



Select Committee on Public Services

Uncorrected oral evidence: The economic context of public services delivery

Wednesday 27 January 2021

2.15 pm

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Members present: Lord Young of Cookham (The Chair); Baroness Armstrong of Hill Top; Lord Bichard; Lord Bourne of Aberystwyth; Lord Davies of Gower; Lord Filkin; Lord Hogan-Howe; Lord Hunt of Kings Heath; Baroness Pinnock; Baroness Pitkeathley; Baroness Tyler of Enfield; Baroness Wyld.

Evidence Session No. 1

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Questions 1 - 23

Witnesses

[I:](#) Rt Hon Lord Hammond of Runnymede, former Chancellor of the Exchequer.

[II:](#) Rt Hon Lord Darling of Roulanish, former Chancellor of the Exchequer.

[III:](#) Paul Johnson CBE, Director, Institute for Fiscal Studies; James Kirkup, Director, Social Market Foundation; Rt Hon Lord Willetts, President of the Advisory Council and Intergenerational Centre, Resolution Foundation.

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Examination of witness

Lord Hammond of Runnymede.

Q1 The Chair: Good afternoon and welcome to this session of the House of Lords Public Services Select Committee. Our Chair, Hilary Armstrong, is taking part in the debate in the Chamber and she has asked me, George Young, to take the chair this afternoon. This is the third in a series of one-off evidence sessions where we consider how public services will be delivered in the months and years to come, against the background of our first report on how they responded to the pandemic.

We have had sessions on data sharing and procurement. Today, we are going to discuss how public services will be paid for. There have been record levels of public borrowing to deal with the Covid pandemic, coming after a decade in which public spending was scaled back in the aftermath of the financial crisis. What we learn today will form the basis of representations to government about future funding of key public services.

A warm welcome to Lord Hammond of Runnymede, our first witness. I will open the bowling before other committee members come in. Perhaps, in your first answer, you could provide a short word about your background. Imagine you are still the Chancellor and, since the beginning of the pandemic, you have borrowed on a heroic scale to protect jobs and the economy. As you approach the next spending review, what will be the consequence for funding public services for the remainder of this Parliament?

Lord Hammond of Runnymede: I am a new Member of this House. I was a Member of the other place for 22 years and held four offices of state: Secretary of State for Transport, Secretary of State for Defence, Secretary of State for Foreign Affairs and, finally, Chancellor of the Exchequer until July 2019. I am delighted to have the opportunity to give evidence to this committee.

Two separate impacts on the public finances will be felt from the Covid crisis. In the short term, the Government's response, quite rightly, has been to do what is necessary to provide liquidity and support to the economy, to try to prevent viable businesses and jobs being lost simply because of a liquidity crunch. That has meant enormous levels of borrowing and the taking on of very significant levels of contingent liabilities, which translate into higher levels of debt. All other things being equal, as the crisis comes to an end and the economy returns to whatever normal looks like, we would expect to see the lion's share of the deficit that is being incurred during this period of recession evaporate. That does not get rid of the debt, but it means that the recurring deficit should be significantly lower than it is during the height of the crisis.

Quite separately, though, there will be a scarring effect on the economy from the damage that has been done by this recession. That is likely to be very unevenly distributed between sectors. One can envisage, for example, that the airline industry will be permanently damaged and will

never return to looking as it did before the Covid crisis. Other parts of the economy, particularly manufacturing, have been relatively unscathed. Those scarring effects will have a lasting impact on the public finances, with lower tax receipts and higher public spending. For example, anticipated lower ridership on the railways implies a long-term increase in the level of public subsidy that will be needed to allow the railways to operate, so there are some recurring costs that will last long beyond the recession.

The reason I draw this distinction is that, to a very large degree, the answer to the question depends on whether the Government of the day seek to reduce debt, i.e. to pay back the large debt that was incurred during the recession itself, or whether they seek merely to rebalance the public finances going forward, to ensure that deficits are of a manageable proportion in the future. If a Government do the former, it will imply significant increases in taxation and significant reductions in public spending for some considerable period. If a Government do the latter, I suspect that the impact will be relatively modest in terms of the need to tighten public spending and increase taxation.

Although you did not ask me this question, I will volunteer a guess. This Government strike me as a Government that have high ambitions for public spending and have positioned themselves with a post-Brexit narrative that will make it very painful to be seen as a high-tax Government, so I expect that it is quite likely that the Government will avoid the challenge of reducing the incurred debt. They will focus, instead, on trying to bring the deficit back under control once the crisis is behind us.

The Chair: To what extent is there a risk that the kindness of strangers that Mark Carney referred to becomes a factor, if the second of the two options is followed?

Lord Hammond of Runnymede: If you are talking about the traditional narrative that markets will always act as a constraint on Governments who are tempted to run too high a level of public debt, remember that we are operating against a background that the central banks of the world, not once but twice in 12 years, have flooded the system with liquidity. I see no sign that markets have any particular problem with the UK running a level of debt at around 100% of GDP, which is where we are. That is not to say that I recommend it as a course of action, but I am not sure that the markets are going to provide the discipline to cause government to think that it has to address this.

We also have to be cognisant of the international comparators. We are not alone. The United States, France, even Germany and certainly Japan will be running significantly higher levels of debt than they were before the crisis and, in the case of France, Italy, Japan and the United States, higher percentages of debt to GDP than the UK.

The Chair: Looking back on the last time we had to respond to a financial crisis and the decisions taken in 2010, when a difficult balance

had to be struck with public expenditure, were any decisions taken in that Parliament that you think, with the benefit of hindsight, we got wrong?

Lord Hammond of Runnymede: The decision in 2010 was that we needed to restore fiscal headroom following the very large expansion of public spending during the crisis. I completely understand why that was done. It was the right decision at the time. We have since understood a bit more about the impact of the QE programmes that were implemented during that crisis. This time, with a better understanding of how QE works and its long-term effects, there might be a sense that there is scope to go more slowly in addressing those challenges.

It was never a question of whether we could live with the level of debt that we had in 2010-11. The issue was, and will be again, how much headroom we need within our manageable debt capacity to deal with the next crisis. Nobody envisaged in 2010-11, or even in 2016-17, that we were trying to get the public finances back into balance in order to deal with another crisis that would hit us as soon as 2020 and would require us to borrow £400 billion in a year. We were not even contemplating that, but there was a strong sense that we had to be prepared for another future shock and had to build the capacity to absorb that shock, not just to maintain current debt levels.

Q2 Lord Bichard: Hello, Lord Hammond. I wonder if I could encourage you to reflect a little more on the consequences of a decade of austerity for public services beyond saying, "There is less money around". We know that. Just to give a few examples, do you think local services suffered disproportionately during that period of austerity, as some have suggested to us? Was that a mistake? Did you see much evidence of strategic thinking about the role of public services and the state? Did you see more tactical thinking about how we could do the same things with less money? Please do not see this as an exhaustive list, but were some services so badly hit by this decade of austerity that we now need to think about how we reinvest and recover them?

Lord Hammond of Runnymede: We are going to face a whole set of new challenges as we come out of this crisis. Perhaps I will touch on them in a moment. There is no doubt that the delivery of public services has become more efficient. I am not using efficiency as a euphemism here. Whatever else may have happened, there has been a renewed focus on efficiency in the delivery of public services. Using local government as an example, for all the pressure that it is under, there is no doubt that the reduction in the level of services delivered is significantly smaller than the reduction in the budgets that have been available to deliver them. Local authorities can be rightly proud of the fact that they have led the way on delivering efficiency and innovation in the provision of public services.

In a crisis, it is quite right that public spending will rise as part of the fiscal response, partly through the operation of the automatic stabilisers that we have in our public spending system, and partly as a result of discretionary decision-making by the Chancellor of the day. It is quite

dangerous if we get to a position where a Chancellor, having opened the taps to protect the economy, businesses and jobs from the effect of a crisis such as the one we faced in 2008-09, finds that, when he has to start shutting those taps again, he is accused of delivering austerity and crippling public services.

I understand that, when public services receive additional funding, they will change the baseline of operations. If that funding is cut in the future, that becomes very challenging for those services. People get used to a level of service and service providers get used to a level of budget. I fear the current Chancellor may be in somewhat the same position. Having made bold and probably correct decisions to inject money into the economy and spend more on the delivery of public services, the classic example being the £20 supplement to universal credit, he then finds himself being roundly attacked when he contemplates the need to withdraw that stimulus at the end of the critical crisis phase.

We must be careful not to create an environment where Chancellors understand that there is a one-way ratchet and, therefore, become reluctant to open the taps in times of need. We need our Chancellors to be able to turn on public spending to protect the economy in a crisis, and to know that they will have broad support across the spectrum of political opinion to shut those taps down again when the economy comes out of crisis and begins to move forward.

You asked me whether there were any lessons that I would draw. There are limited lessons, for now, from the previous crisis, but there are some emerging from this crisis that seem to me to be relevant. As we move forward, whatever else we may do, we have to look again at the efficiency and effectiveness of delivery of public services. One thing we will take away from this, if we do the analysis, is that, when we look at what is happening to our neighbours and comparator economies around the world, we see, generally, a better performance in response to the Covid crisis where power is more devolved within economies.

I suspect that one conclusion we will inevitably draw, wherever we start from in this debate, is that, in managing a crisis such as Covid, more ability to use the levers of power locally and to be responsive to local conditions is generally a more effective way to deliver outcomes. I expect that we will need to look again at the highly centralised nature of our public service delivery. This will be a difficult debate. For 20 years, Governments of both colours have invested hugely in the concept of a National Health Service. Are we sure that a National Health Service really delivers better than a series of regional health services would? I am not so sure that we can draw that conclusion from what we have seen over the last 12 months.

