



Treasury Committee

Oral evidence: [Autumn Statement 2014](#), HC 870

Wednesday 17 December 2014

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Members present: Mr Andrew Tyrie (Chair), Rushanara Ali, Steve Baker, Mark Garnier, Stewart Hosie, Mike Kane, Mr Andrew Love, John Mann, Jesse Norman, Teresa Pearce, Mr David Ruffley, Alok Sharma, John Thurso

Questions 250-329

Witnesses: **Rt Hon George Osborne MP**, Chancellor of the Exchequer, HM Treasury, and **James Bowler**, Director, Strategy, Planning and Budget, HM Treasury gave evidence.

Q250 Chair: It is very good to see you and your colleague, James Bowler. You have a very short announcement you want to make about Lloyds and then there are a couple of other housekeeping matters. Can you just quickly get that out of the way?

Mr Osborne: Yes, and thank you, Chair, for allowing me to do this. Parliament is rising this week. Can I begin, therefore, by telling the Committee, first, we have just announced to the markets the next step in our plan is to return Lloyds to wholly private ownership? We are outlining a trading plan that involves selling shares gradually in the market over the course of the next six months. To get the best deal for the taxpayer, shares will not be sold below the average price the previous Government paid for them. This is one of the ways the US Government disposed of Citigroup and this Government is determined to strengthen the banking system and to get back for taxpayers the money that was put into the banks.

Two further brief announcements. I confirm the reappointment of Don Kohn and Martin Taylor to the FPC for a further term. They have done an excellent job and will continue to help us secure economic stability. With the consent of the Opposition, I have also extended David Miles' remaining term on the Monetary Policy Committee so it does not fall vacant shortly after the election. Finally, because it has been my practice over this Parliament to give notice of the timings of the Government's financial statements in an orderly way, I can confirm that the last Budget of the Parliament will be presented on 18 March next year. Anyone expecting unaffordable preelection giveaways will be disappointed because we will stay on course to prosperity.

Q251 Chair: We are not enthusiasts for announcements, even interesting ones—and there were some interesting things in there—and we would be grateful if you try to find a

way of resisting from them in future. Nonetheless, I am sure we all found that interesting. In your Autumn Statement speech you argued, and I am quoting, “there is welcome news that the OBR have significantly revised down their forecast for inflation – it is expected to be down to 1.5% this year, 1.2% next year and 1.7% the year after”. Why did you welcome inflation falling below the target inflation rate?

Mr Osborne: Of course, we set a symmetrical target of 2% and the Governor is required to write a letter when we are outside the 1% margin on either side. I would say that Britain’s low inflation, unlike some other economies at the moment in the world, is good for our economy because it is driven by things like falling energy costs, and I believe the credibility of the Government’s economic policy. Inflation expectations are anchored. This is absolutely crucial. Core inflation remains stable. So I do not think you are seeing some of the signs of the deflationary problems you have obviously over a number of years in Japan and more recently signs that those problems are emerging in the Eurozone.

Q252 Chair: So there is such a thing as a good overshoot to the inflation target?

Mr Osborne: The target has a band on either side, so there were many months when inflation was just over the target, certainly the precise target, and now it is under the target. So it is symmetrical but, as I say, if you look at the ingredients here inflation expectations are anchored. That is one of the things that the ECB is concerned about in the Eurozone. Core inflation is stable as well and of course the significant news today—and I think a major moment in this Parliament and for this economic recovery—wages are now growing significantly above inflation.

Q253 Chair: If we move on to tax for a moment, colleagues will come in on other themes. I am sure you agree that the tax system needs to be fair and, where possible, as simple as it can be made and with as much certainty. Do you think that a tax system that commonly results in effective marginal rates of 70%, which is what we have at the moment, could be described as fair?

Mr Osborne: Obviously the major reform that I have sought in this Parliament is to reduce marginal rates to zero for people on low incomes, because we have increased the tax free personal allowance to £10,600 in this Autumn Statement, and we have also reduced the top rate of income tax from 50 pence to 45 pence. There are some high marginal rates in the tax system brought about by two features. One is the withdrawal of the personal allowance at £100,000. That was a measure introduced by the previous Government. It does give rise to high marginal rates. To be frank with you, Andrew Tyrie, in my priorities of what I have had to deal with that was just not the number one priority. I do not think those high rates are particularly good but I have to say that is not my priority and, indeed, in the next Parliament, my priority is dealing with the 40% threshold and increasing the tax-free allowance to £12,500.

Q254 Chair: What about all these marginal rates? You would agree, wouldn’t you, that marginal rates are crucial to incentives in the economy? It is the marginal rates that count when it comes to encouraging people to give of their best.

Mr Osborne: I agree that in general, although their marginal rates are better, which is why if we increase the 0% band I would like to see more people paying at 20% than 40% and I have cut the 50 pence to 45 pence. But the removal of the personal allowance at £100,000 introduced by my predecessor does give rise to very hard marginal rates. It is not my priority to address that at the moment. Also I note that the child benefit reforms, removing child benefit from the better off 10% of taxpayers does also give rise to higher marginal rates. But, of course, we would prefer people not to claim the benefit in the first place, which they have an option to do and the vast majority of people have chosen to do that.

Q255 Chair: Chancellor, I have a list here of a few of the more salient varieties and marginal rate available. Tax rates arising from additional earnings from very, very low levels £5,000 to £10,000 all the way up to individuals earning over £150,000. We have marginal rates here of 12%, 32%, 42%, 62%, 47%. Then there are tax rates arising from the withdrawal of tax credits with marginal rates of 53%, 73%, 83%. I could go on like this. I have a whole page of these and they are only just for starters. The system now is so complex and there are so many marginal rates built into the system. The question I am asking you is whether this dealing with the complexities, the drastic simplification where we can find it, in order to give clarity about people's marginal rates and dealing with very high marginal rates is a priority for you, if and when you get the opportunity after the election?

Mr Osborne: It is certainly my priority to try to simplify the tax system. We have had a very successful Office of Tax Simplification. Again, we have accepted a lot of their recommendations that simplify the tax code. As I say, we have increased the tax-free personal allowance. I abolished the 10 pence rate of savings tax, which was an extremely complex part of the personal income tax code, and, as I say, I would like to get people in that £40,000-odd to £50,000 bracket out of the 40% rate and into the 20% rate. So those are my priorities.

Chair: Right. So this is a priority, am I right? I have read out a list of—

Mr Osborne: I should say some of those of course are high taper rates in the benefit system.

Chair: They are.

Mr Osborne: One of the central purposes of Universal Credit is to get rid of very high taper rates associated with tax credits, to have a much more consistent taper rate so that people always know it pays to work.

Chair: Yes. So it is a priority to deal with this problem?

Mr Osborne: Yes, in general, but I have set out the specific steps that are my proposed method of addressing it.

