Vol. 771
No. 144

Thursday
28 April 2016

PARLIAMENTARY DEBATES
(HANSARD)

HOUSE OF LORDS

OFFICIAL REPORT

ORDER OF BUSINESS

Lords wishing to be supplied with these Daily Reports should give notice to this effect to the Printed Paper Office.

No proofs of Daily Reports are provided. Corrections for the bound volume which Lords wish to suggest to the report of their speeches should be clearly indicated in a copy of the Daily Report, which, with the column numbers concerned shown on the front cover, should be sent to the Editor of Debates, House of Lords, within 14 days of the date of the Daily Report.

This issue of the Official Report is also available on the Internet at
www.publications.parliament.uk/pa/ld201516/ldhansrd/index/160428.html

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
DUP	Democratic Unionist Party
GP	Green Party
Ind Lab	Independent Labour
Ind LD	Independent Liberal Democrat
Ind SD	Independent Social Democrat
Ind UU	Independent Ulster Unionist
Lab	Labour
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.

House of Lords

Thursday 28 April 2016

11 am

Prayers—read by the Lord Bishop of Leeds.

Oaths and Affirmations

11.05 am

Viscount Thurso took the oath, following the by-election under Standing Order 10, and signed an undertaking to abide by the Code of Conduct.

Mental Health Services

Question

11.06 am

Asked by ***Baroness Tyler of Enfield***

To ask Her Majesty's Government what assessment has been undertaken of the likely impact on the quality of mental health care of removing mental health quality premium measures from NHS England's Quality Premium Guidance for 2016-17.

The Parliamentary Under-Secretary of State, Department of Health (Lord Prior of Brampton) (Con): My Lords, the quality premium for 2016-17 enables clinical commissioning groups to choose three local priorities, including from a menu of 17 mental health indicators. Given that mental health is still part of the scheme, NHS England has not assessed the effect of removing it. The Government have invested more than ever in mental health. Spending is estimated to have increased to £11.7 billion, and in January we announced almost £1 billion of extra investment.

Baroness Tyler of Enfield (LD): I thank the Minister for his Answer, but I confess that I am left genuinely perplexed by the decision to drop the national level financial incentive for commissioners locally to improve mental health care. The four national measures account for 70% of the quality premium, which is worth up to £217 million. Relegating mental health to the very long list of 80 indicators from which local commissioners can choose only three seems no substitute. How does that downgrading of mental health in the quality premium scheme square with the Government's oft-repeated commitment to ensure equality between physical and mental health?

Lord Prior of Brampton: My Lords, this year NHS England has chosen primary care, cancer and antibiotic prescribing to be the three key parts of the national quality scheme but, as the noble Baroness has said, 30% is determined locally, of which 17 indicators are related to mental health. NHS England proposes to include a mental health indicator in its national scheme in 2017-18. The point about the national schemes is to provide incentives and they will change from one year to another. If they are the same every year, they will cease to be incentives.

Lord Hunt of Kings Heath (Lab): My Lords, the Minister will know that the general record on mental health has been very poor over the past few years. We are far away from parity of esteem; indeed the National Audit Office has commented on this. There is widespread concern within the circles involved in mental health services that, despite what Ministers say, the NHS itself and NHS England are not committed to parity of esteem. Leaving mental health out of the national priorities sends a signal to the NHS that, despite what Ministers say, in the end it is not important. I wonder whether the Government would reconsider this issue and give new instructions to NHS England on it.

Lord Prior of Brampton: My Lords, I find it hard to believe that anyone can think that mental health is not a key priority for this Government, given that we have promised to spend another £1.4 billion on children and young people's mental health and a further £1 billion a year on adult mental health, along with accepting the findings of the Farmer report in full. I assure the House that mental health remains an absolute priority for the Government.

Lord Watts (Lab): My Lords, quite frankly, our experience is that a crisis is taking place, especially in children's mental health services. Has the Minister visited these centres to see whether that money is being delivered? Our experience is that it is not.

Lord Prior of Brampton: I think there is a general recognition that mental health has been the Cinderella service of the NHS for generations and that, within that, mental health provision for children and young people has been a Cinderella service within the Cinderella service. We are putting a great deal of resource into it. Yes, I have visited a number of mental health care trusts. We all know at first hand that the service is highly underfunded, which is why we have committed to spend this extra money on it over the next five years.

Lord Harrison (Lab): My Lords, is not the underlying problem for the health service that we simply do not have the quantum of money and resources available to deal with the many challenges, of which mental health is one? The Minister will well know that diabetes, which is threatening to explode out of all recognition, is one of the others. We need more resources.

Lord Prior of Brampton: It is partly a question of resource, although I point out to the noble Lord that the country that spends the most money on healthcare and has the worst results is America. It is not just a question of resource. It is how we spend it as well as the amount of money.

Lord Crisp (CB): I am sure that the Minister well understands that people working in mental health see this as a very negative signal, given all that has been said before. Will he answer two questions, please?

[Lord Crisp]
First, what would he say to people working in mental health to reassure them that the Government are still giving this level of priority to mental health? Secondly, as he has already said, these quality premiums are intended to incentivise quality. What impact does he think removing mental health from the national priorities—the national quality premium—will have on quality in mental health?

Lord Prior of Brampton: What I would say to people in the NHS is that the Government are committed to spending a lot more money—more money than has ever been spent before on mental health—so we are putting our money where our mouth is. We are the Government who signed up, with the Liberal Democrats, to putting parity of esteem in law in the 2012 Act, and we are absolutely committed to doing that. There is no ground for thinking that we are deprioritising mental health. The quality premium that NHS England uses to focus the attention of CCGs will change every year. It had mental health in it last year; it had other issues in it this year; and I hope that it will have mental health in it next year.

Baroness Brinton (LD): Parity of esteem has a very specific meaning and it is good news that some extra money has been coming into mental health services but, until mental health is a real priority and there is equal funding, particularly to take pressure off the acute sector, there remains a problem. Can the Minister please confirm that mental health will continue to benefit from additional funding next year, given the priorities set out in the mental health five-year forward view? It would be really reassuring to the House to know that at least there was continuing additional funding available.

Lord Prior of Brampton: I assure the House that, on the funding that the Government have agreed for children's and young people's mental health and adult mental health—in the light of the Prime Minister's announcement in January, but particularly in the light of Paul Farmer's report that came out six weeks ago—we are fully committed to meeting those obligations.

Baroness McIntosh of Hudnall (Lab): My Lords, I do not think that the House in any way doubts the Minister's personal commitment to additional expenditure on mental health. However, he will be aware if he has been listening to questions in this House over the past few weeks that the issue of mental health provision has come up, for example, on the Question of children caught up in separation yesterday, and in relation to asylum seekers and the prison population. One of the key resources in short supply is mental health practitioners. What are the Government doing to encourage more people coming into the health professions to regard mental health practice as a priority for their careers, not just a government priority?

Lord Prior of Brampton: The noble Baroness makes an interesting point. There are no short-term fixes for workforce issues. It is generally recognised that there is a shortage of people choosing psychiatry when they come through their foundation year 2 as junior doctors. We are concerned about that. There has been a significant increase in the counsellors used for delivering IAPT courses, but we are cognisant of the fact that we have to keep a very close eye on that.

State Pension
Question

11.15 am

*Asked by **Baroness Wheatcroft***

To ask Her Majesty's Government how many people they expect to benefit from the new state pension, and what will be the average increase per person.

The Minister of State, Department for Work and Pensions (Baroness Altmann) (Con): My Lords, by 2030 the new state pension will result in higher state pension payments for 6 million future pensioners, who will receive on average £10 a week more state pension, with 3 million women receiving on average £11 a week more and 3 million men receiving £9 a week more.

Baroness Wheatcroft (Con): I thank my noble friend the Minister for those encouraging numbers. The old system was complicated and confusing, and many people were left uncertain of what their income would be in retirement. Does my noble friend think that the new system, which is not just higher but clearer, might encourage more people to save for their retirement?

Baroness Altmann: My noble friend is absolutely right. The aim of the new state pension is that people will have a much clearer idea of how much they can get from the state pension without extensive means testing so that it is clear and safe for them to save as they can on top of it.

Lord Rooker (Lab): What estimate have the Government made of the result of less means testing, which means less passporting to other benefits for those who were means tested, who presumably will not now receive those benefits? What is the overall saving to the Government in that respect?

Baroness Altmann: The estimates are that the new state pension will be cost-neutral for the first few decades. Therefore, the aim is that we can give people security and an understanding of what they will get from the state system, and that, as we roll out auto-enrolment to ensure that every worker will have a private pension, it is safe for those workers all around the country to save for their future so that they can supplement their own income.

Lord Lawson of Blaby (Con): My Lords, will the Government seriously consider ending the anomalously tax-free status of the winter fuel payment by consolidating it into the basic state pension, which is, of course, taxable?

Baroness Altmann: This Government have made an absolute commitment that winter fuel payments will be protected up to 2020. Any changes that a future Government may wish to make will be decided in due course.

Lord Stoneham of Droxford (LD): One of the groups that particularly benefits from the high state pension, championed by my colleague Steve Webb in the last Government, is the self-employed. However, the proportion of self-employed in private pensions is disappearing over a cliff. What plan do the Government have to address this problem?

Baroness Altmann: The noble Lord makes an important point; it is one that the Government have already been looking at. The new state pension will give much more clarity and generosity to the base on which the self-employed can build. The new lifetime ISA may be an opportunity for the self-employed to save in a way that they might be more comfortable with, rather than locking money irrevocably into a pension in their 20s and 30s.

Lord McKenzie of Luton (Lab): My Lords, we know, and the Minister has confirmed, that overall expenditure on pensioner benefits is projected to be broadly the same under the new system as under the old until about 2040. Thereafter, expenditure growth is slower, so the Government plan to save money. There will be winners and losers. In particular among the losing category will be those currently in their 20s and 30s. The Government are pocketing some £4 billion to £5 billion extra a year from national insurance contributions because of the abolition of contracting out. Following another Budget disaster this year, the Government were forced to commit that there will be no more welfare cuts this Parliament. Will the Minister confirm that this applies to all existing pensioner benefits and that the triple lock, including that applied to the new state pension, will be applied as now? Further, should the UK leave the EU as the result of the referendum, what route, if any, will the Government take to preserve existing reciprocal pension uprating arrangements?

Baroness Altmann: The noble Lord has asked about five questions. However, I can certainly reassure the House that there is an absolute commitment to protect pensioner benefits up to 2020, and the basic state pension and the full new state pension, through the triple lock. As regards the expenditure on state pension, the reason that there are losers, if you like, in the long run—although I would not call them losers—is that we need to make the state pension system sustainable. That is exactly what the new state pension system will do. Indeed, with the introduction of the state pension, 75% of women and 70% of men will get more state pension. In the long term, the aim is for the auto-enrolment private pension to make up for the loss of earnings-linked state pensions.

Lord Cormack (Con): My Lords, I am sure that is very welcome news, but reverting to the question asked by my noble friend Lord Lawson, will my noble friend remind the House of the total cost of the winter fuel payment?

Baroness Altmann: The cost of the winter fuel payment is approximately £2 billion per year. It provides security for older people by ensuring that they have the confidence to spend money on heating their homes, which otherwise they might not do. We know how vulnerable older people are to the cold.

Health: Hepatitis C
Question

11.21 am

Asked by ***Baroness Featherstone***

To ask Her Majesty's Government whether the funding for the new interferon-free Hepatitis C treatment will come from the National Health Service or HM Treasury.

The Parliamentary Under-Secretary of State, Department of Health (Lord Prior of Brampton) (Con): My Lords, the funding for interferon-free hepatitis C treatment will be provided by NHS England, via its allocation from HM Treasury, as with all NHS treatments.

Baroness Featherstone (LD): I thank the Minister for his Answer. I declare an interest in as much as my nephew was a haemophiliac, who died having been infected with hepatitis C. Today, I seek an assurance from the Minister that none of the £125 million—an inadequate sum—that has been promised to survivors, or families of those who were likewise infected, is used to pay for the new interferon treatment, which is a 99% cure licensed by the NHS. I want his assurance that none of that money will be used for enhanced payment and that all of it will go to support survivors or those who have been bereaved.

Lord Prior of Brampton: My Lords, I do not think I can answer that question as I do not fully understand it. Perhaps I could meet the noble Baroness outside the Chamber. All I can say is that NHS England is funding the new interferon-free treatments in accordance with the NICE technology appraisals, and is prioritising people on the basis of unmet need. I think the modelling assumption shows that 10,000 people will receive the new treatment in the coming year. I cannot answer the specifics of the noble Baroness's question but I will follow it up outside, if I can.

Lord Patel (CB): My Lords, an estimated 220,000 individuals in the United Kingdom are chronically infected with hepatitis C virus. Deaths among the under-60s from end-stage liver disease and liver cancers due to the virus have doubled over the last decade. We have in the interferon-free treatment a drug that is effective in successfully treating the disease, as it reduces the viral load in 98% of patients treated to virtually zero in the whole spectrum of genome of hepatitis C virus. Therefore, it is an effective preventive drug for developing end-stage disease. It has the potential to eradicate the disease in the population. In that scenario, why would we treat only 10,000 patients per year, as

[Lord Patel]
the guidance says, for the next two years and not treat every patient who is a chronic carrier of hepatitis C virus?

Lord Prior of Brampton: My Lords, there is clearly a budgetary constraint. The noble Lord mentioned 220,000 people—I thought it was slightly less than that—and this drug costs many tens of thousands of pounds per treatment. Clearly, however much we would like to treat 220,000 people, it is just not feasible to do so. That is why we have NICE, which has produced its appraisals and said that, using its modelling, the number of people who need to be treated in the coming year is likely to be between 7,000 and 10,000, rising to 15,000 by 2021. However, I agree with the noble Lord that this interferon-free treatment is a massive improvement on previous treatments, with a very high cure rate.

Lord Hunt of Kings Heath (Lab): My Lords, this is a wonderful treatment, but what has happened is blatant rationing. The Minister says that it is down to money, but something has long puzzled me. The Government reached a five-year agreement with the pharmaceutical industry that any additional costs over a baseline plus inflation would be refunded by the industry and, every quarter, his department gets back millions of pounds from the drugs industry. So can he tell me why arbitrary limits are being placed at local level on the provision of new drugs? What is happening to that rebate money? Is it in fact going back to the Treasury and not the NHS? It is quite unnecessary for there to be this rationing.

Lord Prior of Brampton: I feel almost as if we are living on a different planet—of course there are going to be budgetary constraints. Some of these new drugs are hugely expensive. We have a good scheme—the PPRS scheme that the noble Lord referred to—which enables us to get rebates from big pharma, but some of these new drugs are extremely expensive. I cannot say what the exact cost is of this interferon-free treatment for hepatitis C, but I can tell the House that it is many tens of thousands of pounds for a treatment. There are 220,000 people who could benefit from this treatment, according to the noble Lord, Lord Patel—that means many billions of pounds. If we spend many billions on this particular drug, there are many billions that we will not be able to spend on mental health or in other parts of the NHS.

Lord Mancroft (Con): My Lords, can my noble friend be kind enough to tell the House what the 200,000 people who will not receive treatment this year are expected to do, how long they are expected to wait for treatment and—bearing in mind that most or many of them will develop cirrhosis and liver cancer and go on to die—how much it will cost the taxpayer and the National Health Service to care for and treat each patient through to death? How much less is it than the cost of providing treatment today?

Lord Prior of Brampton: My Lords, there are many people who suffer from hepatitis C who are asymptomatic and do not know that they have hepatitis C, so I do not know if the figure of 220,000 is true or not. But people with it can have treatment using the drug interferon—which is an extremely unpleasant treatment that can take up to a year and has some very horrible side effects. This new drug is, in many ways, a miracle drug. It is a fantastic drug, but it is incredibly expensive. We have to accept that, not just for hepatitis C but for many cancer treatments, there are going to be some drugs that are too expensive to spend on huge numbers of people.

Baroness Walmsley (LD): My Lords, if there are budgetary constraints, surely those victims who were infected by state action should have priority. Is the Minister aware that there are many Welsh patients who were infected with contaminated blood in English hospitals and are now being used in a game of pass the parcel between the UK Government and the Welsh Government? Can he say what was agreed at the meeting on 24 March between his officials and officials of the Welsh Government? Patients in Wales have not been able to get an answer from the acting Chief Medical Officer of the Welsh Government on this. Perhaps he could write to me.

Lord Prior of Brampton: My Lords, this new drug for hepatitis C is made available on the basis of clinical need, not the route of infection. There is a consultation going on about whether a special fund might be established for those who have received infected blood. I cannot answer specifically on the issue of the Welsh people but I will write to the noble Baroness on that matter.

Lord Kakkar (CB): My Lords, I declare an interest as chairman of UCLPartners and Business Ambassador for Healthcare and Life Sciences. What progress has been made on the accelerated access review, which is supposed to be able to address some of these important issues with regard to the adoption of innovation into routine practice in the NHS?

Lord Prior of Brampton: The noble Lord makes a very good point. Of course, we hope that the accelerated access review will lower the cost of some of these drugs by shortening the time it takes to approve new drugs. We hope that the accelerated access review will report within a couple of months.

Rural Schools
Question

11.30 am

Asked by ***The Lord Bishop of St Albans***

To ask Her Majesty's Government what assessment they have made of the challenges to be faced by small rural schools in the conversion to academy status.

The Parliamentary Under-Secretary of State, Department for Education (Lord Nash) (Con): My Lords, we fully recognise the challenges faced by small rural schools and are committed to supporting them; for instance, they will each have a named adviser in the conversion process. Many rural schools have been underfunded through an unfair system. Our new national funding formula will match funding to need and reflect their unique circumstances, ensuring that they remain at the heart of their communities.

The Lord Bishop of St Albans: I thank the Minister for his response and for those details. However, does he recognise that this is about not just the viability of rural schools but the viability and sustainability of whole rural communities, given the important role that schools play in attracting and retaining workers in rural areas? Many people are concerned that, if rural schools are put into multi-academy trusts, those trusts will not have the same obligation to take into account the wider issues of rural sustainability; indeed, there may be huge pressure for mergers and closures based simply on finance and nothing else. In the light of that, can the Minister tell us what the Government intend to do to prevent that happening?

Lord Nash: The right reverend Prelate raises an extremely good point. No strong school will close as a result of the policies in the White Paper. Indeed, we think that schools will be more sustainable as a result of joining together in local clusters of schools in multi-academy trusts because of the substantial staff benefits that flow from that, and the efficiency benefits, which result in more resources being available for the classroom. We fully recognise the importance of rural schools to their communities. MATs cannot close schools without the Secretary of State's consent, and we would expect our considerations to remain the same for any future school closures.

Baroness Royall of Blaisdon (Lab): My Lords, the sustainability of rural schools and the affordability of rural housing are inextricably linked. What discussions have taken place between the Department for Education and the Housing Minister about the implications of the Government's policy and the housing Bill and how they join together? Also, why are the Government not listening to the thousands of councillors, including Tory councillors, and people up and down the country—Conservative MPs as well as Labour MPs—who say that this policy will not work? Why are the Government not listening?

Lord Nash: We actively discuss housing with DCLG in relation to making sure that there are enough places available for schools in anticipation of housing developments and Section 106 agreements, for example. We are listening to councillors. Many councils recognise that, with many schools becoming academies, they no longer have the ability to support those schools. Many councils recognise, as do most people in the education system, that the best way to support schools is through local school-to-school support.

Baroness McIntosh of Pickering (Con): My Lords, will my noble friend the Minister give the House an assurance that the 40 least-funded education authorities will have per capita funding addressed so that rural areas will benefit greatly from the new funding formula?

Lord Nash: We have very much taken into account the issues of rural schools in the national funding formula. They will be getting both a lump sum and a sparsity factor. I hope the noble Baroness will be pleased with the outcome.

Lord Storey (LD): When you close a rural school, you literally tear the heart out of that community. The issue is not about structures; it must surely be about resources. If the Government are hell-bent on making rural schools part of multi-academy trusts, does the Minister agree that such a trust must have its other schools within that community, not outside it? In other words, the trust should be only in that county area. Secondly, we have seen governing bodies of trust schools being abolished. Can he assure us that every village school will keep its governing body?

Lord Nash: As I just mentioned, rural schools will get a lump sum for a sparsity factor in the national funding formulas, so we are cognisant of their particular circumstances. As I think the noble Lord knows, we very much favour local schools working together in local clusters. Indeed, in the last few years hundreds of multi-academy trusts operating in their local regional clusters have come together, so this is absolutely essential.

Baroness Armstrong of Hill Top (Lab): My Lords, I wonder if the Minister will understand this. I have visited a local school in Weardale, up in the north Pennines, where we have several schools with fewer than 50 pupils. I spent the day at that school, and the involvement of the local community in it both as governors, including the chair of governors, and as parental support is absolutely critical to children there having a whole and good experience. It happens to be an outstanding school. However, I also know from the multi-academy trusts that there is real concern that they will be asked to do things which they do not want or have the real capacity to do, because they are concentrating on schools where achievement really needs shifting. This is going to stretch the academy chains to breaking point. The Government are getting it wrong from both ends. Why will they not listen?

Lord Nash: I fully understand the point that the noble Baroness makes. I would recommend that any small, rural school which is concerned about the issue talks to people who run multi-academy trusts to understand the substantial staff benefits that there are from working together in this way. Most people whom I talk to in multi-academy trusts say, "When I was running one school, I used to lose all my good staff. Now I can provide them with career development opportunities across the group". These benefits are very substantial.

Transport for London Bill [HL]

Commons Amendments

11.36 am

Motion

Moved by ***The Chairman of Committees***

That this House do agree with the Commons in their Amendments 1 to 6.

1: Recitals, page 1, leave out lines 6 and 7

2: Clause 5, leave out Clause 5

3: Clause 6, page 4, line 14, leave out "or a limited partnership"

4: Clause 6, page 4, leave out line 16 and insert "a member; or"

5: Clause 6, page 4, leave out lines 32 and 33

6: Clause 6, page 4, line 34 leave out "(c)" and insert "(b)"

The Chairman of Committees (Lord Laming): My Lords, with the leave of the House, I beg to move that the House do agree with these amendments en bloc.

