ALAN'S RESPONSE TO THE BUDGET

Alan Simpson (Nottingham, South): I am very pleased to be called to speak on the first day of the Budget debate, and I begin by paying a couple of tributes, the first of which is to the hon. Member for Bognor Regis and Littlehampton (Mr. Gibb) for an extremely principled analysis and denunciation of tax avoidance, and where it takes us as a society. I urge Members not currently in the Chamber to read his remarks carefully and reflect on them.

I also pay tribute to the hon. Member for Sutton Coldfield (Mr. Mitchell), who made extremely thoughtful and honest comments on the pension's dilemma, and on some of the ways in which we shall have to address problems of housing provision in the years ahead. He pointed out the real difficulties of removing regulation to the point at which developers not only are allowed to determine housing density on land on which they have freedom and permission to develop, but leave behind social consequences in the communities that contain the developments, once they have left with the moneys that they have made out of them. Again, it would be helpful for us all to reflect on his comments.

I welcome the generous comments that the hon. Member for Sutton Coldfield made on the Budget's good points, and I wish only that the Leader of the Opposition had not been so disparaging in his comments. It was extremely disappointing that he was unable to recognise and comment positively on the stability and economic growth that this Chancellor has delivered, and which was always out of the reach of the Conservatives when they were in government. It is unhelpful to retreat into a knocking copy analysis that is waylaid by arguments that any taxation is bad taxation, and that less taxation must be good. That in no way engages with the nature and challenges of the society in which we live.

The same may be said of commitments to knock the Chancellor's decisions on when in the economic cycle to borrow, and for what purposes. Anyone who runs on claims that their only commitments are to reduce taxation and borrowing is left with fairly spurious spending promises that are impossible to deliver. A further issue is the duplicity of the positions taken on debt. I have not heard Members in the House denounce households' decisions to take on mortgages. Those decisions to take on family debt are seen as responsible, because the family make them in the knowledge that they will get a solid, secure asset that will have lasting and, they hope, increasing value. However, when some Members discuss Government decisions to borrow for infrastructure investment, although that also involves assets that will accrue in value, they suddenly call those decisions morally reprehensible, and denounce the Government for making them. That duplicity and inconsistency does no credit to the debates that must be held in the House.

I want to focus on three issues. They are observations on, rather than criticisms of, how the Chancellor has brought us to this point, but they involve challenges that we have yet properly to address.

My plea to the House is for a grown-up discussion of the difficult issues that lie ahead of us, and I want to focus on three of them. They are: first, what we should do about pensions; secondly, how we should deal with infrastructure investment; and, thirdly, the question of the environment.

Whatever party is in power, we must recognise that it is a biological rather than a political reality that, as we live longer and expect to spend less of our lives in work and more in retirement, we shall have to ask ourselves how we are to pay for that change in the balance of our lives. The only way to pay for it properly is to recognise that we shall have to pay more in our working years for the length and quality of our retirement years. That is not a politically contentious thing to say; it is simply a biological fact of life. The real debate that needs to take place is on how we can best do that, rather than on whether we do it at all.

We are told that we are not saving enough. This weekend, Sandy Crombie, the chief executive of Standard Life, wrote a useful summary in The Observer . In the opening paragraph of his article, he said:
"This country is facing an enormous challenge. People are living longer and the trend has been for them to spend less of their lifetime working. They need to save more, but they are not. The Government estimates that 3 million workers are not saving for retirement at all, and another 5 million to 10 million are not saving enough. According to some estimates, half of all UK workers are saving less than they should."

What can we do about this? If we try to take this message out to young people, we learn the salutary lesson that we have virtually lost the argument before we start. Many young people say, "Save for retirement? You're mad! You must be absolutely stark staring bonkers! Look at the people we are working alongside. Many of them have saved throughout their entire working lives in works pension schemes, yet they are being told that all the savings that have gone into those schemes are now worthless. The company schemes have gone bust, the money has disappeared, and what people thought of as their savings for retirement have been frittered away somewhere. The system is not going to safeguard the money that I put into it; it's going to run off with it. The money will disappear. Do you think that's what I want to do? Absolutely not!" This crisis of confidence for those people who would not even dream of putting money into a pension scheme has to be addressed.

I would like the Government to recognise that we have to come up with measures to address the restoration of pension entitlements to those who have saved throughout their working lives and who believe that their pensions have been stolen from them. I would have liked to see such measures in today's Budget, but they will be welcome whenever they are introduced. No amount of new pensions provision will be credible if it does not address the issue of the theft of the pension entitlements of those who have been told that their pensions have now gone.