Lord Bichard: I agree that local authorities having been more innovative and thought more deeply about the role that they and public services play in a society. You did not say much about central government departments and whether you might have expected a little more of that thinking there. I would be interested in what you felt, as a Chancellor,

about the efficiency of the centre.

Every party has espoused the cause of devolution when it was not in power, and found it extremely difficult to deliver when it was in power, because of the complexity of the debate you have just referred to. Do you have any thoughts on how these barriers to devolution could be addressed more effectively in government?

Lord Hammond of Runnymede: You are exactly right, but the reason for that is slightly different. The reason is that devolution of power and decision-making implies variance in outcomes between areas. Once again, we have the problem of the ratchet effect. Devolution will be welcomed and embraced by the public when it means that they see better services and more spending in a certain area. As soon as they see less spending and less good outcomes in their geography than in another geography, we will start to hear complaints about postcode lotteries again.

It goes back to the Nye Bevan thing about the bed pan. So long as it is the case that a Minister at the dispatch Box in Westminster will be held, in some way, responsible for a negative outcome in the delivery of a public service at local level, that Minister will rightly be reluctant to let go of control of the reins of power over the delivery of that service. If we are to genuinely devolve strategic decision-making in service delivery, we have to educate our electorate to accept that it is their local or regional politicians, who have control of that spending and service delivery, whom they have to chastise when it falls short. They cannot expect to blame Westminster politicians.

Having been a practitioner of this art, I can tell you that that is the reluctance we see. I have seen it in relation to the devolved Parliaments as well. Everything good is the result of the wise decision-making of devolved Parliaments and everything bad is a result of the stinginess of Westminster. So long as that is the case, central government is going to be reluctant to let go of the reins.

You asked me about strategic thinking on efficiency at the centre of government. Yes, plenty of strategic thinking goes on, certainly in the Treasury. Politicians in central government have perhaps been more cautious than those in local government in embracing the more radical ideas and being prepared to experiment. Having talked to leaders in local government, I know that this is not so much bravery as the fact that they felt they had no choice but to be bold and experiment with radical options.

Q3 Lord Hogan-Howe: Lord Hammond, good afternoon. I want to pursue that point you made about how a recession encourages innovation, because I agree. It is a good point. During the last recession, we in the Met, for example, had a budget of £3.6 billion and lost £600 million, yet we retained 32,000 cops. We did that by making quite radical changes. The collective response around the country was that we lost 20,000 police officers and the singular control was pay restraint. Now the

Government are having to put in £1 billion to bring back the 20,000 cops lost as a result of local decisions. I wonder if, this time, we have to think more about encouraging consistent efficiencies that are innovative, rather than leaving it on only pay restraints and then being surprised when some of the things we hold dear are lost.

Lord Hammond of Runnymede: I will answer that question by taking a slightly different angle. There is an important distinction between outcomes and outputs. If we take law enforcement and policing, the outcome we are seeking is a self-confident community safe from crime. I know, as a former politician with a constituency to tend, that the public are too often focused on outputs, policemen on the beat, rather than outcomes, crime reduced. You will know, as a senior police officer, that sometimes the best way to reduce crime is through deploying resources in a way that the public do not necessarily see but that is effective in reducing crime, i.e. intelligence-led policing. The public still want to see police officers on the beat, so we have a challenge of public education.

I represented, for 22 years, a constituency in Surrey, one of the lowest-crime areas in the country, yet one of the consistent themes throughout that time was people wanting to see more officers on the beat. I spent more time than I would wish to remember explaining that the senior officers running Surrey Police had long since decided that the best way to manage community safety and beat crime was not more officers walking on the beat, but using intelligence-led policing techniques, which have been deployed extraordinarily effectively.

We have to think about how we overcome this desire of the public and politicians to count inputs. More doctors, nurses, midwives and police officers on the beat than ever before, or 20,000 fewer police officers, is the currency of the political debate. Those senior practitioners, whether it is in healthcare or policing, know that this is a slightly bogus representation of the facts that really matter. What really matters is whether we are delivering effective outcomes. The senior people in those public services know best how to deploy the resources to deliver those outcomes. It comes back to having a grown-up political debate, which, I fear, our adversarial political system is not always best equipped to deliver.

Lord Hogan-Howe: I do not necessarily disagree with you about the total number of officers. It can be a false target to worship; I get that. What is acceptable, then? Is it 80,000 cops in the country? There were 144,000. It fell to about 120,000. Is it okay at 80,000 or 60,000? Does it mean that, locally, everybody makes their own decision and nobody cares? The bottom line was that it became such a challenge that this Government decided to remedy it.

Lord Hammond of Runnymede: It became a political challenge. We will see a similar debate, I suspect, in relation to the size of the Army as we go into the upcoming security and defence review. You have to ask yourself whether you are making a political point that we have to have a certain number of police officers, soldiers and nurses, or whether you are

going to engage in a managerial debate about the best way to deploy a budget of X pounds in order to deliver the outcome that really matters to the public.

Q4 Baroness Tyler of Enfield: Thank you, Lord Hammond. I wanted to pursue the point you made about the pressure on Chancellors. You talked about shutting off the taps of public expenditure as we emerge from the pandemic. I wondered how you felt that would apply to some of the very big, difficult and very long overdue decisions that need to be made in the area of adult social care. The can has been kicked down the road for far too long, which Covid has thrown into extremely sharp relief. I have not heard many people talking about that being to do with lack of efficiency; rather, it is historic underfunding and rising demand. I wondered how you felt those big and really difficult issues were going to be faced at this time, given all the issues to do with reducing the debt that you have been talking about.

Lord Hammond of Runnymede: I agree that the challenge of an ageing society is a strategic one. The 2020s was always going to be the decade in which that challenge asserted itself, with the number of over-85 year-olds rising dramatically. That is the group, of course, that uses the most expensive forms of elderly care. I have my own view on this subject. It is a deeply held conservative principle that one saves through one's working life to protect oneself in old age. Somehow, we have moved to a world in which people feel that it is their entitlement to retain what they have saved and built during their working lives as an inheritance without contributing to their care in old age.

As a society, we are not in a position, and it would not be fair to young people in our society, to simply suggest that, as our ageing population grows, all the care needs of the elderly have to be met from the incomes and the taxation of the young. The elderly, including most of us on this call, have disproportionately accrued wealth in this country. We have homes and equity. We should expect to use some of that to support ourselves in old age if we have care needs. The state will have to support those who are less fortunate and do not have equity built up.

My own view is that the state can most usefully intervene by creating a system that allows people who have capital, and who can and should be expected to contribute to their care, if they need it, to contribute in an orderly way. A state-backed insurance product, perhaps, could allow people to protect their capital in exchange for sacrificing part of it as a deferred premium. There are many ways this can be done, but it cannot be the state alone. It is going to have to be a partnership between the state and private citizens who do have capital assets.

To those in the next generation who see this as some kind of attack on their inheritances, let me say this. The choice is pretty stark: either to recognise that there will be some attrition of inheritance, but let us do it in a fair way across the board and not on an individual case basis, or to place significantly higher taxes on the working-age population to pay for

the bulge in elderly that we will see passing through the system during the next couple of decades.

- Q5 **Baroness Pitkeathley:** I want to ask Lord Hammond whether he agree that the situation that he has just referred to has grown up. In other words, the expectation of being able to retain your resources is because of a complete lack of honesty on the part of successive Governments about what people can and cannot expect from the social care system.

Lord Hammond of Runnymede: Yes, I do think that is the cause. I look at my own party and I wonder what has happened to what I would describe as a quintessentially conservative narrative. If you are able to, you work, save and provide for yourself in times of need. The state is there as a support and not as an alternative to using reserves that one has built up. We have to get back to the recognition that this is a partnership between the state and the citizen. It cannot be an abdication of responsibility by the citizen in favour of an all-encompassing safety net of the state. We simply do not have the capacity to deal with the scale of care needs that there will be over the coming decades through the resources of the state alone.

The Chair: This is a very helpful exchange against the background of tomorrow's debate on the Economic Affairs Committee report on adult social care, in which some of us are taking part.

- Q6 **Lord Filkin:** Good afternoon, Lord Hammond. Turning to the Government's commitment to seek to level up our places and people across the United Kingdom, a number of stakeholders have told us that, so far, there has been too much focus on physical infrastructure. Not that physical infrastructure is not useful—of course it is—but should there also be a focus on funding the creation of social assets to level up such places, such as improved educational attainment, increased skills or better population health?

Lord Hammond of Runnymede: Yes. I said as Chancellor that we focus too much on physical capital and too little on intangible capital, particularly skills. We need to invest more. There is no doubt that, to tackle the productivity challenge that Britain faces, we need to invest more in intellectual capital. If that means investing less in physical capital, I am sure that that is the right thing to do.

If we are to go down this route, we have to have a rigorous definition of intellectual capital. The terminology has been debased in the past. I do not want to point fingers, but, during the chancellorship of Gordon Brown, the term "investment" was routinely used for all kinds of public spending that, manifestly, were not investment at all. It was simply more public spending, desirable as it may be. If we are going to have a sensible debate about this and establish parity of esteem for investment in intellectual capital with investment in physical capital, we have to have a rigorous definition of it. The definition you gave, including investment in skills, education and things that are not immediate consumption but will give the means to provide greater output in the future, is the proper one.

