordon Brown or the Labour Government. It was a global economic crisis and it was caused by banks, with British banks well to the fore. The only accusation that could be laid at the door of the Labour Government was that regulation of the banks was woefully inadequate. But—and I believe that it is a big "but"—at no time prior to the economic crash did the Conservatives urge the Government to bring the banks under control, so they were equally culpable in that respect. However, Labour never managed to get that crucial point over to the electorate from the beginning. I believe that we had plenty of time to refute the coalition's mantra and build a convincing economic policy narrative, but for reasons that I cannot quite grasp we never really managed to do so. That failure sowed the seeds of this year's election defeat and we need to learn that lesson as we begin to rebuild the party as an electoral force.

As I said, I am still hurting—not for myself, but for the millions of people throughout the UK who are going to suffer considerable hardship over the next five years at the hands of a Government who talk

about one nation but have neither an understanding of the concept nor any real interest in moving towards it. They talk the talk; I will be interested to see but I do not expect them to walk the walk. Inequality is the biggest and most pressing problem we face in this country today, and we desperately need policies that tackle it and begin to reverse the slide towards an ever more unequal society. I regret that I do not see any evidence that we will get that from this Government.

How can the Prime Minister claim that he wants one nation when his Government are about to embark on £12 billion of cuts in the social security budget? Indeed, along the Corridor his Chancellor has just been outlining the first tranche of some £3.5 billion of cuts, which we are told will amount to a 3% cut in the budgets of unprotected departments. Why were the plans for the full £12 billion not outlined during the election campaign? I suspect that the Chancellor never expected to be allowed to implement such cuts, as the Conservatives had no idea that they would be in a position to govern alone. That explains why there is to be a Budget next month, just four months after the previous one. Unconstrained, the Government are pressing ahead with unalloyed enthusiasm, irrespective of the effect it will have on families, children, the disabled, the unemployed and would-be first-time buyers.

Equally, how can the Prime Minister claim one nation as his aim when during the election campaign he cynically exploited the rise in support for the SNP to help him win power, all the while being fully aware that the outcome made an independent Scotland more likely? How can he claim one nation as his aim when he announces legislation in the trade unions Bill that will make strikes virtually impossible? My noble friends Lady Donaghy and Lord Monks have covered this in some depth and with greater experience than I have, but I believe that some points are worth restating.

More than 6 million people in the country are members of a trade union, yet they are being shackled in a manner not seen since the 1920s. One nation? Then why not apply the 50% threshold to all ballots? But that would mean the election of the Prime Minister's close friend the Mayor of London would have been invalid. Why should a dispute between employees and their employer be seen as more important than the election of the most senior politician in the capital city? Mind you, the fact that the mayor regards his job as part-time perhaps diminishes my argument there.

The thresholds proposed are arbitrary, unfair and quite unnecessary. Even more so is the 40% threshold in favour that will be required in public sector strike ballots. On that basis, the Prime Minister's own position is untenable as he and his party managed to gain a mere—I use the term advisedly—37% of the popular vote a month ago, which equates to just 24% of those eligible to vote. One nation? I say, "Hardly". It is one rule for trade unionists and none for everyone else. How can the Prime Minister claim one nation as his aim when he seeks to require trade unionists to opt into paying the political levy to the Labour Party yet proposes no such requirements on shareholders as regards donations to his own party from business? This is a blatantly party-political move of the sort that discredits politics in its widest sense. This Government

[LORD WATSON OF INVERGOWRIE] are determined to reduce workers' rights and, indeed, human rights. The latter may not have been in this Queen's Speech but it will be along soon enough.

Finally, I am disappointed that proposals to deal with tax evasion or avoidance were not included in the gracious Speech. There is a tax lock Bill, but it includes nothing to tackle tax dodging by multinational companies. This week, the International Monetary Fund said that every year \$212 billion is lost to corporate tax dodging in developing countries. It believes that the existing global tax rules are,

"obsolete and ineffective in preventing tax abuse by multinational corporations".

The Minister will recall that I raised these matters earlier this year during the passage of the Deregulation Bill and it is clear that the Government need to do more to tackle corporate tax dodging, because the job is far from done. The Conservative manifesto said that the party would consider the case for making country-by-country reporting public on a multilateral basis. I urge the noble Baroness, Lady Neville-Rolfe, and the noble Lord, Lord O'Neill, to ask the Chancellor to spell out in the Budget how the Government will go about doing this.

4.34 pm

Lord Cotter (LD): My Lords, the Government have a big job on their hands when it comes to business. We have had an excellent debate today and many issues have already been raised. I should like to raise a few more points on some of those issues. How the business community operates is crucial for jobs but also for trade, and thereby for the profitability or otherwise of this country. We need to include in our aims—the Government do, anyway—to ensure that we increase the interest and ability of firms in this country to export. As I say, we need to be a profitable country for many reasons. There are many other strands to address.

To add to the list, we have had problems in the past on inward investment, as the Government will know. This area needs to be looked at again and again. There have been issues with visas and with people from overseas being able to come to this country to set up businesses and trade. A very important aspect of business is to ensure that young people are trained up and ready for the workplace. Many colleagues have spoken about engineering and the different abilities and skills needed. I am sure that many others in the Chamber will be monitoring and following up time and again over the months on these points. At this point I will mention one issue which I think was raised by the noble Baronesses, Lady Liddell and Lady Wheatcroft, and others. That is the need to make tourism a very important strand in the ability of this country to trade.

I hope that when it comes to the enterprise Bill, these and many other issues will be addressed because, as I have said, the Bill will need to cover so many of them. One issue that the Government have announced that they will address is red tape. The often-trumpeted reductions in red tape must happen this time. Many say that this country is adept at rule-setting. Am I going too far in saying that Governments in the past have excelled when it comes to regulating and regulations?

I do not think so. With my lifetime of experience in operating a small business, I can and will point out to Ministers how those self-employed people struggle so often against bureaucracy. I have some specific examples in my mind.

There is much to address under the heading of finance. The difficulty for small businesses in getting finance and having money lent to them has been referred to already. We have had a debate on this area this year and I would appreciate a specific report back on late payments, which is a very big issue for industry and construction, for example. Specifically, a figure was quoted a while back of £39 billion being owed to SMEs because of overdue payments. Is this improving? The Government have written to FTSE companies to encourage those not signed up to the Prompt Payment Code to do so. I would be glad to learn whether that has succeeded and will be carried forward as a strong issue. I would be pleased to hear about the record of the Government and other Governments on local and national payment, by government and local councils, as well.

As the Minister will know, we have welcomed the concept of the business bank. As somebody who has been in business for much of my life, the bank's overall funding and financing will be important. But there is also the importance of having local ability to raise money, and people with the knowledge to understand the business needs of their areas and the people operating locally. That is a very important strand of the business bank. I have spoken before about local enterprise partnerships, which I hope can be engaged to bring localism back into the picture.

There are many issues to be covered. Broadband was referred to again today. The previous Government made announcements about the appointment of various organisations when it comes to broadband, but I am told that in rural and other areas of the country our broadband is still just not necessarily up to the mark.

There is much to do when it comes to business, which is crucial for jobs and our country's future. I look forward with great pleasure to the Government coming forward with their business Bill and to trying my best, with many colleagues, to influence the many aspects of the business Bill we need for jobs and the future of this country.

4.41 pm

Lord Northbrook (Con): My Lords, the electorate spoke and trusted the Conservatives to carry on the rescue mission for the economy that was started in 2010 by the coalition. Then, we inherited an economy on its knees. We had emerged from the most severe recession in post-war history. We had a big structural deficit. Government debt was 60% of GDP and rising. It has been hard work over the past five years to restore the economy to a state that resembles health. I note today the recent OECD survey, which said that we will have the fastest-growing economy in the G7 this year.

