

PARLIAMENTARY DEBATES

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GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

**(Except clauses 1, 4, 8, 189 and 209, schedules 1, 23 and 33 and certain
new clauses and new schedules)**

Fifth Sitting

Tuesday 22 May 2012

(Morning)

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CLAUSE 7 under consideration when the Committee adjourned till this day
at half-past Four o'clock.

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The Committee consisted of the following Members:

Chairs: †MR JIM HOOD, MR PETER BONE

- | | |
|---|---|
| † Baldwin, Harriett (<i>West Worcestershire</i>) (Con) | † McKinnell, Catherine (<i>Newcastle upon Tyne North</i>) (Lab) |
| Barclay, Stephen (<i>North East Cambridgeshire</i>) (Con) | † Malhotra, Seema (<i>Feltham and Heston</i>) (Lab/Co-op) |
| † Blenkinsop, Tom (<i>Middlesbrough South and East Cleveland</i>) (Lab) | † Mann, John (<i>Bassetlaw</i>) (Lab) |
| † Burley, Mr Aidan (<i>Cannock Chase</i>) (Con) | † Mearns, Ian (<i>Gateshead</i>) (Lab) |
| † Elphicke, Charlie (<i>Dover</i>) (Con) | † Mills, Nigel (<i>Amber Valley</i>) (Con) |
| † Garnier, Mark (<i>Wyre Forest</i>) (Con) | † Morrice, Graeme (<i>Livingston</i>) (Lab) |
| † Gauke, Mr David (<i>Exchequer Secretary to the Treasury</i>) | † Morris, Grahame M. (<i>Easington</i>) (Lab) |
| † Gilmore, Sheila (<i>Edinburgh East</i>) (Lab) | † Pugh, John (<i>Southport</i>) (LD) |
| † Gyimah, Mr Sam (<i>East Surrey</i>) (Con) | † Rees-Mogg, Jacob (<i>North East Somerset</i>) (Con) |
| Hamilton, Fabian (<i>Leeds North East</i>) (Lab) | † Reeves, Rachel (<i>Leeds West</i>) (Lab) |
| † Hands, Greg (<i>Chelsea and Fulham</i>) (Con) | † Smith, Miss Chloe (<i>Economic Secretary to the Treasury</i>) |
| † Harrington, Richard (<i>Watford</i>) (Con) | † Swales, Ian (<i>Redcar</i>) (LD) |
| † Hilling, Julie (<i>Bolton West</i>) (Lab) | † Syms, Mr Robert (<i>Poole</i>) (Con) |
| † Hoban, Mr Mark (<i>Financial Secretary to the Treasury</i>) | † Williams, Stephen (<i>Bristol West</i>) (LD) |
| † Jamieson, Cathy (<i>Kilmarnock and Loudoun</i>) (Lab/Co-op) | † Williamson, Gavin (<i>South Staffordshire</i>) (Con) |
| † Kirby, Simon (<i>Brighton, Kemptown</i>) (Con) | Wilson, Sammy (<i>East Antrim</i>) (DUP) |
| † Lavery, Ian (<i>Wansbeck</i>) (Lab) | |
| † McKenzie, Mr Iain (<i>Inverclyde</i>) (Lab) | James Rhys, Simon Patrick, <i>Committee Clerks</i> |
| | † attended the Committee |

Public Bill Committee

Tuesday 22 May 2012

(Morning)

[MR JIM HOOD *in the Chair*]

Finance Bill

(Except clauses 1, 4, 8, 189 and 209, schedules 1, 23 and 33 and certain new clauses and new schedules)

10.30 am

The Chair: We resume consideration of the Finance Bill where we left off at the end of the previous Session. Members may continue to use copies of last Session's Finance (No. 4) Bill, which are exactly the same except for some very minor printing corrections.

Clause 7

SMALL PROFITS RATE AND FRACTIONS FOR
FINANCIAL YEAR 2012

Catherine McKinnell (Newcastle upon Tyne North) (Lab): I beg to move amendment 6, in clause 7, page 4, line 28, at end add—

'(4) The Chancellor of the Exchequer shall review the impact of the corporate tax structure on businesses of different sizes, and shall place a copy of the review in the Library of the House of Commons.'

The Chair: With this it will be convenient to discuss clause stand part.

Catherine McKinnell: It is a pleasure to serve under your chairmanship, Mr Hood, and I warmly welcome the Clerks, who have been working hard to serve the Committee.

It is a pleasure to join this esteemed Committee as a new member of the shadow Treasury team. My hon. Friend the Member for Pontypridd (Owen Smith), who I am sure will be missed by Members on both sides in Committee, undertook the task of scrutinising the Bill line by line. It is exceptionally long, with some 670 pages—one of the longest Bills in history, I understand. He reassured the Committee that he would endeavour to ensure that it was not "too boring", and I therefore endeavour to achieve the same. I apologise in advance, Mr Hood, if I stray into any subjects that my hon. Friend covered.

It is a particular pleasure to join many of my hon. Friends from the north-east, a region that is well represented on the Opposition side in this Committee. We north-east Members bring a particular insight into the impact of the measures in the Bill on the country. There was a glimmer of good news in the recent unemployment figures, with a fall of 45,000. However, that did not extend to the north-east region, which saw an increase in unemployment.

The amendment relates to changes to corporation tax at the lower rate. It seeks to elicit clarity on the impact on all businesses, but it particularly aims to address what Opposition Members consider one of the key impediments to growth and the reason for the double-dip recession—this Government's lack of support for small business.

The diverse nature of small businesses requires careful consideration in the design of the tax system. Many small businesses are sole traders, which are taxed as individuals, and others are small incorporated organisations, which are taxed as companies. The design of the tax system is a key driver in the decision about whether to incorporate. We will discuss at length the behavioural changes and any resulting changes to the tax intake. Further tax avoidance measures should be seriously considered, and the amendment seeks to ensure that such consideration is given.

Small businesses make up 99% of enterprises in the UK, and provide just under 60% of private sector employment. Ensuring that there is the right support for them to be set up and then to grow is vital to ensuring that there are jobs and growth in the economy. It is therefore incredibly concerning that more than 24,000 enterprises have gone out of business since the coalition came to power. We all know of local businesses in our constituencies that have succumbed to the pressure of the recession and closed shop. I certainly do.

I also know of businesses that are surviving despite the tough conditions. However, is it enough to operate a policy of survival of the fittest? Is it acceptable for the Government to operate a policy of standing back and hoping that jobs and growth create themselves? That seems to be what the Government are doing. That is why we tabled the amendment: to ensure that proper consideration is given to the impact of the corporate tax structure on businesses of all sizes and to its contribution to our economic growth.

The Committee has already discussed at length an amendment on the cuts to the headline rate of corporation tax proposed by the Government. We do not necessarily oppose that measure, as it may be a tool to increase our competitiveness and to aid growth in the economy, but it is concerning that it does not seem to be having that desired effect. We have just entered a double-dip recession and the economy, at best, seems to be stagnating.

The Office for Budget Responsibility has indicated that there will be an increase in GDP of only 0.1% at the end of the forecast period as a result of that measure. In around five years' time, we ought to see some of the return. There are genuinely held concerns therefore that a change to the headline rate of corporation tax is simply not enough. The Government have said that the recovery will be built on the backbone of small business in the country, yet small business will not benefit from the cut in the headline rate of tax.

Even worse, the Government seem to be engaging in policies that we and others fear will actually hinder growth and investment. Given that tax allowances have been cut by more than £2 billion a year to fund the corporation tax deduction, there is real concern.

Ian Lavery (Wansbeck) (Lab): Does my hon. Friend agree that the proposed corporation tax reductions will benefit multinationals and big companies, to the detriment of the companies that really are the backbone of the

economy—the small and medium-sized businesses in communities throughout the country? Only big business will benefit from the corporation tax cuts, to the detriment of smaller companies.

The Chair: Order. Before the hon. Lady replies, I will make the point at the beginning of the Committee that interventions should be short. I do not want speeches for interventions; I just want questions.

Catherine McKinnell: I thank my hon. Friend for his intervention. He makes the very point that I am seeking to make, which is that these tax changes, the impact of which we want to be reviewed fully, will not help the businesses that the Government have pledged will be the route to our recovery and that are the backbone of our economy. The Government are doing nothing to offer support to those businesses; instead, they are giving a tax cut to large corporations and—even worse, in terms of public perception—to the banks.

Mr Robert Syms (Poole) (Con): Does that mean that the hon. Lady would oppose any reduction in corporation tax for Nissan, a multinational company in the north-east?

Catherine McKinnell: I have stated clearly that we have no objection to the cut in corporation tax. Our point is that you are not doing anything. Apologies, Mr Hood, you are not doing anything other than chairing expertly. Our point is that the Government are not doing anything for small businesses.

Nigel Mills (Amber Valley) (Con): I welcome the hon. Lady to her new role. Is she advocating a reduction in the small companies' rate of corporation tax? If so, to what rate does she think it should be cut to help small businesses?

Catherine McKinnell: What I am advocating, on behalf of the Opposition, is a full review of the impact of all the proposed tax measures and for a copy of it to be placed in the House of Commons Library. I hope that Government Members will support our amendment. On that basis, we can look at the tax changes in their entirety, how they are affecting businesses up and down the country, and whether they are doing the job that the Government have claimed they will do, which is to boost jobs and growth in the economy. We have seen little sign of that so far.

Grahame M. Morris (Easington) (Lab): Does my hon. Friend agree that the problem here has to do with opportunity cost? The additional resource could be better targeted to stimulate the manufacturing sector in particular to create jobs and improve growth. It is fair to say that some large manufacturing companies are benefiting, but the principal beneficiaries are big businesses such as pharmaceutical companies and City banks.

Catherine McKinnell: I agree with my hon. Friend. I am grateful to him for repeating, and also anticipating, the points that I am making. There are some small positive signs of investment in the economy and in business, such as at Nissan, which the hon. Member for Poole correctly identified as a key employer in the

north-east. However, when we look at the reality of the situation, unemployment in the north-east has gone up by 6,000 according to the latest figures. Under-employment is another key concern. Some 1.4 million people in this country are employed part time at the moment and are seeking additional hours. That is no good for growth, for families or for people who are trying to survive in this recession. Although there are some positive aspects to the cut in corporation tax, they do not give the full picture.

Ian Mearns (Gateshead) (Lab): The hon. Member for Poole mentioned Nissan. We all welcome the new investment in Nissan and the impact that it will have on Nissan's supply chain. However, Nissan is not typical of the business culture and the business make-up in the north-east. In my borough of Gateshead, which is an important employment hub for the region, many SMEs and employers of 100, 150 or 200 employees will not benefit from the measures in the Budget. That is why we need a review to see the impact on the real economy.

Catherine McKinnell: The term “real” is poignant in the present circumstances, because most of the Government's forecasts have proved to be entirely wrong. The forecasts are not in the real world in terms of the impact that the recession is having on businesses both small and large, up and down the country. They have been revised down quarter on quarter, and we are seeing the effects on regions such as the north-east.

