



Economic Affairs Committee

Corrected oral evidence: Chancellor of the Exchequer

Tuesday 19 March 2024

3 pm

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Members present: Lord Bridges of Headley (The Chair); Lord Blackwell; Lord Burns; Lord Davies of Brixton; Lord Griffiths of Fforestfach; Lord Lamont of Lerwick; Lord Razzall; Lord Rooker; Lord Turnbull; Lord Verjee; Baroness Wolf of Dulwich.

Evidence Session No. 11

Heard in Public

Questions 1 – 13

Witnesses

I: The Rt Hon Jeremy Hunt MP, Chancellor of the Exchequer, HM Treasury; Dan York-Smith, Director-General, Tax and Welfare, HM Treasury; Sam Beckett, Chief Economic Adviser, Head of the GES and Second Permanent Secretary, HM Treasury.

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Examination of witnesses

Jeremy Hunt, Dan York-Smith and Sam Beckett.

Q1 **The Chair:** Good afternoon, and welcome to this hearing of the Economic Affairs Committee. Welcome, Chancellor. Would your officials from HM Treasury like to introduce themselves for the record?

Sam Beckett: I am the Chief Economic Adviser at HM Treasury.

Dan York-Smith: I am the director-general for tax and welfare.

The Chair: Thank you all very much for coming. There is a lot to get through, and we will start with our current inquiry on debt sustainability. We have heard a lot from the witnesses we have spoken to over the last few weeks that the major parties are not really levelling with the public about the current state of the public finances and the need to raise taxes, cut spending, or both in the years ahead. How would you respond to that criticism overall?

Jeremy Hunt: First, it is a very good debate to have, and we all need to completely understand the challenges facing public finances. Underlying the approach the Government take to public finances is a strategic call we have made that we do not believe the increases in the tax burden seen in the last few years should become irreversible, and we think we should make the effort to bring down the tax burden. We look around the world, and we think the countries that grow the fastest tend to have lower tax burdens, although economists will argue about cause and correlation.

We have a 1% real-terms increase in our spending plan for the next Parliament, which was brought in in the Autumn Statement of 2022 when I had to do a very big consolidation; that included putting up taxes and reducing spending. People such as the IFS rightly ask, "Is that sustainable?" We reduced spending in real terms in 2010 by 2.1% a year, and by 0.7% a year in the spending review of 2014. So not only can it be done, it has been done.

The question is whether you can do it without cuts to the public services that are valued by the public. The answer is only if you have a productivity revolution in the way public services are delivered, and there seems to be a divide in politics. People with experience in the private sector say the level of productivity increase we are asking of public services is completely reasonable; I am in this camp. Public services are 5.9% lower than pre-pandemic at the moment. I look at the period between 2010 and 2019, when the average increase in productivity was 0.7% in public services, and the NHS increased productivity by 1.5%.

We are asking public services to increase their productivity by about 2% in the next Parliament. That is completely doable; most people with any private sector background would say that is much lower than they are aiming for. But those of us who have worked in the public sector, including probably everyone here today, would say it is more challenging in the public sector. As in the private sector, you have to be prepared to

invest in new IT systems, and you have to see those through to make sure you end up with cashable savings, not just productivity savings allowing for better use of public servants' time. It is possible with determination and imagination, and that is what I tried to set out in the Budget.

Q2 The Chair: That is great at setting the scene. Can I come back to the issue of debt and the fiscal rules? The OBR says you are going to meet that target. Debt will rise and then fall in the final year as a percentage of GDP, and, "The fiscal forecast is also conditioned on the tax take rising to near record highs, including through planned rises in fuel duty that have not, in practice, been implemented since 2011. It also assumes the Government will stick to assumptions which imply no real growth in public spending per person over the next five years".

If you are accepting you are going to meet the rule on debt, are you accepting those assumptions? I am trying to work out how this all fits together, given what you have just said.

Jeremy Hunt: We are accepting the spending assumption, which is overall public spending going up by 1% a year in real terms over the next Parliament. Because we have recently had big increases in migration caused by exceptional decisions to rightly support people in Ukraine, Hong Kong and Afghanistan, the per capita number is slightly lower, but it is effectively flat real—as the OBR said—which I accept, and that is why there is a big productivity challenge.

On fuel duty, I know people call it a fiction. I do not accept that; it is a decision we take at every Budget. I can be quite open with you and say I hope I do another fiscal event this Parliament, and, indeed, if I return as Chancellor after the next election in the Spring Budget I would hope to continue to freeze fuel duty. But I would take that decision on the basis of public finances at the time and whether I can afford to do it; it is not pre-decided, so the public accounts correctly reflect that decision.

The Chair: What about the spending on other areas? Do you see that growing in real terms? There is a, "Lack of detailed department-by-department spending plans beyond the current spending review", and that is why it all becomes a bit difficult to see how this all adds up. What is spending going to be doing over the course of the next Parliament?

Jeremy Hunt: I do not think it is difficult. With great respect, it is perfectly normal for Governments; no Governments decide a spending review this far ahead of when it is happening. This particular spending review has to be completed before next April, when the next financial year starts. If the general election is in October, that will mean it is very tight, which is why we are thinking in advance about the most important element of that spending review: the productivity element. How do we have more productive public services? What up-front investment do we need so we do not have cuts in the services valued by the public, and that we have a more productive state, not a bigger state; that is very

important. It is going to have challenges, but it is a perfectly reasonable assumption.

The Chair: We are going to tease out some of these points. Lord Griffiths, do you want to pick up on the fiscal rule?

Q3 **Lord Griffiths of Fforestfach:** Thank you for coming, Chancellor and Treasury officials. Most people accept there is a case for fiscal rules, but in my career I have never known such hostility as the criticism you get from reputable institutions like the Office for Budget Responsibility and the Institute for Fiscal Studies. How do you reflect on the fiscal rules we have?

Jeremy Hunt: It is very important to have fiscal rules; they are guardrails that give people confidence that Chancellors are taking decisions with the long-term interests of the economy in mind, particularly things like the level of debt. But they are very difficult to get right in practice, as many people around this table know, and the choice you have is rather tighter fiscal rules than the ones we have now, which end up being broken, or slightly looser fiscal rules that you stick to, as we have now.

The fiscal rules we have now were put in place in the autumn of 2022, when we faced a big economic crisis, largely caused by the invasion of Ukraine, but also the aftermath of the pandemic. Instead of three years, as happened previously, we gave ourselves five years—which those bodies supported at the time—because we did not want to have a debt rule that forced an even bigger consolidation that ended up putting the economy into a spiral of decline because it affected growth so badly. Giving myself five years not three enabled us to avoid a serious recession; we have had a technical recession, but not a serious recession.

It also had an unexpected consequence, which I did not realise at the time: by having a five-year horizon, you allow the OBR to do much more dynamic forecasting. In the last 18 months, it has done something it has never done before: taken the national insurance cuts and said, "This is going to mean there will be 200,000 more full-time equivalents in work, filling one in five vacancies in five years' time". It has never been able to model the impact of things like tax cuts or full expensing, which was the business tax cut in the autumn. That has encouraged long-term decision-making, because one of the first questions I ask when I am thinking about what to do is, "What will the GDP impact be in five years' time?" and that is healthy. There are no perfect fiscal rules but the ones we have at the moment are sensible on balance.