Motion agreed.

The Economy

Motion to Take Note

11.37 am

Moved by ***Lord O'Neill of Gatley***

That this House takes note of the steps Her Majesty's Government are taking to build a stronger economy.

The Commercial Secretary to the Treasury (Lord O'Neill of Gatley) (Con): My Lords, it is an honour for me to lead this debate today on the economy and our prospects. Let me add that I am glad to see that the topic of economics is as stimulating as always. The purpose of this debate is partially to give noble Lords an opportunity to contribute, in view of the fact that the Budget debate was held in the Moses Room, given the heavy legislative agenda. With this in mind, as many might have participated there, my opening remarks will be offered in a slightly different style so as not simply to repeat much of what I offered that day.

I also take this opportunity to pay tribute, on the sad news of his recent passing, to the remarkable contributions made by Lord Peston to this House and our country as a whole.

Since this Government came to power, the economy has made good progress: no other G7 economy has grown faster; we have record levels of employment; our fiscal deficit has declined considerably; and we have a clear path to the goal of a fiscal surplus and reduced government debt. Nevertheless, we face a considerable period of uncertainty around the world and, as an open economy, we live in that world with consequences for us from what happens to the rest of the world and the actions we may take in engaging with it. With this in mind, I will make some comments about the EU referendum and its possible interplay with two of our ongoing economic challenges: our low recorded productivity performance and our large external deficit.

It is a fact that for a long time, the UK has experienced much weaker levels of productivity than our G7 neighbours. It is apparently also the case that since 2010, our productivity performance has been weak compared to the pre-crisis period, as is seemingly true for the rest of the G7, but with ours deteriorating more than others. We have spent time debating the causes, and in the past year we have introduced a range of policies to remedy some of these challenges, but I will present some further aspects of this complex and challenging issue today.

Interestingly, there is no real evidence that financial markets are especially troubled by this—at least yet. Since 2010, our trade-weighted exchange rate—the average of our exchange rates against all our neighbours—has risen by around 6%, while those of five of our G7 partners have declined. Since 2015, our trade-weighted exchange rate has indeed declined, by just under 5%, which is more than the rest of the G7, but this only takes back some of the rise since 2010.

If there were concerns around the world about our ongoing productivity performance, you might expect a larger sustained weakness. It is also evident from other key financial indicators—be it our appropriate measure of equity indices or our gilt market performance compared to elsewhere—that there are no signs of structural underperformance. This is gratifying and could be read as suggesting that markets do not entirely believe the accuracy or importance of the reported productivity data, or that there are much important influences at work, including perhaps our strong GDP and employment performance. None the less, we cannot take this "kindness of strangers"—to paraphrase the Governor of the Bank of England—as a given, and if our productivity underperformance persists or deteriorates further, and/or other, strong aspects of our economic performance reverse, then markets might behave differently. I shall return to this later, but as the Treasury has shown recently, a vote to leave the EU might be regarded as a negative productivity shock.

If you adjust our reported productivity data for their employment strength, and again compare them with the rest of the G7, our underperformance does not look quite so bad. Although the link between productivity and employment is uncertain, recent work by the French academics Bourlès, Cette and Cozarenco—apologies for my pronunciation—has identified a relationship between the employment rate, the number of working hours and the level of productivity.

Making use of this work, and adjusting our competitors' employment rate and working hours to match our own, we can generate illustrative estimates of what one might regard as a truer productivity gap. These estimates find that the gap drops considerably with some of our neighbours: approximately 40% with Germany, around 50% with France and over 70% with Italy.

There are also some important facts to highlight from the reported productivity data. For example, and again in contrast to much of the perception, some of our key service sectors have been reporting strong productivity performance: notably, wholesale and retail, which has grown by 11.3% since the start of 2010.

It is not true that, as is often perceived, manufacturing is the source of the strongest productivity performance. As reported—and again, not generally appreciated—in fact, two of our weakest productivity performers since 2010 have been financial services and oil and gas, both reversing previously apparently strong productivity performances. There is a case to be made that the recent weakness might simply be compensating for what was actually, in hindsight, not sustainable productivity. If that is indeed true, this part of our supposed recent productivity weakness is not something to be concerned about. Of course, it might be that these sources of productivity weakness need to be reversed, which, if so, is contrary to much popular perception of our immediate challenges. More analysis on this conundrum is definitely necessary.

Whatever is the case with that interesting challenge, I remain happy in general with our progress in pursuing the policies that deal with our longer held major sources of underlying productivity weakness. An essential part of that plan is to invest in skills and training so that we can meet the needs of employers. That means, for example, making sure that the adult skills budget is protected, or creating a new network of national colleges and institutes of technology.

It also means giving more young people the opportunity to develop high quality skills, and our expansion of apprenticeships is about quality as much as quantity. By 2020, we will have doubled what we spent on apprenticeships in 2010 in cash terms.

We also need to make sure that we have the best possible infrastructure in place. That is why we have established an independent UK Infrastructure Commission and stepped up investment in the road and rail networks we need, such as Crossrail 2 and so-called High Speed 3.

Lastly, we need to realise our vision of a northern powerhouse—something in which I am particularly involved—to make sure that we realise the productive potential of all parts of the United Kingdom. As well as investment, devolution remains a crucial aspect of this.

I turn to the second so-called Achilles heel: our current account balance of payments. This is a perceived weakness which is of course worthy of some concern. The latest data show a sharp deterioration in the fourth quarter of last year to 7% of GDP, and as a consequence of that quarter's number, for 2015 as a whole the reported deficit was 5.2% of GDP.

As I shall explain in a minute, there are important qualifications that suggest that this external deficit might not be quite as concerning as it might be if it were dominated by a deteriorating trade deficit. But, whatever that explanation, it is also true that if strangers were to become less kind, it could be problematic, especially if it coincides with a new, clear negative productivity shock.

Examining the data in detail reveals that for the past four years, our trade balance has stabilised, albeit with a deficit that is still too high. The actual source of the current account deficit deterioration is in the so-called non-trade accounts. Earnings from our overseas investments have declined—presumably reflecting lower economic growth—while our returns to overseas investors, perhaps reflecting our superior economic performance, have stayed relatively strong. As such, we ran an income deficit—the difference between the two—of nearly 2% of GDP last year. One might imagine that, as the rest of the world economy strengthens, especially in the rest of Europe, those returns should increase as this part of the external accounts improves, possibly significantly.

However, as I personally have discovered in recent discussions with many large foreign investors, including some that I have visited—I was in the Middle East the week before last—if we were to adopt policies that might give rise to increased risk premia in their eyes, they might decide to stop investing here, which would result in an investment shortfall for the UK that would, among other things, immediately require a corresponding domestic rise in our savings rate. This could be translated in a number of different ways, but it would quite possibly be the case that this could be forced through an immediate cut in our consumption, which itself could be forced by an adverse reaction in financial markets.

Against the background of these two issues, let me now turn to the EU referendum. As shown in the document we published on Monday 18 April, a decision to leave the EU would represent a classic trade and productivity shock, and it would occur at a time when our current account requires ongoing net positive capital inflows to maintain financial market stability. This analysis found that a decision to leave the EU would lower GDP by 6.2%, leaving the average household £4,300 worse off, if we assume that the UK would negotiate a bilateral trade agreement such as Canada's. However—I am sure most noble Lords are more than aware of this, but for those who are not—it is not just the Treasury's analysis which shows this: the bulk of credible economic analysis, including that produced by the Bank of England, the IMF, the LSE's Centre for Economic Performance and, yesterday, the OECD, corroborates the broad findings of the Treasury. This seems a very unsatisfactory risk/reward ratio unless there are clear, definable long-term benefits.

Lord Forsyth of Drumlean (Con): My noble friend referred to the Treasury document and its estimate of the effect of leaving the European Union. It included an estimate projecting 15 years ahead that we will have 3 million more people in this country as a result of immigration. Will he tell the House what provisions are made by the Treasury to fund the health, education, housing and other costs that would arise from that?

Lord O'Neill of Gatley: My Lords, I could spend a lot of time specifically wading into this question. I will reflect on other comments I hear and try to incorporate them in my closing comments. In our transparent and clear fiscal policy framework we have committed to a path for all sorts of areas of government spending over the remainder of this Parliament, including protecting those areas that we think most need it.

I will finish my opening remarks as quickly as possible.

Lord Forsyth of Drumlean: My noble friend has not answered my question. The Treasury document assumes that there will be 3 million people here as a result of our inability to control immigration. That has huge implications for spending. The document made no reference to that and I can see nothing in any of the Treasury's plans that indicates how the costs of the schools, hospitals and other infrastructure that will arise will be met in those circumstances. Surely the Minister has an answer. It was his document.

Lord O'Neill of Gatley: My Lords, as I said, I will make some further specific comments in answer to this question after I have heard the collective input of the whole of the House.

Lord Davies of Stamford (Lab): My Lords, is it not the case that the Treasury document referred to by the noble Lord, Lord Forsyth, makes it absolutely clear that the growth in our income as a result of our remaining part of the EU will be much greater than would occur if we left the EU under any circumstances and that the amount of additional gross domestic product that would be generated as a result would be more than sufficient to cope with any additional costs involved in social security, health or educational provision?

Lord O'Neill of Gatley: My Lords, for now I shall try to answer that question in the context of the remaining part of what I had planned to say—otherwise I will be eating into everyone else's valuable time.

As somebody who has spent considerable time exploring the rise of the so-called emerging world and the changing patterns of world trade, I believe that I can articulate the case for the UK to benefit from a rise in the role of China, India and others while continuing to benefit from being a member of the EU. Indeed, as was clearly shown in this document, despite the challenges that being a member includes, the growth in our trade has been quite considerable since we became a member.

It is important to recognise that the presumed changes in trade patterns that I have been at the centre of articulating may never happen anyhow: that is a possibility. Even if they do, though, it remains the case for the foreseeable future that the EU is set to remain our dominant trade partner, currently accounting for around 44% of our exports. As I said, there is no doubt that our membership has made it easier to trade with not only the EU but the wider world. Trade as a share of national income has risen to over 60% in the last decade, compared with under 30% before we joined the EU. Membership has also made the UK an attractive place for foreign investors, with the equivalent of £148 million invested here every day for the last decade. Almost three-quarters of foreign investors cited our access to EU markets as an important factor in their choice of the UK.

In conclusion, there have been indications recently that our economy is continuing to grow—but, as I have highlighted, there are clear risks to that being sustained. We must continue to work hard to address the systematic issues that are a barrier to strong growth, in particular those of weak productivity and our current account deficits, where the issues are genuine and not, as perhaps some aspects are, statistical quirks and issues of economic interpretation.

The financial markets will of course continue to watch closely what happens in the debate over the UK's membership of the EU. This has clearly had an effect already in the recent past. Some measures of so-called sterling volatility have increased dramatically since January, and in the week following the February European Council the pound fell quite sharply. The Monetary Policy Committee commented a couple of weeks ago that,

"much of the fall in sterling reflects uncertainty surrounding the forthcoming referendum on the United Kingdom's membership of the European Union".

In the past week the pound has made a notable recovery as the markets have readjusted their probabilities concerning the EU vote outcome. No doubt this volatility will remain and possibly intensify.

The longer-term ramifications of us leaving could be far more wide-reaching than just volatility for the pound. In my judgment, a vote to leave would constitute a considerable risk to both our economic security and our global influence that we would be bringing on ourselves with no certainties about the alternatives. In that regard, it is not a risk worth taking. There are no silver bullets for our challenges. That is why the Government must continue to follow a long-term plan to take action over not just the next few months but the next few years and decades.

11.58 am

Lord Tunnicliffe (Lab): My Lords, I thank the Minister for introducing this debate. I thank him particularly for his kind remarks about my late noble friend Lord Peston. I feel that Lord Peston as an academic would have enjoyed the early part of the Minister's speech because of its generous use of conditional clauses, which I am sure he would have picked his way through with some relish.

While I expect today's debate to be wide-ranging, I will focus on last month's Budget as the most significant recent step. In many ways, when it comes to the latest Budget—and perhaps this is true of most Budgets—the devil is not only in the detail but, more importantly, in the details that were missing. The Budget was certainly a masterclass in creative accounting, but when we have an economy which requires investment and innovation, regional communities with desperate need of support and assistance, and families which feel abandoned and betrayed, we need, and indeed expect, more than political posturing. Instead, we got a Budget which revealed much more about where the Government's true priorities lie. It laid bare the Chancellor's failure and did nothing to tackle the underlying challenges which face our economy.

Very often, the details of Budgets unravel in the days following the Chancellor's Statement, and unravel they did. The decision to cut the personal independence payment—PIP—the resignation of the Secretary of State for Work and Pensions, Iain Duncan Smith, and of course the U-turn, all in a space of a few days, or rather a few hours, reflects the scale of the failure of this Budget. If the Chancellor had not changed course on PIP, 370,000 disabled people would have lost an average of £3,500 a year, and while of course the U-turn is welcome, it leaves us with more questions than answers as to where the additional savings will be made.

However, plenty of decisions that were taken in this Budget will not be reversed. The Institute for Fiscal Studies and the Resolution Foundation both pointed to the figures, which show that as a result of the Budget the richest in society will receive a cash gain in this financial year of more than £250 a year. The next richest 10% will get £150 extra, and the next richest decile after that will receive a benefit of around £75. In contrast, the gains for those on lower incomes are small in comparison. In short, this Budget, as with previous Budgets, is helping the rich get richer and the poor get poorer. The cuts in tax credits and benefits changes made in the last Parliament meant that low-income households with children were the biggest losers as a proportion of their income, and that trend looks set to continue.

The Resolution Foundation analysis shows that 80% of gains from the Budget income tax changes go to the top half of earners. Its analysis of all major post-election policy announcements today shows that, by 2020, the poorest 30% of households are set to lose around £565, while the richest 30% are set to gain around £280. The poor are getting poorer and the rich are getting richer. How is this reasonable, just or fair by any standards? Can the Minister comment on these figures and on what this Budget is doing to the most vulnerable people in our society?

I suspect that many of the figures I have just quoted will be repeated this afternoon, and why should they not? It is extremely powerful data. However, too often we forget what these numbers mean in practice and what it means for the people behind these figures. I suggest to anyone who has not read it already that the Joseph Rowntree Foundation report into destitution—the first study of its kind in the UK—offers an illuminating reflection on the daily struggles, the psychological impact and the economic consequences of what poverty does to individuals as well as to their relationships with family and society. The report reveals that 1.2 million people, of whom over 300,000 are children, live in destitute poverty. Destitution is defined as:

"When someone lacked two or more basic essentials in one month".

This means that, over that month, people had,

"slept rough, had one or no meals a day for two or more days, been unable to heat or to light their home for five or more days, gone without weather-appropriate clothes or gone without basic toiletries".

We would find difficult to imagine these existences and levels of pain, and very few of us will have experienced them.

The most common causes of people being in this situation are the extra costs of ill health and disability, the high costs of housing and other essential bills, unemployment or a financial shock such as a benefit sanction or delay. Let us compare that with the situation at BP, where the chief executive, Bob Dudley, has just been given a £13.8 million pay package, despite the company posting its worst-ever annual losses this year. When you compare the cases of destitution and BP, the sheer absurdity of the situation is inescapable. We really are living in an age of extremes, and I am afraid that we have a Government who are exacerbating the problem rather than finding solutions.

While this Government may not be too concerned about failing the most vulnerable in society, at the very least I would have expected them to care about failing to meet their own targets, but they have failed on nearly every measure. They have failed to deliver on growth and productivity. GDP growth has been revised down for last year, this year and every year in the forecast compared with the Autumn Statement last November, as has productivity growth. I know that my noble friend Lord Davies will go into more detail on this in his closing remarks. They have failed on debt and borrowing. A year ago, George Osborne boasted:

"The original debt target I set out in my first Budget has been met",—[*Official Report*, Commons, 18/3/15; col. 769]

but last month it was confirmed that that was no longer true. Public sector net debt in 2015-16 will now rise to 83.7% as a proportion of GDP, or £1,591 billion—£275 billion higher than he expected in June 2010. The weakening economy means that, over the course of this Parliament, George Osborne is now set to borrow £38.4 billion more than he planned just four months ago. The Government have also failed to deliver on investment. Public sector net investment is set to fall as a share of GDP from 1.9% to 1.5% over the course of the Parliament.

Yet, despite all those misses, the Chancellor has convinced himself that his Budget is a hit, because he claims that,

"in 2019-20 Britain is set to have a surplus".—[*Official Report*, Commons, 16/3/16; col. 955]

Very few seem to share the Chancellor's optimism, and with good reason. Both the OBR and the IFS have said that he has only a 50:50 chance of meeting that target. You can move around numbers for only so long before you run out of options. Indeed, if it were not for the Chancellor's creative accounting, he would fail to meet his 2019-20 target. As Paul Johnson, director of the IFS, said in his opening remarks of the Budget briefing regarding the problems associated with unconvincing growth in the economy:

"It inevitably causes problems for the fiscal target—to get to budget surplus by 2019-20. Indeed these changes cost the Chancellor more than £13 billion in that year. He made up just slightly more than that £13 billion through policy measures. But this is a rather odd £13 billion. More than half of it is purely temporary—shifting tax revenues into that year and shifting capital spending out. The target would not be forecast to be met without both this shuffling of money between years and a wholly unspecified spending cut of £3.5 billion on top of the specific cuts announced in November. The Chancellor is confident that the efficiencies can be found to achieve this spending cut, but won't be able to tell us where they will come from until 2018.

In the longer term the public finances are kept on track only by adding yet another year of planned austerity on the spending side. Spending in 2020-21 will be £10 billion less than planned".

As well as this creative shuffling, the Chancellor has still not accounted for £2 billion-worth of public spending saving, as well as the £4.4 billion that the Government had hoped to save from PIP. Perhaps the Minister when he responds could provide more detail than the Chancellor was able to. If you want to read a Budget that offers a true reflection of the economic realities of our country, do not read this one.

Something different must be done, because while the Chancellor has focused on meeting his surplus target—a target he is just as likely to miss as to reach—the foundations of our economy are dangerously unstable. The figures published by the OBR—I am one of the few sad people who actually reads the document from cover to cover—on sectoral net lending show the stark reality of what is driving our diluted economic growth. Risky, unsecured lending by households is rising at the fastest rate since 2008. Households are

[LORD TUNNICLIFFE]
expected to spend £58 billion more than they earn this year, rising to £68 billion by the end of the decade. This is up from the respective forecast of £41 billion and £49.2 billion in November's Autumn Statement. The UK's household deficit, the amount by which debts such as credit cards, car leases and student loans exceed our income, will reach 3% of GDP and stay there for an extended period. The Government may have reduced public borrowing, but they have subcontracted the task to households. As the OBR has said quite unequivocally:

"The persistence of a household deficit of this size would be unprecedented in the latest available historical data".

Strong words indeed, and words that should be heeded, especially given the fact that if interest rates start to rise, millions of families will face serious hardship.

The truth is that it is a sad reflection of the state of our economy that this insecure lending has become the norm. As Frances O'Grady, General Secretary of the TUC, has said of this reliance on debt:

"Rising household debt signals that too many people are still struggling to make ends meet. With pay growth slowing, and households facing a lost decade on wages, it's no surprise that more families are relying on borrowing to meet the costs of day-to-day essentials. Although employment has risen, wages are still worth less today than eight years ago. This has left families struggling to meet the rising cost of living. We need a recovery where families can afford to pay their bills and raise their children without relying on credit cards and payday loans".

Today's Motion is that this House takes note of the steps Her Majesty's Government are taking to build a stronger economy. This Budget is one step that makes the economy weaker not stronger, and sentences millions of our citizens to long-term financial misery.

12.12 pm

Lord Newby (LD): My Lords, I thank the Government for initiating this debate. I also join the Minister in his tribute to Lord Peston. Anybody who, like me, has sat through many economic debates in your Lordships' House will miss the energy and wit that he brought to every contribution he made. On a personal level, I will miss the friendship of someone who slightly took me under his wing when I was a new Member to your Lordships' House. With him, I was a founder member of your Lordships' Economic Affairs Committee, of which he was such a distinguished chairman.

The biggest foreseeable risk to the prosperity of the UK lies in the outcome of the EU referendum. Therefore, I intend to devote my remarks entirely to that today. In doing so, I regret the complete absence from the speakers list of the sages of the Government Privy Council Bench and, indeed, the UKIP Members of your Lordships' House.

The heart of the economic argument about EU membership or not lies in our long-term trading prospects. The trading picture of the UK has changed significantly since we joined the EU in 1975. Then, trading was largely in goods; now, we are the leading services exporter as a proportion of output in the G7 and some 40% of our exports globally and to the EU are in services. The EU is now by far our biggest export destination as a whole, as the Minister said, with some 44% of British exports going to Europe. It is acknowledged that the increase we have seen with trade in the EU is directly linked to our membership of it. The Centre for European Reform says that it has raised trade by 55%, while the Government argue that it has done so by between 68% and 85%. Whatever the exact figure, it is hard to deny that it is a substantial amount.

What are the opportunities and threats to our trade from staying in or coming out? If we stay in, we know that the completion of the single market in services, which is moving forward with greater energy, will significantly benefit the UK simply because we are the leading provider of services. This is an area where there is the greatest potential for growth worldwide and an area where the UK is in a very strong position to benefit. We also know that the EU is well down the track of negotiating—and completing negotiation on—trade deals with some of the largest economies in the world, including the US, Japan and India. When those trade deals are completed, as they will be, we will get benefits from them by virtue of our membership of the EU.

