

**Alan Duncan (Rutland and Melton) (Con):** I beg to move,

That this House notes that, despite inheriting a strong economy and presiding over 10 years of growth, the Government has raided pension funds, increased taxation, reduced savings, encouraged debt, increased government borrowing and that 1.7 million people are now unemployed; further notes that inflation is at a 16-year high, unemployment is rising at the fastest rate for 17 years and property sales are at a 30-year low; regrets the pain that is now being caused to business by the severe financial turmoil and the Government's failure to prepare the British economy for any downturn; further notes with concern the Ernst & Young Item Club's report that the UK economy has deteriorated dramatically in the past three months and is already in recession; further notes that the number of British businesses in distress has more than doubled since the start of the year; expresses concern that the limited availability of credit and the predatory behaviour by both banks and HM Revenue and Customs risks exacerbating the detrimental effects on business; calls on the Government to introduce an urgent package of measures to alleviate business pain, including allowing small and medium sized enterprises to defer their VAT bills for up to six months and cutting small business National Insurance contributions by 1p for at least six months; and endorses these measures as a first step towards alleviating business pain.

I move the motion tonight at a time of probably the greatest threat to business survival that this country has seen for 70 or 80 years. The prognosis is dire, the pressure is great, and many businesses already are feeling that the pressures on them will drive them to extinction—*[Interruption.]* The hon. Member for Wolverhampton, South-West (Rob Marris) may well laugh, but his laughter here will not be appreciated by his constituents who are facing this business pressure. Nor is the House pleased that there is no Minister of Cabinet rank to reply to the Opposition motion tonight.

There have been Cabinet Ministers in the other place in the past, but when we were in government, they were always matched by a Member of this House of Cabinet rank. When Lord Carrington was Defence Secretary, the then Ian Gilmour was in the Cabinet here; when Lord Young was in charge of the Department of Trade and Industry, there were two subsequent Ministers of Cabinet rank in this House. Now we have an unprecedented situation in which the noble Lord Mandelson is in the Cabinet speaking for business, but no one of Cabinet rank from the House of Commons sits around the Cabinet table to speak for it. I hope that that deficiency in accountability will be remedied.

We have seen boom and bust before, and I am perfectly prepared to admit that we have seen deep and difficult cycles of economic activity even under a Conservative Government. We saw it first in the '70s with a secondary bank collapse and absurdly judged loans to Latin America. We also saw as part of a cycle of sheer idiocy the then adviser to Prime Minister Harold Wilson, Harold Lever, say that countries do not go bankrupt, but the banks that lend money to them can. It seems that we have seen a complete loss of collective wisdom among the banking sector today.

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Boom and bust has been a regular phenomenon in history; I fell on something that proves that beyond all doubt. It was these words:

““The budget should be balanced, the treasury should be refilled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome become bankrupt. People must again learn to work, instead of living on public assistance.”

That was Cicero in 55 BC. He foresaw most things, although, it would seem, not quite the necessity of having a budget for international development. I may not quite be Cicero—my humility extends that far, although I am told that Demosthenes was a little chap—yet in analysing the history of booms and busts, I have tried to be honest in what I write.

I can refer the House to a document that I wrote in 1993, which, I am reliably assured by someone who subsequently worked in No. 10, was pinched almost wholesale by the then Chancellor and turned into public policy—at least the good bits were, such as its recommendation for independence for the Bank of England, but not, I am afraid, the other good bits calling for caution and good sense in the management of the economic cycle. It is all there, and perhaps the now Prime Minister should read it once again and realise his own folly.

The Prime Minister inherited the best economy that any democratic party has bequeathed to another. New Labour promised to be prudent, and to be fair, that lasted for a couple of years. But it quickly softened and buttered people up with changes of language and habit, which quickly started the slippery slope on which the country is now journeying. New Labour refused to use the word “spending”. What might seem just a little twist in jargon showed an underlying pollution of its attitude to prudence. “Spending” became “investment”, but spending, except in certain classical terms, is not investment. As soon as the Government polluted the language, they polluted their intellectual integrity—now even the BBC is happy to use such language.

The Government’s first action was to attack pensions. We have spent more than 10 years campaigning against the raid on our pension funds. The short-sightedness of that attack on pensions is now having dire consequences for many people embarking on their retirement. The Prime Minister sold our gold at the worst possible price—the cost can now be measured in many billions. Crucially—again, this is in my document from 15 years ago—he completely mucked up the regulatory framework. He dismissed in excoriating terms the Conservative party’s suggestion that the Bank of England should continue to enjoy supervision over the creditworthiness of banks, saying that it was nothing more than the old boy network that was typical of that party. How wrong he was.

