HOUSE OF COMMONS

Treasury Committee

Oral evidence: Budget 2021, HC 1196

Wednesday 3 February 2021

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Dame Angela Eagle; Mike Hill; Julie Marson; Alison Thewliss.

Questions 1 - 64

Witnesses

I: Torsten Bell, Chief Executive, Resolution Foundation; Julian Jessop, Independent Economist and Fellow, Institute of Economic Affairs; Paul Johnson, Director, Institute for Fiscal Studies; Vicky Pryce, Board Member, Centre for Economics and Business Research.

Examination of Witnesses

Witnesses: Torsten Bell, Julian Jessop, Paul Johnson and Vicky Pryce.

Q1 **Chair:** Good afternoon and welcome to the Treasury Committee evidence session on the forthcoming Budget. I am very pleased to be joined by four eminent economists this afternoon, and I am going to ask them very briefly to introduce themselves to the Committee.

Torsten Bell: Good afternoon. I am Torsten Bell. I am the chief executive of the Resolution Foundation.

Vicky Pryce: Good afternoon. I am Vicky Pryce. I am the chief economic adviser and board member at the Centre for Economics and Business Research.

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

Julian Jessop: Good afternoon. I am Julian Jessop. I am an independent economist and a fellow at the Institute of Economic Affairs.

Q2 **Chair:** What does the panel think the Chancellor should be trying to achieve in this Budget?

Vicky Pryce: The main emphasis has to be on achieving growth, frankly. We do not really know how the economy is going to move in the next few months. We do know that there is a vaccine ahead, which we can be looking forward to. Of course, lots of people have been vaccinated already, particularly in the UK. Worldwide there seems to be an improvement in sentiment, in the sense that there is now a conviction that 2021 will be considerably better than 2020, and the UK should benefit. Anything that stops that improvement and bounce-back, which we are all hoping will take place, is something we need to worry about.

Hence, when the Chancellor is looking at what to do, in particular there is likely to be extra help needed to make sure that we get out of this in a reasonable way. The idea, which has been discussed quite a lot already by the newspapers and so on, of raising taxes now seems to be completely against what the emphasis should be.

Torsten Bell: The clear focus of the Budget will end up being on taking some of the outstanding decisions on what we hope will be the final phase of support for households and firms. Some of those are very obvious, about universal credit and probably an extension and phasing-out plan for the job retention scheme, but we also have decisions to take on what we wish to do about loans to firms. There will probably be an extension of grants for some of the hardest hit firms, where we will see restrictions lasting into the spring.

Even if the rhetoric is more focused on the forecasts and the medium term, in practice, in terms of the actual decisions facing the Chancellor, this is really going to be a Budget for the next five months, and then we will be setting out the direction of travel for the longer-term issues. Whether that is about how to drive a strong recovery or it is to do with how to deal with the issue Vicky mentions about the consolidation, that is going to come in future Budgets.

Q3 **Chair:** Paul, we are going to be looking at probably quite a few announcements of how we extend this bridge of support to hold on to jobs etc. Growth, as Vicky says, will also be very important. Do you have comments on that or other thoughts?

Paul Johnson: Yes, I agree with what Vicky and Torsten said. The focus will be on two things. One is the gradual phasing-out of the current support schemes, and I hope we get a plan for the phasing-out of the furlough scheme and the other support schemes that involves some targeting. It seems likely that, for example, the airline industry, the nightclub industry or what have you may well be some way behind most of the rest of the economy. We really cannot have a furlough scheme addressed at the entire economy just to support a couple of sectors that do need support.

Secondly, there will be more of the next-phase part of that around supporting the labour market in a world in which we are moving on from restrictions, whether that is developing the back-to-work bonus-type schemes that were announced back in July and September, additional training or green investment. It will be that kind of thing, to get the economy going from the summer onwards.

Those are still quite short term, but there is a phasing-out of the immediate support and then the immediate support to get the economy going, and then the longer-term things on even longer-term growth, consolidation and so on will wait for later Budgets.

Q4 **Chair:** Are you thinking that there is an indication that furlough will be disappearing and something like the job support scheme, which is basically subsidising keeping people in the workforce rather than paying for them not to work, is the way he might go? That is where he was going before further lockdowns came along, effectively.

Paul Johnson: There is a big choice over the job support scheme element of the furlough scheme. He will want to phase it out entirely, but it is the sort of thing that you could imagine becoming more of a permanent part of the architecture. My guess is that this may be a stepping stone to the full phase-out of that. The sort of things he will want to focus on from late summer and autumn will be hiring incentives, training incentives and other things to get people back into work on the presumption that some of those currently on furlough will be laid off.

Q5 **Chair:** I want to ask you something going beyond this Budget. Most people feel, as you have all stressed, that now is not the time for tax rises; it has to be about stoking up growth. We had the Financial Secretary to the Treasury appear before us recently, and he seemed to imply at least that over the next few years it might not be necessary to raise taxes. Is there any conceivable scenario under which, at the end of the day, while we are all talking about tax rises in the future, they might not actually be necessary?

Paul Johnson: It is pretty unlikely that taxes will not rise as a fraction of national income. There are three reasons for that. One is that—let us hope it is not the case—the economy will probably be smaller in three or four years' time than it would have been without the pandemic having occurred, and that will mean less tax revenue but at least the same level of spending demand.

Secondly, actually, there will be a higher level of spending demand. It seems to me unlikely that we will accept the same level of spending on health, education and social care as it looked like we would before. There was something rather unrealistic about the spending review numbers, which implied lower spending in the medium term than was suggested in the Budget last March. Of course it is possible; it is a political choice, but it is relatively unlikely.

Thirdly, independent of all of this, we have always known that the cost of health and pensions, particularly over this decade, were going to be rising reasonably significantly. I would be genuinely surprised if in five years' time taxes as a fraction of national income were not higher than they were pre-pandemic.

Q6 ***Chair:*** Thank you very much. That is very clear. Julian, we would be interested in your comments on any of the elements we have discussed.

Julian Jessop: I can be fairly brief, because I agree with most of what has been said. The emphasis in this Budget should be on growth and on supporting the economic recovery. There probably are a few small things that still need to be done, whether that is extending the furlough scheme or universal credit. Where I would probably disagree with the consensus, though, is this talk of the need for tax rises, either in this Budget or in fact any time in the next few years.

If the economy does rebound as strongly as at least I expect and the public finances continue to beat the forecasts of the Office for Budget Responsibility, which so far they have done, we have a good chance of getting through this crisis without the need to raise taxes. In particular—I know we might talk about this later—the OBR has published three scenarios for the economy. In the upside scenario, there is no long-term economic scarring and debt falls pretty sharply over the next few years as a share of GDP. In that scenario, I do not see any case for tax rises at all.

Q7 **Chair:** That is very interesting. That is the point the FST was making, actually. Paul, that does not persuade you. If we bounce back incredibly quickly, with no scarring, and we are in line with the upside OBR EFO scenario, we might actually see debt as a proportion of GDP falling and we will not have to worry so much about tax rises.

Paul Johnson: In that world, we certainly would not have to worry so much about tax rises in the immediate run. We will wait and see. That is relatively unlikely. It depends on whether the spending plans are genuinely realistic as well, which again we will find out.

As I say, my sense of not just the economics but the politics is that the pressure for increased spending in some areas is going to be significant, given the ageing of the population later on. If we have that upside, the pressure will be considerably less, particularly in the short run.

Q8 **Chair:** I may have this wrong, but the upside scenario is a return to pre-crisis GDP by the end of 2021, is it not?

Paul Johnson: Yes, to pre-crisis levels, and then getting to where it was supposed to be pre-crisis within three years or so.

Torsten Bell: The material thing in the optimistic scenario is less the immediate pace of the recovery; it is the longer-term point that it has no scarring whatsoever happening to the economy from this recession. Now, I am not saying that is totally impossible; what I am saying is that it has never happened. It is very optimistic to assume that will happen.

On the tax rises, what is going to determine whether tax rises happen is much less that, although that will determine whether this crisis increases the need for tax rises, and much more the Government's appetite for extra borrowing over the medium term and whether those tax rises come after the next election, which will happen if there is a large majority. If there is not a large majority, they will not, and we will muddle on, see how we get on and hope that nothing bad happens while borrowing quite large sums of money.

Those are likely to be the actual medium-term choices we face but, as I say, the important thing about the optimistic scenario is that it has no scarring effects. Remember that even the baseline scenario has very small scarring effects compared with, say, the financial crisis or the 1980s recessions.

Vicky Pryce: The other thing to bear in mind, of course, is that we also have Brexit and the implications of that. If you look at what happened at various stages, particularly since the referendum vote, you find that uncertainty has increased in the economy. Business investment has been affected quite negativity as a result.

If you look back at what happened after the financial crisis, it took a long time for investment to recover. If you have lower investment, including foreign direct investment being affected because of Brexit; the slowdown in the economy we have seen so far, which translates into loads of firms having disappeared and a huge amount of financial help still being required for various sectors; and the banks being in difficulty, which they will be despite the Government-backed loans, because a lot of firms they have lent to are going to be in difficulty for some time to come, you have a combination of factors that will reduce the growth rate in the future.

Nobody expects the UK to go back to where it was pre-pandemic before the middle if not the end of next year. When you are thinking about what type of tax increases we might need in the future, perhaps we will be prepared to live with quite a large debt and deficit-to-GDP ratio for some time, if the Chancellor and the markets are happy with that. But we had very low growth projections before. The last forecast of the Bank of England, before the pandemic struck, which was January of last year, was for growth in 2020 of just 0.8%. Through the course of the Parliament, we were not going to see growth of more than 1.5%. This already demonstrated a weakness in the underlying economy.

You may get a bit of a bounce-back for a while, but the likelihood of that continuing and not going back to something pretty meagre, given all the pressures that Paul and others mentioned on public services and so on still being very strong, without increasing taxes seems pretty low.

Julian Jessop: Briefly on the Brexit point, I am probably the Brexit optimist on the panel. This year is going to be the year when the drag from Brexit starts to fade. There is no doubt that the uncertainty has held back business investment, but a lot of that uncertainty was because of the fear of a no deal, which at least we have avoided.

On top of that, I recognise that there is some short-term disruption from the new trade barriers, but this is largely going to be temporary and limited to certain sectors. Even if it is more permanent, it is relatively small compared to everything else that is going on in the economy. It is completely swamped by the Covid impacts, whether they are positive or negative. I personally think GDP will be back to pre-Covid levels later this year, perhaps as early as the third quarter of this year. That will be the dominant factor determining the outlook for the public finances as well.

Chair: When will we get back to GDP as we had before? That is an essay question to which we will get the answer, at least. Thank you for making a prediction there, Julian.

Q9 **Harriet Baldwin:** I want to drill down a bit more into this issue of employment forecasts. We can all recognise that, going into the pandemic, the UK enjoyed a very high rate of employment compared to the last half century. Clearly, the pandemic has been very, very serious in its impact. The Bank and the OBR have bravely come up with a forecast of unemployment peaking around 7% to 8%, but presumably that is bifurcated.

Under the best-case scenario, where we can remove social distancing sometime this year, how quickly would you as economists see employment recovering to where it was before? Secondly, under the worst-case scenario, does 7% to 8% seem a bit low? Could unemployment be much worse than that if we had to maintain social distancing and some form of lockdown for a much longer period?

Torsten Bell: This is one of the crucial questions for the year ahead. On the latest data, we have around 5% unemployment on the ONS figures in November. Realistically, you should think about that as being nearer 6%. If we take into account everybody who says they had a job but is not being paid or doing any actual work, you get to nearer 6%. Lots of people are saying they are still employed, but are basically furloughed without pay at firms where either they did not qualify for furlough or the firm did not bother furloughing them.

Say it is nearer 6%. You then have 4 million people on furlough. Our estimate is probably around 4 million now, with 3 million of those not working at all and maybe 1 million part furloughed. We have a very big stock of people not working. We probably need to spend a bit more time thinking about lots of people having not worked rather than the exact distinction between how many did not work because they were furloughed versus how many did not work and were not furloughed. A lot of people not working is what has happened, because of the astronomical fall in GDP.