If the question is whether our focus should be on investment rather than consumption, and on intellectual infrastructure as opposed to physical infrastructure, the answer is yes. It is much easier to get private capital to invest in physical infrastructure than in intellectual capital. If the Government have to sacrifice some of their ambitions and aspirations for investment in physical infrastructure, there will be ways of persuading private capital to fill that gap, should we choose to do so.

Lord Filkin: That was why I phrased the question in terms of the creation of a social asset, albeit that that raises big definitional problems. Staying with those problems, do current Treasury investment criteria support an approach of increased investment in social assets, or is there a hangover problem there?

Lord Hammond of Runnymede: I am not up to date with where the Treasury is at the moment, but I think there is a hangover problem. As Chancellor, I asked the Treasury to look precisely at this issue of how we could change Green Book investment criteria, to ensure that investment was looked at in the round and that we did not have an unintended or inappropriate bias in favour of physical assets over intellectual assets.

Lord Filkin: If one was thinking about the creation of social assets and the levelling up across society, what would your shortlist be and why? Not to mark your card, but some of us would argue that improving the population health of some of these places, not building more hospitals, is pretty fundamental to their social and economic success. I pass over to you for your thoughts rather than mine.

Lord Hammond of Runnymede: Let me put my cards on the table. HS2, a physical asset, is going to be tremendously important. It will change the economic geography of the UK and is an essential part of that levelling-up agenda. Beyond that, I agree with you. There are huge challenges that are not readily addressed through physical infrastructure. I would put education first among them, although I recognise the point that you make about health inequalities. The gap in educational attainment between some parts of the country and others is not clearly linked to poverty indicators. We know that educational attainment in London boroughs with high levels of poverty is far better than in northern metropolitan areas with comparable or lower levels of poverty. This area needs to be addressed. It speaks directly to the other challenge that I see, which is inequality in levels of aspiration and, consequently, mobility.

If you can tackle that nexus, where better educational outcomes lead to a more aspirational generation prepared to fight for the economic equality of their area rather than just accepting the status quo, you will go a long way to changing this paradigm. I am sorry to beat an old drum that I have been beating for years. This is not just a social justice agenda; it is a very hard-nosed economic agenda. A big driver of Britain's poor productivity performance is the poor productivity performance of our regions and, in particular, our regional cities. Driving that productivity performance up will drive up the performance of the UK economy as a whole and make us wealthier as a nation, with higher living standards.

Lord Filkin: I very much agree. Perhaps with tongue in cheek, it might even be a political agenda as well.

Q7 **Baroness Wyld:** Good afternoon, Lord Hammond. I have been very interested to hear all your points so far. On the last point about levelling up outside London, when we talk about education, we often frame it in terms of key stage 2 or later. I sat on the seaside towns Select Committee and we went to visit lots of these places. It is very clear that many of the interventions we do with young people need to happen a lot earlier to break cycles of deprivation and drive aspiration, whether that is speech and language intervention at a very young age or mental health intervention later on. Has the Treasury done enough thinking about these early interventions and how they might be a better way to drive the productivity that you talk about in the longer term?

Lord Hammond of Runnymede: I am not an educationalist, but I am aware of the general thrust of the thinking you are setting out here. The Treasury has looked at this and will be looking at it now, I am quite sure. More ability for local levels of government to experiment with solutions, produce different outcomes and drive progress in that way, by demonstrating what does and does not work, may be the way to make progress here.

I understand exactly what you said about early years. I have been particularly struck by the different outcomes within cohorts of older pupils in different parts of the country who start from a broadly similar position, in terms of both educational attainment and broader poverty indicators. I am not sure that the early years intervention issue alone explains the difference we are seeing here, although it will clearly be a factor in some cases, for example where speech and language difficulties are at the root of attainment problems.

The Treasury is often much maligned but the Treasury is a powerhouse of ideas. As a department, it is extraordinarily young. Most of the people in there are young, extraordinarily clever and very enthusiastic to look at new ways of doing things and explore new ways of understanding how we can improve outcomes. Of course, there is quite a process between the raw process that goes on at the coalface in the Treasury and the outcome of government policy-making.

Q8 **The Chair:** As a last footnote to what you said right at the beginning, once we put the pandemic behind us, the deficit will be resolved but we will be left with a higher level of debt, which should be manageable. Would it be right to conclude from that that the conversation going on about the needs to seek new sources of public revenue may not be as urgent as some people imply?

Lord Hammond of Runnymede: No. To be clear, because of the scarring effect of this recession, we will go out of it with a structural deficit higher than we had in 2019-20, probably significantly higher, but it will be much lower than the level of deficit that we have seen in 2020 and will see again in 2021.

The point I was trying to make is that someone looking at the raw data, and considering how we get from £400 billion of deficit back down to something sustainable, would be seeing an enormous challenge in reduction of public spending or increase in taxation. I expect, as the economy recovers and we move out of recession and into growth again, hopefully in 2022, that we will see most of that deficit evaporating. We will be left with a deficit that is still too high, but it might be £60 billion, £80 billion or £100 billion. The Chancellor may decide that he can live with a certain amount of that as an ongoing feature of the public finances, which will create a still significant but far more manageable challenge for public policy.

The Chair: Lord Hammond, thank you very much. We have come to the end of our allotted time. What you have said will inform our conclusions on the future of public expenditure. From what you have said, I take away three things. First, you implied that we are over-centralised and could do more to devolve power away from the centre. Secondly, you spoke about my party's approach to social care and the responsibility that individuals have to use some of the assets they have built up. Thirdly, you talked about the balance between social capital on the one hand and physical capital on the other. It was a really helpful session, Lord Hammond. Thank you very much.

Examination of witness

Lord Darling of Roulanish.

The Chair: Welcome to Lord Darling, Alistair Darling, for our second session on the theme of funding public services. Perhaps provide a brief word on your background when you reply to the first question.

Q9 Lord Hogan-Howe: Lord Darling, good afternoon. Will the Government and other public service delivery bodies need to find new ways to fund public services following record public borrowing during the Covid-19 pandemic?

Lord Darling of Roulanish: I will answer the question after I explain who I am. I was the Chancellor of the Exchequer during the financial crisis between 2007 and 2010. Before that, I was in the Government for 13 years, starting off as Chief Secretary to the Treasury and holding various posts thereafter. As some of you will know, I was a Member of the House of Lords until July last year, when I decided that it was time to leave.

To your question, I heard you ask whether the Government will have to look at new ways of finding funding. There is quite a shortage of new ways of finding things. At the end of the day, it comes back to the same thing: tax. It is about how much those of us who are fortunate enough to be in work and to be paying tax are expected to contribute for public services. There is a limit to the new ways that you can find. You can

charge people for things, but a compulsory payment is a tax, or as good as.

It is important, and I hope you do this as a committee, not just to ask yourselves over what time period the Government should seek to reduce the deficit and therefore, ultimately, debt. I know you discussed this with Lord Hammond. I was able to listen to some of what he had to say. I am not quite as optimistic as he appeared to be about the scale of the task that confronts the present Chancellor. Our economy is going to be scarred. This is much worse than it was when I had to deal with the financial crisis 11 to 12 years ago. You will recall that we had to take quite drastic action to prevent the banking system collapsing, but, from day one after that, we were able to start stimulating the economy, to get it going again.

Today, quite understandably, our Government, and Governments across the world, are quite deliberately suppressing economic activity in a bid to suppress the spread of the virus. Therefore, the period during which the economy is suppressed, deliberately so, is much longer than it was 12 years ago. We cannot assume that, when the time comes and we can start relaxing some of the restrictions, things simply get back to normal quickly. Last summer showed, for example, that a premature return to work or relaxation of restrictions led to drastic action being taken at the end of 2020.

Secondly, you need to bear in mind the taxable capacity of the country. How much wealth do we have? Lord Hammond mentioned the aviation industry, but the hospitality industry employs something like 2 million people and simply was not there 10 years ago, in the way we knew it up until last year. Unfortunately, a lot of these businesses are not going to make it. Many people believe that our hospitality industry will not be able to start opening up again until maybe the summer or even beyond that.

The big unknown, and no one knows the answer to this, is how long it will be before the economy starts to recover in a way you would expect from a conventional recovery. Equally, if the Government, mistakenly in my view, decide to end the furlough scheme at the end of March, and you start getting very large numbers of people unemployed, you could see a repeat of what you saw in the 1980s, where the economy stagnated. To be blunt about it, the economic and social cost of it are still being felt today in many parts of our country. There is a timing aspect to this here.

I agree with Lord Hammond that our present debt levels are liveable with. There are very low interest rates. In the UK, we borrow on a much longer timescale than Governments in continental Europe. I bear in mind that other countries, such as Japan, have had very high levels of debt now for 30-odd years. That is fine as long as everybody is happy with it. There may come a stage, though, where something happens to us and people say, "Hold on. Your debt levels are very high". It has to be tackled at some stage, although I am not saying you need to do that immediately, bearing in mind that the debt we incurred at the end of the

Second World War was paid off in 2006. It is manageable, but you have to keep a weather eye on it.

This is an opportunity to start looking at the longer-term things that have come to hit us in many ways during this pandemic, chief of which is social care. I understand that you are debating it in the Lords tomorrow. I was on the Economic Affairs Committee that produced that report. Having looked at every possibility, and a lot of us were of Lord Hammond's view that we should ask people to save, we came to the view that, frankly, the state has to play a major role in this. It was a unanimous report, chaired by somebody who would not be accused of being a rabid left-winger. We all came to the conclusion that at least the care part of care for the elderly, as opposed to health charges, has to be met through taxation.

