

Treasury Committee

Oral evidence: Appointment of Tom Josephs to the Budget Responsibility Committee, HC 1799

Tuesday 5 September 2023

Ordered by the House of Commons to be published on 5 September 2023.

[Watch the meeting](#)

Members present: Harriett Baldwin (Chair); Rushanara Ali; Dame Angela Eagle; Andrea Leadsom; Siobhain McDonagh.

Questions 1 - 62

Witnesses

I: Tom Josephs, appointee to the Budget Responsibility Committee.

Examination of witness

Witness: Tom Josephs.

Q1 **Chair:** Welcome to the Treasury Committee. We are taking evidence on the appointment of Tom Josephs to the Budget Responsibility Committee. Tom, could you start by introducing yourself, please?

Tom Josephs: I am Tom Josephs. I am currently director of private pensions policy at the Department for Work and Pensions. I have been nominated to join the Budget Responsibility Committee as the fiscal expert.

Q2 **Chair:** I wanted to start by congratulating you on being nominated by the Chancellor to this position. I note that your CV shows that you have extensive experience working not only at the Treasury but actually in the initial team that formed the Office for Budget Responsibility. You have also worked at the IMF. We are going to be covering a range of those different aspects of your career, if that is okay, during this morning's session. I guess the question that leaps out in terms of your background is this: since you were there with the Office for Budget Responsibility at the start, since you have moved back and forth to the Treasury at various times during your career, do you really see yourself as bringing that required independence to the role?

Tom Josephs: There are a couple of aspects on that question. The experience that working at the Treasury gives you, in terms of that really in-depth understanding of the UK public finances, is really important



HOUSE OF COMMONS

experience for working at the OBR. It gives you that understanding of not only the technical details involved, but also where the sensitive issues are that you need to look out for, and gives you that ability to go and challenge and scrutinise the work of the Treasury from the OBR.

- Q3 **Chair:** I am glad you used the word “challenge”, because I think that this Committee sees the role of the Office for Budget Responsibility as being one where you are able to challenge the assumptions that Chancellors and Treasuries are making in the decisions that they take. It is that ability to challenge that requires you to be seen as completely independent. One thing we are evaluating today is how independent you can be in that role, given that you have worked so extensively in the Treasury. One reason that the Governor of the Bank of England is given a single, non-renewable eight-year term is to ensure independence. Is it your plan, in terms of your life aspirations, to go back and work at the Treasury at any point in the future?

Tom Josephs: No, it is not. I set out in the questionnaire that you sent me that I would not go back to work in a central Government Department after completing my term on the BRC, if I am appointed. That is important in terms of avoiding any risk around perceptions of independence.

I wanted to go on, on your initial question, to say a bit more about my commitment to the independence of the OBR. As you say, the role of the OBR in challenging the Treasury is to—

- Q4 **Chair:** To clarify on that point that you made about your own career aspirations, the recommendation from the Chancellor is that you be appointed to a single five-year term, which is renewable. At this point in your career, it is your intention to seek a further reappointment after five years in this organisation. Is that correct?

Tom Josephs: That would depend on my performance in the role.

- Q5 **Chair:** Of course, but that is your intention.

Tom Josephs: I do not have a firm plan at this point beyond the five-year period. That feels like quite a way off at the current time.

- Q6 **Chair:** You can rule out going back to the Treasury.

Tom Josephs: I would rule out going back to the Treasury after this role. To pick up on your initial question, absolutely, I am completely committed to the independence of the OBR. As you say, I was part of the team that set up the OBR in 2010. At that time, there was a lot of scrutiny and questioning of whether the OBR could ever be truly independent from the Treasury. I am really proud of the role that I played, along with the rest of the staff and the BRC at the time, in establishing what I think is a really strong reputation that the OBR has for independence.



HOUSE OF COMMONS

Personally, as the chief of staff in the OBR at that time, I did a number of things to support building up that independence of the OBR. I was responsible at the staff level for negotiating the terms of engagement with the Treasury. The OBR and the Treasury have to work very closely together at fiscal events, and it was really important to put in place a framework that allowed that to happen but protected the OBR's independence.

