

Business, Energy and Industrial Strategy Committee

Oral evidence: The impact of the cost of living crisis on workers, consumers and business, HC 680

Tuesday 6 September 2022

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Members present: Darren Jones (Chair); Tonia Antoniazzi; Alan Brown; Paul Howell; Andy McDonald; Mark Pawsey; Alexander Stafford.

Questions 1 - 35

Witnesses

I: Dame Clare Moriarty, Chief Executive, Citizens Advice; Torsten Bell, Chief Executive, Resolution Foundation; Tom Waters, Senior Research Economist, Institute for Fiscal Studies; Joanne Cairns, Head of Research and Policy, USDAW.

Examination of witnesses

Witnesses: Dame Clare Moriarty, Torsten Bell, Tom Waters and Joanne Cairns.

Q1 Chair: Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee for our first session back following the summer recess, where we will be considering the impact of the state of the economy on business, workers and consumers.

In the first panel this morning, we are delighted to welcome four witnesses: Dame Clare Moriarty from Citizens Advice; Torsten Bell, chief executive of the Resolution Foundation; Tom Waters from the IFS; and Joanne Cairns from the trade union USDAW. Good morning to all of you.

To kick us off, I am going to come to the two economists in the room. The Bank of England painted a pretty dire picture a few weeks ago about the state of the economy and impending recession. Do you agree, Torsten Bell?

Torsten Bell: It is quite hard to avoid a recession in Europe now, given the scale of the energy price rises that we are seeing. There is obviously quite high uncertainty about the duration and the depth of that, and the most important determinant of that is what exactly happens to gas prices. At the wholesale level, you will have seen the very high volatility in recent days. Anyone looking at an individual day's worth of data on energy prices should be cautious at the moment, but they are broadly right to be painting a pretty grim picture. Their picture is significantly grimmer than the Office for Budget Responsibility's forecasts, particularly on the labour market, a few months before that.

I do not think it is unreasonable. Obviously, since then we have had a mixture of generally bad news, particularly on what the inflation outlook might look like. Their forecast did not take into account any more support from Government; it is now very likely that we will be seeing that in the coming days and that it will be very significant indeed. That is very important. That matters, partly for what it does to household incomes. A package of measures that provides very significant support could see us move from a situation where household incomes are falling very significantly this year, by 5%, to one where there is almost no fall. That is really important to bear in mind, as is how much of that support passes through to businesses.

One of the reasons we are getting a recession is household spending falling because of rising energy prices, but also the way in which we ration energy usage is by people stopping activity in the business sector. That is one of the reasons you get a recession as well. What happens on the household side, but also on the business side, is really important.

Q2 Chair: Do you think that we can avoid a recession if the scale of the package on energy is big enough?

Torsten Bell: You would be optimistic to be very confident that you can avoid a recession, given what is happening to Europe.



Q3 **Chair:** Tom Waters, do you agree?

Tom Waters: I do not have too much to add to that. When you see inflation hitting 10% and even higher than that, with earnings and people's incomes not keeping up with that, you expect that to feed through to consumer spending. With that kind of decline in real household income, it is difficult to see how you could avoid a pretty significant hit to the economy.

Q4 **Mark Pawsey:** May I follow up what Torsten and Tom said with an international comparison? You have both referred to the impact of high energy prices in Europe, but we are shifting and focusing our trade away from Europe to other parts of the world. Is there a possibility that we might be less severely affected by trading with the US and other countries, which may be not so severely affected?

Torsten Bell: No.

Q5 **Mark Pawsey:** Why not?

Torsten Bell: Let us be honest: because that is not what is happening. If you look at our trade data, the interesting thing, which was wrong in the predictions by those who were in favour of Brexit and those who were opposed to Brexit, is that, rather than seeing what we expected to see, which is really differential effects on our trade with Europe versus our trade with the rest of the world, overall we have just seen Britain becoming a less open economy and doing less trading, full stop. You are not getting the differential effect that you are implying—plus the changes will be too small to give us that kind of thing.

This is not a trade-driven shock. The big thing that is going on here is gas prices being particularly elevated in Europe, which is why Europe is likely to enter a recession ahead of the US. It is really important that the dynamics here and in the United States are distinct, but remember, the Fed in the US is basically telling people that they are going to need to cause a recession to get inflation under control, for different reasons from the inflation we are seeing, because of what is going on in the labour market there.

You should not take too much confidence from hoping, "Okay, Europe is bad, but the rest of the world is going to be okay," not least because Europe is our biggest trading partner.

Q6 **Mark Pawsey:** Is the rest of the world okay?

Torsten Bell: No. Look at what is happening in China. They are still trying to run a zero-covid policy, which is requiring the shutting down of large parts of economic activity—even if they could get the gas to do it. No, it is not okay there.

Q7 **Mark Pawsey:** Tom, we are all in this together, then. The entire world is facing a pretty negative outcome.

Tom Waters: One important way that Europe plays into it is that several



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countries are trying to subsidise gas prices, which has knock-on effects to the UK. By keeping demand for gas up, that pushes prices up. That then spills over to UK consumers, who have to pay those higher prices. I would say that is at least a significant effect.

Q8 Tonia Antoniazzi: We know, as Members of Parliament, how the cost of living is hitting our constituents. How do you see households experiencing the cost of living crisis, and how do you expect these trends to develop?

Dame Clare Moriarty: We are already seeing a cost of living crisis on the ground. It is really important to realise that we are talking about not just things that might happen in October when the energy price cap goes up, but things that are happening now.

