House of Commons

Treasury Committee

Oral evidence: Autumn Statement 2023, HC 286

Tuesday 28 November 2023

Ordered by the House of Commons to be published on 28 November 2023.

Watch the meeting

Members present: Harriett Baldwin (Chair); Mr John Baron; Drew Hendry; Keir Mather; Anne Marie Morris.

Questions 96-174

Witnesses

I: Torsten Bell, Chief Executive, Resolution Foundation, Dr Zubaida Haque, Deputy Director and Head of Research and Policy, Women's Budget Group, Paul Johnson, Director, Institute for Fiscal Studies, and Dr Jumana Saleheen, Chief Economist and Head of Investment Strategy Group, Vanguard Europe.

Examination of witnesses

Witnesses: Torsten Bell, Dr Zubaida Haque, Paul Johnson and Dr Jumana Saleheen.

Chair: Welcome to this afternoon's session, where the Treasury Committee is taking evidence on the Chancellor's autumn statement. We heard this morning from the Office for Budget Responsibility, and this afternoon it is your turn. Could I ask you to introduce yourselves?

Paul Johnson: I am Paul Johnson, director of the Institute for Fiscal Studies.

Dr Saleheen: I am Jumana Saleheen, chief economist at Vanguard Europe.

Torsten Bell: I am Torsten Bell, the chief exec of the Resolution Foundation.

Dr Haque: I am Zubaida Haque, the deputy director of the Women's Budget Group.

Q96 **Chair:** Thank you very much. We are keen to hear your views as outside economists on the measures that were announced in the autumn statement, in particular through the lens of the Government's own stated economic objectives. I want to start with the one around debt falling and reducing the size of the national debt. Paul, from the Institute for Fiscal Studies' point of view, did the autumn statement achieve that objective?

Paul Johnson: No. Debt is actually rising a little bit at the moment and then stabilising at 93% of national income, and that is despite the fact that tax revenues are rising to their highest levels ever. Of course it is partly because of much higher levels of debt interest spending and increased spending, particularly on health, going forward.

Clearly, the autumn statement, by reducing taxes, was not prioritising getting debt down, but it does meet—just—the Government's target of debt falling in the last year of the forecast period, but by a tiny amount and of course with huge uncertainty, given all the uncertainties about not just the economy but the numbers that are pencilled in.

To get that debt falling requires petrol and diesel duties to rise in line with inflation every year, which of course they haven't for 13 years, but probably more importantly it requires public service spending to be cut on things other than health and defence by about 3% a year, and has a commitment to freezing, in cash terms, spending on investment. All of that is required to achieve that very, very tiny fall in the fifth year of a forecast.

Q97 **Chair:** We will come to some of the things that you would prescribe as an antidote, but I just want to get from each of you an answer to that first question and so we go next to Dr Saleheen. Could you give your views on whether the autumn statement achieved the Government's stated objective of debt falling and reducing our national debt?

Dr Saleheen: Technically, as Paul said, yes. On the stated policies, it falls marginally in the fifth year of the forecast. However, the other thing I would say is that given the macro environment, with low growth in the UK, with growth prospects revised down, and high inflation and the revisions in the OBR forecast—growth down, inflation up, interest rates up—that combination of factors is actually bad news for fiscal dynamics going forward. While technically, yes, it does meet the Government's stated objective, it is on a very fragile path.

Q98 **Chair:** Torsten, would you agree with that assessment?

Torsten Bell: Overall, debt will not be falling, even on the basis of that being your defined policy and even with forecasts that look like this, because bad things happen and the last 15 years has taught us that we should be expecting at least a 10%, maybe a 15%, ratchet-up in debt whenever a crisis happens. If you're not targeting reasonably sustained falls in debt during good times, then debt will, in practice, be on an upward trajectory. That's what the last 15 years—

Q99 **Chair:** Are these good times then?

Torsten Bell: I am afraid that when it comes to the fiscal numbers, looking five years ahead probably is what good times look like. That is what the OBR is actually saying. The OBR is saying 1.6% growth, so more material, better productivity growth in the future than we have had over the last decade. It is quite materially better productivity growth. Unless

you're targeting a significantly tighter fiscal policy, you're going to see debt rising rather than falling over the medium term.

However, to be a bit more positive, the actual scale of the primary surplus being run at the back end of the forecast—a bit over 2%—is large by historical norms. We ran that briefly around the turn of the millennium, but historically we do not run primary surpluses that large.

The only reason that is not feeding through into reasonably chunky falls in debt is because of what is going on with the Bank of England and the APF and some financial transactions. If you sustain primary surpluses of 2%, you probably would be outside of those financial transactions and the Bank of England changes. You probably would be at the kind of level of primary surplus you will need to have to run an actual falling debt position.

In terms of what is going on, underlying it there is some better news, but what is happening with the APF—our real losses that the Treasury will be experiencing during that period—and overall both main parties saying that they are targeting debt falling in the fifth year of the forecast period is the same thing as them all saying they never actually want to see debt falling.

Q100 **Chair:** Dr Haque, do you see the overall picture being one where debt is falling, or not?

Dr Haque: Do you mind if I put a human angle on that? It is the consequence of debt falling. For us at the Women's Budget Group, the high interest rates, sustained inflation, high prices—which are still rising—those have major consequences on women in particular. For us, it is about looking at the whole picture, then asking the question, "What happens to women in the next five years, under that situation?"

That is the first thing. The other thing is that we would challenge a bit more this Government's narrative that there is good economic growth. There might be for the private sector, but certainly for the public sector that is much more of a challenging question. In terms of the public sector, we know that women rely on that and benefit from it the most.

Q101 **Chair:** You have no specific views on the debt picture itself, and you wanted to put the human picture on things.

May we look now at a point that was just raised about the measures in the autumn statement? Would you describe them as inflationary? Do you see the measures in the autumn statement as putting pressure on, in terms of those rising prices?

Dr Haque: Certainly in terms of wages, the wages in the public sector have not grown as much as in the private sector. We know that wages to some extent—not at the beginning, but certainly now—have been driving some of that inflation. The Government do not look as though they are going to invest in that any more. From that perspective, I do not think that will happen. I am more concerned, though, about how inflation is being tackled in terms of monetary policy—just using interest rates to tackle inflation. That concerns us at Women's Budget Group, because

higher interest rates mean higher debt and a higher mortgage, which we know women have been affected by the most.

Q102 **Chair:** Torsten, do you see the measures in the autumn statement as being inflationary in themselves?

Torsten Bell: There are two different ways of coming at that. If you just look at the discretionary measures taken by the Chancellor—the largest tax cuts since 1998, with 2p off national insurance being the biggest one on the personal tax side—then those measures are definitely a discretionary fiscal loosening. All else equal, that is pushing up on inflation—albeit in a relatively small way, given the size of the economy.

However, overall, I do not think that is a good way to think about it, because pushing the other way we have got what is going on in terms of pushing up taxes, mainly because of fiscal drag going through the system. Net, I think no, both because of scale—these aren't large enough, given the size of the economy—and secondly, though the discretionary measures are a loosening in the short term, there are other things pushing the other way within what is going on on the Government side.

You can tell from the Bank of England session with the Committee the other day that they are more nervous about a rhetoric that has flipped into a tax-cutting position. It is definitely nonsense to have said that now is the time for tax cuts because inflation has come down. It is more that now is the time for tax cuts because inflation has been higher than expected over the course of the last year—or, at least, since March. That is a better way of thinking about it.

Q103 **Chair:** But you do recognise that Treasury description of them as being the largest tax cuts since the 1980s?

Torsten Bell: They are the largest tax cuts since 1988, if we look at them in terms of their fiscal effect in the final year of the forecast period. That is the £20 billion you have heard talked about—roughly half split between national insurance and corporation tax cuts. The permanent tax cut will be smaller than that, because—as we have all discussed before at this Committee—the permanent fiscal effect of moving to full expensing of plant and machinery investment is significantly lower than the roughly £10 billion that is in the final year of this forecast period. It won't be as large, if you take a very long-term view. But I don't think it is unreasonable to say, five years out, the Chancellor has decided to have tax cuts that are around £20 billion. That is the highest since 1988.

I should add that that is assuming we discount all of last autumn's endeavours, which were obviously much larger, but they never actually happened.

Q104 **Chair:** If they are not enacted, I think we can safely ignore them. Dr Saleheen, the Office for Budget Responsibility told us this morning that they saw a small 0.1% inflationary impact from the overall measures announced in the autumn statement. Does that sound plausible to you?

Dr Saleheen: That sounds about right, because as Torsten was saying, if we look at the fiscal easing relative to what it would have been without the fiscal easing, that is about 0.5% of GDP. If we think about how that maps through to the demand side of the economy with a multiplier of slightly less than one, that would be about 0.4% in terms of how much higher GDP will be. Within that, you have to think about the supply side measures. They would boost the supply side, so even though you get more on the demand side, you get a bit more on the supply side, and inflation is the balance of the supply versus the demand. The net effect will be mildly positive, and 0.1% by the end of the five-year period sounds about right.

Q105 **Chair:** Paul, do you think the measures in the autumn statement will have worried the Bank of England in terms of the trajectory it is on to reduce inflation?

Paul Johnson: As others have said, not enormously, because they are relatively small in the scheme of things, but I think there must be some concerns about whether fiscal policy will be as tight as is implied by the numbers going forward. It must feel like a risk first that this Government are still concerned to look at tax cuts, and further tax cuts in a March Budget will be very hard to match with tightening on the spending side. Post election, whoever is in office is really going to struggle to keep to the spending numbers. If they increase those without increasing taxes, that could be a significant fiscal loosening that could involve moving away from the fiscal rules as they currently stand. If I was the Bank, I would be concerned about the political risks and pressures on any Government given that we start with such high levels of tax and such high demands on public spending, and hence we may well end up with a looser fiscal position than is currently stated in the numbers.