I also did a lot to develop the culture within the staff team of independence from the OBR. It was the case that the initial staff team that went over to the OBR was largely a transfer of Treasury staff. Developing that culture of independence within the staff was really important and something that I led.

Also, I worked with the BRC and the staff team to develop the OBR's approach to its publications and communications. Transparency is at the heart of that and that is a really important way in which the OBR shows its independence. The last thing I would want to do is go back to the OBR and undermine that independence. It is absolutely vital.

Q7 Chair: Do you plan any changes in that terms of engagement to further improve the independence of the Office for Budget Responsibility?

Tom Josephs: That terms of engagement generally has worked successfully and enabled that close working, but I believe has enabled the OBR also to develop that strong reputation for independence. One thing that is obviously really important to that is that the OBR is producing forecasts that incorporate all of the Treasury's policy decisions ahead of fiscal events and is given sufficient time to be able to do that kind of analysis. That process and terms of engagement are things that need to be kept under review, to ensure that they are still working and appropriate for different ways in which different Governments and different Treasuries, under different Chancellors, work. It is something that has to be kept developing.

Q8 Chair: When you made your recent move to the Department for Work and Pensions—we will be talking more about that role in a moment—why did you decide to leave the Treasury at that point?

Tom Josephs: That was just a choice based on some personal circumstances and the opportunity that arose in DWP to work on a different policy area.

Q9 Chair: Do you want to say any more about the personal circumstances or not?

Tom Josephs: I live in Sheffield and the DWP has a large office in Sheffield. Part of the reason for moving at that time was to be closer to the office. More broadly, it was just a career choice around a new opportunity to work in a different area of policy.

Q10 Chair: Will you continue to work from Sheffield in this new role?



HOUSE OF COMMONS

Tom Josephs: No, I have taken the decision on the basis of the opportunity of this role that I will work from the OBR's office in London.

Q11 **Chair:** Will that be five days a week?

Tom Josephs: I will do probably around 50% of the time in the office in London and the rest of the time from home, which is consistent, I believe, with the way the rest of the OBR works. Also, the OBR obviously has peak times ahead of fiscal events. I would plan to be in the office much more during those times as well.

Q12 **Chair:** Would you recognise the views of those who say that the Office for Budget Responsibility has effectively been captured by Treasury orthodoxy?

Tom Josephs: No, I do not think that that is right. There are a couple of different ways you could look at that suggestion. One aspect of this is around the view that the OBR takes on the outlook for growth in the economy. On that actually, the OBR has just produced quite a detailed assessment of its forecast performance since 2010. That shows that the OBR has actually been too optimistic on growth over that period. That is one of the big drivers of why it has also been too optimistic, on average, on its borrowing forecasts.

Q13 **Chair:** The ONS has just revised up the numbers, though, quite substantially from that period, 2020-21.

Tom Josephs: Yes. This assessment the OBR has done is from the start of its existence in 2010. It is not the case, which maybe relates to your question, that the OBR has been too gloomy on growth. In fact, the forecast analysis shows that it has been too optimistic. A large driver of that is that it overestimated the recovery in productivity growth after the financial crisis, in particular through the 2010s. I do not think that the recent revisions that you are pointing to would change that story substantially, but I have not looked at that in detail.

Q14 **Chair:** I think that it is 1.8% cumulatively that they have added to GDP.

Tom Josephs: That is over the Covid period, which was obviously a particularly difficult one to forecast. Clearly, no forecasters saw the initial shock coming, but then it was also difficult to forecast the strength of recovery coming out of Covid, given how unique a period it was.

Q15 **Chair:** How would you respond to criticisms of your background, where they say that you are effectively the embodiment of Treasury orthodoxy and therefore not going to be able to add that degree of challenge to the Treasury in terms of the Office for Budget Responsibility's work?