**Stephen Hesford (Wirral, West) (Lab):** On the pensions point, the hon. Gentleman is completely wrong. The House has debated the issue a number of times, and each time has come to a decision that is contrary to the one that he puts forward. He well knows that the responsibility for the pension— *[Interruption.]*

**Mr. Deputy Speaker:** Order. The House must give the hon. Gentleman the time to make his point, but he must make it briefly.

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**Stephen Hesford:** The hon. Member for Rutland and Melton (Alan Duncan) knows that the decision on the pension funds was nothing to do with the Prime Minister—he was continuing a policy undertaken by the previous Tory Government. The problem with the pension funds was the dotcom boom and the fall in share prices.

**Alan Duncan:** I have not heard such economic lunacy in the House for a long time. The Chancellor's decision in his first Budget to raid advance corporation tax credits for £5 billion a year destroyed our pension funds. The House has been taking decisions that are contrary to my opinion for well over 10 years, and that goes a long way towards explaining the mess that we are now in.

The key thesis, which the Opposition have been advancing for a long time, is that anyone who thinks that they can defy economic gravity over an extended period, to the point that they believe that the economic business cycle has been abolished, is foolhardy. The most attested and continuing economic phenomenon is the business cycle. The only issue in doubt is how long the cycle is likely to last. What should underpin any analysis of the importance of the business cycle is that the fiscal policy of a Government, if they are wise, should be counter-cyclical. A sensible Chancellor should save in the good times so that something is in the kitty for the bad times. The former Chancellor, now Prime Minister, claimed to be doing just that but did exactly the opposite.

At the end of well over a decade of unprecedented, continuous economic growth, where should Britain be? We should have lower taxation, lower spending, high savings, Government borrowing should hardly exist—we should be in surplus—we should have a massive pensions pot, as we had but no longer have, and we should have low unemployment, and yet we start with unemployment of 1.7 million. However, at the end of a long, prosperous and significant period of economic prosperity, we are at the wrong end of the scale. Taxes have shot up, spending has continued to climb dramatically, borrowing is very high, debt is beyond any magnitude that anyone could have predicted, and the percentage taken by the state is up to, and will exceed, 39 per cent. The Chancellor has consumed the boom.

**David Taylor (North-West Leicestershire) (Lab/Co-op):** The motion refers to increased taxation, and the hon. Gentleman says that taxation has shot up. Is he surprised to hear that during the 11 and a half years of Mrs. Thatcher's stewardship, from May 1979 to November 1990, the proportion of taxation to GDP was more than five full points ahead of the proportion during the period for which the current Prime Minister was Chancellor. The hon. Gentleman admires that soi-disant priestess of low taxation, but it was the Labour party that reduced taxation in the first 10 years after its return to power.

**Alan Duncan:** In 1979, thanks to a Labour Government, we inherited an economy that was on its knees. The necessary corrections had to take place over a long period, to clear up the mess that we inherited. In contrast, the economy that we handed over to new Labour, as it was then

happy to be called, was in the best imaginable condition, and generations of people in the future will lament the fact that new Labour had the best and turned it into the worst.

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**Mary Creagh (Wakefield) (Lab):** When the hon. Gentleman talks about handing over the economy in mint condition in 1997, does he include public sector debt, which was then running at 43 per cent. and by his own statistics is now running at 39 per cent. of GDP? When he talks about the semantics of investment versus spending, how does he classify a £250 million new hospital for my constituency? Is that investment or spending?

**Alan Duncan:** The hon. Lady will want to eat her words in due course, even on her own basis of accounting. Thankfully, we can advise her of the truth, and we should thank my hon. Friend the Member for Braintree (Mr. Newmark) for his excellent work, which has revealed in detail the Prime Minister's false accounting, whereby much that has been spent has been hidden. When I was in the oil business, something that was not paid for was not properly bought. Looking at the other side of the coin, a deal is only done when the money is in the bank. As Chancellor, the Prime Minister put so much off balance sheet, on a 25-year mortgage, that the payment for those hospitals and schools will not be completed for more than two decades. If the hon. Lady is proud of that debt—she is—we look forward to writing to her local paper to point out exactly where her pride lies. I am sure that it will come before her fall.

On the point made by the hon. Member for North-West Leicestershire (David Taylor), the Government have claimed that the national debt is £645 billion. However, as my hon. Friend the Member for Braintree has pointed out in an undeniable piece of simple but honest arithmetic, the fact is that it is £1,854 billion—equivalent to 126.9 per cent. of GDP or just under £76,000 per household.

**Rob Marris (Wolverhampton, South-West) (Lab):** Nonsense!

**Alan Duncan:** I look forward to writing to the hon. Gentleman's local paper too.

**Rob Marris** *rose*—

**Alan Duncan:** I will give way in just a second.

The present financing of this country's debt exceeds the annual expenditure on either law and order or defence. The Prime Minister's claim that debt is considerably lower than it was a decade ago is so self-evidently false that I am astonished that he is shameless enough not to be prepared to come to the House to apologise. The man who has mortgaged the country needs to be better at the arithmetic.