My hon. Friend the Member for Pontypridd also employed a useful analogy to explain our concern with the Government's approach to deficit reduction and to the Bill. He said that you are a one-club golfer—not you, Mr Hood. The Government are operating as a one-club golfer. They have one solution, one proposal. It is clearly not working, and it is clearly not enough.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Hood.

My hon. Friend the Member for Easington raised an important point about the benefit of the corporation tax reduction for large banks. Banks stand to gain approximately £430 million a year from that policy. Does my hon. Friend the Member for Newcastle upon Tyne North agree that we must think about the impact of the policy and about how it will affect growth? If the policy will not be proportionately beneficial to small businesses, the Government need to look at that, so it is important to have a way to review it in Parliament over time.

10.45 am

Catherine McKinnell: I agree that it is highly distasteful to members of the public that the banks seem set to gain from the tax reduction, whereas small business are left with very little support and assistance.

The Financial Secretary to the Treasury (Mr Mark Hoban): First, let me welcome the hon. Member for Newcastle upon Tyne North to her new role. We look forward to her contribution to the Committee. I hope that her contributions are more concise than those of her predecessor, the hon. Member for Pontypridd, but only time will tell. Before the hon. Lady gets carried

[Mr Mark Hoban]

away, may I point out that the bank levy went up to offset the benefit to banks of the cut in the corporation tax rate? That effect was neutralised, so banks are not benefiting from the cut in corporation tax rate.

Catherine McKinnell: I thank the Minister for that clarification, but there are grave concerns among Opposition Members and members of the public that Labour's bank bonus tax was abolished, even though it brought in £3.5 billion in 2010-11.

Mr Hoban: The tax was not abolished; it was for one year only. The only person who abolished the bank payroll tax was the right hon. Member for Edinburgh South West (Mr Darling), the then Chancellor.

John Mann (Bassetlaw) (Lab): Come on!

Catherine McKinnell: The groans and grumbles from this side of the Committee show that that is a tenuous argument. The tax was in place for one year only because of the circumstances that we faced; had we remained in government it might easily have been re-imposed for a second year, and quite rightly so.

Mark Garnier (Wyre Forest) (Con): Will the hon. Lady give way?

Catherine McKinnell: I will just finish responding to the Minister. The bank levy brought in only £2.1 billion in 2011-12, which will rise to £2.8 billion in 2014-15. It will never match the £3.5 billion raised by the bank bonus tax, which members of the public would like to see the banks paying.

Grahame M. Morris: The Minister contends that the Government are being even-handed in respect of bank taxation. Does my hon. Friend have a view on why Goldman Sachs was allowed to defer 99% of a £400 million corporation tax bill until next year?

Catherine McKinnell: My hon. Friend has raised a much broader issue, namely whether everybody in society is paying their fair share towards reducing the deficit that we face. Members of the public certainly do not feel that the banks are paying their fair share, and that was the purpose of the bank bonus tax, which we would put in place again. In fact, we have some imaginative spending commitments that would boost jobs and growth, because we are focused on those. Unfortunately, the Government do not appear to share our commitment.

Simon Kirby (Brighton, Kemptown) (Con): On that point, is the hon. Lady aware when she bashes big business that more than 9 million people in this country are employed by businesses that have more than 250 employees?

Catherine McKinnell: I do not know where to start in response to that intervention, because I have not at any stage bashed big business and I have no interest in doing so. I have praised Nissan, which is a local employer

in my region, and I have welcomed any job increases, whether they are created by big or small businesses, wherever they may be in the country.

Seema Malhotra: I do not think that any Opposition Member is bashing big businesses. As someone who has spent a lot of my professional life in big business, I certainly would not start doing so as soon as I came into Parliament. In the UK as a whole, 99.2% of all businesses had fewer than 50 employees at the start of 2011. Does my hon. Friend agree that we should be helping the majority of businesses, too, and not giving the few the benefit at the expense of the many?

Catherine McKinnell: I agree. We recognise that we have finite resources, which must be spent carefully in a way that will help the economy to grow. By providing tax breaks to large companies only, we are in peril of ignoring the vast majority of companies up and down the country that provide 60% of private sector jobs. The Government are keen for the private sector to flood in where public sector jobs are disappearing, particularly in regions such as the north-east, so I should have thought they would be interested in supporting small business, but from the response that I am receiving this morning, that does not appear to be so.

Nigel Mills: On that theme, does the hon. Lady regret that at the start of the economic crisis in 2007, the small business corporation tax rate was 19%, but Labour increased it to 22%? Does she welcome the fact that this Government have reduced it to 20% in the clause?

Catherine McKinnell: The previous, Labour, Government increased the small business tax rate when we were still in economic growth. As we moved into the recession, any further plans to increase that rate were put on hold. I do not see how that is relevant to the debate, given that we are discussing the impact of this Government's measures on the corporate tax structure and that we are neither advocating an increase in the small business rate nor opposing the reduction in the rate of corporation tax. We are suggesting that the Government must be more imaginative in how they spend that money.

Mr Iain McKenzie (Inverclyde) (Lab): We hear so much from the Government about their looking after small business, yet we have heard absolutely nothing from the Chancellor about the corporate rate of tax for large companies and small companies ever coming together. Does my hon. Friend share my concern that that is not a Government ambition?

Catherine McKinnell: Yes, I do, and that is the point of our amendment. We want the corporate tax structure to be considered in the round. We want it to be assessed and considered in an innovative way, to see how we can help small businesses to grow in this country. The Government's stated ambition is that we grow our economy on the backbone of our small businesses, but the message that I am getting loud and clear from such businesses is that they do not think they have support from the Government.

Ian Mearns: My hon. Friend will not be surprised to hear the view of the North East chamber of commerce, which represents thousands of businesses in the north-east of England. It said:

“The cut to corporation tax will have some business benefit, but we believe the Chancellor could have had a greater impact on the North East economy by addressing investment allowances”.

That view is shared by many thousands of businesses in the north-east of England that are under the representative umbrella of the North East chamber of commerce.

Catherine McKinnell: I thank my hon. Friend, who has anticipated my next sentence. I was about to share that quote from the North East chamber of commerce, because I wanted to make a point about cuts to investment allowances, which are completely incomprehensible to most small businesses. One of the greatest concerns that have been expressed to me is that the Government do not even know what the impact of the cuts on those investment allowances will be. Will the Minister say what information the Government have? How many businesses will be affected by those cuts and what will the impact be? I look forward to hearing his response shortly.

Ian Lavery: I think we miss the point on the amendment, which simply requires that the results be reviewed and placed in the House of Commons Library, so that people can inspect them. What are the Tories trying to hide from us?

Catherine McKinnell: I can only assume that they are trying to hide some failing policy that is simply not doing the right thing by businesses up and down the country that are looking to invest. The truth is starting to come out in the economic figures, so they can only hide for so long behind their reluctance to actually review the tax system and to place a copy of that in the House of Commons Library, which, as my hon. Friend eloquently put it, is all that we are asking for today.

Jacob Rees-Mogg (North East Somerset) (Con): May I warmly welcome the hon. Lady to her new post and say how much we have enjoyed listening to her so far this morning? However, if the policy is so failing and so disastrous, will she explain why the Opposition have no new policy to put in its place and no suggestions to make, but merely want a review?

Catherine McKinnell: I thank the hon. Gentleman for his kind words, but the Opposition do have suggestions, which I will be coming to in due course. If the Government actually want to invest in jobs and growth in this country, I suggest that they take them on board.

I am concerned by the complacency on the Government side of the Committee today, particularly when looking at the youth unemployment figures that we face. In North East Somerset, the employment rate for under-24s increased by 32.7% last year, which is not to be taken lightly. I would imagine that if there were any solutions that could bring about jobs and growth in this country, the Government would be well placed to listen to them.

The IFS recently commented that the largest beneficiaries of the cut in the headline corporation tax rate would be high-profit, low-investment firms. Let us think of an

example—banks. However, the IFS states that the cut in capital allowances will have the largest effect on those firms with capital-intensive operations. It seems to me that manufacturing businesses and businesses with capital-intensive operations are the very businesses that the Government should be trying to support through this recession and towards future jobs and growth, which is why Opposition Members and members of the public really struggle to understand how a cut in investment allowances can be used as a transfer to cut the corporation tax rate and who will benefit and who will suffer. The concern is that support is needed at this time not only by businesses but by some regions. The policy is also counter-intuitive to re-balancing, which is another of the Government’s stated aims.

John Pugh (Southport) (LD): The hon. Lady asks for a report by the Chancellor, but she just prayed in aid the IFS. Which would she believe first: a report by the IFS on the effects of the Government’s changes in corporation tax, or a report by the Chancellor? If she prefers the IFS, why does she want the Chancellor to provide a review?

Catherine McKinnell: Is the hon. Gentleman suggesting that we should debate today whether the IFS should place a report on the economy in the House of Commons Library?

John Pugh: Yes. I am genuinely asking why that is not the hon. Lady’s preferred amendment, as she would presumably not accept uncritically a report by the Chancellor on his own work.

Catherine McKinnell: I find that question rather strange, and it belies the position in which the Liberal Democrats find themselves. They are part of a Government who are making changes to taxation policy and who are responsible for putting this Finance Bill in front of the House, and yet they do not seem to feel that they have any obligation to be held accountable for that or to hold the Chancellor to account for the policies that he puts forward. I am sure that the Institute for Fiscal Studies would be delighted to produce a summary report that we could use in comparison, but we are not looking to compel the House to order that today.

11 am

Seema Malhotra: My hon. Friend makes an important point about the accountability of the Chancellor of the Exchequer and of the Government to the House and about the putting of policy evidence before the House. Given that last year there was a shortfall of £800 million in forecast receipts from the bank levy and that there was a shortfall in 2011-12, given that there was a further reduction in corporation tax and given that the levy in 2011 raised just over half what Labour’s payroll tax raised, should we not have some guarantee that evidence will be available to review early policy to check that it is delivering what the Government expect it to deliver and that all different types of business receive some benefit?

Catherine McKinnell: My hon. Friend makes an important point. We have seen the key forecasts made by the OBR revised over the past year or so, some of them to the detriment of the very people who would be assisted by this amendment. The point is that if we

[Catherine McKinnell]

could review the operation of tax and the impact of these tax changes a year after implementation, the Government could use that useful measure to assess the impact of their tax changes—what worked well and what needs to improve. It would be similar to an annual report card.

Ian Mearns: One of the reasons why we need to ask the Treasury to do a review of this nature is that it is the Treasury that suggests what the positive impacts of its measures will be for economic growth. Those forecasts for economic growth have to properly scrutinised, because its previous predictions have been way off the mark.

Catherine McKinnell: I absolutely agree. As I move forward, I will address some of the particular impacts that the downgrading of forecasts has had. One in particular has been the squeeze that small businesses now feel in accessing any kind of lending.

