

Treasury Committee

Oral evidence: [Spring Statement 2026](#), HC 1756

Tuesday 10 March 2026

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Chris Coghlan; Bobby Dean; Jim Dickson; John Glen; John Grady; Dame Siobhain McDonagh; Luke Murphy; Yuan Yang.

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Witnesses

[I](#): Tom Josephs, Member, Budget Responsibility Committee, Office for Budget Responsibility; and Professor David Miles CBE, Member, Budget Responsibility Committee, Office for Budget Responsibility.

[II](#): Helen Miller, Director, Institute for Fiscal Studies; Dan Haile, Senior Economist, Institute for Government; Hetal Mehta, Chief Economist, St James's Place; and Dr Amrita Sen, Founder and Director of Market Intelligence, Energy Aspects.

Examination of witnesses

Witnesses: Tom Josephs and Professor David Miles CBE.

Q1 Chair: Welcome to the Treasury Select Committee on Tuesday 10 March 2026. We are here today to talk to various experts and to the Office for Budget Responsibility about the spring statement the Chancellor made a week ago.

I am delighted to welcome for our first panel the two members of the Budget Responsibility Committee, Professor David Miles and Tom Josephs. Normally there are three members of the Budget Responsibility Committee, but as many people will realise, there is currently no chair and the recruitment is under way for that position.

This is the first time you have done the forecast without a chair in post. Was there any danger that, without that third person in the room, you did not have the right checks and balances in place? How did you make sure you made the right judgments in putting together the forecast last week?

Tom Josephs: I should say at the start that it is obviously a big regret for everyone at the OBR that Richard left. He had huge expertise in the public finances and economy and led the OBR with great independence of mind and integrity.

Formally, David and I have jointly led the OBR in his absence, which is facilitated by the legislation. We have made decisions and judgments jointly but, as before, with David mainly leading on the macro side, and myself on the fiscal forecast. Others should judge performance, but I do not think that has constrained the delivery of this economic and fiscal outlook. It obviously helped that this event did not have a large amount of policy measures to assess, which is normally the case, and that takes up a lot of the BRC's time at policy events.

We were a third down on the BRC, but the OBR very much operates as a team—we have 50 excellent staff—so we were only one fiftieth down overall. Clearly, the leadership gap would become more of an issue over time and at a larger policy event.

Q2 Chair: Obviously, this was a forecast; you didn't do the scoring against the rules. But the Chancellor did choose to highlight the headroom that had been created. Were you surprised by that, given that it was not a fiscal event? It was the spring statement.

Tom Josephs: I don't think I had particular expectations around what she would highlight in the speech—obviously, that is a matter for her. In the economic and fiscal outlook, in line with the new legislation, we did not do a formal assessment of the fiscal rules. We did publish, as usual, a fully transparent fiscal forecast, which had all the relevant numbers in it.

What we tried to do is to use the space to do a broader assessment of the wider fiscal context and fiscal position in the UK. We did more to assess

the recent history of borrowing and debt in the UK, and we did international comparisons of the UK with other countries. We looked more at a wider range of indicators of fiscal sustainability and put more emphasis on risks and uncertainties. I guess that aimed to provide a bigger picture on the fiscal position, stepping back from the more narrow assessment of the fiscal rules.

As we set out in the report, it is certainly the case that the UK fiscal position is challenging. Debt is at high levels. Borrowing has been stuck at around 5% of GDP for the past four years; it has come down a bit this year, but it has been at that elevated level since after covid. Our borrowing costs are some of the highest among advanced economies, and there are a lot of risks and pressures out there, not least shown by what is happening in the middle east at the moment.

Q3 Chair: Before we go on to the detail of the impact of what is going on in the middle east, it would be helpful to know for the record when you submitted the economic and fiscal outlook to the Treasury. The Treasury published it on your behalf this time to make sure there was security around it. When did you get your final documents to the Treasury?

Tom Josephs: We finalised the document on the weekend before the Tuesday. We always have an arrangement where we provide the Treasury with 48 hours' early access, and we publish information on that and who gets it in the Treasury. We followed the normal practice on that.

As for the version the Treasury published on their website for us—which, as you know, was a recommendation of the National Cyber Security Centre—they got that literally minutes before it was published on their website.

Q4 Chair: Just to be clear, the attacks by the US on Iran happened after you submitted your final document.

Tom Josephs: It happened well after we closed the forecast, because we closed the forecast several weeks before that. The attacks happened on the Saturday, as we were finalising the document and then subsequently shared it—

Q5 Chair: Not in time to take into account and to do any modelling on it.

Tom Josephs: Only in a very limited way; essentially, acknowledging the fact that it had created a big risk to the forecast.

Chair: Okay, so you had got as far as that, but not any further. I just want to be clear, because there are lots of jokes about how quickly forecasts get out of date. Obviously, this was a very big event just prior to the spring statement.

Q6 Luke Murphy: What impact do you think the Iran war will have on the economy and the UK's fiscal position?

Professor David Miles: It is a very fast-moving situation. Prices in the oil and gas market—that is the main channel through which this is going to



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hit the UK, certainly in the short term—have moved around a great deal. They actually fell quite a lot during yesterday, and opened up lower this morning than they had been right at the beginning of the week.

Mid-morning today, oil prices for immediate delivery—so-called spot prices—relative to where they were on the Friday before the military action, were up by a little above 20%—about 23% or so. Relative to the picture we had taken of where the markets were, they were up a bit more than that. Gas prices mid-morning today were up about 50% to 55% on where they were just before the American and Israeli bombing began. If the world stayed like that—that is very unlikely, but if it did—and if you then take not just the current prices but the futures prices, which in some sense are a prediction of where those prices might go and play out over the next year or so, then although the increase has been very substantial, the knock-on effect on the level of consumer prices in the UK remains relatively limited. If there is no change in the picture on the prices from now on, we estimate something like a 1% higher level of consumer prices in the UK by the end of the year.

We had thought, without taking all that into account, that by the end of this year the inflation rate in the UK might be pretty close to 2%. Right now, if prices do not change from where they are—both the spot prices and the market expectations of futures prices, which are particularly important for the Ofgem price cap—then by the end of this year we think prices will be about 1% higher, so the inflation rate would end the year not near 2%, but nearer 3%. It would be something like that magnitude: material and significant, but as yet not on the same scale we experienced after the Russian invasion of Ukraine. It would be enough to be noticeable and completely unwelcome—there is no upside to all this; we are significant importers of both oil and gas, and there are nothing but negative effects from those prices being higher—but those are orders of magnitude as it looks right now. I would have given you a different answer yesterday morning, and by the end of the week it could look different again. It is not clear which way we go from here.

Q7 Luke Murphy: How long would that position have to be sustained? Say that prices stayed as they are at the moment, for what period—

Professor David Miles: Before it started—

Luke Murphy: Before that implication of 1% higher inflation by the end of the year—

Professor David Miles: Some of it comes through pretty quickly. Petrol prices—filling up the car—have probably moved already. It does not affect household energy bills until we get a new price cap from Ofgem. That does not kick in until the beginning of July, so nothing much happens to household energy bills from now until the beginning of July. That would then roll through, and they would go up somewhat. That is one of the big contributors to prices being higher by the end of the year by, say, 1% or so.

Q8 Luke Murphy: If, for the sake of argument, the war came to an end at



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the end of today and prices began to fall back, would we still see a longer-term impact on inflation, or do you think that will be shorter? I am trying to get a sense of a degree of time that this would have to go on for it to have that kind of—

Professor David Miles: If, four or five weeks from now, let's say, prices are more or less where they were before, I think you would see very limited effects on consumer price inflation. It would be a little bit higher in the short term, because petrol prices would have gone up, but then they will have come down pretty quickly. By the time you got to the Ofgem price adjustment thing, it would have had rather a minimal effect. It would have some effect, because Ofgem looks at a sort of moving average of where prices have been, and there will be a blip up—March would look high, and then prices would come back down. But, bigger picture, by the end of the year it would not have done an awful lot to the price levels of the measured inflation rate if, within the next three or four weeks, things get back to where they were the Friday before.

Q9 **Luke Murphy:** If the crisis was sustained for a prolonged period, how concerned would you be about the affordability of the Government repeating the kind of energy bills scheme we saw during the Ukraine crisis?

Professor David Miles: I will answer briefly, and then maybe you could focus more on the fiscal implications or add to what I am going to say. The cost of the support package back in 2022 was very substantial—something like £50 billion. It came in various bits and pieces, but the main thing was support with household energy prices. But that was a very much bigger increase in prices, particularly gas prices, than we are seeing, at the moment anyway. From a couple of months before the Russian invasion to a couple of months after, gas prices were up by something like 500%. What we have seen as of this morning is something like a 50% increase in gas prices.

If you wanted to think of a shock large enough to bring forth a support package on the scale we had back then, you would have to see much bigger increases in gas and oil prices, and I hope that that does not happen. That package cost about £50 billion from beginning to end. Fifty billion pounds is a big number; when we took a formal, almost pass-fail judgment on the fiscal targets back in November, there was about £23 billion of so-called headroom on the central forecast. That is one indication of how difficult it would be to have a support package on that scale, but the price changes so far are nowhere near what they were back then.

