



## ALAN'S RESPONSE TO THE BUDGET



**Alan Simpson (Nottingham, South) (Lab):** At the end of every Budget debate, Members stream out of the Chamber and are greeted by those in the press, who want to know whether or not we thought it a good Budget. Usually, answers to that question are based on relatively short-term considerations—whether it will last a day or a week before people start to pick holes in it. Even after imperfections and weaknesses have been identified, we are asked whether, on balance, we would describe it as a cup that is half full or half empty. With today's Budget, there are easy and difficult answers.

In the short-term, this is a Budget with a cup that is three-quarters full in relation to the next election. As Labour Members have pointed out,

that is not an opportunistic Budget because a stable economy, with a period of sustained economic growth, cannot be delivered by a single Budget. The Chancellor has rightly flagged up and sustained a year-on-year commitment today, and it will rightly provide the basis for Labour's manifesto claims at the next general election. The additional trimmings that he has put on the cake will be attractive because they underpin Labour's commitment to an inclusive society, where we genuinely deliver reinvestment and opportunities for all.

I welcome the fact that we have made substantial commitments in the Budget to the rights and prospects of our children. I welcome the fact that we are making a commitment to extend the concept of an entitlement to education and training from the ages of three to 18. I welcome the commitment to reinvest in the infrastructure of the schools and health services that our communities depend on. I welcome the commitment to employment for all and the associated implication, which is that we will unashamedly target resources towards those who have been excluded and most alienated from the jobs market. I also welcome the commitment to pensioners that we will deliver to them free bus travel and a council tax rebate. I am sure that the communities that comprise my own constituency will understand the substantive nature of this as a package that a Labour Government can deliver on the back of period of stability and economic growth.

For all those reasons, the Budget is to be welcomed. It will take us through the next general election. My doubts are whether it will take us through the next Parliament and whether it will see us through the big challenges of the next decade. It is against those challenges that I want to try to make my own contributions, and I make them unashamedly to a Labour Chancellor not only on the presumption that he will continue to be the Chancellor in the next Labour Government, but on the basis that only a Labour Government can take on board the implications of the challenges. Sadly, the contributions from Opposition Members, who seemed to go little further than a "we can tax you less" approach, do not even begin to touch the nature of those challenges.

The challenges come down to two things. First, as a Parliament and as a society, we must ask ourselves

how we renegotiate the contract with ourselves. We live in a society in which people rightly expect to live longer and fuller lives. However, a difficult set of questions must be addressed as to how we pay for the services that will underpin those longer lives. In many ways, this is a biological issue more than a political one.

At a political level, the more difficult challenge is one that will come from outside; the challenge of climate change. Tomorrow, a conference will take place in Derby and will be addressed by leaders from across the world. If we were to set today's Budget in the context of meeting those challenges, the cup would be three-quarters empty. It is a poor Budget in relation to climate change and misses some real opportunities that we need to address—when we have the space to do so—before the crises that climate change will cause begin to land on our doorstep at a rate that we cannot deal with.

Severe cautionary warnings have been issued as to what is already happening, but they are not coming from the IMF, the World Bank or the OECD. They are coming from the United Nations and from non-political organisations such as Munich Re, the world's largest re-insurance company. In a recent report to the UN, Munich Re said that in the next 25 to 30 years, the scale of claims for damages resulting from climate change is likely to result in annual costs that outstrip the annual income earned by the world. The forewarnings are dire; it says in simple terms that the costs of climate change could bankrupt the global economy. We will have to think our way into a different world and a different view of economics. If I wanted an example of that, I could not have asked for a better one than the front page of The Guardian this week. It showed a picture of Mount Kilimanjaro as it had not been seen for 11,000 years above a story that said:

"Brown to hold down petrol duties."

It was prescient, if not predictable. In addition, the final story on that front page said:

"Blood and coal: the human costs of cheap Chinese goods."