Lord Griffiths of Fforestfach: In a way, you make a very good case for gradualism, rather than something tougher and shorter. On the other hand, the ratio of debt to income is still around 95% at the end of the period. When I think of previous Chancellors who have had to take decisions when there seems to be a structural imbalance in the public finances—Roy Jenkins back in the 1960s, Denis Healey in the mid-1970s, Geoffrey Howe in the early 1980s—they all had to introduce very tough

measures to deal with it.

I am impressed by the fact that two countries in Europe have a much lower ratio of debt to income than ourselves or France, the US, and so on; namely Switzerland at 45% and Germany at 65%. In terms of the public, I wonder whether there is a case for saying, "We can go for gradualism, but we're potentially in such trouble because of the uncertain environment in which we live that we really have to announce something that will be credible but very tough".

Jeremy Hunt: It is exactly the right question to ask, but the challenge is that the very tough thing you announce—presumably either a steep increase in tax or a steep cut in spending—would have a very big impact on our growth rate. The question then is whether our debt-to-GDP ratio as a result of those changes would end up being higher rather than lower, so there is a balance. While Switzerland and Germany are shining examples of fiscal prudence in that sense, we are the second lowest in the G7, so we are not bad compared to the majority of other countries.

The answer to your question lies in whether the money you are investing—some of which may come from borrowing—is being spent on things that increase the long-run productive capacity of the economy or whether it is being spent on current consumption. There is a case for doing it within sensible guardrails if it is being spent on things that are going to help the economy and help the supply side of the economy in the long run. If not, you are taking very big risks with the sustainability of public finances.

Lord Davies of Brixton: I took you to say that the fiscal rules you set when you became Chancellor were in effect the product of the circumstances at the time. You are now telling us things are very different; does that mean you need to revisit the fiscal rule?

Jeremy Hunt: They were a product of the time, but it is really dangerous for Chancellors to change fiscal rules at every fiscal event. The criticisms levelled at the fiscal rule are that some people say they are too loose and there is no path to bringing down debt sustainably, and other people say they are too tight and are not allowing enough investment for growth. Both criticisms can be managed by sensible Budget decisions within the fiscal rules we have.

For example, the £3.5 billion we are investing in NHS productivity is an additional investment in our productive capacity, and it is very important we are able to do that within the current fiscal rules. We are also bringing down debt by the fifth year; that is really the balance.

Sam Beckett: Although the fiscal rules are an incredibly important part of the fiscal framework, we have been thinking about other aspects of sustainability and transparent reporting. We are increasingly publishing a wider range of contracts, including public sector net worth, we have published a document on contingent liabilities for the first time, and the Office for Budget Responsibility does that longer-term projection piece

very transparently every summer looking at fiscal sustainability in the longer run. Those things sit alongside the rules to assure us we are thinking about sustainability.

The Chair: Do you think the fixation on a pure percentage is too blunt?

Sam Beckett: Looking at borrowing and debt, if you go back over different sets of fiscal rules, the pairing of rules is generally the way we have looked at targets. Those are easily measurable and judged by the Office for Budget Responsibility, but that wider set of metrics is important to have on the radar to see if other things are going on in the background that you need to attend to.

The Chair: Maybe you could write to us. I do not want to go into too much detail on that, but it would be very interesting to know what other sets of metrics you are looking at on this.

Sam Beckett: The principal one is the public sector net worth, which is the broadest measure.

The Chair: Is there anything else you want to mention briefly before we move on?

Sam Beckett: We have published a document on the contingent liabilities piece I mentioned, which summarises those.

The Chair: That is a nice segue into Lord Burns.

Q4 **Lord Burns:** Good afternoon, Chancellor. I understand the case you make for having a five-year horizon, and I understand the worries about being too tough. I also understand the case Sam makes for looking at a range of indicators. The definition of debt sustainability is we should be in a position to absorb shocks when they arise. We have just had the experience of a whole series of unexpected shocks, which has taken the debt ratio up by a huge amount.

Given that, and the change of the debt structure, do you have any nervousness about starting from this point and getting up towards 100? Are you assuming there is some defence should another event take place as long as we stay with the pack of other major countries, or do you have any nervousness or concerns about this? Should we be trying to get the debt ratio down faster?

Jeremy Hunt: We are getting the balance right. If we want to get the debt ratio down, the priority right now has to be to get back to our normal trend growth rate of about 2%, where we have not been for the last couple of years. At this point, further consolidation would make that harder, and would ultimately mean that the debt picture would look more worrying, not less.

Your broader point is right. For example, the very difficult decisions taken between 2010 and 2018 that brought down the deficit by about 80% were a very important foundation for us being able to give £360 billion of support during the pandemic. We should always be challenged with

questions like yours because one of the biggest reasons for the consolidation in the autumn of 2022 was the hike in interest rates caused by 11% inflation. It is entirely possible that could happen again, and we have to look at the world around us and the potential for shocks and recognise that is a very real risk going forward. That is a very good reason for having fiscal rules that have credibility and ultimately allow you to credibly bring down debt.

Q5 Lord Blackwell: I would like to ask about both short-term and long-term spending policies. In the short term, the IFS has commented that your plans in the current spending review would be, “devilishly difficult to deliver”. It estimates that maintaining expenditure on the areas that are committed would mean that other areas of expenditure would have to reduce by roughly 2.5% in real terms each year.

You talked about possibilities to increase productivity, which I certainly endorse, but that takes time. Do you think the opportunity to increase productivity means some of the existing commitment areas can be revisited, or does it all fall on the unprotected areas? Are you comfortable telling the public this can be achieved without a return to austerity-type cuts?

Jeremy Hunt: I do not pretend that 2.5% real-term cuts would not be challenging, if those numbers are correct because it is the IFS modelling, not the Government’s. In the Budget, I announced an agreement with the NHS, which is our biggest public service—40% of all spending on public services—in which it said that it would deliver 1.9% productivity improvements a year over the next Parliament. That would mean you would eliminate the vast majority of those 2.5% real-term cuts, providing those savings were cashable savings; that is a big challenge, but it is deliverable if that is your focus from the outset. That is why I announced HM Treasury is going to take a very different approach to the spending review next time, because we are going to be asking the whole public sector how they are going to deliver that 2%, and we are going to be looking specifically for things that make that a cashable saving.

I fully accept that it will be challenging, but I do not think it is impossible by any means. There are lots of examples, not just in the private sector but in the public sector, where things we were not able to think about in 2010 are possible now, such as the IT revolution. If you look at the transformation in HM Passport Office over the last year, where it has reduced the time it takes to get a new passport from 10 weeks to three weeks—it is probably one of the most efficient passport services in the world—it has done it by simply applying the things that happen in every other realm of our lives in the online world to the process of buying a passport.

For example, the NHS is very optimistic it can find a way of translating a voice message from a doctor into an entry into a patient’s notes, meaning they would not have to spend so much time at the end of the day filling out medical notes. These things have real potential, and we should be going for them full tilt.

Lord Blackwell: Within those constraints, is it realistic to think about making progress on increasing defence spending over the next few years?

Jeremy Hunt: We will need to increase defence spending. We have committed to raising it to 2.5% of GDP as soon as it is affordable. It is impossible to look at the world around us and say it is not becoming significantly more dangerous; we definitely need to keep that under review.