Where does that take us for the forecasts? In the short term, the forecasts from the Bank and the OBR are similar: 7.5% by the middle of this year. They are both going to end up thinking that the peak on unemployment comes too soon. I think it will come later than that, for a number of reasons. First, the Chancellor will end up partially extending bits of the furlough scheme.

Secondly, the shakeout of labour after the furlough scheme is wound down will not happen dramatically, all in one day. In practice, firms take action when they come under sustained cash flow pressure. They do not lay people off lightly, particularly smaller firms. It will be spread out over the coming months. We could easily see the peak coming at the end of this year or early next year, rather than it all happening in the middle of this year.

The big picture of increases to that kind of level is a perfectly reasonable forecast. I do not have a strong view about whether it will go much higher. If it did only rise that high, it would be very high but lower than all of the recent recessions we have been through. That would be a good result historically, given how big the fall in GDP was.

When you think about the nature of that unemployment and the pace of the bounce-back, we should separate out in our head, which obviously the data will not do for us, the bounce-back that you get in the sectors that have been basically closed or semi-closed by the restrictions, which are small by way of GDP but high by way of employment, such as the hospitality sector and the leisure sector.

We should be optimistic about fast bounce-backs in activity and employment in those sectors once we lift restrictions. First, we will all want to go out and spend money, because we are so depressed by sitting in our houses permanently. Secondly, we have the money—and by "we" I mean better-off members of society—to go out and spend. Thirdly, those sectors find it relatively quick to re-employ people. You do not need complicated matching of skills to capital and other things. We should expect those sectors to bounce back, which is almost the inverse of last year.

We should be careful about assuming that the rest of the economy bounces back as quickly. We will have something that looks a bit more like a normal recovery, which is slow in bringing back employment, for the rest of the economy. That is why we have been encouraging the Chancellor and others to focus fiscal policy on targeted support over the last year for those sectors that are most in trouble. That will flip towards the back half of this year, and we will need to see fiscal policy more broadly supporting a recovery across the board. That is when I suspect we will see a slower return to employment growth outside of those bounce-back sectors.

Q10 **Harriet Baldwin:** Torsten raised a point about how you create a situation where the furlough aspect of the support to the economy comes to an end and transitions into something that reflects the fact that not only have there been these shocks from lockdown, but these shocks have exacerbated some massive structural changes away from high streets, for example. Julian, if you were Chancellor, what would you do to try to bring the economy to a situation where it can move on from furlough in a way that is as good as possible at creating jobs?

Julian Jessop: The single most important thing to do, of course, is to lift the lockdown restrictions and for the health experts to get on top of Covid. The economy will then reboot itself. Some people will go back to the jobs they had already in sectors like hospitality and so on, and our relatively flexible economy is quite good at creating new jobs to replace any that are lost. The Government do not have to do much more than that, providing that they are lifting the restrictions and getting on top of Covid.

That said, I am sympathetic to the idea of extending the furlough scheme in some form for a little longer. When it was suggested that it was going to end in April, we were not really anticipating the third national lockdown. There might be a case for extending it. I would probably do that not by extending it in its current form but by withdrawing it gradually, which of course was the plan for the autumn of last year. Instead of paying 80% of workers' basic pay, the Government might reduce that support gradually from 80% to 70% to 60%. I would go down that route rather than going back to other things like the job retention bonus, which is second best to the furlough scheme, which we know has worked quite well.

In terms of the forecast, I am relatively optimistic here. Headline unemployment will probably peak at 6% or below. There is some encouraging evidence there. If you look at the recent numbers, they suggest that the deterioration in the labour markets has been levelling out. On the ONS single-month number, unemployment was lower in November than October, and the PAYE measure of employment rose in December compared to November. A lot of the surveys of things like recruitment are starting to improve a little as well. There are some straws of a recovery in there, and lifting the restrictions on the economy will allow those to develop more fully.

Harriet Baldwin: Yes, and of course vacancies have started to rise again. Paul, how would you do this transition from the end of furlough to a more normal welfare safety net?

Paul Johnson: The crucial issue here is how it is phased out on a sector-by-sector basis. For most of the economy, you might want to do something rather like the Chancellor planned last year, where you reduce the fraction of earnings that can be claimed, probably over a period through to the end of the summer.

Q11 **Harriet Baldwin:** How does that address this massive structural shift that has happened in the economy, though, with the high street closing in a way that looks pretty permanent and moving online?

Paul Johnson: There are two issues here. First, there may well be some industries or very specific areas where there are ongoing restrictions, and furlough will need to be kept for them. There is then this second issue that you raise, which is where I would be probably most worried about how the economy is going to adapt.

We do not know the extent to which high streets will be less profitable than they were, but there is a good chance that there will be some substantial movements in the economy. City centre retail in particular may be hit in the long run. That is where we will get the big long-term scarring. That is what we mean, or part of what we mean, when we talking about scarring and the costs of transition.

The costs of transition will be significant in different ways. One is clearly the costs of transition for the individuals concerned. There we have, as you know, a not particularly generous out-of-work benefits system at the moment. That might be, for example, one reason for having somewhat more generous benefits.

Q12 **Harriet Baldwin:** I want to try to get specific recommendations on how you would move from the end of the furlough scheme into a more normal safety net. Vicky, do you have any specific recommendations on that particular aspect?

Vicky Pryce: One thing that is being discussed already and needs to be looked at again is having a better welfare system, so that universal credit remains higher than it was before the £20 increase. There have been suggestions of maybe making an extra payment early on when the lockdown starts to ease, so there is more money in people's pockets and they go out and spend it, because we have had a very significant deterioration in equality in the UK. A lot of people further down have not been able to continue to work and have lost out very significantly. That is one of the ways of doing it.

Whatever is decided, whether or not you phase it out to ensure that unemployment does not rise very significantly, remember that, when you look at furlough, the sectors differ very significantly. Accommodation and food services had the highest percentage. Education has been following because of the closures. You have arts, entertainment, recreation and loads of service sectors that have closed, along with transport. All of those need to be looked at directly to see what support they need as they get out of this, because they are likely to get out of the restrictions we have in different ways, requiring different support. Are we still going to be using public transport in any way? What are we going to be doing with the long-term infrastructure stuff on HS2 and so on? This is slightly longer term.

In the short term, you need to do that, but it needs to be clear. There have been so many changes. Last-minute changes in those schemes have left companies in real difficulty. It is really the financing of it—

Harriet Baldwin: I am out of time, unfortunately, but thank you.

Chair: I did notice that Torsten wanted to come in. Can you be very brief, Torsten?

Torsten Bell: On the point about how we would recommend doing the phasing-out, just focusing on the furlough scheme, we are not starting from scratch here. The Chancellor has already had two answers to this question. The answer in summer last year was, over time, to ramp up the employer contribution slowly and gradually. The Chancellor's answer in November was to remove the ability to be fully furloughed, so that everybody had to be partially furloughed, as you were describing, Chair. Those are the two phase-out options he has previously tried.

In reality, we need a combination of those with what Paul was talking about, which is a sectoral focusing of that over time. It is crucial that the movement between those three is tied to the removal of restrictions. We should probably be more honest with ourselves than we have been previously. In the end, the removal of restrictions slowly over time is going to see us prioritising the rest of the economy and schools, and not prioritising, relatively, the hospitality and leisure sectors, which we will leave facing lockdown restrictions for longer.

For the rest of the economy, we should set out a clear plan for employer contributions to rise, then to move to only partial furloughing and then the full closure of the scheme. There are then those sectors that we are going to be asking to stay closed for a bit longer, to do their bit to keep the virus under control and to allow us to open up the rest of the economy, hopefully not for long, given the effectiveness of the vaccine so far. Those sectors should be allowed access to full furlough for longer.

Q13 **Mr Baker:** To pick up on a couple of issues there, Torsten, you just mentioned asking them to stay closed for a bit longer. You mean we would actually be requiring them to do it as a matter of law.

Torsten Bell: Yes.

Q14 **Mr Baker:** With the hospitality industry, it is either open for Easter or it is not. Easter is a very big deal for the hospitality industry, is it not? Vicky, I can see you nodding there.

Vicky Pryce: Absolutely it is, for hospitality and tourism. People would have gone away and done all sorts of things. If you do not do that early enough, you have a serious problem with so many firms basically disappearing. That is my real worry. We talked with Harriet earlier about what you do with furlough and so on. There is a limit to how much of that furlough you can do, if you are not going to have companies in the future that can survive. Basically, they will be using the money to make people redundant, which we have already seen is the case.

Q15 **Mr Baker:** This leads on to support for individuals. I am very worried, for example, about people in the hospitality sector who perhaps have half their income as tronc or shared tips. If half their income was tronc, they have only been furloughed on 40% of their usual income, not 80%. For the record, Torsten and Vicky are nodding. Vicky, would you like to reply on that point about tronc and support for individuals?

Vicky Pryce: The way income or wages are made up disadvantages all those people who have been in jobs that require face-to-face interaction, which of course they cannot have. As we move out of this, is there a way of rethinking those employment contracts, as has been discussed for quite some time, and the whole of the gig economy, which has left loads of people disadvantaged? That is what I was referring to when I was saying before that inequality has increased.

Q16 **Mr Baker:** Of course, there is always a case for having a conversation about people's terms of employment. The fact is that they have been, for example, furloughed on 40% and not 80% of their salary because of tronc. Is there not a case to say to the Chancellor, as this Committee has, "In this Budget, you need to deliver some justice for people who have been excluded from some of your support schemes." Is that not the fundamental issue at hand, as we approach this Budget?

Vicky Pryce: I would say yes. We could borrow from other countries like the US and give cheques to people who have lost out, or do something additional, whether it is through the unemployment benefits people are getting or a temporary increase in universal credit that can go into their pockets, if they have not been working, to make up for it. They have not seen that type of support at all.

Q17 **Mr Baker:** I will come back to universal credit, but, Torsten, you have nodded along on this. Would you like to come in on these points?

Torsten Bell: On the overarching point, this crisis has lasted longer than people hoped. I have to say that history told us that it could last this long. When we were talking to you back in April last year, we may have mentioned some of what the historical studies showed about the economic effects of pandemics. Anyway, we hoped it would be short. As a result, a lot of our policy has very rough edges. People who are included get very generous support, and people who are not included sometimes get no support or, as you are mentioning, more limited support. Those edges have become harder to morally justify, the longer the crisis goes on. That is certainly a reasonable point to make.

The individual example you raise is one of them, although I have to say that, by volume of people and by scale of exclusion, there are bigger ones. Your Committee has also rightly raised the issues about parts of the self-employed population, some of whom were excluded for understandable reasons to do with the logistics of administering the scheme.

Mr Baker: I have to say they are on my list to ask questions about.

Torsten Bell: I will stop there, then.

Q18 **Mr Baker:** Thank you. Paul, you mentioned about the generosity of the welfare system, but I am sure you will know better than I that it is very expensive to maintain something like the temporary £20 on UC, is it not?

Paul Johnson: Yes, it is something like £7 billion a year. That is clearly a big choice to make. It is worth putting it in the context of the reductions in the generosity of our welfare system, particularly over the last five or six years. Yes, that is clearly a choice that Chancellors have to make: do you spend £7 billion there or do you spend £7 billion elsewhere?

Q19 **Mr Baker:** I may have misunderstood an informal conversation I had earlier with a Government source. I should say that I would love to see universal credit be much more generous; it is a good way of encouraging people into work, and I would like it to be at higher levels. A Government source suggested to me earlier that maintaining that £20 a week would be 3p on fuel duty plus 1p on income tax. Does that sound broadly right? Might you have a different estimate of what it would mean?

Paul Johnson: It sounds like the right order of magnitude. If you were to pay for it through those particular taxes, that is the right order of magnitude.

Q20 **Mr Baker:** There are hard choices ahead, then. Can we turn to statutory sick pay? Do any of you have views on the level of statutory sick pay and the effect of statutory sick pay on people's ability to isolate? I can see that Torsten would like to come straight in.

Torsten Bell: Again, policymaking has been really difficult this year. We should be clear about that. It happened at speed and we were often being asked questions the Government had not thought about or did not have the answers to. The need for functioning statutory sick pay during an epidemic is one of the more blindingly obvious ones, and the fact that we have not solved this adequately over the course of the year is a serious problem.

