

[2006 Budget debate speech](#)
[22/03/2006](#)

Alan Simpson (Nottingham, South) (Lab): Budget debates are often conducted within a strange sense of time. The short term is about whether the Budget will survive the press headlines and analysis tomorrow. The medium term is defined as how the Budget will look in a month or a year's time. The long term is the end of this Parliament. Anything beyond that is infinity. The difficulty for our constituents is that they have a different sense of time, of the critical issues that face them today, and of issues that Government and Parliament must address in the years ahead, in their working lives and the lives of their children. Against some of those measures, I want to reflect on some of the matters that were not dealt with in today's Budget.

Sadly, the shortest of short-term considerations—fending off the press and seeing off the Opposition—has almost been dealt with by the Leader of the Opposition. I was astonished by his speech, which was lamentable. It was almost as though he had set out to send himself off. It was an apology for his existence rather than a bid for the intellectual leadership of the nation. In that sense, the challenge to the Chancellor's Budget from the Opposition petered out before it began.

Other challenges are waiting, however, beyond the Opposition Benches and tomorrow's press headlines. Those challenges are what Parliament must do to build a society and economy that will survive sustainably in the decades ahead and that will meet the current challenges and crises facing society. I make no apologies for saying that that is the entire focus of what I hope will be my Budget contribution.

The Tories made some interesting comments. They spoke of a Labour Budget disregarding wealth creation and being indifferent to productivity, and said that those were the cutting edges of the economy that they defended and we ignored. I refer Members to a book that will come out within the next week called "Rich Britain", by Stewart Lansley. It is an analysis of the current state of wealth distribution in the United Kingdom. Among its key observations is that 25 years ago Britain was one of the most equal societies in the developed world, but now we are one of the most unequal. In the years since 1990, the number of people sitting on assets of more

than £100 million has increased fivefold. Twenty years ago, the income gap between the chief executive of one of our FTSE 100 companies and the average worker in that company was a factor of 25. Today, the earnings gap has risen to 120. That is the wealth divide that has opened up in our society.

Greg Clark : The Prime Minister famously said that he had no interest in the earnings of David Beckham. Does the hon. Gentleman share the Prime Minister's view?

Alan Simpson: No, I do not, and I think that it is a mistake to presume that earnings in the richest part of society are not a zero sum game. That is one of the great myths that is debunked in the book that I mentioned. It has always been argued that if the superrich are allowed to be superrich, they will somehow engender a dynamic in the economy that will drag everyone else's earnings along with theirs.

David Taylor: Trickle-down.

Alan Simpson: Yes, it is the trickle-down approach to economics, but the figures do not justify the claim. Two studies paint a picture of the actual state of affairs. The Institute for Fiscal Studies recently produced a report showing that Britain has one of the lowest rates of innovation compared with our main competitors in the industrial world. We also rank 15th among the 30 richest countries in terms of productivity growth. There is little evidence to suggest that the freeing up of wealth acquisition among the wealthiest is delivering the productivity gains that Members would like to see, or to claim.

Mr. Graham Stuart: Does the hon. Gentleman accept that the countries that are being innovative and have the most dynamic economies have not adopted the Soviet-type policy that almost underlies his comments, but apply lower taxes? Ireland, for instance, wants to reduce corporation tax. Companies setting up there are now contributing in a major way to Irish tax coffers, and hence to schools and hospitals.

Alan Simpson: Other Members would say that what underpins the dynamism of the southern Ireland economy is the number of subsidies that it has received from the European Union. That is what allows such investment and relocation to take place. In many ways, those subsidies are merely relocation bribes—they are not necessarily about productivity gains. The notion that if taxes on the rich are reduced wealth will flow to society as a whole is pure mythology.

The other study that I wanted to mention was conducted by Manchester university and relates to our thinking about economics and productivity in this country. It reveals that the top company heads in the United Kingdom have enjoyed pay increases that bear no relation to any benchmark or cross-section of productivity measures against which they could be justified. The study refers to a culture of "value skimming" among senior management in UK industries. It says that

"top managers in giant firms appear to be an averagely ineffectual officer class who do, however, know how to look after themselves".

They do not create wealth; they simply become incredibly skilful at pocketing it.