We are hearing it from our advisers who are in touch with clients. These are the things that are coming through from them. More people are coming to us who are already at crisis point. They are talking about people coming who have already lost access to gas and electricity and are a day away from running out of food. They are finding that people need food bank vouchers, even when they have had all the best advice that we can give them about how to maximise their income and budget.

We are seeing people coming with more problems, and more complex problems. We are seeing a rise in threatened homelessness, issues with domestic violence, a lot of mental health issues. We are seeing people who are living in impossible situations. One of our advisers talked about somebody who needs a chairlift and is frightened about using the electricity needed to run it, so is contemplating trying to live on either the upper floor or the lower floor, but the kitchen is on one floor and the bathroom is on the other floor.

We are also hearing about people who are coming to Citizens Advice for the first time who would not have expected to need help. We are seeing a lot of that. We hear it in the stories of individuals; we also see it in the data that we have. One very significant thing is that we would normally expect to see a drop in demand in summer; we are not seeing that. We are seeing record levels of people who cannot top up prepayment meters in what has been the joint hottest summer ever recorded, so people are not using gas and electricity for heating.

We have had over 13,000 people come to us already this year who cannot top up prepayment meters. We are helping two people every minute with crisis support. That is food bank vouchers and charitable donations. Again, it was very striking that, when the first tranche of the cost of living payments went out in July, we saw a measurable drop in the number of people needing food bank vouchers. It lasted about three weeks, and we are now back up to near record levels. That is an overall picture of what we are seeing on the ground.

Q9 Tonia Antoniazzi: Yes, some worrying trends. I will go to Joanne with USDAW. What are you seeing?

Joanne Cairns: We represent workers across retail, distribution, food



manufacturing and the pharmaceutical sector. Most of our members work in food retail, in supermarkets; the majority of our members are in low-paid employment, so we are seeing the impact of the cost of living crisis already.

We hear it anecdotally from our members. We also surveyed our members in June and one in four of them told us that they are missing meals every month to pay their bills, which is a dramatic increase since we ran the same survey last year. We found that it was one in 20 then, so there has been a huge increase over the last year.

More than 70% of our members tell us that financial worries are affecting their mental health. We also know that that is higher for our members who are parents: 82% of our members who have children say that financial worries are affecting their mental health. Some 48% of our members have told us that petrol prices and travel costs actually affect their ability to get to work. Going to work in itself is becoming expensive for people.

We are extremely concerned about the impact on our members' incomes. Going forward, one of the big risks is of debt spiral. We know 75% of our members have already been relying on unsecured borrowing to pay their bills; of them, more than half are now struggling to keep up with the repayments. That is clearly only going to get worse. When we asked our members how they are going to cope with bills increasing further, 30% of them told us that they just will not use their heating, which is extremely worrying; 62% said that they would significantly cut down on their heating; and 40% said that they will cut down on other essentials, like food. People are seriously contemplating having to make the choice between heating and eating over the winter.

Q10 **Tonia Antoniazzi:** What conversations are you having with the retailers—big supermarkets—about their support for their employees? Are they putting things in place around food poverty, bills, maybe clothing for children? Do they offer support in that way? Are you seeing any of that increasing, instead of just the normal percentage off because you are an employee? Are there any initiatives that you know of and can share with us that are being taken by the supermarkets in particular?

Joanne Cairns: There are not any specific ones in the supermarkets we deal with that I am aware of. We are having conversations with employers regarding looking for an emergency response to this cost of living emergency. Most of our pay bargaining has already concluded for 2022; it tends to be in the first and second quarter, because it is around the minimum wage cycle. However, we are having conversations with employers about looking at what can be done in the meantime before the next pay review comes up.

I know there was something in the news about John Lewis providing meals for its staff. We are not recognised in John Lewis, but I believe that is one approach employers are taking. Our main concern is making sure that our members get significant increases in their pay and get the hours



that they need, because lots of our members are on short-hour contracts and do not have those hours guaranteed, so their hours can fluctuate. We want to ensure that our members have secure work as well as better-paid work.

Q11 Tonia Antoniazzi: That is really important. Going back to the original question, Torsten, what are you seeing and what trends are going to develop?

Torsten Bell: The previous two speakers have spoken eloquently about what they are seeing on the ground. On the big picture, this is an absolutely astronomical hit to household incomes. The country as a whole is getting poorer, and this whole discussion is just about who gets poorer and when.

On the scale of it, on our projections, without any further announcements—and subject to the announcements that happen this week—we are on course for a 5% income fall this year and a 6% fall next year. Taking them together, we are talking about a 10% income fall and a hit to household incomes that is twice as bad as that which we saw during the financial crisis. This is totally unprecedented. We have not seen anything like that in a century, which is why it is inevitable that the Government will be stepping forward with a very large package of measures this week.

It is really important to put that in context. That is happening now, as a sudden, sharp shock to us, on the back of 10 to 15 years of slow wage growth. Particularly at the bottom end, poorer households are having to spend more of their budget on essentials. If we look at the poorest fifth, they have gone from spending just a bit over 50% to almost 60% on essentials over the course of those 15 years as their living standards have been squeezed. That means that, when an income shock comes along—and even with the big policy announcements this week, households are going to be getting poorer—they do not have lots of non-essential spending on luxuries that they can cut to pay those energy bills. That context is really worrying.

