

# Treasury Committee

## Oral evidence: Budget 2024, HC 320

Tuesday 5 November 2024

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Chris Coghlan; Bobby Dean; John Glen; Dame Siobhain McDonagh; Lola McEvoy; Lucy Rigby; Dr Jeevun Sandher; Yuan Yang.

Questions 103 - 179

### Witnesses

I: Mike Brewer, Interim Chief Executive, Resolution Foundation; Paul Johnson, Director, Institute for Fiscal Studies; Yael Selfin, Vice Chair and Chief Economist, KPMG; Andy King, Specialist Partner, Flint Global.

### Examination of witnesses

Witnesses: Mike Brewer, Paul Johnson, Yael Selfin and Andy King.

**Chair:** Welcome to the Treasury Select Committee on Tuesday 5 November 2024. This is our second session looking at the Budget, and we are delighted to have some expert witnesses in front of us today.

I would like to welcome Andy King, who is a specialist partner at Flint Global. He leads on the economic modelling and analysis offering there. We have Yael Selfin, who is the vice-chair and chief economist at KPMG in the UK, which speaks for itself. We have Paul Johnson, fresh from the airwaves over the weekend and for 14 years, who is director at the Institute for Fiscal Studies. This will be your last outing for a Budget in that role. Is that right?

**Paul Johnson:** It might be.

**Chair:** You are moving on to head up an Oxford college.

We are also delighted to welcome Mike Brewer, who is the interim chief executive of the Resolution Foundation. A warm welcome to you all.

We are hoping to be up to a couple of hours asking questions. If we ask you a question and you think you are not the person to answer it or it has been misdirected, please do deflect quickly to the professional colleague who is better able to answer it. I would like to hand straight over to



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Dame Harriett Baldwin MP to kick off.

- Q103 **Dame Harriett Baldwin:** Thank you very much, Chair. I wanted to start with the evidence we took this morning from the Office for Budget Responsibility because I suspect you have either had a chance to follow that or had a chance to read its document.

This Budget adds £350 billion to public spending over the next five years. The Office for Budget Responsibility has priced in an impact of 0.25 in terms of gilt yields over the forward-looking period. Given how the markets have reacted since the Budget, I wonder whether any of you have a different point of view from the one that was outlined by the Office for Budget Responsibility.

**Chair:** Are you aiming that at anyone in particular?

**Dame Harriett Baldwin:** Does anyone have a different point of view?

**Yael Selfin:** We think there will probably be another 0.25 at this stage based on where the markets are and the implication of the inflationary pressures.

- Q104 **Dame Harriett Baldwin:** It will be 0.5 in total.

**Yael Selfin:** Yes.

- Q105 **Dame Harriett Baldwin:** You think there will be twice the impact that the Office for Budget Responsibility—

**Yael Selfin:** On short-term interest rates, yes.

- Q106 **Dame Harriett Baldwin:** Does anyone else have a different point of view on that? You all felt that what the Office for Budget Responsibility said was reasonable.

In terms of the interaction with what the Bank of England is doing on quantitative tightening, does anyone have an opinion on how the gilt market might react in terms of the overall level of sales this year, next year and over the next five years?

**Andy King:** We have seen how the gilt market has reacted. All that information is now in the public domain. The OBR added that 0.25 to interest rates in its forecast partly because it closed the forecast a few weeks ago to allow time for policymaking. It thought what it was seeing as the size of the Budget would surprise the market to some extent, relative to what was known then. There was then a modest further move after all the numbers were announced.

Essentially, there was £30 billion of borrowing: £20 billion for investment and £10 billion for current spending. It looked like the current spending bit might have been a surprise. The frontloaded-ness of it was also something of a surprise. The quantitative tightening was largely known and priced in. The OBR's view is one view of many on how that will



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unfold, but essentially the gilt market has now reacted. It was a relatively small reaction.

**Q107 Dame Harriett Baldwin:** As economists, you will be aware of the debate around the size of a country's deficit and the whole idea, which some economists support and others disagree with, around Reinhart-Rogoff and the 90% level for the borrowing of an economy. Once you get to that level, it makes it harder for economies to grow and it makes them more sensitive to changes in interest rates. Do any of you have a particularly strong view around the absolute level of the current deficit and the risks around that?

**Paul Johnson:** There is no number that is special or where there is a tipping point, at least not a number that we know of. One thing we do know is that the scale of the outstanding debt and indeed the way in which it is increasing is one of the big constraints on policymaking at the moment. On the OBR numbers, something like 3.5% of national income is going to go on simply servicing that debt each year for the next five years, more than £100 billion a year, which is why the Government need to run a primary surplus going forward to avoid debt spiralling ever-upwards.

That is evidence that—ignoring the macroeconomic consequences—the fiscal consequences and the impact it has on the potential for policymaking are really quite substantial, particularly in a world where a lot of that is effectively very short-term interest rates, due to the Bank of England holding so much of it; where interest rates have risen; and where you are continuing to increase the outstanding level of the debt.

That is not a direct answer to your question, but it is certainly an indication that the borrowing done so far has been very far from a free lunch, even though it has been important to do up until now. Clearly, a big chunk of that is associated with the financial crisis; a big chunk of it is associated with Covid. It is one reason why it is correct that there is agreement across political lines that we ought to be on a path to at worst stabilisation and preferably falling over time.

**Q108 Chris Coghlan:** Thank you so much for coming in this afternoon. Following on from Dame Harriett on gilts, there was a 10-basis-point rise in gilts on Friday. This is one of the biggest fiscal loosening that we have seen for decades in a Budget, outside of the mini-Budget.

To Dame Harriett's point, how much further could we borrow? It seems to me like we are fairly close to the limit, given the rise in the gilt markets. I think there is a formula error in Reinhart and Rogoff's 90% rule, so that is not necessarily correct, but it does seem to me that the Government's fiscal room to manoeuvre is pretty limited now going forward and therefore the investment choices in this Budget are critical in terms of resolving long-term structural economic issues, because we may not get that chance again.



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**Yael Selfin:** One thing that is really important is to evaluate the amount that you borrow with what you are spending it on. If your borrowing is going to generate much stronger growth, for example, in some ways it could pay for that. That is one element of it.

When you look at UK debt, on whichever measure you are using, compared to the size of the economy and compared to other countries, we are not an economy with the highest ratio. If you look at some of these economies, the cost or the premium is not necessarily that much higher.

It is a little bit mixed. The confidence of the market is very important in terms of the premium you are paying on top of the base rate, but the base rate is also very important. We have higher rates at the moment than we did previously, and we are likely to continue to have higher rates even with base rates going down going forward. That means the cost of debt that we have to pay is higher, regardless of the level.

**Q109 Chris Coghlan:** As you say, the quality of what that public money is being spent on has an impact on the level of debt that is sustainable. How would you assess the market reaction? One of my concerns on the Budget is that the market is saying that perhaps the quality of what that debt is being spent on is not particularly high, as in it is not necessarily generate the productivity improvements that we need as an economy.

**Yael Selfin:** I would agree with Andy's assessment earlier. There was a little bit of a surprise in terms of the timing of the spending. It is a little more frontloaded than the markets had anticipated. They had a lot to digest in the shorter term. That may have been a little bit of a surprise.

Generally, there is still quite a lot left for us to hear from Treasury and Government in terms of how things will be spent and all the checks and balances around it. We have not really heard the details of that, and we have not heard the full spending plans for that investment. The markets will wait, to some degree, to hear more details before they react further.

**Q110 Chris Coghlan:** That is a very fair point. One of my other concerns is the level of inflation-linked debt. About one-quarter of the debt is inflation-linked, which is unusual internationally.

According to the OBR, £22 billion of our debt repayments are due to increases in inflation since March, which is about the same as the entire tax raised on national insurance contributions. It is highly material in terms of this Budget. How worried should we be about the fact that so much Government debt is inflation-linked?

**Yael Selfin:** One piece of good news about slightly higher interest rates is that our forecasts for inflation are also slightly lower. That helps. Generally, index-linked gilts were potentially a good way of raising money for the Government because they reduce some of the risk and, as a result, the premia were lower.



I would not necessarily say this was a bad policy; in fact, it has probably served us well. I am sure Andy will know more on that.

**Andy King:** It is worth looking at it in the round. A number of £22 billion for index-linked debt's inflation impact in one year can be very large because there is so much of it outstanding, but that is one year. The national insurance rise is forever. One is for Christmas; one is for life. If inflation is driven by a fiscal expansion that boosts the economy, wages and so on, it has fiscal impacts all over the place. The OBR number is £10 billion or so on income tax alone. It is a striking number, but it is not the only impact. In the round, there are almost always pluses and minuses with these things.

Q111 **Yuan Yang:** Thank you to the panel for spending your afternoon with us. Of course, the market expectations of inflation and interest rates are very much linked to this crucial of how much the output gap is and how much more potential capacity there is in the economy. My questions are about that and about labour supply. I will direct them to the panel at large, and you can decide who wants to go first.

My first question is on the quality of labour market data. How confident—I can see Mr Johnson smiling already—are you in the official estimates of the output gap? If you are not very confident in the official estimates of the output gap, where else can we look? Mr Johnson, do you want to start?

**Paul Johnson:** I do not have a great deal to say about that. There are two things it is worth saying. First, you are right. Clearly, labour force survey-based data is not ideal at the moment, but that is only a small part of what we understand about the output gap.

There are also clearly things that we do know about the labour market. We know there is a high level, certainly relative to immediately pre-Covid, of economic inactivity. There is some uncertainty about the exact unemployment numbers, but we know they are still relatively low. We know that vacancies have been coming down but are still at pretty decent levels by historic standards. We know that, certainly up until recently, wages have been rising at a reasonable pace.

It seems to me likely that, on the basis of all that, there is certainly not a big output gap out there. It would be surprising, on the basis of all those numbers, if there were one, particularly from the point of view of the labour market. While you are right that the numbers are uncertain, the broad conclusion that at most there is not a significant output gap seems to me to be reasonable.