Nowhere is such a culture more apparent than in the management of the water industry, a critical issue to which I now turn. Today is world water day, which is an interesting benchmark for the House. No mention was made of it in the Budget. It comes at a time when 12 million households in the UK, mainly in southern England, have been told that they are likely to face hosepipe bans and water restrictions during the summer, and when the UK water industries—the companies responsible for water management—are haemorrhaging 4.7 billion litres into the drains through unrepaired leaks every single day of the year. That is enough water to meet the needs of 14.5 million households. The scale of inefficiency in the management of the water supply is breathtaking and it will certainly be neither welcomed nor understood by any of those who face hosepipe bans and water restrictions.

Despite that crisis, the rate of leakage reduction has fallen in the past five years. However, the rate of self-reward, profits and distributed dividends has risen.

Dividend rates in the UK water industry are now four times higher than those of our European counterparts. Last year, executive pay in the water industry increased by 31 per cent.—at a time when leakages were becoming colossal. Now, the industry is asking the country as a whole for some form of restraint in order to manage its way out of the crisis, but such restraint has nothing to do with the rewards that those in the industry pay themselves. We have created a water service delivery culture in which companies are pouring water down the drain, and in which that rate of loss is matched only by the rate at which they pour money into their own pockets.

Richard Younger-Ross: I have a great deal of sympathy with the point that the hon. Gentleman is making. Does he accept that there

is an inequality in this regard? In some areas, the price paid by people for so-called improvements to the water supply—improvements that they are not seeing—has risen exponentially. In areas such as the south-west, the water rates and the council tax combined account for more than 25 per cent. of some pensioners' income. That is unsustainable for the poorest in our society—those on fixed incomes and pensions—particularly given that, as the hon. Gentleman says, there are those who are making large profits out of the water industry.

Alan Simpson: The hon. Gentleman makes an important point, and Members in all parts of the House who have long campaigned for recognition of the concept of fuel poverty are beginning to understand that water poverty could be no less a threat to the poorest and most vulnerable in our society.

It is obscene to have such a crisis of affordability and access at a time when the levels of self-reward in these privatised industries have gone through the roof. This is indeed almost a national obscenity, so it is indefensible for us, as a Government, not to intervene. We should say, for instance, that water companies can pay no bonuses until they have met the European average for water losses, which is 5 per cent. At present, we are losing almost 25 per cent. of our water supply. Why should we create a market that allows executives to reward themselves, but which cannot deliver a consistent water supply to the public?

David Taylor: My hon. Friend and regional neighbour paints an accurate picture of water companies' incompetence in tackling water leaks, and of their directors' greed in filling their pockets. Does he agree that such behaviour sometimes tips over into the fraud and dishonesty exhibited by Severn Trent plc, the privatised utility that serves both of our constituencies, which provided fraudulent figures to justify very significant increases in water supply charges? Is not that an appalling thing to do to people in poorer circumstances?

Alan Simpson: I think that it is. As an observation, I want to say that the impetus to attempt to cheat the public and the regulator by providing false information is a direct consequence of the fact that responsibility for ensuring that services are of high quality and that accounting is honest has been pushed away from Government. We now express surprise that pushing that responsibility away to arm's length should have engendered a culture of cheating and dishonesty, but we are reaping the harvest of the mistaken belief that throwing assets out to the private sector would lead to that sector delivering social gain. What has happened, in fact, is that it has delivered social greed.

At the same time, hon. Members are lobbied, in the House and in our constituencies, by people who have been punished not for pursuing policies of greed, but for acting in a responsible manner. I am referring to the 85,000 people who have had their pensions stolen. I spoke earlier about the lack of wisdom of using pensions savings for speculative purposes, but the people who have suffered are the ones who did as successive Governments, of all parties, asked them to do. They put money into pension schemes so that their retirement years would be properly provided for, and we have a moral duty to ensure that that money is paid back. We need people to believe in saving for their pensions, but that has to be underpinned by a cast-iron guarantee that those savings cannot be stolen.

If people choose to cash in their pension savings and subsequently squander the money on speculation, that is their tough luck. However, I believe that it is a criminal offence to cause people to lose out after a lifetime of regular saving into a pension scheme. An offence like that must be redressed in full. How such redress is achieved is, in part, a responsibility for the Chancellor and the Government.