Stepping back, where would we expect to see the difficulties coming this winter? They are most acute for the 4 million households on prepayment meters, which includes 30% of the poorest fifth of households. We are talking about thousands of people who are going to have their energy cut off this winter. We know thousands of people die every year in winter because of cold homes. I think the last estimate I saw was about 8,500 excess deaths, in winter alone, in 2019 from cold homes. This is very serious indeed. Prepayment meter customers generally do not have the flexibility to run up arrears. For everybody else, we are going to see very large arrears being built up. That is very bad for the people concerned because they will get their credit rating damaged and will be put on to prepayment meters.

It is also going to cause difficulties for energy suppliers, which are going to see their bad debts go through the roof. That is one of the reasons



why the energy suppliers themselves are very keen to see a package of measures that cuts those costs.

Q12 **Tonia Antoniazzi:** Tom, do you have anything to add?

Tom Waters: We are now seeing inflation rates that we have not seen in at least 30 years. At the moment, it is tilted somewhat higher for poorer households because they tend to spend more on those items, like energy, that are particularly going up, but the slope and size of that difference is set to increase pretty dramatically come the increase in the price cap, if indeed we do have an increase in the price cap.

It is particularly notable that we are seeing these kinds of things on the ground, typically for poorer households, at a time when there is still quite a lot of road to go before it gets to the worst it is going to get, if you see what I mean.

Q13 **Tonia Antoniazzi:** I do, totally. Clare, how is the cost of living crisis unfolding in different regions of the UK? I know that you have very good data to be able to identify where the issues are. Where are the hotspots for Citizens Advice?

Dame Clare Moriarty: The hotspots are related particularly to places where people are on low incomes. We are seeing it a lot in different types of households. Disabled people are particularly squeezed, partly because they will often have additional costs of energy, if you need to keep medicine in the fridge or if you need to keep equipment on. We know that families are being particularly squeezed, and the flat rate of the cost of living payments meant that they had less impact on that. Energy debts are now the most common type of debt that people are coming to us with.

Regionally, it very much depends on people's level of income. As others have said, this is a huge crisis for people on low incomes, who simply have nowhere to go. The rise in prices that has already happened is already causing material problems for people. That is the point that I really want to keep making: people are very worried, looking ahead to October. We estimate that at least one in five people will not be able to pay energy bills in October if nothing is done.

We hear the messages about support packages, but actually, right now, here on the ground, we are seeing very large numbers of people who simply cannot keep the lights on and keep food on the table.

Q14 **Tonia Antoniazzi:** Can you name any specific areas of the country that you have concerns about, where you may be putting extra resources in?

Dame Clare Moriarty: As I say, this is essentially a crisis that is most acute for people on low incomes. We know that the income distribution is quite uneven across the country. I was recently with our local Citizens Advice in Blackpool, which is one of the most deprived areas of the country. They are seeing significant numbers of people coming to them who have not eaten for a day. Those parts of the country that have the highest levels of deprivation and the lowest levels of income are definitely



where support needs to be targeted most.

Torsten Bell: It is a very important question. On the micro level and within regions, you will see huge variation. One thing that is underestimated in this discussion is the large amount of variation even among people of similar incomes and similar areas, because the size of your family and the nature of your house is really important. This is happening right across the UK.

The one area that is not getting anywhere near enough discussion but is totally different is Northern Ireland. There is a disgraceful lack of discussion of what is happening in Northern Ireland. Remember, Ofgem does not cover Northern Ireland, there is no price cap, and it is also a totally different heating system, where 68% of households are heated by oil. Their price went up in February last year, hugely, even before gas started going through the roof. No one has been discussing it.

I think only 24% of Northern Irish houses are on gas, mainly in the cities. In general, the Northern Ireland housing stock is also more energy hungry, because there are more detached houses and fewer flats in the city centres. There is not a functioning Executive, and you need a functioning Executive because that is how we distribute the £400 payment, for example. We should be putting much more up in lights what is happening in Northern Ireland. They have been suffering through this problem well ahead of the rest of the country.

Q15 **Tonia Antoniazzi:** My next question was going to be to you and Clare. What does this mean for the levelling-up agenda? You are talking about Northern Ireland, where they are missing out. What about other parts of the country?

Torsten Bell: It is important to recognise that, overall, this is a catastrophe for the whole country. I have seen discussions about some parts of the country saying, "We have a lot of renewables, so why are we paying this price?" That is slightly missing the point. The country as a whole is poorer in the world because we are seeing a redistribution away from energy-importing countries and towards energy-exporting countries. Maybe we will come back to Norway later. That is the big picture: we are getting poorer.

The crucial thing is a point Clare is raising. We then have to make decisions as a country about how we deal with that. The top priority is protecting those on lower incomes, who exist in every part of our country. Then, more broadly, we are making a decision about how much of those costs we want to pay up front, how much we want to pay in future years, and how we do that.

The levelling-up agenda is to do with very long-term trends. It is to do with differences in income levels that have been with us for some time. This is making that harder, because the poorer places will be harder hit as they have more poorer households in them, but everybody is going to be hit by what is going on. What is more important is that we do not accidentally choose policy solutions that only help some parts of the



country.

I will give you an example. If your main policy answer is to cut national insurance rates, you will see more than twice as much benefit going to the average Londoner as you do to the average household in the north-east of England. But energy bills are going to be going up in the north-east of England as they are going up in London and the south-east. A focus on making sure that you do not leave people out—and the right kind of people out—would be my top lesson.