Q112 **Yuan Yang:** Mr Johnson, you talked about this high level of economic inactivity coming out of the pandemic. How unusual is that in the UK compared to other rich, developed economies? If it is unusual, in the medium run—let us say over a two to five-year timeframe—how much can that be alleviated by encouraging more people into work through



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investment in health or other measures?

**Paul Johnson:** Certainly, if you look at the numbers of people out of work because of sickness and disability, and the numbers claiming those benefits, we are very unusual. The numbers here have grown in a way that they have not in almost any other country post-Covid. Why is that? Why are we so different? I honestly do not know what the difference is here.

I am afraid I also do not know the answer to your other question, which was essentially, "What can we do about it?" That is partly because we do not know why it is happening. We do not know whether this is related to waiting lists in the health service, for example. I certainly have not seen any convincing evidence that it is related to that, but that is not to say that the relationship is not there.

As you will probably know, purely descriptively, this is happening across the country. In terms of percentage point increases, it is worse in those areas that already had higher levels of inactivity, which are those areas that are the most "left behind". The proportionally biggest increase has been in younger people, which is almost entirely driven by mental health issues. That is clearly a big thing to deal with urgently, given that we know that the longer people are out of work for these sorts of reasons, the likelier they are to stay out of work. There also seems to have been an increase in physical health problems among older people.

All I have done there is to describe the data. I am afraid I do not know what the underlying causes are or indeed how to do anything about it. That is not a great answer, but it is the best I can do.

Q113 **Yuan Yang:** Mr Brewer, do you have anything to add to that? In particular, how far does the current Government package go towards addressing those questions of inactivity? How much further could the Government go in addressing those issues?

**Mike Brewer:** Paul has given the answer. There are a lot of causes; there are a lot of reasons why inactivity and ill health are up. Presumably, the policy solution will be to think about all of those different aspects. Employers will have a role. The NHS and public services will have a role. Some of it will be caused by the state of the world nowadays and what we have been through over the last few years. You cannot fix that.

There is not going to be one single policy that is going to put right our inactivity rates. It is going to require a strategy; it is going to require action from central Government and local government, employers and public services.

We have begun to hear a little bit about what this Government want to do. It is too early to judge. What we have heard is reassuring, in that it is not relying solely on fixing the problem via the benefits system. What we know from the previous years is that, if you try to clamp down on



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spending in one bit of the benefits system, you might displace it into another bit of the benefits system. The Government are clearly doing more than just that, but it is still early days yet.

**Lola McEvoy:** My question has been answered, so we can move on.

**Chair:** That usually does not stop Members from asking.

**Lola McEvoy:** I have plenty to come.

Q114 **John Glen:** Can we turn to public investment? I want to ask some questions about the OBR and the modelling of public investment beyond the immediate period. Perhaps I could start with Mr King. What do you think about the OBR's assessments at 10 and 50 years? The core narrative of the Government is that we are fixing the foundations and investing in the long term. What do you think about the assessment of the growth impacts of that public investment?

The immediate concern one could have is about the risk that you end up trying to serve the OBR's scoring mechanisms. There is an interval of uncertainty, the longer you go out. I wonder how you see it, in your position.

**Andy King:** This is probably the moment to remind people that I was inside the OBR for a long time.

**John Glen:** We did know from your biog. Thanks for telling us.

**Andy King:** I can now reveal that it was not the OBR constraining me. I am a conventional kind of person.

The analysis it has done of the supply-side impact of public investment is very thorough. When I was there, we were using a single paper. It was a survey paper: someone else had drawn on all the evidence to come up with a number. We did not factor it into the forecast because we thought the lags were so long and the effect so small that it was more sensible to have no effect. That decision has been changed. It is now a small effect, but it is factored in explicitly alongside many other effects. The scale of it looks sensible to me because it is based on as much evidence as the OBR could corral.

You raised another important point, which is something that it would be good for a Committee like yours to keep checking. Every time the OBR sets out a methodology like this, the Treasury can then teach to the test. You have seen that over the past couple of years already. Back in my day, on personal tax measures we used to take the view that the income gain and the substitution incentive roughly offset each other. Therefore, they did not have a supply-side effect; they had a demand effect. They now have a supply-side effect in the OBR numbers because one effect slightly outweighs the other. All of a sudden, there are a raft of measures in that space because they score. That kind of thing is dangerous.



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The OBR, having opened the doors, now has a methodology for lots of things, so that it is difficult to choose to do policy only where it scores, regardless of whether it is the right thing for the economy. It is on that journey.

I used to run the costings process, which looks at the fiscal impact of measures. Behind that sits an enormous machine that checks old costings from previous Budgets to see how they are doing and to update them. That is required for the supply-side measures now. Again, that is starting. There is now an agreement to evaluate them.

This is a very important issue. The Treasury is very adept at spotting what scores in the forecast because that will generate a reward for the Ministers and they will be able to spend that.

Q115 **Chair:** By having that modelling going back, do you think that will catch any of the gaming?

**Andy King:** Yes, it should do. It is difficult because it is new and there is a lot of it, but you can already see that in the revising of labour supply impacts from previous measures. It is not so much where Professor Miles' evidence of elasticities changes; it is where Tom Josephs' evidence of whether it is being delivered on time changes. They are looking at that systematically, and that is important.

Q116 **John Glen:** Yael, could I turn to you and Mr Brewer on the OBR's assessment of the lags in terms of the effect of this public investment? One of the frustrations from the Government's point of view is that they are making all this investment, but there is a lag before it can be accounted for. How do you think about the OBR's assessment of that? It feeds into a narrative of, "We have to keep going to get the benefits", but I am just wondering how you feel about the OBR's treatment of that investment and its effect.

**Yael Selfin:** Some of it will depend on the nature of the investment. The OBR would probably have used an average. When you look at infrastructure investment, it is obvious that you would want to have longer lags because it takes time to get things going. When you look at the context of relatively full employment and a very small output gap, that also adds to the difficulty in putting things in place quite quickly and getting the people to work on these projects. Overall, for the majority of the investment, I would expect relatively long lags.

Q117 **John Glen:** Is that fair, though, given the emphasis that the new Government have put on fixing planning? You talk about the constraints in terms of the labour force or whatever, but they have put an emphasis on overruling constraints in terms of public opinion on where to build and removing those barriers. Is the OBR not being a bit pessimistic, given the stated policy of the incoming Government?

**Yael Selfin:** It is a little early to decide whether there will be a major impact as a result of it. Some of the bottlenecks are not just there. If you



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look at the whole process of getting investment through, it is not just that bit.

Q118 **John Glen:** Mr Brewer, would you like to say something?

**Mike Brewer:** Yes, it is important to remember that what the OBR said did not really do the Government any favours at all, did it? If the OBR had been more optimistic, eyebrows would have been raised, particularly when we consider that it was only thinking about the impact of the public investment and other Budget measures on growth, not the Government's wider ambitions, whether that be on planning, skills, trade or employment. All these things would get growth up, but we do not yet have enough details from the Government and so the OBR has decided not yet to factor them into the forecast.

It is also important to remember that public investment covers a really wide range of spending. The Government are spending about a third of their investment fixing hospitals, schools and prisons, which is vitally needed but probably does not do much to raise growth. They are spending some on net zero, which will have a growth impact. If they had spent all of their investment on transport, we might have said, "Well, there is an even bigger impact there with a correspondingly larger delay". There is a really wide range of stuff under public investment. The OBR has been reasonable in taking a reasonably cautious approach to growth.

It is not the final word, though. As the Government say more about their growth strategy, I expect the OBR will respond to that. It will do that by revising up its trend rate of growth assumption.

Q119 **Lola McEvoy:** Good afternoon. Does the Chancellor have the right priority in terms of substantially increasing public investment finance by borrowing? Given that the UK ranks last among the G7 in terms of business investment, would it have made more sense to focus on boosting business investment or is the balance right? That is to all of you.

**Mike Brewer:** In the Budget, about one-third of the extra investment is going into public services, which is not going to be done by the private sector. That was essential. About 30% of it is going into net zero, carbon capture and stuff, which again is not particularly private sector-related.

The Government would argue that their approach to getting up business investment comes from security, stability and a more sensible approach to economic policy in general. Stability and security is what businesses need, not necessarily Budget measures. We had vows to keep corporation tax constant and to keep the investment allowance in place. These will all be good things for private investment.

It seems to me that the Government have come forward where they think the public sector has the right role to play. On the private sector, it is more going for security and stability, hoping that business will respond to that.



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Q120 **Lola McEvoy:** Does anybody else want to offer a different view?

**Paul Johnson:** I broadly agree with that. I would add two things. First, it is much easier obviously to increase public investment than it is to indirectly increase private investment. That is really not an easy thing to do. The full expensing policy from last year will help a bit, but, as Mike says, clearly stability and all of those things will help, as will confidence over a period of time. We should not forget the Government have only been in office for four months.

The other thing that I would say is, partly to repeat but to stress, that this was certainly not all about growth. The third of it that is going into building hospitals, schools and so on is really important, but no more growth-focused than paying nurses or teachers. The third of it that is going into net zero, again, is absolutely necessary. It may or may not help growth, but it is not focused on growth specifically.

This is not a criticism; it is just a statement. If you look one year to the next, transport spending has been cut. If growth was your only priority, you would not have done it like this, but clearly there are a range of priorities.

Q121 **Lola McEvoy:** Just to follow up on that point, you mentioned confidence over time and stability, and said the Government have tried to put the measures in this Budget to make sure that it is aligned for private investment later in the Parliament. Is it fair to say there will be more investment to come as a result of the Budget or not?

**Paul Johnson:** Not necessarily as a result of the Budget, no. Single Budgets do not tend to do that. If the country is seen to be stable and attractive over a period of years and this helps towards it, then perhaps there will be.

Q122 **Chris Coghlan:** I agree with you in terms of the Government's role around confidence and stability, but the one thing the Government could be doing to crowd in private sector investment, surely, is very targeted and mission-orientated R&D. I see very little of that in the Budget. Would you agree that that is one thing they could be doing more of to make it more growth-orientated?