Lord Blackwell: If you go beyond the next Parliament, because of demographic changes, cost of care, pension, et cetera, the OBR projects that public expenditure would end up at 67% of GDP in 50 years' time, assuming historic growth rates. That implies taxes also at that level, which is clearly not desirable.

Do you think it is possible to reduce that to acceptable levels through the productivity improvements you have talked about? Both you and the Opposition talk about boosting economic growth, but you would need economic growth to be 1% higher every year to keep public spending back at around 40% of GDP. It goes back to the question Lord Bridges asked: are both Government and Opposition really being open about the challenges of constraining public expenditure over that time period?

Jeremy Hunt: I genuinely think we are being completely transparent. We are laying out a plan; that is not to say it is not a challenging plan to deliver, but I am very clear on what the plan is. Let me tell you about both those areas and suppose that we increase productivity growth in the public sector by 0.5% a year above current levels. If you take the 2010 to 2019 period, which is a bit more normal than the period we have had in the last few years, it was growing at 0.7% a year. If it grew 1.2% a year going forward, that is enough to stabilise public spending as a proportion of GDP.

But if you add all the policies we want to do to get the private sector growing faster—policies of other countries not dissimilar to us—you can do big things there. An example is our policies to make work pay so we get more of the 6 million unemployed adults of working age, excluding students, into the workforce. Our inactivity rate is 21.9%; it is 13% in Iceland and 14% in the Netherlands. If you look at our policies to increase investment by the private sector with the full expense of the tax break we announced, and if you look at our nurturing of the technology sector, which is going to be a great opportunity for the UK going forward, it is absolutely possible to get our economic growth rate healthily closer to US levels of growth compared to continental European levels of growth.

The Chair: Before we move on, just returning briefly to defence: you say we are working to a plan, and I see that is what the Defence Secretary is also saying, given that he says we are in a "pre-war world". Given the importance of this, are you able to put a timeframe around when we are going to get to 2.5%, and do you think that is sufficient?

When you were standing to become leader of the Conservative Party, you were saying you wanted it to be 3%. I have a quote here from James Heappey back in October 2022, when you and the then Defence Secretary, Ben Wallace, were meeting: "The Chancellor and Secretary of State Ben Wallace have had some initial conversations in which I think everybody is clear that 3% by the end of the decade is necessary, given the security situation that we are in". Do you think 2.5% is going to be enough?

Jeremy Hunt: Chair, I know defence is one of your four Ds. One of the misfortunes of being Chancellor—having campaigned for the leadership of the party and spent some time on the Back Benches—is that your views are known to everyone.

There is absolutely no doubt we need to spend more on defence. Thinking back to the time I spent as Foreign Secretary, let us ask what is the biggest single way that the rest of the world thinks that the UK can add value to the world. The UK does amazing work on global security, international development, and all sorts of areas. But the work we have done with the United States since 1945 to maintain the peace is the single most important thing we have done for global peace and prosperity and the single biggest thing that other countries look to the United Kingdom to do, and we are lucky to have very fine Armed Forces; it is a very important area.

Perhaps I am putting my Chancellor hat back on, but it is important not to start with how much money you are going to spend; it is important to ask what you are going to get for any additional investment. If you look at what has happened in Ukraine, it is clear that the nature of modern warfare has changed very dramatically. We need to think about that, and we need to ask whether our defence procurement is up to scratch. We seem to have a lot of projects where we decide to do something that is going to be delivered in 10 years' time, it ends up costing massively more than everyone originally said it was going to cost and is sometimes not best suited for the new types of warfare—drones, ships without crew, tanks without drivers, and all these kinds of things that you see in modern warfare. A lot of thinking needs to happen, but I agree we will need to spend more.

The Chair: I am sorry, just to press you very gently on the timeframe.

Jeremy Hunt: We are keeping it under review. We are cognisant of a very big change even in the last year: the war in Ukraine that people had hoped would come to a rapid end could last much longer, and there could be further change with the US presidential elections, so we have to keep thinking very hard about these things.

Q6 Lord Davies of Brixton: Continuing on the issue of productivity, your figures depend on the public sector productivity programme to a significant extent. Including all the work in the health service, it is going to cost £3.4 billion and is going to generate £35 billion over the next five years, which sounds fantastic value for money. I cannot help wondering

why the health service is not doing these things anyway. They are patently obvious things you ought to do. Is that figure in addition to what would have happened anyway? There seems to be a big variable there.

Jeremy Hunt: Very good questions. First, the health service is recovering from the biggest shock in its history with the pandemic, so this is a moment of change for the health service—to change its priorities and get back on to a normal footing.

When I became Health Secretary in 2012, it was in the middle of something called the Nicholson challenge, run by the former chief executive of the health service Sir David Nicholson, who set the health service a challenge of making £20 billion of savings over four or five years; that was a big part of what it was doing then. That delivered the 1.5% improvement in productivity that happened during my period as Health Secretary. We need to get back to normal, and that is why it has not started before.

Are those savings on top? Broadly, yes. The chief executive of the NHS was willing to publicly commit to 1.9% productivity improvements for the next five years because we were prepared to invest the £3.4 billion in the IT transformation and the NHS long-term workforce plan. She would not have made that commitment unless we had made the commitment on the part of government.

It is important to say that the productivity improvements she has committed to are not just about waiting for some fancy IT system to get inaugurated in three years' time. She has committed that every large NHS body—including every hospital—will measure its productivity on a quarterly basis, and that will become a central part of how managers throughout the NHS are assessed. That process is going to start right away.

Lord Davies of Brixton: To what extent are HM Treasury and are you reflective about the sheer problem of measuring productivity in public services, particularly in the health service? There is the general problem of measuring it, which has always been there, but now, with the use of electronic devices pre-eminently, maybe we are measuring the wrong thing.

Jeremy Hunt: That is a really good question. It is a big challenge for the private sector, too. For example, most people would question whether our use of electronic diaries, which we all use now, is reflected in national productivity figures.

I think HM Treasury officials would say—and I have two eminent ones here—that we think we are better than most countries at measuring public sector productivity. We measure the outputs of our public services, such as our schools; our GDP goes down when teachers are on strike. In most countries, it does not go down because they just measure the input in terms of the teacher salaries paid. But I am sure we still need to make a lot of improvements. I do not know if you would agree with that, Sam.

Sam Beckett: We have an ongoing programme with the Office for National Statistics to try to improve the measurement of public sector productivity. As the Chancellor says, we are pretty good at this in international terms. In a lot of countries, inputs equal outputs, so productivity is fixed, whereas we have much more sophisticated measurements than that in the UK.

The two really big areas where we are at the leading edge are education and health, but more can always be done. Things have changed coming out of the pandemic, so it is time to look again at those measurements. We are currently talking to the ONS about giving us more up-to-date measures of public sector productivity so we can look at progress over time without big time lags. We have a good ongoing work programme with the ONS on this.

Lord Davies of Brixton: To argue the contrary case, we are really interested in the extent to which it changes rather than its absolute level.

Sam Beckett: Absolutely, yes.

Q7 **Baroness Wolf of Dulwich:** Chancellor, thank you for coming. I would like to change tack slightly to the topic of migration; inward and outward migration has a major impact on our societies. The OBR modelled a number of scenarios, and very reasonably drew a clear difference between the effect on GDP per person and GDP overall, and the impact of whether we had capital investment.