Q256 Jesse Norman: Good afternoon, Mr Chancellor. There were many things in your statement that were very good in respect of my constituents: changes to the National Insurance contributions for apprentices; the small business rate really for extension; off grid households on the gas network. One of the things that the OBR has pointed to—and I know

the Government is very concerned about—is a phenomenon not of high unemployment but of what you might call under employment and low wage levels. Of course we see that a lot on Herefordshire. Can you talk a little bit about what you want to do from the Government's standpoint to support value added economic growth that allows people to create economic value and that hits some of these not-spots?

Mr Osborne: We have had very welcome unemployment news again today and there are 500,000 more people in work. That is a good thing, people coming in to work. We have tried to help support people on lower incomes by increasing the tax-free personal allowance. I would point out that 75% of the jobs created in this Parliament have been high skilled jobs. I would point out that at the moment, on the latest unemployment data, the jobs being created are full-time jobs. There has been a reduction in part-time employment and an increase in full-time employment in the latest data. So the net is 100% full-time employment. These are all encouraging signs in an economy where people have incentives to work, and those who want to work full-time are able to increasingly find that full-time work, and for those on lower incomes we have, first, the support from the tax system; and secondly, of course there is important data today that shows wages are now growing above inflation, private sector wages by 2% regular pay above inflation. Of course if you have been consistently in work you are seeing also regular increases. These are all encouraging signs but I am the first to say there is more to do. The job is not finished and of course the progress we made can be very easily undermined. We only have to look at the international economic situation at the moment to realise there are lots of risks out there. We need increased vigilance and we need to go on securing our economic security at home.

Q257 Jesse Norman: One of the things that has been most interesting and exciting about the last few years, is the volume of economic value creation, has been higher education. You will know how passionate I am about getting higher education into Herefordshire, which at the moment is a not-spot for that. Do you think that the Government has a vision that could include support for higher education in areas where it is traditionally non-existent, given that these institutions are often the biggest value creators and one just looks at cities like Chester, Canterbury, York, places like that, Lincoln where there has been a university put in recently. It has made an enormous difference.

Mr Osborne: I think higher education is a major driver of economic growth in the modern world. If you look at the successful advanced economies, they tend to have the highest rates of higher education participation. I would say over 30 years at least the universities have been a major driver of regeneration in our urban areas and increasingly in our cathedral cities, if that is how I might describe cities like Lincoln and Hereford.

I am very happy to look at what we can do to support the creation of higher education institutions, in Hereford specifically. Two of the things that we have done in the last year, which I am proudest of and I think are some of the most significant reforms we have undertaken is, first of all, to remove the cap that existed on the total number of students that existed in this country, which was a sort of Gosplan-like approach, which we got rid of. Then in this Autumn Statement we are for the first time providing loans to post graduates and a number of reports—including from Alan Milburn—have identified the lack of financing for post graduate students as a real barrier to people from lower income backgrounds getting into our professions.

Q258 Jesse Norman: Thank you for that. The final question is really tidying up. The Governor of the Bank of England has announced several changes to the bank that will require amendments to legislation, including changes to some MPC meetings, composition of Court and the status of the MPC and the PRA. Are those things that the Treasury will be bringing forward legislation on itself?

Mr Osborne: I very much welcome the package of proposals that Governor Carney has put forward. I should also take this opportunity to thank Kevin Walsh, formally of the Federal Reserve, for the work he did for the Bank of England on transparency. There are a number of changes that can take place now within the existing legislation. The bank has confirmed that it will move to eight Monetary Policy Committee meetings, and it will also now publish the inflation report, the minutes and the like at the same time as MPC decisions.

Q259 Chair: Are these the ones that will require legislation?

Mr Osborne: No, I am getting on to that. What I am saying is that within the existing legislation there is quite a lot of room for some of these changes. Other changes, a permanent reduction in the MPC meetings, the creation of a new Deputy Governor on a statutory footing and some of the changes to the membership of the committees will require legislation. I have indicated to the Governor that this is something we would be able to do in the next Parliament. I do not think—but I may be prejudging this—that it is particularly controversial across political parties or indeed in Parliament. I think everyone can see the sense of the changes that have been proposed and they have been broadly welcomed.

Q260 Chair: So you are going to do this probably early in the next Parliament. You do not want to go a long time without legislative support for the deputy governorship, do you?

Mr Osborne: It would be ideal to try to put that on a statutory footing sooner rather than later.

Q261 Chair: If you have a Bill you might as well have a Bill for the lot.

Mr Osborne: I am focused at the moment on trying to get into a position where we can have a Queen's speech and we are going to be delivering it. I am increasingly confident of that.

Q262 Chair: I am asking for your commitment in principle to do this early in the next Parliament.

Mr Osborne: I give the commitment in principle.

Chair: Early in the next Parliament?

Mr Osborne: I do not want to write the first legislative programme right now, but I think we can say it is certainly an early priority to address the deputy governorship where I think it is right that Minouche Shafik is put on a statutory footing.

Q263 Steve Baker: Chancellor, good news today on earnings growth ahead of inflation. Do you think that productivity is key to sustainable earnings growth and a return of the public finances to health?

Mr Osborne: Yes, is the short answer. Yes.

Q264 Steve Baker: What are your policies to ensure the productivity growth?

Mr Osborne: Ultimately, productivity growth I think is best addressed by some of the things we have just been talking about: improvement in skills; the infrastructure package for our transport system that we announced a couple of weeks ago, on roads and railways and the like; investment in science. I think one of the potential causes to Britain's disappointing productivity performance has been the impairment of a financial system. I think that was identified—reading up in advance on this—by Steve Nickell when he appeared before this Committee, and continuing to repair the financial system, including returning banks to private ownership and the like, all I think will contribute to improvement in our productivity performance.

Q265 Steve Baker: Do you see that as the explanation for the 17 point gap that the ONS reported in our productivity compared to the rest of the G7?

Mr Osborne: I think, first of all, there is a long-standing problem. That kind of question could quite rightly have been asked of many previous chancellors because it has been a challenge for British Governments of all colours, and I think it is something that Parliament should take seriously. Secondly, there are specific UK features. Obviously the size of the banking crash was bigger here than in many other jurisdictions relative to our GDP. We have also been particularly hit by the North Sea oil industry having challenges, our banking sector having challenges, both of which were high productivity value adding industries in the UK. Both of those have been affected. But ultimately there is no quick solution to this. It is the hard graft of reforming your primary and secondary education system, making sure your universities are the best in the world, investing in science and economic infrastructure, I would say they are the drivers of the long-term productivity in Britain.

Q266 Steve Baker: I am glad you mention it is a long-term effort, and I do remember you made many speeches about the need for an economy based on save and invest. Are you concerned, as I am concerned, that for many years this country has not had a policy of balanced budgets, low taxes and sound money? Instead what we have had is deficit spending, easy money and high taxes. What I see is a policy of consistent capital consumption, which is bound to have undermined productivity. Is that something that concerns you?

Mr Osborne: I largely agree with you. I agree that deficit, financing, borrowing what we do not have, high taxes on business and individuals, these are all things that will not make Britain competitive and will undermine productivity. The issue where we might disagree is the credible fiscal policy we have pursued. The supply-side reform is supported by activist monetary policy. There has been a long debate between us and I suspect we will continue to do so.