**Mike Brewer:** The OBR said that in the short run the Budget will crowd out a bit of private sector investment just because the Government are spending a lot more than was envisaged and the economy is close to full capacity. Inevitably, the private sector will do a bit less spending and a bit less investment. The OBR thinks that that will go away eventually and in the long run the extra public investment will itself crowd in private investment. Businesses are more likely to invest when they can see there is more public sector capital. That will dominate in the long run.

Q123 **John Glen:** I just wanted to ask about regulatory reform and industrial strategy. Those are areas that will have an effect on the economy. The OBR has increased this concept of dynamic scoring. Do you see a role for



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that mode of analysis with those areas or are we getting into unrealistic assessments of economic activity?

I take the point that Paul Johnson makes about stability over time giving the conditions for investment, but how far is it possible for the OBR to make meaningful dynamic scoring analyses of areas like this?

**Mike Brewer:** I am happy to hand over to Andy in a minute. It is very difficult. It is also very difficult to estimate what will be gained by doing certain activities.

There is an even more complicated conceptual question, which is, "How much of that was going to happen anyway?" The OBR has an assumption about the trend rate of growth in productivity. Productivity growth does not happen automatically. It happens because businesses and Governments are doing things to make the economy more productive. The real question is, "How much of what the Government have currently announced would have happened anyway or would have happened similarly under a different Government?" Nobody can know that.

I do not know whether Andy wants to comment on how the OBR thinks about these issues.

**Andy King:** It is a very good point. It is one that I always used to worry about. Essentially, the baseline productivity assumption is some historical average that embodies the historical average of Governments trying to get growth up. A policy needs to be additional to that, but you cannot specify that, which was an unsatisfactory conversation to have. For a long time, the way the OBR managed it was basically to say no to anything that was not huge.

**John Glen:** Yes, I remember.

**Andy King:** When I look down the list of things that it has not yet taken on, the one that stands out as potentially boosting growth is planning reform because the UK not only performs badly in business investment; it performs badly in public investment and housing investment. There are lots of factors that affect each of those, but there is one factor that affects all of them, and that is the planning regime.

The problem with that is that announcing a planning reform and delivering a planning reform are so far apart. I cut my teeth on the 2011 reforms, which the OBR did not put into the forecast. I was on the Treasury side of the table in those days, trying to convince the OBR that the evidence was there. Between leaving the officials' table and actually happening with planning offices and local authorities, those things just emptied out and there was no growth dividend.

Q124 **Lucy Rigby:** I wanted to come in on this time lags point, which Mr Glen made very well. This is the question as to whether or not the OBR is being a bit pessimistic. Although I could do with going back to the EFO, it factors in two-thirds within five years and then one-third within 10 years.



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Including the political impetus and the planning reforms, as you were referring to as well, Mr King, do you agree that you can see a world where this stuff comes forward a bit, the time lags accounted for in here are a bit pessimistic, and stuff is just delivered a bit sooner?

**Andy King:** It is not impossible.

**Lucy Rigby:** It is project-dependent, I assume.

**Andy King:** It is project-dependent. The OBR is trying to determine when the economy benefits from that investment. It is not in a sustained way. It is not the spending on the investment; it is the road being open. In all my time looking at these things, the vast majority of revisions to timetables are to push things out rather than to have them happen more quickly. So I hope so, but I would not bet the house.

**Chair:** I have spent the last decade looking at this very problem.

Q125 **Dr Sandher:** To begin with, I want to ask about the potential output question. The OBR has basically made a judgement in this Budget, as things stand, that the actions of this Government cannot influence potential output within the next five years. The underemployment rate is higher than before the financial crisis. We have seen other nations, like the United States, grow more quickly. In your opinion, is it plausible that the actions of this Government could increase potential output within five years?

**Chair:** That is a good question.

**Paul Johnson:** I am not sure it is the case that the OBR has said that the Government cannot influence potential output in the next five years. It is saying that, under current circumstances, this is where potential output is. That is a different thing. If they were to find a way to significantly increase the employment rate of people who are currently claiming disability benefits, that would be an increase to potential output. There is nothing in the documentation from the OBR saying that that is impossible, but it implies that we have not seen anything at the moment to suggest that that is happening.

This really comes back to the question that Yuan was asking earlier, which is, "What could you do about it?" My answer is, "I do not know". One of my colleagues may have a better answer than that.

**Chair:** There are a lot of shaking heads.

**Andy King:** The OBR has said that the public investment in this Budget boosts potential output, but a substantial tax rise on employment will reduce potential output. Those things are broadly offsetting in year 5 and they will turn positive by year 10.

Rather than saying that you cannot affect potential output, the OBR has said that there are relatively small and offsetting effects. They might be



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bigger, but it is certainly true that there is a substantial tax rise on business and there is a substantial increase in public investment.

- Q126 **Bobby Dean:** To quickly bottom out a comment that you made, Paul Johnson, and following on from Yuan's comments earlier, when we spoke to the OBR this morning we talked about potentially getting those economically inactive people back into work and that having an impact. The OBR's conclusion was that, if we did manage to do that, any effect would be quite limited. Are you suggesting there could be some potential surprise upside to this or, even if all went well, to the maximum of the Government's expectations, would the effect on growth still be quite small?

**Yael Selfin:** It is going to take time to bring people back to the labour market. Once you bring them back to the labour market, they need to get a job. That can take some time, though not always: it could be in parallel. Realistically, it will probably be a relatively lengthy process.

- Q127 **Chair:** One of the other potential breaks is the skills that we need to deliver a lot of this infrastructure development. It was Mr King who was talking about the private sector and the public sector fighting for the same people and a lot of this investment. Does anyone have anything to say about the skills deficit and the degree to which it is a brake on growth?

**Mike Brewer:** It does not even need to be a deficit. The more education the stock of workers have, the more productive they are going to be and the more they can produce. It does not need to be a deficit, although it is the case that the fraction of employers reporting skills shortages has gone up in recent years.

Of course, if the Government were to immediately announce a well-funded skills programme, it does not mean the OBR would leap into action and say, "That raises the trend rate of growth in five years' time", because there will be a cost in the short run and the payoff will happen over the long run.

**Chair:** There will be a lag before we see those people coming in.

**Mike Brewer:** It is clear from what the Chancellor did that she is not just thinking, "How can I shift the numbers in year 5?" She is thinking, "How can I raise the trend rate of growth over the next couple of decades?", which is admirable.

- Q128 **Dr Sandher:** I want to move on now to the fiscal implication of the Bank of England's purchases. I appreciate this is quite a big and complicated topic, so do feel free to give thoughts rather than well-sketched out answers at this point in time.

Given the policy rate is now above the bond interest rate, the Bank of England is now losing money on the reserves that the Treasury has to cover. I have seen estimates that the Treasury is going to have to pay



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out between £100 billion and £200 billion over the next five years. Does that accord with your general understanding?

**Andy King:** Those numbers are in the OBR document somewhere, are they not? It is somewhere between the two.

Q129 **Dr Sandher:** That is where it is, okay. Do you see it representing a financial windfall to those sectors? For example, NatWest, Santander, Barclays and Lloyds have more than £9 billion on these reserves. Profits are growing and almost doubling at some of these banks. Would you see this being windfall profit akin to what the oil and gas sector received after or in 2022?

**Chair:** That is quite a difficult question for the panel to answer. Do you want to rephrase it, Dr Sandher?

**Dr Sandher:** There is this huge fiscal transfer happening at the moment, given who is holding the reserves and the change in the base rate. Is that a concern to you, given the fiscal implication of that?

**Yael Selfin:** I would probably just add two points. First, once you agree a contract—this is likely what the Bank of England's approach would be—and you have an agreement or arrangement for something, it is not easy then to renege on it. When you redesign a quantitative easing or quantitative tightening programme, you may rethink it. Where we are now, it is not that easy to change.

You already have extra levies on the banking industry. You may decide to change those in one way or another, but those are probably two separate questions in that sense.

Q130 **Dr Sandher:** In that sense, is it preferable to change the banking levy? I know they have talked a lot about tiered reserves. I know there is discussion about this from think-tanks here. I know the ECB has done something similar. Is a banking levy more desirable from that perspective rather than changing the reserve requirement, as has been done elsewhere in the world?

**Yael Selfin:** I am not part of the Bank of England. My hypothesis would be that it would be reluctant to change a contract that has already been made.

Q131 **Yuan Yang:** A number of countries have embarked on quantitative easing and are also unwinding. If you look at the UK's performance on that and what we plan to do, are we doing it in a particularly costly way? Are there better ways of doing it when we look at other countries' practices?

**Andy King:** The UK's way of doing it is particularly transparent in its fiscal implications. Essentially, this is about the costs that are appearing in-year as the Treasury makes quarterly payments to the Bank of England.



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Those costs will be borne everywhere somehow. In the US, the Federal Reserve is booking a deferred asset, which means it will pay less to the Treasury at some point in the future rather than the Treasury paying it today. Overall, that affects the timing rather than the quantum. In the ECB, it is all lost in the national central banks. You need to be considerably cleverer than I am to understand where it goes and what it does.

The fiscal implications are considerable. It is natural to ask questions about whether it is the right way or whether there are better ways of doing it. The fiscal implications of paying 5% on reserves are functionally similar to the fiscal implications of paying inflation on index-linked debt. There are fiscal implications of having debt at 100% of GDP in all sorts of different forms.

The big question on tiered reserves is that, economically, it is the equivalent of a tax on banks. With any tax, you need to think not about the legal incidence but about the economic incidence. What happens after you change something? Is it on depositors, borrowers, bank shareholders or bank staff? Where does that incidence lie? If one wished to offset or reduce that cost somehow, all of those questions would need answers for a policymaker to make a choice. It would be equivalent to making a choice about taxing.

**Chair:** It is a policy question, really.

Q132 **Dr Sandher:** It is very complicated; I appreciate that. The economic incidence is the interesting question. If it is a windfall, in one sense the economic incidence does not fall upon consumers or individuals. The economic incidence will fall on the bank. On the other side, it might not. If that was the case, the economic incidence would be a relative gain to the Treasury without being a relative loss to the public. Does that reasoning accord with your understanding?

