



Select Committee on Economic Affairs

Corrected 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 Livingstone of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 19

Virtual Proceeding

Questions 159 - 169

Witnesses

I: Professor Diane Coyle, Co-Director, Bennett Institute for Public Policy, University of Cambridge; Baroness Shafik, Director, London School of Economics; Professor Jonathan Portes, Professor of Economics and Public Policy, King's College London.

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Examination of witnesses

Professor Diane Coyle, Baroness Shafik and Professor Jonathan Portes.

Q159 **The Chair:** I would like to welcome Professor Diane Coyle, who is the co-director of the Bennett Institute for Public Policy at the University of Cambridge; Baroness Shafik, who is the director of the London School of Economics and well known to colleagues; and Professor Jonathan Portes, professor of economics and public policy at King's College London, who is a kind of hardy annual for the Committee. I will begin with the first question, which is about the Government's economic response to date. What successes can they claim and where have they fallen behind?

Professor Jonathan Portes: In economic terms, we can quibble about the details of the very quick response from the Government, and in particular the Treasury, but the combination of massive support to preserve people in existing jobs through the furlough scheme, to try to help self-employed people and to provide support businesses through a combination of loans and grants was broadly the right approach. It was executed quickly and delivered pretty well.

As I say, there are issues. Quite large numbers of self-employed people and some people who own their own companies fell through the net, as did people who did not have enough of a record. Quite large numbers of people from a non-UK background missed out because of the no-recourse-to-public-funds provisions, but, broadly, the response was very successful.

The last few months, however, have been much less so. This is in part because of the failures and issues with the broader strategy for combatting the pandemic, which, I assume, we will not be talking about very much. That, in turn, has translated into a degree of incoherence in the policy response. Things keep on getting announced and re-announced with changes. The fact that Treasury has clearly gone round in circles now—completely in circles on the furlough scheme—reflects a broader failure of the Government to make clear what exactly their strategy is with respect to Covid and hence what the economic strategy ought to be.

Stepping back, I worry that the Treasury has done exactly what it did in the last crisis. In the crisis, it says, "We must do things. We must break the rules, act quickly, act big and act fast", and it has done that and done it very well, but then, at the first opportunity, it wants to try to get back to normality. Of course, the attempt to move towards aggressive fiscal consolidation too soon was the big policy error in the last crisis. The situation is by no means the same, but the Treasury, having got out of its normal frame of mind, then wants to get back to normality as quickly as possible. We are not in normality yet; it has to accept that and recognise that the emergency carries on.

Professor Diane Coyle: Building on what Jonathan said, which I agree with, now is the time to move from more reactive to more strategic responses and think about the long-term policy responses for recovery

that will need to come into play, such as long-term support for young people in education and coming into work. We know that young people have been far more likely to become unemployed during this year. There are about 800,000 coming into the workforce. They have low savings. They will experience scarring of their long-term prospects unless there is a plan in place to support them not over the next few months but over the next few years.

Similarly, it is the time now to start thinking about debt resolution, not just for businesses and the companies that have taken out government-guaranteed loans but for all those individuals who have been borrowing through credit cards, mortgage holidays, payday loans, bank overdrafts and so on. If we have a debt overhang, the economy cannot start growing again.

Planning for all those public investments, whether it is green infrastructure or levelling up, needs to get under way now. We have a report out today on the importance of investment as a vote of confidence in the future because, in these circumstances, it will crowd in private investment. All that long-term planning needs to happen now.

Baroness Shafik: I agree with the broad view that the immediate short-term response was very good, from both the Bank of England and the Treasury. The response was operating under an assumption that this would be a V-shaped recovery, so the objective was to keep people attached to their employers. The furlough scheme did that, which is in contrast to what the US did, which was to allow people to be fired but then provide more generous unemployment insurance.