On some of these issues, as we move to reopen the economy, maybe we think the time has passed, but we are going to need a functioning sick pay system over the coming months to increase the size of economic activity and social activity we can have taking place without R going back above 1. It is the price of being able to do other things to the maximum extent possible.

The problems with our existing system are that, first, too few people are covered and, secondly, the level is too low. They are separate issues, but they are related. We have a flat-rate system. It is not a benefit any more; it is almost all paid for by firms rather than by the Government, with the exception of people isolating because of, in this case, Covid. The problem is that too many people are excluded, because they earn too little, and the level is low. You get £95 a week. A typical earner under the job retention scheme is taking home £330 a week. That is the decision we made as a society for other people asked to stay at home for their jobs. Unsurprisingly, people are therefore not staying at home or at least not getting tested, so they do not know if they should stay at home, because the financial support is so low.

In the end, if we are asking people to stay at home to protect all of our lives, we have to protect their livelihoods. It is a basic bit of judgment. The survey data is pretty conclusive: it has affected people's willingness to stay at home. In fact, the head of test and trace said that a few weeks ago.

To be fair, the Government have recognised this. That is what the £500 payment they introduced back in the autumn is meant to address. The problem is that the eligibility criteria for it mean that only one in eight workers qualifies. You have to be a worker on universal credit, basically, to qualify. The mechanisms for it through local authorities have been a bit of a problem. At first, local authorities had low take-up because no one had heard of it and, then, when people had heard of it, lots of people who were not eligible were coming forward to local authorities, which were basically saying no to lots of people.

Q21 **Mr Baker:** Torsten, I am sorry to cut you short, but I have realised that I am running very short on time. Could we have a brief word on this point about statutory sick pay from Vicky and Paul, please? Then I will compress the rest of my questions into one round.

Vicky Pryce: The one point I would make is that it is way below where it is in other civilised countries, and therefore it needs to be looked at again.

Paul Johnson: I agree with Torsten. In the circumstances we are in, it seems to be a fairly basic bit of change that should have been made very early on.

Mr Baker: I have two minutes left. In this company, we all know what the issues are with the self-employed, directors and people for whom only part of their income is self-employment. Could I ask each of the three of you to set out your main message to the Chancellor in relation to people who have been excluded as we approach this Budget? I particularly bear in mind the point Torsten made, which I thoroughly agree with, that the hard edges become increasingly difficult to justify morally as time goes on. What is your message to the Chancellor about the excluded, Vicky?

Vicky Pryce: The gaps need to be looked at. There is absolutely no justification for whole chunks of the UK population to have lost out in this respect. It is absolutely right. We have gone into another lockdown, so it has become a W-type recession. It is not something that was just short lived and one can get over in a hurry. I am afraid there is a big gap for the self-employed, which needs to be looked at again.

There have been rumours that various things will be happening, which would be quite positive if there is some extra support, but, to a certain extent, it is putting off anyone who may want to be a self-employed entrepreneur or do anything in that area in the future.

Paul Johnson: There is a sense in which it is a bit late now, assuming that we are going to come out of this relatively soon, but the Chancellor has done two things. As Torsten said, he made a clear policy decision to not include people on over £50,000 who have less than half of their earnings from self-employment. It would actually be quite cheap to include them and not significantly less well targeted. You would not have to include everyone over £50,000; you could certainly phase it out between £50,000 and £100,000. We support anyone on the CJRS whatever their previous earnings were.

For those where there has been a policy decision, there is certainly scope for making that more generous going forward, at remarkably low cost relative to the other schemes.

Torsten Bell: I agree with everything Paul just said. We should have capped the amount people could get from the self-employment income support scheme rather capping the previous income levels for eligibility. To be fair to the Chancellor, one of the reasons why this is hard is that we were basically too generous, in lots of cases, with the self-employment income support scheme and then, wishing to control the overall level of spending given that mistaken level of generosity for some, we have been far too hard on a load of other people.

In fact, it is the contrast between the two that is particularly grating for those who have had a really hard time over the last year. Lots of people who had almost no fall, and in some cases actually no fall, in their self-employed income this year have received grants of thousands of pounds, and some people who have seen their income disappear entirely have not been entitled to a penny. That juxtaposition is particularly hard to justify, and in the end that was a policy mistake, once we realised how long this crisis was going on for.

Q22 **Mr Baker:** Chair, I have just realised that, due to the layout of my Zoom, I have completely failed to bring Julian in at all. Julian, I apologise. Are there any points you would like to briefly bring in? I am sorry; I completely failed to see you. You snuck off the edge of my Zoom screen.

Julian Jessop: That is no problem, Steve. I have two points. First, this is clearly not the time to talk about raising taxes for those people who might have been particularly badly hit and missed out. Earlier, the Chancellor was suggesting that he might want to look again at the taxation of self-employment income to compensate for the support the self-employed received, but that is a bit hollow if you have not received very much support at all.

Secondly, now might be a good time to look at widening the eligibility of support by allowing the self-employed to use more recent tax returns rather than those that are two years out of date. There is something that could be done there to allow more people to benefit from the support that is already available.

Mr Baker: That is very good. Once again, I apologise for not bringing you in throughout. It was just, as I say, the Zoom layout that led me astray.

Q23 **Anthony Browne:** I should declare at the outset that I am on the advisory council of the Institute for Fiscal Studies. My questions are about growth and business taxes. Clearly, the big problem we have is the national debt. It is 100% of GDP. We do not know how big the budget deficit is. We do know that, the more rapidly GDP grows, the more we can shrink the national debt as a proportion of GDP.

All Governments are in favour of growth, but at some times it becomes more important to have a laser-like focus on it than at other times, and I would suggest that now is one of those times. As we have been discussing, we need to raise taxes overall at some point. I cannot think of that many tax rises that promote economic growth, but you can presumably rank tax rises that do less damage to economic growth than others. I want to focus on business taxes as well, because there has been lots of speculation about corporation tax rises, as well as changes to the capital gains tax regime.

Could I start with Paul Johnson? What tax rises could there be that would have a minimal impact on economic growth? If you wanted to maximise growth, what would you do with tax, given that you cannot cut very much?

Paul Johnson: There are clearly changes and reforms one could make to the tax system to make it more efficient and equitable, and to raise some more money at the same time. For example, there are changes you could make to capital gains tax. Forgiveness at death does not raise you an enormous amount, but getting rid of that would clearly be helpful. There are some exemptions in inheritance tax that frankly do not make an enormous amount of sense.

There are things you need to do to sort out the differences between the taxation of the self-employed, employees and small businesses, where there are huge opportunities for inequity and avoidance. There are problems with the way we tax housing. There are all sorts of tax reforms that one should consider in these circumstances, such that raising taxes would be less damaging than otherwise.

Working within the structure of the current system, if we are looking for substantial amounts of revenue, which I suspect not in the next couple of years but in the next decade we might be, we probably need to start looking at the big taxes: income tax, national insurance and VAT. Of course, we do not charge national insurance at all on pension contributions or pensions in payment. The income tax system and the national insurance system between them are still very generous to some kinds of occupational pension provision, in particular those in payment.

You could also look at what previous Chancellors have done. Where have we got big amounts of money in the past? In the past 30 years, there have been two places: one is national insurance and the other is VAT. Either of those could be raised without massive damage. Although this clearly will not happen politically, I suspect that income tax changes might be less damaging. We spent maybe £10 billion on increasing the income tax personal allowance and thereby significantly reducing the tax base. Freezing the income tax personal allowance is not particularly progressive, but it raises you money and broadens the tax base over time without, probably, doing enormous economic damage.

With all that said, there are probably two things you want to avoid. One is a big increase in employer national insurance contributions, both because employer national insurance contributions are one of the big reasons why different forms of income are taxed very differently and because it might reduce the creation of traditional jobs particularly. If you are looking at VAT, there is significantly more scope for widening the base than there is for raising the rate on those things that are currently taxed under the VAT system.

Q24 **Anthony Browne:** Yes, although the Conservative Government have a manifesto commitment not to raise VAT, national insurance or income tax. Can I ask you about the two business taxes I mentioned? There is much speculation about the rise in corporation tax, which is 19% currently, and making the capital gains regime less generous. What impact would that have on growth and on the attractiveness of the UK as a place to do business?

Paul Johnson: As ever, it depends on scale. The difference between 19p and 20p for corporation tax is really not going to make very much difference, though it might signal a change in direction. There might be a case for an increase, for a year or two, in corporation tax on those companies that have made big profits over this year. Governments, including Conservative Governments in the past, have levied windfall taxes on industries they think have been overly profitable for external reasons. If it is just a one-off windfall, it does not help very much in the long run.

For capital gains, the key thing here is to get the base right. The fact that capital gains are not even indexed for inflation, let alone a normal return, is a problem. If you sorted out the base and increased the rate, you might be moving in the right direction.

Q25 **Anthony Browne:** I am going to move to Vicky Price and ask the same question. If you had to budget for growth without being able to cut taxes or move national insurance, VAT and income tax rates, what would you do?

Vicky Pryce: I would focus on corporation tax—and not just from 19p to 20p but a bit higher. We are way, way below loads of our competitors in this. Of course, it is companies that make profits that will pay those taxes. It is quite good; you are not penalising any that do not.

I would look at a windfall profits tax and whether you can put something on top of it. Obviously there have been sectors that have done rather well without necessarily doing anything spectacular themselves. For example, housebuilders have done really fantastically well because of the stamp duty decrease. While supermarkets' profit margins are quite small, nevertheless they have been making quite a lot of profits overall. They have of course spent a lot to do the right thing, but that is one other way of doing this.

I would look at fuel duty. We touched on it earlier. Frankly, it has not gone up in 10 years. Oil prices are not that high and of course people are travelling a bit less. I will correct myself: car transport has increased quite considerably because no one is using public transport. The environment is such that you could do this. I know there is a huge fuel duty lobby that is arguing very strongly against it, but nevertheless it is something that is waiting to be corrected. After all, we are talking about net zero and so on. It does not make any sense not to raise fuel duty.

Q26 **Anthony Browne:** Is it possible to make capital gains tax less generous, without damaging the incentives for investment?

Vicky Pryce: It is possible. The question is how much you would raise and whether it is just an indication that you are taxing those types of gains for whatever reason more than before. There is a question: you want more entrepreneurship; you want more growth. Maybe now is not quite the right time to change capital gains tax, but we could look at the treatment of raising debt. You can charge debt interest against the tax you pay.

Q27 **Anthony Browne:** That is a huge change.

Vicky Pryce: That would make a big, big difference to the way in which companies are funded in the future. When we have crises like the one we have now, perhaps we are going to find that one of the problems is the huge debt that has been accumulated over the period, which in a crisis just cannot be dealt with.

Q28 **Anthony Browne:** Coming to Julian, it is the same question. You have these constraints that the Chancellor is faced with. You want to budget to promote growth, but you cannot cut taxes and you cannot raise income tax, VAT or national insurance. What would you do, particularly about promoting businesses?

Julian Jessop: I understand the premise of the question. I reject the idea that we need to raise taxes at all.

Anthony Browne: Yes, but at some point.

Julian Jessop: In contrast to Vicky, I would not do it through corporate taxes. For a start, corporations are not a separate stream of revenue from the rest of the economy. Companies are only legal entities; they cannot bear the economic burden of taxes themselves. If you do raise corporation tax, it means that somebody else has to pay that. It might be shareholders, but equally it could be consumers in the form of higher prices or workers in the form of lower wages or fewer jobs. It is not a magic money tree that you can just shake.

Q29 **Anthony Browne:** Given that our corporation tax rate is well below the OECD and G7 average, would it really make much difference to business if we increased it a little?

Julian Jessop: It might raise a bit of money but probably not a lot. One percentage point on the main rate of corporation tax only raises about £3 billion. That is probably an upper estimate, because the incentive to relocate will be greater now given the timing. In particular, we have the uncertainty because of Brexit. The fact that we have such a low rate of corporation tax compared to other countries is an important competitive advantage that we need to protect. Another way of looking at it is that most people agree that corporation tax is a bad tax. The fact that other countries have higher levels of bad tax is not really a good reason for us to copy them.