So, without proper assessment, which the Government seem reluctant to offer or engage with for the British public, we can only construe the impact of the measures being proposed from the evidence before us. That evidence, which we all have in our Red Book and our Blue Book, shows that the Government's tax changes are likely to reward the banks with a tax cut, while penalising companies that invest to grow. Where is the logic or sense in that, particularly as we know that one of the major barriers to growth is the total lack of investment, to which I have already referred, as a result of business having no confidence in our recovery?

Mark Garnier: I add my congratulations on the hon. Lady's new position. She talks about evidence, but a report from the ONS states that more than 600,000 private sector jobs have been created since the general election. Is that not good evidence that what is being done is having a positive effect?

Catherine McKinnell: It seems that the Government and the Opposition are living in two different realities.

Mark Garnier: The ONS—

Catherine McKinnell: Yes, the Office for National Statistics has shown an increase in the employment figures, but there is chronic under-employment in this country. There are 1.4 million people seeking extra hours. Many of those people are likely to lose their tax credits and are likely to have to step down from work, because they cannot afford the child care that it takes to stay in work. While some figures may indicate improvement, the real picture in the real world shows that this country is going backwards, not forwards.

Sheila Gilmore (Edinburgh East) (Lab): Is my hon. Friend, like me, rather tired of having these figures constantly recycled? The figure that is generally given is 600,000 jobs since the election. As early as January 2011, the Prime Minister quoted the figure of 500,000 since the election. The vast bulk of the jobs created since May 2010 are the result of the economic stimulus provided by the previous Government.

Mr Hoban: That is ludicrous.

Catherine McKinnell: I thank my hon. Friend for that confirmation, which is far from ludicrous. We see the figures moving in the wrong direction and the impact of job losses on some of the most vulnerable in the country and on particular areas that are suffering.

Grahame M. Morris: Just on the point of scrutinising the figures, does my hon. Friend recognise that support through the regional growth fund is a reduction in two-thirds of the support that was previously available? Does she recognise this comment by the director of IPPR North, Ed Cox?

“The north-east economy is now suffering due to the unfinished business of a transition from an industrial economy, because restructuring has stalled as a direct consequence of coalition policies.”

Catherine McKinnell: My hon. Friend powerfully makes the point. While the presentation of employment and unemployment figures can be manipulated, the stark reality is that too many people are not in the work they seek and do not have enough hours of work to support their families. Let us not forget that the economy is not growing. If those jobs were creating wealth in the country, the economy would be growing, but we have gone into a double-dip recession. There should not be any complacency about that.

The other issue is the people who are left unemployed. They are the long-term unemployed and young people. The Government are not doing enough to tackle that. A key driver of that is lack of investment. That is something that our amendment seeks to address—how tax policies and measures taken in this Finance Bill can impact on spending and investment patterns in the economy.

Recent estimates show that businesses are sitting on £754 billion. Some money needs to remain in those deposit accounts; some of it should and could be invested. Yet the Government seem to be removing the very incentives that were in place through the tax system to encourage that investment and growth.

Ian Mearns: I ask my hon. Friend to surmise why business is sitting on such a huge cash mountain and not investing it in the British economy. It would be easy to assume that people will not invest their hard-gained profits because there is a lack of demand in the British economy at the moment. We need to stimulate the economy in order to attract growth.

Catherine McKinnell: My hon. Friend put the question and answered it himself. Another point I would make is that there is no confidence in the business community. There is not sufficient confidence to invest, as my hon. Friend put it, hard-earned profits. Therefore businesses are sitting on their cash mountain, rather than investing it into an economy that is being directed and led by a Government in which the business community clearly has no confidence.

I am acutely aware of the challenges faced by small businesses, from my own experience prior to election to this House. I worked as an employment solicitor, which involved advising individuals and businesses on both sides, largely on how to manage human resources but

also generally on how to help their business to grow. I also lived through the trials and tribulations of running a small business with my other half. Small businesses face many challenges from taxation and Her Majesty's Revenue and Customs. I have experienced that myself, and we hear it loud and clear from the small business community.

Simon Kirby: I am pleased to hear that the hon. Lady has run a small business. As such, does she agree with the Federation of Small Businesses:

“Especially welcome are the proposals to simplify the tax system for the country’s smallest companies”?

Catherine McKinnell: I of course welcome the Budget’s changes to support nano-companies, which I understand they are generally called. Obviously, some of the smallest micro-businesses may benefit from tax simplification—in fact, we could all benefit from tax simplification, but we are still waiting and watching to see whether the Government fulfil that much-promised measure.

Seema Malhotra: My hon. Friend is making an important point on what the Federation of Small Businesses has said, but does she also recognise the recent comments of John Longworth, the director general of the British Chambers of Commerce? He said:

“The Chancellor’s commitments to...reduce corporation tax will be welcomed warmly by business. However, many small- and medium-sized companies will feel the measures overwhelmingly benefit the biggest businesses.”

Catherine McKinnell: Yes, that is the point. The FSB welcomes anything that makes life easier for small businesses, and I relate that to my personal experience of the challenges faced by small businesses, but the bulk of measures in the Bill and in the Budget, including the changes to the tax structure, which we are asking to be reviewed after a year, will overwhelmingly benefit big business, not small business. Simply not enough support is being provided.

Graeme Morrice (Livingston) (Lab): Does my hon. Friend also recognise that the Federation of Small Businesses has stated that it would like the Chancellor to move as aggressively to reduce small business rates as he has to cut the corporation tax rate for large businesses?

Catherine McKinnell: Yes, I recognise the FSB’s call, which we need to consider as part of our review of how the tax changes affect businesses and whether they do the job set out by the Government of ensuring that our recovery, which still seems a long way off, is built on the back of small businesses. That is why Opposition Members urge the Government to support the amendment.

Cathy Jamieson (Kilmarnock and Loudoun) (Lab/Co-op): I apologise for coming in late, Mr Hood. I was attending a Westminster Hall debate, so I apologise if my point has already been raised.

Does my hon. Friend the Member for Newcastle upon Tyne North agree that, with a bit of additional support, many self-employed people might be able to think about becoming a small or micro-business and,

therefore, take on further employees? Does she also agree that that depends on having an amenable tax regime that provides some support and assistance?

Catherine McKinnell: I absolutely agree. I assure my hon. Friend that that point has not yet been raised, but it was going to be my next point.

The Government, rather than focusing on the support and assistance that small businesses need and are calling for, seem to be focused on their obsession with red tape, which seems rather a red herring, particularly when their main focus, as we have seen in the Beecroft report published yesterday, seems to be not making it easier to hire people, nor supporting businesses so that they are able to hire people, nor raising confidence in the economy so that people invest in businesses and that businesses grow and take on new employees, but making it easier to fire people at will without explanation. Again, from personal experience and from talking to small businesses up and down the country—I am sure that every employer would like to sack employees at will; I am sure that businesses would not oppose having that option—but that is not something that they are asking for now, or that any Government should support. It is utterly regressive, not progressive. The Government should not waste so much time focusing on making it easier to sack people, rather than on investing in businesses and investing for growth.

Once again, I return to access to lending, which is the main—*[Interruption.]* Does the hon. Member for Wyre Forest wish to intervene?

The Chair: Order. Hon. Members should not heckle from a sitting position.

11.15 am

Catherine McKinnell: The hon. Member for Wyre Forest points out that I am an employment lawyer; indeed, I speak as one.

Such a policy is a complete distraction from the fact that, as Government Members will agree, business is asking for access to finance and to lending, which is its main priority. The Bank of England’s “Trends in Lending” report for April shows that that problem pervades small businesses up and down the country.

Seema Malhotra: My hon. Friend is making an important point. Her small amendment concerns looking at the impact of corporation tax policy. Does she agree that we need a coherent plan for jobs and growth, and that the Government’s seeming intention to make it easier to fire rather than to hire people is giving a confused message to the country about their strategy for jobs and growth? The amendment would at least give us clear evidence for an ongoing review of the impact and of what might need changing.

Catherine McKinnell: That is exactly my point, and I do not understand Government Members’ apparent confusion. My point is that the Government’s focus on making it easier to fire people is not the message that I am getting from businesses throughout the country. That policy seems to be a preoccupation, which hides behind the real issues of getting access to investment and growth.

Jacob Rees-Mogg: A moment ago, the hon. Lady was saying that businesses had many billions in their deposit accounts. If they have got all those billions, they have got the access to the money that they need for growth but they are not spending it. So it is not actually access to capital that is the problem.

Catherine McKinnell: The point is that big businesses are hoarding their cash in deposit accounts and small businesses are struggling to access even the most basic finance to enable them to grow, take on extra employees and benefit from any of the measures of a Government who, as it seems to me, are trying to make it easier to hire and fire people.

Cathy Jamieson: My hon. Friend has covered part of my point, which is that the small businesses that contact me in my constituency are not those that have money tucked away in bank accounts. They need assistance to help with cash-flow problems, often because larger companies do not settle their payments on time. Does she agree that, in such circumstances, banks could do more to help?

Catherine McKinnell: Absolutely. I agree that banks could and should do more. It is hugely concerning that lending figures appear to be going down instead of up. They decreased by a staggering £9 billion in the three months to February, according to the Bank of England's lending report, and the flow of lending is at its lowest for two years.

John Walker, the national chairman of the Federation of Small Businesses, said that the figures were "very disappointing, but not surprising", and show that the Government's plan to boost lending to help small businesses has failed. Lord Oakeshott, a leading Liberal Democrat peer, went even further. He said:

"These small business lending figures are simply horrific... The banks keep charging more and lending less to [small firms]... Why can't the Treasury see that the economy and jobs can't motor while they let the banks keep siphoning the petrol out of small businesses' tanks?"

Rachel Reeves (Leeds West) (Lab): What does my hon. Friend think about the figures on bank lending and the messages that she is getting from small businesses, in light of the Government's promise that project Merlin would get money flowing to small businesses?

The Chair: Order. I know that the Front Benches are a bit congested this morning, but hon. Members should not stand with their back to the Chair.

Catherine McKinnell: My hon. Friend raises an important point, which I am coming to. The Prime Minister himself said last year that he was going to "watch... banks like a hawk and make sure they deliver for Britain's small business men and women."

However, it is absolutely clear, as my hon. Friend suggests, that neither project Merlin nor the Prime Minister has delivered for SMEs.

It has now been over a year since project Merlin was introduced. It is clear that it has failed to support SMEs and provide the assistance that small businesses desperately need. We all know that small businesses are the lifeblood

of the economy. If we are to get the economy moving and the deficit down, the Government need a plan for jobs and growth. Small and medium-sized enterprises, by the Prime Minister's own admission, are essential to those aims.

On the back of the figures in the Bank of England lending report—£9 billion reduction in lending to small businesses—does the Minister think that project Merlin has delivered? I would be interested to hear the comments later.

Grahame M. Morris: In addition to bank lending to small and medium-sized businesses, does my hon. Friend agree that discussions with representatives of the business community indicate that the real issue is about the crisis of consumer confidence and depressed demand? The Government's policies of casualising and introducing more insecurity into the labour market have a destabilising effect and make matters worse rather than better in terms of encouraging confidence and demand.