In other debates in the House, Members have drawn attention to the amounts that are currently sitting in various pots in what are called orphan funds, held by banks, solicitors and different sections of the financial services industry. Estimates of the amount in those funds are as much as £50 billion. The highest estimate of what it would cost to meet the needs of the 60,000 pensioners who have been told that they have lost the value of their pension savings ranges up to a maximum figure of £450 million a year. If the Government were to require the industry to put that £50 billion aside, we could comfortably pay that £450 million a year simply out of the interest that would be earned on it. The important thing, however, is that we honour a debt—a contract entered into honestly by workers who, through their lives, contributed to their works pension schemes.

In part, the credibility of the schemes and exhortations that come from the Government must be considered in the sense in which we honour the commitments made by those generations. It does not have to be the Chancellor who puts his hand in his pocket, or other people's pockets, but he does have to say to the financial services industry, "Those orphaned funds are not your money anyway. This is still other people's money that you're sitting on, and every now and again you have a little scoop out of that pot." That is to meet the company's needs, not the needs of those whose pension entitlements have been taken from them.

If we were to go down that path we would go a long way towards restoring the credibility of exhortations to save for the pension years, but it would not be enough. We also must reflect on the obsession, which the Labour Government inherited, with the desire to go in for means-testing. I will not go through this in detail, but I urge Members of the House to read the document recently produced by the Pensions Policy Institute, which is entitled, "Citizen's Pension: Lessons from New Zealand".

The institute's approach turns its back on the obsession with means-testing. It goes in for a much simpler system, which is to deliver a flat-rate universal pension payable to all people over the age of 65. It is popularly referred to as the "65 at 65" pension, because the pensioner couple will receive between them 65 per cent. of the average wage at the point at which they retire. This is a generous pension that provides a platform beyond which people can have their works or second pension and their other income streams, all of which should be subject to normal rules of taxation. However, it removes the sense of contradiction in an increasingly complex means-tested system.

The reality, as everyone who has looked at pensions will say, is that it is always the contradictions at the margin that are greatest and most unfair. The clawback on those at the margins of eligibility is where the greatest sense of unfairness appears to lie. This approach is a helpful way out on an important issue that this and subsequent Parliaments will have to face.

The Pensions Policy Institute paper is modest, as it makes proposals that would deliver a citizen's pension in the UK of about 22 to 25 per cent. of national average earnings. It states:

"This level of benefits is not generous, but it would mean that hardly any pensioners need to be means-tested for their basic income."

We must be willing to go down that path if we are to try to make all other pension savings exhortations credible, because many of those in work are saying to us on the doorstep, "We must have been daft to have been putting money aside." Those who have put savings aside through their working lives find themselves in a means-tested system and being penalised in terms of their eligibilities while those who have put nothing aside get the full benefit of provision. We have to look at ways of removing those disincentives within the system.

In relation to second pensions, however, I would make a further point. If we had doubled the savings rate rather than halved it, and if that money had gone substantially as an increase in pension funds, whether works or occupational, would that have made today's position any easier? The answer is no, because the crash was driven by an excess of capital in pursuit of shares whose value was being driven speculatively through the roof. All that we would have done is to have thrown twice the amount of money at the same number of shares, share values would have rocketed, and the crash would have been even more dramatic.

A year ago, I did some work with two other people that attempted to examine a different approach to pensions, which I make no apologies for commending to the House. Richard Murphy, Colin Hines and I wrote a document entitled "People's Pensions", which looked at the fact that the £250 billion that had been wiped off the value of UK pension fund holdings in the previous year largely reflected the change in balance of where pension fund contributions were going. Forty years ago, more than half of pension fund savings were going into Government bonds, which were by and large focused on infrastructure investments and assets that were not going to disappear. In the last year for which we could get figures, however, 71 per cent. of pension fund contributions went into shares, and only 17 per cent. into Government bonds. That was backed up by public sector investment that was increasingly driven by dependence on private finance initiative schemes and the approach to off-balance-sheet accounting that seems to be in vogue at the moment.

When we considered a different approach to pension funds and pension schemes, one of the most obvious issues was that hospitals, schools and local authorities involved in PFI schemes were being charged an interest rate of 16.6 per cent. Local hospital trusts are already hitting budgeting crises as the annual repayment costs of PFI schemes start to cut into the costs of other direct patient services. We pointed out that if no more than half the £50 billion a year that workers currently put into their pension schemes were channelled through the people's pensions vehicles that we proposed into direct public infrastructure investments, even at a rate of 5 per cent. to 6 per cent., that would be a quarter of the rate being charged by PFI finance providers. It would also deliver tangible assets that provided real improvements in quality of life and the access to services on which people relied—we would get an improvement in service, a tangible asset and something that would not disappear in the bursting of a dotcom bubble.