The current issue is that it is quite clear that this will not be a V-shaped recovery. I always think that the right letter is a K. We had a sharp drop. Some sectors will go up; some sectors will go down. Government policy needs to pivot to not trying to keep everything as it was so that, when normalcy returns, we can restore the way it was. It needs to enable that change or that K-adjustment. That means enabling churn in the labour market and among enterprises. We should be preparing for a period of helping both firms and workers adjust to this new economy, which will be permanently different to what it was pre-Covid.

The Chair: Do you think it was a mistake to extend the furlough scheme to March?

Baroness Shafik: I would have extended support but done it more strategically. Just to give you an example, you can imagine a world in which the furlough scheme was portable. You could take your furlough subsidy—your 80% wage subsidy—to a new employer if that new employer would promise to keep you long term. That would be a way to facilitate people moving into growing sectors rather than keeping them in ones that were likely to die.

Professor Jonathan Portes: I agree strongly with that. Indeed, Tony Wilson, from the Institute for Employment Studies, and I made that

proposal back in an article in May: that, ideally, the furlough scheme should be phased out by pivoting it into a subsidy for new jobs, so that you could take the money with you, either as a wage subsidy or as a lump-sum grant that you use to start your own business or for retraining. All that would have been preferable, and it is quite unfortunate that the furlough scheme just seems to have been extended on the same basis on which it was originally introduced. It seems very hard to justify.

Q160 Lord Burns: With monetary policy reaching its limits, how would you define the scope that might exist for active fiscal policy? Is there a limit to fiscal support, and what should it be in terms of? Is it in terms of the amount of debt, debt interest costs or prospects for inflation? I would like to accompany that with some reaction from you all about what kind of period we should be seeking to deal with the longer-term consequences of this. Will this be a 10-year job or a 20-year job? How long will it take us to deal with the overhang of this?

Baroness Shafik: As a former central banker, I would never concede that monetary policy had lost all its influence. Central bankers have been very creative in continuing to come up with ways to support the economy, but, of course, all monetary policy can do is bring forward demand, and we needed to boost demand in the context of the pandemic. The really important structural issues are really in the realm of fiscal policy, in both spending and regulation. The supply-side issues are essentially ones that are in the realm of fiscal policy and broader economic policy.

Your question implied some concern about how much debt we can accumulate and how long it will take us to get out from under it. The paradox is that, because interest rates are so low, the debt servicing burden has not gone up very much, if at all, in most countries. As long as the debt servicing burden is low and, as is appropriate in the UK, the Treasury borrows very long-term and so has fixed those interest rates for very long tenures, which is very smart, we can continue to borrow for quite a while.

How long will it take to get out from under it? Given the tenure of the gilts that are being issued, it is a 20-year or 30-year proposition, but, of course, the way to get out from under it is to grow the economy, which is why the key for whether this debt is sustainable is how the money is used and whether it is used for investment or just for supporting consumption. If it is used for wise investments, it should be easy to repay.

Professor Diane Coyle: Normally, the supply side of the economy is the key issue for the UK, and we know we have long-term problems, but at the moment we know that there is an utter shortfall in demand, so I am less averse to spending government money on consumption and short-term activities. I absolutely agree that we need to be looking at investments where there is a very high multiplier. Every time we have some kind of downturn, we talk about public infrastructure investment but they are not shovel ready. There are plenty of things that could be

started very quickly with high multipliers. They could be linked to creating the right kinds of skills in key areas.

Given that borrowing rates are so low at the moment, to make the debt arithmetic stack up sustainably, we need to get the economy growing again. That seems to be the absolute priority. If we do that, I have no concerns about the debt burden that the Government are taking on at the moment. I might even think that it was a shorter period than Minouche was just talking about.