Tom Josephs: First, as I said in my answer to your initial question, having worked in the Treasury, understanding the technical detail and where the sensitive issues are puts you in that stronger position to be able to then challenge the Treasury. Secondly, I have worked outside the



HOUSE OF COMMONS

Treasury. I think that half of my career has been in the Treasury and half has been outside the Treasury.

I have worked at the IMF, where you get a much broader experience of fiscal issues, looking at it from a global perspective and from the perspective of lots of different countries. I have worked in other Departments in Whitehall, in DWP now and the Department for International Trade previously. All that has given me a broader range of experiences and perspectives that enables me to challenge the Treasury. I absolutely see that as a critical part of the role and one I will be fully committed to doing.

Also, anyone who has been involved in economic policy and economic forecasting over the last 15 years needs to approach these matters with a lot of humility, given all the shocks and surprises that we have experienced. That is certainly a big lesson that I have taken. You really need to be looking at issues from a wide range of perspectives, taking on board a wide range of evidence and analysis in reaching your conclusions, and absolutely not be set with a particular way of thinking.

Q16 Chair: Given that you highlight the challenges of economic forecasting, one thing this Committee feels very strongly about is that the IMF, where you worked from 2013 to 2016, I think, ought to be prepared to come and give evidence to this Committee on the record, which it has refused to do up until now. Do you agree with us on that?

Tom Josephs: I do not know what reasons the IMF is giving for not doing that.

Q17 Chair: Can you think of a good one for why it should not give us any evidence on the record?

Tom Josephs: I cannot think of one.

Chair: Okay, good, we will count that as support for our position.

Q18 Dame Angela Eagle: In your note in the questionnaire, you say that the likelihood of regular shocks hitting the public finances should be an important consideration when setting fiscal policy. What does that mean for fiscal forecasting? We are in a much more tumultuous kind of situation than the great moderation, as it was called, at the beginning of this century. Does that not make things a lot more difficult?

Tom Josephs: Yes, I definitely agree that forecasting has become more difficult over the past decade or so due to the impact of these very large shocks that we have experienced. That points to the OBR and all forecasters doing as much as they can to explain the risks and uncertainties around their forecast.

The OBR's assessments and analysis that it provides of risk and uncertainty around its forecasts are as important, in a way, as the central forecast. The OBR could probably do even more in that respect, both in



HOUSE OF COMMONS

terms of the prominence given to that risk and uncertainty analysis versus the central forecast and in developing further the deep-dive assessments of risk and uncertainty that it does in its fiscal sustainability reports.

It is always going to be difficult for forecasters to foresee those kinds of shocks. As I say, forecasters can do more to set out the range of risks and explain the impact on public finances if those kinds of risks materialise.

Q19 Dame Angela Eagle: There are also some other risks, though, are there not, in not doing things? As the schools capital building programme crisis that we are experiencing at the moment demonstrates, there are costs to not investing in capital in the public sector, which can turn out to be worse than the cost of investing. In your forecast, are you going to try to represent that side of the argument as well?

Tom Josephs: That is really important. There are a couple of things on that issue that the OBR can do and, I am sure, will be doing. At the autumn statement, the OBR will need to be doing a very transparent assessment of the costs and the additional funding that is put into—

Q20 Dame Angela Eagle: For example, do you get to see the bids that are put into the Treasury for capital spending? If the OBR had seen some bids a few years ago, it would have realised that there was a punt being taken on the replacement of RAAC in public buildings that might cause costs further down. Do you think that the OBR should ask to see that kind of thing? I know that it cannot do policy, but we are looking at risks here.

Tom Josephs: Yes, the OBR cannot do policy. The OBR looks at capital allocations as part of its forecast, but it would not have the resource and expertise to look at those very specific issues within a capital programme. It can obviously draw on external expertise from bodies that can look in more detail at those kinds of issues.

Q21 Dame Angela Eagle: Do you think that that might be something that the OBR ought to think of doing to test some of the assumptions?

Tom Josephs: An important part of what the OBR does, has been doing and should do more of in the future is to look at risks within the spending allocations. The report the OBR did that I mentioned in my first answer around forecast performance since 2010 identified that another source of forecast error, and the reason that its forecasts were too optimistic on borrowing overall, was that it bases its forecast on Government spending plans. What has materialised over time is that actually spending comes in above forecast. This is one reason why that happens.

