



Select Committee on Economic Affairs

Uncorrected oral evidence: Employment and Covid-19

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Fox; Baroness Kingsmill; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 17

Virtual Proceeding

Questions 139 - 148

Witnesses

I Thomas Pope, Senior Economist, Institute for Government; Lord Macpherson of Earl's Court, former Permanent Secretary to the Treasury 2005-2016.

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Examination of witnesses

Thomas Pope and Lord Macpherson of Earl's Court.

Q139 **The Chair:** Welcome, Thomas Pope, senior economist at the Institute of Government, and Lord Macpherson of Earl's Court, former Permanent Secretary to the Treasury. You have listened very carefully to some of the last points that were made, so I will go straight ahead with the first question of the second session.

How should we read the Chancellor's statement that he will "always balance the books"? Is it a sign that the Treasury does not agree with recent fiscal policy prescriptions from the IMF and the OECD?

Lord Macpherson: That is a very interesting question. I think he meant that we will balance the books in the broadest sense. In the long run, you want current spending to be balanced by revenues. Some of us might want capital spending covered by revenues as well. The fact is that when this is all over, and the economy is growing again, debt will be very high in relation to GDP, and I do not think it is unreasonable for a Government to want to reduce that burden in relation to national income over time, just as, say, Gladstone aimed to do in the 19th century when we were faced with very large debts following the Napoleonic wars. They may or may not agree with the IMF, but it is reasonable for the Chancellor to indicate that in the long run you need broad balance in fiscal spending.

The Chair: How do you think that has affected the way the Treasury has been designing employment support policies?

Lord Macpherson of Earl's Court: The employment support policies have changed often in recent weeks. That has been a response to how the virus has developed and, therefore, how the economy has developed. It is fair to say that back in the summer there was a degree of optimism, and that allowed the Chancellor to begin to reduce support through the furlough scheme and look to a future scheme. With hindsight, that was probably a mistake, but the critical thing with this virus is that you need to be responsive and you need to react. You will not get everything right.

You want to avoid propping up jobs over a very long period. When the economy itself is recovering and growing rapidly, there is a risk that you end up supporting jobs that will no longer exist, and that reduces the efficiency of the economy.

Thomas Pope: I agree with everything that Lord Macpherson has just said. Balancing the books now seems to mean that current spending should be covered by revenues rather than that all spending should be covered by revenues. The Treasury's definition of that seems to have changed about 12 to 18 months ago, and I doubt we will go back. That was the Chancellor's aim before the crisis. The set of fiscal rules that we had provisionally in March was aiming for current budget balance in the medium term. As Lord Macpherson says, in the medium term, the Chancellor's aim for broad balance sounds about right.

It is quite interesting that he is not saying that debt has increased and therefore we need to worry about rapidly paying down that debt. He was focusing on the annual budget position. We need to keep in mind that we have had to borrow a lot this year and that will add to debt, but we have borrowed it on very favourable terms, so the cost of servicing the debt has fallen this year rather than risen.

I am not sure that what he says is so inconsistent with what the IMF said. The IMF said that for most economies the increase in structural borrowing in the crisis will be outweighed by lower debt servicing costs. For the UK, even under its current projections, that does not quite hold, because our debt servicing costs were already quite low, and we already had a bit of a structural deficit even on the current balance. The Chancellor was presumably going to try to address that in the medium term, even before the crisis.

The key question is probably over timing. It is about when the Chancellor aims to get back to current budget balance. Clearly, it would be inappropriate to try to do that next year. Perhaps it will be in two or three years' time. A related question is, when will we get a new fiscal framework that sets out the medium-term path for the public finances?

The Chair: Is there enough emphasis on a recovery plan? For example, France has just committed itself to a £100 billion stimulus. Looking at welfare, for example, which we touched on in the last session and in our report on universal credit, I find it difficult to understand why the Government are still maintaining the position that the £20 increase in the standard allowance for universal credit will end in April. It does not seem to me that in April there will be such a dramatic change of circumstance. Is there enough forward looking? Is the reluctance to do that driven by concern about the amount of money that is being spent?