Q106 **Chair:** I want to turn to one of the things that the Committee has an open inquiry into, which is the impact of quantitative tightening. Have any of you done any particular analysis of the enormous change in the Office for Budget Responsibility’s numbers on the impact of quantitative tightening? It has raised its estimate from a £63 billion cost to £126 billion. Does that not worry you as economists? I know you are naturally gloomy people anyway—it is part of your job description—but should we as a Committee be very worried about that?

Torsten Bell: Yes, in terms of how we think about QE, what we have learned is definitely different to what we anticipated when it was introduced, going back 15 years, partly because the scale of the asset purchase ended up being bigger, so the scale of what we are talking about is bigger. In retrospect, on the fiscal risk side we probably should have paid a bit more attention to the fact that we would be buying assets at a time of generally lower interest rates and might well be setting ourselves up for selling those assets at a time of higher interest rates, which, all else equal, is building in fiscal losses. When interest rates are higher, the price of the assets falls, so the reason we are seeing those losses you talked about on the APF is because we are selling a large quantity of Government bonds at a lower price than we paid for them.

Q107 **Chair:** Does this have a real impact, Dr Haque, on real people in the real world?

Dr Haque: How would we know? This is one of my concerns, and I should have mentioned it earlier. The Bank of England, just like Treasury, does not carry out any equality impact assessments. The Bank of England is a public body, so it should be adhering to the public sector equality duty to pay due regard to how its policies affect different protected groups. Given that women are the majority of the population, you would think that that would be a very obvious question in terms of quantitative easing—if it is going to carry on raising interest rates, and interest rates are still quite high, how does that affect women?

On the ground, we know that high interest rates have been profoundly affecting women—the cost of living crisis, inflation and high interest rates together, and, of course, benefits not being uprated, housing costs being high and so on. That has significantly increased debt crisis among women. At the Women's Budget Group, we talk quite a lot not just about the cost of living crisis but the cost of debt crisis for women. We know from the leading debt charity in this country, StepChange, that two thirds of the people who come to them are women. We know that lone-parent households, of which the majority—over 90%—are women, are increasingly going into destitution and homelessness, because of debt.

Q108 **Chair:** Have you done any analysis on whether the Bank of England's asset purchase facility and the way it is working will exacerbate that?

Dr Haque: We simply do not know, because we do not have the data. The point I am making is that if you do not have the data, how would you know the problem exists? What should be happening is that the Treasury should be mandating the Bank of England to carry out equality impact assessments.

Chair: Do either of our other panellists want to come in on this?

Dr Saleheen: We know that anybody who has been holding bonds, as Torsten said, is going to see, when interest rates rise and you have that bond asset value, the value of those assets go down. That is something that everybody who has invested in bonds would have been seeing; it is a consequence of that. You get greater payments in future, that is the flow effect, but the value of the stock—what you have already bought—has suddenly gone down, because interest rates are now higher. That is one point I wanted to make to put it in context.

Q109 **Chair:** My question is more, what impact does that have on measures that Chancellors can take in fiscal events, and how much we should be concerned about that?

Torsten Bell: We are running a tighter fiscal policy because of that, are we not? We are running a 2% primary deficit, to have debt just falling, because the measure of debt we have chosen and the year which we have chosen it. It is directly feeding into the level of the fiscal policy.

Q110 **Chair:** So we should be worried about this increase of £60 billion, in

terms of the OBR's estimate.

Paul Johnson: It is a real thing. It is real money that is going to be spent on that, that could otherwise have been spent on other things. As Jumana said, that is one illustration of how asset values, whether held by Government or households, have fallen, and fallen quite substantially, as a result of higher interest rates. My view is that, in the long run and broadly speaking, that is probably a good thing, in terms of distribution of wealth, and to the fact of interest rates higher than inflation. But for the public finances, over this period, it is really bad news.

Chair: Thank you.

Q111 **Keir Mather:** Welcome, everybody. Dr Saleheen, the OBR says GDP per capita is currently falling and is not set to regain its pre-pandemic levels until the year after next. We might not be in technical recession but, if GDP per capita is falling, and those underlying building blocks and foundations of growth remain quite poor, it will feel that way for a lot of households, irrespective of what came out in the autumn statement. Do you agree with that assertion?

Dr Saleheen: In general, we agree with the OBR forecasts for growth. They look plausible to us this year and next year, in terms of the forecasts we have and the consensus forecasts. What we have seen, though, is that '23 has been revised up and '24 has been revised down. The weakness that we expected to see, which has not come in '23, is coming a bit later, in '24. For '24, it is a little bit more bad news. As you say, that could feel worse for some families.

Of course, there is a risk that we could go into a mild recession—that is not in the OBR's forecast, but that is a real risk. In our forecast, we have an expectation that the UK will see a mild recession at the end of this year and the beginning of next year.

Further out, I would like to highlight that the OBR has a trend growth rate assumption of 1.6%. We are a little bit more pessimistic on the long-run trend growth of the economy. Our number at Vanguard is 1%; that is closer to what the Bank of England has, which is also 1%. We are a bit more negative on that long-term productivity growth.

Q112 **Keir Mather:** There is the more human side of the equation that Dr Haque spoke about. In the context of a historic drop in living standards, how long would we need to wait for that growth rate to reach the stage where it filters through and begins to impact the everyday lives of citizens in the UK, especially with the pessimistic outlook in the forecast overall?

Dr Saleheen: Do you mean how it will feel for different families? Is that your question?

Keir Mather: Yes.

Dr Saleheen: Obviously, for the average family, that will feel bad. We expect to see a couple of things. First, because of high inflation, the real

wages will erode in value. You cannot spend and buy as many things as you would otherwise. That is the first thing. Secondly, we know the transmission of monetary policy will bite into individuals' disposable income. If you are re-mortgaging and you now have to re-mortgage at the higher rate of interest, you will have less money to spend on other items. That effect obviously will be felt more by the families who have lower incomes than by those who have savings or higher incomes. We know that there is a big distributional effect.

Q113 **Keir Mather:** I wanted to seek your views more broadly on whether you felt that the supply side measures to induce growth in the autumn statement were the right levers to pull. Do you feel that anything significant is missing that you would like to have seen?

Torsten Bell: Broadly, the things that were done are, in a technocratic sense, sensible. We support the move to permanent full expensing on plant and machinery. Are they absolutely optimal for growth? No, in terms of the inclusion of certain assets and not others and in terms of our ongoing preference for debt-financed investment. Those are all sub-optimal, but the move in general from where you were before is definitely an improvement.

If you want to focus on the supply side, the main thing we should be asking questions about is not the things that were actively done, but the decision to leave public investment frozen in cash terms beyond this spending review. That means that we are seeing much bigger cuts to public investment than any plausible effect on business investment from the measures announced. That means that the country's capital stock as a whole is taking a hit, and if anything we should be more confident that that public investment is supportive of growth in the medium term, so we definitely need to be thinking very hard.

What does that mean in numbers? It means that by holding it flat in cash terms, we are knocking off about a third of public investment as a share of the economy over the course of the next five years. Is that a good idea when we have not been growing, we have a legacy of under-investment and we have a net zero transition to deliver? No. It is completely implausible that that is the right level of public investment. That goes back to what Paul said earlier—it means that should cause you to pause on whether the pencilled-in fiscal and spending figures beyond the next election look plausible. That would leave us still investing significantly less than most advanced economies in an era when most advanced economies that need to go through a net zero transition will be investing more. Just to make that concrete, will we plausibly see the uptake we need in heat pumps over the next 10 years without quite large investment by the state? No—it cannot happen.

Q114 **Keir Mather:** Do you feel that green growth has been deprioritised in the autumn statement, or more than it could have been?

Torsten Bell: Obviously, rhetorically, it is not a large focus of the Government's agenda. In terms of some of the things that have been

done, there are some very welcome measures on planning. Although they are undersold in the rhetoric—I presume because people do not want to tell the homeowners of Suffolk that they need to have pylons coming across their fields in the near future—the measures taken plausibly could make a difference to the time it takes to build the electricity generation and transmission network that is the absolutely crucial part of that investment picture in the next 10 years. The measures in the autumn statement are welcome on that front, even if they were dialled down; it is more that the public investment numbers are not consistent with a wider growth agenda.

Keir Mather: Dr Haque, did you want to come in?

Dr Haque: I wanted to come in on the point about the distributional impact. I think that is where we need to connect the dots a bit. Looking at it once again from the perspective of women, the reduced spending on public investment for women is a triple whammy. As I have mentioned before, women rely on public services much more, because they tend to take up a disproportionate amount of care, and it is unpaid care. They have that burden. Because of that, they are less involved in the labour market. When they are involved in the labour market, it is in lower-paid, insecure, zero-hours contracts. They rely much more on social security and public services because of that.

We have that impact on women from reduced expenditure on public services, but on top of that, in terms of the distributional impact, if we take the national insurance cuts, women once again gain the least compared with men, and that matters. For instance, we undertook some analysis of the 2% changes to national insurance, and what we found was that lone mothers gained the least. They gained only £76, compared with lone fathers who gain about £248, and two-parent households who gain between £400 and £600-plus, depending on whether they have children. So women gain the least.

On top of that, what we know about women—once again, you have to look at the wider picture of women in the labour market, their labour market participation—is that, generally speaking, women earn less. They own less. They work in insecure employment and they do disproportionate care and unpaid care.

All of that, on top of the cost of living crisis, means that there is very little resilience when you reduce investment in public services, because women rely on them so much. So that is my view of the next couple of years, in terms of distributional impact, for women, for lone mothers, for disabled women, for lone-parent households and for black and ethnic minority parents. I will just say very quickly that we also did an analysis looking at how, between 2010 and 2020, the changes in tax and benefits impacted different groups. What we showed in that analysis was that once again, between 2010 and 2020, women lost out more than men, and black and ethnic minority households lost out more than white households, but the households that lost the most were lone-parent households—in particular,

black and Asian households—and disabled households. So you can see that impact—

Chair: We will have more questions on distributional impacts as we go through this afternoon's session. Keir, do you have any further questions?

