House of Commons

Treasury Committee

Oral evidence: Budget 2021, HC 1196

Wednesday 10 March 2021

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Watch the meeting

Members present: Mel Stride (Chair); Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Dame Angela Eagle; Siobhain McDonagh; Alison Thewliss.

Questions 141 - 197

Witnesses

I: Paul Johnson, Director, Institute for Fiscal Studies; Torsten Bell, Chief Executive, Resolution Foundation; Rain Newton-Smith, Chief Economist, Confederation of British Industry; Ian Stewart, Partner and Chief Economist, Deloitte UK; Susan Himmelweit, Member of Management Committee, Women's Budget Group.

Examination of witnesses

Witnesses: Paul Johnson, Torsten Bell, Rain Newton-Smith, Ian Stewart and Susan Himmelweit.

Q141 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on the recent Budget. I am delighted this afternoon to welcome five economic experts, and I am going to ask them to introduce themselves to the Committee.

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

Susan Himmelweit: I am Susan Himmelweit. I co-ordinate the policy advisory group of the Women's Budget Group. I am also an emeritus professor at the Open University.

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

Rain Newton-Smith: Hello, I am Rain Newton-Smith. I am chief economist at the CBI.

Ian Stewart: Hello, I am Ian Stewart, chief economist at Deloitte.

Q142 **Chair:** A very warm welcome to all of you. Thank you for attending today. Can I start with a question to Sue and to Rain? Sue, what for you was missing from this Budget? What should it have contained that was not there?

Susan Himmelweit: I would have liked to see more of a vision for the future, so that we were building back better, to use the phrase that is often used on this, with more about public investment but also more targeted support for private investment in building a greener and more caring future. That would have involved a long-term commitment to public services, especially a reform of social care, and to building a social security system that works better.

It would have also involved doing something about the dire state of local authority finances at the moment. Finally, I would really have liked to see a proper equalities impact assessment of the effect of the Budget.

Q143 **Chair:** That is very helpful. There was quite a long shopping list there. If you took social care, though, given the current uncertainties and the lack of cross-party co-operation at the moment, is it realistic for the Chancellor to have mapped out a plan for resolving the social care issue?

Susan Himmelweit: I do not know why there is a lack of cross-party co-operation on this; there seems to be some debate about it. We certainly would have needed to see some money allocated to a reform that will undoubtedly cost quite a bit of money, if it is to be effective.

Q144 **Chair:** Rain, what was missing?

Rain Newton-Smith: I will take it in two parts, thinking first about the support for businesses to make it through the continued Covid crisis. We saw most of what we were calling for delivered. In particular, it was great to see the job retention scheme continuing until June and tapering thereafter, and some reliefs for the hospitality and leisure sectors—some of the sectors that are closed.

It delivered some of the short-term support we needed, but what was missing from that short-term support? We definitely have an eye to some of the supply chains. The £5 billion in business grants available to businesses with a rateable value in hospitality, retail and leisure was very welcome, but there was only a pot of £375 million for businesses to apply for discretionary grants if they fall outside those sectors. We know from talking to lots of businesses that there are businesses in the supply chain, such as food and drink manufacturers supplying into the hotel industry, that have had no revenue for a significant time and yet they have to apply for those discretionary grants. There is a question as to whether that is adequate for some of those supply chain businesses.

Q145 **Chair:** How much should he have suggested, rather than £375 million? Do you have a figure for it?

Rain Newton-Smith: I cannot give you an amount. We definitely have an eye to this and will be monitoring it over the coming weeks. We have already had some businesses that have had concerns so far that it has been very hard to receive those discretionary grants. Our concern is about those outside the sectors that are closed, which have not had much support so far.

For another good illustration of that, look at the aviation sector as a whole. There was a welcome announcement of extending some of the business rates relief for that sector, but we know for some of the larger airports the relief only represents about 7% of their business rates bill, let alone their fixed costs. We know it is going to be a while before that sector is able to be fully open or at least before demand is what it would be in a normal summer. That is important to protect the health of the nation, but we have concerns about whether we will have enough capacity in that sector retained over the long term. We also have an eye to that.

Those were the things that were missing over the short term. I wanted to come on to some of the long-term questions, if I may.

Chair: Be brief, but please do.

Rain Newton-Smith: Our test over the long term was whether this was going to incentivise business investment, job creation and the plan for sustainable growth, which Susan was talking about. There were lots of welcome announcements. Help to Grow and ways to support SMEs to adopt digital technology are hugely welcome. We have been calling for that. It is very welcome to see the national infrastructure bank up and running, and some of the capital allocated to it.

Over the medium term, we definitely have a question as to whether there will be the right incentives for business investment. The super-deduction will help to bring forward business investment and encourage business investment over the next two years, but in 2023 we know we are going to face a big jump-up in corporation tax of 6% and the super-deduction comes to an end. You have a bit of a double cliff edge.

We would like to see the Government look at business taxation as a whole and ensure that we see the reform in business rates to promote energy efficiency and the low-carbon transition to regenerate our high streets. We need to look at business taxation as a whole to make sure that, over the medium term and beyond 2023, we are making it easy for businesses to invest in the UK and to create the jobs we need around the UK. That is where we think we really need to have our eyes over the medium term.

Q146 **Chair:** I am going to turn to Torsten and Paul. Sticking with this point about a short-term or longer-term Budget, back in February both of your views were that this was likely to be a short-term Budget in the sense of decisions on long-term growth and consolidation being taken further down the line in future years. Was that view borne out on the day? Was there more in it than perhaps you imagined in that sense?

Torsten Bell: It would be fair to say that it was a bigger Budget than we expected on the scale of consolidation and slightly on the scale of stimulus in the years beyond the immediate pandemic support package. That would be a fair conclusion. The nature, detail and realism of the short-term support packages are significantly greater than is contained within the plans for consolidation or the stimulus. On the stimulus side, we will probably come back to the exact effectiveness of the stimulus delivered via this super-deduction, but it is very firm-focused. It is focused on one particular subset of large firms. It probably is not sufficiently focused on households, which in the end drive most of the consumption in the economy.

In the big picture, directly to your question, yes, it was a bigger Budget than most of us expected. The consolidation is bigger. Does that mean it is a full consolidation plan and a full stimulus/recovery plan? No, because, in the big picture, you still have a Budget that is really about getting through this crisis. As Susan said, all the questions about what building back better means are left for another day. There was less on net zero than you might have expected, for example. But, yes, it was a big Budget.

Paul Johnson: I would agree with all of that. It was a big Budget in the sense of the scale of what we are going to see over the next 12 months and more detail on tax rises coming down the road than we had expected. There was less detail or no more detail on the spending side of things after the next fiscal year, and there is still a lot of uncertainty—I would almost go as far as to say a lack of reality—about the fiscal numbers going beyond 2021-22.

There is still plenty of time for some of those tax plans to change in response to new economic news: to either get tougher or possibly even get less tough. It remains the case, quite remarkably in a sense, that the OBR's most optimistic scenario involves no loss of economic output in the medium run, and the more pessimistic scenario is still looking much worse than the current numbers are based on. Unless things land in the middle, there could well still be quite a lot of change a bit down the road.

Q147 **Chair:** We are going to approach some of those numbers and assumptions in a moment as we get into the session. Ian, can I turn to you for a moment to talk about interest rates? One of the really difficult scenarios out there has very large debt mounting and very low interest rates at the moment, but perhaps those interest rates increasing. As the OBR points out in its report, a 30 basis point move in interest rates, a very small change quite recently, would add £6 billion to the debt refinancing cost. What is your view on the level of risk of interest rates spiking up over the next four or five years? If they do, what are going to be the main drivers of that happening?

Ian Stewart: Across the western world over the last 10 to 15 years, we have seen falling interest rates, and Governments faced with deficient demand increasing their own leverage and running much higher debt levels. Of course, that has gone into overdrive over the last 12 months. The levels of leverage that looked unmanageable 10 years ago look a lot more manageable when 10-year yields are maybe a quarter of what they were 10 years ago, when the fashionable number was a debt-to-GDP ratio of 90%.

Yes, we are dependent on these markets for sustaining this level of leverage. The change in the structure of Government debt has been significant, as a result of quantitative easing. There is an increased exposure to short rates. In a sense, this is the really big question. What do you believe is going to happen to nominal growth and interest rates in the medium term? There is a benign scenario in which you see rising rates in response to higher expectations of nominal growth. To some extent, this year in the States—and we have mirrored it—we have seen exactly that. The Biden Administration's stimulus plan is a huge stimulus. It is about 9% of US GDP and it has caused a repricing of risk in the US bond market.

My view is that this is the kind of repricing we need to see from levels of long-term rates that point to extremely weak nominal growth. Given the situation we are in, central banks and Finance Ministries are right to operate on the basis that the priority at the moment should be stimulus and entrenching the recovery rather than consolidating the finances. The Chancellor got the essential judgment in the Budget right by doubling down on stimulus while providing some signals about his longer-term intention for debt.

I am very conscious that we are all in a world where central banks and international organisations like the IMF are taking the line that now is the time to borrow. That is correct, but it is also worth remembering that the bond markets can change their views about fundamentals quite quickly. We saw it in the euro crisis; we saw it in the taper tantrums when the Fed was considering reversing quantitative easing. As growth comes into sight, it is prudent for the Treasury to be considering these long-term questions of sustainability.

Q148 **Chair:** You are saying that we could see rates going up, but in a sense that might not be a bad signal if it is accompanied by good strong growth. However, you used this expression about the bond markets changing their view of the fundamentals. What would those fundamentals be? How would they change if the bond markets were to turn rather sour on equities?

Ian Stewart: Essentially, we have seen a massive search for yield in the global economy, which has driven down yields on all assets and narrowed spreads. It has meant that relatively high-risk assets have seen yields fall very rapidly. There has been a reduction in discrimination in the bond market, and you see the same thing in terms of Government. Governments across the world, including emerging markets, have relatively low borrowing costs.