The job is still work in progress, but there is much to cheer about. Recent economic news has included better than expected April budget deficit news, the construction business confidence survey and buoyant

UK retail sales. Unemployment has been falling rapidly, and the growth in jobs is notable because they are focused in the private sector. Real disposable incomes are starting to rise again. Manufacturing industry is generally on an upward path. The Chancellor has been correct to reduce the deficit largely through expenditure reductions rather than taxation and has been wise not to adopt wholly Keynesian measures to resolve the dangerous situation we inherited.

So how are the Government planning to reduce the budget deficit in part 2 of the rescue plan? I welcome the full employment and welfare benefits Bill, with its aim to freeze working benefits, tax credits and child benefits from 2016-17 for two years. I also welcome the planned reduction in the benefit cap. I support the scrapping of the automatic entitlement to housing benefit for 18 to 21 year-olds. I await with interest the plans for the remaining welfare cuts, amounting to £12 billion in total.

In the area of business, I applaud the enterprise Bill, with its pledge to free entrepreneurs from burdensome regulation by cutting at least £10 billion-worth of red tape and to create a small business conciliation service, as many other noble Lords have mentioned, to address late payments to suppliers. Government promises to do away with pointless rules and bureaucracy are nothing new, but this latest deregulatory drive is the first that will require wholly independent regulators to contribute. Business groups have been supportive of the commitments. However, as the British Chambers of Commerce has pointed out, since many of the costly regulatory burdens originate in Europe, genuine cuts to red tape may rely as much on reforms to the EU as on anything a domestic Government can do.

I also welcome the trade union Bill, which makes it harder for strikes to be called. It is only fair to make the stipulation that 50% of union members have to turn out in a vote for strike action for the walkout to be legal. I also approve of the proposal that, for essential public services, a strike will also have to have the support of 40% of workers eligible to vote.

I approve of the plans in the enterprise Bill to pledge 3 million new apprenticeships. However, the plan to fund these by a new visa levy for those employing foreign labour has been queried by the EEF manufacturers group. According to the *Financial Times*, the EEF's head of employment policy, Tim Thomas, said that the levy proposed seemed high. With regard to the proposed EU referendum, the director-general of the British Chambers of Commerce, John Longworth, said that the vote should take place,

"as soon as is practicable",

to minimise uncertainty. Overall, I think that we will have a more business-friendly regime at BIS for the next five years.

On the subject of taxation, I note the plan in the national insurance contributions and finance Bill for a tax lock to ban rises in income tax rates, VAT rates or national insurance contributions for individuals, employees and employers, but I am just not sure whether that is a good thing for a Government to legislate on, to stop things happening. I like the proposal to exempt from income tax those working 30 hours or more on the minimum wage, which would incentivise work over welfare. I also welcome the plan to raise the income

tax threshold to £12,500 a year. However, more should be done at the higher rate of the tax scale to reduce the rate to 40%, which after all is only what it was under much of the Labour Government, and to raise that threshold to £50,000.

While I am full of praise for how the Government cut corporation tax over the last period, this has not been matched by the cutting of personal taxes. I am a great believer in the Laffer curve theory, which says that within reason lower taxes bring in higher revenues; this was certainly the case a few years ago when I got a study done by the House of Lords Library which stated the beneficial effect when corporation tax was cut from 52% to 30%, as it was at that time.

On the theme of tax, I move on to tax simplification. My noble friend Lady Noakes made an excellent speech highlighting this a year ago, and it is still valid today. Her first point was that the Office of Tax Simplification has done a great job but its recommendations have not all been heeded, and more than 2,000 pages of complex tax legislation had been added by the end of the last Parliament. She stated that the Chancellor had used the principle of dynamic modelling to underpin his reductions in corporation tax the year before last, and this should be extended to income tax. The 2020 Tax Commission, which was sponsored by the TaxPayers' Alliance and the Institute of Directors, echoed the conclusion of the work done by my noble friend Lord Forsyth of Drumlean's Tax Reform Commission nine years ago. Its proposal, which is truly radical, was to abolish most taxes and replace them with a single rate of income tax of 30% and a total restraint on taxes as a percentage of national income of around one-third. It said that this would add over 9% to GDP over 15 years and the annual growth rate would be improved by 0.4%.

I make no apologies for bringing this topic up again for our new Minister, the noble Lord, Lord O'Neill of Gatley, whom I would like to warmly welcome and congratulate on his maiden speech. I am sure that he will keep up the high standards attained in recent years by my noble friends Lady Noakes, Lord Sassoon and Lord Deighton. If he is as clever with government legislation as he is with his acronyms, we are all going to be very fortunate. His appointment continues the Goldman Sachs involvement in this House. Could I ask him for his thoughts on these tax simplification views?

Overall, I welcome the humble Address measures with regard to business and economic affairs and wish them a fair passage through this House.

4.48 pm

The Earl of Kinnoull (CB): My Lords, it was indeed heartening to hear, both in the gracious Speech and in the admirable and fluent maiden speech from the noble Lord the Minister, such a clear and prominent statement of intent about the reduction of regulation for small businesses, the "small and the brave", which are the bedrock of our nation's prosperity today and a foundation for its future prosperity tomorrow. I am going to concentrate only on this.

The last Administration made a good start in attacking the problem. The Regulatory Policy Committee, revamped in 2012, the Red Tape Challenge and the one-in,

[THE EARL OF KINNOULL]

two-out rule have each contributed in their own way and continue in force. However, I hope that there will at least be a brief review of those three things to see whether they could be tweaked in any way to become yet more effective. I particularly feel that the one-in, two-out rule could do with some simplification and perhaps even the deletion of some of the exceptions, and I would be very grateful for the comments of the noble Baroness the Minister on this.

In preparing for today, I have been in touch with the British Insurance Brokers' Association—BIBA—which has 1,500 members with 10 or fewer employees. Here I declare my interests as set out in the register, having worked for 25 years in that industry, but never as a broker. I have also been in touch with the Federation of Small Businesses, with its 200,000 or so members. I have two points that I want to put to the noble Baroness the Minister.

First, I urge greater action on the gold-plating that has arisen out of older EU directives—the emphasis is on the “older”. BIBA members are regulated by the Financial Conduct Authority, the FCA, which—or, more accurately, its predecessor the FSA—has platinum-plated the insurance mediation directive of 2002. According to BIBA's independently commissioned research, the direct cost of regulation for UK insurance brokers is by far the highest in Europe, being a factor of two higher than second-placed Luxembourg and more than 10 times that in France and Germany. The CEO of BIBA commented to me: “Our peer associations in other European nations like France and Germany are shocked by the cost added by our regulator, and Karel Van Hulle, the recently retired European Commission head of insurance, referred to UK gold-plating by the FCA as ‘sauce anglaise’”. I understand that the FCA wants to stretch its lead at the top of the league table of cost in Europe and appears to be looking for an 8% rise next year in what it charges the insurance brokers it regulates. That must be wrong.

That is just one example of the well-appreciated gold-plating problem. I accept that, certainly since July 2011 and arguably somewhat earlier following the *Davidson Review*, great care has been taken to try to prevent gold-plating on new, fresh EU directives. Nevertheless, there is a lot of gold-plating around in older regulations made before that date and there is no satisfactory comprehensive mechanism for the automatic review of these older regulations. As part of the efforts to reduce the regulatory burden, will the Government review these older EU-derived regulations to seek out the gold plate, or sauce anglaise, and procure change for the better?

My final point is to do with the attitude of regulators up and down the land. I have had experience of regulators in quite a few countries in my 25 years in the insurance industry. Oddly, it is not a bad generalisation to say that they fall into two distinct camps in attitude, either being remote, severe and unhelpful or being akin to Dixon of Dock Green. Too many UK regulators tend towards the former category, where the regulator is feared rather than seen as a potential source of knowledge and assistance. The chairman of the Federation of Small Businesses summarised the issue to me as follows:

“When setting out to tackle the burden of red tape, it's important not only to identify obstructive regulations, but also to look at how regulation is enforced. Poor enforcement or excessive monitoring requirements can turn straightforward regulations into costly and disruptive burdens ... We would like to see more partnership working between regulators and businesses with regulators focusing on proactively providing guidance to assist and encourage rather than an emphasis on enforcement”.