**Andy King:** It is too soon to tell where the economic incidence is. Similar to the national insurance measures that were in the Budget, it takes time for them to work through the system fully. What we have seen so far is probably day 1 of the adjustment.

**Chair:** It is very early days to see how this will bed in.

Q133 **John Glen:** Mr King, we need to come back to you about the black hole and lean on your experience in the OBR. Was it right to characterise it as a £22 billion black hole?

**Andy King:** That is the figure that was presented. Some element of that, which the OBR has then looked at afterwards, was information that probably should have passed between the Treasury and the OBR. I was not there. Did they ask the right question? Did they offer the right information? Ideally, that should all have been known and factored into the forecast at the time.



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A considerable part of it was taking a decision on public sector pay, which had to happen and had been deferred. It was a decision on public sector pay mostly from April. It was not taken by the July election and it was subsequently required. It was essentially the same as the decision that had been taken the previous year, which was to follow the pay review body. It was not outlandish.

**Q134 John Glen:** The previous year it was within departmental spending limits and there were only some modest changes in terms of revenues. There was a mechanism to do it that allowed departments essentially to wash their faces. That was the arrangement that the previous Chancellor had come to. The assumption that it was all net additional was an unnecessary one.

**Andy King:** I do not think I can answer whether it was necessary or unnecessary.

**Chair:** It was a choice that the Government made.

**Andy King:** I looked back at the last OBR report that I was involved in, which was March 2023. At that point, we said the surprise in inflation had put a pressure of between £13 billion and £29 billion on budgets in 2024-25, so £22 billion is bang in the middle of that. It is not an unreasonable number to think was a pressure on the budgets. Whether you use words like "black holes" is—

**Chair:** It is for politicians, perhaps not you.

**Q135 John Glen:** Can I get into the dynamics between the Treasury and the OBR? It is really unfortunate that we got into a situation where that dynamic is in question. For many fiscal events, OBR officials and Treasury officials interacted and produced documents in parallel. There was no reason to dispute the degree of transparency on both sides through that. Indeed, after the March fiscal event, there was no expression of anxiety from the OBR about what Treasury officials had shared with it.

A few months after an election we hear from the head of the OBR that there was a material withholding, essentially, of information from the Treasury. Given your familiarity with the pre-fiscal event dynamic between the Treasury and the OBR, what might have gone wrong?

**Andy King:** The chair of the OBR launched his review because he was shocked to find out there was this number that he was not aware of. I can see what he was doing there.

Going back, this number is £400 billion-plus. The way I used to think about this, when it was my job to do, was that I was forecasting the ability of the Treasury and the Chief Secretary to make sure that actual spending did not move above limits. It is a very narrow job. I was forecasting public spending control. From the outside, it looks like that was what was being done. It was an unusual thing because it was the



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year starting in a few months rather than the year in progress. That never got as much attention as the year in progress.

What I think about is what would have happened if the election result had been the other way round. If the previous Chancellor was still Chancellor, he would have had to squeeze public spending into the number he said he could. Those Treasury officials who provide the information to the OBR would have been providing him with advice on what he would have to cut if he was going to live within the number he had said was liveable.

What does the OBR do about that? I am not really sure there is anything it can do. In departmental spending, it is the pounds that are the public policy choice.

Q136 **John Glen:** Is it not possible that one Administration's familiarity, through difficult times, with the ongoing pressures that would need to be resolved at the next fiscal event is the same as an incoming Government's black hole, where they have not had that familiarity with the ongoing fact that things emerge between fiscal events, and it was in their interest to characterise it as highly as possible for obvious reasons when they wanted to expand anyway?

That would answer the question. Both could be deemed to be true, but the trouble is that we set up the OBR to be that arbiter of truth and therefore it is in a very difficult position.

**Andy King:** I cannot speak to motivations.

**John Glen:** I understand.

**Andy King:** The OBR document says, "We should have known these things, but we cannot say what would have happened to the forecast because, if we had known these things, we would have had a bunch more conversations". That can be extended. If the previous Government had still been in control of the purse strings today, how much would they have topped up those budgets and how much would they have squeezed other things?

Q137 **John Glen:** They might have made different choices on productivity or whatever. Can I finally finish the question, then? What could be done to improve this and avoid this happening again? It is not in the interest of the integrity of the process for it to carry on like this.

**Andy King:** The 10 recommendations it has made are all very sensible things to ensure that information flows more proactively if the OBR has not asked the very specific question about the pressure. Lots more information could be closed down earlier. Departmental spending was often the thing that the OBR did not know about as it was printing on Sunday night. You did on Tuesday night.

Looking through it, it is all very technocratic and OBR. It is all about getting the number right. It still does not tell us what we are getting for



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that departmental spending. There is no forecast of the NHS waiting list or any of those other things. There is still a gap there. If you look at something like the Institute for Government's performance tracker, there are lots of metrics in there that are readily forecastable, which would be a much richer information set. You could also go back a long way to public service agreements and those kinds of things.

The 10 points are exactly what I would want in my old job, but whether it is what everyone needs to understand departmental spending I am not sure.

**Q138 Chair:** It could add some glue to the process. The problem is that once the review happens there are going to be some changes. Will it slow things down? As well as the 10 weeks that will need to happen anyway, there are going to be extra things built in. Will this make the Budget a gluey, stickier process?

**Andy King:** Not necessarily, no. This is not complicated relative to all the other things that are very complicated as well.

**Chair:** That is helpful to know.

**Q139 Dame Siobhain McDonagh:** As a layperson, having seen the former Chancellor be at this Committee over the last period of Government, we were always assured that the numbers were there and that they could stick to what things were going to cost.

I was particularly surprised to see that within the black hole there was no compensation for the infected blood scandal victims; there was nothing for the sub-postmasters with the Horizon scandal; and an extra £1.6 billion had to be found for the next stage of the childcare proposals. The former Chancellor sat where Mr Johnson is and told me that all the money was there. Is that a reasonable argument?

**Andy King:** The compensation schemes are slightly separate. They required a certain number of decisions to be made before the OBR could tell how much it would cost and in which year. Some of those decisions to go ahead had been made, but not precisely and not ahead of the March forecast. There is always a list of policies that are not quite specified sufficiently to go into the numbers.

The childcare one is a case of revisiting and finding out that it is going to be more expensive than previously. It is also an example of a supply-side measure where the evidence on its labour market impact and how people will respond to free childcare is one part of the issue, but much more important is whether there are enough people to work in the nurseries and whether there are enough places. It is about the delivery. It is the second time that the cost has been topped up in order to deliver the policy that is designed to deliver a positive impact on the labour market. There is a variety of things going on there.



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**Mike Brewer:** I just wanted to reflect that I would not want us to put too much onus on the OBR. The OBR was set up because a long time ago Treasury would say, "Yes, growth is definitely going to get better in year 5" or, "Yes, the tax revenues will definitely arrive". The OBR was set up to say, "Based on the best technical information we have, that is probably not going to happen. This is what we think is going to happen". It is using its technical skills to come up with the best possible estimate of the state of the economy, where tax revenues are going and spending on DWP benefits.

When it comes to the rest of Government spending, it takes the Government's word as the truth. It would be difficult to have the OBR say to the Government, "We do not believe you". It is not, "We do not think your sums are right". That is fine. It is, "We do not believe you. We do not believe you can hold spending to this level. We think you have forgotten about this area of spending".

The OBR would then become more politicised than it is now, and we saw the risks and danger of that under the previous Government, when some members of the Conservative Party were having a go at the OBR. We do not want that to happen. It might be more appropriate for a body such as yours to be saying to the Government, "Hang on. You seem to have forgotten about policies X, Y and Z when you produced your EFO".

I am sensing an urge that you want the OBR to do more. I am saying that there is some safety in having the OBR limit itself to the technical questions rather than requiring it to call the Government out on aspects of policy.

**Chair:** Having chaired the Public Accounts Committee for nearly a decade, I would also say that there are always policies in a Department's plan that are not budgeted for. There is always a looming hole on spending. We are going to have the Chancellor and the Permanent Secretary in front of us tomorrow so we can raise these issues again with them. Mr Glen, did you want to add anything?

**John Glen:** I just wanted to add a point of fact. On infected blood, there was no costing because the analysis of the victims had not been done. In June there was a piece of work done to speak to the victims, which then verified the numbers. There was a speculative range, but it was very difficult to pin down and indeed it still is. Assumptions are being made now.

**Chair:** I am being indulgent to Mr Glen because, of course, he was the Paymaster General at the time.

**John Glen:** Thank you. That is very kind.

**Chair:** As you are in the room and we have the expertise, we might as well hear you on that.



**Q140 Lola McEvoy:** Well done, Mr King. I feel like you had to do quite a lot there. The other people on the panel were breathing a sigh of relief to see you answering all those questions yourself, so well done.

On to national insurance contributions, the OBR has forecast a number of indirect potential impacts from the increase to employer NICs, including a potential reduction in wages. In your expert opinions, is that a done deal? Is that absolutely going to happen? What are the other options that could come from this increase in NICs? Does it always have to go into the workforce? I want to know each of your individual opinions on that.

**Yael Selfin:** It is always uncertain to some degree because you are trying to predict people's and companies' behaviours. There will be different things that impact different industries and different types of companies. One thing you need to think about is how tight the labour force is, so how easy it is to potentially offer lower wage increases. Ultimately, when no one is expecting wages to go down, you expect that, over time, the increase in wages will be lower to make up for that increasing cost, but that will depend on how tight the labour market is and whether it is possible for employers to retain and potentially attract workers for that work. The tighter the labour market is, the harder it is to do that.

The other thing that you need to think about is how tight their budget is, so how much margin they have to absorb that increase in cost. That is another factor. There are certain sectors in particular that are operating very limited margins so they do not have a lot of room to absorb it.