Tom Josephs: I have just a couple of things to add. As David said, the policy package back in 2022 was on a much bigger scale, given the energy price shock at that point. David mentioned the margin against the fiscal rules, and it is worth highlighting that those are medium-term targets. The reason you have medium-term targets is that it allows flexibility in the short term to adjust policy on a temporary basis in the face of shocks, if the Government think that that is the right thing to do, and not necessarily affect the medium-term fiscal forecast.



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It is also the case, as I mentioned at the start, that the wider fiscal position in the UK is clearly challenging: debt is at an elevated level, and markets are clearly more sensitive to movements and changes in fiscal policy than in the past. We have had borrowing at relatively elevated levels since covid, despite the fact that successive Governments have had plans to get borrowing down to a more sustainable level. One reason why they have not been able to get it down to a more sustainable level is that we keep getting hit by shocks, unfortunately, and also that Governments introduce short-term policy loosening while still trying to stick to a medium-term consolidation.

- Q10 Luke Murphy:** On the point about the regularity of shocks, I think there is research showing that half the recessions we have experienced since the 1970s have been a result of energy price shocks. We are particularly exposed in the UK, and those shocks are arguably becoming more regular. Given the significant impact these shocks have on the public finances and on inflation, is there an argument for the OBR to more consistently forecast or model potential shocks to the economy, what impacts they could have on public finances, and the sustainability or otherwise of Government policies to respond to those shocks?

Tom Josephs: That is something we very much try to do. It is obviously very difficult to predict when a shock will happen and to put it in your central forecast; by their nature, you cannot really predict shocks. Therefore, in our report, we have a huge amount of analysis on the potential upside and downside risks to the forecast. Certainly in the past we have done quite a lot of analysis on the potential impact of energy price shocks on the fiscal position. We did one most recently in March 2024, when there was a bit of an escalation of conflict in the middle east, and we looked at the potential implications of that for the fiscal position. We also try to do a lot of that analysis in our longer-term fiscal risks and sustainability report, not just on energy price shocks but on other areas of potential risk to the public finances. For us, it seems that the appropriate way to do it is through that risk and sustainability analysis. It is very difficult to try to predict when a shock will happen in your central forecast.

- Q11 Jim Dickson:** On the subject of public finances and net borrowing going forward, and the current state of play, I think that when you last came before us, you said that net borrowing was stuck at about 5% of GDP for the past few years, and that we needed somehow to break free of that. Clearly, the numbers in the spring statement reinforce that: 5.2% in the current year, coming down to 4.3%, and then to 3.6%, 2.9% and so on, as we go forward. Does that represent a turnaround in borrowing that can be sustained? What are the risks to being able to sustain that? One factor is clearly what have just talked about on shocks, but if we factor that out, what do you see the trajectory going forward, and are there risks to that?

Tom Josephs: Over the past four years, borrowing has persistently been at around 5% of GDP. In the current forecast, we expect that this year—'25-26, which ends at the end of March—it will come down to around 4.3% of GDP, so it will be starting to decline; and as you say, we expect a further decline gradually, over the medium term, to around 1.6% of GDP.

Getting down to that level would mean that debt is broadly stable and slightly falling.

It is a central forecast; there are many risks around that, but they are both upside and downside risks. Clearly, what has happened in the middle east is a short-term downside risk, but we highlight many others in the report. One of the biggest ones, which we have obviously talked about a lot in this Committee, is the outlook for productivity growth in the UK, where we made an adjustment at the Budget. If productivity growth were to remain at the low levels we have seen over the past decades, we estimate it to raise borrowing by about £40 billion a year. On the other hand, if it were to return to the levels we saw before the financial crisis, that would be a big upside and around £50 billion a year. There are again both downside and upside risks around that forecast for things like interest rates and equity prices.

We also talk in the report about some of the risks that originate on the fiscal side. Borrowing falling in the way that you described is driven mainly by a rising tax-to-GDP ratio. In our forecast, that rises to around 38% of GDP, which would be a historic high in the UK—it is not that far off the advanced economy average, but it is historically high for the UK.

We also highlight some risks around whether that will be achieved. It is driven largely by increases in personal tax, a lot of which is due to the personal tax threshold freezes, so whether that yield is generated very much depends on the outlook for earnings in the economy. A lot of the increase also comes from increases in capital taxes, which are again quite sensitive to assumptions on the outlook for asset prices.

Q12 Jim Dickson: It has been said that there has been an under-appreciation of the extent to which receipts are likely to come in on the upside. Do you have a forecast for whether you are getting it right, in terms of the likely trajectory of receipts going forward, and whether that will make a difference to whether the numbers we have talked about will be hit?

Tom Josephs: We were assuming in the autumn Budget that we would have quite a big increase in receipts in the final quarter of this year, around the self-assessment deadline. There was a lot of uncertainty around that judgment, but receipts actually did come in pretty close to the forecast; in fact, they are a bit stronger than forecast. In the short term, the receipts forecast has been on track. Over the medium term, it is much more uncertain, but it is the central forecast, so as I say, we see both upside and downside risks around it.

Q13 Jim Dickson: On the spending side, I want to ask a question about the SEND budget. Obviously, the Government have made a policy decision to increase departmental spending on SEND by about £4 billion a year from '28-29 onwards. Does that decision since the last Budget ease the pressure on the SEND forecast? Will the policy decisions the Government have made on SEND affect the Chancellor's headroom going forward?

Tom Josephs: At the Budget, we estimated that the pressure from SEND on departmental budgets in '28-29 was about £6 billion. As you say, the



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Government announced around £4 billion additional funding from that year on. They also allocated some additional funding from within the Department for Education's budget that was previously unallocated. Obviously, that goes quite a way to addressing the pressure that we previously identified. There are definitely still risks and pressures related to SEND. The Government have announced a very big package of reform, and the impact of that on SEND spending is still uncertain.

- Q14 **Jim Dickson:** Is that something you would be modelling going forward, in order to understand whether the Government have made sufficient provision for SEND? There may be incentives for spend ahead of the reforms as, for instance, parents try to get their children on to EHCPs, which might be more expensive and bring spending forward.

Tom Josephs: That is possible. That is a risk we have flagged in the report. We will certainly be monitoring pretty closely that area of spending because it has been one that has grown very rapidly over the recent past. It has generated a lot of financial pressure both for local authorities and for central Government, so it is very important that we keep track of that as the reforms are implemented.

- Q15 **Chris Coghlan:** Mr Josephs, you rightly highlighted the fiscal position and borrowing concerns. If the Government's portion of borrowing related to defence spending was guaranteed through common issuance with allies, would you expect that would improve, or have a positive impact on, the fiscal position given the common guarantee on the interest rate?

Tom Josephs: I think that would very much depend on the nature of any agreement that was made. It is quite hard for us to be able to model that in the absence of an agreement. We have some analysis in the report of the pressures from defence spending and the Government's commitment to get to 3.5% of GDP in 2035, which is obviously a very significant commitment. It would cost about £40 billion in today's money. If the Government wanted to increase spending in this spending review period to get to that target on a linear path, then it would add about £6 billion to spend.

- Q16 **Chris Coghlan:** You couldn't look at other examples where sovereigns have guaranteed different forms of debt? I am just thinking, for example, of Greece and Germany during the eurozone crisis, for example, and the impact on the gilt yields paid for by the sovereign.

Tom Josephs: It would depend on the structure of the deal. If the UK Government were still essentially underwriting any borrowing that was involved, the markets would still take that into account when assessing UK Government borrowing costs.

- Q17 **John Glen:** Could I ask a question about the presumptions of spending? I think the Government say they want a real-terms increase of 0.3% in '29-30. If you assume that they spend on health at the average level, they spend on SEND as per the proposals and they make their 3% on defence by '29-30, I think it has been calculated that that means that there will be a 2.5% real-terms cut in all other non-protected Departments, which



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leaves a gap of about £13 billion. Am I correct in that understanding?

Tom Josephs: The analysis we have in the report looks at those two years of post-spending review spending plans where the Government have just set an overall assumption for total spending rather than departmental plans. We have analysis that looks at what the implications of that would be for unprotected Departments on the basis of commitments on the NHS, defence, ODA, SEND and mainstream schools, and our calculation is that that would mean that unprotected Departments would be facing real-terms cuts of 4.4% and spending would have to be £13 billion higher, which I think was the number you mentioned, in order to have unprotected spending, not fall in real terms.

Q18 **John Glen:** That is, in any terms, quite a challenging situation for any Government in terms of the presentational reality of a cut of over 4% in those unprotected Departments. It leads one to draw the conclusion that all these numbers are loaded to get through the immediate term but are not very realistic. What are the scenarios most likely to change that outcome, and do you see them as realistic, given your experience in this role?