Steve Baker: I will not pick it up today, but are you satisfied that the Government understands the productivity puzzle?

Mr Osborne: I think we know some of the key pieces of it. I do not think that anyone has given the absolute definitive answer on why UK productivity, either in the long-term or indeed over the last six or seven years, has been the challenge. My personal hunch is that the impairment of the financial system was deeper, had more damage on our economy than people perhaps realised at the time. I think it is interesting, if we look at the Eurozone at the moment, clearly the effects of the banking crisis there in 2012 has had a long tail effect and indeed continues to starve Spanish and Italian small businesses of credit, for example. We can see they have gone through a shock. We went through a different but a similar in scale kind of shock in 2008-09 and it is still being felt.

Q267 John Mann: Chancellor, are you and your family better off or worse off since the last general election?

Mr Osborne: Well, we live in an economy whose prospects are improving and where more jobs are being created. I received a pay rise when I went from being Shadow Chancellor to Chancellor of the Exchequer, although I reduced the pay from that of my predecessor and froze it.

Q268 John Mann: Are the people who empty your bins at home better off or worse off since the last general election?

Mr Osborne: I would say again—and I do not want to be specific to anyone—there is more job security in our economy; the GDP has grown consistently since 2010 and of course now incomes are rising above inflation, which is the news today in general.

Q269 John Mann: So you think that they are better off?

Mr Osborne: As I say, I am not going to be specific about individuals but we have increased the tax-free personal allowance so that people are £800 better off, and I would say if you look at all the surveys of economic optimism and people's sense of economic security, they have shown an improvement. That is a component of how people feel better off.

Q270 John Mann: There were 54 food banks when you became Chancellor. How many are there today?

Mr Osborne: I do not have the precise number.

John Mann: Any idea what the rate of increase is?

Mr Osborne: I know that they increased ten-fold under the last Labour Government.

Q271 John Mann: There were 54 nationally when you became Chancellor. If I give you the exact figures, there are now 423 Trussell Trust food banks and another 200 run independently in the UK. So that is over 600. There were 54. That is a ten-fold increase. Who are the people who are using these food banks?

Mr Osborne: The food bank movement is supported by people who give up their time, and they should be commended for that. They support people and families who face hardship for a variety of reasons and there is a good reason why, for people who face particular hardship, there is signposting to local food banks at our job centre.

Q272 John Mann: You have one in your consistency that wasn't there when you became Chancellor; I have two that were not there when you became Chancellor. Who are the people who are using them?

Mr Osborne: As I say, they are people who, for a variety of circumstances, find themselves in particular hardship. There are a number of discretionary funds that exist that local authorities administer to help people in hardship; charities of course exist to provide support for people in hardship and the food bank movement does the same.

Q273 John Mann: I am sure you will take credit for the increase. Let me ask about something else that you will want to take responsibility for. You said in your first budget that the public sector net borrowing this year would be £37 billion. How far out were you with that projection that you told Parliament of?

Mr Osborne: I set out the borrowing numbers in the Autumn Statement. I have explained to this Committee the decision I have taken—

John Mann: I was only after the number.

Mr Osborne: I am sure you are again going to give us the number.

John Mann: No, I was wondering whether you would give us the number at your fingertips.

Mr Osborne: In the Autumn Statement I set out that borrowing would fall from £97.5 billion to £91.3 billion to £75.9 billion to £40.9 billion, and in the June 2010 Budget over the same timescale the forecast—both of course produced independently by the OBR—went from £60 billion to £47 billion to £20 billion.

Q274 John Mann: It is now £91 billion but you said it was only going to be £37 billion and even without the cuts under Alistair Darling's Budget it was £74 billion. So do you accept personal responsibility for this calamitous outcome compared to what you said? When you brought in the cuts you promised Parliament an outcome this year of £37 billion.

Mr Osborne: I explained it before this Committee in 2012. As the problems in the global economy and in the Eurozone started to affect the UK, I took a conscious decision to allow the automatic stabilisers to operate and I think that was the correct decision. But I am very happy to be judged on our economic performance as a Government over this Parliament. We inherited a calamitous economic situation with the highest budget deficit since the Second World War with high unemployment. We have a record fall in unemployment. The budget deficit is halved and you see today strong employment and earnings data. Mr Mann, you always ask me another question—maybe you are not going to this time. You keep asking me what petrol cost when I became the Chancellor and what it costs today. It was 120 pence a litre when I became the Chancellor. It is 115 pence today on average.

John Mann: I am sure you will take responsibility for that.

Mr Osborne: Of course, we did avoid the Labour tax increases on petrol—

John Mann: No, you took VAT.

Mr Osborne: —the Labour Members voted for and abolished Labour’s fuel duty escalator.

John Mann: You put up VAT, one of the reasons why the bin-men are not doing so well.

Q275 Chair: Mr Mann, we will be asking about fuel duty on the scheme. We have to move on, not because it isn’t an interesting subject but because there are so many people who want to come in. While we are on the subject of distributional impact, which we were on at the early stages of John Mann’s questions, on behalf of the Committee I want to say thank you for this distributional analysis that you now publish. This was refused by successive Committees for a generation or something like it. Indeed, I can remember when I was in the Treasury concluding we did not want to go anywhere near publishing this on the grounds it might be embarrassing. They are very interesting pieces of analysis that you produce with every Autumn Statement and every Budget, and we are grateful to you for responding favourably to our request.

Q276 Mark Garnier: Chancellor, if I could carry on with perhaps a hypothetical question leading on from Mr Mann’s question a bit earlier. Back in 2010-11 your critiques were challenging you that you were cutting too hard to the quick too fast and that it would lead to economic catastrophe. As it turns out, as you said just now, you let the economic stabilisers engage and so you have not met those original targets. Now you are being criticised for not cutting fast enough. Of course you could have cut much harder and met those targets that you set yourselves in 2010. You could have taken an axe to public finances and achieved a budget deficit this year of £35 billion. But could you share with us what your thoughts would have been on households—perhaps these bin-men who would have been working for the Government—had you actually taken the axe to public finances as perhaps is being suggested now that you should have done.

Mr Osborne: I made a judgment about what I thought was the correct pace for the UK of deficit reduction and I set out spending totals. Those spending totals have been hit each year. Indeed this year we are spending £10 billion less than I forecast we would be

spending in 2010. So we have exceeded our spending plans. I think that is because of prudent and good efficient work across the Government service. The choice I had, as I have said, when the impact of the Eurozone was felt in the UK was to either just pursue the deficit target or rather to say, "Look, the credibility of our consolidation rests in the plans we have set out and legislated for on primarily public expenditure. We are going to stick to those plans and use that as the rock of credibility rather than try to chase the deficit targets" as the economy deteriorated in 2012. That was the decision I took and obviously I think that was the right judgment. I thought it was the right judgment at the time. I think it has been borne out by the strong UK performance over the last four years. Of course these data revisions we have seen show that the British economy has been the fastest growing in any of the major economies in the last year. But also, crucially, the third fastest growing in the G7 since 2010, and we have not had the much predicted double dip and triple dip recessions. I think we have been right to set out that consistent plan and of course our plan into the next Parliament is to continue at the same pace, so we are not speeding up and we are not slowing down.