Beyond this expectation of stronger growth, because I think we are going to see a strong cyclical recovery, the catalyst for a really big change in views would be a sense that central banks are losing control of inflation and are operating policy in an asymmetric fashion designed to fuel inflation. That would be highly negative, and it would also cause a renewed focus on balance sheet fundamentals for Governments, which so far have not been a big factor. Bond markets are not terribly concerned at the moment about levels of Government debt. Inflation is very important, as is the credibility of the authorities in relation to the long-term control of inflation.

Chair: That is great. I would have loved to spend more time discussing that, but time is short.

Q149 **Mr Baker:** I will turn first to the medium-term economic outlook and then to spending plans. The OBR forecasts that the economy will be 3% lower than its long-term trend by the end of the forecast period. Does that accord with your own estimations and expectations, Rain and Susan?

Rain Newton-Smith: Over the medium term, we may see some lasting effects from this pandemic. There was some encouraging news in the OBR's forecast with unemployment only peaking at 6.5%, but certainly our hope and expectation is that we can do better than that. Broadly, the OBR forecasts were similar to what we would expect of how the economy would evolve. Given the vaccine roll-out and, more broadly, if we can get the right pieces in place in terms of both business investment, and job creation and investing in skills, hopefully we can have a stronger recovery over the medium term.

Susan Himmelweit: I am not in a position to do that forecasting, but I would like to add that the 3% fall could correspond to economies in very different positions. We could have one in which it is fairly pleasant to live or one in which inequality has got much worse than it currently is, where a proportion of the population are doing reasonably well and some are doing extremely badly.

Q150 **Mr Baker:** Torsten, before the Budget you told us that even the baseline scenario has very small scarring effects compared with the financial crisis or the 1980s recessions, but the OBR stuck to 3%. Were you surprised that they are at 3%?

Torsten Bell: No, it would have been quite surprising if they had changed from 3%, given that, in the end, it is a guesstimate about the fairly distant future, grounded in a top-down view of what we have seen in previous recessions. The point I was making to the Committee last time was that 3% by historical norms is a very low level of scarring. In the recession in the 1990s, a good recession, there was 4% scarring versus the previous growth trend. The financial crisis was absolutely huge, with 18% scarring, compared to previous trends.

Against that backdrop, yes, it is a low level. It is more pessimistic than the Bank of England, which is only expecting 1.75% lasting scarring. There is not a right answer out of those. You should plan for some significant scarring, particularly on the public finances side. On the economic policy side, you should probably target having as little as possible, which means aiming to get us back as close to that previous trend as you can. There is a slight difference between your fiscal and your economic strategy relating to that scarring.

It is probably more useful to dig underneath what is driving that scarring and what we think about the different aspects of it. One big component is lost business investment during the course of the crisis, so the capital stock is lower. It is a bolted-on certainty that that has happened. Business investment has been disastrous this year on the back of four very bad years previous to the crisis. Last summer, business investment in no way bounced back even when the economy recovered, compared to, say, consumption. We should be nervous about that. Yes, there will be scarring from lower capital stock.

I am a bit more optimistic than the OBR on scarring in one respect. Their 3% includes higher unemployment, which is to do with worse matching of people to jobs after the crisis. That is possible. I am neutral on that one. Where they are too pessimistic is where they assume that labour force participation actually falls; i.e. a smaller percentage of the population want to work. One of our big learnings from the financial crisis is that big income shocks like this lead to people wanting to work more. They supply more labour to protect their incomes.

As a really concrete example, the OBR thinks that lots of people will take early retirement, for example if they were furloughed and then lose their jobs at the end of the furlough period. Some will do that, but a lot of people will retire later because their incomes are worse than they expected them to be. It is not good that they are staying working because of income shocks, but I am not as pessimistic as the OBR is on that front.

Q151 **Mr Baker:** Talking about risks, Ian, where do you see the risks in relation to scarring? What will make it perhaps worse or perhaps better than the OBR foresees?

Ian Stewart: Following up on what Torsten said, we know from past recessions that they cast a long shadow. Of course, none of us has lived through a recession that has been generated outside the economic system. This has not been caused by a financial crisis or inflationary excess. It has been caused by a pandemic and a lockdown. The policy response has been very different. I am sure we will talk about the scale of the policy response, but that has had a very big effect on limiting the damage to the capacity of the economy and preserving some of the networks that are traditionally disrupted by recessions.

I have been very struck by some of the corporate indicators of deep distress, things like insolvencies and business formation. Business formation was up 13% last year and insolvencies hit a record low in the third quarter of last year. Were know household balance sheets are pretty strong, although not uniformly so. It is very unevenly distributed. Cash levels are high for consumers are corporates. That suggests that it is different this time round.

Businesses responded very quickly—and we saw it in our own business—to this downturn. We saw a lot of action in the way in which businesses reconfigured operations. There was this tremendous shift to working from home—getting on for half the workforce working from home—with less than a week's notice. One other thing that may be different—I hope it is different—is that the crisis has emphasised the more creative use of, in many cases, quite prosaic technologies like the telephone and the internet, for things like GP consultations, working from home or online shopping. We are seeing in small and medium-sized businesses the enforced use of a lot of technology.

This may mean that we see that the damage to the fabric of the economy is rather less, because of the support that has been provided, but there also may be some chance of doing rather better in terms of the application of technology. In terms of the OBR view versus the Bank view on scarring, I would probably tend to be more towards the Bank view.

Q152 **Mr Baker:** I wondered if you were going to tell me that people perhaps were not going to go back to the office, given what you have said about homeworking. Are people going to go back to the office? I have certainly had enough of it, but you are still at home. What are people going to do?

Ian Stewart: I am not allowed to go to the office. We have been polling quite a large audience, maybe about 800 people, fairly frequently—these are our clients—through the pandemic. It is a complete mix of people, but on average they say they would like to work in the office about two days a week. There are very few people who want to work entirely at home or entirely in the office. Yes, it is going to be a step change. There has been a long-term move towards greater flexible, agile and home working. That has been going on for a long time. This is going to cause a significant acceleration of it.

Rain Newton-Smith: We are talking to businesses across sectors about this issue. We would be very happy to share some of our recent surveys and our paper looking at hybrid working. It is definitely going to be this mixed mode. I am talking about the 40% of the economy where jobs are relatively easy to do from home. It is partly about digital adoption. Businesses are talking about maybe needing 70% of original office capacity.

The only thing we then need to think about is that it puts a premium on thinking about urban regeneration in particular. If you think about levelling up, we know that it is some of our city centres in Manchester, Birmingham and London that have faced the biggest challenges through losing commuters, students and international tourism all in one go. As we think about how we recover from that, how we help city centres regenerate is going to need to be front and centre.

Q153 **Mr Baker:** Paul, talk about the scale of the medium-term hit and the risks to scarring, please.

Paul Johnson: It is worth saying that, whether the scale of the hit is about 2%, as the Bank suggests, or about 3%, as the OBR suggests, that is a hit on top of and after the dreadful growth we have had over the previous decade and the 18% Torsten mentioned as the effect of the financial crisis. In a sense, the big news remains that, by the time this unwinds, we will have had 15 years of pretty dreadful growth. Whether it is 2% or 3% lower than it otherwise would have been is relatively small beer compared with all of that. It is a hit off a very poor trend.

I would also agree with Torsten's point about labour force participation. There are things pushing in different directions here. I am not quite sure which way it will go, but we have looked at surveys of people over the age of 50 and about 5% of them say they expect to retire earlier as a result of this, but about 8% of them say they expect to retire later as a result. Those who expect to retire later are partly those who have lost money in their pensions but also, importantly, those who have discovered that they can work at home. That makes working life potentially more straightforward.

A lot of this will depend on the way in which the economy adjusts. You could get to a point with 2% or 3% scarring where the economy looks rather like it otherwise would have done, or you could get there with really considerable disruption in terms of jobs moving out of city centres or what have you. Those will feel like two very different paths to what might be a similar macroeconomic outcome, with very different distributional impacts and very different amounts of happiness and misery among those affected. I do not know which way that will go, but that is really going to matter.

Q154 **Mr Baker:** Ian and Rain, how ready are firms for the end of the furlough scheme?

Ian Stewart: They are ready in that they know when it is due to end. The corollary of the high degree of support, and the preservation of the fabric of the economy, jobs and companies by the furlough scheme and all sorts of other assistance, is that inevitably there is going to be a lagged effect on disruption. It is right to believe that insolvencies and unemployment are going to rise.

Quite a lot of that will just be inevitable. It will be part of the process of adjustment. There are some sectors, like transport, where there may be a case for continued support beyond the end of the furlough scheme. These are sectors with capacity that will be needed but where demand may for some time run low. Business is ready for it, but we also have to be ready to see some of the lagged effects of that disruption coming in.

Rain Newton-Smith: It was sensible to extend it in its current form until the end of June, and thereafter to have a taper and a gradual increase of employers’ contributions. For the businesses we have been speaking to, that seems to be a sensible compromise. Of course, it is all predicated on the gradual lifting of restrictions. Let us hope from the summer onwards that we do not see any continued restrictions, but the Government have to be prepared to put in further support if we do see an increase in restrictions. Let us hope we are not in that territory.

The Government did get the right compromise on extending the furlough scheme, but having a clear line of sight for how it tapers. It would have been helpful to have that announcement a lot earlier. That is the one thing I would say. Businesses were hoping that it was coming forward, but it was quite late to get the guarantee that it would be in place in its current form until the end of June.

Q155 **Mr Baker:** How realistic are the Government’s spending plans, Paul, especially bearing in mind that the virus-related spending comes to an end?

Paul Johnson: It will certainly be very difficult to maintain. To be clear on where they are, we got most of the news in the autumn statement and not in the Budget. There is a small additional cash reduction in the Budget, but the key point is that there was a reduction of around £12 billion in the spending review relative to last March's plans and a small additional reduction last week. That still allows for significant increases in real spending on things like health and education, but only those increases that were planned a year ago. If we take those numbers seriously, that has three consequences.