Tom Josephs: Going back to my previous answer, in order to achieve the fall in borrowing the Government have set out and get debt on a broadly stable path in the medium term, spending needs to be broadly stable as a share of GDP over the forecast period and tax needs to rise. That is what you need to do to get the public finances on a sustainable path. When it comes to spending reviews, that will require the Government to make choices around tough prioritisation or find ways to drive greater efficiency in public sector spending.

Q19 **John Glen:** The answer the Chief Secretary tried to give me this morning was about the value of efficiencies. Have we seen efficiencies on a scale to deal with a 4.4% deficit?

Tom Josephs: We have seen times in the past when Governments have been able to reduce public spending through a combination of prioritisation and efficiency savings, but it is certainly challenging.

Q20 **John Glen:** Between your forecast in late November and last week, growth for this year went from 1.4% to 1.1%. Can you explain the main drivers of that?

Professor David Miles: It was partly a response to the data we have seen over the last three or four months since the November Budget, which has been disappointing in terms of economic activity. GDP has not been growing as firmly as we thought it might at the time of the Budget. The labour market also looks like it has cooled a lot more quickly and unemployment has gone up more than we thought. The forward-looking indicators of business confidence and investment intentions remain pretty weak.

We have taken the view that this weakness rolls out through much of this year and that it is more likely than not a reflection of a build-up of spare capacity in the UK than a permanent erosion of productive potential of the



UK. In a sense, that is the optimistic end of a spectrum of interpretations. The more pessimistic interpretation is that even though we reduced our assessment of productivity growth back in November, we did not do it enough, and we are seeing the fruits of ongoing even weaker productivity growth. That is not a central forecast. I think ours is a bit more plausible. However, as you rightly point out, it means that growth through this year turns out to be materially lower than we thought just a few months back. If we are right that that reflects a build-up of spare capacity, it at least allows the scope for some more catch-up a bit later. In a sense, you get it back a bit further down the road.

Q21 **John Glen:** 0.1% next year and 0.1% the following year?

Professor David Miles: You mean getting rid of the spare capacity that has built up?

Q22 **John Glen:** Yes. It is also the impact on growth. It is very marginal in 2027 and '28.

Professor David Miles: Yes, it is. You get marginally higher growth the years after this year, so you end up at the end of the forecast horizon with marginally higher growth for the back end, which offsets the bigger weakness in growth in the very short term. That is roughly how the forecast goes. That depends whether we now have a central estimate of productivity growth. I think that is the case, but then I would—I wouldn't put my name to the report if I didn't think that. However, there are plenty of risks on either side.

Q23 **John Glen:** I will pass over to my colleague in a moment, but can I just challenge you? In fairness, there are significant measures out there that suggest that there is greater positivity in some sectors of the economy. The PMI surveys in manufacturing and services were at significant highs in January. Does that not suggest that you are being pessimistic, and that, in fact, we are on the cusp of a productivity turnaround, and confidence levels are in a different place?

Professor David Miles: It is possible. I would like to be proved wrong, and I hope that that happens. If you look at hiring and the labour market, though, the picture is a bit bleaker than that. New hiring has dropped off really quite sharply and the unemployment rate has moved up. Firms seem reluctant, at the minute, to take on new workers. That is having impacts in the labour market, particularly on people who are entering the labour market for the first time.

But you are right; it could be that we now have a central forecasting of productivity that is too pessimistic. As I think I may have mentioned before, if you look at recent years of the Nobel prize in economics, they have spent a lot of time thinking about AI and productivity. One of the people who won the Nobel prize two or three years ago says that AI will have a negligible effect on productivity, but the person who won it last year—a man call Philippe Aghion—thinks it will be utterly transformational. So take your pick.

Chair: “Two economists, three opinions.”

Q24 **John Glen:** My last question, before I pass over to Mr Murphy, is on this AI business. There is quite a wide discrepancy of predictions, as you have just said, but also a discrepancy across different economies—between the US and the UK. Would you like to say something about how relatively well the UK is placed with respect to AI?

Professor David Miles: You are right; it looks a different story in the US and in the UK. If you look at the data over the last couple of years, while AI does seem to have had a non-trivial positive effect on productivity in the US, it is very hard to see that in the UK—yet.

On the other hand, it could be that we are just lagging behind the US. We have a relatively large number of people in the UK who do research on AI and we have strong work undertaken in universities. For example, we have some of the best computer scientists in the world. We have a very big service sector in the UK, and one of the things about AI that the optimists, at least, point to is that it has the potential to boost productivity in areas that normally we think do not have strong productivity, which is in services.

That is the latest Nobel prize winner’s argument—Philippe Aghion. The one from a few years ago was Daron Acemoglu. Both of those people are very familiar with the UK, because they both studied and worked at the LSE, half a mile down the road, and some of their work does rely on evidence from the UK. They just, as I say, draw completely different conclusions about how it will play out here.

John Glen: Thank you.

Q25 **Luke Murphy:** I have two follow-up questions. The first is on the productivity point and the work that the Resolution Foundation has done, particularly looking at payroll data rather than the labour force survey. What is your assessment of their analysis?

Professor David Miles: They are right that it makes a big difference, because the labour force survey and the payroll data point to really different trajectories in the number of people employed in the UK over the last six months or so. The one that shows that there are fewer people working is, not surprisingly, using the same GDP output data, so you get a stronger picture on productivity growth over the last few months. If you take the survey that shows much lower employment growth over that period, that is the payroll data.

It is a bit difficult to feel certain right now which one of those two is more reliable. The labour force survey clearly had very major problems in the past. I think responses to the labour force surveys have increased recently, so it is becoming somewhat more reliable. Whether that makes it as reliable as, more reliable than, or less reliable than looking at the payroll data and tax data is hard to judge at the moment. But it certainly makes a difference which one you look at.



Q26 Luke Murphy: Do you worry that, having come under some criticism—or debate—around modelling around productivity and its impact last year, you could be missing it on the upside? Is that fair?

Professor David Miles: It may be that we made a change just as the data show that we were right before, and we just got the timing a bit wrong. I genuinely would be pleased if that were true. I have got kids who are entering the labour market now. I would love it to be the case that productivity went up a lot. It would be good if we were wrong.

Q27 Luke Murphy: Can I ask a question on growth? There has been a lot of focus on the supply side of the economy, but some economists are pointing out that stagnation in living standards could be leading to a big issue on the demand side. They point out that if a strategy on living standards was more central to the theory of growth, that could help boost demand and supply, and that Government should have a bigger role in stimulating that through a greater focus on using fiscal capacity to raise people's living standards. Does the OBR take a view on such things?

Professor David Miles: Very briefly, I think the fiscal capacity is pretty constrained in the UK right now. We have got debt at 100% of GDP. If you go back to before the financial crisis, it was less than 40% and the Chancellor then, Gordon Brown, said that we would never go above 40%. Now we are at 100%.

It has been very difficult to bring the deficit down, as Tom was saying, from about 5% of GDP, which is a very high level. Outside of wartime, the UK has not run a fiscal deficit in many consecutive years of that level. I think the constraints on fiscal policy are pretty severe.

Would it be helpful if more money was available to help people with standards of living and those struggling to pay bills? Yes, of course. Given how much the Government need to borrow, at least over the next few years, the risk of thinking you have the scope to spend £20 billion, £30 billion or £40 billion more, which could have a really significant effect, is that the view among the people you have to persuade to buy UK Government bonds is, "Well, they are not serious about getting back to a position of fiscal sustainability".

Q28 John Glen: Could we turn to unemployment? Professor Miles, you mentioned in a previous answer that we have seen high unemployment. For certain age segments, particularly young people, it has reached quite worrying levels. What are your thoughts about the labour market and what is happening structurally? Some people would posit that the increase in the national living wage, the cost of employing people, national insurance and so on have created disincentives to hiring. Others would say that there have been other changes, with AI, confidence levels and so on. What is the OBR's assessment of what is happening with unemployment and where it is going to go next?

Professor David Miles: At the risk of stating something that is so clear it is slightly banal, it is pretty obvious that if there is a big increase in labour costs that is not matched by productivity, that will make some companies



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hire fewer people than they otherwise would. There has been a bit of that: we have had quite a big increase in the minimum wage and wage settlements more generally—not just people at the lower end of the income distribution—have been running at 5%, 5.5%, for a while now.

That is stronger growth than measured productivity growth, so in a sense there has been an increase in the cost of employing people relative to the extra output that companies get from employing people. It is hard to see that as anything other than a constraining factor on levels of employment. We have taken account explicitly of the movements in national insurance contributions paid by employers. That has been in the forecast ever since that policy was introduced.

Q29 **John Glen:** You had it as decreasing labour supply by 50,000 in '24.

Professor David Miles: I think it was something like that—not transformational, not a disaster, but clearly not welcome in a world in which unemployment has been going up. You are absolutely right about the incidence of unemployment not being equally spread across all groups. Unemployment has become particularly high for young people. Youth unemployment is now at much higher levels than we have seen in the past. There may be a knock-on effect there from the rather substantial increases in minimum wages.