Catherine McKinnell: I absolutely agree. My hon. Friend made the point well and comprehensively.

One of the key sectors affected by the downturn is construction. It accounts for 7% of the economy and has suffered a sharp contraction. Construction Skills has said:

"The huge cuts to public spending—24% in public non-housing and 25% in public sector housing with a further 10% cuts to both anticipated for 2013—have left a hole too big for others to fill."

Some construction companies will benefit from the cuts to the headline rates of corporation tax, but will that be enough to trickle down to small companies and sole traders?

Ian Swales (Redcar) (LD): I congratulate the hon. Lady on her promotion. It is great to see a north-east MP in a position of greater power.

I am losing count of the number of organisations that have been quoted in the debate so far this morning. There seems to be no shortage of statistics, quotations and analysis from a number of independent organisations. Why does the hon. Lady think that the amendment is important? Under the previous Government, which neither she nor I was around for, Government analysis was so discredited that the Office for Budget Responsibility was set up. Why does she think that an analysis conducted under the amendment would be worth doing?

Catherine McKinnell: The hon. Gentleman touches on an important point, which is that policy should be evidence-based. It should be made on the basis of sound projections. Returning to the comments on employment regulations, one of the concerns that we have heard is that much of the policy that the Government are introducing is based on rhetoric rather than on evidence. We have tabled the amendment to try to get an evidential analysis of what the measures will achieve.

Ian Swales: The amendment includes the word "review". When does the hon. Lady want such a review to take place?

Catherine McKinnell *rose*—

Ian Mearns: Will my hon. Friend give way?

Catherine McKinnell: Yes, I will.

Ian Mearns: I had a sneaking suspicion you might.

Does my hon. Friend think it is interesting that a Member of one of the coalition Government's parties has so little confidence in Treasury Ministers and their staff to produce an accurate set of forecasts in relation to a review? The hon. Gentleman seemed to be pouring out a ringing endorsement of confidence in the Treasury team.

Catherine McKinnell: My hon. Friend makes an important point. There has been much commentary on the current growth forecast figures, which *The Guardian* suggests are risible. We would all like to hold great optimism and hope for growth in the economy, but currently, the forecasts seem to be downgraded by such a dramatic level and at such regular stages that it is important to have a review at the end of the financial year.

Ian Swales: The hon. Member for Gateshead speaks about faith in the Government and the hon. Lady speaks about evidence-based policy. The previous Government's evidence of analysis of policies was so poor that a new independent organisation was set up. I am not suggesting that my right hon. Friends on the Front Bench would be any worse than that—I am sure they would be a lot better—but clearly, the Government's analysis of their own policies can hardly be impartial.

The Chair: Order. Interventions must be shorter than that.

Catherine McKinnell: Thank you, Mr Hood, for calling the hon. Gentleman to order. I lost the sense of his point.

The point that I am trying to make is that there are alternatives to the policies that the Government are pursuing. We suggest that those alternatives could be a stimulus for jobs, and growth in the economy. In the amendment, we want a thorough review of how successful the Government's current policies are and what policies they should pursue in future.

Nigel Mills: Again I seem to be getting near the hon. Lady's hour mark. Imagine we have the broad sunlit day when she has her review of the structure of corporation tax and its impact on small business safely in the House of Commons Library. Would she share the Government's concern that if they reduced the rate of small business corporation tax to below 20% it would recreate the easy-avoidance situation? People might incorporate businesses to avoid paying personal income tax rates just to pay lower corporate ones instead. Therefore, practically, going below a 20% corporation tax rate is problematic.

Catherine McKinnell: The hon. Gentleman makes an important point about avoidance, which we shall discuss at length in relation to the next amendments, which deal particularly with that.

11.30 am

Jacob Rees-Mogg: I was just wondering whether, if we followed that train of thought, that would not be a marvellous argument for cutting the personal rate of tax and having a general reduction in taxation.

Catherine McKinnell: That issue has been debated at length already in discussion on previous clauses, in which the Government put in place a tax cut for millionaires—the £40,000 tax cut for 14,000 taxpayers—and I think we agreed to disagree about that.

Moving on to more pressing issues, Labour has proposed various measures to stimulate growth. It was previously suggested that we are not offering any solutions. We are, and one of them is particularly aimed at stimulating growth in the construction industry, which has suffered greatly in the recession. We are not the only ones who say that. Again, I quote Jonathan Portes of the National Institute of Economic and Social Research, who suggests that we should be trying to stimulate the economy at this time, and that it is

“not just basic macroeconomics, it is common sense.”

It absolutely right to consider the impact of the Government's taxation policies and that a proper assessment be undertaken of their impact on businesses of all sizes. Certainly, as we have already discussed, little is offered to small businesses in this Budget.

It is interesting that the hon. Member for North East Somerset raised the issue of the personal tax rate, a change that did not go down too well with the majority of the British public; I would put it alongside the granny and caravan taxes. However, given Greggs' history in my home town of Newcastle, and given that its headquarters are there, the pasty tax is obviously the tax that has caused a lot of controversy among my constituents. Incidentally, Greggs began in the 1930s with John Gregg delivering yeast, eggs and confectionary on a bike; he opened his first bakery in 1951. It is interesting to note that he did so in a time of recession—*[Interruption.]*

The Chair: Order.

Catherine McKinnell: It would be interesting to know what John Gregg would make of this Budget; I know that the current chief executive is not impressed one bit by the pasty tax.

Mark Garnier: The owner of Greggs would presumably have welcomed the fact that, as a small businessman striving to set up his own business, he was not being undercut by the tax loopholes that allow Tesco to sell hot food tax-free.

Catherine McKinnell: We discussed the pasty tax at length on the Floor of the House. The point is that Greggs started out as a small business at a time of terrible recession, in the region that was probably hit the hardest, due to its dependence on heavy industry. We need to learn the lessons of history. We should not wait for that one small business that can survive and ride the wave, but rather reach out and provide genuine support and the kinds of things that such businesses are asking for—access to finance and to lending.

Simon Kirby: I am pleased to hear that Greggs is based in Newcastle. Is it not an example of a company that employs more than 250 people? Is the hon. Lady saying that it should not benefit from corporation tax cuts? *[Interruption.]*

Catherine McKinnell: Once again, the hon. Gentleman is commended by his colleagues for making a good point, but he absolutely misses the point. We are not opposing the cut in corporation tax; we are trying to help the Government to see that there is a whole other world out there beyond big business that needs help and support at this time of recession.

Jacob Rees-Mogg: Will the hon. Lady give way once more?

Catherine McKinnell: Once more.

Jacob Rees-Mogg: I am enormously grateful for her generosity, and I have some sympathy with the position that she is in, because she took over this amendment. However, is not the problem with the Opposition's position that they are not, in fact, saying anything? They are not saying that they are in favour of higher tax, of lower tax or of different tax; they are simply saying, "Let's have some vague and vacuous review." The whole amendment is pointless. The hon. Lady is noble in defending it, and she is doing a magnificent job, but that does not stop it being pointless.

Catherine McKinnell: I am actually quite concerned about the level of complacency among Government Members when we are in a double-dip recession, when small businesses are crying out for lending and when lending rates are going down, not up. The Government have made a commitment to watch banks like a hawk and ensure that small businesses get the support that they need, but they are delivering nothing. The amendment gives us the opportunity to air the concerns that small businesses are expressing to us.

Ian Lavery: I am amazed at what has been said. The amendment simply asks for a review of "the impact of the corporate tax structure on businesses of different sizes,"

and asks that a copy of the results of that review be placed in the Library, which would provide transparency for the public. What have the Government got to hide?

Catherine McKinnell: Would the hon. Member for North East Somerset like to say exactly what the Government have to hide?

Jacob Rees-Mogg: I am not sure that Her Majesty's Government ever trust me to answer on their behalf, but I do not think they have anything to hide at all. I think we will see marvellous economic circumstances in due course because of the policies we are following. Having another review is just cost, and waste, and typical of the bureaucratic approach followed by the Opposition.

Catherine McKinnell: I thank the hon. Gentleman for that reply, because it sheds quite a lot of light on why the Government seem so complacent about their current economic performance. They obviously see nothing wrong with the increasing unemployment rates in areas such as the north-east. They see nothing wrong with long-term youth unemployment rates, which have not been tackled one bit. They see nothing wrong with general long-term unemployment, which is on the rise.

Seema Malhotra: I am quite surprised at the reaction to the amendment. Either the Government have something to hide, or they are not interested in the impact of the corporate tax structure on businesses of different sizes. Does my hon. Friend agree that behind this lies an important question: what is the Government's policy for small business, and how will they ensure that it is having the impact on small business that we all know this country needs?

Catherine McKinnell: I agree with the sentiments that my hon. Friend expressed. At the heart of our concern about the Government's complacency on their economic performance is the fact that they have no strategy for growth and no plan for small business. Small business is feeling the pinch, and it is not getting the investment that it needs. Small businesses are struggling and disappearing, but all the Government seem to offer is support for big business. Big business is important and we support it, but it is simply not enough.

Graeme Morrice: Does my hon. Friend share my amazement at Government Members' comments about the amendment? The crux of the matter is that the Chancellor should evidence the decisions that he takes and put his money where his mouth is. What is the problem with that?

Catherine McKinnell: I agree. The Government need to stop making announcements and start delivering results. Cutting the corporation tax rate without offering anything to small business sends the message that the Government are interested in looking after only those at the top. People are left with the feeling that the Government are looking after not the many, but the few. That impression is only confirmed by the Government's failure to reintroduce Labour's bankers' bonus tax, which means that bankers are getting off lightly. The bank levy raised just half of what our bankers' bonus tax did. With regard to the Merlin project, I hope the Minister will comment on and explain the reduction in lending and say how the Government believe that meets the targets. How is that delivering for small and medium-sized businesses?

As promised, I am happy to present Labour's suggestions for injecting jobs and growth into the economy. I am sure that hon. Members are aware that Labour has a five-point plan for growth. As well as focusing on ensuring support for hard-pressed families, our plan includes a £2 billion tax on bank bonuses that would support the construction industry—which we all agree has been particularly hard hit in this recession—by allowing us to build 25,000 more affordable homes, and offer a 12-month reduction in VAT to 5% for home improvements. That is something the Government could consider as part of the review at the end of the year.

They could look the impact of their corporation tax rates when it comes to providing the support that business needs, and consider whether Labour's proposals would inject more jobs and growth into the economy.

Sheila Gilmore: My hon. Friend will be pleased to hear, as I am, that the IMF now says that a temporary cut in VAT and national insurance would be a good move for our economy.

Catherine McKinnell: Yes. There seems to be emerging consensus around the world—from the US and Europe—that plan A in Britain is simply not working, and there needs to be a shift towards providing solutions and stimulus to the economy to deliver jobs and growth. A worry that has become ever clearer today in Committee, given Government Members' complacency towards their failing economic plans, is the immediate problem of youth unemployment. It is no laughing matter, and it alone shows that our amendment deserves to be accepted.