Professor Jonathan Portes: I agree with both. Following up on Diane's point and going to the policy, in that context it seems very bizarre to me that the Government have decided to postpone the spending review on the grounds of uncertainty. In fact, the Government are the agent in the economy that could create some certainty, and hence lever in private demand and private investment now, by saying, "Yes. We have no certainty about exactly what will happen with the pandemic and we do not know what the future course of the borrowing requirement will be, but we can set out some spending plans now and say we will make the following investments over the next three years, and indeed beyond", and provide at least some degree of certainty for the private sector and for businesses and households when they make their own spending and investment plans. That seems to get the economics precisely the wrong way round.

On the narrower fiscal arithmetic point that you are asking, we know from theory that the way to deal with a shock to the debt stock is just, basically, to ignore it. If the debt to GDP goes up by 20%, that does not really change your fiscal targets very much going forward. In terms of when we need to start worrying about the size of the current deficit and whether we need to raise taxes, the answer is, first, that we will know it when we see it because we will see interest costs going up and the market will tell us, by pushing up gilt yields, that we need to do something about fiscal policy, and, secondly, that would be a really nice problem to have. If we still have 0% to 1% long-term gilt yields in three years, that is really bad news. If we have 2% to 3% long-term gilt yields in two to three years then, first, that is really good news, but, secondly, it means that we need to put up taxes.

Lord Burns: Diane said that there are some projects that have some very high multipliers. Which are the investments that you would characterise as having the highest multipliers?

Professor Diane Coyle: Green infrastructure has quite high multipliers. In any case, multipliers are cyclical and so, at a time of deficient aggregate demand like this, they are higher than they would be on average over the cycle.

Q161 **The Chair:** Baroness Shafik, are you not concerned about the fact that so much of the debt that is being issued by the Government has been bought by the Bank of England? The Bank of England is a state agency, so we are issuing IOUs to ourselves, in reality. Are you not concerned

about that in the long term? Everybody else is doing it, but does it matter? How will this end? That is part of the question that Lord Burns asked that worries me. Whenever I ask it, people always shift nervously and do not deal with the question; I am sure you can.

Baroness Shafik: I will try to do better than that. The question to ask is why the Bank of England is buying the gilts. Motive is the operative question here. It is buying the gilts, because we are in a very low inflation environment and there is a limit to how far they can lower interest rates, and this is another way to increase demand. We are not in a world in which we have very high inflation and the Government is printing money. That is not the problem we have.

I will step back a little and ask why we are in this low-interest-rate environment. There are many big forces behind this. One of them is ageing; ageing populations save more, but the problem is not that people are saving too much globally and that is why interest rates are low. It is that investment demand is so weak. It is not that savings are too low; it is that investment is too low. That is why, at this particular juncture, you want to see a rise in investment. That is what will lift interest rates up off the floor and solve this dilemma that we have. At this moment, the agent that is in the best position to raise investment demand is the Government, hence the focus on green investments and so on.

Q162 **Baroness Bowles of Berkhamsted:** Given that the rise in unemployment is in part being driven by falling job vacancies, what do the Government need to do to shift their support from retaining employment that might be dying anyway to creating new jobs? We have already had one suggestion of the portable furlough, but I am looking more at what sort of creation strategies there should be, such as incentives for firms to hire. Can we do more than programmes such as Kickstart and the Future Jobs Fund?

I will add another rider. Skills training is obviously quite important in all these contexts. I do not know whether you were able to listen to some of the exchanges that we had on the last panel, but there seemed to be some indications, because businesses are reluctant to train, that some of the training should be done for businesses, outside the businesses, and then businesses should be given the ready-made employees. Do you see that as a future way in which training will be delivered? Are we barking up the wrong tree expecting businesses and employers to do it?

Professor Diane Coyle: I will start and then defer to my colleagues who know more about this. I cannot see private sector employers increasing employment very much at the moment, because demand is just too uncertain. There are certainly things that will help, such as the Kickstart scheme. Training is obviously very important. Creating nationally recognised portable qualifications in all kinds of areas, such as digital or various engineering trades, is really important.

For the time being, it is that point about demand and government investment. If that means direct government creation of jobs in some of these schemes, that is essential, particularly for all those young people

coming into an absolutely terrible jobs market. Jonathan knows a lot more about the labour market than I do.