Q30 **John Glen:** What, you don't get the same productivity from a younger part of the workforce but you are obliged to pay them the same amount as everyone else?

Professor David Miles: Essentially, yes. How big a factor is that in isolation from other factors? You mention AI, where it is difficult to work out whether companies are substituting away from workers to, in a sense, computers. That is a technological thing that may not be much affected by minimum wages or wages running a little bit ahead of productivity; it is just that you have a new technology that turns out to be a substitute for labour more than a complement.

By that what I mean is that there is one view of AI, the optimistic view, which is it does not substitute for people but it increases the productivity of people, so you get no hit to employment and you get higher wages, because people are more productive. That is an optimistic view of what AI does. The more pessimistic view is that it is more a substitute than a complement to labour. One interpretation of the weakening labour market is that the more pessimistic view, the substitute view, is getting a bit of support from what is happening in the labour market. Frankly, I think it is bit too early to tell.

Q31 **John Glen:** I want to home in on this. You have acknowledged that youth unemployment is disproportionate to other levels of unemployment.

Professor David Miles: It seems to have increased more than general unemployment, yes.

Q32 **John Glen:** Yes, but we are trying to understand that; we are trying to get to a better understanding of what is driving that. You have had a bit of



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a discussion about a number of factors. What answer would you give, the official answer from the OBR, as to why more young people are now unemployed?

Professor David Miles: My own view is that one significant factor is that if companies decide that they probably need no growth in the labour force, or maybe a slightly smaller labour force than they thought before, the natural first move you would make is to stop hiring new people, rather than making some people redundant and at the same time hiring some new people.

Since the biggest effect of what you might call a freezing in hiring is going to be on people joining the labour force for the first time—they are the ones who by definition have to be new hires somewhere—it is maybe not so surprising that you get a disproportionate impact. When the market goes through a period in which desired levels of employment do not grow very much, companies then do not hire new people, and that has, automatically almost, and in the short run, a disproportionate effect on the young entering the labour force. I think that is probably my favoured, No. 1 explanation of what is going on right now.

Q33 **Chair:** You also touched on young people not being as productive. Were you saying that? In some sectors, the youth may be, even with inexperience, more productive, because of physical energy, health and factors like that.

Professor David Miles: There is a related issue here; it is a foggy picture, where you can see bits of the jigsaw at the minute. As I think we are all aware, if you look at the health of the UK adult population there are, on various measures, more people in poorer health now. That is affecting their ability to work, and the big increase there has come among young people.

Q34 **John Glen:** Mental health?

Professor David Miles: Yes, mental health—exactly.

Chair: Perhaps we will get more into this with Mr Bobby Dean.

Q35 **Bobby Dean:** Just to probe a little further on youth employment before I move on, it was not just the cost of the labour going up in ordinary terms—taxes and the minimum wage going up—but the threshold change, which particularly affected any business that employed a high number of people on low wages. Is that correct? Hospitality and retail are two examples of that. Because of the way the thresholds changed, business decisions about how many people to hire might change—because of the cost impact.

Professor David Miles: Yes. One way of putting it might be that if your workforce is predominantly well above the minimum wage, and they are not new young people coming into the labour force who are relatively lowly paid, one of your responses to, for example, increases in taxes, national insurance and all that is that you can try to offset them with slightly lower wage settlements, or even ask people to take small wage



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cuts. You obviously cannot do that if your workforce is overwhelmingly at the minimum wage, because that is the minimum wage.

- Q36 **Bobby Dean:** I guess what I am putting to you is: do you think this particular change to employer national insurance has potentially had an effect on youth unemployment, because it hits those industries that tend to employ young people in their first jobs?

Professor David Miles: Yes, I think there is something in that—I agree with you.

Bobby Dean: Thank you. I am going to move on to immigration.

Chair: Before you do, I just want to bring in Dame Harriett Baldwin.

- Q37 **Dame Harriett Baldwin:** While we are on the subject of unemployment, I have a question for Mr Josephs. I remember you scored the planning reforms as being a boost to the economy. Have you scored the Employment Rights Act at all in your work?

Tom Josephs: No, we have not yet scored that. We talked to both business and employer representatives, and the view is very much that the economic impact is still very dependent on the outcome of the further consultations that the Government are doing and the final details of secondary legislation in a number of key areas.

- Q38 **Dame Harriett Baldwin:** You do not think it is putting anyone off employing anyone at the moment, while it is uncertain.

Tom Josephs: It is certainly creating uncertainty, but we have not, in our forecast, incorporated any impact yet. We hope to do that once the secondary legislation is finalised.

- Q39 **Chair:** Professor Miles, before we move off unemployment, we have seen the challenges in the youth employment sector, and we have heard some interesting evidence. In response to Mr Glen, you said that the overlap of health and young people is an issue, and that it is not just the older population that has got ill—you were talking about mental health. If extra money was put into mental health support for young people, how would you score that? Would you then look at the productivity of that generation differently over time?

Professor David Miles: To the extent that it looked plausible that it would have an impact on the worryingly large number of people who, at the moment, are not in employment or looking for employment because of self-reported and—

Chair: Diagnosed.

Professor David Miles—mental health issues. If it looked likely that you could help a lot of those people back into the labour force, that could be persuasive enough for us to say, “Well, yes. More people will be employed. People will be brought into the productive labour force, and that will have a positive impact on output and fiscally.”

Q40 **Chair:** Just to be clear, you were talking about the productivity of young people in work being less. Can you be clear about the relationship between that and mental health? I want to make sure that we have not misinterpreted it.

Professor David Miles: On the mental health issue, I was talking more about people outside the labour market and not looking for work because of mental health issues.

Q41 **Chair:** So young people are less productive because they have less experience in many sectors, rather than health.

Professor David Miles: I think it is inevitable that very young people at the start of their working life, who are looking for work at 17, 18 or 19 years of age, are unlikely to be as productive as someone who is 10 or 15 years into the job. That seems natural in almost any industry.

Q42 **Chair:** Except perhaps where physical health may have an impact.

Professor David Miles: Yes, maybe.

Chair: I think it is probably too much to get into at this moment. I am going to pass on to Bobby Dean to pick up on immigration issues.

Q43 **Bobby Dean:** The OBR has lowered its forecast on net inward migration between now and 2030. First, I read that there was also a methodological change, so how much of that change is real or just a result of the way you are now counting? Secondly, if it is true that more people are leaving the UK, what assessment have you made of the fiscal impact of that?

Professor David Miles: We made the change in our forecast about levels of net immigration into the future on the back of the Office for National Statistics changing its methodology for measuring how many British people have been leaving the UK, on average, each year since covid—the last five years or so.

The ONS decided that a better measure now is more consistent with the pattern of net emigration of Brits in the many years leading up to covid, so it has increased its estimate of how many Brits were leaving the UK by substantial amounts—80,000 or 90,000 a year—over the last several years, pretty much since covid.

The picture that the ONS is now painting is different from where it was a short while ago. What it had before was that the number of people leaving the UK had dropped off rather substantially; now it thinks that 70,000 or 80,000 more British people had been leaving the UK, net. It now looks like pretty much a straight line for the last 10 years. That looks less of a puzzle than what the ONS had before, which made covid look like a watershed in how many Brits were leaving.

We have adopted the newer numbers and said, “Imagine the future now looks more like that”; that is why we have reduced by about 60,000 a year net immigration into the UK. It is not so much a change in our view

on how many people are coming here; it is a view about how many people are leaving.

- Q44 **Bobby Dean:** That is clear and it makes sense that you would change the modelling accordingly. The issue I am trying to unpick here is that it has been reported that lots of people are fleeing the country all of a sudden, perhaps because of the policies of this Government, and they are high net worth or high earning people. You are saying that actually this seems more like a methodological change.

I just wanted you to make that clear for us. Has there been a change in the number of people leaving the UK? Giving the uncertainty over how many have left, do we know much about their composition?

Professor David Miles: I do not think we know a whole lot about the composition. We took a view, based on not knowing much about it, that the people leaving the UK were a representative sample of those already in the UK, because we did not have any strong evidence one way or another.

In answer to the question, “Do the new ONS estimates suggest that there has been a spike upwards in people leaving?”, we have a chart on page 22 of our economic and fiscal outcome, chart 2.6, which shows the new estimates. It is a flattish line from since about 2012, running at 90,000 to 100,000 people net leaving the UK most years. It was a bit higher than that in the most recent year; make of that what you will. Some people will look at that and say there has been an acceleration in the number of people leaving the UK. I look at the picture and say, well, it is a pretty flattish line for 10 years and there is nothing particularly unusual in just over 100,000 people net leaving the UK.

- Q45 **Bobby Dean:** You made the assumption that people leaving will be a representative sample. Is that because you have data in the past showing that is generally true, if you look back far enough? People will wonder whether people are more likely to move overseas at retirement, during their working lives or when they have families. Is that composition, broadly speaking, correct? What is that based on?