Ultimately, the other assumption you need to think about is whether they can increase prices to make up for it. That will depend on how elastic the demand is and where we are on the demand. If it is a booming economy, it is potentially easier to increase prices. If the economy is not doing very well on the cycle, it is probably a little bit harder. Also, depending on the product, what it is, it is harder or easier to increase prices. In some industries prices are fixed for a very long time and they cannot actually pass on those costs. All that would impact where that is going and who is paying for it.

**Q141 Lola McEvoy:** Those factors absolutely will impact it. In your opinion, is it necessary that they will lead to the reduction in wages and in the wage growth one specifically?

**Yael Selfin:** The impact will be gradual. The short-term impact will be different to the longer-term impact. It is quite possible that a big chunk of that increase will be passed on to lower wage increases over time. That is likely to be the case, but it will be over time. The short term will not be the impact on wages.

**Q142 Lola McEvoy:** Are there any other ways that you think that that could be absorbed? An increase in productivity in the workforce might affect some of the overheads they have factored in before, such as sickness, absenteeism and things like that. In the round of the Budget, if it was



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only this isolated increase but with the wider package, do you think that that could offset some of those factors?

**Yael Selfin:** Yes, absolutely. Higher labour costs could potentially encourage businesses to invest more in machinery or to upskill workers and will help improve productivity indirectly as a result, but that takes time. It is unlikely to be immediate.

Q143 **Lola McEvoy:** Did anybody else on the panel have anything else they wanted to add on that?

**Paul Johnson:** In general, I obviously agree with that. Clearly, some of this is going to be passed through to wages. Some could be passed through to prices and profits, but it is reasonable for the OBR to think that wages will be the most affected. The way the national insurance increase has been implemented is interesting. It is not a straightforward increase in the rate. As you will be aware, there is almost a halving of the threshold. That will clearly make employing low-paid workers more expensive relative to paying higher-paid workers.

I do not know why the Treasury made that decision. There are a couple of possible reasons. One is that the national living wage will stop wages falling at that level, but that clearly increases whatever risk there is that there will be an employment or hours effect instead. I do not know how significant that will be.

The other reason, I suspect, is that, if you increased the rate further and layered it all on the rate, you increase the wedge between employing someone or contracting with a self-employed worker. One economic effect of this is, again, further to increase that wedge and the incentive on companies to make use of self-employed contractors. The way in which this is done may reduce that possibility and reduce the wage impact at the bottom end, but, if it is reducing the wage impact, that flows through elsewhere, in employment, prices or profits.

Q144 **Bobby Dean:** Just quickly on that point about people potentially taking up self-employment, if that started becoming common across relatively low-wage jobs, they have the potential to miss out on some of the new workers' rights that have been issued as well. Is that something that we should be keeping an eye on as a Committee to make sure that people in relatively low-paid jobs are not suddenly popping up as self-employed across the economy and having fewer rights that they would have done before?

**Paul Johnson:** It is something to look out for across the piece. The two go in the same direction. The more employment rights, automatic enrolment, national living wage and national insurance you layer on to these things, each of those adds to the incentive to move into self-employment or indeed set up an independent company. The groups that are not affected by this include partners of professional services firms who are self-employed and therefore not impacted by the increase in national insurance contributions. Again, it is certainly not just by any



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means at the bottom end of the labour market. It is through the labour market that you might look.

A few years ago, I remember the OBR getting really quite concerned about the numbers of people moving into self-employment and independent companies because of its concerns about the tax and other differentials. It would be interesting to see an updated version of that. I do not know whether it is planning that.

**Chair:** HMRC compliance could get very busy on that.

Q145 **Lola McEvoy:** To go to my line of questioning, do you not envisage that there is any possibility, in your expert opinions, that these changes could also be offset by some of the investment in getting people back to work, having fewer sickness payments being made by employers and seeing more customers having pounds in their pockets and spending. An increase in wealth in the country might work to counteract some of those immediate costs. Is that a possibility? I suppose my question is that this OBR forecast says that it is going to be a potential reduction in wages and employment, and I am trying to explore whether you, as economists, see any other possible outcomes from that. We have discussed productivity.

**Chair:** Or mitigations, yes.

**Lola McEvoy:** Yes, but I am interested in the other parts of the Budget that might impact business's bottom lines.

**Paul Johnson:** Do you mean not from the national insurance changes specifically?

Q146 **Lola McEvoy:** Yes, the other, wider things counteracting to make the economy better and more stable, the cost of living going down, people being better off in general, that sort of thing.

**Paul Johnson:** Irrespective of everything else, it is clear that the national insurance changes will result in somewhat lower take-home pay. That is clear. Is there other stuff in the Budget to push in the other direction? There is an initial fiscal loosening, so there is more money coming into the economy, which the OBR has scored as greater growth in the short run, but then it has offset that in the long run because it sees higher interest rates and higher inflation, which goes in the other direction. Who knows what will happen to the economy over the next four or five years? Clearly, the national insurance change by itself will have that effect.

It is also worth saying that you need to measure how well off people are by the quality of the public services that they are consuming, the quality of the local authority and the potholes. All this goes into our wellbeing and you should think about all of that. Government are clearly making a judgment that we, as a nation, and people as a whole will be better off as a result of this Budget because we want a decent health service, better



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education and all those sorts of things. That offsets the fact that our take-home pay will almost certainly be lower.

**Mike Brewer:** As a think-tank that exists to support the incomes of low to middle-income households, some of the forecasts coming out of the OBR are difficult reading, are they not? We are still forecasting very poor income growth over the next Parliament and very poor real wage growth. I am agreeing with Paul. Primarily, that reflects that the Budget saw a net tax rise, which the Chancellor is spending on improving public services. Presumably, her judgment is that that is what the nation needs. As somebody who can see what is happening to indicators of satisfaction in public services, that seems a sensible, reasonable choice to make from my point of view.

Reducing NHS waiting lists, preventing councils from going bust, improving schools and stopping prisoners being released all seem worthwhile things to do with public funds, but the consequence is that there is not much going on in terms of wage growth and living standards growth, in terms of pounds in your pocket, over the next Parliament. The Government's solution to that is to do with the stability we talked about and is to do public investment. The challenge they have is that the payoff for that might not be in this Parliament coming up.

**Chair:** We can ask the Chancellor about her choices tomorrow.

Q147 **Dr Sandher:** I want to touch on modelling the national insurance contribution because there are two aspects of it. The other aspect is doubling the employer threshold from £5,000 to £10,000, so it takes the bottom half either paying the same or less. Do you guys have an estimate of how that impacts those on lower pay? I know that, in the presentation you gave, you pointed out that you were not able to include the effect in the modelling, but I am not sure whether I saw it elsewhere. Do you know how many of those low-paid workers are inside smaller firms that are actually exempted from the national insurance rise?

**Paul Johnson:** It might be in the OBR document. I am not aware of it, I am afraid.

**Andy King:** I have not seen it.

Q148 **Dr Sandher:** To clarify, when we are talking about this having a huge impact on the low paid, you are not quite sure how many low paid there are, given a lot of them are in micro firms that will not have high national insurance payments. Is that correct?

**Paul Johnson:** You only have to look at the overall numbers to see that the pounds billions are very small on the one hand and very big on the other.

Q149 **Dr Sandher:** The pounds billions could be raised from the larger firms, not the smaller firms. I have seen your analysis, for example, saying that low-paid workers are going to be hit quite a lot by this. I am saying that



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a lot of those low-paid workers are working in smaller firms that will be exempt from the rise. I think you have the incidence as 100%. Is that correct?

**Paul Johnson:** No. On the chart that we showed, it is for a typical bigger firm. You are right that micro firms are more likely to pay less well, but the large majority of low-paid people do not work in micro firms. It is important to get that comparison right. The big retailers and hospitality firms and so on have the large majority of lower-paid people in them, even though micro firms are much more likely to have lower-paid people.

Q150 **Chair:** It is fair to say that there is always going to be gaming, or certainly gaming on the threshold of the number of hours worked and national insurance contributions kicking in. Many people in Hackney supermarkets could not seem to get jobs over 16 hours a week at one point. Have you thought about how this will be gamed by employers? Have you done any thinking?

**Mike Brewer:** Umbrella companies was an issue before with the £5,000 allowance, so that will be worse now with the £10,000 allowance. It was for that reason, among other reasons, that we were previously in favour of getting rid of the allowance altogether. On the other hand, the Government have got rid of the £100,000 threshold, which was worse than a cliff edge, was it not? That is good. If they had not got rid of that, there would have been a serious disincentive for businesses to grow. We do not have that anymore, but yes, there is a risk for umbrella companies. I think that the OBR has factored that into its costing as well so we can get a sense from that of what it is expecting.

Q151 **Chair:** I wanted to ask a quick question of all of you, so the macro and the micro end of it, about who you would say the winners and losers are overall in this Budget. We have talked a bit about employment and particularly lower-paid workers. More generally, we have seen money going into public sector investment. Mr Brewer laid it out very clearly earlier. Growth is a mission of the Government and the Chancellor. Where do you think the winners and losers are in the short to medium term?

**Paul Johnson:** The winners are users of public services because there will be more money going into those. Relatively speaking, you might think that those employed in the public services are more protected, although the way that that has been explained has been not quite accurate. There is compensation being paid to public sector employers. They are not being exempted from paying the national insurance contributions, so that will also affect their incentives about the use of people as against other things.

It is worth saying that, if you compare this change in national insurance contributions to the one that the last Chancellor made—the last Chancellor cut employee national insurance contributions—that was clearly a benefit to working people, but no benefit to pensioners. This is



the reverse. This is a cost to employers and working people with no cost to people getting their money from elsewhere. There are increases to capital gains tax and so on, but that is very much a minority sport in terms of the number of people affected. The broad thing here, very much as Mike was saying, is that your winners are your users of public services and the big number of your losers is, broadly speaking, people working for companies and the companies themselves.

**Q152 Chair:** The winners will be in public services if all those promises come to fruition, which is still going to be a lag. Looking at it from the macro end, there are the people you are advising. You are giving the economic outlook to many of your clients. What are you telling them they are going to get that is good from this and where are the downsides?