We can see very tangibly what some of the benefits will be in terms of trade if we stay in. If we come out, however, we do not even know what the preferred trading relationship of those who advocate coming out is. Nigel Farage suggested yesterday that he preferred a relationship that was, as he put it, like that of either Switzerland or Norway. There is quite a big difference between Switzerland and Norway; it would be useful if he could narrow that down a bit. Boris Johnson said that we should have a deal like Canada's and then, under criticism, said that we should have a deal like the WTO's. Michael Gove surprised everybody by saying that we should have a deal that mirrored that of Iceland or Albania. I strongly recommend that noble Lords who have not done so read the article in the *Times* of 25 April by the Albanian Prime Minister. After describing Michael Gove's suggestion as "weird", he eloquently explained why seeking membership of the EU is in Albania's interests and why, even before being a member, Albania's aspirations to join the EU have "made the impossible possible". Mr Gove threatens to turn that aspiration on its head for the UK and make what is possible for the UK in the EU impossible outside it.

Lord Bruce of Bennachie (LD): Does my noble friend not also think that Michael Gove let the cat out of the bag when he said that what he really hoped was that once Britain left the EU, the EU would disintegrate, and that is really his objective?

Lord Newby: I think it may be his objective and I find it the most irresponsible statement I have ever heard, given the history of Europe through which we have lived and which we know from the history books.

Whatever the relationship with the EU is likely to be, it will not be on the same terms as now. Even in the closest feasible relationship, such as that with Norway, we will have to accept the rules and costs of membership with no say over them. This will have a negative effect on trade, particularly in services. In financial services, failure to retain the right of companies to passport their services from the UK to the rest of the EU, if we form an agreement on those lines, would undoubtedly lead to significant job losses in the City— some estimate as many as 100,000—to the benefit of Frankfurt, Paris and Dublin, which certainly have the capacity to pick up the baton. If we were unable to keep the passporting rights, rules set by the EU would undoubtedly over time, as sure as night follows day, disadvantage the City. So, whatever the post-Brexit relationship, our position re trade with the EU will be less favourable than it is now.

What do the Brexiters say? They say we do not need to worry about trade with the EU because outside the EU our trade with the rest of the world would blossom, particularly with the fastest growing countries in Asia and Latin America. This argument has been used in recent days by as wide a group as not only Michael Gove but the noble Lord, Lord Owen, and Sir Ian Botham. However, for this to be true it would have to be the case that UK companies are currently hobbled from exporting outside the EU, that we would be able to get better trade deals by negotiating on our own and that there is a reserve army of UK companies waiting in the wings ready to take up those new opportunities.

All these assertions are false. Are British companies currently constrained from exporting outside the EU because of EU rules? There is no evidence for this. True, we export less than Germany by a factor of over two to China, India, the US and Brazil. However, the fact that Germany exports so much shows that EU membership in itself is not a barrier to successfully exporting globally. Indeed, over the past decade, our exports to some of these countries has greatly increased—to China by over 70% and India by almost 30%. The reason for our relatively poor historic performance and relatively strong recent performance has had nothing to do with the EU—it is because there has been a concerted push by British exporters, backed by the Government, to increase exports to those countries which was largely lacking before. It is worth emphasising that our exports to the BRIC countries, even if you include South Africa in that definition, is well under 10% of the total, compared to 17% to the US, let alone the 44% to the EU.

The second myth is that we would get better trade deals on our own if we were not held back by the EU. This myth has been romantically advanced by Ian Botham in respect of the English-speaking, cricket-playing members of the Commonwealth.

Lord Spicer (Con): One of the wisest observations on this matter of trade was made by my noble friend Lord, Lord Lawson. He said that it was all irrelevant anyway because 75% is covered by the World Trade Organization rules.

Lord Newby: The World Trade Organization's rules are, in many ways, the worst option. Why are we having all these trade negotiations with countries around the world when we already have the WTO rules? The reason is that they are not good enough—otherwise we would not be spending years trying to get better deals. Incidentally, we spent years trying to get another round of WTO improvements and failed. The only reason for bilateral deals as the EU is because we could not get better deals via the WTO route.

As I was saying, all the Commonwealth countries that play cricket, as far as I am aware, have said that they wish us to remain in the EU. Indeed, the reason we have had difficulties in exporting to India is because of the protectionist policies of the Indian Government. It has ranged from difficulties in exporting Scotch whisky through to extreme difficulties for British lawyers and accountants doing business and setting up businesses in India. As to the US, President Obama made the position starkly clear last week. We would be at the end of the queue for a trade deal, a position supported by Hillary Clinton.

The third myth is that there is an army of companies champing at the bit to do business in far-flung parts of the world rather than in the EU. However, the surveys undertaken by the Federation of Small Businesses when I was a Minister pointed out that the vast bulk—well over two-thirds—of small businesses thinking of exporting for the first time looked to do so to the EU. The reason is obvious. It is inelegantly expressed in the Treasury's equations as "dist"—that is, the distance between the UK and EU compared to other markets. Small companies often cannot afford the time, expense and complexity of undertaking sales and marketing activities in China, say, compared to France. This was borne in on me with a small manufacturing company in the high Pennines that I know. Out of the blue it got a £50,000 order from Brazil. The marketing manager was immensely excited and went to the manager saying, "I want to go to Brazil to meet these people, whoever they are, and to expand over there". He was told, "I am terribly sorry but you can't. We can't afford the time or the money". If that had been an order from France, he would have been on the next plane.

The growth rates of some of the alleged El Dorados of the BRICs and elsewhere are now lower than those in the EU and the challenges of corruption and weak legal rights in many of them have not materially abated. The overwhelming arguments about the straightforward trading advantages of being inside the EU are reinforced by the beneficial effect of membership on direct investment and productivity. The Minister has outlined those arguments and so I will not refer to them.

It seems to me that all the arguments in respect of trade are absolutely compelling and need to be deployed as effectively as possible over the coming weeks. They are set out comprehensively in the Treasury's analysis of the long-term economic impact of EU membership and the alternatives. However, the document, despite a perfectly good summary, is not easily accessible to the lay person. Therefore my only question for the Minister is this: what is the Treasury going to do to promulgate the headline arguments in that document in a clearer and more readily understandable way?

I have not said anything about the short-term shock which leaving the EU would undoubtedly cause the UK Government, but clearly that will also be considerable. The judgment the Government have taken in having a referendum in the first place is an extremely risky one and is probably the decision by which they more than any other Government will be judged. It is in all our interests that we get it right.

12.26 pm

Lord Northbrook (Con): My Lords, I too would like to pay tribute to Lord Peston. I made my maiden speech in an economic debate shortly after we left the ERM in 1992—not the easiest time to make uncontroversial remarks. Lord Peston made his usual brilliant contribution just ahead of my speech. In a loud stage whisper, Lord Whitelaw then remarked, "That is the most intelligent person in the House", which did not steady my nerves. I learned the truth of that remark over many years from Lord Peston's contributions to our financial debates and committees.

As the Minister said in the Budget Statement debate on 23 March, there are many positive stories to tell about the UK economic situation. The OECD has forecast that the UK will be the fastest-growing major advanced economy in 2016. The investment bank Kleinwort Benson reports that, according to 50 of the most highly regarded economists, the economy is expected to grow by 2.1%. The highest forecast is 2.7% and the lowest is 1.5%. On unemployment, over the past three years the UK has seen the rate fall from around 8% to just over 5%.

Figures on the public finances are less negative when they are viewed in a historical context. In 2015-16, borrowing was 3.9% of GDP, the lowest ratio we have seen since 2007-08. According to Andrew Sentance, a former member of the MPC, the Government's deficit is now within the range of 2% to 4% of GDP, which was the norm in the mid-1980s, mid-1990s and mid-2000s. We are now at a much safer level of government borrowing, and we do not really need a lecture from the noble Lord, Lord Tunnicliffe, about government borrowing. If a Labour Government had come back into office, goodness knows where borrowing would have gone, let alone what might happen if Jeremy Corbyn comes to power.

It will take much longer to repair the damage to public finances created by the financial crisis. However, care should be taken not to make short-term reactions to any OBR change or forecast by spending proposed windfalls that may not materialise or tinkering with the tax system, which can make matters more uncertain for business.

The latest GDP figures, published yesterday, showed, as expected, a slowdown in the UK economy, with the figure coming out at 0.4%, or an annual rate of 2.1%. The service sector played a major part in that figure. The slowdown had been anticipated by the OBR economic and fiscal outlook in March, but Capital Economics UK analyst Ruth Miller believes the expected slowdown to be temporary. She said:

"Many of the factors likely to be to blame for the first quarter's weakness should prove short-lived. We would not be surprised if growth were to subsequently accelerate in the second half of the year, putting the economy back on track".

Inflation remains under firm control, which certainly surprised me, as I thought that quantitative easing would lead to it rising sharply. However, we seem to be in a low-inflation climate for the time being, which has meant that interest rates have been able to stay low for a long time. As the Minister said in his opening remarks, the trade-weighted exchange rate has been sound. Although pensioners and savers have suffered, it has generally been good for the economic climate.

However, as the Minister said in the March debate, there are still significant economic issues that need to be addressed. He rightly focused on the delay in getting the deficit down in the next five years. This is due to lower forecast tax receipts, caused in the Government's view by weaker productivity and the weaker outturn for nominal GDP. This reflects a common recent phenomenon of low productivity growth across western economies. Economic turbulence, such as in China, has also led to weaker growth forecasts for the global economy and global trade.

The Minister's short-term cautious views are backed up by recent UK economic statistics since the March debate. Manufacturing production, which had appeared to stabilise in the second half of 2015, showed a further fall in February. It remains to be seen how long this weakness in the manufacturing sector continues, although it is not specific to the UK. We have seen a softening in industrial growth across many economies linked to the slowdown in China. More recently, figures last week pointed to slower employment growth and a very slight rise in unemployment, although the jobless rate remained stable at 5.1%. Retail sales were also disappointing in March, and government borrowing was slightly ahead of the Budget forecast.

As the Minister has already discussed, productivity has been a recurring problem. At the start of April, figures were published by the ONS indicating that productivity among UK workers during the last quarter of 2015 fell at the fastest rate since 2008. The figure for the manufacturing sector was particularly poor with a fall of 2%.

How worried should we be about these latest economic indicators? On the employment front, the good news is that the number of unfilled vacancies for businesses employing more than 250 workers is still at record levels. It is the smaller firms with fewer than 250 employees that are reporting fewer vacancies, and they have been doing so for a few months now. Is this a temporary problem, or is it an unforeseen consequence of the national living wage? Could this be having an impact on smaller firms with less financial resources and lower pay rates, making them more cautious about taking on new workers, at least in the short term?

I turn to retail sales. The figures on those in March and April are affected by the timing of Easter so need to be treated with caution. However, in the first three months of 2016, and adjusting for inflation, retail sales were still 3.7% up on a year ago. That compares favourably with the final quarter of 2015. It is also quite close to the 4% to 4.5% average retail sales growth in 2014 and 2015, which is strong by historical standards, although I still find yesterday's figures on retail sales a bit disappointing.

On productivity, which the Minister has already covered well, the fall noted above in the last quarter has attracted the following comments. Howard Archer, an economist at IHS Global Insight, said:

"How productivity develops going forward is critical to the economy's growth potential … The crucial question for the UK economy is, does the fourth quarter of 2015 mark a temporary relapse in productivity? Or is it evidence that the UK has an ongoing serious productivity problem?".

Personally, I am unclear on this.

With the economy generally on a much sounder footing, I turn to the interesting report produced by the Treasury on the effect on the UK economy of a decision for Brexit in the EU referendum. As the Minister discussed, the headline figures envisage three separate Brexit scenarios. I am no expert on the basic trade equation that it has used as a background to its conclusions, but the *FT* assures readers that it is,

"not as complicated as it seems".

To go into a bit more detail on the Minister's opening remarks, the conclusions are based on three separate scenarios. In the Norway one, UK GDP would decline by nearly 4% by 2030. In the Canadian solution, where we negotiated a bilateral agreement, the figure would be over 6%. Finally, if we had WTO membership only, without any specific agreement with the EU, the figure would be 9.5%. The *Financial Times* of 19 April, among other publications, goes into further detail on each choice. In the Norway scenario, the Treasury estimates that the reduction in annual GDP per household by 2030 would be £2,600; in the Canadian scenario this would be £4,300; in the WTO scenario, £5,200.

In its editorial of the same day, the *Financial Times* says that the Treasury's analysis,

"leaves little doubt that it is in Britain's … economic interest to stay in".

It says that the Chancellor's department has,

"produced a credible and authoritative piece of work … unlike the Foreign Office, the Treasury has never been a Europhile institution … Most firmly—and correctly—they opposed the idea of Britain joining the single currency more than a decade ago".

The *FT* continues:

"The Treasury's conclusions about the economic consequences of Brexit are in line with … almost every reputable economic body from the International Monetary Fund down … The Out camp has failed to come down clearly on what post-Brexit … arrangement it favours".

It continues that if the Brexit camp,

"cannot respond by addressing the issues it raises head on, they do not deserve to be taken seriously".

In summary, the UK economy is making progress, but there are still considerable problems to overcome that a long-term view must be taken about, rather than short-term political temptation, which creates an uncertain climate for business and individuals.

12.37 pm

Lord McFall of Alcluith (Lab): My Lords, it is a pleasure to participate in the debate and to compliment and reflect on Lord Peston's life. He was a very wise and charitable mentor to me. When I assumed the chairmanship of the Treasury Committee, he invited me to lunch. I remember his words very well. He said, "You'll be faced by many eminent people whom you will question—economists and bankers. But keep in mind the phrase I'm telling you, that these individuals don't know their A from their E". For the sake of sensibilities, "E" stands for "elbow". I was able to go back to Lord Peston a number of years later and say, "Maurice, you were spot on. How prescient you were". I pay tribute to a wonderful man who enhanced the life of the country and this House.

The Minister mentioned financial services as one of the strong areas in building a stronger economy. I will focus on that today, and in particular on my membership of the Parliamentary Commission on Banking Standards and what I consider the unfinished business of changing the culture and practice in banking. I suggest that the Government have not taken steps to build a stronger economy. I, along with others, wish them to take these steps.

Last week, the New City Agenda think tank, which I founded with David Davis MP and the noble Lord, Lord Sharkey, came out with a report on the 10 top misconduct scandals in retail banking in the UK. We were very clear in saying that the profitability of UK banks was still imperilled by persistent misconduct, an aggressive sales-based culture and excessive remuneration. As a result of that, every citizen is poorer through our pension funds and our ownership of the bailed-out banks.

To date, since 2000, £53 billion in fines and redress has been paid by UK banks. Of that, £38 billion alone was for payment protection insurance and £5 billion for interest rate hedging products to small businesses. This equals four times the cost of staging the London Olympics—and, in a Scottish context, you would have been able to pay for the education budget in Scotland for the previous 10 years, and for the next 10 years give every working person in Scotland a £1,000 per year tax cut. That is an enormous sum which has gone out of the economy.

My question is: where have the shareholders been while this has been happening? At a time when the UK corporate governance framework has been called into question, with the BHS scandal this week, and with continuing bad practices in banks, shareholders should be leading the campaign for change in banking culture and in raising professional standards. They should be doing so by forcing senior executives to change unacceptable behaviour and business models. I say that from my experience on the Parliamentary Commission on Banking Standards. We met for two years and asked 10,000 questions. The main conclusion was that senior executives were not taking responsibility.

To change culture in banking you need individual buy-in. It cannot be franchised to outside bodies. It cannot be done by osmosis. I suggest that shareholders and UK Financial Investments—the taxpayer body for bailed-out banks—have been pusillanimous at best and negligent at worst. Why cannot UKFI, on behalf of the Government and taxpayers, take a lead in encouraging other shareholders to demand public and transparent assessments of the progress of each bank? Why can it not appoint an independent body to assess and report publicly? Why cannot UKFI and shareholders ensure that where senior executives preside over misconduct, they are held to account and a significant clawback of bonuses is demanded? That is not happening. Government, regulators and shareholders have taken their foot off the pedal.

After Christmas, the Financial Conduct Authority abandoned its cultural review and incorporated that activity into what it called "normal banking supervision". What does that mean? It means that it is carried out behind closed doors, with no assessment of progress

[LORD MCFALL OF ALCLUITH]
or publication of good and poor practice. This secretive approach damages the accountability of both banks and regulators. I shall illustrate why this is so damaging. Between 2010 and 2014, Lloyds Bank paid out more than £14 billion in retail banking misconduct costs. It paid out just £500,000 in dividends to shareholders but £2.1 billion in bonuses. RBS, another bailed-out bank, paid out £6.4 billion in misconduct costs, not one penny in dividends, and £3.8 billion in bonuses. Barclays could have trebled its dividend to shareholders if it had not had to pay £7.3 billion in misconduct costs.

I shall examine the bonus issue further. The Lloyds annual bonus pool, and the senior executives' bonuses, are based on underlying pre-tax profits. Those profits were up 5% in 2015—but the post-tax profits, after misconduct costs, were down 36%. RBS paid out on long-term incentive plans linked to what it called "operating profit" costs, which excluded misconduct costs. Barclays paid its bonuses on "adjusted" profits before tax, excluding misconduct costs.

The pre-tax profits exclude misconduct costs and the extra tax demanded by the Government. So, eight years after the financial crisis, the bonuses are not paid on real profits and the senior executives do not contribute to the bad behaviour because they are paid excluding misconduct costs. That is the situation today.

Let us take the most egregious example of the payment protection insurance mis-selling: Lloyds Bank, which had to pay £14 billion. The noble Baroness, Lady Kramer, was with me for the session when the former chief executive of Lloyds came along and, when confronted with that £14 billion misconduct, said that Lloyds were on the side of the angels as far as PPI mis-selling went. How far can one get from reality? For presiding over the misconduct regarding how PPI complaints were dealt with, subsequent to selling it—which, by the way, cost Lloyds shareholders more than £1 billion—the Lloyds CEO lost £234,000 of bonuses. That translates to 0.73% of his accumulated remuneration of £33 million over the past five years. How do the FCA and PRA expect the threat of clawback to have a significant impact on management behaviour when the levels of clawback are so minuscule and derisory?

The Parliamentary Commission on Banking Standards called for a rethink of corporate governance and asked for the removal of shareholder primacy in respect of banks. In the light of BHS and others this week, I would suggest that we need a review of the Companies Act 2006. In the same week that Philip Green has taken ownership of a £100 million yacht—after milking BHS dry—11,000 workers in BHS stores have lost their jobs, with many suffering the loss of their pension and others supported by the taxpayer through the Pension Protection Fund.

The establishment of the Pension Protection Fund was not for the benefit of conmen. It was not for the benefit of people who inherited a surplus pension fund and then denuded it and took £500 million to £600 million out of the company. That is not how fair corporate governance should be practised in the United Kingdom and the Government need to do something about it. We are witnessing the extraction of maximum value from a company with no regard for anyone else with an interest: employees, the community or stakeholders. That is in need of urgent change.

I will focus a little more on Philip Green. The Parliamentary Commission on Banking Standards looked at the scandal of HBOS. If you go through the HBOS files, you will see that Philip Green was a recipient of largesse from HBOS. He received personal loans of well over £1 billion, so he was able to buy up companies, milk them and move on because we had a bank that was clueless about corporate governance. The link-up between good corporate governance in a company and how our banks behave is illustrated by this particular point. It really is beyond parody that, a couple of years ago, the Government asked Philip Green to review government spending and procurement. I hope that they lock away his conclusions.

My last point is on Credit Suisse—I know that the Minister will be interested in this. Last week it was reported that Credit Suisse was examining selling bonds that offload its risk from issues such as rogue trading and cybercrime. It will kick in if the losses are between \$3.5 billion and \$4.5 billion. That means that it is tolerating rogue trading and cybercrime—and it shows that very little has changed in the culture. What is the message there? It is that the crooks can survive, but as long as a bank offloads the risk of crooked activity to some other poor sap, that is fine. That should not be how our banks are behaving. I hope that the Minister communicates directly with the regulator on issues such as this to prevent this unacceptable practice.

So I am calling for renewed shareholder vigilance. I am calling for transparency and assessment of progress. I am calling for a proactive regulator so that we do change the culture. I am calling for a review of the Companies Act 2006. While the banks were ripping off customers, the shareholders were looking the other way. I want them to focus on the banks. Perhaps we can reduce this to one banking scandal: the customer has been at the bottom of the pile. If we view this through the other end of the telescope—the customer end—perhaps the country, the Government and the taxpayer will prosper from a stronger and more efficient economy.

12.50 pm

Lord Mawson (CB): My Lords, I thank the Minister for this debate. Building a stronger economy depends on many hundreds of thousands of local economies up and down the country and the small and large businesses and communities within which they are set. The success of our economy does not sit in isolation from everything else. The younger generation know this, as they live out their lives on the internet and are increasingly suspicious of large businesses and their motives. But what does this mean in practice, and what are the disconnects as the systems and processes within and outside government control prevent us joining the dots in an increasingly integrated world in which people are demanding joined-up thinking?

HMG have to recognise the increasingly detrimental effect on our economy of continued silo thinking and practice in government systems in a world increasingly lived on the internet—an online environment that is the defining principle of our age. Over the years I have engaged with a number of different Governments, who have tried and failed to move the siloed processes of government on. Yet I suggest that one reason the young are increasingly disenchanted with representative democracy is precisely because they can see that Governments of differing complexions—no matter what US Presidents say—seem incapable of delivering the integrated and joined-up world they want to live in.

Prime Ministers have dabbled in notions of the third way and the big society but they have failed to create any coherent sense of what this all means in practice and, more importantly, what it means for entrepreneurs and businesses which are capable of delivering this joined-up innovation if only the Government and the Civil Service would stop preventing them. This inertia is now having a profound effect on our economy. At a local level, people are attempting to innovate and do joined-up thinking despite—certainly not because of—government and its labyrinthine systems. Would it not be great if we could get behind these innovators and support the people who live out their lives on computers, which are joined-up environments?

Let us look at one government silo: the health service, which spends many millions of pounds of taxpayers' money on procurement services. We all know that the Chancellor is seeking savings in the NHS but there does not seem to be any correlation between the actions of the health service and, for example, the rise in the consumption of alcohol across the country and the cost this is placing on the public purse.