The first is that the Government think there will be zero additional costs in the health service, for example, and in schools in the medium run as a result of what has happened over the past year and will continue to happen over the next year. I hope it is right that we are not going to need to spend money on PPE, vaccinations, and test and trace, but I would be surprised. In addition, it allocates no additional resources for the huge backlog in the NHS. Clearly, the scale of lost learning in schools, one might think, would require additional resources, not to mention social care, the justice system and so on. There is a real issue about whether we will need additional money as a direct result of what has happened over the last year.

Then there is the question of whether, as a result of higher unemployment and so on, we might need additional money to support job search, training programmes and those kinds of things to minimise the scarring effects that we were thinking about earlier. If you put all these numbers together and take the total number seriously, not only do you get a reduction relative to March 2020 plans; in the unprotected Departments, outside of defence, health and education, if anything, you get a very small cut in absolute terms. That does not seem to me to be very likely at least, given what has happened over the last decade.

Of course, these are all decisions. That is the way the decisions could go, but I certainly would not take the numbers in the fiscal forecast as a central estimate of the likely path of Government spending.

Torsten Bell: I agree with every word of that in terms of the spending pressures that are very real. The social care one, in and of itself, is staggering. Some 30,000 people have died in our care homes. That comes on the back of the knowledge that we have a major problem with how we fund social care in this country and not sorting it out. One of the silver linings to this awful crisis is that the chance of us sorting it out at last might have gone up. It is very unlikely that it would not involve significant extra spending.

One way of thinking about it is that public attitudes towards the desirability of additional spending have changed over the last decade. They are now in favour of more spending than they were 10 years ago, which is what you would expect given the cycle of that spending pattern. In reality, although Paul is right to highlight that overall spending is not falling, as some people assert—it is going up as a share of GDP as well as going up in real terms—the increases are very focused.

It is not just that they are focused on health and education, although they are, but they are also very capital heavy compared to resource spending. Insofar as there is an increase in day-to-day public service spending going on, it has happened. The big increase was in the last year when Sajid Javid did a one-year spending review. Although we will not see George Osborne-style falls in public spending, the result of this is that we will be living with George Osborne levels of public spending in lots of areas. Local government and prisons are the two I would highlight in particular. It is those levels of spending that are the thing that may or may not be sustainable, given what the public mood is.

Against that background, for those of us who are trying to think about what that means for the fiscal arithmetic over the next few years, it is hard to conclude that this is a realistic central scenario.

Q156 **Mr Baker:** Susan, you wrote a report called *A Care-Led Recovery from Coronavirus*. What is your assessment, please, of the settlement for the care sector in this Budget?

Susan Himmelweit: I do not think there has been a settlement for the care sector in this Budget, and we need one. We needed one long before the pandemic. I would agree with Paul that there are going to be costs continuing as a result of the pandemic, but there are also costs that are going to continue because people have realised some of the things that were wrong before.

In particular, this is true of social care. It is actually a very good way of investing to get out of any recession that is caused. We have a social care sector with far too few people working in it. If you were in a Scandinavian country, 10% of the population would be working in some sort of care service or another. We have about half that number, and we are going to have a large amount of unemployment. It seems to me that this is exactly the moment to put that right by having training programmes. It is important that people are well trained to work in care, but this would be the moment to spend on that, to get the sort of social care system that people now realise we really need.

Mr Baker: Thank you all very much indeed. A double session has raced past, and I appreciate it.

Q157 **Felicity Buchan:** It is great to see you all. My questions are on fiscal stimulus and consolidation. It seems to me that we have two years of stimulus here largely through the support packages and the super-deduction, and then consolidation kicks in after two years. Does the Chancellor have the balance right? Is the two-year point the right time to be moving from stimulus to consolidation, Torsten?

Torsten Bell: Those are big questions. The big picture—this is just repeating what Ian said earlier—which is a policy of stimulus today and consolidation in the middle of the decade, is broadly the right approach to be taking to a Budget in these circumstances. On the timing issue that you raise, my view is that the timing should be determined by when you in practice have closed the output gap; i.e. the economy has fully recovered insofar as it is able to do so. That may be by 2023, but it may not be. You need to be fleet of foot in the face of that reality.

On the scale of the stimulus, this is a harder judgment to come to than it is in normal circumstances, as we discussed at the last hearing in February. The scale of stimulus, roughly £60 billion to £65 billion, is significant, particularly in the context of what has happened so far, but, if you look at the OBR's forecast, even on those numbers you have an output gap remaining, indicating that a higher level of stimulus would have been optimal, if you agree with its assessment. To match its assessment, it would have been roughly in the order of another £20 billion on top of that £60 billion-odd.

Estimating the output gap at the moment is what only very unlucky people want to be doing, because it is hugely uncertain, given that we do not know much about the level of supply, let alone the level of future demand. UK-based forecasts for that tend to be lower than their international comparisons, particularly compared to the IMF, for example. I would at least be trying to fill the output gap on the basis of UK forecasts, i.e. another £20 billion, and if I was going to err in any way it would be towards a slightly higher number. Particularly in the current circumstances, the idea that there is a perfect distinction between the supply side of the economy and the demand side of the economy is for the birds. Whether businesses decide to return to investing seriously in the near future is much more to do with whether restrictions are permanently lifted, whether it looks like demand has returned and whether uncertainty has gone for the future than it is about any particular tax break. A demand stimulus can help to recover that level of future supply.

On the specifics of the policy choices made, the unusual thing about what the Chancellor has done is to focus all the additional stimulus beyond this autumn on business investment and not on the household sector. It is the exact opposite of what is happening in the United States right now, and it is very different to historic fiscal stimulus. Your bog-standard fiscal stimulus involves tax cuts, some money for benefits, some capital investment and, yes, some capital allowances to get investment to happen. That is broadly what you expect. He has focused on one particular aspect of that.

I would say it is too narrow and it is risky being that narrow. In particular, I would highlight that the OBR's numbers forecast falling household incomes this autumn. Why are they falling? It is for two obvious reasons: unemployment is going up and benefits are being cut, as the £20 temporary increase comes to an end. That is a risk I would not be taking in these circumstances, but there is a very uncertain context within that.

On the nature specifically of the super-deduction in terms of how we should think about it, first, it is very large for a form of investment relief, but it is quite narrow in the sense that it only covers probably around one fifth of overall investment. It only covers plant and machinery. We are not talking about structures, R&D or intangible investment. Specifically, it is the kind of investment, i.e. buying kit, that is less effective stimulus because we do not buy it from the UK. About half of our plant and machinery is imported. It is not a massively effective stimulus in driving UK activity in the second round of its effect, even though it will encourage investment, which is good for supply reasons.

My overall view is that it was bigger than I was expecting it to be. The rough shape of the timing is right, so long as we are clear that we will change that depending on how the recovery pans out, but it is probably too small—and that is a risk—and it is certainly too narrow in its focus.

Q158 **Felicity Buchan:** We heard from the OBR the other day that it saw the super-deduction as an acceleration of investment. It believed that investment was likely to have happened in any instance. Yes, there was a benefit in terms of stimulus but really just by virtue of the acceleration. Do you agree with that?

Torsten Bell: That is both true and slightly unfair on the Chancellor. Yes, that is the stimulus part of the package: it is bringing forward spending to happen now when we particularly want it to happen, to see the economy through a more difficult phase. We need to be honest about how this tax system works for corporates. Once we told the world, as Rain's members will be reminding her every day for the next few years, that we were going to a 25% corporation tax rate in 2023, all else being equal, we almost had to do something big on the capital allowances side, because otherwise we would have been left with people waiting two years. They would have done the opposite. They would have delayed investment to wait for the higher tax relief against this higher rate.

This policy is partly being done for stimulus reasons. If I am honest, on the raw politics of this, partly what has happened is that we started off deciding we wanted a much higher corporation tax, at which point we do not have much choice but to introduce a policy looking something like this, because otherwise we would do the opposite of a stimulus: we would push off investment. We are making a virtue out of a necessity. Our wish to raise tax revenues in the long term means that this is basically what we have to do.

As I say, you should not criticise the Chancellor for the fact that it is bringing things forward. That is literally the purpose of a stimulus package. We should criticise the Chancellor for the reality, which is that Britain has had awful business investment, with zero investment growth, for the last four years and nobody in politics talks about it. What is driving that and what is driving Britain's poor investment performance in general? It is political and economic uncertainty, and weak demand. In the end, those are the two things that matter for the long term. That is what we should focus on, in sorting out the investment we need to see beyond the period in which we are just trying to stimulate the economy.

Q159 **Felicity Buchan:** Let me bring in Paul on my initial question. Has the Chancellor has got the balance right between stimulus and consolidation? Is the timing of the consolidation right? Let me ask you another follow-up question. Has he got the level of corporation tax right at 25%? Is there a risk that this is too much of a drag on growth going forward?

Paul Johnson: Broadly speaking, there is a lot of uncertainty in all this, but it is a reasonable judgment that the Chancellor has made about scale. He clearly has time to change the scale of the consolidation going forward in one direction or the other. The upfront stimulus, over the next 12 months, is at the upper end of what I might have expected. As Torsten was saying, beyond the next 12 months, all you really have is the super-deduction.

I would not be surprised to see more coming at that point. Until the end of fiscal year 2021-22, there is a lot of stuff there. You have furlough, universal credit, VAT cuts and business rate cuts. Some of that at least goes right through to this time next year. After that, all you have is the super-deduction. I would not be at all surprised to see some additional action past then, but it is not unreasonable to wait to see what is needed at that point.

On the issue of support for consumer demand, it is worth saying that the OBR forecast numbers suggest that, this time next year, there will be barely any difference between household consumption as currently projected and that as projected a year ago. If those numbers are right, there will not be a huge fall-off in household spending. Again, we will have time to make adjustments there.

