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PARLIAMENTARY DEBATES
(HANSARD)

HOUSE OF LORDS

OFFICIAL REPORT

ORDER OF BUSINESS

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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

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House of Lords

Tuesday 29 November 2016

2.30 pm

Prayers—read by the Lord Bishop of Chester.

Royal Assent

2.35 pm

The following Act was given Royal Assent:

Investigatory Powers Act.

Sport: Corruption

Question

2.36 pm

Asked by **Lord Naseby**

To ask Her Majesty's Government, in the light of this year's Global Corruption Report by Transparency International, what action they are taking to tackle corruption in sport.

Lord Naseby (Con): My Lords, I beg leave to ask the Question standing in my name on the Order Paper. In doing so I declare an interest as president of Northamptonshire County Cricket Club and the MCC, and as a member of the All England Lawn Tennis Club.

The Earl of Courtown (Con): My Lords, the Government are fully committed to tackling corruption in sport at all levels. This is reflected in Sporting Future, the Government's sport strategy. Working closely with bodies such as UK Anti-Doping and the Gambling Commission, we are not only taking steps to protect integrity in the United Kingdom, but playing our part in tackling these threats through co-ordinated international efforts with partners such as the World Anti-Doping Agency.

Lord Naseby: I am extremely grateful for that reassuring Answer. Nevertheless, I wonder how many of your Lordships understand the extent of the illegal betting and fixing of matches going on across so many sports. While the ECB for cricket and the All England Club and others in the tennis world are taking action, in my judgment far too many sporting bodies have only just started to realise the challenge before them. Against that background, will my noble friend, through the Government, put pressure on these governing bodies, in particular to monitor that they have governance in place, that there is transparency in what they are doing, and, above all, that there is an independent assessment of whatever procedures they may have?

The Earl of Courtown: My Lords, I congratulate my noble friend on his Question, and in particular on his contacts with so many famous sporting groups. At the domestic level, a new United Kingdom code of sports governance was published only last month, as my noble friend is aware. It sets out a commitment in the Sporting Future strategy and makes it clear that we expect the highest standards of governance and transparency from all sports governing bodies that wish to receive public funding from 2017. If these are not adhered to, their funding will be under question.

My noble friend also talked about independence of examination, but one must remember that government funding is only part of such organisations' funding. They are independent bodies but they must adhere to the governance code. Part of the checks and balances must minimise the likelihood of integrity issues arising.

Lord Addington (LD): My Lords, will the Minister assure us that we will not only put pressure on our own governing bodies, but encourage those of other nations, particularly of our allies and friends, also to have a coherent approach? Unless we are international on this, we will do nothing.

The Earl of Courtown: My Lords, the noble Lord makes a very good point about putting pressure on international bodies, and this is being carried out through the sport integrity partnership. We welcome the intention to launch the international sport integrity partnership in the margins of a meeting of the International Forum for Sport Integrity in Lausanne in early 2017. I also draw the House's attention to the anti-corruption summit that happened in the early part of this year. The Prime Minister reaffirmed the United Kingdom's commitment at the G20 summit earlier this year.

Lord Stevenson of Balmacara (Lab): My Lords, sadly I have no clubs to declare an interest in—I am still an active sports player. The Department for Culture, Media and Sport is conducting a cross-government review of the existing anti-doping legislative framework and assessing whether stronger criminal sanctions are required. Can the Minister confirm that if the review should make it clear that stronger criminal sanctions are needed, the Government will not hesitate to act?

The Earl of Courtown: My Lords, as the noble Lord knows very well, this point was debated in Committee on a Bill before your Lordships' House earlier this month, and I suspect there will be later opportunities on the same Bill to discuss it again. I cannot pre-empt what will be decided from the review. The Government are in the final process of the review but we must realise that criminalisation is not always a panacea for doping and that not all countries have legislation in place.

Lord Watts (Lab): My Lords, too many sporting bodies are run by the old boys' brigade. Do we not need to have far more professional sport in the UK and around the world?

The Earl of Courtown: My Lords, transparency and openness in all these sporting bodies is of paramount importance. This is why, at the G20 summit, we looked

[THE EARL OF COURTOWN]
at setting up the Anti-Corruption Coordination Centre, and why we are looking at the Criminal Finances Bill and establishing a joint financial analysis centre. The Government are investing in expertise in data and intelligence. The point is that these sporting bodies, many funded in part by public money, have to show their transparency, openness and correct behaviour.

Lord Brooke of Alverthorpe (Lab): My Lords, this is a googly: is the Minister prepared to have a look at the full report by Transparency International, which he will find supports the Private Member's Bill that I put before the House on lobbying transparency to avoid corruption within lobbying of government? Is he prepared to try to persuade the Minister in question to take a similarly positive approach to clearing up the mess there as he is doing on this subject?

The Earl of Courtown: My Lords, I have been in the Chamber part of the time as the noble Lord's Bill passes through your Lordships' House. I will of course pass on his concerns to the Minister.

Asylum Detention Centres: Safety
Question

2.43 pm

Asked by ***Baroness Barker***

To ask Her Majesty's Government, in the light of the report by the UK Lesbian and Gay Immigration Group and Stonewall published on 27 October *No Safe Refuge*, what plans they have to make detention centres safer for LGBT asylum seekers.

The Minister of State, Home Office (Baroness Williams of Trafford) (Con): My Lords, the Government remain committed to continually improving the asylum process for all persons claiming asylum, including those who claim on the basis of their sexual orientation and gender and those in detention while their claim is considered.

Baroness Barker (LD): I thank the noble Baroness for that Answer. Incarcerating lesbian and gay asylum seekers with people who threaten them with exactly the same violence and intimidation from which they are fleeing is a uniquely severe punishment. These people pose a very low flight risk. Why are we spending upwards of £36,000 a year keeping them locked up?

Baroness Williams of Trafford: My Lords, I can reassure the noble Baroness that there is actually a presumption against detention. On that note, the Government commissioned Stephen Shaw to do a review into the detention of vulnerable individuals. The noble Baroness and I had a very brief chat before we came into the Chamber. A new category, "adult at risk", has been introduced, with the clear presumption that people at risk should not be detained, and this includes transsexual and intersex people. Stephen Shaw will carry out a short review next year to see how the actions he suggested have been implemented.

Baroness Burt of Solihull (LD): My Lords, LGBT asylum seekers have already faced persecution in their countries of origin. This report shows that, having risked everything to get here, they are now facing it again. Does the Minister agree that, in order to tackle a problem, you have to quantify it first? Why has the Home Office refused to break down asylum seeker numbers by gender identity and sexual orientation?

Baroness Williams of Trafford: My Lords, all genuine asylum seekers—LGBT or otherwise—have experienced persecution in the countries from which they have arrived, which is why they are in our country seeking asylum. I stress that detention is used only sparingly: to establish the identity of a person; if there is a reason to believe that a person will fail to comply with conditions; or to effect removal from the UK. But I stress that people genuinely seeking asylum have nothing to fear from seeking asylum in this country. Some of the training has been really improved with regard to the questions asked, particularly of the LGBTI community, because of the sensitivity around their claims.

Lord Rosser (Lab): In 2010, the coalition pledged to improve the system for LGBT applicants. I think that the then Home Secretary also ordered a review of the LGBT asylum system in 2014. In the light of the findings of this latest report, what has been the outcome of these two commitments in actually improving conditions of detention for LGBT asylum seekers, and what hard evidence is available to prove that those detention conditions have improved?

Baroness Williams of Trafford: The noble Lord is absolutely right. An inspection was commissioned by the Independent Chief Inspector of Borders and Immigration back in 2014. It did not indicate any systemic or endemic issues of bullying, violence or victimisation. In fact, it praised the training and the guidance and our work with organisations such as UKLGIG and Stonewall. But the Government do not rest on their laurels. A new detention services order on LGBT was published in April, which provides operational guidance to suppliers and Home Office staff in the immigration detention estate. As I said, Stephen Shaw will be doing a review next year of how his suggested actions have been bedded in.

Parliament and Central Government: Relocation
Question

2.47 pm

Asked by ***Lord Greaves***

To ask Her Majesty's Government what assessment they have made of the case for moving Parliament and central departments to the north of England.

Baroness Chisholm of Owlpen (Con): The Government have made no assessment of moving Parliament to the north of England. This is a matter for Parliament to decide. Government departments determine their workforce requirements and the Civil Service has a significant UK-wide presence, including in the north of England.

Lord Greaves (LD): My Lords, the British economy is ever more unbalanced, as most growth and investment are dragged into the already congested hothouse of London and the south-east. Meanwhile, the so-called northern powerhouse amounts to little more than a few new railway lines and roads, welcome though they will be. Does the Minister not agree that in order to rebalance this country we need a real new vision, in which a wholly new capital city is built somewhere near—

A noble Lord: Pendle.

Noble Lords: Oh!

Lord Greaves: —the geographical centre of the country, in the Midlands or the north? That would provide a new centre of government for the country, taking power to the powerhouse out of this congested place we are in, together with a new home for Parliament. Only by something as radical and visionary as this will we ever tackle the problem of imbalance that so affects us all.

Baroness Chisholm of Owlpen: Well, my Lords, this is a radical suggestion. I feel that Parliament should really be in the capital city but your Lordships will be relieved to hear that it is not up to me. Indeed, it is not even up to the Government to decide. It is a decision for both Houses following recommendations from the Joint Committee. The House of Commons Commission and the House of Lords made the decision in 2012 that the Palace of Westminster should remain where it is.

Noble Lords: Oh!

Baroness Chisholm of Owlpen: The second part of the noble Lord's question was about the northern powerhouse. The northern powerhouse is absolutely going ahead and is very important to this Government, but it is about private sector growth, not public sector growth.

Lord Alton of Liverpool (CB): My Lords, although the people of Dunsop Bridge, which is at the geographical centre of the country in Lancashire, might be perturbed to find that the capital would be moved to that part of the country, nevertheless is the noble Lord, Lord Greaves, not making a good point? Does the Minister not agree with the maxim of Benjamin Disraeli that centralisation is the death blow of democracy, and that in the rust-belt towns and cities of the north of England, where there is considerable disaffection, it is crucial to ensure more subsidiarity, not least to the elected mayors and councils?

Baroness Chisholm of Owlpen: That is why we have taken great care to make sure that the Civil Service is placed in various hubs all round this country, including the north. It is also why in central London we have moved from having 181 offices in 2010 to only 54 now, which has contributed £2.8 billion in workforce savings. We are supporting departments in moving to smarter working and encouraging them to have regional hubs outside central London.

Lord Lennie (Lab): My Lords, when the Labour Government were last in power—some time ago now—we pledged to devolve power down to the nations that make up the UK. What plans do this Government have to establish a people-led constitutional convention to consider the future shape and extent of necessary reforms—including the location of the capital if that becomes necessary?

Baroness Chisholm of Owlpen: That is exactly why the Government are concentrating at the moment on the devolution which is happening, bottom-upwards.

Viscount Ridley (Con): My Lords, does my noble friend the Minister agree that one of the side benefits of the proposal of the noble Lord, Lord Greaves, might be that there were a lot of early retirements from the senior ranks of the Civil Service, enabling us to inject fresh northern blood into it? There might even be some early retirements from this House.

Baroness Chisholm of Owlpen: I thank my noble friend for that very interesting point. We are encouraging people to join the Civil Service and looking for highly intelligent, motivated people. As I said earlier, a lot of those people will be working in the north; they will also be working in the east, the west and the south. That is why we are encouraging departments to have hubs outside the centre.

The Lord Bishop of Chester: My Lords—

Lord Clark of Windermere (Lab): My Lords—

Baroness Janke (LD): My Lords—

The Lord Privy Seal (Baroness Evans of Bowes Park) (Con): My Lords, we will go to the Bishops' Bench.

The Lord Bishop of Chester: Are we quite sure whether the people of the north would want Parliament in the north?

Noble Lords: Oh!

Baroness Chisholm of Owlpen: The right reverend Prelate has a very good point; if they have any sense, they will not.

Lord Clark of Windermere: My Lords, what I know is certain is that the people of the north of England would appreciate Civil Service jobs there. Before being so dismissive, would the Government be prepared to have discussions with the BBC, which took an inspired and successful decision to move so much of its activity to MediaCity, on the border of Salford and Manchester?

Baroness Chisholm of Owlpen: Yes, that was certainly a very good decision by the BBC. That is why the Government Property Unit, which is in charge of seeing how the departments work with their civil servants, is indeed trying to drive this radical reshaping of the

[BARONESS CHISHOLM OF OWLPEN]
Civil Service estate, and so encouraging departments to move their civil servants out of London, as I said earlier. That could well be to the north and it would certainly encourage people from the north to take those jobs.

Baroness Janke: My Lords, given the Government's commitment to devolution and the reference in the Autumn Statement, do the Government have specific plans to devolve financial powers to local level? Has the Minister taken note of the various reports that state that, for the economic balance to be redressed away from London, financial and fiscal powers need to be given to local authorities across the country?

Baroness Chisholm of Owlpen: My Lords, the problem is that that could interfere with central budget considerations, and then the whole thing becomes a bit muddled.

Baroness Rawlings (Con): My Lords, the Minister mentioned that the northern powerhouse will be mainly private sector. Will the Government encourage the artistic institutions to move up there more?

Baroness Chisholm of Owlpen: Absolutely. The whole point about the northern powerhouse is that it considers everything in the round—businesses, artistic initiatives and tourism. It is meant to bring financial stability to the country in the round for all interested parties.

Baroness Farrington of Ribbleton (Lab): My Lords, will the Minister please stop referring to devolution when it comes to the northern and western English regions? All this Government have done is to transfer responsibility for carrying out government budget decisions. When will London and the south-east and its representatives here in Parliament stop micromanaging the rest of England, where we would like genuine devolution?

Baroness Chisholm of Owlpen: I am surprised the noble Baroness says that. That is what we are doing with devolution. We are not interfering. That is the whole point: for it to go out into the communities for them to be in charge of what they want.

Lord Harris of Haringey (Lab): My Lords, is there not a nasty tone in some of this debate, of people attacking our capital city? Given that the people of London subsidise the rest of the country to the tune of billions of pounds each year perhaps it would make sense if, before we go down the road of automatically deprecating London, we remember that it would be a very satisfactory outcome as far as the people of London were concerned if the principle of devolution were followed and London had full fiscal autonomy.

Baroness Chisholm of Owlpen: The noble Lord certainly has a point. London is our capital, but I do not think noble Lords were denigrating it when they were talking about moving things to the north. Our capital is very important, and that is why I think we feel that this is where government should be.

Lord West of Spithead (Lab): My Lords, does the Minister think there might be merit in building a purpose-built ship, which would help British shipbuilders and British steel, could visit various parts of England when needed—and would be quite useful during recesses as well?

Baroness Chisholm of Owlpen: I think this is an excellent idea. The only problem is that I only have to step on a ship and I feel very seasick, so I might not be able to take part. As long as it was full of admirals, I am sure we would be in agreement.

Affordable Housing
Question

2.59 pm

Asked by ***Lord Beecham***

To ask Her Majesty's Government, further to the announcement in the Autumn Statement that they will invest £1.4 billion to deliver 40,000 affordable homes, how many affordable houses to rent they expect local authorities to build by 2020.

The Parliamentary Under-Secretary of State, Department for Communities and Local Government and Wales Office (Lord Bourne of Aberystwyth) (Con): My Lords, our expanded affordable homes programme, with a total capital budget of £7.1 billion between 2016 and 2021, including the additional investment of £1.4 billion announced last week, will now fund a wider range of affordable housing, including affordable rent, rent to buy and shared ownership. Local authorities will be able to bid into this.

Lord Beecham (Lab): My Lords, I declare my interest as a Newcastle city councillor and an honorary vice-president of the Local Government Association. Could the Minister please explain the arithmetic underlying the Government's claim that the £1.4 billion announced in the Statement will build 40,000 affordable homes, given that this appears to represent a cost of only £35,000 a home? Will he confirm the estimate of the chair of the Local Government Association, his noble friend Lord Porter, that the enforced reduction of council rents by 1% yearly until 2020 will cost councils £2.6 billion, which could have built, according to its estimate, 19,000 homes, while housing associations will suffer a loss of income of £2.7 billion, with a similar impact on their capacity to build affordable homes?

Lord Bourne of Aberystwyth: My Lords, as the Mayor of London, Sadiq Khan, said, this is,

"the largest sum of money ever secured by City Hall to deliver affordable housing",

and no doubt he would have been more effusive if it had not been for political considerations. This is the largest affordable housing programme for 40 years, and social housing can bid into it too, as the noble

Lord appreciates. This is all part of the programme of ensuring that we have 400,000 affordable homes in this Parliament.

Lord Shipley (LD): My Lords, I am a vice-president of the Local Government Association and have long believed that local government's capacity for building more homes for social rent should be encouraged. Last week, the Chancellor said:

"One person without a home is one too many".

Do the Government accept that the main reason for people not having homes is the sheer cost of housing and that there is an urgent need for more social rented housing? Will the White Paper on housing supply due before Christmas empower local councils to get building?

Lord Bourne of Aberystwyth: My Lords, first, the White Paper will be a far-reaching one and will look at many issues. Self-build, for example, will be there, as will purpose-built—what we could call prefabs for the 21st century. This is, as I said, the most ambitious programme for affordable housing for 40 years. It is clear that we need to look at a range of tenures, as the noble Lord indicates, but of course social housing being subject to a greater subsidy means that if all the money is targeted at social housing, we would be building fewer affordable houses across the piece. There needs to be a balance. As I have indicated, it is for local authorities and housing associations to bid in for that money.

Baroness Sharples (Con): My Lords, will my noble friend confirm that local councils will provide enough allotments when all these houses are built?

Lord Bourne of Aberystwyth: My Lords, I know that that is a subject dear to the noble Baroness's heart. We are concerned about allotments in the department—as she will know, we are ensuring that they are not part of the brownfield sites agenda, so they are safe from that. I am sure that local authorities will have heard what she has had to say and will heed it.

Lord Campbell-Savours (Lab): My Lords, is not the real problem the cost of land for housing development in the United Kingdom? When sold for agricultural purposes, land can come out on average nationally at £20,000 a hectare, whereas when that same hectare of land—at the stroke of a planner's pen—is turned into land for housing, it can be worth anything between £1 million and £5 million? Is that not the real problem we have to sort out in this country?

Lord Bourne of Aberystwyth: My Lords, the noble Lord is right about the cost of land—it is excessive, although of course it varies according to which part of the country one is looking at—and this perhaps ties in with the last question and the answers to that. It is far cheaper to build affordable housing in most parts of the country outside of London. I have looked at figures for the east Midlands, where it would be well under half the cost, and it is a factor. But it is a fact that successive Governments have not built enough. We recognise the need to build more affordable houses, which is why the housing White Paper will be ground-breaking—not to mix metaphors—as we tackle this problem going forward.

The Lord Bishop of St Albans: My Lords, in the financial year 2015-16, the Government's own statistics show that just 6,550 homes for social rent were completed. That is the lowest number since records began and far below the just under 40,000 completed in the years 2010-11. Would the Minister agree with me that whatever the value of other forms of affordable tenure, only social rented housing is going to deal with the problem faced by the most disadvantaged communities? Will he further tell the House what the Government are doing to address this rapid decline in the provision of this form of housing?

Lord Bourne of Aberystwyth: My Lords, the right reverend Prelate is right to the extent that we need a balance with social housing. As I have indicated, the Autumn Statement has concentrated on ensuring that a balance of different tenures will be looked at. We recognise the role of social housing, which is vital. We recognise the role of affordable housing as well. On affordable housing more widely, of the 893,000 homes that have been built since April 2010, 313,000 were affordable and two-thirds of those were for affordable rent. However, the right reverend Prelate is right that social housing is also crucial.

Lord O'Shaughnessy (Con): My Lords, the Government should be congratulated on doubling the amount of housing starts since the crash, but still not enough houses are being built. The cost of land is one issue but one of the other barriers is local residents' concern about the look, feel and quality of design of new housing. What is my noble friend doing to ensure that these aesthetic considerations are at the centre of the Government's housebuilding strategy?

Lord Bourne of Aberystwyth: My noble friend is right about starts, which are up considerably, particularly local authority starts. The number of local authority starts in 2014 was running at just under the level of the number of local authority houses built in the 13 years under the Labour Party, so we are getting council home starts right.

With regard to the issue he raises about design, it is undoubtedly a factor that people want to see designs that are aesthetically pleasing. I think self-build will help to contribute to that; the evidence from the Continent is that self-build, for obvious reasons, tends to be better. Perhaps counterintuitively, the modern prefabs are actually very attractive. I saw a poll in the *Daily Mirror* suggesting that even when they were called prefabs, support for them ran at 67%. So they too will help to better design homes, which helps the general agenda.

Digital Economy Bill
First Reading

3.06 pm

The Bill was brought from the Commons, read a first time and ordered to be printed.

Historical Sexual Abuse in Football
Statement

3.07 pm

Baroness Chisholm of Owlpen (Con): My Lords, with the leave of the House, I shall now repeat as a Statement the response to an Urgent Question given in the other place by Karen Bradley, Secretary of State for DCMS. The Statement is as follows:

"Mr Speaker, nothing is more important than keeping children safe. Child sex abuse is an exceptionally vile crime; all of government take it very seriously indeed, and I know that this House does too. Children up and down the country are able to play football thanks to the dedication of thousands of adults, many of them volunteers, and the vast majority have no stain on their character. However, where people who work with children betray their trust, the effect is devastating.

I pay tribute to those who have summoned the courage to speak out. It is vital that they should know that their voices will be heard, whether they are speaking about historic crimes or anything that is happening today. And of course coaches, parents and indeed everyone has a duty of care to children, and must also speak out where they suspect abuse.

My department, the Home Office, the Department for Education and the Ministry of Justice all have responsibilities in this area. Recent allegations of sex abuse are currently an operational police matter, so you will understand that I cannot comment in detail, Mr Speaker. As soon as this news broke, I spoke to the Chair of the Football Association, Greg Clarke, and the Chief Executive of the Professional Footballers' Association, Gordon Taylor. I made it very clear that the Government will support them in addressing these issues head on.

The NSPCC has set up a hotline, supported by the FA, which anyone can call if they want to talk to someone in confidence. This will help to build a picture of the potential scale of abuse, both historic and more recent, to inform next steps. The number is 0800 023 2642.

The FA has instructed independent leading counsel Kate Gallafent QC, an expert in child protection, to deal with its review of the allegations. The internal review will look at what the FA and clubs knew, and when, and what action was or should have been taken. Alongside that, the Child Protection in Sport Unit, which assists the FA in its safeguarding procedures, will carry out an independent audit of the FA's practices. Today, my honourable friend the Minister for Sport will write to all national governing bodies to ask them to redouble their efforts to protect children who play their sports. I spoke this morning to Chief Constable Simon Bailey, the national police lead for child abuse, and we agreed that I will convene a meeting with him, the FA and others to discuss the situation.

It is important to turn to what measures we have in place today to prevent abuse. The Child Protection in Sport Unit was founded in 2001 to work with UK Sports Councils, national governing bodies, county sports partnerships and other organisations to help them to minimise the risk of child abuse during sporting activities. The unit helps organisations to identify adults who are a threat to children and young people, and to develop safeguarding knowledge and skills among all staff and volunteers. Since 2002, the Disclosure and Barring Service, previously the CRB, has provided a mechanism to request criminal record information relating to people working or volunteering with children.

The first duty of any Government is to protect their citizens, and the first duty of us all is to protect children".

3.11 pm

Lord Stevenson of Balmacara (Lab): My Lords, I am very grateful to the Minister for repeating the Answer on this subject made in the other place. I should like her to be aware that we support what the Government are doing in this difficult time. I am sure that the whole House will want to pay tribute to the members of the Brazilian football team and all those who have lost their lives in the tragic plane crash earlier today. It shows that sport is universal. I am sure that the whole House also wants to record its thanks to former footballers who have shown unparalleled bravery in sharing their stories and bringing the awful scandal to our attention. Our thanks should also go to the *Guardian* and other newspapers which have helped bring out their stories.

This has all the makings of a major scandal. It is reported that six football clubs have been named by victims, more than 20 players have now come forward, five police forces across the country are opening investigations and FIFA is monitoring the situation closely. The NSPCC hotline to which the Minister referred had more than 50 calls in the first two hours of opening, and there are now 250 reported incidents. It is vital that all concerned do as much as they can to reassure parents that everything is being done that can be done. Let us remember that a good safeguarding system is in place and that all but a few coaches and volunteers have only the best interests of children at heart.

We welcome the FA's announcement that Kate Gallafent QC will assist it in its investigations. Can the Minister confirm that this report will be published? We also want to make sure that the police have the resources and powers to ensure that all claims are fully investigated and that prosecutions take place where the evidence exists. Again, I should be grateful for the Minister's confirmation that this will be put in place. As this scandal may not be restricted to football, can she confirm that the DCMS is looking across the sports sector to ensure that cases such as these do not take place more widely? As she hinted, we have a cross-party duty to protect our children and young adults, and I am sure that, on this, we can all agree.

Baroness Chisholm of Owlpen: My Lords, I thank the noble Lord for what he said and his support; this is very much a cross-party issue that we need to tackle. Of course, I also express my sympathies to the Brazilian team for the appalling crash. As the noble Lord said, the fact that we are so interested in it just shows how sport brings us all together. I also endorse the bravery of those people who have come forward. My goodness, it takes a lot to do so as an adult when this has happened to you as a child—particularly in football, which I feel has been a male-dominated sport. It must have taken an enormous amount of bravery for those 20 footballers to come out and be open about what had happened to them.

A far as I know, the report will be published, but I will have to go back and check that.

The noble Lord also asked what else we are doing from a wider viewpoint. Earlier this year, Ministers asked the noble Baroness, Lady Grey-Thompson, to carry out an independent review of the duty of care that sport owes to its participants. Her review covers a wide range of areas, including safeguarding. She is due to report back shortly to the Minister of Sport, and she has set up an independent group to support her in this that includes Anne Tiivas, chief executive of Child Protection in Sport Unit.

Lord Addington (LD): My Lords, it is very good that we can echo on a cross-party basis the sentiments that have already been expressed here—and, indeed, the international support for that very unfortunate football team. Will the Minister give us an assurance that there will be a concentration on the one-to-one contact between coach and player, particularly when they are juniors, and how that is monitored? That will ensure that not only parents and participants but also potential coaching staff know what the correct boundaries are and what safeguards apply on both sides. Without them, we are in danger of doing considerable damage.

Baroness Chisholm of Owlpen: The noble Lord makes a very good point. That is indeed going to be part of the reviews that are taking place. No stone will be unturned, and we are going to learn a lot of lessons along the way. As the noble Lord said, that is a very important point, and I know that it will be taken back and looked into.

Lord Laming (CB): My Lords, the Minister will recall that only last week Her Majesty's Inspectorate of Constabulary published a very challenging and frankly thoroughly dispiriting report on the failure of the Metropolitan Police to protect children vulnerable to sexual abuse. I cannot believe that the Metropolitan Police is alone in needing to look again at its procedures and practices. Would she agree that there are no grounds for complacency in any of this business and that the review needs to be very tough-minded and sharp?

Baroness Chisholm of Owlpen: The noble Lord is absolutely right. I know that the Secretary of State talked to Simon Bailey, who is the national policy policing lead for ACPO. Each individual is going to have a single police lead. Of course, these will be shared—in fact, five police forces will be engaged in this. As I said, Simon Bailey is very much on this, and is talking to the Secretary of State. I think that that is the way forward.

Lord Watts (Lab): My Lords, does the Minister agree that we need to have the highest possible standards of child protection in sport, but this review must not undermine how it is done by volunteers with children on a weekly basis? The last thing that we want to see is adults removing themselves from this position.

Baroness Chisholm of Owlpen: That is so important. We need to have appropriate, robust safeguards in place to make sure that, as parents and grandparents, we can feel safe that, when our children go and play sport, they are properly protected. But equally, as the Secretary of State said in her Statement, all across the country, every day, there are volunteers who are doing magnificent work with children. Of course, we hope that this is a minority—we do not know until we look into it—but the majority of volunteers are doing a marvellous job with children, encouraging them to take part in sport, get involved with other children and take exercise. Those people must not be forgotten.

Lord Clark of Windermere (Lab): I declare an interest as a non-executive director of Carlisle Football Club. Like most football clubs at the lower level, we think that we are clear, but none of us is complacent, and the Football League has been very helpful in providing information. We tend to know the youngsters who play for us, but it is important that any inquiry looks at the Premier League, which has tens of thousands of young people going for training six days a week. I suspect that those are the people who are most susceptible today, and I hope that we look at the activity of the Premier League.

Baroness Chisholm of Owlpen: The noble Lord makes a very good point. I understand that it will be looked into as well.

Lord Faulkner of Worcester (Lab): I too declare an unpaid interest as a vice-president of the National League, formerly known as the Football Conference. Does the Minister agree that one of the most worrying aspects of these dreadful allegations is the way that they were ignored by the football authorities when they were first made and that it is only as a result of the press coverage in the last few days that they have come to light? The Minister referred to other sports. Do the Government have any information about whether similar allegations are likely to be forthcoming concerning those sports? Will the helpline to which the Statement referred—its announcement is very welcome—be extended to help other people who may have experienced the same sort of event?

Baroness Chisholm of Owlpen: The normal contact for someone with an allegation is the police. Since this has come out, 250 people have already contacted the police in England and Wales. The Secretary of State's letter went out to all sports bodies, telling them that they need to look at their governance to make sure they have the appropriate safeguards in place. The governance code which came out in October covers these points. It will be important for sports bodies to make sure that they are complying with the things the noble Lord mentioned: if they do not, they will not get funding in future.

Lord Paddick (LD): Does the Minister agree that it is important to make a distinction between professional coaches, who have such power over young people in terms of determining their future in the sport, and volunteers who do not have such a degree of influence?

Baroness Chisholm of Owlpen: Could the noble Lord repeat the beginning of his question? I had somebody speaking in my ear.

Lord Paddick: Does the Minister agree that a distinction needs to be made between professional coaches, who have a considerable amount of power over young people in terms of determining their future in the sport, and volunteers who do not have such influence?

Baroness Chisholm of Owlpen: The noble Lord makes a good point. That is one of the things that will be covered by the FA when it has its inquiry.

Corporate Governance

Statement

3.22 pm

Lord Henley (Con): My Lords, with the leave of the House, I shall repeat a Statement made by my right honourable friend the Secretary of State for Business, Energy and Industrial Strategy in another place. The Statement is as follows:

"With permission, Mr Speaker, I would like to make a Statement about the Government's corporate governance Green Paper which was published earlier today.

Successful businesses are the backbone of our society. They are the reason why we are the fifth largest economy in the world. They create employment opportunities, and they contribute significantly to funding our country's public services. There are many reasons why we are a reliable place to do business: our legal system and our framework of company law have long been admired around the world. This Government are proud of our thriving industries, and we want to build on these strengths and enhance our competitiveness even further.

One of our biggest strengths is our record on corporate governance, which is already highly regarded around the world, especially for its combination of flexibility and high standards. But despite this record, our strong reputation can be maintained only if government and business regularly review and upgrade those standards. We want to guarantee not only that Britain is an excellent place to do business, but that it is also where business is done best.

I am privileged, in my position as Secretary of State, to meet regularly not only those who run successful businesses, but their employees and customers, too. I have spoken with company heads about how their corporate governance is an integral part of their success. It inspires confidence among investors, loyalty among employees and trust among customers. Ordinary working people who work hard for their living deserve to have confidence that businesses act responsibly and fairly. When an individual business or businesses lose the confidence of the public, faith in business generally diminishes, to the detriment of us all.