The “small and the brave” particularly need regulators with a helpful and collaborative approach to prosper. Will the noble Baroness the Minister confirm that the Government will seek to address this issue, which, in all probability, would require no legislation? The “small and the brave” need our help. I urge the Government to be big and bold in providing it.

4.54 pm

Viscount Trenchard (Con): My Lords, I join noble Lords in welcoming to this House and congratulating my noble friend Lord O'Neill of Gatley and the noble Lord, Lord King of Lothbury, on their excellent and interesting maiden speeches.

My noble friend Lord Horam said that the BRICs were made famous by my noble friend Lord O'Neill, although surely it was the other way around and my noble friend became famous for coining the acronym BRICs. The noble Baroness, Lady Liddell, asked him to invent a new acronym for productivity. I am not sure that is a good idea, because there are already too many acronyms, and in fact they are divisive. Acronyms are used more and more in public life and put off the majority of the population, who do not understand what they mean and feel that they appear to be ignorant if they ask. Rather than inventing new acronyms, I hope my noble friend the Minister will concentrate on the commitments that he made to enhancing productivity and to removing a lot of the strangling regulation that we have today.

While it is good for business and the economy that we have the first Conservative Government in 19 years, it is disconcerting for us on these Benches that there are so many fewer noble Lords that we may call our noble friends.

I welcome the introduction of the enterprise Bill, which is intended to cut red tape. This Bill should help to accelerate the encouraging increase in registrations of new companies, from some 480,000 in 2012 to more than 580,000 in 2014, a 20% increase in two years. It is also welcome that the Government have pledged to discourage EU bodies from imposing burdensome rules and have promised that any new regulations that come through from Brussels will be implemented as benignly as possible in the UK.

In order to succeed in a global market, businesses have a strong incentive to meet the standards required in their principal export markets. That in itself will encourage the harmonisation of standards applied across developed-world markets. Beyond that, I hope that the Government will insist in their negotiations with the EU that the principle of subsidiarity be given a great deal more weight than it appears to have been given in recent years.

My right honourable friend the Secretary of State for Business has said that the enterprise Bill will contain deregulatory measures to cut £10 billion of red tape. I ask the Minister, the noble Baroness,

Lady Neville-Rolfe, how this figure is calculated. BIS has also announced that the Government's ambitious target for cutting red tape will look beyond Whitehall and extend to independent regulators for the first time. I wonder whether that includes the European regulators.

I would like to mention the City, including the wider financial services industry, which also has a significant presence in Edinburgh and some other northern cities. I believe that it is time to stop punishing the City. It is arguably the jewel in our crown; it is certainly one of the most sparkling of them. It has come to be by far the most significant and successful financial centre in the European time zone and arguably in the world, not as a result of our membership of the EU, any other group or a politically created market but simply because of the City's history, stability and highly respected and effective legal and accountancy regimes, the talents of its practitioners and the infrastructure and everything else that our great City of London has to offer.

The City has reacted well to the financial crisis and continues to learn from its mistakes. Several banks have had to pay extremely large fines as a result of LIBOR and foreign exchange-rate fixing. I consider that the balance of punishment has been tilted too much towards the banks and too little towards individuals who may have broken the law. If they have, it is they who should be punished, not the shareholders of the banks. Does the Minister agree?

Given the importance of the City to this nation's prosperity and productivity, it is important continually to assess what kind of regulation will best protect the consumer against exploitation and at the same time enable our financial services companies to thrive in what is a global rather than a European market. In particular, given that banks now have to comply with greatly increased capital requirements, effective resolution regimes and strengthened deposit insurance arrangements, I would question whether the ring-fencing of retail banking will be necessary or appropriate. The time has come for us to look forward and consider how best we can maximise growth in the economy, in jobs and in tax revenues.

Ring-fenced retail banking would not have saved Northern Rock, and neither would RBS have been protected from the difficulties it encountered if ring-fencing were in force. Neither bank got into trouble because of its investment-banking activities, but the implementation of ring-fencing will be a significant burden for Barclays, HSBC and RBS, and if any one of these banks is considering whether to maintain its global headquarters in the UK, ring-fencing is certainly one of the factors supporting relocation. Other major countries have not introduced ring-fencing and have no intention of so doing.

I would also argue that the City should not be burdened with cumbersome and unnecessary regulation introduced by the European regulators EBA, ESMA and EIOPA, together with the ESRB. On its own, the UK would never have chosen to introduce much of the growing body of EU financial services and insurance regulation to which it is now subject.

As my noble friend the Minister has mentioned, the Government are committed to improving productivity and increasing living standards. That will not be achieved

by an artificial rebalancing of the economy in favour of manufacturing. However, the more our financial services sector can thrive and prosper, the better will be the background and conditions necessary for a continued manufacturing revival. There is no statistical evidence that EU regulation has liberalised trade in financial services between the UK and the rest of the EU. Most of the UK's financial services and insurance exports to the rest of the EU are wholesale in nature and not dependent on the UK's EU membership. There are no obvious grounds for arguing that EU regulation enables the UK to manage the financial services and insurance sector better than it could do on its own. The European supervisory authorities should be the regulators for the eurozone, and the UK's PRA and FCA should be restored to their deserved status as global-level regulators equivalent to the SEC of the United States and Japan's FSA. I ask my noble friend to confirm that powers to regulate the City will be among those which the Government will ensure are returned to our own national regulators.

Like the noble Baroness, Lady Kramer, and other noble Lords, I do not understand the reason for the Government legislating to stop themselves from legislating to increase taxes. We can trust the Government to honour their commitment not to increase taxes, but they do not need to tie their own hands and restrict their ability to react prudently and promptly to any unforeseen economic disaster. I look forward to the remaining contributions, and especially to my noble friend the Minister's winding-up speech.

5.03 pm

Baroness Worthington (Lab): My Lords, I rise to speak in the debate having listened with interest to the learned and wise contributions of so many distinguished noble Lords, including the most excellent maiden speeches of the noble Lords, Lord O'Neill and Lord King. As ever, the House has today eloquently demonstrated the depth of knowledge and breadth of experience we are so fortunate to embody.

My own contribution to the debate will focus on an important area of the economy which I fear is neither properly understood nor accorded the right level of respect and attention by the Government that it deserves: energy and climate change. Here we sit on our islands, home to a modest population with limited space and no great abundance of natural resources, and yet over the course of history our impact on the globe has been remarkable. As I am an optimist, I see no reason to doubt that we cannot continue to do so in the future, for we live in interesting times. We are buffeted by the winds of globalisation, with increasing interconnectedness and complexity being a part of our daily lives, and we must respond to these challenges.

How might we achieve this? Many noble Lords have spoken of addressing our productivity challenge, stabilising our economy, and equipping our citizens with the skills they need to thrive in this world. The Government's recipe for success appears to be clear: reductions in business rates, freezing taxes, slashing red tape, slashing welfare in as yet undisclosed ways, and smashing the unions. So far, so much ideology. However, the key question is whether the Government can engender one of the most important elements

[BARONESS WORTHINGTON]

needed for investment and growth in the economy: confidence. Will people and companies feel confident enough to spend money and to spend it here? So far, the evidence is not reassuring. The Government cling to a simple idea that the market knows best and, rid of interfering Governments, that it will deliver all that we might seek of it. That is of course nonsense—Governments have always and always will have a strong role to play in guiding the hand of the market and, in times of economic insecurity more than ever, they must apply a steady hand on the tiller. That steady hand should be manifest in sensible, well-constructed policy-making and regulation, of which there is too little evidence in the Government's plan.