On levelling up, that is a much bigger conversation. This is not making anything in Britain easier. Becoming poor as a country makes everything we need to achieve harder, but that is why it is really important we get the right answers to how we do that.

Q16 Tonia Antoniazzi: Tom, we have talked about which areas of the economy consumers are cutting back on, but will certain sectors of the economy face particular risk as a result of a collapse in discretionary spending?

Tom Waters: Yes. Food retailers and supermarkets are already reporting that they are seeing fewer people, lower spending and a move towards cheaper supermarkets. In the hospitality sector as well, we are seeing people moving from more mid-range restaurants, and so on, down to cheaper ones.

I suppose it is those sorts of areas where you might expect people to cut back. I guess there are two ways to think about it. One is where the costs are going up because they use a lot of energy in their inputs to produce the goods and services they sell, and then the other one is where it is more discretionary, slightly more luxury spending, where consumers might cut back if they are feeling the pinch.

Q17 Tonia Antoniazzi: Torsten, do you have anything to add?

Torsten Bell: I do not have a lot to add on that. As I say, what is going to happen among higher-income households, if we see anything like this, is that they go on far fewer and cheaper holidays. As we learned from the pandemic, that is how richer households adjust to big shocks. They spend a lot on holidays, broadly defined—short holidays, hotels and the rest—and we will see big falls in that consumption, I would have thought, over the next year. I think the immediate areas you are going to see are the things that Tom has broadly mentioned. The hospitality sector is going to have a very, very, very tough few months coming up.

Q18 Tonia Antoniazzi: Joanne, what is your perspective at USDAW?

Joanne Cairns: We are concerned about the impact on the retail sector of the combination of increasing prices for retailers along with consumer spending power being squeezed. Although retail sales increased slightly over the summer, retailers are reporting that people are already starting to cut back on discretionary items, clothing and those sorts of things.

The retail sector is still recovering from the pandemic. Non-food retail was hit particularly hard by the pandemic, so clearly there needs to be



support for the sector. In particular, there needs to be a review of business rates and support around that.

Q19 **Tonia Antoniazzi:** Clare, do you have anything to add?

Dame Clare Moriarty: We are less focused on the sectors of the economy. We are particularly focused on the impact on individuals, but one of the consequences of particular sectors being hit is the potential for unemployment, which further stresses people's financial position.

Q20 **Andy McDonald:** Can I turn the panel's attention to working conditions and pay? Perhaps I could ask Joanne, Torsten and Tom to answer these questions. We already know that we have 3.7 million people in insecure work as we stand, but how do you think working conditions and pay are going to be affected by this crisis? How widespread do you think we are going to see industrial action across the country?

Joanne Cairns: This crisis is clearly being caused by a combination of rising costs and low wages. The real value of wages is down 6.2% on the latest RPI figures, which is the worst fall since current records began in 2000, and it is expected to get worse. As living standards are hit and real pay continues to be eroded, we are still seeing rising profits in a number of companies. It is hardly surprising that workers who are struggling to make ends meet are then put in a position where they have to consider all the options to protect their pay and conditions. A lot of these workers are key workers and worked throughout the pandemic, and their contribution should be recognised, so it is likely that industrial disputes are going to continue to be prominent in many sectors of the economy.

We are in the longest wage squeeze for 200 years. Prices are continuing to rise and incomes are not rising at the same rate. I think the current median basic pay award is 3.74%. We are not seeing pay increases that are matching inflation or anywhere near.

Torsten Bell: There are a number of things that speak to that. Overall, we are in a slightly weird world where, depending on how you want to measure it, we are seeing historically very large falls in real wages at a time when we are seeing respectable nominal pay rises, given what we have been used to over the course of the last 20 years. We are getting to 5% nominal.

I will come back to the public sector in a second, but we are seeing most employers settling at around 5% nominal pay awards this year, and inflation is running at double that. We are combining fast nominal pay rises, compared to what we were seeing before the pandemic, with very big falls in real pay.

The public and private sectors are very distinct, with much bigger falls in the public sector because nominal pay growth is much weaker there. Some of that may be a lag in terms of the public sector now realising it needs to move towards that 5% level, which is why schools and others have been told to suck up the costs of that at the moment, which will in turn have big knock-on effects to the cost of running those public



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services. But, broadly, we are seeing the public sector taking much more of the pain right now.

On industrial action, there are two things to say. Obviously, we are seeing much more than we are used to. We need to grow up a bit. We are seeing a huge inflation shock. There is going to be a discussion about who bears the pain of that inflation shock and you are going to get industrial action as we work that out.

As a country, we are not used to seeing power discussions that hit quickly in terms of who gets what, and we have just got one, because that is what an inflation shock that is driven by a terms of trade shock is. Who is going to bear the pain of this? Will it be companies? Will it be employers? Will it be owners? Where does it sit? That is what is playing out over the course of this 18 months. Within that, it is blindingly obvious that you are going to see a significant elevation in industrial action, admittedly concentrated in the handful of sectors that happen to still have large unionisations, but you will see worker pressure that does not manifest itself as industrial action in sectors that do not have large union presences.

That is totally unavoidable. We need to stop making that as if it is some kind of pathology. That is what an energy crisis does to you, and it is not going to go away until the energy crisis goes away. Similarly, the same logic takes you to the conclusion that, in the end, workers are not going to get inflation-level pay rises because we are all getting poorer as a country. We are having a discussion about who is getting poorer, where, and the balance of when it happens. We should just expect industrial relations to be more difficult until this problem eases.