There is no conflict between good corporate governance and profitability: indeed, poor corporate governance is usually the prelude to financial disaster. This Government are unequivocally and unashamedly pro-business, but in doing so we hold business to a high standard. It is right to ask business to play its part in building an economy that works for everyone. Over the last few years, there have been a number of proposals, from both the Government and those representing business, to update our corporate governance framework. In some cases these have been made in response to concerns about the actions of a very small number of businesses which have undermined the reputation of British business generally, whose standards are among the highest in the world. Today, we have launched a discussion paper on how corporate governance could be reformed. I will be placing a copy of the Green Paper in the Libraries of both House.

The paper considers three aspects. First, it asks for opinions on shareholder influence on executive pay. Members of the House will be aware that executive pay has grown much faster over the last two decades than pay generally and at times is not in line with corporate performance. The document seeks views on this issue, and in particular on strengthening shareholder voting rights with a view to making them binding, encouraging shareholder engagement with executive pay and promoting greater transparency over pay.

Secondly, the document asks whether there are measures that could increase the connection between boards of directors and employees and customers. It asks whether the establishment of advisory panels and the appointment of designated non-executive directors to take formal responsibility for articulating employee, customer and other perspectives is the right way forward. But we are not prescribing how this should be done; it would be whatever is most appropriate for their business.

Thirdly, our discussion paper asks for views on whether some of the features of corporate governance that have served us well in our listed companies should be extended to the largest privately held companies.

These are issues which are about competitiveness, and creating the right conditions for investment, as much as they are issues about fairness. This Green Paper is designed to frame this discussion so that we can move quickly to consider which changes are appropriate at this time. We want to hear from as many people as possible about how best we can increase confidence in big business and achieve better outcomes for our economy. This does not mean the imposition of regulation when other avenues are open. One of the strengths of our system of corporate governance has been the use of non-legislative standards adopted by business itself.

We are determined to make Britain one of the best places in the world to work and to carry out business. This review will help us achieve that aim, and the views of businesses, investors, employees, consumers and others with an interest in successful business are warmly welcomed. I commend the Statement to the House".

My Lords, that concludes the Statement.

3.27 pm

Lord Mendelsohn (Lab): My Lords, we welcome the Green Paper on corporate governance. I do not think there is anyone who does not recognise the mood of the country given that, since the financial crisis, we have faced growing disparities and unfairness that are neither justifiable nor economically efficient. We also have to recognise that we have long delayed any serious action to deal with chronic issues such as short-termism, weak R&D investment, the lack of large UK businesses acquiring overseas and the problems with productivity. This is a vital debate and the Green Paper should be welcomed as an opportunity to start the long required process of change, not end it. However, this Green Paper will have as much impact on changing the issues at hand as a stick would have in changing the course of a river: it is the exercise of power without purpose and policy development designed for press releases, not practical impact.

Business and business people are also crying out for change, be they investment managers, entrepreneurs, investors or corporate leaders. However, this measure does little but protect the status quo. To set the debate in terms of shareholders' influence on executive pay is too limited, not least when a huge underlying problem in our country concerns the investment industry. Its pay, performance and methods of charging are, in and of themselves, part of the problem. It is also instructive that BlackRock, for example, is now being criticised by its own shareholders and investors for voting against positive environmental policies despite claiming to adhere to them. Shareholders are arguably less of a problem than the boards which fail to address the normally compliant shareholders' voting patterns when they vote against executive pay.

To extend the public company governance requirements to private companies is rubbernecking on media coverage and not a serious analysis even of the event that it purports to address. Its obvious weakness will be starkly laid out in the attempts to draft legislation, if it ever gets that far. As for the watering down of the commitment to place workers on boards, that is an illustration of the limited thinking about the effectiveness of governance on public companies. Advisory panels and non-executive advocates—this is thin stuff. No wonder we have ended up with a debate on publishing pay ratios to do with remuneration—a suggestion so limited that it does not deserve the controversy that it has generated.

The chronic problem is that the current arrangements for corporate governance enshrined in the corporate code is the problem. All you have to do is read the few paragraphs on relations with shareholders, which does not even muster a page, to understand the nature of the problem. This Green Paper is not enough. We have to admit that the road started by Cadbury has gone too far in the wrong direction and needs to be addressed.

The balance between shareholders, workers and customers has drifted too far away from the interests of the country, and nothing but a complete overhaul and review of the combined code will deal with it. The 2009 Walker review was, and should have been seen as, the drink in the last chance saloon. The glass is now empty. Will the Minister accept that the Green Paper should accept the debate on all aspects, including the code itself? Does the Minister also agree that the code itself should not be seen as the gold standard to set against private companies, and that to extend it to all private companies will require its own evaluation, given the very different nature of what a private company can be?

Executive remuneration is out of control—a point recognised in the Minister's Statement. Will he please tell us whether this Green Paper will rein back some of the completely unjustified leaps in executive pay? Does he agree that pay itself is an example of the weakness of a second-rate code being mixed with transparency? The principal reason is that what is known as the "ratchet effect" has occurred. Remuneration consultants present a company with data comparing their executives' pay—now that it is fully published—with others. They ask: "Does the company want to be seen as a company in the top quartiles—the top performers and payers; those who are most attractive?". Of course, every director will want to appear in the top one or two quartiles of pay, but for every director who is inserted in the top half, another must fall to the bottom—a fact that will soon be drawn to their attention by remuneration consultants. So the ratchet clicks over and creates a natural inflationary effect, with no relationship to pay, performance or anything to do with the company. This has become a chronic problem. I urge every Member of this House to look at the reports of company accounts of companies that declare that they are in the upper quartiles. That tells you the story of unrelenting pay advances with no justification.

Remuneration consultants have done an appalling job and a great disservice to the UK economy. They represent a prophylactic for weak and lazy boards. As the noble Lord, Lord Myners, the former Trade Minister said,

> "They allow the remuneration committee to say 'this is what the consultants say, so we should do it'".

Non-execs frequently complain that the report they have seen has been redrafted to the advantage of the executives by the executives with the remuneration advisers. Will the Minister recognise the problem with remuneration consultants and confirm that their role will be the subject of a review, whether in this Green Paper or at any other time?

It is not as if we do not have enough challenges ahead. Yes, the Government should be credited for starting a debate, but it does no credit to set it off in a manner that just feeds media headlines and is poor policy. It will inevitably lead to thin and limited proposals like this and, rather like the non-appearance of the Small Business Commissioner tackling late payments, will be delayed as the Government do not listen to the sensible suggestions, which I am sure will come from all sides of the House, that will make this work.

This Green Paper is a new type of dangerous dogs debate. We should be wary of the bark being worse than the bite.

Lord Foster of Bath (LD): My Lords, we on these Benches acknowledge that we have many excellent businesses with high standards of corporate governance. However, following the appalling cases of BHS and Sports Direct, it was hardly surprising that the Investment Association and many others said that big business needed to rebuild trust. When the public see that executive pay has grown much faster than employee pay, with FTSE 100 CEOs earning 128 times more than average pay, they too want reform.

[LORD FOSTER OF BATH]

This Statement and the accompanying Green Paper offer some proposals that will help rebuild trust, and we offer a cautious welcome to them. They include strengthening shareholder voting rights and requiring larger, privately owned businesses to meet higher corporate governance and reporting standards. I single out for special mention the welcome proposal for large companies to have a dedicated non-executive director on the board to give small suppliers a voice, improve prompt payment and challenge supply-chain bullying. This measure is vital to help our SMEs and start-ups.

However, we also have disappointments. When the Prime Minister said,

> "we're going to have not just consumers represented on company boards, but workers as well",

it was widely believed that she meant that elected employees would be on boards, emulating the practice in many countries and in many of our own successful start-up businesses, but now we learn that she has bowed to industry pressure. So I want to ask the Minister a very clear question. Will the proposed representatives of employees who serve on boards in the future be elected by the workforce or just be allocated the job from among existing board members? After all, the public have a right to choose their representatives in Parliament, so should employees not have the right to choose their board representatives? Better still, why do the Government not do what more than 60% of the public want, which is to put workers on boards?

Why is there nothing in this Statement or the Green Paper about increasing board diversity? Only three weeks ago, the Business Minister, Margot James, said:

> "It is not right that boardrooms in 2016 can still be predominantly male and exclusively white".

What plans do the Government have to ensure a diversity of voices on boards?

Although we welcome the Government's intention to consult on improving the transparency of executive pay, we acknowledge that they are right to accept that a simple ratio of CEO pay to median salary could produce misleading results. Does the Minister agree that, as part of avoiding that problem, there would be considerable merit in ensuring that companies report on the total remuneration of both executives and employees? Is it not important that companies that provide, for example, enhanced childcare facilities or in-work training for employees, have that acknowledged and thereby, it is hoped, encourage others to do the same?

Reference is made in the Statement to the role of shareholder influence on executive pay. Does the Minister agree that there would be a real impact on this from a massive expansion of employee share ownership—not the disastrous George Osborne model, where shares are traded for basic employment rights, but with shares forming part of everyday remuneration for all workers, not just those at the top—giving everyone a stake in the company and a vote on how to run it?

Similarly, why are there not proposals to encourage more companies to mutualise? Some of the best examples of British companies—John Lewis being the obvious one—are run on alternative business models such as the mutual. Does the Minister agree that there is great merit in having a diversity of types of companies, rather than simply relying on listed and private company models?

The vast majority of businesses in this country act responsibly, but if we want to restore faith in business we should go even further. We should put workers on the boards, as happens in other countries, improve share ownership schemes and ensure that support made available to workers, such as training and skill development, is highlighted, alongside information on pay, as part of any reporting system.

Lord Henley: My Lords, I start by thanking both the noble Lord, Lord Mendelsohn, for his initial welcome for the Green Paper—he seemed to go off a bit after that when he compared this to a dangerous dogs debate—and the possibly slightly more generous welcome we heard from the noble Lord, Lord Foster. However, that too went a bit off as he went through his various disappointments. I hope I can deal with a number of those points in my response.

The first thing I must make absolutely clear to both noble Lords is that this is a Green Paper and therefore it is out for consultation. We are not, at this stage, telling people what our plans are. We are looking for views from noble Lords, including the noble Lords, Lord Mendelsohn and Lord Foster, and we are reaching out to people throughout the country to give us their views on how we should proceed It is important to remember that this is collaborative in its intent. We are not seeking to impose solutions. As I said, we are seeking consultation and high standards with low burdens.

The noble Lord, Lord Mendelsohn, claimed that the proposals have been designed purely to protect the status quo and watered down from earlier ideas. I completely refute that. As I said, this is a Green Paper designed to seek the views of noble Lords and people throughout the country as to what they want to do. We want to make this country one of the best places in the world to work. We want to invest and do business, and to seek the means to continue to have the right corporate governance framework, as is currently admired across the world—we have to look only at the amount of inward investment into this country to see evidence of that. We also seek further improvements that will receive the support of industry and of all others, including trade unions, who might have an interest in this.

The noble Lord, Lord Foster, asked what we are going to do to improve board diversity. It is not for us to impose solutions but we will certainly support the Hampton-Alexander review and its call to increase gender diversity in the boardroom—something I would like to see more of from boards. The noble Lord also mentioned small suppliers. It is very important that, as a constituency, small suppliers, which sometimes have problems with larger companies, be appropriately consulted and their voice better heard, whether in board decision-making or other fields.

The range of the consultation is obviously important and, as I said, we want to reach out to and hear the views of all concerned. For that reason, the Green Paper will focus on ensuring that executive pay is properly aligned to long-term performance, giving a greater voice to employees and consumers in the boardroom, and raising the bar for governance standards in the largest companies, whether privately owned or otherwise. Obviously, there will be other opportunities for noble Lords and others to put their views forward as we discuss the Green Paper. The consultation period will continue until 17 February next year. I will certainly welcome the views put forward by both noble Lords who have spoken and others, and I am sure the department will as well.

3.44 pm

Lord Lea of Crondall (Lab): My Lords, the noble Lord argued that the remark made by my noble friend Lord Mendelsohn could be refuted on the grounds that there had been no back-pedalling by the Prime Minister since her original speech on this subject. But you have only to read her speech about putting workers on the board, and then look at the Green Paper, to find that my noble friend's statement is absolutely accurate. Perhaps the noble Lord would consider that.

I have two questions. One arises from the complacent tone of the first section of the Statement, which states that,

"our framework of company law has long been admired around the world".

That may have been true 200 years ago. It was certainly in the Victorian era that we put together the basis of company law that exists to this day—which is that the company is the shareholders. It has nothing to do with other stakeholders. Is the Minister aware that the issue that arises from that is that there is no priority for the involvement of the workforce in the policy-making of the company?

The Minister referred to competitiveness and so forth. In Scandinavia, where there are board representatives and works councils, people go to these companies when there is a merger or something and the first question—a friend of mine had this experience—of the chairman of the works council is, "Mr Struthers, if you take over our company, how will that improve our world market share?" When he got home he said, "No one has ever asked me that question in this company". So the value of the involvement of workers' representatives is not the flavour of this Green Paper. Will the Minister acknowledge that that is a defect in it?

Lord Henley: My Lords, I completely reject what the noble Lord, Lord Lea, said. He said that that is not the flavour of this Green Paper. But the Green Paper makes it quite clear that a number of options are being put forward. We are seeking views on a range of options that companies could take up to improve the connection between the boardroom and the workforce and other interests. It looks at the idea of creating advisory panels and of the designation of non-executive directors to take formal responsibility for articulating a particular perspective. It looks at appointing more individual representatives at board level to take forward a particular perspective. It looks at strengthening reporting requirements around the duties of company directors to have regard to the interests of employees, customers and others. It is quite clear that we are inviting views on all subjects. I will take note of what the noble Lord, Lord Lea, said—as will others, I am sure. That is the point of a Green Paper and that is the point of the Green Paper before us.

Lord Bilimoria (CB): My Lords, it was argued that the regulation we had before the financial crisis was light touch and should have been the right touch. On the other hand, with corporate governance, starting with Cadbury, Greenbury and Hampel and leading to the combined code and Higgs, the UK is respected around the world for our excellent governance, which is principle based. But some of the rhetoric that came from the Prime Minister and the Home Secretary at the Conservative Party conference appeared to be anti-business in terms of tarring all business with the same brush as some of the bad eggs that sadly exist. Surely we should be working towards increasing our principles-based corporate governance system and increasing transparency. When it comes to disclosing workers' pay, will the Minister acknowledge that it is not as simple as disclosing ratios, because the ratio between the chief executive and the lowest paid in a supermarket is very different from that in an investment bank. The original reason for the Cadbury code was that companies faced with minimum standards in law would just comply with the law and not the spirit of the rules.

Lord Henley: My Lords, there is much that I can agree with in the noble Lord's response to the Green Paper. He is right to say that we should keep a light touch in these matters and that there are inherent dangers in any statutory approach that one might take in that people then feel that they must simply obey the law and nothing but the law and go no further. It is right therefore that one should offer guidance and encouragement to take the right approach. That is why I sought to make it quite clear in my initial response that we are looking for a collaborative approach as we move along so that all parties, in business or wherever, feel that they can play a part in putting this together and thus achieve the right level of guidance in a code of corporate governance that everyone feels they can live with. As I say, I agree with much of what the noble Lord said.

Lord Deben (Con): My Lords, is my noble friend aware that the payments problem is much more urgent than any White Paper? Large companies are now pushing back the dates by which they pay smaller companies and the problem has never been as bad as it is today. Will the Government look at that separately from the Green Paper, because in the meantime many companies will go to the wall if we do not?

Lord Henley: I take it that my noble friend is referring to the problem relating to payments made by big companies to their suppliers down the line. He is right to draw attention to this issue and it is certainly something that I would want to pass on to my right honourable friend because, as he says, it can be a cause of major concern for those in the supply chain if they are not being paid in good time. As I say, I will pass that on.

Lord Puttnam (Lab): My Lords, the Minister said that the Government were looking for suggestions. As someone who has been the chair of the remuneration

[LORD PUTTNAM]
committee of a number of public companies, let me say that it is a very lonely place to be. A great deal could be done by the Government to align more clearly and unambiguously the responsibilities of the remuneration committee with the interests of shareholders. It may look simple—but, believe me, if you are in the hot seat trying to deal with these situations, it can be very difficult indeed. It would be very helpful to be able to rely on statute so that the pressures that need to be brought to bear could be brought to bear.

Lord Henley: I think that the noble Lord has it absolutely right when he says that being the chair of the remuneration committee can be a lonely place to be. That is something which all those in business, and the rest of the board, ought to take into account when listening to the chair of that committee.

Baroness Donaghy (Lab): My Lords, I welcome the Green Paper because it gives us the opportunity to discuss some very important issues indeed. I equally welcome the fact that the Minister mentioned trade unions in his answer to one question. Only one mention is made of trade unions in the Green Paper. I would like to ask for an assurance from the noble Lord that, given that most successful companies in the UK are highly unionised with skilled workers, they will recognise the importance of the trade union contribution to all the subjects contained in the Green Paper. Will the Government ensure that trade union views are taken fully into consideration?

Lord Henley: My Lords, I think that I can give that assurance to the noble Baroness. I can also say that, as far as I am aware, my right honourable friend has had discussions with the head of the TUC and others, and certainly those discussions will continue over the period of the consultation relating to this Green Paper.

The Lord Bishop of St Albans: My Lords, I, too, welcome the Statement and the Green Paper because we urgently need some fresh thinking in this area. Those of us who have been following the issues concerning banking standards can see that it is really quite complex. There is a delicate and difficult relationship between legal regulation on the one hand and values and social responsibility on the other. We face a number of problems. We have a disconnect between shareholders and corporations that has become ever more complex and further apart. How can we encourage shareholder engagement in long-term, sustainable business rather than short-term gains? How are we going to align more closely the remuneration of senior management to reward long-term growth and sustainability, and how can we reboot some of the social responsibility which is fundamental to this long-term success? The Statement mentions our legal system, our framework of company law and so on, and of course many of the multinationals rely on our social structures, including our education and health services. They take advantage of them but do not necessarily respond by taking their full responsibilities. I hope that the Green Paper will spark a wider debate about values as well as about law and regulation.

Lord Henley: I am very grateful indeed for the right reverend Prelate's intervention. I am grateful that he recognises that this is a Green Paper and is therefore designed to initiate discussion on these matters. I do not know whether it will lead on to a White Paper—it might or might not—but it will certainly allow the Government to collect the views of all those who have an interest in these matters. The very idea that it is a Green Paper is the most important aspect of it. That is why we welcome views from the right reverend Prelate on this matter and from all sides of the House—even from the noble Lord, Lord Mendelsohn, and others. We will take note of all those as this process goes forward.

Autumn Statement: Economy
Motion to Take Note

3.55 pm

Moved by ***Lord Young of Cookham***

To move that this House takes note of the economy in the light of the Autumn Statement.

Lord Young of Cookham (Con): My Lords, I preface the debate with a personal reflection. The last time I spoke for the Government in a set-piece economic debate was more than 20 years ago. As Financial Secretary I wound up a debate in the other place on the unified Budget, which is what we had in those days. In the Speaker's Chair were the noble Baroness, Lady Boothroyd, and then my noble friends Lady Fookes and Lord Naseby. Among the contributors to that debate were the Lord Speaker, my noble friends Lord Jopling and Lord Carrington of Fulham, my pair, the noble Lord, Lord Reid, and winding up for the Opposition was my then shadow, the noble Lord, Lord Darling.

I fear my peroration on that occasion contained exactly the sort of partisan language that this House deplores and which made me blush when I reread it:

> "What this country now wants are solutions and not sound bites … policies and not pantomime … remedies and not rhetoric … goals and not gimmicks. What the people will get from the Conservatives are remedies, goals, policies and solutions. All they will get from the Opposition are sound bites, pantomime, rhetoric and gimmicks".—[*Official Report*, Commons, 5/12/1994; col. 116.]

The young Treasury special adviser who helped Ministers craft their diatribes in those days was that current upholder of political impartiality, Speaker John Bercow. I am a reformed man, and I promise to do better at the end of this debate.

In the short time I have been in this House, I have been struck again and again by the expertise of those who speak in these economic debates. I know that noble Lords will have familiarised themselves with the details of both the OBR forecasts and the Autumn Statement made by the Chancellor. I do not propose a full run-through of the information and measures contained in it, but perhaps it would be helpful briefly to frame today's debate by outlining some of its key themes, namely our fiscal discipline, our work to raise British productivity, our commitment to providing a competitive environment for business, and our determination to build an economy that works for all.

To begin, the Government remain resolute about maintaining fiscal discipline. This underpins our approach to both upholding market confidence in our economy and securing strong and stable public finances. Noble Lords will have studied the sobering forecasts from the OBR. These are, of course, independent forecasts, and the creation of the OBR in 2010 was an important step in enhancing the credibility and transparency of economic and fiscal forecasts in the UK. They recognise the uncertainty of this transitional period for the UK and predict a period of slower growth in consequence, combined with lower tax revenues.

It is in the light of these circumstances that we no longer seek to deliver a surplus in 2019-20. Nevertheless, we are continuing along the course that has already seen the deficit reduce by almost two-thirds over the last six years. The new draft charter for budget responsibility, which Parliament will need to approve, sets out that public finances are to be returned to balance as soon as possible in the next Parliament. By the end of this Parliament, cyclically adjusted borrowing must be below 2% of GDP and public sector net debt as a share of GDP must be falling. Welfare spending must also be capped by the Government and monitored by the OBR. It is a robust fiscal framework.

Just as we address the need to bring down the deficit, reduce debt and live within our means, so we must address a long-standing issue for our economy—one that we have examined on many occasions in this House, not least in September's Economic Affairs Committee hearing. It is the need to raise UK productivity. Some of the statistics set out last Wednesday by my right honourable friend the Chancellor of the Exchequer bear repeating, showing as they do the scale of the challenge before us.

Our productivity is 30 percentage points behind countries such as the US and Germany and we lag other major economies like France and Italy too. So this Autumn Statement made an important contribution to raising our productivity by prioritising high-value investment in our infrastructure and innovation. One of the central announcements was the new national productivity investment fund, with £23 billion of extra spending. This additional capital has been well received in recent days. Indeed, last week the director of the IFS, Paul Johnson, said that this will take public sector net investment to well above the average of the last 30 years. To those who have said that this is a re-announcement of previous commitments I make it clear that this is indeed new funding—additional borrowing enabled by our record of fiscal responsibility.

This funding will be targeted at projects of high value to our economy that will deliver more opportunities and higher living standards for working people: improving the transport networks on which British people and businesses rely, establishing the digital infrastructure we need to support our growth and investing further in our research and development capacity. It will also contribute to meeting the long-standing challenge to deliver more homes, something this House explored in depth in the July report of the Economic Affairs Committee. Since its publication, the Government have launched the £3 billion homebuilding fund to unlock more than 200,000 houses. At the Autumn Statement last week, we announced that we will go further and invest an additional £5.3 billion in housing, including through investing in infrastructure to unlock land for homes and through additional investment in affordable housing.

We also announced that the Government will relax restrictions on affordable housing grant funding to allow a wider variety of tenures to be delivered. This responds directly to the committee's recommendation that the Government should deliver a broader range of tenures, including homes for affordable rent. Increasing the supply of homes through measures such as these is something that my right honourable friend the Communities Secretary will be returning to in his forthcoming housing White Paper. That will also pick up on further themes of the Economic Affairs Committee report, including reforms to planning and the Government's ambition for housing.

Let me turn to the third theme I outlined, which is our focus on not only making the UK an exceptional place to do business but also—and this is particularly pertinent given the period of adjustment we have entered into—providing additional certainty for our businesses. That is why we have recommitted to the business tax road map we have already set out. It means a tax regime for our businesses which is highly competitive: the often-cited example of corporation tax falling to 17% by 2020 is just one illustration of that. Our move to a single main fiscal event a year will mean a more stable tax environment for businesses as well as more time for them to prepare for the new tax year. We have already heard a number of businesses express the strongest support for this change.

There were, of course, a variety of other measures to support British businesses, but I will single out just two: the £400 million new investment in venture capital through the British Business Bank to help innovative businesses to scale up; and the doubling of the support that UK Export Finance can provide to exporters. This again reflects our determination to address the current account deficit we have so frequently discussed here.

The last theme I want to highlight from the Autumn Statement is that of making sure that people across our society share in the prosperity that economic growth brings to the country. Despite the forecasts of the OBR and despite the pressures we face on the public finances, this was an Autumn Statement that took further action to support people in their day-to-day lives and help their money go further. We confirmed, for example, that we will raise the personal allowance to £12,500 by the end of this Parliament, by which point it will have increased by more than 90% since 2010, taking millions of the lowest paid out of income tax altogether. We have also introduced a new savings bond, frozen fuel duty and banned letting agents' charging fees for tenants.

There was an increase to the national living wage, which we introduced in April at £7.20 an hour to help over a million of the lowest-paid people. Last week's announcement of its increase to £7.50 from April next year means the equivalent of a £500 a year pay rise for a full-time worker. We also helped around 3 million households by reducing the universal credit taper,

[LORD YOUNG OF COOKHAM]

which will further strengthen the incentives for people to increase the number of hours they work and earn their way out of financial insecurity and welfare dependency. Universal credit will be a distinct improvement on the previous system, tackling, as it will, the old issue whereby some people working more hours did not always end up with more income in their pockets. That focus on getting more people into work and supporting them to increase their earnings will remain a priority for this Government.

The employment rate has been growing faster in the UK since 2010 than in any other G7 country. In that period, unemployment has also fallen by 906,000 and wage growth has now outstripped inflation for two full years—the longest period of real wage growth since before the recession. It is also worth noting the OBR's forecasts of wage growth of over 3% per annum from 2019 onwards, and real wage growth in every year of its forecast. It is also predicting that by 2021, living standards will be 2.8% higher than they are today.

Protecting and promoting jobs is a clear path to creating a sustained rise in living standards. Although employment is a key pillar of the Government's economic priorities, it is of course only one part of building an economy that works for our entire society, including those who cannot or no longer work. We heard confirmation last week that there are no plans to introduce further welfare savings measures in this Parliament, beyond those already announced, and we continue to protect the most vulnerable disabled people by exempting disability benefits from the uprating freeze and benefit cap, with spending on disability benefits higher than in 2010 in every year to 2020. We will meet our commitments to pensioners set out for this Parliament. We should note that there are 100,000 fewer pensioners in relative poverty since 2010.

Just recently, in the debate secured by my noble friend Lady McIntosh, I outlined some heartening signs of the resilience of the British economy over the past few months. I pointed to the smooth functioning of the financial markets, our near-record employment rate and strong retail sales. Friday's estimates from the ONS also suggest solid growth in household consumption of 0.7% in the three months following the referendum. I also pointed to the huge votes of confidence we have seen from investors into this country such as SoftBank, GlaxoSmithKline, Nissan, Jaguar Land Rover, Apple, Facebook and Google. These are all reflections of some of the fundamental strengths of our economy.

No one can deny that we face a period of uncertainty as we negotiate our departure from the EU but we are in a strong position to meet any challenges ahead, as a result of the action the Government have taken since 2010. We will continue this approach, to support the well-being and prosperity of the British people, by steadying our public finances, backing our businesses to drive up growth and investing in a bright future for Britain. I beg to move.

4.07 pm

Lord Livermore (Lab): My Lords, this Autumn Statement was a turning point for the Government. It downgraded forecasts, abandoned targets, revealed an economy in decline and, of course, was the first instalment of the bill we will all have to pay for leaving the European Union. Just two months ago, the Chancellor of the Exchequer told the Conservative Party conference that the British people did not vote on 23 June to make themselves poorer, yet last week in his Autumn Statement he set out how Britain and its people will indeed be poorer as a direct result of the outcome of the referendum. Growth and productivity will be lower. Borrowing and inflation will be higher. Wages will stagnate and living standards will fall.

The independent Office for Budget Responsibility set it out in detail. The forecast for growth next year has been cut from 2.2% to 1.4%. Over the next five years, borrowing will rise by £58.7 billion as a direct result of Brexit—a cost of £226 million a week—and total extra borrowing will be even higher at £122 billion. Debt as a proportion of GDP will climb to over 90% in 2017, reaching almost £2 trillion in 2020. By that time, the economy will be 2.4 percentage points—or £26 billion—smaller than it would have been were we not leaving the European Union.

This is not even short-term pain for long-term gain. Our economy will be weaker in the long term as well. The OBR states that,

"the referendum result and forthcoming … negotiations have generated uncertainty for firms that will lead to some investment being postponed or cancelled".

As a result, the business investment forecast has been revised down by 5% this year and 6% next year. The OBR goes on to warn that the level of investment is expected to remain permanently lower, slowing the productive potential of the economy. It yet again revised down Britain's productivity growth to just 1.6%.

At this time of huge challenge and change for the British economy, the question for the Government in the Autumn Statement and in the months to come is whether they are able to respond in the national interest. It is the most important question any Government have faced for a generation and as they address it, I would set the Government three tests. First, are they doing all that they can to minimise any further harm to growth and jobs? Secondly, are they advancing the interests of the whole of society, promoting fairness and protecting the living standards of all? Thirdly, do they begin to restore faith in our politics after the shock of the referendum by honouring the promises made to the British people?

To meet the first test—to minimise further harm to our economy—a Government acting in the national interest would immediately make a firm commitment to remaining a member of the single market. Ensuring that businesses are able to continue to trade on the same terms as they do now has consistently been shown to be the least damaging future arrangement, offering the greatest opportunities for growth. Already, the Autumn Statement sees lower import and export growth for the next 10 years. Failure to remain in the single market would therefore be devastating to Britain's future prosperity. Yet when the OBR asked the Government to provide details of their preferred post-Brexit trading relationship, they were unable to do so. Like the rest of us, the OBR has been left in the dark, given no reason to believe that a future strategy even exists. In failing to commit to membership of the single market and signalling that they favour instead an extreme hard Brexit, the Government are failing this first crucial test. The perception arises that they are acting not in the national interest but in a narrow party interest, more concerned with the needs of their parliamentary majority than the economic needs of the nation.

This same narrow interest seems to be driving the Government's determination to cut immigration even at the expense of future growth, jobs and living standards, so it is welcome that the Chancellor, in the Autumn Statement, put into the public domain for the first time the cost to the economy of doing so. He revealed that the UK would need to borrow an additional £16 billion by 2020 to make up for the reduced tax take caused by falling migration, with a further cost of £8 billion every year thereafter. Perhaps having these costs in the public domain might begin to raise the standard of debate in this country about immigration, which has become increasingly ill-informed and ugly. Perhaps it might cause those who are pushing us relentlessly towards an ever more anti-immigration position to reconsider. Perhaps it might even halt the spread of the self-harming and increasingly poisonous anti-immigration rhetoric which, having once been confined to the far right of politics, is now spreading across the political spectrum—including, regrettably, into elements of my own party. But perhaps I say this more in hope than in expectation.

As I said earlier, a Government acting in the national interest would advance the interests of the whole of society, promoting fairness and protecting the living standards of all. This is my second test for the Brexit economy. We should have been heartened to hear so much from the Government and the Prime Minister about their concern for working people who are struggling to make ends meet but the Autumn Statement shows us the true reality: household real incomes will fall next year, as inflation rises. Unemployment will rise and the fall in the value of sterling will increase the bills that British families have to pay. However, they will not have much to pay them with. According to the Resolution Foundation, average incomes will now rise over the next five years at less than half the rate that they did in the last Parliament. Average earnings will now be £830 a year lower than expected by 2020.

The Institute for Fiscal Studies has calculated that real wages will still be below their 2008 levels in 2021. To quote its director:

> "One cannot stress enough how dreadful that is. More than a decade without real earnings growth. We have … not seen a period remotely like it in the last 70 years".

The Government are failing the second test too. By their actions and because of their values, they have shown that they cannot govern for all in society. For all their words, their chief concern can never be for the working people of this country. We see that once again in this Autumn Statement, for who will pay the price of the deteriorating Brexit economy? Once again, as the Government's own distributional analysis shows, the poorest will pay the heaviest price, with the entire bottom third of the income distribution seeing their incomes fall.