Q277 Mark Garnier: That is very helpful. Just on the subject of wage growth, there has been a lot of criticism about the fact that wage growth has up until recent months only kept pace with the rate of inflation. The OBR does note that much of the growth in employment numbers between 2010-14 occurred at the lower end of the income distribution scale. When you extract people who have been in work for less than a year I believe wage growth has actually been more like 4.1%, so for those people who have been in more longer term jobs. Are you worried about the fact that there is a great many people coming in at that lower end or can you explain it through say, for example, youth unemployment being reduced or through more apprenticeships?

Mr Osborne: There has been a big fall in youth unemployment, and you see younger people tend to start on average on lower wages than older people. There have also been people coming out of employment. We have sought to support them through the tax-free personal allowance and other steps we have taken, including reducing and freezing fuel duty. Those are conscious acts of Government policy and of course if I had not increased the tax-free personal allowance I would be collecting more income tax from those individuals, but Parliament chose not to do that.

Mark Garnier: Can I turn to immigration?

Chair: Briefly. One quick question.

Q278 Mark Garnier: One quick question. Professor Nickell came before us last week and made the point that where you have immigration coming in from the lower unskilled end of the market it was suppressing a certain amount of wage growth at the bottom end of the market. Whereas, if you looked, for example, at the NHS, the NHS employs 300,000 people who are immigrants and, therefore, without immigration the NHS would probably collapse. Has the Treasury undertaken any research on the benefits and cost of immigration in aggregate, and to the benefits of the UK economy? If it has and it is beneficial to the UK economy, do you feel that the Treasury has a greater role to play in putting forward that positive message?

Mr Osborne: I think immigration benefits Britain but it needs to be controlled. I think that is—

Chair: Have you done the analysis?

Mr Osborne: The analysis was done by the Government, not exclusively by the Treasury. So there was a BIS Home Office study published earlier this year, which of course we were aware of and had sight of. That did find that low skilled workers are more likely to be displaced than higher skilled workers by people coming into the country. It did identify that challenge. As I say, there are economic benefits and economic challenges with immigration. I think that the policy that is best pursued is, as I say, immigration, the benefits to the country and is controlled.

Q279 Chair: We need to see on the analysis whether we should go further down the road and get more of the detail of the costs and benefits.

Mr Osborne: There is a wealth of analysis conducted within the Government and of course external to the Government.

Chair: I will see what the Committee thinks but we might drop you a line to elicit a few more thoughts on that.

Q280 Stewart Hosie: Chancellor, Kristin Forbes from the MPC told us at the current time consumers are drawing down their savings, and that is a sign of confidence in the recovery. In economic terms, how long can they keep drawing down their savings for? How long will you be happy that the savings ratio continues to fall?

Mr Osborne: It is a feature I think of all recoveries that savings ratios fall, as economic security returns. What I have sought to do is to address, therefore, a longer term issue rather than this year's saving ratio, and that is to try to get the support in place for people who want to save. In the Budget I set out measures to increase ISAs, abolish the 10 pence saving rate, undertake the major reform of pensions, and of course in this Autumn Statement we took the additional measure on supporting the spouses of people with ISAs who die. So I would say we are seeking long-term policy solutions to the broader challenge of the UK, which is we do not save enough.

Q281 Stewart Hosie: That is an interesting start to the policy on savings. This is more about the economic impact of change in savings ratio quickly. So what will happen to your plan, to your targets, to the trajectory of recovery if wage growth does not return before the household savings ratio starts to rise? In that sense—let me ask it a different way—private consumption from savings begins to dip before wage growth picks up?

Mr Osborne: You would want an economic recovery that is not wholly dependent on consumption. Of course, consumption is an important part of a healthy economy, but a healthy economy has other strings to its bow: investment, exports and the like. I would say we are seeing very encouraging signs on business investment, up 27% over the last four years. On exports the performance remains disappointing, although if you look into those

numbers you will see our exports to the continent of Europe have declined but our exports to the rest of the world have gone up by almost 20%.

Q282 Stewart Hosie: Just to stick to the consumption part, because consumption has been an extremely important feature of the limit of recovery so far. The question I have is if that is no longer funded from people eating into their savings—let's say confidence dips or they find something else to spend the money on, mortgage costs rise, for example—would you be prepared to change your plan as you said you did automatic state-wise in relation to the Euro crisis? Would you be prepared to see more Government consumption to fill the gap if private consumption dipped because the savings ratio changed?

Mr Osborne: We have set out our spending proposals for the coming years. I think they are the right proposals. They continue the pace pursued in this Parliament. I think that consistency and certainty is a contributory factor to economic security in our country.

Q283 Stewart Hosie: So you are not prepared to make any fundamental change. You say you want to do it at the same pace. Would you, for example, in those circumstances, be prepared to change the composition of the discretionary consolidation, which is about to move to something very close to 9:1 cuts to tax rises from the 4:1 ratio we have seen over the past four or five years? Would you change the composition of the deficit consolidation?

Mr Osborne: I would change the composition in two respects from the numbers set out in the OBR. The OBR themselves flag that of course the different parties of the Coalition have different approaches. I would have a greater degree of welfare savings than departmental savings. I would also seek £5 billion a year by the end and tax avoidance and aggressive tax planning measures to stop that. So those would be two variations I would make but they were variations I highlighted in the Autumn Statement speech.

Stewart Hosie: Thank you.

Q284 John Thurso: Chancellor, SME lending is a critical part of the economic recovery. What assessment have you made of the current state of lending to small and medium enterprises?

Mr Osborne: It has recovered remarkably since the situation three or four years ago but remains a challenge. That is why we have undertaken a whole set of measures to try to encourage non-bank lending. Indeed, the day after the Autumn Statement there was very welcome news from some international insurers. They were going to put £7 billion into the private placement market, which is something that exists in strength in the United States. It does not exist so much here and we want to encourage it. That is why we are trying to encourage more competition in the banking sector as well. So there are a number of things we are doing. We put more money into the British Business Bank, which also supports SME lending, and we have some interesting consumer reforms to allow SMEs to have more transparency over their charges and to also transfer their accounts to other banks if they can get a more competitive offer there.

Q285 John Thurso: How satisfied are you with the current account switching service and the seven day promise and what that is doing for small businesses?

Mr Osborne: I think it has been reasonably successful with retail consumers, but we would like to see more people availing themselves of the service in the sense of at least checking out whether they would be better off switching current accounts. Of course this is a major innovation in banking recommended by the Vickers report when we came into office. That is something we have achieved in this Coalition Government, this switching service. Indeed, one of the things my colleague Andrea Leadsom—late of this Committee, now in the Treasury—is looking at is whether we could with the industry move that to five days. To answer your questions directly, I would say the challenge remains with small businesses where we have not seen as much switching. We are introducing changes around the ability of data of a small business customer to be transferred to another bank without obstacles. That is I think the biggest barrier that exists. We are also saying if a small business is turned down for a loan it is automatically referred to a common body that then looks to see whether other banks will pick up that loan.

