House of Commons

Treasury Committee

Oral evidence: The cost of living, HC 1094

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 1-98

Witnesses

I: Torsten Bell, Director, Resolution Foundation, Tom Clougherty, Deputy Director, Institute for Fiscal Studies and Robert Joyce, Head of Tax, Centre for Political Studies.

Examination of witnesses

Witnesses: Torsten Bell, Tom Clougherty and Robert Joyce.

Chair: Good afternoon and welcome to the Treasury Committee and our inquiry session this afternoon looking at the cost of living. We are very pleased to be joined by three witnesses. I ask them to very briefly introduce themselves to the Committee.

Robert Joyce: I am Robert Joyce, deputy director at the Institute for Fiscal Studies.

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

Tom Clougherty: I am Tom Clougherty, head of tax at the Centre for Policy Studies.

Q1 **Chair:** I will ask the first question, which is for all three of you, but perhaps I can invite Torsten to come in first and then go to our other two witnesses. We know that inflation has taken off rather more dramatically than many assumed it would some time ago. Could you reflect for the Committee on what you see driving those inflationary pressures and comment on the debate about whether it is going to be transient or is now going to become rather more persistent? Critically—this is the answer that I would like from all three panellists—what sort of impact it is going to have across the household income spectrum and particularly on those that are less well off? How is the nature of that inflation going to play out in that sense?

Torsten Bell: That’s a large question. As you say, inflation has risen fast, and faster than any of us—a broadly conceived “us”—expected. The OBR was expecting only 4.5% to be the peak as recently as October, and obviously we are now heading to the high sixes and more likely 6.5% as the peak in inflation. In terms of what is causing it, that is well discussed. If you look at the annual rate of inflation, the two biggest contributors are transport and housing/utilities, broadly adding about 1.2% to the 5.5% that we are currently seeing.

That is the big picture of what’s going on. Obviously, what is sitting behind that is two big things: first, what is happening to global hydrocarbons and, in particular, gas prices and what that does to the cost of energy and to the inputs in lots of other people’s production; and, secondly, the global reopening of an economy where we are particularly focused on demand for goods, and that running up against supply constraints. The two things together—I would particularly emphasise gas prices—are giving us high inflation rates.

In terms of what that is doing across the income distribution—

Q2 **Chair:** Before we get to that, there is the point about how persistent this is going to be. Are these factors looking more long term now than they did a little while ago? What are your thoughts?

Torsten Bell: The answer to that is yes. The bit that’s got certainty is to say, “Are these looking longer lasting than we expected a while ago? Yes.”

How persistent is it going to be? I think all of us should have a lot of humility: it is very uncertain as to how long lasting it should be. There are things we should think about within that. If we think about the energy pressures, in particular, coming through as a primary cause of that inflation, how long will those last? In other contexts, you will be discussing the geopolitics lying behind some of that; it is obviously highly uncertain. My general view is that energy market people generally overstate the persistence of whatever is going on right now. Right now, everyone is saying, “High rates. Therefore, they’re going to be high forever. Therefore, reopen all the North Sea oilfields.” A few years ago, they were saying, “Low oil prices. It’s going to be like this forever and so we should give up on the whole thing.” So I think we should be humble about how long we think this will last.

More interestingly, there are the second round effects of that. If you look at what is happening to producer prices on the goods side, they have come off a bit in the recent data, but they are highly elevated and that is what will drive the second round of price rises over the course of 2022. That is companies, particularly on the goods side and to a lesser degree on the services side, putting up prices to deal with their input prices going up.

Those input prices are not just energy; they include a lot of other things. That generally is going on—as I say, on the services side, there is some, but less so. That is even more true in the US. That bit is very likely to happen. We should think, with a decent level of confidence, that we have another round of price rises not directly related to energy, which will come through as a second round effect into the middle and second half of next year.

We then have uncertainty about what feed-through loop we get from wages. I would think about that in two ways. I would not think about it in the way that is sometimes discussed, in which people say, "We're going to get a wage-price spiral." What they mean is a price-wage spiral: people respond to high prices rises by asking for big wages, and that drives another round of high price rises. I would not think about it in those terms. I would think about it as a straightforward, "Are we going to have a tighter labour market driving wages up and, if that is faster than productivity, will that feed through into unsustainable price rises?" Personally, I would attach low probability to that at the moment, but it is reasonable for people to focus on asking that question. The answer will be different in different countries.

Would you like me to cover distribution?

Chair: Please.

Torsten Bell: The distribution, in simple terms and trying to do it quickly, is that, so far, the effect across the income distribution of price rises in aggregate, reflecting different consumption baskets, is broadly flat. It is not that interesting, in terms of what is going on—that is, in terms of inflation rates. In terms of the impact on actual people, though, I do not think we should discount a very big differential effect on lower-income households for three reasons. First, because a given inflation rate is much harder to deal with if you are on a tight budget—60% of the poorest fifth of families have less than one month's income in savings, or 70% for single parents, for example—the ability to cope with it is just very different if you are on a lower income.

Secondly, when the energy price rise comes through—because, unusually for us and globally, we are having this energy price rise all at once at the beginning of April—that will move to a higher inflation rate for lower-income households. That will not be massively higher, but it will be higher, because their consumption basket is biased towards essentials, which include energy as well as food, in the way it was back in the financial crisis, when the food prices peaked in a much greater way than they are doing right now.

The third reason we might want to think about it is for the very poorest, who will not show up in our decile-by-decile way of looking at the income distribution and who are particularly trying to get by on the very cheapest foods. There are other questions about the availability of those goods, which are not really to do with this—they are much longer-term trends; they are not really to do with these short-term pressures on other prices.

Q3 **Chair:** We will come back to that specific point later. Thank you. Who will come in next on the discussion? Robert, do you want to?

Robert Joyce: I have very little to add on my understanding of the outlook, and what is known and not known about that, in terms of the persistence of inflation. I do not have anything to add to what Torsten said. On the prospects of a price-wage spiral, as Torsten put it, I also at the moment do not see much sign of that. Real wages are clearly falling already, and it looks like they will be doing so for some time.

Q4 **Chair:** May I ask about that? When we had the Governor of the Bank of England before us recently, he suggested that there was some evidence of this hot labour market spilling out of the classic pockets that we have all been talking about, from surveys by Bank of England agents and so on. Do you read anything into that?