I heard last week that in one of our great cities a tension has appeared between health and well-being, and the growth of the local economy. In one room in a council building the health and well-being board was looking at the impact of alcohol consumption on its expenditure, as the increase in admissions to the local hospital for alcohol-related conditions had rocketed. This part of the public sector is spending £68 million on new in-patient facilities to deal with this problem. The irony was that while the health and well-being board sat in one room, discussing this state of affairs, the economic growth board sat literally next door, with the connecting door firmly shut—you could not make this up—looking at how it could use alcohol to stimulate the night-time economy and regenerate a rundown area in this famous city. Do not tell me that health has nothing to do with the economy: they are fundamentally connected.

The increase in alcohol expenditure has profound implications for how much we spend on health services. The economy is about more than simply money: healthy communities are essential. If people do not have jobs or personal and social connections, they lose purpose and hope. They become isolated and often turn to drink to self-medicate, numbing the pain of the hopelessness of their situation. Cramped housing conditions, poor aspirations and dependency cultures in our inner cities have major impacts on our economy. They force us to lose and waste the very talent our business community needs.

The possible closure of traditional industries such as Tata Steel will have major social and economic impacts if it happens. What will replace it? In these situations people turn to alcohol, which becomes the way to connect with other human beings—a way to being a community with each other. Go to the Wetherspoon's in our cities up and down this land at 9 am and see what many customers are drinking: cheap alcohol. There is even a business to be made out of this disconnected state of affairs. Health is an economic issue, and economics is about not just numbers but human life.

The history of our economy is that of the connections between trade, people, healthy local communities and aspiration. How do you bring the different pieces of the jigsaw together so that we create a healthy community and a thriving economy? I am working in a town on the outskirts of one of our major cities in the north of England, where a local developer is building a new town centre in what was formerly a steelworks, and in a community that has all the vestiges of a bygone age and the attendant memory of unemployment and loss of jobs. Here, I must declare an interest as the chairman of Well North, a programme attempting to create 10 public health innovations in challenging communities in the north of England. In this community Tata Steel, with its special processes steel works, is hanging on in there—on the edge of that new town centre site—by the skin of its teeth.

A dynamic, local, successful family business is about to create 750 new jobs there. Because it is an intelligent business and understands that a healthy community is all part and parcel of building a successful economy, it is very keen to put a new health centre hub in the middle of the town centre site and connect it to the wider determinants of health in the surrounding community. When my colleagues and I visited this local community last week, we found that one former employee of John Lewis and her friends had bravely taken control of the local swimming pool, which the council had wanted to close because it said it was uneconomic. Stepping up to that challenge, this group of local people have now set up a charity, taken responsibility for this very large building, created a growing customer base and are running the facility at less than half of what it cost the council, with all its middle-management expense. This group of local people recognise that a swimming pool is a health project, as well as a social and economic asset.

A group down the road, led by a local businessman, have taken responsibility for a suite of community buildings. They now run a nursery and a range of community facilities and activities that bring people together and generate an entrepreneurial culture and a sustainable income. However, the group of GPs across the road, who know that consideration of the public's health demands that they join in with this local entrepreneurial activity, feel unable to do so for the most part because they are ground down by the NHS and its endless systems and processes, which sap the will to live. The GPs can see that the health of their patients is about more than biology; it is about those 750 new jobs and the aspirations of a local community, whose former lives were defined by the steelworks. But with the red tape, siloed thinking and lack of imagination in NHS systems, who can blame them for being cynical and giving up hope of being able to change anything? If I were them, I, like many other GPs, would retire as soon as possible and get out of all that unhealthy treacle which is the modern health service. When I

[LORD MAWSON]
walked into the waiting room last week, a sign on a very large board read: "Friends and Family Test—Please fill out a form for NHS England". That says it all.

Here, we have a local business entrepreneur who wants to work with public health services and the community to create a new thriving town centre, with jobs and healthy lifestyles. He wants to connect the new health hub to the new cycle shop, because cycling locally is a health project for overweight and lonely people. He wants to explore the relationship between health and diet in the new Italian family restaurant, with its quality foods and strong family and community traditions. There are potential win-wins for everyone here, as together they build a new and thriving economy. But how hard those NHS government-siloed systems are to navigate, how hard they are to work with in relation to community benefit and how costly they are to an emerging new local economy. This is one community and one government department. Imagine what all this siloed behaviour is doing to local economies and communities across this country, let alone to the lives of thousands of employees in the health service ground down by these outdated public sector cultures. Let us ask the Chancellor to put some numbers on all of this.

The siloed thinking in Whitehall still dominates and is keeping local communities poor and reducing their economic performance. The metaphor of the two rooms demands that we open things up, that government changes its role of being a blocker to an unblocker, that it gets real about the connecting door, that it brings the conversations together and that it encourages joined-up entrepreneurial behaviour and innovation in real and tangible ways. Health is about the whole of life, not some biomedical silo. It is not about more legislation: it is about helping join the dots at a local level and knocking heads together in our public sector systems.

In east London, JP Morgan has now joined with us at the Bromley by Bow Centre, where we have built a model of integrated healthcare precisely because we discovered many years ago that 50% of the patients we were seeing did not have a biomedical problem. As a large business, it has recognised that business is not just about large-scale transactions, important as those are. In east London, it is recognising that small-scale investments in businesses and enterprises are significant in a city as large and complex as London, precisely because the wider economic and social value delivered by such enterprises goes beyond pure economics into building civil society and coherent communities. If the Government encouraged this joined-up behaviour in systems they control, we might truly build our economy, use our resources more effectively and have a rather more interesting conversation with a new generation who are living out their lives on the internet and long to see social purpose in all that we do.

What is the real cost to our changing economy of the siloed systems of government that still so resist the logic of the modern, integrated world? Can the Minister help us put a number on that?

1.03 pm

Lord Hain (Lab): My Lords, I endorse the Minister's fitting recognition of Lord Peston, who was my professor of economics at Queen Mary College, University of London, and whose brilliance, along with that of the noble Lord, Lord Smith of Clifton, enabled me to get a first-class honours degree—something which produced a barrage of letters in the *Daily Telegraph* denouncing university standards at the time.

I was struck by last week's figure for government borrowing in the financial year just ended, 2015-16. What caught my notice was not that the Chancellor had exceeded his borrowing target again—we are used to that now, he is a serial offender. What stood out for me was the £74 billion borrowing figure itself, as £74 billion was exactly the borrowing figure forecast by my noble friend Lord Darling in his final Labour Budget, in March 2010. He planned to bring down Britain's budget deficit to £74 billion in 2014-15—the limit of his five-year forecasting horizon. It was precisely this level of planned borrowing, £74 billion, that the new Tory Chancellor condemned when he took over at the Treasury. It would take Britain too close to the "brink of bankruptcy", he fulminated, insisting Labour could never be trusted.

Instead, he replaced it in June 2010 with new, tougher targets, halving Labour's planned borrowing in 2014-15 from £74 billion to £37 billion and setting himself a tight borrowing target of £20 billion for 2015-16. Both those targets were missed by a mile. All the Chancellor's scaremongering about Britain becoming another Greece proved to be nonsense. Just like under Labour Chancellor Darling, even during the banking crisis, Britain has had no problem financing our budget deficit: the yield on UK government debt dropped to an all-time low of 1.22% in February. The Chancellor keeps crying wolf but the bond market is behaving more like Britain's best friend, just as it did under Labour.

Labour argued six years ago, and has continued to do so since, that the Chancellor's austerity strategy was the wrong way to tackle Britain's debt and deficit problems. We said that pursuing such deep cuts so quickly risked curtailing growth, thereby making his borrowing targets unattainable, because it is on the growth rate of the economy, not just prudent public finance housekeeping, that budget deficits and the debt burden ultimately depend. Slow growth puts a brake on consumer spending and business investment, which causes tax revenues to tail off, pushing up government borrowing and adding to debt. Sadly, our fears were fulfilled as the Chancellor's austerity first completely halted Labour's carefully nurtured growth following the global banking crisis and the ensuing recession, and then caused the recovery we had generated to stall for three years.

Few Finance Ministers have pursued austerity with more vigour than Britain's Chancellor. In 2013, he boasted that he had squeezed the UK economy more tightly than any of the other advanced economies. At least that claim was valid: Britain's fiscal squeeze was twice as tight as in the USA or the eurozone. But it cost the country dear. When recovery finally came, it did so at a much slower pace than recoveries from earlier recessions: much more slowly than recovery from the recessions of 1973 to 1976, 1979 to 1983 or 1990 to 1993; more slowly even than recovery from the great depression of 1930 to 1934. It took the UK economy three years longer than America or Germany to get back to pre-crisis levels of GDP. This explains the assessment of the former chief of the Federal Reserve, Ben Bernanke, last October that austerity went too far in Britain after 2010.

Today the Chancellor remains behind schedule on debt and over budget on borrowing. He will continue to miss his targets, because his fiscal strategy for this Parliament is a carbon copy of the failed austerity policy he pursued in the last one. The Institute for Fiscal Studies expects growth between now and 2020 to be held back by the drag of "fiscal consolidation"—the technical term, as your Lordships will know, for cuts—which is greater in the UK than among any of the other OECD developed countries. As the Chancellor's March Budget made clear, not only is austerity set to drive UK economic policy for the next four years but the fiscal squeeze will be tighter than before, and once again much tighter than anything envisaged by the world's other advanced economies.

Missed debt and deficit targets are only the obvious indicators of failure. The real cause for concern is that economic growth is slowing down. The economy is running out of steam and losing momentum. Everywhere you look, growth forecasts are being downgraded. The CBI and the Bank of England downgraded theirs in February. In March, the Chancellor's own financial housekeeper, the Office for Budget Responsibility, judged that growth was slower last year than the year before, and will be even slower this year. Last week, the IMF cut its forecast for UK growth in 2016 to less than 2%. Everyone is on the alert for further signs of a slowdown.

What is driving the Chancellor's disastrous austerity strategy is his commitment to the neoliberal aim of shrinking the size of the state. His idea for constant budget surpluses except during a recession amounts to a 1920s-style pre-Keynesian recipe for a permanent squeeze on public spending after tax cuts that deliberately put a budget surplus beyond reach. It is the Osborne equivalent to the Tea Party's "starve the beast" strategy in the US, which aims to cut back the role of the state. It is totally unnecessary if the aim is to cut the debt-to-GDP ratio, as the whole of our history for the last 200 years testifies, but it serves his ideological aim of small government.

There is an alternative which is economically credible and authoritative, a Keynesian policy to replace a failing neoliberal one. Our priority today should be faster, fairer, greener growth. We need growth because only an expanding economy can provide the resources needed to tackle the problems that confront society, such as chronic housing shortage, a decaying social infrastructure, inadequate educational opportunities, especially for the disadvantaged, combined with high student debt, a shortage of vocational skills, a mismatch between health and social care, lack of childcare and an accelerating crisis in elderly provision.

We need faster growth because that holds the key to bringing the public finances back into balance, to generating the work that 900,000 unemployed young people want and millions more unemployed, insecure or underemployed people need, and to raising real incomes. We need fairer growth because unequal societies are unhealthy societies in which everyone loses out as all forms of social ills rise and economic growth rates slow.

We need greener growth because without vigorous action to meet the threat posed by climate change, such as by backing a low-carbon economy and actively promoting renewable energy schemes, such as the entirely privately funded Severn Barrage, environmental disasters can only become more frequent and intense.

Contrary to the stifling grip of neoliberal orthodoxy within the Westminster bubble, faster, fairer, greener growth is eminently feasible. The scope for fiscal action to boost public investment in housing, in the social infrastructure, in training and skills and in green growth is substantial. It would mean the Government borrowing more today, yes, but in order to borrow less tomorrow by giving the economy a fiscal stimulus and raising Britain's economic growth rate above the pedestrian 2.1% per year expected by the OBR for the next five years.

Would such a stimulus increase government borrowing? In the short term, as I say, yes, but in the medium to longer term, no. Boosting economic recovery may well require more public borrowing in the short term. It is the right thing to do to get the economy growing faster, to maintain the momentum of growth and reduce borrowing over the medium term. Higher public spending and borrowing today can mean lower borrowing tomorrow if it achieves faster growth, with tax revenues rising as total spending in the economy increases, and welfare bills falling as unemployment comes down.

It has been tried before and it has worked. President Obama's 2009 stimulus package after the banking crisis added to the US federal deficit at the time, but US interest rates fell, spending and output rose and dole queues shortened. As a proportion of its expanding GDP, America's overall deficit has shrunk every year since 2009.

A £30 billion per year increase in annual public investment for two years as part of a 10-year programme to renew Britain's failing social infrastructure would give a boost to growth at a time when the OBR expects the economy to slow down. By contributing to a higher plateau of ongoing public infrastructure investment, it would also provide a spur to industrial innovation and faster future growth, as well as full employment. Higher current public spending paid for by a mix of higher, fairer taxation, extra charges and greater efficiency would allow us to protect public services from the worst of this Government's planned spending cuts.

What makes faster growth feasible in the short term is the margin of spare capacity in the UK economy that could be brought back into operation, yielding extra, catch-up growth for several years, just as it did as Britain recovered from the depression between 1933 and 1936, when growth exceeded 4% per year, fuelled by a housebuilding boom—and do we not desperately need such a housebuilding boom now? The belated, slow, faltering economic growth under the Chancellor has delayed deficit reduction. Instead, scrapping austerity could have taken up—and could still take up—the slack in the economy, such as the millions of people who are underemployed and working fewer hours than they would prefer.

A stimulus of £30 billion per year for two years of extra capital investment in infrastructure, housebuilding, education, skills and a low-carbon industry would

[Lord Hain]
rapidly expand the economy and cut the budget deficit by boosting tax revenues as people earned and spent more, working hours rose and fewer families needed to look to the state for benefit support. Such a modest and, with historically low interest rates, eminently affordable £30 billion budget boost remains the only way to begin creating a fairer, more sustainable economy at the same time as bringing the public finances into balance.

The scope for doing so is much greater than the Government or the OBR will concede; for example, Oxford Economics noted in 2014 that if its estimate of the amount of slack in the economy, and thus the scope for faster growth, was correct,

"none of the spending cuts planned beyond 2014-15 would be needed to return the deficit to pre-crisis levels".

By the time of the March 2015 Budget, the Oxford Economics team reckoned that Britain's output gap was six times bigger than the OBR did, leaving plenty of room for fast, catch-up growth prompted by such a stimulus package.

Much the same argument, along with the case for growth, has convincingly been made by other eminent economists, such as Paul Krugman, Jonathan Portes, Simon Wren-Lewis, Martin Wolf, Bill Martin and Bob Rowthorn. We were reminded a few months ago by the Institute for Fiscal Studies that over the Labour decade up to the start of the financial crisis in 2007-08, the UK experienced an unprecedented period of sustained economic growth. GDP growth averaged 3% a year. That is the least we should be aiming for now.

By the way, to correct another myth, before the global financial crisis crashed all the economies of the world, the previous Labour Government ran a prudent, extremely successful economy, with record growth and employment, low interest rates, low inflation, low national debt and low borrowing—lower, indeed, than we had inherited from the Tories in 1997. Britain's 2007 budget deficit was £39 billion, or 2.7% of GDP, before the banking crisis. It was dwarfed by the colossal cost of state support to Britain's failing banks, which was equivalent to some 90% of GDP. Something a bit lower on the budget deficit scale in 2007 would therefore have been irrelevant to the stratospheric impact of the banking crisis or how the Government were able to manage it.

For 30 years after the Second World War, progressive Keynesian full employment policies combined with welfare state policies delivered economic and social stability right across Europe, promoting the necessary investment and faster economic growth, as well as more just, more equal societies and fewer class differences. For nearly four decades now, we have suffered from neoliberalism—that is to say, a small government ideology favouring market forces wherever possible and tolerating state regulation only where absolutely necessary. Economic and social inequality has widened massively. Not just the poor but the middle classes have experienced a relative decline in living standards while the rich have become super-rich. Meanwhile, Britain has a record trade deficit, dreadfully low productivity, manufacturing decline, ballooning private debt, yet another housing asset bubble, growing inequality, job insecurity and sluggish private investment. Some basis indeed for the Government's claim that their economic plan is working.

Today, the stakes could not be higher: whether Britain can become a compassionate, much more equal society founded on a strong, productive technology sector; or whether we are to be condemned to have an economy plagued by financial short-termism, servicing the interests of only a rich elite. The alternative agenda, however, is emphatically not some wild, irresponsible, unelectable platform of tax and spend, as critics will doubtless complain of my prospectus. Instead, it invites a resurrection of Britain's post-Second World War mission, based on hard-headed economics and evidence —a modernised Keynesianism, some might say. That, not the Government's fetish for neoliberalism, should remain both the source of our inspiration and the vision for our age.

1.18 pm

Lord Sheikh (Con): My Lords, the past six years has seen great progress in rebalancing and rebuilding our economy. This Government have made some remarkable achievements in repairing the damage caused by the recession and by Labour's financial mismanagement.

Since 2010, our budget deficit has been more than halved and more than 2 million jobs have been created. Employment now stands at a record rate of 74%. This year, we are forecast to grow faster than any other major economy. It is clear that our long-term economic plan is paying off, but we are still living through uncertain times and potentially turbulent waters lie ahead. Global growth is slowing, with concerns about productivity and levels of debt. We are also facing the possibility of global deflation if forecasts do not improve. Even emerging economies now face increased risks, not least with falling oil prices and China's attempts to rebalance.

In such a tightly interconnected global economy, it is perhaps more important than ever that we maintain financial discipline. Precisely because Britain is an open and well-connected economy, we are vulnerable to changes in other parts of the world. As the Chancellor has continuously made clear, we must always maintain an economic strategy of "act now so that we do not pay later". I am pleased that the Government's policies ensure that we are indeed taking appropriate measures. I continue to applaud the further increases in the personal tax allowance, which is set to reach £11,500 in 2017-18. Allowing more people to keep more of their own money gives them more to invest in our economy through spending and saving. With regard to saving, it is important that we encourage people to save by making it as flexible and accessible as possible. Increasing ISA limits is also most welcome. Moreover, the announcement of a new lifetime ISA, with bonuses from government, is generous and practical. It will encourage people to invest in their own long-term stability for the purposes of home ownership and retirement.

An area where the United Kingdom holds specific concern is with our weak productivity growth. This is also the case in many other major advanced economies. The way to address this is by supporting business and enterprise. Announcements in last month's Budget Statement sought to do just this. Perhaps most notably, the further cut in corporation tax to 17% in 2020 will benefit more than 1 million companies both large and small. Significant cuts in capital gains tax will also reduce the burden on businesses, allowing them to reinvest more. In a world where businesses can so easily move between borders, we must also try to attract and retain the best. I believe such competitive corporate tax rates will serve to welcome businesses to the UK.

We must remember that small businesses are the backbone of our economy. Last year there were more than 5 million small businesses in the United Kingdom. They account for 47% of all private sector turnover and 60% of private sector employment. Again, measures recently announced in the Budget, including cutting business rates on properties, will specifically benefit smaller firms. In fact, 600,000 small businesses will pay no rates from next year. Reforms of stamp duty land tax on non-residential property transactions will also help many small businesses to reduce their costs.

An instrumental part of building a strong economy for the future is investing in the education of future generations. The better educated our society is, the more innovative and productive we will be. If our education system does not compete with others around the world, ultimately our economy will not compete either. This Government have done much to improve the integrity of our education system and to enhance our skills base. I hope that continues. I also applaud the Government's continued drive on apprenticeships. Eighty-three per cent of apprentices say that their career prospects have improved, and 70% of employers say that apprenticeships have improved the quality of their products and services. It has been established that apprenticeship training pays for itself within two years of completion through increased productivity. Therefore, young people gain skills while our economy becomes more productive.

I would now like to mention the importance of our membership of the European Union. I believe that this gives us significant economic benefit. The single market gives businesses free access to 500 million customers. The EU has signed trade deals with many other countries. Therefore, remaining a part of the union provides us with advantages within and outside the region. Renegotiating our trade relationships with so many countries would bring uncertainty and instability to our business climate. It would also bring extensive costs and use valuable resources. It could prove very damaging in the long term and undo much of the Government's hard work. I commend the efforts of the Prime Minister and others in working towards us retaining our place in Europe.

I have raised on many occasions the need for us to undertake more trade with overseas countries. Indeed, bilateral trading relationships should be seen as a way of providing mutual benefit to all countries involved and of building economies on both sides. I applaud the announcement in January by UKTI of a new cross-departmental approach to boosting British exports. It is important that everyone in our Government is mobilised to work towards the same goal and can share knowledge and expertise where necessary. I note that this scheme will focus on priority markets and sectors.

In particular, I continue to place a great focus on trade with the African continent. Africa is home to many fast-growing, emerging economies. Some of these countries contain many untapped resources and opportunities. I have visited several African countries to look at issues relating to business and trade. I recently led a delegation to Sudan, during which we discussed matters of trade and investment, among other issues. We learned of many opportunities in agriculture, mineral extraction, infrastructure development and community services. I prepared a report detailing my findings, which has been very well received. We should be investigating such opportunities in places where clearly the global marketplace has not done so. International sanctions are currently hampering Sudan, and I hope that they can be looked into further by the Foreign Office.

Towards the end of last year, I was a member of a delegation to Ethiopia. I met the British ambassador in Addis Ababa, as well as the Ethiopian Trade Minister and several businesspeople, and visited several factories. Again, I was told of the numerous and diverse investment opportunities across a number of sectors, including fisheries, textile manufacturing, hydro-electric generation and construction projects. These opportunities run alongside the significant progress and growth Ethiopia is already making for itself. I also prepared a report following that visit, which has been sent to UKTI and the FCO.

When visiting those countries, I was encouraged that there was already a lot of joined-up thinking between our representatives from DfID, the FCO and UKTI. Our embassies served as cross-departmental hubs in this respect and are very well geared towards building our trade links. I congratulate the Government on their efforts to achieve that.