I was struck by the fact that most of the scenarios assume a pretty high level of net inward migration over the next Parliament, and I was also struck by the fact that, although you raised thresholds in a number of ways—skilled worker visas, for example—in your recent changes to legal migration rules, you still left it pretty easy to come in if you were a care worker or a teacher, and you still have the desire for 600,000 international students. On the whole, do you feel that our growth depends on high levels of net migration, not merely total GDP but GDP per person? Given the nature of our economy, do we really need it?

Jeremy Hunt: Migration has definitely contributed significantly to our growth in GDP over many decades, but particularly during the period we were in the single market. It is a much harder question to answer if you ask about GDP per head, which is a much more important metric because that is more closely linked to rises in living standards for ordinary families. Some controlled migration—filling skills gaps—can have a very important role in increasing GDP per head, but the risk is that you undermine the growth in GDP per head and create a lot of social unrest if you end up with a model dependent on unlimited migration.

As I tried to outline in the Budget, as a country, I believe we should say we are going to move decisively towards a high-skill, high-wage economic model that does not depend on unlimited migration. The last annual number of the OBR modelling of migration patterns was 670,000, but it has it falling pretty quickly down to the long-term ONS rate of 315,000 a year, so it thinks the levels of migration will fall.

If you want a high-wage, high-skill model, there are some things you can do relatively quickly, but the main thing you need to do is invest in education and training, to invest in the skills of the 50% who do not go to university; the Prime Minister is very keen on maths to 18. You need an apprenticeship programme as good as the ones in Germany, Switzerland and Singapore, and then you start to really increase productivity and living standards.

Baroness Wolf of Dulwich: If you were thinking about high-skill migration, care workers perhaps would not immediately come to mind.

Jeremy Hunt: I agree.

Baroness Wolf of Dulwich: It feels as if we are still basically responding to short-term gaps. You cannot give a precise answer to this, but it has been quite hard to predict the impact of changes, hence we have had sudden switches. As a rough ballpark figure, at what point do you feel the level of net migration is getting so high in terms of its impact where we have a shortage like housing that you go, "We really need to change this"?

Jeremy Hunt: I do not think I can give an exact number, but it is too high now. Perhaps I could just clarify my earlier comment. I recognise there are going to be short-term gaps for things like care workers, where we are going to need to show some flexibility in our migration policy to make sure we address the needs of the social care sector. The journey we need to go on is going to take time. If you are talking about raising the education levels and skill levels of school leavers, that does not happen overnight. There is going to be a combination of filling in short-term gaps, but also putting in place the longer-term policies that reduce your dependence on high levels of migration.

Lord Burns: During the debate on your Budget, I noticed you have been very eager to compare our total GDP growth rate with other countries, and I noticed the Opposition put to you almost immediately that you do not get the same conclusion if you do this in terms of GDP per head. Where do you think the truth lies between these two numbers? You have to take account of the growth of the population. On the other hand, not all heads are the same because of demographic changes. What is your response to this debate that I have now heard several times?

Jeremy Hunt: The truth really depends on what question you are trying to answer. When I talk about the fact that we have had higher growth than France, Germany, Italy, and Japan since 2010, I am really saying that we have had a very impressive overall performance and seen the economy growing faster than many of our peers during a period in which we have had huge global shocks—financial crisis, pandemic, and energy crisis—all in the space of 15 years.

Living standards for ordinary families all over the world have been affected, particularly since the financial crisis. Our GDP per head has risen faster than a lot of similar countries, such as France, Finland,

Norway, Netherlands, and Canada, but we are middle of the pack overall. As I was outlining in the Budget, I would like us to embrace economic reforms that mean we have a higher rate of GDP per head, and that is partly moving to a different model with respect to migration, which is what we were talking about with Baroness Wolf.

The Chair: You said it will take time. I understand exactly why you are saying that in your argument. Assuming the next Parliament lasts a full five years, do you think we should still see net migration at 315,000 by the end of the next Parliament? Do you think that is an optimal satisfactory level for us to be at, because that is several years off?

Jeremy Hunt: I do not want to get drawn on what an optimal or satisfactory level is; it is too high now. To answer your question about the end of the next Parliament, the economists around the table will know the key thing is productivity if we are talking about raising living standards, which is the key objective of economic policy.

What are the key drivers of productivity? The first is investment in plant and machinery and IT, which is what our capital allowances will do and that will definitely have an effect by the end of the next Parliament. Secondly, there is investment in human capital; the education reforms and the rise we have seen in reading standards over the last decade will definitely have some impact over a five-year period. Thirdly, there are things like the amount of innovation in the economy, which is what economists call total factor productivity. We have a very strong story to tell there with our innovation industries.

So you could definitely start to see an improvement in our growth rate translating through into higher living standards by the end of the next Parliament.

The Chair: Let me try again. What is stopping you from saying that it might be better if net migration was in the region of 100,000 to 200,000? When you look at the OBR's scenarios, this has a bearing on debt sustainability and on growth, as you well know. This is a very important issue in the country and people are very interested to know what you think about that.

Jeremy Hunt: I do not want to give you an answer on that because the answer would depend on a lot of very variable assumptions about the structure of the economy you were talking about. You could have a structure where you had very high skills available domestically and your immigration needs were really for low-skill labour, which you were happy to have because people at home were all doing high-wage, high-skill jobs, or you could have a situation in which we had failed to do that, and you were still bringing in lots of people with higher skills. So I do not think it is possible to land on a single number.

The Chair: We will move on very neatly to Lord Lamont on inactivity.

Q8 **Lord Lamont of Lerwick:** Good afternoon, Chancellor. You referred

earlier to the proportion of the population of working age that was not available for work; you put a figure of 6 million, or another figure is 9 million including students. When talking to Lord Griffiths earlier, you also referred to the measures in the Budget that you said had created the equivalent of 200,000 full-time jobs over the survey period. That is significant and impressive, but 200,000 as a figure is dwarfed by the totality of the problem.

When you look at the number of people claiming sickness benefit, which has gone from 2.5 million to 3 million, and it is said two-thirds of them are saying they suffer from mental and behavioural disorders, this is a very serious problem. What can the Government do further about that? The tax measures that you have done—admirable though they are—are only really touching the fringe of the problem.

Jeremy Hunt: That is a very fair challenge. The 200,000 figure is actually low compared to the 2.8 million who are on sickness benefit, but it is quite a significant chunk of the 900,000-odd vacancies in the economy. We are trying to make sure that we can fill vacancies by making work pay, and the national insurance cuts, the childcare reforms and the back-to-work reforms that the Work and Pensions Secretary has already announced go some way to doing that.

I absolutely agree that there is a lot more work to do. A particular challenge we have is that the welfare system currently identifies mental health challenges as a reason why someone should not be asked to look for work. But there will be cases when not being in the workplace is detrimental to people's mental health, and it would be much better for those individuals if they were supported to live with their mental health condition in a way that allowed them to work. That is a very big change. The reforms we have announced so far reduce the number of people who are told they do not need to look for work because they are too ill by about two-thirds over five years, but there is still a very big challenge there.

Lord Lamont of Lerwick: Do you think the structure of benefits should be looked at? The OBR suggested that perhaps the level of sickness benefit relative to other benefits might influence people's perception of themselves, and it referred to certain benefit changes—comparing one benefit to another—that have occurred in previous decades that might have an impact. Is that on your radar?