After having seen, for 10 or 15 years, attempts to reach an agreement, which has never been reached, we have to deal with it. Surely to goodness, what we have seen over the last 12 months has shown us that our social care system is simply not working. It has to be properly funded. I am afraid that is going to involve a levy or to come out of general taxation. Call it what you will; you need to deal with it.

We also have the question of resilience of public services, which you discussed with Lord Hammond. I buy your argument that sometimes people have to be squeezed to be innovative, but there comes a point where you need money to pay people to do the work and do the things we expect.

I would identify two final things. First, local government finance provides an awful lot of things that people rely on day to day, whether it is education or other services. Secondly, we have to deal with a growing problem of a large number of our citizens who are classified as self-employed but appear to any objective observer to be employed, but are not paying the same tax. They are losing out now because they are not entitled to benefits. You have people in the gig economy; you have people working partly with conventional employment, partly part-time and partly self-employed.

It is creating a huge problem for the future, because a lot of these people will not have the money they need when it comes to retire. They have no resilience and nothing to fall back on. There is a study out today that shows that nearly 4 million people in this country are losing out. That is going to get worse. These are big issues, but, surely to goodness, if we do not tackle these big issues in a crisis like this, when the next problem comes around people are going to ask us, "What did you do?" If the answer is nothing, they will look very dimly at us.

Lord Hogan-Howe: That is a pretty comprehensive answer. I was intrigued by your first comment. I was also surprised by Lord Hammond's broad response that this was manageable, if you take into account rising unemployment and the long-term or medium-term effects of Brexit. No one yet knows the outcome from Covid or when vaccination will really have an effect.

One thing that seemed to save us last time was low interest rates. If inflation rises, or interest rates rise for any other reason, I wonder what the impact will be. One thing that saved individuals was lower mortgages. They did not have to pay high mortgage rates. I think it really helped most people who had a mortgage. I wonder if you could address that singular point of what impact interest rate rises may have.

Lord Darling of Roulanish: They will have an effect. Interest rates have been at rock bottom since I was the Chancellor, and I stopped being the Chancellor over 10 years ago. People will always say, "Yes, I know interest rates will go up", but, until they actually do, it does not confront people. People have been getting mortgages at very low interest rates. Many people have borrowed a lot at comparatively low interest rates. When they go up, it hurts. I remember when I was training to be a solicitor in the 1970s, regularly filling in mortgage deeds with a rate of interest of 15%. That was the going rate and nobody batted an eyelid at it. You would talk about zero rates; that was history. People did not understand that.

To go back to the point I was making about government debt, it is fine as long as interest rates are where they are. There is no sign of interest rates going up at the moment, but these things, once they start, are very difficult to stop. Yes, it will add to the nation's government borrowing cost. Critically, I was talking earlier about the people who do not have much in the way of resilience to fall back on. If you find your mortgage rates going up dramatically, and it is a pretty unavoidable cost, that is quite a shock to the system.

- Q10 **The Chair:** Can I pick up what you said about resilience? Looking back on your time as Chancellor, the decisions that subsequent Chancellors have had to take, and the balance between the various government departments that get the public expenditure, in retrospect, would you have reallocated the priorities? Would you say, "We should have put slightly more into that department and slightly less into that one"? Do you think even in retrospect that, back in 2008, 2009 and, indeed, 2010 onwards, Governments broadly got the balance right at whatever given level of public expenditure they resolved to spend?

Lord Darling of Roulanish: The question you have to answer is the quantum. How much are you willing to spend on public spending generally? Of course you can have an argument as to what your priority is. Anyone who has been in government will know that you are tempted for about 15 seconds to ask, "Is there anything we should not be doing?", Then you have to realise that everybody has asked that question before. The answer is that it is very difficult for government to get out of things.

For a long while during our Government, education was a priority. We put a lot more into education. Gordon Brown increased national insurance contributions because we wanted to put more money into health. At the same time, other people ask, "What about defence?" With local government, it is very easy at a high level to say, "Okay, they can do

with a bit less". As I said to Lord Hogan-Howe, local government provides a lot of services that people depend on and notice day to day.

My big problem with the Government that came after us in 2010 is that it was a mistake to aim to eliminate the deficit in five years, which they did not do. I had wanted to halve it over that period. Austerity in perpetuity, which is what began to happen, has left an awful lot of scarring. If you look at the virus today, the correlation between where the virus has hit hardest, low incomes, poor housing, poor standards of living, poor health and so on is becoming very stark. You are not going to fix that by simply reallocating it away from, say, defence.

If we really want to tackle it, we have to increase some spending on it, which is why I do not quite take the view that Philip Hammond took. It is not just a question of repairing the damage from the pandemic. An awful lot of chickens have come home to roost in the last year or so and we need to address them.

Q11 Baroness Pinnock: It is good to hear what you have said about resilience of public services and the long-term scarring effect on them. I have a very simple comparative question. On the one hand is austerity, as a consequence to the financial crisis of 2008; on the other is the pandemic, with its financial consequences now. Which has been worse for public services and which, in the long term, will be worse for public services?

Lord Darling of Roulanish: They are different. As I said earlier, the financial crisis was largely caused by too many financial institutions taking on risks that they simply did not understand. As you know, the whole system came within two or three hours of collapse in the autumn of 2008. It was expensive and politically difficult to fix it, but we stopped the collapse. It is about what came afterwards. There is always an economic consequence after a fissure in the financial system.

We would have had to take action. The degree to which the coalition Government took action was a mistake. You might say, "The next two years are going to be difficult". It actually went on for 10 years after that. The decisions taken at that time have caused some of these problems. As I said to Lord Hogan-Howe at the start, this, in many ways, is worse, because we are not even talking about recovery yet. We are all still locked down. We are nowhere near the stage where the Government are moving heaven and earth to get the economy going again.

I did not think I was going to get through a parliamentary hearing without mentioning Brexit. In terms of the scarring I was referring to earlier, among the many unknowns is that we do not know yet what the effect of Brexit is. I was interested yesterday, for example, that a lot of people have now latched on to the fact that an awful lot of EU workers appear to have gone home. If they do not come back, they are not spending money here, leading to that extra tax take. That is why I would not be quite so optimistic as Lord Hammond in this, in that the scarring effect is going to be pretty profound.

I do not want to be alarmist about it; I just take a cautious view. I said 10 years ago that the effect of the financial crisis would be more severe and long lasting than many people thought. We need to be cautious here. I am wholeheartedly in support of what the Government are doing just now, the economic response, but I caution against taking away that support too soon. Otherwise, you will simply make a difficult problem far worse and it will take decades to overcome, as we have seen in the past.

Baroness Pinnock: I am an elected councillor in the north of England, where we have experienced, as you described it, the scarring effect on local public services. We heard from Lord Hammond earlier that there will need to be some readjustment there. I am interested to know how you think the future of local public services should be, in terms of funding but also perhaps a change of approach, in devolving more responsibility and funding to different parts of the country, to respond.

Lord Darling of Roulanish: I know it is easy for me to say this, now that I am no longer active in politics, but a major source of funding for local government is through the council tax. The last revaluations were done when it was put in place over 30 years ago. There is a limit to how much longer we can go on like this. You could do minor reforms, for example increasing the number of bands, because a lot of houses have gone up in value astronomically since that time, or you could have a more radical reform. As I said, if you have a crisis, that is your opportunity, in many ways, to start dealing with these problems.

I am not kidding myself. I have been in government; I was a councillor myself 40 years ago. It is politically difficult, but the system is now creaking. On changing the council tax, I would build on what we have. You may remember that the last attempt to look for something radically new and different did not end too happily for those who were behind it.

The other thing is business rates. It is a real structural problem now. Not least, you see it on the high street on a daily basis. That is going to have to be looked at. It is also becoming increasingly anomalous. Often, someone will be paying more in business rates than a luxury flat on top of them in a town or city.

I am strongly in favour of further devolution. I come at it from a slightly different position. As I think you will be aware, I am Scottish; I live in Edinburgh. I am acutely aware of the constitutional debates. The last referendum in Scotland is still in my mind. So far as the United Kingdom is concerned, we are over-centralised. We do not need the same model for every part of the UK. As you know, what the Scottish Parliament and the Welsh and Northern Ireland Assemblies do is different. In England, I would not be looking to go back to the sorts of measures we floated as a Government in the late 1990s, such as regional assemblies, because I do not think there is any support for that.

We can build on the concept of city regions, with the mayors that have now been established. It is quite obvious in this pandemic that what you need in different parts of England is different. If the test and trace system

had been devolved, it might have been a damn sight better than it is at present. The Government, as far as England is concerned, recognised that there have to be different tiers. Even in Scotland, it was recognised that different parts of the country would be treated differently. It makes the case for greater devolution.

For example, in the north-west of England, where this pandemic has hit very hard indeed, of course you need national support. That is why we have a national Government. All parts of the United Kingdom benefit from that in different ways, but somebody closer to the ground could decide, "We ought to be spending more on housing and health. These are our priorities".

Going back to the point you were discussing with Philip Hammond, you have to recognise that what makes a thriving and healthy community is not building a dual carriageway. It is bigger than that; it is the quality of housing, education, health and so on. I am wholeheartedly in favour of that. It has been suggested that it is time for the Government to look at how the United Kingdom operates. Sir Keir Starmer floated that just before Christmas time. They really need to; it is urgent.

Q12 Baroness Armstrong of Hill Top: Alistair, as I explained to you, I am also trying to cover the Domestic Abuse Bill in the House. One thing we got from our first inquiry was about the resilience of poorer communities that had more people in low-paid front-line work. We needed an approach that enabled some very early intervention so they had a better chance to get over things in their life. As you know, I spent quite a bit of time on this in government. The financing of this is very difficult, because the charities and local authorities that introduce early intervention and preventive programmes cannot do that on one or even three years. They need longer-term funding. This seems to me, in our economic system, to be very difficult. I wondered if you had any reflections on that, given that you tried to do some of that when you were at the Treasury.