Thomas Pope: It is quite hard to be forward looking at the moment, because so much of what policy should be is contingent on the path of the virus. What we think about the path of the virus over the next few months is very different even from what we thought probably three or four weeks ago. Certainly, at some point, the Treasury needs to think about a recovery plan, but that depends on how quickly the virus stops being a factor in the economy and whether we have a quick change that means the economy will get back to normal very quickly, which is probably the type of recovery we were envisaging back in March and April. Now it looks more likely that there will be a much steadier transition out of the crisis, and therefore we will need economic support for longer.

Specifically on the £20 a week for universal credit, it is always hard to reverse such a policy once it is made, and that seems to be the type of policy that is likely to become permanent. When it was first announced, the Treasury probably thought we would be back to somewhere like normal by April 2021.

Should there be more forward looking? Hopefully, internally, that forward looking is going on. At the moment, I suppose the challenge is the recovery plan. I do not know when you would start a recovery plan. Now we are in the midst of a second wave, policy is shifting again and we are back to hibernating the economy, keeping it on ice, so when is the appropriate time to announce the recovery plan?

The Chair: I am a bit surprised by your answer because in business, although there is so much uncertainty, people are thinking about how they will plan for the future. If businesses are not doing that, you should sell the shares.

Thomas Pope: Of course, the Treasury should be making that plan. The question is about the right time to communicate the plan, particularly if you do not know when will be the right time to enact it.

Lord Macpherson of Earl's Court: I came across a rather brilliant quote from Nigel Lawson at the weekend, which he set out in an article back in 1962: "The Treasury has never done anything too soon ... its actions fall neatly into two categories, too little too late and too much too late".

The Chair: Did that all change when you were there?

Lord Macpherson of Earl's Court: I do not want to be rude about my former department because I think it is a very fine institution and somebody has to worry about the public finances, because sure as hell nobody else seems to. The speed with which the virus has built up in the last few weeks probably means that it is time to set out a more advanced economic and growth strategy for the next couple of years. That does not mean that you need a spending review. Quite frankly, at this stage, what we are doing for defence is a second-order issue.

You need a very clear investment programme that can be implemented. You need employment support. Looking at welfare, the fact is that the less well-off have a higher propensity to consume. They got hit pretty badly by fiscal retrenchment in the previous decade, and we need to think creatively there, particularly about those of working age. The old folk—I recognise that a lot of us on this call are quite old; indeed, I recently got my bus pass—do not need extra support, but working-age people, especially with children, would be a good area to support. I hope that, as we speak, the Treasury is working on that. The Chancellor will almost certainly come forward with yet another package in due course. The time for sticking-plaster solutions has probably passed.

The Chair: Lord Tugendhat wants to come in on this.

Lord Tugendhat: The supplementary I wanted to ask pre-empts the question Lord Stern is about to ask. Let us have Lord Stern and, if I still have my supplementary, perhaps I could come in after him.

The Chair: That is very gentlemanly of you.

Q140 **Lord Stern of Brentford:** Thank you very much, Lord Tugendhat. For transparency, I should say that Lord Macpherson and I were cheerful and close colleagues for three and a half years at the Treasury.

My question follows quite naturally from the previous discussion. It is about the relationship between where the Treasury thinks the economy is or should be going over the medium term and its immediate actions to save jobs. Could you help us to understand the relationship between the immediate or rescue phase and the recovery phase, which, let us suppose, is over the next two or three years?

Lord Macpherson of Earl's Court: When you are in the heart of a crisis, which was certainly my experience in 2008-09, you have to address head-on the crisis itself and you have to provide support to people impacted by the crisis. I recognise that so far we seem to be heading for, at the very least, a W-shaped recovery, and the W could become a double W, if you see what I mean, and we could have a number of stop-starts during that period. We need to focus on the crisis but, simultaneously, begin to think through what form the recovery will take and what the Government can do to support it.

We can all debate the correct level of support for demand in the economy, whether it is £200 billion, £300 billion or £400 billion, but, more prosaically, it seems to me that the Treasury should be very focused on ensuring that, however much money is spent, it is spent sensibly. My worry in the current environment is that the taps have been opened to such an extent that there is very little focus on the quality of expenditure, and that includes the investment front.