The northern powerhouse we have heard so much about remains, sadly, a slogan, without yet any appreciable sign of how it will be delivered—although we might look forward to seeing some detail. The one piece of legislation in the gracious Speech that related to infrastructure was the HS2 Bill, which can hardly be described as new, having been the subject of seemingly interminable debate in this House and the other for many years. The energy Bill contains not much more than a dog-whistle response to a vocal minority who oppose proven, clean, cheap onshore wind, reducing investor confidence when we should be boosting it. That is coupled with another attempt to reassure investors in the North Sea, as if searching to return to the golden era of the 1970s. We cannot evade the truth that in a world of excess capacity, reduced demand and low oil prices, the cash cow that we once relied upon to fill our coffers may be about to be extinguished.

To return to growth we must play to our future strengths, not try to replay our greatest hits, and we must also once again connect the financial world with the real economy, not rely on property price bubbles and financial derivatives that deliver no net gain to the global economy. We were once a nation strong in engineering excellence and infrastructure and we can be again; our infrastructure needs renewing to adapt and respond to the growing risk of climate change in particular.

The UK is fortunate to have a world-leading Climate Change Act, which creates the framework for a new industrial revolution in energy. Rather than pursuing fading hopes in the North Sea, the Government should seek to properly back a wide range of alternative sources of energy: renewables, nuclear, and coal with capture and storage, as well as converting transport to run on electricity and giving industrial sectors much-needed support to develop novel processes, electricity-based solutions and carbon capture and utilisation so that they can thrive in a carbon-constrained world. Solutions developed here in the UK will be in high demand, as every country is now waking up to the threat of climate change and pledging to act. There are few areas of our economy where we enjoy a positive trade balance with China; our environmental services is one. We should pursue it more.

As the Minister knows well, growth in the Chinese economy is delivered through a five-year plan, followed by instructions to state banks, which makes capital available and which results in infrastructure being conceived, financed and delivered with alacrity. This is

not how things work here. We seem to have to guide, cajole, regulate and incentivise the private sector to commit investment. Monetary policy in this regard appears to have reached its limits. Government must step in and apply their guiding hand.

The gracious Speech included a Bank of England Bill. That is welcome, but the Government could and should be doing much more to improve the Bank's capabilities to identify and respond to potential sources of instability. For example, it could require the Bank to extend its risk assessment horizon to include longer-term risks such as climate change. The issue that Mark Carney refers to as the "tragedy of horizons" prevents us properly assessing the risk that this great threat poses to our economy and to our society more generally. The Bill could also give the Bank greater powers to take action to address potential asset price bubbles—including, for example, those potentially overvalued fossil fuel assets that we may not be able to extract and burn in the way that we currently imagine we will. I will seek to promote that as the Bill makes its way through the parliamentary procedure.

I would like to end by briefly commenting on the distinctly odd tax Bill. I, like many noble Lords who have spoken before me, find it slightly strange and potentially a great waste of parliamentary resources. In the Government's zeal to outlaw various tax increases, does this now mean that, to balance the books, the Treasury will embrace progressive green taxation, increases in which are not limited? Can the Minister confirm that? For example, might we look forward to the introduction of a comprehensive climate change levy—call it climate insurance, if you will—the proceeds of which could be spent on the research and development of clean energy and its deployment?

It has been a privilege to take part in this debate, and I look forward to our continued discussions of these topics in the coming months and years.

5.10 pm

Baroness Linklater of Butterstone (LD): My Lords, my contribution to this debate on the Queen's Speech comes under the broad heading of "welfare reform", and would more properly have been given during yesterday's debate, making as it does the essential interconnection and correlation between social and economic disadvantage on the one hand, and offending behaviour on the other. So I am particularly grateful for this opportunity to speak, albeit somewhat out of context.

Last week, the Prison Reform Trust published the latest edition of its highly successful, informative and much-used *Bromley Briefings Prison Factfile*. According to the briefing, England and Wales currently have the highest imprisonment rate in western Europe, at 149 per 100,000 of the population. Over the past two decades, the prison population has nearly doubled, at enormous expense to the taxpayer, and it currently stands at more than 84,000. Reconviction rates are sky high: nearly half of all people released from prison are reconvicted within one year of their release.

The current realities of the lives of ex-prisoners include the following. Some 15% of newly convicted prisoners reported being homeless before custody, and

9% were sleeping rough. More than half the people released from prison were claiming out-of-work benefits one month afterwards, and two-fifths were still claiming benefits two years after release. In 2013-14, only a quarter of prisoners entered employment on release from prison, and 26% of women and 16% of men said they had received treatment for a mental health problem in the year before custody.

These figures suggest that social policy is not tangential to success in criminal justice policy, but absolutely central to it. The Justice Committee has highlighted the importance of joining up welfare and criminal justice policy to tackle offending and reoffending. Commenting on the launch of its recent report on prisons, planning and policies, the then chair of the committee, Sir Alan Beith, said:

“The Committee has repeatedly emphasised the dangers of allowing the prison population to escalate and consume huge resources which could be better spent on preventing crime, for example, by dealing with drug and alcohol addiction and further expanding programmes, like the Troubled Families programme. The public look to the criminal justice system to demonstrate that crime is taken seriously, but that means tackling and preventing crime effectively, not merely locking up more and more offenders at massive cost to the taxpayer”.

A number of the previous Government's policies and initiatives recognised the social and economic dividends that can be gained from a closer co-ordination of welfare, health and criminal justice policies. I am pleased to see that some of these are being taken forward and developed in the proposals contained in the Queen's Speech.

Alternatives to custody represent the most positive policy in the management of offenders, as well as the one most likely to succeed. Taking offenders out of the community by putting them in prison may work as punishment in the short term, but the evidence is that it is not nearly as likely seriously to reduce offending behaviour.

The troubled families initiative rightly recognises crime and anti-social behaviour as important indicators of disadvantage. The National Audit Office has acknowledged the potential of such programmes both to deliver savings—an outcome always welcomed by Governments—and to represent a more co-ordinated approach to tackling social problems. I welcome the commitment in the Queen's Speech to,

“expand the Troubled Families Programme”,

and I hope that this will include efforts to ensure closer co-operation between welfare and criminal justice.

There have been welcome changes in the justice system in the treatment of people with mental health needs and learning disabilities. More than half of England and Wales is now covered by liaison and diversion services in police stations and courts, and a full national scheme is planned to be put in place in 2017, subject to the Treasury's approval.

There are important footholds for greater co-ordination between social and criminal justice agencies in the reduction in recent years in the numbers of children and young adults in custody. Over the past three years, the number of children in prison has reduced by 60%, while levels of youth crime have also fallen. This success is in great measure due to the work of the Youth Justice Board, which I wholeheartedly applaud

and which oversees the multidisciplinary youth offending teams based in local authorities. YOTs bring together social workers, police, probation, health and welfare agencies to help keep children out of trouble and to divert them wherever possible out of the justice system into appropriate treatment and support. This intervention alone enormously improves the chances of young people, reducing their offending and keeping them out of prison.

The Transition to Adulthood Alliance has commissioned substantive evidence to show the benefits of extending the multidisciplinary approach to young adults. While people aged 18 to 24 accounted for one in 10 of the UK population in 2010, they account for a third of those sentenced to prison each year, a third of the probation service caseload and a third of the total economic and social costs of crime. Those in this age group are particularly impressionable and subject to influence by peers, but they can also benefit from intensive community and multidisciplinary approaches to divert them out of crime.

A group that is disproportionately represented among children and young people in prison is children who have experienced local authority care. Looked-after children make up 33% of boys and 61% of girls in custody, despite fewer than 1% of all children in England being in care. The noble Lord, Lord Laming, is currently conducting an independent review supported by the Prison Reform Trust into improving outcomes for this particularly vulnerable group in the justice system. It is a real issue: these young people, whose lives have been characterised by disadvantage, badly need more attention paid to their welfare in the widest sense.