Professor David Miles: I think there is some evidence—but I would like to go off and check this; it is worth my doing so—that somewhat more young people have been leaving in the most recent couple of years than was true in the past, when it might have been disproportionately older people and maybe a higher proportion who were in retirement looking to live somewhere else after they had finished work.

The assumption that the population of people leaving the UK is rather representative of the UK population would be consistent with there being more younger people leaving now, and that it is what we are seeing—that they are, as I say, representative.

- Q46 **Bobby Dean:** If we talk about people coming the other way, people who are entering the country, is it true that they are broadly speaking similarly skilled to those already in the UK but of a generally younger age profile?



Professor David Miles: They are certainly younger than the UK population—yes, that is true. That is one of the reasons why the participation rate in employment is a bit higher among people coming into the country than the population already here.

In terms of wages, qualifications and such, I think there is a big spread among the people arriving in the country. Some in recent years have been working in relatively low paid sectors. A smaller proportion are very highly paid people. I think that is one of the reasons why in trying to work out the fiscal impacts of potential changes in immigration in the future, the type of people coming matters every bit as much as the raw number.

As we all understand, it makes a huge difference whether you are looking at people coming into the UK and bringing dependants, maybe earning less than the average UK wage and staying for a long time, versus people arriving who earn two or three times the average UK wage, stay here for 10 or 15 years, don't draw welfare payments, don't stay and get a state pension when they get older and don't stay in the UK for most of the rest of their lives when they would become unwell, on average, and use the health service. It makes an enormous difference—the type of people who are coming and how long they stay, rather than just the absolute number.

Bobby Dean: You have anticipated my final question.

Chair: Professor Miles can see into the future—a new skill for the OBR. I thank our witnesses. We will now have a short break and move into our next session. You are very welcome to stay for that if you wish.

Examination of witnesses

Witnesses: Helen Miller, Dan Haile, Hetal Mehta and Dr Amrita Sen.

Chair: Welcome back to the Treasury Select Committee on Tuesday 10 March 2026. We are looking at the spring statement prior to our session with the Chancellor of the Exchequer tomorrow, and we are delighted to welcome a panel of expert economists to discuss various aspects of the spring statement and the state of the British economy. We have, from my left to right, Dan Haile, who is the senior economist at the Institute for Government; Helen Miller, who is the director at the Institute for Fiscal Studies; Hetal Mehta, who is the chief economist at St James's Place; and Dr Amrita Sen, who is the founder and director of market intelligence at Energy Aspects, and very knowledgeable about the energy situation we face.

Q47 **Yuan Yang:** There was a lot of discussion at the autumn Budget about there being too much media speculation and too many measures in the works. We have now had a lot of media criticism after the spring statement that there was not enough news in the statement—that not enough new policies were announced. What is the optimal pace for new fiscal announcements, at either the autumn Budget or the spring statement, and what is the optimal way of spreading those throughout the year? Is there such a thing as not enough news?



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Helen Miller: It is definitely welcome that we did not see the level of speculation in the run-up to this fiscal event that we saw at the last one. As has been much discussed, that speculation, in and of itself, is damaging because people and firms change their behaviour in anticipation of what might be to come.

I am not sure there is an “optimal”; people make different cases for different set-ups. My personal view is that there is a case for a second forecast; I think it is good for public debate, for scrutiny, that there is information about the state of the public finances. It is a little odd that the second statement comes just three months after the main fiscal event. I think that is a hangover from the old days, when there was a pre-Budget report in the autumn and a Budget in the spring. The events got switched, but the timing did not.

You could more easily make a case for a second forecast that was maybe at the six-month point in the middle of the year, or maybe even closer to the Budget, as a kind of, “Here’s a first look at the forecast. Let’s all debate it,” and then have the forecast. So one could adjust the timing and move it further from the Budget.

In terms of there being a second event that was not a big event, in some sense you always want to hold out for something extraordinary happening that means you want a second fiscal event of some sort—that is always a possibility, obviously. In recent years, we have become accustomed to lots of big fiscal events, but they do not need to be all big. The fact that this one did not have lots of news in it and that there were not lots of changes—although I note that there were some policy changes between the last event and this one—does not mean, in my mind, that the event was a failure. We should be okay with the idea that we get information that we can use, and then we wait for the next event.

Dan Haile: I completely agree with everything Helen said. The specific dilemma that we saw in previous years was the Government rushing forward policy changes to try to hit changes in the OBR forecast. We did not see that this time, and that was really welcome. That is partly because of the way the OBR forecast moved. Not having that dynamic driving policymaking in quite that way this time around is really positive.

I totally agree about the timing of the two forecasts in the year. In the past we have said that if we cannot get out of the dynamic of the Government chasing their forecasts with rushed policymaking, you have to look again at whether two forecasts is the right choice. I agree with Helen that the forecasts do not need to be big events, but they have real benefits in transparency.

Q48 **Yuan Yang:** Do you agree with the Chancellor that there should be a higher bar for there to be more fiscal announcements in the spring—that is, that we should aim for one big set of announcements of policy changes per year, in terms of stability? Or does it not make much difference how many events there are?



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Dan Haile: I think that having a single main fiscal event in the year, where most of the policymaking is done, makes particular sense for tax policy changes. It is not about not making any changes outside of those fiscal events; the Government have to be able to respond to events. Concentrating in that way is a sensible way to see fiscal policy across the piece, understand which direction the Government are taking and co-ordinate across an agenda.

Q49 **Yuan Yang:** How does the number of events and forecasts that we have compare with other countries? Do we have more, fewer or about the right amount?

Helen Miller: Every country is a bit different and does things a bit differently, and the whole process can be different. Most countries have a second set of forecasts so that there is information. They do not all have a second fiscal event, but countries differ a little; they differ in terms of the role of Parliament and when things are announced. I think we stand out a little, in that we got into having these two big fiscal events, with a big fanfare around them, and with everyone waiting for the Chancellor to pull rabbits out of hats. That is not something that every country does.

Q50 **Luke Murphy:** Dr Sen, I want to focus on the impact of the Iran war. Will you set out your view on the current impact on oil and gas, and on which is more affected?

Dr Amrita Sen: I am happy to; thank you for having me. I am sure that most of you are aware that the war has effectively led to a closure of the strait of Hormuz, even though it is officially not shut. For context, about 20% of the world's oil flows and gas flows pass through the strait, so LNG and oil are both impacted. Asia is far more impacted: about 90% of Asian crude imports pass through the strait. It is not just crude oil; it is a lot of oil products, including the diesel, jet kerosene and gasoline that we consume. LPG—cooking fuel—is a huge part of what goes through the strait as well. Overall, if you are looking at numbers, it is about 15 million barrels of crude oil per day; about 5 million barrels per day of products like LPG; and about 85 million tonnes equivalent of gas from Qatar and UAE. So it is about a fifth—call it that—for pretty much all those big commodities.

The good news for the UK is that it does not import any crude oil. But jet kerosene is a big part of this: 36% of jet kerosene comes through the strait, because the UK imports a fair amount of that from the region. There are a few other products here and there, but they are 10% or less, so I am not too worried about that. LNG is about 4% of what goes through the strait.

What has happened is something that everybody in the industry has feared for 40-plus years, and now it is here. My struggle is that I do not think the industry quite knows how to handle it. We are currently looking at north of 6 million, or almost 7 million, barrels per day of outright production shut-ins. When Russia invaded Ukraine, we were getting similar



questions. Russia's exports are about 4.5 million barrels per day, so, for context, what we have shut in today is going towards double that.

With 15 million barrels of crude oil per day that moves—yes, there are some diversions—we are talking about similar levels to what we needed during the peak of covid when demand fell, which was about 20 million barrels per day. I wanted to give that context around how big the stranded elements are when it comes to oil and gas, and what is stranded right now. As we see it right now, there is no end in sight. We are assuming that this could continue at least this week, and it could be longer than that, of course, depending on both sides.

High energy prices are a pain point for the US Government. I think you can see the US coming out with slightly narrower objectives now in terms of what they want the endgame to be, and that may allow the conflict to end a little bit earlier. The trouble is that, even if there were to be a ceasefire, what does the new normal look like? We do not think that is going to be the old status quo, because of shipping—we can go into that if there are questions—and war insurance. No shipper wants to go through that—what if there are sporadic attacks?

The bottom line is that this is extremely inflationary, and we are going to see that. For Europe, gas matters more in terms of the electricity. On the oil side of things, yes, Europe gets oil from the middle east, but much more is from the region itself—Europe has its own production. West Africa also produces a lot and gives it to Europe, and there is the US as well. So there are alternatives. It is Asia that is seeing the biggest impact, but because oil and gas markets are global—sure, certain Asian prices have gone up—all of us are seeing the impact.

The last thing I would say, which is very concerning, is that we are already seeing that security of supply is at the forefront of the minds of certain countries, such as China and India—the two biggest exporters of products—and Thailand. There is not an outright ban, but they have already told refiners, "Please don't export products. Keep them for ourselves." That is a huge thing. China is a massive exporter of products, and India is a big exporter of products, and we in Europe all buy diesel, jet fuel and naphtha from those countries. Again, the pass-through for the end consumer is going to come through the oil products markets.