Lord Darling of Roulanish: It is nice to see you. As far as funding is concerned, as you know, when we got into government in 1997, when I was in the Treasury the first time, we moved to a three-year spending review, so that we would give more certainty to all spending, not least local government. The railways are an interesting example. It was recognised that, if you want to make the railway system work, you need far longer timescales than that because of the time it takes to construct things. Network Rail got five and, provisionally, 10-year settlements. That enabled it to do more. For some programmes or parts of spending, it might be advantageous to get a longer funding period.

We carried out a spending review in the autumn of 2007. By the spring of 2008, I wished I had never done it, because I had expenditure going out for three years and I was pretty sure, even by that time, given the scale of what was going in America, Europe and everywhere else, and not least the rumbling signs in our country, that we were going to have a big problem come the summer and autumn. It is not a guarantee.

This comes back to the first question I was asked about taxation and funding. It is all very well today, as people look back with deep regret at the huge numbers of people who have lost their lives and others who will be scarred one way or another as a result of this virus, to say, "Look at the connection between poor healthcare, poor housing and everything else". If we do not do anything about it, it will be so much worse. I cannot see how you are going to do something about it unless at some stage you are willing to pay for it. I hope that the economy starts to grow. I hope that perhaps things are better than I expect, given the fears I expressed earlier, but we cannot depend upon that.

As you look at public services in the work your committee is doing, it needs to be said loud and clear. If we want to turn a corner and get rid of the health inequalities, which are one reason why we have one of the highest death rates in the world, we are going to have to spend some money on it. It is not all money, I know, but, without money, you are not going to have the people who need to do what is necessary.

Q13 The Chair: Can I pick you up on what you said about funding local government? You quite rightly said that the business rates were becoming unsustainable, the domestic rates are 30 years out of date and you would like to devolve more power downwards. Do you have any thoughts about how one might fund a more resilient, broader-based system of local government?

Lord Darling of Roulanish: As we all know, you included, because I think you had ministerial responsibility for this from time to time, there is no easy answer to that. I favour a property-based system, because I think local income tax raises all sorts of problems. At the moment, you can argue with some force that a lot of people who own property, because of what has happened in the last few years, might have the broader shoulders to meet that. For example, as you know, we pay more income tax in Scotland as well, but an extra couple of bands were added to council tax to bring in more money. Lots of work has been done on that.

You are always going to have central government top-up. I cannot see that ever going away. No one else can equalise the disparities between different parts of the country. From my experience of government, if you can build on something you have, you are in with a shout of being able to deliver it. As we all know, if you do something radically different, it sometimes ends in tears.

The Chair: Can I pick you up on something else you said: that, if people want better services, they are going to have to pay for them? Are there any elements of the tax system that you think could bear more weight and any elements that you think perhaps we put too much weight on, given that we might have to raise some more money in the future if we go down the path you suggested? How would we get the money?

Lord Darling of Roulanish: You have to look at the thing across the piece and ask whose shoulders are the broadest. As ever, they are the

ones you would go to. There are things in the tax system that need tidying up, for example inheritance tax. It is quite wrong to have a tax that is largely voluntary for those people who can plan sufficiently far ahead of their death to, if not avoid it, mitigate it. Equally, there are measures such as capital gains tax and income tax. The Government are said to be looking at those now.

As for the actual rates of tax, I am not going to offer to announce them today for you. It is very difficult to write a Budget if you are not in the Treasury and do not know what all the figures are telling you. I would make the general point that, while all the things the Government announced to help us get through this were welcomed, of course everybody said, "It is going to have to be paid for". Yes, it is. I do not know of any way of getting round that problem. We need to level with people as far as that is concerned.

- Q14 **Lord Bourne of Aberystwyth:** Thank you, Lord Darling, for the presentation. We have had and are having two fascinating sessions. I wonder if I could explore your thoughts on infrastructure, which was touched upon by Philip Hammond, including the levelling-up agenda, HS2 and, in particular, non-physical infrastructure. What are your views on the importance, as we build back better after the pandemic, of education, skills and so on? As Lord Hammond said, that has not just a moral dimension but an economic dimension, given the poor productivity we have suffered from in the UK.

Lord Darling of Roulanish: On infrastructure itself, you mentioned HS2. HS2 is a huge mistake. It will make it easier to go from Birmingham to London and London to Birmingham, but already question marks are being raised about how much further north it is ever going to get. Frankly, it is not going to get to where I am sitting in the United Kingdom in my lifetime or anything like that. The opportunity cost that is going to be borne by other parts of the network is very heavy. For example, we need to make sure the links in the northern part of England are improved. If you are talking about levelling up, you could get far more benefit if the money had been spent there. I recognise that that argument was lost. HS2 is being built, but it is a mistake.

We tend to think about infrastructure as being road and rail. There is no doubt that they are needed in many parts of the country. If you want to rebuild communities and spread wealth accordingly, you have to do more than build a way in or a way out of it. You have to make sure you have decent housing to attract people. People coming in with families or wanting to start a family will want to know what the schools are like. Are there schools? Are they good? They will want to know about the healthcare.

Then there is broadband. Despite many years of talking about it, there are still parts of the United Kingdom where the broadband coverage is patchy. In a couple of places, it is virtually non-existent. This working from home has surely shown that, in many cases, people will be able to work for maybe a couple of days at home and then go into the office, or

be able to do work remotely, wherever their office is, from different parts of the country. They get paid for doing that. They spend the money outside the south-east of England, for example.

When you look at the question of infrastructure, you have to look at it broadly. If we are serious about building back better, and there are very many parts of the country where you can see a desperate need to do that, you have to look far more broadly than simply building a bridge. Harold Wilson built the Humber crossing, but I think people living in Lincolnshire to the south and Hull to the north might possibly argue that it needed a bit more than that.

The Chair: Thank you very much, Lord Darling, for your evidence to this inquiry. It was interesting that you endorsed what Lord Hammond said about the need for further devolution away from the centre, mentioning in particular city regions and the need to have a fresh look at how local government is funded. Your final point was that building back better needs a much broader base than the one that is conventionally used. Thank you very much.

Examination of witnesses

Paul Johnson, James Kirkup and Lord Willetts.

The Chair: This is the final panel session on the theme of the future funding of public services. We welcome Paul Johnson, director of the Institute for Fiscal Studies, James Kirkup, director of the Social Market Foundation, and our colleague, Lord Willetts, president of the Resolution Foundation's advisory council and intergenerational centre. Can each of you provide a brief description of your background in response to the first question?

Q15 **Baroness Pitkeathley:** Welcome to the panel members for our third panel today. In our previous two panels, we have heard several times the phrase, "It will all have to be paid for". Will the record levels of public debt that we have accrued during the pandemic affect central and local government's ability, and it is important to address both of those, to deliver public services in the future?

Paul Johnson: I am director of the Institute for Fiscal Studies and have been for about 10 years. Prior to that, I was in the Treasury and in the Department for Education. At the IFS, we do quite a lot of work on the public finances.

In answer to your question, let us divide this into two. If all that had happened was that we had had a big increase in debt this year, and then the economy and everything else jumped back to where it otherwise would have been, the answer to your question would not be ever so clear. At some point, we would need to pay back that debt, but that could wait some considerable time. Interest rates have fallen to such an extent that the cost of servicing that debt is less than the cost of servicing the

debt prior to the crisis. It would be hanging over us but need not necessarily have a big impact on public services or tax over the next few years.

That is not the world we are in. We are in a world in which the economy is going to be smaller than it otherwise would have been for some time, and the pressure on public spending will be bigger than it otherwise would have been for some time. That is going to be evident in health. I think it is going to be evident in education, where we have seen children who have effectively lost half a year of schooling, and half a year of schooling costs us £30 billion. We will see it in social care and in local government, as you suggest.

Rather oddly, the numbers from the November spending review intimated that public spending after next year would be lower than was planned last March. I do not think that is particularly plausible. Even with that lower level of spending planned, the deficit was still going to be at a level where you certainly would not be seeing debt falling from its current level of 100% or so of national income. That leads us to a world in which we are going to have to make, not immediately, but in the middle years of this decade, some pretty big decisions about both how we are going to prioritise spending and how we are going to pay for it.

Obviously, this is going to make it more difficult, because we have just got poorer. We have lost a huge amount of income this year. All the macroeconomic forecasts suggest that we will continue to be poorer than we otherwise would have been for years. If you are poorer, everything gets harder.

James Kirkup: I am the director of the Social Market Foundation think tank. I have been in this role for almost four years now. Prior to that, I spent almost 20 years as a journalist, most of them elsewhere in the Palace of Westminster as a political correspondent and columnist. I still write the odd column here and there for anybody who will have me.

To address your questions directly on the debt and the deficit, obviously they should be treated separately. I will start with the debt. I do not have a lot to add to what you have heard from earlier witnesses. It is very noticeable how low debt interest payments are at the moment and how cheaply the UK can borrow. I am surprised by the degree to which people are sanguine in their conviction that the conditions that allow cheap borrowing and debt servicing will continue for the long term.

It seems to me that we are able to borrow very cheaply because a number of relatively unusual conditions pertain, of which probably the most important is what was once upon a time called extraordinary monetary policy: the degree to which central banks are, unwittingly or otherwise, underwriting the borrowing of Governments. It is extremely important, not least given the second-order consequences of QE and the rest. Maybe we can come on to that a little later. I would not be quite so relaxed about our ability to service that debt at such a low cost in the long term.