The OBR has been doing a lot more recently on looking at those kinds of risks within spending allocations. It needs to do more of that in the future, because we know that spending pressures, if you look over the longer term, are certainly going to increase.



One other way that the OBR has looked at this and can look at this is from the focus that it has put, as well as other bodies such as the IMF and the Treasury, on looking at fiscal sustainability from the point of view of the wider Government balance sheet, so more of a focus on public sector assets, which include schools, as well as the traditional focus on the liability side. Part of that work on public sector assets has been very much about how you can avoid these sorts of risks materialising through maintenance and those kinds of things.

Q22 Dame Angela Eagle: You say in your questionnaire response that overoptimism on productivity growth is one reason why forecasts have been off. What can be done to correct that? Has there not also been overoptimism on tax revenues? The Treasury has, for a long time, not really been that good at accurately predicting exactly what tax revenues would be. That can have a big effect as well when it has got them wrong.

Tom Josephs: On productivity, the main period over which the OBR was too optimistic was after the financial crisis. It then subsequently revised down its productivity growth assumptions in response to that. In the latter part of the 2010s, those forecasts were looking more accurate, but then we were obviously hit by Covid and then the energy price shock, which has created more instability and uncertainty around those numbers. It clearly needs to be a really important focus for the forecast going forwards. The OBR needs to be assessing both the upside and downside risks to productivity in a lot of detail.

On tax receipts, it is the case in particular that it is always difficult to measure or forecast the strength of tax receipts coming out of a downturn. That was certainly an issue after the financial crisis. Most recent data on public finances also shows that receipts seem to be a bit stronger at the current time than in the last OBR forecast. Again, that might reflect complications of forecasting tax receipts coming out of a downturn. That is definitely an area that I would want to look at in more detail at the OBR.

Q23 Dame Angela Eagle: You have extensive international experience, particularly with the IMF, the World Bank and the OECD. What do you think this experience enables you to contribute to the OBR? We can sometimes get a little bit obsessed with our own issues and not look more widely at what is a very interconnected world.

Tom Josephs: I definitely agree with that. It is always very interesting that a lot of the issues we face in the UK are quite often faced by many other similar high-income countries around the world. I definitely think that there is a lot more we could do to learn from those experiences and how other countries have dealt with the issues. In particular, when I was at the IMF I worked on developing the IMF's approach and the advice it gives to countries on fiscal risk and fiscal transparency.

Q24 Dame Angela Eagle: Russia, Albania and Tanzania.



Tom Josephs: Before that, we had developed a framework to assess fiscal risk and transparency in all countries round the world. That has been used very extensively around the world. Yes, then I particularly used that framework to assess those countries that you mentioned.

Q25 **Rushanara Ali:** Good morning. I wanted to focus my questions on lessons from the mini-Budget fiasco and liability-driven investment. You became the director of private pensions at the DWP in August 2022. In September 2022, the LDI crisis occurred. Can you describe your role in the Government's response to that crisis? Also, can you tell us whether it was right that the OBR forecast was not published alongside the mini-Budget announcement?

Tom Josephs: The events that followed the mini-Budget clearly show the risks of producing a Budget without the full economic forecast and the full assessment of the cost of policy, and of not having that done by the OBR, yes. In terms of my work on LDI, as you say, I am director for private pensions and so have oversight of regulation of the defined benefit pension sector. It is defined benefit pension schemes that are the main users of the LDI.

Q26 **Rushanara Ali:** It was a baptism of fire then.

Tom Josephs: Yes. In that period, we were doing a lot of work with the Pensions Regulator, to essentially monitor and understand the risks, as part of the Treasury's financial stability group with the Bank of England that is working on the response. Actually, a big focus for me has also been the follow-up to that.

Q27 **Rushanara Ali:** Sorry, I am just going to take you back. I appreciate that you had only just come into the post. What exactly did you and your colleagues do in terms of forewarning, having looked at risks? Did you see some of the challenges and risks down the line? Who did you communicate that to in the Treasury and did that include Ministers?