The challenge facing us is how to break from a fascination with an approach to financing the future that is driven by the short-term demands and requirements from the financial services industry. We must set down different ethical or legal requirements for the way in which that sector of the economy works in relation to the needs of the whole economy.

The House needs to reflect on where our current infrastructure dependence on PFI schemes is taking us. If we consider tables C16, C17, C18 and C19 in the Red Book, we see that if we put together the signed bid and preferred bidder stages of PFI schemes, we are currently looking at getting about £7.3 billion a year as income. We are having to support PFI contracts with payments averaging £6 billion a year, for the next 12 to 15 years. Even if that is matched by the direct Government investment to which the Chancellor referred, great chunks of the investment will have to be underpinned by the asset sales he mentioned—also running at £6 billion a year—if fresh investment is to be made.

All that leaves us with real problems to do with the assets that we no longer own and the liabilities that we shall still have to honour. I can think of so many better ways in which we as a society, and we as a Labour Government, could try to safeguard the contributions that people are currently making to their pension schemes, and direct them more effectively into the public infrastructure investments that society needs so badly. We must go further, however. We have got into the habit of making freedom to invest publicly conditional on a willingness to dispose of public assets. If we want a level playing field, we should argue for open and accountable democracy. If local government wants to invest in the improvement of its housing stock, let it borrow in the way that we say we are making it free to borrow, but not on the basis that it can sell out one set of council tenants to meet the housing needs of another set. Trading in people—trading in people's lives—is not an activity for which a Labour Government will be thanked.

I welcome the Chancellor's specific references to the environment, but I feel that an opportunity has been missed. He came up with some useful proposals for incentives to make people shift towards less polluting fuels, but the right hon. Member for Fylde (Mr. Jack) was right about biofuels. The Environment, Food and Rural Affairs Committee received numerous representations from the energy industry, describing the various levels of financial incentive that would enable the industry to act ethically and produce non-polluting fuels. Increasingly, members of the Committee responded by asking, "Why don't we just give you an obligation to do that?" If the cost were spread across all fuel types and fuel sales, the consumer would experience minimal change.

Why should the Government try to find cash incentives to pay the industry to act in a less polluting way? Surely it is much more sensible to tell the industry that that is its duty. If the costs are absorbed within the industry as a whole, as long as we specify the rate at which we want polluting fuels to be replaced by less polluting fuels, let the industry get on with it.

Another opportunity was sadly missed when no duty was imposed on aviation fuel. Like every other Member, no doubt, I take advantage of the low-cost flights that are currently available. Can I justify that on environmental grounds? Absolutely not.

If we are considering the real challenges and choices, we should not say that we must support a proposal because we are locked irrevocably into a globalised economy. The real challenge is, in fact, the other way round. Like Joseph Stiglitz, a former member of the World Bank board, I am a disbeliever in globlisation: I think it is rapidly reaching its sell-by date. The one thing that is here to stay for the rest of our lives is the reality of climate change, which will turn everything upside down. We will have to revise the whole way in which we think about sustainable international economics if we are to survive the century in a civilised fashion.

I want the Chancellor—I know that he can do it—to come up with a new raft of policies that promote a sustainable environment rather than an exploited one, promoting sustainable trade rather than a global free-for-all, and favouring the reduction of product miles rather than the explosion of pollution costs that comes from goods in global transit. Other countries in Europe have policies that tax-favour the restoration of localised and regionalised economic systems. That is low-impact economics that will be in the interests of all and provide employment and sustainable lifestyles for all. That is the challenge that every Government in this country will face for the entirety of my lifetime.

We have to meet out Kyoto targets. One way of doing that relates to an issue that I have droned on about in the House more than I should have: ending fuel poverty. The Chancellor mentioned the commitment to new social house building. That is important, but we must recognise that the majority of families will live in the housing stock that is available today. The reality for those who are fuel-poor today is that they will live in the housing that is fuel-poor tomorrow. We must focus our attention on that housing stock.
Through the Fuel Poverty Advisory Committee, the Government were given a stark warning about a fortnight ago that we simply will not meet our legal undertakings to end fuel poverty unless there is a 50

per cent. increase in the Budget commitment to eradicate fuel poverty in social housing alone. That does not even take us into the challenges of how we do so in private rented houses, and especially houses in multiple occupation. We have to create a shift in the resources. I look forward to the day when the Chancellor introduces a framework of environmental commitments that will bring to an end the human and environmental misery of fuel poverty.

This was a good Budget. It was not an election Budget. It was a Budget for education and science. It was a Budget to reassure, but not yet to inspire. I was disappointed that the Leader of the Opposition struggled to address the issues even of the last century. I hope that it will be within the grasp of a Labour Government—only a Labour Government will do this—to set out our stall to address the issues of the century that we have entered, rather than following the Opposition into the century that we have left.