Last year I also visited Kenya, Tanzania and Zanzibar, and looked into investment in those countries. Here in the UK, I have recently met representatives from Kenya, Uganda, Nigeria and Ghana, and we looked at ways that trading relationships between our countries could be improved. I commend the Prime Minister on his appointment of trade envoys for different countries. If we involve those countries in trade and business, they can become self-sustaining. In turn, that will present us with further opportunities for trade in the longer period.

I would also like to mention the important role that Islamic finance plays in our economy. I declare my interest as co-chair of the All-Party Parliamentary Group on Islamic Finance. The UK has the largest Islamic finance industry outside the Muslim world. UK sharia-compliant assets now exceed $20 billion. Worldwide, the industry is worth approximately $2 trillion. I commend the Government on the active role that they have played in the development of Islamic finance in this country. In 2013 the Prime Minister confirmed the issue of a sovereign sukuk for £200 million. He also mentioned student loans and start-up loans on a sharia-compliant basis. We must accelerate the good hand that we already hold in what is one of the world's fastest-growing industries. What intentions do the Government have to expand Islamic finance and consider the issuance of another sukuk? The previous one was 10 times oversubscribed.

[LORD SHEIKH]

I pay tribute to the work of the Government in rebuilding our nation's finances, but I recognise that there is more to be done to ensure that our economy is secure for the future.

1.33 pm

Lord Haskel (Lab): My Lords, I add my tribute to Lord Peston, a friend and colleague for 25 years. He had a unique talent. When he addressed the House, he often delivered a lecture, much to our delight.

In opening, the Minister tried to reassure us on productivity, skills, infrastructure, the balance of payments and inward investment, but still, as my noble friends Lord Tunnicliffe and Lord Hain explained, the recovery from the financial crisis has been much slower than we would have liked or expected in spite of running budget deficits, cutting interest rates and expanding the money supply. I agree with what the Minister said about the referendum, but I wonder if the Government have been looking in the right places for the other solutions for our economy. Are we looking too narrowly? Is the cause of our disappointment not just economic but social?

Most of us here must have detected the rising social discontent with our economy and the way that business is being run. The recent Panama papers once more emphasised to the public how tax evasion and money laundering divert money away from schools, hospitals and public services. The Government's reaction to the Panama papers is that this type of activity is damaging to the economy. I agree, but so must be the misbehaviour by some of our leading companies. Other noble Lords have spoken about the divisive, huge salaries paid out in spite of the concerns of shareholders and business representatives. Banks mislead consumers and pay huge fines, with little impact on those responsible for the policies—my noble friend Lord McFall told us all about that. Trusted car brands have falsified test results. A big chain of chemists has been shown to be ripping off the NHS while community pharmacies lose their government support. Microsoft and Google are in trouble with the EU Commission. Now there is BHS. I could go on.

There is another social concern: that our economy is unfair. We here are all for innovation and technological change, but obviously we have not convinced everyone else that these benefits will be evenly shared. They might be reflected in the high wages and better public services leading to a better standard of living for us all, but what they will do is add to the inequalities so graphically described by noble friend Lord Tunnicliffe. Yes, an increase in the living wage is designed to help address inequality, but now we know that very few will benefit. Instead of workers benefiting from increased productivity, working conditions will just become harsher.

So no wonder we hear that we are reaching the limits of the benefits of free trade, foreign investment and immigration. There are other voices, which the noble Lord, Lord Mawson, spoke about, often referred to as the "new millennials", who are concerned about growth and the quality of life reflected on social media. We may or may not agree with those voices, but will the Minister agree with me that these social concerns must be having an impact on our economy, on growth and on development? If people are alienated from business, that must be damaging for the economy.

So what is to be done? Fortunately, there is an alternative. There is mounting evidence of what works. First, we must get away from the pressure to deliver short-term outcomes, which has led to a decline in long-term investment. Over the past few years, companies have been net savers in the economy. The result is that the returns to shareholders have been poor. The 20-year real return on UK equities is now the same as on government bonds, a situation that has not been seen since the 1920s and 1930s. This means that there has to be a purpose beyond shareholder returns.

The advantages of reducing the complexity of financial intermediation and simplifying the investment chain are well rehearsed. So are the benefits of longer-term horizons and of asset owners and fund managers being active stewards. To my knowledge, these ideas have been around for 20 years—they are not new—but over the years this kind of stewardship and corporate governance has gradually been shown to work. There are good examples, such as Bamfords, JLR, Admiral and the old employer of the noble Lord, Lord Price. Many tell us that. Indeed, the Parliamentary Commission on Banking Standards has called for that kind of management.

Here I must declare an interest as a supporter of Tomorrow's Company, an organisation that has developed these ideas for many years. By happy coincidence, next month it will publish its paper about this clarity of purpose, about the values and about collaboration in business—the kind of thing that my noble friend Lord McFall spoke about with regard to banking. I hope the Minister will consider its work carefully because now more than ever, its time has come. It is time because studies show that only 37% of the population trust business, and our economy depends on it. It is time because that is one way of helping people in work deal with the uncertainties of the changing world of work. It is time because that is how we can deal with the concerns of the public at the direction in which business is going.

These values coincide with some of the Government's own concerns. They certainly deliver value for money—the cost is minimal. Current low rates of interest must be the right time for long-term investment. The Prime Minister wants to reposition his Government as a force for social reform. Well, here is one way to do that. It is time for economic policy not only to deal with economics but also to bring investors, executives and boards together, with the Government, to make this social approach equally important to all the other things we are trying to do—the things that the Minister explained when he opened this debate. Economics alone will not do the job. We have to persuade companies to raise their social game, too.

By encouraging these values the Government will also help and encourage business to deal with other social pressures, such as: adapting to climate change; coping with the demands of sustainability; having to deal with antimicrobial resistance—the Minister knows about that; and reacting to the national populism which is becoming a feature of our politics. In addition, of course, there is the increasing need to be a good corporate citizen. Again, little of this is new; it is just that it is becoming a lot more relevant.

This debate is about the steps being taken to build a stronger economy. Many noble Lords have spoken about social steps. I think it is time for these principles and practices of corporate governance and business management to play their part in growing our economy.

1.43 pm

Lord Bhattacharyya (Lab): My Lords, I thank the noble Lord, Lord O'Neill, for securing this vital debate and declare my interest as chairman of WMG at the University of Warwick. I also pay tribute to the noble Lord, Lord O'Neill—or rather to Lord Peston; the Minister is still alive. We used to have great discussions on the role of manufacturing industry and how it declined.

Economic policy debates often focus on the crisis of the moment. There is an entirely reasonable demand for an equally immediate response to each threat to jobs, communities and businesses. Yet, when we examine the causes of the crisis, we discover that they are complex and often a result of our own previous decisions on supporting, taxing and regulating our industries. This was the case during the financial crisis, when our history as a trading nation, our reliance on financial services for tax revenues and a boom in global markets all combined to create overconfident, underinformed finance houses. These convinced both Governments and themselves of their perfect wisdom; therefore, both prudential regulation and commercial risk management became deeply unpopular. We saw where that led.

Equally, to understand the challenges of the British steel industry you must begin with the legacy of decades of underinvestment in capital, skills and product research, then consider the impact of high energy prices and business rates. The Government have acted on the immediate crisis caused by a glut in supply, although we can debate the extent of the support on offer. I am hopeful that we will still be able to find a solution to prevent the further decline of the steel industry. Having brought the company to this country, we should somehow or other find a solution. Yet the truth is that many of the root causes of the current decline could have been dealt with well before the sharp fall in global steel prices. This would have required a forward-looking industrial policy that created a level playing field for domestic steel makers against overseas competition, achieved competitive energy costs and supported local investment in plants, infrastructure and product innovation. The lack of such a strategy made us comparatively weaker when an era of global oversupply and artificially low prices arrived.

To change this familiar story we must understand that decisions on whether to invest in plant and where to conduct technology research are complex, involving factors as varied as land use, skills, the science base, planning and infrastructure. To encourage investment, therefore, we need integrated local collaboration which brings all this together to create an ecosystem of innovation, skills and investment. That is how inward investment is done. One reason why inward investment has slowed down is that there is a lot of anxiety outside that we have lost that—and Brexit has a lot to do with it.

It is no good government just putting money into equipping centres if there is no industrial pull or no room for businesses to grow locally. This requires a strong dialogue between industry, universities, government and councils. We have seen this approach work in Coventry's recently announced "Smart Motor City" plan, which has £500 million of private business investment. It will expand the local skills base, attract new firms to the area and support local businesses and jobs. That is just the start. It will attract further inward investment in the near future, and we anticipate that it will lead to £3 billion of investment over the next three years. Therefore, a forward-looking industrial strategy both delivers a fairly regulated market today, and drives collaboration to support the investments that will underpin growth tomorrow.

Sadly, the final element, despite many White Papers and consultations, is our long-term failure to deliver a comprehensive industrial innovation strategy, nationally or locally. However, we should consider the *Innovation Report*. Research published this month shows that higher business innovation spending is central to long-term growth. The IMF has examined global private sector innovation and concludes that in economies like ours, increasing business R&D could lift GDP in the long term by 5%. Yet despite this clear link between commercial R&D and long-term growth, British business investment in innovation has declined from 1.3% of GDP in 1990 to just over 1% today. Businesses in Japan and Germany invest two to three times as much in innovation as businesses in the UK. Indeed, the only significant increase in private UK R&D spending in recent years has come from overseas companies. When this has happened, the results are impressive.

Take JLR as an example. Within five years, it now has 42,000 employees and more than 200,000 indirectly employed employees. It spends £3.8 billion on R&D each year, and you can see what happens if you do that. Britain does not have a problem when it comes to innovation; it is just that the Government do not do much about it. However, the motor industry, combined with Innovate UK's support for collaborative research in, for example, lithium-ion batteries, has attracted enormous private sector investment from overseas investors and the UK supply chain. Where co-ordinating small sums of money triggers a train reaction, the results are clear: record levels of production and thousands of new jobs.

So why is this sector the exception, not the rule? To be fair, there have been many steps in the right direction. Under Labour, R&D tax credits and investment in scientific research were positive. Vince Cable's industrial bank was an admirable attempt to address the gaps in industrial financing. The apprenticeship levy and support for entrepreneurs stressed by current Ministers are praiseworthy. But these steps have been piecemeal and provisional; we need a comprehensive approach.

First, we need to increase dramatically business innovation spending. This is especially true for small businesses, which face real constraints on financing innovation. Social benefits from private R&D are as

[LORD BHATTACHARYYA]

large as the commercial benefit. That is why the IMF argues that we should effectively double the value of the R&D tax credit. Alongside tax-based support, we should expand grant and loan support to improve the quality and breadth of private sector R&D. It is crucial that this work be done in collaboration with academic researchers, as our strong scientific research base will stimulate private sector innovation and give it rigour. In Britain, we have a world-class scientific research community, yet the US, Korea and Japan invest two to three times as much as the UK in public sector applied science, which has created a private sector that invests multiples of our spend in commercial innovation.

Through bodies such as Innovate UK and industry groups such as the Automotive Council, as well as knowledge transfer networks, the Government must use our strength in science to develop a private sector committed to growth through innovation, investment and collaboration—in other words, a real industrial strategy. That would help increase our national wealth, spread prosperity more widely and help build a broad-based sustainable economy.

1.52 pm

Lord Mair (CB): My Lords, I fully support the points made by the noble Lord, Lord Bhattacharyya, a fellow engineer, relating to investment in innovation and industries.

If we want to build a stronger economy, we cannot ignore the vital role of engineering innovation and the problem of the growing engineering skills crisis. Engineering impacts all our lives in many ways. It accounts for at least 20% of gross value added for the UK economy, and some estimates are significantly higher. Manufactured goods account for 50% of UK exports. Science, engineering and technology underpin the whole economy—everything from power generation and electricity distribution to utilities, the food chain and healthcare, as well as, of course, transport and our information and communications infrastructure.

Successful engineering is underpinned by innovation. This is one of those now rather overused words and I want to be clear as to what it means. It is the process by which new ideas generate economic value in the form of new and improved products and services—so it is a crucial contributor to growth and productivity. The capability and capacity to innovate is the key to prosperity in the 21st century. Without innovation, economies and companies stagnate and become increasingly unable to cope and to compete with those that invest in and adopt new ways of doing things. To build a stronger economy, we must therefore invest in innovation to secure our future growth.

The Government have a key role to play in promoting private sector investment and encouraging innovation in priority or high-potential areas. This is the approach of many, if not all, of our competitors. Public and private research and development investment in the UK in science and technology accounts for 1.7% of GDP. This compares with Germany, which invests 3% of GDP. The UK remains 12th among the 28 member states of Europe for R&D investment. Of all the G7 countries, we have the lowest levels of government-financed investment in R&D as a percentage of GDP. This is despite many of our universities being the leaders in Europe, and indeed the world. If UK R&D investment in science and technology were increased to the level in Germany—that is, 3% of GDP—the benefits to the economy would be huge.

As mentioned by the noble Lord, Lord Bhattacharyya, Innovate UK—formerly the Technology Strategy Board, established by the Government in 2007—is the UK's innovation agency. Its aim is to fund, support and connect innovation businesses to accelerate sustainable economic growth. Innovate UK's schemes show substantial leverage, with an average of £6 returned to the economy in gross value added for every £1 invested. The Government should continue to ensure that Innovate UK is well funded so that R&D investment and engineering innovation can flourish.

A prerequisite for engineering innovation is a skilled workforce. The UK is facing a well-documented engineering skills crisis. An ageing workforce means that hundreds of thousands of skilled technician and professional engineering roles will need to be replaced over the next 10 years. Analysis by EngineeringUK projects a shortage in the region of 70,000 advanced technicians and engineers each year for the next 10 years. So in 10 years' time we will have a cumulative shortage of 700,000. That is seriously worrying.

To illustrate the situation, of the 600,000 pupils who pass through the education system each year, only around 30,000 progress to study A-level physics. That is a 95% fall across one single transition point.

Why is this happening? There is a range of factors: poor perceptions and lack of interest in engineering jobs; chronic shortages of specialist teachers in physics, mathematics, computing, and design and technology subjects; and low attainment and progression in STEM subjects at school—science, technology, engineering and mathematics—exacerbated at the further education and higher education stages. Not enough young people are making engineering their career choice. At university level, it is a victim of its own transferable skill, so that engineering talent is being lost to other professions, such as accountancy or management consultancy. All too often at Cambridge, very bright engineering students who are about to graduate tell me that they are going into finance and the City—great for the City; bad for engineering.

Engineering also suffers from significant under-representation of women and people from minority ethnic groups. The proportion of women engineering undergraduates at Cambridge is 25%—which is unusually high but still not high enough compared with the proportion for medicine and law—but women make up just 6% of the overall UK engineering community: a disturbingly low number.

So what should we do? There has been no shortage of attempts to attract young people into engineering, but they have been, on the whole, small-scale interventions. We need a huge gear shift in the steps we take to secure engineering talent if we are to meet the current and future needs of business and employers. There are some exciting developments. For example, there is the Engineering Talent Project, developed and run by the

Royal Academy of Engineering and backed by major engineering organisations. It is designed to bring a single, co-ordinated response to the skills challenge and to communicate the breadth of opportunity inherent in a career in engineering. This is a five-year programme of awareness-raising, engagement and careers information designed to bring about informed decision-making by secondary school children as they make their subject choices at critical junctures in their school career. The aim is that engineering should no longer be the present yet invisible profession. It will have visibility. Its contribution to the built and made environment will be widely understood and it will have a clear presence within the suite of options for young people considering what they want from their working life. With sufficient weight behind it, and the voice of employers at its heart, it stands to make a real impact on the quality and quantity of young people going into technical and engineering jobs.

Government must have a critical role in such a programme. Real change will be achieved only by co-ordination between government, employers and the engineering institutions. The urge for a co-ordinated approach on engineering has been a cri de coeur from industry for some time. There is now a real opportunity for government to play a part.

Lord Judd (Lab): The noble Lord is making a formidable case, which I think would find a great deal of support on this side of the House. But does he not agree that if all this is to be successful, in pleading with the Government to put vastly more resources into what he advocates, it is essential that they put investment on the same scale into social infrastructure to make sure that the communities in which most of the new immigrants will be living have the right kind of health services, schooling, housing and the rest? Otherwise, there will be—unfortunately and inevitably—crises and tensions.

Lord Mair: I thank the noble Lord for that point.

The Secretary of State for Transport plans to make 2018 the Year of the Engineer to excite a new generation to follow Brunel, Stevenson and Telford, along with Bill Gates, Steve Jobs and Tim Berners-Lee. I urge that he work with major engineering employer organisations, the Royal Academy of Engineering and other engineering institutions to ensure that this is not a missed opportunity. The engineering skills crisis will not, of course, be solved by a loud noise over the course of a single year but by a real co-ordination of voices, messages and resources. These must highlight, rightly, the triumph of engineering in major projects such as Crossrail. But they must also point to the diversity of engineering opportunities and make it clear, relevant and, above all, exciting and attractive.

Engineering is indeed very exciting and attractive. The challenges facing our society are enormous and pressing. How and where will we provide infrastructure as resources become scarcer and energy more expensive? What will the energy mix look like in 10 years' time? How might exciting new technologies such as tidal lagoon power and advances in battery storage influence this? What will future cities look like in the coming decades? Will car ownership disappear with the likely arrival of autonomous vehicles? The world is changing very rapidly and it is therefore vital for the economy to have a high level of UK R&D investment in science and engineering. The UK must continue to be world-leading in engineering innovation. We cannot afford to slip behind.

To conclude, our economy simply will not thrive if our industries fail to recruit the young men and women engineers who are needed for them to grow. Without them we will not innovate—and without innovation we will lose out to global competition. Government has a vital role in ensuring that this does not happen. I hope that it will take the necessary steps so that we can properly build a stronger economy.

2.05 pm

Lord Suri (Con): My Lords, many in this place see the role of the Government rather differently than I do. The Government should be the body that stimulates private enterprise, not crowd it out of the business of catering to consumer needs. It is true that borrowing costs are at an all-time low, but this should not be seen as a tempting treat for the Government to reach out and grasp. The reason for this is international uncertainty and high levels of volatility in a number of sectors, particularly commodities. This country is not immune to those risks: as a highly open economy, with trade heading to every continent, we are at the confluence of global economic forces.

Piling up debt might seem to be a good idea, but if we are to weather the next storm, we will need to be prepared. Our debt levels are still extremely high, at about £1.5 trillion, rising to £1.7 trillion by the end of this Parliament. Government, in order to incentivise investment from the private sector, must start implementing major supply-side reforms. I welcome corporation tax cuts, which will help my business grow and take on many more youngsters, and also cuts to capital gains tax. Analysis on both indicates that higher revenues will be flowing into the Exchequer, due to heightened economic activity. There is still more to be done, and some relatively inexpensive tweaks may help to improve productivity, such as the Education Secretary's plan for academisation. These are all long-term strategies, and the Treasury has indicated that it is looking at these structural reforms. However, I hope that noble Lords will allow me to talk about the most significant risk to our economy and stability in the short term.

The figures released yesterday make for fairly disappointing reading. Growth is still present but has slowed to 0.4%. The economists at the Office for Budget Responsibility have claimed that this is nothing to do with the EU referendum and have put it down to poor productivity, weak exports and falling industrial production. While the economists will have access to far more data and training than I do, I can say that this is not a pattern I see in the real world, away from charts and graphs. The EU referendum is causing real uncertainty to the owners of businesses like mine—no wonder, given that our relationship with the largest export market, to which almost half of our exports go, is in huge doubt. I am old enough to remember the days when we were not in the European Community, as it was then. Transporting things was hard enough,

[LORD SURI]

and the tariffs were even worse: to get lorries past borders required kick-backs, although I believe it was called "coffee money".

The reason I admired Thatcher so much, and the reason I have supported and campaigned for my party for more than four decades, is that she and others understood the value of a completed single market.

I understand that the service providers might quibble over this, but my work is selling goods and I can vouch for how good the single market is, removing tariffs and letting me sell across the continent. If we want to complete it, we must roll up our sleeves and get stuck in, not flounce off saying we tried and failed. Leading from the front is the British way. I hope the slow-down in growth from the mere uncertainty over leaving will help the British public to understand the severe financial repercussions of leaving.

Hard figures may be more useful to the public than the Treasury's latest report. With almost 200 pages of dense analysis, the algebra was beyond me and, perhaps, many others in this House and the other place, but all credible economic surveys simulating the costs of Brexit show a sizeable loss in national wealth, bargaining power and trade. The leader of the free world agrees with these predictions, as we saw last week, and voters will, I hope, choose heads over hearts.

2.11 pm

Lord Davies of Stamford: My Lords, like so many other people on both sides of the House today, I have been thinking intermittently throughout this debate of Maurice Peston. Maurice was not only a most original mind but a lovely human being, who was always warm, generous and kind to people in his personal life. He was devoted to those principles of social justice and internationalism that lie at the root of the Labour Party. He is a great loss to us all and we will all be thinking of his family and his children today, and wishing them well.

The Minister was quite right to identify in his remarks and put his finger on the two major hazards facing the British economy at present. The major clouds on the horizon are the current account deficit and productivity, and I agree with him about both. I agree with him about the current account deficit for the reason that he and the Governor of the Bank of England have already expressed: the level of more than 5% of GDP and the quite horrific number of claims on the British economy that are being accumulated every day by foreign investors through different means, including portfolio investment, direct investment, purchases of real estate and lending to the British Government by buying gilts. The effect of all that is that in investors' portfolios the British weighting is increasing the whole time. Investors review their portfolios —their balances and limits—from time to time, particularly under the impact of a shock.

We face the dangerous prospect of a major shock on 23 June and that should rightly worry us all. That shock might well mean that those investors think that, on the terms currently available, they should not add to their portfolios in that way. That would mean that the terms available had to change. It would mean that the asset prices in all those asset markets had to be revised downwards, including sterling, of course. It would mean that yields and interest rates had to rise. It would mean that neither consumption nor investment was able to grow and might have to fall in this country, which would be a very bad day for the British economy. The Minister did not spend very long on potential remedies or actions he might take to deal with this hazard, which he clearly agrees should be taken seriously. I thought the suggestion that we might just wait for the rest of the world to increase its rate of growth was a somewhat complacent reaction.