The Government may be confident in predictions that by the time of the next election the country will be moving into growth, but what about those young people in the meantime? They are left with no job and no opportunities right now. There is no time to wait or waste for those young people. Young people in my constituency tell me that they are not going to university; they are going to try to find a job. They do not want to get themselves into debt, but they have no opportunities. The figures show that young people up and down the country are suffering in this recession. The Government may feel that they have some great plan that will steer them into recovery, but at the moment there are no signs of that. The Government should not be complacent about the young people lost in the middle of this recession. They should do something without delay.

John Pugh: How is this connected to corporation tax? I had hoped that the Committee would scrutinise the legislation, rather than rerun the whole economic scenario.

Catherine McKinnell: I explained clearly how this relates to the cut in the rate of corporation tax. We are asking for the Government's taxation policies to be reviewed, and that a copy of the review be put before the House of Commons at the end of the financial year, so we can see the impact on business. The hon. Gentleman clearly cannot see this, because all the Government seem to see is big business, but we are talking about small businesses—indeed, businesses of all sizes—up and down the country that need support. Those are the businesses that will provide jobs. If he thinks that youth unemployment is irrelevant to this debate, that says a lot about the Government's position.

11.45 am

Cathy Jamieson: I thank my hon. Friend for giving way once again; she has been very generous with her time. Does she share my concern about the fact that whenever the Committee asks the Government to review something, or to bring forward a report, they seem reluctant to do so? Is that not a sign that the Government are not listening and have no interest in making the legislation better, which is the purpose of scrutiny?

Catherine McKinnell: Yes, I agree with my hon. Friend. She makes the point that we are asking for this legislation to be reviewed. That is all this amendment asks for, and I am surprised that the Government do not see fit to support it, or the concept of reviewing how they are performing in the round, rather than in relation to each single part of the Bill. The review would look at how the corporate tax structure impacts on the economy as a whole. The Government do not seem to be taking that into account.

As I was saying, as part of Labour's five-point plan for jobs and growth, we would look to bring forward long-term investment projects—real projects, rather than those announced by the Chancellor. Hon. Members from the north-east region, and those from Tyne and Wear in particular, will be well aware that the Chancellor has re-announced Labour's investment in the Tyne and Wear Metro reinvigoration programme a number of times—at least twice; it could even be three times.

Ian Mearns: In fact, the Minister re-announced it in a debate in Westminster Hall only a few weeks ago, along with the Tyne tunnel, which has been open for six months.

Catherine McKinnell: Labour proposes that the Government genuinely bring forward investment programmes that can stimulate growth in the economy, and particularly in the construction industry, which we know has seriously suffered. We would also support a temporary reduction in VAT, or a temporary national insurance contribution holiday. That is a real way to encourage the hiring of new employees and to switch the focus from firing to hiring—something that I know the Government would like to do today.

The reality is that this Government have no strategic vision to help our small businesses and to grow our economy. There is no plan for jobs and growth. Where is it? Can the Minister explain? The incompetence and unfairness—and complacency, I might add; we have witnessed that today—at the centre of the Government were revealed in the recent Budget and the Queen's Speech. The Government need to change their priorities. Part of that is reviewing the corporate tax structure to ensure that it is working in the interests of all businesses, not just big businesses, because small businesses can make or break our economy. Our amendment calls on the Government to consider how they could help them more. We are in a double-dip recession, with business investment set to grow by just 0.7% and lending to small businesses described as "simply horrific". There has never been a more appropriate time for the Government to review their support for small business. That is what our amendment calls for, and I urge hon. Members to support it.

Graeme Morrice: It is a pleasure to serve under your chairmanship, Mr Hood. I start by congratulating my hon. Friend the Member for Newcastle upon Tyne North on her excellent introductory comments. She has proven in the past hour and a half to be a worthy successor to our hon. Friend the Member for Pontypridd.

I should like to speak in support of amendment 6 to clause 7, which calls on the Chancellor of the Exchequer to

"review the impact of the corporate tax structure on businesses of different sizes".

[*Graeme Morrice*]

When we last met, I was waxing lyrical on clause 5 and inadvertently drifted on to clause 7. I was rightly rebuked by the Chair, so I promise you, Mr Hood, that I will not drift on to clause 9, but will stick exclusively to our amendment to clause 7.

All of us hear from small businesses in our constituencies about their difficulties in the current economic environment, in particular in securing investment to support growth and recruit staff. Many cannot access the bank lending that they need because the Project Merlin agreements have failed to deliver. At the same time, small businesses in my constituency tell me that the Budget has done precious little to help them. The small profits rate of corporation tax was reduced by 1% last year but, under the clause, it will remain at 20% while the standard rate is reduced. Large companies will therefore enjoy a reduction in the rate of corporation tax for the second year running, which of course we are not opposed to, but small businesses are set to take the hit.

Successive Governments have eroded the gap between the two rates, and the difference is now less than at any time since the small profits rate was first introduced in 1973. Many commentators suggest that this erosion of the differential between the two rates is to the detriment of the relative economic well-being of the small business sector. All too often, small businesses are desperate to expand and to give people new job opportunities, but they cannot afford to take the risk of hiring new staff while finance is so hard to come by and the economic outlook is still so bleak.

The Scottish Trades Union Congress last month highlighted that youth unemployment in Scotland has risen by more than 1,000% over the past five years. That, coincidentally, is the period for which the Scottish National party has been in power in Scotland; I do not want to let it off the hook. We know that unemployment is set to rise further, with 750,000 public sector workers likely to lose their jobs. That will have a devastating effect on communities throughout the country, but particularly in areas more dependent on public sector jobs, especially the north-east and north-west of England, Wales, and my own area of Scotland. If new jobs are to be created to prevent the thousands of public sector workers who have lost their jobs simply languishing on the dole and costing the Chancellor more in benefits, small businesses will need more assistance to grow and take on new staff. As I have said previously, the Federation of Small Businesses stated in its response to the Budget that it would like the Chancellor to move as aggressively to reduce the small profits rate as he has done to cut corporation tax for big business.

Do the Government have plans to reduce the small profits rate in future, in order to provide greater support for small businesses? As the gap between the corporation tax rates for small and large businesses further narrows over the next couple of years, can the Government confirm whether they intend to have, eventually, a single rate of corporation tax for large and small businesses? We also need to know more about the impact of this disproportionate benefit for large businesses on the economy and jobs. I welcome the amendment, which would instigate a review.

John Mann: It is a great pleasure to serve under your chairmanship, Mr Hood. You remain, I might almost say, a revered figure in north Nottinghamshire because, unlike some in Government, you have real-world experience that can contribute to matters in the House. It is most appropriate that you are chairing the Finance Bill Committee.

On the amendment, we have been here before, when the Committee discussed a similar amendment to complex and contradictory Government proposals. The vast majority of people in the country would say that this is the opportunity for them to work out how to put right some of the things they got wrong in this chaotic Budget. None of us believes that they deliberately set out to offend virtually everyone in the country with the mishmash of proposals in the Budget, and to leave them distraught. The Government started with a growth projection of 2.5%, which fell during the pre-Budget process to less than 1%, and then to 0.8%. Since the Committee last met, it has fallen further to 0.7%. We see the trajectory.

I suggest that it is in the Government's interests, more than those of the Opposition, to accept the amendment. We should be suggesting that the amendment is withdrawn because it is too helpful to the Government. If they were better informed about the consequences of what they are doing, they would reverse their policy. They would not call it a reverse but, as politicians always do, they would come up with other phraseology, fair do's, but they would change their disastrous policies, which are destroying their own political base, never mind the rest of the country.

Ian Mearns: My hon. Friend is absolutely right. There has been movement, and time has elapsed since the Committee last met. It is significant that we have had the Queen's Speech, and the non-event of tackling business, jobs and growth.

John Mann: Unfortunately, I missed the Queen's Speech, but having read it, I saw that I had missed nothing of consequence for my constituents or the country, other than the irritation of some ill-founded minuscule proposals because the coalition Government cannot agree among themselves. That is the point of the amendment. What else has changed since the Committee last met? A number of things have changed.

At the Committee's last sitting, I called for a split in the ranks, and there is a split in the ranks, so here is an opportunity for that split to start to bite in real votes. The opportunity is there for the Liberals. They have tabled their own amendments, and I have calculated that if we vote with the Liberals, we and the Liberals will outvote the Tories. The Liberals could see some of their amendments come to fruition. That would be interesting and uncharted territory.

What are the Liberals asking for? They are asking for more research and information, precisely what the amendment is asking for. I know that the three Liberal Members are tempted to back the amendment, because they know what the consequences of their disastrous support for this Titanic Budget will be. We know the electoral consequences in my area—they could not even get 10 nominations for candidates to stand—and elsewhere they lost a vast number of seats. They are facing obliteration.

That has happened before, and I am sure they will study the election results in Canada to see how parties can vanish from the face of the earth in elections. That is the Liberals' dilemma. More than 100 years of history could vanish.

Small, modest proposals such as our amendment give the Liberals the opportunity to differentiate themselves. The research base—I know how much the Liberals like to study facts in the Library—will inform them on whether to vote with us to reverse some of the ridiculous consequences of this Titanic Budget. I appeal not just to the Liberals, but to the hon. Member for Amber Valley, who has bravely made his own proposals, and knows the consequences. I have been through that. Those who make their own proposals in a Standing Committee on a Bill end up, as I did, on the Information Committee, so I know the value of research in the Library. When the hon. Gentleman is there, he will have first bite at the research documents. Those are the opportunities available to those who dare to do what is good for the nation by, in this case, voting not for a change of policy but for the Government to release their statistics so that we may all judge the consequences of what they have done.

12 noon

Rachel Reeves: My hon. Friend has talked eloquently about the things that have changed since the Committee's previous sitting, and they may be pertinent to the amendment. Two things have changed today. Borrowing numbers have been published showing that borrowing is up compared with a year ago, which suggests that the Government's plan is not working. Also, the International Monetary Fund has today called for a plan B, which seems to me even more reason for the Government to publish information on how they are succeeding in helping businesses of all types and sizes.

John Mann: A consensus on stimulating the economy is beginning to emerge among political leaders across the world. Indeed, I am pleased to see that the Prime Minister has dumped his Chancellor and the Treasury Front-Bench team in it by agreeing with President Obama's call, as ratified by the G8, for growth and stimulus to combat the recession and unemployment. Of course, our Prime Minister meekly has to abide with what President Obama says, so the Prime Minister now backs what we are saying when he goes to international events. That is another change, and doubtless it will be teased out tomorrow and in coming days.

Mr Sam Gyimah (East Surrey) (Con): I would like to set the record straight on exactly what Christine Lagarde, the head of the IMF, has said about our deficit reduction plan. She shivers at what would have happened had we not embarked on fiscal consolidation when the coalition came into government. That totally contradicts what the shadow Chief Secretary just said.

John Mann: We know that Government Members rely on the French and the Germans as part of their model. Another thing that has changed is that the Liberals could not even manage to get a ticket to the Champions League final out of the Government. Some coalition this is. When the camera homes in on someone

at a sporting event, the viewer thinks, "Who is the"—I will not use the term—"man with the hat?" There were two Tories at the Champions League final. The Chancellor took a day off from his busy schedule to kowtow to the Germans, which is the Tories' usual style.