Q115 **Keir Mather:** Just a final question, if that's okay, Chair. Torsten, the Resolution Foundation has said that to create the headroom for some of the provisions in the autumn statement, in terms of real-terms cuts to departmental spending, it will bake in an era of what you called "implausible austerity". The general secretary of Unison recently explained quite ably how cutting departmental spending drains the productive capacity of the state to facilitate growth. Could you expand a little on what those cuts will mean in terms of the growth rate, perhaps over the medium term?

Torsten Bell: I think we should step back and ask, "What do we actually mean by the spending cuts that we are talking about?" We are talking about a number of different things. Higher inflation right now is pushing down the real spending power of Government Departments. You might think about in in terms of higher public sector pay than we expected back in March having come through and having been only partly compensated for. Cuts are happening to the spending power for the day-to-day public services—paying nurses and doctors—right now; we have some cuts happening there.

On day-to-day public spending, we have pencilled in 1% real growth for the years after the spending review. It is worth referring to one of the problems that we discussed at a session last week, Chair. We are now coming to the end of a spending review period, so most of the forecast here is based on spending assumptions, not on actual, concrete budgets given to Departments. That is what we are left to work with, and that becomes ever more of a problem once you get to the end of a spending review period, rather than, for example, having a rolling three-year budget-setting process or something similar. So on the day-to-day departmental spending, we have 1% real growth in every year after the spending review. That means shrinking as a share of the economy, but not shrinking in real terms. Now, that will be very tight because of what we anticipate in terms of ongoing growth for other Departments. That is what we think is implausible, because that would lead to the 14% cuts to unprotected Departments from today through to 2028-29, which, as I say, anyone who has met a public service in the recent past will know is not likely to be either politically or socially desirable.

There is a separate question on the investment side, where the steepness of the cuts is really large. It is not growing by 1% real on the investment side; we are talking about a cash freeze, which is leading to these very large cuts, say £20 billion-worth of cuts, in real terms on the investment side after this spending review. That is plausible. Could you deliver that? Yes, because we have seen that being delivered in the recent past, and unlike the turnaround on day-to-day public spending from 2018, when we last decided the level of austerity was implausibly tight, that wasn't the

case on investment. So if you want to keep under-investing, it is plausible you could do so. That is the side of it that is just unwise, because of the growth impact and because we all agree that the country has been under-investing, but that is the part of it that the Government directly control. So that is plausible; it's just unwise. That is the one that is more likely to have a material growth effect.

Then you are separately asking, on the day-to-day public services side, about the relationship between those decisions and their economic implications. To that, I would say that there are too many moving parts, so I am definitely not going to offer you a point estimate of that in any meaningful sense. I think that the things you would want to think about are, to a degree, outside of our Resolution Foundation—or indeed economist—general comfort zone. However, I will give you an anecdote.

We were recently doing some work on what an economic strategy that helps Birmingham and Greater Manchester grow would look like. We were running a whole weekend's-worth of deliberative exercises with residents in those areas about what it would take, plausibly—rather than just promising a bit more devolution or a slightly improved high street—to actually move to a higher growth norm. We should all want that. Remember, these are our second cities in England; they are huge and they are both well below average productivity.

From an economist's perspective, you want to talk about the investment required in public transport, growing the city centre and all of that stuff—quite a lot of change. From the residents' perspectives, one of the things that came through very clearly was that their faith in the ability of the state—"state" as broadly defined, so local, national and the rest—to do any of those things was affected to an incredible extent by their experience of public services.

We were mainly talking about economic investment, as I say, some of which would be funded by the central state and some of which would be local government-led or mayoral combined authority-led. However, for the residents—I am not saying that this is right about the actual effect on growth, but just talking about what the residents thought—their keenness to have economic change, which is necessary for those cities to grow, was severely limited by their experience of poor-quality public services. We actually had a similar experience in Hull, recently; the view about the council's ability to do anything was shaped by the fact that there were potholes everywhere.

Chair: All right. We could go on for a long time on this fascinating subject, I feel, but I will bring in Anne Marie on a slightly different topic.

Q116 **Anne Marie Morris:** On the overall tax burden, Mr Johnson, the Chancellor reckons that the tax burden is going down, but the OBR says that it is going up. Which one is right, and why?

Paul Johnson: Well, the tax burden is clearly rising. Even after the autumn statement, it is rising essentially to the same peak that it was

expected to reach beforehand, but a year or two later—so to 37.7% of national income. However, had it not been for the autumn statement and the tax cuts announced therein, it would have gone even higher, so relative to a counterfactual world in which we did not have an autumn statement, taxes post-autumn statement will be lower than they would have been, but they are still rising.

They are rising essentially because of the huge amount of fiscal drag that has been put into the system by six years of freezing income tax thresholds and allowances, which looks something like a £50 billion tax increase over that period. Of course, there is also some increase in corporation tax. It is also related to the rate of growth and higher inflation, which, it is now projected, pulls more tax in. Therefore, it is very clear that this Parliament will most likely be the biggest tax-raising Parliament, possibly in peacetime history, and that we are going to hit 37% to 38% of national income as tax.

That was probably inevitable, given the increased spending on debt interest, the increased borrowing that we did through covid, the increased spending on the NHS, the fact that we no longer can keep cutting the defence budget, and all of those things. However, what is remarkable is that it happened very quickly. We had decades in which tax wobbled around 33% or so of national income. Then, over a seven or eight-year period, it is going to move up by something like 4% of national income in a way that it just has not done in the past 60 years.

My guess is that it will probably stay there because of all of those pressures on public spending going forward. I think we have seen a turning point in the size of the state. We have moved from a long period of tax at one level, which has ratcheted up, and I suspect that we are in for a long period of tax at at least that new level.

Q117 **Anne Marie Morris:** Dr Saleheen, I think what Mr Johnson is talking about is a burden and a trajectory—not burden as in today but as in, "Do you have more or less in your pocket today than you would have done without the Budget?" It is very hard to predict the future. Do you think it is wise, appropriate, reliable and resilient to assume that trajectory will be up—you make a number of assumptions to make that statement—as opposed to looking at the impact of the tax cuts on the day itself, in the moment, which will affect individuals' behaviour? What are your thoughts on whether we should pay more attention to the impact on the day, as opposed to focusing on the trajectory going forward, which is where Mr Johnson and the OBR are coming from, because who knows what will happen?

Dr Saleheen: I think we have to really focus on the facts—where the trajectory is going. The tax burden is rising from 36.2% of GDP to 37.7%; it would have gone to 38.3% over the five-year period. I think those are the numbers to focus on in the big scheme of the public finances. Having said that, will some people hear the news on the day and go home with extra money in their pockets? Yes. Will their behaviour be different because they have more money than they thought? Yes, but there will be

winners and losers overall. There are two ways to look at it: the macro perspective and the individual perspective.

Q118 **Anne Marie Morris:** Okay. That is helpful. So we are looking at both the here and now and the trajectory in the future. Mr Bell, the OBR is regularly wrong. It regularly has to revise what it says. It always paints a doom-and-gloom picture of what is going to happen to the great country we live in, and—guess what?—we always surprise it. The OBR is predicting that the trajectory means that the tax burden is going up. How robust do you think that is? What assumptions has it made for that to be the case? Do you think those are the right assumptions?

Torsten Bell: The first thing to say is that it is not just the OBR that is wrong; everybody in this space is regularly wrong—politicians, forecasters and economists who are wise enough, like us, not to forecast.

Implicit in your question is the idea that the OBR is largely wrong on the too-pessimistic side—I cannot remember the exact gloom-related phrase you used—but actually if you look at its record over the last 13 years, its bias is more the other way. It tends to be too optimistic about the growth rate of the economy—particularly productivity growth. It also tends to underestimate how much Governments will actually spend in general, because it takes what the Treasury tells it in its longer-term spending assumptions, and the Treasury basically always tops that up before spending reviews, as it probably will this time. So wrong, yes, but we are all wrong in life, and a bit of humility all round is a good idea to get us through the day.

In so far as the OBR is wrong, it is generally wrong on the too-optimistic side, with the exception of employment, where during the 2010s it was too pessimistic. On earnings, productivity and growth per capita, it has been too optimistic. Its forecast now, which is the only basis on which to say whether it is too optimistic or too pessimistic, is much more optimistic than that of the Bank of England, which I know you had in front of you recently. It is a little more optimistic than the consensus of external forecasters, so that gives you a flavour of the level of optimism. But, yes, we are all wrong in life; that is one of its features.

On the forecast of debt interest, I think we should be confident that the direction of travel in the next few years is a higher tax burden. I think we should not put a lot of weight on the scale of that increase definitely being exactly 4% of GDP. The biggest thing that I would highlight to you is the uncertainty on that front. Sometimes this is overdone as a certainty by some people in our kind of business, but we don’t know what the long-term level of the interest rate will be. As we have said, a large amount—possibly the majority—of that increase in tax burden isn’t happening because Jeremy Hunt is a socialist, although some people seem to have decided that is the case; it is happening, as Paul outlined, because the debt interest bill is up a lot, and in the UK that has fed particularly quickly through to the public finances.

Remember, this problem exists everywhere, but is feeding through particularly quickly in the UK because of the way we are operationalising monetary policy. At present, paying interest on reserves is one of the reasons why that is happening. We are seeing this swift feed-through into spending.

If you want some optimism, it is possible—should you count on this? no—that the long-term path of interest rates looks more like 3% than 5%, for example. Were that to be the case, the tax burden would not need to be as high. Or the level of public spending squeeze for public services would not need to be as deep. Are there lots of uncertainties? Yes. Could some of those go in the right direction? Yes. I would look at the debt interest numbers and hope, really hope, what is currently in those forecasts does not come to pass.