Robert Joyce: Yes, there is some evidence, and some early evidence as well of longer-term expectations of inflation becoming a bit less anchored, which is one of the things that you would look for as a leading indicator that there might be a bit of dynamics going from prices through to wage setting. I do not say that there is no evidence of it, or no sign of it, and yet it is minor at best—across the whole economy anyway.

Q5 **Chair:** When you mention de-anchoring the inflationary expectations, what do you see as the main drivers of that? What makes the public think at the moment, when they are negotiating the next round of wages, that inflation is really moving up? What elements drive that behaviour?

Robert Joyce: I guess that things that are more salient to people could matter more—energy is a good example. It might sound a little banal, but the longer inflation remains elevated, the less it looks like some of the pressures we have seen will go away quickly. Obviously, the longer it is unabated, the greater the risk of that.

On the distributional point, again, there is not much to add to what Torsten said. So far, if you compare the different income groups, the differences in the rates of inflation they face have been pretty minor. One reason for that is that although the price of domestic fuel has been rising, the price of transport has also been rising—road fuel has been getting more expensive— and that tends to be a bigger budget share higher up, so to some extent those two things have balanced out a little bit. But, as Torsten said, in April, the spike in domestic fuel prices will have a significantly bigger effect towards the bottom because, on average, those households spend larger shares of their budget on that than higher income households. That is where a bit of differential will open up. It will not be massive—around 1% or 1.5% in terms of the annual rate of inflation, if you compare the top and bottom income deciles. That is significant, but I just put it in context. That is where a distributional difference will open up, and heating will be key to that.

Q6 **Chair:** Thank you. Tom, a lot has been said and there is no need to repeat anything, but do you have something to add?

Tom Clougherty: A lot has been said and I agree with more or less what has gone before on supply bottlenecks and energy prices. My colleagues who look at energy in particular think that energy prices are likely to remain high in the next couple of winters. That will not go away. Will it get worse? Probably not. I think we would expect the supply bottlenecks to improve unless there are big setbacks on the covid front. My view is basically with the consensus that this will not be persistent inflation, but obviously there are risks. Covid rearing its head again would be one of those risks. Loose monetary fiscal policy driving price rises is an outside risk. I really do not see any sign of that in the UK. We may have the other problem, but that seems to have been part of the equation in the United States—why they have had rather more elevated inflation than Britain and the eurozone, for example.

Inflation almost always hits the poorest hardest because they spend more of their money on essentials. I do not expect it to be any different in this case. Obviously, people on tight incomes will struggle with huge energy price increases, especially older folks who have no option but to keep the heating running if they are to have a decent winter.

I think this problem is here for a while, but we are not in any immediate danger of things spiralling out of control—at least, not as I see it.

Chair: Thank you very much. I will go to Siobhain, who is going to ask a bit more about those who are hardest hit.

Q7 **Siobhain McDonagh:** There is a slight overlap between what I am going to ask and what the Chair has asked.

I ask for your views on who is feeling the effect of the cost of living increases, which you have already referred to. I would like to begin with the same question to all of you before following with a more specific one.

We know the cost of living differs between those on higher incomes and those on lower incomes. We know that poorer families are more likely to be on a key meter for their gas and electricity and to have their connectivity on pay-as-you-go, and are generally less likely to be the informed consumer who is always looking for the best deal on contract. You do not want a contract if your monthly income goes up and down. When everything is added up—inflation, national insurance rise, energy costs, broadband costs, council tax rises—who will be hardest hit and why?

Robert Joyce: In bringing all those things together and thinking about who is hardest hit, I would distinguish between a couple of things. One would be the overnight things that will happen in April, because we will see some important effects quite sharply at that point. Rises in energy and the increase in national insurance are two key examples. In terms of those overnight changes, everyone will suffer a little bit because both things are bad for households. They will tend roughly to balance out in terms of the average proportional effect across the income spectrum, because basically the rise in energy prices hits the bottom more proportionally and the increases in national insurance hit the top more proportionally.

In April specifically, there is, in that sense, a bit of evenness, though even within that there is more nuance. Those on the minimum wage will tend to do relatively well, because they will get more than a 6% increase in the minimum wage at that point—although note that those people are mostly concentrated around the middle or lower-middle of the household income distribution, not right at the bottom. In April specifically, there will be pain for everyone. As ever, as has been said, even for the same proportional hit to income, those on lower incomes are going to find that harder to adjust to, because they are already on a low income.

Zooming out a bit, and taking the year as a whole, comparing next year with last year, which is also important because there are a lot of other things going on, it is clearer that the bottom overall will be having a worse year. That is mostly because, if you compare where they are now with where they were a year ago, they have lost about £1,000 a year in Universal Credit, if they were on that.

In combination with a slightly higher rate of inflation over the year as a whole faced by the poor, and the loss of that—albeit always temporary—increase in Universal Credit, over the year as a whole they will have seen more of a deterioration. It is less so for some of them: those who are both in work and on Universal Credit benefited from increases in Universal Credit in December.

That is how I would summarise the general picture: overnight in April, it is more distributionally neutral but still, therefore, more difficult for those on the lowest incomes. For the year as whole, it is toughest at the bottom.

Torsten Bell: I absolutely agree with that. I think it is going to be a pretty tough year. The whole country is going to feel squeezed through 2022, and lower-income households are going to struggle most to deal with that. As Robert said, the key issue is less on the cost size and more on the income side, where you see really hard questions for the lowest-income households, because of the £20 a week removal from Universal Credit.

Within the deciles, you need to look pretty hard; there is a lot of variation. I would highlight two big sources of variation to think about. On energy bills, there are very large variations among households. Within that, the drivers are poorly insulated houses, which as a country we have been absolutely useless at making progress on. In fact, we have slowed down our progress over the past eight or nine years. That is a disaster we are all going to regret this winter, as our bills come in. That makes a big difference. There is also the age of boilers. Old boilers are a disaster for your energy bills. Lastly, there is having lots of kids. Having a big family may not be a disaster for other aspects of your life, but for energy bills, it is definitely a disaster.