Q286 John Thurso: The Federation of Small Businesses has written to the Committee making the point that they believe that many small firms are still experiencing significant difficulties in switching, in large measure because they are business orientated rather than retail orientated. Is there anything further that the Government can do to make the ability of small businesses to switch and put real competition into SME banking?

Mr Osborne: The short answer is yes. I think this is an area where we are not satisfied with the performance there. As I say, I think it has been better taken up by families and consumers than it has been by small businesses. We are seeking to address those obstacles with the so-called metadata reforms we are making that allow this transfer of information between banks, with organisations like the Federation of Small business. They conduct on our behalf, with the Chambers of Commerce, a survey on the performance of small business lending among the banks. Also on the day of the Autumn Statement itself I announced with the Governor of the Bank of England the extension of the Funding for Lending Scheme. So I wish there was a single policy that would address small business lending challenges in our economy. That is not the case and so we are trying a whole range of things. But the overall situation has improved markedly.

Q287 John Thurso: One last question if I may, a small point but as I have you here I do not get the opportunity that often. That is regarding tailored business loans that I am sure you will be aware that a number of banks have been accused of misselling them, and one of the problems is that they are not a regulated product and, therefore, the FCA cannot look at them. This Committee is looking into that and it is possible that, when our report comes out, we will recommend a change to the secondary legislation to make them a regulated product. If that were to be our recommendation, would the Government be able to act on it speedily?

Mr Osborne: I do not want to anticipate your recommendation or my response to that recommendation. There have been issues around the misselling of credit, which I know the Committee has been concerned about. The balance to have in mind is that a massive extension of regulation in this area, in other words, bringing it into FCA regulation for the

first time, might have a chilling effect if we did not get it right. So I think we should proceed with caution but I am certainly open to suggestions.

Q288 Teresa Pearce: Chancellor, I want to take you back to one of the answers you gave about productivity. You talked about investment in schools and education, which obviously is needed, but there are over 1 million children living in poor housing at the moment; a growing number of children homeless; a growing number of children living in insecure properties that have to move every six to 12 months. Are you not worried that this will have an effect on future productivity?

Mr Osborne: Poor housing of course is not only an economic concern but a social concern, and that is why we are undertaking the biggest programme of social housing construction for a generation. Indeed, the week before last we announced a further extension of that programme, so that we are building substantially more social homes than was the case in the last 15 years.

Q289 Teresa Pearce: Thank you. In your Autumn Statement you announced you were going to publish the new charter for budget responsibility, and you said you would publish it the following week. But it wasn't published then. It was published this week. Is there a reason for that delay?

Mr Osborne: Not at all. I made the written ministerial statement—to be technical about this—on the Friday of the week after the Autumn Statement.

Q290 Teresa Pearce: So technically correct, but was there any reason why it was not published when you thought it would be? Was it administrative? Was there any influence from your political colleagues?

Mr Osborne: No, there was not a—

Teresa Pearce: It was just late.

Mr Osborne: I would not say it was late. We published it in good time and there is going to be plenty of opportunity to discuss it over the next few weeks, and there will be an opportunity for Parliament to vote on it in the New Year.

Q291 Teresa Pearce: I am sure there will be. Within it you have replaced the word “target” with “aim”. What is the difference between a target and an aim?

Mr Osborne: I do not think there is a substantive difference.

Teresa Pearce: Why has it changed then?

Mr Osborne: I do not think there is some great reason why.

Teresa Pearce: No reason at all, you just changed the word?

Mr Osborne: Not particularly.

Q292 Teresa Pearce: Okay. Fine. What would be the consequences of failing to meet the new fiscal mandate?

Mr Osborne: If you fail to achieve your fiscal mandate then there is a challenge to your economic plans. I think the mandate, and indeed the debt target, are two instruments that I introduced, independently verified by the OBR, which was an attempt to get away from the golden rule of the previous Government, which was not only promulgated by the Chancellor of the day but also the Chancellor judged his own performance against that golden rule.

Q293 Teresa Pearce: So the consequences of failing to meet it would just be political embarrassment?

Mr Osborne: I think the Government has to set out its objectives and if it fails to meet its objectives then it gets asked questions by this Committee, by Parliament and by the public. What the difference is, which we have in the fiscal mandate and the debt targets, is something that is not only something in which the Government sets out its aim or its target but it is also independently judged against that by the OBR. The key change is my predecessor, who also used to sit before this Committee and say he had passed the golden rule, even though everyone was telling him he hadn't.

Q294 Teresa Pearce: He is not here, Chancellor. You are.

Mr Osborne: He is not me.

Teresa Pearce: I am asking you the question and the question I am asking you is: what is the consequence? You are saying you would have to answer questions as to why you had failed to meet and that is it, is it?

Mr Osborne: Under the legislation we passed the OBR has a statutory obligation to assess us against this charter—a charter that Parliament will have an opportunity to vote on in January—and the Chancellor of the day is required to report on that OBR assessment in his or her Budget and Autumn Statement.

Q295 Teresa Pearce: So currently, the OBR has reported and it has reported on the actions of the Government. It has forecast what it thought would happen. That has been wrong. You have made a forecast. Those have been wrong. So basically, the only difference will be is it will be a different fiscal mandate but the effect and the consequence of failing to meet it will be exactly the same as the consequences you have faced, which is being questioned on why you have not made your targets.

Mr Osborne: First of all, we have achieved our fiscal mandate and achieved it in each year and we have achieved it with two years to spare. Second, as we were discussing earlier, we missed the debt target but the debt target we achieve a year late, the 2015-16 debt falling as a percentage of GDP. I am held to account for that repeatedly. Of course that was clear in 2012 and I have answered questions on it.

Let us be clear, the charter that we have set out commits us to £30 billion of fiscal consolidation. So anyone who votes for the charter is voting for £30 billion of fiscal consolidation. They are welcome to support it but they have to—

Q296 Teresa Pearce: What is the consequence if they do not achieve that?

Mr Osborne: I believe that is what is required to eliminate the current deficit. We then need to move into a position where we are running a surplus. So we get our debts down, we better secure this economy from the economic shocks that are coming, and I very much welcome the debate about whether people in this Parliament are serious about delivering not just the words in that charter but the actions required to deliver it.

Q297 Teresa Pearce: My last question is: this Committee recommended in 2012 that when the Government creates a new fiscal framework it should do so after full public consultation. You have ignored that recommendation. Can you tell me why?

Mr Osborne: No. We are publishing this now so that it can be consulted on. That the—

Teresa Pearce: A full public consultation?

Mr Osborne: First of all, the public will engage now in this conversation. If I ignored that proposal I had I would have announced immediately that we were having a vote in the House of Commons after I sat down on the charter, or indeed—

Teresa Pearce: You did not even produce the document on time, so I do not think you could have announced that.