There is then a separate question, which is: what should a Chancellor do with that hope? My answer would be, not a lot; you should plan for this situation being what it looks like and then, in your private life, you can get on with praying. But that is a different thing from running an economic policy.

Q119 **Anne Marie Morris:** I am going to move to Dr Haque, having extracted, I think, from Mr Bell that nobody really knows, and the OBR may well be wrong. Dr Haque, looking at this from a woman's perspective, one of the things that seems to be in debate is whether higher taxes effectively reduce growth or increase growth. In are what are normally described as more "feminine-orientated" countries—Scandinavian countries—they have a much higher tax rate and I think many would say that they have reasonable levels of growth. From your perspective, do you think that the way we have dealt with tax policy here is going to improve or reduce growth, particularly from the perspective of females—probably, those in business, though I hear what you say about those bringing up families?

Dr Haque: That is a really good question. You can come at this from many angles. First, there is an implicit assumption that taxes are a bad thing. Certainly, though, from women's perspective, and actually most of the people—if we go back to the pandemic, that is when we realised that investment in public services, taxes—that is where the money goes, into public services. It is absolutely critical.

There are a couple of points. For women, we think tax is a good thing. Tax is a good thing because you have that public investment. Public investment and public services matter to women, because women earn less, as I have mentioned before. This is the really critical thing—

Q120 **Anne Marie Morris:** But does it drive growth?

Dr Haque: I will come to that. Women disproportionately have the burden of care and unpaid care. For instance, there was a survey—I think it was something like *The Times* survey on the use of time—which showed that women spend the equivalent of eight weeks' full-time work that is unpaid on care, compared with men. Because of that, public services matter to them even more. They have to rely on public services. Coming back to

your question, what I struggle with—and certainly, what we at Women's Budget Group struggle with—is that it is presented as a type of dichotomy. You have either tax cuts or public services growth. We would say that you cannot have growth in the economy unless you invest in public services.

Q121 **Anne Marie Morris:** Is there not a piece missing, which is productivity and efficiency? Sticking money in does not necessarily mean you are going to get a better result, does it? You could actually stick less in, and get a better result, if you increase productivity and efficiency in the way the public sector worked.

Dr Haque: With all due respect, the Chancellor said that as well, didn't he? The Chancellor talked about productivity in public services. We would say that caring for people is not the same as producing cars. Actually, public services are very much about caring. When you invest in public services you cannot just get rid of people and make efficiency in that way. Obviously there are some, around administration. But public service is much more, when you think about social care and childcare. When you think about public services, it is much more about the human interaction. That is why investment in public services matters and why we tend to argue that a healthy population is a healthy economy. Going back to public services, right now we must remember that we have 2.6 million people who are economically inactive because of long-term illness. That is about half a million more since before the pandemic. On top of that, we have 6.5 million people on NHS waiting lists waiting for necessary care—

Q122 **Anne Marie Morris:** Forgive me, Dr Haque, but we do not have much time today and you have made a number of these arguments before. I understand what you are saying: a lot of people are in need of these services. Nobody is going to debate or disagree with that. The issue is how you provide those efficiently and effectively. Of course you cannot move people, but a lot of what people do is a result of the way that the service works: the support through technology, the methods of working and all those things impact productivity, efficiency and outcomes. It is not quite as simple as you say.

Dr Haque: I hear you, and that connects to my next point. One of the things we were really perturbed about was that the Chancellor seemed to spend much more investment on plant and machinery than on people and public services. We would argue that people and public services—

Anne Marie Morris: Forgive me, Dr Haque—I hear what you say, but I will return to the Chair so that she can move us on to the next topic. All these things require investment. A considerable amount of money is going into the public sector; indeed, when you look at the NHS and social care, it is frankly the biggest chunk of money that we spend. To say that we spend more on machinery than we do on people is not quite fair, but let us leave it there.

Chair: Thank you very much, Anne Marie. Drew, you have some questions on this.

Q123 **Drew Hendry:** I will continue the theme, because I will drill down on

departmental spending. We already know that the UK has lower public spending investment than many similar-sized countries and economies. The OBR has stated that the updated Government departmental spending plans would mean £19 billion to £20 billion less spending by 2027-28 due to inflation. I want to pick up on what you said earlier about plausibility. Are the Government plans plausible? I will start with you, Paul.

Paul Johnson: I think they are unlikely to happen. I do not think that is the central expectation of what will happen. Are they completely implausible? Well, it is worth remembering that between 2010 and 2015 we had very deep cuts of a level that a lot of people did not think was feasible at the time. I remember in the 2015 election, actually, expressing scepticism that the Government would cut £12 billion from welfare, and they did. These things are possible, and—

Torsten Bell: Actually, they didn’t in the end, did they? They announced them.

Paul Johnson: I think they got most of the way there.

Torsten Bell: They U-turned on the universal credit bits, but they had a go.

Paul Johnson: In a sense, if they achieve that, all that will have happened is that the size of the state, even ignoring debt interest, will be back to a little above where it was pre covid. That is the context for announcing very tight spending settlements. Even with those tight spending settlements, you will have seen some ratchet up in the size of the state.

All that said, what would it require? On reasonable assumptions about what will happen to health spending, defence spending—which is completely flat—schools spending and what we know about announcements in childcare and so on, it would require something like 3% a year cuts in all other public services from what we know is a baseline where there is no space in prisons, huge backlogs in the justice system and various bits of local government falling over. It would be very difficult indeed to achieve.

Q124 **Drew Hendry:** The OBR predicted that unprotected departmental spending would need to fall by 2.3% or thereabouts per year in real terms from 2025-26. This perhaps comes back to some of the things you said, Dr Haque. What are the real-world implications of that?

Dr Haque: As I said, it is enormous. We have to see it in context. Going back to what Paul said, let us not just look from March to now, as the Chancellor is optimistically doing. We need to look back over the past decade—the past 13 years—for why it is particularly difficult for people. Why is this period much worse than any other period for middle earners and lower-income earners? That is because of the cumulative impact of austerity. We know that austerity had a devastating impact, as I mentioned before, on women compared with men, on black and ethnic

minority households compared with white households, and lone-parent and disabled households compared with their counterparts.

On top of that, we had the pandemic. The pandemic made it really difficult for women and black and ethnic minority groups. I used to be interim director and the deputy director of the Runnymede Trust, which is why I am talking quite a lot about black and ethnic minority groups here.

You had that and, with the cost of living crisis, it is like they are being hit from every side. We can take a tangible example of right now, with the autumn statement, of who are the winners and losers. That is what we need to keep going back to: who are the winners and who are the losers?

Q125 **Drew Hendry:** I want to come back to that in a minute, because I will probe further on that question. First, I will ask Dr Saleheen, and then come to Torsten Bell. What are your thoughts on the real-world implications of this?

Dr Saleheen: First, we need to take a bit of a step back. In order to get those spending cuts, as we have talked about before, we need to see the primary deficit go from -1 to +2. That is a 3% change that is built in, which is equivalent to £100 billion of savings. That is the austerity that is built into this autumn statement. That is half the size of the NHS, just to give you a perspective, so it is actually quite huge.

We have never seen a primary surplus since 2001, so 2000-01. We have not seen that for 20 years. We have not even seen that type of surplus during the George Osborne era of austerity, even though they had aimed to bring the deficit into surplus, they never quite got there. I wanted to provide that context.

In terms of the real world, I was reading yesterday about the real-world implications of the era of austerity on the children that were brought up at that time. There were welfare cuts, the bedroom tax and benefit cuts. Those children are still feeling the effects of that austerity today.

Talking about infrastructure today, we hear about school buildings, with roofs falling and schools having to shut down. If we think about the services that we are getting, you cannot cut public sector spending in real terms without seeing any change on the services we receive, whether that is our roads, schools, NHS services or infrastructure. You name it, there will be a knock-on effect. Normally, what would we expect? We would expect departmental spending to grow in line with inflation, because Departments have to pay wages, spend money on the goods and services that they need for the services they provide—the so-called procurement spending.

That is what I am trying to say. What you would expect to see is not what we are seeing. The real-world implications will be felt in the services that everyday households receive.

Dr Haque: Jumana mentioned a really important point about levels of child poverty and child hunger. That is the real-world implication. We know

that approximately one in three children are now in relative poverty. We know that for black and ethnic minority households it is much higher: about 60% of children in Bangladeshi and Pakistani households and 50% of children in black households.

That is one angle but, going back to debt, and the cost of debt crisis, that is going through the roof for these families. For instance, even with the local housing allowance, which we really welcomed—it was fantastic that the Chancellor connected that to the lowest 30% of local market rates—the problem is that it is just for one year and does not come in until next April.

National insurance contribution changes come in in January, but benefit changes, which profoundly affect poverty and homelessness, do not come in until next April. It is just one year and, on top of that, the households that are the most capped with the benefit cap, are predominantly women. Those are the real-world implications.

Q126 **Drew Hendry:** I want to ask another couple of questions on this, so I will need to ask for your responses to be a little briefer so that I can keep in line with the Chair's request. Torsten, do you want to give us your thoughts on that?

Torsten Bell: Zubaida has spoken about the effect on individual households. Stepping back, there is a different way of thinking about what happened last week. In general, we have talked about a choice: some tax cuts were offered and then there were some spending reductions to fund those tax cuts. Another way of thinking about the same political and economic choice is that, on the tax side, wider economic changes have pushed up the tax burden since March, and the Chancellor has decided to give those increased tax revenues back to people. That is broadly what has happened. The economic forecast changes have pushed up tax revenue by about £20 million, and he has given it all back to people. On the spending side, what has happened is that the debt interest bill has gone up, and the Chancellor has decided to leave overall levels of public spending the same but reduce public service spending to deal with that debt interest bill. That is the actual big choice that has been made.