Tom Josephs: The risks around LDI had been assessed by the Pensions Regulator, working with the Bank of England, in 2018. They produced analysis on that, which led to guidance that LDI funds should have a collateral buffer that would allow them to essentially withstand a 100 basis point interest rate shock. That was seen as sufficient to protect against that kind of episode. Obviously, what happened was a shock that was much larger. That was not foreseen and those buffers were not sufficient to prevent the episode that we saw happen.

Q28 **Rushanara Ali:** Were you involved in any discussions to raise any concerns about the Chancellor deciding not to publish the OBR forecast while you were doing this work?

Tom Josephs: I was at DWP at that time.

Q29 **Rushanara Ali:** You said that you were in communication with the Treasury.



HOUSE OF COMMONS

Tom Josephs: I was not working with the Treasury at that point on the mini-Budget at all.

Q30 **Rushanara Ali:** There was no interaction between the work in the DWP, and any information about what you knew and what you were doing, and Treasury.

Tom Josephs: As I say, there had been that prior work between the Pensions Regulator and the Bank of England on LDI and assessing the risk.

Q31 **Rushanara Ali:** Sure, but you were not directly involved with that.

Tom Josephs: In the run-up to the mini-Budget, I was not involved in any discussions with the Treasury.

Q32 **Rushanara Ali:** Imagine you were already appointed and you were already at the OBR pre-2022, and the Chancellor was making it very clear that the forecast was not going to be published. It turns out that it was made available to him in advance, albeit not that far in advance, but I think about a week or so in advance. What would you do in that situation in terms of making the case? If you were not being listened to, as was the case with those who were there at the time, what would you do to make sure that, given the potential damage, the Chancellor of the day and officials heed your advice?

Tom Josephs: As I understand it, the OBR provided that assessment to the Treasury in order that the Treasury had the analysis and initial forecast. That is absolutely the right thing for the OBR to have done. Ultimately, the choice as to when the OBR's forecasts are published is, by legislation, a matter for the Chancellor.

Q33 **Rushanara Ali:** I will come on to some further questions about lessons. In order to learn lessons from what happened, which is that clearly it was not enough that the OBR made it available and made it clear it was important to publish its forecast alongside the mini-Budget announcement, do you think that there is a case for reform and a requirement that it is published, given the scale of damage from a rogue Chancellor and a Prime Minister coming along, deciding that evidence does not matter and putting the economy at serious risk? We were very close to financial instability in this country. In your view, what should be done in the light of what has happened?

Tom Josephs: I absolutely agree that this has shown the importance of the OBR forecast being published alongside fiscal events. I would certainly support anything that could strengthen the requirement that that happens.

Q34 **Rushanara Ali:** Quite often, members of the OBR can come along and say, "The political classes have to make that decision" and it is not for you to decide what the requirements should be, but should there be changes, at a legislative level if necessary, to make it a requirement to



HOUSE OF COMMONS

publish? Of course, there are notable exceptions. During the pandemic, we appreciated that, in a crisis, there may be a case for limits on what can be done because of the length of time. That was made clear and well understood.

Tom Josephs: As I say, there is definitely a case for looking at whether this could be strengthened. As you say, these things are not always straightforward to do because there may well be events such as Covid.

Q35 **Rushanara Ali:** Yes, but you could make exceptions. It could be made very clear under what circumstances exceptions can be made and it cannot be based on an ideological objection to independent forecast, which is what happened, and any inconvenient truths to Chancellors of the day, whichever party.

Tom Josephs: As I say, I agree that the lesson from this event is that there is scope to strengthen this. I also agree that it is not completely straightforward to do that, because trying to define what those exceptions are can be difficult in practice and difficult to define very accurately in legislation.