Mr Osborne: Can I just finish by saying that we have deliberately published, one, as I said in the Budget I would be doing this; secondly, in the Autumn Statement I have come forward, produced this document. We can have a lively debate about it over the coming weeks. The public can be engaged in that. It is not entirely clear what the position of the Labour Party is, but no doubt that will be made clearer over the coming weeks and we will see whether they are indeed committed to the specific dates and the £30 billion of consolidation associated with that.

Q298 Chair: Do you really think, Chancellor, that a charter is going to add much more than a statement of firm policy intention, given the history in this area of charters, rules, aims and strategies running over 30 years? All that we ended up with is a coach and horses—

Mr Osborne: I think it is extremely important that the Government sets out the things that will guide its policy, explain if it is not able to meet those targets or aims, and I think the fiscal rules that we set out have been successful in holding us to the proposals we had to reduce public expenditure. It has helped us reduce the deficit by a half. We have met the fiscal mandate. Debt is going to fall, albeit a year late, but I had to explain publicly why that was the case. If I had not set out that ambition publicly I would not have been held publicly to account for it.

Q299 Rushanara Ali: Chancellor, do you agree with the OBR's projections for total spending from 2016-18 to 2019-20?

Mr Osborne: I accept their forecast. It is within my gift to reject the forecast and explain to Parliament why I have done that, and I have not done that on this occasion.

Q300 Rushanara Ali: So you accept it?

Mr Osborne: It is an independent forecast. I accept the independent forecast.

Q301 Rushanara Ali: Can I check, did you sign off the assumptions then on future spending, which were given to the OBR?

Mr Osborne: Yes.

Q302 Rushanara Ali: Thank you. Can you confirm that the path for future spending and, therefore, the large public finance's surplus of some £23 billion in 2019 and 2020 at the end of the OBR's forecast period was signed off by you as well?

Mr Osborne: Yes.

Q303 Rushanara Ali: Thank you. Does that—

Mr Osborne: I signed off the OBR totals. They then do the public finance forecast, which leads to their forecast of a surplus.

Rushanara Ali: Can you also confirm that the path of future spending that takes overall spending down to 35% of GDP by 2019-20 was also signed off by you?

Mr Osborne: As I said, that is the OBR's forecast of the consequences of the spending proposal plans that I submitted to the OBR and their forecast of GDP because obviously it is a percentage of GDP. So it is their forecast but it is absolutely the spending proposals that I submitted to the OBR.

Q304 Rushanara Ali: Is it something that was also agreed by your Liberal Democrat colleagues and signed off by them?

Mr Osborne: They make clear in the document that they are committed to the consolidation but they would have more tax increases than spending reductions. I have also made clear, in answer to an earlier question, the composition of the spending reductions would be different from that set out by the OBR because I would have a higher welfare component. I would also seek £5 billion of measures to deal with aggressive tax planning avoidance and evasion.

Q305 Rushanara Ali: That does not go far enough in terms of achieving the objectives, does it, because actual spending would have to go down per head by 57% less than in 2009-10 by 2019 and 2020, wouldn't you agree? I mean that is in the documents.

Mr Osborne: I agree that difficult decisions on public expenditure are required. I would point out that 35% of national income spent by the state is the same as was delivered by Gordon Brown as Chancellor in 1999, and indeed during that period the figures are clear he was spending 35.9% of GDP in 1999, 36% a year earlier, 36% in 2000-01, and of course real spending—and the OBR made this clear—has returned to the level it was in 2002.

Q306 Rushanara Ali: With respect, Chancellor, the OBR states that it will be 1930s style level of spending. Do you want to challenge that? Do you think that is not—

Mr Osborne: Their projection is that public expenditure, I think, would be 35.2%. I am pointing out that the Labour Government in 1999—

Rushanara Ali: Do you agree with the OBR?

Mr Osborne: As I say, I have accepted their forecast but by way of comparison it is worth noting that the Labour Government, of course, they were pursuing Tory, spending mountains as they put it at the time, achieve public expenditure as a share of GDP of 35% in 1999. I might add that most people looking at the last Labour Government thought that things started to go wrong in the middle part of the last decade when they abandoned the fiscal discipline they got themselves elected on in 1997 by sticking to Tory spending powers, and I think Kenneth Clarke made a pretty effective intervention today in Parliament's questions to remind everyone of that.

Q307 Rushanara Ali: Chancellor, I have one final question. The proposed savings on welfare delivery given by you, given that you have already spent £25 billion more on social security in this Parliament than planned in 2010, do you feel that these are accurate projections of what you think you could save, given so much spending on social security?

Mr Osborne: Things like the increase in the state pension is not something I am embarrassed about. It is something I celebrate. We set out a triple lock. As a country we can afford it because we have a growing economy. I think you have to make difficult decisions in other parts of the welfare bill. Indeed, in public expenditure, in order to invest in the NHS, in order to invest in state pensions, in order to invest in science and economic infrastructure, these are precisely the difficult choices that confront a Government and I believe the Government's choices have delivered a strong economic performance, fiscal credibility and a sharp fall in unemployment, and of course now you also see wages picking up.

Q308 Mike Kane: Chancellor, in terms of the 35% strategy, you had a row with the BBC last week over the *Road to Wigan Pier*, but in terms of the cuts likely in the next Parliament the book I have been reaching for is the *Condition of the Working Class in England* from 1844, because Rob Wood from Berenburg has predicted that cuts in the next

Parliament, “are implausible”. The Institute for Fiscal Studies has said they are colossal. Can you deliver them?

Mr Osborne: As I say, we are delivering public expenditure savings at the same pace that we have achieved in this Parliament, a period during which I think the performance of our public services has improved and I pay tribute to all the people who work in our public services. Crime has fallen. Satisfaction with local government services has risen among the population. NHS is treating more people. There are more people in good schools. In terms of the deliverability you mention the Institute of Fiscal Studies. This is what their Deputy Director said shortly after my statement, “If you look over the last four years the Chancellor points out he has not only achieved the cuts to public spending that he wanted to achieve, if anything he over-achieved them. While many in 2010 said that could not be delivered, he could point to them and say he has proven them wrong”.

Q309 Mike Kane: I would just remind you, Chancellor, that we are neighbouring MPs and crime in Greater Manchester is rising. Commentators are saying that we will have to raise taxes. John Mann pointed out earlier about are the bin-men in this scenario worse off, better off under this Government? The Prime Minister has said that VAT is a regressive tax. Are you ruling out a VAT rise in the next Parliament?

Mr Osborne: I have said our proposals do not require an increase in taxes, including VAT. It comes back to the question I was being asked earlier. If people sign up to a charter of budget responsibility that requires £30 billion of consolidation, you have a choice. You can either do it through public expenditure reductions, including welfare, or you can do tax rises. If you want to do tax rises, the idea that this can be achieved just simply with a bit more effort on tax avoidance, or even a homes or mansions tax, is nonsense. You have to look at those big taxes, like income tax, National Insurance and VAT. People who sign up to this charter but do not sign up to the Conservative public expenditure plans are promising major tax increases after the election, and they should be straight with people about that.