Within that, on the public spending side, we need to be a bit careful about what we are saying is the same as the austerity of the past. What is happening on the transfer side—the social security side—is not a return to George Osborne-style austerity in any way. The Chancellor has decided that working age benefits will rise in line with inflation, and LHA has quite significantly increased some households' incomes. Admittedly, it only catches up with the losses since 2019.

On the transfer side, in the face of high inflation the Chancellor has protected public spending on those items, but he has not done so for services. That is a big difference. The overall package of measures announced in the 2010s took something like £3,000 away from each poor household through benefit cuts. It is not £300; it is £3,000 per household. Since 2019, that has not been the pattern.

Q127 **Drew Hendry:** Has the Government simply carried out real-terms cuts to public services to enable the cut to national insurance?

Torsten Bell: That is one way of putting the choice; I gave you another way just now, but I think that is a reasonable thing to say.

Dr Haque: Sorry, I did not hear that.

Q128 **Drew Hendry:** I will ask the question again. I am looking for a really simple and quick answer if possible. Basically, has the Government simply carried out real-terms cuts to public services to enable the cut to national insurance? I think you were going to say something, Dr Saleheen.

Dr Saleheen: I was going to say yes, that is one way of saying it. The other thing they could have done is reduce the debt further.

Drew Hendry: Okay.

Paul Johnson: Well, he hasn't carried it out. He has promised it, or indicated it in the figures. As I say, there is a difference between what is in the figures and the central expectation of what will actually happen.

Dr Haque: We need to go back to who it has actually benefited, because the devil is in the detail. As I said, it has benefited women less than men. The other thing is that national insurance doesn't kick in until £12,750 or something. Now, 72% of the people under that £12,750 limit are women, so once again women don't even benefit from the tax cut, and those who do don't benefit as much as men.

Q129 **Drew Hendry:** I am sorry to be quick, but I am really running out of time, so I am asking for as snappy an answer as possible, given the complexity of the situation. First, was this the right decision for the UK economy? Secondly, to finish, who are the winners and losers? I would like your views, starting with Paul Johnson and going across the panel.

Paul Johnson: If you are going to cut income tax or national insurance, national insurance is the right tax to cut. It is a much better choice than cutting a penny or two off income tax. In terms of the distributional consequence, obviously that benefits people in work. The more you earn, up to £50,000, the more you gain. You do not gain any more past £50,000.

It is important to look across the Parliament as a whole. The distributional impact of the tax change is very clearly progressive because of the freezing of tax allowances. That takes a lot from higher earners. If you are asking about the balance between tax cuts and the promised spending cuts, I would say it is not the right decision in prospect, because I don't think it is a genuine statement of the most likely outcome of what will happen. I think it will be incredibly hard, as we have discussed, to actually implement the spending cuts that are implied.

Dr Saleheen: I think it probably was not the right decision. A better decision would be to reduce the debt levels. That is because of what I

outlined right at the start, that the macroeconomic environment is such that the debt dynamics are going to really challenge the Government in meeting their fiscal rule of having that debt falling at the end of the forecast horizon. As debt levels rise further, that becomes like a doom loop: it becomes harder and harder to meet that fiscal rule. In that sense, I would be more conservative, given that we know there are big shocks. There could be a recession; we know that productivity could be lower. There are big margins of error and I would have erred on the side of keeping the belt tight.

Drew Hendry: Again, apologies, but very briefly from you, Torsten Bell.

Torsten Bell: They are decent microeconomic choices on the tax cuts. Broadly, they are the wrong macroeconomic judgment because we are not in a tax-cutting era, despite what we would like to think, because we are not actually bringing debt down, given that the world has turned out to be worse than we thought it was or would like it to be. If you are stepping back and saying "What is the priority for Britain in the 2020s?" one of the things that should be on that list, whatever political party you come from, is higher public investment. We have not provided ourselves with the room to do that.

Drew Hendry: Finally, Dr Haque. Again, if you can be very brief.

Dr Haque: We think it was not the right decision; we think it was a political decision. Our analysis shows that it did not benefit women as much as it did men. Most importantly, I go back to the issue that our public services are not in a good state. The OBR said in its report that our public services are in a worse state than before the pandemic, and even before that. It goes back to the point that a healthy population is a healthy economy, so the Chancellor should have been investing in that.

Drew Hendry: Thank you very much indeed.

Q130 **Mr Baron:** Good afternoon, everyone. I have a quick question following Anne Marie's line of questioning. I may start with you, Paul, for the answer on this, given your background. The forecasting establishments seem to have a problem with the UK. You can never get forecasting 100% right, but the deviation between what turns out to be reality and what was forecast is quite marked with regard to the UK, for some reason. We have seen the Bank of England behind the curve when it came to inflation; we have seen the IMF underestimate economic growth in this country. Of the last 28 forecasts, 25 were well below on the downside. You yourselves—as I think Anne Marie raised—didn't catch the fact, or underplayed the economic strength; that is, the OBR suggested that the economy is now about 3% larger than the OBR previously thought it would be, given current and recent revisions.

As a matter of interest, sitting where you are in your respective posts, and starting with you, Paul: we have been asking these questions of the bodies involved and getting quite interesting answers. Why do you think that is the case? Why is forecasting so awry when it comes to the British

economy?

Paul Johnson: That is a question the Bank is asking itself and they have got Ben Bernanke to help them answer that.

Q131 **Mr Baron:** Correct. We were asking that question of them before they appointed Ben Bernanke, so I am pleased that they listened.

Paul Johnson: We might also ask how and why it is that we are formulating monetary and fiscal policy on really very different forecasts. The OBR is significantly more optimistic than the Bank of England and we are operating different aspects of economic policy on quite different forecasts. On the size of the economy at the moment, that was more a question from the ONS than for the OBR in terms of the problems they have got there. In terms of the scale of the errors, it is worth saying that you are right: a year ago the Bank of England, and to some extent the OBR, was significantly over-pessimistic about what was going to happen this year—although, as the OBR's own work has shown, on average it is overly optimistic about where the economy is going to go. I am not aware of whether we are any worse at this than similar forecasters in other countries. It may well be that Jumana or others have a view on that.

Q132 **Mr Baron:** Any other quick comments?

Dr Saleheen: I think this is a problem for a number of economies. In the US, the revisions to growth in 2023 have been even larger. The economy is even more resilient. Forecasting is a challenge globally at this moment. Why is that? Very quickly, there are two reasons. One is that, when we have very large shocks, it pushes the economy away from what we are used to. If we have not seen that in the past data, then it is very hard to work out the trajectory back to some sort of equilibrium. A large shock could be the pandemic or the energy supply shock; those things are very hard to analyse.

The second thing is when there is structural change in the economy. For example, in the past, after the global financial crisis, we were in a world of low interest rates—zero lower bound—and we are now moving into an era that we at Vanguard think of as the return to sound money, where interest rates will be higher. There are things like Brexit; that will also be a structural change—a break in the data—and, when you have those breaks and those big structural changes, it is quite hard for the models, which are based on past data. That then tends to take you back to the equilibrium of that past data, rather than to the new world.

Q133 **Mr Baron:** I agree with some of what you say. I keep hearing about the external shocks but, a week before what was in many respects the biggest external shock of all—that was the war in Ukraine—interest rates, if we take the Bank of England, were 0.5%, and inflation was 6% and rising quite steeply; they were so far behind it was untrue. But I hear what you say.

Sticking with this theme, I will ask this very quickly. Key policies during the autumn statement included tax incentives for investment, infrastructure spend, pension reforms and investment zones. I suppose

that I am asking this of anybody who wishes to answer: was that the right sort of mix? As far as you are concerned, what was missing from the growth package? Who would like to come in? I really don't mind.

Torsten Bell: We covered a bit of this earlier. Most of the microeconomic measures on the growth side are welcome—the planning reforms and particularly on energy infrastructure. Yes on business investment and full expensing being made permanent; that should have some effect. We think that, if anything, the OBR might have underestimated the effect of that on the size of the economy in the long run. It is still small; they say that it is 0.2%. I think that that is plausibly conservative, although highly uncertain.

As I said to your colleague, the very large cuts pencilled into public investment will have a bigger effect in pulling down investment levels in our economy than the pro-investment levels on the business side. Leaving aside all the fiscal arithmetic, if you are coming at this purely at household level, from a growth perspective, then we agree with the Chancellor; the thing that we have most agency over and which is most important is on the investment side. You would then say, "Good on business investment; bad on public investment".

Dr Haque: We were disappointed with the full expensing, because that was predominantly in plant and machinery as opposed to some of the sectors where women would disproportionately benefit much more. Equally, the apprenticeships were in particular areas such as engineering. Once again, that does not benefit women.

When it comes to apprenticeships, the childcare sector, for instance, where about 98% of those employed are women, really struggles with low pay. That sector is not going to be included in that £50-million increase to apprenticeships. That is what we are a bit concerned about; we are concerned that, where the benefits are, they will not benefit women as much as they will men. We would want to see much more in the non-physical side around training and workforces. Those are the areas that would benefit women much more.

Mr Baron: Thank you. Jumana?

Dr Saleheen: I would also like to have seen those investment plans go a little bit further, and that not just being about full expensing.

Q134 **Mr Baron:** When you say "further", do you mean further in time horizons or further in scope?

Dr Saleheen: Both, actually. What businesses want is certainty; they want to know where it is going and what the environment is, so that is about expanding by types of assets: all investments, all types of funding, whether debt or equity, and all types of companies. At the moment, it is incorporated companies only.

Even with that, in an international context, if you look at the OBR forecast for investment, the average level is 10% of GDP for private investment. If you look at the G7 economies, it is much higher; it is more of an average

of 12% to 14%, so there is much more scope there. On public investment, as Torsten said, that is really low; it is below 2% by the end of the horizon. The average in the OECD is 3%. We are really disappointed in that public investment side, because it also has the highest fiscal multiplier—in other words: bigger bang for the buck for the supply side of the economy.