Q51 Luke Murphy: Essentially, you are saying that, even if this were to end tomorrow, there are medium to long-term impacts we now need to factor in, although we do not necessarily know what all the implications are. Is that fair?

Dr Amrita Sen: I would go with the latter, which is that we just do not know what it looks like. I would not assume that if it were to end tomorrow, we would just go back to how we were, for example, at the end of February. I think there will be a lot of caution.

Again, I go back to the point that security of supply will become paramount, especially when about 70% of the imports of China, India,



Korea and Japan together come from the strait of Hormuz. Suddenly, they are going to look at this and say, "We need alternatives. We need to look at our own security of supply very differently." They will all take measures that mean there will potentially be a bit more hoarding from Asia, which has implications for what is going on over here.

Like I said, we do not know how long this will take to go back to "normalcy", where shippers can rest assured that there are not going to be any attacks on any vessels or on infrastructure. As we are sitting here right now, attacks are going on against energy infrastructure in GCC countries—refineries are shutting down, and so on.

Q52 Luke Murphy: Beyond oil, do you have a view on the broader basket of products that we are going to see inflationary impacts in? I think someone talked about fertiliser.

Dr Amrita Sen: I think gas probably has a more immediate impact. Obviously, gas is a huge input into fertiliser costs. A lot of countries in Asia have already said to the fertiliser companies, "You can't use gas," because everybody is going to prioritise consumers. Industry generally is taking the hit, and is saying it is being told, "Do not use gas." It depends on what alternative sources countries have to burn; that could be green energy, but it could even be going back to liquids.

The other thing we are doing work on now is the second-order effects. Look at Taiwan, for instance. Gas is the chip manufacturers' biggest source of power, in terms of the generation fuel. Suddenly you may get second-order impacts and start to halt factory production because you are not getting enough gas from the strait. Those are the things we are looking at.

This is not going to stop at the energy level; it is going to go to the next level. If industry is being hit, which it absolutely is, you are going to start seeing that—not straightaway, but in a month or two.

Q53 Luke Murphy: How do you think this crisis reflects on the UK Government's current medium to long-term energy policy of moving to clean energy? Do you think it has validated it in some way?

Dr Amrita Sen: At least on our numbers and the way we do the analysis, we have always been big believers that all forms of energy are going to be required. The notion that we are going to go into peak energy demand has been proven not to work out; even the IEA came out and changed its tune on that. When you have such levels of demand growth, it is going to be very hard to just focus on one form of energy, be it green or be it oil and gas. You will need all forms.

For us, it is more about decarbonising. If you are going to use hydrocarbons, decarbonise things, and then you can of course use the green energy that is required on top of that. But using green energy as baseload at times like this is also a problem: if the wind does not blow, for instance, you then have the other issue of having to use gas, which is

going to be at much higher price levels. There needs to be a much better balance across the board.

- Q54 **Luke Murphy:** In our previous panel, Professor Miles from the OBR suggested that if this was prolonged, we could see inflation rise to 3% by the end of the year. Do you think it is too soon to make modelling assumptions around that? I will direct that to you, Dr Sen, and then perhaps you, Ms Miller, could say a bit about what this implies about the public finances and inflation in the near to medium term.

Dr Amrita Sen: It is probably a little too soon. I am sure everybody is up 20 hours a day right now, given everything that is going on, but it has been a week—a week and a bit. If this continues through March, then, yes, we will need to talk about it, because we are going to see an impact because of the feedback loop through all the different supply chains that we talked about.

The one thing I will mention is that we were going into this era of gas where everybody was talking about this global glut, with lots of projects coming online. We are already starting to hear from major producers such as Qatar that you could start to get projects delayed, because big companies will be very careful in redeploying staff to the region after what has happened, so suddenly some of the glut narrative shifts as well. It is the same with oil: we were supposed to be in this oversupplied market. That narrative shift is very important, because suddenly the forward curve, or the futures curve, goes up higher across the board. That feeds through to inflation, and that is when the interest rates come into the picture.

- Q55 **Chair:** Before we move to Ms Miller, I wanted to ask you a question, Dr Sen. You mentioned that 36% of jet kerosene in the UK comes from the strait. Presumably that leads to an increase in the cost of flights, or is there any way that the airline industry can mitigate that?

Dr Amrita Sen: Unfortunately, jet is probably the worst affected globally. Everybody is talking about the crude oil price, but there are prices for jet that have gone above \$300 per tonne. What is going on in the jet market is really crazy. So much of the jet production is in the middle east, and it is also transported over here. It is not going to be possible to meet that jet demand through other sources, partly because Asia also produces a lot of jet fuel and, if it is not getting the crude oil to make that jet fuel, that is going to have an impact. I am expecting quite significant rises in air fares.

- Q56 **Chair:** So you think it will go straight through to air fares.

Dr Amrita Sen: Yes.

- Q57 **Chair:** Realistically, people will be planning their summer holidays now, and some will have already booked them. That could potentially have an impact on airlines' business models, because they have already been pre-paid at a lower rate.

Dr Amrita Sen: Some of the airlines hedge. If they have done that, it will have helped them a bit. But, in general, we absolutely should be expecting higher air fares for at least the next couple of months.

Q58 **Chair:** Thank you. We will turn to Helen Miller to pick up Mr Murphy's question.

Helen Miller: It is unambiguously bad news for living standards and public finances in the UK—there is no upside to any of this. No one yet knows how bad the bad news is, because it is really going to depend on how prolonged the conflict is and how high inflation goes. The big effects of this are going to be through inflation, for all the reasons that were just discussed. It is not just the direct effects on air fares or the price of filling your tank or heating your home; it is all the other knock-on effects, such as transporting food, and food will become more expensive. Basically, a big input into what we do has become more expensive, and we are going to have less resource.

Just picking up on the public finances angle, inflation will feed through in a few direct ways. For example, if the inflation measure ends up being higher, that will lead directly into higher welfare payments that are indexed to inflation. The effect on overall public spending is a bit more complicated. The Government set out cash plans, so if inflation is high, that can allow them to be eroded, and you will effectively have lower public spending in real terms. However, you could see pressure to top up plans to keep them going in real terms.

We could also see calls on the Government to step in and put together some kind of energy package to support households, and that would come with a cost. You would see higher receipts, as a higher cash economy means bigger tax receipts, but that inflation would also mean lower growth, which would have a dampening effect. It would also depend on how the Bank of England responded with interest rates; higher interest rates would feed through into higher Government borrowing.

Looking through all of it, the big picture is that, if it is sustained, we are poorer, and someone is going to have to bear the burden of that, whether that is people directly, people through higher taxes to pay for higher spending, or lower public spending. How that washes out depends on both how bad the crisis is and how bad the increase in prices is. The choice the Government will make is basically how to distribute the pain of that.

Q59 **Yuan Yang:** Dr Sen, you last came to speak to the Committee at the start of the Ukraine war, when there was another global energy shock. Is the UK economy in a better position to weather those shocks than it was four years ago? If not, what more do we need to do to change that?

Dr Amrita Sen: In general, most countries, including the UK, have done a lot more and learned a lot from the Russia-Ukraine crisis in diversifying a lot of energy. The imports still come from very similar countries—that has not necessarily diversified—but we do get a lot more energy from the US now, which has definitely been a change, because it has been increasing its production.



Unfortunately, the challenge this time around is that we have never seen something like this. On a volumetric basis, this is the biggest disruption in the history of the energy market. Even if the UK has done better or worse, it almost does not matter, given the scale of what we are seeing. I go back to what I was asked earlier: I think a balanced grid, rather relying on one or the other, is a better outcome. It is not about just going green; it needs to be a balance of everything, given that this is not an isolated industry. When you hit one area, it cascades to all the other bits and pieces as well.

Q60 John Glen: You will know that in the previous panel we heard evidence from the OBR on the presumptions about where spending will be towards the end of the period. For the unprotected Departments, I think it is a 4.4% cut. The IFS states that, for next year's spending review, there is an assumption that day-to-day departmental budgets will grow 1% per year over three years. What lessons can we draw from previous seasons about how realistic that is?

If I may put another point to you, Ms Miller, just so that I can stop and listen to more wisdom from you, since we last saw you, you have put together a traffic-light proposal. It was not universally well received; Mr Hughes said that it would give people the opportunity to "target-shop". I think you would like the opportunity to respond to that.

Helen Miller: Sure—thank you. On the first point, about public spending, I think it is worth saying that Governments really do have choices here. Spending overall is still planned to grow in real terms. There is no inherent law of nature that says Governments could not stick to that—that would be a choice.

We have, however, pointed out many times that it is going to be challenging in the context that there is a whole laundry list of pressures on public spending—SEND, disability, defence spending; the list could go on—and the public finances already have some pretty punchy assumptions about productivity improvements that may or may not come off. In the context of lots of pressures on the state, that looks pretty ambitious. Again, if we saw a Government trying to increase defence spending—it does not have to—that would clearly put pressure elsewhere. It is historically unprecedented for the UK to try to increase defence spending and health spending simultaneously. We have not done that to date, so it is unusual.