Q36 **Rushanara Ali:** Sure, but is that not a less worse situation than leaving things and saying it is complicated, so therefore it is too complicated? Then maybe we do not do anything about it and have another situation where another Chancellor comes along and thinks that you can crash the economy because you do not fancy the inconvenient truth of forecasts that are telling you that actually you are going to put the country in recession, pose a massive risk to it and, in fact, cause financial instability? Which is worse, it being complicated and doing something about it, or doing nothing?

Tom Josephs: I agree with what you are saying. There is definitely a case for strengthening.

Q37 **Rushanara Ali:** One of the lessons learned from the crisis was about the paucity of data in this area. What did you do to try to rectify that and what else should happen? I am talking about LDI and data.

Tom Josephs: This is definitely an area where I very much agree that the Pensions Regulator in particular needs to be able to collect more data on the financial position of pension schemes that are using LDIs, and of the LDIs themselves, and needs to have that in real time. This is an issue that we have discussed with your colleagues at the Work and Pensions Committee. They have made recommendations on that that both DWP and the Pensions Regulator are very much looking to address. The Government are still to fully respond to that set of recommendations.

Q38 **Rushanara Ali:** It is a year on.

Tom Josephs: Since the episode happened, the regulator has been working on this and working with the Bank of England to develop it. It is definitely a priority.



Alongside that, there are other reforms that have already been taking place to try to ensure that this does not happen again. One thing is that these collateral buffers that I mentioned have been increased to 350 basis points to provide a much bigger buffer against these sorts of risks. The other thing that the Government are considering is the Pensions Regulator's role on financial stability and whether that should be expanded. Again, that is a recommendation of your colleagues on the Work and Pensions Committee.

Q39 Rushanara Ali: As a wider question, do you have a view on Solvency II and the proposed reforms?

Chair: That is definitely outside the scope of this particular session, but a really important question that we will be discussing in the Committee next week.

Q40 Andrea Leadsom: You have said that you think that there will be fiscal pressures increasing into the future. Do you think that it is better to have tax rises, spending cuts or increased borrowing?

Tom Josephs: From the perspective of the OBR, those are decisions for the Government.

Q41 Andrea Leadsom: I am asking your personal opinion.

Tom Josephs: As someone who is looking to be appointed to the OBR, it is right that I am also not making judgments on those sorts of issues. I would say a few things on the issues involved. If you look at the OBR's long-term projections—it produced an update of that in the summer—it is clear that there are really significant risks and pressures to the public finances, which come from a variety of sources. A big one is demographic pressures. There are also pressures from the transition to net zero. There are also pressures from the fact that, potentially, the debt dynamics in terms of the relationship between growth and the interest rate are much less favourable than they were in the past in terms of the impact on fiscal sustainability.

That points to there being significant pressures on spending through the demographic pressures on pensions and healthcare in particular and, in net zero, in terms of the pressures on the likely need for more public investment to make that transition. There are also pressures that are generated on the tax side. The transition to net zero will see a decline of the tax revenue that the Government currently receive through fuel duty and other sources of revenue. There will be a difficult set of trade-offs for policymakers, which will need to encompass tax and spending.

In terms of borrowing, the risks are clear. If there are no policy changes on the tax and spending side, the dynamics mean that, essentially, debt would be on an unsustainable path in the long term. I do not think that a reliance on borrowing is a viable option.

Q42 Andrea Leadsom: Is a reliance on tax rises a viable option?



Tom Josephs: Again, that is a choice for policymakers.

- Q43 **Andrea Leadsom:** I am not asking you to make the choice. I am asking you for your professional opinion. While you have the luxury of earning almost as much as the Prime Minister but not being accountable for any decisions, I would like to know your professional opinion. You have just said that growing debt is not a viable option for the long term. The other alternatives are raising taxes or cutting spending. I would like your professional opinion on the merits of both of those two. You have given your opinion on debt growth being unsustainable. How about tax rises? Are they sustainable?

Tom Josephs: On borrowing, I was pointing out that the OBR's long-term projections show that, if there was no change in policy, borrowing and debt would be on an unsustainable path over the long term. There is sufficient time for decisions to be made to put public finances on a different path. That was the point I was making on borrowing.