Lord Stern was the first person in the Treasury to come up with a plan that acknowledged that investment would always be rationed but that we might create a hierarchy of investment projects by economic return. That is a good example of thinking through how we ensure that the expenditure makes a difference. I worry about some of the money being spent in the National Health Service. It does not matter how much money you are spending; we owe it to the taxpayer and future generations to spend it wisely.

Lord Stern of Brentford: In relation to investment, I fully understand that we want to invest in the activities and jobs of the future and not of the last century. In relation to employment, which is linked but not quite the same thing, should we be trying to understand what jobs are viable over the short to medium term, in supporting jobs now or in thinking about supporting jobs over the next months? How do we make judgments about what is viable?

Lord Macpherson of Earl's Court: My starting point is that the Government are generally pretty bad at making those judgments. The decision has been made to go back into lockdown. The logic of that is that you keep the furlough scheme running. There is an interesting question beyond December as to whether it is easier to keep the furlough scheme in place, and possibly change the percentages, or move on to a

new scheme. To provide continuity and certainty for the next few months, it is probably sensible to keep with the scheme we have.

The other thing that is important as a general message is that there is a tendency, and the Treasury falls into this trap as much as other departments, to be too clever in designing schemes. There is the view that somehow employers will respond to the 17th condition so that you can target support. Most employers get incredibly bored after the first condition you set out and take the view, "I can't be bothered to deal with the Government because it's all too complicated". Keep it simple and keep it in place.

The risk you are trying to manage is that we become a bit of a zombie economy, both for macroeconomic reasons—the famous Japanese lost decade—and for microeconomic reasons, because we have an employment scheme that keeps certain jobs going. I would be quite sceptical about the Government trying to guess what the jobs of the future are. Yes, there are investment activities such as green investment that they can support, but generally in life, my preference would be to leave it to the market; it is not that the market is perfect—it clearly is not in this situation—but it tells you something.

Thomas Pope: On employment support in particular, there is a bit of a distinction between the rescue and the recovery phase, particularly at the point when the Treasury rightly stepped in with the furlough scheme. There are a lot of very good businesses and a lot of long-term viable jobs that would not have been saved by the market alone. It was the right time for the Government to intervene.

As you go into the recovery phase, you do not want that support to be withdrawn entirely, or too soon, but as far as possible you want to allow some structural adjustment to start. I certainly agree that the Treasury does not want to be picking which sectors are good and bad and which sectors are viable and which are not. In a recent report we did at the Institute for Government, we looked at what types of jobs were still on the furlough scheme and which sectors were still being supported. Perhaps unsurprisingly, a little over half of the jobs on the scheme were in the sectors that are badly affected by the pandemic—hospitality, the arts and aviation. In those sectors, the current performance of businesses or jobs is not a reliable guide to their long-term viability, because they are really affected by current restrictions.

However, there are still about 1 million jobs on the scheme, or there were in September, in sectors such as manufacturing and construction that were relatively unaffected by the conditions. There is a question to ask, although probably not when we are going back into lockdown but perhaps as we come out of it: should we be taking a more sectoral approach to employment support? There have been fewer job losses in the last few months than there would normally have been. The furlough scheme has kept the economy on ice. Part of the way economies grow in the long run is through churn; less productive jobs and firms go under and more productive ones hire more. We do not want to stop that entirely. I agree

with Lord Macpherson that we should not try to be too clever, but there is some rationale in being a little more sensible with our sectoral targeting, acknowledging that some sectors are operating more normally than others.

Baroness Bowles of Berkhamsted: I cannot resist the trail of crumbs that Lord Macpherson laid for us. You were talking about spending money sensibly and you referenced the hierarchy of return. Last week, we heard from the Mayors of Liverpool and Manchester and the moan that I am sure you have heard about the Green Book; that projects do not give so much bang for their buck necessarily once you get out of London and the south-east, and therefore the Green Book mitigates levelling up. Will we seriously get an adjustment in that?