**Yael Selfin:** It is the public sector services that are definitely benefiting. There is the shift towards supporting the public sector and getting potentially more delivered by the public sector in terms of the services. Anything related to that is definitely more in favour.

One of my particular concerns is about certain sectors, such as hospitality and care sectors, that are potentially more squeezed because of the changes to the tax system. Also, they have the increase in living wage to deal with at the same time and a relatively high level of vacancies. There are particular sectors where there may be more stress.

We have touched on private sector investment already. I am not sure. Maybe we have a little bit more certainty here. There is still more to come in terms of the industrial strategy and much more colour that businesses will probably want before you see a major increase in business investment. There are other things that potentially could have been done in terms of the incentives to try to bring business investment along with the public sector.

**Q153 Chair:** Given what Mr Johnson was saying about the public sector and the potential benefits, how much does that factor in when you are talking to clients about whether they relocate or invest more in the UK, or does it not really not affect their decision?

**Yael Selfin:** I think that they should always locate in the UK, obviously. There is a lot of potential here and it is a great country. One other thing to bear in mind when you talk to a client is that what is happening here is one element of what they are looking at globally. There is quite a lot going on elsewhere, not just today in particular but more generally. They would compare the risks and rewards to what is offered elsewhere, as well as the uncertainties and the volatility. That is always something we need to bear in mind. We are in a relatively positive position at this stage.

**Q154 Chris Coghlan:** Following on from Dame Meg on the macro side of it, one thing my constituents are often very frustrated about is that there are hard choices out there but one choice this Government have chosen



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to make is not to be in the single market. Do you have an assessment of how much better this macro situation would be if we were in there right now?

**Chair:** Can we answer briefly, because this is not really a Budget question? As it has been asked, Ms Selfin, do you want to briefly answer that?

**Yael Selfin:** If you look at business investment, performance of business investment has been weak and it could be that some of it is due to that decision because it is a smaller market, essentially, as a result. The other thing that is quite striking when you look at export performance post Covid and compare it to other countries is that UK performance has been relatively weak as well. That is quite sensible to correlate to that.

**Chair:** We will leave that. We could have a long discussion about Brexit, but we are not here to do that today.

Q155 **Lucy Rigby:** Now that Mr King has had a bit of a break, I wonder whether I might ask Mr King about the new debt metric. I am curious to know whether you think that it is a more appropriate measure than the prior debt metric. Perhaps you could also answer relative to public sector net worth.

**Andy King:** The way that I have always thought about this is that there is no one perfect metric. If you look at one without looking at any others, you are likely to make mistakes or less good decisions. Public sector net financial liabilities, which the Treasury is trying to call net financial debt because of its unfortunate acronym, is a broader measure of the balance sheet. That must be sensible in some ways, because public sector net debt is just debt minus cash and it therefore gives you an incentive, as a policymaker, to sell non-cash assets to get the cash and reduce your debt.

**Lucy Rigby:** Short-term.

**Andy King:** A few years ago, student loans were being sold for less than their book value to get the cash. That is obviously not good use of taxpayers' money and accounting change stopped that happening. It was a good example of where the accounting rules drive the decisions.

Public sector net financial liabilities—the new debt measure—nets off all financial assets, so loans and equity as well. It is actually the stock equivalent of our very familiar measure of the budget deficit: public sector net borrowing. That measure is, to some extent, responsible for the existence of student loans, because student loans allowed public spending to look like a loan. Those loans got bigger over time and the repayment structure got more and more graduate-tax-like, but as long as they are still attached to an individual, they are considered a loan and a repayment. That is an example of where you have a problem, you cannot afford to answer it and you need an answer that is outside the boundary. A loan is that answer.



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Any measure will cause you to draw a line in the sand and then there is an incentive to push things beyond the line so that they do not appear. You can see in the OBR report that it is super alive to this and wants to make sure that it is really on top of it, even down to very technical things. Loans are scored at their face value in the statistics, but the OBR will forecast them having a certain degree of write-down so that it is not free to do public spending through loans. That is good. The chair of the OBR is about as obsessed with public sector balance sheets as it is possible to be, so that is good.

**Chair:** I do not know. You have some competition here.

**Andy King:** The difference between PSNFL and public sector net worth is that that measures real assets, such as roads, hospitals and schools. That is something that, in my mind, is incredibly important to measure, watch, understand and make sure you are improving. I do not think that it works as a fiscal target though. For one reason, it is the stock equivalent of the current budget balance, which we already have a target for. If you balance the current budget, you will always have public sector net worth improving because of the arithmetic of debt dynamics.

Public sector net worth puts no limit at all on how much net investment you can do. Essentially, you have the current budget balance as your target that says that you have to have enough tax to pay for public services and welfare, et cetera, and you have the balance sheet one to say that you cannot invest without limits. They have landed on a nice combination, but it is really important that public sector debt is still monitored. Ultimately, they have to issue gilts and be on top of that market as well. Essentially, you need lots of measures to see the whole picture. Targeting two is fine, but do not ignore the others.

Q156 **Lucy Rigby:** That makes sense. In relation to what you said, Mr King, about net financial liabilities, presumably, then, you welcome the financial transaction control framework, which the Government are proposing to lay over the top of that.

**Andy King:** Absolutely, yes. That is very sensible. It is sensible to have the NAO looking at loan valuation, have the OBR beef up its work there and have the Treasury do full spending control on loans. It is still a line in the sand. When push comes to shove, there is no headroom left and there is something important that needs doing, the temptation to deliver it through loans will be huge, so everyone will still have to be watching out.

**Chair:** That is interesting for the National Audit Office as well.

Q157 **Lola McEvoy:** Health received £22 billion in day-to-day spending for both this year and next. Do you think that it is possible for the Department of Health and Social Care to be able to find ways to spend this money efficiently?



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**Andy King:** Can I make one point? £22 billion is the cash increase over two years, which is 4% real on average. 4% real is a percentage point faster than normal, so in a way the £22 billion is not as large as it seems. It is a very big budget that rises with inflation, pay and so on. I will let others answer on whether it can be done efficiently, but a lot of that £22 billion is normal baseline growth in health budgets.

**Paul Johnson:** I think that it is almost all of it, actually.

Q158 **Chair:** It is about a 4% increase a year to stand still in the NHS with the ageing population.

**Paul Johnson:** Again, it is a really hard question to answer sensibly. I would say two things. One is that the surprising thing about the increases this time round is that the health service did not get more than its fair share. It basically got the average increase for all other Departments, which is almost unique, because it nearly always gets more. It is a big number, but it is off a very big baseline.

The second point is that a lot of it is this year. This is part of a long-term way in which the health service works, where it has, essentially, mythical budgets at the beginning of the year. They do not quite know how much it is going to be topped up, but they know that it is going to be topped up, so they work knowing that it is going to be topped up and, if it were not topped up, it would all be horrible. This is not a good equilibrium to be in, but it is an equilibrium that we are in.

The third thing to say is that what really is going to matter here is how we can plan this over a slightly longer term, because surely this is the moment to get out of that horrible equilibrium. There is a big increase this year. I think that there is a bigger increase between last year and this than between this year and next, which is also pretty remarkable. I do not know the internal workings of the NHS. That may mean that this is a reaction to some huge deficits that the Treasury can see coming down the road, or it will mean having to push a lot of money out the door very quickly. I suspect that it is the huge deficits coming down the road, but I do not know the answer. I do not know.

**Mike Brewer:** I was going to reject the premise of your question, really. The Government have said that there are some public services that are performing very badly from the point of view of the public and need extra cash. That might not be the time to say, "Are you going to spend the marginal pound as efficiently as you spent all your previous money?" We are trying to stop crises from happening, are we not? That should be our first thought.

When we have solved the crisis, we should definitely do all the things that Paul has talked about, which is to perhaps give the NHS more stable budgeting, stop it going from winter crisis to winter crisis to winter crisis and get a dose of realism in it. I would not use, "You might not spend the



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next £10 billion efficiently”, as an excuse not to give the NHS any more money right now.

- Q159 **Lola McEvoy:** Is the consensus of the panel that it is not enough to stem some of the problems that we have coming down the line, or would you have liked to have seen a bigger increase for the NHS in this Budget?

**Paul Johnson:** I have no basis on which to make that judgment.

**Chair:** That is a policy question.

**Lola McEvoy:** Sorry, Chair.

**Chair:** That is fine. We are here to ask about policy too, but perhaps not these witnesses.

- Q160 **John Glen:** Can I just clarify? The additional money for the NHS is essentially in line with what it takes to stand still. In your words, Mr Brewer, it is crisis management, essentially. What I am not clear about is, from the Budget’s numbers, the implied uplift thereafter to do the sorts of things that you say are desirable in the medium term. If this Budget has not dealt with that quantum, is it not the case that there is potential room for choices in subsequent Budgets, which would imply further increases in taxes or further borrowing?

**Mike Brewer:** Many of us have noted that the increase in public spending is very front-loaded, with the growth rate in the final few years of the forecast period being only slightly higher than the growth rate that Jeremy Hunt imagined, albeit from a higher level. That will pose a challenge for the Government, particularly as the spending review is only a few months away. The Government cannot go for the strategy and hope for good news or wait for the growth measures to influence the OBR’s forecast and spend some of that revenue. They have to make these tough decisions about the second half of the spending review in only a few months’ time. That is going to be a much tougher spending review that many Ministers had hoped for.

It must raise the possibility that these spending settlements get revised upwards or changed. That might be because the economy grows faster than the OBR is currently predicting, so the Government get a windfall and can devote some of that to public services, or it might be a kind of crisis with an emergency tax rise and more money going in, such as we are seeing this year.

- Q161 **Chair:** Inflation plays in as well. We heard from the OBR earlier. A 0.3% increase in inflation would pretty much wipe out the headroom. Mr Johnson is smiling at that. I think that you might have said this as well.