I am really grateful for the opportunity to speak on these issues today—out of context—because they crucially concern the management of offenders and the relationship between offenders and communities. There is an assumption that these issues belong exclusively within legal and home affairs, but bringing them to this context, unlikely though that is, may not be an entire waste of time. The silo mentality between government departments must be broken down if we are to have communities which can, instead, enjoy cross-departmental strategies to reduce offending and reoffending.

5.18 pm

The Earl of Caithness (Con): My Lords, I can hear a collective sigh around the Chamber as we come to the last Back-Bench speaker after five days of debating Her Majesty's gracious Speech.

It is always a pleasure to follow my noble kinswoman and, although nearly 30 years ago prisoners occupied my working day and working night, I will not follow her down her road. It is a pleasure to see in his place my noble friend Lord Finkelstein, who so ably seconded the gracious Speech. I hope that at some stage during the previous five days he has been able to leave it and go and do some other things. However, we very much enjoyed his speech.

I also enjoyed the maiden speech of my noble friend Lord O'Neill of Gatley. I make a plea to him and to the other new Ministers, who are highly talented: please, in the future, will they follow the example set by the noble Lord, Lord West of Spithead, who was

[THE EARL OF CAITHNESS]

also parachuted into this Chamber as a Front-Bench Minister, and not the example of others, of whom we see so little nowadays?

I agree with so much of what has been said over the past five days. The aspirations for health, defence, education, research and the environment are to be welcomed. However, in reality, those aspirations can only be delivered on the back of a strong economy and living within our means. Some politicians can be very prudent with their own home budgets but very good at spending other people's money.

We have heard much about the UK's productivity. We are not alone in the problems that we face. We are part of Europe, and Europe is increasingly the aged aunt of the world—and I fear it is getting more geriatric. Europe's share of global GDP has fallen from 30% in 2007 to 23% in 2013. Over the same period, member states' average ranking on the World Economic Forum's global competitiveness index has fallen from 34 to 38 out of 144. Europe's competitiveness on financial market development has particularly suffered, with average rankings falling from 36 to 55. International investment has also declined by €9.5 billion over the same period. The EU has much to do. Perhaps the capital markets union is an opportunity to start to turn round the decline. We hope that it will, and we will discuss that, along with the report that Sub-Committee A did on capital markets, in the near future. If, however, the EU starts to follow the track of the financial transaction tax, the downhill slide will only be hastened.

We look forward to hearing much more from the noble Lord, Lord King of Lothbury, after his excellent maiden speech. He reminded us of the problems that the recent depreciation of sterling had already caused us. I am sure he will agree with me that there will be considerably more problems for sterling unless we rebalance our economy and reduce our budget deficit. The coalition halved it as a percentage of GDP, and that needs to be at least halved again. However, I agree with the noble Lord, Lord Turnbull, that there is no need to reach a break-even for the overall deficit in this Parliament.

The noble Lord, Lord King, also reminded us that improving productivity is easier said than done. Since 2009, productivity has been negative in the public sector, agriculture, energy and water, and the financial services, which together account for about one-third of UK output and employment. The output per worker in the UK economy has barely risen since 2006. It is self-evident that we need better education, skills and infrastructure. My noble friend Lord O'Neill and my right honourable friend the Chancellor of the Exchequer will only move from "good" to "great" status if they stop the talking and take action.

I remind my noble friend Lord O'Neill that the great infrastructure projects for upgrading the A1 and the A14, a new TransPennine railway and airport expansion in the south-east, all high on the agenda today, were high on the agenda when I was a Minister, and that is some long time ago. Today we celebrate the completion of 26 miles of tunnelling under London for Crossrail 1. Would my noble friend agree that it would be a very good idea to get Crossrail 2 started before the end of this Parliament?

I want to focus on one area that is vibrant and fast growing yet where productivity has declined, and that is financial services. There has been a non-stop raft of legislation in the EU since the financial crisis. The effect of much of it is contradictory, with detrimental results. The Government want less regulation and bureaucracy and more competition. I agree with them. Let me give an example of somebody I know. He is an investment manager who runs a fund that has 15 different share classes. Now, for each one, he has to produce a separate key investor information document—a KIID. That often has to be done in the local language. Last year, his firm produced just under 3,000 KIIDs—an increase of over 10% on the year before—in 17 different jurisdictions and in several different languages. The legal and compliance team has increased fourfold in the past four years, and the annual spend on insurance and regulation was up 40% on 2013. The noble Earl, Lord Kinnoull, reminded us that the regulators are competing now just to see who can be the nastiest and grab the biggest headlines. That is compounding the problem.

One needs to bear in mind that all those involved in the financial services industry, big or small, are suffering in exactly the same way as the company that I have described. That company could not be created today, and what is the result? The result is that we will have fewer small firms, less choice, more cost and less opportunity for the investor, and it means that the poorest in society will not be able to afford the advice that they are going to need, which is a very worrying trend.

Never before has so much money been spent on compliance and risk management as today, but things still keep going wrong. There are two views as to why this has happened. One is that the firms are so vast and so complex that proper management is impossible, and the other is that the money being spent is wrongly targeted and a rethink is necessary. Before the noble Lord, Lord Pearson, gets too excited and blames Brussels, I should point out that there is every evidence that what has been implemented in Europe would have been implemented in the UK whether we were in Europe or not. A recent survey by the Centre for the Study of Financial Innovation revealed that 65% of its respondents believe that the UK gold-plates regulations. My noble friend might not agree with that, but he has to keep his own new house in order.

Let us consider the irony and stupidity of the fact that, while we keep heaping qualifications, regulations and costs on the financial sector, any one of us can walk out of this Chamber tonight, set up an estate agency and sell off tomorrow what perhaps for most people is their largest and most precious asset, their home. That is a nonsense.

5.26 pm

Lord Stoneham of Droxford (LD): My Lords, I declare my interest as chair of Housing & Care 21, the housing association. I also welcome the noble Lord, Lord O'Neill, and wish him well in building on the crusading work of the noble Lord, Lord Heseltine, in reviving our northern cities. He will have our fullest support from these Benches in this endeavour. I also

welcome back the noble Baroness, Lady Neville-Rolfe, and look forward to scrutinising the Government's business and skills agenda in the coming months.

I also congratulate the noble Lord, Lord King, on his maiden speech. All the published histories of the coalition formation quote him as warning the negotiators at the time that whoever entered government would be out of power subsequently for the next generation. If he did say this, he was evidently only half-right. As for the other half, I take it that our resilience and defiance on these Benches still have five to 10 years to prove him, and the noble Lord, Lord Finkelstein, wrong.

As part of this resilience, I want to thank the nine of my colleagues who spoke in this debate and to welcome my noble friends Lady Kramer and Lord Newby to the Liberal Democrat Front Bench after their outstanding service in the coalition Government. We quietly hope that the Government will miss them and that the country will notice. While I thank my colleagues for their contributions today, I think that it is a requirement also to express thanks and appreciation for the work of Vince Cable, Danny Alexander, Jo Swinson and Ed Davey, who played a big part while they were in government in helping the economic recovery after the recession in 2010.

It has been an excellent debate with some remarkable contributions, so I will not hold the House up by repeating them, but I want to draw three fairly concise conclusions which I think the Government need to focus on. As labour markets tighten, living standards will be improved in a sustainable way only if we can improve productivity, but we must be wary of top-down initiatives to improve overall productivity. Overall productivity improvement depends on tens of thousands of small businesses taking decisions to invest more. They simply require stability, confidence, the wherewithal and the encouragement to invest.

I share the view of the noble Baroness, Lady Wheatcroft, that better management is needed. As our motor industry and our sporting teams show, better foreign managers are transforming these sectors. We need to develop more skills at home. Getting the talent out of the City to run things may help and I hope that the noble Lord, Lord O'Neill, will show the way.