The deficit is less of an issue, but, as earlier witnesses have said, we will be facing extensive scarring from a smaller economy. There are particular issues for local government to be addressed. This may come up in later questions. The ability of some local authorities to raise revenue has been badly and possibly permanently impaired by the changes we are currently seeing. We are going to live with that in the long term, and it will require real and important remedy.

The biggest long-term worry I would raise about our ability to address that deficit, essentially to grow and generate tax revenue, will be the underlying productivity of the UK economy. As Paul said, the impact of this last period on education and skills, the scarring on the human capital, is going to be a very big and lingering problem for the country and ultimately, therefore, its ability to balance the books and address the fiscal problems that come out of the crisis.

Lord Willetts: Good afternoon. I am the president of the Resolution Foundation and a Member of the House of Lords. Before that, I was a Member of the House of Commons. Perhaps the most relevant experience for this inquiry is that one of my first jobs in Parliament was as the Treasury Whip to Kenneth Clarke in the early 1990s, after the crash, when taxes were being put up in order to restore the public finances and we were trying to get extremely controversial tax increases through the House of Commons. Before that, I worked in the Treasury as an official and in the policy unit.

The only thing I would add to what Paul and James have said is to look ahead to the next crisis. Let us face it: at the moment, we are at the rate of a major crisis every 10 years or so. Classically, in a crisis, economic managers cut interest rates. In the 2008-09 crash, interest rates were cut by five percentage points. Interest rates cannot go any lower. The monetary policy instrument has been used and has no more capacity in it. That means that fiscal policy has to do more.

One argument for some fiscal consolidation is to create the space for fiscal loosening at the time of the next crisis. At the moment, the danger is that, with interest rates so low, and total debt and the deficit so high, we do not have any instruments left for responding to the next crisis. That is a prudent argument, therefore, for some attempt to bring down the deficit and reduce the growth of the national debt.

Baroness Pitkeathley: Is it also an argument for putting interest rates up, or allowing them to rise, as one of our previous contributors suggested that they might?

Lord Willetts: I do not foresee any need to raise interest rates in the near future. There is an ongoing debate about whether inflation may be on its way up, but I do not see that as the problem in the short to medium term.

Q16 **Baroness Tyler of Enfield:** I would like to pursue this theme, which all three of you have talked about and which came up in our earlier session,

of continuing, as a country, to be poorer, with scarring on the economy and a smaller economy. I would like to get your views on what the consequences of high unemployment will be on the demand for services and the delivery of public services.

Paul Johnson: I do not think this is entirely straightforward. We have clearly had some increase in unemployment, although it is remarkably hard to determine exactly what the scale of it has been, even up until this period, given the trouble the ONS is having collecting its data. We are likely to have another upshoot once the furlough scheme comes to an end.

I would draw attention to two particular risks. One is particularly for the youngest workers and the younger generation, those coming out of education into the labour market, but also those currently in the labour market. The really big unknown here is the extent to which the economy changes in response to this crisis and, indeed, to the changes that will occur as a result of Brexit. For example, thinking about this crisis, if fewer people spend all their working week in city centre offices, that is going to make a difference to the sorts of jobs that are available and where they are available in services. That will require a redistribution of jobs. Similar things, in different parts of the country, might occur as a result of Brexit. All that will shake out in the end, but we know that that shake-out can be painful while it occurs.

We need to be aware that we are at risk of three big economic changes occurring simultaneously. First, there is a change as a result of Brexit. Secondly, there may be a longer-run change as a result of, or at least accelerated by, the pandemic. Thirdly, if we are serious, as I think we are, about getting to net zero, there will be a change in the sorts of jobs that are available in high-carbon industries, everything from car mechanics to steel and refining. It seems to me, therefore, that a big challenge for government, and one that is really tough and that Governments have not been very successful at in the past, is managing what is likely to be a big change in the labour market, driven by big economic changes.

A fourth unknown relates to the growing evidence that the number of potential workers may have fallen as a result of people returning particularly to the EU over the period of the crisis. We do not know how many of them might come back and the extent to which, in some sectors, that might lead to labour shortages, as well as issues of underemployment in other sectors. It is very hard to make these projections, but we are at risk of three, and arguably four, big structural changes, which will benefit some and be quite costly for others.

Q17 **Lord Hogan-Howe:** We are all worried about a big debt and a lack of growth. If the answer to the problem mainly is to generate growth, at this stage, in your collective opinions, what would really promote growth, given that there is going to be pressure to increase tax?

Lord Willetts: Part of the answer to Baroness Tyler's question is that there will need to be more services and benefit payments for unemployed people, but also for young people who have missed out on education and training. Following on from what Paul Johnson said, people will need retraining, because the retail sector is not coming back. The social care sector is, if anything, the area where there are still lots of vacancies and a shortage of people coming forward to fulfil them. That helps answer Lord Hogan-Howe's question as well. It is about training to get people into the key sectors where there are still opportunities.

That means that public spending on young people hit by unemployment, loss of training and loss of education will be under enormous pressure. That gets to the heart of the question that this committee is investigating—not so much a debate about the total amount of public spending but, for any given amount of public spending, what the shape of the state is. In the last 20 years, the British state has been on an unusual journey. We have diverged from other OECD countries. An unusually high proportion of total public spending goes on health and social care, and benefits for pensioners. On other services—looking at Lord Hogan-Howe—from police cuts through to education, which is pretty flat, and the defence cut with the peace dividend, we have ended up with a health and welfare state.

One question will be, given all the trends that Paul Johnson has rightly identified, whether we need to do a bit more on young people and on education and training. Therefore, with any given total, should we not be shifting our priorities? If we carry on in the direction we have been going, there will be nothing really growing other than health, social care and pension benefits.

James Kirkup: One very important point was raised by both Paul and David about the structural change in the economy and the effects it will have on unemployment. We have to bear in mind that it is often not easy for people to simply shift from job to job because the sector they worked in has reduced. I am thinking particularly of the likely fall in retail and hospitality jobs. I do not have firm evidence on this yet. We hope to develop that evidence.

I am concerned about primarily women who are working on lower wages, on a part-time basis, in jobs in retail and hospitality that are structured so as to be amenable to their family responsibilities, with part-time shifts structured around childcare. If you are in that position and the shop you are working in closes because shops are closing, it is not a simple proposition to relocate to a job in care 10 miles down the road, or pick up one of the other jobs that, at an aggregate level, may well be available to you. More attention needs to go to state services that can support people in transition from job to job as we see that structural change in employment.

I have a partial answer to Lord Hogan-Howe's question. It is not a quick answer. It is not necessarily something that will deliver growth in the short term, but I return to my earlier point about human capital and

productivity. The long-term growth prospects of the UK economy, now that we are, for better or for worse, outside the European Union, have to lie in becoming a higher-skilled, more productive economy. That means addressing skills shortages, both basic and higher skills, and positioning ourselves as an economy where the population is capable of carrying out higher-skilled, more productive tasks. That is a long-term answer to your question. You may have been thinking in shorter terms.

- Q18 Lord Filkin:** Paul Johnson articulated the nature of the problem very clearly. Lord Willetts gave one answer that was essentially some rather challenging reshaping of the nature of the state and perhaps the implied suggestion, which I would agree with, that the wealth assets of many of us would have to be part of the solution to this problem. Paul, what do you think would be an agenda that we ought to consider, to meet the impossibility of very significantly rising demands, both short and maybe longer term, and significantly reduced resources?

Paul Johnson: I wish I knew the answer to that question. We have a lot of challenges there. Part of the answer, in the short run, is going to be to continue to support investment in a combination of infrastructure and, particularly, skills and education. In the short run, we need to continue to expand on the sorts of labour market interventions that the Chancellor announced back in the autumn. I do not underestimate the difficulty of doing those at scale. While it is pretty easy to send tens of billions out of the door in furlough payments, it is really quite hard to engage effectively with employers to create good training opportunities and jobs. We need to be pretty focused on that.

One could have said this at any point in the last many decades, but it may be even truer now. We need to focus much better on education for those who do not go on to university, and build on the really significant success of some of the higher-level technical apprenticeships and qualifications. That may be particularly important in a world in which we have less in the way of free movement of labour.

On the other side of it, we need to think quite carefully about the tax system, not just looking to those with greater wealth, and particularly older generations, to make more of a contribution, but, more specifically, making the tax system more effective, efficient and fair between small businesses, self-employed and employees, for example. One could certainly think of things one might do to council tax, taxation of pensions, stamp duties and a whole series of other things that would make raising taxes at least less economically problematic. Those are the sorts of places that one needs to start.

I would make another intergenerational point. I am really not sure the Government have got their head round how to respond to a world of long-term—if they are—effectively negative real interest rates, in terms of their distributional consequences and their consequences for generations looking to save. I do not have a worked-out answer to this, but that has clearly been a windfall to one generation, and has created enormous problems for another. That is a big unintended distributional

change that was happening before the financial crisis, was exacerbated by it and then has been exacerbated again by the most recent crisis. That relates not just to how we help those who are suffering at the moment, but also, as you have already heard, to how we think about responding the next time we have a crisis.

- Q19 **Baroness Pinnock:** When responding to the question, Paul Johnson mentioned that there were three, perhaps four, major challenges and one of them was climate change. What is the scale of the opportunity to create jobs, create training and grow the economy that could be gleaned from a major investment in climate change policies?