If we did want to raise more tax, though, I would focus on two things. One is what you might call the environmental taxes. You might as well raise taxes in ways that have positive side effects. I would include fuel duty in that as something that probably could go up. Secondly, there are probably various ways you could simplify the tax system and, in the process, have the welcome benefit of raising a bit more tax in some areas as well. For example—this is not something for this Budget—I personally would merge income tax and national insurance contributions.

Q30 **Anthony Browne:** Chancellors have been promising to do that over the last decade or two without success.

Julian Jessop: It makes sense, particularly now, since it would raise more money from people who are currently not paying national insurance contributions because they are over the state pension age. With many people living longer and working longer, that is a source of revenue we are missing out on.

Another example would be trying to make sure that different sources of income are taxed in the same way, whether it is from employment, capital or other ways of making money. It does not necessarily mean that all the tax rates need to be the same, but there might be some loopholes you can close that will helpfully raise some money. As I said at the beginning, that absolutely would not be my priority at all.

Anthony Browne: I would love to ask more questions, but unfortunately I am out of time. I am sorry not to come to you, Torsten, but you had plenty of opportunities earlier. Thank you all very much.

Q31 **Felicity Buchan:** My questions are on public finances and whether we should see at the moment a fiscal tightening, consolidation or stimulus. The Chair has already touched on some of those issues. To summarise, I heard from almost all of you that there should be no fiscal tightening in the short term, but, Paul, you said that in the longer term you think that taxes need to increase.

Perhaps we can focus on the short term. Are you calling for fiscal consolidation or fiscal stimulus? If it is the latter, do you want to see that through tax cuts or increased spending? Since I alluded to you, Paul, why do you not go first?

Paul Johnson: In an arithmetic sense, whatever happens next year, it will be a fiscal tightening, because I hope to goodness we will be borrowing less next year than we did this. In that sense, it is a fiscal tightening.

The question then is about to what extent and where you might spend money more or tax less than we did two years ago. On the spending side, the issues are more about, first of all, how valuable that spending is and the extent to which it is credibly temporary. There is no point in announcing tens and tens of billions of investment spending as a way of supporting the economy if either that investment spending cannot be spent, as we have seen time and time again in the past, or it is spent on stuff that is actually not very economically valuable. One needs to get down into more specific detail than just totals when one is thinking about that.

If we are talking about whether we should be increasing universal credit, for example, you could see that as a stimulus package, in which case you would be thinking about doing that temporarily, but we have seen that is difficult, even for a year, or you are baking in something for the long run, in which case it is not really part of a stimulus. It is really quite important to be clear about the distinction there.

The same might go for how you spend money, for example, on supporting schools. We might think it is important to support schools and the children in them for the next year or two to make up for the learning we have lost, and that might act as a bit of a stimulus, but can you credibly pull that away? If not, it is not just a stimulus; it is a long-run increase in spending.

To labour the point a bit, we should have policies that are supportive of companies hiring particularly young people and the unemployed, but the constraint on that is not the availability of money; the constraint on that is the capacity to deliver effective programmes. I really would focus more on those sorts of specific issues.

When it comes to tax cuts, there is no case for, for example, across-the-board cuts to income tax or national insurance to stimulate the economy, not least for the reason Torsten has alluded to, which is that there is a significant chunk of people out there with piles of money ready to go and spend. Having an additional spending stimulus for that group is not going to be particularly helpful.

There are areas where we know there have been huge problems and we do not know how quickly that might come back. Stimulus packages for company investment in the short run, for example, might be effective, because we know investment has been really low and lots of uncertainty remains. We know that uncertainty is a drag on private sector investment.

For my money, over the next year we probably should not feel desperately constrained by the fiscal consequences of additional spending in particular, but we should be constrained by whether we think this is credibly short run—and, if it is not, do we want to do this in the long run?—and whether it is going to make the kind of difference we want it to make.

Q32 **Felicity Buchan:** Vicky, let me take you in at this point. You were very definitive when the Chair asked you about tax rises or not; you said there should be no tax rises at this point. Clearly, there can be some tax readjustments, but no broad tax rises. Could there be a case for tax rises going forward as we look to deal with the fiscal deficit?

Vicky Pryce: Yes, and there will be. The truth is that for the moment we can fund the deficit quite easily, and indeed it is going to be considerably smaller next year. Remember that this year we are probably going to have a deficit-to-GDP ratio of about 20%, maybe slightly under that. That will come down very significantly next year, mainly because the automatic fiscal stabiliser will start working, so we will have growth.

Everyone is talking about doing a bit better this year than last year, and with that of course you start collecting a bit more revenue and you start spending a little less on the normal things. This is not going to be a normal year from that point of view, of course, because there are going to be all of these furlough problems to sort out and so on.

The markets are very happy to lend very short term. The question is whether they will be happy to do so in the future. They will be looking for some sort of path, not necessarily to fiscal consolidation. In other words we are not going to get back to even worrying about having a budget surplus at any time soon. All these fiscal rules we have had have been discredited anyway, because they have been redone and redone again. With each Chancellor, we get a new fiscal rule. Nevertheless, there will have to be some way of clawing back some of the money that has been spent. The truth is that quite a lot of what has been spent has been lost, in the sense that some of it was wasted. I do not mean the bulk of it, just a percentage of it.

That is the normal thing that happens in a crisis. You tend to throw money at the problem, which you have to, and make mistakes. Then, as was suggested earlier, by Paul I think, you have to watch what you spend it on in the future, because that is going to be scrutinised a lot more carefully. You need your proper cost-benefit. You need to look at value for money. I worry that quite a lot of the rhetoric we have been hearing is about ideology in the sense of levelling up and so on, where the Treasury Green Book is being redone to justify spending in areas where you may not get the proper return. If that is where we end up, we might have to raise taxes even more in future than would otherwise be the case.

Yes, we still need a stimulus, because the economy is not going to get back to normal for quite some time to come. Loads of sectors in society and regions are going to be suffering. You also need proper control and evaluation of what it is that you are spending your money on. Then you might find yourself, in a year or two years' time, in a much worse situation than you would have been otherwise.

Q33 **Felicity Buchan:** Let me bring in Julian on this discussion. You were the most upbeat in terms of the prospects for the economy. If you were sitting as the Chancellor, what would your direction of travel be at the moment?

Julian Jessop: Steady as she goes. In other words, I certainly would not be looking to raise taxes or cut spending now. Equally, I do not think there is a need for an enormous amount of stimulus either. The economy will reboot itself as the restrictions are lifted. It is worth remembering this is not just a question of fiscal policy, but monetary policy is very loose. The overall environment is already very supportive of growth this year.

There are a few things I might do on both taxation and spending. As I mentioned earlier, I would extend the uplift to universal credit. That is a well-targeted increase in spending over the next year or so. I might spend a bit more on the furlough scheme. On taxation, my preference would be to cut taxes rather than raise them, but I would target it. I do not think there is a case for a blanket reduction in income tax, for example. You might want to look at some of the measures that have been supporting specific sectors, like the VAT cut for hospitality or business rates relief.

These could be relatively small changes. It is now over to the economy itself to get back to normal, for labour markets to work as normal, and then borrowing will drop sharply of its own accord. Over time, debt will fall sharply as a share of national income.

Q34 **Felicity Buchan:** Torsten, let me bring you in finally on this discussion. What is your view? You have already alluded to universal credit. In terms of the general debate as to whether we should be seeing further fiscal stimulus here and the extent to which you think we need it, you have alluded to more spending through universal credit, but what is your view on potential tax cuts?

Torsten Bell: This debate is really important. It is important that we put this in some macroeconomic context. Otherwise, we just start talking about the favourite things we would always like to spend money on or cutting taxes that people have always called for. I slightly worry that this debate is getting detached from the actual macroeconomics of this.

The big picture of what matters is that the support for the economy in this crisis is coming from the Treasury. Yes, monetary policy is loose, through lots of QE, but the mechanism through which that is supporting the economy is by buying very large numbers of Treasury gilts. It is the Treasury's spending via that money that is delivering the stimulus and support to the economy. The loose monetary policy is not delivering much by way of support to the economy, separately from enabling the Treasury to do its job.

Why is that the Treasury's job when it has not been the Treasury's job in previous crises? With interest rates at the zero lower bound, the fiscal authority in this country and in developed countries round the world has to be delivering the cyclical support to the economy. That is really important. Everything else you think about tax and spend needs to not get in the way of that overall judgment.

Paul is right to say that we will definitely see a fiscal tightening, measured by the deficit being smaller this year. That is definitely true, unless something very bad happens. What matters is the fiscal impulse to the economy that Government policy delivers. In this really weird recession, it is not quite the same as just looking at the structural deficit, which is what you would do in a normal recession to judge the fiscal impulse to the economy.

That is because lots of fiscal policy this year is going in to fill in the hole left by income gaps as we shut down bits of the economy. GDP fell and the Treasury put in the money to maintain the income of households and firms without the economic activity taking place. That is not traditional fiscal stimulus. You are not aiming to get more GDP going; you are just filling in a hole. Do not think about the JRS, for example, in normal fiscal stimulus terms.

What matters is looking hard at your best estimate of how that fiscal impulse will evolve over the course of the next year. Our judgment, based on the OBR's multipliers and others, is that fiscal policy will become a drag on growth by the second half of this year. As I said, the Bank of England cannot offset that, because of the zero lower bound constraint we face, not just on short-term interest rates but on long-term interest rates too. If the fiscal policy becomes a drag on growth, you will be living on it.

I am very nervous about the kind of language Julian is using: "The economy will naturally right itself". The academic literature about what happens at the zero lower bound, if you leave the economy to right itself, is that you end up taking two or three times as long to recover. This is not some naturally self-righting system. We may be wrong, but our best guess is that fiscal stimulus is a drag on growth by the end of this year. My judgment is that it is far too big a risk to be taking. It is not about the level of stimulus, ramping it up right now. It is about the duration of the stimulus. If anything, in the US they are going for a very large amount but not enough duration. We should be focusing on that duration.

Q35 **Dame Angela Eagle:** I want to ask some questions about equalities considerations with respect to what has been going on with coronavirus. You said earlier, Vicky Pryce, that women were doing particularly badly as a result of the pandemic. Can you give us some examples of that and tell us why you are worried by it?

Vicky Pryce: We have seen some very simple indicators. Quite a lot more women who have been on furlough have not had their incomes made up by their employers. The percentage is considerably lower, at least 10% lower, than is the case for the men, so they have lost out in wage terms.

We have also found that the number of hours that women have been able to put in to do the work has been quite severely constrained because of all the duties they had to do at home, with the result that many have disappeared from the labour market altogether. They are the ones who have decided to just give up and not work. That is a real problem for the future.

The third issue about women is of course that they are the ones who have been affected disproportionately in terms of jobs, because loads of them are working into the retail sector and the hospitality sector. Those are the sectors that have ditched jobs left, right and centre in a very big way. In addition, they make up the majority of health workers, so they have also been affected quite negatively by Covid.

You can add to those the fact that they have had to take on the traditional roles that they had in the past, such as looking after the children more than the men. If you look at any survey that has been done of the duties they have taken on by comparison to the men, they have increased for the women. That means mental health and everything else, and of course the inability to keep their jobs, which is what I started off with. My worry is that we are going to end up coming out of this Covid crisis with the gender gap—not necessarily the pay gap, because we cannot quite calculate it; we will not be able to do that yet—in opportunities for women, who are already at the lower end of the pay scale, having increased as a result.

There is no doubt that, if you look at the types of jobs people have been able to do from home, those at the lower end of the pay scale, which is where the majority of the women are, are the jobs that cannot be done from home, or at least have greater difficulty in being done from home. Therefore, they are the ones that are more precarious.

Q36 **Dame Angela Eagle:** Paul Johnson, you have also done some work with the IFS on the work-life balance and the disproportionately large effects on women of this particular crisis.

Paul Johnson: Yes, in particular the disproportionate effect on their time. There is really convincing evidence that it is women who have suffered in two ways. First, at least at the beginning of the first lockdown, they were more likely to be furloughed for childcare reasons. Secondly and probably more importantly, if both partners are working at home, it tends to be the woman who is having their work more interrupted by childcare and other responsibilities.

Q37 **Dame Angela Eagle:** They are still expected to do the housework, which seems to be a universal non-rule.