Economic growth is not yet balanced enough to be sustainable and to avoid some of the pitfalls of the past. The coalition made huge steps forward in the jobs market but economic growth still remains too reliant on rising consumer expenditure financed on credit and encouraged by rising house prices. We all know where that leads. Business investment is still too low and the deficit in the current trade account matches the deficit on public expenditure as a major problem. The worry is that stronger growth and the net trade deficit may well worsen unless we make more of what we consume as a country.

During this debate I was pleased to go back 30 years and find myself agreeing with my old friend and colleague the noble Lord, Lord Horam, about making housing the number five priority for the Government and about its importance to the economy. I wish to draw attention to the importance of housing because it impinges on the performance of our economy.

Rising property prices due to shortages still encourage overinvestment in property rather than investment in business, particularly at the top end. The Government's preoccupation with encouraging owner-occupation is simply stoking demand rather than addressing supply. I disagree with the noble Lord, Lord Skidelsky—we do need to concentrate on supply: “supply, supply, supply” should be the Government's focus in housing. Like any other sector, it needs a plan, a partnership between all the housing sectors, private, public and voluntary.

It would be a tragedy if this Government got waylaid by a pointless political debate on the right to buy from housing association stock. I hope they have the sense to step back from this issue. I further hope that Greg Clark will recognise the need to act quickly if we are to approach a figure of 1 million new homes in this Parliament. The right to buy from housing associations will undermine efforts on the supply side. It is not the same as selling council houses. Housing associations build for sale and for shared ownership; they build affordable houses. There is a compromise if the Government will stop and think. If we cannot have a coalition deal to get rid of this ridiculous policy I hope that Greg Clark will have the good sense to find a way through.

It was noticeable in the early years of the coalition Government that the Conservatives had a blank spot on social housing. Housing associations make a huge contribution and can do more if we utilise their balance sheets better, improve their efficiency and involve them in major regeneration schemes. I urge the noble Lord, Lord O'Neill, to look carefully at the recent publication by the noble Lord, Lord Adonis, on the concept of city villages and how we can use the old council estates for regeneration by turning them into a partnership where we sell some houses, build some houses for rent and build affordable housing for people in social need. These are the measures that we need to increase housing supply. We can use that land and those estates to generate more housing.

These are the kinds of measures by which we, on these Benches, will judge the Government on their one-nation approach. As it did for Macmillan, housing played a vital role in strengthening the economy in the 1950s as well as having important social effects and benefits. It should do so again.

5.34 pm

Lord Davies of Oldham (Lab): My Lords, this has been an excellent debate. The opening speech from the maiden speaker, the noble Lord, Lord O'Neill, set a standard, which we all greatly appreciated. We are very pleased that he has begun in such a promising way at the Dispatch Box and assure him that we will give support to constructive action in relation to the problems of the British economy. However, because of the nature of this debate he ought not to be neglectful of the fact that there will be one or two challenges about as well, particularly when we get on to legislation that gives effect to the Government's programme.

Fortunately my noble friend Lord Mendelsohn responded first to the debate by identifying our attitude to some of the Bills. That absolves me from having to

[LORD DAVIES OF OLDHAM]

be clear about that, except to say that if the Government decide to put themselves in a ludicrous straitjacket by introducing a law that forbids them from increasing various taxes and charges, absolutely confident that there will be no difficulties along the way, that is up to them. The noble Baroness, Lady Wheatcroft, indicated that there might be difficulties and circumstances that none of us can foresee. The Opposition will not ease them out of that at this stage; we will merely concur largely with the legislation.

That will not be so with trade union legislation, however. My noble friends Lord Monks and Lady Donaghy identified our principal objection to this measure and the vindictive quality of it, against a background where it would scarcely be contended that a major issue in the British economy over the last decade has been strike activity. Workers are only too concerned to ensure that there is some progress with regard to the work that they do in circumstances where all is gloom around them. It is quite improper of the Government to engage in what after all is merely an indulgence in ideological spite in their introduction of this trade union legislation. It will not have an easy time in either this place or the other place.

However, we were grateful to the noble Lord for emphasising productivity. I must mention to him that in our last debate on the economy we covered a substantial amount of ground with regard to the deficit, who was bearing the costs of it, how it was best to remedy it and at what pace. But I think that only my noble friend Lord Haskel talked about productivity at that stage. Therefore, it was entirely proper that he should speak early in today's debate to emphasise that and in doing so support and back up what the Minister said about how important issues of productivity are.

As my noble friends Lady Drake and Lord Macdonald emphasised, we should not underestimate the challenge represented by our low productivity, nor what needs to be done. The OECD report today says that the country's poor record on productivity is at the heart of the problem with the British economy. It is a poor record that has obtained since the crisis way back in 2007-08. It is quite clear that stronger investment is needed.

My noble friends also identified areas in which it was necessary for public action to be taken. There is absolutely no point in the Government thinking that increased productivity can occur on the basis of a low-wage economy employing low-skilled people. That just leads us into direct competition with other countries that have more than their fair share of low-paid workers. It presents us with a difficulty, because for large numbers of our people their standard of living is so low that we are using public expenditure to subsidise their wages. This cannot make sense in modern Britain.

We want the Government to recognise that they have to do something about this. I know that this will cause a few shudders on the other side of the House, but some of it will involve judicious public expenditure. We cannot enhance the skills of our nation if we do not spend money on education. When I say "education", I mean state education rather than private, but I am not talking about schools, because the Government recognise that they dare not take a step back on the

question of standards in our schools. Nor am I talking about universities, because there are all sorts of ways in which we should recognise the achievements of our universities. What is critical to defective skill levels is further education: the education that is directed at present towards vocational skills—the very area in which the Government are making the most significant cutbacks. They ought to think again about that.

We also think that higher productivity comes from having a better transport system, from when government offices give answers to employers and their staff rather than keeping them waiting endlessly on the end of a phone, and from when efforts are made to sustain and support business and employment. We think that the Government need to look at those issues with real care. Judicious public expenditure on this would reap dividends.

The other maiden speech that was greatly welcomed was from the noble Lord, Lord King. It was long overdue in our terms, and we hope that he will come back with some frequency. We have these economic debates only two or three times a year. He could perhaps make a date to ensure that he can come to one or two in subsequent years, because we very much valued his contribution. We know of his vast experience. My ears pricked up when the noble Lord mentioned the strength of sterling and the problems that created. I do not know whether anyone else in the Chamber noticed that: up to that stage I had not heard anyone else refer to that issue in relation to the British economy. We all know the virtues of the strong state of sterling—it is quite helpful when one goes abroad on holiday—but it is a little different if one is involved in a competitive market and the pound has had the increase in value that it has had in recent years. We are grateful to the noble Lord. We hope that he will come again and that it does not coincide with the disasters that beset his favourite sports teams, such as those over this last weekend. I have the greatest sympathy for him on that score—at least on English cricket, if not on Aston Villa.

In this debate we have helped to establish that productivity is key to improving our performance. The Government ought to address themselves fully to these issues. I am sure that the Minister will ensure that they do. One theme that we would like to see explored is why we have to wait for the OECD or someone else to produce a report on productivity. Why can we not ask the OBR to report on how the options for the spending review might impact on productivity and living standards, and to set out the sensitivity of their forecasts for the different choices that the Chancellor could make? He would have our support if he suggested that the OBR could take on this work. If we are all united on the significance of this concept for the development of the British economy, let us use every tool at our disposal.

I am all too conscious of the fact that many noble Lords have contributed to this debate. I particularly appreciated the comments of noble Lords who sought to broaden its context. The noble Lords, Lord Skidelsky, Lord Low and Lord Bilimoria, on the Cross Benches all tried to put the present issues confronting the British economy into a general context. I was very grateful for those remarks.