Paul Johnson: There are two aspects to that. It will be costly to a lot of people. One way or another, we have to pay for changing the heating systems in pretty much every house in the country. One way or another, we have to pay for a move away from diesel and petrol cars. One way or another, we have to change the way we practise agriculture and so on. These are big, expensive changes, but manageable, for sure. We need to manage that. That bit is really important.

In terms of opportunities, in a world where we think the economy is firing on a lot less than all cylinders, you have some space for positive economic effects from investment, and not just from green investment. That gives you an opportunity to do that in a way that is not economically as costly as it would be at a moment when the economy was firing on all cylinders. I repeat the point that it is a mistake to think that that all becomes a lot easier, because we are poorer. When you are poorer, it becomes more difficult.

People also talk about opportunities in the sense of the UK becoming a leader in green technologies, an exporter of them and so on. I am a little more sceptical of the power of government to achieve that. I think we have more offshore windmills than the rest of the world put together, but that has not created a comparative windmill-building advantage in the UK. It is not obvious why other changes would do that. There are opportunities for investment and all sorts of jobs.

I would caution that there are also opportunities for very bad decisions, particularly where government is underwriting them. I heard Lord Darling refer to his views on the £100 billion being spent on HS2. Whatever you think of that decision, the Committee on Climate Change, of which I am a member, has estimated that we need something like £50 billion a year of additional investment in green infrastructure. Most of that should come from the private sector, but the possibilities of getting that wrong are non-trivial. In a way, the focus should be on making sure that those are the right investments and then that you are maximising the benefits or, at the very least, minimising the costs.

- Q20 **Baroness Wyld:** I wanted to pick up on James's point about women in jobs structured around childcare, which I thought was very insightful, powerful and important. You talked about the Government potentially thinking about those sorts of interventions. The Government have

enormous convening power. For example, they have put together the Build Back Better Council. How much do you think they are using that convening power to come up with solutions? Rather than thinking just about direct policy interventions led from Whitehall, are they drawing in employers and thinking more creatively about how to solve these problems? Have you seen evidence of that and could we do more to drive it?

James Kirkup: It is a big question to try to answer quickly. I am probably best off starting with the topic you raise, which is, essentially, childcare. I should point out that I talked about women and the economic constraints imposed by childcare. It applies to some men too but, just arithmetically, the majority are women. On that, it is very surprising that government has not talked more and done more about childcare, and tried to address the need for better childcare solutions as part of that building back better agenda. It has not appeared to regard childcare as being part of the necessary infrastructure for recovery.

At the wider level, is government doing enough to convene private, public sector and others to produce solutions to these issues? I should declare that I am an independent member of the In-Work Progression Commission at the Department for Work and Pensions, which is an independent review currently looking at the question of how to help workers on low wages progress up the wage ladder. It is a commission in progress, which brings in a number of people from business. There are a number of large employers represented on that body, and other independent members. From what I can see, that is doing quite a good job and coming up with some interesting and creative solutions. Lots of the employer groups there are contributing very creatively and constructively. I do not know how much more of that is going on elsewhere, but there should be more of it.

Q21 Lord Davies of Gower: Good afternoon. By way of introduction, in the November 2020 spending review, we were told that the UK economy is expected to shrink by some 11.3% this year, and unemployment is expected to reach 7.5% next spring, with some 2.6 million people out of work. According to the Office for Budget Responsibility, borrowing up to the end of December last year stood at £241 billion for the year, far exceeding the pre-Covid-19 annual record set at the peak of the financial crisis, which then stood at £158 billion. With that background, do you think that public service delivery bodies will be able to rely on central government to fund public services in the future?

Lord Willetts: There are going to be enormous fiscal pressures, even if we move gradually to get a grip on borrowing and debt, rather than having some immediate tightening. I think there is a general view that we are talking about measures necessary in a few years' time. For local services, there is one particularly relevant point.

One of the most important single changes in the structure of the British economy is that, compared with 30 years ago, the value of our assets, wealth and property relative to GDP has increased from three times GDP

to seven times GDP. Although I am not instinctively in favour of wealth taxes or anything like that, it is striking that, even while the value of wealth has risen so much relative to GDP, the proportion of our taxes that comes from capital has remained pretty much stable. Even as wealth has increased, the money we collect from it has not increased.

The main tax we have on capital is council tax—the local tax. As I think has been said earlier today by Lord Darling, it is a very badly designed tax now and is a very regressive tax. People in very low-value properties are likely to be paying a much higher proportion of their income, and of the value of the property, on council tax than somebody in a high-value property. Of course, local authorities also have social care responsibilities.

As tax increases, sadly, become necessary, you have to look at capital taxes. It so happens that a reform of council tax and using some charges on wealth as a contribution to the cost of social care are very likely to be part of the answer. It would be a great pity if any extra burden entirely fell on the working-age population. I suspect that this is going to have to be a partnership between local and central government, in which local taxes, and it so happens council tax is a local tax, play a significant role.

James Kirkup: I strongly agree with David Willetts that funding social care from the value of assets that have been inflated, for a number of reasons, over recent years is the least bad option, relative to raising tax from the working-age population. To come back to the original question, to what extent local government will be able to rely on central government, in a sense, dare I say it, is the wrong question. Local government will have to rely on central government because that is the way our fiscal system is structured.

As you heard earlier from the former Chancellors, the vast majority of our tax is raised and controlled at the central level. About 95% of all tax revenue is national. Until that changes, local government will be very heavily constrained and dependent on whatever it happens to get from central government. It has not been getting enough in recent years, broadly speaking, because, for whatever reason, the fiscal consolidation of recent years was visited on the bits of the state that were less visible and attracted less attention. Absent the devolution of fiscal responsibility that you heard about from earlier witnesses, local government will have to rely on central government, even though central government may well have less to offer.

The Chair: Paul, do you have a view on taxation of wealth and making local government slightly more independent of central government funding?

Paul Johnson: The local government point is really quite important. The direction of policy before this year was to try for local government to be more independent of central government. Indeed, central government grants to local government have gone down a great deal over the last decade. In addition, for reasons of creating economic incentives, individual local government areas were becoming more dependent on

their success in raising business rates in their local area. I am afraid that there is a clash between having local government more dependent on its own resources in aggregate and making individual local authorities more dependent on their own resources, and the pressures on local government.

Particularly from adult's and children's social care, the pressures are rising more quickly than that tax base is plausibly going to rise. There is no correlation between those areas that are likely to raise more money from their own resources and those areas that will need more money to reflect demographic change and social care needs. That will require some different response from central government, which could plausibly involve additional tax bases in local government. It is much more likely to involve either straightforward additional funding for local government or a different sort of settlement for social care specifically, although, if you take social care funding away from local government, you leave local government very small.

By international standards, it is already very small fiscally. If you took social care away from it, it would become tiny from a fiscal point of view, although there is a sort of conflict between having national standards for social care and local budgets for it. The way that schools went, in the end, was to take that responsibility away from local authorities. I certainly would not advocate doing that, but you could see government moving in that direction.

On the issue of wealth taxation, it is not straightforward by any means. When one is thinking about wealth taxation, different people have very different things in mind. I would start by fixing those wealth taxes that we have. We have talked about council tax and there is certainly quite a lot of fixing that needs to happen there, essentially making it proportional to house value and updating values. We need to fix capital gains tax, which is still charged at a lower rate than income tax. It is forgiven at death, which is both inefficient and inequitable. There are clearly problems with the way stamp duty and inheritance tax work.

There are clearly problems with the way pensions taxation works. The way the Government over the last 10 years have gone has been to reduce the amount people can put into a pension, but to maintain some of the inequitable tax reliefs. You can still take £250,000 out of a pension tax free, no tax ever having been paid on that. There is still no national insurance paid on pensions at any point, money going in or money coming out. In my view, an equitable way of dealing with that would be to start raising some of that on pensions in payment or pensions already accumulated, but of course that comes up against the entirely rational, reasonable ethical view that that would be retrospective. People have been planning on the basis of a particular tax regime.

There are huge political as well as, to some extent, ethical issues to think about. That is true to a degree with any kind of taxation of accumulated wealth, which one needs to be very careful about. I do not think it should stop action, but we need to be very cognisant of that.

Q22 Lord Bourne of Aberystwyth: My question concerns points we have just been touching on, to a degree, in relation to social care. Implicit in what has been said by contributors is that this is perhaps going to demand some private citizen input, as well as state payment. I would welcome your thoughts on what sort of proportion that should be. On the localism point that has just been made about devolution, are we not inevitably looking at some stronger local taxation powers following from the local powers being devolved to metro mayors and so on in England? I am sure David will have views on this. What should be the priority spending coming out of this building back better? Education would seem to be an obvious one because of the moral dimension for the individual, but so is the ability to grow productivity by spending money on skills and training.

Lord Willetts: Following on from what Paul said, which I agree with, I do not think there is ever going to be some monolithic wealth tax. I worked for two very different Conservative Chancellors, Nigel Lawson and Ken Clarke. Nigel believed in an intellectually elegant system of a small number of taxes and took great pride in every Budget in removing a tax. Ken Clarke, faced with the challenge of increasing taxes after the crash in the early 1990s, invented lots of little taxes. I have increasingly come to the view that, rather than putting all your eggs in one basket, the way forward is incremental improvements in the taxes you have and, as we have just heard from Lord Bourne, making it more possible to raise local taxes.

Particularly as it is very hard to tax a pile of static wealth, it is when money is moved around, when money is received as a pension, when a transaction takes place, that it is easy to levy a tax. I do not say this with any great relish. Instinctively, I do not want higher taxes. When you look at the economic environment we have been talking about today and add in demographic change driving up spending on health and social care, I see it as hard to avoid. There is an unexciting but really useful list, and indeed Resolution Foundation proposed one, that shows how, in a whole series of incremental measures, you can get up to £30 billion or £40 billion, which is roughly the kind of amount that Ken Clarke raised in the extra taxes in the early 1990s.