The cost of full repayment is put at £15 billion over 60 years, but the House will soon be asked to make a decision about renewing the Trident nuclear weapons system at a similar cost. I would much prefer the money to be used to redress the difficulties faced by people whose pensions have been nuked rather than to pay for a weapons system that is likely to be used to nuke the lives and prospects of other people.

That choice is the language of priorities. Aneurin Bevan always said that being in government required us to make key decisions of that sort. Restoring the stolen pensions is part of creating the platform of credibility on which we will restore people's belief in the sanctity and security of pensions and pension contributions.

My hon. Friend the Member for Hayes and Harlington (John McDonnell) spoke about the need to restore the value of the state pension and its link with earnings. That is another aspect of the matter, and would cost about £7.3 billion. On the figures that I mentioned in relation to the gap in terms of self-rewards among the corporate rich, if we were to have a windfall tax on executive bonuses and profits, that would bring in £3.75 billion a year. If we were to impose a similar tax on executive share options, that would cover the rest of the gap in relation to what is required to restore pensions and their link with earnings.

Mr. Graham Stuart: In a globalised world, which the hon. Gentleman may regret, the high earning individuals to whom he refers will simply go to another financial centre and set up in another country and none of the money will go into our coffers. Surely even he can see that that might be counter-productive.

Alan Simpson: No, I do not think that that is so at all. Let us consider what this country produces. I go back to a point made from the Conservative Benches. If we want to begin with the question of the creation of wealth, it is fair to say that there are a few dynamic entrepreneurs in the UK who have not only invented things to make, but have gone on to produce them. We ought to consider how to reconnect with support for domestic manufacturing. Many of the countries that are far more successful than we are at that are in that position because they have much more interventionist policies in their markets. There is a presumption that it is not enough to talk about inventions if one does not create the domestic circumstances in which those inventions have markets.

That is the point that I want to come to on the climate change challenge. One of the big criticisms that we hear from the parts of the manufacturing industry in the UK that are involved in the development of new technologies and sustainable energy systems is that we should look at what is happening in other parts of Europe. The Governments of those countries have created a market in sustainable energy systems and renewable technologies because they have changed the rules and financial subsidies in relation to those markets. Germany is streets ahead of the UK in doing that. It has captured 15 per cent. of the world market in renewable technologies because its firms have a domestic market in which to sell. In Berlin, 80 per cent. of all new buildings that are going up are generating their own energy. Is that just a foible of Berliners? The answer is no. The market rules about buy-back pricing of electricity were changed so that people get back four times the price for energy they generated than the cost of energy that they take from the system. Of course, that transforms the way in which energy suppliers begin to look at the energy market.

I just happen to have completed my own eco-house, which will generate more energy than it consumes and which puts the surplus back into the national grid, but it is a crap deal. For every £1 of energy that I put into the system, it will cost me £7 to get it back. That is the nature of a rigged market. We can change the nature of that market so that there is less sense of theft and a dash for cash in the present and so that we have a market that genuinely invests to deliver in a sustainable way for the future. The rules are not God-

given; they are Government-created. One can create competitive markets, but on a different presumption.

In that sense, when we talk about the need for liberalised markets, I would just point out that, in the UK, in a liberalised market mentality, we are currently paying more for our energy supplies than our European competitors. The best point of comparison is Denmark. In 1970, after the last oil crisis, it looked at the short-term pressures, realised that it needed to come up with long-term solutions and began to invest systematically in decentralised energy systems. It did so knowing what most people in today's UK energy sector know: we have a monumentally inefficient national grid energy supply system. Some 70 per cent. of the energy input is lost in energy production or transmission. In Denmark and the Netherlands, decentralised energy systems, using co-generation techniques of combined heat and power, are 90 to 95 per cent. efficient. Those countries recognised that they could meet their energy needs, and their energy security needs, through decentralised energy systems using the energy that we throw away.

Why do we not take the opportunity to change the fiscal rules relating to energy markets to allow a paradigm shift, not into the absurdity of a new generation of nuclear power stations or the presumption that we are under some obligation to prop up a grossly inefficient national grid, but in the way we think about energy generation and supply? The Dutch are building roads that incorporate solar power generation so that the energy needs of 400 houses can be met by every new kilometre of motorway. Why are they doing it, but we are not? It is because their Government intervene to structure the market towards renewables rather than short-term consumption or profit generation.