My third test asks whether the Autumn Statement honours the promises made to the British people and, in so doing, begins to restore faith in our democracy. The previous Chancellor of the Exchequer argued, convincingly, that a fiscal straitjacket was necessary to maintain economic and financial confidence. His decision was that public services and struggling families should wear the tightest of straitjackets. This argument secured victory at the past two general elections, when we were told that reducing debt and eliminating the deficit were the most important challenges facing our nation, but not anymore. In this Autumn Statement we have discovered that all these promises were for nothing and that all the sacrifices made by working people in their living standards and their public services were in vain. After six wasted years, people are poorer and our public services are underfunded, but debt levels are even higher than where they began. All the hard-won gains in the public finances have been thrown away, together with the Government's old fiscal rules. The mandate won by this Government scarcely 18 months ago has been trumped by Brexit. All three of the fiscal rules they set since 2015 have already been either missed or abandoned and, conveniently, it will be impossible to assess whether the new, far looser rules have been met until after the next general election.

What, then, of the extra £350 million a week we were promised for the NHS? All too predictably, the Autumn Statement found not a single extra penny of investment for the NHS or social care, despite every single independent health organisation saying that more investment is needed. The Government will not restore faith in politics if they claim to care about working families while cutting their living standards, if they elevate cutting debt to a moral crusade and then increase debt, or if they promise more money for the NHS and then fail even to mention it at the first opportunity they have to keep that promise.

This Autumn Statement has revealed that the price of Brexit is a downgraded economy, a devalued currency, falling living standards and a poorer country. It shows a Government without a plan, a Government who cannot act in the national interest to protect our economy, govern for all in our nation or restore faith in our democracy. This is a Government who are unable to offer any hope that they can overcome the enormous challenges that now lie ahead.

4.17 pm

Lord Fox (LD): My Lords, I draw your Lordships' attention to the interests registered in my name in GKN and Smiths Group, both of which are active in the UK economy.

The Chancellor of the Exchequer had a tough job in the other place last week. On the one hand, he had to avoid the trip-wires that had been set by his colleagues who consider every negative comment a betrayal of the true one spirit of Brexit. On the other hand, he was seriously constrained by reality—the reality of his situation and ours. So he pushed out the goals of his predecessor and tried to make the best of it, but there is no gloss shiny enough to hide the terrible prospects for public finances by the end of this Parliament because by the end of this Parliament a £220 billion

[LORD FOX]

Brexit-induced debt black hole looms for our country, and this from a Government who at the last election stood on economic probity.

It is hard to see how the return of real inflation can be avoid, not least as a result of the steepling fall in the value of the pound. Many external independent forecasters, some of whom have been referred to by the noble Lord, Lord Livermore, have made clear that its effects will keep millions of working people anchored firmly in an austerity lifestyle. The Prime Minister's JAMs will be just about making the same as they were in 2008, which really is dreadful—a word used by some other commentators.

From a Liberal Democrat perspective, we were clear that, having thrown off Mr Osborne's straitjacket, the Chancellor should have prioritised spending on the National Health Service with at least £4 billion of emergency funding. We also believe that he should have used his position, that Statement and his knowledge of the problems that we will face to affirm our commitment to remaining a part of the single market. On that point, perhaps the Minister will tell us whether the aide's notes so publicly photographed, seemingly counting us out of the single market so soon, are true. If they are not, perhaps he can reassure the House that the Government have the objective of remaining in the single market, because I am sure he recognises the importance of this vital cog in our trading relationships. Given the opportunity of wiping the slate clean and starting again, the Chancellor has, I fear, made one or two bad choices in avoiding or ignoring our National Health Service and in avoiding the opportunity of affirming our commitment to the single market.

However, as the noble Lord, Lord Young, quite rightly pointed out, this House likes to take a balanced view, and I will take a balanced view. There were some positives, and I will talk about those now before talking about the industrial strategy to which these positives point. I will focus on two areas: the British Business Bank and the research and development part of the national productivity investment fund. First, I welcome the announcement of £400 million in additional funds for the British Business Bank—that should be a good thing—but with the proviso that the Minister confirms that this is additional money, over and above the £600 million or so of European Union investment that will be lost following Brexit. In other words, is this extra money or an inadequate patch for money the bank is going to lose?

Secondly, I turn to the research and development part of the national productivity investment fund. In terms of the fund itself, it is clear that there are huge elements of infrastructure which still need to be funded after this fund. It is a very small step in the direction of improving our national infrastructure, but it is good to recognise that this is an important cog in the productivity wheel, which we all hope can turn much more quickly. Research and development is a genuinely pleasing element in the Chancellor's Statement, which recognises a real shift in the place that science and research, and hopefully the wider technology agenda, are going to have, and should have, in our industrial strategy. That is good, but there are loose ends. I will just go through a couple of them, but there are more elsewhere.

For example, how is the money going to be split? Some of the money will go to this new invention, the industrial strategy challenge fund, while some of it will go into innovation, applied science and research. Something from the Minister on how that will be split will give an idea of the Government's priorities going forward. This is quite important because the Higher Education and Research Bill is shaking things up substantially around this whole element at the moment. As your Lordships know, it is proposed to bring the research councils and Innovate UK together. Some £425 million of extra funding will come next year, but the institution that I suspect has been designed to manage this will not have been invented. Could we have some explanation from the Minister as to how this is going to be achieved in the transition period, and an indication of whether he is confident that this can happen? I do not want to be too nerdish, but the Chancellor said that the industrial strategy challenge fund will be modelled on DARPA in the USA. This is a very grand objective, and I guess we should share it, but could the Minister explain what that really means in terms of the administration of the fund?

The Minister is right to point out that infrastructure and research and development are key areas of the industrial strategy. I think most of us had expected that the Green Paper would be published in conjunction with the Statement and were a bit disappointed that it was not forthcoming, so I am pleased to hear that it will come before the end of the year. Consultation is an important element of this, and we look forward to participating in that consultation, but it would be helpful if the Minister could tell us when he thinks the strategy will actually be in place and guiding all these other things which seem to be somewhat ahead of the horse at the moment.

In the meantime, as a short cut to this process and, hopefully, to help the Minister, here is where we think the industrial strategy should be heading and what it should seek to achieve. It has to be able to develop the skills that we need to take on a competitive world, and has to be able to create the situation where we have access to the talents of that creative world in a seamless and effective way. It needs to build on the highly successful green industrial revolution that was started in the last Parliament. It needs to put in place a plan that values and nurtures the industries where we are already world leaders or where we believe we can become so. It needs to deliver a world-beating research and development environment and foster true innovation. It needs to work to develop and enhance UK supply chains. Last but by no means least, as evidenced by my noble friend Lord Greaves's Question at Question Time, we have to create a blueprint for regional development—the benefits of success must be spread more widely around our country. These measures are the basis upon which we think the industrial strategy should be judged, and the objectives that we think should be put in place.

The journey ahead will be rocky. I agree with the noble Lord on my right; it is going to be a tough time ahead. Brexit has not happened yet, but as we move nearer to it the economic outlook really will deteriorate—so much so that even the most seasoned expert deniers will start to recognise that there is a problem.

In the financial Statement last week, the Chancellor could have made a vital infusion of funds into the National Health Service but chose not to. He could have committed the Brexit process to keeping the UK within the European single market but chose not to. We believe that that was poor judgment. On the plus side, he set out some plans towards the industrial strategy that we believe are the right thing to do. That industrial strategy is going to be vital. We have to get it right, and we will work with whoever we must to try to help that to happen. Once we have it, we will have to stick with it beyond the length of just one Parliament.

4.26 pm

Lord Wakeham (Con): My Lords, I am delighted to follow the speech of the noble Lord, Lord Fox—although perhaps not for the reason that he might reasonably anticipate. I was talking to an extremely old friend of mine who asked how the noble Lord was doing in the House of Lords. I had to confess to my awful shame that I had never heard him speak—so I will at least be able to ring her this evening and tell her that he spoke very well. That pleases me, even if it does not please him. I cannot say that I agreed entirely with what he said, but that is not the point. I declare an interest as I am a chartered accountant. I have now been so long a chartered accountant that they do not even collect a subscription from me any more.

Considering the Autumn Statement, it seems to me that so much has changed since the 2016 Budget that the Chancellor has done extremely well to set out a message of stability while at the same time showing confidence in the future, when he has been dealing with forecasts from all sorts of people who have been saying all sorts of different things. This is a very difficult time for a Chancellor. The Autumn Statement also gave me great hope that this Chancellor, with his practical business experience, will make some changes to our taxation system that will be beneficial to business and wealth creation without necessarily having to reduce the rates of tax. For example, his proposal to bring certain non-cash benefits into taxation is, in my view, a move in the right direction.

The Chancellor's proposal to abort the Autumn Statement is very welcome. I do not think he made enough of how significant that is: not just because it will stop the twice-a-year go at altering taxation so loved by Gordon Brown but because it should mean that the changes he proposes will in future be better thought-out and debated. I do not think a lot of people know what a struggle it is to get a Finance Bill into law after a March or April Budget and before Parliament rises for the Summer Recess. Of course the Finance Bill has priority in that time, but it usually means that a number of smaller but significant matters are left out.

The effect on other business in the Commons is also significant. Anyone who has been Chief Whip in the Commons will know just how that has to work. A Budget in the autumn, with until the summer to get a Finance Bill through, will give Parliament a much better chance to scrutinise it and taxpayers much longer to know what is happening. This is a very important and welcome step. It is not that it has not been tried before—I think Ken Clarke tried to do it some years ago—but the idea was snookered by Gordon Brown's desire to have two Budgets a year.

I also detect in the Chancellor's Statement that he might be persuaded to look at some of the anomalies and inconsistencies in our present taxation system. I refer not to the rates of tax but to the way that liabilities are determined. Lower rates are always welcome but they may not always be possible.

The Government have started to do something about corporation tax. The important issue here is that UK companies are at a disadvantage compared with overseas companies that can hive off profits into a low-tax regime. I appreciate that international discussions are going on about all this, but I will believe the results when I see them.

Other taxes need reform—and I repeat that I do not mean rates of tax. For example, capital gains tax is for many people mainly a tax on inflation. Hold an asset for a long time and your effective rate of tax will be much higher than a quick in-and-out capital transaction. It ought to be the other way round. Stamp duty is a tax on change, and we should be encouraging change. Stamp duty is loved by the Inland Revenue because it is an easy tax to collect and cheap to work, but it is an economically bad tax. There are better ways than stamp duty to collect the same revenue. The differences in tax and national insurance rates between the self-employed and employed are much too high and need to be lessened. It may not be possible to make the same, but the differences are far too large. The same could be said for the taxation of sole traders and those who set up a company.

Those are just a few examples; there are many more where the Government should be looking at the effect of their taxation and not just at the money-raising system. I want taxation where everybody pays their fair share of tax and does not spend a great deal of time and effort, as a good many people do, trying to decide what form of structure to set up to maximise their tax benefit. I hope that the Chancellor and his colleagues will think in the same way.

4.32 pm

Lord Hain (Lab): My Lords, it is a pleasure to follow such a distinguished parliamentarian as the noble Lord.

Somewhat to my surprise, I had half-expected to begin my speech by welcoming the thrust of the Autumn Statement with a quote from the arch monetarist Milton Friedman: "We are all Keynesians now". Those words seemed to fit all the early signals and spin coming from Britain's new Prime Minister even before she took office: Britain had reached a fork in the road, and the former Chancellor and his failing fiscal policy could fork off.

The signals and spin also matched the £30 billion fiscal boost that the Japanese Government launched in August, as well as the £12 billion of measures to stimulate the UK economy called for by the CBI. They matched the pledges made on the campaign trail by United States President-elect Trump. Candidate Trump was more explicit than candidate May. Of course, the Prime Minister was more Mrs Maybe than Mrs May

[LORD HAIN]
when it came to clarifying how thoroughly she intended to do away with George Osborne's austerity strategy. By contrast, Donald Trump made no bones about going for faster growth, promising to boost US growth to 4% a year with a big fiscal stimulus focused on higher infrastructure spending.

I wrote a book published last year calling for the adoption of just such a target for the UK economy. I also proposed pursuing that aim with a £30 billion additional fiscal stimulus in each of the next two years focused on extra investment in infrastructure, housebuilding, education, skills, and a low carbon economy—a £30 billion figure, by the way, which is modest, easily financeable at current low interest rates and supported by many respected economists including Jonathan Portes and Paul Krugman. Such a stimulus could help to boost Britain's growth rate next year to about 4%, instead of somewhere in the miserable range of 1% to 1.5%, which is what the Bank of England, the National Institute for Economic and Social Research, the CBI, the Institute for Fiscal Studies, the IMF and now the Office for Budget Responsibility all expect.

Having heard the new Tory leadership talk about making budget limits take second place to faster economic growth, and even having read in August a call from the international business editor of the *Daily Telegraph*, Ambrose Evans-Pritchard, for a £40 billion fiscal stimulus, I wondered whether Tory arch-austerity was being consigned to a well-deserved scrapheap. Was the Autumn Statement to be another shock in a year of surprises? Like Dickens, were hard times to be followed by great expectations? Were we about to witness a strategic Tory masterstroke, designed to appeal to Labour and UKIP working-class supporters feeling left behind by globalisation? Sadly, however, the Autumn Statement makes it clear that austerity has been abated but not abandoned. The deficit targets may have been modified, but the budget squeeze goes relentlessly on and on. The pieces have been moved about a bit, but it is the same old board game—slow as you go. We are still stuck in bleak house.

Few Governments have pursued austerity with more vigour than those led by David Cameron and George Osborne. The former Chancellor claimed to have squeezed the UK economy tighter than any of the other advanced economies. At least that claim was valid. The cuts strategy for this Parliament, which George Osborne announced in March, was a carbon copy of the failed austerity strategy he pursued in the last Parliament. So it was heartening in July to hear the opening words of the new Chancellor, contemplating scrapping any plans for more of the same medicine, hinting at a new fiscal framework, and dropping the completely unachievable but destructive target for a budget surplus in 2020. But the Autumn Statement makes it plain that, instead of ending austerity, the Chancellor is prolonging it. Instead of bringing the budget squeeze to an end, he is giving it a new lease of life beyond 2020.

Deferred debt and deficit targets are only the obvious indicators of an economy in trouble. Some of us on these Benches have been arguing for years that austerity does not work, that slow economic growth brought on by a tight fiscal squeeze leads only to a drop-off in tax revenues and causes debt and deficit targets to go for a burton, as indeed duly happened—a point made by my noble friend Lord Livermore so expertly. All the former Chancellor's targets on borrowing and debt were missed by miles; he was indeed a serial offender. Shockingly, borrowing will be fully £120 billion higher than forecast in the March Budget just eight months ago. Tory austerity has failed abysmally by its own obsessive objectives, and at terrible cost to the economy and the social fabric of our society.

The key concern today is that economic growth is getting slower and slower. That is what has caused the Government's fiscal targets to be missed year after year, both before and after Britain's Brexit vote. That is what has kept real incomes per head below their pre-banking crisis peak and inflicted so much needless suffering on so many for so long. It is why so many industrial jobs have been lost in areas such as Neath in south Wales, which I used to represent and where I live, making them more reliant on welfare benefits and tax credits and adding to the pressures on the public finances. It is what the Autumn Statement should have addressed but emphatically did not.

The fact that it did not is likely to mean more political upheaval and instability in Britain. Brexit, Trump and maybe Le Pen next year are perhaps only the start of a popular revolt against the smug, self-satisfied political class now ruling the democratic world—including, sadly, here in our country. The British economy grew slower last year than the year before. It is growing slower still this year and, according to the OBR, it is due to grow even slower next year, and barely any better in 2018. Only barmy Brexiteers like John Redwood seriously expect growth next year to get anywhere near the 2.2% forecast in the OBR's report just eight months ago in March 2016. Like Don Quixote, the Member for Wokingham sees possibilities that are denied to us mere mortals.

The Chancellor began his Autumn Statement with news that the IMF expects Britain to be the fastest growing of the G7 economies this year. This may be true, but the context is one of a slowdown in global growth. We all need to take action to get our economies growing again, not look to the next guy to save us from our own inadequacies. The IMF has been calling on Governments across the world to use fiscal policy to promote faster growth. Feeling pleased about the relative performance of the British economy is like Jasper Carrott's joke about admiring a Reliant Robin hurtling downhill, slipstreaming a milk float.

HSBC recently cut the interest rate it pays on some of its savings accounts to 0.05%. There is nothing more that monetary policy can do through lower interest rates to encourage spending. The ball was well and truly in the Chancellor's court to use fiscal policy to stop the slowdown and get the economy moving again. His response, sadly, has been to play a dead bat in his opening innings. The Chancellor intends to ease the squeeze planned by his predecessor by an amount so small that you need an electron microscope to spot it in the Office for Budget Responsibility report—a £2 billion let-up in a £2,000 billion GDP economy. That is how much the change in the structural budget deficit differs under the new Chancellor from the old one. My hopes were confounded. We are certainly not all Keynesians now.

The Prime Minister says she is ambitious for Britain. Well, the Autumn Statement needed to be made of sterner stuff if she is to deliver on that aim. First, the £23 billion extra public investment announced by the Chancellor is spread over five years. The two-year package of extra investment advocated in my book would mean £30 billion more both next year and the year after. The Chancellor's proposals mean less than an extra £5 billion per year. Even the CBI called for an extra £6 billion a year. It is a small beer budget as far as extra public investment is concerned. Leo Quinn, the boss of Balfour Beatty, also feels that the Chancellor did not go far enough. He summed up Britain's situation articulately on the Radio 4 "Today" programme last Thursday: our productivity is poor because our infrastructure is poor. Low interest rates allow people to buy bigger houses, he said, so Government should do what business does: borrow money that is effectively free and invest it in assets that have a 50-year yield. Lower interest rates mean we can have a bigger infrastructure which will improve our competitiveness, and help to build a fairer society and a bigger economy. I agree with Leo Quinn when he says that investing in projects today to build the capability for tomorrow is absolutely critical.

Secondly, the Autumn Statement did nothing to invest in social care in our ageing society—the growing nightmare, with almost all families except the very richest facing misery. Stephen Dorrell MP, the former Conservative Secretary of State for Health and former Health Select Committee Chairman, has condemned the Autumn Statement's failure to provide much more funding for social care. Two weeks ago three health charities—the King's Fund, the Nuffield Trust and the Health Foundation—all called for urgent extra investment in social care to plug a £2 billion funding gap next year. This would be the single most effective step the Government could take to relieve the pressures on Britain's hospitals, where bed-blocking is costing the NHS £800 million annually. A £2 billion investment in social care to deliver £800 million of annual savings seems a bargain.

Thirdly, the cuts to further education college funding are diabolical because these institutions provide the very technical skills Britain needs to bridge the massive productivity gap the Chancellor rightly drew attention to.

Eight years ago, President Obama launched an $800 billion fiscal stimulus package days before taking office. It helped to bring the US recession to an end, lessened its severity, saved more than 2 million US jobs and raised GDP by 3% above what it might otherwise have been. It explains in good part why the US budget deficit as a proportion of GDP rose in 2009 to 13% but fell in each of the next six years, to 3.5% last year. It is why I say that higher borrowing today can lead to lower borrowing tomorrow if it causes the economy to grow faster.

Britain's Brexit vote has hit the public finances hard; we all know that. There is no end in sight for dreadful UK productivity; no end in sight for fraying, second-class UK infrastructure; no end in sight for the UK's record trade deficit; no end in sight for UK manufacturing decline; no end in sight for ballooning private debt; no end in sight for housing asset bubbles; no end in sight for growing inequality; no end in sight for falling real incomes; no end in sight for job insecurity; no end in sight for sluggish private investment; no end in sight for austerity and no end in sight for the slow to no growth Tory Chancellors have delivered for Britain since 2010. The crying shame is that there was, all along, and still is, an alternative to this failed neoliberal economic agenda. It is called a progressive Keynesian agenda. It is what Labour delivered so successfully before and after the global banking crisis and it is what the Chancellor should have delivered last week.

4.46 pm

The Lord Bishop of Portsmouth: My Lords, after nearly three years in this House, and having had the opportunity to speak in most of the debates responding to the Budget and Autumn Statements, it is not difficult to note the tendency for some contributors to applaud proposals they consider welcome; for others to criticise proposals they consider to have sectional interest or bias; and to have the expectation—or at least the hope—conveyed that the Chancellor and the Government will, and can, do even more when they are praised for welcome initiatives. I want to do a little of that this afternoon, though recognising the restrictions the Chancellor faces. I invite the Minister, and through him the Government, to reflect on what they ought to do—I introduce a moral note in using that phrase—to repair the fractures of trust, address growing injustices that are perceived as more hurtful than inequalities, and create not just a flourishing economy but a nation where people believe there is more that unites us than divides us. Indeed, my question to the Minister is whether the Government can better articulate their rationale and approach in the important area of inequality and injustice.

First, I welcome the new National Savings and Investments bond on terms, and with a maximum investment set low enough, I hope, to ensure that it is not monopolised by those who already have comfortable levels of savings; and with the advantage of a decent rate of interest, which I trust the Minister will confirm will be set according to interest rates available at issue rather than now. Similarly, the Productivity Investment Fund is a welcome tool in addressing a significant national economic challenge. I hope that there will be more much-needed policies and strategies to raise productivity. I am glad too that some LIBOR fines are to be committed to armed services' charities which, as I know not only from the naval charities in and around Portsmouth but also from the splendid work of Army, Air Force and tri-service charities around the country, do so much to support our service men and women and, just as importantly, their families.

In the Chancellor's Statement, which I heard from the Gallery last week, there were two commitments in relation to there being no change in policy and its implementation. They are in contrast and give emphasis to the question I raised earlier about whether the Government believe this ought to happen—whether the commitments are just. There was a commitment to the pensioners' triple lock for this Parliament and that departmental spending plans will "remain in place".

[THE LORD BISHOP OF PORTSMOUTH]

That is protection against inflation, and potentially more than protection, for all people of pension age, some of whom indeed need it but not all, and no protection—indeed, the expectation of declining income—for people who are predominantly in pressing circumstances, often with young or vulnerable family members. The departmental spending plans freeze key benefits, tax credits and local housing allowance rates for private rented accommodation to 2020. Ought we, not only as a Government but as a nation, to be content with that?

The aspiration to encourage work, which I know is a factor in the Government's policymaking—although sometimes obscure, if not hidden—is in my judgment the right one. The dignity of work is important, but so is the dignity of just treatment across the population and across generations. I therefore welcome the rise in the national minimum wage, look forward to further rises and, meanwhile, urge good employers to pay the living wage. With rather less enthusiasm I note the reduction in the universal credit taper rate by 2%. Of course any reduction is good, but because it is a reduction after tax and national insurance, it is an even smaller reduction than it seems, amounting to a marginal tax rate not of 63%—which is often said to be far too high as a marginal tax rate for people on higher incomes—but in practice a rate of 75%. Can the Minister explain why people should not see an injustice in the operation of two such different approaches to offering incentives for hard work? Why is 75% or even 63% an acceptable marginal rate for those in low-paid employment?

Similarly, the raising of the income tax threshold again will be welcomed by many of us in the country and indeed in this House, and with the benefit we shall all receive. Taking some more people out of income tax liability is welcome but—and I am sure the Minister is aware of this—the benefit of raising the threshold is disproportionately small for taxpayers with low income on benefit because of the 63% taper rate. The advantage for those not receiving benefit will therefore be about threefold higher as a proportion of income. What plan do the Government have, as the benefits to the lowest paid of raising the threshold decline, to introduce new measures to address the unjust disadvantage for poorer working people and families?

I appreciate that the Chancellor is yet to deliver a Budget, is unwilling to make two sets of fiscal announcements each year, and is constrained by uncertainties and unknowns after the events of this year—boxed in by Brexit, as a colleague of mine put it. I hope that at the least he and the Government can indicate readiness to be more flexible than so far indicated on the pressures facing working people and families on low incomes, particularly if inflation does cumulatively rise by over 12% by 2020 as the OBR forecasts. The outlook for some is worrying, and it would be good as well as right for the needs of those just managing to be indeed paramount, as promised.

4.54 pm

Baroness Noakes (Con): My Lords, it is a pleasure to follow the right reverend Prelate the Bishop of Portsmouth, although my speech will focus on rather different issues.

I want to start with a little about the tax content of the Autumn Statement before turning to the economy. From a taxation perspective, this was an unexciting Autumn Statement. It is good news that my right honourable friend the Chancellor of the Exchequer has confirmed the downward path of corporation tax to 17%, and it is even more welcome that the Prime Minister has hinted that it might go even lower if that is necessary to remain competitive in the G20. But the G20 is not the only show in town in terms of competitive corporate tax rates, and I hope that the Government will be even more ambitious in future years.

On the other hand, the Chancellor has offered nothing on personal taxation to incentivise wealth creation or to underline the attractiveness of the UK as an investment destination. I am disappointed that he has ignored the top rate of income tax. At 45%, it is higher than the EU, OECD and global averages, and marginal rates are often very much higher than 45% as a result of tax code complexity introduced by both Labour and Conservative Governments.

High tax rates do not necessarily result in higher yields. We can see the impact of this in the stamp duty forecasts in the Autumn Statement: the top rate of 12% of stamp duty on houses over £1.5 million, introduced earlier this year, has led to fewer transactions and a significant downward revision in forecast receipts. When my noble friend Lord Lawson, who unfortunately is not in his place today, overhauled tax rates in the 1980s, he demonstrated that lower tax rates can result in higher yields, including at the top end of the income distribution. We seem to have lost sight of that valuable lesson.

On national insurance, the Chancellor has tinkered at the margins but has shied away from reform. The Office of Tax Simplification has recently called for significant simplification and alignment with income tax. Others, notably the TaxPayers' Alliance, have called for full merger. I have argued in earlier debates in your Lordships' House that this is an area that is ripe for radical change and I regret that the Chancellor has not been bold on this.

There is not much else to say on taxation. One small change is, however, worth mentioning—the abolition of the employee shareholder status scheme. The shares-for-rights scheme was a completely crazy idea. It was obvious from the outset that the major use of the scheme would be in tax planning for the higher paid, and so it proved. Few outside the tax planning community will regret the scheme's passing.

There might not be much to say on taxation but there is quite a lot to say about the economy. My starting point is the forecasts made by the Office for Budget Responsibility. The OBR does an excellent job in difficult circumstances and I am glad that it is now an established part of our system. As it happens, I do not believe the forecasts but I do not blame the OBR for that. It was doing its job in the context of considerable uncertainty—in particular, about separation from the EU following the referendum. The OBR is not supposed to guess this kind of thing and it asked for the Treasury's guidance. The Treasury gave it none. I think that this is exactly the kind of situation where we should have had forecasts prepared on alternative scenarios. This would have helped to illustrate the range of potential outcomes given the degree of uncertainty. But the OBR is obliged to give a single forecast, which makes its report considerably less useful than it might otherwise have been.

Although no one doubts that there is uncertainty about the impact of leaving the EU, so far that uncertainty is having, at worst, a small impact on our economy. Some of the predictions made ahead of the referendum, in particular by the Treasury, have already been proved wrong. We know what has happened in the past few months—GDP growth has been solid, unemployment has been decreasing and employment increasing, business investment is continuing and consumers are still spending. That is why the OBR's forecast for the growth rate for this year, at 2.1%, underlines the resilience of our economy.

However, when the OBR looks into 2017, it comes up with only 1.4% growth, largely as a result of its view of the impact of uncertainty on business investment and consumer spending. The OBR is not out of line with the average of other independent forecasters, but there is quite a variation out there. The gloomiest have largely moved away from their early forecast of a recession, but there remain big differences of opinion around the key variables. Kristin Forbes, an external member of the MPC, showed in a speech last week how forecasts can systematically overestimate the impact of uncertainty. I do not have a crystal ball to show the future, but it is relatively easy to construct alternative paths for the economy which are more optimistic than those that are laid out in the OBR's forecasts. Uncertainty does not always have to have a negative outcome.

I personally do not think that it is worth spending too much time disputing the forecasts or picking away at the OBR's estimate that approximately £60 billion of extra debt can be attributed to the outcome of the referendum. The Chancellor may or may not need to borrow extra on this account, but it is probably prudent of him to include an estimate of extra borrowing. However, just as businesses do not necessarily need to draw down the whole of their credit lines, there may well be no need for the Chancellor to increase the national debt for this reason. If the economy turns out to prove the pessimists wrong, the Chancellor will not need that borrowing capacity.

As has been pointed out already in this debate, one of the keys to GDP growth is productivity growth, and the OBR is assuming a downward trend in response to our exit from the EU. Both the low annual rate of increase and the gap between the UK and other major economies are generally regarded as problems that we must solve. One of the puzzles has been that the very obvious technological change all around us ought intuitively to have improved our productivity, but this has not shown up in the statistics. The ONS has been working on this since Sir Charles Bean's review last year, but we still do not have any clear answers. I have not ruled out the possibility that the statisticians have simply been getting this wrong.

The Chancellor, like others before him, thinks that he has to do something about productivity. The "something" he has settled on is the national productivity investment fund. The aims of this fund—housing, transport, digital communications, and research and development—are all worthy aims. However, whether any of the £23 billion earmarked for the next five years will have any impact on productivity is a moot point. I say very gently to my noble friend the Minister that the sentence in the Autumn Statement that:

> "The government will raise productivity across the UK",

is just not true. Governments do not raise productivity. At the very best, Governments create the environment in which productivity is raised by the actions of others. I do not think that the Government, or the public sector bodies that will help them spend the £23 billion, know how to invest for productivity. Therefore, I hope that this programme will be subject to rigorous scrutiny. If the money does not demonstrably achieve productivity gains—and I am a sceptic, as can be seen—the Government should stop spending and let the private sector use the economic capacity for other things.

The Autumn Statement cannot be accused of being overoptimistic. Any set of forecasts that has debt rising above 90% of GDP is at best depressing. I support the Chancellor in what he is doing in response to the forecasts, even though that means deferring the essential task of eliminating the deficit and reducing debt. But I sincerely hope that the forecasts are wrong and that we can in fact make an early return to the task of repairing the country's finances.

5.05 pm

Baroness Hollis of Heigham (Lab): My Lords, the outlook, says the IFS, as has already been quoted, is dreadful, especially for the poorest third of our people, especially women and children. Stagnant wages—0% in real terms between 2017-18—severe benefit cuts, job insecurity, unaffordable rents and rising debt all compound their family poverty. Some 4 million children are already in poverty, even though two-thirds have a parent in work. Some 200,000 children will this Christmas need a food parcel to get a Christmas dinner.

I do not blame the DWP, but George Osborne for cutting welfare spending because recipients either do not vote or vote the wrong way, and claiming that public opinion supported him. Yet the public mood is ambiguous. They believe that 40% of social security goes on the unemployed, although it is actually under 4%, and that £50 billion a year is lost to fraud—it is probably £1 billion, exceeded by DWP errors. They believe that people on benefits like their own are deserving, but people on other benefits are probably not. Yet out of 30 leading economies, we are fifth from the bottom. Only Chile, Portugal, Ireland and the US are more unequal than we are. Every other country is fairer than us, and 80% of the public believe, decently, that our society is too unequal.

For this confusion of outlook, I blame the stigmatising language of welfare employed by politicians and media alike. They talk of handouts to the feckless and fraudulent. But welfare includes, rightly, not only cash benefits but health, education and pensions. We spend about £80 billion a year on working-age benefits and tax credits—as a percentage of GDP that is actually falling—but we spend £48 billion on pension tax relief alone, some two-thirds of that going to the better off. That includes tax relief on ISAs, the protection from schedule

[BARONESS HOLLIS OF HEIGHAM]

D on family property, the artificially low cap on council tax bands, the reduction in levy on capital gains and IHT and the higher rate threshold in tax in prospect for all of us, while those on benefits lose every penny if their scratched-together savings reach £16,000. At that point they lose all benefit entitlement against our tax privileges. Tax relief is a transfer payment to the better off—a shadow welfare state for the wealthy, which most of your Lordships, and I, take as our entitlement even if it may exceed direct welfare spend on the poor.