I also agree with the Minister about productivity. He has had a kind of damascene revelation on productivity since he took over his responsibilities. I remember, as I expect he will, his first day out in this Chamber, I think at Questions, when he made the most appalling howler, suggesting that our productivity was higher than that of Germany. Unfortunately, because of how Question Time works, I was not able to get in—I tried—to correct the error at the time. Perhaps he was relieved that I was unable to do so. He certainly did not make that mistake today. As he knows, our productivity rate is something like 27% or 28% below that of France and Germany and, I think, 30% or 31% below that of the United States. That is deeply worrying.

Again, there was a lack of urgency in the Minister's response to this. I am particularly concerned that he might be persuading himself that our low level of productivity is a reflection of high employment in this country. I am not familiar with the academic work that he cited but Germany and the United States also have high levels of employment and low levels of unemployment, so it is difficult to accept that hypothesis. Certainly, anything that leads to complacency from the Government on that point is very undesirable. The Minister does not have to listen to anything I say in this debate, but he would do well to take careful note of what the noble Lord, Lord Mair, said and adopt some of those suggestions. The noble Lord, Lord Mair, was very close to the heart of some of the long-term problems we face in this country and need to address with great seriousness.

Productivity is of course the basis for almost anything we want to do; it is the only way to increase exports or reduce imports without cutting consumption or investment. It is the only way to increase real wages, except in the short term at the expense of profits, which is not a very clever thing to do because that is at the expense of future investment and growth. So productivity is the key, but what you do about it? I think we all agree on what needs to be done about it: you need to invest, as the Minister said, in human capital, which is very important. You also need to invest, classically, in physical capital—in hardware and software. To invest, you need investor confidence. This is fundamental but simply lacking here at present, unfortunately. If you want investor confidence, you must have buoyant markets, open markets and investors who have confidence in the macroeconomic and microeconomic circumstances in which they exist.

The one thing you do not want to do if you want to increase investment is to reduce access to markets or in any way to damage investor confidence. The Brexit campaign does precisely those things—it is really quite extraordinary. It is difficult to think of a more negative programme for the British economy than the one being put forward by the advocates of Brexit.

Let us look at the foreign trade position. One can conveniently divide the world into three. Some 45% of our exports go to the EU, slightly less than a quarter go the United States and roughly 30%, for the purpose of this argument, go to the rest of the world. The majority of the roughly 30% is now covered by individual or collective foreign trade agreements signed between the European Union and those countries or groups of countries. There are about 35 such agreements, affecting about 55 countries, including with Canada and Japan, which I do not think have been ratified but have been negotiated. The Brexit proposal would involve our leaving the European Union and, that very day—that very night—we would leave those foreign trade agreements. We would no longer be able to benefit from them. Under WTO rules, we would not be allowed to go on benefiting informally from them for an interim period. The counterparties would have to extend to us their standard duties and other provisions—tariff barriers, non-tariff barriers and so forth. To negotiate agreements with those countries would take years—at least five and probably seven or eight, typically, for a foreign trade agreement. There is also no certainty that those countries will necessarily want to come to such arrangements with us and they certainly would not feel the urgency that we might. We would be the demandeur—the party demanding and requiring a deal and therefore having to make concessions. That would hardly be a clever day's work in the national economic interest.

Then there is the United States. The United States and the EU are well advanced in negotiating TTIP, though far from having completed it, of course. We now know from the words of the President of the United States himself that there is no question of interrupting that process, which will proceed and we will not be part of it, so we will have a tremendous handicap in the US market compared to our erstwhile single-market partners. That would continue—we know, again, from the horse's mouth, the President of the United States—for years. We would then have to start a negotiation that would take many, many years—what an appalling prospect.

It would be difficult to think of a greater blow to investor confidence than that, but there is one—our access to the 45% area, the European Union. No one on the Brexit side has a clear, coherent or remotely convincing proposal for what the relationship might consist of. We have heard of Switzerland and Norway and that Mr Johnson wants a Canada-type agreement. He said that before he realised that the Canada/EU trade agreement includes hardly any services. If I recall, it includes maritime and mining services, but they are a fairly small part of GDP. Certainly there are no financial or digital services, media and so on, the things that are important. That was an extraordinary howler on his part. Mr Gove wants us to have an Albanian-type arrangement.

No one is clear. They have not given five moments of thought to the serious economic issues involved. It is all rhetoric to them—a matter of metaphor and saying to the British people, "Oh, there are sunlit uplands. It is all wonderful. Believe me, we are going into a brave new world". It is a snake-oil salesman's approach to dealing with naive people. It is extremely frightening, but there it is. I do not exaggerate a bit because here are these major issues against which there are zero serious proposals as to how the damage to this country might be mitigated.

The Minister said that there are no certainties in this matter. I disagree. There are one or two real certainties, one of which is that there is no benefit to the country potentially in any of these alternative arrangements. No one can or has claimed that the route of trying to negotiate, laboriously and over many years, new foreign and trade agreements separately with all the countries which currently have foreign and trade agreements with the EU would lead to a better outcome for us than we currently have within the context of those FTAs. No one has or could plausibly argue that. It is quite certain that the results could not be better. Almost certainly they would be a great deal worse, but they could not be better. No one has suggested or could plausibly suggest that we could do a better deal with the United States than TTIP. It could be much worse. It will not happen for a long time but it could be much worse. Certainly it cannot be better—no one is suggesting that it could be—and the United States has said that it would not give better terms to us than to the European Union as a whole. There is no question of being able to negotiate better terms than we currently have with the single market and the European Union that remains. No one has suggested or claimed that.

We are in a position in the equation where we know that the sign on the critical factor is negative. There is no positive compensating sign. It is not a matter of uncertainty but of clarity. Certainly we do not know how bad the results will be but we know they can be only bad in relation to the status quo. What kind of responsible politician would make that kind of suggestion to the British people?

Not one job would be created—nor has it been alleged would be created—by the mere fact of our leaving the European Union. We can argue all night about whether hundreds of thousands or millions of jobs might be lost—and over the long term, given the opportunity costs and the forgone investment, the consequences could be very grave—but no one from the Brexit camp has even suggested that a single job would be created. That is an extraordinary state of affairs which I hope the British public will wake up to, otherwise we might well do something which will be one of the greatest manmade, deliberate, self-imposed disasters in economic history.

2.23 pm

Lord Bilimoria (CB): My Lords, just about every Peer taking part in this debate has spoken about Lord Peston. I have been here for coming up to 10 years and he showed me kindness and encouragement from the day I arrived and in the debates I was privileged to take part in with him. What I loved most about him was that there was always a smile when he greeted you. He was completely non-political—it did not matter

[LORD BILIMORIA]
whether or not you were a Labour Peer—and was respected by the whole House. We shall miss him greatly. He would definitely have been speaking in this debate about the steps being taken to build a stronger economy.

This morning I chaired a conference of the Westminster Higher Education Forum. Its theme was enterprise and entrepreneurship in higher education, culture, skills and encouraging graduate start-ups—music to my ears. I was privileged to introduce our keynote speaker, an individual who, when I came over from India as a student in the early 1980s, I used to see on television, read about in the newspapers and who helped to transform this country from being the sick man of Europe that it was at that time. In the Cambridge University that I attended in the 1980s there was no word such as "business" or business school—and as for entrepreneurship, forget it.

=It was clear to my family and friends when I came here in the early 1980s that this was a country where, if I worked here after I finished my studies, I would never get to the top. I would not be allowed to get to the top because, as a foreigner, I would come up against a glass ceiling. They were absolutely right, I am ashamed to say. So what has changed in this country over these last decades? What has enabled this country, which was the sick man of Europe in the early 1980s, to become the envy of Europe today? That is the theme of this debate—the steps taken to build a stronger economy. The glass ceiling has been well and truly shattered. Just look at the number of ethnic minority Members of Parliament we have now compared with only a quarter of a century ago when there was a handful.

The person I introduced to the conference this morning was hugely instrumental in changing "entrepreneurship" from being a word that conjured up images of Del Boy and second-hand car salesmen to now being a cool term, encouraged by all Governments. That individual was the noble Lord, Lord Young. The noble Lord is one of my colleagues who, at the age of 84, never stops. He was instrumental in helping to create the atmosphere of aspiration in which the glass ceiling has been shattered. It has gone so far that, as I have been saying for years, a British Asian will be Prime Minister of this country. The Prime Minister himself said recently that a British Indian will be Prime Minister of this country, but not too soon, please.

The business situation has changed dramatically. I am proud to say that today Cambridge University has a business school. In January I was appointed as chair of the advisory board of the Cambridge University Judge Business School. As serendipity would have it, the day my appointment was announced, the Judge Business School was named in the top 10 in the world NBA rankings after only 25 years. The Harvard Business School was founded in 1908. Today the largest society at Cambridge—apart from the Cambridge Union—is the Cambridge University entrepreneurs. We have come a long way.

In the last Budget there was encouragement for entrepreneurship. There was a lowering of certain taxes and increasing of the entrepreneurs' relief, encouraging wealth creation. Yet, based on this morning's conference, I had recommended to Vince Cable when he was Secretary of State for Business that we should have a competition in the country for 100 growing businesses to attend courses such as the business growth programme, which I attended at the Cranfield School of Management, and the diploma in entrepreneurship at the University of Cambridge. One hundred of these would cost the Government £1 million but would pay back billions in growth. Vince Cable was excited about it but his civil servants shot him down. Does the Minister think it would be a good idea to encourage entrepreneurship in growing businesses in that way?

Many noble Lords have spoken about productivity. We are lagging behind and we need to do much more. We have heard that we do not invest enough. The noble Lord, Lord Bhattacharyya, spoke about how our investment as a proportion of GDP in R&D and innovation has gone down from 1.3% of GDP to 1%. The noble Lord, Lord Mair, spoke of the importance of investment and innovation and how much more we could do if we were to invest the 3% of GDP that Germany invests.

Let us look at what this country can achieve. I was privileged to visit CERN, where the professors heading the two experiments which discovered the Higgs boson particle are the leader of CMS, Professor Sir Tejinder Virdee of Imperial College London and the leader of Atlas, Professor David Charlton of the University of Birmingham, of which I am proud to be Chancellor. We can go further. This year we had the announcement of the discovery of gravitational waves, finally proving 100 years later Einstein's theory of relativity. Among the key professors of this discovery were two from the University of Birmingham, Professor Alberto Vecchio and Professor Andreas Freise. One of the instruments that helped in the discovery of those gravitational waves from 1.3 billion years ago was designed and made in Birmingham.

The scientific papers produced by British universities are completely disproportionate to our population, let alone to our investment in research and innovation. Just imagine how much more we could achieve if the Government were to ramp up their spending on R&D and innovation. Does the Minister agree that we should have tax incentives to encourage companies to invest more in innovation? I could tell noble Lords story after story about the glass ceiling being shattered. Earlier I was sitting next to my noble friend Lord Rees, who apart from being the Astronomer Royal was President of the Royal Society—the prime achievement for a scientist. Who is the current president of the Royal Society? It is none other than Professor Sir Venki Ramakrishnan. He is of Indian origin, from Trinity College, Cambridge and a Nobel Laureate.

If we leave the European Union, we will lose a huge amount of research and development funding. It will hamper something that is already underfunded. We will also lose the high level of collaboration that exists between British and European universities. What most people do not realise and is rarely highlighted is the fact that the UK is the number two country in the world for foreign direct investment. Almost half of that is in financial services, but we are still second in the world. Would we be able to retain that position if the EU referendum leads to Brexit? In the perception of overseas countries, there is no question about it. Forget what President Obama said, especially whether he used the word "queue" or "line". Hillary Clinton has herself, unprompted, confirmed that she too would be concerned if we left the European Union.

People from every single country I have spoken to say this. Whether I speak to members of the Indian Government, the Indian Administrative Service or businesses, they all ask, "How can you leave the EU? We see the UK as the gateway to Europe. We want you to remain a part of Europe". The IMF has said that we should not leave, let alone the CBI and the Bank of England. I have spoken to professors from Harvard Business School and once again they were unanimous in saying, "You cannot possibly leave the EU". The noble Lord, Lord Newby, listed many of the myths about Brexit, and there are accusations from the Brexiteers of scaremongering by the Government and the Remain campaign about the uncertainties.

There is no question about it. If we leave the EU, I have no doubt that this country will survive and possibly thrive because we are a hugely adaptable, flexible and resilient nation. I am openly Eurosceptic. I think that the structure of the European Parliament is appalling. MEPs have no connection with the regions they represent. Unlike Members of Parliament where there is a clear connection between Members and their constituents, I do not know anyone who knows who their MEP is. MPs have a clear line of accountability and responsibility that does not exist in the case of MEPs. The European Parliament has to move once a month to Strasbourg. Can noble Lords imagine what it would be like if every month we had to move out to Belfast or Edinburgh—and not just us, but everything? It is ridiculous.

The euro is a proven failed project because one size cannot and will not fit all. I used to think that by not being in Schengen we were losing out on tourists and business people, but now we realise that from a security point of view, we are lucky that we have retained control of our borders. We are not part of an ever-greater integration and there will never be a united states of Europe. I hail from India, which is a truly federal country. There is a central Government, a central defence force, foreign service and tax system, but there are states with chief Ministers who have autonomy and a great deal of flexibility. That combination makes for a truly federal country, but that will not and cannot happen in Europe. The only person in history who has ever united Europe was the Emperor Charlemagne in 800 AD.

The European Union makes up a tiny percentage of the world's population at 7%, and yet it has 25% of the world's economy. It also has 50% of the world's welfare spending. How sustainable is that? The European Union is in urgent need of reform. I turn to the concessions and reforms that the Prime Minister managed to get recently. However well intentioned he was, I am sorry to say that every single person I have spoken to has confirmed that they will not influence them one iota in making their decision on whether to stay in Europe. But in spite of this, and in spite of my being a Eurosceptic and all my concerns about it, I think that we should stay in Europe. PwC predicts a reduction in GDP if we leave and the uncertainties are real. The shock to our economy would be huge. The Minister talked about our current account deficit being high. Our budget deficit remains high, let alone the effect of Brexit on our currency. I do not know if we would be able to withstand those shocks, and being the most successful economy in Europe would not last very long.

Everyone talks about the WTO. The noble Lord, Lord Newby, was absolutely right to ask why all those free trade agreements with the WTO are the cure to everything. He discussed the Swiss, Norwegian, Canadian and Albanian models, but every one of them would still require us to contribute to the European Union and possibly allow the free movement of people.

I shall conclude on that point: the free movement of people. When the subject of immigration was brought up at the conference this morning, the panel spoke of the concerns of those in higher education about our Immigration Rules, which are hampering our universities. That drew applause from the audience. Some 30% of the academics at our top universities like Oxford, Cambridge and Birmingham are foreign-born. Overseas students are still categorised by the Government so that they fall into the immigration figures. Does the Minister agree that we should take foreign students out of those figures? Recently I spoke to the new Australian High Commissioner to India in Delhi. She said, "Thank you for the UK immigration policy because Indian students are now coming to us instead of going to the UK. We are benefiting from the brightest and the best".

The most important point is this: is it the EU or is it NATO that has maintained the peace over the past 70 years? I would say that it has been both. This was summed up for me by a senior vice-chancellor of a European university who said to me the other day, "How can the UK as a country even think of leaving Europe? You have saved us twice. You are seen to be the beacon of freedom, liberty and democracy. How can you even think of being responsible for what might potentially destroy the European Union? Would you be able to live with that?". I do not think that is what our country does; we do not operate alone, we work together. The title of the debate concerns the steps to take in order to build a stronger economy. It is relevant to say that it depends on whether we stay in Europe or not. The vice-chancellor of the University of Cambridge summed it up in his opening address for the last academic year:

> "If you want to travel fast then travel alone. If you want to go far travel together".

2.38 pm

Lord Dykes (Non-Afl): My Lords, I thank the noble Lord, Lord Bilimoria, for his helpful suggestions. Perhaps one day we should have the ambition of making him more enthusiastic about the European Union in all its aspects because he remains somewhat sceptical. He thinks that it is unavoidable, it has to be done and that it is the best thing for Britain. That is sufficient for the moment. He also referred to the possibility of a person of Indian origin becoming the Prime Minister of this country in the future. If for some interesting and

[Lord Dykes]

intriguing idea that person was a Parsi, he would to have go to the House of Commons pretty quickly in order to be a candidate for that role, which he would fully deserve, given all the work he does.

I also express my gratitude to my old friend and colleague from our days in the House of Commons, Quentin Davies, now the noble Lord, Lord Davies of Stamford. We have both been European enthusiasts for many years. I shall emulate his excellent example today by being the only other speaker in the debate who will speak without notes, although I shall refer to a piece of paper when I mention one particular fact. The noble Lord was dead right in what he said. It is interesting that this debate, which is about the national economy, has been mostly about Europe and the dangers of Brexit. I am glad about that. I am very grateful to the noble Lord, Lord O'Neill of Gatley, not only for launching this debate, incidentally, but for referring to the European aspects of it and how creating a stronger economy in Britain is dependent on us remaining a member of the European Union economy as well.

Incidentally, I thought that the noble Lord, Lord Bilimoria, was far too pessimistic and unkind about the European Parliament. He has missed out on the developments in recent years, where it shares a legislative function 50:50 with the Council of Ministers. There are more regulations rather than just directives, so the Union is getting stronger by the moment. That includes us as well, despite the fact that we are not in some aspects of it, which is a pity, I think, and a bit slow and tardy on our part. The European Parliament's record as a developing institution, which was strange, bizarre and remote to most people, is pretty good if compared with, admittedly somewhere that became one single country—the United States—where the turnouts in federal elections after independence, and even after the Civil War, were incredibly low for many years. Indeed, they were dominated mostly by a property qualification, so very undemocratic intrinsically as well. It was not "one man, one vote".

When did the United States achieve a single currency? It was not until 1910, when it had the US federal dollar on its own. It took a long time there as well, but it became one single country. Probably the European Union will not do that, as the noble Lord, Lord Bilimoria, was inferring. However, we do not know about that; the agenda on that is open for the moment and it may develop because a lot of the other European countries have the strength psychologically of not worrying about this daft notion of a loss of sovereignty—which I suppose last existed even in Britain in 1912. Even then, by the way, a few years later the British Armed Forces in the First World War were under the control of a French commander-in-chief. That is a loss of sovereignty in those old-fashioned terms. Modern sovereignty in the European Union comes from making collective decisions together, many of them through unanimity and treaty decisions where there is no voting and everybody agrees. A lot of progress is being made where that collectivity of sovereignty from the whole Union decision also increases intrinsically and automatically, at the same time and simultaneously, the national sovereignty of each member state.

So none of the other member states worries at all about this British thing of losing sovereignty. It is like an old-fashioned person who went to a posh public school and now that the family has run out of money wanders around saying, "I don't want to mix with these people because they're very rough and go to public bars; I am very posh and grand". It is geopolitical snobbery on a grand scale. It is very disturbing that distinguished people from other countries who come here, such as the noble Lord, Lord Bilimoria, think maybe that sovereignty is in that concept. That is completely out of date. This is a global village, let alone the European Union.

There are aspects of the British economy, too, which hold us back from being stronger in the European Union. I hope that we will be, and I hope that we will remain when the referendum comes. I scribbled a few of them down when listening to some of the things said in this debate. The manufacturing proportion is inadequate, for a country at our stage, at only 11%. It is a strange thing that people say, "Well, it doesn't really matter. Services are much more glamorous, chic, and so on, while manufacturing is very boring, nerdy and tendentious, so it doesn't really matter". I think that it does. With the exception of the motor car industry, which is very successful in exports at the moment, there is no big significant growth in what I would call the long-standing manufacturing industries and sectors in this country.

Low investment, too, persists in net new UK domestic capital formation both in the public and private sectors. Perhaps the noble Lord, Lord O'Neill, would agree with me about the mistake we made by not having a Minister for the economy as well as a Minister for finance at the Treasury, as Germany does, which separates the two functions, ensuring that the real investment coefficients are kept in the forefront of debate in Germany. The trade deficit is ominous—the biggest ever figure. I think I am right in saying that all the other major European countries that export to us all have surpluses with us. A little bit of modesty, please, when we say we are unique and the most successful economy in the European Union. Germany is streets ahead of any other country and remains a very modest country in its geopolitical attitudes on the economy.

We have ominously low productivity, as the Minister referred to, which needs attention in the future. Although apprenticeships have increased in number, we still have a lot of poor-quality, semi-pretend apprenticeships that a lot of people in them feel very disappointed by and grumble about. These things can come together. If Britain stays in the European Union, we can then become a stronger economy.

I was rather disappointed recently to see that, in February, the very distinguished former central bank governor, now a Member of this House, the noble Lord, Lord King, was very sceptical about the single European currency. I think it is a great mistake in this country to have that attitude of, "Thank God we're not members". We were driven out of the exchange rate mechanism and now we are actually afraid of the euro. It scares us. We are afraid to be a member and do not think we can actually cope with it. If we all went to psychoanalysis and therapy that is what would come out when we were hypnotised. We would say that we were scared of the euro.

The noble Lord, Lord King, is just writing a book about the impending collapse of the euro. We were reminded that the noble Lord had been wrong on quite a few of the forecasts he made over the years. I remember him saying distinctly, in 2003, that the previous decade for Britain had been NICE, standing for "non-inflationary consistently expansionary". He also said that 2004 would also be part of a very encouraging decade. That was a few years away from the major financial crisis. He made other predictions that were incorrect. That just shows that predictions are always difficult, particularly when they concern the future, so none of us should make too many predictions; otherwise we will make mistakes.