Professor Jonathan Portes: I agree with Diane about the importance of direct government involvement at this point. It goes back to the point that government is in a position to provide some certainty in a very uncertain world, when the private sector does not know what is happening. We know that we have a long-term strategy, or a long-term government-mandated objective and target, to decarbonise the economy. That implies an awful lot of things. If you put the money behind it now, it would create jobs in both the public and private sectors, and government can and should put the money behind it now.

Similarly, we know that we will have to improve, for a bunch of reasons related to the pandemic as well as to migration policy, pay, conditions and training in the social care sector, particularly for people born here. Again, the Government could put money behind that now, which would create jobs and lever in some additional money from the private sector as well. We could be doing these things now and I do not think there is any excuse for not doing them. The uncertainty that exists because of the pandemic is a reason for government to try to give certainty in these areas.

There is also scope for greater use of wage subsidies, possibly temporary cuts to national insurance contributions and so on. If, for political, economic or social reasons, the Government decide that they do not want to rein back on their ambitions for the increases in the national minimum wage because that is part of a long-term strategy, then you want to do something that reduces labour costs for younger workers and workers coming into the bottom of the labour market with lower wages. Primarily, that means either reducing national insurance contributions or paying some form of wage subsidy.

Baroness Shafik: On your question on skills, Baroness Bowles—I think Baroness Kingsmill in the previous discussion asked something similar—you are quite right that employers have less incentive these days to invest in their workers and to reskill them, both because demand is weak but also because people are less attached to their employers. Turnover has gone up. The average worker has more jobs in their career and will also have a longer career. People will work for 40 or 50 years, so skilling becomes more important and employers tend to underinvest in it.

The answer is not to have massive public sector skills development programmes, because we know from all the experience around the world that they do not work. We also know that sending people to vocational training schools in their 40s and 50s does not work. What does work—the Nordic countries do it rather well—is providing short-term job placement support but also very close counselling and advice to people, preferably before they lose their jobs, and training that may be paid for by the public sector but is provided by the private sector.

The other thing that we need to do, frankly, is just spend more. We spend so little on reskilling workers. Denmark, Sweden and Finland spend over 1% of GDP on worker reskilling, which is 10 times more than the UK. We need to spend more on this, because we know that more is needed. In my ideal world, we would give every young person an educational and training allowance that they could spend over their lifetime. They could use it either for higher education or for further education, and be able to think about how they would allocate that over what will be very long working lives.

Q163 Lord Tugendhat: Should recovery policies be measured by more than just economic growth and total job creation? By that, I mean taking into account job quality, income and well-being.

Baroness Shafik: Clearly, job quality is a huge issue, and part of the problem in the labour market in the UK now is a lot of people are stuck in low-quality, low-wage jobs, and a lot of those jobs are prone to automation, so they will not even last long. The ones that are not prone to automation are in the care sector. Diane and Jonathan both mentioned the care sector as one in which job growth will rise. Again, those are very low-paying jobs, by and large. We need to do something.

The job quality issue is intimately linked with the question you raised about skills. We need to get to a place where we are investing a lot more in people and expecting a lot more of them. Those two things are intimately interlinked. I sometimes describe it as a new social contract with our population, where we invest much more heavily in education and skills from the beginning, starting in the early years where we know that the most important cognitive development happens, all the way through to later in life. That would be a key part of raising the quality of jobs. Someone also mentioned minimum wages, which is also part of the story.

Professor Diane Coyle: It is a really interesting question. Economic growth is essential, particularly at the moment, because it brings all kinds of good things with it. We have too many people in this country who do not have enough money, are using food banks, are in jobs of low quality and do not have enough skills. All that needs addressing.