I will be told that the top 10% pay more taxes—58%—but then, of course, they have more money. As Michael Johnson has calculated, they get back 49% of tax reliefs. Our tax system is not progressive; it is merely and simply broadly proportional. Over their lifetime, the rich may pay more in, but rich and poor get much the same out. Even the poorest deciles pay through their taxes, especially indirect taxes, for half the benefits they receive, while the top 10% get back four-fifths of what they pay in. As Professor Sir John Hills has said, over their lifetime, people pay for their own social security irrespective of income. Three-quarters is self-financed and only a quarter is redistributed. We are not talking about handouts but about social insurance and social security, and that is the language we should employ.

Against that, how do we assess the Autumn Statement? Universal credit offered a ladder out of poverty and into work. Except that, despite the gallant efforts of the noble Lord, Lord Freud, now it does not. Her Majesty's Treasury has savaged not only tax credits but the moral and economic case for UC, and it has done so quite deliberately. As the Resolution Foundation has noted, 3 million families getting tax credits will lose them entirely while 1.2 million will be significantly worse off. Some 4 million children are in poverty, two-thirds of them with a parent in work. People will now be even poorer under universal credit. Far from transforming lives, the Resolution Foundation which is chaired by David Willetts—the noble Lord, Lord Willetts—states that universal credit has become,

"little more than a vehicle for rationalising benefit administration and cutting costs to the exchequer".

Precisely so. Peter Aldous, Waveney's Tory MP, told the Commons a fortnight ago that since May this year UC has been fully rolled out in his constituency:

"I have to report that it is not going well. Those in my constituency office are spending most of their days addressing very real problems people face in having nothing to live on, nothing to pay for food, and no money to pay the rent … people in areas now on universal credit will, as a result of these changes, be significantly worse off than their neighbours … who remain within the tax credit regime".—[*Official Report*, Commons, 17/11/16; col. 419.]

In 2010 universal credit promised to lift 350,000 children and 600,000 adults out of poverty. Instead, child poverty will be 50% higher by 2020. Why is that?

Let us take first the work allowance; that is, earnings before the withdrawal of the taper of 65 pence in the pound, now 63 pence, kicks in. As the right reverend Prelate said, it is still three times the rate of basic income tax. The work allowance has been cut by a third for those with children and halved for lone parents, down from £8,808 taper-free to £4,764, cutting £3 billion. I refuse to use the word "saving"—it saves us but it certainly does not save them.

Add to those the cuts due next April: scrapping the family premium, scrapping support for future children beyond the second one even though we know that larger families are poorer. That will ultimately result in a cut of £5 billion a year.

Add to those the four-year benefits freeze. As my noble friend Lord Livermore mentioned, the Office for Budget Responsibility has stated that by 2020 it will cut claimants' income cumulatively by 12%. So by 2020, a lone parent with two children working 30 hours a week as a shop assistant on the national living wage will have lost more than £60 a week—£3,210 a year. Having done everything we asked her to do, she will be punished for it. That will result in a cut of £4.6 billion.

Finally, we must add in the benefit cap, which is being reduced from £26,000 to £20,000, irrespective of family need or size. Some 100,000 families are facing cuts this winter of an average of £60 a week. Before the Minister tells us that this has got them back into work, which is often said, it is not true. The Institute for Fiscal Studies shows that only 5% have done so.

Against this litany of cuts, what has the Autumn Statement offered? There is no mitigation of the work allowance cut, which would have made a real difference. There is no restoration of the CPI link when inflation rises above, say, 1%, which would also have made a real difference. There is no review of the benefit cap when even affordable rents cannot be afforded and families are becoming homeless. Instead, the noble Lord, Lord Young, has listed offsetting goodies—the rise in the national living wage, the higher tax threshold, the 2% reduction in the UC taper, the freeze in fuel duty, and the additional hours of childcare. But, as the right reverend Prelate said, for the bottom third of our people they are basically trivial. When set against the benefit cuts, a main earner—a husband in full-time work on the national living wage with two children, say—will be £1,780 a year worse off, while gaining just £190 from the Autumn Statement.

By 2020 we will have spent nearly a decade and nearly £2 billion in implementation costs for UC to make people poorer than they would otherwise have been, sending half a million more children into absolute poverty and into the dark shadows of our economy. Ministers talk about difficult decisions. I am sorry, they are not difficult decisions for Ministers, but they are for those whose living standards will spiral down and down. Their difficult decisions will be how to cut out another adult meal to feed the kids. How much extra can be borrowed from the family? How limited and low can the heating be set?

Four-fifths of the Budget and Autumn Statement goodies go to the richest half of households. The gains go to the rich, the cuts to the poor. It is simple really. The Government have made a deliberate choice that the poor will pay for austerity. Net, they lose proportionately 25 times more than the top deciles, the IFS says. The Government have taken pounds from them and given back pence. As the IFS said, it is dreadful.

5.16 pm

Lord Bilimoria (CB): My Lords, straight after the European Union referendum vote the pound plummeted 20%. It is now 15% below where it was. This was a clear sign from the whole world of no confidence in the result. It was a clear sign that the world unanimously does not want us to leave the European Union and of the worry about the uncertainty ahead.

Of course, the Brexiteers rallied round and said that the lower pound would help exports. From Cobra Beer's point of view, yes, it will help our exports—we have exported to 40 countries. But as a country we are net importers; even with the European Union, it is 45% exports to 55% imports. Some 50% of the produce we buy from supermarkets is in some way or another imported. Supermarket prices have already gone up and will go up by a minimum of 5% to 8%. The other factor is that, although a lower price helps exports for manufacturers, for many manufacturers on average 30% of their components are imported.

Interest rates and inflation will probably go up. We have heard about the £122 billion black hole over the next five years, including £59 billion from the result of the referendum. Borrowing will go up to 90% of GDP, with a slower GDP growth rate ahead. There has been a complete change from this country being, and giving the impression of being, open and outward looking, to giving the impression of being a country that is closed and inward looking from the rest of the world's point of view. We are the second-largest recipient of inward investment in the world, yet we have a completely imbalanced economy. From being 30% of GDP in the 1970s, manufacturing is now 10%— high-quality though it is. We do not have a target like that of a country such as India to increase manufacturing from 16% of GDP to 25%—but manufacturing creates jobs and is great for innovation.

On that note, I welcome the Government's announcement of £2 billion a year for R&D and innovation over the next five years. Hooray. This is amazing; this is fantastic. However, let us put it into context. I have said time and again that when it comes to R&D and innovation, we underinvest compared with other countries, the EU and OECD, let alone the USA. Let us put £2 billion a year in context. We spend 1.7% of our GDP on R&D and innovation. Germany and the United States spend 2.8%. To spend just that extra 1% would mean spending £23 billion more a year—10 times more than the £2 billion—just to catch up in pro-rata terms with the United States and Germany. Does the Minister acknowledge that? The EU average is 2% of GDP and at 1.7% we are well below that. We will have to put in much more than £2 billion a year.

This is one of the keys to increasing our productivity. The other key to increasing our productivity, of which there is no mention in the Autumn Statement, is our universities, which are the best in the world, along with those of the United States. Cambridge University—I declare an interest as chair of the advisory board of the Cambridge Judge Business School—has won more Nobel prizes, almost 100, than any other university in the world, and yet there is no mention of universities in the Autumn Statement. Our investment as a proportion of GDP is well below the EU average, well below the OECD average, half that of America, and then we wonder why our productivity is not as high as it should be. I will go further when I talk about our Prime Minister and her visit to India.

We need to invest in our scale-up companies and encourage entrepreneurship. London is one of the most entrepreneurial cities in the world today. Investment in the Autumn Statement amounting to £1 billion is good, but I would say that it is a drop in the ocean. Will the Minister clarify the wonderful news that the UK is going to ratify the EU patent system?

The other thing the Autumn Statement does not do is put overall government spending into context. Our net contribution to the EU is £8 billion. Do people realise—did the people who believed the "£350 million a week, let's put into the NHS" on the bus realise—that our net contribution to the EU of £8 billion is barely 1% of our annual government spending of £800 billion? On a pie chart you cannot even have a line that shows that, it is so thin. Why can we not put things into context?

I applaud the Autumn Statement continuing the reduction in corporation tax to 17%. This will make us more attractive for inward investment and encourage wealth creation. Already we have seen that lowering that tax rate has increased corporation tax receipts. On the other hand, there was nothing there to reduce employers' national insurance, which I call a tax on jobs. If we reduce that, we will help job creation and help SMEs in particular. Also, the Government could do much more to increase exports. For example, there could be tax incentives to export: there are none at the moment.

There is another crucial issue that the Autumn Statement has not addressed. As the Minister said, we have less than 5% unemployment and the highest rate of employment in living memory—but this is in spite of 3 million people from the European Union working over here in the UK, as well as people from outside the European Union. Yet there is a target to reduce net migration to less than 100,000. How will we continue to manage? Where are we going to get the workers from? I do not think that the Autumn Statement addresses that at all.

Immigration is a big issue. Since Tony Blair removed exit checks at our borders in 1998 we have lost control of our borders. We have no idea, at the moment, how many people have overstayed, or about the number of illegal immigrants. The Autumn Statement should have invested in implementing visible exit checks at our ports and airports to give us control of our borders. International students are still treated as immigrants and included in the net migration figures, although the public very clearly do not wish to see that, and we have no target to increase the number of international students at all.

The Prime Minister went to India and spoke about trade deals. A good way to speak about trade deals is to focus on tariffs and ignore the movement of people. The week before we went to India, the minimum salary for IT workers in India—one of India's main services exports to the UK and elsewhere—was increased by 50%. That makes India less competitive. Then, when

[LORD BILIMORIA]
the Prime Minister was in India, she spoke about the return of Indians who have overstayed here. That went down like a lead balloon.

There were 35 university leaders, along with Jo Johnson, the Universities Minister, who were there at the same time as the Prime Minister. She did not even meet the university leaders. She did not mention higher education or international students once, and yet Prime Minister Narendra Modi, one of the most powerful people in the world, very humbly said that the mobility of young Indians and their ability to be educated abroad was really important to India. In fact, the Indian Cabinet Minister of Commerce and Industry went so far as to say, "We thought that our relationship with the UK was close. We now realise it is merely transactional". This is not going to help the future. International students bring in £14 billion to our economy, directly and indirectly. Once again, this was not addressed at all in the Autumn Statement. This is such a huge earner—50% higher than the aid that we give every year.

There could be more increases in capital allowances to encourage investment. The Statement did not have anything on that. We need a positive, welcoming attitude to immigration—skilled, non-skilled, across the board. We need people in hospitality: in the curry restaurant industry that we supply, 98.6% of the restaurants have a huge skills shortage because they cannot bring over chefs from south Asia. The pub industry has a shortage of chefs. We had a debate recently on the NHS and the care sector: 130,000 people from the EU alone work in the NHS and the care sector, yet the debate on immigration in the build-up to the referendum and afterwards has been, "Migrants are a burden on this country. Migrants are a burden on the public sector". How would the public sector exist without the immigrant workforce? Over 30% of doctors are foreign; in some areas, such as paediatrics and obstetrics, it is over 50%. Migrant workers put in five times more than they take out. They contribute to our economy, they contribute to our taxes, they pay for our public services—and they are called a burden on our economy. The very sad thing for the JAMs—a horrible term for people who are "just about managing"—is that, sadly, many of those who voted for Brexit will be the ones who will be hit so badly by it, as the noble Baroness, Lady Hollis, just said.

We are in only the foothills of the Brexit situation. There is hard Brexit, soft Brexit—we need a smart Brexit, if it is going to happen at all, because a hard Brexit would be absolute folly. We have a budget deficit, we have a fiscal deficit, we have a current account deficit, we have 90% of debt—oh, and the good news of £23 billion of infrastructure investment. I think that is excellent. That will really help this country, including in broadband and with Crossrail, which is fantastic.

But there is a negative approach to business. There is a Green Paper on corporate governance. But on the whole, the government rhetoric has tarred all business with the bad eggs that exist. The few bad eggs have tarred all hard-working SMEs and businesses, including FTSE 100 businesses. We need to encourage the right values but also appreciate that Britain actually has some of the best corporate governance and business practices in the world. The noble Lord, Lord Wakeham, spoke about stamp duty being too high. If it is too high, it will stifle sales. If you stifle sales, you will reduce your tax receipts. In many areas, housing sales have come to a standstill. We need to provide confidence to consumers, business and the rest of the world, because many countries, such as India, look upon the UK as the headquarters of the EU, and they need to continue to do that. If we lose passporting rights in financial services, it will be disastrous.

The other good news in the Autumn Statement is that public spending is coming down to 40% of GDP. It had hit nearly 50%. That was unaffordable; 40% is much more affordable. The Autumn Statement did not mention it but it assumed that our defence spending will carry on being 2%, in agreement with the NATO commitment, which is wonderful news.

Before I conclude, let us consider the NHS. We know that in 2015 the NHS recorded its largest deficit: over £2.4 billion. Yet there was no mention in the 72 pages of the Autumn Statement of the words "NHS", "mental health", "public health" or "social care". I ask the Minister: why was the NHS missing, taking into account that it needs more money? We spend less as a percentage of our GDP on health compared with many of our European counterparts. Of the original 15 EU countries, we are the 13th in healthcare spending. Figures released recently show that we come 25th in the EU for doctors per 1,000 people: we have 2.8 and the EU average is 3.5. On hospital beds per 1,000 people, we are 25th with 2.7: the EU average is 5.2.

On the reduction in funding from the EU for research and development, the vice-chancellor of Cambridge University, Sir Leszek Borysiewicz, said:

"More worrying than the loss of revenue is the damage to the networks of collaboration on which world-class science depends today".

As Martin Wolf said,

"nothing can disguise the reality that Brexit is likely to make a UK economy already blighted by low and stagnant productivity still weaker … The UK is likely to be poorer than it would have been if it had not made the decision to exit the EU".

As the poet Robert Frost said, there are,

"miles to go before I sleep".

We are in the foothills of this wretched referendum. The motto of the Duke of Wellington's regiment was "Fortune favours the brave". If we are to deal with this uncertainty in the years ahead, the Government have not been anywhere near bold enough. They need to be much braver.

5.31 pm

Lord Flight (Con): My Lords, I very much agree with what the noble Lord, Lord Bilimoria, said about Indian students coming to the UK and the disappointing fact that the mission to India did not really address that. I also agree with his comments about needing a larger manufacturing sector. However, he seemed to be quite blind to the fact that the main reason why we have an inadequate manufacturing sector is that sterling has been too strong for too long. Indeed, at a time when those in the rest of our disinflationary world all want to see some depreciation of their currencies, it has been handed to us on a plate. It will be very welcome to the manufacturing industry in this country.

I have great respect for our new Chancellor. He has the practical experience of having run both a successful business and a business that failed. I find him extremely straightforward. I believe him to be a man of good faith who will act in the national interest, even though I do not agree with all that he has done. However, he has had very limited scope in what he could do, and if anything he has been quite brave in allowing the increase in national indebtedness which will come about essentially as an insurance policy to keep the economy afloat if things are more difficult than expected. It is correct that productivity and infrastructure are the two key things to this economy and I very much hope that the fund will be successful in improving both, although I share some of my noble friend Lady Noakes's concerns. I welcome the fact that the Chancellor is sticking to the planned reduction in corporation tax, which should encourage people to invest in this country. I cannot help commenting that, in all the doom and gloom we have heard, overseas investment in Britain is running at the highest levels ever and we are the fastest-growing economy in the whole EU. It seems rather strange that people should ignore those factors.

One thing about productivity—which the noble Lord, Lord Darling, has largely confirmed—is that although income tax credits were introduced with the best of intentions to help increase people's take-home pay, they have clearly had the effect of holding down wages and, if anything, of creating luxury in employment. Businesses can afford to employ more people than they necessarily need, which is one main reason why the net effect has been a fall in productivity. In the case of France, the reverse is true: it is such a nightmare to employ people there that no one employs any more than they absolutely need, so productivity looks much better. Socially, in the period following the 2008 recession, it was a very good thing as it stopped lots of people being thrown out of work. I fear that it has subsequently served to continue our poor rates of productivity growth.

The one complaint—perhaps I should not call it that but it was the one area where I was disappointed, and others have raised this—is that the Chancellor did not reverse or at least reform the stamp duty tax and the fiscal attack on buy to let, but perhaps that will come later. It is clear, first, that revenue from the stamp duty tax has collapsed—it is £1.6 billion less than forecast. Secondly, the market has collapsed. It seems ridiculous that the top rate of stamp duty for buy to let is now 16%. It is little more than a wealth tax. I suspect that the politicians and the Treasury have perhaps been over-persuaded by the Inland Revenue, which, as commented, loves stamp duty because it is cheap and easy to collect. This is serious in that there is the risk that it could precipitate a crash in house prices in central London. Although stamp duty tax rises to 10% for houses costing more than £925,000—which in many parts of the country would buy a very expensive house—in London and the Home Counties that will often buy an extremely modest house. It bears particularly harshly on young professionals who have children and need to move to a larger house. If they are living in London, they simply cannot afford to do it.

Buy to let has very much been the saviour in terms of providing accommodation in this country. There are something like 2 million small buy-to-let landlords. Many have saved via buy to let rather than a pension scheme, for understandable reasons given the disappointing returns of pension schemes over the last decade or so. However, the new tax arrangement bites extremely hard. It will lead to a significant reduction in the supply of buy to let and a significant increase in rents, at a time when RICS has advised that we will need 1.8 million new rental units by 2025. When the Irish did something similar in 1998 they experienced rents going up by 50%. So I think it would be very much in the national interest to think again on the taxation of buy to let. The alleged justification was that buy to let was competing with first-time buyers and owner-occupier buyers. In fact, as studies have shown, the area of overlap was very small. The argument that buy to let had tax advantages over owner-occupiers was also found to be quite wrong, because whereas buy to let is taxed on the use of the property, owner-occupiers are not so taxed and enjoy tax-free capital gains. I have dwelt on those two specific points and believe it would be extremely desirable to address them.

We have heard comments that the Government are not Keynesian enough. To me, an increase of £122 billion of borrowing over the next five years, ending up with borrowing of 90% of GDP, is about as Keynesian as you can get. To some extent, our new Chancellor, for good reason, is taking a gamble that it will lead in due course to faster growth as well as sustain the economy. As to the arguments about Brexit and growth, current-year growth is far better than was forecast even back in March. For the next two years, the forecast is that it will be marginally down on the March forecast, and for the year after that there is no change in the forecast. So the overall balance is not that different. Potentially, as I have said, the UK remains the fastest-growing economy in the EU and among European countries.

The base of the problem with public spending is that the mixture of welfare, health and education now comprises 65% of government spending. It is over £500 billion and the rate of growth is, candidly, unsustainable. When Sir John Major retired as Prime Minister, the NHS was costing about £18 billion. It will soon cost £160 billion. That sort of growth in expenditure is simply not affordable.

Perhaps I may close on an optimistic note. Although I have said it before, I have never in my 45 years' experience known this country to be more entrepreneurial than it is today. A number of people have the boldness to come straight out of university and start businesses. We are leaders in digital and leaders in high-tech. We are perhaps the most innovative economy in the world right now. What is happening is wonderful. It will mean that of those who succeed—and many will, of course, fail—we are likely to have many more large and successful new businesses in the future to take this country forward. That has been a great and highly desirable achievement.

5.40 pm

Lord Whitty (Lab): My Lords, I regret that I am not quite as optimistic as the noble Lord, Lord Flight, but I shall start by congratulating the Chancellor on a couple of things. First, I join the noble Lord, Lord Wakeham, in saying that it is time we got away from having two Budgets a year. I am not sure he was absolutely historically right to blame it all on Gordon Brown. My recollection is that what used to be a rather minor, low-key White Paper on public expenditure has been turned into an alternative Budget by successive Governments from Thatcher and Blair through to Cameron. It is time we abandoned that. I am not entirely sure that we will ever adapt to having a Budget in November rather than in the spring, as has been the case since Gladstone's time, I understand, but I am sure we will get used to it.

The other thing I congratulate the Chancellor on is the presentation of the Autumn Statement. At least it has faced up to the fact that there is, on the best estimates—the OBR's estimates—some detrimental effects of Brexit. That degree of realism from something which comes with a government package is very welcome.

There are a few small things I particularly welcome in the Autumn Statement, but not many large ones. The small things include the abolition of pay to stay, which was iniquitous. It threatened communities and was a disincentive to work. The measures on agents' fees I very much welcome. I have been campaigning for them for many years as a consumer representative. I am also in favour of much of the infrastructure programme. I particularly thank the Government and the DfT for a very small part of the infrastructure budget which relates to safer roads—I declare my interest as chair of the Road Safety Foundation.

There are good things in the Autumn Statement, but we have to recognise that there are a number of things that it is not, some positive and some negative. First, it is clearly not a continuation of Osborne-omics: it is a clean break. It abandons deficit-figure fetishism after six years, and I welcome that. Secondly, the fact that we have abandoned that degree of fetishism does not mean we have abandoned austerity. Regrettably, the poor will still suffer, as my noble friend Lady Hollis said very eloquently, and the reality is that public services face a serious squeeze, and the divisions in our society are growing. Nor is it what was needed post-Brexit—not to any great degree, anyway—which is the fiscal equivalent of what the Bank of England did immediately following Brexit. The relatively good economic news since Brexit does not mean that the previous forecasts were wrong. It means that the Governor of the Bank of England, the person who was most reviled during the Brexit campaign, has acted like a good Bank governor should and provided a significant boost to the economy. Without that, the *Daily Mail* and the *Daily Express* would, ironically, not have been able to run their positive headlines last week and this week.

The effects of Brexit are being felt right through the economy. Not only did the Treasury, the Foreign Office and No. 10 not have a contingency plan; nor did many parts of British industry and business. They are now rapidly coming up with them, but we are all having to adjust to something that the metropolitan elite, as we are now calling them, in all their manifestations did not expect. That takes some time. Thank God that Mark Carney and the Bank of England did the right thing. I am not sure the Chancellor has matched his ambition in offsetting the effects of Brexit on the uncertain economic prospects we face.

The reality is that the Autumn Statement and the OBR forecast clearly show that despite the Government's increased borrowing, real wages and real household incomes will fall over the next few years. Expectations of new business investment and of productivity rises have been written down. Social security has been made less of a safety net, and getting out of dependence on social security has been made more difficult and more regressive.

We are where we are on Brexit, and I am not one of those who wants to reopen that issue, at least at this stage. The Government face very tough negotiations, and we will be unclear for some time about what the trading arrangements for this country are going to be.

Despite the difficulties that Brexit has left us in, there are some things that the Chancellor could and should have done. In particular, he could have done substantially more on housing. It is unlikely that 40,000 new homes will solve the endemic housing crisis in all forms of tenure across our country. He needed to do more, in particular to free local authorities to engage with partners in housing associations and the private sector to build by further removing borrowing constraints. Possibly an even bigger omission was the failure of the Autumn Statement to mention anything about the crisis in social care. There is a huge problem in social care for our elderly and infirm, for which we are going to have to budget substantially over the years. I would have hoped that a new Administration and Chancellor could at least indicate how we are going to develop a new form of social care and the financing of it over the next few years.

The Autumn Statement could also have done something for those in whom the Prime Minister and the Government claim to be most interested. I, too, hate the term "JAMs", but I suggest those who are just about managing are likely to be managing slightly less in the next few months and years, following this Statement. Yet something could have been done with the distributional effects of this Statement, instead of primarily giving tax concessions to the already well-off, hitting the very poor and effectively leaving those in between slightly worse off over the coming years. There are many things that could have been done. The country faces many major economic problems, not least our lamentable productivity performance and industry as a whole adapting to Brexit.

It is worse than that, because we also face very considerable political, social and economic divisions in our society which have been manifest in the political developments of the past few months, not uniquely in the UK but in the US and potentially in France. The Brexit vote revealed dramatic multiple and cumulative divisions in our society. There are geographical divisions between north and south or, more accurately, between London and the south-east and the rest of the country. There are divisions on grounds of tenure—between established home owners, those having to rent in whatever sector and those trying to buy their first house. Perhaps most difficult of all, there are generational inequalities, with the real wages of those under 30 falling far faster than the wages of those in middle age or approaching retirement, accompanied by insecurity in the job market and no affordable housing.

In some senses, government policy over the last six years has favoured pensioners: those who are roughly the same age as your Lordships. That is a social judgment, but the Government have favoured them only up to the point at which they become infirm and require heavy investment in their health or social care. This Statement has provided for neither of those. What is needed is a new strategy, with new investment in social care and a recognition that individuals who are living longer, but in greater and greater ill health, require substantial resources being spent on them—not through the liquidation of their assets or those of their children but through the burden being taken on by society as a whole.

On affordable housing and on social care, this Autumn Statement has missed a real opportunity. Whatever time of year we have the next Budget, I hope the Government will have taken up those challenges and given us at least a sense of direction to get the country and society out of some of the terrible divisions and deprivation that so many of our fellow citizens currently face.

5.51 pm

Lord O'Neill of Gatley (Non-Afl): My Lords, as this is my first speech from these Benches, I will start by thanking the Prime Minister for allowing me to have served in her Government, as well as her predecessor for inviting me to join in the first place. It was quite a surprise at the time, as well as a huge honour. I also thank the right honourable George Osborne specifically in this regard. It was a great pleasure working with him at the Treasury.

Turning to today's debate, I also offer my support to the Minister ahead of his wrapping up, as I have sat in the same seat facing such a challenge a few times after absorbing your Lordships' collective wisdom. It is not an easy task, but it is an honour. Turning to the Autumn Statement, I will concentrate on three areas out of the many that I could choose: the economy and economic forecasts; inequality; and the northern powerhouse and devolution.

First, there remains huge uncertainty about the cyclical and structural outlook for the economy. But although it is easy these days for us all to identify obvious specific factors that enable us to make reference to this uncertainty, this should not disguise the fact that the outlook is always uncertain—a point the noble Baroness, Lady Noakes, partially made earlier. It seems now that the situation is more uncertain than usual, but I suspect that is probably not the case. I say this partly because the OBR was less pessimistic than it has sometimes chosen to be relative to others, but it is also important—a couple of noble Lords have touched on this already—that the economy has actually performed notably better since the EU referendum outcome than many expected, myself included. As we have been told, there are widespread expectations that this is unlikely to last, and I agree with many of the stated reasons for that, but it is just possible that the economy could continue to surprise, which would mean a different set of risks from the ones that are being widely discussed at the moment. Although the shift to a less tight cyclical fiscal stance is an obvious move given the possible downside risks, that might need some tinkering in the opposite direction in that event. I have confidence that were that to be the case, despite the much-welcomed new budgetary timetable, the Chancellor would act accordingly.

Secondly, I turn to the sensitive issue of inequality, aspects of which I have talked about in this House in my previous guise. As has become apparent in so many other walks of life—and as has been topical recently in this social-media-driven, 24/7 era—separating fact from fiction sometimes seems beyond many people. During the past 20 years, and indeed beyond that, there has actually been a massive decline in global inequality, as hundreds of millions of people have been, and continue to be, taken out of poverty, primarily in the so-called emerging world. The fact is that the UN's declared millennium goal of halving poverty by 2015 was actually achieved by 2010—perhaps one of the very few times the UN has been so successful. Many people seem to be unaware of, or choose to ignore or deny, this remarkable achievement of the recent past. However, within many countries, despite this incredible feat, internal measures of equality have often shown widening inequality. This is true even for the likes of China and for some, but far from all, so-called developed countries. Some of this is probably unavoidable, but also possibly transitory, as the bringers of this global wealth enhancement keep, perhaps temporarily, more of the proceeds.

Although the UK undoubtedly has a high level of income inequality compared to other developed countries, it is also a widely unappreciated and frequently ignored fact that UK income inequality is a bit lower today than it was about 20 years ago, on the most usable and best comparable cross-country measures. You would not know this from the general media or from political debates on the topic in our country. In my view, focusing on the younger generation, and more concerted efforts to rebalance economic opportunity around the UK—both to help accelerate a reduction of greater magnitude in national inequality and to benefit those more truly hurt in recent decades—should be a priority for policymakers in this regard. Something that has received some, albeit modest, attention from the latest OBR forecasts is the startling deviation of the income performance of younger people compared to those over 60, and the remarkable generosity of policy towards the latter relative to the former. Surely policymakers must address this startling gap in the years to come, especially with the likely challenging productivity issues related to Brexit. We need to do more to create productive opportunities for those starting their working lives, rather than for those towards or at the end of theirs.

That brings me to the third issue, namely the northern powerhouse and some aspects of devolution. It was heartening to see the Treasury publish specific documents on the powerhouse along with the Autumn Statement, but that did not entirely compensate for the lack of new or additional initiatives. Of course, the Government have provided commendable support for the much-needed improvements in northern road and rail infrastructure, but the importance of east-west train and road links to enable consumers and producers to behave almost

[LORD O'NEILL OF GATLEY]

as one in what I have often referred to as the ManSheffLeedsPool—Manchester, Sheffield, Leeds, Liverpool—corridor cannot be overstated. As those who have done this analysis—there are not many—show, this would be likely to do much more for productivity in the country, and therefore for living standards, than many other transport infrastructure projects.

State-of-the-art transport infrastructure is necessary but not sufficient. The same is true with respect to devolution, especially to urban areas that have not yet started on this journey. It is disappointing to see no further progress in the Autumn Statement following that initiated with Greater Manchester, now commendably followed by Liverpool and the West Midlands.

There remain key urban areas within the northern powerhouse and elsewhere that, in addition to requiring more local ambition, need not to allow our frequently petty national party politics to hold back what is necessary to unleash more of the local bottoms-up-driven vitality that is needed to boost their, and national, productivity. This would help all the UK to compete better with the challenges that lie ahead and, of course, to have a much more meaningful impact towards further narrowing inequality. I hope the Government will put their political-party rivalries aside in this regard and make a renewed push in the area, as it is central to their appropriate mission to raise national productivity.

6 pm

Lord Lea of Crondall (Lab): My Lords, some years ago a trade union colleague used to spend his holidays once a year in Cuba. He used to go for a drink on a terrace overlooking the Caribbean with Fidel Castro, which was all very nice. On one occasion, after a few years, he said, "Fidel, may I ask you a question?". "Certainly, Alex," said Castro, "what's your question?". My colleague said, "I've been coming here all these years and you're normally smoking a big cigar about that long. This year you're smoking a smaller cigar that's only this long. Is there any particular reason?". Castro said, "Well spotted, Alex. The answer is that I'm trying to get closer to the people". Aren't we all? But it is not easy.

I think the noble Lord, Lord O'Neill, who has just made an interesting piece of analysis about income distribution, knows well that I do not accept that the Gini coefficient, to which I think he was referring, is a credible measure these days. I cannot go into that now, but we have a methodological dispute. It is quite right to mention that in connection with all the other factors, such as the apartheid in our educational system.

I echo what the noble Lords, Lord O'Neill and Lord Adonis, among others, are jointly responsible for in our minds about infrastructure investment. Although you would think the idea had been invented only last week, it is one that all of us have been looking at, with differing degrees of enthusiasm, over many decades. In the roads programme, for example, there have been huge troughs and peaks that do not seem to have had any particular economic rationale. Until recently we were told that it could not be done but now we are told that borrowing an extra £23 billion can be done. Talking of changes of doctrine, another thing we were told could not be done was increasing revenues from tackling tax avoidance, but now we are pledged to getting an extra £2 billion from that source.

In response to a point made by the noble Baroness, Lady Noakes, whose assessments on these matters are always very much worth pondering, I say that what I would call a competitive reduction in corporate tax rates is precisely, in my way of looking at the world at the moment with regard to multinational corporations—not least Apple and Google—the race to the bottom that ignores the question. If we are going to spend significant sums on the health service, as my noble friend Lord Whitty and others have pointed out, the sums of money that we are not getting from multinational corporations are not chickenfeed; they amount to trillions. People say, "Take back control", which is a highly tendentious way of looking at the world. Take back control from what—multinational corporations, Brussels or something else? This is not the same sort of idea but there is that same disquiet, if not disaffection, in many of the industrial democracies.