We have talked about charges and taxes. There is a phenomenon we have not talked about, which I am very aware of from my own ministerial experience. That is lending people money and expecting them to pay it back when they can afford it. Higher education was one of the classic and controversial examples of that. If you look at how the Government are proposing to extend access to skills to deal with the labour market education challenge of helping young people that Lord Bourne asked about, they are proposing extending the loan system. If you look at what the Chancellor has done to help business through the crash, a lot of the money that has gone out is officially a loan.

There is a very interesting question about how much will be paid back, in what circumstances and at what terms. If you look in practice at what is being done to meet some of these extra demands at the moment,

repayable loans are clearly the preferred instrument. Outside higher education, it is very little studied and scrutinised.

James Kirkup: I have two brief, hopefully related, points. First, on this question of taxing wealth, to be clear, I am not especially inclined to a broader or generic wealth tax. My point is just that, in the context of social care, if a significant sum of money needs to be raised, and I think it does, I would rather it was raised by the imposition of new taxes or charges on assets, probably housing assets, rather than those taxes being applied to income.

Secondly, on the point about local government's role in social care provision, to throw another complication into this question, it is very important to bear in mind that the elderly population of the UK is not evenly distributed. We all tend to want to move somewhere else when we retire, so we see quite big and what will be larger variations in the percentage of local authority area populations who are over 60 or 70 and therefore in need of care.

I raise this to point out that, while I am largely in favour of more fiscal devolution and more devolution to the local level, social care funding would be very difficult to devolve significantly down to the local authority level, given that local authorities will have very different proportions of their local population in the age category that is likely to need care. That population distribution will argue in favour of a national-level solution to social care funding, rather than a reform where we empower and expect local authorities to raise more of the money to support their local social care provision.

Paul Johnson: I have three very quick points, which I am sure you are very familiar with, so I will not labour them. First, on social care funding, Lord Bourne asked about the citizen bearing more of that. In some ways, I would argue in the other direction, in line with what Andrew Dilnot suggested nearly a decade ago. We should see this as a form of social insurance, such that there is some cap on the amount people pay. That would require an additional form of insurance payment through tax to pay for that.

Secondly, you asked specifically about devolving tax-raising powers. Yes, but we need to work out very clearly what we are trying to achieve from that first and, in particular, how much redistribution we want to achieve. A couple of pence on the higher rate of income tax in London would get the Mayor of London an awful lot of money. The same thing in Liverpool would not get the Mayor of Liverpool very much money at all. We need to decide whether we are happy with that and, if we are not, how you square that with devolution.

Thirdly, on wealth taxes, which we keep coming back to, what David Willetts was saying was right. I want to be clear: I do not think you were saying, David, that you would get £30 billion or £40 billion a year from wealth taxes. The Resolution Foundation numbers involve quite a lot of

other changes. We need to be cautious about the scale of money that could be sensibly raised by taxing wealth further.

Lord Willetts: Yes, those were other measures as well.

Lord Bourne of Aberystwyth: I do not disagree with Paul Johnson's last point. Clearly, there would need to be a ceiling on what individuals paid. In terms of the shape of the state we are looking at, we have to realistically say that there are going to be priorities. Recognising, in the medium to long term, that individuals should pay something towards social care through a form of social insurance seems to make sense. Jill Pitkeathley's point earlier on successive Governments creating false expectations was really well made. We have to alter the terms of trade and make it clear that, in the longer term, we have to address it in that way.

The Chair: I will take Lord Bichard and Lord Filkin sequentially and then ask for a final word from our three panellists.

Q23 **Lord Bichard:** I want to challenge a little what James was saying about social care, because it opens up a wider issue. James, you were saying that you could see a situation where social care was taken away from local authorities because they were not actually able to deliver it in a fair way across the country. You are probably right about that. I have thought that that was probably going to happen for a very long time now. I have to point out that, if you do that, instead of devolving, which is what we have been talking about so often, you are centralising the state to a very large extent. If we have learned one thing over the last 12 months, it might be that national policy-making and national delivery is not the most efficient or effective way of running government.

This conversation over the last 40 or 50 minutes has not talked very much outside of the state. We have talked about how we finance the state. There is another issue about whether you can deliver more effective, more efficient services seriously devolved not just to local government, again a state organisation, but to communities, bringing in an increasingly active, and many would say more efficient, voluntary sector. We have two arguments running here. We want more devolution, but every time we come to the crunch point we centralise more. Are we still ignoring the potential of communities, places and people to deliver what they need more effectively than the state?

Lord Filkin: In the face of the world that the three panellists have painted, which in many ways is resonant with what Philip Hammond and Alistair Darling said, there are various choices for us as a committee. One attractive route would be to carry on regardless with our eyes shut and ask for more spending, as almost all committees are inclined to do. That is attractive, but daft. Another route would be to freeze with horror and do absolutely nothing, or fiddle around. The third is to try to find some sort of focus on issues that really matter, which could make a contribution, without expecting they would be earthshattering, with a pretty strong dose of fiscal realism. If the latter is obviously the route,

what should that imply?

James Kirkup: To be clear, I am not advocating that local government lose responsibility for social care at all. My point was simply that, if there were to be some movement towards the devolved financing of local services, that could make funding social care very difficult for some local authorities and a national-level intervention should be involved. I agree with you entirely about the overcentralisation of the British state.

On your second point, about community social care provision, that is a very good idea, which would be worth exploring, not least given the evidence we picked up in the social care market that some of the larger commercial providers of residential care are increasingly looking to move out of local authority-funded care. Essentially, the rates being paid are too low; therefore, their margins are too low. They want to move into exclusive provision for self-funders.

If that continues unchecked, that will give us a fairly inequitable two-tier system. I represent an organisation called the Social Market Foundation. Markets, in the proper context, can often provide what we need. In this case, the market is not necessarily always doing that and is not going to do that adequately. The injection of a third form of provision, through community and voluntary groups, would be an excellent thing if it were possible to engineer.

Paul Johnson: In an effort to answer Lord Filkin's question, that is the hardest of all. Part of the answer is a realistic acceptance that, unless we are willing to have a remarkably different kind of society and welfare state, we are, over the next decade, going to have to see taxes rising by maybe a couple of percent of national income. I do not think that realism is well served by what the Chancellor said in the spending review, to repeat what I said earlier. He is now planning on lower spending than he was planning on a year ago. I may be proved wrong and, to be blunt, I was proved wrong a number of times over the 2010s, but I do not think that is going to happen.

In terms of the prioritisation, the worry is that the natural demand-led growth in spending will come from pensions, social care and, in particular, health. You do not get the same demand-led spending pressures from, in particular, education. Looking, as I did relatively recently, at the divergent paths of education and health spending over the last 30 years, if you had sat there in 1990, you would not have guessed that education spending would not have risen one whit as a fraction of national income or public spending, while health spending did dramatically. That is a choice we have made, possibly unwittingly, over that period, but it is not one that will stand us in good stead into the long run. There is a difficult and active role for government to make some of those decisions a little more actively than it at least appears to have done up to now.

Regarding the question on the tension between centralisation and devolution, yes, it was ever thus. It is absolutely true that that tension

has always, certainly in my lifetime, been resolved by centralising more. The last really big centralisation happened in 2006 or something, when school funding was taken away from local authorities and put in the hands of Whitehall. Rather like Lord Bichard, I would not be surprised if social care is the next thing to go down that well-trodden route. If we are to not go in that direction, it requires, in the end, a very strong political view and movement away from that. That has never, up until now, been strong enough to resist the quite legitimate desire to ensure that we do not have what is always horribly called a postcode lottery.

Lord Willetts: I think Paul and I have a very similar view on the key issue facing the committee, which is the shape of the state. On Lord Filkin's very pertinent question, there are two acute challenges now: social care, and education and training. Those are the areas where there are the greatest policy opportunities. For social care, it is right, following on from Andrew Dilnot's proposal, to expect older people themselves, where they have the assets, to make a contribution. There should be a floor below which their assets do not fall and a cap, setting the maximum amount they pay. This can be a charge on their estate, not out of their cash income at one point. Saying that we have finally realised we have to tackle social care, and older people themselves are going to have to make a contribution to the cost, but in a manageable way, avoiding the mistakes of the 2017 election campaign, is a defensible proposition. We are solving a problem that older people worry about.

For education and training, looking back, the assumption that we can keep people ticking over, furloughed or in the kick-start scheme—we will just try to give them some work experience and they will go back into the jobs they had before—has been too optimistic. We can see how low the take-up of kick-start has been. Looking back, people may say the great and tragic missed opportunity of this crisis is that we had a lot of young people idle for whom, if we had been imaginative, we could have delivered extra education and training. It is even more urgent now, as James said, to have significant increases in training, particularly for people needing vocational skills who do not go to university. Some of it might be funded by repayable loans, but a bold programme on education and training for the young, and a bold programme on social care, fairly funded, for the old, should be the two priorities.

The Chair: I am really grateful for what has been a fascinating exchange. On behalf of the committee, many thanks for sharing your thoughts and ideas with us, fizzing with a whole range of possibilities, standing back a bit and looking at the broader context, including Brexit, plus the pandemic and the move to net zero. One of the themes was how, unwittingly or otherwise, the elderly have done quite well through expenditure and low interest rates, at the expense of other sections of the community. There was a very interesting exchange on wealth taxes and on centralisation versus localisation. You have given us an awful lot to think about. Many thanks.