Jeremy Hunt: It is, absolutely, and we need to keep looking at welfare reform. It is incredibly destructive to society if a system ends up parking people outside the world of work, albeit inadvertently and for all the right reasons. We need to be very alive to the risks of that. That is partly sickness but is also partly barriers like parents not being able to work because of the cost of childcare, and older people coming to the view that they need to retire early—maybe in their 50s—because of the tax incentives around pensions. There is a whole range of things, but there are some very particular issues when it comes to welfare that we need to keep thinking about how we can reform.

Dan York-Smith: The gateway to get on to the higher levels of benefits if you are judged to have no ability to work or even to look for work is being tightened; that was driving the point the Chancellor made about reducing the flows into that group by two-thirds. Quite a substantial amount of funding has been provided in terms of mental health support in the form of talking therapies for those with mild or moderate conditions and increasing the number of people who will be benefiting from that by nearly 400,000 over the next five years.

For people who have more severe mental health conditions, there is Individual Placement and Support, which is intensive support for people with employment to try to address the disincentive from a health perspective, as well as tighten the gateway to get to the point of not having any requirements in the first place.

Lord Lamont of Lerwick: Widening the question to the whole question of the labour market, are not you having to fly blind with the deficiencies in the ONS statistics? It suspended its monthly figures in October last year, it reintroduced them in February this year, and then it said there were certain problems with them. I noticed this led Chris Giles in the *Financial Times* to say you were flying blind, you could not tell whether the labour market was tightening or loosening nor whether the effect of tax cuts was to increase or decrease people going into the labour market.

Jeremy Hunt: Maybe I will bring Sam in on this point. Given the problems the ONS have been having, it is probably challenging for the OBR to plot the exact labour market impact of individual measures that the Government announce. But the scale of the problem is so big that I do not think we should hang around for better statistics before trying to tackle it. Sam, I do not know whether you would add anything to that.

Sam Beckett: It sounds very much like you are all very cognisant of what happened with the labour market statistics and the Labour Force Survey. It reached a point of survey response of around about 17% and felt it had to withdraw the statistics for a period at that point.

This is a common factor across different countries; people are less and less willing to participate in these long door-to-door surveys, so it has created a problem with the quality of the statistics. In the background, the ONS has put a good recovery plan in place: it has boosted the survey size and has had quite a good response to that. We are working with it and keeping a close eye on what it is now terming its experimental statistics; it has had a change to its status. That is the old Labour Force Survey recovery plan.

Hopefully this year—around September was the plan but not yet definitely announced—it is going to bring a whole new multimodal way of engaging with surveying the population on their labour market characteristics online, which is going to be a much better survey. It has always been waiting to take over, but the problem unfortunately hit with a big drop-off in the response in the old survey before the new one was ready to bring online. We are watching it closely and it is obviously

challenging at a time when you would want to know very accurately what was going on. The ONS has done what it can to stabilise the situation and triangulate information to give a decent picture.

Dan York-Smith: There are other timely sources of data like HMRC's Real Time Information, which knows how many people are employed by each employer at a given time from the collection of taxes. That information is also made available to both the ONS and the OBR when they are doing their forecasts.

The Chair: Just before we move on to another D—decarbonisation and the green agenda, which Lord Rooker is going to ask about—I would like to ask about another D: demographics. Chancellor, as we look ahead at the costs of an ageing population, do you think we will need to have a reappraisal of the triple lock and the age of retirement?

Jeremy Hunt: Both those things are kept under review. The answer to that question is very contingent on how successful we are in delivering the ambitions I outlined to Lord Blackwell. If we are able to run public services significantly more efficiently and increase our long-term growth rate, it is entirely possible that we can continue to have the levels of public provision and support for pensioners we currently have, and I very much hope that is the case.

The Chair: That is a really interesting answer. You are saying we will have to have that conversation if we do not do that. We have heard consistently that we are going to have to confront numerous pressures in the next Parliament; indeed, a number of witnesses have said that to us, one of them being what I have just said. Would you agree with that?

Jeremy Hunt: The government policy is to deliver more productive public services and a higher growth rate, which is why we are confident we can continue to support pensioners in the way we have in the past.

Lord Davies of Brixton: We are talking about benefits based on the lifetime contribution, and you are proposing to abolish the contributions. This is pie-in-the-sky stuff. If and when you make changes to the contributions, I am asking that you do it in co-ordination with the welfare reform; the two have to fit together and should not be treated as isolated.

Jeremy Hunt: I absolutely agree.

Dan York-Smith: In the autumn, the Chancellor announced we would abolish class 2 national insurance, which is paid by the self-employed purely to get the contribution record, not based on their profits. As part of that abolition, we are consulting on how we ensure people who pay voluntary class 2 national insurance continue to get the contribution record.

The Chair: Let us move on to the green transition. Lord Rooker.

Q9 **Lord Rooker:** After the last exchange, I should declare an interest. In

2000, I was the “75p” pensions Minister. The double lock that came in afterwards, followed by the triple lock, would avoid that problem, but I am fully prepared to accept that it does not look sustainable. At some point, someone is going to have to look at these issues, but that is not what my question is about. I am going into energy policy, which is a bit of a change from what you have been asked previously.

I freely admit I do not expect you to go into the nitty-gritty detail, but I want to put to you what Professor Dieter Helm, who conducted the Government’s *Cost of Energy* review some years ago, said, “If energy policy is to be effective, the Government needs to revisit its net zero objective, define it properly and admit that the costs will be a lot higher than it currently claims”. It would be interesting to have your comment on that.

I also want to be completely open and transparent. In Dieter Helm’s big essay and blog on net zero last November, he put the same points and levelled the same accusations at the Opposition that he had at the Government—that they had not properly looked at the costs. So, what is your comment on what he says about having to do this properly? Is it going to cost a lot more than is being claimed?

Jeremy Hunt: I do not agree, but I accept there are uncertainties. There are two things I would say. We have actually succeeded in decarbonising more than anywhere else. About half our economic output is being decarbonised, compared to 45% in France and Germany, and 25% in Japan and the United States, so we have done better than other large economies. We have also met our carbon budgets to date. The unknown in this is the impact of technology, but technology can only make things cheaper as we learn how to digitise new clean energy projects, and the Inflation Reduction Act in the United States will enable new technology, from which all countries will benefit.

We do not know the extent to which that will happen, so I accept there is an uncertainty there. But when people talk about the costs of net zero, sometimes it comes from climate sceptics who say that this is going to bankrupt us and we should be honest about it; sometimes it comes from climate change advocates who think we should do more on climate change, and who say that we are not being honest about what we need to do. What I would say to both groups is that, from a purely economic point of view, and without getting into the debate on climate change itself, I agree that we need to have a plan for plentiful cheap green energy in the decades ahead.

I am persuaded that one of the reasons the United States is having much higher economic growth at the moment than Europe is because it has much lower energy costs. That says that, among all our energy policies at the moment, we really need to make sure our plan for nuclear power is energised. We currently want to provide 25% of our energy by nuclear by 2050. That is absolutely right, but it is extremely important that it is delivered as we need it to be.

Lord Rooker: I agree absolutely. Dieter Helm makes the point that, if we

remove the carbon lost from getting rid of coal-fired power stations, our record does not look anywhere near as good as we claim. I know we started it all, but the fact is, the better we do on that push for renewables, the more we are going to need to cover the intermittent gaps when the wind and sun are not there.