The collapse of standards in the labour market and the rapid spread of zero-hours contracts—come back Ed Miliband, all is forgiven—have been very accurately analysed by the Labour Party now for four or five years, and its time has come; actually, it is overdue. There is an idea that we should see this as some sort of benign future economy but the economy is actually going in the opposite direction from where it should be going if we are going to give people the security of employment, the pensions and the tax contributions that in the other half of our schizophrenic brains we are advocating, almost in the same paragraph.

The pound is worth 15% less in international terms than before the Brexit vote, while I think the pound in our pockets, as Harold Wilson would agree, has been devalued by 2% to 3%—at least that is what the supermarkets are saying, if that is a good guide. Workers having had a real-terms pay freeze for some time, they will want to get that back—hard enough in any event at any time after a devaluation—unless there is a supplement to national income with a significant impact, and I cannot see that coming from exports, especially if you glance at the terrifying graph in the OBR report showing the downward fall in our share of world exports. So we have 7 million Britons with little or no job security, a figure that has grown by almost 2 million in the past decade, according to the highly respected labour market economist John Philpott.

I have a background proposal to try to staunch the damage that Brexit is doing to our future prospects, as currently it is overhanging discussions like a spectre. The problem with the so-called binary is that it was a binary comparing something we knew about with something we knew nothing about. I think that was a stupid thing to do, but the British public will start to figure out what the opposite side of the binary actually means. I want to bring in a point that, interestingly, is mentioned in a story in today's *Guardian*. It quotes the Prime Minister's spokesman—not the lady carrying the notes that were photographed—as saying that we cannot stay in the single market simply under membership of the European Economic Area because membership of the EEA entails being a member of either the

EU or EFTA. I have tried to point out twice in my modest contributions that no one has ever opposed our membership of EFTA. No one in the 1950s opposed our membership of EFTA—apart from one or two fringe people; the great majority was for EFTA.

I happen to have chaired the last meeting when Britain was a member of the EFTA consultative committee of trade unions and employers in Vienna in December 1972, before we joined the EEC on 1 January 1973. We knew—everybody knew—that EFTA itself had rules. In the Stockholm treaty of 1958, there were rules on state aid and many of the things that we now associate with interference or other people trying to run our affairs. This is what Norway, Switzerland and the other countries are members of, more or less.

I now advocate that we rejoin EFTA. I think that would deal with the objection of the Prime Minister, if it is her objection, that we cannot join the EEA because it would entail us being a member of either EFTA or the EU. Okay, let us become a member of EFTA again. That is my proposal, and if it is carried forward, bringing with it the internal market as well as the customs union, as I understand it, we could remove one huge incubus from the terrifying arithmetic set out by the OBR and the IFS in the light of the Autumn Statement.

6.11 pm

The Lord Bishop of Birmingham: My Lords, the noble Lord mentioned doctrine, and I am sure that the aspirations of the Government's economic plan fit in perfectly with the newly arrived season of the Christian Advent, where we offer the expectation of a fulfilled and better future, and the hope that the general population will continue to display their usual dependence on the freely available social measures of faith, hope and love. If your Lordships think I am getting too far from the point, when it comes to high economic doctrine or ordinary daily lives, the person on the top of the bus between the centre of Birmingham and Berkeley Green, which I take regularly, might ask me what I was doing tomorrow, and I might say, "I am coming down to Parliament". "Tell them there are two things that matter: that we get on together and that we have enough to live on"—love and hope. But then we consider the Autumn Statement in the knowledge that the third one—faith—is the assurance of things hoped for, the conviction of things not seen.

There is much assurance in the Statement. It is a serious facing up to sustaining peace and prosperity and maintaining a standard of living in an increasingly uncertain world—although the noble Lord, Lord O'Neill, pointed out that the world is always uncertain: that is also a very good theological point. There are some examples in the Autumn Statement of practical fiscal wisdom and much ambitious housekeeping as we reposition this country in the world of new and old markets. If we have long memories, we seek to keep a very close eye on the evils of inflation and admit to uncertain growth, on which we have depended for so long on general prosperity.

Following the third point of the noble Lord, Lord O'Neill, I should be grateful if the Minister would say more about one thing that has not yet been discussed: how the details of this will be experienced in the English regions. Mention was made in the Statement of the Midlands engine. There is a welcome focus on skills, transport, housing and digital connectivity and an honest description of our lag in productivity, so ably exposed by the noble Baroness, Lady Noakes. In passing, I hope that we will do more work in this Parliament on connecting big infrastructure investments with the actual gap of 30%, which has been mentioned, that exposes our performance compared to some of our international competitors.

I focus particularly in the regional experience of the Statement on something that has already been mentioned: a welcome for our share in the £1.4 billion for 40,000 new affordable homes. That is a positive move, but does the Minister agree that there must be greater focus on social rented homes to support the most vulnerable in society, for whom home ownership is not a realistic prospect in the immediate future—not least some of those young people who are not gaining access to the economy?

Furthermore, where will responsibility lie for all these essential targets mentioned in the Statement? Do the Government envisage a greater role for regional government, such as the evolving West Midlands combined authority? If so, can the Minister illustrate the economic power and oversight it will have in these key policy areas under a second devolution deal? Of course, the proposed borrowing facilities for mayoral combined authorities are welcome, but can the Government explain how local enterprise funding, for which £392 million is to be made available in the Midlands, and the investment fund payments by the British Business Bank for small and medium enterprises, will be united in an overall, measurable, regional delivery system? Some of the remarks of the noble Lord, Lord Fox, were leading towards that kind of arrangement.

It is also in the local communities of England that those who are just about managing will receive encouragement—small encouragement, some have suggested—from the Statement: the national minimum wage up to £7.50, tax thresholds increased and the welfare taper rate in universal credit reduced, but perhaps not significantly enough. Will the Minister also highlight the dire need of those who are not managing at all, and keep on with the promotion of focused initiatives such as coping with manageable debt and the early habits of saving, which are so necessary to the foundations of successful personal behaviour in a prosperous economy, in addition to the excellent credit union expansion project and Help to Save? Starting life properly will be a great achievement. In this connection, I commend to the Government the forthcoming report of the ad hoc Select Committee of your Lordships' House on Financial Exclusion.

In conclusion, there is an underlying anxiety behind some of the remarks in the debate about those who have responsibility for those who are not economically active—children in poverty and the vulnerable elderly. The noble Lord, Lord Hain, mentioned them. It is well known that local authority budgets have been pared to a minimum and the NHS overloaded. In the absence of any major discussion in the Statement of those big sums, can the Government give more impetus to imaginative and cost-effective initiatives for ordinary human caring? Those were so well demonstrated in

[The Lord Bishop of Birmingham]

the Near Neighbours initiative where, for a tiny amount in the context of this debate, a great deal of social good was achieved; new and powerful relationships were built up, achieving greater social capital to go alongside the billions of pounds that we are discussing today.

There is much of this that we cannot see and, if we are to succeed in developing our ambitions, the Statement will rely more and more on the natural abilities and resilience of our diverse population but, as the Chancellor returns—attractively, I believe—to one opportunity a year to raise our expectations of salvation, let us, in an economy that works for everyone, ensure that the weakest and poorest are saved first.

6.19 pm

Lord Higgins (Con): My Lords, it is a particular pleasure to follow the right reverend Prelate, not least because one of his distinguished predecessors as Bishop of Birmingham was a very good and kind friend to me when I was an undergraduate at Cambridge.

I am very glad that my noble friend Lord Young of Cookham has taken on the responsibility on the Front Bench. The House as a whole will benefit from his very considerable experience. He pointed out that he may not be as belligerent as he was in the Commons, but his expertise will be of benefit to us all.

No one can imagine that the new Chancellor of the Exchequer has anything like an easy task, given the immense problems with our poor productivity performance, the balance of payments and, not least, the overhanging shadow of Brexit. Then, of course, there is the continuing problem of the deficit. In response to some of the remarks made opposite, I am bound to say that the previous coalition Government and then the Conservative Government could not have continued to allow the deficit to go on and on as it was, living far beyond our means and putting an ever-increasing burden on future generations. The determination with which they tackled a very difficult problem was absolutely essential. Of course, it will remain a problem—and I will come to that in a moment.

We are at risk of separating monetary policy from fiscal policy in a rather dangerous way. Of course, the independence of the Bank of England is a good thing, but we do not really have any debate that brings the two things together. I have been critical in the past of the present Governor of the Bank of England. I thought his efforts at forward guidance were misled, and anyone who followed his advice immediately would probably have lost money. Having said that, he has acted admirably in warning of and reacting to the dangers of Brexit. The reason why Brexit immediately after the referendum did not work out as badly as might have been thought is to a significant extent the result of the action taken by the Governor of the Bank of England. But we should be clear that he is faced with a very real dilemma. He wants to keep interest rates down to stimulate the economy; on the other hand, the downward pressure of Brexit on the exchange rate and the inflation that that would generate means that he will have to put interest rates up. Taking those two things together, he has very limited room for manoeuvre, so fiscal policy is all the more important.

The crucial question we have all been debating is whether the Chancellor has made the right Budget judgment. We are indebted to the OBR for its report, in which it points out:

> "With our underlying borrowing forecast higher—and policy decisions pushing the deficit up further—the Government's three existing fiscal targets would all be missed by considerable margins".

It then goes on to comment on the fact that the old fiscal mandate is clearly no longer appropriate. The Government therefore propose a new draft charter for budget responsibility, which will set out the situation now. That is clearly more relaxed than the previous situation, and I am sure it is the right judgment, but it is very difficult at this stage to know exactly what should happen as we go forward. Unfortunately, the OBR is no help on this because, when it asked the Government to indicate what "Brexit means Brexit" meant, alas, answer came there none. Nor did the Government give the OBR any indication about access to the single market on the one hand, and immigration on the other. There is a tendency for people to think there is a trade-off between the two, but for business, both are absolutely essential. Alas, the OBR has no idea what the Government's position will be. Having some degree of fiscal relaxation is probably the wisest thing for the Chancellor to do in the present circumstances.

Given that I have been concerned with monetary as well as fiscal policy, perhaps I might mention that the new Chancellor, in co-operation with the governor, might at some stage want to indicate what will happen to the vast number of assets purchased as part of the quantitative easing programme. They are clearly never going to be reissued, because the maturity dates and rates of interest are not appropriate. They are hanging around in the bubble—that is the fashionable word—with no one doing anything about them. At some stage there ought to be clarification as to what we are going to do on that.

So we have a more relaxed fiscal policy, which I believe is the right approach. What I really welcome is the greater emphasis on investment in infrastructure with a view to increased productivity and, in particular, the proposed increase in expenditure on housing and roads. Nearly 20 years after I ceased to be a Member of Parliament for Worthing, at which stage it looked as though we were going to get an A27 bypass any minute, I still have hope that at some stage it will actually be built. I got stuck there for an hour the other night.

Lord Hunt of Chesterton (Lab): Why do you not introduce toll roads?

Lord Higgins: Well, that would be one idea—and, to some extent, we have done so. None the less, we will need to borrow to invest, and the problem with that is that it makes the deficit look bigger. But we do not actually define clearly the component parts of the deficit. Here, I am glad to have the support of the Liberal Benches. Borrowing because taxes are not enough or other items of expenditure are too much is not the same as borrowing to increase productivity and improve investment. Some time ago, some of my former constituents and I discussed subject of war loans, and I begin to wonder whether we should not finance this by issuing, say, housing bonds, just as we used to issue war loan bonds, so that we can distinguish clearly between those two different kinds of finance, and different parts of the deficit, which all come into it but are really very different in terms of impact.

We must all wish the Chancellor well. It is going to be a very difficult period ahead for him. The debate today has been extremely helpful and I am sure it will continue to progress. We must all consider this issue very clearly. Although today's debate has been very sophisticated, I begin to wonder whether this is the ideal format for discussing the OBR's statement. If we are going to say that we must have a totally new contract as far as the deficit is concerned, a debate in the Moses Room, with less pressure on time, might be more appropriate. Generally, I welcome the Chancellor's statement. In the circumstances, and given the uncertainties created by Brexit, it is probably as good a shot at it as he could make.

6.30 pm

Baroness Warwick of Undercliffe (Lab): My Lords, I want to focus on the housing aspects of the Autumn Statement and I declare an interest as chair of the National Housing Federation, the trade body for England's housing associations. The Autumn Statement contained a clear and welcome commitment to increasing the supply of affordable housing. As the Prime Minister herself said, we simply need to build more homes. As a nation, we have not built enough houses for decades and we are currently almost 100,000 short of the number we need to build each year. This is having a real impact on the lives of ordinary families who, faced with high housing costs, find themselves, as the Chancellor has put it, "just about managing". The public are looking to the Government to act and the housing announcements in the Autumn Statement were an important step in the right direction.

To tackle the housing shortage we need two things: a determined Government and an ambitious housebuilding industry. Housing associations are ready to step up to that challenge. They built one-third of all new homes last year—more than 40,000 houses—and they have an ambition to triple that number over the long term. The sector has a strong track record of building during times of economic uncertainty. At the height of the crash, between 2007 and 2008, output from private developers dropped 37%. Housing associations increased their output by 22% over the same period. They want to do that again and the housing measures in the Autumn Statement will support them to do it.

Looking at the specifics, the Chancellor announced an extra £1.4 billion for affordable housing, as well as flexibility over how the remainder of the £4.7 billion shared ownership and affordable homes programme will be spent. Flexibility is vital. The National Housing Federation has long argued for the Government to relax restrictions on existing affordable housing funding, so the flexibility promised in the Autumn Statement is welcome. Housing associations have worked at the forefront of delivering innovative routes to home ownership for people who find themselves "just about managing", and they will continue to so.

However, we also know that communities need affordable rented homes, too. Flexibility on funding will enable many more of these to be built. The extra flexibility will not only allow the sector to build homes that better meet the needs of the communities they serve but will ensure that they are able to deliver the maximum number of houses for every pound the taxpayer puts in. The evidence backs this up. Recently, housing associations submitted bids to the shared ownership and affordable homes programme—both useful tenures in their own right—but they have told the federation that, had there been greater flexibility on tenure, they would have bid to build 60% more homes. One-third told us that they would have more than doubled the number of houses they bid for.

A flexible approach to investment will not only allow housing associations to build more homes more quickly but will foster greater innovation. As well as helping those in greatest need, the sector has long provided homes for low-income and middle-income families who are in work but struggling. The sector wants to build on this heritage and will make the most of flexible funding by developing innovative routes into home ownership. These new home-ownership products will make a real difference to the lives of hundreds of thousands of people for whom home ownership has become a distant dream. The sector will do even more with flexibility, using it to invest in regeneration in those communities that have felt left behind for far too long.

The Chancellor also announced £2.3 billion of new infrastructure funding specifically to unlock land for up to 100,000 new homes in high-demand areas. Again, this is good news, and a welcome recognition from the Government that housing is critical to improving the nation's productivity. I would also argue that housing itself should be viewed as infrastructure. I echo the calls of others for large housing developments of around 1,500 homes or more to be considered as part of the nationally significant infrastructure projects planning regime. If this were to happen, the decision-making process would be much more certain, which would enable housing associations and other housing developers to build the homes more quickly. Given the difference this change could make, will the Minister consider extending the remit of the National Infrastructure Commission to include housing?

Certainty and freedom are two things that enable housing associations to build more homes. Certainty enables investment; freedom—in the form of more flexibility—ensures that the homes that are built are the ones that people actually need. But both certainty and freedom are lacking in one vital area. Despite being independent businesses, housing associations cannot set their own rents. The housing White Paper, now promised for January, provides an opportunity to fix this. I remind noble Lords that housing associations built one-third of all new homes last year. Rental income is critical to the success of their business plans. Yet it is an area where the Government have heavy involvement, both by setting rents and by capping housing benefit, affecting tenants' ability to pay rent.

Giving housing association boards control of rent setting could improve their ability to plan for the future, manage risk and make the most effective use of their assets to deliver their ambitions for homes and communities. The existing regime does not match rents to the ability of people on low incomes to afford them, so giving the

[Baroness Warwick of Undercliffe]
sector rent freedom could also help housing associations make rents genuinely affordable for tenants. I hope the Minister will agree to meet me to discuss how, by handing control of rent setting to housing association boards, the sector could deliver greater fairness for tenants by matching rents to local market conditions.

Finally, I turn to social care. The Government have talked a great deal about building a country that works for everyone—yet in his Autumn Statement, the Chancellor was utterly silent on the future funding of social care, despite the fact that the most recent proposals from the previous Government are now gathering dust after being shelved. At the same time we have hit crisis point in our social care system. Despite more people needing care, investment has shrunk by one-third in just five years. In every region of our country this has left people without the care they need even to get dressed, eat or leave the house. One in three women and one in four men will need care at some point in their life. Is the country really ready for this? Absolutely not. According to the King's Fund, 81% of local authorities have cut their spending in real terms on social care for older people over the past five years.

Figures published on 10 November showed that the NHS had a total of more than 196,000 delayed transfer-of-care days in September—the highest figure since data were first collected in 2010. As Jane Ashcroft, CEO of Anchor, said:

> "Such pressures demonstrate with tragic clarity the importance of funding services which can prevent people needing the NHS or help people leave it".

As the Work and Pensions Select Committee calls for the triple lock on pensions to be scrapped, the Government must think hard about how to protect the least well-off older people. Failure to do so is already having an impact on NHS costs and risks huge consequences for older people.

We need to address urgently the financial black hole in social care. It is astonishing that the Autumn Statement failed to do that. The Care and Support Alliance, a coalition of more than 90 of Britain's leading charities, which campaign alongside millions of older people, disabled people and their carers—and of which the National Housing Federation is a member—has expressed its outrage in no uncertain terms. Its chair, Vicky McDermott, said:

> "Ignoring the social care crisis is deeply irresponsible. The sector couldn't be clearer on how dire the situation is for social care and those who rely on it".

I hope the Government will listen to the strong concerns raised by social care providers across the country, by local authorities and by the NHS, and will take action. I hope that the Minister will address this huge gap in his response.

In conclusion, I will return to my initial point on housing. The welcome announcements on housing in the Autumn Statement will not by themselves end the housing crisis. However, after decades of failing to build the homes we need, they feel like a genuine and important start in tackling it. Every part of the housebuilding industry will have to step up to the challenge. Housing associations are certainly ready to play their part. They know that the public are relying on them to do so.

6.40 pm

Lord Taverne (LD): My Lords, supporters of Brexit have attacked the Chancellor's Statement as being too pessimistic. I believe that it may be too optimistic, mainly because of the political background.

Suppose it begins to dawn on markets and investors that we are likely to end up in 2019 with a hard Brexit, outside the single market and the customs union, with no prospect of an early free trade agreement with the European Union, no passports or licences based on equivalence for our service companies to operate in the world's biggest market, no cherry picking or special exemptions from tariff, non-tariff and bureaucratic obstacles for key export industries, and no transition agreement. That is a far from inconceivable scenario. The word from Brussels and most of the 27 is that they are in no mood to help us achieve a soft Brexit or to concede a quick transition agreement. That will be just as difficult to negotiate as a free trade agreement, and the Canadian free trade agreement took more than seven years. Temporary arrangements have a habit of becoming permanent. Of course, their mood may change. Theresa May too might do a U-turn and give single market membership or access top priority over immigration control. However, that is not quite the feeling she has expressed in the past or at the Conservative conference, and I would not bet on it.

Suppose further that we find that those who promise a wonderful free-trade bonanza after Brexit are living in cloud-cuckoo-land. Who welcomed Brexit? Donald Trump, whose battle cry is "America First"—something he is not going to go back on—and an end to America's traditional noble role as the champion of world free trade. Marine Le Pen, arch-nationalist and protectionist, welcomed it, plus all the other nationalists and protectionists whose influence in the European Union is growing. Free trade is linked with unpopular globalisation and the likelihood is that we will not face a world with more free trade but one with more protectionism.

What, then, would be the consequences if the market began to take the prospect of a hard Brexit seriously? Probably a further drop in the pound, a further reduction in investment, a major emigration of companies based in Britain, a rise in interest rates, inflation and unemployment—in fact, a Brexit recession. I am not saying that it will happen—of course, we are living in a world of unparalleled uncertainty—but it is too feasible a possibility. Even without that scenario, the IFS has forecast that we face the longest spell of no wage increases that we have seen for 70 years. The poor will suffer most, as the noble Lord, Lord Livermore, and many others have pointed out.

Of course, Brexiteers immediately attack anyone who contradicts their vision of a glorious post-Brexit future. They promptly denounced the IFS as a Brussels lobby group. I should declare an interest because in 1971, when the IFS had been incorporated and had no staff or money, I was approached, as a former Financial Secretary when Roy Jenkins was Chancellor, to be its first director and get it off the ground. One of the things I am rather proud of in my political life is of having acted as the midwife at the birth of an infant who has grown up to be such a formidable adult, with an international reputation for independent, objective expertise.

However, whatever the cost of Brexit, currently conventional wisdom holds that a referendum is the ultimate expression of democracy, and that the so-called advisory June verdict is binding and must be irreversible. According to some tabloids, even to suggest that it might be reversed is an act of treason against the will of the people. But why should a referendum vote be any more sacrosanct than the result of a general election, which at least gives us a clear choice among detailed manifestos? Those who most loudly denounce any challenge to "the people's will" have been the first to challenge it themselves. Before the June vote, Nigel Farage declared that if Remain should win, he would never accept the verdict. Much more important, it is an essential underlying principle of democracy that no decision should ever be irreversible. Autocrats declare that people must never be allowed to change their minds. Democracies allow people to admit that they made mistakes and to change their minds if circumstances change.

Furthermore, we should learn from history. Ever since the Enlightenment, there has been a rift between the followers of the English philosopher, John Locke and the disciples of the Genevan philosopher, Jean-Jacques Rousseau. Locke argued that we should have regard not only for the view of the majority, but also for the rule of law and the protection of the rights of individuals and minorities. His followers regarded parliamentary democracy, with its careful checks and balances, as the best guarantee of freedom. Rousseau declared that the will of the majority must always prevail and the individual has no right to disobey it. Locke proved the inspiration of liberal democracies and has been at the root of our own constitutional traditions. Rousseau, and belief in the unchallengeable supremacy of the people's will, have always appealed to autocrats. Hitler represented the will of the German people before the war. Was Hitler a democrat? Thank God Germany is now a successful democracy with a central role for an independent judiciary and a deep respect for the rule of law and the rights of the individual.

Stalin was revered by the Russian people. Was he a democrat? Among the most popular national leaders at this time are Putin and Erdogan. Are they democrats? Of course, times have changed. Nowadays most democrats accept the occasional use of a referendum. I too, somewhat reluctantly, accept it. But we should also remember that an invocation of the will of the majority as sacrosanct tends to lead to the denial of the rule of law and the suppression of individual rights. The *Daily Mail*, for instance, showed its devotion to Rousseau when it denounced the independent judiciary, who are, after all, our ultimate guardians of the rule of law and the rights of the individual, as the "enemies of the people" because they dared to interpret the law in a way which the *Mail* thought defied the people's will, and its own views. There was a whiff of fascism about that screaming headline.

If the OBR forecasts and the IFS predictions prove wrong, as, of course, they well may, and if there is no change in the public mood, the June verdict will stand. However, if they are proved right and Donald Tusk was right, that in the end we face a choice between a hard Brexit with a very unpleasant series of consequences or Remain, and if there is a major shift in public opinion, I put, in conclusion, a question about a possibility which many will regard as unthinkable. What should a rational, sensible Government, who are concerned for the welfare of the country, do in two and a half years' time if their policy has become deeply unpopular and is clearly proving disastrous? Would they continue blindly staggering towards Brexit? Or might they decide that their duty was to follow Sir John Major's advice and ask the country to think again? In those circumstances, another vote before a final decision, preferably a second referendum, would be fully justified. Indeed, to deny it would be undemocratic and the Government would be failing in their duty to the nation.

6.49 pm

Lord Kakkar (CB): My Lords, I thank the Minister for the very thoughtful way in which he introduced this debate. I propose to concentrate on his second theme—productivity—and in particular on the role that enhanced investment in research and innovation may play. I declare my own interests as professor of surgery at University College London; chairman of University College London Partners, our academic health science system; and UK Business Ambassador for Healthcare and Life Sciences.

There is no doubt that the pursuit of technology investment in science and innovation has had a dramatic effect, transforming the lives of our fellow citizens and the population of our planet in the last 100 years. Its impact, properly directed and targeted at improving well-being and wealth, is quite astounding. It is therefore quite right for the Government to have recognised in the Autumn Statement the importance of a further emphasis on research and innovation funding and expenditure, not only to drive an improved productivity in our economy but to ensure that, as a knowledge-based economy, we are better able to compete globally. We should not take for granted that even this renewed commitment to research and innovation at a national level will protect us against substantial global competition. Only this week it was announced that 40% of all patents registered last year were registered in China, with 60% of the total global output in patent registrations being in Asia. It is a clear demonstration that whereas previously we looked to competitors in the European Union and the United States as the principal source for our competition as an innovation economy, that is no longer the case. It is therefore right that the Government have this emphasis.

There has been concern for a considerable time that we lag well below the OECD average for national investment in research and innovation. I ask the Minister: with this additional £2 billion a year of investment at steady state by 2021, where will we be in OECD rankings with regard to national investment in this area?

The current proposal does not provide all the answers with regard to improving our productivity based upon a greater emphasis on innovation. What approach will the Government take with regard to being able to bring together the broader ecosystem that has supported our national effort in research and driven our knowledge

[LORD KAKKAR]

economy, to ensure that not only this investment but investment made on a commercial basis from other academia and universities, and in particular philanthropic investment, can be strategically directed towards driving the research effort in important areas of national need, one of those being, in particular, the life sciences?

I would also like to explore with the Minister what this extra investment means in reality. Our country has been particularly successful in achieving competitive research funding from European Union sources. The research and university communities rightly welcomed that the Government have committed to underwrite any applications made to European funding sources between now and final Brexit. This additional £2 billion of investment represents clearly a major investment but also an important challenge. Will the funds that have been announced replace those that may no longer be available from the European Union beyond the time of Brexit, or are they additional to funding that will come from other sources in our country to make up for the loss of research funding available to our universities and to our small and medium-sized enterprises from European sources after Brexit?

In terms of the allocation of this funding, how will the balance be struck between funding that is driven by research excellence and allocated on the basis of the Haldane principle, where the research needs and opportunities are identified by scientists, and funding for strategic investment in research that is identified as part of the national challenge, where interested parties—small and medium-sized enterprises and the universities and academic research collaborations—can come together and apply for that funding? Will it be the responsibility of UK Research and Innovation once both Innovation UK and the research councils come together? How will those national priorities be determined, and how will a determination be made of the effectiveness of this innovation as regards driving additional and much-needed productivity in the economy?

There is no doubt that the strategy is absolutely correct. It is absolutely appropriate to ensure that research council funding can be brought together with innovation funding and that the universities and commercial enterprises can work more effectively together to ensure not only the best approach to discovery but the exploitation of that discovery in order to generate wealth in our own country and provide the opportunity for us to contribute globally to addressing many of the important challenges facing not only our own country but many others around the world. However, there needs to be much more clarity. It may not be possible for the Government to address that at this stage but those answers will need to be provided to allay anxieties and fears and ensure that a confident approach towards a sustained research effort is maintained.

In addition to that, much of the benefit that we have derived as a nation from our participation in European Union research funding has come not only from the quantum of funds that have been made available to support our universities and other academic enterprises but from the capacity to participate in research networks in Europe and to access major infrastructure to undertake research activity. How much of this £2 billion in additional research and innovation funding that has been announced will be made available for the participation of our international institutions in global research networks? Will some of the funding be used to allow a continued participation in European networks? Will there be an opportunity for us to start to explore new and broader research collaborations, potentially with networks in the United States—another knowledge-based economy with a substantial and long-standing national strategy for investment in a similar fashion to that proposed by the industrial strategy challenge fund?

Those are vital questions that clearly need to be addressed carefully. However, they also need to be addressed quickly. There is a growing anxiety among those involved in research and innovation that if those questions are not answered, the great opportunities that the Government's commitment to this area offer will be lost. That would be a great shame not only for our economy but for the well-being of our people in the years and decades to come.

6.57 pm

Lord Horam (Con): My Lords, this has been an interesting debate, thoughtfully started by my noble friend Lord Young of Cookham. He declared that he was a reformed character. Not too much reformed, I am glad to say—as we saw, he still retains his sense of humour and his remarkable stamina. He has sat throughout this entire debate and has already listened to 19 speakers, with another 20-odd to come. That is a remarkable example of his stamina as befits the bicycling baronet he was in the other House. I can also tell the House that he is also still remarkably non-partisan. Indeed, he managed to be non-partisan in the other House when he was Chief Whip, which is some sort of a record. We—at least on these Benches—are delighted to have him in his present position in the House of Lords.

I will make only two brief points in this debate. The first is that I am extremely glad that growth has come back as the centrepiece of economic policy-making in this country, as opposed to the deficit. It has always been obvious to me, speaking as a bit of an unrepentant Keynesian economist, that if you go for growth, first of all you get growth, and secondly, if you get growth you also get the resources to deal with the deficit. If you make the deficit your priority, you do not get growth, and you may not do much better on the deficit. Therefore the logic of the situation has been plain. I know that my noble friend Lord Higgins will recognise some of the arguments here from his days at the Treasury. He was Treasury Minister when I first went into the House of Commons, and I remember those days with great affection. I am therefore delighted that this fundamental change has taken place.

I only wish that we could persuade the German Chancellor, Dr Wolfgang Schäuble, to adopt a similar Keynesian demand-management approach. I respect Dr Schäuble; he admitted that he shed tears when he learned the result of the referendum. That is an interesting admission by the German Finance Minister. Unfortunately, the Germans are still in hock to the so-called Freiburg school of economics, which places all the emphasis on structural reforms—which, in practice, means reducing wages and throwing people out of work—and not on any kind of demand management. As a result, the European economy is performing much less well than it could. One reason that we are seen to be doing better is that, sadly, the European economy is doing much worse. One might ask, "Why does that matter to us when we're not going to be in the European Union?", but how the European Union performs economically still matters profoundly to us and that will continue to be the case, and I am sad that the German economy is not performing as well as it could. Given the situation that we find ourselves in, perhaps now is not the time to lecture the Germans on the economy. None the less, I wish to make that point because it is important to our general performance.

My second point reflects on what the noble Baroness, Lady Warwick, homed in on—no pun is intended here. She mentioned that housing is central to our problems. I am delighted that the Chancellor made such an issue of housing and that he is trying to do all he can to improve the situation. It is clearly a question of supply, and I am glad that we have got rid of some of the fungus of other issues that surrounded this matter under the previous Administration. We are now homing in on what really matters.

As the right reverend Prelate the Bishop of Birmingham rightly said, it is a question not just of housing but of affordable housing—social rented housing as well as every other kind. Every aspect of our housing situation needs to fire on all cylinders if we are to meet the targets, although I am afraid that we may not do so. I was delighted that the Secretary of State for Communities and Local Government, Sajid Javid, talked only the other day about being radical. We absolutely need to be radical in this area if we are to have any hope of meeting the demanding targets that we have set ourselves, but I am afraid that those targets may not be adequate to deal with the situation that we face.

However, I believe that we have a good team at the DCLG with Sajid Javid and Gavin Barwell, who is a London MP and therefore understands the situation. I hope that those two can bring about a Harold Macmillan/Ernie Maples solution to our housing problems and achieve a new 300,000 houses a year. I fear that they will fail on that target because it is a demanding one; none the less, I hope that they will achieve much in the next four or five years.