Q135 **Mr Baron:** Can I stick with the point you raised, Jumana? The OBR has been quite robust, talking about the outlook for public sector investment, and I quote: "The decision to hold capital departmental spending flat in cash terms for one additional year means public sector fixed capital formation falls as a share of GDP.…If sustained, this is likely to have a material negative impact on potential output." All of you presumably give that credence in agreeing with it. Can you give us a scale of how big the impact could be, if it were sustained?

Torsten Bell: We have modelled that, but I cannot remember off the top of my head. I will have to write to you.

Mr Baron: Could you, please?

Torsten Bell: All I would say is that there is estimated scale, and there is degree of certainty. On your range of policy measures and their impact on growth, you should be more certain about the damaging effect of cutting public investment than most other possible changes. We will give you the estimate, but I would place more certainty on the direction and the scale of that estimate than I would on most measures in the growth space.

Mr Baron: Thank you for that. Does anybody want to add anything?

Dr Saleheen: The big picture for me, when I look at public investment in the UK, relative to other G7 economies, is the volatility. It is much more up and down, and you just need that certainty, because if you see public investment in roads and infrastructure on a regular, more stable basis, you see the benefits of that in productivity gains.

Q136 **Mr Baron:** I completely agree. The longer the time horizon, the greater the scope, the more certainty to invest.

Torsten Bell: And the investment actually happens, and it is cheaper. Look at what has actually happened when, because of that volatility, you have not built up the supply chains. If you ask finance directors of Departments, they will tell you they do not spend the money in advance because they know there is a decent chance the Treasury will cut it like muppets, at short notice.

Q137 **Mr Baron:** Then there is a rush at the end of the year.

Torsten Bell: There is a rush at the end of the year, so you then get overcharged when you do it. What happens in practice is they then underspend by about 15% on capital budgets, even though we have lower capital budgets than other countries. It is really dangerous. Low level and high volatility is a bad way to invest in your future.

Dr Haque: Can I just add to that? We are talking about volatility and the unpredictability of forecasting, and how that has not been as accurate as we would like. I would like to return to one of the original points I made, which is that we do not know. The Treasury does not properly carry out equality impact assessments. Sometimes it does and shares, but most of the time it does not. I certainly have not seen one from this autumn statement. Because of that, we have no way of knowing.

If the Chancellor does not invest in public services as much, or even if he does, we have no way of knowing who benefits and who loses. Going back to women, given that they are more than half the population, we need a strong recommendation around that. The Treasury needs to start carrying out and publishing thorough equality impact assessments, so that any forecasts are then analysed like that.

Q138 **Mr Baron:** There is no harm in transparency, is there?

Dr Haque: The other thing, with due respect, is that if you do not have the data, it is as though the problem does not exist.

Q139 **Mr Baron:** Torsten, thank you for that offer. We would like to see your follow-up thinking. If anybody else has got anything to add on public sector investment, please do send it in to us. We do think it is very important, obviously.

I will briefly and finally move on to the national living wage, minimum wages and so forth. Many of us have lobbied for the national living wage and national minimum wage to rise ahead of inflation, for a host of reasons. First, it is the right thing to do and is helping those at the low end of the pay scale. It might help to draw people who are not in the workforce yet, and draw back in those who have not disappeared—but you know what I mean—after covid.

We had a conversation with Professor Miles from the OBR this morning that it might also be good for and encourage productivity. In my view, big business has for too long relied on cheap labour. For all those reasons, that is welcome, but let us get to the nub of helping the less fortunate in society.

Although the increase was ahead of inflation, which was good and what we had been lobbying for, do you think the increase is sufficient to ensure that the lowest-paid workers in our country do not face economic hardship in that one measure alone? I think I know what the answer will be but, if you don't think that, do you think the target of two thirds of median wages is the right target in order to achieve that?

Dr Haque: Can I come in here with the example of the childcare sector? The Women's Budget Group hosts the Early Education and Childcare Coalition. It is over 30 organisations, and it includes providers of early years education and childcare. What they are saying about the national minimum wage sums up the real problem around it, which is that on the one hand, of course we welcome an increase in it—of course we do.

Q140 **Mr Baron:** Ahead of inflation?

Dr Haque: Yes; it is now £11.44 or something. There is a problem, certainly for the public sector and for the early years and childcare sector, which is still underfunded—we worked out back in spring that it was underfunded by £5.2 billion, despite the Chancellor increasing funding in that. What those providers said sums up the problem: "If the Chancellor doesn't increase funding for our area, where we're still significantly underfunded and our workforce is still well below the national living wage, how are we going to make it work?" We have this real problem where the Government look amazing because they have increased the national living wage, but they have not increased the capacity for the public sector and the early years and childcare sector to pay that wage.

Mr Baron: Thank you. Torsten?

Torsten Bell: I agree with you that it is generally a very good thing. In the 25 years of the minimum wage as a whole, it has had a huge effect on our pay distribution. It has probably brought our hourly low pay inequality back to levels not seen since the 1970s—probably below what we had in the 1970s. It is a really big change, with average pay growth at the bottom of 2.5% in real terms versus 0.6% of the median. It is a huge change and broadly welcome.

Can it help boost productivity? I am not putting you in this category, I promise, but optimistic lefties sometimes say, "A higher minimum wage will encourage the specific firm paying the worker to use that labour better, and that will raise productivity." There is some evidence of that. If we look at what happened in Germany recently with the introduction of their minimum wage, it was actually more that it caused the rubbish firms to shrink and good firms, which have higher productivity levels, to grow. In general, I would encourage you to focus on that way of boosting productivity—dynamism and more workers working in good firms—rather than always thinking about raising productivity of the individual firms that already exist, because we underestimate the potential impact of the first, and we have been getting worse at the first. It can help that.

On your question about who benefits and how this relates to how we should think about hardship or poverty in our country, who benefits? Broadly, the answer is the middle and the bottom part—the top part of the bottom half. They are the main winners of the income distribution, because although we are talking about the lowest earners, they are not all the lowest-income households, for some really important reasons. First, there are lots of second earners in households who are on the minimum wage. Secondly, the poorest parts of the population will tend to have people not working at all. About 11 million people receive less than half their income from the labour market—from earnings. Those are disproportionately in the bottom. For lots of those people, it is not plausible that the labour market can lift them out of poverty.

There is too much setting up intention with each other. The idea that you either have a higher minimum wage or you provide some support via the social security system is missing out the fact that we have, I am afraid, a large disabled population, a large number of carers and people who are

temporarily not able to work, maybe because they have cancer or for other reasons. You can tell yourself that you can remove all issues to do with poverty simply by changing what happens in the labour market via the minimum wage, but that is not what the evidence tells us.

Q141 **Mr Baron:** I haven't been called an optimistic leftie for a very long time, but I am pleased you have.

Torsten Bell: I was very clear not to call you an optimistic leftie; I was just saying you were a brother of the optimistic leftie.

Q142 **Mr Baron:** A one nation Conservative, maybe. Can you answer the central point about two thirds of median earnings?

Torsten Bell: We were the people who proposed that target, which George Osborne adopted. I support the target. That is not the question, though. The question is, what should we do after it? We are about to hit it in April, as set out by Philip Hammond and Theresa May back in the dawn of time, or 2017, as we now call it. We support that. You should probably endorse further increases, but I encourage you to focus on how a good work strategy stops becoming a one-trick pony that is just about the minimum wage.

I will give you one piece of evidence to encourage you to do that. If I look at job satisfaction since the introduction of the minimum wage, only the lowest earners have seen their job satisfaction fall. They are the only ones who have seen their job satisfaction fall. That is partly because of the intensification and nature of work done by lower earners over that phase, but you should start asking broader questions about the certainty of the hours people work. We have no requirement for minimum notice periods of shifts in this country. Half of shift workers told us that they had less than a week's notice of their shifts recently. We must start looking at a wider range of things—

Q143 **Mr Baron:** A broader package.

Torsten Bell: A broader package, while I would endorse the Government—as I am sure they will—looking at further increases.

Q144 **Mr Baron:** I agree with that. Jumana, do you have any thoughts?

Dr Saleheen: Is the actual value—two thirds of median—right or not? I have not done any work on this myself, but my opinion is that you let the employer decide. When we were raising the minimum wage and when it was introduced very early on, the whole question was: if we raise it, will the employer say, "Actually, it is not worth it for me"? In other words, labour demand will respond; the employer will respond. We have not seen any of that as of yet.

Once you get to that two thirds of median limit, you can test the hypothesis by seeing if labour demand will respond or not. If it does not, that means that the employer is getting the productivity value out of the person. Of course, in any kind of firm, they have a choice between capital and labour. They are fungible to certain extents, but not fully, depending

on what they do. That is how it might be the case that when those wages get higher, the employer decides to have more capital, so each worker will have more capital. That raises their productivity.

Q145 **Mr Baron:** Very briefly on that, our discussion this morning with Professor Miles from the OBR was interesting. There is some evidence that, provided you put it in the broader package—and one accepts that point—the minimum wage can act as a force for good when it comes to increasing productivity, if only because you have to look after your team more; they are more valuable to you, and relying on cheap labour becomes less of an option. Do you have a strong view on that, when it comes to productivity?

Dr Saleheen: There has been some research that shows, as I said, that capital and labour are substitutes. Think of the price of the capital and the price of labour. If there is a situation in which you have access to cheap labour or goods produced in countries with cheap labour, it distorts that decision making, because you can substitute towards that cheap labour instead of capital, which requires you to make an upfront investment in capital stock.

Mr Baron: There is some logic to it, at least.

Dr Saleheen: There is definitely research that supports that.

Q146 **Mr Baron:** Paul, do you have any comments on what has been said?