Q21 Andy McDonald: Torsten, you have said that the nation is getting poorer. There is quite a section of society that is not getting poorer. Dividends are being declared. There is eye-watering executive pay being awarded. Is the issue of redistribution of wealth not absolutely critical to this now? Is it unavoidable?

Torsten Bell: It is very important that we are redistributing to make sure that the poorest households, who are going to be much the hardest hit by what happens this winter, are supported. On your question, is it possible for all workers in the British economy to receive an inflation-level pay rise this year and next year? That is not going to happen.

There is a separate question, which is what we think is the right long-term level of the rewards to labour and the rewards to capital. That is a really important discussion to have as a country, which is about worker power in the long run, and the form that will take is larger labour market reform over a longer time period, but that is not going to happen this year. We are going to have a discussion, and workers, employers and individual companies are going to decide the balance of who is bearing that pain.

I have seen something saying, "Oh, look, some people are doing really well out of this crisis," although we need to be really specific about who is



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and who is not. Although I have seen some reports alleging that we are seeing profit increases generally happening this year, that is not going to be happening. Our problem will be, if we do not do anything, loads of companies going to the wall. Profits overall are not going to be going up. We are getting poorer and that is going to include people who own companies. They are not managing to pass on all the costs to consumers, so they will get poorer. Lots of the things we are talking about as inflation for households will manifest as higher costs for firms.

Two things are true, where you get straight into the distribution issue you are raising. First, if we look within pay settlements, it is true that we are seeing stronger pay growth at the top, particularly if we focus on the HMRC real-time information data from the PAYE system rather than the labour force survey. We are definitely seeing higher pay growth there, particularly slightly earlier in the year, when bonus season was coming through. You could see that quite strongly if you looked at total pay rather than regular pay. Maybe, as the labour market loosens, that will not continue, but you definitely have seen that higher-paid workers, who all the academic literature shows us have more labour market power, have been able to exercise that during the period of a tight labour market and have seen large bonuses coming through.

That is a problem about who is going to be best placed to deal with this crisis, and it obviously comes on the back of higher-income households, which disproportionately have higher earners in them, being the same households that saved more during the pandemic. They are going to be running down their savings as they go through this crisis, but the bottom third of the population did not see that increase in savings.

Secondly, there are some specific kinds of companies that are seeing big windfalls. Everyone is focused on the hydrocarbon production, so BP and Shell. We should obviously be windfall taxing those; there is a case for opening that up further than we have already done. We have gone for a de minimis-ish package. It is time to go further in that space. There are other parts of the energy sector that are seeing very big windfalls. Anyone who is generating electricity and able to sell that at current spot prices, where it is priced on the basis of gas generation but they are not producing gas to produce the electricity, has far lower costs. That is not something that we can carry on going through this winter. If we do allow those things to happen, it is going to put much more pressure on the package the Government announce on Thursday, because you will either use borrowing to fill the gap that you need to in order to get down retail bills, or you will end up having to go for a bigger long-term drag on energy bills in future. That is not a good thing to be doing.

I would be very cautious about some of the proposals I am seeing from bits of the energy companies, which are pretending that it is all help today, but really they are asking us to put up energy bills tomorrow. Windfall taxes is part of the way. Either windfall taxes or regulating down those prices is how we avoid all the pressure going on future generations via bills because those who are doing well today should be paying.



Tom Waters: As Torsten said, it is an unusual situation. We have fairly decent nominal pay growth but negative real pay growth. It is also an unusual situation, where we have real pay falling pretty considerably, but the labour market is actually very tight in the sense that there are a lot of vacancies still out there and unemployment is still at a low level. In that sense, it is a situation we are not really very used to.

The Bank of England's expectation, and what seems potentially plausible, is that, as we go forward, precisely because labour markets are tight and it is difficult to fill those vacancies, firms might hang on to workers a bit longer than they otherwise would. That would give a bit of a flavour of the 2008 recession, where we saw pretty big falls in pay, but unemployment rose not as much as in recessions previously. If the Bank of England's forecast is to be believed, unemployment hits about 6%, which is higher than it is now. It is currently below 4%, but it is not, by historical terms, especially high. Instead, all the pain comes through lower pay rather than lower numbers.

Q22 Andy McDonald: When the Bank of England is calling for pay restraint, do you think that is something that we should stand by or should employers be offering real-terms wage rises now? Is that going to add to inflation? Is that going to be a direct inflationary measure?

Torsten Bell: It is obviously a controversial topic. Workers should be asking for pay rises because they should be trying to protect their incomes. We should not be judging that. Firms should be trying to balance those pressures with the other pressures on their business—their rising energy bills—and that is going to play out.

If you are sitting in the Bank of England or in the Treasury, it is not about you saying exactly what you think should happen. It does not really matter what the Governor of the Bank of England says. Profits are going to be coming down; wages are going to be coming down in real terms. Everybody is poorer. Just being honest about that, and recognising that industrial action is just what happens when that world is playing out, is what an adult approach to the next few years looks like.

Joanne Cairns: Cutting pay in real terms is not what the economy needs when we are on the brink of a potential recession. It could cost a million jobs. There is no evidence whatsoever of an inflation pay spiral. What we are seeing, as has been said by a number of witnesses today, is significant real-terms drops in the value of wages at the moment, which is reducing customer spending power.