Lord Macpherson of Earl's Court: When I left the Treasury, the Green Book provided for a whole lot of wider benefits that you could take into account. I think it is a bit of a red herring. The critical point, in my view, is you want to spend money as part of a coherent strategy. We now have a National Infrastructure Commission, so when it comes to investment it should not be beyond the wit of government to have a joined-up approach that helps the north as well as the south, and ensures that we focus on projects with significant returns. That often means spending money on road schemes as well as on high-speed railways.

Q141 **Lord Tugendhat:** To what extent can social security spending serve effectively as a fiscal stimulus to help the recovery? Has the Treasury been right to adopt a wait-and-see approach to that sort of spending, depending on the severity of the pandemic? Now that we are getting a better fix on the elements of the pandemic, is it right to continue that approach?

Thomas Pope: As Lord Macpherson mentioned earlier regarding welfare spending as a stimulus, people on low incomes tend to have a much higher marginal propensity to consume out of their income, so, if you give them more income, they are more likely to spend it. It is certainly not an ineffective form of stimulus.

On adopting a wait-and-see approach, as I said earlier, I have been sceptical from the start that the £20 increase was ever going to be anything other than permanent. The pandemic has probably exposed that we have a relatively ungenerous welfare system as things go internationally, although I suppose we already knew that. The fact that more people were using the system clearly made that more apparent. I do not think you can fully unwind some of the cuts that have been made to the generosity of universal credit since 2015. I am not sure that even the £20 increase to universal credit, when we look back in a few years, will be seen as being tied so closely to the pandemic, but more broadly as a bit of a readjustment in how we calibrate welfare support relative to wages, which has changed quite a lot over the last few years.

Lord Macpherson of Earl's Court: When you are intervening to support demand, if you are the Government, the most important thing in the

short run is how quickly you can get the money into people's hands and have an effect. I am hopelessly out of touch because I left the Treasury in 2016 and the world has moved on a lot, but, historically, the reason you did a VAT cut was that it was the easiest thing to administer. You could literally do it at midnight and the tax cut would take effect immediately. When I was at the Treasury, national insurance reductions always took at least six months to implement. Often you cannot wait that long.

My sense with social security, and I am rather impressed, is that this time around, because the Treasury appears finally to have got the basic structure of universal credit right, it was possible to get the money out very quickly. The problem about social security as an instrument is that once you give money to people—Mr Pope was hinting at this—it is very hard to take it away again, and the longer they have it, the more difficult it becomes. There are many interventions that were temporary, and were only going to be for one year, but have stayed for a very long time. In that respect, if you are going to give money, the American approach of giving everybody a cheque as a one-off is probably rather effective, but the question of timing is very important.

The Chair: It works both ways of course. Income tax was originally temporary.

Q142 **Baroness Bowles of Berkhamsted:** Other than introducing the initial furlough and the other schemes in March, where I think the Treasury was pretty quick off the mark, has the Treasury been too slow and too unambitious in subsequent responses? Have the ways in which they were announced had adverse effects on the labour market? In the latest one, people have just been made redundant and along comes another furlough. I will put all the questions together, so you can deal with them all at once. How do we compare with other countries, both in the amount and the methods of delivery, and how far ahead people are able to see?

Lord Macpherson of Earl's Court: With hindsight, it is clear that we should not have been withdrawing the furlough scheme, but if you are a Treasury official, government policy until a few days ago was that, whatever happened, we were not going to go into another lockdown. You have to take on trust what the policy is. Similarly, the economy was growing through June, July and August more rapidly than it has ever done in history, so again, at that point, it all looked very sensible.

I am not an expert on international experience, so I will defer to Mr Pope, but my sense is that European economies have entered much longer periods of support. That may well prove to be the right approach if the virus is with us and we keep having mini lockdowns for the next 18 months. If we do not, and if in the spring we begin to come out of this, if not permanently but in a way that is far more manageable, I worry about the structure of the economy if we leave it all in the deep freeze, so to speak. It may sound callous, but you need a bit of Schumpeterian creative destruction.