**Rob Marris:** In relation to the hon. Gentleman's earlier comments to me, I shall try to refrain from laughing at his malapropisms in future, as opposed to the content of his speeches.

What I actually meant when I spoke from a sedentary position just now was that the hon. Gentleman's figure was a nonsense figure. It was a nonsense figure because it compared apples with oranges. If we measure the figures in the same way—even taking into account all the private finance initiative projects, as I think we should—the accumulated national debt in the United Kingdom, which, incidentally, doubled under the last Conservative Government, is considerably lower as a

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proportion of GDP product than the national debt in, for example Italy, France and Germany, let alone Japan. That is because the present Government paid some of the national debt while they were fixing some of the very leaky roof that we inherited after 18 years of Tory misrule.

As for some of the comments that the hon. Gentleman made about my hon. Friend—

**Mr. Deputy Speaker:** Order. Interventions are becoming speeches.

**Alan Duncan:** If the present Government were required to follow the same standards that a business follows in explaining its balance sheet and honestly reflecting its debt, they would become an unbankable proposition. The debt is far bigger than the Government are willing to admit. I consider that my hon. Friend the Member for Braintree has done the country a service in presenting the figures honestly; but let us look at the other side of the equation.

I painted a picture of Government profligacy, but the problems really arise when Government arrogance is combined with hubris on the part of bankers. We have seen that once again, with an enormity that no one could ever have contemplated. Debt, and the extension of debt, became nothing less than an exercise in pyramid selling, and as a result the banks have had to be bailed out. The question remains: what next? Will we now see calm and certainty in our financial markets, and therefore in our business community?

My fear is that it is not over yet. It may be that the best we shall see is great volatility, but even that can be very destructive. Many instruments in hedge funds have not been put into the market to cause further upset, but they will. When that happens, if it happens, it will not just affect banks once again; it will affect what is left of pension funds, and hence it will affect equities as we have not yet seen them affected. There is a real danger of further institutional turmoil, despite the relative calm that we have seen in the banking sector over the last few days.

On the back of that, we can already see many of the malign consequences hitting the business community. Everyone will now wish for lower interest rates, in the hope that they will somehow stimulate further economic activity. The base rate has gone down a little and will probably go down further, but the real cost of borrowing has not gone down in the same way. Indeed, it has gone up. We are seeing a severe divergence between base rates and borrowing rates, and in the real world it is the borrowing rate that will hurt businesses.

Moreover—again, we have not yet seen this hit the British economy—that potentially conflicts with the need to finance Government borrowing. We need a low rate of interest for economic recovery, but perhaps a higher rate to fund Government borrowing. If it is just the former, the

danger is that we will see—alongside everything else that we have seen—a dramatic collapse in the value of the pound.

Whatever variable we look at now, the prognosis is dark. That prognosis has been put to the country by the likes of Ernst and Young and Deutsche Bank. The former has said that it expects unemployment to double, the latter that this will be not a shallow but a very deep

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recession. Already in the economy, we see the figures becoming more and more distressing. We have seen unemployment rise by 146,000 in the last quarter, and we have seen a member of the Bank of England monetary policy committee say that it is likely to exceed 2 million by Christmas. We have seen others say that jobs will be lost at a much faster rate than the rate at which the Government can create them, and that unemployment may even exceed 3 million.

We have seen the number of property sales collapse by more than 50 per cent. Capital Economics has said that house prices are likely to plummet by more than 35 per cent. Already there are more than 300,000 householders in negative equity, and the value of mortgages lent to British home-buyers fell by 95 per cent. in August. According to the CBI, manufacturing confidence has collapsed: the single-quarter fall is bigger than it has been for 28 years. So the picture is already dire.

**Stewart Hosie (Dundee, East) (SNP):** May I make a narrow point about the 95 per cent. collapse in mortgage approvals? How much of that does the hon. Gentleman ascribe to the Government's botched announcement about stamp duty, which coincided with that month's fall?

**Alan Duncan:** No doubt the hon. Gentleman has a point. The botch was a serious botch. However, given all that we have seen since, I do not think that it can be blamed for what has happened nearly as much as the former Chancellor's 10 years of economic mismanagement.

I fear that the picture that I have painted will now be converted to the most detrimental squeeze on small and medium-sized enterprises. I do not think we have seen anything yet. We already see the prospects of repossessions and insolvency, and the danger of insolvency—or the midway point, putting a company into administration—is that this will not be like previous recessions, in which many companies were able to emerge from administration or at least remain as entities. It was at least possible for someone to take them over and restructure them, breathe life back into them, and return them to the commercial world as going concerns. The danger on this occasion is that such companies will be killed stone dead, and because there is insufficient finance around, there will be no prospect of their revival in any shape or form.