As far as the super-deduction and corporation tax are concerned, Torsten is precisely right. If you are going to announce an increase in corporation tax down the road, you just have to have a super-deduction of some kind upfront. Indeed, for investments below the annual investment allowance, the Chancellor has set this at precisely the right level to make companies indifferent between investing now and investing in two or three years' time. If he had made it any less generous for investments below the annual investment allowance, he would have been putting companies off investing now. That would clearly be pretty disastrous.

That is indicative of the fact that the "super" bit of the super-deduction is only helpful to big companies doing big investments. It is not helpful to smaller companies doing smaller investments. It really is focused on that particular part of the market, which of course is where a very large part of investment happens. That is a very important part of the story.

In terms of the level of corporation tax going forward, clearly there are risks to such a big increase in corporation tax in terms of the scale of investment, particularly inward investment. While this will raise a significant amount of money in the medium run, it is clear that it will not raise the full £17 billion a year that is in the Red Book. That is explicit in the way the Treasury calculates that. The scale of the impact is extremely hard to estimate. It may actually be relatively small, but it may be bigger. It is going to depend on a whole series of other things.

Picking up on what Torsten said, I would stress that by far the most important issue here is political and institutional stability and certainty, not just around the sorts of things we are discussing but much more generally. The lack of that has been significantly behind the low levels of investment over the past four years. In terms of investment and growth, I would have thought that the absolute priority for the Chancellor and, indeed, the Government is to provide that kind of framework of certainty.

Q160 **Felicity Buchan:** The OBR told us that, in terms of the consolidation, this is 60% taxes versus 40% spending cuts. George Osborne did it completely the other way around. Has the Chancellor got the mix right?

Paul Johnson: As I indicated earlier, my guess is that those spending cuts will not happen. At least, that sort of reduction in the speed of spending increases probably will not happen.

I will be frank with the Committee: I have got this wrong before. In 2015, I said that the scale of welfare cuts that were proposed then would not happen, and broadly speaking they did happen. I thought some of the other cuts, like continuing cuts to things like justice and prisons, would not happen, and they did, although I am not sure that was a great outcome. It is a very difficult judgment. If we are looking back from 2030, my guess is that we will find that, whatever the scale of adjustment, probably more than 60% of it will come from taxes, but I am not going to bet very much on that.

Q161 **Felicity Buchan:** Rain, can I bring you in on corporation tax? What is your view as to the level it will be at? Obviously, we have tapering for small businesses. I assume that you welcome that. What are your views on corporation tax increases?

Rain Newton-Smith: Before I come on to that, I have one brief point about the household consumption and business investment, which Torsten and others have been speaking about. The Chancellor is right to focus on business investment over the medium term. If you look at where the overall average household savings rate is, there has been a period of enforced saving. As restrictions will lift, I agree with where the OBR is and certainly the Bank of England. We will see household consumption grow quite strongly.

The real challenge—we have not discussed it much here, and I am sure Susan will come on to it later in questions—is that there is a big difference in distribution. The Budget was quite silent on low-income households and issues around gender and self-employment. The reality is that we have been in this crisis all together, but we certainly have not borne the effects of it similarly. There is a big piece around low-income households going forward.

On your specific questions around corporation tax, we have three tests if we are looking at an increase in corporation tax over the medium term. Businesses recognise that over the medium term we need to think about getting our public finances on a sustainable footing, and corporation tax is likely to play a role within that. There are three important tests. First, we have to be internationally competitive; secondly, it needs to stimulate business investment; thirdly, it needs to be predictable and stable.

I think the Chancellor heard what we and many other commentators were saying: "Do not increase taxes now". The challenge is that we have a very large increase in two years' time. The Treasury's view is that the headline rate of 25% will still be competitive. I would really challenge that, because you need to look at the effect of marginal tax rates. In the UK, we know we have a very broad base of corporation tax relative to other countries. When we see corporation tax in the UK go up to 25%, we are going to go from second in the G7 for the effective tax rate, according to the Oxford University Centre for Business Taxation Research, to around fourth, in the bottom half of that G7 pack. The Chancellor needs to see where we are internationally and ask himself the question, "Are we still competitive?"

The second challenge, just to pick up on what others have said about the super-deduction, is that in 2023 that super-deduction falls away. Then you have the challenge that, to my mind, you need to do something. You need to either have some form of enhanced capital allowances, or look at business rates reform and other things, to make sure that we have the right incentives around business investment beyond 2023. That is where the Chancellor absolutely needs to focus his efforts.

It is true that the super-deduction is relatively narrow in the assets it covers. Businesses have been talking to me already. It does not cover intangibles. It also does not cover leased assets, which is quite important. We know that that is such a big part of our city centres. Over half of commercial property is leased. It has a big role in how we decarbonise our buildings, because 40% of carbon emissions come from buildings, 80% of which is from commercial property. We need to think about how we incentivise making our buildings more energy efficient.

These are some of the long-term challenges that we really want the Chancellor to look at. We will see some consultations on tax day, but really thinking about that low-carbon trajectory and how we incentivise business investment over the medium term should be front and centre of that.

Susan Himmelweit: If I could add two quick points, one is about the super-deduction. On the one hand, it is narrow because it is only on physical plant, but, on the other hand, it is amazingly untargeted. Concentrating on physical plant has huge gender implications, for both the industries that supply it and the workers who might use it. It is much more likely to result in men's employment than women's.

The other was on household spending. If the level of household spending is projected to be the same after the pandemic as before, and this is largely dependent on some households spending accumulated savings, it must be that some households are doing very, very badly indeed.

Q162 **Anthony Browne:** I am going to focus my questions on what we do with the absolutely enormous national debt that we have at the moment. When I was a junior economics correspondent, I used to write articles about Gordon Brown's debt target of 40% of GDP. We looked in absolute horror at countries like Japan and Italy that had ratios far higher than that. We are now approaching 100%. I am worried about it, because we cannot guarantee that interest rates will not rise. A 1% rise will spend the entire education budget, or certainly the schools budget.

In this forecast, a contraction comes in two years into the Budget and we see the national debt stabilising in 2023-24, in two years' time, which is a massive relief. My question is really about what we do after that. We do not have any fiscal rules. There were some fiscal principles that the Chancellor laid down. One of them was to stabilise the national debt, which is great. How much should we just live with this high level of debt? How much fiscal effort should we put towards bringing it down over coming years beyond that?

I want to ask Paul Johnson first. What would you like to see done with this high level of debt? How much effort should we really put into bringing it down?

Paul Johnson: I would start by saying that, in broad terms, the fiscal principles that the Chancellor set out make a good deal of sense: to allow borrowing for investment, to stabilise debt in the medium run and to take advantage of low interest rates while you can. At a very broad level, that makes quite a lot of sense. The speed of reduction of debt depends on a whole range of things. It clearly depends on where we think interest rates are going to go, so we may be much more worried about this in three years' time than we are now, if it looks like interest rates are moving upwards.

It depends on growth. We know that, essentially, what happened in the 25 years after the last war was a very swift reduction in debt as a fraction of national income, which was achieved through reasonably tight budgets, but mostly through high levels of nominal growth and real growth as well. If we are a world of very constrained growth, as we have been over the last decade, I do not think we can expect to get that debt down at the sort of speed that it came down in the 20 years after the First World War. I would not, as it were, recommend inflating our way out of it.

I have no idea what is going to happen to interest rates, but there are reasons for thinking that interest rates might remain low. They might not necessarily be as low as they are now, but they may be at historically low levels for a protracted period, not least because of the changing demographic structure of the population. That is a good macroeconomic reason for thinking that they might remain lower than they have historically been. That is the sort of thing that economists were talking about 20 or 30 years ago and appears to be, for various reasons, coming about.

That is all a very long way of saying that I do not know the answer to your question. A reasonable medium-term objective at the moment is to stabilise. If it looks like we are in a position of relatively low growth and low interest rates in the medium run, it is probably not too bad stabilising not too far from where we are.

Q163 **Anthony Browne:** Before coming to the others, I have one follow-up question. If you look at the back two years of the OBR forecast, it shows that the debt is coming down quite a bit, even though we have a budget deficit approaching 3% of GDP. There is a trade-off there. You could actually have a bit of fiscal loosening in 2024-25, should you want to do that. It would just mean the national debt would not be decreasing so rapidly. Do you agree with that analysis?

Paul Johnson: You also need to put the longer-term forecasts into this mix. To maintain the deficit where it might be in 2024 over the next decade or two will require, almost certainly, additional tax rises or spending cuts in one place or another, because of pressures on health, pensions and so on. If we are in a position where we can bring debt down a bit in the short run to allow a bit more scope in the longer run, that is a bit of space that is worth using. Frankly, the pressures are only going to get more difficult as we move later in the decade.

Q164 **Anthony Browne:** I am going to put the same question to Ian and Rain, and then, Torsten, I saw your hand was up there as well. Ian, my headline question is how much of a priority it should be to get this debt down. Clearly, it is a high risk having it at such a high level.

Ian Stewart: It is a potential risk, definitely. We are in a world where all Governments are running very high levels of debt by historic standards. The UK's debt level does not seem to stand out massively from the pack, despite the scale of the easing we have seen in the UK, which is exceptional. We are running debt levels below Japan, Italy and the US. That helps, because it is less to do with the historical comparison than with what other countries are doing.

As you say, the numbers in the OBR show a declining share of GDP accounted for by debt by the end of the Parliament. That is very ambitious. It is extremely ambitious, given what Paul talked about in terms of public expenditure. It is worth remembering that, despite all the talk of austerity under George Osborne, on the eve of the pandemic we were still running a budget deficit. It is very hard to see us doing anything other than, at the very best, over a very long time reducing debt levels. The question is whether we could stabilise them or maybe slightly reduce them, or whether they are likely to drift rather higher.