To those who are enthusiastic about globalisation, I say that we need to think carefully about its costs and the viability of that policy in even the medium term. In China today, the cost of globalisation, and of being able to flood world markets and dump cheap produce in our shops, is that the Chinese are already in the middle of an energy crisis. The Chinese Government have instructed the Chinese coal mines to increase production dramatically above current levels just to keep the system going. A by-product, with some human significance, is that although China produces less than a third of the world's output of coal, it accounts for 75 per cent. of the deaths of coal miners. That is the product of exploitative markets; we have seen this in our own land in previous centuries. To suggest that a burgeoning global economy can be driven without recognition of these human costs is crass and irresponsible.

Moreover, those who see China and India dominating the global economy in the years or decades to come need to talk to Chinese and Indian environmentalists who point out that, in the short term, China and India will face colossal crises about where they will get access to water supplies to keep their populations alive, let alone how they will expand supplies to meet the water requirements of an increasing domestic production market, driven to sustain the global economy.

The water is not there, and nor are the energy resources. If we try to set that against the obligations that

we have entered into in respect of Kyoto, those obligations look absurd. The commitments in China are predicated on the construction of 500 more coal-fired power stations. There is not a cat in hell's chance of our meeting the Kyoto commitments, let alone containing the current rate of climate change, if we presume that that is how the global economy can function in the years and decades to come.

The Budget has missed a real opportunity to address a shift in how we think about taxation—a shift from the taxation of goods to the taxation of bads. We have said nothing about a change in the taxation of aviation fuels; we have said nothing about a change in the petrol fuel duties; and we have said nothing about the windfall profits that have accrued to the upstream gas and oil industries as a result of the recent hike in oil prices. However, we do know that Shell has announced that its profits this year have gone up to £9.3 billion, and those of BP have risen to £8.7 billion. The TUC's estimate of what we could legitimately look for as a windfall tax on such unearned profits would be in the region of £5 billion to £6 billion. Had we levied such a tax, we could have earmarked it precisely for investment in the renewable and sustainable energy systems that we desperately need to maintain our own sustainable economy in the future.

The right hon. Member for Fylde (Mr. Jack) set the point in the context of biofuels, and there is a case for doing that. However, many other areas in the renewable energies sector are crying out for our help. A lobby from the sector set out to us how it could be a major employment driver in a new technology initiative to provide us with a green economy for the future. It pointed out that Britain accounts for 4 per cent. of the global market in renewable and sustainable energy systems. Germany has 15 per cent.—and not because it was waiting for an investment initiative to co-ordinate energy thinking by its Government, but because its Government created domestic renewable energy markets that allowed the goods to be produced and then to be exported. While we are spending time thinking about the issue, other countries—our competitors—are getting in and investing in changing the nature of their domestic markets. We have missed a real opportunity today by failing to do that. As a comparison, I wish to refer to some of the discussions on environmental thinking and taxation that are taking place not only among our European partners but within the developing world. Many Governments are in direct discussions with their farming communities and urban communities about how they best support regionalised and localised food and farming systems that cut down on food miles and on the carbon and fossil fuel content involved in the long-distance transshipment of food products. Such systems strengthen the lines of food accountability between local farmers and local consumers and create a virtuous circle for sustainable food production. We have failed to pick up on what many of our competitors are seeking to do in structuring the tax advantages around the relocation of food systems, in which food security will be a central issue in our competitors' view of the challenges of the immediate future. Our failure to tax carbon miles, in many ways, plays into the hands of those who disregard climate change to the peril of us all.

We have done little or nothing about our approach to tackling global pollution. I suppose the only good thing that I can say on that is that, at least, we have not filled the space by a reaffirmation of our belief in the virtues of pollution trading credits. Some of the more critical and serious analysis says that the idea that we can create markets in tradable pollution as a solution to the pollution crises is daft.