Mike Kane: Was that a “Yes” or “No” to a rise in VAT and—

Mr Osborne: As I say, what I have been questioned about here and the proposals that I have published are to achieve this consolidation through a reduction in spending, including welfare spending. That is what I aim to achieve; that is what we have shown in this Parliament we can achieve with total managed public expenditure £10 billion lower than I said it was going to be this year.

Q310 Mike Kane: A final question, Chancellor: if you want a 35% state, can you name any country in the world that has a publicly funded health service that is free at the point of use that can do it on 35% of spending as a share of GDP?

Mr Osborne: Britain was spending 35% of its national income in 1999.

Q311 Mike Kane: Can you name any country in the world?

Mr Osborne: Britain. You can only have a strong National Health Service if you have a strong economy. That is absolutely clear. If you have a weak economy, if our economy

fails, if we go back to borrowing beyond our means, running deficits we cannot afford, then the first to suffer will be the poorest and the public services that will suffer will be those like the NHS, which the country will not be able to afford. I am determined to avoid that fate for our country. We are going to live within our means so we can put—as we have done in the last couple of weeks—additional resources into services like the National Health Service.

Q312 Mr Love: The independent OBR, which you set up, has forecast that there will be a £10 billion shortfall in income tax receipts between 2015 and 2020 and a total reduction in taxation of £21 billion. The Institute for Fiscal Studies suggests that the £12 billion figure for welfare savings that you talk about is actually £21 billion. Don't you think, Chancellor, that the difficulties that are becoming apparent in our economy will require you to seriously consider tax increases?

Mr Osborne: That is not my proposal. I know it is the proposal of the Labour Party. I do not think this country needs substantial extra tax rises. I think we can achieve further savings in public expenditure and our welfare bill. We have shown through this Parliament that we can deliver those savings, while improving public services, and I think we will continue to do that in the next Parliament.

Mr Love: Well, you won't be able to get down the level of debt, but let me come back—

Mr Osborne: Sorry, Mr Love, we will if we run a surplus. The only way consistently to get debt down when you are in a low inflation economy—countries like Sweden and Canada, which after all are, in your terms, quite progressive, socially democratic countries, have surplus rules of various kinds and they have been able to reduce their overall debt burden in a low inflation world.

Q313 Mr Love: Can I go back to first principles? We have skirted round this but just for the record, Chancellor, can you confirm that the primary economic objective of the Government, the promise to balance the books by the end of this Parliament in 2015, will not be met?

Mr Osborne: The primary promise we made was to turn around the British economy and on a day when we have the fastest growing economy in the western world, a record fall in unemployment and wages growing faster than inflation, all suggests to me that we are succeeding in turning around that economy but there is still more to do.

Q314 Mr Love: Can I come back to the questions that Rushanara Ali was asking? The forecast of the independent OBR, which you set up, that you take great pride in being independent and objective, set out the cuts on the basis of the Treasury assumptions that you signed off that would reduce the state to the smallest size relative to GDP for 80 years. Do you accept that?

Mr Osborne: I accept the OBR's independent forecast. I have pointed out that in real terms public expenditure will be the same as in 2002 and as a share of national income it will be the same as it was in 1999. I think these things are achievable. What went wrong in

Britain in the middle part of the last decade was that we started running a structural deficit in good economic times, or apparently good economic times, and that meant we went into the financial crash with the largest structural deficit in the G7. That has been identified now by the IMF and a number of external observers as a major problem for the United Kingdom as we faced up to the shock of that financial crash.

Q315 Mr Love: When Robert Chote introduced the OBR report he was quoted as saying, “This would take the spending share below the previous post-war lows in 1957-58 and 1999-00 and probably to its lowest share in 80 years”. Do you accept that forecast from Robert Chote, the man appointed by the Treasury for the independent OBR that provides objective forecasting?

Mr Osborne: If he is referring to departmental spending. I have already pointed out that, where I would depart from the OBR, I would find more savings in the welfare budget and additional savings in dealing with aggressive tax planning and avoidance, as I have demonstrated in this Autumn Statement we are able to do.

Q316 Mr Love: Under these plans you are promising to deliver a £23 billion surplus in the final year of the next Parliament and £7 billion worth of unfunded tax cuts. Isn't that irresponsible?

Mr Osborne: No, partly because we are running a credible fiscal policy and delivering a surplus. As I have explained, that is a way you can get your debt to GDP ratio down in a low inflation environment. I do not think it is sensible for Britain to stay with a relatively high debt to GDP ratio in an uncertain economic world. You have to think of what it would mean for the United States or the United Kingdom if we had gone into an equivalent of the financial crisis with an 80% debt to GDP ratio. You have to get that debt down. You do that by running a surplus. As we have demonstrated in this Parliament, you can do that alongside increasing the tax-free personal allowance and indeed, as I demonstrated in this Autumn Statement, increasing the higher rate threshold as well, if you make the right choices about how you are going to use taxpayers' money and save taxpayers' money.

Q317 Mr Love: Your right choices are going to lead to a smaller state, and I suspect you believe that that is a better state but you are completely changing the balance of public services. The National Health Service would become predominant and, if you continue to ring-fence the National Health Service, other public services will be affected. They will not be able to deliver the quality and level of service that is currently expected of them. Do you understand that and are you concerned about it?

Mr Osborne: We have made a conscious decision to invest in and protect the National Health Service, but I come back to an earlier point I made, which is that if you are not prepared to deliver these savings in public expenditure but you do want to sign up to this charter then where are the tax rises? Where are the big increases in income tax, National Insurance and VAT that the Labour Party would presumably deliver if you want to sign up to the charter? There is going to be a vote; every member of this Committee is going to have a vote on this charter early in the New Year, voting for the charter means voting for

£30 billion of consolidation. We have set out how we can do it through public expenditure savings and welfare savings. People who have alternative plans need to set those out as well.

Q318 Mr Love: Well, you haven't. According to the OBR, we will achieve the objectives of the statement that you brought to the House several days ago. The reality is that you have not laid out in specific terms how you will achieve that. You have laid out in very general terms areas where you would like to see reductions. Other parties, the Liberal Democrats and the Labour Party, will do so similarly. We are all in the same position. We have to live by the terms of that particular agreement.

Mr Osborne: I certainly agree with you on that. We are all in the same position in that we have to set out how we would achieve it. I have set out how we would achieve it with public expenditure savings, welfare savings and tax avoidance and tax evasion measures. It is up to the Labour Party and other political parties to set out, if they would rather do it through higher taxes, what those higher taxes are. I expect it is going to be a lively debate.

Q319 Mr Love: Are you being realistic and honest with the British public about the consequences for the British state and the services it provides?

Mr Osborne: I think we have been absolutely straight. What we have achieved in this Parliament we can achieve in the next, and that is delivering jobs, economic security for people, rising wages for people and an economy growing faster than any other major advanced economy in the world.