On the subject of housing, I would like to make one point which may seem rather strange but it is related to the Chancellor. I welcome unreservedly his saving of Wentworth Woodhouse, the house just north of Rotherham in Yorkshire. People believe that it was the model for Mr Darcy's Pemberley in Jane Austen's *Pride and Prejudice*. That may or may not be true—the noble Baroness, Lady Hollis, indicates that she agrees with me on that—but anyone who knows the house is aware that it is an incredible Palladian building. Actually, the building is Palladian at the front and baroque at the back. The second Marquess of Rockingham decided that the baroque building that his predecessors had built was unsatisfactory. He was twice Prime Minister of this country and he had the means—from coal-mining on the estate—to achieve his ambition, and he built a Palladian addition on the front. It is a remarkable building. If it is true that by the end of this century Asia will have all the manufacturing jobs, America will be providing all the food and Europe will be the museum where people come to spend their money, then it was indeed a very wise investment by the Chancellor to save this remarkable building. If it is properly conserved, I think it will be the equal of Chatsworth and Blenheim.

I wish the Chancellor well. I think that he is now a round peg in a round hole. As one or two speakers have said, he is well equipped from his business experience—both as a failed businessman on some occasions and as a successful businessman on others—to do this job. I wish him well and I believe that he has fundamentally taken the right attitude as regards both the economy and housing.

7.04 pm

Viscount Hanworth (Lab): My Lords, the Chancellor's Autumn Statement is invariably delivered in optimistic and upbeat language. Its customary hyperbole serves to divert attention from the substantive contents of the message, which may be unwelcome and unpalatable.

In reality, our economic circumstances are parlous. The Government's budget deficit has persisted, and the deficit in the balance of payments of our international trade has reached an unprecedented level. Industrial productivity is disastrously low and economic growth has faltered. Masses of people are employed in jobs that barely enable them to make ends meet. To compound this misery, we have a housing crisis that is the equal of what Britain experienced at the end of the Second World War.

A testimony to this economic failure is an oversized welfare budget, much of which is used to supplement the inadequate incomes of working people. This Government have made strenuous efforts to restrain the welfare bill, but now they appear to have recognised that no further inroads are possible without creating widespread and severe destitution.

The financial circumstances of the Government, which prevent them taking effective remedial action, are a consequence of their unwillingness to raise the taxes paid on higher incomes and of the further reductions in corporate taxation that were proudly announced in the Autumn Statement. Nevertheless, the Government know that the British economy requires an upgraded infrastructure. They have reasserted their commitment to high-speed rail linkages and the need for an increased airport capacity. They have proposed relieving road congestion by advancing money to be used to ease traffic pinch-points. This is in denial of the modern nostrum of transport planning that such schemes serve only to encourage more vehicles on to the roads.

There has been a partial recognition of the demands of the housing crisis in an undertaking to encourage the building of more affordable houses. However, the concept of affordability is meaningful only in relation to the income and capital resources available to the people in question, and such housing has proved to be way beyond the reach of those in most need.

The most notable omission from the undertakings of the Autumn Statement that should arouse considerable anxiety is that there are no provisions to meet the worsening crisis in the health service and in the care for the elderly and other disadvantaged groups.

[VISCOUNT HANWORTH]

Looming over this grim landscape is a dark cloud of uncertain contents called Brexit. At present, we are feeling the cold gusts that are likely to precede a major storm. The fact that the storm has yet to break has allowed some parties to evince an unreasonable optimism. I will not attempt to penetrate this cloud, but I may say that I expect that others in the European Union will wish to expel us from the European Economic Area, which will amount to a hard Brexit. Ultimately, the choice will not be ours to make; it will reside with the European Parliament.

Our current economic distress is the culmination of the persistent industrial and economic decline of the UK, which has been occurring ever since the end of the Second World War. A feature of our society that has accompanied our economic decline has been the ascendancy of the financial interest over the industrial interest. This has extended to the boardrooms of our companies, where accountants and finance directors have held sway to the exclusion of technologists and engineers.

Examples of the damage that has been inflicted on our industries by this distortion are too well known and too numerous to recount in detail. Nevertheless, to my mind, the paradigm of the destructive role of the financiers has been the demise of the great industrial conglomerate that was GEC. The finance directors of that company divested it of its heavy engineering in favour of the purchase of a handful of high-tech American electronics companies, which proceeded to fail spectacularly. One reason for the failures was the desertion of those companies by their technologists, who chose to establish competing enterprises. The obtuseness of the GEC directors in the face of this predictable outcome was stupendous, but it was also typical of many similar instances throughout British industry.

One might have expected that there would be some recognition of these problems by the Government—and one might have looked for this in the Autumn Statement. An overhaul of our rules of corporate governance that would restrain the depredations of the financiers is long overdue. There should be more stringent rules regarding hostile takeovers, which might prevent the easy capture of our industries by foreign interests. There was no sign of this in the Autumn Statement. Nor does today's Green Paper on corporate governance reform address these issues in any way.

What we do find in the Autumn Statement is a promise to reduce corporate taxation, together with a repetition of the mantra that "Britain is open for business". This indicates a desire to attract inward financial investment, which can be seen as a response to the failure of our own industrial investment and a means of mitigating the imbalance of our international payments. The inward financial investment that the Government are keen to foster has two principal effects: it enriches the financial sector, which mediates the transactions, and it places the ownership of our industries and utilities in foreign hands.

A further effect of the inflow of funds has been to elevate the value of the pound. Recently, we have witnessed the inevitable collapse in the value of the pound. The immediate cause of the collapse was undoubtedly the vote on 23 June in favour of our leaving the European Union. Of course, devaluation was long overdue and there may be further devaluations to come. The devaluation of the pound was the subject of a debate in the House two weeks ago, in which conflicting opinions were expressed. Whereas it was conceded by some that, in theory, a weaker pound should stimulate our export industries, it was widely recognised that we lack the industrial capacity to profit significantly from this effect, which is bound to take time to materialise. In summarising that debate, the Minister declared that the Government have no policy as regards the level of the exchange rate and that they do not comment on its level. According to this doctrine, it is up to the markets to determine the exchange rate.

I do not hesitate to say that this amounts to a major dereliction of economic management. If the Government had been active throughout their tenure in maintaining the exchange rate at a sufficiently low level to allow our industries to compete in world markets, we would not now be faced with the inevitable catastrophe of a massive devaluation. We are bound to level a charge of economic incompetence against this Government. They have contributed significantly to the nation's economic decline.

7.12 pm

Lord Leigh of Hurley (Con): My Lords, I echo my noble friend Lord Horam's remarks: what a pleasure it is to see my noble friend Lord Young of Cookham—which is the neighbouring village to Hurley—at the Dispatch Box for this marathon debate. I begin by commending the direction of travel for policy-making set out by the Chancellor last week. All of us, whatever our views on the referendum in June, can at least unite around the sense of relief that an emergency Budget was not required and that we, and indeed the Chancellor, have had until this Autumn Statement to pause and take stock. Furthermore, the decision to switch to one Budget a year, in the autumn, is a sensible one. Not only will it give those affected by Budget measures time to plan ahead of the new financial year but, more importantly, one Budget event a year is the right approach to economic policy-making. It encourages long-term thinking, fundamental change and sticking to a long-term economic plan.

Speaking of a long-term economic plan—a phrase that some might recall—I am proud to continue to lend my support to the Government on theirs. While I think we are all concerned about the deterioration in the public finances and the delay in returning to surplus, we can at least be sure that under this Government our fiscal credibility is secure. The ONS has confirmed that the economy grew 0.5% in quarter four. Business investment grew by 0.9% quarter on quarter—the opposite of what some very distinguished economists predicted, some of whom have fessed up today—and exports grew by 0.7%. That is some positivity on which to refresh and secure our long-term economic future.

I turn now to some specific measures in the Budget, most of which I do not believe have been raised before. There are several to be commended. The first is the implementation of promised limits to interest deductibility—something I called for in my maiden speech some three years ago. It is quite right that interest on loans should be deducted as a legitimate business expense from a corporation tax bill. Such a practice encourages the natural flow of business, finance and growth. However, as is often the case, interest deductions had become abused—essentially, debt had replaced equity. Entire capital structures were being rejigged to appear as debt to allow for deductions, until there was no corporation tax left to pay. The limits now imposed will stop this without curtailing business activity.

A similarly just balance has been struck with non-domiciled individuals. We want to attract as much foreign investment as we can to this country, and the non-dom regime has helped us to do this—but only for those who are not in fact UK residents masquerading as non-doms. From April 2017, if such individuals have been resident for 15 of the past 20 years, they will pay UK tax. That said, the changes to the rules for business investment relief mean that legitimate non-doms who are taxed on the remittance basis will be able to continue to bring offshore money into the UK to invest in bona fide UK businesses.

I would also highlight that the Government are following through on termination payments, in making sure that where they are over £30,000 and subject to income tax, they are also subject to employer NICs. More broadly, the corporation tax road map continues to send out clear signals on what kind of business environment the UK will offer in the years ahead. I am slightly puzzled to see that the diverted profits tax is scheduled to raise only £100 million a year for four years. I think that that is a gross underestimate of how much tax will be paid by the foreign corporations that seek to send their profits abroad and ask my noble friend the Minister if his department might care to review that.

We may, finally, see light at the end of the tunnel on housing, with the new £2.3 billion housing infrastructure fund, as has been mentioned. Housing is important for all our citizens, but it is also vital for our economic competitiveness. People will not want to come to the UK, and to London in particular, if housing costs continue to run out of control. High house prices are not necessarily a sign of success and I am glad that the Government are taking action. However, I note in today's *Times* that they seem to be planning a lot of houses in the Maidenhead area, which incorporates both Hurley and Cookham. I hope that the green belt will be spared. Of course, it was the brilliance of my noble friend Lord Horam who made me realise that perhaps the Marquess of Rockingham's stately pile, with its estimated 365 rooms, will be turned into more suitable housing—there is a cunning plan.

I commend the continuing support for fintech. As Brexit negotiations rumble on, our financial services industry must be given the chance to succeed. However, as important is that we secure the future generation of financial services practitioners, and that is where rolling support for fintech is so important. I strongly recommend that the Government look carefully at the Politeia report published last week, *A Blueprint for Brexit*, which explains that the role of the financial services post-Brexit will be enhanced if we adopt either equivalence-based areas or the financial centre model and reject the passporting suggestions that others have mooted.

As these and other options become clear, in particular the need to leave the single market, I am more and more convinced of the great opportunities that will be afforded to this country outside the EU. This was highlighted in the debate in your Lordships' House on international trade post-Brexit about a month ago, in particular by my noble friend Lord Bamford, whose speech gave us all great hope for this country's opportunity to flourish and prosper outside the EU.

To be clear, although I am a Brexit supporter, I do not question the credibility of the OBR. We must have, and continue to have, robust economic forecasts that give the Chancellor and others the best available information. We may hope that it is wrong, but, instead of wishing it away, we must put in place credible long-term plans to deal with whatever may come. This Autumn Statement was a solid start.

7.19 pm

Lord Jones (Lab): My Lords, I very much appreciated my noble friend Lord Livermore's surgical consideration of government policy and I recollect the monumental presence of the noble Lord, Lord Young of Cookham, in the other place. He always obtained his legislation. I recollect countless squash matches with the noble Lord, Lord Horam, and one or two with the noble Lord, Lord Young. But my remarks are made in the context of what is now known as the northern powerhouse. The *Economist* of 3 September carried a headline "Ropy Roads, Rail and Runways". The lesser headline was that "Britain needs to hurry up with transport projects—both large and small". I seek positive action for a host of relatively small projects: for clogged roads and inadequate railways in an economically active region. That is, relatively speaking, golden crumbs from the laden table of the northern powerhouse. As the *Economist* said, in its hymn for investment in infrastructure,

"the tiddlers are just as important".

Shovel-ready projects addressing congestion hotspots can make immediate differences. There are plenty of these hotspots in north-east Wales, Chester and Cheshire. I declare my interest as president of the Mersey Dee Alliance, a cross-border grouping of local government authorities of north-east Wales, Chester and Cheshire, West and Wirral and others. I also declare my interest as president of the North Wales Exporters' Council, Deeside Business Forum, Flintshire BusinessWeek and Wrexham Bidston Rail Users' Association.

Concerning four deputations this year that I accompanied, I thank the chairman commissioner of the National Infrastructure Commission and the then Chancellor of the Exchequer. I also thank the then Minister for the Northern Powerhouse, the noble Lord, Lord O'Neill of Gatley, for his courtesy and informed interest. He was right on devolution and the governance challenges. I also thank the current Minister for the Northern Powerhouse, Mr Andrew Percy, who received us most warmly and accepted immediately my invitation to visit our area. Indeed, he arrived in the area within a week and brought with him my compatriot, the Parliamentary Under-Secretary of State for Wales, Mr Guto Bebb. The chair of the newly formed All-Party Group on Mersey Dee North Wales, Mr Ian Lucas, the MP for Wrexham, has lobbied hard, and the

[LORD JONES]
Cabinet Secretary for Economy and Infrastructure, in the Wales Assembly, Mr Kenneth Skates AM, recently met the all-party group in the most positive and constructive manner. I think that he means business.

The Mersey Dee Alliance represents Britain's only cross-border economy—an economy with a strong manufacturing base. Indeed, Flintshire's workforce has more than 30% in manufacturing work. This month, at the mighty 6,000-strong, highly skilled Airbus factory in Flintshire, the Airbus plant manager, Mr Paul McKinlay, alongside the Wales Assembly Government Secretary for the Economy, Mr Skates, and the chair of the Deeside Enterprise Zone, Mr David Jones—a distinguished troika—announced the setting up of an institute for advanced manufacturing. This is truly a game changer. It is a huge boost to the morale of the business community. It is a vote of confidence in local government, on both sides of the border. It shows that collaboration—on both sides of the England/Wales border in this case—leads to the most positive self-help in manufacturing.

As a cross-border collaborative alliance, we need better rail and road connectivity to make the best of our successes. That includes better links with Manchester and Liverpool airports. In north-east Wales and the north-west, we have made successes: to make more successes we seek those golden crumbs from the laden northern powerhouse table. What is wrong with smaller local projects for the north? Let us not just concentrate on the prosperous south. If the south gets many billions of pounds of infrastructure investment, give our area the cash for its proven practical projects, especially those shovel-ready projects that are ready to go.

Since this is a Parliament, here is my shopping list for the next decade for my homeland. We need to dual the A550 to connect two great industrial parks at Deeside and Wrexham. We must enhance the A483/A525 to improve access to the technology park. We must endow park-and-ride facilities at Hope and Pennyffordd. We must improve the Crewe to Holyhead mainline railway and plan its ultimate electrification. This is our big ask. Give us improved and more frequent twice-hourly rail services on the Wrexham to Bidston rail line. We need to go forward with the cross-border Growth Track 360, as backed by the Mersey Dee Alliance, the North Wales Economic Ambition Board and the rail users' association. The 9,000-strong Deeside Industrial Park needs better access to the railway. It needs a rail spur with a Deeside parkway station. This industrial park is as good as any in western Europe. It deserve better rail access. Merseytravel and the Welsh Government have fine plans for robust and practical rail services. They deserve praise and backing. Both the rail stations at Wrexham and Chester should be enhanced and modernised.

The most positive feature in the campaigning by the Mersey Dee Alliance is the input and co-operation of the great Wrexham Glyndwˆr University, the go-getting University of Chester and the outstanding FE centres of West Cheshire College and Coleg Cambria. The Mersey Dee Alliance has a small and brilliant staff led by Emma Wynne. The input of the Welsh Local Government Association is superb. The chair of the Wrexham Bidston Rail Users' Association, John Allcock, has transformed that association, and the MDA chair, Councillor Butler is a highly experienced and constant councillor. Their campaigning has been an exemplar of civic duty.

Most seriously, will the Minister in this context tell us what is happening in the Cheshire & Warrington LEP, concerning the northern powerhouse? What projects do the various departments of state provide money for? How soon shall we know? Will the departments tell us that they will support the short-term priorities of Growth Track 360 rail? Will the Government tell us that they will continue discussions on the growth deal between north Wales, Cheshire and Chester? As the great Sir Winston Churchill said,

"Give us the tools, and we will finish the job".

We have made an exceptional unique cross-border economy, but investment in our infrastructure is now urgent, vital and well merited.

7.28 pm

Lord Hennessy of Nympsfield (CB): My Lords, it may be that future economic historians will single out the new industrial strategy element in the Chancellor's Autumn Statement as its most enduring and significant ingredient. I hope so, but my hope is tempered somewhat. Why is that? It is because we have form as an industrial strategy nation.

Watching from the House of Commons Gallery last Wednesday as Mr Philip Hammond anatomised what he called the "financial backbone" of the latest one, I could almost sense the ghosts of industrial strategies past flitting about in the Chamber with rueful if sympathetic smiles creasing their pallid faces. By my calculation there have been at least seven previous industrial strategies since 1945, and with the help of our ever wonderful Library, I have been revisiting them and savouring their hopes, their fears and their prescriptions. They coincide exactly, curiously enough, with my life living and breathing on our cherished islands. For in the papers on the morning of 28 March 1947, the day I was born, came the announcement that the Attlee Government had appointed the industrialist, Sir Edwin Plowden, to lead their Central Economic Planning Staff and to chair the new Economic Planning Board which would bring together government, employers and trade unions for the purpose of boosting output.

The second of the post-war industrial strategies was the Macmillan Government's creation in 1962 of the National Economic Development Council and supporting staff—tripartitism once more but laced this time with a dash of French-style indicative planning. Its purpose was to tackle what a still later stab at strategy, the competitiveness White Paper of the noble Lord, Lord Heseltine, in 1994, called our "long-standing relative decline". The noble Lord, Lord Young of Cookham, was I think a young NEDO economist in the 1960s and has inside knowledge of that particular phase of this extraordinary story.

Between 1962 and 1994 three more Governments pitted themselves against this toughest of problems at the very core of our country's political economy and industrial activity. The Wilson Government's National Plan of September 1965 was by far the most ambitious.

It was a plan, the incomparable Secretary of State for Economic Affairs, George Brown, declared in its first sentence, that would cover,

"all aspects of the country's economic development for the next five years"—

I emphasise the word "all"—for the purpose of propelling the UK economy to a higher trajectory of growth of around 4% a year, which was way above the 2.5% it had thus far achieved over the post-war years. As we all remember, sadly, it failed. Growth stubbornly remained slightly below 2.5%, which had been the norm hitherto. The Heath Government, as part of what their critics called their U-turn from a less statist approach, produced a strongly interventionist White Paper in March 1972, out of which emerged the genuinely interventionist Industry Act later that year. The last of the Wilson Governments had another go in 1975. This time there was no grand national plan, but rather a more selective picking of winners through a strategy of state aid to promising and growing industries outlined in their *Approach to Industrial Strategy* White Paper which was published in November 1975.

In more recent times, the White Paper of the noble Lord, Lord Heseltine, entitled *Competitiveness: Helping Business to Win*, published in May 1994, placed an unremitting quest to raise productivity and adapt to ever quickening changes in technology at the heart of the Major Government's assault on this most deep-seated of problems. Finally, the coalition's strategy concentrated on emerging technologies and the new Catapults to project R&D into UK-based production lines while turning its back on what Sir Vince Cable, the lead Minister on it, described as the "cack-handed" interventionism of the 1960s and 1970s.

In the Commons Chamber last week, the Chancellor could have been crying out for all those who had gone before at that Dispatch Box when he declared:

"The productivity gap is well known … but shocking none the less—it bears repeating. We lag the US and Germany by some 30 percentage points in productivity, but we also lag France by over 20 points and Italy by 8 points".

When the Chancellor outlined the Government's welcome plan for,

"a new national productivity investment fund of £23 billion to be spent on innovation and infrastructure over the next five years",—[*Official Report*, Commons, 23/11/16; col. 902.]

he reminded me just a tad of Sir Stafford Cripps as Chancellor of the Exchequer in the late 1940s, enthusiastically backing the work of the Anglo-American Council on Productivity, set up as part of the Marshall Plan of aid, in dispatching groups of British businessmen and trade unionists to see the roaring production lines of North America to work out how they could do it in a way that we could not.

For all our post-referendum anxieties, which I in no way diminish, we are not in the perilous position we were in when Sir Edwin Plowden took up his post and I sprang into the world in the North Middlesex Hospital beside the North Circular Road in March 1947. Then, we were a heroic but nearly bankrupt nation that had lost a third of its wealth in the Second World War. What a time for a superpower to throw in its last hand. As Keynes said:

"We threw good housekeeping to the winds. But we saved ourselves and helped save the world".

It was a glorious enterprise but we were very poor and very worn out. None the less, how it matters that the Government's new industrial strategy works. I keenly await the Green Paper in the next few weeks that will flesh it out, and I hope that a genuine national consensus will cohere around its contents, even though we do not quite know what they are yet. It will be, in my judgment, a crucial element in our rising to the level of events that we face as a country and as a people.

Am I optimistic after that litany of industrial strategies past? I am with the great Albert Schweitzer who said, whenever he was asked if he was an optimist or a pessimist that,

"my knowledge is pessimistic, but my willing and hoping are optimistic".

Every generation tries a new alchemy on industrial strategy, but the ever wished-for transformation becomes in some ways tougher to achieve as markets globalise and the possibilities for planning or strategising in a single country become more difficult. But I live in hope that this time, we will take ourselves and the world by surprise.

7.35 pm

Lord Desai (Lab): My Lords, of all the things that can beset one when one is the 24th speaker, following the noble Lord, Lord Hennessy, is the worst that has happened to me. But I fully endorse what he has said: suspect all industrial strategies and suspect all looking for champions because the productivity gap between us and Germany goes back to the 1880s; it is not new. I have been waiting to say this for a long time: we should be aware that this country had a financial revolution 100 years before it had the Industrial Revolution and we must not downplay our financial strength, because it has kept us at the top of the tree for all these years while our industrial strength has come and gone. Despite all that, we are still a very rich country, so we must be doing something right.

I want to concentrate on the forecast made by the Office for Budget Responsibility. I am a little puzzled by it. Making forecasts is a completely thankless job. Economics is a subject where we do not even know with certainty what happened yesterday. Over the five years of the coalition Government we were citing double-dip recessions and crises and so on. But let us look at chart 1.3 in the OBR paper. It shows that throughout the coalition Government's tenure we had positive rates of growth. The growth rate between 2010 and 2015 is about what the OBR is also projecting for the next five years. I want to pass on that I find that hard to believe, because all the previous forecasts we had were lower than what actually happened. We therefore need to understand these forecasts a little better. I have the greatest respect for the people who do this work and at least two of them are good friends of mine. They are both extremely talented people who are doing their best. But something is missing in our understanding of the British economy. Either we continuously underestimate the growth potential of the economy or we are lucky every time.

I believe that, just as happened in the two quarters following the referendum, we perform better than most people expect. Indeed I said in this House a week after the referendum result that there was not going to be a

[LORD DESAI]
recession because we had the same economy on the Monday following the referendum on Thursday 23 June, and there was no reason why it should change. Many people said, "Oh, but there is a lot of uncertainty", but it is not radical uncertainty and people know what to do in the one or two scenarios which might happen. My suspicion is that the OBR is being more pessimistic than one needs to be. If the OBR is correct and we expect low growth for the next two years, the remedy is for the Chancellor to do something about it, now that the fiscal constraint has quite rightly been relaxed. It does not go as far as George Osborne wanted to and rush to a surplus, but the fiscal constraint has definitely been relaxed.

Because we are borrowing for investment projects, we should borrow. Borrowing is bad if you are borrowing for consumption; it is not bad if you are borrowing for investment. For the time being, interest rates are low and it is a good time to borrow. If Donald Trump succeeds in launching his expansionary strategy, interest rates will harden and go up. The window for borrowing is not that long. At least by the March Budget the Chancellor should do something to speed up and increase the amount of investment he plans. That may correct for the likely shortfall in growth that the OBR perceives. I am not sure it will happen, but if he takes the OBR forecast to heart he should definitely revise his strategy about borrowing and borrow much more now. It will repay him later in the cycle. He would be better off because the growth would be better. A useful aspect of the OBR's forecast is that it should lead to corrective measures in a Budget, so we do not take for granted that we cannot do better than a growth rate of 1.2% or 1.7%. We ought to do better than that. That is the way to do it.

I very much liked the emphasis my noble friend Lady Warwick gave to housing. The noble Lord, Lord Higgins, suggested that we might have housing bonds. In the various meetings I go to, I often meet sovereign wealth funds, pension funds and people like that. They are utterly flush with money. Lots and lots of money is waiting for long-term investment, believe me. I can take you to those people. They are looking for an investment, such as housing, where they can have a 50-year payback. They need some sort of instrument: some combination of renting and buying, some kind of steady flow of revenue. The Government could very successfully use some sort of public/private partnership to borrow the money that is around. There is no doubt that the world is flush with lots of money that can be borrowed, especially for longer-term projects such as housing. There are things we can do creatively in that respect.

I have one more thing to say, partly about investment strategy and partly about productivity. The noble Lord, Lord O'Neill, knows my scepticism about productivity. Robert Baldwin has written a very interesting book on a new interpretation of globalisation. He has said that, in the recent phase we are having, ideas can be costlessly traded across long distances. To begin with, all movement was very expensive. Then with rail, road and shipping it became easier to move goods around. Now it is very easy to move ideas around. That is allowing people to transform industrial processes. Indeed, the whole concept of an industry may no longer be valid, because bits and pieces are being transformed by technology and linked to supply chains across other parts. We need to look at this whole new approach to understanding manufacturing and the role IT plays in it. We therefore need to raise the level of education of people who are already employed in the way they can handle new technology. I therefore welcome the investment the Government plan to make in productivity growth, but most if not almost all of it should go on the IT frontier. I hope that will improve our productivity.

7.45 pm

Lord Skidelsky (CB): My Lords, it is always a great pleasure to follow the noble Lord, Lord Desai. I will take up one or two things he said, but a preliminary question that occurred to me is: if the private sector is so flush with money, why is it not investing more of it? Why does it need government help to do so? The answer that occurs to me is that the private sector does not see sufficient demand to justify the kind of investment that would employ those funds that are sitting idle. I will come to another point made by the noble Lord on the OBR in a moment.

As a long-term critic of the Government's economic policy, I recognise that the Chancellor's Autumn Statement has some good news in it. He has relaxed the absurd commitment to balance the budget by the end of this Parliament. That is good news. Instead, he has allowed for discretionary fiscal policy of up to 2% of gross domestic product in his fiscal rules for the coming Parliament. Mr Hammond has also paid lip service to public investment and productivity, with a small sum set aside for a national productivity investment fund. That is a welcome change of tack. We inch closer to the views I have been advocating in this House and elsewhere for eight years: public investment, not austerity, is the appropriate response to depressed conditions.

We have recently been treated to a remarkable insight into Mr Osborne's state of mind as austerity took its toll on the British economy and his own sense of mental stability in 2012. In an interview with a journalist he said:

"I got myself into … a hole".

He said he shut himself in a room and stopped listening to people who disagreed with him. This was the Chancellor of the Exchequer in 2012. He got into this hole because his policy was not working. If he had listened more he would probably still be Chancellor, Brexit would probably not have happened and the British people would certainly have been better off. His austerity policy cost the British people dear—and it cost him dear.

I have to disagree with the noble Lord, Lord Livermore, who is not in his place, when he said that the fiscal targets were trumped by Brexit. The fiscal targets were trumped because they were wrong. They were based on a theory that fiscal consolidation would cause the economy to grow faster. In fact, it caused it to grow slower. That is why George Osborne missed his targets; it had nothing to do with Brexit. Mr Hammond has wisely abandoned those targets, using Brexit as an excuse. The Government have not yet reached that point of honesty when they can say, "We were pursuing the wrong policy". Instead, they put up a European smokescreen to cover their retreat.

I welcome the Chancellor's commitment to public investment, but we must recognise how limited it is. He proposed to spend £23 billion extra over five years. That is not nearly enough to reverse the fall in public investment since the Conservatives took office. To get public investment back to the 3.4% of GDP it was when Labour left office, he would have had to commit not £23 billion over five years but £130 billion over five years—so let us keep the change of tack in perspective.

Further, the Government have emasculated the role of the National Infrastructure Commission of the noble Lord, Lord Adonis. The original idea was to empower it to oversee and co-ordinate key infrastructure projects. Now it is just advisory. The departments have made sure that they keep control over all the investments. That is a pity. The idea behind the National Infrastructure Commission was that there should be independent monitoring of investment projects that would keep its distance from political interference—but that apparently has been abandoned.

The Chancellor is rightly concerned about the collapse of productivity. It was chugging along at about 2.2% a year in the decade before the recession and since then it has fallen to below 0.5% a year, taking the period as a whole. The Chancellor has promised £2 billion extra a year for research and development. That is good—but the British problem has never been lack of research but the application of research to business, the source of productivity. As the noble Lord, Lord Desai, rightly said, this has been a British problem for a long time. The problem of productivity is very difficult. There is no simple answer to it. There is a close, though complicated, connection between education, training, investment, productivity and jobs. Here I want to highlight the role of the distribution of jobs in our productivity situation. This has been a job-rich but productivity-poor recovery.

In my view, the collapse of productivity is the direct result of the jobs that have been created since 2010. Between 2007 and 2015 the real hourly wage in the UK dropped by 10.4%—a fall equalled only by Greece in the OECD. This is consistent with the shift from capital-intensive to labour-intensive jobs: in other words, a big increase in the proportion of low-wage, service jobs. If you have that, you are going to get a fall in productivity. Reversing the productivity decline requires investment in good-quality jobs and in industrial strategy—I will come to that in a second—not just small dollops of money for training. Training for what?

The noble Lord, Lord Hennessy, gave a very amusing account of industrial strategy—and it was accurate, as far as it went. There have been many industrial strategy policies, one after another: seven, I think he said. But were they all failures? I do not think that they were. There were losers and there were winners, but that is also true of the private sector. I do not think that industrial strategy has been by any means as bad as that account suggested. The more telling point is that France and Germany—much more successful countries than we are—have also had industrial strategies. Why did theirs succeed while ours did not? Are we uniquely bad at industrial strategy? This seems to be an unsolved problem. It is just assumed. The narrative is that we are hopeless at industrial strategy and that we always pick losers—and then we point to other countries that pick a fair proportion of winners. Japan is another example I could give. So there is something lacking in the explanation.

I want to end by saying something about the role of the Office for Budget Responsibility. It was set up,

"to examine and report on the sustainability of the public finances".

There is a little issue here because the public finances were supposed to be based on its forecasts. So, in effect, it was set up to monitor the sustainability of its own forecasts. We are surely one monitoring body short here. In June 2010, the OBR made a set of forecasts about the growth in key economic variables over the following six years. The noble Lord, Lord Desai, accuses the OBR of excessive pessimism, but surely he remembers that in this period all its forecasts were excessively optimistic. It predicted that the economy would grow by 17.2% in that period. In fact, it grew by 12.9%. Investment was predicted to increase by 47.1%. In fact, it only grew by 21.8%. It said that productivity would grow by 12.8%. In fact, it grew by 2.5% over the six years. It was consistently overoptimistic. Now, on the basis of four or five months, we accuse it of being too pessimistic. I think we have to take the record as a whole. It is neither continuously overoptimistic nor continuously underoptimistic; it is just continuously wrong.

There are two reasons for these divergences between forecast and outcome. The first is radical uncertainty. Economics is not physics, and no group of economists will ever be able to predict large bits of the future accurately. The OBR is doomed to make mistakes. Why then do we pay attention to these forecasts, when most are fictional? The answer is that we have nothing better. Sure, we have to use the best data we have, but we must not treat them as gospel or believe that they exclude the need for judgment by politicians on what is sensible. We do not currently know what form Brexit will take, we have no clue as to what a Trump presidency might be like, and Marine Le Pen may become President of France at their next general election, yet in the Autumn Statement the Chancellor pronounced that public sector borrowing at the end of this Parliament will be at its lowest in two decades. That means absolutely nothing. We can put no reliance whatever on that, but it is on the basis of OBR forecasts.