I offer a comparison with what Parliament did when it acted at its best to deal with pollution and contamination. A number of us are old enough to remember growing up in towns and cities where winters were characterised by periods in which we could barely see in front of us because of the thick

fogs that descended. They were part of our annual seasons and cycle. At that time, the Government of the day passed the Clean Air Act 1956. We already knew of the problem, from the hospital wards and doctors' surgeries, and from the cemeteries that were lined with the bodies of people who had spent their lives sucking soot from industries that had no pollution controls. The Government did not set up soot swap shops, but said, "You can't do it. We're giving you a period of notice after which those emissions are not going to be allowed."

We changed the market rules. We did not abolish production in the UK or make the country any less competitive, but we cleaned up the markets. The Government intervened to change that by legislation and regulation. We have to reconsider how we use our tax powers, if we will not use legislative powers, to change the market again in order to clean it up.

As for where and how we do that, it can be done in collaboration with the developing world. If our sustainable technologies can fill today's soot gap or carbon gap, it gives us an enormous opportunity to offer as gifts to the developing world, not the technologies that we have banned or abandoned in our countries and then handed on under the pretext of aid, but the technologies that they, too, will need to rely on for clean production fit for the 21st century.

Mr. Jack: I am following closely the hon. Gentleman's carefully thought-out speech. Does he agree that there is a further medical dimension—namely, the enhanced opportunity for international disease development and transmission—if we do not get on top of global warming? We need a thorough and rapid economic appraisal of the costs of dealing with that dimension, together with all the other things that he mentions, as far as the UK, European and world economies are concerned.

Alan Simpson: I accept that and thank the right hon. Gentleman for raising that issue in the Environment, Food and Rural Affairs Committee. We may well need to factor that into our view of Britain's role in the global economy, specifically in relation to our commitments to the developing world. In some respects, there may be more mileage in that than he thinks. Today's announcement that the World Bank will be led by Paul Wolfowitz may seriously complicate what the Chancellor said about his plans for debt cancellation and poverty relief. Mr. Wolfowitz's record is such that he is more likely to cancel the poor than the poverty. We must recognise that we might need to look for a different leadership role in addressing the same challenges that we and the developing world will face, which brings me on to my next point.

We will also need a different contract with ourselves. Longevity will force us to go back and consider the fact that most of the tax that we pay in our lifetime is a redistribution from us to ourselves. It comes back to us in our old age and perhaps we pass it across to our children, in the way that our parents passed their taxes across to us in our childhood.

In solidarity with ourselves throughout a longer lifespan, we have to ask how we pay more in our working years for the longer period that we hope to enjoy in our later lives, certainly in our retirement or older years. We need to have a more grown-up debate about that, not a cross-party slanging match, but a recognition of the real challenges for a society that expects to live longer. My only observations on that are cautionary ones about how we address the poverty challenge.

On the Labour Benches and in Downing street policies, a lot of reliance is placed on tax credits. The

difficult thing about tax credits is that they heavily rely on a bureaucracy of means-testing that creates its own complications. I doubt that there is a Member of the House who has not had constituents coming to them with real problems and complications because they say that the Inland Revenue has got its calculations wrong on the tax credits that they were entitled to. They face bills for repayment to the Inland Revenue when they have no savings. So the tax credit system is a fragile approach, particularly to those who either have no savings or are in insecure and variable employment. We need to be careful about how much reliance we place on it.

Tax credits and means-testing are good at directing benefits to the poorest of the poor, but they also create anger and resentment at the injustice of tax on the margins. I invite the Chancellor to look at an additional principle, a golden rule, about our approaches to taxation and poverty. It would be a huge advantage if we were able to say, as a matter of principle, that we, as a Labour Government, will not tax the poor more heavily than we tax the rich. At the margins of entitlement in the tax credits and benefits system, the clawback is about 80 per cent. and above. It is the resentment that people acquire at those margins of clawback that divides neighbour from neighbour, street from street, and parents from grandparents and from their children. The consequence, even in pragmatic terms, is that it is very hard to get any political credit from tax credits. The credits, if there are any, tend to go to the Inland Revenue, but the blame almost certainly goes to the Government.