The performance of the economy had already been badly hit by the financial crisis. Since 2010, the trend rate of growth has been much lower than it was the past. We need to think through our supply-side interventions to ensure that there is a possibility in future that the economy can grow better than the odd 1% a year. It would be terrible if we got stuck in a miserable spiral, where we protected jobs but the economy simply did not grow, and living standards were flat, or even falling. There needs to be balance, in my view.

Thomas Pope: I agree that the initial response of the Treasury was very good, not just in what it did in March but over the subsequent months, by making tweaks to the scheme and being quite responsive in that way. There were various gaps that people mentioned, in the furlough scheme for example, that it subsequently filled.

The problem with the latest announcements is that they have been communicated as being too final when, in reality, they have been contingent on the course of the virus. We had the statement in July when the job retention bonus was announced, and another statement in September when the initial Job Support Scheme that was quite ungenerous was announced. A couple of weeks later, we had things that looked like U-turns, and then quite a big U-turn, and eventually the CJRS was simply continued for another month. The Treasury could have done a lot better if it had just communicated, "This is the plan contingent on where we think the virus is going". In general, clearer communication that our economic policy in this crisis is dependent on our public health policy would have been helpful.

As to how we compare with other countries, France and Germany are the two main continental countries we have looked at. Germany already had a short-time working scheme—*Kurzarbeit*—similar to the furlough scheme. France also had a version of the scheme. As Lord Macpherson says, they are being continued for much longer, for a couple of years, although even in France they now require employer contributions. I do not know if their latest lockdown will have changed that.

We have also looked at the more temporary solutions other countries have announced, such as Australia and Canada. There they have done similar things to the UK—up to a few days ago—in that they have reduced the generosity of the scheme and started requiring more payment from employers, I think for just the reasons that Lord Macpherson mentioned. After the Job Support Scheme was made more generous, the UK scheme looked more generous than most other countries. In those other countries, when support is meant to stop is similar to the UK. While France and Germany have schemes that are meant to last for 18 months or two years, most of the other countries have schemes that are set to end in the first half of next year. At the moment, the Job Support Scheme is due to end in April. These things are so contingent that I would be surprised if all those schemes end when they are currently set to end.

Q143 **Lord Burns:** Most of us who have worked in the Treasury probably have

some sympathy with the Chancellor's view that targeted support is very difficult in these circumstances. Given the capriciousness of this pandemic, where some sectors have been forced by law to close, do you feel there could be some greater attempt at targeted support? In the case of one clear issue of attempted targeted support, do we put the Eat Out to Help Out scheme in the category of too little too late or too much too late?

Lord Macpherson of Earl's Court: That is a very interesting question. It seemed like a good scheme at the time. I declare an interest: I made use of it.

There has been some targeting. There has been the VAT reduction. There are special grants that have gone to hospitality outlets. You could probably do more. It helps the people at the end of the supply chain. I should declare an interest. I was invested—I think it is fair to say that because it has gone out of business—in a British halloumi business, and very good it was, too. It depended on selling halloumi to the restaurant trade. That market totally died out overnight. The entrepreneur in question tried to refocus on the retail market but could not produce on the scale necessary to do that.

You can fantasise about focusing on one particular area, but it does not actually help if restaurants, as they are required to do, lock the doors, batten down the hatches, put people on furlough and hope they still have enough money when the whole thing opens up again. Clearly, the Government should continue to look at that, but, in the end, they will also have to have a focused supply-side investment plan. Concentrating resources on that is as important as supporting those who, understandably, have been badly affected.

Thomas Pope: I agree that it is difficult to do sectoral targeting. It is almost impossible to do it perfectly. There are all sorts of edge cases where it is difficult to identify which firm fits into which sector, and so on, but you lose a lot by not targeting things sectorally. Even if it is somewhat of a blunt instrument and cannot be done perfectly, it is still worth considering. As Lord Macpherson says, it has already been done. The grants were targeted sectorally, so we are clearly not entirely incapable of working out which firms are in which sector.