I tend to the view that, if rates rise, that is going to be a good thing that will constrain the ability of Government to borrow and raise their borrowing costs. It will also be symptomatic of an economy that is stronger, where the private sector is stronger and the need for public expenditure is lower. We are definitely, for a very long time, going to be in a world with much higher levels of public sector debt.

Q165 **Anthony Browne:** Rain, the Chancellor is thinking about his fiscal rules. He has not announced them yet. We do not know quite what he is going to come up with. How comfortable are you with this high level of debt? How much would you like the Government to focus on getting debt well below 97% of GDP?

Rain Newton-Smith: The Chancellor's three principles were reasonable and I agree with what Paul and Ian have said so far. In a way, as macroeconomists, we have to leave behind some of the numbers that were prescient when we were first studying economics. We are in a different world, as Paul was saying, where there are much lower structural real interest rates. That matters. To my mind, we can tolerate a higher level of Government debt at the moment. If you look at the interest rates as a proportion of revenue, the interest payments are about 1%, which is still at historically low levels, despite the fact that Government debt is now well over 90% of GDP.

In the medium term, it is right to stabilise that overall level of debt. Fundamentally, what matters is making sure the overall level of debt as a proportion of GDP is stable and not on an explosive path.

Q166 **Anthony Browne:** We can all agree with that. We do not want it to get worse.

Rain Newton-Smith: Yes, exactly. We do not want it to get worse. You need to make sure that the markets are able to roll over that debt and, importantly, that you are not crowding out private sector investment, which depends on where the output gap is. On all those three tests, we are okay for the moment and at the end of the Parliament. It is right to make sure it is at least stable by the end of the Parliament. Those are applying the right sorts of tests around the overall stability of our public finances.

Q167 **Anthony Browne:** Torsten, how much should we try to mend the roof while the sun is shining?

Torsten Bell: I would like the sun to start shining at some point.

Q168 **Anthony Browne:** It will do at some point. It is still raining at the moment. Hopefully, the sun will shine for a number of years.

Torsten Bell: I was going to say a few short points. One is that I do not think anybody actually thinks we should be panicking right now.

Q169 **Anthony Browne:** I deliberately couched my question at the back end of the five-year forecast there. We are all agreed that the next two years focus on growth and stimulus; it is about after that.

Torsten Bell: We should not worry now about that. We are all talking as if stabilising debt in the middle of this decade is actually stabilising debt, which is nonsense for a number of reasons. One is because the idea that this is the last recession is for the birds. If the last 10 years has taught us anything, it is that we are on a debt ratchet, where each recession puts debt up. In the olden days, we used to say it was by 10% of GDP. If the crises carry on looking like global pandemics and global financial crises, you can make it 15% to 25% of GDP.

If those ratchets continue, in particular in a world where long-term rates cannot carry on falling, clearly you are, at some point, on an unsustainable trajectory. That is before you get into Paul's point about an ageing society. Because we find it impossible to look further ahead than the next year, which is understandable, given how uncertain the next year feels like, the big picture is stabilising debt is not stabilising debt. Stabilising debt is basically putting ourselves on a ratchet but then hoping that at some point growth returns to the global economy and helps us sort all this out.

On the balance of risks, that is not an unreasonable judgment to come to, but we should be clear that is the balance of risks we are taking. I agree totally with Ian that that is the issue, rather than this issue about, if rates start rising, it is some sign of catastrophe. If rates rise in the short term, it is an absolute triumph. The reason why they are absolutely at the floor is because people have given up on the ability of Governments and central banks to reflate their economies.

I would make one last point, which is quite important. Yes, okay, he has set out three principles rather than fiscal rules. As we discussed at the hearing back in February, these basically are fiscal rules. They are what he is targeting fiscal policy at. It is just that the OBR is not being allowed to mark him against them. He is coming in on the spot of meeting them all.

Anthony Browne: Yes, they are all met.

Torsten Bell: They are all met, exactly, so these basically are our fiscal rules. Are they broadly sensible? Yes, in a general sense. They fit with the history of picking fiscal rules. I want to make a point about the focus on net debt though. What is Britain doing at the moment? It is planning to spend the highest sustained amount on Government investment since the 70s. The reason it is able to do that with net debt falling is because interest rates are so low that you can run a large primary deficit and still have the debt falling. Once you combine that reality, which is that at some point R may increase again, plus all the points that Paul and I are banging on about, about the levels of resource spending on public services going to end up being higher than they currently are, the fiscal pinch point later in this Parliament is that you are going to choose.

Either you are going to bust your net debt rule or you are going to raise taxes more than we are currently planning, because you are going to have to increase that level of current spending. That is where the pinch point on public service spending is going to come later this Parliament. The current way the world is configured looks like we can afford to keep this level of high Government investment happening without net debt rising. I am quite doubtful that is going to maintain the case right the way through to the next election.

Q170 **Anthony Browne:** I think in 2024-25 we will end up with the highest rate of tax as a share of GDP we have had since 1969, when Roy Jenkins was Chancellor. I think it is 35% or 36%. Is it inevitable that it will stay that high? Are we on a ratchet where we have become Sweden, or is it possible that we will come back down? It is obviously quite a source of contention in certain parts of the low-tax right.

Paul Johnson: I do not think we have quite become Sweden. On the point about Roy Jenkins, I would need to look back and find out why this was, but it really was a one-off spike. I do not think this will be a one-off spike for all the reasons we have just discussed. We have a big deficit and lots of pressures on public spending. Compared with the late 1960s, we are spending far more on health in particular. That will continue to rise. Spending on pensions and so on will continue to rise. I do not think it takes us very close to Sweden, or indeed some other western European countries, but I would be quite surprised if this were not a ratchet up that at least—

Q171 **Anthony Browne:** It is basically inevitable that we are in a new paradigm of a high-tax economy.

Paul Johnson: I would not say it is inevitable. There are choices here.

Q172 **Anthony Browne:** It is highly likely.

Paul Johnson: That would be my bet.

Susan Himmelweit: First of all, it is not the level of taxation that matters, but it is distribution. We live in a much more unequal society, in which some people could afford much higher levels of tax. It is also the case that we have to see some of the spending as investment. Even some of what is considered current spending is in fact an investment in having lower spending and therefore lower tax in the future. We have to take account of that. Some things are more efficiently done spent on collectively than individually.

Anthony Browne: That is definitely true. That is at the heart of a major national economic debate. I would love to continue this discussion but I have completely run out of time. Thank you very much.

Q173 **Alison Thewliss:** I have some questions around the coronavirus job retention scheme and the self-employment income support scheme and the measures in the Budget for that. I know I have asked Paul and

Torsten questions about this before, so I will perhaps direct these questions to Rain, Ian and Susan. Rain, you mentioned earlier on that you felt the job retention scheme would have been a late decision, but we have an end date for September now anyway. What do you feel that the Chancellor should have done in terms of this scheme? Does it give you enough certainty for businesses, or would you have liked to have seen something slightly different?

Rain Newton-Smith: No, what the Chancellor has done is fairly in line with what we were calling for. We saw it as really important to have it in its current form, no tapering before the end of June. Then, over the summer, when hopefully we see the economy mostly fully reopen, you have a gradual tapering, with employer contributions increasing gradually over that time period. Most of the feedback we have had from members has been positive around that. We will wait and see. It is all dependent on that opening up of the economy, but what has happened with the job retention scheme seems to be broadly in the right place.

Ian Stewart: I pretty much agree with Rain. The OBR is anticipating growth next quarter of about 4% quarter on quarter and then 3% in the third quarter. Continuing the scheme until June, through a three-month period that should show a significant recovery, and then on a tapering basis through the third quarter, is reasonable and perhaps on the generous side of what would have been feasible. Clearly, it has to be wound down at some time, but I think the timing looks right, given the cycle.

Q174 **Alison Thewliss:** Susan, do you think the decision to extend is useful, given there are particular sectors of the economy that have been harder hit and have needed to furlough staff?

Susan Himmelweit: Yes, I do. On the whole, the support packages could have been more tailored to particular sectors. I do not have any particular argument with what has happened this time. It would have been useful in the past to have given more notice and so on. We have to be clear that whatever is going to happen this time will have to be dependent on what happens with the pandemic.

The thing that I would not have done, though, is to take away the uplift in universal credit and other benefits at exactly the same time as taking off the furlough. I would have let that run on somewhat longer. In fact, I would have made it permanent. If it is going to come to an end, I certainly would not have done it at exactly the same point.

Q175 **Alison Thewliss:** It has been said that there is a risk that unemployment will peak at 6.5% at the end of 2021. Do you think that the impact of furlough ending and the removal of the £20 uplift at the same time could have a much bigger economic impact?

Susan Himmelweit: Sure. Making those two things happen simultaneously is going to impact on demand and therefore who keeps their jobs. Yes, definitely.

Q176 **Alison Thewliss:** There is an impact as well on households if it coming to the end of any flexibilities people have had on their mortgage payments, for example.

Susan Himmelweit: Sure. All those things have to be planned very carefully. It is not obvious that that is happening.

Q177 **Alison Thewliss:** For the fifth self-employment support grant, people whose turnover has fallen by less than 30% will receive a grant worth 30%, rather than the full 80%, of the three months' average trading profits, capped at £2,850. Does this makes the scheme fairer, or is that too much of a cliff edge for people?

Torsten Bell: Moving to a more targeted scheme for the self-employment grant is what we should have done last summer, when it became clear that we were going to be doing multiple rounds of this grant. The lack of targeting has been a real disaster. The lack of targeting is in two senses. It was too generous originally for some, people who had no income losses but then received very large grants, so we should support the move to more targeting.

Yes, you are totally right: it is done with a cliff edge. Having a cliff edge is better than having no targeting, which is what we had before, but you are going to be really upset if you are just on the wrong side of that cliff edge. Realistically, history and every study of self-employed taxation tells us that the self-employed can do a remarkable amount to change what their reported income is. I suspect you will find very few people falling just the other side of that hard cliff edge, if any of the history is anything to go by. That is me being a cynic in there. It is better that they move to targeting.