Those three things together lead to large variations among households. You do not want to be a poorer household, with a poorly insulated home and a large family, with an old boiler you haven’t replaced. That is going to be a really tough situation. As you mentioned, prepayment meters won’t help on that front. If you look at the energy cap increase that happened in October, already it was higher for people on those forms or formats. Big variation is under-discussed on the energy side.

On the national insurance side, it is much higher for the top of the income distribution, giving you this flattish overall structure. When you think of it along with energy bills, as we have discussed with the Committee lots of times before, the reason the national insurance rise is a bit of a turkey of a way to raise this money is the big variation in how different kinds of income are treated within that. It is only on earnings, not on any other kinds of income. For people who otherwise look very similar, some are getting a tax rise and some are not getting a tax rise during the course of this year. That is not a very good idea.

Tom Clougherty: Again, I agree with what has already been said, though I would caution against framing the cost of living problem solely as an issue of the poorest in society and as something that you fix by giving them more money. That is definitely a big part of the problem, and that is part of the solution, but there is a much broader issue here as well, because we do have general cost of living issues in this country, removed from the immediate crisis around energy bills. There is the cost of housing, for example, and the cost of childcare. There are a lot of relatively well-off people who nevertheless have not much flex in their budgets.

Q8 **Siobhain McDonagh:** Everybody lives up to their income, don't they?

Tom Clougherty: Exactly. So, when you get a big energy price rise, or something like it, that can cause problems, even for people who are in pretty good shape on paper. The reason I raise that is not to say, "Let's think about well-off people as well," but to say, "Let's consider some of the structural reasons behind cost-of-living issues in this country." In the short term, yes, if you have vulnerable people who cannot afford their heating, the solution is to give them more money so they can afford it, but longer term, if you are thinking about housing, childcare or even energy costs, it is actually about how those markets function and the underlying fundamentals there.

If we want to make people feel better off in general—I think that is probably everybody's goal, regardless of political persuasion—we need economic growth so that their incomes are growing, and we also need to address some of those long-standing supply-side issues in those various markets, which just make prices higher than they could or should really be.

Q9 **Siobhain McDonagh:** Robert, ONS data published last week indicates that in December 2021, low and high-income households experienced roughly similar rates of inflation. However, IFS analysis shows that those on the lowest incomes are likely to experience significantly greater inflation rates than those on the highest incomes. To what degree are you anticipating a greater divergence in inflation rates experienced by low and high-income households this year? What are the reasons for that? Do you think that it is often because we are not making good judgments or assessments of how differently inflation affects the different things that people need? I am thinking particularly about the work that Jack Monroe has been doing.

Robert Joyce: The apparent discrepancy between the ONS figures for December and some of the analysis we have put out is actually, in some sense, simpler than the issues that Jack Monroe is raising. What we have said there is that April is when you will start to see more of a difference in the inflation rates faced by low and high-income households. We do think that up to around December—up to now—there has not been that much difference.

Again, that is partly the point that I raised about high-income households being hit more by rising road fuel costs, for example—it is not only domestic fuel that has been going up in price. But in April, you will see a difference, and I would expect the ONS figures at that point to show a difference, because that is when energy will go up a lot, and that is definitely proportionately a bigger deal for those on lower incomes, on average.

You then raised a different but really important issue, and a few related things that Jack Monroe has kicked off have come up in the debate. One of those is about the way we measure the prices of different goods at a very fine level, and the idea that we might be missing something. For example, although the ONS will try to measure the price of bread separately from the price of pasta, it does not differentiate between sourdough bread and basic ranges, and of course, those prices could be changing quite differently. That is at least one of the issues that has been raised, but there is more than one debate kicking around here. That is important.

There is work from the US for the period from 2005 to 2014 that suggested that, over that period, if you do use very fine-grained data, which is becoming more possible because the data is getting better for a few reasons, it does make a difference, and once you do that, inflation for that period in the US looks worse for the poor relative to the rich because there were differences within those product categories. That is something that could be important, and that we increasingly have the potential to do better with because there is more and more fine-grained data on what people are buying—from scanners in supermarkets and things like that.

Q10 **Siobhain McDonagh:** Torsten, the Resolution Foundation has pointed out that, although inflation rises affect the lowest-income households the most, tax changes hit middle to higher-income households more. If tax changes are considered alongside the increase in inflation, which are the hardest-hit households in terms of absolute and proportionate income changes?

Torsten Bell: I do not think I need to add anything to what we said earlier, which was that everyone is going to be hit and it will feel like a big squeeze for everybody, and the lived experience of that is going to feel like a catastrophe for lower-income households if nothing changes as we head into April.

In terms of the difference between absolute and proportional measures, in general, if you took the whole package in April together, you would probably see a pounds-and-pence worse outcome for the very richest because they are paying very large increases in national insurance, but we should be thinking about that as a proportion of income. As I say, it is flat overall, but it is going to turn into a lived experience of being very, very serious for poorer households. People may be struggling to manage right now, having just had their income reduced by £1,000 because they are out of work or on very low earnings. They will not benefit much from the taper rate that has come in, and on top of that their energy bill goes up by £700. They did not have £2,000 worth of wriggle room in their household budget last September, and they are not going to find that easy to deal with now. That should be our No. 1 priority.

Q11 **Siobhain McDonagh:** We have often spoken in Committee when you have been a witness about the amount that higher and middle-income households were able to save because they could work from home during lockdown. Presumably that will cushion them against some of the increases.

Torsten Bell: We have talked about hundreds of billions of excess savings. By "excess", we do not mean too much; we just mean more than we expected to have pre-crisis. That has overwhelmingly been accumulated in a top-heavy way—not just by the middle. You would need to have been going on expensive holidays to have saved very large amounts of money, but commuting costs have also helped some households to save. At the bottom, we have seen the opposite. We have seen people taking on more debt, particularly in the earlier parts of the crisis. That is where our worries should be around balance sheets deteriorating over recent years. Overall, we have not seen what lots of people said was going to happen during this crisis, which is an overall explosion in household debt. That is not what happened. At the bottom, particularly among those with children, that is the legacy of the pandemic—people having weaker balance sheets if they were poor and on low incomes.

Q12 **Siobhain McDonagh:** Tom, should the Government focus on measures to ease the cost of living burden on poorer families? If so, what should they be doing?