The second reason for the divergence between forecast and outcome is more profound. I admire the OBR for its political neutrality and professionalism, but it is naive to believe that it is theoretically neutral. All forecasts must be based on an underlying theory of the economy. These supposedly "scientific" predictions are treated as gospel because of the political independence of the OBR: as a result, the economic theories underlying them are not subjected to public scrutiny at all. They are hidden in mathematics and models, lending them a false air of objectivity. We have seen this time and again. The OBR's theory of the economy ignored the damage to productivity that austerity would produce. The IMF has constantly underestimated the fiscal multipliers. Now it has changed its tune and said that it did underestimate them and cried mea culpa—but the OBR has never properly explained why its forecasts are bound to be as imprecise or inaccurate as they have turned out to be.

[LORD SKIDELSKY]

I am as big a critic of economics as anyone in this House—I do not think that economics has a very sympathetic audience here and I am critical of it, too—but sometimes it is better to get the theory right, especially when the lives of nations are at stake.

7.58 pm

Baroness Vere of Norbiton (Con): My Lords, last week I ventured to the other place, which I found to be a somewhat noisy experience, to watch the Chancellor of the Exchequer give his Autumn Statement. He gave a measured and, I thought, very sobering account of the economic state of the nation, and without wishing to fall into the trap of "talking our country down", I am sure that very few of us would conclude that we are in the strongest of places. I am now going to mention Brexit, and I fear I am going to be a bit political.

I am disappointed by the comments of noble Lords on the Labour Benches that suggest that Brexit was somehow nothing to do with them. I remind your Lordships' House that the majority of Conservative MPs actually supported remain. The majority of Conservative Peers actually supported remain. I know this. I compiled the list and I published it in the *Daily Telegraph*. I worked at the heart of the campaign and I am afraid that my report card for Labour during the campaign would have been, "Should have tried harder—much harder".

However, we are where we are. Even without the uncertainty and the forecast cost of Brexit, our deficit remains significant and our debt, to coin a phrase, is eye-watering. Progress has been made over the past six years, I think we can all agree. The deficit is down, there are more people in work than ever before, the lowest paid have been taken out of income tax and 3 million people are in apprenticeships. There is more to be done. We must redouble our efforts now to build a strong foundation for the future. By "we", I mean all of us—in the private sector, the public sector and charities—supported and encouraged by government. We must adjust the course of our great nation along a different and more prosperous trajectory to yield greater economic benefits for all over the decades to come, but we have to start this today.

I am not going to reiterate grim forecasts from the Autumn Statement or go into great detail about it, but there is one area that I believe offers great benefit—I am a very positive person so I like to look for opportunities—and that has to be the opportunity to improve our nation's less than stellar productivity, particularly of the labour market. We know that we lag behind many countries: France, the United States and Germany. That has been said many times in today's debate. If we want to improve our living standards and achieve real wages growth, we have to be more productive. As the economist Paul Krugman said:

> "Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker".

We should and we must catch up.

The Government can go ahead and pull all the levers they have—they can spend the money, as they do, in research, which is a wonderful thing, given that we have the Higher Education and Research Bill coming up—but it is not enough. The private sector, the public sector and charities must also step up. There are changes that we can make—to the ways that we do things and the way that we think. In essence, we need a change in culture.

Three factors affect the productivity of labour: time, effort and skill. It is very simple. Looking first at time, we know that British workers work far longer than their counterparts in other nations and yet we are less productive. Is it always the case that when someone is at work, they are actually always working? There is an argument that, for some, a kind of presenteeism, of being at work but not always working, has set in. In some cases, I am sure that employees do not even realise that they are doing it. It is a cultural thing. It must be up to the leaders of all organisations to understand the culture in their workplace. Individuals must never be incentivised to eke out the work they have to do across the hours in which they have to do it. Change will require a fundamental shift in attitudes and must be supported by employers. They must look for incentives to encourage change; for example, they might offer "quick finish" bonuses—paid time off when a job has been done well in less time. We also need to build a more robust culture of team working. When workers have finished their work, they should look around to help others, to share the burden, recognising that if one person does well, everybody does well. Organisations must support this and change their reward structures.

Somewhat linked to time is the second factor: effort. All of us in your Lordships' House will, I am sure, have had good days and bad days. The bad days are when you know that you could have done a little bit more and a slightly better job, but it did not get done. I think we can change the culture a little bit to make a marginal but significant difference. If all organisations recognise and reward the effort—as distinct from time at work—of those who go above and beyond, it would yield results. It is worth noting, and I think this is quite important, that our predilection for crafting ever more tightly drafted and overly bureaucratic job descriptions is probably hindering, not helping, in this regard.

The third factor is skills. Of course, the Government can make great changes to the skills of our nation but our organisations also need to take part. There has to be a greater focus on formal and on-the-job training, more time spent on ensuring that people's skills match the role that they have, and more opportunities for people to progress in a more flexible labour market. This means regular and formal appraisal structures—activities which are sometimes deemed less than important and, indeed, sometimes overlooked completely, yet which provide a vital forum for both the employer and the employee. Some people are overskilled; that is, underutilised. It may not be possible to progress because it is a small organisation; there is no space. So what should we do? Is it really beyond the pale for organisations to help people find more suitable roles in other organisations, to be at the heart of an orderly, sensible and positive transition, not because they are not good at the job that they are doing but because there is no room for them to progress? It is far better for the individual and, often, the organisation that they are given leave to fly.

The Autumn Statement gave a very clear signal that productivity is top of mind. It must be up to all employers—private, public and charitable—to step up, to create a culture where employees feel that their employers care about them and motivate them to be the very best they can. All government can do is not stand in the way. All the things I have outlined are not new. They are absolutely standard fare for any management training course. But sometimes, in tough times or in busy times, employers can forget what it means to be a responsible employer, to be a good or outstanding people manager. The right reverend Prelate the Bishop of Portsmouth, who is not in his place, calls it just treatment. It is time to remember what we already know and put it into practice.

The political class—the establishment, the elite—has been shaken by recent events in politics at home and abroad. Employers should not regard themselves as being immune to the mood of the country and these shifts in public opinion. Indeed, they might learn some important lessons from the political sphere and proactively improve relationships by fostering positive and frequent engagement with those in their fold. If not, we may find that the chill winds of change course through workplaces, too, and have a very cooling effect on our productivity and our economy.

8.07 pm

Lord Tomlinson (Lab): My Lords, the Minister waxed eloquent about the growth in real wages, as he did about what he called our robust economy. His speech was full of optimism and good news, but that was not borne out by the analysis of the Office for Budget Responsibility. The confidence that the Minister manifested, which he shared with the Chancellor of the Exchequer, was very much misplaced.

When the providers of what is required to be our independent advice did their job within the legal constraints placed upon them by Parliament, there was an orchestrated criticism of bodies such as the Office for Budget Responsibility, the Bank of England and whoever put their head above the parapet and criticised the Government. The Office for Budget Responsibility was attacked with a ferocity usually reserved for the Governor of the Bank of England, especially when he is right.

The reality was somewhat different. We have had many quotations from the report of the Office for Budget Responsibility and I will not go through all of them again. Suffice it to say that they raised several clear points. For one, it said that it,

"is required by legislation to produce its forecasts on the basis of current stated Government policy".

That is what it was doing. It did not deserve the venom that was heaped upon it for getting a different answer from that of the Chancellor. It went on to say that it,

"made a judgement—consistent with most external studies—that over the time horizon of our forecast any likely Brexit outcome would lead to lower trade flows, lower investment and lower net inward migration than we would otherwise have seen, and hence lower potential output".

Those are very clear statements that follow quite logically and the Government ought not to get too upset by them but to heed them.

The OBR particularly made the point in its report that in its opinion—I say this particularly to the noble Lord, Lord Horam, who spoke about growth in the economy—

"the economy will grow more slowly than we expected in March, with GDP growth in 2017 revised down from 2.2 to 1.4 per cent and cumulative growth over the whole forecast revised down by 1.4 percentage points",

and so it went on. The difference between the perspective of the Government and the view of the Office for Budget Responsibility is certainly welcomed by members of the public, and by Members on this side of the House, so that we can make a judgment about exactly where the truth lies. This is not to say that if you believe in one, you are accusing the other of lying but there is a clear conflict of views.

The noble Lord, Lord Wakeham, who is not in his place, made two interesting points that need to be taken up. I hope that they will be when the Government look at their next Budget. I say in passing that I welcome the idea of reverting to annual Budgets, so that we get taxation dealt with only once a year. I very much agreed with what he said about stamp duty and about equalising national insurance contributions for employees and the self-employed. Those two anomalies really need to be dealt with, and they can be to the benefit of the economy without there being any real adverse effects on the income that they produce.

There have been a number of interesting contributions on both sides of the House about the imperatives of growth in the economy and the need to have an increase in spending in the economy. We have had suggestions about investment spending leading to improvements in productivity and spending in relation to housing, the National Health Service and social care. All those things are very valuable. Has the Minister read the report published last week by the OECD, since its advice to the world is, "Spend, spend, spend"? If we want to get employment, growth, productivity and all those issues dealt with, that is its advice. I will understand if he has not read it but I commend it to him as a useful bit of post-Christmas-lunch reading, if he wants something different.

I particularly agreed with the speech of the noble Baroness, Lady Noakes, about productivity and I was interested to hear the noble Baroness, Lady Vere, on the same subject. Productivity is a problem that has been with us for the whole of my political life. I remember in the 1960s, when I was head of the research department for a large trade union, that productivity was the issue. I remember during my time as a Member of Parliament that every time that I met with the local chamber of commerce or the Engineering Employers' Federation, the agenda did not change. It was about skills shortages, the training to meet those shortages and how we could improve productivity. That agenda is still the same. We have to consider very carefully not just the productivity that comes from investment, which is important, but labour productivity as well. I was very pleased that the noble Baroness, Lady Vere, dealt with this.

I say with all due respect to the Government that if they want to get great improvements in labour productivity and have workers' collaboration in improving it, they should not do it on the back of having tried to attack

[LORD TOMLINSON]

them with the Trade Union Act. They were saved from themselves as a Government by the votes in this House because, had that Bill been carried as it was, trade union relations would be vastly worse than they are today. The Government and the unions would not have been able to talk comfortably to each other. Labour productivity must not only be increased; it has to be done on the basis of collaboration with our trade unions and representatives of labour.

We have had from the Prime Minister herself what appeared to most observers to be a discussion about worker directors on the boards of our companies. It then seemed to be withdrawn a few weeks later without any explanation—or the only explanation we got was that, "I never promised it in the first place", and that everybody else was so stupid that they misunderstood what the Prime Minister was saying. That is not the best atmosphere in which to have negotiations with trade unions in order to get their imperative collaboration with improvements in productivity. Against the background of the comments that we had on the Autumn Statement from the Resolution Foundation on the one hand and the Institute for Fiscal Studies on the other, that is not the atmosphere in which trade unions are necessarily going to say that discussions on productivity are automatically a good thing.

The Resolution Foundation said:

> "Average earnings are now forecast to be £830 a year lower than expected in 2020, with this decade now set to be the weakest one for wage growth since the 1900s"

Paul Johnson, the director of the IFS, had a stark assessment for the Government when he said,

> "real wages will, remarkably, still be below their 2008 levels in 2021. One cannot stress enough how dreadful that is—more than a decade without real earnings growth … We have certainly not seen a period remotely like it in the last 70 years".

The instinctive view of many people who are working in the areas where we need to see increases in productivity is: if we work more productively, we will get the work done with fewer people, but we are already being paid lower wages and we do not want the sack to happen at the end of our collaboration in increasing productivity. The Government have to accept that it is almost a necessary requirement to guarantee no compulsory redundancies in the circumstances in which you want to negotiate productivity deals with labour. The situation is pretty bleak.

I conclude by saying that I have probably surprised some of my friends in that I have chosen to abstain from inflicting on your Lordships any of my views on Brexit. We will have enough time to do that in what I suspect will be the years ahead. Suffice it to say that of its own volition Brexit will have a negative effect on budgeting forecasts. When the process is aided by the right honourable gentlemen Boris Johnson, David Davis and Liam Fox, the outcome is bound to be worsened.

8.20 pm

Lord Suri (Con): My Lords, first, I am glad that this will be my last response to the Autumn Statement—not that I am going anywhere, but I am relieved that the Chancellor has decided to have only one large, set-piece fiscal event a year. In previous years, the Autumn Statement has become disconcertingly like the Budget, locking us into a frustratingly short-term mindset. I remember the need for it when it was first announced in 1975, when all the financial indicators were warning of terrible times, but we now, thankfully, live in more stable times, not least because of the measures taken by the former Member for Finchley, more recently of this place. Indeed, I believe the noble Lord in whose name this debate is tabled served briefly in her Government.

Moving forward to the present day, I find plenty to be pleased with in this latest set of data. Growth is projected to outstrip that in the eurozone, and a number of assumptions made by the Treasury prior to the referendum have been proved false. I was not a Brexiteer, and campaigned hard for remain, but even I was sceptical about much of the material put out by the Government. Growth has not collapsed and will be 2.1% next year. Inflation has not skyrocketed. Unemployment has actually fallen significantly. A recession is not occurring, and the OBR is not even predicting one. Indeed, even business investment has held up well, despite great uncertainty. All of this is testament to the resilience of our country's economy and puts us on a firm footing heading into the Brexit talks.

However, there are some indicators which I am worried about. The likelihood of debt hitting 90% of GDP greatly concerns me. I feel that I must remind all my noble friends that borrowing is always a burden that we choose to undergo but do not bear the costs of paying back. The cost of servicing the debt last year was equivalent to 3% of GDP or 8% of government revenues. Every percentage point we pile on to that figure means fewer nurses, less funding for academies and an ever-diminishing number of warships. The Chancellor has changed the debt reduction timeline to allow himself fiscal headroom, quite sensibly. However, there are a number of areas where I feel expenditure could be diverted to more productive investment and therefore boost growth without adding further funds.

Some time ago, I spoke about the enormous and swelling HS2 budget. The Eddington report was clear that that the pressing rail capacity issue was overcrowded commuter lines around big cities, especially London, Bristol and Manchester. The case for spending £55 billion on a high-speed connective link is weak when it makes more sense to invest the money in higher-capacity and faster regional and metropolitan services. I can confidently predict that, as with most big infrastructure projects, that figure will rise during construction. That may also be the case with the projects I suggest, but at least they will be more manageable.

The obvious cure for the uncertainty felt by business is to set out a transparent timetable for Brexit. If the Government lose the Supreme Court appeal, they must come to Parliament with a concise Bill authorising the triggering of Article 50. This House would be ill advised to frustrate the will of the people, and I am confident that it would not be so foolhardy and brash. Beyond this, the Government have to just show that Britain remains open for business and is willing to provide a friendly atmosphere.

The announcement of high-speed broadband and a new runway at Heathrow have both been large steps towards this aim, but another key one would be corporation tax cuts. Although we currently have the lowest taxes of any major economy, President-elect Trump has pledged to cut his to 15%. We must match any changes, not only to make ourselves attractive but to recompense businesspeople who could be negatively affected by less free access to the single market.

8.25 pm

Baroness Donaghy (Lab): My Lords, I want to talk about the low-paid and those who are probably not managing at all. The Resolution Foundation has said that,

"in the UK twice as many workers are low paid as in some other advanced economies. We pay the price not only in lower living standards but in increased spending on benefits for working families".

The Conservative-led coalition Government and the Conservative Government from 2015 made enormous capital out of their long-term economic plan and the need for austerity. We had it every day from the Dispatch Box. Now, the long-term economic plan is dead, and the national debt is rising and set to be 90% of GDP by next year. The Government cut 1 million public service jobs. They cut public service pensions. They slashed benefits. They attacked trade unions and their ability to collectively bargain. The long-term economic plan is now dead and the debt has doubled. Instead of investing in a high-wage, highly skilled economy, the Government are continuing their race to the bottom, where low wages, low skills, insecurity and an overreliance on the service sector are the order of the day.

The headlines make much of the national living wage, which is due to be increased to £7.50 by April 2017 for those aged 25 and over. The OBR thinks that it will be £8.80 in 2020—already lower than the £9 forecast of the March Budget. On the other hand, the Low Pay Commission's independent forecast is that the national living wage will be £8.60 in 2020—40p per hour lower than the March forecast a mere eight months ago. These figures may have a small, favourable impact on someone who works full-time, but they do nothing for part-time or seasonal workers. The Social Mobility Commission has stated that only 10% of those on a low wage ever escape to a higher wage.

The Government have tinkered with fuel duty, a more favourable tapering of benefits and banning upfront letting fees, but the Resolution Foundation calculates that these cover only 7% of the losses that families face with £12 billion of welfare cuts. The poorest third of households will lose income, and higher inflation will make them lose even more. Perhaps our low-wage economy explains in part our poor productivity record—the 35% difference between ours and Germany's has already been cited several times. I accept that the employment rate has grown in the last six years, but the 2.7 million increase in jobs should be offset by the 1 million jobs lost in the public services. The cap on pay increases in the public services will mean that yet again it is public service workers who are subsidising their own services in health, education and the civil service.

Household saving as a proportion of disposable income has fallen from 11.5% in 2010 to 5.1% now. The level of personal debt is very worrying; it has passed £180 billion, not counting mortgages—more than the NHS costs. Personal debt is growing at the fastest rate in 10 years, and most of those who seek help are young and in work. If there are salary rises and economic growth then this will not become a crisis, but all the forecasts point the other way.

Although there has been real pay growth this year, which gives a small amount of help to the low-paid, women, young people and part-time workers, it is in the context of still being 6.8% below 2009 earnings and still a relatively small sum of money. The top 1% of full-time earners in Britain started at £60 an hour in 2013 figures. Someone paid at the minimum wage would have to work 24 hours a day for 830 days in order to match that figure. We are not talking about "just about managing" here; we are talking about not managing at all.

The proposed improvement to the universal credit taper means that taxpayers in receipt of universal credit will keep 25p of each pound earned instead of 24p. A taxpayer working an additional eight hours at the national living wage in 2020 would be better off by only £1, according to the Resolution Foundation, while a non-taxpayer would be better off by £1.40. These small gains will be more than offset by the cuts in the value of work allowances and the freeze on working-age benefits until April 2020.

Government policies are failing our elderly and our young people. Many Conservatives have called on the Chancellor to provide more money for social care for the elderly, describing the underfunding as having a devastating impact on individuals and the NHS. This has the greatest impact on those without a cushion of savings to allow them some choices. It also has the greatest impact on women, who either will be deprived of their present basic needs this winter or will be doing what they can to support their elderly relatives. Nearly 100 care homes have closed in the last six months. A cross-party group of local government leaders has said:

"The social care crisis is real and it is happening right now. The government cannot ignore it any longer if we are to truly have a society that works for everyone".

As for young people, ONS figures reveal that there are now a total of 857,000 16 to 24 year-olds not in education, training or employment, an increase of 0.2% since last year.

I want to raise two issues with the Government, one where they have done nothing and one where they have done too much. The 5 million self-employed, many of whom bump along the bottom of the earnings league, are as varied as hill farmers, actors and writers, along with hundreds of other professions. Their typical earnings are actually lower than 20 years ago, according to the Resolution Foundation. Sometimes they need state support when times are hard. The chasm between HMRC and the DWP could not be more obvious; they have failed completely to set up a system that works for the self-employed who are in need, and make completely unrealistic assumptions about annual earnings by the self-employed. My plea is for the

[Baroness Donaghy]

Government to look at this again. Will the Minister agree to take it back and look at it? People who are doing their best to manage deserve support. Government inaction does not help the self-employed.

The second issue, where the Government have done too much—people might be a bit surprised by my raising this—is insurance premium tax, which has been increased from 10% to 12%, gathering in £6 billion a year—a nice little earner. This has not received publicity in the same way as has, say, fuel duty, but the costs are passed on to the consumer.

The question is: at what stage will the poorer consumer opt out? One million cars on the road are uninsured and one in four homes has no contents insurance. We will all be picking up the cost of this increase. Will the Minister give an assessment of the proportion of people who might opt out of taking out insurance policies because of increased costs? If he cannot, will he publish details of how the £6 billion will be spent?

Finally, and in summary, leaving the lowest earners without hope or protection will turn people away from our democratic system. It brought it home to me when I watched an American blue-collar worker being interviewed about why he had voted for Donald Trump against what he saw as the Washington elite. The interviewer said to him: "Apparently, it was the uneducated people who voted for Donald Trump". He replied: "I may not be college educated but I know BS when I see it". Let us beware that our words of wisdom are not regarded as BS.

8.35 pm

The Earl of Listowel (CB): My Lords, I declare my interests in property as noted in the register. I begin by warmly welcoming the Government's success in achieving a record high of 74.5% employment in the first quarter of this year. I pay tribute to the noble Lord, Lord Freud, who has championed this area for many years, who has written the report on employment and who has met with such success.

In his debates on poverty in your Lordships' House, my noble friend Lord Bird has eloquently argued the case for employment as a road out of poverty. Louise Casey, when she was homelessness tsar, made one of her first priorities finding purposeful activity for rough sleepers. The noble Lord, Lord Freud, has himself spoken many times of the benefits to mental health of employment. I recently raised with him my concern about the increasing number of boys and girls growing up without a father in their home. Since then, I have been advised that high male unemployment is followed by increases in couple breakdown, so I welcome the Government's success in securing record levels of employment, while recognising concerns about the use of sanctions and the quality of employment and that two-thirds of children in poverty have a parent who is in work. I particularly welcome the reduced risk for boys and girls of growing up without contact with their father that high employment appears to bring.

I regret that I was unable to be with your Lordships between 6.30 pm and 8 pm. I was entertaining a group of care leavers supported by the Drive Forward Foundation. They were speaking to me about their housing experience—and I, too, welcome the additional investment that the Government are making in housing. One theme has been the trap that young care leavers can find themselves in. They may have housing benefit to pay for accommodation, but, as soon as they seek work, they risk losing it, so there is every incentive for them simply to sign on and not go into employment.

One very brave young woman described her experience as a care leaver with severe impediment to her vision. She has successfully secured an apprenticeship in a City firm, but has been immensely challenged trying to rent in the private sector to allow her to turn up regularly, as her job demands. It is inspiring to hear from such young people, and I am particularly grateful to Jordan Morgan, the care leaver who helped organise this meeting and has produced a report on homelessness and care leavers.

On productivity, I was surprised that no mention was made of investment in ensuring that children have the very best start in life. The Minister might wish to speak to his colleagues the right honourable Andrea Leadsom MP and the right honourable Iain Duncan Smith MP, who have great expertise in early childhood. The evidence is that high-quality early years education and childcare can produce a huge boost later in terms of educational attainment and arguably provide good protection into later life against mental ill health and help productivity.

On that note, I welcome the Government's extension of free childcare to 30 hours a week to working parents of three and four year-olds. I appreciate the early years funding review and the significant financial investment that the Government have made in childcare. However, I share the concerns of the early years sector, the Pre-school Learning Alliance, the National Day Nurseries Association and the Family and Childcare Trust about the sufficiency of future funding after this year. I am concerned that future funding may not sustain the sector and ensure the vital high quality of provision.

I would like to see an annual review of funding of early years provision to secure quality and sustainability of provision into the future. What role do early years care and education play in the Government's strategy for employment and productivity? What means will they use to assuage concerns about adequacy of funding beyond this year? I quite understand if the Minister might prefer to write to me. High-quality and sufficient early years provision is vital to sustaining high employment today and a future generation of productive citizens. I look forward to the Minister's response.

8.41 pm

Lord Northbrook (Con): My Lords, it was extensively trailed that that the Autumn Statement would be peppered with bad news. Facing weak economic forecasts, the Chancellor refrained from indulging in fiscal gymnastics and instead set out a simple plan: the Government would borrow £122 billion more during this Parliament, including new spending, and £59 billion extra due to Brexit, and push deficit reduction beyond the next election, in contrast to George Osborne's plans to get into surplus by 2019-20, which I always felt were unrealistic. I welcome the commitment to reduce the structural deficit to less than 2% by the end of this Parliament. The Chancellor will be giving out some £23 billion, mainly to invest in infrastructure; he will also be keeping £27 billion aside as a Brexit shock absorber, if he needs to turn on the spending taps ahead of the next election.

First, I will look at the economic forecasts for GDP growth in the light of the Statement. The good news, as the Chancellor said, is that the UK is forecast to be the fastest-growing G7 economy in 2016, and the third quarter annual GDP growth was 2%. The bad news is that the slump in sterling and Brexit uncertainty have caused the OBR 2017 and 2018 forecasts to be severely reduced, although they are unchanged for 2019 and 2020.

On the public finances, the OBR's forecasts show a deterioration since the Budget of 2016, due to disappointing tax revenues over the first half of this year, a weaker economic outlook weighing on receipts from income taxes, and higher spending by local authorities and public corporations and on welfare benefits. Compared with the OBR's Budget 2016 forecast, borrowing is higher in every year and £32 billion higher in 2021-22, according to the Autumn Statement. Debt is expected to peak at over 90% of GDP in 2017-18, due to a combination of higher borrowing, lower asset sales and the impact of the Bank of England's monetary policy operations. The Chancellor stated that he is determined to,

"return the public finances to balance as soon as possible in the next Parliament, with an interim objective of reducing the structural deficit to less than 2% of GDP, and for debt as a percentage of GDP to be falling by the end of this Parliament".

Public sector debt will, on the OBR's forecast, top £1.9 trillion by the end of the decade, up from £500 billion 10 years ago and £1 trillion in 2010. As Martin Wolf of the *FT* said last Thursday, two of the three fiscal rules established by George Osborne have been broken. He failed to achieve public sector net debt falling as a share of national income every year. Also, he was unsuccessful in keeping welfare expenditure below a cap. Brexit has now killed the third, the legislated commitment to reach an overall budget surplus by 2019-20. Although the debt figures are mouth-wateringly high, the Chancellor is gambling that, as other major G7 countries also have very high levels of debt, the markets will take this calmly. The wild-card factor is whether the reappearance of higher than expected inflation—with the RPI forecast by the OBR to rise from 1.8% this year to 3.6% in mid-2018—coupled with prolonged trouble over Brexit will cause problems, for instance with gilt issuance, and upset his calculations. We have already seen signs of inflation price increases with sterling's depreciation since Brexit.

One area where the forecasts look particularly gloomy is projected revenue, particularly from income and national insurance contributions. The OBR expects them to be much lower than had been thought in March, while corporation tax revenues are expected to be higher. The OBR has noticed that, in recent years, the Government are raising more than expected from corporation tax—and I welcome the plans to cut it further—but much less from income tax and national insurance contributions. One factor is that many more people are classifying themselves as businesses rather than workers. The rate of corporation tax is much lower than the top rate of income tax and this supports the Laffer curve theory that taxes can raise more revenue at reasonable lower levels. I praise the raising of the personal allowance for income tax but, like my noble friend Lady Noakes, I criticise the failure to cut the top rate of income tax from 45% to 40%. Stamp duty revenue projections are down. I also agree with my noble friend Lady Noakes's criticism of this. When the former Chancellor raised rates to an unreasonable level, I entirely expected this to happen. Does the Minister accept that the rate is far too high at the top end? I also echo the criticisms of the treatment of buy-to-let stamp duty, as mentioned by my noble friend Lord Flight. I do not understand, from the receipts forecast table 4.6 of the OBR outlook, why tax revenues are going to increase from 2017 to 2019 when GDP growth is declining. Will the Minister explain this to me?

Moving on to the standard of living, rising inflation is expected to squeeze the purchasing power of people's wages in real terms. As other noble Lords have mentioned, analysis by the Resolution Foundation shows that the outlook for family finances looks bleaker than the OBR's forecast in March, with average real earnings set to be £830 lower by the end of 2020. As Paul Johnson, director of the Institute of Fiscal Studies, put it in the wake of the Autumn Statement:

"Real wages will still be below the 2008 levels in 2021 … more than a decade without real earnings growth".

Growth in real earnings is expected to be only 0.1% in 2017. The rise in the national living wage to £9 by 2020 will, according to the OBR, put upward pressure on the employment figures.

The subject of productivity was ably covered in the Autumn Statement and has been mentioned by other noble Lords. As the Statement says, raising productivity is the,

"central long-term economic challenge facing the UK".

The Chancellor said that Britain was facing a productivity emergency. It takes a German worker four days to produce what we make in five, which means that too many British workers work longer hours for lower pay than their counterparts. He is making it a key area of focus for the forthcoming industrial strategy. He tells us that if the UK raised its productivity by 1% every year it would add £240 billion to the size of the economy—£9,000 for every household in Britain.

The Government's approach to raising productivity is based on encouraging long-term investment in economic capital such as technology, innovation, infrastructure and skills. It is also based on encouraging a dynamic economy which ensures that resources are put to their best use. According to the Statement, there has been a sustained worldwide slowdown in productivity since the financial crisis, which has exacerbated a long-standing gap between the UK and the most productive nations. Hence the Autumn Statement announces the setting up of a national productivity investment fund, which will be targeted at four areas which the Government believe are critical for improving productivity—housing, transport, digital communications, and research and development. It is to this body that the £23 billion I referred to earlier is being given to spend. Let us hope the money is spent wisely.

[LORD NORTHBROOK]

The Chancellor had a difficult task in the Autumn Statement. In the circumstances he had little room for manoeuvre. However, he has made a promising start.

8.50 pm

Lord Hunt of Chesterton: My Lords, the Autumn Statement focused on policies to improve people's prosperity. I declare my interests, which include giving a little help to business and government.

We should welcome the Government's maintaining a national living wage. It is another pillar of a modern state that the Conservatives and their business supporters first resisted long ago. It is now very welcome that they endorse this policy as being part of a modern Government. The other pillar that is integral to the welfare state of most European countries is modern, environmentally secure housing for all. However, the Government's welcome plan to increase housing does not include any significant return to social housing for the majority who cannot afford the huge costs of owner-occupation. I welcome the noble Lord, Lord Horam, on the Benches opposite making that point on the Minister's behalf.

We can all welcome the Government's objective to improve prosperity. However, as other speakers on this side of House have emphasised, we fear the downbeat assessments of the damaging threat of Brexit and the prospect of the continuing low productivity of UK business, which will not be helped by the dislocation between UK and EU business and technology that I fear will result from Brexit. I will return to that. Low productivity means that too many people have low-skill jobs that do not use their education and training. It also demotivates people from pursuing higher training, as the noble Baroness, Lady Vere, explained.

Reduced unemployment should remain a vital objective, as the noble Earl, Lord Listowel, commented. The UK needs to encourage overseas high-productivity companies such as Veolia and Suez, which provide basic services, to come here. Some companies provide laboratories and design centres, such as Nissan at Cranfield. The Government should help increase productivity by linking their policies with public bodies' investments, but Whitehall—I had experience of Whitehall when I worked at the Met Office—always finds linking such policies a challenge, as the noble Lord, Lord Hennessy, said. Perhaps the new ministry—the BEIS—will succeed.

The Chancellor advocates that UK companies need to grow and have high productivity. But how will these companies remain in the UK? The Chancellor did not have the answer but he pointed to the problem. This will surely depend on collaboration between the Government and the financial sector to keep these companies in the UK with sufficient finance. We have seen many high-tech companies grow and then leave the UK—some of my own friends in Cambridge did that. Socially and economically important types of UK companies need to grow and make good use of advanced engineering technology. For example, UK businesses need to provide materials and technology to improve the thermal efficiency of buildings. This needs to be a UK effort and success story in place of the huge imports from the continent that we have at present. The thermal efficiency and resilience against flooding of UK buildings are much inferior to those of other European countries. The Government's green plan for improving housing was not a success.