The financial crisis began totally in the United States. It was not a creation of any other, and there were bank failures here as well. The Labour Government did what was necessary to rescue those banks. Gordon Brown got no credit for it at all in the British press, nor did any of the senior Labour people defend the policy. The noble Lord, Lord Hain, made an excellent speech earlier, and I agreed with very much of what he said. The return of Keynesianism is absolutely essential and unavoidable in this country before we all go insane in economic terms. The noble Lord mentioned Alistair Darling, now the noble Lord, Lord Darling, and his contribution in reducing the deficit, and all the rest of it. Yet, no one—not even he—defended the Labour Government's position of rescuing this country from the worst financial crisis that had been seen for decades, and then proceeding to run the economy reasonably well just for a very short time before they lost the election. Why did not Labour figures in those days defend what had been achieved by the Labour Government? It is most extraordinary.

I recall, as a Liberal Democrat Peer in those days, having discussions about the construction of the coalition. I think I am right in saying that about three-quarters of Liberal Democrat Peers wanted to deal only with Labour. The sums would not add up. Ed Balls was very difficult and the noble Lord, Lord Adonis, tried very hard to get something going but it was not possible. The other Labour leaders seemed to be concerned with the future: they wanted to move on. They then acquired the reputation of economic incompetence which was unjustified. It is extraordinary that a political party did not defend itself in those terms. It did do damage because it added to the pressure of people to give in and agree with the neo-liberal economic model, which has been a disaster for this country ever since it started in the early 1980s. People have been brainwashed that it is the only show in town.

I once made a very rash speech in Harrow, my constituency in those days, saying that if you create a society where the only thing that matters is making money, the society itself actually gradually disintegrates, even for the people who are trying to make the money. It does disintegrate and becomes a much nastier society. That is what has happened in this country under the neo-liberal economic model. There are lots of things that the Government can do with socioeconomic policies, not just economic policies to revive this country and strengthen it in the future. That does need our membership of the European Union.

2.48 pm

Lord Selsdon (Con): My Lords, these are rather great times for the United Kingdom. It is the one country in the world that has the greatest opportunity on a global basis. That could be in part due to the Commonwealth and in part due to communication. I have to admit that I am only here because my grandfather, as Postmaster-General, laid the copper cables under the sea to the rest of the world. Those cables are the sole method of secret and confidential communication.

I spent my life in trade and the financing of trade. I remember, on odd occasions, when people would ask what I did for a living, that someone would whisper, "He's in trade, you know", as though being in trade was not a very gentlemanly or smart thing to do. However, we are and always have been a trading nation. We are global. With or without the Commonwealth, the historic nature of this nation is effectively to do things wherever it may be on the face of the earth.

When we come to look at our trading future, we have to look at what we are going to trade. When trade was the life-blood of the United Kingdom I got a bit worried and suddenly wondered how we could survive when we were not making steel anymore. When someone said that we cannot build the ships that we need for the Navy to defend ourselves on a global basis because of the collapse that has taken place recently, I wondered why and how these ideas come about. If we look at our own institutions on trade, I had the pleasure of serving under Lord Shackleton and Lord Jellicoe on the East European Trade Council in the very early days of communism. They kindly took me in under their wing, hoping that someone might be alive when the United Kingdom emerged from the ashes and wanted to trade on a global basis.

The opportunities are there, but one of the most important factors is how we train people and what for. Does it matter that the trade developments and investment opportunities go through embassies, or are there new institutions that could be created to advance these things? The noble Lord, Lord Bilimoria, is very good at promoting India, which is one of my favourite countries because, for a period of time, I was appointed as an economic adviser to research the future of trade with India. I remember going into the Savoy Hotel to meet the head of the Indian delegation, Manubhai Shah—a remarkable man—who was sitting cross-legged on a table. We were paid by one of the aid agencies to look at the opportunities for India. It was one of those strange things when I arrived in Calcutta. I was obviously too young and unfit for the job that I was about to perform. I sat at dinner at the table and one of the waiters brought in a telephone and said, "Are you Lord Selsdon? There's a telephone call for you". The voice at the other end said, "Hello Peter, it's Jai here. How're you?". How could I know that that was the Maharaja of Jaipur, who had played cricket with my father years before?

We were doing this job for six months. We were invited to go to the Lok Sabha. A car came to collect us and I went round there. The speaker—I think

[LORD SELSDON]

Hukam Singh, but I cannot remember who it was at that particular time—greeted me and said, "Where's Lord Selsdon?", because at a very young age I was not up to the job or the image. The car was sent round again so I could come back and the band could play. I had a great affection for India. I worked with many of the other Commonwealth countries. For me, one of the great roles that we can perform is to help these countries in their development and provide and arrange the necessary finance with appropriate offtake agreements.

We often say that the Commonwealth is the institution, but the direct one has become more important. Who are our future allies? Trade, we have said before, is the life-blood of the United Kingdom. Are we doing well at the moment? How do we know that the value of the pound will be retained? Is that the key factor? One of the principal opportunities is to look at the migration situation. We have always needed migrants in this country to work and perform jobs. Looking at the steel situation in the West Country, are we suddenly going to have no ability to produce steel, which, after all, is effectively essential for the British economy? When we look at the industrial developments needed, is it investment or attracting foreign bodies? We have a good balance of payments position at the moment. I always quote:

"Gold is for the mistress—silver for the maid—
Copper for the craftsman cunning at his trade.
'Good!' said the Baron, sitting in his hall,
'But Iron—Cold Iron—is master of them all'".

I feel optimistic about the trading future of this country, but I am not sure who is in charge. Are we after solely exports or imports? As far as finding foreign investment goes, we have no problem at all these days raising funds. We have, through ECGD, a remarkable institution with adequate credit available for most of the world. So the question is a very simple one: we have a glorious future, but who is in charge and what do we do next?

2.54 pm

Viscount Hanworth (Lab): My Lords, I also begin by expressing my appreciation of the late Maurice Peston. Maurice was my academic colleague at the start of my university career. Our opinions were in agreement over a wide spectrum of social and economic issues. I valued his friendship greatly, as much as I valued his wisdom and his reckless humour.

The Government have pursued some disastrous economic policies throughout their period in office without heeding the consequences, which have been to perpetuate our economic depression and wreck our manufacturing industries. All the while, they have been fondly imagining that the UK economy can be revived by encouraging investors from overseas. One of their encouragements to investment has been a regime of low business taxes. Our corporation tax rate of 20% is one of the lowest in Europe. It compares with the OECD average of 25%.

The measures by which we protect our workers from exploitation by their employers have become some of the weakest in the European Union. This has also been envisaged as an encouragement to investors. The Government's mantra has been that Britain is open for business. These inducements have not worked. They have failed to attract productive industrial investment to the UK, nor have our banks or our native financial institutions been willing to invest in our manufacturing industries' productive capacity. Our manufacturing sector has shrunk to become one of the smallest, as a proportion of GDP, among the economies of the European Union. It now accounts for less than 10% of our GDP.

The regime of low taxes has meant that another of the Government's objectives—to reduce their budget deficit—has not been met. The date by which the Government's budget should be returned to surplus has been successively deferred. The swingeing reductions in government expenditure have not succeeded in reducing the deficit. Instead, they have exacerbated our high level of unemployment and served to immiserate a large sector of our population.

There has been some significant inward investment during the period in question that has greatly profited our financial sector and those who work within it. However, instead of talking of inward financial investment, which is a highly misleading description, we might talk more accurately of a process of divestment. The financial sector has been instrumental in divesting the nation of ownership of many of its productive enterprises. They have been sold abroad in a manner that has enriched the financiers. The nation has also divested itself of ownership of a large amount of residential and commercial property in a process that has been accompanied by considerable inflation in prices.

The Government have done nothing to impede these processes. Our lax laws of corporate governance have allowed the hostile takeover by foreign interests and global financiers of some of our premier companies. The laws have permitted the rapine capitalism of which Philip Green, the erstwhile owner of British Home Stores, is a notable exponent. Companies such as Cadbury, Boots and Rowntree's, which were once the exemplars of philanthropic capitalism, have been sweated by their new owners to produce exorbitant profits in the short term. Many of our high-tech industries have gone the same way. On a previous occasion I highlighted the example of our aviation industry, much of the supply chain of which has fallen into foreign hands. The intellectual capital of these industries has been captured by foreign owners, and further investment in their industrial capacity and research and development has not been forthcoming.

It is widely recognised by the Governments of our economic competitor nations that Governments have a role to play in fostering the research and development that leads directly to industrial applications. Our Conservative Government have chosen to relinquish this role. They have sought justification for this dereliction in their free-market ideology.

A painful example of this failure is provided by our nuclear industry. It was once a world leader. It should have been destined for a major revival in consequence of our need to build a new generation of nuclear power stations. Instead of depending on our native resources, the Government have been prepared to allow any willing provider to build the power stations.

It transpires that the only willing providers were the nationalised industries of France and China. A latecomer has been the Horizon Consortium, led by Japan's Hitachi Corporation. Its advanced boiling water reactor is currently subject to a generic design assessment, which is a very prolonged affair. Now it is doubtful whether the French nationalised industry EDF, or Electricité de France, is prepared to undertake the task. I mention in passing that the Government have flatly rejected the suggestion that we should acquire equity in the French company so that it might become an industry owned jointly by ourselves and the French. That would have been one way of ensuring that a nuclear power station would be built at Hinkley Point. However, in response to that suggestion, we have been told that any contract to build a power station should be a strictly commercial affair. I am inclined to assert that, in view of the Government's proposed inducements and guarantees, it would be nothing of the sort.

The consequence of this debacle is that we may have to rely solely on the Chinese to build our nuclear power stations. We shall be heavily dependent on a foreign provider with interests and intentions that are likely to be inimical to our own. The encouragement of Chinese inward investment has been a prominent part of the agenda of the Chancellor of the Exchequer, George Osborne. During his trip to China in January 2012, which was ostensibly to encourage their uptake of British exports, he succeeded only in encouraging the Chinese to purchase British companies. Osborne's encouragement of Chinese investment has had some devastating effects. Uniquely among the countries of the European Union, Britain has offered no resistance to the dumping of surplus Chinese steel on our markets at subsidised prices, with which our own industry could not compete. This lack of resistance has been in consequence of a desire not to offend Chinese interests. The result is that we are in danger of losing our national steel industry, albeit one that is now largely in foreign ownership.

It is now time for me to offer some prescriptions for how a British Government ought to handle their economic affairs. I shall begin with the first issue that I have raised. The Government should reform our laws of corporate governance so as to inhibit the depredations of venture capitalism, be it native, foreign or global. The predominance of the financial sector has been at the expense of the economy's other sectors. Its activities have enhanced the demand for the pound on the international currency markets. The pound's elevated value has made it difficult, if not impossible, for British firms to sell their manufactured goods abroad. The Government ought therefore to take steps to devalue the pound in order to encourage such exports. Only in this way can our unprecedented current account deficit be tackled.

The Government ought to be far more active in investing in our national infrastructure. The only infrastructure projects that have been pursued throughout this Government's period in office have been a legacy of the previous Government. Their unwillingness to undertake more investment has been in consequence of their self-imposed fiscal constraints, which have also made them unwilling to support the research and development that is essential in any successful industrial economy. A Government who intend to support essential social investments ought also to be prepared to raise the necessary taxes. There is huge scope for acquiring extra revenue by addressing the tax avoidance and tax evasion that is rife in this country. Nevertheless, it will be necessary to increase rates of taxation.

Politicians of all parties avoid talking of raising taxation rates. It is feared that to do so will inevitably damage their electoral prospects. However, this need not be so. The US economy's emergence from the great depression was accompanied by a marked growth in central government taxation and expenditure. Surely the electorate can be persuaded of the necessity of such increases by being reminded of their beneficial effects.

3.03 pm

Baroness Kramer (LD): My Lords, I join the tributes to Lord Peston. It is probably a hallmark of the man that so many of us from different Benches felt that we had a personal relationship with him. He was so welcoming when I came into the House. I can hardly bear the thought of going through financial services legislation without him and Lord Barnett and their constant commentary, great wisdom and endless humour, which carried on in the corridors after debates. We have suffered a great loss.

I gave my response to the Budget in Grand Committee. Therefore, I will use this opportunity to speak somewhat differently. However, I raised one point in that debate which I will not allow the Minister to escape hearing again. They say that if you hear the same point 20 times, eventually some attention is paid to it. Therefore, I ask the Government one more time to look again at the definition of a budget surplus that includes capital spend, because it is entirely inappropriate to do so. We face a situation where the markets are such that we can borrow at virtually zero coupon to begin to raise that funding for critical infrastructure in which we have underinvested for at least two generations. I am not talking just about transport, in which I have a direct interest. The pace of that investment must increase.

As regards the internet and broadband, the ambition that this country has for a speed of 20 megabytes for this vital piece of infrastructure is, frankly, tepid, given that the rest of the developed world is starting to look at 1 gigabyte speeds. Surely we have to invest in that, as we do in housing. We have a housing crisis. The noble Lord, Lord Hain, talked about that extensively. We should also recognise the need for housing to rent, at rents that ordinary people can afford. Every conversation we have with the Government is about housing to buy. However, housing to rent is critical and a necessary mechanism to maintaining our wonderfully socioeconomically mixed, complex cities, particularly London, which have been the wellspring of so much of our growth and productivity.

When I address productivity, the issue that is raised by company after company, large and small, is that of skills. Others have talked about this extensively. The noble Lords, Lord Mair and Lord Bhattacharyya, talked extensively about innovation and skills. I draw the Minister's attention to a report to this House by the Select Committee on Social Mobility, which was

[Baroness Kramer]

published roughly a week ago, because it focused on the virtual complete collapse of support for our youngsters who do not take the academic route. That is the nearly 50% of young people whose goal is not A-levels and who are not heading for university. Apprenticeships do not meet their needs because most apprenticeships are aimed at much older people. This calls for a real look at that 14 to 19 age group to understand the need for a genuine and viable vocational structure to support our youngsters. Given proper education and support, many of those youngsters could match the skills that are in demand. That group is not stupid. We must get away from this grammar school versus secondary modern mentality which implies that if you are not academic, you are not brilliant, capable, creative and able. Among that group are future entrepreneurs, engineers, designers and many people who could be the backbone of our economy. Germany has recognised that and we need to do so. It goes far beyond apprenticeships. The Treasury needs to look at this issue and not pack it away in the education sector.

An issue that has hardly been addressed today, but which is absolutely critical, is that of access to finance. We have become quite good at starting new enterprises, as I think the noble Lord, Lord Bilimoria, said. If you look around the UK, you will see that new businesses are starting and many new entrepreneurs have come forward. There is a real energy in start-ups within this country, and they can now find initial financial support. However, it begins to fall apart as soon as they try to scale up. As noble Lords know, this is widely known as the valley of death of financing. As I talk with venture capital groups up and down the country, and the new innovative financing groups, it is clear that they cannot provide that missing element unless there is significant change. Venture capitalists are too concerned about turning over their investment in a three to five-year period. We are desperate for patient money, which in many countries such as America comes from angel finance, or other kinds of institutional sources across the continent. I see no way to begin to get that kind of long-term investment. The noble Lord, Lord Bilimoria, talked about the Judge Business School in Cambridge. Believe it or not—talk about burying old battles—that has produced a joint report, sponsored by Barclays, with the Saïd Business School in Oxford which looks again at this whole scale-up issue.

This must now become a major government focus. We need to look at using things like the British Business Bank and other kinds of mechanisms that may require government investment, government partnership and support, or changes in tax incentives to begin to deliver the financing for scale-up. I pick up on the point by the noble Viscount, Lord Hanworth, about how many of our companies end up in foreign hands. I am not anti-foreign; it happens—companies grow and sometimes they sell out. But in the UK, they have almost no option to sell to a British-owned entity because we have lost nearly all our tier 1 players. If they are going to remain based in this country, driving exports from the UK, keeping their research here, they are going to have to grow organically and that is why scale-up becomes absolutely critical. I hope that the Government will focus on it.

As the Minister will know, a lot of start-ups, and indeed other businesses in the country, are now turning to new FinTech, to innovative finance, rather than the conventional banks to fund their growth. The noble Lord, Lord McFall, raised the issue of the banks returning to past abusive practices. Both the Treasury and the regulator need to be on the alert because, in talking with the FinTech sector, it is clear that it is becoming very concerned about the behaviour of many of the conventional banks. Initially, our conventional banks ignored the new FinTechs—after all, many of them did not start until 2010 and were fringe players. The banks basically dismissed them. Now they are real players. Our third largest creator of new small loans to small businesses is, I think, Funding Circle; it is becoming a significant player and is taking away market that our banks would like to control. The banks, however, have the ability to come in and compete with that sector using subsidised taxpayer support. Their funding comes from deposits, on which they pay nothing, or next to nothing, because the taxpayer is providing guarantees against any risk. They have extraordinarily cheap sources of finance that they can direct against those new targets. I think that they have enough sense not to try to drive these new groupings out of business, but they will constrain their growth, which is unhealthy for the economy. We have to make sure that anti-competitive behaviours do not develop and that there is not cross-subsidisation undermining our new innovative finance industries.

In looking at those industries, I want to pick up on a key issue as we look at the economy, which is whether we remain in the European Union. Some will not have had the opportunity today to see that Tech City UK has done a poll of its membership. These are technology start-ups; they are one of our real high-growth sectors, and they are the industries of the future that many who have called for innovation have identified. Among both founders and investors, seven in 10 want Britain to remain in the EU. This industry is so exciting because it is the next generation. It is not run by people of my ancient age—you would be lucky to find somebody aged 40 within these groups. They are the future. I find it fascinating that, in talking about the EU with them, they cannot understand the debate that is taking place. Many are not Brits but have come to live here because this is such a good place to create these industries. But they are entirely comfortable and happy to identify as and be proud of being British and see no conflict at all with being in the EU. These businesses, almost from day one, are pan-European. They start with activity here in the UK, in Poland, Germany and Spain—they are pan-European and see the future as such. When people talk about the financial services industry potentially leaving London, they talk about Frankfurt and Paris. I think most people know that that is not terribly serious but, for this new industry, Berlin is. We should not ignore what is now becoming a great cosmopolitan city with a very large English-speaking population. It has become a magnet across Europe for new enterprise, which is a real risk for us. For these new driving industries, the potential to move to Berlin is always there as a possibility. I never hear that in the general discussions that come from the leavers about Brexit.

There are so many things that we could talk about under the heading of the economy today. Many have been addressed so well by others that I will limit my remarks to what I have already said. I thank the Minister for bringing forward an opportunity which, in a sense, required us not just to focus on the Budget but to include a much broader discussion of the economy.

3.15 pm

Lord Davies of Oldham (Lab): My Lords, I, too, begin by paying tribute to Maurice, Lord Peston. We first met 50 years ago, when I was a humble academic seeking to launch a degree in an institution that eventually became Middlesex Polytechnic and, later, Middlesex University. Lord Peston—or just Maurice Peston as he was then—was one of our external examiners. The other crucial examiner was John Rex, a formidable intellect in the field of social science. Lord Peston was of course also an extremely able social scientist and economist. The difference between the two was that Lord Peston was always looking, if improvement was needed, at how that could be encouraged and, if things were going well, how that could be reinforced. John Rex was his diametric opposite. Perhaps we benefited from the fact that there was such a contrast between the two, but I certainly benefited from Lord Peston. Neither of us would have wagered that we would be meeting seven or eight years later when I was a PPS to the Deputy Prime Minister at the time and he was in the Department of Prices with Roy Hattersley, later Lord Hattersley. After that time, Lord Peston carried on with his academic career and then arrived here two decades ago. I came much later but I was not at all surprised by the huge reputation that he enjoyed in this House. He combined the two features that are so much appreciated all around the House: having real expertise and being well worth listening to on all occasions. He also had a sense of humour and a keenness to enjoy the company of others, which I think shone through everything he did and made him so greatly appreciated in this House.

The Government are asking us to look at their steps towards strengthening the economy. The first thing we had better do is to disregard their track record. It will be recognised that in the first years of this Administration—in coalition of course, but with the Conservative Party being quite obviously most critical to it—and even after the economic disaster that befell this country and others in 2007 and 2008, the coalition Government had come to power with a fiscal deficit of only 8% and, crucially, a growth rate of 3%. The Government soon put paid to the latter. The Chancellor wasted no time at all in demolishing hopes of that growth rate being sustained. As my noble friend Lord Hain clearly identified, the Chancellor also massively missed his deficit target in 2015, when we were meant to see the whole of the deficit cleared. It was of course back to where it had been five years before.

Now the plans are quite clear. It was evident in the last Budget that the Chancellor intends to pursue austerity up to the next general election in order to have a surplus in the year of the election. They will be the first Government who pursue austerity as late as that, but that is nevertheless their intention. The OBR gives him a 50:50 chance of making it. Are we meant to lay a wager on a 50:50 bet that the Government are going to get things right in these crucial respects, when they have got them so wrong before? Yet the Chancellor persists in believing that a balanced Budget is the foundation of economic growth.

Of course, what has been missing from this debate is the historical perspective. The historical perspective for when a Government set out to do exactly what this Government are doing is the 1930s. Does anyone think that the constant pursuit of budget equilibrium proved the solution to Britain's problems at that time? No, the solution to Britain's problems and low growth in that period was the growth of the armaments industry—state investment on a very substantial scale—as armaments began to develop as we recognised the threat presented by Nazi Germany. Surely the Government must recognise that the state has a role to play in investment if we are to emerge from the position we are currently in.

In his opening statement, the Minister was generous enough to recognise that despite the fact that he has some insights into improvements in certain aspects of productivity, the perceiving public—including investors and people taking decisions about opportunities in the economy—regard our low productivity as acute. No one doubts, least of all the OBR, that productivity is the key to success but the Chancellor has seen output per worker fall to a level that puts us last but one in the list of G7 countries. Before the 2007-08 crash, productivity in this country was increasing by 2%. Since the Chancellor has been in office, it is 0.2%. That is the magnitude of the problem and the failure in the key issue in the development of the economy.

