PENSIONS BILL DEBATE

Alan Simpson (Nottingham, South) (Lab): I hope that it does not damage the standing or career of the Secretary of State or the Minister for Pensions Reform if I, too, congratulate them on making tonight's debate worth having. If they had not intervened effectively to restore the stolen pensions of the 125,000 pensioners affected, the House would have had to understand what my right hon. Friend the Member for Birkenhead (Mr. Field) said, which is that huge numbers of walking newspapers across the country would have been saying to their families, friends and communities, "You've got to be a mug to save." If the pensions guarantee was not a guarantee, it would have been worthless. The changes that the Secretary of State has been able to make really transform the context in which the debate takes place.

Between them, the Secretary of State and the Minister have done what none of their predecessors were willing to do. Predecessors did the House, and the Labour party, a disservice by requiring Labour Members to parade through the Division Lobbies making fools of themselves by claiming to support a financial assistance scheme that never did, and never would, work. We all owe both the Ministers of State and the Secretary of State a huge debt of gratitude for getting us out of a hole. However, let us try to put that in the context of where the Bill takes us. I have no doubt that as a society we need to save more and spend less. In a society that increasingly expects to live longer, the issue is more a biological than a political one. The question is how we make good provision for the increasing length of the part of our life that we expect to spend in old age, and in receipt of a pension. The question is how we get there.
My worries about the Bill concern what it does not address, rather than what it tries to address. In a sense, it does not address the failures—the legacy of successive Governments who have messed about with pensions provision and retreated from a policy that would genuinely be fit for the 21st century. We are still not addressing our collective failure to restore the value of the state pension, as well as its link with earnings. We are not addressing our failure to halt the retreat from defined-benefit schemes, and the drift into defined-contribution schemes. We are not addressing questions about the ability of the poor to pay into schemes—a concern that a number of Members have legitimately raised—and we are not addressing the failure to challenge our naive presumption that the market is a mechanism that will get us out of the pensions crisis, rather than take us into another one. I want to concentrate on those two final points.

The question of who will save is inextricably linked to the issue of means-testing. We need to understand where we are, as a society and as an economy. The Institute for Public Policy Research has reported that 51 per cent. of those in low-income families have working parents. Some 2.5 million households need tax credits to give them a living wage. In addition, Britain is in the midst of our own credit and debt crisis. Last year, personal credit debt rose to £1.35 trillion. UK gross domestic product stands at £1.33 trillion. For the first time in our financial history, personal debt exceeds personal created wealth. That will present us with huge challenges in the year—and years—ahead.

Grant Thornton accountants predict that in 2008 there will be an increase in insolvencies, with 120,000 in the coming year. That is 20 per cent. more than in 2006. They also say that excess spending on credit in the Christmas period will account for a third of the 28,000 personal insolvencies that they expect us to face in the next three months. Repossessions are currently running at 77 a day, and there were 14,000 in the first six months of last year, which is the highest rate since 1999. That was before Northern Rock and the global credit crunch kicked in. Mortgage bills have risen by 20 per cent. in the last two years, and in the coming year there will be 1.4 million households whose preferential periods of access to low-interest mortgage repayment starter periods will come to an end. They will almost certainly not get preferential treatment in the deal that follows. In addition, up to 4 million households are being forced back into fuel poverty as a result of ever-increasing fuel prices.

Over the weekend, the Prime Minister warned:

"This is one of the most difficult years for the world economy."

If it will be difficult for the wealthy, it will be even harder for the poor. We will have to take a long, hard look at how we expect those who cannot afford to live to be in a position to afford to save. That is a practical, day-to-day issue, precisely as fuel poverty is: as we have expressed it, people are faced with a choice between heating and eating. The question is: how will those whom we wish to include in the new Pensions Bill schemes be able to afford it? We need to look at new mechanisms that address the question of affordability, and the most sensible starting point may well be tackling the current provision of £20 billion a year or more that we give in pension credits to the wealthiest in the land. If we have to dip into that money to provide access for the poor, that would be a genuinely progressive and relevant measure.

The question of who pays is likely to be dwarfed, however, by the question of where the money goes. How short a set of memories we seem to have. In 2002, there was a pensions and investment crisis. In that year alone, £250 billion was wiped off the value of UK pension funds, because the deregulation of world financial markets resulted in pensions being increasingly drawn into short-term, speculative markets. When the bubble of those markets burst, inevitably what people thought were secure savings disappeared. We have not learned from that that there is an increasing incompatibility between short-term speculative markets and long-term, secure pension aspirations.

If we doubled the amount of money that went into UK pension funds in 2002, we would simply have doubled our losses. To double them today using the same mechanisms would throw petrol on the fire. We cannot pretend that by introducing a new mechanism while shovelling the money in the same direction would do anything other than accelerate the drift into the next crisis. The global credit crunch has been driven by precisely the same mechanisms that took us into the crisis in 2002. Sadly, creative accounting is used extensively in the banking and investment world, and Northern Rock is just the tip of the iceberg. Commentators in the United States have tried to analyse what happened in the off-balance sheet accounting world, which has transformed international banking. They have calculated the impact of what is referred to as "toxic waste" in the banking industry—loans made upon insecure loans upon insecure loans. Using a mechanism outside accounting rules, the banks have created their own credit default swap clubs, in which they swap bad debts and spin them round the table to allow themselves to create more debt. The scale of that activity is estimated to be £45 trillion, or three times the size of the US economy.

It is no wonder that while central banks, whether in the US, the UK or Europe, have intervened to create credit for the banking world, banks will still not lend to one another, because they know how shaky the foundations are. Throwing more money into that crazy pot will simply accelerate the drive into the next crisis. We have to move the rules about where money goes in a different direction. In 2003, I helped to write a pamphlet on people's pensions that looked at the ways in which the allocation of pension savings had changed in the past 50 or 60 years. I shall give the House just one set of figures. In 1962, 51 per cent. of the total pension fund assets in the UK were invested in UK Government bonds. Today, that figure stands at 9 per cent. Some 80 per cent. of pension fund contribution goes into private equities or corporate bonds, both of which have become increasingly short-term, speculative, mythical and, in some cases, illegal. The danger of throwing money in that direction is that it would simply accelerate the next crisis, which would be a repeat of the last one.

We do not have to go down that path, and I should like to offer some suggestions to the Minister and the Secretary of State. Some 99 per cent. of share transactions trade in second-hand shares, and are decades away from the principal investment that built anything. They are just swap clubs for second-hand financial entities. If we genuinely want mechanisms that invite people to save, and if we want that saving to be a productive investment in their future security, we must direct those savings into investments in infrastructure, health, education, housing and environmental improvements and security. We could do so extremely easily. We contribute about £50 billion a year to personal pension schemes. If the Bill delivers the Secretary of State's expectations, it will add another £10 billion a year. If we used that money for infrastructure investments, we would not need a single private finance initiative scheme in the land. Last year, the Government received £3.6 billion in capital receipts for the privatisation of public services. Across the piece, we pay an average of 16.6 per cent. interest on PFI schemes, which is an absurd charge on the taxpayer for the next 30 to 50 years.

If we paid half that rate of interest to bond holders, we could halve the rate of tax for taxpayers, and we would all be better off. Do we have the courage not only to include the poor in a comprehensive, 21st century pension package but to redirect how and where our savings are deployed? The Bill does not do so. It does not address the question of how the poor will participate, and it does not address the question of how those resources will be deployed productively, creatively and constructively to deliver long-term security for pensioners and society as a whole. If we fail to do so, we will end up passing a Bill that favours the City but not savers, which would be a tragedy for which the present generation and those who follow it would not forgive us.