On the other side, they have obviously attempted to deal with the lack of targeting for those that were excluded. It is quite hard to know exactly, but we think they probably brought in about one-third of those who have suffered income loses but were excluded from support by moving to allow another year of tax returns to be included. Clearly, if you earned £51,000 in the year before, you are still pretty angry with being excluded, or if you are an owner-manager. New self-employed people, or people for whom the nature of their last tax return brought them into being covered will be happy with the way the system has been changed. That is a reasonable thing to have done.

Q178 **Alison Thewliss:** Do you think the Government ought to have done more at this stage to bring in those that are still excluded—the limited company directors or the freelancers?

Torsten Bell: Yes, that would have been a preferable thing to do. There is no justification for a hard cut-off on the £50,000 point in history. Is it the biggest problem with the level of support over the crisis? No, but there is no fairness justification for excluding totally somebody over £50,000. My view is we should have done the same thing we did for the furlough scheme, which is to cap the total amount of compensation, rather than having a hard cut-off for people getting any compensation at all. That unfairness is much worse because some people who qualified for support got so much, despite having no income hit at all. It is the juxtaposition of no support for people who had big income hits and lots of support for people with little income hits that has made the scheme so inequitable.

Alison Thewliss: I can see Rain nodding there as well.

Rain Newton-Smith: I was just agreeing with what Torsten said. We need better targeting of the scheme. It was helpful that they managed to bring 600,000 who had not received any support into the net in the latest round of grant support.

Susan Himmelweit: There is one thing that was not put right in the Budget, which is a bit incomprehensible. That is the fact that no account has been taken of the fact that women on maternity level will have had reduced earnings at that time. It is also the case that the majority of those excluded are women and the majority have dependent children, so the exclusions really matter.

Q179 **Alison Thewliss:** It is something I have heard lots of from Pregnant Then Screwed and Maternity Action through the all-party parliamentary group on gaps in support. It is a real injustice that requires to be fixed. Ian, you were nodding as well.

Ian Stewart: Could I make a slightly different point? The furlough scheme was a massive innovation and experiment. It is going to take time to assess the full costs. When you move at such speed and in such scale, things are going to go wrong. It raises a really interesting question about the design of the welfare state in the long term and whether we should not be thinking about making some sort of a variant of this part of the architecture. Other countries do. You would have to think very carefully about funding.

It seems to me that it is remarkable that we are sitting here, having been through—we all know it—the biggest downturn in 300 years, such an enormous, unimaginable contraction. Even in the global financial crisis, the job numbers were remarkably strong, given the shock to the economy. This has been extraordinary and it opens up a debate about the welfare state and whether this ought to become part of our armoury of policies.

Q180 **Alison Thewliss:** That is a good point. I would like to ask Ian and Rain very quickly about recovery loans and whether they will be effective at helping businesses, given how indebted some companies have been already.

Ian Stewart: They will help. The reality is that an awful lot of money—over £100 billion—has been underwritten by the Government. You have seen quite a substantial increase in corporate gearing in this country and other countries. The fact is, like the furlough scheme, some of this money has clearly gone to companies that are not going to be viable and are not going to last. It is sensible to have some continued support, but I do not think that is going to stop there from being some really quite big destruction. You look at the BEIS survey. Getting on for a third of businesses in the accommodation and food service sector are not confident they will survive three months, so there is a question of sustainability. The Government needed to do something and the scheme is a sensible one.

Rain Newton-Smith: We needed some sort of scheme to follow on the business interruption loan scheme and the bounce-back loan scheme. It is really good that it is in place. It is also good that the time period over which businesses have to repay the original loans has been extended from six to 10 years. That was really important in providing breathing space. It also comes back to almost where I started from on some of the gaps in Covid support. For a lot of smaller businesses, we also need grant support. They are not in a position to want to take on more debt. Having a large pool of discretionary grants is so important in making it easy for businesses to access that.

I know we have touched a little on some of the gender elements, but there are lots of self-employed women and women who are working part-time who are often running community clubs, community sports clubs for kids, who are renting premises to provide those facilities. Because they do not own the premises and have a business that is open or shut, and they are only using those premises, they do not get any direct support. That is one of the gaps. That is why making it easy for businesses to access those grants and an easy mechanism for those grants to reach people quickly through local authorities is really vital.

Q181 **Alison Thewliss:** That is a really important point. I have had constituents in those kinds of circumstances as well, where they maybe rent a premises that is not subject to any means in which they can then access the support schemes by the way they are constructed. Are there any other notable gaps businesses have fallen through completely?

Rain Newton-Smith: Those are the major ones. It is people who are either using premises or are manufacturers in the supply chain of businesses that are closed. I would certainly echo some of the comments from Susan and others. One of the concerns I have is some of the smaller businesses that are often run by women in local communities that do not always have a big voice more broadly. It is important that we look at some of the gender aspects of the Government's support that has been put in place and, going forward, how we get that labour market participation continuing. Let us hope that it leads overall to an increase in labour market participation.

I am worried about some of the scarring effects on women who have taken on board more caring responsibilities. I know it is not exclusively women who have had to take that on, but we know from surveys that they have taken on a larger proportion of the caring responsibilities.

Making sure that we have the means for them to get back into the labour market, and in a supported way, is really important.

Alison Thewliss: I would agree with that entirely.

Q182 **Harriett Baldwin:** This Committee has always called on the Treasury to publish more in the way of equalities impact assessments when it comes to Budgets. I was not able to get very much out of the Budget documents themselves in terms of equalities impacts. There was a very good study from the House of Commons Library that came out on Monday, International Women's Day, to look at the difference in terms of the economic shock on men and women. There has been a clear difference. Women's employment has dropped by 0.6%. Men's employment has dropped by 2.4%. Unemployment for men and women has been similar, but men have seen a 4% rise in economic activity. Largely, this is because more women have been eligible for furlough, because more women are employed in those sectors. Interestingly, part-time work has dropped for both men and women, but full-time employment has increased by 309,000 for women, which I was quite struck by. In terms of impacts themselves, though, Professor Himmelweit, what is your view of the specific impact of the Budget itself on women?

Susan Himmelweit: I would like to say something before I get to that, because we did not have an equalities impact assessment of this Budget. It actually means we have no way of knowing whether the Government met their public sector equality duty with respect to gender or any other protected characteristics. People think of that a little as something that does not really matter. Over the past year, we have seen that we have an economy that does not only run on what we do for money. It is what people do about care that matters greatly. Men and women are in different positions with respect to that. That means that any policies that are designed around a man's typical life will not benefit women in the same way. Therefore, such assessment is really important and we have not had much evidence of any of that type of design going into things.

For example, the furlough scheme was originally not available part-time at all. It was originally designed simply for full-time employment, a typical men's form of employment, not a typical women's form. As we have just been talking about, the self-employment scheme does not take account of periods of maternity leave. Even though there have been a lot of campaigns about this, nothing was done about this in the Budget. That seems to be an obvious thing. If you are starting two new self-employment schemes, why do you not put something right that has been pointed out about the previous ones?

There are perhaps four issues that are particularly important. One is the idea of what constitutes investment. The super deduction is a very blokey idea of what you mean by investment. It is in physical things, so tax breaks for investment in physical plant and, in general, the Government's focus on physical infrastructure. That tends to employ men, both directly and indirectly, in the industries that it calls on, but it is not a particularly good way of generating employment. The investment in the softer side of investment, if you like, in training or other intangibles, tends to employ more people.

My organisation has done an analysis that, if you spend the same money, for example, on construction or on care services, you are going to employ 2.7 times as many people, if you look at the direct, indirect and induced employment effects of investing in the two industries. Having a view of investment that is only physical is already a very clear male bias. We got that very clearly in this Budget in the way the super deduction was targeted on investment in physical plant.

Secondly, we know that cuts in public services hurt women particularly, and we got an extra £4 billion cut in this Budget, on top of a £10 billion cut in the spending review. There are a number of areas in which that is true but, in particular, as we have talked about already, there is the lack of social care reform or the allocation of any funds for it in the future. We have also had investment in childcare. That will be really important in the very next year, because a huge number of childcare centres are likely to close. About a quarter of childcare providers believe they will close within a year. These are concentrated in the poorer areas of the country.

Of mothers who have been made redundant in this year, 46% said that a lack of childcare was a factor in them being selected for redundancy. Then, if you look at all women who are employed, about three-quarters have either had their earnings or hours cut during this year due to lack of childcare. Any Budget that does not do something about public sector services is going to have a poorer effect on women, and this one did nothing about them.

Q183 **Harriett Baldwin:** Do you accept the House of Commons Library statistic that the job retention scheme has supported more women than men?

Susan Himmelweit: More women have been furloughed. Yes, that is true. What you do not know is that some of these businesses will have kept on some of their employees and they may have been more likely to have kept their men than their women.

Q184 **Harriett Baldwin:** You are right that, on mothers, the statistics that were in the House of Commons Library report say that mothers were one and a half times more likely than fathers to have lost or quit their job over the course of the pandemic.

Susan Himmelweit: The ones who have not are probably incredibly stressed. We should bear that in mind too. Women have taken on a hugely greater proportion of the extra home-schooling and caring that has been involved. Those who have kept their jobs may have done it at the expense of great stress. We know that the mental health of women has declined more than that of men.

Q185 **Harriett Baldwin:** Speaking of stress, there was an additional £19 million towards tackling domestic abuse in the Budget. That is on top of the £125 million announced in the spending review. Is that enough to support the victims of domestic violence?

Susan Himmelweit: Women's Aid says it is not enough. It says it needs something like £390 million, I think, to get back to providing a reasonable support service. In preparation for this, I had a look at what not having a reasonable one means. It means that we have waiting lists of 14 months for domestic violence support services. That seems like almost no service to me, if people might have to wait 14 months for that. In many local authorities, they have had to close to new entrants. Closing to new entrants means you actually have no service. This is very serious. It is good that the Government put some more money into it, but it sounds like it is just not enough.