Tom Clougherty: Obviously, if you have scarce resources, you will always want to target them where the need is greatest. If you are faced with vulnerable people who cannot turn on their heating or whatever, or who have real holes in their household budgets all of a sudden, that is naturally where you focus. We may come on to this in more detail, but a range of things are being talked about to deal with energy bills—price stabilisation mechanisms, changes to the warm homes discount, tax changes and so on. What I would be wary of in any kind of response to a cost of living issue like this is doing things that take policy in the wrong direction in general—doing something that you would not want to do in ordinary times but doing it because it is an emergency—when there is a simpler option available. The simplest option is often to give people more money to see them over this particular hump in the road.

To go back to my previous answer, this will be felt not only by the very poorest. That is obviously where the political response ought to focus, but I think that many middle-income households will struggle quite a lot with the rise in bills they are going to see. Basically, what I would expect is a response from Government that is weighted toward the poorest but is not exclusively targeted toward the poorest. I think that they will want to have a slightly broader response. I think that that probably is appropriate.

Q13 **Chair:** Torsten, can I come back to you on one point? We have talked about the increase in fuel prices and the NIC change and so on, but if you were to look at working households of low income and you were to focus on those two aspects, you would say that fuel price increases, for the reasons you have given, would be very painful. National insurance is at least progressive to the extent that there is a threshold beneath which it is not paid at all. If you were then to bundle in two other factors—the increase in the national living wage of 6.6% and the UC taper reduction for those who are working and receiving UC—how do you see those factors working together? Could it be the case that there are some actually in the lowest income bracket who are not as badly off as others?

Torsten Bell: Yes; as I said, there is a lot of variation. If you have a very well insulated house, with a really good boiler and are of a low income—let us leave the earnings bit aside for a second, because that complicates it—but you are working and are earning around £20,000, the taper rate reduction that happened in early December will make quite a large difference. So the biggest winners from that would benefit by about £1,800 a year.

Q14 **Chair:** So are you saying that there is a sizable number of people out there who are working, receiving UC and earning £20,000, who might actually not be worse off, even when you take into account fuel increases?

Torsten Bell: Yes, there will be some individuals, maybe in the mid-20,000s, for whom the combination of the increase in benefits from the Universal Credit taper change and the increase in the work allowance will be larger than the increases in their energy bill and their national insurance payments.

Q15 **Chair:** Have you done any work on assessing the numbers?

Torsten Bell: No, although I can give you a ballpark. If you think about the population who are on Universal Credit and compare people losing the £20 and take into account the taper rate cut and the increase—so the takeaway and the giveaway together—then around three quarters of Universal Credit claimants will lose out, just from that change. A further quarter will be winners. Those will tend to be higher-income working households.

Within that quarter, you then have a spread. Those who only benefited a bit—thinking, roughly, about people who benefited by only up to, say, £1,000 from that change—will probably have that all taken away from them in higher energy bills and in the national insurance rise, but a proportion of the quarter will still be net winners.

Overall, I am afraid, the answer is that 2022 is going to be rubbish for everybody. That will include those on Universal Credit. It will be particularly grim for those who did not benefit from the change because they are out of work or on very low earnings, but there will be a subset of the quarter of Universal Credit claimants who have seen their Universal Credit go up for whom that increase will be bigger than their loss from their energy bills.

Chair: I do not want to hog any more time, because I know we have a lot to go through, but it would be very useful if you—or anyone on the panel—were able to write to the Committee with any further thoughts on that. I think that that ability to see it in the round, with those different moving parts, would be quite helpful. Thank you very much. In the absence of Angela, I will go to Anthony.

Q16 **Anthony Browne:** Thank you, Chair. My questions are really about solutions—in particular, about national insurance contribution changes and fiscal drag. The first is obviously the key area of political debate: should it go ahead or not? The Prime Minister and the Chancellor, at the weekend, wrote an article saying they were determined to go ahead with the rise. Cancelling it would cost the Government £12 billion.

Do you think it should be postponed or not? If so, would there not be better ways to spend £12 billion to alleviate the cost of living crisis that we have been talking about? I will come to Robert first.

Robert Joyce: I would be pretty sceptical about delaying it. First of all, of course, in the first place, one could have had a debate about whether raising national insurance was the optimal way of raising—

Anthony Browne: We have had that. We covered that well at the time.

Robert Joyce: Exactly. So, setting that aside, given what happened, is delaying that increase the best thing to do now—particularly, as you said, in the context of this as some kind of response to the cost-of-living crisis? I would be wary for two main reasons. It is not a very well targeted way of dealing with the cost of living crisis. You would be giving billions of pounds to people who would be among the least troubled—not that everyone won’t suffer something from inflation, but in relative terms—

Anthony Browne: It is very poorly targeted.

Robert Joyce: It is very poorly targeted, certainly with the pain that will be experienced by the rises in the cost of living, yes. For example, some of the very lowest earners and pensioners would get nothing from this, but they would—

Anthony Browne: Because they are not paying national insurance in the first place.

Robert Joyce: Exactly. But they would include some of the groups who would be most hard hit by something like an energy price rise. It would seem a very oddly targeted measure in providing relief against those cost of living changes. That is the first point I would make.

Then, this is a bit more of a political economy point, but I think that the concern is real about, if they delayed it now, would the Government ever be able to implement this increase? Obviously, they have decided, for some good reasons, that they need more money to pay for these pressures in the health and social care system. It legislated these two things together, from the outset—the tax increase and that spending—so if that link was broken at the first opportunity, there would be a real concern about whether, in the future, it would always be possible to find a reason why now was not the right time. Once that link has been severed, will it ever be seen as strong again? Those would be my two concerns about that measure.

Q17 **Anthony Browne:** Coming to Torsten, I think you are on the record as saying you would have preferred a rise in income tax—lots of people have said that—rather than national insurance.

Torsten Bell: All sensible people think that.

Q18 **Anthony Browne:** That is not the debate we have at the moment, because we have legislated for the national insurance rise. The question is whether it is an effective use of £12 billion to postpone that, or whether it is better to do something else.

Torsten Bell: It is definitely not. More than 50% of the savings from a national insurance delay would go to the top 20%, and it is the bottom 20% whose energy bills are about to get hammered, so that is not a good policy, given the world you find yourself in.