Mr. Vaizey: I have listened to the hon. Gentleman's speech with intense interest and, if I had the opportunity, I would reply to it in detail, not least because Thames Water is planning to build a reservoir in my constituency and because I have had the Thames Valley energy centre round to my home to reduce my emissions. I hope that the hon. Gentleman will put on his website the details of how he created an eco-home. I completely agree with him about fiscal rules. Will he congratulate Braintree council, a Conservative council that has reduced council tax for energy-efficient homes? Does he also agree that the Government could ensure that all new homes meet the highest environmental standards possible? It is in their hands to do that today.

Alan Simpson: The Government could do that and I would encourage them to do so. They could require new homes to meet

not only the decent homes standards, but the standards that are being set for other parts of Europe, which are considerably higher than the decent homes standards. Those new standards make our requirements seem like the last generation.

The reality in the UK is that 80 per cent. of the population is likely to live their lives in 80 per cent. of the existing stock. The question is what we do about those who are living in existing housing stock. That position is profoundly affected by other changes. Since 2003, gas prices under British Gas have risen by 80 per cent., and its electricity prices have risen by 38 per cent. The incomes of the fuel poor have risen by nothing like that amount. I am proud of the fact that my Labour Government made the first legally binding undertaking to eradicate fuel poverty in this country. I am proud of the initiatives that have been adopted under the warm homes programme, but the recent burgeoning of oil and gas prices is taking people back into fuel poverty far faster than the programme is lifting them out of it.

By 2003, we had reduced the numbers of households in extreme fuel poverty to some 1 million. We were on track to eliminate fuel poverty in the most vulnerable households by 2010. As matters stand, the figure has risen to 2.7 million and is projected to exceed 3 million by the end of the year. The only way to reverse that is through a step change in intervention in the market, both to reward those who are able to adopt energy conservation measures in their own homes and to require standards to be met by those who wish to lease out properties and those who are building properties that are energy guzzlers, rather than energy generators.

David Howarth (Cambridge) (LD): Does the hon. Gentleman accept that the Government could have effected energy efficiency in existing houses at the 80 per cent. to which he referred if they had decided to apply the new part L of the building regulations to house extensions? However, the Red Book confirms that they are not prepared to do that.

Alan Simpson: That is certainly one measure that could have been used, but not the only one. As has been suggested, we could tie such a provision to exemptions or reductions in council tax, to stamp duty or to licensing for rented houses of multiple occupancy, all of which could be conditional on energy efficiency. However, there is a cost involved. We need to be honest about that and take the cost on the chin now, because the cost of not using energy efficiently will be paid in people's lives. That is the real challenge against which this Budget and future Budgets will increasingly be judged. To what extent will we offer more than lip service to making profound, demanding, changes in energy costs or climate change

that affect people's lives or their ability to stay alive? All future Budgets will have to be judged against those criteria.

I have a final observation about the experience of building my house. It feels morally uplifting to have done that—

Mr. Vaizey: Put it on your website.

Alan Simpson: The architect and I will have lots of fun doing just that.

One of the things that experience taught me is that there are no individual solutions. My contribution to energy generation would be infinitely more efficient if it could be fed into a decentralised energy system for Nottingham, in which co-generation—the interaction between the energy needs and energy generation of houses, shops and businesses—was part of an integrated whole. We shall achieve that only when fiscal measures make such a shift possible. That is an admission of the limits of the contribution I can claim in lightening the ecological footprint of my existence on the planet. My contribution would be much more significant if my footprint was lightened alongside others and in conjunction with them.

In budgetary terms, we need to look at the management of markets and the management and deployment of fiscal incentives on energy. Recently, we handed out a public, taxpayer subsidy to clear up the £85 billion waste management costs of the last generation of nuclear power stations. Soon, we shall be asked to believe that there will be no similar costs in future for a subsequent generation. I have to say to the Chancellor, his colleagues and colleagues on both sides of the House that the public, taxpayer subsidy for that next round of follies would run off with the budget for all the other interventions that would bring about fundamental change and a sustainable energy system for the UK in the 21st century.