Now that we are going back into lockdown, it may be less important for the next month or so, but, as we enter the recovery phase, there are some types of business that it would be worth supporting more, and others where, if they are not doing well at this point, and are in a sector relatively unaffected by restrictions, perhaps that job will not return, and we do not want to spend a lot of money continuing to support it. The benefits are big enough that it is at least worth a bigger effort on that. Of course, you cannot do it perfectly.

The other potential problem of having a more generous scheme for badly affected sectors and a less generous scheme for the others is that you get all sorts of political lobbying: "Please, Mr Chancellor, I am a very

badly affected sector, too". I suspect that may be as much of a problem as the technical difficulties of identifying which firms are in which sectors and things such as that.

The Chair: Do you think there is a moral duty on the Government? You used to see signs in china shops that said, "If you break it, you pay for it". If the Government are responsible for destroying jobs by their regulations or destroying the business, do you think they should take responsibility for paying for the damage?

Thomas Pope: I cannot comment on the moral duty.

The Chair: Why not?

Thomas Pope: I am an economist.

The Chair: Economists do not do that.

Thomas Pope: I cannot claim to be an expert on morality, but there is a strong economic argument for continuing to support businesses where restrictions stop them acting normally. Sectoral targeting would be precisely for those businesses, and you would want a more generous scheme for them, but for other sectors that are less badly affected and are operating as normal, there is less of a case for very generous furlough terms where there is no employer contribution at all, for example. The flip-flop on the Job Support Scheme showed that quite clearly. Initially, we had quite an ungenerous scheme that was not generous enough for hospitality because it was making employers pay far too much of the wage for hours not worked and therefore a bunch of perfectly viable jobs in the long run were going to be lost.

The Chair: I must not go on because of time, but the Committee was very moved by the evidence we heard from, for example, top-class musicians and other professional people. At one stage, there was a rather stupid advert that suggested they should retrain to do something else. Here we are with world-class ability in that area, and there seemed to be no sense that the Government had a duty because they had closed down the theatres and elsewhere.

Lord Macpherson of Earl's Court: I agree, Lord Forsyth, that there is a moral aspect. Many of the Government's interventions have recognised that. The self-employed scheme has been quite a good way of supporting musicians and others. It has also been very easy to access. Again, I have been really impressed by the operational side of HMRC, which was totally different; 20 years ago, HMRC would not have been able to do that in the same way.

Lord Skidelsky: Ethics has been mentioned. To what extent were the Government and the Treasury influenced by the danger of fraud in constructing their schemes? Mr Pope might answer this, although he says he is not an expert in the area.

Thomas Pope: In general, they took the approach that they would not let fear of some fraud get in the way of the scheme being effective. The CJRS was a very generous scheme, and NAO estimates suggest that there was probably £1 billion or a bit more of fraud, but that it was a cost worth paying.

Often, it is very easy to get caught up in the issue of whether there is a deadweight cost or whether there is fraud, and almost judging a policy on that, when you should be comparing it with the alternatives and seeing how much benefit we can derive from it. Even a policy that allows for some fraud or has some deadweight cost can still be the best policy. There are some gaps in the schemes that were influenced by a fear of fraud, or at least an inability to work out how it would work, particularly in the self-employed scheme and the fact that if you had not submitted a tax return last year you would not be eligible for the scheme. There are a lot of people who fall into that category, because the self-employed is a group that turns over quite quickly. The problem for the Treasury was that it was not clear what to base that grant on. The answer was that it had to be on universal credit. That was probably an area where fear of fraud led to making the scheme less generous than it could have been.

The Chair: We have five further questions to get through, so we will have to move reasonably speedily.

Q144 **Viscount Chandos:** The new lockdown in England makes the regional tiering system a bit hypothetical at the moment, but we are promised—or threatened with—a possible return to it after the end of a further lockdown, so I think this question is still relevant. Is the formula under which the Government provide financial support to areas under tier 3 lockdown restrictions appropriate? In particular, should the formula that Andy Burnham described as having been retrospectively explained take more account of the concentration of businesses over population density?

Thomas Pope: One of the big problems with those formulas was that there was not the transparency early on to explain exactly what they were. The tier 2 financial support is much simpler, and it is much clearer how they got there and more based on businesses that are in the affected sectors. That approach would seem to make more sense, given that the grants were meant to be for business support. It probably makes sense to focus more on the types of business and how many of those there are, rather than population density per se.