**Paul Johnson:** There is very little headroom against the fiscal targets. Even off a higher baseline, 1.3% a year across the Departments is incredibly tight and would actually mean some cuts on current budgets. Frankly, I would be very surprised if that is where we end up. At this



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point in the process, it is quite easy to say to your Cabinet colleagues, "It is 1.3%, but I am not distributing it". When it comes to distributing it, some of you are going to get cut budgets. This is one of the OBR's problems. It has to accept that. Is that actually the most likely outcome? I do not think that it is.

**Q162 Bobby Dean:** That links a little bit to my next question. Mr Johnson, you said that the winners from this Budget might be users of public services, but would it be more accurate to say it is the users of the health service and potentially the education system? If you are looking at the future budgets, potentially things such as the Environment Agency, or if you are a rail passenger or waiting on a court case, it seems like those budgets over the forecast period might end up being squeezed. We might not see the turnaround in those public services in the way that maybe the public might have hoped for. Is that a fair description for some of those other Departments: that we are not going to see the big turnaround that we might see in the NHS?

**Paul Johnson:** If you look in the years where the money has been allocated, as I say, it is really quite unusual to see local government and justice up at the top—I do not think that I have ever seen that before—and health bang in the middle. The Government are reacting to those areas where they know that there are the most immediate and severe crises at the moment.

Exactly as you have described, that is why, when it comes to allocating next time round, it is going to be really hard to keep within that 1.3%. Who knows how that will actually end up being allocated? My guess is that it will be topped up. One of my colleagues has done this fantastic chart showing that, in any case, if you look back at every three-year spending review in the past, the last year is always topped up. That is actually just what has happened this time round in a sense. My guess is that the previous Government would have ended up having to do some of that. I would lay money on these numbers being topped up.

**Q163 Chair:** They are fiscal fictions, as we dub them. I refer to my predecessor.

We move on to some of the interesting issues around taxes on assets. Again, I first want to ask the question about who you think the winners and losers are. I ask this because, depending on which bit of the media you read, there are quite wide opinions on who is wounded, badly affected, hit terribly and fleeced. I use different words for different things. I figure that this particular panel might be able to shine more light than heat on to the issue. I will start with Mr Brewer and work down. In terms of the taxes on assets—I will not go through them all; you know what they are—who do you think the winners and losers are?

**Mike Brewer:** There are not too many winners, are there, unless you want to count the rest of us? The Government are obviously trying, in some sense, to close the gap between the way we tax earnings and the



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way we tax other forms of income, which might cause unhelpful distortion. To the extent to which she has closed those, that is a gain for the rest of us. That principle underlies most of the changes that the Chancellor made, whether they be to inheritance tax or capital gains tax. She is trying to reduce the difference between taxation of different forms of income and, in general, that is to be applauded.

**Paul Johnson:** Clearly, if you are making capital gains on shares or what-have-you, you are losing from this, but your easy ways of avoiding that have been left completely in place. Just wait until you die—completely forgiven. Leave the country—completely forgiven.

Q164 **Chair:** You might just be giving the Chancellor a list of loopholes to close.

**Paul Johnson:** From our point of view, the capital gains tax reforms are arguably going in the right direction, because, as Mike says, they level up rates, but there was no attempt to change the base, so no attempt to provide any allowances for inflation, for example, or for normal returns. That was really quite disappointing. I hope that the Chancellor comes back to do reform, but it is really problematic if you get the level of speculation before a Budget that we had this time round and then you repeat that next time round and possibly the time round after that. I have every sympathy with leaving the Budget for a little while after the election, but, if you are going to leave it a little while after the election and then do not do the reform, there is a risk that people will be speculating next time round.

At one level, most people with money in a pension might consider themselves winners relative to some of the speculation that lump sums might be taxed or relief reduced. I really hope that the Chancellor says, "We are done now", or says, "My plan really is to do this". The speculation is really costly. I do not have any data to prove this, but everyone in the industry you talk to says that loads of people cashed in their lump sums because they were worried about what the Chancellor might do. This is really damaging stuff. That is one reason why it is quite important to set out some sort of agenda or strategy on that.

**Chair:** "Certainty" is a watchword of the Chancellor, so we may put that to her tomorrow.

**Yael Selfin:** I do not have a lot to add. I really agree with the uncertainty bit and the fact that people are trying to plan. This is very unhelpful when you have all these potential rumours for quite a long period of time. It does not help on consumer confidence as well.

One area that I particularly wanted to touch on that has not been touched on is housing, where I was a little bit disappointed—maybe I was just naive—that there was not anything on stamp duty. This is one of the areas where you want to improve mobility generally. I was hoping that there would be something bolder there. Related to that a little bit on the



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availability of rental properties, that change that was made just did not seem to make that much sense.

**Paul Johnson:** Can I jump in there? One of the losers here was my forehead, which hit the table when stamp duty was announced to be going up. I was lost for words. You pick the worst tax that we have and increase it. I thought that that was quite staggering. The losers here will be people who want to buy second properties, but also people who want to rent properties. I find that extraordinary.

Q165 **Chair:** This is maybe stretching you into policy areas, but was your objection about renting or the 150,000 people who are second home owners in this country? Where was your objection?

**Paul Johnson:** There are a lot more than 150,000 second home owners. People who currently own second homes are not going to be losing from this. As ever, the generation that has done well is fine.

Q166 **Chair:** It is the intergenerational issue and the renters that are the issues.

**Paul Johnson:** There is every imaginable issue here. If you are a landlord and you want to sell one property and buy another, it is now prohibitively expensive, so you are not going to do that. If you want to become a landlord, it is now much more expensive. If you want to become a renter, it is going to be more expensive than it otherwise would have been. I was also really disappointed that there was not any use made of the fact that there is currently a lower rate for cheaper properties and first-time buyers. That is going. That is going to be a big effective increase in April. I imagine that we will see, as ever, a surge of people trying to buy before the April deadline. Sorry for the rant, but I just thought, "Blimey".

Q167 **Dame Harriett Baldwin:** This is a slightly niche issue. Is it your understanding that, for a working couple who are not married, if one of them were, unfortunately, to lose their life, their death-in-service benefit would now become taxable because they are not married, if it is more than £325,000? Did anyone read the small print closely enough for future tragedies? You could potentially have the revenue take away 40% of someone's death-in-service benefit that they had set aside to pay for the mortgage or something.

**Paul Johnson:** I do not know.

**Chair:** There are an awful lot of explainers out there, some of which are contradictory. We can ask specific questions going forward.

Q168 **Yuan Yang:** Mr Johnson and Mr Brewer, you both talked about closing the gap between the way we tax income and the way that we tax wealth. This is a very broad question. Do you think that our current tax system has an efficient balance between those two forms of taxation? Is this Budget moving us in the right direction? How much further do you think



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we have left to go on that?

**Paul Johnson:** We have got a long way to go. The big picture of this Budget has taken us in the wrong direction because it increases the tax on earned income through employer national insurance contributions. It undoes, as it were, some of the benefits that the previous cuts to national insurance contributions did. The big difference between taxing earned and unearned income is the way that national insurance contributions work.

There were some movements to close that with the increases in capital gains tax, but we have that continual trade-off with capital gains tax. Capital gains are taxed at a lower rate, but they are taxed off the wrong base. We are taxing purely inflationary gains. We are taxing normal returns to investment and not offsetting that investment. The simple proposal that we have suggested for a long time is that you tax at the full labour rate, but only the return above a normal return.

What we got was what we have had ever since capital gains tax was introduced in 1965, or whenever it was, but it has yo-yoed up and down. At some points it has gone up because we are worried about the gap between the rate on employment income and capital gains and sometimes gone down because we are worried about investment incentives and entrepreneurial-type incentives. The closest we got to a sort of sensible regime was between about 1985 and 1997, when we had at least an allowance for inflation and a rate that was set at the standard income tax rate. That is why I am worried that we will see more uncertainty and instability in that.

Q169 **John Glen:** I have two quick questions, one macro and one micro. If you look at the retention of the corporation tax level, the combination with the employee NICs, the overall effect of the £5 billion of the Employment Rights Bill and the effect on the national living wage, the assertion is made by some that this makes the UK look very highly taxed. I was wondering what reflections you have on that. You said earlier that there are lots of positives about the UK, which I agree with, but I wonder what you think about that overall.

**Yael Selfin:** If you look at the tax burden, it has risen to over 38%. It puts us ahead of quite a lot of western economies but below some countries such as France, Germany and those in Scandinavia. We are in the middle, but one thing that we have discussed today is what you get for it. Quite a lot of these countries have a higher level of service in return and you need to spend less of your income to pay for that. It is a little bit mixed in that sense, but we are obviously going in that direction, with the Government trying to also improve the services that you receive in return.

Q170 **John Glen:** On the micro side, one controversial change has been the agricultural property relief. It has been said that 73% of estates will be exempt from it. Has there been any assessment made of the behavioural



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impact and the effect that would have in terms of the obligation to sell, notwithstanding the fact that clearly you can aggregate personal allowances with the £1 million. You can get to a higher number, but the allegation is that there are quite small farms that are asset-rich but do not have the liquidity on very small margins and therefore have to sell acreage. Is there a danger here that we have a desk-based economist looking at this rather than the actual behavioural reality in rural England that will be much worse?

**Mike Brewer:** This is a costing that was produced by HMRC with oversight from the OBR, based on what HMRC can see about the way that people currently use this relief. They have not plucked the number out of thin air. It has come out of facts and it has been assessed by the OBR. This is a sector that has never had to do any inheritance tax planning for the last 20 years and is probably realising it will now have to do some inheritance tax planning, just as other people who are lucky enough to have assets of more than £3 million when they die have always been doing inheritance tax planning.

Q171 **John Glen:** In the light of the fact that they have, rightly or wrongly, post Brexit had significant changes to their economic model, have been encouraged to diversify as well and there is still uncertainty over the applicability of capital grants, et cetera, it is not quite the same, is it? They are on margins of 0.5% to 1%, which is rather different to many other sectors. Characterising it as an alignment of inheritance tax planning is a bit unrealistic, surely.