Mr. Vaizey: The use of that figure in relation to nuclear new-build is extremely disingenuous. That was a historic cost; there is no doubt that the generation and disposal of waste was shockingly bad 30 or 40 years ago, but that would not be the case now. Those who oppose nuclear new-build tend to compare what we could build now with what we built in the past, but in fact that would be the equivalent of buying a 1970s Ford Cortina, whereas nuclear new-build now is the equivalent of buying a Toyota Prius. Does the hon. Gentleman agree?

Alan Simpson: No, I do not agree; nor does the Sustainable Development Commission or Greenpeace. Those who consider the issue say that, as soon as we start to scrutinise the cost element of

what the nuclear industry wants, we are back into the same old game. I remind the House that, when we were there first time, the House and the public were promised atoms for free. We have been paying for that deception ever since, and we would do so again. My caution is that, if we go down that path, all the money that the Chancellor would have to play with for a shift towards renewables and decentralised energy would be hijacked and put into the pockets of the nuclear industry once again. That will not meet our energy security or supply needs.

My final point on energy and the carbon consequences of how we run the economy is to echo the sense of sadness that aviation duties were not mentioned in the Budget. Some colleagues say that those duties are covered by international agreements and that we are pushing forward with the plans for emissions trading, but I would add a word of caution. We need to look carefully at what emissions trading is about. With all other aspects of pollution trading, the real danger is that a market in non-goods is created. Some of the greatest enthusiasts for emissions trading schemes are in the City of London, and they see themselves as making large fortunes out of their brokerage roles in the trade in non-goods.

In aviation, it is far simpler to consider non-tradable duties. It would be very simple to calculate the current carbon miles impact of flights from all UK airports in the past year. We could set that as a quota for them, and we could say that the UK regime will be to reduce every airport's quota by 5 per cent. a year. Airports could specify that priority will be given to higher efficiency aircraft or shorter flights, with higher passenger usage or shorter cargo trips, all of which reduce the carbon content of passenger miles and food miles. We must engage in that scale of shift in the next 10 years if we are remotely likely to manage our way through the climate change that will happen. We can do that if we intervene to set those climate change duties in fiscal terms that define a different shape of aviation market.

All Budgets are really expressions of solidarity, to a greater or lesser extent. They are transfers in society. They represent the extent to which a society will take elements of the wealth generated today by those in work and redistribute it to those out of work. They are transfers from one generation to another in determining how people in work today meet the pension needs of those who are retired and the needs of our children in the future. They are transfers from one region to another and from one section of society to another.

It would be possible for the House, in solidarity, to have a Budget that wrote off the NHS deficit and scrapped prescription charges, which would cost us £1.2 billion. We could do that if, for instance,

we transferred the costs of our current military occupation of Iraq and Afghanistan, which currently comes to £1.3 billion a year. It would be possible for us to have a Budget that guaranteed that we delivered the decent homes standard, with a bill of £7 billion, by setting defence spending to the European average. We could change the fiscal rules of the energy markets to create sustainable markets and decentralised energy networks in the way that I have described. We could restore faith in pensions and pension saving by restoring the state pension and repaying stolen pensions with a tax on dividends and executive pay for gross inefficiencies in delivery.

All that would be drawing back the nation's wealth, not from those who have created it, but from those who have been involved in a process of wealth annexation. That, for me, is what Governments of whatever hue will be asked to do if we are to meet the needs of social cohesion and environmental stability in this country in the years and decades ahead. I hope that we have a Labour Chancellor who will not lack the courage to face up to that challenge and deliver those answers, if not in this Budget, in the Budgets ahead, regardless of whether he does so as the Chancellor or whether he aspires to do so as leader of the parliamentary Labour party.

Several hon. Members *rose—*

Madam Deputy Speaker (Sylvia Heal): Order. We now have little more than an hour for the debate. Hon. Members have patiently waited to deliver their speeches, so I hope that the remaining speeches will be brief so that they can all contribute to the debate.

Greg Clark (Tunbridge Wells) (Con): It is a privilege to follow the thoughtful speech made by the hon. Member for Nottingham, South (Alan Simpson). Perhaps I should pay tribute to the Chancellor for his 10th Budget statement because delivering 10 Budgets in a row is not to be sneezed at. His statement seemed very familiar in some ways. Perhaps it is like an ageing rock star taking his greatest hits on tour year after year, albeit with a slightly dwindling audience, at least on the Labour Benches. I pay tribute to the Chancellor for his achievement.