The point is that those who produce the so-called cheaper renewables, with a low marginal cost, are not paying to cover that intermittency. We need to keep the lights on, so that is a serious problem. Who is going to pay for it? It has to be paid for. Nuclear may be one option, but there may be other aspects.

You mentioned the climate sceptics. If we get this wrong and upset the public, and the public think they have been misled about it being cheap and a lot cheaper to do in the future, then climate sceptics will use that in a populist way to attack the whole policy. That makes us incredibly vulnerable, so we need to be more open about the actual costs of what we are providing.

Helm makes one final point, that UK supply chains are not fit for purpose. We have de-industrialised over 40 years and have a lack of skills and training. We are not going to go into refining the materials that we need, are we? Someone has to do it, or they are going to be imported. There are serious issues of what we need for renewables from China, cobalt from the Congo and other materials we do not have the capacity to produce. We are going to be importing a huge amount at extra cost because we do not have the industrial capacity anymore. That is going to put the costs up, and that is the central point he makes about being open with people about the true cost of net zero.

Jeremy Hunt: There is a lot in there, Lord Rooker, but I would first say that I do not accept the suggestion, which we hear a lot, that we have de-industrialised and are now only a service economy. We are the 12th largest manufacturer in the world. We have a very significant manufacturing base, including manufacturing half the large aircraft wings in the world. We have some real strengths in our manufacturing industry, and it is a very important part of our industrial strategy.

Secondly, I think it is unfair to talk about—it is not your point; it is a point you were quoting—the removal of coal-fired power stations, because that is a part of decarbonising the economy. Where there is a legitimate point is that sometimes the reason we decarbonise is that we have imported products that do not count towards our own carbon usage, but they are made with coal-fired electricity that comes from a Chinese factory. That is a fair point that we need to sort out, and we are doing that with the CBAM programme. But the overall point is right, and Prime Minister Sunak has been absolutely right in that we have to carry the public with us. At a time when people are very sensitive about the cost of living, they have to know that what we are doing for the green transition is proportionate and reasonable and that there will not be unnecessary increases in their energy bills. We need to tread that path carefully.

In this country there has been quite an impressive social consensus that we need to deliver net zero, but if you look around the world, at our friends in other places, they have seen that consensus fray. That is why we need to be very careful in continuing to deliver what we want to do for the climate but in a way that ordinary people think is fair.

The Chair: Great. We will move on to other topics in a moment but let me just ask a final question on debt and the issues that we have been discussing.

Dr Gerard Lyons said to us that, "There is a serious danger that" the UK "will fall into a debt trap before the end of this decade". Hearing you speak, Chancellor, and answer all our questions very eloquently, what I hear from you is that you do not think we are going to need to increase taxes, nor cut spending, but that productivity gains, especially in the public services, will deliver the growth we need, and therefore we will not get into the debt trap. Is that summary correct? If we do not hit those productivity gains and that growth, do you agree with Dr Lyons that we run the risk of falling into a debt trap before the end of the decade?

Jeremy Hunt: That is, with great respect, not a correct summary of my position. Public sector productivity is a very important factor in living within tight public sector budgets over the years ahead, in a way that avoids cuts to services that are valued by the public. It is a very important part of our programme, but in the end, public services are only 20% of the economy, and it is what happens with the other 80%—the private sector—that is going to be the most important in terms of avoiding falling into a debt trap. That means we need to have a plan for long-term economic growth, including plans that boost investment in the economy, which is a central focus, from the changes to full expensing to the Mansion House reforms in the City of London, from our plans to grow our technology-linked sectors, to getting people back into work. All those areas are very important. In the recent budget I focused more on the public sector, but that is not what will stop us going into a debt trap.

Lord Griffiths of Fforestfach: Chancellor, you made a lot of public sector productivity. I read a speech not long ago by John Glen, about the importance of the Civil Service, and it was terrific. However, it seems to me that if there is going to be a significant increase in public sector productivity, we have to reduce the size of the Civil Service, probably by a significant amount. Would you say that is an unreasonable judgment?

Jeremy Hunt: No, and we already have plans in place to reduce the size by 66,000, which brings it to pre-Covid levels. We should continue to look at ways that we can improve productivity, and of course a more productive workforce is a happier workforce. You can achieve big productivity improvements with natural wastage not compulsory redundancies, but I absolutely think we need more productivity in the Civil Service, yes.

Lord Blackwell: Coming back to this long-term projection, the only numbers we have are those from the OBR, which is public expenditure

ending up at 67% of GDP because of the increasing dependency ratio, the number of people in work versus people retired, et cetera. You say that productivity in public services is going to be important, although, as you say, only 20% of the economy is in public services, there is another 20% in pensions and welfare that is not subject to productivity. In order that we can understand how this equation would work out, I wonder whether you would accept the challenge of suggesting to us what combination of higher growth rate than the OBR assumes, and higher productivity growth in public services than the OBR assumes, would solve this equation and allow us to believe that it is sustainable.

Jeremy Hunt: That is a very good question. If I may give a couple of details on what you have said: first, the 67% number that you quoted has changed significantly on the basis of the OBR's latest projections, and it has improved a lot. I will write to you, if I may, with updated information on that. From memory it was something that was done a couple of years ago.

Secondly, the 20% that is essentially transfer payments, is absolutely an amount that you can reduce with welfare reform if you get more people back into work. Pensions are going to continue to be an obligation, but there is definitely a lot that can be done to reduce pressure on the public purse.

With respect to how much you would need to increase our long-term growth rate in order to sustain tax at a current level of GDP, maybe that is something I should commission from the OBR. I am very happy to go away and think about that, because I would be interested to know the answer.

Lord Blackwell: It would be very helpful to have some numbers on how you might see that equation working, if we are going to believe that it is sustainable. So if you were able to include that when you write, that would be great.

The Chair: I stand corrected on my question, but given your answer, Chancellor, can I just read you what Paul Johnson said, "Now more than ever, as a country, we face some big decisions and trade-offs over what we want the state to do and how we're going to pay for it. Those looking to form the next government should be honest about these trade-offs". Do you agree with that outlook, and do you think that we need this debate?

Jeremy Hunt: I find it very difficult to disagree with Paul Johnson, because he is someone for whom I have enormous respect, but I do disagree with that statement. The reason I disagree is that it is based on assumptions that things will continue in the way they always have; that it is not going to be possible for a Government to live within 1% real-terms growth in public spending, when I have been part of several Governments that have done that; that it is not going to be possible to increase our long-term economic growth rate. It is based on straight-line

projections on what our economic performance has been over relatively recent years.

I am Chancellor because I want to change that, and I want to set out how we are going to change it, and we have had a really good discussion this afternoon on how I plan to do it, and you have given me very fair challenge. But I do not believe, as they say about investments, that the past is always a guide to the future. We can change the future, and I am making an argument as to how we can change it.

Q10 Lord Turnbull: In the report the committee produced on the Bank of England, reference was made to the extension of the remits of the Bank through the Bank's committees, which consider this and have regard to that, subsidiary objectives and so on, and we asked that this should be looked at. The reply you gave was that the Treasury had, "taken steps to simplify" the most recent FPC letter, which involved taking out a reference to climate change and energy security. I would describe this as a light trim, and rather than try to redraft these things now, I simply have a request: next time these things are edited, could you have a more thorough look and see whether there is anything more that could be pruned from this growth of words?