In the past few months, we have learned that a lot of other things matter as well, such as access to broadband or other kinds of infrastructure, high-quality public services and the National Health Service, obviously, but also things such as access to green space and air quality. All these things tend to be interrelated, so it is the people who are in places that have poor infrastructure connections, do not have access to clean air and green space and do not have really good schools or healthcare facilities in their area. We definitely need the growth. I am not somebody who says that we should just ignore that and concentrate on well-being, but a lot of other things matter too. It is time to start thinking in a much more joined-up way about how, through policy, we deliver all these different things that matter terribly to people.

Q164 The Chair: This is slightly straying, but I am tempted because I read

something on Twitter, posted by Professor Portes, which was a theme last week in the Chamber. Is there enough co-ordination between the health approach to the pandemic and the economic policy? For example, on the absence of any impact statements, the Minister told the Chamber last week that there was no impact statement because the regulations did not require one for a non-permanent measure. Some of us are a little puzzled as to how you can work out what your policy should be if you have not done an impact statement on its effect. This is probably leading the witness, Professor Portes.

Professor Jonathan Portes: That is obviously absolutely right. The slightly more complex but important point that I want to make is that it is not just a question of getting the health advice, “You can do this restriction or maybe that restriction”, then you get an economic assessment of each of them and you have these two separate sorts of advice, and then Ministers should somehow weigh them up. You need the advice to be integrated.

Let me give a couple of concrete examples of how that has led to bad policy. Take statutory sick pay. The policy and the advice come from the Treasury and the DWP. The result is that we are expecting large numbers of people who have been informed that they have the legal obligation to self-isolate, which we do not enforce, and to do so with little or no financial compensation. If you are self-employed or you earn enough to be outside universal credit but you are still on a relatively modest income, you may be asked to self-isolate even if you do not have any symptoms. You are legally obliged to, but there is no enforcement. I heard on another seminar earlier this week that decision was taken without any input at all from SAGE.

My calculations, which we published earlier this week, show that, by increasing sick pay, you could, for maybe £5,000 or £10,000, save one infection. In contrast to all the other things that are going on elsewhere, that would be incredibly good value for money compared to what we are spending on track and trace. There is no forum anywhere in government, as far as I can see, that brings together the economics of policy measures like this with the epidemiology of policy measures like this and provides integrated advice and assessment to Ministers that lets them make rounded decisions that take into account the health and the economic effects of specific measures. That seems to be a really big hole at the moment.

Q165 **Lord Stern of Brentford:** Jonathan, I cannot resist the temptation of saying that, if you go to the LSE Covid blog, you will find a number of pieces in support of the arguments you have just been making. We have agreed that investment is absolutely crucial here. We have to drive out of this. We have to grow. I fully agree with that.

Investment is about confidence and a sense of direction. Do you think we should be strengthening our industrial strategy, setting out priorities and talking about which physical investments, infrastructure—natural infrastructure such as trees, land and water—and human and social

capital are important? Those are the big areas of investment. They are not just on the physical side but on the natural, human and social sides. A good industrial strategy would set out an approach to investment to help to drive that confidence. Do you think it is time to revisit and give a stronger sense of direction in that sense so that investment can start to come through? Where would your priorities be?

Professor Diane Coyle: You will not be surprised to hear that I agree very strongly with that. Longer term, even regardless of the pandemic, we need government to be involved in steering the economy in a much more purposive way than it has previously because we have a very complex knowledge-based economy facing some really serious challenges such as climate, biodiversity, health issues and a big reset in trade relationships. If you think about what distinguishes high-productivity countries with high living standards from those with low productivity, it is the way in which different people's actions get co-ordinated by government leadership. In the UK, we have a challenge, because we have not been organising, intentionally, that kind of policy co-ordination and activity.

We are over-centralised. We have been on a devolution journey, which is all a bit confused, so there are overlapping powers. There are departmental silos, which seem rather worse here than in many other countries. Even if you think about something straightforward like a project appraisal, a rate of return assessment will look at it in isolation when the real rate of return in the economy and the contribution to growth and development will depend on delivery in a number of different connected policy areas, where the people responsible for delivering those areas are at different levels of government.