Paul Johnson: Yes, indeed. That said, I do not think there is evidence particularly that women have been more likely to lose their jobs through this. This is very much a problem within the household, rather than them being disproportionately affected in the labour market.

Q38 **Dame Angela Eagle:** Torsten, for the last two or three years we and our predecessor Committee have suggested that there should be a rigorous equalities audit of all Budgets. That has never happened. Do you think it would be useful to ensure that there was an equalities audit of fiscal events, so that more of this information could be considered alongside the policy announcements?

Torsten Bell: There has been a history of, to a greater or lesser extent, Chancellors producing elements of equality assessments at the back of Budget books. We would encourage them to do more, not least because it would encourage me that they were looking at those assessments prior to deciding the policy, rather than waiting for us or the IFS to publish them afterwards. That would be a better form of policymaking.

I have a slightly different view on how this crisis has evolved gender-wise. I expected what Vicky said to be true, that women would lose their jobs in greater numbers. Actually, it is one of many areas where this year has taught us something. The number of job losses on our own surveys looks broadly equal between men and women. On the ONS survey, the increase in unemployment is actually worse for men than for women.

It is good to reflect on why we were wrong. I think the main reason why we were wrong is that we looked at, as Vicky mentioned, the fact that women do more low-paid jobs than men, and the data showing that low earners were going to find it much harder to work from home and would therefore lose their jobs. The thing we did not dig enough into is that low-earning women are much more likely to be public sector workers, so in health and education, whereas low-earning men are more likely to be in the private sector, and particularly to be self-employed. Low-earning women have faced very big health risks. There is a huge inequality of health risks for low-earning women during this crisis. The mental health issue is very severe and marked by gender, and so is the exposure to Covid. On the employment side, it is either equal or worse for men.

I should say that, even if that is true and it is equal, in relative terms this recession is worse for women than any previous recession. In previous recessions, it has always been male employment that falls hugely more heavily than female employment. Even if you look at 2008, it is all men losing their jobs, basically, and again in 1980. It is unusual in being even, but, outside of the effect during lockdowns, it has not been disproportionately women. In the lockdowns, the effect was worse for mothers, but not for women as a whole.

The US is completely different. In the US, which is the data everyone is focusing on, women are leaving the labour market. They are leaving the labour market because the US did not reopen schools at anything like the rate that happened here. The lockdown effect on mothers became very permanent. They lost their jobs and then left the labour market.

Q39 **Dame Angela Eagle:** Vicky, do you think extending the £20 uplift to universal credit would be a good way at least of getting a little more support to women in that situation, low-paid women particularly? Do you think that is what should be done? Would it have a stimulus effect if it were done? I know it costs £6 billion.

Vicky Pryce: It would have a stimulus effect, but, the lower paid you are, the more of your income you spend. If it is that targeted to the low paid, of course it makes a difference. It has certainly helped.

Q40 **Dame Angela Eagle:** It works. To get this on the record, you are saying that spending £6 billion like that is a more effective stimulus than spending in a way that may lead to people who can saving it.

Vicky Pryce: Yes, it certainly would. It would also have a second benefit of ensuring that a number of people who would have fallen into poverty otherwise do not, because of all the issues we have been raising. I am also a great believer in universal basic income, because a lot of the work that the women do is not paid or rewarded in any sensible way. It would all go hand in hand with looking at women and realising they need extra support.

Q41 **Dame Angela Eagle:** We could have a big debate about that, but now is not the time. Julian, you have also expressed a view that the £20 uplift should be preserved. Is there anything you want to add, given the debate now?

Julian Jessop: On the gender issue, I draw a distinction between narrow economics and broader welfare issues. As far as the economics is concerned, other factors are more important than gender. Age is a more important determinant of whether you are likely to lose your job. Young people seem to have been hit disproportionately hard, whether they are male or female.

In terms of what you might call the broader social or welfare issues, I would agree that women seem to have been hit harder. That is partly because often it is women who are responsible for running the household and for the budgeting, so they feel the mental pressure of that a lot more. Also, the closure of schools seems to be hitting women more than men, because they seem to be picking up more of the burden.

The difficulty is how you adjust for that in a Budget. You could do an appraisal of the gender impact of a Budget, but it is only going to pick up on those economic factors. That may well suggest that men are being hit worse than women. Those broader social issues are not necessarily ones that you can easily put monetary values on or address in a monetary way. You need to be aware of those issues, but I am not necessarily sure the Budget is the place to look at them.

Q42 **Dame Angela Eagle:** I personally suspect a gender-based equality assessment might start highlighting some of those. I wanted to ask Torsten one other thing. It is about the trade balance. There are all these reports of ruined goods at the border, reports of lorries returning empty from Europe, because of problems getting goods to cross the now friction-oriented border, and early reports of a 50% fall in trade across the Northern Ireland to English mainland border. Do you think this will have a permanent effect on our trade balance, or are you fairly relaxed about it and thinking that perhaps it is just teething problems?

Torsten Bell: That is a very hard question. The answer is that it is definitely a mix of teething problems and permanent shifts. If you look at the level of activity happening across the Irish-French ferry routes now, a degree of that is going to stay as a probably permanent shift in normal routing. We have probably underestimated the impact of rules of origin on distribution systems that had bases in the UK but not for goods produced in the UK, which is quite a lot of things. Those will clearly have impacts, although in both directions, so people will move distribution centres to the UK as well for some activities that took place in the EU.

In terms of the net effect on the trade balance, in the longer term, I do not have a view on how that should play out. There are people who know a lot more than I do about that. This relates to some of the questions we were discussing earlier, about the impact of tax changes on investment and growth levels. We should focus on the effect on investment more than the current account. We obsess about tax rates because they are the things that are visible to us and under our control directly for a Chancellor. If you do stupid things with them, they can have negative effects, but much more important to the disaster that is British investment right now are two things: lack of demand and huge uncertainty.

If you want something to worry about, I would be worrying about those two things. The job of all politicians should be, first, to talk about the collapse in investment more, because it is the thing that is damaging our long-term living standards. Secondly, it is to deal with the uncertainty and lack of demand, getting right the judgment we were just talking about to do with fiscal policy and support for the coming years. That is what matters materially for the coming years.

Q43 **Julie Marson:** I would like to come back to the outlook for business, and support that the Chancellor has given in the past and should in the future. Julian, what do you see as the outlook for businesses for the remainder of this year? Should we be preparing ourselves for a wave of insolvencies, particularly in the SME sector?

Julian Jessop: We probably should. It is a surprise to say so, but the number of insolvencies last year was lower than the year before. There were some special factors behind that. The taxman, for example, was less pushy to make people pay their taxes. The Insolvency Service was partly closed down. Lenders were being encouraged by regulators not to be too strict on the terms of the loans they had made. There were some good reasons why insolvencies fell last year, rather than rose. That suggests that there is something coming, something nasty, as and when the restrictions are lifted.

Whether that is necessarily all a bad thing is a question. It is inevitable that some businesses will fail. Maybe they would have failed already had it not been for the enormous amounts of support that have been provided. Maybe they are businesses that would not be able to survive in the new normal. For example, there are many shops on the high street that have now gone that, frankly, were accidents waiting to happen. We have to accept that those businesses need to be allowed to fail. I will stress that, as an economy, we are pretty good at creating new businesses to replace those that are lost, and creating new jobs to replace those that are lost.

Although I think there is going to be an upsurge in insolvencies in the coming year, that is not necessarily a bad thing. One way in which the economy reboots itself and raises productivity is, unfortunately, to let some of the weaker businesses fail. It is important that businesses are not failing because the Government have effectively shut them down and are not allowing them to operate as normal. As long as the restrictions are in place, it is right to protect these businesses. Once the restrictions are lifted, as ever, it has to be survival of the fittest. If some businesses cannot adapt, I am afraid, regrettably, we will have to let them go.

Q44 **Julie Marson:** We might be talking about a proportion of zombie businesses. For example, you look at the business loans repayment being extended for 10 years. Do you think that might exacerbate that potential for zombie companies to be in existence?

Julian Jessop: That is definitely a risk. As you know, there is a big debate about why the UK's productivity performance has been relatively disappointing over the last decade or so. An awful lot of factors have fed into that. One thing, undoubtedly, is that, because of the enormous amount of support that has been necessary in the short term to support economic growth, we probably have a tail of companies that should have been allowed to fail.

I appreciate that this is extremely difficult for people who work in those companies to accept. If at the same time we are increasing and improving the safety net and perhaps providing a bit more help with training, hopefully those people will soon find other jobs elsewhere in the economy. There is that process of creative destruction that we need to go through. We should put that off while the economy is locked down. Once restrictions are lifted, we need to allow those adjustments to take place.

Q45 **Julie Marson:** If you were the Chancellor listening to this, how would you address those issues in the Budget? Is there anything specific he should be looking to do?

Julian Jessop: It is worth saying that the third lockdown was not anticipated. There are probably a lot of schemes that are going to be running out shortly that we should probably extend for another six to 12 months, to recognise that the lockdown has been in place for longer. I would basically go down the list and say, "That made sense when the economy was in lockdown six months ago. The economy is still in lockdown now, so it makes sense to extend it for that bit longer". That is as far as I would go. Once the restrictions have largely been lifted, from the summer onwards, these schemes have done their short-term job of protecting the economy. Increasingly, there is a risk that they prevent the longer-term adjustments that are necessary to get things back to normal and boost productivity.

Q46 **Julie Marson:** Perhaps I could widen it to ask Torsten for your comments about the same area, the outlook and particularly insolvencies. You have already mentioned investment, which has collapsed and is an important factor in that as well.

Torsten Bell: This is a really important question and one where—I include us in this—there has not been enough focus on understanding what is happening to British firms during this crisis, whereas there is a lot of work on what has happened to households during the crisis. That is partly because the data is not good enough. If there is a lesson coming out of this, we should be encouraging the ONS and others to have more real-time data on what is happening to our firms, as well as to our households.

On what we can see, it is important to think about what matters. In the short term, what matters is cash. Do firms have access to it after long periods of being shut down? The aggregate data on that is very encouraging. There is a secular trend upwards in the cash that firms have been holding, particularly since the financial crisis but before that as well. During this crisis, despite this big crunch on cash, firms' cash levels have gone up in aggregate. On the aggregate cash position, you cannot look at the data and think, "That is a catastrophe". Julian is right to say that a lot of that is to do with the support the Chancellor has put in place, which has clearly had a very large effect on firms' cash positions. That is not just loans, but grants. I would not underestimate how much the furlough scheme has done, by taking the largest, in most businesses' cases, cost off their books.

When you look within that data, you see that the distribution of the cash is a problem. Although in aggregate businesses are in a good cash position, they are not in a good position when you come to look at some businesses. In the hospitality sector, half the firms are reporting now, because the crisis has gone on so long, that they have less than three months' cash left. That is up from about a third, I think, in September. That has got worse over time.

My lesson from that for the Chancellor is that, if elements of restrictions continue for those sectors, which I think is likely, he should continue with what he did, rightly, in this lockdown, which was to target grants at those sectors. We should not repeat the untargeted grants from the first time round. We should be focusing cash grants on those sectors where we are saying, "You must stay closed or basically closed".

The second thing is debt. If you look at aggregate debt, firms have taken on debt all over the place during this crisis. Normally we think about debt as, "I borrowed money to invest for a productive asset". Here, people are borrowing and it is an insurance. They are taking cash, holding the cash, and holding it by way of insurance. That is the purpose of it during this crisis. That is the other half of why the cash situation has remained relatively strong.

The level of increase is very large. On one level, you think that, coming out of crisis, that is a lot of debt, so we should worry about that a bit in macro terms. The literature on how much you should worry about debt overhangs coming out of recessions is a bit mixed. At a micro level, firms with more debt grow more slowly and employ fewer people than firms with less debt. That is very clear. On the macro side of things, the data is overall a bit ambiguous. It makes a lot less difference, for example, than household debt. High household debt causes big slowdowns in recoveries and corporate debt less so, but there are reasons for thinking in this case it will do.

I cannot tell you the really important question. We do not know the distribution of that debt among firms because the data does not let us see that well. The Bank could probably tell you more and I would definitely encourage you all to be asking the Bank of England to tell us what it knows.