If we look at history, we see that Governments tend to pencil in tighter plans than they actually go on to deliver when the time comes. It is always easier to say, "I'll do that tomorrow. For now I'm going to top things up." I will not be in the least bit surprised if that happens. That is not a prediction. It is within the Government's power to follow through on their plans. It will be a choice to deviate, not a certainty, but history suggests that that would not be at all surprising.

On the traffic-light proposal, there are two bits to it. We published a piece of work a month or so ago basically talking about the fiscal rules and the fiscal frameworks and highlighting what we saw as problems with that. We



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said very clearly at that point that in our mind there is no optimal fiscal framework. There are pros and cons of different approaches, and they come with different trade-offs. In some sense, the context really matters. We have a fiscal framework that I think is under-delivering, not just because of the precise rules that have been written down, but because of the norms that have grown up around them, in some sense. Therefore, into that debate we put a set of proposals for a different system. I am happy to debate the pros and cons of that.

Separately, after the spring statement, we put out a traffic-light system. It is not saying, "This is a new set of fiscal rules." It is just a way to look at the state of the public finances, whether you want to make those the fiscal rules or not. It is just a kind of a health check. I think that changes in forecasts invite all of us to focus on what changed in the forecast. What I wanted to highlight was that the forecast itself is still the big news here, and the changes are small relative to the underlying story, which is that debt is high, borrowing is high, debt interest costs are high, and the current public finances are vulnerable.

To tie it back to your original question, the traffic lights go greener at the end of the forecast, if you think the Government is going to deliver on its plan to get borrowing down very starkly. If we did not see that, you would have a set of traffic lights, in our version, that contained lots of reds and dark oranges. We were really trying to move the debate beyond, "Have we got any headroom—yes or no?" to that broader picture of the health of the public finances and remind people that we still are in a pretty difficult position.

Q61 John Glen: Over the last three or four months, perhaps as a function of what happened in the run-up to the last fiscal event and what happened with the OBR, there has been speculation, and you and your predecessor were very clear about the optimism bias, shall we say, in manifestos at general elections. Mr Hughes and Sir Robert Chote, in their evidence to the Committee a few weeks ago, were also clear that we need less chopping and changing if we are going to move the dial. Do you have any reflections on that? One of the frustrations for people looking in at our economy is that Governments come in and make interventions and there is not enough time to assimilate their effect. Do you think your proposals would help with that? What other things could we look to in order to ensure that we have a more rounded and authoritative view of public finances that will withstand that short-termism?

Helen Miller: I do think the short-termism is a problem. I do not think it is unreasonable that a Government wants to make changes to policy. It might be perfectly plausible that a Government wants to make changes every year because they are progressively doing something better. The problem is when we have changes that are not the result of some well-thought-through policy process where we think, "Yes, we know this is right," but a case of, "Oh dear, something's happened. We need to change it really quickly," and the volatility is hard-wired into bad policy choices. That is what concerns me, as opposed to whether we change policy at any given frequency.



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This is not necessarily a statement about the fiscal rules in abstract terms, but given the debate we are currently having, which has been laser-focused on the headroom number and has descended into those two numbers, at the expense of other things, the argument is, "Wouldn't it would be nice to break out of that equilibrium and try something that actually shone a light on the broader set of things?" Again, there is no optimal here, in my mind; there are just pros and cons. Our argument is that a traffic-light system would naturally lead you to realise that there are more things to focus on. In some sense, it would be harder to game it, because you might be able to game one indicator, but trying to game a list of them would make it harder.

Whether you use a fiscal traffic-light system or something else, we need to get to a place where everybody is focused not on a given headroom number, but on the broader picture: "Debt is high, borrowing is high, and debt interest costs are high. How are we going to get into a position where those things are better, so that if shocks come along in future, we are better able to respond to them?"

Q62 John Glen: Thank you very much. Ms Mehta, the gilt yields that we see in the UK are the highest in the G7. Please could you explain to us why that is?

Hetal Mehta: Thank you for the question. There are a number of factors that move gilt markets. When making international comparisons, people focus a lot on, say, the 10-year gilt yield and compare that with bund yields in Germany or treasuries in the US, but it is also important to think about what the risk-free rate is in all those countries. For example, the ECB policy rate in Europe is significantly lower than the rate here in the UK. That needs to be taken into account. There are also currency impacts that need to be taken into account.

When our investment team strip those factors out, the UK does not look particularly high in terms of gilt yields compared with peer countries. It is true that gilt yields have risen in absolute terms with pressures on borrowing and inflation. That is being priced in, and the fact that the Bank of England may struggle to cut interest rates also feeds into that. But on a more comparable measure, gilt yields look broadly in line with those in other countries.

Q63 John Glen: Essentially, you are saying that the analysis and commentaries are quite superficial, and do not take account of the real, relative values across different jurisdictions.

Hetal Mehta: Yes. It is a crude measure. Many market commentators and economists will look at it as a quick and easy measure for comparability. The calculations involved in stripping out those other aspects can be a little convoluted, but it is certainly an exercise worth doing if you want to have a more credible look at what is considered the inherent issuer risk: do we think the UK Government's risk as an issuer is more significant than that of another country?

Q64 John Glen: May I move to Mr Haile and ask about the dynamics of our



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processes in the UK and the effect that the OBR has had? There was a lot of discussion about the dynamics between the Treasury and the OBR in the run-up to the autumn Budget. What do you see in the way that the OBR's dynamics with the Treasury have evolved? Are we in the best place?

Dan Haile: In general, since the OBR was formed, the relationship with the Treasury has been pretty good. We have benefited from the OBR having access to Government data in a way that previously we did not have, which has enabled scrutiny of the Government's fiscal plans.

Coming off an autumn when some of those relationships were clearly strained, the quieter process in the run-up to the spring forecast has helped, and as a result we have had a much smoother run-in. I know the Committee is looking at the OBR 15 years on more widely. I do not think that means there are no opportunities to improve those relationships, but certainly in the three months since the autumn Budget, partly because the Government have not been bringing forward lots of new policy measures, we have seen a much quieter run.

Q65 **John Glen:** I recognise that. I think everyone would say that. It was a pretty difficult situation before the Budget. I am thinking more fundamentally about the Treasury's forecasting function, when it has to live within the OBR's determinations. Is there a danger that the dynamic of decision making means that the reference point is what the OBR scores, rather than what the elected Government think is the right thing to do?

Dan Haile: I think that would be a really unhelpful dynamic and we have seen the risk of that, particularly on questions about whether the OBR would score certain policy measures on the supply side as improving productivity. The move to increase the level at which the OBR is willing to look at supply side scoring is probably very helpful in terms of moving away from a situation where internally, within Government, the Treasury is looking for policy ideas that might be able to get over this line and be scored.

John Glen: And only doing things over 0.1%.

Dan Haile: Exactly—to raise that threshold from where it was before and to have some other criteria in addition to that, qualitatively. We are hopeful that that will make more of a difference in terms of making sure that it is not what the OBR will score that drives the Government's policy agenda.

There is also room within the charter for budget responsibility in general for the Treasury to disagree with OBR judgments and to set out why they think that is the case. In general, the OBR is not in the position of driving Government policy. It is a set of Government choices and therefore the Government can choose to diverge or even, at the limit, change how the system works if they do not think it is delivering what they want from it.

Q66 **Bobby Dean:** We were talking about unemployment in the previous session. There are still some question marks over how cyclical we think the problem is. Typically, we may see a spike in taxation or in wages that



comes out in the wash over time, but it feels as though it might be stickier this time, not just because of the effects of AI but because of the cumulative impact of all these changes and how they have affected young people in particular. Ms Mehta, could we be seeing a structural change to the labour market because of the series of changes by this Government?

Hetal Mehta: I do think, on balance, that there is likely to be a structural element to the unemployment. I broadly agree with the upward revisions in the near term from the OBR. The unemployment rate is already close to those levels anyway at 5.2%, near the OBR's peak. The risk for me is that the decline in unemployment is much slower.

Part of that is the structural weakness of productivity growth. I know that the OBR did take down its assumptions last time. In my personal opinion, they are still at the more optimistic end, albeit that they are more realistic. We do not do point forecasts, but I would put my estimation closer to the downside scenario that the OBR had. That is the structural element.

There have been a number of policy changes, whether that is regarding the national living wage or the taxation element that was discussed earlier. It is very difficult to disentangle the cause from the correlation, but there have definitely been instances when the sectors exposed and the demographics—younger people—exposed to the tax changes, or the sectors that employ lower income employees, have seen the bigger changes in terms of payroll employment. If that policy is to persist, that may be a structural headwind to unemployment as well.