The other thing that would be really important for women is to have some reform of local government finances. We have a system this year in which we are going to have tax rises. They are not tax rises the Chancellor has talked about, but we are going to have tax rises in council support, which is a regressive tax. The only tax rises we are having this year are rises in a regressive tax. It is absolutely vital to fund public services, but it is a regressive tax, both between and within local authorities. It is the one on which a lot of women's employment depends and a lot of the services on which women depend.

Q186 **Harriett Baldwin:** Torsten, the major personal tax rises that were in the Budget were around freezing the personal allowances and the rate at which you pay higher rate. Is that going to mean that men pay more income tax? In terms of progressiveness, that seems quite a progressive approach. Does that mean there is a disparity between what men and women will be paying?

Torsten Bell: Focusing specifically on the threshold freezes in the income tax system, overall, that is progressive tax rise, with the exception of the very highest, who do not benefit from a personal allowance anyway and so are not affected by the freeze, but forgetting them for a second. Big picture, yes, higher earners will pay more of that than lower earners. That means that, overall, men will pay more of it than women. If you care about who comes into tax at all, there are more women around the income tax threshold. The overall amount of tax paid will be a higher percentage for men than for women.

The flipside of those earnings figures being different is that women are more reliant on the benefits system than men. There are 4 million women relying on universal credit or working tax credit versus around, I think, 3.3 million for men. When we come round to the end of September and remove the £20 a week universal credit limit, that will be significantly worse for women.

Q187 **Harriett Baldwin:** Does that mean that women have benefitted more from the £20 uplift while it has been in place?

Torsten Bell: Yes, absolutely. They definitely have done. This is not intentional, I do not think, but there is a slight irony. We have been cutting benefits significantly for the past few years. This is the year when we have seen more men than women coming on to the benefits. The flow on to benefits has been male-heavy, even though the stock on benefits is female-heavy. It is by coincidence, maybe, that that is the year we decide to increase temporarily the amount of benefits going to people. That has benefitted women more than men on average, but the reason we need to do that is because we have been cutting support for families, particularly families with children, over the previous four years. Those reasons are not going to go away at the end of September, and neither is the fact that the benefit system is more important for supporting women than men in the years ahead.

Q188 **Siobhain McDonagh:** I would like to ask some questions about the outlook for the property and housing market. This is to any panel member who wants to answer it. The OBR notes that the high levels of house price inflation that occurred during the second half of 2020 were due to the pandemic not severely impacting high earners, who account for a disproportionately high share of home purchases. If we look at first-time buyers, to what extent does the stamp duty holiday help them? How will the support for 95% mortgages also affect them?

Torsten Bell: I will take the first one on stamp duty and then somebody with more knowledge than me can pick up the second one. On stamp duty, this is going to put me in a minority position because I appreciate that most people love stamp duty holidays.

Siobhain McDonagh: I do not.

Torsten Bell: Great; you are going to be happy, Siobhain. Every Chancellor who has ever cut stamp duty following out from a recession loves it. I would say two things about it. One is specifically on your first-time buyer point.

Siobhain McDonagh: They do not get helped.

Torsten Bell: The way in which we have done the stamp duty holiday is to remove the only advantage first-time buyers had in the system. They are cash buyers in general, so that is a bit of an advantage, but generally their only advantage is that since 2017 they paid lower stamp duty than other buyers. That is a desirable situation for a whole host of reasons, so that is not a good thing.

Secondly, my general view is that stamp duty cuts as part of stimulus packages coming out of recessions are not bad ideas. Although there is some upward pressure on prices, the main stimulus effect is not really to the housing market directly. It is that you keep the level of transactions up and that leads to the durables market, people buying stuff for their homes, being higher than it otherwise would. In this crisis, the irony is that that bit of consumer spending is the bit that is actually well above its normal levels Higher earners are all stuck in their houses. They are all buying stuff for their houses because they cannot go out and eat or drink their money. The one bit of the economy we do not need to stimulate is the durable goods market.

My personal view on stamp duty cuts in general is that they are possibly useful in normal recoveries; they are less useful in this one, for the reason I have just mentioned about the fact that we do not need to stimulate the durables market as much. Secondly, we have disadvantaged first-time buyers relatively by having the stamp duty cut.

Rain Newton-Smith: I am happy to add a few reflections. On the stamp duty, originally it was a welcome announcement. That was partly because there was a challenge around transactions. Particularly just coming out of the first lockdown, there was a real challenge on transactions. It proved to be effective in getting the transactions moving again in the market.

I agree with Torsten. I have some concerns about whether we need that demand stimulus going forward, but I am convinced by some of the arguments from businesses operating in the sector. Because transactions have not been able to move as quickly as they would like, they have quite a backlog, so having a line of sight as to how that stamp duty will be removed is important. We probably need some sort of tapering. We do not like cliff edges; you have probably picked that up. Having a smooth transition to phasing out a support is welcome, so they may want to think about that.

On the 95% mortgages, one of the challenges is that some of those 95% mortgages have stopped being provided into the market. Ian may want to add some more on this. Having a period where you have a Government guarantee to help, and particularly to help first-time buyers, who tend to be the ones who need those 95% mortgages, is an effective way of getting that market working again.

More broadly around the housing market, we need to see a focus on supply and measures to boost housing supply. I am always a bit wary about measures that are too focused on housing demand.

Finally, one of the most important things we need to see around our housing stock is more effort to make it more energy efficient. We have not touched on it yet, but the green homes grant is a really important policy. We definitely need to see an incentive there. Unfortunately, the execution of that has been pretty woeful. The real challenge is that it is really hard for SMEs to access that grant. You need to use existing mechanisms. At the moment, it is really hard for providers to get themselves certified to be able to provide the green homes grant. We do not think they should reduce the overall amount of support, but definitely redesign the policy to make it much more effective than it is at the moment.

Ian Stewart: On the point about house prices and the distributional effects, one of the ways in which policy has operated to try to support the economy is by bolstering asset prices. We have seen it in bond markets and with equity prices rising. In contrast to the last recession, house prices have held up very well, partly for these measures and partly because of all the other general support. On balance, although that creates all sorts of longer-term problems in terms of affordability, it is beneficial for demand now that house prices have held up.

On the supply side, the data are quite lagging, but one of the things that has really struck us is that we seem to have seen quite a rapid bounce-back in housing completions and starts last year. They obviously fell off a cliff in the second quarter. In marked contrast again to the last recession, where there was long lull, they have snapped back. That is clearly to do with the lockdowns and easing supply problems, but it suggests that we may see a quicker improvement on the supply side, which is clearly really important. You are getting a similar sort of message from high-frequency data on housing activity. That is good news. Clearly, the fundamental problem is supply and it is still too weak. We may find that, on the supply side, things come back quite quickly over the next 18 months or so.

Q189 **Siobhain McDonagh:** Paul, I have a question for you. Last month, you told this Committee that the stamp duty holiday was not a terrible way of stimulating the housing market in the short run. Are there better ways of stimulating the housing market that the Chancellor should have considered?

Paul Johnson: There are two or three questions wrapped up in that. The first is that, in the longer run, I think we would all agree that stamp duty is itself a pretty bad tax. One of the reasons it is not a bad thing to do in the short run is that it is an even better thing to do in the long run. Secondly, it depends on what you are trying to achieve. One of the key issues here is about equity within the housing market, or the balance between generations, or the balance between those with and without equity. As Torsten pointed out, the stamp duty holiday is not particularly helpful to those right at the bottom of the housing market, because they were not paying stamp duty in any case.

The 95% mortgage guarantee could be helpful, as could, for example, changing the way that council tax works to make it less regressive, as have been, potentially, some of the changes to the taxation of second properties and so on. Given that we have had yet another fall in interest rates, the more important issue in the housing market, not just at the moment but over a significant period, is to do things to redress that balance between those with and without equity, or those between generations, if that is what we want to achieve, or we just accept that we have a huge unintended redistribution to one group of people from another.

Then there is the gist of your question. If you want to boost the housing market in the short run, cutting the cost of moving is probably a pretty good way of doing it. The question is how much you want to achieve that boost. The bigger issues in the housing market are not really about that sort of short-run boost. It is much more all the long-run issues about structure of taxation and our response to ultra-low interest rates that really matter.

Q190 **Siobhain McDonagh:** There has been a lot of concern expressed about the exposure of pension funds having invested so heavily in commercial premises. Is there a role for pension funds to perhaps look at investing in social and affordable housing, rather than commercial property?

Paul Johnson: Can I offer a high-level view of that? In general, occupational pension funds have been very heavily invested in very safe assets, including gilts. It is one reason why so much money has had to go into them. My general view on pension funds is that it is not appropriate for Government or anyone else to be telling them to invest in commercial property, social rented property or what-have-you. It is for them to do the best they can for their members, within certain constraints. The reality of course is that the big constraint they face is a combination of the regulatory system and the risk aversion, for very good reasons, of the sponsoring companies.

One of the things that is very striking is that the big issue for some funds has been yet another fall in long-run interest rates. If you look at the university sector and the local government sector, if these things are maintained, some of the bigger long-run effects of this last year will act through the additional costs that are potentially coming into their pension schemes. They look increasingly difficult to maintain if we keep the current regulations and needs to meet funding rules.

Torsten Bell: I was going to make some very boring points about the details of how we fund affordable housing, which I am not sure is the gap in anyone's life right now.

Siobhain McDonagh: I would love to hear them. I would like you to tell the other members of the Committee as well.

Torsten Bell: That is good. I thought that was how this worked. People invest in affordable housing in the UK, if we mean funding bonds for some of our bigger housing associations, admittedly only the bigger ones that have strong balance sheets.