On tax, I would say a couple of things. Looking at the medium-term forecast, there is quite a significant increase in the tax-GDP ratio. That is, essentially, supporting the ability of the Chancellor to meet his target of having debt falling in the medium term.

- Q44 **Andrea Leadsom:** In your professional opinion, is raising tax rates a zero-sum game? Does it generate net revenues? Is it advisable to keep lifting taxes in order to meet the policy priorities of the Government of the day?

Tom Josephs: There are a couple of things on that. One is that, although you have this increase in the UK tax-GDP ratio, when you look at the UK compared to other comparable countries, its tax-GDP ratio is round about in the middle of the pack. That would suggest that there is potentially scope for further tax increases if that is what policymakers decided to do.

- Q45 **Andrea Leadsom:** Why would that suggest that there is room for further tax increases? Are other economies doing so well that we want to emulate them? What are the much more relevant comparisons with low-tax economies and how well they are doing versus just being in the pack and therefore doing what everyone else does? Is that not a problem of groupthink?

Tom Josephs: The point I was going to make is that, if you look at the analysis of tax-GDP ratios versus economic growth and income, that shows that there are countries with higher growth and higher income than the UK with higher tax-GDP ratios. There are also countries with higher tax-GDP ratios with lower growth, so that suggests that there is scope to increase revenues.

- Q46 **Andrea Leadsom:** Why does it suggest that?



HOUSE OF COMMONS

Tom Josephs: The evidence suggests that there is not a strong link between the level of tax at the macro level and the overall level of growth in an economy, and that you could have higher growth with higher tax. It also shows that you could have higher growth with lower tax rates.

Q47 **Andrea Leadsom:** In your professional opinion, it is just a free option. The rate of taxes is not a material input to how the economy performs.

Tom Josephs: No, I am not saying that.

Q48 **Andrea Leadsom:** That is what you have just said.

Tom Josephs: I am saying that, when you are looking at the overall tax-GDP ratio, the international evidence suggests that there is not a strong link between overall economic performance and tax-GDP ratio.

Q49 **Andrea Leadsom:** That means that the tax rate does not impact on the performance of the economy.

Tom Josephs: Clearly, there are limits to that. If you were to push the tax-GDP ratio to very high levels, clearly it would have an effect.

Q50 **Andrea Leadsom:** Such as?

Tom Josephs: In the sense that it would start to constrain activity.

Q51 **Andrea Leadsom:** At what level is that?

Tom Josephs: I am not sure that I have a clear answer to that. Looking at the international evidence, the broad range within which most countries have set their tax-GDP ratio seems to be one in which you can have, as I say, a range of different outcomes in terms of economic performance.

Q52 **Andrea Leadsom:** That sounds like grindingly sitting on the fence on where tax rates should be and how the tax rates feed into the economy. Is there anything else you would like to say on that? You are, effectively, not giving me an answer as to what your professional opinion is on how tax rates feed into economic performance.

Tom Josephs: I am saying that, at the level of the overall tax-GDP ratio, there is not a clear link.

Q53 **Andrea Leadsom:** Okay, so tax rates do not matter to economic performance.

Tom Josephs: Clearly, tax rates and the structure of the tax system within the overall tax-GDP ratio will have significant implications for economic performance, so your choice of tax structure is important. For example, the OBR judged that the capital allowance measure that the Chancellor introduced at the last Budget would have an impact on investment in the economy.

I am absolutely not saying that there is no impact from your choice of taxes on to the economy. I agree that the OBR needs to look very closely



HOUSE OF COMMONS

at that whenever it makes its forecasts. I would see it as an important priority for me, in the role, to be making those kinds of assessments. I am saying that those assessments are made at the level of individual taxes in looking at the impact of individual tax changes on the structure of the economy and on economic activity.

Q54 Andrea Leadsom: The third item is, of course, spending reductions. What impact do spending reductions have, in your professional opinion, on the performance of the economy?