Given our lack of knowledge about the distribution of that debt—how many firms that are viable but have a large debt overhang need debt relief or debt changes—you need a policy mix that can flex with how big the problem becomes. It is basically saying that it is not about grants for everybody. It is not about grand social wealth programmes where you take large equity stakes in every pizzeria in the country, which I know some people favour. It is much more about making sure that your mechanisms have resolutions in place so that, if firms are coming through the system with debt problems, they are resolved swiftly, either by them closing or by writing off bits of the debt. That is the key for the medium-term bit of the recovery, whereas the key right now is cash, for the hospitality sector in particular.

Q47 **Julie Marson:** That is very interesting. I want to make sure I give Paul and Vicky an opportunity to add anything they want to. Paul, is there anything you would like to add to that?

Paul Johnson: No, I do not think there is anything I can usefully add.

Vicky Pryce: It is a pretty tough environment for the small firms in particular. Yes, some big-name firms have gone under. Others have come and bought bits of them. Further down, it is a real issue. SMEs are suffering because of the supply chains changing, partly because of Covid but also Brexit. Costs are going up for many of them. What I fear, and I think the Chancellor will have to look at, is that we are going to end up with the various sectors emerging from this in a much more concentrated way, so a smaller number of bigger firms that are going to dominate the sector. That is going to have all sorts of implications for regulating them, competition and so on.

In the process, we will have lost loads of SMEs. It is the SMEs that hire most people. Yes, many of them might re-emerge. We have the type of environment right now that allows new firms to set themselves up. We have seen loads of them in the tech sector. Loads of them have gone in the tech sector, but loads of new ones are also coming up. There is going to be such a shakeout. The question is how we get those firms, or the SME sector, to become vibrant again. I fear it is going to take quite some time. It may happen in some sectors more easily than others, but it is going to be a big, hard slog. There have to be policies that, alongside what Torsten was saying, support the re-creation of those small firms again in the UK. I am not quite sure how you do it, especially since the whole world is changing. If we are indeed in a very disadvantaged position after Brexit, that may not happen.

Julie Marson: That is fascinating. Thank you very much.

Q48 **Rushanara Ali:** Good afternoon. My questions are about fiscal sustainability and austerity. Do you think it matters that we in practice have not had fiscal rules over the last year? Should the Chancellor set out new rules in the Budget statement?

Paul Johnson: In answer to the first question, I do not think it matters that we have not had rules over the last year. I do not think there is any rule that would have been useful under the circumstances we have faced. Going forward, at the very least we need some kind of fiscal framework or long-term fiscal ambition. We need to know in broad terms what the Chancellor is aiming at. Is he aiming at stabilising the debt over the medium run, reducing the debt over a period of time, or what have you?

In terms of specific rules, if you had asked me that question a few years ago, I would have said that, yes, of course we need some fiscal rules that lay that out in a bit more detail than I have just said. I am becoming increasingly cynical, though, about fiscal rules, because they all seem to end up being ignored in one way or another, either because the world changes or because the Chancellor changes. We end up focusing—and the IFS is certainly guilty here—a lot of attention on the specifics of the rules as set out by the Chancellor, because they are being judged against the exam that they themselves have set.

Given that we have an independent OBR, which can monitor whether the broad fiscal direction is consonant with the direction the Chancellor has set out, it may be that we are looking for something between not having any fiscal rules at all and having the kind of very specific, "Let us get debt down by year X" or "Let us have a balanced Budget by year Y". We could have something a little less specific than that, but quite a lot more than nothing. I appreciate that that is not a particularly precise answer. A framework in which the Chancellor is clear about the direction he is heading and, for example, that he broadly wants debt to be falling over a period of time is appropriate. I am increasingly cynical about the idea that we want to get some kind of balanced Budget on a cyclically adjusted basis in a certain number of years' time.

Q49 **Rushanara Ali:** Does the rest of the panel share Paul's views?

Vicky Pryce: I said at the beginning that the fiscal rules have all been abandoned and there is not much point in worrying about that very much, frankly. The markets will want something, because we are going to have to carry on borrowing. Of course, we are going to get a new OBR forecast. Remember, in 2024-25, we are still going to be borrowing £100 billion, which is hugely more than we have been borrowing for ages, apart from this year. The markets will still, hopefully, want to lend that money. Maybe there will be some backing up still from the Bank of England. We have to wait and see how that develops, but you certainly need to have some sort of show to the markets that you are serious about at least getting back to a position like that.

The simpler the rules are, echoing a little what Paul said, the better. This complication that we had before, where you looked at three different things, or maybe even more than those, just messes it up, in my view. I am quite happy to not have anything that is a fiscal rule but just a fiscal intention.

Rushanara Ali: Particularly your point about interest rates is well made.

Julian Jessop: I am very sympathetic to what both Paul and Vicky have said. I had a look at what the formal targets are at the moment and they are a right dog's breakfast of objectives, mandates, supplementary targets and a welfare cap. Even I, as a professional economist, really struggle to understand what they are. That is the first failing. You need something that is easy to understand.

You need something that is reasonably robust to shocks. I do not like these targets that seem to specify a particular end date, to balance the Budget by a certain point, for example. We know that things happen all the time that might blow the Budget off course. Equally, though, we need some sort of broad principles to underline the commitment to fiscal discipline. It might be something like saying that we intend to balance the Budget on current spending over the lifetime of a Parliament. That would still allow the Government to spend, say, 3% of GDP on investment and run an overall deficit of 3% of GDP. Given a reasonable amount of growth in the economy, that is still consistent with debt being flat or falling as a share of GDP.

Those are reasonably simple principles to understand. We probably need something like that now, just some sort of broad indication. We do not need to have nailed down all the details of that yet. Given that we have absolutely nothing at all at the moment but we have this absolute mountain of debt, it would be helpful to signal some sort of idea of what you think the longer term plan would be.

Q50 **Rushanara Ali:** Torsten, do you want to just say anything you might disagree on?

Torsten Bell: Maybe I am going to end up sounding like the Treasury official in the room. Things like debt falling are either fiscal rules or not. People talk about fiscal objectives or fiscal rules; the semantics are the semantics. Having no anchor is a bigger problem than we think. I will give you two really concrete reasons. One is that the function of fiscal policy and targets is not just about the markets, although I will come back to the markets. It is about being able to operationalise Government. It is about being able to control spending day to day in any kind of meaningful way and make trade-offs. If you do not have an anchor of some form, you are going to find that very hard to do in practice. That is the first thing.

The second thing that I think is important, and it goes back to what I was trying to say earlier, is that the fiscal authority is doing your counter-cyclical policy in this world we live in. Let us assume interest rates stay low for a long time. That makes it easier and cheaper to do fiscal policy, but it means you need to be very active using fiscal policy during recessions. When that is happening, the Bank of England is going to be supporting that in lots of cases, not all, by buying up your gilts.

You want to be able to do that without questions starting to be asked about the independence of the Bank of England, fiscal dominance and the longer-term quality of your institutions, which is what matters in the end. Do not worry in the markets in the short term or what they think about individual things. Focus on what they think about the quality of British institutions in the medium term. If you do not have a fiscal framework that fits that and with the new world we actually live in, which is the Bank of England buying lots of our gilts during recessions so we can do counter-cyclical policy, that is when you are in a dangerous territory.

Q51 **Rushanara Ali:** The OECD and IMF have warned against a return to austerity and it has even prompted the *FT* editorial to declare, "Fiscal orthodoxy has changed". What are the lessons from the response to the 2008 financial crisis and austerity? What would you be saying to the Chancellor? You do not need to rehearse arguments you have already made, but build on what you have said. What would you be advising the Chancellor to do in this forthcoming Budget and going forward? In particular, could you speak to youth unemployment? That has a massive scarring effect. The kickstart programme was supposed to, by its own targets, help 250,000 people and only a few thousand young people have benefited. Should the Chancellor put more resources on that, or is it about policy failure and failure in implementation?

Torsten Bell: I agree that is a consensus that the consensus on fiscal policy has changed. It is important to say what has and has not changed. The academic case against swift and large austerity after a crisis, when monetary policy is at the zero lower bound, has not changed. It was the same consensus back after 2008-09 as it is today: "Do not do that". It is not a good idea, because monetary policy cannot offset the impact of your fiscal tightening at the pace you would require it to, so you end up with slower growth. I do not think the academic consensus has changed at all.

The policymaker consensus has changed. You mentioned the IMF and the OECD in particular; you would say they were at the heart of that change, but it is a broader policy and consensus change among policymakers in central banks and treasuries round the world. There are two key drivers of that. One is the lived experience of having just been through 10 years of austerity, which has made the political case for it harder to make and has made the economic case that it has supported a fast recovery hard to argue. No one is going to argue that austerity crowded in investment, having lived through the 2010s.

Secondly, interest rates have carried on falling. If you draw a chart of forecasts of interest rates for the last 15 years, they keep showing everyone expecting them to tick back up in what we call a manana chart, but they never actually go back up and they have managed to sink again. The fiscal costs of not engaging in austerity have become much lower. Even though the academic position has not changed, the awareness of how that changes the arithmetic has now got through.

The last thing that has not changed, which was not the case after the financial crisis, because it took us time to work it out, is that the markets have responded to the emergence of mass quantitative easing in the entire developed world by deciding that sovereign risk does not exist for large, developed economies. They did not think that in 2009 and they did think it by about 2013 or 2014.

Q52 **Rushanara Ali:** What about youth unemployment?

Torsten Bell: It is a massive problem. As Julian rightly said earlier, the age split of job losses is very stark. It is stark in all recessions, but it is much worse.

Q53 **Rushanara Ali:** What should the Chancellor be doing in March? Should he be introducing new funding, or is it about policy failure?

Torsten Bell: We have set too much expectation on the ability of the kickstart scheme to get volume through. That was never credible without local authorities driving much more of the job creation.

Julian Jessop: I agree with almost everything Torsten has just said. I think there is now a consensus against austerity. Austerity is not just spending cuts. Tax increases are a form of austerity as well.

On youth unemployment, I fully understand the concern people have. There are two caveats, though. One is that, if I am right and the economy bounces back quickly, it may well be young people who are quicker to go back into employment. They are the people who will be working in hospitality and so on. It may be that the problem solves itself.

A second point is that I am a little wary of targeting measures at, for example, young people. It is not obvious to me that you try harder to get a 21-year-old back into work than somebody who might be, say, 27, with family responsibilities. There is a danger that, in targeting one group of the population for support, you end up penalising other groups. I fully understand why this is a big concern. Thinking about longer-term economic scarring, if you are losing people who are right at the beginning of their careers, are not getting on the jobs ladder and may be missing out on educational opportunities, there might be disproportionate impacts from there. It is not obvious to me that the Government need to do an awful lot more in that area.

Vicky Pryce: Interestingly, there has been a shift in thinking, but I am talking now about academics as well as practitioners. There used to be this great belief that, if your debt to GDP ratio was above 90%, it was unsustainable. That is no longer the case. Interest rates are so low and there are recalculations now. Even the eurozone's growth and stability pact is looked at again. There is recognition that it was a mistake, in the sense that monetary and fiscal policies did not work together. Now they do and they have done. That has pleased the markets quite considerably.

Yes, it is true, as Torsten was saying, that, if you have your own currency, you can print it. Obviously you are fine and you are not going to default. That is what the markets have realised. If you were to tell the Chancellor what to do now, it is, "Do not repeat the mistakes of before". Perhaps, up to a point, they were justified because of the conditions, but even then they were overdone and the entire environment has changed.

In terms of where you spend the money, the youth unemployment issue is very important. As was suggested, it is how you do it and implement it. Increasingly, though, the market will want to see that the money you spend is leading to productive growth in the economy. In the end, as we stated at the beginning of this session, it is growth that matters. All these schemes have to get you back to growth. The young are a very substantial element of that.

Paul Johnson: On the fiscal consensus, one has to be a little careful. What the IMF and others have very clearly said, and there is complete consensus on, as there was broadly in 2008 and 2009, is that, in the middle of a recession, you do not do a massive tightening. There is clearly a big change in how concerned people are about levels of debt. More than anything else, that reflects an expectation that interest rates will remain rock bottom. The thing that worries me in all that is that nobody expected interest rates to be this low for a decade and nobody has any idea when they will start going up again.