Paul Johnson: There is nothing much to disagree with in what has been said. The really important part is that a whole labour market policy cannot just be about a national living wage; there are a lot of other issues that really matter to people. One of the remarkable things it has done is really compress the bottom half of the earnings—the wage distribution—which we know some firms are finding difficult, because it is making it difficult for people to progress—

Mr Baron: Differentiation.

Paul Johnson: Because differentials are less than they otherwise would have been. On your question about levels, this is now a high level in an international context. There is certainly a case for pausing to see how things go and focusing on other aspects of making sure that people have good jobs before pushing even further and faster. It has been remarkable how fast it has increased over the last several years and that we have not yet seen any significant negative consequences. We are now at a point where we have come a long way; let us see where—

Mr Baron: And employment remains strong.

Paul Johnson: Yes, but—and I am not claiming this is related—it is the case that we have a large group of people who are outside the labour market at the moment. That relates to some of the other things that the Chancellor is trying to do to get long-term sickness—

Mr Baron: We discussed that this morning.

Dr Haque: Can I just add one thing? It is absolutely right, as Torsten and others have suggested, that we are not working in a vacuum here. More than 70% of child poverty is in working households. That is not entirely about the national minimum wage; it is also about housing costs. For women, it is about the cost of childcare, which they just cannot afford. It is then about benefits and if they need to go up much more, the benefits cap and the two-child policy. In that context, we need to think about that.

The other thing is that when you look at macroeconomic policy, one of the things that frustrates Women's Budget Group is that the Chancellor's spreadsheets do not take account of the fact that women have a disproportionate burden of unpaid care. That is what prevents them from going into the labour market.

Mr Baron: If I may say, I think we all accept that this is not just about wages and minimum wage; it is about the broader package. Ultimately, what will decide the amount, the size of the cake and the money to be distributed are productivity and growth. It is a fact of life, I am afraid. That is why, while accepting that it has to be an overall package, I was exploring whether this could be a means. You cannot legislate for prosperity, but you can edge industry in certain directions. That is why raising minimum wage to the extent that we have, when there has been no significant impact—if at all—on employment, could be a way of encouraging businesses, at a time when they already have a relatively attractive corporation tax level, to think about investment, because in the long term that is the right path to growth. That is what we have to do in this country. I think I have taken enough of the Committee's time so I will stop there, but this is a conversation to be continued. I look forward to doing that.

Q147 **Chair:** Further to my colleague's question, to what extent should the Bank of England be worried about the rise creating any kind of inflationary pressure?

Torsten Bell: It is responding to inflationary pressure.

Q148 **Chair:** The national living wage?

Torsten Bell: The Chancellor in his Conservative party conference speech promised a rise to over £11, and it is £11.44. It is a larger rise than many people were anticipating a few months ago because inflation and nominal earnings have come in—

Q149 **Chair:** Does that mean it will not have any further knock-on inflationary impact?

Torsten Bell: No, it could have some, but we are talking about a relatively small part of the labour market.

Q150 **Chair:** Paul, what do you think?

Paul Johnson: I think that is true. It may have a small effect. The most likely response, at least in the short run, is that firms will increase prices a little.

Chair: That is what the British Retail Consortium was saying this morning.

Paul Johnson: Particularly in our circumstances at the moment where we have a reasonable amount of inflation. But is it going to have a big and noticeable effect on inflation? No.

Q151 **Chair:** Do you all agree with that assessment?

Dr Saleheen: Aggregate wages are growing at close to 7%. This is going to be a drop in the ocean. The bigger picture is that average wages are growing quite fast at this point.

Q152 **Keir Mather:** I will go at a canter because I am conscious of time, but I will ask a quick question about capital allowances and full expensing. Paul, you wrote on Twitter that it was "cheeky" calling full expensing the "biggest business tax cut in history given that it was in part designed explicitly to offset a much bigger (in long term) corporation tax increase." Could you explain what you meant by that, and give us a view on what the long-term implications will be on business investment?

Paul Johnson: Even standing in its own right, it is not the biggest cut, because in the long run it is more of a £2 to £3 billion cut than a £10 billion cut. It is expensive up front, and the Chancellor is to be congratulated on taking that hit up front for something that is cheaper and has benefits in the long run. I am probably a bit less positive about it than some of my colleagues. Yes, it probably moves us in the right direction and it stops equity-financed investment in plant and machinery being disincentivised, but it provides a whopping big subsidy to debt-financed investment in plant and machinery. You might think that there are some risks associated with that. As others have said, it is only plant and machinery, so there is a chance it will distort investment decisions.

Overall, given that we have it for three years, it was absolutely right to make it permanent. It is almost certainly better to have it permanent than what we had before, but it is a long way from the optimal policy. As I say, the scale of the cut is more in the £2 to £3 billion than the £10 billion that it looks like in the short run, and the increase in the rate was in the order of £18 billion, which came in earlier this year. Our corporation tax revenues are still, very happily from the Treasury's point of view, at a high level and on an upward trajectory.

Q153 **Keir Mather:** On a more general point and as a final question from me—I hope I get away with asking a bit of a cheeky one of my own—you said as an initial reaction to the autumn statement that some of the numbers seem to be "made up". Could you explain more clearly which specific numbers you were referring to, and where the greatest space for creativity could be found in some of the Chancellor's accounting?

Paul Johnson: I think this is true of this autumn statement and, indeed, the Budget. Where you have public spending numbers that go beyond the current spending review period, what essentially has happened is that the numbers have been plugged in there that make the debt number at the end of the period work. That is why we have these numbers that imply 3%

a year cuts in many public services. That is why I have said on a number of occasions that it is what the arithmetic tells us, but it is not my central view of the most likely outcome.

Q154 **Drew Hendry:** I would like to ask a question on living standards. I think Torsten said that the overall 3.5% peak-to-trough drop in real household disposable income per person between 2019-20 to 2024-25 is still the largest reduction in real living standards since ONS records began in the 1950s, and that the disaster of what has happened to household incomes is about to hit home, if I can paraphrase slightly. Paul, you have also commented on this. Is the UK alone in experiencing such historic falls in living standards?

Torsten Bell: Pandemics are very, very bad for household living standards. A pandemic followed by an energy price shock common to Europe—not America—is very bad indeed. You can see that in German living standards and in Britain. What makes Britain stand out is that this recent set of shocks comes on the back of a terrible decade for living standards.

Let's look at wages. On the forecasts from last week's autumn statement, wages are only getting back to their 2008 level in 2029. That is 20 years of lost wage growth. We went into the pandemic with wages basically like they were in 2008. It is that fragility that is the problem. If we look at the scale of what is happening during this Parliament, we are talking about a 3.1% fall—about £1,900 per household between the election in 2019 and the election, if it happens, at the end of this year. That will be the first Parliament on record where we have seen incomes actually fall over the course of it, and they are not falling marginally.

It is impossible to perfectly distinguish between what is British-specific and where you want to place the blame—on the world versus on a Government. I think you want to accept that it was always going to be a difficult few years—it was a Parliament containing a pandemic and a global energy crisis—but we went into it with such weak productivity growth over the previous decade and with low wages.

On top of that were the policy choices—the policy changes are broadly big take-aways from richer households as taxes rise and some giveaways to poorer households, and that is in this Parliament. If I look at the Parliaments between 2010 and 2019, we are talking very big take-aways from poorer households—£3,000 to £6,000 depending on your estimate. That is why when this latest round of bad things happened, you end up with foodbank usage going up 37% and record homelessness both in England and Scotland.

Drew Hendry: Dr Saleheen and then Dr Haque?

Dr Saleheen: I just wanted to say that in Europe it is probably the case that there has been more of a cut in living standards, while in the US there has not been. That is because the pandemic response in the US was much more about cash payments to everybody, so they managed to build up

their balance sheets. In some cases, people were getting more in the cheques than they would have earned if they were going out to work. As a first point I want to draw that distinction in the way that the pandemic payments were made. The second point is that fiscal policy in the US has continued to be stimulating the economy, for example with the Inflation Reduction Act and the CHIPS Act. It means that fiscal policy is still adding to the pockets of people.

Dr Haque: Coming back to the human aspect of this, both Citizens Advice and StepChange pointed out that in mid-2021, the people that came to them, predominantly women in debt, had just £20 surplus every month. By mid-2023, it was minus £20, so most people are, on average, worse off by £20 each month. For black and ethnic minority households, and for lone parent households, that is significantly worse. That is that angle of it.

The other angle, of course, is just resilience. There is that cumulative impact, where people have been knocked back, knocked back and knocked back because of high prices for food, energy and housing. We haven't done anything about housing prices at all, and some groups are disproportionately likely to be in the private sector—the black community is disproportionately in the private sector. For all of those people, there are very little savings, because of that cumulative impact, and I think that is where it is translating into debt crisis, destitution and homelessness.

Q155 **Drew Hendry:** Do you want to have a final word, Paul, and then I had better hand back to the Chair?

Paul Johnson: I would just stress, in a sense, what Torsten said. We have had covid and we have had an energy price crisis, so it is not actually enormously surprising that people are worse off at the end of this Parliament than at the beginning. We have had just such a long period without income growth.

When we have had these kinds of crises in the past, they have generally come off the back of a long period of growth. What distinguishes this period is that it has come off the back of a long period of stagnation, with some groups actually losing income—and particularly those dependent on benefits losing income—over that time. I think that is what is distinctive. We are always going to have shocks, but when you have a shock off the back of some good years, it is not as bad as having a shock off the back of a decade of stagnation.

Q156 **Chair:** Thank you. Unless any other colleagues want to come in with questions, I am going to try to do a few quick-fire topics that have not been covered so far. The first is that we heard from the Office for Budget Responsibility this morning that they have been asked over the time of their existence to follow six different sets of fiscal rules. I think we heard this morning that the current one is one of the loosest sets that they have been measured against. So, quick-fire from each of you: if you were Chancellor, what would you change with the fiscal rules? Let's start with you, Paul.