The Chancellor recognises that the economy needs to be supported by more investment. Why are we getting low investment? We know what the outcome of low investment is: employers employing workers at a very low rate, so that even the Government have to step in and increase the basic wage rate because cheap labour takes the place of the capital investment that is absent. If we are going to seriously increase the living standards of our people, we have to have a strategy for investment. If the private sector will not do it, or has not been doing it sufficiently, far from the state withdrawing, it is important that the state steps in. That is why we do not want infrastructure projects on paper; we want infrastructure projects on which work has begun. We do not want years of dither over whether or not we should expand airport capacity; we want decisions about the very difficult issue of additional runway capacity in the south-east.

Far from the Chancellor encouraging state enterprise, far from any Minister suggesting that they have a case for state enterprise in their department, we get the kind of situation we had with the east coast main line. When the private sector collapsed, a government agency stepped in and produced a high level of service, which was much appreciated by passengers. There was considerable public support for the franchise being renewed for those who were running it. Of course, the Government forbade any state intervention. They are prepared to countenance state aid for the German or French state railways, but not for the successful British department. That shows the extent to which ideology—the

[LORD DAVIES OF OLDHAM]

pursuit of the small state in which the Government play a very limited part—actually defies rationality when the evidence points in the other direction.

The Government also pay very little attention to the chronic situation of our balance of payments. A fair percentage of noble Lords who are present today are mature enough to recall that the 1970 general election turned on the import of two American Boeing aircraft because the test was whether the Government had succeeded in producing a balance of payments surplus. We are in an absolutely chronic state of destitution as far as our trade balance is concerned. It looks as if very little is being done to change that.

Not only do the Government not invest in infrastructure, it seems that they do not give support where it is needed. The noble Lord, Lord Mair, made it clear that support for the engineering industry would be the backbone of significant development in our manufacturing industry. We need manufacturing; we cannot rely totally on services. We need a manufacturing industry that is capable of selling abroad. That means that we have to think about the education of engineers and the status of the profession in this country.

More than that—the noble Baroness, Lady Kramer, hinted at this—we need to look at the skills that are beyond and different from the university-level skills. We all take enormous pride in our universities. My noble friend Lord Bhattacharyya should certainly take pride in the relationship between his university and industrial development in Coventry and Warwick. We know that Cambridge has produced superb relationships between the university and the development of enterprise. There is not enough of it going on but at least the universities are largely protected from the Government's onslaught on publicly supported expenditure—not so for further education and some aspects of schools.

As far as the schools and sixth-form colleges are concerned, not only is there a brutal onslaught on their resources but the Government have prescribed a national curriculum which militates against certain aspects of vocational education. Is it surprising, therefore, that our young people constantly subscribe to the notion that the only achievement they can expect to be measured against is passing academic examinations and making their way to university? I would be the last person to seek to deter anyone from doing that but we need opportunities for others. We certainly need opportunities for education in the skills that the universities do not provide and which the nation sorely lacks.

We have proposals from all the candidates in the London mayoral election; wider than that, we have the parties competing on the concept that we need to tackle our chronic housing crisis by more building. That is not just a problem for the south-east and London, although that is where the problem is most acute. Large numbers of our people are inadequately housed. If you told the people whom I used to represent in Oldham that the housing crisis is only in the south-east, they would point out the limitations that so many of them have with their housing at present.

When the construction industry responded to the signals that we need more housing, what was the first thing it did? It complained that it cannot get the skilled people it needs to do the work. Yet this Government are decimating further education colleges, with many being forced to combine, and it looks as though others will have to close. What kind of skills development are we guaranteeing for so many of our young people if their opportunities for vocational education and skills development—as if those were some kinds of dirty words—are condemned by a lack of resources due to the cuts that the Government are constantly pursuing?

It is quite clear—unless the Minister is able to give much more convincing answers to the key questions raised in this debate—that we are not going to get an improvement in our economy. I would say, replying for the Opposition, that Europe is not one of those issues. I have agreed with every word that noble Lords have said about the dangers to our economy of withdrawing from Europe. The Minister and I are bound together as brothers in common endeavour on that issue. However, I also agree with the noble Lord, Lord Bilimoria, that those of us who support Europe have been complaining and campaigning about the democratic deficit for years. He is right to point out that aspects of the European Parliament and its structures are totally inadequate. We should do more about that than we have in the past. As he said, however, there are no grounds for withdrawal from Europe on that basis. We are glad that we will have his vote, if not his wholehearted support, in fending off that particular threat to the economy.

The Office for Budget Responsibility has said that the Budget does not offer a guaranteed improvement in productivity. It does not say that this Government offer an improvement in our trade imbalance. However, it was not presented with a question which my noble friend Lord McFall asked, as did my noble friends Lord Haskel and Lord Hanworth in a different context. My noble friend Lord McFall asked: when will the Government really get to grips with the banking culture and make sure that the nation gets the returns it deserves after bailing out the banks? My other two noble friends asked: when will the Government address the nature of the Companies Act and the inadequacy of the structure in which our corporate business currently operates? The OBR also said that it was scaling down its estimate of the prospects for growth. It was pessimistic on that, too. That is enough to chill the bones of the average Minister. It is not a strong economy.

3.33 pm

Lord O'Neill of Gatley: My Lords, the best news is that people were hopeful early this morning that we would be over by 4 pm and, unless I am particularly long-winded in my summary, we should achieve that. I start by thanking everybody again for their varied contributions. I have presented myself with an additional risk in summing up because of how I started out. I deviated deliberately from my normal style to highlight—despite some of the comments of the noble Lord, Lord Davies—some of our really problematic challenges, particularly on productivity and the current account. That has led, in a very stimulating manner, to many of your Lordships offering extremely thoughtful comments, as always. I thank you all and apologise in advance if I do not give the right credit to everybody for their important contributions.

I cannot resist saying I am particularly pleased that the noble Lord, Lord Haskel, referred to antimicrobial resistance because three weeks from today, I will present the final reports of the important independent review I have been undertaking. I look forward to having a chance to debate that in this place. I say that because from my brief time as a Member of your Lordships' House, I am aware of our collective belief that we conduct ourselves on a higher level than the other place. But I gather that yesterday, there was a debate in the House of Commons on antimicrobial resistance, which is to be welcomed.

Let me quickly return to the issues raised. In my judgment, there generally continue to be signs that our economy is in fundamentally better shape than it has been for some time. However, as I have pointed out, particularly with respect to productivity and the current account, and especially given what lies ahead on 23 June, there are some considerable risks—not least because as an outward-facing economy we are strongly affected by all sorts of forces around the world, none of which I had or will have the time to go into, although many others mentioned them. I would point out that while we have been sitting here, we have had the first estimate of US GDP growth for the first quarter: 0.5%. That annualised number is much less than expected. Despite the comments about how supposedly disappointing our growth is, that means that our first-quarter growth was four times stronger than the United States'. Some of the issues we face—on productivity and otherwise—are affecting many parts of the world.

As I tried to do during the Budget debate, I am going to summarise the comments made by noble Lords today in the context of specific areas. I have identified five: the economy itself and its performance; the Budget and the appropriate policy; global trade, especially with respect to the EU issue; productivity; and distributional analysis/inequality.

Before I do that, let me address two specific issues that arose early on in the debate. I was challenged by my noble friend Lord Forsyth on the immigration issue and the contents of the HM Treasury document. I am rather pleased that, despite the length of our debate, others did not make the same point. Of course, as the Government have articulated clearly in the run-up to this referendum, we believe that net migration remains too high and we are committed to reforms to bring that down. Many examples of that can be given. I would also point out, as that document pointed out, that most evidence suggests net migration in aggregate is a net positive for our economy—if for some more than others.

On the topic of PIPs, raised by the noble Lord, Lord Tunnicliffe, I thought I put that to bed during the Budget debate but perhaps not all noble Lords heard what was said there. The figure of £4.4 billion over the course of the rest of this Parliament, which the noble Lord referred to, is really a minuscule sum compared to the considerable volatility that will arise from the OBR's changing its view again—one of the few things we can really predict about the OBR. For example, over the course of the last forecast, the figure changed by £75 billion. While many people have been right to point out the huge dangers of forecasting, I have very strong confidence in one forecast: that it will change its assumptions for the next Autumn Statement and the next Budget. That will be much bigger than anything that has happened with PIPs. It is a shame that that debate took place in such an environment. As far as I understand it, the underlying intention is not necessarily to save money but to make sure that those most worthy of the payments are getting them and that the system is not being gamed in the way we suspect it is.

I turn now to the five issues. A number of noble Lords made important comments on the economy, including the noble Lords, Lord Northbrook, Lord Hain, Lord Suri, Lord Sheikh and Lord Davies of Stamford, and the noble Viscount, Lord Hanworth. I have touched briefly on some of the many challenges that exist. Despite what I have just said about the latest US GDP figures, I note last month's purchasing managers' indices—a highly important leading indicator of probabilities—which showed a noticeable pick-up in a number of countries around the world, including the US and China, although sadly not the UK, which in itself is interesting.

I smiled to myself with considerable amusement when I heard the noble Lord, Lord Hain, refer to the very optimistic-sounding view of Oxford Economics on productivity, compared to that of the OBR. Of course, the OBR was set up in a particular way. I imagine that some people, including me, hope that Oxford Economics is proved right, because the fiscal outcome would by definition be considerably stronger than that implied by the latest OBR forecast. We can agree or disagree with what the OBR says, but it was set up to serve the purpose of independence, which, in general, it does pretty well.

I cannot resist pointing out the irony in the comments made by the noble Viscount, Lord Hanworth, about the problems of manufacturing and the rather strange situation with foreign ownership. Ten yards to his left as I look, is the noble Lord, Lord Bhattacharya, who pointed out—as we do a little less often than we should—the miraculous development going on in our auto industry, most of which is owned overseas but is the most productive auto industry in the world, with record numbers of exports. If we could bottle that and do the same with a lot of other things, it would be pretty good for all of us.

I turn to the second topic: the Budget. I will end up repeating things I have said before, as have many noble Lords, but I will try to be brief. Most of your Lordships are aware that there are some who would like the pace of deficit reduction to be faster, while many—perhaps the majority here—want it to be somewhat slower. It continues to surprise me when I hear that said so often here. There is something called the full employment adjusted cyclical position. Many academics are saying that, at this stage of our level of employment, we should be in a fiscal surplus. The idea that we should suddenly do things that involve spending a lot more money, and ignore that issue—that we should not worry about the rainy day in the future—is very questionable. The Government, faced with the self-imposed constraint of the OBR, are trying to choose the right path of deficit reduction, with the goal of achieving a future surplus to support both the private sector and, in the areas where it is necessary, the public sector, but with respect for trying to lower the deficit.

[LORD O'NEILL OF GATLEY]

I have to apologise to the noble Baroness, Lady Kramer, who raised an issue which I had not quite understood from her comments on the Budget debate: whether we should introduce a goal of a surplus adjusted for capital spending. It sounds very reminiscent of what was called the medium-term fiscal strategy, specifically adjusted for capital spending. In principle, it is of course a very important idea, and I will give it some thought and discuss it with colleagues. However, as that experience demonstrated, when times are tough it becomes rather convenient to redefine certain elements, and you end up with unintended consequences.

Topic number three is trade and the vital issue of EU membership. The noble Lords, Lord Newby, Lord Sheikh and Lord Bilimoria, among others, outlined the issues wonderfully and in a very clear style, which I admire—I want to borrow some of it next time I have to do the same thing. As I said in my opening remarks—and as I have done myself many times in the past—one can easily articulate a future in which the only place where any of us are exporting to is China. In fact, I once produced a chart showing that by the end of this decade, Germany will be exporting more to China than it will to France. I have occasionally added the joke that German companies would rather be in a eurozone with China than with France. That was a forecast. It is not going to happen by 2020, because China's economy has slowed, but it could still happen in the future. I give that example because, despite how good Germany is at exporting, the Germans are not, so far as I am aware, thinking of leaving the EU because of the opportunities they might find elsewhere. However, that is the sort of risk that we seem to be putting to our electorate here. All of us here—and I detect that most Members of the House strongly agree—need to ensure that the people of this country are correctly informed about the risk they may be facing.

I should also add, because there is sometimes confusion of membership of the euro and membership of the EU, that there is often no more powerful voice than the one and only Martin Wolf, who earlier this week outlined 10 reasons why we should not leave the EU. As I am sure noble Lords know, he is not the most vocal supporter of the euro.

With respect to trade, it was very nice to hear the interesting comments of my noble friend Lord Sheikh about Africa and Islamic finance. Coincidentally, today in Manchester my ministerial colleague the Economic Secretary is hosting a big conference on Islamic finance, which involves participation from some of the most important policy-makers in the Middle East and others. We are very committed to that.

Topic four is productivity, which itself took more time and had more contributions than I will have a chance to do justice to. Very briefly, with respect to the very interesting comments of the noble Lord, Lord Mawson, about technology, young people and the health service, this is a major area where things will happen, the scale and dimensions of which most of us in this place, because of our age and minds, will not be dictating. But I share the noble Lord's excitement, especially as it relates to giving the right mental and financial support to encourage young people to go down that unpredictable path of discovery. That is very important for us to do, and we are trying.

As that relates to education and skills, I will highlight something which I think has not had much coverage. Specifically in the Budget as it relates to the northern powerhouse, we set up the northern powerhouse education fund. It has not yet started, of course, because the Budget was just a few weeks ago, but it will be considering marginal initiatives in the education and skills space specifically to help some of the most challenged areas of the north.

In the same spirit, the noble Lord, Lord Mawson, also touched on health. We are pursuing many things on that front that again I think the Government should be very proud of. A particularly exciting one is of course the devolution of health to Greater Manchester. It will be very important for many parts of the country, particularly urban parts, to watch how this progresses, because of what it means for an integrated health approach that could help our society in so many ways.

On finance, as always, I listened really closely to the important comments of someone as experienced as the noble Lord, Lord McFall. I pointed out in my opening comments something that is not often understood. There are lots of measurement issues with productivity data, but as they are reported, we have seen a dramatic fall in the productivity of the financial sector. It is not obvious to me, as someone who spent so long in that sector, quite what is going on. We must be very careful that our desire to hold people to account, as we should, and punish them—as I think that parts of the Bank of England Bill will—does not smother the financial system from doing what it needs to in its connection to the rest of our economy, linking to some of the comments of the noble Baroness, Lady Kramer. That is a very important challenge and one that I and some of my colleagues are spending considerable time on.

In the broader context, let me turn briefly to long-termism, which the noble Lord, Lord McFall, talked about in a broader sense, as did the noble Lords, Lord Haskel and Lord Mair. That takes up an important part of my mental time, because I, too, believe that initiatives need to be considered. If you look carefully at some of our published documents, you will see that the number of words we are giving to it is creeping up. We are spending a lot of time thinking about the right way to try to change the incentive reward system by linking it to investment and productivity. Many ideas that I have heard here will play in my mind, and we will welcome many others.

To finish off on productivity, on both industrial strategy and R&D, when I was listening to the wonderful comments from the noble Lord, Lord Mair, which many have highlighted, in particular, but also from the noble Lords, Lord Bilimoria and Lord Dykes, many things that they talked about I spend much of my day talking about to research staff, including many of my officials. If I had time, I could proudly highlight what we are doing. We have directly supported the National Graphene Institute at the University of Manchester. There is advanced manufacturing at the University of Sheffield. Yesterday, I gave a speech at the launch of our direct support for sophisticated energy research involving the top six universities in the Midlands. I could go on and on.

Very lastly and importantly, I turn to the comments of the noble Lord, Lord Tunnicliffe, about distribution analysis and the underlying issues of inequality. We believe—with some justification, I think—that what is provided in the Budget is the fullest available evidence about how money is spent. I think the statistics show that 50% of the money that goes on welfare and public services goes to the 40% at the bottom. I repeat for the third time in this place: if you look at internationally credible, accepted and used measures of inequality, you will see that although we are more unequal then we should be, we are not as unequal as we were 10 to 15 years ago.

I would love to respond to the comments about my supposed howler on productivity. If it was as bad as the noble Lord said, I should be allowed out of this place because, although I have made many howlers in the past and will make many howlers in the future, if I was unaware that our productivity is inferior to that of Germany it would be a very bad howler, and I am sure that the noble Lord must have misunderstood.

Lord Tunnicliffe: The Minister has made claims about the impact of inequality before, and he referenced various international studies. Will he write a letter and put it in the Library referencing where I can see the arguments and the figures behind them?

Lord O'Neill of Gatley: I thought I did write—I apologise if that has not taken place—particularly because of the reaction to an Oral Question on this issue. But if I did not write, I will make sure that I do.

I conclude by saying that this has been a stimulating debate. I have heard many interesting things, particularly on angles with respect to R&D and the key interplay between the strength of our universities and the fact that we need somehow to get more of this R&D going from them into industry.

I will finish where I started. We have two quite clear, large economic challenges in our productivity rate and our current account. If we do not make the right decision on 23 June, they will cause us bigger problems than, luckily, they have as yet.

Motion agreed.

Northern Ireland (Stormont Agreement and Implementation Plan) Bill

Third Reading

3.55 pm

Motion

Moved by ***Lord Dunlop***

That the Bill do now pass.

The Parliamentary Under-Secretary of State, Scotland Office (Lord Dunlop) (Con): My Lords, I beg to move.

Lord Bew (CB): My Lords, I rise to thank the noble Lord, Lord Dunlop, on behalf of all the Northern Irish Peers for the way in which he has handled this Bill and for the excellent degree of consultation which we have all been afforded by him. I think I can say on behalf of all the Northern Irish Peers with a special interest in this problem that we are very grateful.

I shall make one comment and ask the Minister for his view. We are in the middle of an election in Northern Ireland. During the campaign, there has been some discussion of the reserved issues that are being dealt with in this House, particularly electoral law. When politicians have been criticised by the public, they have been saying that it is Westminster's responsibility. Does the Minister agree that our habit here—this Bill is an example of it—is to operate on the basis of an understanding that exists in Stormont, as, for example, in the Stormont House agreement? We debate things, we put forward ideas that we think might improve things a little, but fundamentally this Parliament does not see its way to upsetting understandings that exist in Belfast. That is the way that we have tried to proceed to strengthen the peace process. I find it a little difficult that, when members of the public have doubts about some aspects of this legislation, Members of the Northern Ireland Assembly say it is our fault. We tend to be following the understandings that we believe they have. Will the Minister comment on that? I thank him again for all his help.

Lord Lexden (Con): I rise to make one or two comments on behalf of myself and the noble Lord, Lord Empey, who cannot be in his place today.

The Minister responded with skill and understanding to the points that were raised in our debates on Second Reading and in Committee, but he will be aware that the absence of further amendments on Report and at Third Reading does not indicate total contentment with all aspects of the Bill. There seemed no likelihood that the Government would accept any amendment whatever. As my noble friend Lord Empey pointed out, repeating an important comment he made in relation to the Scotland Act, it was as if we were presented with a treaty for formal acceptance and ratification. Agreements made between the Government and the devolved Administrations ought not to come before Parliament in this way, excluding any possibility of serious change. There is a fundamental constitutional issue here, which we need to bear in mind.

Finally, our discussions and those in the other place identified a number of areas where improvements were desirable. One was the pledge of office to be made by Ministers and Members of the Northern Ireland Assembly, yet the Bill will pass into law without providing any sanction if the pledge is breached. Northern Ireland should reap considerable benefits from this Bill, but it could perhaps have provided even more effectively than it does for the continued progress in the Province that we all want so fervently.

4 pm

Lord Dunlop: My Lords, I shall respond briefly to what has been said. In moving that the Bill do now pass, I thank all noble Lords from across the Chamber

[Lord Dunlop]

who have been involved in its passage through this House, including the noble Lord, Lord Bew, and my noble friend Lord Lexden. I thank them for their kind words. I think that it is fair to say while the contributions on this Bill may have been less numerous than on others, their quality has more than made up for that. Indeed, how could it be otherwise when this House benefits from the wisdom and experience of noble Lords who have played such important and direct roles over the years in putting Northern Ireland on a path of peace, progress and prosperity?

I note what my noble friend Lord Lexden said. To address directly the point made by the noble Lord, Lord Bew, the Bill indeed gives effect to agreements that have been reached by the Northern Ireland parties. It is very much a theme that we have devolved institutions and we must ensure that those institutions develop and take on their responsibilities.

As noble Lords are aware, we have proceeded with the Bill faster than is usual. That was to ensure that the enhanced pledge of office and new undertakings for Members of the Assembly, as well as the extension of the time available for ministerial appointments, would be in place for the Assembly's return after next week's elections. I particularly thank Members on the Front Bench opposite for their support with this expedited timetable. I also take this opportunity to put on record my appreciation of the officials from the Northern Ireland Office who have supported me during the passage of the Bill and at the various briefings that we have held.

My noble friend Lord Lexden raised the issue of the pledge of office and the undertakings given by Members of the Northern Ireland Assembly. I assure the House that is it is absolutely the case that on the issue of sanctions and any breaches of the undertaking, the Government will give every encouragement to the new Executive and the new Assembly, once formed, to give this very careful consideration.

I recognise that there are many issues arising from the Stormont House and fresh start agreements that are not in the Bill, and I am sure that on future occasions we will return to many of the issues that have been raised across the House by noble Lords on how best to deal with the legacy of Northern Ireland's troubled past. But I hope that the House will agree that the Northern Ireland (Stormont Agreement and Implementation Plan) Bill, while not providing all the answers, maintains the momentum achieved by the fresh start agreement, and marks another significant step forward in tackling the malign threat of paramilitary activity and securing the more peaceful, stable and prosperous future for Northern Ireland that we all want to see.

Bill passed.

Nuclear Installations (Liability for Damage) Order 2016

Motion to Approve

4.03 pm

Moved by ***Lord Ashton of Hyde***

That the draft Order laid before the House on 22 February be approved. *Considered in Grand Committee on 27 April.*

Motion agreed.

House adjourned at 4.03 pm.

Volume 771
No. 144

Thursday
28 April 2016

CONTENTS

Thursday 28 April 2016