Q19 **Anthony Browne:** What about the point on political economy, given that the Chancellor has to worry about balancing the books eventually?

Torsten Bell: You will know better than me, but I hear rumours that it is harder to put up taxes just before an election than three years out from it. If those rumours are true, maybe you want to do it now and not next year.

Q20 **Anthony Browne:** I have never heard that.

Torsten Bell: As I say, you are all the experts, but I hear it can be difficult before elections.

Q21 **Anthony Browne:** Coming to Tom, would you delay the increase in national insurance?

Tom Clougherty: You will finally get some disagreement on the panel, because I would do so, without question. It strikes me as extremely perverse to be raising taxes on ordinary earners in the middle of a cost of living crisis. If the essay question is, as you have framed it, whether this is the most efficient way to spend £12 billion to alleviate the cost of living crisis, the answer is obviously no. I have to be honest and say that, but I am not sure, with respect, that that is the right framing, because this is a tax increase that has not taken effect yet. To not increase taxes and call that spending—to me at least, that is quite a strange way of looking at it. The simplest thing that any Government can do if people are struggling financially is to take less of their money away from them. I know I come from a particular political standpoint, but that ought to be where we start, and then we talk about the other options afterwards.

Anthony Browne: I agree with you.

Tom Clougherty: It is worth noting here that, throughout the coalition and the Cameron era, real take-home pay was really kept afloat by the persistent increases in the personal allowance. If we are moving into a world where real wages still are not going to rise very much, but taxes will go up and up and up, that is a worrying precedent to set. The thing I will say is that I understand the politics of it, but the justification that was given in *The Sunday Times* article—that this is needed to pay back covid debt, and that we must raise this tax now to clear the NHS backlog—does not hold up to scrutiny in my opinion. You do not need this tax increase for the Chancellor to stay within the fiscal rules that he seems to have imposed on himself, but even if you step back a little bit from that, you definitely do not need this tax increase now to clear a one-off backlog from a pandemic, when there is still plenty of demand for UK Government debt. I am a fiscal conservative and a fiscal hawk, but if you have to clear the NHS backlog, which has come about because of covid, a relatively trivial amount of extra borrowing, rather than a tax increase, is the way to do it. Then I would look separately at the issue of how we specifically help people who are going to be hardest hit by this cost of living increase.

Q22 **Anthony Browne:** You mentioned the personal allowance, which is the second part of my question. Since you raised it, I will start with you and go along the panel the other way. The Institute for Government argued that it would be better to cancel the freeze in personal allowance on the higher-rate threshold. Obviously, the Chancellor has said he will freeze it till the end of the Parliament. It would be better to do that than to reverse the national insurance contribution rate. It is obviously a huge measure: by 2025, it will be £13 billion a year with the higher inflation rate. That is as much per year as the national insurance rise. Do you think there is an argument for reducing the fiscal drag?

Tom Clougherty: Yes, basically—that is the simple answer to your question. It would be unfair to call this a stealth tax, because the Chancellor said pretty explicitly what he was doing when he stood up in the House and announced it.

Q23 **Anthony Browne:** He was very determined to announce it at as high a volume as possible in the Budget, so that people could not accuse him of doing it in secret.

Tom Clougherty: Exactly. Nevertheless, it is a sneaky way to push people up the tax brackets over time. As a general rule, we should just stick to indexing everything in nominal terms in the tax system and the benefits system, and those things should rise automatically. Whether this is a stealth tax rise or not, this has been the method of stealthily raising more tax revenue for a very long time.

If the art of taxation is that old saying about plucking the goose with the least amount of hissing, I totally understand it, but it does seem slightly dishonest. If we say we need more tax revenue, and that people are going to have to pay more tax—and there are plausible reasons why that might be the case with an ageing population and pressures on the welfare state—then let's have that debate. Let's design a tax system that can efficiently raise more revenue rather than doing it in a sneaky way.

Q24 **Anthony Browne:** In short, you would cancel the freeze in the allowance?

Tom Clougherty: I would, yes.

Torsten Bell: That is not going to happen—to state the blindingly obvious. The distribution of cancelling the freeze is more equal than the national insurance rise.

Q25 **Anthony Browne:** It goes right up the income scale.

Torsten Bell: Yes, but it is still top heavy overall. If you think about it, it is quite expensive for what you get. It would have been a 3.1% uprating, if you had gone ahead without the freeze policy. It would cost you £3 billion to put that back in place. That would give the basic-rate taxpayer about £75. That is not going to cut the mustard for a £700 energy bill rise. It would not be well targeted at the bottom.

If you remember what I just said, there are some low earners who may be better off because of what has happened to Universal Credit, but there is a big distinction here between the higher-earning Universal Credit households and the poorest, who had a really tough time. This does nothing for people who are having to deal with that tough situation. I think it is not well targeted, even if it is slightly better targeted than a national insurance rise, and it is not going to happen because the politics are nowhere near as toxic as they are for the national insurance rise. Over the longer term, we have had significant over-indexing of the personal allowance. In the good old days, Conservatives would have worried about a stakeholder society where everyone was contributing something towards taxation. Obviously, conservatism changes over time—but you might want to think about that.

Overall, I would say that it is not going to happen, and it is not a good way to deal with the particular cost of living crunch that we are facing. This makes me sound like an old Treasury civil servant, but on both of these changes you are raising national insurance; it is still possible to make the personal allowance change but it is late enough that you are heading into logistical difficulties. Loads of payroll companies will now have set themselves up for April. You are going to be in a world of pain and some people would probably end up paying the wrong tax in April. That is possible to overcome, but if the Prime Minister was going to tell the

Chancellor that he had changed his mind, last week was his chance, both substantively for the logistic system and politically. I think we are where we are, now.

Robert Joyce: On the targeting, as has been said, it would not be a lot better than national insurance. It still is not an obvious response to a cost of living crisis, for largely the same reasons as before. I will say a couple of things: there is something to the argument that it could be advantageous when you factor in the feasibility of it only being a temporary measure. If the Government actually did go ahead with uprating the tax threshold this year, it is more likely that they would be able to freeze them in a future year than it is that they would be able raise national insurance.