I would really like to double down on what Torsten was saying earlier about the fundamental importance of confidence in our institutions, political, economic and financial. If we lose that, with the whole world looking to sell sovereign debt, we do not want to be the new Argentina. I am not suggesting we are anywhere near that, but, beyond anything, it is confidence in those things that matters.

I would caution that, just because there is a new consensus that interest rates will be zero forever, it is almost certainly going to be wrong at some point. Because of quantitative easing, we are extremely out on a limb if interest rates start to rise. The cost of that is immediately significantly high.

I do not have anything terribly wise to add on youth unemployment. You can do things that have an impact in the short run, but that is hard and needs well-designed policies that involve not just, as Torsten was saying, central Government, but other delivery partners. We need to be thinking about it. This is something we all worry about every time there is a recession. The one thing you can be sure about in recessions is that it is people entering the labour market who will struggle. We certainly saw that in the 1980s and in 2009 and 2010. This is something where we need a longer-term response as well, part of which is to do with our technical education, apprenticeship, non-university route. Part of it is to do with the way we think about the university route itself.

One word of optimism is that our youth labour market works better than quite a lot of other countries', in at least getting people into work. It works less well in developing them and ensuring growth in the longer run. That is what we should be focusing on.

Q54 **Mike Hill:** My questions are on what the Chancellor might do about the stamp duty holiday, which is currently due to end 1 April, and what alternative proposals might be out there. I know Vicky earlier on said it certainly helped stimulate the housing construction industry. Whether they have built the right kinds of houses to meet social needs is a different question. Will the legacy of coronavirus increase remote working? Will this change what people might be seeking from housing?

Vicky Pryce: The answer is yes; it already has. We have seen the pick-up in house prices outside London, with all those people who have moved out already and think this is going to continue. It is probably going to be a hybrid situation at the end of the day. There are some areas where you might have quite a lot of homeworking, because it has proved to work, and others where you are going to have a mix. There are others that are probably going to go straight back to working in offices in the centre.

I think it is going to be quite a shakeout from where we were before. In my view, you are going to have this very mixed economy after this. Quite a lot of the things we are doing now, with all our meetings, are going to affect travel. Particular sectors are dependent on people moving around, so that is going to be a big issue, a regional problem, that we are going to encounter.

Whether the cut of stamp duty itself made a huge amount of sense, or even whether stamp duty should be there, is a big question mark. It is a pretty distorting tax. It has raised the prices for various people, so the whole idea that you are going to make everything more affordable for the younger generation by raising prices for the lower-priced houses has not really helped in that respect, except for those who are able to get mortgages. There is a reshaping and shaking out of the housing market that is happening. Some of it will be permanent. Some of it may actually be reversed pretty quickly when we open up properly.

Q55 **Mike Hill:** Julian, do you foresee any difficulties in the housing market as a result of the kinds of changes Vicky is talking about?

Julian Jessop: As Vicky said, we are already seeing some changes. If you look at the detail of house prices over the last six to 12 months, there have been even bigger rises than usual for properties that have gardens, because people of course cannot go out and exercise except in their gardens these days. We have already seen some signs of that. In the property market more generally, I think there is going to be a shakeout. A lot of empty city centre properties that used to be occupied by shops might well now be converted to other uses, including, by the way, housing. One thing the Government can do there is to continue with the planning reform to make it easier to switch the use from shops to housing, as an example.

In terms of stamp duty, most economists would agree that stamp duty is a bad tax. The question is whether it is worse than some of the others. I would personally like to see it got rid of completely. It is not necessarily a priority to do that now, though. I think there is probably a case for making a more fundamental review of property taxes in general. Maybe we could get rid of stamp duty, replace it with some form of annual property levy and roll that into council tax as well. There is a need for a longer-term reform of stamp duty. I agree with Vicky that, in the short term, one thing it does is push up house prices. That creates longer-term issues of affordability, particularly for young people, who of course are suffering in many other ways from the downturn as well.

Q56 **Mike Hill:** That answer leads me nicely into my next question, which is about the stamp duty holiday and potentially replacing it with a separate policy. The stamp duty holiday is due to end at the back end of March, by 1 April. Would the Chancellor be better advised to proceed as planned, extend it on a temporary basis or to make permanent changes to the policy?

Torsten Bell: The longer-term answer, which is not going to feasibly happen, is along the lines of what Julian has said. We need to remove stamp duty and council tax, and replace them both with a functioning property taxation system, which is an annual tax based on the value of your property. There is obviously no way that is happening in the foreseeable future, because there are a lot of losers.

There are two points. One is on what matters for the property market now. Again, we like to focus on the tax bit of the policy because that is the thing we can easily see under control and you can vote on in Parliament. The thing that is going to determine the future path of house prices is the combination of interest rates and incomes. Incomes are likely to be falling next year. They did not actually fall this year because of the extent of Government support. As unemployment rises and that support is taken away, you would expect to see incomes falling slightly next year and certainly not growing strongly. Interest rates are probably going to stay supportive, but they are not going to fall further next year.

All previous recessions have seen house price falls, so I would expect to see a softening in the housing market next year. You cannot prevent those fundamentals permanently with tweaks on stamp duty holidays and the like. In particular, this stamp duty holiday has just removed one of the only advantages first-time buyers had in our property market, by removing their relative privileging within the stamp duty system versus other buyers. I am not in favour of it for that reason.

On the longer-term issues, some individuals have moved out and people who were moving house this year are probably slightly more likely to want a garden. I am a bit nervous about lots of these predictions of complete change once we emerge from this pandemic. I would encourage you to look at Shanghai, which looks remarkably similar today as it did pre-pandemic. Everybody has gone back to doing exactly what they were doing beforehand. That is partly because Shanghai did not have a long, prolonged period of lockdown, so people have not had the psychological experiences we have had.

The economic forces that drove big cities to look like they look like have not gone away because the pandemic happened. I do not think we are about to see central city offices shuttering and the death of retail in city centres. We are much more likely to see a speeding up of the decline of retail in weaker high streets—that is where I would be worried about the speed of change that is taking place—and maybe some change in office space in weak centres on the outskirts of cities. Price adjustments can happen to corporate property. I think we are going to see less change on space usage than people think when we come out of this pandemic.

Q57 **Mike Hill:** Does anybody else have a view on whether it should be temporarily extended or permanently changed?

Paul Johnson: It should certainly be permanently changed in the way that my colleagues would agree. We have been talking a lot about economic stimulus over the last couple of hours. If the Chancellor judges that a temporary economic stimulus is required over the next year, I actually do not think temporary cuts in stamp duty are a terrible way of achieving that short-run economic stimulus. They do come with risks and, in particular, risks that they bid up prices and you are heading for a bigger fall later on.

If you are going to do something on the tax side that is clearly capable of being temporary, which will increase demand in a sector of the economy that will have multiplier effects, something that stimulates people to move houses is not a bad one. It should certainly be within the set of things the Chancellor is thinking about, if we think we need that kind of stimulation over the short run. Over the long run, I think there is consensus that this is just a bad tax.

Vicky Pryce: I agree with Paul. The stimulus is greater than just people moving houses and maybe all the things they need to buy when they do so. It has helped the construction sector very significantly, particularly housebuilding. I mentioned this. Profits perhaps have been made because of the pandemic and therefore they could be taxed. We were quite depressed about the economy earlier, although Julian was quite positive about it. The positive things are that manufacturing and construction have been growing since the summer.

The interesting thing about construction is that it is housebuilding and not commercial, which has really suffered. That already, given your question earlier, Mike, suggests there is a serious issue about how the markets view at present what is going to be happening in the cities and what type of work pattern we might be moving to. There is not much going on at all on the commercial construction side, which of course also gives headaches to anyone who has invested in commercial property, including our pension funds, which is going to be a problem for the future. I suspect that the Chancellor would be well aware of those issues.

Q58 **Mike Hill:** It has become noticeable that, because of the pandemic, cities have been emptying rapidly, particularly London. Paul, the Treasury has this idea of replacing stamp duty and council tax with an annual housing levy. Does that have merit?

Paul Johnson: Yes, it would be a much better situation from an economic and an equity point of view. From an economic point of view, it would get rid of what has become a really significant housing market problem. It is just very expensive to move house. There has been a downward trend in the number of people moving and people, frankly, are stuck in places they would be better off swapping with their neighbours, because it is just an expensive thing to do. It also has potentially negative effects on labour market flexibility, though it is hard to determine how big that is.

Of course, at the moment council tax is extraordinarily out of date and regressive. Particularly people in low-value properties in the north of England pay far more as a fraction of the value of their house than people in higher-value properties, particularly in the south. As soon as one says that, one can see why, as Torsten said, I am not expecting it to happen any time soon. To make that move would create some very big losers, and those losers will not all have the ready cash to make the additional payments, even if they have very valuable properties.

One would need to put in place systems whereby, for example, the money could be taken out of their estate or the state could take it from the value of their house in some other way. The practical and political problems are very substantial. Set against that, there are very big equity and efficiency advantages.

Mike Hill: The last bit on the practical and political problems answered my last question.

Vicky Pryce: There may be some equity issues, and of course there are. The system needs to be redone to make sure that it is more efficient and equitable, but we need to look at the amount of money that is being raised before we start looking at any changes. If we are looking at doing something in the Budget, given that we have had such a big stimulus and we need perhaps to reign it back, we are collecting much more from property as a percentage of GDP than all the other countries in the OECD. It is something like twice as much as the average. We are at the top.

If you add inheritance tax, stamp duty, council tax and capital gains tax, because there is a capital gains tax on second properties, it is equivalent to something like 4% of GDP by comparison to 2% on average for the OECD. If you want to change it, you also have to look at ways of raising more money. Otherwise, it is tinkering, which could be quite important for some people, but it is not going to do anything at all to raise more money, and it might in fact raise less.

Q59 **Alison Thewliss:** I have some questions on more longer-term issues: regional disparities, climate change and the bonfire of regulation. Torsten, what impact has the pandemic had on regional disparities? Do you have any advice as to what the Chancellor might want to look at in terms of his levelling-up agenda?

Torsten Bell: We can see in the short-term regional impact of the crisis that it is worse in places that people need to travel to in order to spend money. It is worse in city centres and in tourist-reliant areas. The fall in tourism spending is probably, percentage-wise, the largest single fall in spending. That is why you are seeing the highest furlough rates in outer London—north outer London in particular, for reasons I do not quite understand—and Cumbria. Those are the highest rates of furlough. I keep reading things that tell me the crisis is reinforcing existing geographical patterns; that is not true at all.

What is true is that, when change happens, a big churn of jobs or a big churn of companies, weaker local economies find that harder to adjust to. For a given level of change, it is clearly harder if your economy is weaker. In particular, I would highlight the importance of distinguishing between the cyclical changes during this crisis that are going to go away and the structural changes that are here to stay. Policy should care more about the latter and for the former we should just be helping people through the gap.

Among the former, I would put the decline in hospitality and leisure, both of which are and will continue to be long-term growth sectors for the UK, as with tourism. Cumbria and Cornwall's comparative advantage is going to be tourism in two years. They are not going to suddenly change into a different sector, because there are some quite large endowments driving that comparative advantage, like the sea and the hills.

Where you do have structural change happening is the retail sector. This crisis has turbocharged the pre-existing change that was going on. On one level, people say, "That change was going to happen, so do not worry about it". The opposite is true: when inevitable change is happening, do worry about the speed of the change. It takes people and places time to successfully adjust. We should worry about weak high streets in that context.

On the big-picture geography, the evidence shows us that, first, productivity gaps across the country grew during the 1990s and the 2000s, broadly. It is not true that the gap has been getting ever worse. It closed for most of the 20th century, but the north-south and "London versus the rest" productivity gap grew in the 1990s and the 2000s. It has not grown since the financial crisis, but it has stayed very high. There is no reason for thinking that this crisis has fundamentally changed anything in that regard.

On incomes, everybody always quotes GDP per capita as a measure of income, which is nonsense. Productivity is what has happened. On incomes, gaps between places have been consistently falling for most of the last 30 years. That is for a number of complicated reasons around employment going up, earnings gaps coming down as the minimum wage has gone up, and house prices going up. Housing costs are having a bit equalising effect, so they are snaffling the incomes of people in the high productivity places. That is also to do with pensioners being a much bigger part of incomes these days, and they do not appear in GDP.