Investment in road and rail is another aspect of the Government's plan for investment, which is very welcome, and this construction is equally important for the UK's economic future. Some of the UK's transportation is of course world leading: for example, we should not forget that the tunnel in London is definitely a world leader. But I am always amazed that our business community does not follow our French neighbours in establishing toll roads—which, as we see in France, are generally superior to our saturated motorways and built so much faster across their whole country. UK A roads are also being built too slowly, and their parking lay-bys are very unhygienic places.

I will end on a more positive note, about how the Government and City are progressing the growth of UK-European technological and commercial collaboration. The success of non-carbon nuclear and wind by French, Danish and Japanese companies working in the UK contributes greatly to Britain's contribution to reduce climate change. Airbus is a partially UK-owned business, centred on advanced collaboration in manufacturing and aerospace. My noble friend Lord Jones is expert in that, since of course the wings are built in the Welsh-English border territory. However, will the Government ensure that the UK's share will be maintained? It is now less than 20%, and the UK is no longer involved in the strategic steering of Airbus. Perhaps we should be confident that this collaboration will be supported by the Prime Minister. Unlike Mr Cameron, who flew to Beijing in a Boeing, Mrs May recently flew to India in an Airbus 330. Even the *Daily Mail* thought that was a good thing—although it did not mention that the aeroplane was built in France: that would have been too much. This is an encouraging sign for European and global collaboration, and perhaps it is the right sort of industrial strategy.

8.56 pm

Baroness Kramer (LD): My Lords, as the first of the wind-up speakers, I will say what an insightful debate this has been, with a great deal of food for thought. Of course, that makes winding up exceedingly difficult, so I thank your Lordships.

Almost every speaker today has focused to some degree on the extraordinary impact of Brexit on the OBR forecast, and looked at the before and the after. I will not repeat the numbers on the impact on growth and output, which have often been shared on the Floor today. However, I will pick one number, described by my colleague, my noble friend Lord Fox, as a Brexit black hole: the impact on public sector net debt. As many who read the Autumn Statement will be aware, the March forecast for 2019-20 for public sector net debt was £220 billion lower than the new November forecast. Some £100 billion of that was due to action by the Bank of England. I pick up that point in part to respond to the noble Lord, Lord Higgins, because I want to agree on the effectiveness and importance of the impact Governor Carney has had on stabilising the economy. That £100 billion is part of the stabilisation package to give long-term assurance that financial institutions will be in a secure position as a consequence of Brexit, but it is still a Brexit number. That, essentially, leaves another £120 billion, the bulk of which, one way or another, is due to the negative impacts of Brexit. We can see how that number has in many ways paralysed the Chancellor and limited his options. While in many ways I support the various spending commitments he has made, almost all of them are small and limited because he sees no room for manoeuvre, especially in trying to keep some capacity to deal with a worse outcome than that suggested by the OBR.

Speaker after speaker—the noble Lord, Lord Livermore, my noble friend Lord Fox, the noble Baroness, Lady Hollis, and many others—focused on the damage that this loss in growth and rising public sector net debt causes families. According to the OBR forecast—by the way, the OBR is more optimistic than many other bodies, such as the Bank of England—national income in 2020-21 will be down by over £30 billion, which is equivalent to more than £1,000 per household. There have been many quotes from the Institute for Fiscal Studies but the one that particularly struck me is the following:

"the outlook for living standards has deteriorated rather sharply since March. The OBR is forecasting both lower nominal wage growth … and higher inflation".

The noble Lord, Lord Flight, who is not in his place, talks happily of the benefits of the collapse in the value of sterling, but it imports inflation, which will be borne by the least well off in our communities and those very families whom so many speakers have identified today. Real average earnings will be 3.7% lower in 2021 than was projected in March.

"To put it another way",

says the IFS,

"around half of the wage growth projected for the next five years back in March is not now projected to happen".

That is a serious and dire consequence for people who have been living through a long period of austerity. They include public workers, who are still facing a significant wage freeze, despite the fact that we now have high inflationary forecasts.

The Government will say to us, "We've adjusted the taper rate for universal credit and we've made a slight increase in the national living wage". However, before they say that, I point out to them that the IFS has explained that they,

"pale into insignificance alongside the benefit and tax credit cuts announced last year".

The right reverend Prelate the Bishop of Portsmouth could not have put it more eloquently, and we also heard the noble Baroness, Lady Donaghy, on the same issue: there really is no jam for the JAMs in this Autumn Statement. We have done a back-of-the-envelope calculation and it looks as though those who were facing a planned cut of about £2,000 a year under the changes in universal credit and the allowance benchmarks will get no more than a reduction of about £200 in that £2,000 cut, so the change is essentially quite marginal.

That tiny bit of jam is actually being paid for by families. So far in this debate no one has mentioned the whacking great increase that is coming in insurance premium tax. It is already set at 10%, which is way too high, but it will be rising to 12%. It is a tax that, above all, hits young people—millennials and young families. For the typical family, the IPT alone will bring an additional burden of £90 a year compared with 2015. It is the mechanism through which some of the ameliorations in the harsh welfare cuts are being financed. As we heard from the noble Lord, Lord O'Neill, who talked about intergenerational fairness, and a range of other speakers, of all the groups that need relief, not punishment, surely this group of millennials—young families and young people—should have been recognised in the Autumn Statement, but quite the reverse was true.

The only real nod to that group has been the ban on charging tenants for letting agents' fees, which was mentioned by the noble Lord, Lord Whitty. I totally support that, but perhaps I may recommend to the Government that they support the excellent Private Member's Bill which is already in this House, sponsored by my noble friend Lady Grender, because it tackles exactly this set of issues and would enable the Government to achieve quickly and without delay the goal of relieving those tenants of the burden of paying these fees. With this Bill there is an "immediately to hand" mechanism.

I, like others, am absolutely shocked that there was no mention in the Autumn Statement of additional funding for the NHS and social care. The issue was raised by my noble friend Lord Fox, and the noble Baronesses, Lady Warwick and Lady Donaghy, and a range of others. Scarcely a week ago, the NAO reported on the absolutely perilous state of NHS finances. I and my party have argued that, despite the fact that we are in such tough times, we need an immediate £4 billion injection—that means now, not in future years—including £1.3 billion ring-fenced to go directly to social care and delivered directly to local authorities, and £500 million ring-fenced for mental health. We are in a state of crisis. This is an emergency and it needs an immediate government reaction. Frankly, the Autumn Statement should have been that opportunity.

The Chancellor has agreed to more funds for capital spending, and I support that thoroughly. The largest item within that offering is the national productivity investment fund of £23 billion over five years. However, a number of noble Lords, including the noble Lord, Lord Bilimoria, pointed out that when you divide £23 billion by five, it is not really such a big number. There are then various scatterings of other investment throughout the Autumn Statement. It is a very good example of how constrained the Chancellor feels. However, he is making a commitment to additional funding for infrastructure and long-term investment, and I say to the noble Lord, Lord Higgins, that I desperately hope that this reflects a change in Treasury thinking, even though it has not been said out loud. Long-term investment in capital expenditure needs to be on an entirely different set of tram tracks from the management of the current account. It is a different consideration with a different set of issues, as I have been arguing for years. The noble Lord, Lord O'Neill, who is in his place, is quite sympathetic to the view that the current account and the associated deficit should be considered completely differently. I wonder whether we are now beginning to see that in the Treasury's thinking—I hope that is true.

[Baroness Kramer]

I am still unclear as to whether all the spending is new spending. I point out the £1.8 billion allocation from the local growth fund that was announced in all these numbers. I remember announcing that, as did various other Ministers back in the coalition years, when we set the spending allocation until 2021. Therefore, it may not all be entirely true, but I am glad that there is some new money in there.

As we have heard from speaker after speaker, if we are to increase our productivity as a nation, we have to increase our capacity to invest and deliver on an even greater scale. This morning, I was at a rail conference. Frankly, everyone agrees that, everywhere, the rail network is out of capacity—and that is just one sector of the economy. In the coalition days, it was quite difficult to deliver new infrastructure projects rapidly because the analytical work and the planning had not been done. However, on project after project that is now in place. Skills are short and there are still organisational problems, but we should be able to start delivering on a far greater scale than we have been able to in past years. Surely the Government should be looking at that, for the variety of reasons that were given in this debate.

I want to pick up on the point that we must not neglect the regional element in all of this. The noble Lord, Lord O'Neill, talked about the northern powerhouse and the noble Lord, Lord Jones, talked about the Midlands engine. Other noble Lords talked about the south-west and many other parts of the country. All that remains essential and needs to be captured within this more significant investment. We need a complete step change in this area, and we have to regard the Autumn Statement as only a minor downpayment on this essential investment. I have one question for the Minister. I am unclear whether any of this money is replacing the money that is now being lost from the European Investment Bank, which, as he will know, is now reluctant to fund any UK project with a life longer than two years.

On reading the Chancellor's Statement, you would think that we were going to build more houses. However, I recommend that noble Lords read the OBR forecast, which makes it clear that, thanks to the changes in the funding for housing associations, 13,000 fewer houses are forecast to be built over the next five years. The money for 40,000 new affordable homes is too little to make up the shortfall. This is, frankly, dire. Those points were made by the noble Baroness, Lady Warwick, and the noble Lord, Lord Hunt. Let me call yet again for the Chancellor to uncap local authority borrowing for homebuilding purposes. Housing is becoming a national emergency and he must put local councils, as the bodies most able to deliver affordable homes quickly, back into homebuilding in a significant way—of course working with housing associations, which are so important to local delivery. But we have to get the capacity back on stream and very quickly.

It is really quite shocking, to pick up the point made by the noble Lords, Lord Hunt and Lord Fox, that the Chancellor has no investment money for our cutting-edge green energy industries. We are going to lose our world leadership in that area without even a fight unless we deal with its need for significant investment now. There is money for ultra-low emission vehicles—an issue very close to my heart—but I can tell noble Lords from experience in the coalition years that it is below the amount needed to deliver us dominance in this new technology.

Some noble Lords will say that some of the measures I have called for require more money, and that is true. I have always been opposed to the cuts we have seen in capital gains tax, but even more, I cannot understand why the Chancellor, at a time of real fiscal pressure, has confirmed future cuts in corporation tax to 17%, well below the current 20%. He must know—and I say this to many on the other side of the House, including the noble Baroness, Lady Noakes, and the noble Lords, Lord Flight and Lord Suri—that almost no corporation large or small has been asking for further reductions. He will also know that we now have long experience that cutting tax rates, particularly below the 20% mark, does not tempt companies to invest or grow. To make matters worse, he has confirmed that corporation tax may go even lower. In a race to the bottom, he has seconded the Prime Minister's promise always to have the lowest corporation tax in the OECD—in other words, confirming this Government's self-identification as the largest tax haven of any developed country. I wish him good luck in trying to find friends to do a trade deal when that is what is promised.

I have never known the OBR's forecasts to be so uncertain. I disagree with the noble Lord, Lord O'Neill, on this, because often there are what pundits call unknown unknowns. We have never been in a situation of so many known unknowns. There are so many issues of such uncertainty, on such scale, and I can understand that that makes all this difficult. But in that circumstance, the Government's continuing refusal to give any guidance on where they are taking Brexit is making life fraught, and not for us—who cares about us?—but for the companies that are the foundation of our economy. Even the public are now worried, with sharp drops in confidence in the future in all but the oldest age groups. No experienced negotiator buys for one minute the idea that complete silence is necessary or even sensible for a strong negotiating hand. That leaves us with the feeling that the Government say nothing because they have not a clue what they are going to do. That is more worrying than almost any other feature. I call on the Government to shift the dial, have that conversation and declare where they intend to lead this country, rather than meandering rudderless, as they are tending to do right now.

9.13 pm

Lord Davies of Oldham (Lab): My Lords, this has been an excellent debate, but somewhat mistitled. It is not in the light of the Autumn Statement, but in the shadow of the Autumn Statement and Brexit. That has been the theme of this debate. Even the more optimistic outline that the Minister put before us has been countered by a range of real anxieties expressed widely across the House.

Although the Minister did an excellent job in indicating that the objective is to create an economy that works for all and one in which all will share in its prosperity by making their contribution to improved productivity, what was missing from the analysis was how to arrive at that point. There was no confession that there have in fact been six wasted years in the pursuit of an austerity programme that, while it has had an impact on the deficit, has done so at enormous cost to the economy, and of course with low growth rates. They are so low that the Government have now decided that they have to relax their fiscal objectives and be prepared to borrow more in order to bring some element of growth into the economy, which will be the basis of increased prosperity in this country. As my noble friend Lord Livermore pointed out in his speech at the opening of the debate, on which I congratulate him, there is a whole range of acute difficulties facing the Minister given his suggestion that the Autumn Statement brings good tidings for all sides.

The shadow that has been present over the debate is of course the shadow of Brexit. As the OBR indicates in its paper, Brexit is going to have a very significant impact on growth and the public deficit, and it is extremely difficult for the OBR to be totally confident about its predictions because its legal obligation is to reach such predictions on the basis of clear government policies. However, as has been indicated by noble Lords on both sides of the House, when the OBR asked the Government about their policies, answer was there none. The Government are in an extraordinary position in which they are not prepared to disclose any area of policy relating to Brexit—apart from Nissan. We have never worked out just what it is that Nissan will benefit from, but there seem to be some assurances, perhaps also for the rest of the car industry, for manufacturing as a whole and in fact for the rest of the economy. The nod and the wink that one can take from Nissan is the basis for the future of the Government's negotiations on Brexit. We shall see, and of course we hope that they are hugely successful, but we must recognise that the international perspective presents us with great difficulties.

It is not easy to talk about our friends in Europe because the only people who are coming forward at the present time seem to be expressing some pretty severe criticism of the British Government. But if we look to our oldest friend and ally across the Atlantic Ocean, we might have some difficulty being overwhelmingly optimistic there. I do not know because I am no better versed than anyone else on just what to take seriously about President-elect Trump, but if I was asked to suggest one commitment to which he might adhere when he takes office, the element of protectionism might run strong: making America great again by sealing off other competitors. That is not exactly the best context in which Britain should be putting itself on the world stage, having left the advantages of a very significant market and hopeful that we can make up for that through fresh trade agreements elsewhere.

It may be that the Government feel that it is possible that Brexit will turn out to be much better than some fear. However, what is almost undeniable is that we are bound to live through this period of uncertainty. We are all aware that one of the greatest dangers to the economy is a period of uncertainty. That is what deters investment and what afflicts the population with a somewhat more pessimistic view than they otherwise would adopt. It creates difficulties for us all.

What has been established in the debate is that the Autumn Statement abandons the long-term economic plan—so long term that it survived six years—and we are going to have a plan on productivity. The noble Lord, Lord O'Neill, who often responded to debates in this House by educating us on the difficulties of increasing productivity, gave a speech of great interest and relevance to the debate, but which somewhat veered away from dealing with productivity. I am not surprised. As the debate developed it became clear that although the Government have a nice title for their scheme for the development of productivity, the challenges that face us in improving productivity are great. The noble Lord, Lord Skidelsky, identified them with some precision.

This is against a background where, for the past six years—in fact, since the period of the financial crisis—the Government have been running a low-wage and poor-jobs economy. It is not surprising that productivity registers pretty poorly on the scales as a result. On this, the Government have stayed true to the past. There was bound to be some degree of continuity, not least given that, although certain Ministers went, certain Ministers survived. Some prospered, such as the Prime Minister and the Chancellor with his elevation. I do not know whether the noble Lord, Lord Young, regards this as a vast improvement on his previous role in the Commons. We think it is because we are glad to have him here and we hope he enjoys it. But my goodness, he should not anticipate that he will get an easy ride on economic debates, as he will have recognised this evening.

A series of questions has been addressed to the Government, but one relates directly to the fact they have continued their bad ways. They are setting out to make sure that the less well off and those on benefits are the ones to pay the really savage price. That was the charge made by my noble friends Lord Livermore and Lord Hain, but most significantly by my noble friend Lady Hollis. She identified just what the impact would be of the persistence of the freezes of benefits contained as part of the relics from the past, which are continuing into the early years of this new Administration, and of the determination to ensure the amount of money spent on benefits is kept down to the levels the Government approve of, which are mercilessly difficult for those seeking to cope with them.

The right reverend Prelate the Bishop of Portsmouth identified that we have to think about equity and fairness. If we are to get through these difficult times—I do not think there is anyone, even the most optimistic of Conservative supporters, who does not recognise that there will be some pretty stiff challenges ahead—would it not be better to have a nation that is united in the objectives and wished to follow a common plan of recovery? How is that possible to achieve when the Government are pursuing their old strategy of making those who have the fewest resources pay the heaviest price?

Of course, there are good things in the Autumn Statement. My noble friends were kind enough to indicate that they appreciated aspects of the housing strategy, although we all want assurances that any housing strategy will include affordable homes in large numbers, otherwise it will not be a housing policy that

[LORD DAVIES OF OLDHAM]

meets the dire needs of so many of our people at the present time, including the young. One aspect of the debate that was perhaps covered only tangentially is the fact that, whether we like it or not, most of us here are of one generation and an awful lot of people who are suffering in our economy at the present are at least one generation below us, if not two. Are we being fair to younger people? Housing is critical, because we know that, at present, apart from the well endowed or those supported by wealthy parents or grandparents, getting on to the housing ladder is phenomenally difficult for those with limited resources and earning power. We cannot solve our housing problem unless we deal fairly with those, too.

This has been a debate in which every line that I wrote and had ready to deliver to the Minister has been covered more than adequately by contributions from all noble Lords, who have thought deeply about these issues. The Minister will recognise anxieties on his own side regarding the position that he has to defend this evening, but they are as nothing compared to the position of Her Majesty's Opposition. All noble Lords on my side set out clear priorities which the Government ought to follow. We have no obvious faith at the present time that these will be followed by the Government in these crucial few months.

9.28 pm

Lord Young of Cookham: My Lords, it is presumptuous to try to distil more than 300 minutes of high-quality debate into an acceptable summary. There is a clear tension between, on one hand, doing a discourtesy to noble Lords by not addressing all the issues they raised and, on the other, testing their patience by going on for too long. I will try to get the balance right, but if I do not address the key issues that have been raised I will of course write to noble Lords.

I thank all those who have contributed today for bringing their knowledge and experience to bear, from academia, business and government, on the issues in the Autumn Statement. No one was sorrier than I was to see the noble Lord, Lord O'Neill, leave the Government, to which he made a hugely important contribution over the last two years. My presence at the Dispatch Box as a Whip shows that he is absolutely irreplaceable. His contribution was great, not only through his dedicated efforts to see global action to counter the threat of antimicrobial resistances, but also of course through his work as Commercial Secretary to the Treasury, particularly on rebalancing the economy, with his unswerving determination to ensure growth outside London and the south-east and the northern powerhouse. We heard his encouragement to go faster and be bolder this evening. Indeed, it is thanks to him that we have been able to give power and resources to our great cities.

One theme that ran through the debate concerned living standards and income distribution. This was touched on by the first speaker, the noble Lord, Lord Livermore. I agree with what he said about the need for a better-informed, tolerant, broad-minded discussion about immigration. Picking up something that the noble Lord, Lord Bilimoria, said, I think there is scope to reskill the indigenous population to reduce, if not eliminate entirely—I take that point—our dependence on inward migration. The noble Lord, Lord Livermore, raised the subject of income distribution. Living standards are at their highest ever level—3.3% higher than in 2010—and by 2021, as measured by real household disposable income per head, are forecast to be 2.8% higher than they are today, according to the OBR. That figure is different from some of the figures that other noble Lords used because they tended to use earnings growth, whereas our view is that real household disposable income is a better measurement of living standards.

The noble Baroness, Lady Hollis, and others developed the theme. Those who are migrated from legacy benefits to universal credit will receive transitional protection, so they will not experience any cash losses. Here there is a real risk of getting lost in a war of statistics on child poverty. The percentage of individuals and children in relative income poverty is lower than it was in 2009-10—there are some 100,000 fewer than in that year. Between 2010-11 and 2014-15 the percentage of families in the bottom half of the income distribution who were in work increased from 60.3% to 65.7%. In the year to April 2016, workers in the fifth income percentile saw wages grow by 6%, which was the highest growth at any point in the distribution. Of course, we have supported that with the national living wage. The noble Lord, Lord O'Neill, put it much more concisely by saying that income inequality is lower than it was 20 years ago. In fact, disposable income inequality is lower than it was in 2010 and close to the lowest levels since the mid-1980s. Of course, we need to do more but progress is being made.

On that theme, the noble Earl, Lord Listowel—in some ways the conscience of the House—raised a number of issues about care leavers and homelessness. I will pass his remarks about early years funding on to the relevant Ministers and accept gratefully his generous suggestion that I should write to him on some of the other issues.

The theme of intergenerational inequality was raised by the right reverend Prelate the Bishop of Portsmouth and others. To put that in perspective, pensioners have lost what used to be the age allowance, which they got when they reached a certain age. That has been abolished. Of course, people have to wait longer and will have to wait even longer before they get the state retirement pension and lower interest rates have tended to disadvantage pensioners and help younger people. It is not entirely a one-way equation.

We had a number of comments about the OBR and its forecasts. The noble Lord, Lord O'Neill, and the noble Baroness, Lady Noakes, indicated that the OBR forecast might be too pessimistic and there were reasons for being optimistic. I think my noble friend Lord Suri also came from that camp. The noble Lord, Lord Desai, suggested that we should use the OBR forecast to front-load the borrowing while interest rates were still low. I take the point but that sits uneasily with the Government's objective to reduce indebtedness.

The noble Lord, Lord Whitty, and my noble friend Lord Higgins both agreed with the action taken by the Monetary Policy Committee. I think the noble Baroness, Lady Kramer, also made the point that the action which it took post the referendum decision has enabled the economy to be more resilient than it otherwise would have been. My noble friend Lord Higgins raised the serious issue of the interface between fiscal and monetary policy—the one being in the hands of the independent MPC and the other being in the hands of the Government—and asked what would happen when quantitative easing unwound. The answer is: the sale or reinvestment of gilts in the asset purchase facility is a matter for the MPC but the Bank of England has stated that it will have due regard to the Government's debt management objectives in the event that it decides to sell the assets.

If I were to pick out two speeches that people outside should read—of course they should read all the speeches—they would be the contributions of the noble Lords, Lord Hennessy and Lord Taverne. The noble Lord, Lord Hennessy, stood back and put the issue of national planning in perspective. He reminded noble Lords of my own modest role in the 1960s, when I worked for the National Economic Development Office on the national plan, which turned out to be a notional plan rather than national because the economy could not sustain the public sector investment that was predicated. His was a stand-alone and distinctive contribution. The noble Lord, Lord Taverne, again stood back and asked a relevant constitutional question about the future of Brexit. Mercifully, he answered it himself in his final sentence; I shall not risk my career by going down that path. Nor shall I irritate noble Lords by repeating the Government's line to take on the single market, on Brexit, on running commentaries and everything else. However, those two contributions were very important. On the point made by the noble Lord, Lord Hennessy, I hope that this industrial strategy will have learned the lessons from the previous ones that he mentioned. It is about creating the conditions for winners to emerge and grow, rather than picking winners.

We then moved on to what was perhaps the most interesting contrast between the two sides of the debate: whether we should borrow more or less. A range of noble Lords from the Opposition Benches including the noble Lord, Lord Hain, and the noble Viscount, Lord Hanworth, wanted more borrowing. More borrowing would reverse the progress which the Government have made in getting it down to a manageable level. I listened to some of the gloomy forecasts made by noble Lords opposite; so far, the performance of the country has confounded all forecasts. Indeed, over the weekend the OECD uprated its forecast for the UK economy for next year. Counterbalancing those who wanted us to borrow more we had my noble friends Lord Northbrook, Lord Leigh, Lady Vere, Lady Noakes and Lord Flight, who thought that Keynesianism had perhaps gone as far as it should. Noble Lords on this side were arguing for prudence rather than for more borrowing.

The answer to "Why should we not borrow more?" is that the deficit reached 10.1% following the financial crisis and, despite our reducing borrowing as a share of GDP by almost two-thirds, at 4% it still remains too high. Public sector net debt, which is forecast to reach 90.2% of GDP in 2017-18, is also eye-watering, as some of my noble friends mentioned. We are trying to have a new fiscal framework that gets it down to a manageable level.

The noble Lord, Lord Skidelsky, talked about the OBR in somewhat disparaging terms but I hope he would agree that it is better to have the OBR doing forecasts than the Government doing them, which is what used to happen. It is independent and there is greater transparency and, I think, credibility in the economic and fiscal forecasts on which policy is based by having the OBR. It regularly publishes comprehensive forecast evaluation reports, in which it examines its own errors and models. The latest report was published in October.

My noble friend Lady Noakes was cautious about whether the national productivity improvement fund would achieve its objectives. I hope that it will identify the bottlenecks and areas where the economy is underperforming, enabling us to make faster progress. The NPIF was welcomed by, among others, the noble Lord, Lord Bilimoria.

My noble friend Lady Vere argued for a culture change in the whole of society to drive up productivity. My noble friend Lady Noakes made the point that the Government do not create productivity, but we do create the environment for businesses to increase it. The OBR expects productivity growth to increase over the forecast horizon and average 1.5% a year between 2015 and 2020.

Many noble Lords commented on R&D spending, including the noble Lords, Lord Bilimoria and Lord Kakkar. We recognise that the UK is a world leader in science and the most productive country for research in the G7, but levels of innovation are lower in the wider economy. The R&D spending that we have announced seeks to combat this and maximise our research base. It will now increase by around 20% in this Parliament—the biggest increase in any Parliament since records began in 1979. I will write to the noble Lord, Lord Kakkar, on the specific questions he raised about the distribution and timing of decisions on R&D.

The noble Lord, Lord Fox, asked what the industrial strategy challenge fund would look like. Further details will be set out in the Budget next year. Many of our Autumn Statement measures, including the NPIF, will form part of the industrial strategy. We await that with interest.

Perhaps the most expensive speech of the evening came from the noble Lord, Lord Jones, who had at his fingertips some shovel-ready schemes in Wales and the north-east. I will certainly see that those bids are passed on to the relevant Ministers.

There were other requests for regional funding. The right reverend Prelate the Bishop of Birmingham asked what we had done in the Autumn Statement for the Midlands. The answer is that there is £5 million of development funding for the Midlands rail hub, which is a programme of rail upgrades in and around central Birmingham. Local enterprise partnerships in the Midlands will receive up to £392 million of growth-deal funding. On devolution, which the right reverend Prelate raised, we are committed to devolving powers to support local areas to address productivity barriers.

[LORD YOUNG OF COOKHAM]

A number of noble Lords mentioned housing, including the noble Lord, Lord Whitty, and the noble Baroness, Lady Warwick. I preferred the tone deployed by the noble Baroness, Lady Warwick, in her contribution rather than the more grudging contribution of the noble Lord, Lord Whitty. It is worth putting on record that net housing supply increased by 11% last year to almost 190,000 homes, the highest supply for eight years. If you multiply 190,000 by five, you are almost at the 1 million homes that the Government have set themselves as a target.

The noble Baroness, Lady Warwick, said that what we had done was an important step in the right direction. Like her, I pay tribute to the work of the housing association movement, which has responded to a wide range of challenges, from reduced grant funding to rent caps and all the rest. I welcome what my noble friend Lord Horam said about the change of emphasis in housing. I think Gavin Barwell is doing a first-rate job with that portfolio. He has moved the dial a little bit to switch emphasis away from the exclusive promotion of home ownership towards a more balanced portfolio of renting. Housing associations do not just build houses; they build communities, run training schemes and do home improvements.

During the debate, some noble Lords suggested that there was lots of money waiting to be invested in infrastructure. Housing associations are for ever raising bonds and private finance. To my knowledge, that has historically been a very good investment—so if sovereign growth funds are looking for areas in which to invest, I am sure that housing associations would be very pleased to have a dialogue with them. As I said a moment ago, we are committed to delivering affordable homes of a variety of tenures to support a wide range of people in different circumstances, at different stages of their lives, and we recognise that home ownership is not possible for everybody.

The noble Baroness asked me whether the terms of reference of the National Infrastructure Commission might be varied. I will certainly take that up in the appropriate quarters. She wanted freedom for housing associations to set their own rent levels. That is a big ask, with housing benefit implications for the Government. Given the large sums of money the Government have invested in housing, I think they will continue to have an interest in the return that society gets from that investment.

A number of noble Lords understandably expressed concern about social care and health. On social care, it is worth making the point again that there is a new social care precept that enables local authorities to increase council tax by 2%. That raised £380 million in the first year—and it is cumulative: you can do 2% on 2% on 2%. By 2019-20, the cumulative total raised will be £2 billion, which is a sizeable sum.

We will also have the new social care fund from April next year, which will rise to £1.5 billion in 2019-20. That will be rolled into the better care fund, a single-pool block of money that local authorities and the health service can draw on in order to break down the iron curtain between health and social care.

I was asked this evening for £4 billion of extra money for the NHS, but the noble Baroness will understand that it is not within my capability to give that. We have delivered what the NHS asked for under the five-year forward view—and, as it asked, we front-loaded it.

Some of my noble friends expressed impatience about the 45% higher rate of tax. We have to honour our manifesto commitments about the personal allowance and the 40% rate before we look at that—although I take on board my noble friend Lord Lawson's initiative, mentioned by my noble friend Lady Noakes.

The noble Baroness, Lady Hollis, mentioned pension tax relief. That has been cut back quite sharply in recent Budgets, and I think that there was a further reduction in the Autumn Statement of the amount that those drawing on their pots can pop in—so action is being taken there. The noble Baroness, Lady Donaghy, raised a point about the self-employed and HMRC and DWP, and of course I will pursue that.

A number of noble Lords raised IPT: insurance premium tax. It is a tax on insurers and it is up to them to decide whether and how to pass the cost on to consumers. We are working with the industry to make improvements. For example, we are taking action to clamp down on minor fraudulent exaggerated whiplash claims, which add significant costs to motor premiums. Insurers have committed to pass the savings on to consumers, which should save drivers an average of £40 per year. They will also benefit from other measures, including the cut in corporation tax. I do not have the specific figure that I was asked for about the impact on millennials.

The right reverend Prelate the Bishop of Portsmouth welcomed the LIBOR fines going to service charities. The noble Lord, Lord Bilimoria, welcomed the reduction in corporation tax, although the noble Baroness, Lady Kramer, was not quite so keen. My noble friend Lord Leigh made the point that something he suggested three years ago has now happened—so perhaps what he suggested today will be in a future Budget in three years' time. I note what he said about the diverted profits tax, which in his view ought to raise a larger sum of money than it does.

The noble Viscount, Lord Hanworth, repeated to some extent a debate we had about exchange rates. The Government do not think that we should have a view on the exchange rate; we will simply have to agree to disagree on that. The noble Lord, Lord Lea of Crondall, asked about our share of exports. It has trended downwards as emerging countries have entered the world economy and pushed up their share.

On procedural issues, my noble friend Lord Wakeham and others, including the noble Lord, Lord Whitty, and my noble friend Lord Suri, welcomed the move from two events a year to having one unified Budget. My noble friend Lord Wakeham, as a former Chief Whip and former Leader of the House, made the point about the business management advantages of starting in the autumn in order to get it through.

My noble friend Lord Higgins asked about having a debate in the Moses Room. That is a matter for the usual channels—I see two of them here, one on each side, and they will both have heard that. My noble friends Lord Flight and Lord Northbrook raised some issues about stamp duty, and I will write to them on that.

Many of the things we have looked at today are ongoing challenges—whether securing the public finances, addressing the productivity gap or supporting the most vulnerable as effectively as possible. I thank all noble Lords who have contributed today. It has been a thought-provoking debate, and I have enjoyed listening to the vast knowledge and wisdom which has been shared. If a consensus has not emerged, I hope that even our grudging opponents might agree that the Government have gone some way in the Autumn Statement to ensuring that Britain has a brighter future, and I echo the optimism with which my noble friend Lord Flight ended his speech.

Motion agreed.

House adjourned at 9.49 pm.

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