Torsten Bell: We are already freezing them next year. You can't freeze them again.

Robert Joyce: We are already freezing them for several years, that is true. You can freeze them for a bit longer. In a way, that is a slightly funny argument. Increasing thresholds or freezing them is not a very salient thing.

Anthony Browne: It has never been a front-page story in *The Sun.*

Robert Joyce: The Government would not get a lot of credit for uprating them now, arguably, although we are into politics here and that is not my thing. The last point I will make is that inflation getting higher than expected, which is the driver of the living standards crisis, has made this policy bigger than was intended. I think that is a relevant thing to point out. From that perspective, there would be coherence in the Government saying, "Hang on a minute. When we set this policy, we expected an X per cent real cut in these thresholds. That is what we wanted, so let's do that." That would imply a bit of a nominal increase. The wider lesson there is that it would be a lot better if the Government set their policies in real terms. If they want to increase thresholds by inflation minus 2%, they should say that, rather than making the real change dependent on an unknown future rate of inflation. That is really the issue that we should tidy up. Governments keep doing that.

Anthony Browne: That is a theoretically impeccable response, but politically it is easier just to freeze it. Anyway, that is all my questions, thank you very much.

Q26 **Kevin Hollinrake:** This is probably pretty rich coming from a politician, but I would like you to answer this question with yes or no. If you had 2 billion quid to throw around, if you were Chancellor right now, would you cut VAT on energy?

Tom Clougherty: No. I would raise benefits.

Q27 **Kevin Hollinrake:** That was not yes or no—so, no. Torsten, raise benefits? What would you do instead?

Torsten Bell: If you have got something in that kind of ballpark, the easiest way, our top priority, has got to be helping the poorest households through a very large and very overnight rise. I think it is important to understand that: this is really unusual. Other countries are not having this overnight as much, which has been good for the past six months for us, but it is about to become very bad, and we have not had this in the past either. It will be really acute in April—not everybody, but lots of households all at once in April—so the top priority has to be easing that for poorer households. By coincidence, our annual benefit uprating also happens in that month, and that is by far the most efficient way of targeting money at the poorest households, so increasing the uprating is the way to go about doing that. If you are not prepared to do that, you will need to re-create that policy, but you can call it the warm home discount and do it through the energy suppliers. That is just a more complicated way of achieving the same result—I mean, really more complicated, so I prefer the benefits system. Either way, you have to get hundreds of pounds to the poorest households in April.

Q28 **Kevin Hollinrake:** Hundreds of pounds. VAT, I understand, would cover 100 quid off a typical bill. How many hundreds of pounds could you get in your scheme design to those people?

Torsten Bell: You can flex it in the targeting. I can tell you the answer to that, but not off the top of my head, but it will cost you billions to get the low hundreds of pounds to—

Q29 **Kevin Hollinrake:** How many billions?

Torsten Bell: I will tell you, but it will be in the order of £4 billion to £5 billion to get significant sums of money in.

Q30 **Kevin Hollinrake:** Tom, you made a point earlier about getting people over a hump in the road, but in your policy design the difficulty with that—I will challenge you when you come back on it—is that it is of course difficult to take away from people when energy prices fall. How will you cover that one, as was the case with Universal Credit, which was meant to be a temporary uplift to help with the covid crisis?

Tom Clougherty: I completely understand. In a way, that is why I would prefer something that was a one-off separate payment. There is nothing to say that people will not demand future one-off separate payments as well. We saw that with the Universal Credit uplift, which was meant to be temporary, but came very close I think to not being temporary, because these things are sticky. It would probably be the same with the warm home discount—it would be a permanently elevated benefit if you did it that way. There have been rumours about, in effect, sending everyone a cheque, or however you do it in the modern world. Something like that which is calibrated to people's incomes, but is separate from existing tax and benefit structures, would be a good way of dealing with that problem.

Q31 **Kevin Hollinrake:** Torsten, on that point, would you see your solution becoming permanent, as Tom said?

Torsten Bell: The answer to your question that I did not answer properly is, £2.5 billion to send payments to 8.5 million households who receive either pension credit or working-age benefits—Universal Credit and the like. If, on top of that, you wanted to make some universal payment, you would need to add significantly more.

Q32 **Kevin Hollinrake:** How much do they get from your £2.5 billion?

Torsten Bell: That is for £300, targeted at the poorest households.

Q33 **Kevin Hollinrake:** Would it become permanent?

Torsten Bell: If it is done through the benefits system, it does not need to become permanent, because you can deal with that through the uprating next year—you are basically bringing ahead some of the uprating from next year—if inflation turns out to be what we are hoping it is going to be. So, no, and similarly through the warm home discount, there is no reason for that necessarily to be the case. I do not think that our problem here will be whether we are going to be able to make this temporary; I think our problem will be whether we are going to operationalise it quickly enough to get support to people when they need it, which is April.

Robert Joyce: For that kind of sum of money that you mentioned, it seems to me also that the most obvious thing to do—which in some ways is just correcting an anomaly—would be to increase benefits in line with something close to the actual current rate of inflation. To be explicit about something that has so far been implicit, what is happening with benefits, in part, is that they get uprated in line with a slightly lagged measure of inflation from the previous September. That doesn't normally matter very much when inflation is low and stable. However, when inflation rises rapidly between September and April—

Q34 **Chair:** The September figure being 3.1%?

Robert Joyce: Yes, 3.1%—whereas, by April, inflation could be around 6% or even higher, given the way things have been moving. I don't think it's much of a stretch to say that the Government's stated intention is clearly to keep benefits in line with the cost of living. They are uprating these things in line with the CPI. It's just that they are not really carrying out that intention properly, in the current environment, because they are using that lagged measure.

The way you could frame this—which would also make it much easier not to be caught in the trap of being unable to make this thing temporary—is to say, "Right, we're going to change the rules. Every April, we're going to increase benefits in line with a more recent measure of inflation from January or February"—whatever is practicable. That would solve a lot of the problems in the short term. It would automatically mean that the uprating of benefits next year would be lower than it would otherwise have been, because when inflation falls back the opposite would happen: benefits would go up by less than they would have done under that change.