Jacob Rees-Mogg *rose*—

John Mann: The Chancellor ought to have taken the research he was about to put in the Commons Library on the impact of his disastrous policies on small businesses and given it to the Germans. The Germans could then have said, "Actually, when it comes to small businesses, our approach is much more in line with the official Opposition in Britain. Adopt their policies on small businesses, because they are much closer to the German model of success than the laissez-faire, sack-all-the-workers model that you are proposing." That is what should have happened, but the Chancellor was too busy glad-handing and watching the football to listen.

Several hon. Members *rose*—

John Mann: I must first give way to the hon. Member for North East Somerset, who has been jumping up and down like a yo-yo for the past two minutes.

Jacob Rees-Mogg: I am extremely grateful to the hon. Gentleman, who makes the most brilliant speeches. However, it was clearly the Chancellor's duty to attend the football. There was a test match at Lord's, and it cannot possibly be pleasure that takes someone out of the country in such circumstances.

John Mann: I note that the hon. Gentleman's tie is not the traditional Lord's tie. I am sure that he will want to join the Chair's exploration of the Nottinghamshire coalfields on Monday in order that we can take in the Trent Bridge test match and also look at the impact on the real economy. It is precisely in places such as Nottinghamshire that the real economy is suffering from the mistakes that are being made. That is why the information that is being requested so modestly from the Government would contribute to putting right what has gone wrong in the proposals that are failing to stimulate small businesses in my area, in his area and across the country.

Rachel Reeves: The IMF said today:

"Fiscal easing and further use of the Government's balance sheet should be considered if downside risks materialise and the recovery fails to take off".

That seems to have happened. The IMF continued:

"In particular if growth does not build momentum and is significantly below forecasts even after substantial additional monetary stimulus and further credit easing...planned fiscal adjustment would need to be reconsidered. Under these circumstances, gains from delaying fiscal consolidation could be larger as multipliers are estimated to move inversely with growth and the effectiveness of monetary policy."

Does my hon. Friend agree that under those circumstances, it is even more important for the Government to put together a review of how effective their policies to

[Rachel Reeves]

stimulate business investment have been, particularly given that the IMF has said today that there is a case for slower fiscal consolidation?

John Mann: My hon. Friend gets it absolutely right. The best example to illustrate how right she is is the humble Bakewell pudding. The Bakewell pudding epitomises the research that is required if the amendment is to reach true fruition. When the Government brought in their pasty tax, some overlooked the impact on the traditional small business. The original Bakewell pudding company bakes in the traditional way—tradition is the key—not with modern concepts or imported formulae. The company takes raw materials from a farm, puts them in the oven and bakes in a traditional way. There are additional costs in doing so. The product is made and sold hot. The Old Original Pudding Company suffers more from the pasty tax than any large baking company such as Greggs. Such businesses are the ones in total jeopardy. The traditions of our nation—the way in which we create our food—are being threatened.

I suspect that that is not the objective of Government policy. I suspect that it is an error caused by the failure to see and accept fully all the consequences. That is the point of the amendment. It would allow the Government to re-evaluate their mistakes, see what they have done wrong, consider the mixture of the Bakewell pudding, reformulate their policy and decide, “No. Tradition in England is a good thing.”

Mr McKenzie: Surely my hon. Friend would find it bizarre if the Government did not want to take the opportunity to review the Budget and come to a successful outcome. Having spent my entire working life in the private sector, that seems a natural step; one plans, checks and reviews before one progresses.

John Mann: I know that the Liberals in particular will listen carefully to that point.

Grahame M. Morris: My hon. Friend is making an exceedingly good speech, and I am grateful to him for giving way. I want to place on record the numbers required to assess the Government’s success or otherwise. The figures that have just been placed in the House of Commons Library show that public sector debt per head stood at £12,500 in May 2010, but that the latest figure from April 2012 is £16,200. Contrary to the assertion of the hon. Member for East Surrey, the Government’s policies are making the situation far worse, not better.

John Mann: The figures are astonishing. That is part of the analysis that the amendment calls for. I will assist the Government by clarifying the effect of the amendment. If it were adopted, we would have not only the overall figures, but the micro-examples of the Bakewell pudding and the tradition of England; the historical churches and the decay that the Government are potentially imposing on our historical religious environment; and the more mundane, but probably more essential, disaster affecting small businesses.

The quartet of the Prime Minister, the Chancellor, the Deputy Prime Minister and the Chief Secretary to the Treasury all have one thing in common: they have no experience of the real world. They have no experience of business, no experience of risk taking and no experience of the difference between corporation tax and capital allowance changes—none whatsoever. Uniquely in the history of this country, the four people at the top who are making the decisions literally do not know what they are talking about. They have got no idea what they are talking about. They have never been in the real world. A review such as that proposed in the amendment would provide them with academic figures and, crucially, micro-examples, which can only inform policy. It would allow all of us—the Back Benchers, the Front Benchers and all 650 of us alike—to scrutinise more effectively.

The real tragedy in not passing the amendment is that we see such micro-examples in our constituencies. We see the businesses that should be able to grow but cannot, because the wrong combination of tax regimes has been brought in. We see the overall impact of the lack of stimulus, or the non-stimulus, on the economy. We also see what other taxation changes, such as those being brought forward for local authorities, mean for areas such as mine: somebody could have a brilliant entrepreneurial idea, but who would provide them with business premises when there is a waiting list? We were about to do something about that waiting list. It took me four years of work to get everything together to get a huge industrial site ready for the development of 40 new start-up units of different sizes, and what did the Government do in the Budget? They abolished priority estates, which were the very vehicle that would have built the infrastructure into which the entrepreneurs and innovators of today—the wealth creators of tomorrow—could have moved.

Where do the entrepreneurs and innovators go? They have to look elsewhere. People are beginning to look abroad because they cannot find facilities in this country. That is the reality of having the wrong mix of policies when it comes to stimulating the economy, and particularly the small and medium-sized enterprise sector. I know from when I put my house on the line in order to create a business—under a previous rotten Government when interest rates were at 15% and nothing was available—that getting those premises, having stability of inflation and having growth in the economy were fundamental in planning investment. If someone cannot get a stable base where they can set up and grow their business, they cannot do it. They cannot get goods in and out if their premises are non-existent. That is the problem with our economy, which the Budget worsens.

That is why, when we look at these hopeless Liberals kowtowing to the Tories and destroying themselves in the process, there needs to be some reflection and some courage and bravery from those on the Government Benches. We see the occasional valiant Back Bencher who sees that things are going wrong and begins to speak out. Government Members need to say that a little pin should be put into the Budget, not to prick or to burst the bubble, but to explore its meaning and to see if the mix inside is good enough. That is why the amendment is so important. That is why it will be an outrage if Government Back Benchers do not have the common sense, the political integrity and the courage to stand up for the rights of the country, as opposed to purely kowtowing to their own party.

12.15 pm

Ian Lavery: It is an absolute pleasure to serve under your chairmanship, Mr Hood. This talk of puddings and the pasty tax has made me extremely hungry, so I will try to get through my contribution as swiftly as I possibly can so that I can retire to the Tea Room.

I would be interested to know what the Minister thinks this marginal cut in corporation tax for the profits of big companies will actually do for jobs and growth in my area, as well as in the UK as a whole. I am not sure that it actually makes any sense whatsoever. Believe me: we are really desperate in my area. Anything that the Government can do to encourage jobs and growth would be absolutely welcome. Last week, we received news in Wansbeck, which is a small mining community, that we are the bankruptcy capital of the UK. That absolutely amazed me. If that is the result of the decisions made by the Government, it is surely time that the Government performed a U-turn and focused on the things that are really affecting the economy, which are a lack of demand and the fact that big business has £750 billion that it is not willing to spend because of a lack of confidence in the economy. It is abundantly clear that the failure of the Government's economic policies is putting us into a double-dip recession.

Simon Kirby: If the Government's economic policies are failing, why is it that the OECD chief economist praised Britain for its austerity measures and said that they should not be stopped? Surely we are getting something right and doing a good job.

Ian Lavery: I am not sure whether to thank the hon. Gentleman for that intervention, but, rather than quote the OECD, I could quote people who have just been made bankrupt. I could quote the hundreds and thousands of people—mainly the young unemployed—in my community. There are 55.5 people looking for each job in the jobcentre. They are the people to whom I want to listen.

Ian Mearns: The point that my hon. Friend is making—it is one that Government Members really should listen to—is that the economy in the United Kingdom is reacting to the Government's measures very differently in different parts of the country. The economy is different in the regions of England, Scotland, Wales and Northern Ireland. They are very different places to south-east England and to London. The Government are taking no account of that whatsoever in their proposals. That is why we need real analysis of the real economy across the whole of Britain.

Ian Lavery: I thank my hon. Friend for that intervention, and I am pleased that he has read the next page of my contribution. *[Laughter.]* I will miss that bit out.

The fact of the matter is that we have massive concerns. It is not always the south-east versus the north; it is the traditional Labour areas against the traditional Conservative areas. The traditional Labour areas are obviously being hit by far the hardest on all fronts as a result of the election of the Conservative Government, aided and abetted greatly by the Liberal Democrats. People should recognise that none of this could have gone ahead at all without the help of the Liberal Democrats—although I am probably steering ever so slightly off course.

John Pugh: One important part that all parties play in the process of scrutinising legislation is getting the legislation through. If we are going to have Second Reading-type speeches all the time, on every motion, none of this legislation, which initially was said to be the longest piece of legislation that Parliament had ever read, will be properly scrutinised. Does the hon. Gentleman agree?

Ian Lavery: I take the hon. Gentleman's point but, being present for a third day, I have not seen Members of the yellow side of the coalition scrutinise much at all. In fact, they have done little other than support the Government.

Last week or the week before, *The Sun* said that the Government had totally lost their way on the economy. The Chancellor was described as a "one-trick pony", lacking any imagination whatever and not knowing what to do with the economy. The reduction in corporation tax benefits only the multinational companies and not the smaller companies, which are the backbone of the economy, especially in areas such as mine. Growth has fallen, jobs are being lost and the Government are reverting to type, cutting taxes for the rich and multinational companies. It has to be said that the Office for Budget Responsibility forecasts are less than reliable, though often quoted. I understand that the OBR predicted 0.3% growth in the first quarter of this year, but in fact we had a 0.2% decrease. Politics is about choices, and at every turn the Government are making choices that help only their friends while hurting ordinary people.

The Beecroft report has been mentioned this morning, in relation to firing at will. To be honest, it really galls me, when there are things that we should be discussing, to see Minister after Minister, both Liberal Democrat and Conservative, saying overly on the television that the proposed legislation is about the ability to hire people. It is not. It is the opposite: it is about the ability to fire people. That is what the Government want to do. They want a return to the days when people turned up for work and stood at the gate so that the gaffer could come out and say, "I'll have you today, you today and you today. The rest can go home." That is the way that they want regulation to go. We will have kids up the chimneys before long—although that might be a slight exaggeration, which I will withdraw gladly.