**Mike Brewer:** Because of the agricultural property relief, they will still be taxed at a lower rate than any other forms of assets. I think that the cost to the Exchequer is about £1 billion a year. If you compare what the relief is currently costing us and then take away what the Government have raised from their changes, you still have about £1 billion a year going in relief to this sector. I have heard many of the arguments against this measure and they seem to be good arguments for not having inheritance tax at all. That is a principled position to take, but as it is, successive Governments have decided that we should have inheritance tax.

**John Glen:** This is linked to food supply and food security, which is national security, a stated objective of the Government's policy. That is where the concern is.

**Dame Siobhain McDonagh:** Does Mr Johnson not have something to say about this?

**John Glen:** I know what he thinks. He has said it—

Q172 **Dame Siobhain McDonagh:** I so enjoyed hearing him about this. I wonder whether, for our entertainment, we could hear from him as well.

**Paul Johnson:** I essentially agree with what Mike said. It is a really good example of how hard it is to make changes to the system where one relatively small group of people have a carve-out and a better treatment



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than everyone else and then you try to take it away. Quite understandably, they complain and they complain very vociferously. The one lesson that the Chancellor should take from this is do not give tax carve-outs to anybody else, because it is really hard to take away.

**Chair:** Good luck with that one with Chancellors in the years to come.

**Paul Johnson:** In this particular instance, we can see how many people use how much agricultural relief. It is a relatively small number, and the big costs are for very big, valuable farms. That is obviously what is being aimed at here, but, as Mike says, still with much more generous treatment than anyone else gets.

**Dame Siobhain McDonagh:** Dare I say, Chair, as we both share an Irish background, we know exactly what it is like when anybody takes on the farmers.

**Chair:** Indeed. I know exactly what it costs to rear a sheep.

Q173 **Dame Siobhain McDonagh:** When Chancellor Jeremy Hunt came before the Treasury Committee in November 2022, he said that the Treasury did not have any estimate of how much money would be raised by abolishing non-dom status. It now appears that it will be £30 billion between 2025-26 and 2029-30. That is good news, but it leads me to wonder how many other uncoded policies are still on the books that have not been evaluated and could raise substantial sums. What is your view about this?

**Chair:** Who wants to go first? Mr King, go on then.

**Paul Johnson:** You have seen all the costings, have you?

**Andy King:** I have seen all the costings. The interesting thing about the latest iteration of this non-dom costing is that the money is raised largely through this temporary repatriation facility. It is almost a one-off source of revenue. It is not quite, but almost. It is playing on the behaviour, as opposed to trying to manage the risk associated with behaviour. It is playing on the desire to bring the money in, rather than worrying about who is going to leave, so it is quite a different tax measure to the one that Jeremy Hunt had not heard of in November 2022.

Interestingly, it is also the reason why the fiscal rules were met two years earlier. That chunk of money on that facility makes the difference. It is that plus fuel duty going up. How many other measures are there? Almost everything is coded as far as I know. The Treasury has shelves and shelves of measures that Ministers can ask for whenever they wish.

**John Glen:** Or they can say no to.

**Chair:** Blow the dust off every now and then.

**Mike Brewer:** That feels a bit like one of those “unknown unknown” type of questions. One thing we are critical of this and the previous



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Government for doing is not doing anything serious about taxation of motoring and motor vehicles. There are two aspects to it. There is the short-run aspect of, "Gosh, another fuel duty freeze. Why are they doing that when petrol is so much cheaper than it was when Rishi Sunak introduced the 5p discount?", but it is really the long-term issue. Fuel duty is on its way out. That is going to cost us tens of billions of pounds. It is not going to be quick to replace either, so there is your magic money tree. Do something about taxation of motor vehicles. I did not say it was easy.

**Chair:** Choices, choices.

Q174 **Dame Siobhain McDonagh:** A lot of the policy measures that were described as highly uncertain relate to taxes on those with the broadest shoulders: non-doms, capital gains tax, inheritance tax. What can be done to improve the evidence base on these groups so that we can have more confidence when designing policies about how much they will raise? Is this about collecting more data or making better use of the data that the Treasury already collects?

**Andy King:** These things are typically described as highly uncertain because they are taxes that are paid by a small number of wealthy people. The amount raised depends on how those people respond and they have any number of options open to them and excellent advisers. It is therefore highly uncertain as to who is going to choose to move to a city in another country and who can shelter their assets in a different scheme. I do not think that there is a data source that can get at that. I joked with someone previously that there are some measures where the tax comes from such a small number of companies or people that, ideally, you would want to Google them and find out what their lives are like and whether they are going to move, rather than finding a better study or data source. Obviously one cannot, but that is how it feels.

**Paul Johnson:** Can I very briefly answer that with a plea for HM Treasury and HMRC to put more resource into their data centre? Although they have lots of data there, it is really not very well resourced. It does not have as many people using it as it should do. It is not as easy to get the data out. There is the capacity to do more analysis than is being done. I will put that on the record.

**Chair:** Indeed. More data is always useful.

**Mike Brewer:** One reason that some of these costings are so difficult is because there are lots of different ways in which people can respond, in some cases exploiting other tax loopholes. The better the Government get at closing down on the loopholes, the easier it will be and the more certainty we might have about some of these costings. As Paul has already said, we still have a great big exemption for capital gains when you die or emigrate, so that is one way in which people can respond if they do not like capital gains tax going up. If we did not have that, how much revenue we would raise would be more predictable.



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On agricultural property relief, no doubt HMRC will now be assuming that people pass on their farms more than seven years before they pass away to avoid any inheritance tax. If that exemption was not there, again, we would have more certainty about how much would be raised. There are many ways in which people can respond to these tax changes. I do not think that there is a lack of data. It is just that there are many options open to them. Some of them are tax-driven options, which we could do something about.

Q175 **Bobby Dean:** I hope that this is a quick question. I have a couple of charts in front of me. One is the Treasury's distributional analysis and the other one is the Resolution Foundation's one.

**Paul Johnson:** Spot the difference.

Q176 **Bobby Dean:** One of them indicates that the Budget is redistributive. The other one does not. In fact, everybody loses out. Who is right?

**Mike Brewer:** The answer is that the Treasury and the Resolution Foundation have included a different set of measures when we made that assessment. The biggest difference is that the Treasury has decided to value the increased spending in public services and assumed that that is of direct benefit to the public. It has some ideas as to which people in the distribution gain by how much when you increase spending on the NHS, education or prisons and it has shown that in its modelling. We decided not to do that, partly because we did not have that level of data available to us and partly because our concern was people's take-home pay.

The second difference was that we included the long-run impact of the rise in employer national insurance. We showed that as a reduction in people's wages, following the OBR's assumption. We reduced people's wages by 0.5% on average. We thought that not doing that might give a misleading impression of what is going on, particularly when we have had a number of years where employee national insurance was being cut, which we would always show as a giveaway to people. We thought it was then reasonable and fair to show a rise in employer national insurance as having the opposite impact.

As far as I understand, those are the two differences. It does not mean that one is right and one is the other. We have taken slightly different approaches to answering this question. Both of us left out many of the changes to capital taxes, which, of course, will be very instant on people who have high incomes.

Q177 **Bobby Dean:** I accept that the difference that public services will make in people's lives is going to be difficult to measure and people will come to different conclusions, but the employer national insurance contribution side should be more clear. Do you think that they should have included that in their distributional analysis, because apparently they did not?

**Mike Brewer:** I did not think that it was sustainable for us to present analysis that did not include employer national insurance, if only as an



annex or a supplementary. That is particularly when, over the last few years, we have discussed employer national insurance quite a lot in the public finances, first when Rishi Sunak announced the health and social care levy and then in the document last week. It is very clear that the OBR thinks that, in the medium run, it is going to be passed through into lower wages.

**Paul Johnson:** It is very good that the Treasury presents stuff that shows the impact of public service spending, because we often miss that. As we were saying earlier, this matters to people's living standards. That is actually a really quite hard thing to do, and credit to them for doing it, but the national insurance thing is easy and they did not do that. I just find that really extraordinary, to be honest. They go through all the hard stuff and then show the effect of a Budget making everyone better off when we know that it is a £40 billion tax rise.

Q178 **Lucy Rigby:** I just wanted to pick something up. Mr Johnson, you were talking about data, I think from the point of view, when you referenced it just then, of good policy. I wanted to approach Treasury data from the point of view of targeting economic support to households, which is something that the Government said they want to do to improve the data use and indeed data sharing across Government Departments. I was wondering whether you have a view on the scale of improvements that can be made in that regard.

**Paul Johnson:** Do you mean to data sharing?

Q179 **Lucy Rigby:** The better use of data, and indeed of data sharing, to enable that targeted support to households, particularly in times of crisis, for example.

**Paul Johnson:** The times of crisis point is a really good one, because we saw this so clearly during the energy price crisis, when the only option that Government appeared to have was to give a lot of money to absolutely everybody, which was wholly untargeted. I think that the reason is that they did not have the kind of data that you are describing. Even if not for nerds like us, who would love the data to work to, there is the potential to save billions by investing millions in better data, which links people's income to their health, education, housing conditions and so on. This kind of crisis only has to happen once every 20 years to make a lot of investment extremely worthwhile, so I would hope that we do see that, absolutely.

**Chair:** Likewise in Covid, we could have saved a lot of money if we had had better data.

Can I thank you all very much indeed for coming? To summarise some of what we have heard today—it has been an interesting discussion—it is fair to say that there remains considerable uncertainty about whether the Government can materially influence the underlying role of productivity growth within the economy. We have heard some of that from elsewhere



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too. There was an interesting point about the new debt measure and that the use of loans instead of grants could be incentivised by the new debt measure, so that is something for this Committee to watch, as I am sure you will be as well. We heard what one could say was the blindingly obvious, but the Budget has targeted improving public services, rather than improving household incomes or living standards. That is the choice that the Chancellor will, I am sure, tell us tomorrow that she has made. We will be having the Chancellor in front of us tomorrow.

Can I thank Andy King, Yael Selfin, Paul Johnson and Mike Brewer for their time today and for really contributing to our thinking as we approach the end of our Budget scrutiny tomorrow with the Chancellor of the Exchequer? Thank you very much indeed.