Torsten Bell: It is worth saying that the logistics of that have gone from being impossible to being a lot easier because of Universal Credit. Now, we can turn things around in a month; in the old days, it was two months plus at the absolute minimum, if you destroyed the DWP's administrative capacity. It is now doable in a way that it wasn't a few years ago.

Q35 **Kevin Hollinrake:** Is there a flip side opportunity here, for households to consume less energy and for us to get towards net zero emissions more quickly, on the basis of, "It's more expensive, therefore I'm going to insulate more", or "I'm going to turn the heating down", or whatever else it might be? Is that a likely by-product of this situation?

Torsten Bell: It is worth thinking about why energy prices are going through the roof. They have gone up so fast because it is a product that is not very price sensitive: the price has to go up loads to have any effect on the amount that gets consumed, whether that is by industry or households. For that reason, even the most ardent climate change activists should be nervous about seeing it as a good thing that some people will reduce their consumption because of this very high increase. This is not the area where you should be aiming to do that.

The way to reduce our household production of carbon emissions via our heating systems is to change our houses and our heating systems, not do that in this way. Yes, within the margins and over longer periods, the relative price of gas and electricity is something we should be looking at, particularly in terms of levies on our fuel bills. However, in the short term, I would be very nervous about anybody telling the public that there is a silver lining to this nightmare—that they might all produce fewer carbon emissions over the coming months.

Q36 **Kevin Hollinrake:** Tom, do you have anything to add to that? Would you agree?

Tom Clougherty: I agree in the short term. I would add that this is precisely one reason that I wouldn't want the Government to get dragged into a long-term situation where they are subsidising people's energy use. If you think of an energy price stabilisation mechanism, which has been mooted, I think it would be very easy for the Government to be dragged in by this crisis and have to permanently keep people's energy bills lower than they otherwise would be. In the long term, that clearly means people wouldn't have as much incentive to upgrade their boiler, make their house better insulated and so on. That is something to avoid. However, in the short term, I think Torsten is right.

Q37 **Kevin Hollinrake:** Another element of VAT policy is that the hospitality VAT rate is going up to the full 20% in April. Is that the right thing to do, right now, to a sector in which only 59% of businesses are at full trading capacity?

Robert Joyce: I guess, again, there is an argument about the past here. I can see that there might have been a pretty good case for additional support in December, in particular, when those businesses weren't shut down formally but demand was clearly massively affected. It's a little difficult in that sense—I can see the argument that something more should have been done then. However, it is a lot less clear to me that keeping VAT lower than it would otherwise have been, as some kind of retrospective compensation for that, now, is a good thing. That is partly because it is a bit of a targeting point, as much as anything else, that post-April VAT liability isn't going to be a good proxy for how much a business will struggle to survive as a result of what happened with omicron. That is why I think that would be a slightly strangely targeted measure.

Torsten Bell: It is not a priority. The priority is to sort out poor households' energy.

Tom Clougherty: I will make the more general point that we always reach for VAT as a policy tool. It is a little unfortunate because if we want to have a more efficient tax system that can raise more money over the long term, carving out bits of VAT for different rates and exemptions and so on causes a big problem. VAT in theory is one of the most efficient taxes that we have. So while I understand the sort of short-term pressures there, I would rather look for other ways, if we have to help hospitality, of helping hospitality in the short term, that maybe don't undermine the tax base in the longer term. The same goes for energy as well, frankly. That is sort of behind my answer there.

Q38 **Alison Thewliss:** I have some further questions around the benefits system and changes that could happen there that could help. I wanted to ask—it was announced last week—about the DWP's proposals for the Way to Work plan. Torsten, I think you said that it focuses on a problem that doesn't exist. Have you any further thoughts on the impact of the plan on people?

Torsten Bell: The bit of the plan that has been given most attention is the earlier application of sanctions to people who don't look for jobs outside the sector they had previously worked in and bringing that forward within the three-month period of your claim to Universal Credit. The row was focused on, is it or is it not desirable to apply sanctions to people early in their claims? I think that is slightly a red herring.

The idea that in general our system doesn't apply sanctions early enough is an odd reading of most of the academic literature over the course of the recent past. That doesn't mean there isn't a role for sanctions in a benefits system, but applying them very early in a claim—there is not a strong argument for that at all. That is a bit of a red herring.

The real issue is that we don't have a problem with people flowing off Universal Credit reasonably quickly, within the first three months of their claim. We have a different problem, which is that we have an increase of around half a million people who are not looking for work at all—who are not in the labour market. That is what the DWP's policy needs to be focused on. Those are largely older workers of either gender and younger workers who are men. That is where the problem has come from. We have seen an increase in female participation among younger women.

That is where DWP's creative thinking needs to be focused—not on the relatively small number of people who are on Universal Credit for just a few months. There is no problem there.

Q39 **Alison Thewliss:** Because they have lost out on the Universal Credit uplift and they are not going to be affected by the taper rate changes, do you think there is anything really for that group of people, who the DWP has kind of left behind in all this?

Torsten Bell: The DWP has announced some hardship funds administered by local authorities for people who really can't cope on very low incomes. You will all be seeing that in your areas, where they are doling out funds. As a way of administering support, that is not a very good way of going about it, but there has been a package of support. I can't remember the exact number off the top of my head, but I think it is around half a billion pounds that the Treasury announced. So there is some support there through hardship funds. For the majority of out-of-work claimants, Universal Credit has become a much less generous benefit.

It is worth stepping back. If we look at the whole last 30 years of benefit policy making, partly intentionally and partly not intentionally, by both parties in Government, we have ended up with a system that is not overall much less generous than other similar European systems, but is far less generous for out-of-work households, particularly those without children. The average level of Universal Credit for a single adult out of work now is about 15% of average earnings, compared to double that back in the sixties. That is why you end up with real destitution levels of income support for people falling out of work. In that context, the idea that the big problem is that they need to be sanctioned quicker is slightly missing the point. It is not intentionally, but if you look at what the Universal Credit changes have done over the last six months, what they are doing is slightly reducing in-work poverty, but significantly pushing up out-of-work poverty.

Q40 **Alison Thewliss:** I understand that Louise Murphy has a paper out today on young people. Is there a particular bit of work that needs to be done with that group?