I am Her Majesty's Opposition's spokesman not just for Treasury matters but for transport. However, transport has received precious little shrift in this debate, although it is carefully listed in its title. I know that the Minister who is replying will be fully briefed on the transport issues, so I will ask my questions in short order. I was grateful to the noble Baroness, Lady Kramer, for mentioning HS2 right at the beginning of the debate. We unite with others in wishing to see it make progress. The Government have a great deal of work to do and we wish them well on this very important project, but for heaven's sake let us get away from the idea that it is intended only to accelerate the speed at which people travel from London to Birmingham or, as is suspected in the Midlands, from Birmingham to London. It is about capacity and increasing the transport resources that we have available. That is why it is justified. I hope that the noble Baroness winding up the debate will recognise that I have sought to be constructive on this issue.

However, I am less constructive on any delay in providing runway capacity in the south-east. In that I merely follow the noble Lord, Lord Tebbit, in being critical of the Government, as we both were on Monday. I cannot see how the Government can dodge the question of whether they intend to implement the recommendation of the Davies commission. Are they saying that after all this absurd delay while waiting for this report they will still hold his hand and further deliberate on whether he has got it right or wrong? That is surely unthinkable. Once this report is out, we expect action.

I turn to something which I hope is of concern to most noble Lords, and ought to concern us the most: buses. The bus is the most frequently used form of transport. It is the necessary form of transport for a very large number of our people, particularly the low-paid, whom we want to see improve their position and their productivity.

The Government know what a successful bus service looks like: it runs in London in a carefully regulated system. Meanwhile, there is a free-for-all right across our cities and provinces, and our country is ill served. I hope that the Minister in winding up will say something about buses.

5.48 pm

The Parliamentary Under-Secretary of State, Departments for Business, Innovation and Skills and for Culture, Media and Sport (Baroness Neville-Rolfe) (Con): I thank noble Lords for their interesting and informed contributions to our discussion today about the key areas of business, economic affairs and, of course, transport.

I was also glad to hear the contribution of the noble Lord, Lord King, in his excellent maiden speech. The noble Lord, Lord King, and I share a deep love of the game of cricket and, as the new man at the crease, I wish him a distinguished future to match his distinguished past.

This is an important day for the noble Lords, Lord King and Lord O'Neill. These contributions are the first, I hope, of many in this House but are preceded by the many and varied contributions they

have made outside these four walls. My noble friend Lord O'Neill—the new Dr Johnson—is not only to be congratulated on his compelling speech but on his contribution of the terms BRIC and MINT to the world's vocabulary and, as we will hear shortly, a new term, "PROD". Like my noble friend Lord Caithness, I look forward to his continuing contributions because he knows about everything—from the secrets of emerging market success to antimicrobial resistance.

It has been an extraordinarily constructive and erudite debate on a rich and diverse range of issues, well beyond the essay question. In responding, if I fail to answer any noble Lords' questions, I will write to them. I thank the noble Lord, Lord Davies of Oldham, for his provocative summing-up and I welcome the noble Lord, Lord Stoneham, to the Lib Dem Front Bench. I am very glad to see that he will be helping the House on these issues. I also thank the noble Lord, Lord Mendelsohn, for his kind words and I look forward to debating with him as the House scrutinises the legislation that we will be bringing forward.

Our long-term economic plan is turning around Britain's economy, as my noble friend Lady Noakes was right to emphasise. In 2008, the UK was hit by the most damaging financial crisis in generations. In 2014, we were the fastest growing of all the major advanced economies. In May 2010, the coalition Government inherited a budget deficit that was more than 10% of GDP. Today, the deficit is half that level and debt as a share of national income is expected to start falling this financial year.

As the noble Lords, Lord Birt and Lord Turnbull, said, debt is too high and we need to reverse the rise as a share of GDP, lowering debt interest and building resilience to tackle future challenges effectively. We are not out of the woods yet, as the noble Lord, Lord Newby, said. There are still concerns on the international horizon, especially in the eurozone, and we have some huge challenges at home. Despite cutting the deficit over the past five years, it remains too high and productivity remains too low, whatever reservations we may have about how the figures are calculated. This Government are tackling this through our productivity plan, which will be published before the Budget, and our plans for a northern powerhouse. As the noble Lord, Lord Bilimoria, said, we are lucky to have my noble friend Lord O'Neill, who is our own northern powerhouse, here to tackle the issue.

Our trade with emerging markets has improved markedly but we are still too reliant on slow-growing markets in Europe. Business investment, which is so critical to improving productivity, has picked up but not by enough. While we have achieved remarkable success in creating jobs and growth, this is still uneven across the country and is reliant on too few sectors. I agree with the noble Lord, Lord Bilimoria, that enterprise, education, R&D and the engine of SMEs are critical to growth, although I do not agree with his view of the patent box, which I think has been a very important innovation.

The biggest theme of our debate has been the challenge and the opportunity of productivity. My noble friend Lady Wheatcroft talked about PIES but PROD is the abbreviation of productivity and should be the message to all parts of government and Whitehall:

[BARONESS NEVILLE-ROLFE]

to be prodded to work with collective focus on productivity; for all parts of business to be more ambitious; and for our citizens and employees to prod themselves to achieve their potential. As my noble friend Lord O'Neill set out, our productivity is 17% below the G7 average. This Government will tackle this through our productivity plan, which will be published before the Budget.

To improve our productivity, we need to improve our infrastructure, as the noble Lord, Lord Teverson, said; we need to rebalance the economy and build the northern powerhouse, as the noble Lords, Lord Clement-Jones and Lord Shutt of Greetland, said; and we need to ensure better housing supply policy, as the noble Lord, Lord Newby, the noble Earl, Lord Arran, and my noble friend Lord Horam said, and good progress is being made, with starts at their highest level since 2007.

We need to expand apprenticeships, as the noble Lord, Lord Aberdare, said, and will be delivering 3 million more over the next five years. We need to reduce the burden of regulation on business, as my noble friend Lady Wheatcroft noted, and we have a new Business Secretary who is very well placed to do just that. We also need to get more women into the workforce, as the noble Baroness, Lady Wall, said, and provide better incentives for long-term investment. I listened to the noble Lords, Lord Reid, Lord Haskel and Lord Desai, on the measurement of productivity. As my noble friend Lord O'Neill said, there are measurement issues that need to be looked at.

The noble Baroness, Lady Kramer, and the noble Lord, Lord Skidelsky, raised concerns about fairness. Inequality, as measured by the Gini coefficient, is lower than in 2010-11 and lower than the pre-recession level of 2007-08.

The noble Baroness, Lady Kramer, also asked about migration and full employment. The Government value the contribution of highly skilled migrants. However, we will also take action to cut down on migrants who undercut local workers, by denying them access to in-work benefits. We will also ensure that our strategy does not close off UK business to the skilled experts that it requires.

I thank the noble Baroness, Lady Liddell, for championing the tourism sector. I agree with her, and with the noble Lords, Lord German and Lord Clement-Jones, that this is a hugely important service industry which brings jobs to the whole of the UK. DCMS has done a good job of ensuring that this importance is recognised across government. We work closely with BIS to promote key sectors including tourism, the digital economy, the creative industries—another global success story, and now 5% of the UK economy—and, of course, sport. We now have joint Ministers across both departments, of which I am honoured to be one.

The Government are committed to seeing more women on the boards of top UK companies. We have made excellent progress but there is more to do. FTSE companies are on track to reach the 25% target set by the noble Lord, Lord Davies of Abersoch, by 2015—but, like the noble Baroness, Lady Wall, I believe passionately that a pipeline of talented women is crucial to success.

As the new Minister in BIS for governance, and therefore for women on boards, I will have a chance to help to tackle this. We are also committed to ensuring that there are more women in STEM and I thank the noble Baroness for her contribution. BIS initiated a programme of work to understand these issues and take action. This is being jointly led by the Royal Society and the Royal Academy of Engineering.