**Barry Gardiner (Brent, North) (Lab):** Given that the hon. Gentleman has been speaking for 21 minutes and that all he has done is try to rubbish the past 10 years, may I ask whether he has a single positive suggestion to offer small businesses in this time of crisis—or is this just an exercise in rhetoric?

**Alan Duncan:** I am afraid that the hon. Gentleman's pettiness knows no bounds. These are probably the most serious issues that we have had to discuss in the House for decades, and it is important for him to understand the origins of the severity of the problem. If he reads the motion,

he will see exactly what we are going to do, and if he listens a little longer, he may learn about what we are going to do. Twenty-one minutes is not long for a Front-Bench speech, and the hon. Gentleman should be patient instead of being so petty.

We are seeing the British economy go from overheating to permafrost in one fell swoop.

**Mr. Jamie Reed (Copeland) (Lab):** Will the hon. Gentleman give way?

**Alan Duncan:** No.

The key to that is bank lines. It is severely in doubt whether the Government's promises will be converted to the real lending and cash flow to which the Prime Minister and other Ministers have referred. We need to recognise that the banks are already facing great difficulty. I have some case studies. I will not go through them all; I think that all Members will have encountered similar cases in their constituencies.

**Mr. Reed:** Will the hon. Gentleman give way?

**Alan Duncan:** No.

It goes a little bit like this. The bank says "You used to have £100,000 as a bank line, but now I am going to take it back." Then, because it has some guarantees from the company, it calls in the assets and forces the company to realise them by selling them at something like half their value in a broken market. The bank takes the money. In comes the VAT man and says "Pay my VAT." The combination of those two activities does not just cause the company difficulty; it closes it down. In the absence of alternative sources of funds, there are many companies now facing those pressures. They are being closed down by a combination of HM Revenue and Customs and the banks. On the back of their closing down, those involved often have to cash in personal guarantees and sell their main asset, which is their house. The picture is very grim.

I commend the *Daily Mail* and *The Sun* for their campaigns on the things that ought to be done to try to assist cash flow, because even the majority of companies in this country will be in a battle for survival.

There are some things that we can do and must do. Yesterday, at our business survival summit, we proposed a series of measures. Like the Government, we accept that paying promptly is crucial. If councils and Government agencies pay after ten days, that can only help struggling businesses to get through this difficulty. We will be watching very carefully to ensure that Government organisations pay as the Government have promised that they will.

**Sir Robert Smith (West Aberdeenshire and Kincardine) (LD):** As well as the public sector setting an example, does he think that larger companies that are still cash-rich need to take on board that their supply chain will not be there unless they, too, do all they can to benefit the cash flow of their suppliers and contractors?

**Alan Duncan:** I totally agree with the hon. Gentleman's message of great sense and I hope that all companies that can pay, will pay and will follow exactly the standard that he has just described in his intervention.

We would like to see a reduction in national insurance contributions for the smallest companies. They are the ones that employ the most people, that often live most from hand to mouth and that have the fewest assets against which they can raise money from the bank. Although the measure is small, it is exactly of the kind that can help them get through this difficult period.

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Likewise, we think that companies ought to be able to defer their VAT payments if that is what it takes to assist their cash flow. We think they should pay for that at the normal default rate; call it 7 per cent. But 7 per cent. is less than half of the 15 per cent. that banks are now charging many companies of this size. I think the Prime Minister will rue the day that he taunted us about interest rates at 15 per cent.; now, most companies getting short or medium term credit are having to pay 15 per cent. or more.

**Mark Durkan (Foyle) (SDLP):** Will the hon. Gentleman give way?

**Alan Duncan:** No.

In addition, we would like to see a reduction in corporation tax for small business, for which we have been calling ever since the last Budget, which, from the Conservative Benches, we described as a tax con. As my hon. Friend the Member for Hertford and Stortford (Mr. Prisk) illustrated today by visiting small shops in London, we want to see small businesses applying for that business rate relief to which many are entitled but for which not all apply.

The Minister of State, Department for Innovation, Universities and Skills, has announced today £350 million for Train to Gain. The House should be aware that this is the reheating of an old announcement and, as a policy, it will not give the immediate relief that our businesses are crying out for.

This country will have to put debt on top of debt. We should be in a position to use a Government surplus to help this country turn the corner in such difficult economic times. The Prime Minister, when he was Chancellor, mortgaged this country to the hilt. We are in desperate times, which prove the abiding truth of post-war Britain; that Labour Governments always run out of money.