Q320 Mr Ruffley: Chancellor, the data from the OBR suggests that, as a share of GDP ratio, the tax has undershot in this Parliament. Does that concern you for the future?

Mr Osborne: It comes back to an earlier answer I gave, which is that we took a decision in the middle part of this Parliament—as the economy did not perform as strongly as we had hoped—not to chase that and allow the automatic stabilisers to operate. They have primarily operated through lower tax receipts and I have not responded to that by seeking big increases in taxation.

Q321 Mr Ruffley: So the explanation is predominantly cyclical; there is not a structural problem?

Mr Osborne: I think the OBR is making a judgment that some of it is structural. For example, they assess that North Sea revenues are going to be permanently lower than they were. We have now taken measures to try to address the impact of the falling oil price on the North Sea by cutting headline rates of oil tax, which is an opposite response to a situation like that. You can either put tax up or, if you are a Conservative, you can reduce taxes to increase economic activity. Equally, they point to the fact that receipts from the banking sector are much lower than they were before the crash. I have taken decisions in this Autumn Statement to say that they cannot set their profits off against past losses in the way that they were able to do. There has been a structural deterioration as well as the

cyclical challenge. The Autumn Statement has measures to address that structural deterioration.

Q322 Mr Ruffley: You have the ratio increasing, going up to the end of the forecast period, and presumably that is predicated on improvements in productivity, productivity snapping back nearer to its long-term trend?

Mr Osborne: I think it is predicated on a number of elements in the forecast.

Q323 Mr Ruffley: On the issue of the Prime Minister's pledge to cut taxes in the next Parliament, which I am all for, there has been some criticism expressed today and in the press as to how on earth we are going to do it. Isn't the rebuttal to that the fact that you have cut corporation tax to the lowest in the G7 and the yield has gone up? Isn't one of the lessons about tax reduction that there can be virtuous benefits?

Mr Osborne: Obviously, I am a believer that a low tax economy can be a more productive and dynamic economy. One of the things we have instituted in this Parliament is a series of studies from the Inland Revenue of the dynamic effects of tax reductions, for example to fuel duty and corporation tax. We still pursue a largely static model, partly for reasons of prudence. You do not want to bank on those gains coming but if they do come they are very welcome.

Q324 Alok Sharma: Chancellor, you talked about the anti-avoidance measures that you have announced. You talked about £5 billion over the next five years. My constituents, whether they happen to be bin-men or businessmen, would have welcomed those particular measures. But it is also the case that anti-avoidance measures are by their very nature sometimes quite uncertain in terms of the amount of yield; sometimes you raise more, sometimes you raise less. The OBR has assigned some high uncertainty ratings to a number of these measures. How confident are you that these revenue figures will be delivered?

Mr Osborne: We are confident, but one of the benefits of having an independent forecaster is that these are not my forecasts for revenue. These are the independent forecasts for revenue, so that is perhaps an under-appreciated benefit of the OBR. It is not just the Chancellor who says, "I am going to raise X billion from this measure". It is the Chancellor who says, "I am going to raise X billion from this measure" and the OBR says, "Well, we will look at this and see what our judgment is", and that is the judgment that we operate on. They have done some interesting work this autumn on their forecast errors on tax avoidance measures and tax evasion measures, and they find them roughly symmetrical, that they have sometimes underestimated but they have also, of course, over-estimated. If you look at two examples: we did get the money we sought from the Swiss bank accounts but not as much as we hoped for; the money we have raised from enveloped properties has far exceeded what was forecast by the OBR. In their judgment, it has been roughly symmetrical.

Q325 Alok Sharma: The OBR made the point to us that they have attrition rates built into these forecasts and revenues can be higher or lower than anticipated in the forecasts. Can I turn to the diverted profits tax? Again, it is a very popular measure, considered very fair by just about everyone you talk to, but the Institute of Chartered Accountants has told us that they think that the draft legislation is very complicated, it increases uncertainty, and they are concerned whether it is actually practical. How long was this measure in preparation and ultimately will it work, will it raise the revenues that are being projected?

Mr Osborne: I am confident it will work. We have spent a considerable period of time thinking about and planning this. By their nature, we are dealing with highly contrived tax arrangements that sometimes cover three or four different sovereign jurisdictions. By their nature, these are very complicated tax arrangements. Coming back to Mr Tyrie's point earlier, much as I wish there was a very simple solution, there is not a very simple solution to this particular challenge, but I think we have come forward with a relatively simple solution. I am confident that we will be able to tax genuine economic activity that happens in the UK, do it in a way that the UK remains one of the most attractive places in the world to bring your investment, to set up your tech business or other business and prosper. We receive a huge proportion of Europe's inward investment now.

Q326 Alok Sharma: Is it your view that this will not have any particular impact on foreign direct investment?

Mr Osborne: My view is that we should have low business taxes but low business taxes that are paid. I think that is what the public and the business community want to see. You will know as well as I do people who have been most concerned about the reports they have read of these aggressive tax avoidance measures, such as our small business community audiences who want something done about it. I think we are approaching this in a way that is fair and still offers all the attractions of the lowest corporation tax of any G20 economy, a highly skilled workforce, great infrastructure, towns like Reading that are fantastic places to invest in. We have a huge amount on offer for the UK and all we say is, "Come here. We have low taxes but you need to pay those low taxes".

Q327 Alok Sharma: There is no doubt, Chancellor, that this Government have been leading the fight on tax avoidance at the OECD level, and you hear that from corporates, not just from people who are working on this. But what discussions did you have with the OECD prior to the announcement of the diverted profits tax? Was there any discussion?

Mr Osborne: We are heavily involved in the OECD work. It was initiated by me and the German Finance Minister asking the OECD to undertake this work, so we are deeply involved in all of this. I think these changes are absolutely with the grain of where the international community is moving. I think we have been careful not to get too far ahead of that international work but nevertheless act to protect revenues. Discussions among the various revenue systems continue all the time about how best to tackle some of these international arrangements.

Q328 Alok Sharma: You don't think that this measure will have any particular impact on the various double taxation treaties that the UK has?

Mr Osborne: No. We are confident that that is not an issue.

Q329 Alok Sharma: The final point is that John Cridland at the CBI is on record as saying that the decision for the UK to go it alone outside the OECD process will be a concern for global business. Do you share that view?

Mr Osborne: I think a lot of global businesses understand that if you are located in the United Kingdom you need to make a contribution. We have lots of really successful international businesses—American, European, Chinese, Indian businesses—paying their taxes here. That is all we ask. We have low taxes, the lowest corporate tax rate of any in the G20, but that rate should be paid. Of course, the way to avoid the diverted profits tax is to pay the corporate tax.

Q330 Chair: Chancellor, thank you very much. It is extremely unusual for us to get through business on the Autumn Statement so quickly. We do have one major issue still to look at and, rather than begin it now, which would extremely curtail the initial part of that hearing, I think the sensible thing to do is to adjourn our work now, vote—because there will almost certainly be a couple of votes—and then we will resume 10 minutes after the calling of the second division.