Secondly, on what matters in this space, this slightly goes to what Ian was saying, which is about the private sector housebuilding not doing as badly compared to the financial crisis. We have not seen loads of builders have their covenants broken. In the financial crisis, loads of builders had their balance sheets demolished by a collapse in house prices. Lenders called them in, because they had breached their covenants, and nobody could build anything for a while. The important bit I was going to add to what Ian said is that last time the social sector stepped in and massively increased its output of new housing during the financial crisis. That is not happening at all this time.

The answer to that is not that pension funds buy more bonds of those housing associations. It is not extra debt that is the answer. It is that we are providing low levels of grant for affordable housing, particularly for some kinds of affordable housing. Insofar as there is a problem about lower housebuilding coming out of this crisis compared to the last crisis, it is on the affordable housing side, not on the private sector housing side. The answer to that is Government grant. It is not more bonds being bought by pension funds.

Q191 **Dame Angela Eagle:** Torsten, I wonder if you would give us your view on the regional strategy, as it made an appearance in the Budget. Is it going to be effective? Were you surprised at the size? Is it too big or too small?

Torsten Bell: There are a lot of aspects to it. Insofar as there is a levelling-up strategy, it is to spend large amounts of capital expenditure in the midlands and the north. Is that a good thing? Yes, it is broadly a good thing to increase that level of capital expenditure. As I said earlier, we are back to levels we have not seen since the 1970s. In the big picture, that is desirable.

Is that in any way sufficient to drive what people are targeting, which is a higher level of productivity and closing productivity gaps? It is productivity gaps that are big in Britain, rather than income gaps between parts of the country. Disposable income gaps have actually been falling in Britain for most recent decades. Productivity gaps have not, so aiming to target that is a good thing. In the real world, that is as much as about skills investment as it is about capital spending. That is the good news, and the gap.

The bad news about what the Budget told us about a levelling-up strategy is how we are going about deciding where we spend that money. There is an absence of a serious engagement with how you spend that money in a way that is aiming to raise productivity levels sustainably in parts of our country. I can give you two examples. One is the one that has received all the attention, which is the way in which we are allocating various levelling-up or town funds has some level of political engagement with the decision-making in it, rather than where it can deliver most value for money.

Q192 **Dame Angela Eagle:** I think you mean pork barrel, do you?

Torsten Bell: You may say pork barrel. I would say that it is less clear it is being targeted at where it is most productivity-enhancing. The second example is the decision to move to the so-called Treasury North; as far as I can work out, it actually means moving large amounts of BEIS, MHCLG and a bit of the Treasury into a Treasury North building in Darlington. I personally like Darlington a lot. The train station is great. It is a great place to spend some time and, if you get to live there, you are going to get to live near some lovely countryside.

Is that clearly a decision based on where it can be most valuable in terms of driving agglomerations as part of wider benefits to an economy? It is clearly not. Putting it in Darlington over Leeds tells you very clearly that politics, not economics, is driving the decision-making. That is good news for Darlington, but it is bad news for the effectiveness of the organisation, if I am honest. It is also bad news for what it tells us about a Government being really serious about addressing long-lasting productivity gaps between parts of our country. We can do all we want in announcing capital schemes that are going to spend money in some high streets, most of which I value, which probably could significantly increase the amenity value of lots of parts of our country, but in the end, if you want to turn around 30 years or so of sustained productivity gaps around our country, we are going to have to be a lot more serious about it and a bit less serious about just winning the next general election.

Q193 **Dame Angela Eagle:** Were you surprised that Richmondshire seems to have been allocated into a deprived area, when Tower Hamlets, with 60% of children in poverty, and Salford, with 35% of children in poverty, are all in lower areas and apparently are much wealthier? Richmondshire happens to be the Chancellor's own constituency.

Torsten Bell: As I say, you are attracted to the phrase "pork barrel". I am attracted to the fact that I have not seen the underlying rationale for these algorithms. I think the defence the Government would place for those particular examples you have raised is that they are placing a large weight on transport connectivity. If that is what you care about and that is your measure of deprivation, large rural areas nowhere near urban conurbations come out as deprived and areas in the middle of London with very high levels of child poverty come out as not very deprived areas. That would not be my prioritisation. Living in Richmondshire would be a nice thing to do. Incomes in general are not that low in Richmondshire, not least because of some history of some of the rural economy in that area of the country.

Am I surprised? Yes. Is there a reason for it? Yes, it is to do with how you value connectivity, which is why Barnsley comes out higher than Richmondshire, which is one a lot of people have focused on. In the end, my bigger concern is that the whole nature of that funding programme—asking people to bid, political engagement in the decision-taking—just reflects that we are not serious about really driving growth.

Q194 **Dame Angela Eagle:** Professor Susan Himmelweit, do you think there is a way we could look at deprivation and equality issues from an economic basis to do our regional strategy more effectively than pork-barrelling?

Susan Himmelweit: Are you asking whether there are measures one could use for the state of the population?

Dame Angela Eagle: That is what I am asking, yes.

Susan Himmelweit: Yes, of course there are. I would not just use income. I would use a number of different measures, which seem to me to be very important, some of which might even include connectivity. Like Torsten, I would not say that was the overwhelming thing that mattered.

Q195 **Dame Angela Eagle:** What would you use? What would you put higher up the list?

Susan Himmelweit: The state of public services seems to me to be extremely important. In particular, if you are thinking about creating within the community more equal opportunities, to have public services at a good level of basic provision makes a huge difference, as does access to them. Transport is relevant to that, so good bus services, for example, really matter, rather than big trains.

I would give different areas measures that were based on public services. I would include income, but I would also look at the educational levels. It seems to me that one thing that is sorely missing in this strategy is a levelling-up in terms of training, education and what people in different regions are able to be. If you go for an international measure of capabilities, the notion of what people are able to do and to be seems to me the best measure we have of the wellbeing of a community.

Q196 **Dame Angela Eagle:** Paul Johnson, were you pleased with the establishment of the UK Infrastructure Bank? It is quite small at the moment, 0.1% of GDP, unlike the German equivalent, which is 14.7% of GDP. Do you think this is a good start to attempting to increase investment in the regions? Would you like to see it get bigger over time? The Treasury has placed quite a low cap on it.

Paul Johnson: If it is going to be effective, yes, it will need to be bigger. It is considerably smaller than the European Investment Bank, in the amount of money that that was making available. If you are serious about this in the longer run, it is going to have to be a bit bigger. We need to be quite clear about quite what the purpose of these organisations is. It is very easy to talk about them without being terribly clear about their purpose, which is really about lowering the risk for private sector investment, reducing financing costs, possibly, on the green side, helping to create new investable asset classes and, in particular, being able sensibly to invest in early-stage long-horizon projects with high upfront costs and risks, the sorts of things that are particularly important in the green economy.

It is appropriate that we have a broad infrastructure bank, rather than something that is just about the green economy, although you would think it needs to be significantly focused on that. There may be a case for starting relatively small and making sure that this gets things right. In this context, as in a lot of what we have been discussing today, there is, if anything, too much focus on size and not enough focus on how well the money is spent, how well the institutions are set up and exactly what their focus is. I am afraid I have not seen or digested the exact remit of this organisation. Starting from scratch, maybe the size is okay to start with, but if you want it to have real impact it will need to grow over time.

Q197 **Dame Angela Eagle:** Ian and Rain, I wonder whether you might comment on the green strategy as it featured in the Budget. I was surprised there was not more of it, but I do not know whether there was disappointment.

Rain Newton-Smith: Maybe I will pick up on a few of those earlier points. You are right: the Budget was relatively silent on some of the low-carbon transition. We hope to see more. Partly, there are some big pieces of work that are due to come out from the Government, the net zero review and the decarbonisation strategy across different sectors, particularly transport and heat. We need to see some of these landmark papers. We have finally seen the energy White Paper, but there are more important pieces that need to follow. In particular around the ETS, the emissions trading system, we would have liked to have seen more detail on how that will operate.

There were a few welcome announcements around offshore wind and CCUS, but there needs to be more. To that point about the national infrastructure bank, net zero has to be at the core of that. It should absolutely be about having both the public and the private sector investment we need to see. We know we need £15 billion per year of investment each year over the next 30 years to meet our net zero ambitions by 2050. That is what the UK Committee on Climate Change has set out.

Around the national infrastructure bank, I agree with what Paul was saying. The initial pot of capital and equity is small. That will need to be scaled up over time. As you pointed out, it is much smaller than the German equivalent. It is one thing where hopefully the lessons will be learned from the Green Investment Bank, which had some important successful elements. One of the challenges is that it was seen as too centric and too funnelled in through the Treasury. Having something that is outside that mechanism and working more with a regional growth strategy will be really important.

Ian Stewart: I would have liked it if the Chancellor had explicitly positioned the environment and the energy transition as part of the whole story of the recovery from the pandemic. I am very encouraged by the change in the Bank of England's remit. It is very important that the Bank of England, through its asset allocation and asset purchase programme, helps develop these sorts of markets. There is a real opportunity for the UK to position itself as a centre of expertise and knowledge in financial markets, regulation, taxation and products on the green side. I would have liked to see more of that.

Susan Himmelweit: At the risk of sounding like an old record, I would really like to see the national infrastructure bank having a broader definition of infrastructure, so that it does not invest just in physical infrastructure but in social infrastructure too.

Chair: That brings us now to the end of this session. Could I thank our five witnesses very much indeed for appearing before us today? We covered a huge amount of ground and had a very interesting discussion about the matters we touched upon. We are probably collectively agreed that the Budget ended up, in a sense at least, being more substantial than many of us expected beforehand, particularly in light of the specific announcements around tax increases and consolidation later in the Budget period. In difficult times, it certainly has not pleased everybody, as we have discovered this afternoon.

It is very helpful that you have given us a number of pointers, which we will then take forward tomorrow, when, at 2 pm, the Chancellor himself will be appearing before the Committee. Thank you very much indeed for giving us a good platform from which to have that important session tomorrow. That concludes our session this afternoon.