We have the new Productivity Institute, in which I am one of the researchers, and this co-ordination issue is one of the areas that we will focus on, because we know a lot about individual challenges but not so much about how they connect. The vaccine news this week is a really good example of how intentional government activity can bring about a success, because there was a government purchase guarantee. It was something that we knew was needed. It set a clear direction. We knew that a successful outcome was necessary. It delivered a vaccine in an incredibly short time. We have to stick with one broad approach or it is not a strategy. We know that some sectors in the economy are very strong anyway. It is all about making it possible for private businesses to succeed in their investments by giving them the clarity that talked about in your question. I very strongly agree with that.

Baroness Shafik: I just wanted to concur with what Lord Stern and Diane have just said. Higher investment is the path out of this crisis. I would emphasise the need to rebalance our investment approach. Everyone talks probably a little too much about infrastructure, and I say this as someone who used to manage a \$50 billion infrastructure portfolio for the World Bank around the world, so I like infrastructure. We need to focus as much on investment on the human, digital and environmental

and natural capital. I would argue that we have underinvested in those three areas.

On the human side, I would say that we have put all our resources in educating people from about age six to 21, and that is it. We have given up on pre-six; after 21, we do very little. We know from all the research that how much you can learn over your life is usually determined in the first three years of your life, before you ever get to a school, so we need to make sure that young people are prepared to learn for their entire lives. As I said earlier, we grossly underinvest in adult education.

Digital is obvious. Digital infrastructure could do more to help on levelling up and regional inequality in this country than investing more in hardware, because people will be able to work much more flexibly everywhere in the country. That may be one of the upsides to this terrible crisis.

On natural capital, Lord Stern can speak much more eloquently than me on why using future investment to create a much less carbon-intensive economy is a huge opportunity that is good for the planet but also good for the economy. I would focus on that sort of rebalancing going forward.

Professor Jonathan Portes: I will just focus on the human capital aspect since that is more my expertise. I agree with both Minouche and Diane. It is deeply unfortunate that we have not only essentially lost sight of the child poverty target but, as Minouche said, have allowed our infrastructure designed to support children in the early years to wither away over the last 10 years. That, of course, has been exposed during the crisis. We have all seen the Marcus Rashford stuff, but solving it is about more than just providing free school meals or indeed just even better food for children. We need a return to the idea that we actually care about ensuring that all kids get a decent start in life. That is an essential part of rebuilding. The economic and geographical inequalities between children in this country are both socially unacceptable and, in the medium to long term, economically very damaging.

Lord Stern of Brentford: On driving out of the recession and investing for the long-term future, your answers have been that we have to do both at the same time. I find that convincing, but could you help us with the finance side of investment? Clarity reduces risk. You have been speaking directly to that. That will increase investment demand, but the ordinary investor cannot borrow at the zero or negative interest rates at which Governments can borrow. They have to face very big risk premia in markets. Do you see a role for the finance side to come through with the right kind of finance in the right place at the right time to support this bigger investment that comes through with stronger strategy and better policy?

Professor Diane Coyle: I can make two brief points about that. One is that government procurement can reduce the risk premium by providing some kind of assurance about there being a market or by providing or setting technical standards or whatever it might be. That is an important

long-term issue. The other is the increasing recognition in the financial world about recognising risks that have not been measured and priced previously, including, above all, environmental risks. That too will start to change the financial situation.

Q166 **Viscount Chandos:** If I could follow up on this theme, it is three years now since the last Government published their White Paper on the industrial strategy, and that was a Government led by a different Prime Minister and with an almost totally different Cabinet. We have been discussing how the pandemic has accelerated many of the longer-term trends and, at the same time, this Government have signalled their desire to be a lot more interventionist, whether that is through their commitment to rescuing the OneWeb satellite business or the negotiations with the EU about state aid policy. In light of all that, do you think the Government should urgently publish a new industrial strategy?