The Chair: Do you agree with that, Lord Macpherson?

Lord Macpherson of Earl's Court: Broadly. I am too out of touch to understand the formulas currently in place, so I am afraid I cannot answer that question.

Q145 **Lord Fox:** Lord Macpherson, you have already relegated the strategic review as a second order issue. How about the levelling-up agenda and the tackling of climate change? Should the Treasury be worrying about those now, or are they second order as well?

Lord Macpherson of Earl's Court: I certainly hope it is worrying about them. There is a levelling-up dimension to every aspect, potentially, of the Government's response. The response is on a huge scale and I hope that the Government are thinking through those aspects. With the best will in the world, I would be surprised if the Government have the capacity to multitask in such a way that they act optimally across all the objectives you mention. At the current time, the critical thing is to deal with the virus, which is the best way of helping the economy. It is then about support measures; the rest may have to wait for a few months.

Lord Fox: You mentioned that levelling up impinges on everything. Where is there an example in recent announcements by either the Prime Minister or the Chancellor where levelling up has changed what was announced?

Lord Macpherson of Earl's Court: Many of the interventions take the form of transfer payments one way or another, and in considering those transfer payments, whether grants to local authorities, universal credit or the investment plan, I hope that regional factors are taken into account. For Scotland, Wales and Northern Ireland, there is the convention of the Barnett formula, which means that they will get money accordingly.

Q146 **Baroness Kingsmill:** How well do you think the Government have worked with national and regional Administrations during the pandemic? There are some obvious political challenges, but what are the challenges as you see them?

Thomas Pope: Initially, at least, there was quite good co-ordination, perhaps helped by the fact that, at least on the public health side, all the Governments were pursuing broadly similar approaches. In economic policy-making, the real challenge is that a lot of the need for economic policy comes from the public health restrictions, but economic policy broadly is not devolved and public health is. As I mentioned earlier, if the Treasury can be clearer about how economic support will respond to public health regulations, it will be helpful. The way that it announced that businesses in tier 3 that were required to close would get a more generous furlough scheme—although it is no longer relevant because the furlough scheme has been extended—was quite a clever way of making a policy broadly applicable not just to the English lockdown restrictions but to the different schemes that applied in Wales and Scotland. None of this has been particularly easy, but I am not sure that there are lots of individual mistakes that have made co-ordination with the devolved Administrations worse. We just have a constitutional arrangement that makes it incredibly difficult.

Baroness Kingsmill: Are there significant policy implications for the Exchequer?

Thomas Pope: One challenge is that while the UK Government, when they are deciding what to do on public health regulations, are weighing up economic costs and public health costs, there is a potential problem that, if Scotland is only worrying about public health problems because

then the Treasury will have to spend money to support their businesses, in a way it means that Scotland is not bearing the full costs of its policy decision-making. I do not see a way you can avoid that problem and, in practice, I am not sure it has been that much of a problem.

Baroness Kingsmill: Perhaps not as far as the different nations are concerned, but our evidence from the Mayor of Liverpool and the Mayor of Manchester last week suggested that there was a significant difference in the way they were being treated.

Lord Macpherson of Earl's Court: There are anomalies in both the English constitutional settlement and the UK's constitutional settlement that the crisis has underlined. There has been a lot of progress in creating mayors in recent years, but we still live in a very centralised system when it comes to finance. I will not even get into the issues around Scotland, Wales and Northern Ireland, but if we do not create some new constitutional settlement I worry that we will end up maintaining the status quo.

Baroness Kingsmill: There is certainly evidence that they felt there was a significant north/south divide.

The Chair: This week, we saw the absurd situation where Nicola Sturgeon was saying that she would need to have a full lockdown to get access to the furlough scheme next week, which was definitely tails and dogs and all that.