This question takes me on to the next issue, which is QE and QT. Both the Governor and the outgoing head of the Debt Management Office were adamant that this was a decision for the Bank. It was an instrument of monetary policy. Now, some of us find this actually implausible. At a time when the Bank is owning 40% of the Government's debt, the Government have a lot of relevant interests: the cost of debt, the way it increases vulnerability to changes in interest rates, the freedom of manoeuvre it has or can generate if there is another shock in the future, and there are big issues about impact on incomes and impact on wealth. It seems a bit implausible that the MPC is deciding all these things, which go a long way beyond monetary policy.

Now, I suspect you have these discussions, but we do not get any real account of the nature of the decision. There is no formalisation about discussing whether the next move on QT is £10 billion or £100 billion. But these are big decisions with big impacts and big effects on many of the things that you are responsible for, so I wonder whether you can tell us how exactly these decisions get taken.

Jeremy Hunt: Yes, and I will bring in Sam to support me, if I may. But on your first question, you gave us a very useful report saying that we should slim down the remit letter, and I accept your challenge. We have slimmed it down a bit, but we could probably do better. Focus is very important in these things, so I will take that away. On—

The Chair: I am sorry to interrupt you, but what led you to change the remit vis-à-vis green? What was the motive behind that? I would love to say it is our report.

Jeremy Hunt: Actually, we broadly agreed with your report. It did have an influence, but it is also important to say that climate change objectives

are bedded into what the Bank of England has to do anyway so it has not come out of it completely. When you are talking about financial stability it is very important to have complete clarity on the priorities.

The Chair: Can I just quickly ask; did you think it was distracting?

Jeremy Hunt: It is always the case that if you give people too many targets, it is the same as giving them no targets at all. That is something I learned when I was Health Secretary with responsibility for the NHS.

To go on to your second point, these really are decisions that are made by the Bank of England on QE and QT. There is no secret “What would you like to do, Chancellor?” discussion.

We have learned over the last year that the traditional tool of monetary policy—interest rates—is not as effective as it used to be, because with the number of people on fixed-rate mortgages there is quite a big delay. It is important that the Bank has this tool at its disposal, and I fully accept that it is a very powerful tool which has a big impact, but the independence of the Bank of England has been very important in bringing down inflation and giving the markets confidence that we are bringing down inflation; I have not wanted to undermine that.

Perhaps I could bring in Sam for some comments.

Sam Beckett: I do not have a huge amount to add. As the Chancellor says, the independence of monetary policy, and the fact that it is seen to be independent, is hugely important. Any political interference there would be an enormous problem, and being overbearing on fiscal policy objectives would be a form of interference.

It is worth remembering that monetary policy through bank rates has effects on fiscal policy by changing the path of interest rates and its effect on the real economy and the tax take and so on. So, it has always been the case, even before QE and QT, that monetary policy was having a big impact on our fiscal sums.

It is worth adding that quantitative tightening may be crystallising losses on the fiscal side, but quantitative easing had benefits, and the public purse did benefit from the quantitative easing end of the cycle.

The other thing I would add is that there is a huge degree of transparency on how QE, and now QT, are impacting public finances. We have it in our Treasury annual report and accounts. The OBR put it in its EFO, and the Bank has a quarterly report on it all. There is a complex interaction between the cost of holding gilts and the cost of selling them, but the Bank has done some very good work on modelling the different impacts, which shows that the lifetime cost does not change very much on different paces of unwind. That is because holding the gilts costs you, and selling them reduces the holding cost, but crystallises losses on the sales. It is quite a complex interaction.

Lord Burns: I still find quite a lot of this conversation difficult.

Quantitative easing and quantitative tightening, as we have seen, have involved some very large gains at times and some even larger losses. Given that for almost every decision that one takes in public policy, you have to take account of the costs of the actions that you are taking, I find it difficult to see how one can pursue a particular action entirely for monetary policy reasons, with no consideration of the costs that might be involved if significant losses occur, as has happened over the last three or four years. I am not challenging the decisions that were taken, but I do find the idea that they should be taken entirely on monetary policy grounds without any consideration as to what the cost might be difficult.

In the old days of foreign exchange intervention, for example, people always had at the back of their minds what the gains and the costs might be, and it was different also because both the Treasury and the Bank of England would be involved in those decisions. I just find it puzzling, the idea that this is something where potential costs have no weight.

Sam Beckett: I do not think “no weight” is completely right, because there is a remit for the asset purchase facility operations which talks about, subject to monetary policy considerations, minimising cost and risk. So, there is some normal framing around minimising cost subject to the monetary policy. This is a discussion that the Treasury Select Committee has been having, and there is a response to a report of its due in early April, which will provide another opportunity to revisit these questions.

Lord Burns: It was there that I picked up some of these comments that decisions were made entirely on monetary policy grounds, with no consideration given to cost. But we will wait.

Jeremy Hunt: I would just say that it bears a lot of thinking. There are actually some constitutional implications to your question. The two things one should think about are, first, if those decisions had been under the control of Chancellors rather than the Bank of England, would they have been different, with the benefit of hindsight and all those things?

The second, bigger, question to ask, which some people have been asking recently, is: is the world that I live in, which has an independent Bank of England and an OBR, better for economic policy-making or worse for economic policy-making than the world Lord Lamont lived in when he was Chancellor? Those changes were put in for a reason. I believe that there has been progress overall, but that does not mean to say that we cannot improve upon it.

Lord Turnbull: I think £100 billion is the current QT figure. Are you saying that if the Bank decided it wanted to increase that or come up with another figure, that you would have no prior warning of it—no, “What do you think of this, Chancellor? Do you have any concerns that we should look out for in how we do it and how we announce it?” The idea that it is entirely the Bank and you should stay out of it is what is puzzling us.

Jeremy Hunt: Look, I do not pretend that I do not have my own views. I have my own views, by the way, on whether interest rates should go up or down, but I never express them publicly because part of the deal with an independent Bank of England is that you keep those views to yourself. That is how it works. However, I will very much take away the thoughts of the committee because it is important to reflect on them.

- Q11 **Lord Razzall:** I was going to ask a question about the impact of policy on our public finances but the answers we have just had, particularly from Sam when she suggested there has probably always been a blurring of the impact of monetary policy and fiscal policy on our public finances. I will leave aside the question as to who takes those decisions.

Sam alluded to the effect of QE and now QT, and the impact of QE, which means the Treasury made a significant profit on the way up and is now making a significant loss on the way down as a result of the indemnity. As we are the only major financial central bank that actually pays interest on all commercial bank reserves, do you think it is time for that policy to change? Professor Goodhart suggested to us that it would be a good idea, and of course, it would mean we would not have the losses resulting from the impact of the indemnity.

Now, I understand the argument on control of monetary policy. On the other hand, his suggestion would be that it could be dealt with by capital ratios or liquidity ratios.

Jeremy Hunt: There would be other impacts to a decision like that, particularly on the competitiveness of British banks and the competitiveness of the UK financial services sector, which is why it is not something we are currently considering.

The committee will be well aware, but I would just point out that the taxes paid by the financial services sector pay for half the cost of the NHS. It is a very, very important sector for the public purse as well as being very strategic for the UK. But I am well aware of the arguments that are made in that area.