Q23 Andy McDonald: Do you have any handle on which types of workers are receiving the most substantial wage increases and who is suffering the most? How is that going to affect pay inequality? I will just add to the issue of unemployment rates while I am at it. You mentioned rates of 4%, going to 6%, and of course, in many parts of the country, it is significantly higher than that. I do not know what that tells us. In my own constituency it is 8%—it is double, and it consistently stays at double the rate. To return to the original question about which type of workers are



receiving the most substantial wages, does that tell us anything?

Tom Waters: It is not a great picture for anyone. Well, I am sure it is a great picture for some individuals, but on the whole you do not see very large pay increases at any part of the distribution. Since October, the top 1% have managed to roughly hold steady in real terms, whereas those who are a bit further down—those in the middle and those at the bottom of the pay distribution—have seen a real-terms cut. So far, it does look like the picture has been one of increasing earnings inequality.

It is worth keeping that in mind, alongside the package that the Government have announced with means-tested grants, £650 to anyone on universal credit, and then additional grants to those who have disabilities or pensioners. To some extent, that is going to go in the opposite direction because the grants are targeted towards poorer households.

Q24 **Andy McDonald:** Just to finish, looking at these cycles, it is pretty hard to understand how long the Ukrainian crisis is going to go on, and so forth, but, looking at history, how long would it take us to get back to real-terms growth? What is the lifespan of this crisis? Does anybody have any thoughts on that?

Torsten Bell: Who knows? That is the obvious answer, because a lot of this is being driven by energy bills. If the Bank of England's current forecasts play out, it means that, next year, because of these falls in real pay, we will be back to the pay levels we had in 2003. We will have lost 20 years' worth of pay growth. We did not have much pay growth during that period, but it is still so large that it takes us all the way back to 2003.

Household incomes will be lower, by the middle of this decade, than they were during the pandemic. Because the fall is so large, and because the productivity projections from both the Bank of England and the Office for Budget Responsibility are now so weak due to Britain's relative decline over the course of the last 15 years in terms of our growth rates, not only is the fall in our incomes huge, but the recovery from them is weak. The combination of the two means we do not get back to 2021 income levels until the middle of this decade. On those numbers, it is very grim.

We should say that there is just huge uncertainty. If markets decide that they see Europe getting through this winter better than they expected, able to deal with combinations of gas rationing and gas shortages without totally catastrophic results—they have been through that once—and so, rather than just huge uncertainty, there is, "Okay, that's what happens when this happens," it is possible we will see falls in wholesale prices. On the flipside, over the last year we have learned that every time Europe makes some progress in providing gas from other sources, Putin turns down what is coming in from Russia to make sure that that does not make a material improvement in our situation.

We are very much in the hands of that, but we have had experiences before of geopolitically led economic traumas, normally in wars, but not



just in wars. In general, the important thing for countries that get through that well is that they understand that they have to get through it together and that it requires policy making that is different from normal times. We are going to be moving into that world. I know a lot of people, five months ago, wanted to say anything that gets in the way of the price mechanism in the energy market is a complete nightmare. I am afraid it was about time we woke up to the fact that Putin is controlling the prices. We are going to be controlling bits of these prices.

We can do it slowly and wait for things to get much worse, or we can announce on Thursday that we are going to be capping elements of wholesale and retail prices and that we need to be intervening in bits of the generation pricing, parts of the generation business, because we cannot allow those prices to fall into windfalls. We need solidarity across the population, and we are going to have to move to bits of policy intervention that all of us thought would never be needed.

Q25 Tonia Antoniazzi: I have two questions for you, Torsten. Does unemployment have to rise significantly to bring inflation under control, as the Bank of England assumes? If so, which workers are most at risk?

Torsten Bell: That is a big question. For the Government and for policy makers, it does not matter what I think. It does not actually really matter what you think. It is what the Bank of England thinks, because you have chosen to make the Bank of England independent and to give it this remit. What matters is if they think that a significant rise in unemployment is needed to bring down inflation.

Remember, by inflation we mean domestically generated inflation in the labour market. We do not mean this energy-driven inflation. They are not trying to deal with that, except insofar as it leads to expectations among workers for higher wages. They are trying to deal with domestically generated inflation from a tight labour market.

Their judgment is that we do need to see high-ish unemployment compared to what we have been used to in the recent past—6%. I think they would not say that is a point estimate. There is a lot of uncertainty here, and we have not been through a situation like this before, but they are taking that judgment. You have to assume that that judgment is not going to change because the personnel are not going to change in the short term.

That means that, if you do significant policy measures that support demand, for example, in the economy now, you should expect higher interest rates in response to those things. That does not mean you should not do them, but it means you should be really clear about what the job is of fiscal policy during that kind of crisis, which is to worry a lot about the distribution. You would be prepared to accept slightly higher interest rates—I do not mean necessarily high, but higher than they would otherwise have been—in exchange for being able to use fiscal policy to change the distributional outcomes from this crisis.

But is that judgment they are making reasonable? It is a reasonable



judgment. It is the same judgment being made by the Fed. Is it definitely right? No. There is huge uncertainty. None of us have watched a crisis like this play out in a UK labour market that is like it is. We have never had a price shock in a tight labour market, in a flexible labour market, which the UK now has. We do not actually know how this plays out. Anyone who is very confident needs to step back and say we do not know, but it is not an unreasonable judgment.

Q26 Tonia Antoniazzi: We do not know, then, whether the UK's tight labour market can prevent unemployment from reaching the levels of previous downturns.