Tom Josephs: Basically, it is a similar overall story, in that the relationship between overall spending, growth and economic performance at that macro level is similar to tax, in the sense that there is not a clear link in the international evidence between level of spending and level of economic performance. Again, there are some higher-spending countries than the UK with higher growth and some lower-spending countries than the UK with higher growth than the UK. What is probably more important is the composition of that growth and the degree to which choices on different areas of spending are supporting growth.

Q55 Andrea Leadsom: Overall, in an area where there are spending constraints, as you asserted to Rushanara, would you be advocating higher taxes, lower spending, or more borrowing?

Tom Josephs: Again, as someone who is seeking your approval to join the OBR, it is an important part of the OBR's constitution that it does not advise Government on those sorts of choices.

Q56 Andrea Leadsom: I am asking your personal opinion.

Tom Josephs: I am here in the capacity of my nomination to the OBR.

Q57 Andrea Leadsom: Can I ask if this is a big pay rise for you, coming to this job from your previous job? You will be earning slightly less than the Prime Minister, I think, in this new role.

Tom Josephs: It is an increase in my salary, yes.

Q58 Andrea Leadsom: Is it a big pay rise—10%, 20%, 30%?

Tom Josephs: I have not actually agreed the final terms of my contract with the Treasury yet. That happens after this process is complete, if you agree to my nomination.

Q59 Andrea Leadsom: Is it less than 50%?

Tom Josephs: I am not sure what the percentage is.

Q60 Andrea Leadsom: You are not going to answer. You are a public servant and it is all transparent. It will all be on the record. I am just asking you to confirm that it will be a significant pay rise.

Tom Josephs: It will be a significant pay rise. It will be completely transparent. Members of the BRC's contracts are published and the salaries are all set out in the annual report as well.



Q61 Andrea Leadsom: Will it be enough to attract a woman one day to this role, since there has never been one?

Tom Josephs: I absolutely agree that diversity within the OBR is really important. If I was appointed, I would absolutely be very committed to continuing the OBR's drive to improve its diversity. It has made progress on that but there is definitely more to do. Its non-executive directors are now all female.

Andrea Leadsom: There has never been a woman in the role that you are seeking to be appointed for.

Q62 Siobhain McDonagh: I was going to ask that question. For good or ill, you are going to get some other questions. You have told us that you think it can be beneficial for the OBR to contribute to the work of international economic and fiscal organisations such as the IMF, World Bank and OECD. What in particular do you think the OBR has to contribute? What do you think the OBR should learn from how other countries do similar work?

Tom Josephs: One aspect of that is that those bodies do a lot of work on independent fiscal bodies, such as the OBR, and therefore provide a really beneficial opportunity for the OBR to learn from the experiences of bodies doing similar work in other countries, through sharing developments of analytical approaches and perspectives, and developments in the way that these bodies publish and communicate their work, including transparency and risk analysis. There is a whole set of areas of sharing good practice, best practice and learning from experience that being involved in that sort of work can help with. The OBR also itself can contribute to that development.

Q63 Siobhain McDonagh: You worked at the IMF from 2013 to 2016. What lessons for the UK did you learn while there?

Tom Josephs: A number of things were developed at the IMF over that time that have been further developed in the UK subsequently. Maybe one to mention is the approach to looking at fiscal sustainability that looks at the wider Government balance sheet. I mentioned this earlier. Traditionally, fiscal policy analysis has focused very much on debt sustainability, so just looking at liabilities.

This approach, which was developed when I was at the IMF, widens that focus, so looking at assets on the public sector balance sheet—I mentioned that in relation to the question on schools—and whether having better information and better management of public sector assets can support fiscal sustainability. It also is about looking at a wider set of liabilities on the Government balance sheet other than just debt. In the UK, for example, public sector pensions are a big liability. It uses that wider set of information to, essentially, have a broader view of fiscal sustainability and improve fiscal management. That has been picked up in the UK, at both the OBR and the Treasury, which undertook a review of the balance sheet.



HOUSE OF COMMONS

Chair: I believe that we have covered all the topics that we were hoping to cover with you this morning. We would like to adjourn the public session and we will then meet in private to decide on our report. That concludes the Treasury Committee's evidence session. Thank you.