The situation is difficult, but when Labour left office the economy was growing at 2.8% and unemployment was falling. The Government threw everything away because of ideology. The corporation tax changes represent a return to the belief in the trickle-down effect in the economy: big organisations and multinationals benefit from a cut in tax so they make bigger profits and, somehow, that trickles down through the economy. But that is not the truth—it does not happen and it has never happened.

Mr McKenzie: My hon. Friend makes a good point. In our area of the country, those who have lost their jobs in local government and so on are not being picked up by the private sector. The private sector is not getting the energy and the help that it needs to pick up those lost jobs.

Ian Lavery: I could not have put that better myself—that fact has been well argued and well documented.

[*Ian Lavery*]

We need to look at the situation, but how are we expected to believe that a cut for the big companies will benefit jobs, growth and people in our constituencies? The fact is that it will not. Cutting taxes on profits for business is somehow supposed to benefit all the working poor, the struggling families and the unemployed, which is a very interesting idea. I just think that that is the same old Tory ideology. Let us not forget that the cut in corporation tax is a cut on the profits from taxable income, such as trading profits and investment profits for big business.

What will the corporation tax cut actually do for the economy? For those Government Members who are interested, an analysis by the TUC shows that there are only weak associations between declining tax rates and increasing growth rates and between declining tax rates and increasing rates of employment. Beyond lining the pockets of those better off who, as I have mentioned, are not prepared to spend, I cannot see what such a cut will do for a single one of my constituents.

Since the '70s, corporation tax has more than halved, so businesses have paid less and less tax over the years while my constituents have had to pay more. It is generally accepted that the UK rate of corporation tax is already competitive, when you factor in that the UK is one of the few countries to have a two-tier rate—one for small businesses and one for large businesses. In addition, more than 90% of all UK companies pay tax at the small companies' tax rate and our corporation tax rate for all companies is relatively low, but the cut is only for big earners.

The whole Budget is a great missed opportunity, not only for the north-east, but for the whole country. It should have been a Budget for jobs and growth, but instead it was one of tax cuts for the rich and for multinationals—the well-off. One might believe that the Budget was for the Government's friends.

Unemployment rates in south-east Northumberland—in my constituency—are alarming. I have taken the opportunity to look at the unemployment rates for Government Members' constituencies, as published by the House of Commons Library; obviously, I will not take the time to go through them all. They range from 2.5% in that of the hon. Member for East Surrey to 6.8% in that of the hon. Member for Bristol West, while the north-east suffers an 11.2% unemployment rate. That is why my hon. Friend the Member for Gateshead rightly said that there is a huge difference between the economies in the south and the south-east and those of northern regions—be they the north-west or the north-east, and further down into Yorkshire.

The Government characterise the unemployed—people who are unable to get a job because there are none—as benefit scroungers. That is not helpful for people who have not had a job and would do anything to get one. Our statistics show that there are 55.5 people after each job, which means that for every job 54.5 people are disappointed. They are not benefit scroungers.

Mr Gyimah: Unemployment, at whatever level, is disheartening. It is also disheartening specifically to give the stark unemployment figures for the north of England, as the hon. Gentleman is doing, when the

Opposition have nothing to propose in Committee but a review. If, as he says, there is such a problem—I agree with him that there is—why have the Opposition made no counter-proposal?

Ian Lavery: We have all sorts of counter-proposals, Mr Hood, but you may not want me to pick up and read from this document on the Labour party's counter-proposals to the Budget. I seek your guidance as to whether that would be in order.

The Chair: You have my guidance: no.

12.30 pm

Ian Lavery: In the north-east, that is called a three-card trick, Mr Hood.

I am sure that many businesses in the areas represented by Government Members will benefit hugely from the change in the corporation tax rate, but believe me, it is not helping people in other regions, for the reasons that I have outlined.

Seema Malhotra: My hon. Friend has made important points about how unemployment varies across the country. Does he agree that business and economies—the balance of businesses, of large and small—do, too? If there is resistance to reviewing the corporation tax policy to see its impact on different sectors and sizes of business, there might be greater differential impacts to different parts of the country and we would be none the wiser.

Ian Lavery: I agree entirely with the strong point made by my hon. Friend.

To conclude, we herald the situation with Nissan in the north-east, but if people cared to look at where Nissan is in relation to my constituency, they would see that it might as well be a million miles away. It might as well be in Timbuktu, because people from my constituency cannot in any way, shape or form access jobs in Wearside. We do not have the required train service, so it would probably take two buses, a Metro journey and a further two buses to get there, which would mean travelling the night before to get there for the morning, so people would not get back for the next shift. That is how difficult it is. We congratulate Nissan and other companies in the Wearside area—it is good news for them—but the situation does not necessarily help people in my constituency. We can hardly get into the next travel-to-work area because of the lack of facilities.

The amendment refers to the effect of the corporation tax cut on growth. That might tell the Minister exactly what he and the Government have already done to stunt growth in the north-east. I very gently, politely remind him that within days of coming into office, the Secretary of State for Business, Innovation and Skills abolished the regional development agency, One North East. He did so at a time when independent research by PricewaterhouseCoopers showed that for every pound the Government invested in One North East, £4.50 was being generated in the private sector economy. That meant jobs and growth.

The Secretary of State said that One North East was a shining example, was creating jobs, was cost-effective and was working well while others were not. He said

that on that basis, the Government would consider keeping the shining example in place. What has happened? It has been abolished and replaced with something that is nowhere near as good for finance as One North East. Clearly, there is no plan for jobs or growth. I hope that he will listen to my hon. Friends on the Front Bench, as they left him a growing economy and falling unemployment—a legacy that the Government have squandered. I support transparency and am amazed that Government Members do not support a review of the impact of their tax measures on businesses of different sizes.

Grahame M. Morris: It is a pleasure to serve under your chairmanship, Mr Hood. The last time I did so was in the Health and Social Care Public Bill Committee, which was a marathon. I am grateful to have this opportunity to speak. I welcome my hon. Friend the Member for Newcastle upon Tyne North, who is making her debut on Labour's shadow Treasury team.

It seems a while since Budget day, when the headline cut in corporation tax was cheered so loudly by Government Members. It is becoming clear, however, as a consequence of events in the eurozone, and in our own domestic situation, that the measure is far too little, too late. I hope that the policy review that is taking place as a result of the new Socialist French President's election will give Ministers renewed impetus to take a long, hard look at their approach to austerity.

Just before the recess and the Queen's Speech, we heard that the UK had fallen back into a double-dip recession. It is alarming for Opposition Members to see the complacency of many hon. Members on the Government Benches. The hon. Member for East Surrey asked why we continually raise the idea of having a review, why we do not put forward proposals for stimulating jobs and growth, and what we have in our locker. We have proposals in our locker, not least a one-year national insurance tax break for small companies that are prepared to take on an additional worker, a one-year cut in VAT to 5% on home improvements to assist the construction industry, reversing the damaging cut in VAT that will cost the average household £450 a year, and introducing long-term investment projects—something that the Liberal Democrats supported in opposition—and major infrastructure projects to create jobs and stimulate growth in regions such as mine.

Ian Mearns: On stimulating regional economies through infrastructure development, although the Government do not have a differentiated approach in the Budget, they certainly have a differentiated approach to transport investment. An Institute for Public Policy Research report shows that London receives £2,700 per head of population, while the north-east receives a fiver. The Government are stimulating a part of the economy that is already doing extremely well and will continue to do so, but ignoring places such as the north-east of England.

Grahame M. Morris: I am grateful for that intervention. My hon. Friend makes an excellent point about the huge disparity in investment in transport infrastructure between the south-east and my region. It is a national disgrace that the disparity is not being addressed.

I mentioned some of our proposals to help stimulate jobs and growth. An important sector is 18 to 24-year-olds.

More than 1 million of them are unemployed, and our suggestion is a £2 billion tax on bank bonuses to fund a real jobs guarantee for young people. In the process, that would create 25,000 affordable homes. The Opposition are not short of ideas. I take offence at an assertion made by leading members of the coalition—I choose my words carefully—whom the hon. Member for Mid Bedfordshire (Nadine Dorries) described as “two arrogant posh boys”, though I would not use that terminology. They asserted that the nation's economy is in the clear and out of the danger zone, when it is clear that it is anything but that. If the economic news had been better, how would the cut in corporation tax stimulate jobs and growth, especially in regions such as mine? I hope that the Minister will come up with some answers.

Yesterday, the Minister of State, Department for Business, Innovation and Skills, the hon. Member for Hertford and Stortford (Mr Prisk), made a statement about the Beecroft proposals. That is relevant to our discussion today because, instead of hearing about targeted measures to encourage jobs and growth, and targeted support for industry, we are hearing the same old Tory rhetoric, attacking employment rights. The attitude can be characterised as “sack at will”.

I have taken the trouble to meet the Federation of Small Businesses in Easington, the North East chamber of commerce, and the regional manager of Barclays bank's investment arm. There is a common thread in what they have told me, and I have not sought to put words into their mouths. Their concern is that there is a lack of demand, caused by a fall in, or a lack of, consumer confidence. I do not see how a crude cut to the higher rate of corporation tax will address that concern. Instead, we see an attack on workers' rights, which does not make any sense, in terms of wanting to have a credible plan for tackling the problems that we face as a nation. We need business investment, which we are not getting. We need a courageous state, with a Government who are willing to act and intervene, bringing forward investment projects, employing young people, providing support to families and boosting the economy.

The messages that I am receiving from small businesses in my region, in east Durham, are clear: they call for better capital allowances, better business support from Government and banks, and better investment in our infrastructure. My hon. Friend the Member for Gateshead indicated the huge disparity in investment between the south-east and the north-east. The north-east economy began its long overdue recovery under the Labour Government, following decades of neglect under previous Tory Governments, under whom we suffered wave after wave of pit closures, and the loss of our heavy industries—of the steel and ship-building industries. Steady progress was made by our development agency, One North East, working in partnership with the private sector and local government. That progress has been steadily and systematically undone by coalition policies.

My concern is that this crude cut in corporation tax seems to be aimed primarily at the City of London, and it panders to the interests of those who caused the financial crash in the first place. The banks, City fat cats, and speculators who caused the financial crisis and continue to be paid huge salaries and fat bonuses are the ones who are most likely to benefit from the proposals

[Grahame M. Morris]

in the Budget, not least the cut in the top rate of tax for millionaires, although I know that we are not dealing with that in this clause.

What we should be addressing in this clause, through the review of effectiveness, is the question of how we can more effectively support manufacturing, particularly in areas and regions such as mine, which have felt the knock-on effects of, and the fallout from, City financiers' mistakes, and will see little practical benefit from the cut in corporation tax. I suspect that the cut is a ploy to help big businesses, instead of helping start-up businesses or small and medium-sized businesses, which continue to be neglected by the Chancellor and the Government. That clearly shows the skewed priorities of the Conservative party.