Torsten Bell: They are not projecting the kinds of things we saw in the 1980s recessions—very widespread unemployment that turned into a widespread fall in labour market participation in the years afterwards, which partly explains some of the higher unemployment in parts of the country even today. In terms of who generally suffers from rising unemployment, the answer is that younger workers tend to see their unemployment rate rise faster.

We cannot really use the pandemic as a good guide because it was so sectorally concentrated. I would not expect to see exactly the same pattern of unemployment because we were shutting down some specific sectors and paying people to stay employed in other sectors, but generally we would expect to see it happening in some of the lower-paying parts of the economy, partly because those parts of the economy are ones where some of this discretionary spending may be pulled back quickest. We have talked about hospitality in particular and some bits of retail, but it is also those parts of the economy where firms may be less keen to hold on to workers, whereas if someone has more expensive trained staff they may be prepared to suck up taking losses that year to keep the staff going through that. Overall, you should worry about younger workers and about low earners.

Q27 Alan Brown: The IMF looked at the cost of energy increases, in terms of household spend, across 25 countries. It showed that, in the UK, the amount of household spending for the poorest rose at twice the rate of the wealthiest, therefore effectively increasing inequality, and obviously a bigger burden on the poorest in terms of trying to heat their homes. It also showed that other countries, such as France, Sweden and Finland, had almost negligible divergence in terms of these household pressures. Torsten, do you agree with that analogy and, if so, what lessons can the UK learn from these other countries?

Torsten Bell: I have seen the chart you are talking about from the IMF and its report. I do not know the underlying analysis, so I do not want to judge whether it is right or wrong, but I would make a number of reflections. An energy-driven shock is much worse for lower-income households. It is partly for the reason Tom was raising earlier, which is that a larger part of their consumption basket is energy, and that is why you get higher inflation rates for poorer households when that is the nature of the crisis, even though higher-income households tend to spend



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more on petrol, for example. But petrol prices have fallen back a bit as oil has done better than gas.

That way of thinking about it massively underplays how much worse it is for poorer households, because it is not just that they face higher inflation; it is that the margins for adjustment, the ways in which higher-income households deal with those shocks, are not available to lower-income households. They do not have the savings to draw down on. They are less likely to be able to go to friends and family, which is how lower-income households tend to cope with lots of shocks, because everybody is being hit at the same time this time. They have not built up the savings during the crisis we have just seen. They do not have the same levels of luxury spending that can be cut back to then pay for energy. That is really important.

A crisis where everybody has to find, say, £1,000 a year more is fine if you just spend £1,000 less on your £10,000 holiday. It might not be what you want, but it is fine. It is not when you do not have any non-essential spending to cut back on.

Q28 Alan Brown: On that, then, the key question is whether there are lessons we can learn from packages and measures that other countries have put in place that the UK Government have not.

Torsten Bell: There is one thing I would be careful about. I see a lot of people commenting on different inflation rates in different European countries. Forget outside Europe because there is a different world happening outside Europe, but within Europe people say, "Oh, look, France has a much lower inflation rate than we have. Is that because it is all fine in France?" It is really important to understand that the choice of policy instrument you use to try to tackle this crisis, even if you spend the same amount of money, really does affect the measured inflation rate, even though it does not affect the actual level of the problem.

In France, they have chosen to cap retail prices, which is why they are seeing lower levels of measured inflation, but the scale of the actual problem is the same, more or less. I would not take too much hope that the French show you a way through. Instead, what they have done so far, which they are now backing away from slightly because the costs are starting to mount, is to say, "We are going to cap the cost. Because we have a nationalised energy generator, we are going to take a load of those costs on to its balance sheet". The taxpayer is still paying, just via crushing the value of a nationalised company, whereas we have chosen to give incomes to households as a way of dealing with it, which lets inflation come through on the measure.

In the end, if you want to focus on one measure, the thing we should care about is what is happening to real incomes, because there we care about the money that is being given to people and their wages—the stuff that Andy McDonald was just asking us about—and what is happening to the prices they are paying. It is the two together that we need to care about when we think about getting through this winter. Do not just look



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at inflation and just look at nominal incomes.

What the IMF chart tells you is not really about this crisis. It tells you that, in Britain, we have ended up with a really toxic combination of low growth and high inequality. If you have that toxic combination and it lasts, you end up with a disaster for low and middle-income Britain. That is the world we are living in and it is time everybody wakes up. We think we are comparably as prosperous as countries like Australia, Canada, the Netherlands and Germany. We are not. We are a very long way away and that is because of this combination. The only people in Britain who have similar income levels to the people in those countries are the rich because our high inequality makes up for the fact that, overall, we have a lower level of GDP per capita.

I will give you one fact and then I will shut up, I promise. Take those five countries. If we had their level of GDP per capita, at mean incomes, and their level of inequality, the typical household in Britain would be £8,800 better off. It is not £500; it is £8,800. When you take a country that has had that high inequality for that long and had a relative economic decline for 15 years, what you get is a disaster for middle-income Britain. Then you add on an energy price shock.

Q29 Alan Brown: I had better move on because I do not have much time. Clare Moriarty, what do you want to see the Government announce this week and how should it be funded?