I want to be really clear. We need policy to deal with those productivity gaps, but we need to do it in a way that does not accidentally push back up those income gaps. For example, I hear people sometimes saying, "We do not need a social security system. We are doing too much redistributing, and that is really bad for people in Bradford because they need productivity, not redistribution from London". That is just nonsense. We need to be sorting out the productivity problem while not going backwards on the income gap problem.

Q60 **Alison Thewliss:** Is there a particular lever that the Chancellor should pull in the Budget for that?

Torsten Bell: The Government have more capital spending to spend than they are ever going to be able to spend effectively, and we are going to throw that spending on capital at the north of England. That is no bad thing, but it definitely is not going to close these productivity gaps. If you want those closed, we will have to do it for decades.

Germany has put €3 trillion into this. I will send you the data, but the sums are huge and they went on for three decades. That is what you have to do if you want to close these gaps. Then you need to sort out your education system, your university system and worry about people as much as you worry about concrete.

Q61 **Alison Thewliss:** That absolutely makes sense to me. I wonder if I can bring in Paul Johnson on climate change issues. Are there any measures that you think ought to be brought in at the Budget on net zero and the move towards that?

Paul Johnson: There is quite a lot to be done over the next few years; that is for sure. We have had some things. We have a new emissions trading scheme to replace the European one. The big priority, without any question, is moving towards a set of policies that move us away from using gas in households.

Of the three biggies in relation to meeting net zero, one is decarbonising electricity. We are well on the way to doing that. We need to make sure we keep doing that, but we are well on the way. One is moving away from petrol cars. There is quite a lot to do there, but we have the targets;

we know we need to get the electric charging points. There is a long way to go, but we have made some progress.

Where we have made no progress is on the third one, the way in which we heat our houses, cook and so on. One aspect of that, and a difficult one, is that we dramatically subsidise gas relative to electricity at the moment. Electricity consumption is made quite expensive by the fact that people are being charged, effectively, for the move to green electricity. That is a good policy, but has made the price per unit of electricity rise relative to where it otherwise would have been, but electricity is now fairly well greened. Gas consumption, which is obviously not greened at all, does not have any of those additional charges put on it. Some rebalancing there, an element of carbon pricing, as a first step away from our reliance on gas is probably where I would start on that.

Q62 **Alison Thewliss:** The Chancellor has been reported to be chairing a new better regulation committee. There has been talk of a bonfire of red tape and all the rest of it. When you look at some of the Brexit stuff, it does not look as though it is very likely. I wondered if I could get your views on where you would concentrate that effort.

Vicky Pryce: There have been committees like that before. There is still a better regulation unit somewhere in the Cabinet Office. When I was working for the Government, we had a policy of "one in, two out" on regulations. That never really led to anything very much. When it came to Brexit, people were thinking, "Which regulations do you really not like in Europe?" We know that a few are problems for some sectors, but there were very few areas people could pinpoint as to where they were.

I have huge doubts as to whether any of that will work and, frankly, whether we really want to be Singapore-on-Thames. There has already been concern about workers' rights and what we will do in that area. Everyone has their little pet projects, but even if you ask them they will find it hard to articulate. Basically it sounds fine, but it is a waste of time.

Julian Jessop: I am a bit more positive about the scope for better regulation, not necessarily deregulation but smarter regulation. There are a number of areas. Some of these are Brexit-related and some are not. There are some things that membership of the EU did not prevent us from doing. Planning reform is a good example of that. What is crucial to solving the housing crisis is basically to build more houses. That is a relatively simple piece of economics.

Brexit will allow us to do some good things that we could not have done. I am thinking about financial services and looking again at the MiFID regulations, Solvency II and so on. There are things like GDPR and whether the data protection rules are appropriate for our sort of economy. In biosciences and agriculture, there are things like gene editing and so on.

There is also a philosophical point. We are rolling out the vaccines more quickly than other countries in Europe, and we can have a debate about whether we would have been able to do that even as a member of the EU, using the flexibility that was allowed. That has demonstrated that the overly precautionary approach that is more common in Europe is holding back development and innovation in all sorts of ways.

Having a less precautionary approach, driven by the science all along, we can recognise that regulations are a major constraint on innovation. We have big problems with productivity and so on. If we went through a long list of regulations, I would be very surprised if there were not a significant number we could either get rid of or do better.

Q63 **Alison Thewliss:** That is useful. Thank you. Lastly, could I ask each of you to give us one single point that you would make to the Chancellor that would be important for this Budget?

Torsten Bell: In the last year, he did a very good job of protecting household incomes from falling in line with GDP. He needs to not forget that lesson. While GDP is recovering, it does not follow that incomes will be bouncing back this year. We need to make sure that they do.

Paul Johnson: He needs to make sure that he does phase out the protection he has, but he needs to phase it out carefully and in a targeted way. Assuming that some sectors continue to be locked down, he has to find a way of providing support to them without providing support right across the economy.

Vicky Pryce: Yes, more targeted support will be needed, but it needs to be constantly evaluated. My worry is that we might think, "Yes, things are improving and therefore we can just stop it", and then have to start it again. That would be disastrous.

Julian Jessop: I agree with all of the above, but tone is important as well. He ought to emphasise the good news a bit more. This is not just mere boosterism; there are lots of positive things to say about the economy. In contrast, it is not helpful, as he was towards the end of last year, to say things like, "The worst of the economic crisis is only just about to begin" or, "We are going to have to raise taxes to pay for Covid". It is important that he sends a more positive message to reinforce consumer and business confidence as the economy recovers.

Q64 **Chair:** I am just going to finish with one final question, if I may. I want to come back very quickly to interest rates, the Bank of England and the interesting discussion we had on monetary policy.

Here is a scenario. It is not one that anybody out there is particularly toying with. In fact, the expectations on inflation are that it is going to stay low for some time, and there are lots of good arguments as to why that would be the case. Is there a scenario in which that does not happen and we are surprised by a spike of inflation? For example, the pound comes under pressure for whatever reasons. Perhaps our recovery is out of sync with the rest of the world. Oil prices are increasing, as the world economy is improving. The trade frictions that we have touched upon are also bearing up on prices. After this pent-up enforced saving that we have all talked about, everybody rushes out and spends, yet the capacity to supply by the economy has been damaged.

Suddenly we are in a surprising situation, a year or two years down the line, where inflation has gone up perhaps even beyond the 2% target level the Bank of England has. Suddenly, it becomes very difficult to sustain the argument that the Bank of England should continue buying Government debt under those circumstances. Is there anyone on the panel who thinks there is at least a not insignificant chance that that kind of scenario could come to pass or do you all think that it is highly unlikely?

Vicky Pryce: It is quite likely that inflation will start going up. We are already seeing it possibly because of Brexit, but also, indeed, as you rightly said, there is all this pent-up demand and supply has been constrained very significantly in a number of areas. You are bound to see some increase in inflation. We have seen it already in places like Germany, where it has almost gone up to the 2% target—it is about 1.6%—after having deflation. It can easily switch very quickly. The question is whether it stays at a high rate. If we are still going to have relatively low growth, there is a limit to how much prices can rise.

The point you made about the exchange rate is really interesting. It is probably a longer-term issue, because we are going to be suffering from low productivity in the economy, as Torsten and others discussed, for quite some time. The figures may show something different, because you cannot calculate it right now, but overall we have low investment, low productivity and all these problems with supply chains and everything else I have mentioned.

This means that we may have to have a low exchange rate. That is how the markets will react: a lower exchange rate, in order to remain competitive. That will tend to push prices up. In my view, yes, over a period of time, we probably will move to a weaker exchange rate and probably higher inflation.

In many ways, that is good news. What you really want is an improvement in your trade balance that you would not otherwise have, to the question asked earlier. You would also have your debt-to-GDP ratio coming down a bit more quickly than would otherwise be the case. It is not all bad. I am not talking about hyperinflation; I am talking about it going back to something more normal. That does not mean the Bank of England will need to raise interest rates to any significant extent. It can carry on supporting the economy with lower rates even if inflation goes up a bit.

Torsten Bell: It is really important to distinguish what inflation and how it comes about in deciding whether you are worrying about it. Abstract conversations about it will not get us very far, basically. You gave a few concrete examples, Chair. There are a number of ways you could get a faster bounce-back than consensus on inflation: the pound falling, oil price recovery or a mixture of very strong spending out of savings concentrated in a few sectors like hospitality and retail. Could that cause a spike in inflation earlier than the forecasts expect? Yes. Inflation caused by any of those things we should not worry about.

That is for two reasons. First, the Bank of England would look through the temporary nature of the inflation. Secondly, the only way in which inflation would become a problem, if created by that mechanism, is if it fed through to higher inflation expectations by the public and workers, and those workers had the market power to negotiate for wage increases to compensate for those. Neither of those things is likely to be true and the second is definitely not, because we are going to be in a period of a slack labour market. In the end, unless wage pressure builds, it is very hard for all of those routes to give you problematic inflation in the years ahead. Remember that all of the wage-price spiral stuff from the 1970s was about that happening. That mechanism does not exist in 21st century Britain unless we really mess up the institutional structure we were talking about earlier.

Bad inflation could happen if we do big damage to our supply capacity. There are degrees to that. There could be lower investment, which we are doing and Brexit will be doing to a degree, affecting our supply capacity. In the end, inflation that is caused by those kinds of things can have effects. There is no reason to think that is about to happen. That kind of bad inflation, which gets you stagflation, we would be worried about, but it is not very likely to materialise in the near future.

Julian Jessop: When talking about either interest rates or inflation going up, you need to understand why interest rates or inflation are going up. If it because the economy is recovering strongly, that is probably still a net gain for the public finances. The Government would be paying out in interest, but they would also be getting more in tax receipts and probably spending less on welfare. I would be relatively relaxed about, say, a period of 3% inflation for a few years. After all, the Bank of England has an inflation target of 2% for a reason, which is that it is a healthy level of inflation. Given that we are well below 2% now, I would not be worried if there was a brief period when we were a little above it.

Torsten is absolutely right. There is a risk that inflation reflects problems on the supply side rather than the demand side, but most of the pent-up demand over the next year or so is going to come through in services rather than goods. If you look at the level of retail sales, as you know they are already back above pre-Covid levels. What has not been happening is people spending money in the hospitality industry, for example. The main constraint there is normally the supply of labour but, with quite a large pool of people desperate to go back to work, you will not get that wage-price pressure that Torsten talked about.

It might be that capacity is constrained by social distancing, but restaurants, pubs and so on are pretty good at working round the social-distancing rules. I do not see there being a big inflation problem on the supply side. There is still a monetary risk. If I were a pure monetarist, I would be looking at the monetary growth numbers and throwing my hands up in horror, but there are all sorts of things that break down the relationship between broad monetary growth and inflation. As a monetarist, you would want to be watching that too.

Chair: Thank you very much, Julian. That is very helpful. I wish we had a lot more time to talk, but sadly we are out of time. That has been an extremely interesting and helpful session. Interestingly, there were areas where there was disagreement across the panel. It seemed to me that a lot of that was focused on what is going to happen to the economy. What is the rate of growth going to be? When will we get back to GDP? Is there going to be scarring? What level is unemployment going to peak at and when? Of course, as I said earlier, these are questions to which we will ultimately know the answers. That is what makes it such a fascinating discussion to hold.

There is an interesting overarching question. What does UK plc contain within it? Does it have the ability to get itself up off the floor? Is it nimble? Is it innovative? How flexible are these labour markets that we keep saying are flexible? In these extraordinary and testing times, we are going to find some kind of answer to that, at least. There was a lot of consensus in the discussion about the need for growth, that now is not the time for taxes, about extending the bridge of support to businesses but doing it in a targeted way as we go forward, some unity on the issue of supporting those who missed out on support last time round in the Chancellor's support measures, and a lot of other things.

As the TSC, we always have a session after the Budget. Among the sessions we have, we see the Chancellor as well. This is the first time we have had one exactly a month before the Budget to peruse what might come up, and you have all collectively demonstrated that it is an extremely worthwhile exercise. Thank you very much indeed for joining us today.