If we want to rebuild a sense of social solidarity, it will be much easier to do so, and certainly less bureaucratic, if we return to the principles of universal entitlement. Certainly, those marginal tax rates that affect the poor make the suggestion that we should have a top tax rate of 50 per cent. on those earning more than £100,000 seem quite modest. If that were to raise the predicted £6 billion extra revenue stream for the Chancellor, and if he were to earmark the entirety of it to meet the cost of restoring the value of pensions and the earnings link, many on the Labour Benches would rise up and celebrate. Many of us would also be perfectly happy if the additional £5.6 billion that could be raised simply by removing the ceiling on national insurance was earmarked, not just to meet tomorrow's pension requirements but to repay the pension entitlements of those who thought they had been saving throughout their lives and paying it into their pension funds, only to find that their pensions had been stolen by the collapse and theft of those funds. If we want to convince today's generations of young people that it is sensible and safe to save in pension schemes, at the very least we have to find ways of repaying those who have done precisely that only to find that their pensions have been stolen from them.

Finally, I welcome the Chancellor's direct investments in schools and health. We all know that sizeable costs will have to be paid in the years to come that will be top-sliced as a result of going down the path of funding some of the investment through public finance initiatives and public-private partnerships. They are extremely expensive ways to lock us into long-term debt, before a single nurse, teacher, cleaner and so on begins to be employed. It would be much better to look again at our approach to pension savings and the use of those funds. In 1962, 51 per cent. of pension funds were put into Government gilts or public bonds. When the 2002 crash happened and £250 billion was wiped off the value of pension funds, only 17 per cent. of those funds were in public bonds. We should put the public back into public investment. We must find ways of allowing and encouraging pension funds to become the source of direct public investment; public saving in public investments that will secure public pensions—pensions that would not disappear in the bursting of a dotcom bubble, but would deliver an annual bonus not only in cash terms, but in terms of the quality of life that we in this country are able to enjoy.

Those are challenges that can be tackled only by a Labour Chancellor. I would not even offer them to the Conservatives, because if they understood them, they would probably try to sell them. They are, however, challenges that we will have to face in the next Parliament. My plea to the Chancellor and his Front-Bench colleagues is this. There is no prospect of the Conservatives being able to make a claim that this is a profligate Budget by a Labour Chancellor stand up; its stability, consistency and inclusiveness make it anything but profligate. What is less clear is whether we have been profligate with an opportunity to use this Budget to meet the challenges of the coming decades. If we duck that for long, our children, our grandchildren and the whole of society will have much to criticise us for.

**Mr. Nigel Evans (Ribble Valley) (Con):** It is always a delight to follow the hon. Member for Nottingham, South (Alan Simpson). His was a thoughtful contribution. He is passionate about his politics and after eight years of new Labour it was refreshing to hear a little socialism creeping through. Even though he did not utter the words, "Let's tax the rich," that was the ethos reflected towards the end of his speech. I enjoyed the hon. Gentleman's comments on environmental matters, especially in the emerging countries of China and India. All hon. Members want to ensure that the poor people who live in those great countries are able to enjoy the fruits of the prosperity that has lately come to both areas. When I first visited China in 1992, while wandering around Beijing I saw oxen in the streets pulling coal carts; when I last visited a couple of years ago, one had to travel further into the rural hinterland to see such scenes. Prosperity is certainly coming to cities such as Beijing and Shanghai and to central China. I visited a place called Chongqing, which I had never heard of before my visit, and found that a staggering 35 million people live there.

It is important that prosperity comes to those countries and reaches into their rural areas, but we must recognise that it will bring with it the challenges relating to energy and water needs that the hon. Gentleman described. To ensure that we all adhere to the Kyoto protocol and reach our climate change-related targets, the emerging countries, which have huge growth rates compared to ours, will have to play their part. If the hon. Gentleman is right about the number of coal-fired power plants being built—500, which is a staggering number—that has to be fed into the equation. We live in a global village and we must ensure that we have the right policies—right for us and right for the world. There will have to be a great deal of discussion and negotiation about how we in the developed world can use the technologies that we possess to help developing countries to acquire the clean energy technologies that they will need.