Dame Clare Moriarty: There are a number of really important things that we need to see in terms of support. One is scale, which is now being talked about a lot. The level that the energy price cap is due to go up to in October, and the even higher figures being projected for January, mean that this is a crisis on a large scale and there needs to be support on a large scale. It needs to not be "buy now, pay later". It is not feasible to envisage loading the kinds of numbers we are seeing back on to bills, particularly the bills of people on low incomes. The important thing is that there needs to be targeted support for low-income families on top of whatever is done universally, because, as I was saying earlier, we are already seeing very large numbers of people struggling in the summer with the current rate of payment.

The other thing we are going to see is that there will be higher levels of debt. It is very important that there are the right protections in place for individuals who get into debt. In particular, it is open to energy companies to move people on to prepayment meters if they run up debt. We know that people on prepayment meters are much more likely to find that they cannot top up their prepayment meter, so they run out of gas and electricity. That is a huge problem. That is exactly what leads to people being in these really difficult circumstances.

We need to see a winter ban on people being pushed on to prepayment meters. We need really good support from the energy companies in terms of proactively identifying people who need support and making sure that that support is there. We are going to need targeted support for



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people on low incomes, as well as whatever is done on a large scale, which really should be paid for through taxation, because it falls more fairly than loading it back on to people's bills.

Q30 Alan Brown: You spoke about paying through taxation. What do you think about the proposal to actually cut taxes, which the incoming Prime Minister said would be a priority? Is that not at odds with how we are going to support this?

Dame Clare Moriarty: There are obviously choices to be made by the new Prime Minister and the new Government about cutting taxes. From where I sit, what we are really concerned about is people who are finding themselves in acute financial difficulty, not able to keep the lights on and not able to keep food on the table. We need to see support that really responds to the situation that those people are in right now, as well as the amount that it could get worse in October.

Q31 Alan Brown: The incoming Prime Minister spoke about scrapping the green levy. What does that mean in reality in terms of bills? What is the green levy?

Tom Waters: There is no one tax called the green levy. There are a number of levies on household bills. For time reasons I will not go through all of them. It is quite a complicated policy area, but essentially there are some parts of your bill that you pay that go some way towards subsidising renewable energy.

As things stand, the cumulative effect of all of those things will add about £11 to bills over the coming winter. That is because one of the levies, due to the particular way in which it works, has actually flipped to subsidising household energy bills rather than taxing it. To be fair to the incoming Prime Minister, she might not want to scrap that one, but, even so, you would only be talking about a £50 or so cut over the coming winter. There might be perfectly good reasons why you would want to do that, but we are talking about pretty small numbers compared to the scale of the problem.

Q32 Alan Brown: Compared to a £1,600 price cap increase, that levy is negligible.

Tom Waters: Yes, that is fair to say.

Q33 Paul Howell: I would like to come back to you, Clare Moriarty, with regard to Ofgem in particular, but I then want to come back to the prepayment meters and all of that agenda. Do you think that Ofgem is striking the right balance between protecting the financial resilience of the market and protecting vulnerable customers?

Dame Clare Moriarty: We are really keen to see Ofgem absolutely put customers at the heart of what it is doing. It clearly has to look across the whole piece. At the moment, there are consequences for consumers if energy suppliers fail. We have seen that, because one of the many



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components of people's bills at the moment is paying for the cost of the energy suppliers that failed last year.

We are really keen for Ofgem to be thinking about consumers and making sure that energy companies are respecting their obligations. Energy companies have an obligation to support customers in financial difficulty. That is not as well observed as it needs to be at the moment, and Ofgem is in a position to make sure that that is enforced. We are really keen to see it do as much as possible of that.

Q34 Paul Howell: On the same sort of line, do you think that suppliers have been as active or as resilient as they should be in offering better debt repayment options?

Dame Clare Moriarty: From what we hear, the picture is quite patchy. There are many, many energy suppliers, but we do not think that all energy suppliers are doing as much as they could to make sure that customers are looked after properly. We will be calling on them and on Ofgem as the regulator to make sure that they are doing that in the most proactive way possible.

Q35 Paul Howell: Coming back to the whole conversation about prepayment meters, you have already stated that you are concerned about the push to put people on to prepayment meters and needing to take that pressure off as far as possible. They should avoid putting people on to prepayment meters as much as possible—can I just ask you to confirm that? Also, do you think that there is anything that should change with the way that the whole prepayment meter system works, in terms of the price imbalance that people suffer when they are on a prepayment meter?

Dame Clare Moriarty: I will take those two parts. People on prepayment meters pay more for their energy than people who are paying in other means. As Torsten was saying earlier, a higher proportion of people on low incomes are on prepayment meters, so it just feels intrinsically wrong that the people who are least able to pay are actually paying most for their energy. That is certainly something that we feel needs to be looked at.

Some people choose to have prepayment meters. They work for some people, but if you are paying through direct debit or in arrears then you are not going to be disconnected. We are seeing increasing numbers. Over 13,000 people have come to us because they simply cannot top up their prepayment meters. If you cannot top up the prepayment meter it just runs out and then you do not have access to energy. At the scale that we are looking at, that is an untenable situation to be in over the summer, particularly the prospect of potentially large numbers of people who run up debt. It is a relatively small level of debt where this can be brought in. If anybody is in a circumstance where their energy supplier is proposing to put them on a prepayment meter, they can put forward the case why that should not be so, but where people are being moved, that



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is really problematic. We are saying that there should be a winter ban on moving people to prepayment meters.

Paul Howell: Thank you for that. I could go on but we are tight on time.

Chair: We are. Thank you to Dame Clare Moriarty, Joanne Cairns, Torsten Bell and Tom Waters for your contributions this morning. We are grateful to you for coming.