Lord Razzall: So, you are not prepared to commit one way or the other?

Jeremy Hunt: I am saying we are not considering doing that.

- Q12 **Lord Razzall:** There is the question of the deed of indemnity, which we have not seen and we have been told we cannot see it. Is there any reason why we should not?

Jeremy Hunt: I am afraid there is. I am sorry to say it in this way, but although it contains little of interest, it does contain operationally sensitive information relating to government cash management practices, which mean that we cannot publish it, but it does not contain anything that I believe would impact your views on the issues that we have been discussing today.

The Chair: So, you are saying that when the Governor told us there is no mystery to it, there actually is a bit of mystery to it.

Jeremy Hunt: There is a bit of mystery, in terms of operationally sensitive cash management practices which would be damaging to put in the public domain. But in terms of the policy issues that we have been discussing today, I do not believe there is anything significant in it.

The Chair: So it is operational, it has nothing to do with, as you say, policy, or governance, or that kind of thing?

Jeremy Hunt: I think that is what the Governor is saying, and I would agree.

Lord Turnbull: Is there a version that could be published?

Jeremy Hunt: There might be a version that is redacted to hell, but then that would just make you even more angry. So that is the reason we do not end up in a very satisfactory place.

Lord Turnbull: You should only redact it if it really needs to be redacted. I do not think people understand this business about a long period of profit now followed by a long period of losses, and that we have more or less passed the break-even point. Do people understand that? It is a relevant thing for people to know about. You could do that without getting into the dark arts of the DMO.

Sam Beckett: The Bank does a quarterly report on how QT is going and the impacts of, for example, its change from the £80 billion per annum to the £100 billion. If you look there, you will find all the detail about fiscal impacts and lifetime costs that you would want to see. It is very transparent and is published quarterly, so it is very up to date as well.

Lord Griffiths of Fforestfach: Chancellor, may I just clarify in my own mind this issue of the fiscal cost of monetary policy? In statements you have made during the last few years, you have consistently said that bringing down inflation is a prerequisite for increasing productivity and increasing growth. We have also seen the horrendous cost of inflation to the economy, not least in terms of the distribution of income and for low-income groups who have suffered severely. I have always assumed, therefore, that the fiscal cost of monetary policy was relatively small compared to the gains that we get from getting inflation under control.

This will not surprise Lord Burns, but I would say that what has happened, by and large, has got the priorities right, and we are now seeing the benefits.

Jeremy Hunt: I agree. How does a well-oiled ship of state work? The Governor of the Bank of England has his clear responsibilities under the law, and the Chancellor of Exchequer has his clear responsibilities under the law, but we are both cognisant of the fact that we need to be aligned in the public interest, and we each need to be mindful of the responsibilities of the other. So, when it comes to bringing down inflation, although that is primarily the job of the Governor, what I do on fiscal policy and in my fiscal events has an impact. It obviously would be completely stupid for me to take measures that would work against what

the Governor is trying to do with inflation, but he also understands that while he has an inflation target, growth is important to the economy as well, and the MBC is mindful of that in its decisions, but it is a decision for it.

The Chair: I should have probably raised this point earlier, but it is related to the APF. The OBR points out that the private sector needs to absorb relatively high volumes of debt for a sustained period. This is alongside a lot of other Governments issuing large amounts of debt. How do you view that at the Treasury? It is quite a lot higher, peaking at 8.2% of GDP 2024-25, compared to 2.7% of GDP 2000-23. Does how much debt is being issued and how this is all going to pan out concern you?

Jeremy Hunt: Let me just say, and then maybe I will bring in Sam, thinking through the impact on markets of any decisions we make and to ensure that we are going to be able to sell whatever debt we need to is absolutely a very important part of our budget planning process. I do not know if you want to add to that, Sam.

Sam Beckett: Yes. We have the benefit of a relatively long average maturity of our gilts, which does reduce the refinancing risk that the Government would experience in terms of being able to raise debt and issue gilts the following year. We are way ahead of most international comparators. Thinking about the G7, we are at 14 years, and the next longest is France at eight years, so that does give us quite a lot of resilience in our refinancing risks.

Obviously, there is a very big gilt issuance following the Budget—something like £265 billion this year to be issued—but if you look at cover ratios and other metrics of how successfully the Debt Management Office is managing to sell relatively high levels of gilts, they are very good. In fact, they have improved over the past year.

The Chair: Does the “Relatively high foreign ownership and future steady decline of defined benefit pension schemes”, as it was put by the OBR, bother you? How does it factor into your thinking on this?

Sam Beckett: Obviously, we like to think that we balance different markets for our gilts quite carefully. We are cognisant of the defined benefit pension funds having a little reduced demand at the long end of the curve, and we have responded to that in this year’s remit.

In terms of foreign buyers, this is a good market for gilts, which are popular globally. There used to be a view that this is somehow hot money and could desert us as a source for gilts. That just has not been the case, and that level of around a third of our gilt holdings there has been something that has remained a strength in the diversity of our customer base.

The Chair: Brilliant, thank you. That addresses a couple of points.

Q13 **Lord Verjee:** Going back to our report on the Bank of England, we produced that report in times of very high inflation and uncertainty in the

economy. Errors were made, with other central banks as well, in thinking that the inflation was a transitory measure rather than a more permanent measure. We discussed groupthink and lack of diversity of thought within the senior team at the Bank of England and members of the MPC. In fact, Stephen King, chief adviser to HSBC, told the *FT* that, "There does currently seem to be a red carpet running from Whitehall to the Bank of England, and that is not ideal from a governance perspective given the BoE is supposed to be independent from the Treasury".

How can we increase diversity in its full sense in our appointment system at the Bank of England?

Jeremy Hunt: We are making good progress. I do not want to be over-defensive, because there is always more that can be done. But the MPC is one of the few monetary policy committees globally that has external members, which is important, and they play a very important role. I agree: we do not want to have a revolving door between the Treasury and the Bank of England, because that can lead to groupthink, and that is something we have to guard against.

However, my experience is that it is not really about the background of an individual; it is about their personality. I can think of very contrary thinkers in the Treasury—lifelong civil servants—who give very good challenge. One of them is Clare Lombardelli, who has just joined as Deputy Governor of the Bank of England. She worked for me when I first joined the Treasury, and she was very challenging. She asked the kind of questions that you have been asking me this afternoon. I have absolute confidence that someone like that will play a very good role in challenging groupthink.

Lord Verjee: You could say that the recent appointment of an ex-Treasury official as Deputy Governor does not give confidence that you are looking at appointing people from different backgrounds, who do not look like us or think like us—people who are going to challenge more. Should you be broadening the group of people you select?

Jeremy Hunt: I do not think Clare Lombardelli does think like us. She is a very independent-minded person, and that is my point. But we should absolutely make sure that we are looking at people, from whatever background they happen to come, to make sure that there is sufficient challenge in the system.

As you rightly said, central banks all around the world were wrong-footed by the very exceptional circumstances that we had, so there is a lot of learning that needs to happen. It is only a positive if we continue to make our selection process for key decision-makers more diverse.

The Chair: Thank you, Chancellor, and to your colleagues as well. We have gone well over an hour and a half, so we are very grateful to you for staying and answering all our questions so comprehensively.