Paul Johnson: They are right—they are very loose. I certainly would not have a fiscal rule that depended on debt falling in a particular year at the end of a Parliament. Broadly speaking, what you want from fiscal rules is that you are borrowing largely only to invest and that you are confident that you have got debt on a downward trajectory over the medium term.

Q157 **Chair:** Borrowing only to invest would be your fiscal rule?

Paul Johnson: And, more importantly, debt on a downward trajectory over the medium term.

Q158 **Chair:** "Over the medium term" being defined as what?

Paul Johnson: Well, over a five-year period or so, but you can have choices about that, and you have trade-offs, as ever. Five years is so far out that you can do the sorts of things that we have seen in this statement, which is to have some numbers pencilled in at the end. If you have it over a shorter period, you would be more certain of your numbers, but it is what matters over the longer period that really matters.

Q159 **Chair:** Dr Saleheen, if you were Chancellor, how would you change the fiscal rules?

Dr Saleheen: I think I would also make the period a little bit shorter. I have not done any research on this, but my opinion at the moment is that it is so far out into the future and that tomorrow never comes.

Chair: It is a rolling five-year—

Dr Saleheen: It's a rolling five-year period, but five years out is so much into the future that it just feels too far. In January 2022, it was three years. I would think that three years is probably better.

Chair: For debt to be falling?

Dr Saleheen: Yes, for debt to be falling.

Chair: Okay. Torsten?

Torsten Bell: Boring consensus: rolling five years out makes no sense. The actual number of years out probably should vary across the economic cycle. When you are just coming out of recession, saying, "I'm aiming for debt to be falling in four years or five years," is perfectly reasonable. Once you are a few years down that path, you should not still be looking five years ahead; you should be actually seeing the debt starting to fall, and you should be targeting debt falling in every year once you are getting up close to those years. You should not be looking ahead at all once you are in the "good times"—we hope to see some of those at some point.

In reality, you will always look at the actual debt levels. Focusing on net debt is causing us a big problem. Why is the Treasury adopting the volatility and the low level of public investment? They are doing it because we are targeting net debt. So I think that you should probably at least have alongside a net debt target a net worth target that takes into account the value of the assets you build, so that you do not treat public

investment the same as day-to-day public service spending, which we are currently doing in practice.

The Chancellor—is he coming tomorrow?—is a very bright man. He knows that we should not be pencilling in these public investment cuts; he would rather not be doing it. But in the real world, where he has an election next year and he has a fiscal rule that is focused on net debt, that is what he has done. The rule is pushing us into what we know is sub-optimal economic policymaking, so I would also look at changing that.

Chair: Okay. And Dr Haque?

Dr Haque: Two quick things. One is that we would want to see much more investment in public services, and we would definitely want public services to be increased in line with inflation, because we think that that is where growth needs to happen—it's not just about private sector growth.

Secondly, on equality impact assessments, it is just not good enough to talk about forecasts and predictability, unless you ask, "Who are the winners and who are the losers?"

Q160 **Chair:** Thank you. There were 110 measures announced in the autumn statement—you have all had time to go through them, I am sure. Are there any of those 110 that you particularly want to flag that have not come up so far?

Torsten Bell: As I slightly mentioned earlier, given that you have the Chancellor coming, I think it would be good for you to get more detail on whether we are really planning—if you read between the lines, you might get this from the documents last week—to basically legislate at a national level for the planning required for our energy infrastructure to a much greater degree, removing the local discretion and, in exchange, basically providing local bungs for people. If that is what is envisaged on a significant scale, then that is a very big change—and a very valuable one, given the delays currently being seen on energy infrastructure. If that is what is planned, it is a very big deal and did not get any discussion last week.

Q161 **Chair:** Any of the other 110 measures you want to bring up?

Paul Johnson: Can I mention the business rates package, which was yet another one-year roll-over. Quite a lot of these were actually introduced because of covid and are now being rolled over for another year at quite a big cost—I cannot remember what it is; £2 billion or £3 billion. Ideally, they should not be there at all, but if you want to have them permanently—say you have them permanently—do not roll them over year by year such that no one has any idea where we will be into the future. It is bizarre that we introduced something specifically to help businesses in covid and are still rolling it forward—covid has gone.

Torsten Bell: It is definitely not a growth measure, either.

The other thing to say is that this is a really good case study of a wider problem, which is that Chancellors come to the House of Commons and say, "I am going to boost growth by providing this tax incentive to small business." Another way of announcing the same thing is to say, "I would like to provide a strong incentive for firms not to grow by only letting them have a lower rate of tax if they stay small." That is what we repeatedly do. I hear politicians of all the main parties saying that the backbone of growth is these small businesses, but the evidence does not support that in any way. If you are actually about growth—after 20 years of no wage growth, I would have thought that even the de-growthers would think that some growth would be a good idea—and are going to target tax support at all on that basis, you should focus on young firms, not small firms. You are literally telling firms not to grow.

Q162 **Chair:** Does anyone else have any comments on the 110 measures?

Dr Saleheen: I have one quick one on the policy that was announced on the ISAs, where there was some simplification. I would argue that we could have even more simplification, like being able to transfer across providers quickly and within the year. There has been some—it has been partial—but it would be nice to see further simplification of the whole ISA family.

Q163 **Chair:** Thank you. Dr Haque?

Dr Haque: Workforce strategy for the early years and childcare area; that is such a fundamental area.

Q164 **Chair:** Didn't we get a lot about that in the Budget, though, with the free childcare offer?

Dr Haque: But it did not tackle workforce at all. It did not tackle how much they are paid or any of the reforms that are needed. It basically just said that there is more money, but we have estimated through modelling that it is lacking £5.2 million in further investment that is needed. So I would say workforce.

The other thing, related to that, is that there is very little about skills and training is for women. As I said, it once again went back to plants and machinery instead of people and skills.

Q165 **Chair:** To be fair, there have been other events where people have mentioned training; it is not like the Government are not doing anything on training, apprenticeships, further education or lifelong learning.

Dr Haque: They do not focus very much on women's training, such as in the retail industry.

Q166 **Chair:** There were earlier announcements on those important topics.

Dr Haque: There was not much where women tend to work. Women tend to work more in the retail industry, early years and childcare, and education; that is where the majority of women are working—and in healthcare. There is very little around training in those areas.

Q167 **Chair:** Except for the NHS workforce. I think we could have a long discussion about that, but I hear what you say.

Does anybody want to comment on the economic consequences of last week's announcement about migration being revised up to 745,000? Presumably measures will be announced to bring that closer to what the Office for Budget Responsibility forecast, which I think is 245,000. Does anybody want to tackle that one?

Dr Saleheen: The only point I would make is that we found out in the past that migration is higher, but we already have information on GDP and employment, so actually nothing has really changed in terms of the size of the economy.

Q168 **Chair:** Per capita, economic output has dropped, presumably.

Dr Saleheen: I was just going to say that. Then, on the productivity side, it could be slightly smaller.

Q169 **Chair:** Okay. Does anyone else want to comment? If productivity was worse than we thought, the bad productivity was—anyone?

Torsten Bell: Overall, our view is that people overestimate the effect on the size of the economy per capita, which is what we care about, from either high or low. So, on the one side, we have the people who really do not like migration and who say that if we cut it, it would definitely boost GDP per capita. On the other side, we have people who say that if you have any cut to migration at all, it will be catastrophic for growth. We think those are both overstating the evidence.

Specifically on last week's numbers, one thing we want to pause on is that the nature of the migration has obviously shifted away from workers to other routes. We are seeing much higher numbers than we expected in a post-Brexit world. Yes, some of that is because we have loosened the regime for people coming from outside the European Union. That was the Government's explicit choice, so that was intentional. But, broadly, we have seen very large rises in other kinds of migration that are probably not workers and were not intentional. Given that there is basically a cross-party consensus on what the nature of the core migration regime, particularly for the labour market, is—that is, a points-based system that has a salary threshold and the rest—

Q170 **Chair:** Have any of your organisations done any work on salary thresholds or optimising that?

Torsten Bell: We have looked at optimising that. Its role in deciding our level of growth is overdone. You can make reasonable choices in either direction. Having a system that looks roughly like we have it, I think, is perfectly reasonable on the salary thresholds bit of the system. However, if you just go at that bit of the system and try to bring the number down by focusing on that bit of the system, you are missing the fact that lots of the surprise has happened in other bits of the system.

Q171 **Chair:** Okay. Are there any other points that any of you came here

burning to tell us? We have this opportunity tomorrow to ask the Chancellor questions—you are very quiet all of a sudden.

Dr Haque: I would like to return to the point that you should please, please ask the Chancellor why he does not produce equality and impact assessments.

Q172 **Chair:** You landed that point very well.

Dr Saleheen: I am still very worried about the fiscal dynamics. I feel there are estimates out there—we have done some work—that show, with debt levels at 100%, the growth and interest rate environment that we have in the decade ahead is very different.

Q173 **Chair:** The risk of a debt trap, which was the point that you started with.

Dr Saleheen: Yes, and it really feels to me like fiscal policy is now going to be at the centre. We have had monetary policy for 2022 and 2023, but debt dynamics in the UK, the US and other economies are really going to be entering centre stage because of the very negative macro environment we are in. The level of debt really matters. If debt is 50% of GDP, those macro factors matter way less than when it is 100%. So the starting level of debt would be something to really ask the Chancellor about.

Q174 **Chair:** Paul, anything else on your prescription?

Paul Johnson: Nothing from me.

Chair: I think you have all had a good chance to surface quite a lot of the things that we will cover tomorrow. It has been very informative— a bit like going to a really amazing seminar. I appreciate all the work that goes into preparing for one of these sessions, so I appreciate you all coming and spending some of your precious time with us this afternoon. Thank you.