Professor Diane Coyle: If it is a brand-new strategy, I would not be in favour, because, if it keeps changing all the time, it is not a strategy. We have had lots of industrial policy documents over the years in this country. Given the circumstances, it would be really useful to hear a recommitment to the kinds of long-term strategic approaches that we have been talking about, including grappling with the granularity of some of these issues. For example, if you want water companies to invest in green rather than concrete infrastructure, some of the regulations that apply to them and impose very large fines, for example for excess concentrations of certain products in wastewater, need to be adapted. I was a supporter of the industrial strategy that was published three years ago. The next stage is to get much more granular in the current context where we have to invest for the short term and the long term.

Professor Jonathan Portes: Diane is much more of an expert here than I am. What strikes me, looking at the published industrial strategies over the last 10 years or so, is that there is quite a lot of continuity from the Mandelson era through to the Cable era through to the last few years. That is probably a good thing, as Diane said; they seem to represent an evolution. A lot of the material appears to be there.

There are two issues. One, as Diane says, is translating that into actual detailed stuff on the ground. The second issue, which is the broader political one implied in your question, is the extent to which that has now all been thrown out of the window because the current No. 10 view of an industrial strategy is somehow very different and involves, as you say, buying satellite firms and creating the British version of Google or whatever. It would be helpful to have that question answered, if possible in the negative, by saying, "Yes, the strategy that Governments of different parties have evolved over the last 10 years is broadly the one that we are committed to and we will try to make that work".

Q167 **Lord Fox:** On the strategy side, the strategy that you described, the continuum, has largely been around sectors. You have had things such as the Aerospace Growth Partnership; you have things on automotive and biochemical. Do you think that, going forward, that sectoral approach is

the right approach? At the same time, we are talking about skills, infrastructure and enabling technologies. Is it one or the other? Do you run in parallel? Are the Government in danger of trying to pick winners? What does the future hold, given that there is limited bandwidth to do all this?

Professor Diane Coyle: I am not much in favour of sectors, on the whole. Technologies are a different matter. Where you know you have an advantage in certain technologies at the frontier, by all means support those, be it advanced materials or AI. The trouble with sectors is that you then tend to think in terms of the incumbents, which means you do not get the competition that we need for a thriving market economy.

I would prefer, as you suggest in your question, the enabling policy measures, whether that is skills, technical standards or infrastructure. There is a whole range of things that you can do that need not involve a lot of government money on the table and definitely do not involve picking winners.

Baroness Shafik: I am quite fond of the expression that industrial policy is often not the Government picking winners but losers picking the Government. There is a real risk that, if you pick sectors, you fall into that trap. As Diane said, it is important to look at the systemic issues, the broad-base skills and the broad infrastructure that supports the economy and to pay attention to competition, because that is what will drive your productivity gains.

Viscount Chandos: One of the best venture capitalists in Silicon Valley, who is an LSE alumnus, said to me the other day that you talk about strategy if you cannot talk about performance. I am no fan of incessant strategy reviews, but, perhaps, as Professor Portes has said, No. 10 or this Government should either affirm that they are committed to the broad principles of the last industrial strategy or say that they will come up with another one. If it is a more energetic and dynamic implementation of that last strategy or White Paper, that would be a good thing.

Q168 **Lord Skidelsky:** My question is about the distribution of government funding over the education sector, particularly between further and higher education. The criticism over the years has been that vocational and technical education has been the poor relation of the educational system and the universities have been favoured. This has resulted in, for example, a deficit of engineers and lower esteem for technical and vocational education. My question is twofold: is that true, or is that now an outdated criticism? If it is true, or if there is any truth in it, what should be done about it?