Small businesses in my area are suffering not just because of the lack of business investment, but because money has been sucked out of our economy as a result of the multi-layered cuts from various Departments. The Association of North East Councils has produced a report showing huge variation in changes to council grant funding, and the north-east is worst affected by those changes. That has a consequential impact on the ability of local authorities not just to employ people directly, but to support the private sector and encourage jobs and growth. The reduction in councils' revenue support grant and the changes to the allocation rules for additional funding from central Government mean that the most deprived and poorest areas, such as mine, will lose out most between now and 2012-13. We have already lost more than two thirds of our regional development funding.

Changes to welfare alone will take £170 million a year out of the north-east economy. Due to a phenomenon known as the reverse multiplier effect, those changes adversely affect not just those individuals who lose benefits, but small businesses, and particular sectors such as retail and construction; that compounds the problems that we face in the north-east. We are not likely to make significant headway until we have a comprehensive and lasting economic infrastructure, and we need Government commitment to secure that.

Ian Mearns: I am grateful to my hon. Friend for being so generous in giving way yet again. The real point he is making is that the Government are engaged in providing the opposite of stimulus. They are injecting economic sedatives into the regional economy of places such as north-east England.

12.45 pm

Grahame M. Morris: My hon. Friend is right, and "economic sedative" is a very good expression. I might recycle that. My argument is that the stimulus required can be achieved only through planning and investment. It is quite clear that the private-sector-led recovery that was promised has not materialised. I know that the Financial Secretary to the Treasury hails originally from my area. I am deeply concerned that we are haemorrhaging private sector jobs in my constituency. I understand that there was an announcement at 12 o'clock today that we are losing another 500 jobs in my constituency, from a plant that two years ago was looking to expand and employ 700 workers.

The Budget is not addressing the needs of areas such as ours. Those are the problems that we face. To coin a phrase used by my hon. Friend the Member for Pontypridd, the Government have a single golf club; their idea is to cut corporation tax for big business and do little in practical terms to assist much of the economy, particularly in my area.

My constituency of Easington has the highest rate of adults of working age claiming incapacity benefit in England, and as such, it is hardest hit by the welfare reforms. A cut in corporation tax for big business can do nothing for an area that desperately needs support and investment. Ministers seem to be overseeing a managed decline in a region where, in truth, the Conservatives and Liberal Democrats have few elected representatives.

What will the Budget do? This cut will do lots to cement the regional inequalities we have spoken about, which have already worsened under the coalition. It may well help particular sectors in London and the south-east, but it is a wasted opportunity. The opportunity costs of cutting corporation tax for big business is a missed opportunity to have targeted measures to stimulate jobs and growth in areas such as Easington in the north of England.

Mr Hoban: This has been a wide-ranging debate, some of it eerily familiar, following our debate on clause 6. This debate is principally about the small profits rate of corporation tax. Of course, that rate remains unchanged at 20% for the year beginning 1 April 2012. The clause also sets the fractions by which relief from the main rate of corporation tax is given to those companies with profits between the small companies rate and the main rate.

As my hon. Friend the Exchequer Secretary to the Treasury said in debate on the previous corporation tax clauses, the Government's aim is to create the most competitive tax system in the G20. The Government have already announced a 6% reduction in the main rate of corporation tax over the four years to 2014-15, to help achieve that aim. By 2014 the UK will have the lowest corporation tax main rate in the G7 and the fourth lowest in the G20. The reductions are part of the Government's strategy for ensuring that the private sector leads the economic recovery.

In addition, it is important to ensure that the UK's smaller companies receive the support and encouragement that they need. We reduced the small profits rate to 20% last year, and are keeping it unchanged this year so that small companies can continue to benefit from this lower rate of tax. It is worth reminding the Opposition that their plan was to increase the small companies profit rate to 22%, so they are shedding a lot of crocodile tears. They should reflect on that. [Interruption.] The hon. Member for Newcastle upon Tyne North says that was before the recession, but the reality is that the small companies profit rate tax was rising at the start of the recession, so I do not think she can use that argument.

Ian Swales: When the previous Government raised the small companies rate from 19% to 22%, does the Minister recall whether a review of the effects of that policy was carried out and published in the Library?

Mr Hoban: No, of course there was not a review published. The Opposition's track record on the small companies rate when they were in government should serve as a lesson. When they came to office, the rate was reduced from 23% to 21%. It then went down to 20%, plus there was a 10% starting rate from April 2000. Then the starting rate was reduced to 0% and was removed in 2006, just four years later. Businesses incorporated to take advantage of that lower rate, so rather than having a predictable, consistent and stable tax system, we had one that seemed to change almost from year to year. In 2007, they decided to move away from the 19% tax rate and started to increase it to their planned 22% by 2010, so there was inconsistency on the part of the Opposition.

There is no clarity in what the Opposition are proposing. All the amendment would do is provide for the 14th review that they have requested under the Bill. They make no policy proposals, but ask for yet another review. Of course, those 14 reviews come on top of the study, the assessment and the report that they have already called for. The hon. Member for Wansbeck asked what the Government are trying to hide. The reality is that those 14 calls for reports and reviews are an attempt to hide the Opposition's lack of policy.

John Pugh: Is the Minister not slightly simplifying the argument by suggesting a clear correlation between rates of corporation tax and growth? After all, in Europe, the lowest corporation tax is in Serbia. It is appreciably higher in the United States and other more entrepreneurial countries. Will the Minister clarify what precisely is meant by having the most competitive rate of corporation tax?

Mr Hoban: It is very clear that under the previous Government the main rate of corporation tax was out of line with the rates of our major competitors. Businesses left the UK and moved their headquarters elsewhere; WPP moved its headquarters. Companies in the insurance sector moved their headquarters out of the UK, because they looked at the various factors that determine whether an economy is competitive. They felt that the UK's tax system was not competitive. That is why it is important to reduce the main rate of corporation tax so that it is competitive. It will be the lowest rate in the G7 by 2015, and the fourth lowest in the G20. We are seeing that policy rewarded as we see companies returning to the UK because of our more competitive tax regime.

We will talk in coming sittings about reforms to the taxation of life insurance companies. Again, that has been a factor in encouraging more businesses to locate in the UK. The fact that we are modernising the taxation of companies' overseas profits will encourage more businesses to locate here. The small companies rate is a long-standing feature of the tax system that recognises the value of encouraging entrepreneurship. The UK is not alone in having a smaller profits rate. Such incentivising encourages future entrepreneurs and supports existing companies by reducing the burden of taxation.

As a result of last year's reduction, 850,000 companies with profits of up to £300,000 were able to retain a greater share of their profits to reinvest and grow. Those small companies will continue to receive a cash benefit from this year's reduction when they file their tax returns in April.

We have taken other steps to encourage small businesses. We have introduced the new seed enterprise investment scheme, which commenced in April, to encourage investment in early-stage companies. We implemented a package of reforms to the enterprise management incentive scheme to support SMEs further in recruiting and retaining talented employees. We have launched the national loan guarantee scheme as part of a package of credit easing measures to help small businesses access the finance that they need to grow and invest. We have doubled the lifetime limit on gains eligible for entrepreneurs' relief, from £5 million to £10 million, to encourage serial entrepreneurs who want to grow and expand their businesses and reinvest gains. We increased the small and medium-sized enterprises rate for research and development tax credits from 175% to 200% in April 2011, and to 225% from April 2012, to further encourage R and D investment by smaller companies.

Ian Lavery: If the Government are doing so much to help small businesses, why is my constituency the bankruptcy capital of the UK, with 57 people per 10,000 adults in bankruptcy, compared with 27.1 in the rest of the country? If the Government are doing so much, why is that happening?

Mr Hoban: The hon. Gentleman knows that we are taking steps to encourage businesses to grow, but we have been through a period in which there was a huge increase in personal debt, and people have to cope with challenges in managing that. For example, we have introduced extended schemes to help people deal with problems with their mortgages. We are still in a challenging economic time. It is right that we recognise those challenges and aim to deliver both growth and measures to tackle the fiscal deficit.

Ian Mearns: Will the Minister give way?

Mr Hoban: No, I shall make a little bit more progress before I wrap up.

Let me remind Opposition Committee members that the OECD chief economist said this morning:

"We don't think the fiscal programme should be reconsidered... It has allowed the Government to regain credibility."

The IMF said today:

"Strong fiscal consolidation is underway and reducing the high structural deficit over the medium term remains essential."

That is yet another endorsement of this Government's policies.

There is recognition that the tough decisions that were made were the right ones, but we have also ensured that we have introduced measures to encourage growth. That is why I set out the range of measures that we have taken to help small and medium-sized businesses invest in the future and create the capacity that we need.

Catherine McKinnell: I apologise for interrupting the Minister's flow. He may come to this point later in his speech, but I want to ensure that he puts on the record the evidential basis for removing the investment allowances. He lists a number of measures introduced to assist small businesses, but the message that I get from those businesses is that they would like their investment allowances back.

Mr Hoban: The hon. Lady makes a helpful point. She should bear in mind that in the 2007 Budget, when her party was in government, capital allowances were cut, so the Opposition need to think through their record, too.

Considering the changes to corporation tax as a whole, the OBR forecasted that business investment would increase by £3.4 billion over the next five years. More than 95% of businesses will be unaffected by changes to capital allowances, because their investment is covered by the annual investment allowance. Such factors are borne in mind and there is a balance to be struck between allowances and the corporation tax rate. The lower corporation tax rate provides businesses with an incentive to invest more.

Amendment 6 calls for a review, the 14th that the Opposition have called for in this Finance Bill to date. We have mentioned a number of measures that we have introduced to help small businesses. We are also taking other steps to help ensure that we have the right package in place for small and medium-sized businesses. In 2010, we asked the independent Office of Tax Simplification to carry out a thorough review of small business tax to try to reduce the burdens on SMEs. That review reported in March 2012 and informed the Government's decisions in the Budget.

Last year, as part of the growth review, the Treasury and the Department for Business, Innovation and Skills conducted a review of medium-sized businesses' contribution to economic growth, which has led to a number of policy reforms to support these businesses.

Of course, Her Majesty's Revenue and Customs and the Treasury routinely monitor the impact of economic reforms on a case-by-case basis.

A great deal of work has already gone into examining the interaction between policy and small and medium-sized businesses. A review of the kind suggested in the amendment would repeat that work and would not capture the wider reforms announced by the Government, which I have already outlined. On that basis, I encourage my hon. Friends to vote against amendment 6 and to support clause 7, which demonstrates yet again the action that the Government have taken to reduce the tax rates for small business. That should be compared with the increase proposed by the Labour party when in government.

Catherine McKinnell: I agree with the Minister that in our debate, we have considered widely the impact of the corporation tax changes on businesses of all sizes. That is what the amendment was intended to shed light on. My hon. Friend the Member for Bassetlaw put it eloquently when he said that Opposition Committee members are doing the Government a favour, giving them the opportunity to provide greater clarity and an explanation to the British public, whom they have almost universally offended.

1 pm

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at half-past Four o'clock.