I thank my noble friend Lord Leigh for raising points about “covenant-light”, entrepreneurs’ relief and debt subsidy. I have met him separately and will ensure that these points are closely considered within BIS and the Treasury.

Several noble Lords raised points relating to EU renegotiation. There will be a debate in the other place next Tuesday and I am sure that Members will raise similar issues. I will ensure that the points made today are brought to the attention of the Ministers concerned. Of course, the results of renegotiation will be in the public domain and will be discussed and debated very widely.

Turning to the trade union Bill, I fear that there are those here who believe that our desire for such a Bill is born out of some dark intent. The noble Lords, Lord Mendelsohn and Lord Monks, hinted at this. This is quite wrong. Rather, it is our ambition to become the most prosperous economy in the world. That means we must ensure that people are not adversely affected by little-supported strikes which disrupt important public services. I was glad to have my noble friend Lord Leigh’s support on this matter. We will require that in the key health, education, fire and transport sectors, 40% of those entitled to vote must support strike action for it to be legitimate. We will also tackle the intimidation of non-striking workers during a strike, introduce time limits on a mandate for a strike following a ballot, and make changes to the role of the certification officer. Strikes can put lives at risk, prevent people getting to work and earning a living and prevent businesses managing their workforces effectively. As noble Lords will know, I say that as someone who comes from a business which had excellent relations with the trade unions—USDAW in that particular case. I also pay tribute to the work of the noble Baroness, Lady Donaghy, with ACAS and reiterate the important role that ACAS plays.

Another theme has been the importance of skills, digital skills in particular, which was rightly emphasised by the noble Lord, Lord Davies of Oldham. Ensuring that business has access to a highly skilled workforce is also critical for generating growth and enhancing productivity. Over the next five years, we will deliver 3 million new apprenticeships and ensure that they deliver the skills that employers need for growth. We propose to introduce a new duty on government to report annually on progress against the 3 million commitment, which I believe the noble Lord, Lord Macdonald, will support from the Benches opposite. I assure him that the Government are working hard with large and small companies, through our reforms, to grow the all-age apprenticeship programmes.

Our apprenticeship reforms are focused on employer-designed standards and robust assessment processes, and will ensure that apprenticeships become increasingly attractive to all sizes of employer, which is vital.

Apprenticeships are no longer confined to the manufacturing sector. You can now become qualified in the accountancy and legal professions through them, and we will promote the development of apprenticeships in all sectors and for all ages. We will also increase apprenticeships across Whitehall and its agencies so that the public sector is leading the way, and we will work with schools to ensure that apprenticeship options are more fully incorporated into careers advice.

Several noble Lords underlined the importance of the Select Committee report, *Make or Break: The UK's Digital Future*. I very much look forward to debating that report and taking some of your Lordships' ideas further, but I can say today that nine standards have been developed for digital since 2014 and that we have digital degree apprenticeships and, of course, the National College for Digital Skills, so progress is being made.

Latest figures for apprenticeships in the construction sector, which was a concern of the noble Lord, Lord Macdonald, have shown an increase of 16% from 2012-13 to 2013-14. There were more than 60,000 apprenticeship starts in engineering, which, again, is encouraging. He will be glad to know that, in 2013-14, 52% of total apprentices were women.

I turn now to enterprise and the enterprise Bill. This Government have an ambition for our small and medium-sized enterprises: to make Britain the best place in the world to start and grow a business. The enterprise Bill seeks to address the critical issues facing business growth. The first is late payment, an issue that affects small and medium-sized businesses in particular, which were owed £32.4 billion in January this year, compared to the £39 billion mentioned by the noble Lord, Lord Cotter—that perhaps reflects some response to the letters that we have sent, although I cannot be sure. On average, small businesses are still owed nearly £32,000.

We have already legislated through the Small Business, Enterprise and Employment Act 2015. Using those powers, we will now introduce a new requirement for the UK's largest companies to report on their payment practices and policies. The enterprise Bill will establish new measures, including a new small business conciliation service to mediate in disputes between small and large businesses, especially over late payment, thereby avoiding the need for expensive litigation. I was glad to hear of the support that the noble Lord, Lord Mendelsohn, hopes to be able to give on this important matter.

My noble friend Lady Noakes asked why we needed legislation at all. Clearly, the Small Business, Enterprise and Employment Act was a landmark piece of legislation to help small business, but the measures in the new Bill will build on that by making sure that we remove another £10 billion of red tape. I hope that our work on enforcement will also be welcome to the noble Earl, Lord Kinnoull.

On the tax lock, which several noble Lords mentioned, these are important promises to working families, which we believe that it is right to put on the statute book. The noble Lord, Lord Northbrook, rightly highlighted the importance of lower, simpler taxes. To pick up the point made by the noble Lord, Lord Watson, we have a £5 billion target for reducing tax evasion in this Parliament, which I hope will be welcome.

Another area that can stifle small business growth is excessive regulation. We have an ambitious agenda, and the cost of regulation fell by £10 billion over the last Parliament. We intend to deliver a further £10 billion of savings over the coming five years. The job is not done; many businesses believe that how regulation is enforced and the paperwork that goes with it can cause more unnecessary difficulties than the law itself. The Government believe that we should now expand the framework set out in the small business Act to ensure that the actions of regulators are also covered.

With an unprecedented £70 billion of capital investment over the next five years, transport will account for nearly three-quarters of our infrastructure budget, and 22 out of the Government's top projects. The Queen's Speech reiterated the Government's commitment to legislate for and start building high-speed rail links. My noble friend Lord O'Neill referred to our plans to deliver the full network of HS2 and how that will connect eight of Britain's 10 largest cities. The Chancellor has already committed alongside this to ramp up investments in roads, give Britain the fastest broadband and the most competitive telecoms and take the decision on increasing airport capacity in the south-east once the Airports Commission's final recommendations are published, which will be shortly. The noble Lord, Lord Harrison, will also be glad to know of the £1 billion airport redevelopment in Manchester.

The noble Lord, Lord Teverson, asked about the cycling and walking strategy. The Infrastructure Act contains a section giving the Secretary of State power to set such a strategy. Once it is commenced, the Secretary of State will be under a duty to set one up as soon as is reasonably practical. My noble friend Lord Attlee rightly raised concerns about cycle safety, and we are trying to address that.

I empathise with the noble Earl, Lord Arran, on the subject of the A303. I have been waiting for improvements to it all my life, and it is great to see them in the plan. We expect to start public consultation on the scheme in 2017.

The Government want to make Britain the technology centre of Europe, establishing more catapult centres, mentioned by several noble Lords. We are providing £800 million in 2015-16 for innovation activities through Innovate UK and other world-renowned institutions. They will keep a beady eye on how that is administered.

To make sure that the UK retains its position as the world's best IP regime, we will also focus on a number of measures including: improving our rights-granting services; reforming the law to improve protection for businesses; striving to improve international patent systems; and educating businesses and consumers about IP. The consultation on Section 73 is continuing. The noble Lord, Lord Clement-Jones, is right to say that enforcement is incredibly important. It is great that we have managed to extend the life of PIPCU, and we are looking at future options for funding. He will also be very glad to know that we have used Section 97A to block access to websites alleged to host 10 million infringing e-books.

Building on the successes of the last Parliament, the Government have set out key measures, which will ensure that we continue to promote jobs and

[BARONESS NEVILLE-ROLFE]
balanced growth in the UK. We have put the country back on a stronger financial foundation, although we have still more to do. We are putting the interests of business first and dismantling bureaucracy to make this the best place in the world to start up and run a business.

I end by thanking the House for a stimulating debate and for demonstrating economy and business nous by finishing business well ahead of schedule.

Motion agreed nemine dissentiente, and the Lord Chamberlain was ordered to present the Address to Her Majesty.

House adjourned at 6.10 pm.