Baroness Shafik: It is true. If you look at the numbers, the amount spent on further education has declined steadily over the last decade and resources going into higher education have gone up. It is not an either/or, but it is true that more resources should be going into further education. There is a very depressing report by the Institute for Government on how much government has tinkered with further

education over the last 10 years. They keep reorganising it. Countries that are successful at further education—one thinks particularly of the German-speaking countries: Austria, Germany and Switzerland—have outstanding further education sectors with long-term stable funding and parity of esteem.

The other thing that the German-speaking countries do not do well but we do even worse is permeability between higher education and further education. It is very unusual for someone to be able to go from further education into higher and vice versa.

That pathway is growing and some universities are trying to do that. We run the programme for senior civil servants in the UK at the London School of Economics and we train them to do a master's degree in public policy. We recently had a student who was a civil servant who had never been to university and went straight into doing a master's. It is incredibly unusual in our system, but we need to be able to see that happen much more, with much more permeability and portability of qualifications between further and higher education.

Professor Jonathan Portes: The only thing I disagree with Minouche on is that this is not only in the last 10 years. I suspect that the first official report in this country contrasting us unfavourably with the Germans in setting out a new skills strategy is at least a century old. I certainly was involved in a number of skills strategies in my time in government, which is now a decade behind me. Again, as with the industrial strategy, we come up with far too many strategies and we are far too bad, as Minouche said, at just getting structures in place, funding them properly and letting them bed down and develop organically. In addition to the reprioritisation, we need Ministers not to want to attach themselves to a shiny new initiative. They should concentrate on getting what is in place working and funded right and allowing it to develop properly.

The Chair: The Committee has done a very good report called *Treating Students Fairly*. There was a diagram of the various initiatives that have been taken over the last 20 years; it was very depressing.

Lord Skidelsky: Is the disparity of esteem that witnesses just mentioned a cultural issue? Is it just that certain professions are less highly valued in this country than in Germany or Italy? Therefore, is it just a perennial problem about which little can be done, or can something be done? You said more funding, but there is also the question of rewards. I do not know whether you have any ideas about that. If we should be transiting to a more knowledge-based or technology-based future, will this gap not condemn us to the slow lane over time?

Professor Diane Coyle: I do not know if it is a cultural factor, but it may be eroding. If you think about digital, it is not at all obvious that having a degree helps you with the kinds of computer science and engineering skills that you need to develop the good digital skills that we will need for the future. We know that there are mismatches in the labour

market. There are great job shortages for lab technicians and that kind of medium skill level, so perhaps it will shift if it is cultural.

Q169 **Lord Monks:** I am a strong supporter of the northern powerhouse project. I am interested in what you see as the most significant regional imbalances in the UK at the moment and the most significant issues that policymakers should be concerned with. I will direct the question to Diane Coyle, who, until recently, had a strong Manchester connection.

Professor Diane Coyle: I am still a proud Mancunian and always will be. I too am a supporter of the northern powerhouse, but also the south-west powerhouse, the midlands powerhouse and getting some of our major cities acting like economic dynamos as they do in other countries. We are unusual, as I am sure you know, in having one very big, high-productivity city in London and the others being so far behind. Bristol is the only other UK city with above-average productivity. I am a fan of doing anything that will allow that engine to get into gear and get rolling again.

It was always going to be a challenge, and it is an even bigger challenge now because of the headwinds created by the pandemic. Baroness Kingsmill, in the previous session, pointed out the extremes of inequality that are being amplified by the current situation, and that is about the post-industrial areas and how they recover.

It is a combination of two things. One is that the investment, the improvements in public services and the infrastructure have to be tilted towards parts of the country that have lower productivity and lower income. We have to redress the balance that way. The second is about devolution, not so much in financial terms, although we might get to that, but in things like skills policy. There is a granularity of information that you get when you are there on the ground—it could be skills, it could be public health—that you just cannot have in the centre. We have to work for further devolution of powers to our great cities and get them thriving again.

The Chair: That concludes this session. Could I thank Baroness Shafik, Professor Portes and Professor Coyle? It has been a very helpful session. Thank you to the Committee for their questions.