Q147 **Lord Monks:** I have a question particularly for Lord Macpherson. Of course, this is not the first recession that we have been through. I am interested in whether there are some lessons from past recessions and what the Government did, say, in relation to the Future Jobs Fund, and even YTS, going back a bit further, that can be applied as we go into the recovery phase after the rescue phase. I thought Mr Pope differentiated those two phases very well. From your experience, Lord Macpherson, are there any lessons from the past?

Lord Macpherson of Earl's Court: Each recession is different, partly because of the cause of it. The labour market in Britain is totally different from the labour market, say, of the early 1980s. What tended to happen, certainly in the last recession, is that wages adjusted far more quickly, so employment tended to hold up and grow. The other lesson, as Lord Stern will know from his work with Lord Layard and Steve Nickell, is that job support schemes that keep people as close as possible to the labour market tend to be more effective than the "make work" schemes of the early 1980s. Schemes such as the YTS and the community programme come to mind. There is a stronger evidence base. This is a good example where academic research has made a difference, and I hope that knowledge will be brought to bear during the recovery phase.

Thomas Pope: I agree with all of that. I emphasise that we know, from which people were using the furlough scheme, that it was affecting particularly young people. Recent work from the Resolution Foundation

shows that a lot of the increase in unemployment that we are starting to see is not so much people losing their jobs but more new entrants to the labour market not being able to find jobs. Again, that is particularly focused among young people. Those are the people for whom we are most concerned about scarring effects if they are unable to find work. Approaches such as the Kickstart scheme seem like the right sort of intervention, although whether it is sufficient in scale time will tell.

Lord Macpherson of Earl's Court: One generic point from previous experience, and the one thing where we as a nation do not seem to have learned the lessons, is around training and skills. In the last 100 years, every Government have noted that the skills system in this country is hopeless. They claim that they will do a radical reform of it. They rearrange the deckchairs, and skills remain precisely the same problem as they have always been. If the Government were to do anything in this period, creating a skills system that really makes a difference would be truly revolutionary. Sadly, I am not holding my breath.

Q148 **Lord Skidelsky:** Does the current crisis, and more particularly the succession of crises that previous witnesses referred to, justify some form of job training or apprenticeship guarantee scheme, not as a temporary but permanent commitment by government, or does the Schumpeterian economy, which I think was mentioned by Lord Macpherson, require a reserve army of the unemployed to wax and wane with the economic cycle? Is that not where we have to look for a better way, or are we just reconciled to millions of unemployed from time to time?

Lord Macpherson of Earl's Court: You can do both. You can have sensible apprenticeship schemes and good training schemes, and a dynamic economy, where companies succeed and fail, and jobs are created and jobs are destroyed. I do not see those things as mutually incompatible. Ultimately, we cannot have the state being the employer because the state is not very good at it.

Lord Skidelsky: Not even as employer of last resort?

Lord Macpherson of Earl's Court: It can do some of that, but only as long as that employment is relevant and contributes to wider economic welfare. At its worst, it detracts from welfare and therefore from living standards.

Thomas Pope: The key for any sort of guarantee that you might want to implement is, first, that it is targeted at the right people. You want it to be targeted at people where you are particularly worried about scarring, particularly those early in their careers. Secondly, you need to ensure that the opportunities are good opportunities, and that they are not just digging holes and filling them in but jobs that give people an attachment to the labour market and help them to develop skills and give them greater opportunities going forward. That type of policy should mainly be focused, as an economist would say, on building people's human capital

and building their attachment to the labour market, rather than just giving them something to do.

Lord Skidelsky: You would not accept a full employment commitment.

Thomas Pope: I would need to look at the detail. That is the cop-out answer, I am afraid. Full employment commitments can look very different.

The Chair: You are beginning to sound like a Minister. On that note, one thing that struck me about this session and the previous session is the notion that what the pandemic has done, like the tide moving out, is expose a number of structural problems. When I think back to the reports this Committee has produced on housing, social care, higher and further education and apprenticeships and universal credit—the last four reports— they all come together and point to a lot of work that needs to be done for the long term as well as the short term.

I am very grateful to our two witnesses for helping us with this current inquiry on the employment consequences and what they mean for the future. Thank you very much, Lord Macpherson and Mr Pope.