On artificial intelligence, so far the evidence is pretty mixed on the rate of adoption across different countries. The UK probably sits somewhere in the middle of the road in terms of AI adoption. The US is probably further ahead on that as well. But, again, the sectors and age demographic that are likely to be first hit may be younger, less experienced people, for which AI could be a bit more of a substitute than a complement.

Q67 Bobby Dean: Ms Miller, at the time when the employment national insurance contribution changes were announced, the OBR baked into its forecasts some effect on the labour market. It sounds as though we might already be beyond that point. It might also persist for longer. What impact is that likely to have on the public finances and the expected tax revenue from that change in the first place?

Helen Miller: You are right: the OBR did initially say that higher taxes would lead to fewer jobs, which is completely what you would expect. The question is always how many fewer. It is difficult, because you cannot measure that directly: lots of other things in the economy are changing, so you have to somehow estimate it.

It is too early for us to estimate how much any change in employment has been because of tax, versus AI, the national minimum wage or something else. We will have to wait and hope that we can look back and work it out. I do not have an independent assessment of how much higher or lower it is than the OBR figure, but it would have an effect.



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You are absolutely right that a central judgment in the OBR central forecast is that unemployment is temporary and will come down again. The OBR has also done some other scenarios around that. If unemployment settled at say 5.5%, and if that was because of the higher labour costs, as opposed to something else, it estimates that borrowing could be about £21 billion higher by the end of the forecast period. That gives you a sense of the scale: if it was not temporary and if there was some structural element related to higher labour costs, that would have a material effect on borrowing that you would have to do something about.

I think the answer is that we do not yet know how much of the employment figures relate directly to the tax cost, but this stuff matters. Obviously, unemployment matters for the people involved directly, but it matters for the public finances too.

Q68 Bobby Dean: You may also have heard some commentary about immigration figures, which have recently been revised. Have you any views on what real immigration and emigration activity is now? What impact do you foresee it having on the public finances? If I can squeeze in another question, do you know what the medium and long-term impacts will be to the public finances of the proposed changes to the UK immigration system?

Helen Miller: The short answer is that I do not. My main takeaway is that the UK needs better data on these things. We have a real lack of information about the composition of the people who have come to the UK and those who are leaving. Clearly, the composition is going to matter hugely. It really matters whether you have people who are low-skilled or young versus retired. Who is leaving matters a huge amount. As was discussed earlier, the OBR changed its forecast based on the ONS revisions. I would expect the OBR to be looking at inward migration, and not just numbers but types of people, because that obviously affects the forecast.

The IFS is going to do some work over the summer and try to get a better pitch from the data available, but there is an underlying problem of missing data. We do not have great data available. You could perhaps piece together some things from surveys and administrative data more creatively, but the fundamental issue is that the UK needs better data on who is here, who is coming and who is leaving, so we can have more informed debates about the underlying policy choices and what any policy choice would mean. Which skill visa you have will matter. Who you constrain is going to have a huge impact on the public finances.

Q69 Dame Harriett Baldwin: That leads right into my question. When there is so much anecdotally about a millionaire leaving the UK every 45 minutes and a giant exodus of wealthy people, it is extraordinary that there does not seem to be any data about the mix of net migration and about how much people are paying. Are you saying that you have not been able to find any data on that?



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Helen Miller: There is some data out there from surveys. Part of the problem is that surveys have not been doing wonderfully recently, and there is a lack of trust in them. There is some administrative data, but that is often collected for tax purposes, not for the purpose of monitoring people. In general, not enough is known.

A separate issue is that even if we had perfect information about everyone in the country and their characteristics, some of the questions about how people are responding to policy are not things that one can measure, because lots of things are changing at the same time. There is an underlying data problem, but it would still be difficult to know the effect.

Q70 Dame Harriett Baldwin: Ms Mehta, your firm manages money for lots of wealthy people. Has your business seen a behavioural response among your clientèle? Obviously, I do not want you to give any confidential information or say anything that is not public.

Hetal Mehta: We do not have that data or any insights into whether our clients are moving abroad. I echo what Helen said around the data. I also note that HMRC has said that in the 2027 self-assessment data we will get a much clearer idea of whether people have moved in response to the tax changes over the last year or so. We do not have anything specific on that, but it is worth saying that the broader uncertainty around tax policy, like all uncertainty, is bound to have some impact and unintended behavioural consequences.

Q71 Dame Harriett Baldwin: Have you seen any behavioural changes around the non-domicile tax changes at all?

Hetal Mehta: Again, we do not have anything specific on that.

Q72 Dame Harriett Baldwin: Moving on to the Institute for Government's analysis, one thing in the statement last week was that another million people of pensionable age who rely exclusively on the state pension will be brought into paying personal taxation because of thresholds being frozen. I wonder about that, from an administrative point of view. We have heard in interviews that the Chancellor has said that she wants to do something about it, and that she does not want to be taking small amounts of tax off lots of people whose only income is a £12,500 state pension. Has the Institute of Government done any work on that?

Dan Haile: We have not done anything specific on the most recent change. A general problem with tax threshold freezes as a method for increasing the tax take is that you will come across these threshold effects as you bring people up through the threshold. It is one of the things that the Government should be thinking about when they consider it.

Dame Harriett Baldwin: This will be a particularly vulnerable group of people: elderly pensioners on very low incomes.

Dan Haile: Yes, absolutely.

Q73 Dame Harriett Baldwin: Has anyone else heard of anything that is being used as a potential solution by HMRC?



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Helen Miller: I do not know what HMRC is thinking. If the only issue were people who only get the state pension, you could just say that you will not tax them—that they have the right not to declare it. That is probably relatively straightforward, although you would have to think of a mechanism for it.

The harder case will be somebody who has a very small amount of other income—£50 in dividends or something small. Do you then default them into tax? It is the boundary issue: at what point does their full income come in? That is a policy question as much as an ethics question. It is about the point at which you start taxing somebody. The mechanism for it can follow on from that. The policy question is: when is the bit of the state pension over the threshold going to be taxed, if ever?

Dame Harriett Baldwin: Okay. We will continue our investigation on that subject.

Q74 **Chair:** As I said at the beginning, before the cameras turned on, the Chancellor of the Exchequer will be in front of the Committee tomorrow, so I ask each of you: what would you ask her if she were sitting in front of you? Let us start with Mr Haile.

Dan Haile: Thanks for that!

Chair: You should be well-versed in this at the IFG.

Dan Haile: We had the spring forecast, but we know that the central forecast is no longer the central forecast for where we think we are going. There is a question for the Chancellor about structuring the short, medium and long-term Government policy, thinking about what the decisions are that need to happen now, versus the areas in which you can improve policy design on what happened last time. There is a question about whether this is a similar size of shock to what came previously; we have had a bit of that discussion already. There is also a question about how the policy response can be changed and improved. I think it is about the threshold, and what the short, medium and long-term ways are through that.

Chair: I am sure that that is very much on her mind. Helen Miller, what would you ask the Chancellor?

Helen Miller: I was trying to think of a question that was not entirely obvious. There are obviously questions about the state of the public finances and whether she still thinks she has the right plan after events in the middle east. But a more specific question, to which I would genuinely like to know the answer, is to what extent she feels that the gaps in data are holding back her decision making. Are there things that she wishes she knew that would make her better able to make policy? I would then suggest that it is within her power to direct a bit of resource in that direction.

Chair: Which would make all economists in the room really happy.



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Helen Miller: No, a lot of this is not about economists. It is about having the data, whether that is on immigration or whether it is so that they can make a big energy support package in the winter. I am not saying that they should, but spending a bit of money now to collect the data that would target that package could save billions of pounds in the winter. Why not think about getting some smart people collecting some data now? I would have a nerdy data question.

Chair: We are in the nerdy camp together—there are a lot of us around this table. Hetal Mehta, do you have a question for the Chancellor?

Hetal Mehta: I agree that the clear thing is that there has been far too much focus on one specific fiscal headroom number. We need to understand what the pecking order is with tax versus spend versus growth policies, if there is a shock and the fiscal headroom and buffer is eroded. What is the menu of options, and in what order would the Chancellor try to tackle it?

Chair: I am sure that she is thinking about that. Dr Sen, what would your question be?

Dr Amrita Sen: I would focus, given my remit, on how she is thinking through the energy cost, and the pass-through mechanisms. Especially if this goes on, what does it look like in the winter for households? That will be important. I also echo what everybody said. I work in an industry where, in London in particular, there is a huge number of energy market participants—such as oil and gas—whether that is traders or hedge funds. Talking to pretty much all of them, they are in the middle east somewhere these days. That is happening, but data will be crucial, because otherwise how do you measure whether we are net gaining or losing from these tax changes?

Chair: Thank you very much to our witnesses: Dan Haile from the Institute for Government, Helen Miller from the Institute for Fiscal Studies, Hetal Mehta from St James's Place, and Dr Amrita Sen from market intelligence at Energy Aspects.

Thanks to our colleagues at *Hansard*, transcripts of both panels will be available on the website, uncorrected, in the next couple of days. I thank our colleagues at Bow Tie for the broadcasting.