Torsten Bell: Overall, the first thing is to say that young people have been on a complete rollercoaster over the pandemic. They are by far the hardest hit by the crisis, in terms of who was furloughed or lost their jobs or didn't get a job in the first place—they have had very high rates of labour market effects. The positive bit of the rollercoaster is that the existence of the furlough scheme plus lots of them going back into full-time study—we have seen a three-percentage point rise in study—and the fast return to the labour market, have meant that we haven't seen the higher youth unemployment that many of us were worried about when we were talking about an early end to the furlough scheme.

That is really good news, and very different from what happened after the financial crisis and after the 1980s and 1990s recessions. That's the success.

I think the danger is that then we say, "That's all brilliant." If we now look at what happened to the young people who fell out of work and went back into work, we should be focusing on the fact that they are much more likely to be going back into insecure work—atypical contracts—than their counterparts who didn't have that experience of being out of the labour market during the pandemic. We have seen an increase in inactivity. The number of people who are neither in work nor in full-time study has gone up, particularly for younger men. I think there's a 50,000 increase in men aged 18 to 24 in that position, and we should be worried about that. If that becomes engrained, that is a longer-lasting challenge for us.

Our message should be that the big picture, aggregate outcome for youth unemployment was nowhere near as bad as we feared, mainly because the furlough scheme was maintained, but also because we put people in education, the reopening of the economy was quicker than we expected and young people benefited faster than other age groups. That's the good news, but we mustn't think that it's job done.

Q41 **Alison Thewliss:** Switching to the other end of that, Robert, the IFS has some work out on the impact of the increase in the state pension age, which seems to be impacting lower earners, who then work longer. Are there particular implications for that group, and is there more that the Government could be doing to support them?

Robert Joyce: In some ways, that group around the margins of the retirement age—or at least a subset of that group—has been among the most hard hit by some of the things that have happened recently. That is in part because of these policy changes, which mean that you have to wait longer to get your pension age support. But it is also because those changes interact with the fact that the gap between the support that you get from the benefits system when you're working age and what you get when you're a pensioner is just huge now. Basic support more than doubles—ignoring things like children—when you're above the state pension age. There's a really big gap there.

During the pandemic—to bring it back to some of the labour market trends we were just discussing—the oldest workers were actually among the most likely to leave employment and the least likely to go back into it once they left. That relates in part to some of the inactivity trends we have been talking about. That is a group worthy of some of our concern. They get a little bit lost sometimes, because there is rightly so much focus on young people. That is fair enough, but that group just on the margins of retirement have had quite a difficult time in some ways.

Q42 **Alison Thewliss:** And WASPI women particularly, I suppose, in that group, who have not been able to retire when they expected.

Robert Joyce: Yes.

Q43 **Alison Thewliss:** I also have a question about the impact of increases in the minimum wage. Do they have any protective effect for low-income households, or is it more complicated than that?

Torsten Bell: There is lots of research, by us and others, showing that the households that mainly benefit from the minimum wage are the middle and just below the middle, broadly. However, there will be some second earners in the really rich households, and there'll be some single earners in some poorer households as well. It will be spread across the income distribution, but it will be concentrated in the middle and just below the middle, broadly.

Q44 **Alison Thewliss:** Thank you. Torsten, you have talked about some of the difficulties of expanding or changing the warm home discount in response to rising energy prices. You said that the benefits system would be easier. Can you talk us through why fixing the warm home discount will be more difficult?

Torsten Bell: The simple answer is that it is not a system made to achieve this, particularly at short notice. The warm home discount is £140 paid to certain households: poorer pensioners automatically, and then, if they claim it, some poorer working-age households—but often with a quota system operated by the energy companies.

Q45 **Chair:** Quickly on that, Torsten, how many are receiving that £140?

Torsten Bell: That's a good question. It is in the order of 2.2 million low-income households currently. You have to get up to 8.5 million.

Chair: So another 6 million people for your £300.

Torsten Bell: The thing to be really clear about is that the current warm home discount system is totally inadequate to deal with what we need to face in April. Your options are to use the benefit system, for the ease of it, or, if you don't like the word "benefit" for whatever reason, you're going to have to put really major surgery on to the warm home discount, and fund it through the taxpayer, not through energy bills. Remember that the taxpayer doesn't currently pick this up; it's picked up through the energy bill system.

Obviously, higher energy bills are not the answer to the problem we face in April 2022. We need to extend the eligibility significantly and make it automatic. That is mainly about getting it to poorer, working-age households, not just poorer pensioners. You might want to extend it to all pensioners as well, depending on who you are worried about. Pensioners also have energy as a higher proportion of their spend than other households. We also have a timing issue, which is that we need this payment to happen outside the normal warm home discount cycle.

Q46 **Chair:** But we would right in saying that you would be going from about 2 million people up to 8.5 million. That would be a huge expansion of the scope of the warm home discount.

Torsten Bell: You need to treble that. You might think from that the using benefits is a better way to achieve the outcome.

Q47 **Alison Thewliss:** Certainly a simpler way by the sound of it.

Tom, have you any particular thoughts on what kind of mechanisms could be put in place or what changes could be made to help support low-income families through the benefits system?

Tom Clougherty: I have to say that what Robert and Torsten said about the uprating of UC and using a nearer-term forecast or a more recent inflation figure is pretty sensible in the circumstances. I have also said in some of my previous answers that, if there is strictly an issue of some people needing some more money right away, a system of one-off payments could be looked into. Perhaps it is not something we have as much experience of in the UK. Obviously, in the US, throughout the pandemic, they did quite a bit of that. That has the advantage of being straightforward, although of course there are always administrative challenges when you do something for the first time, and less sticky. It is a temporary solution to a temporary problem rather than something with longer-term implications, where you might get stuck in a policy that you would not otherwise have chosen.

Q48 **Kevin Hollinrake:** Torsten, you said extend it to 8.5 households and make if £200, not £150, as it is currently. Is that right?

Torsten Bell: Yes.

Q49 **Kevin Hollinrake:** What about the 2.5 million households now? Are they going to get £450 or £300?

Torsten Bell: That is the Government's choice, but the answer is that the costings I gave were for those households to get £450. Remember, this has happened. Warm home discounts take place over the winter. They have to be paid by the end of March, so we are kind of done on this year's. Loads of companies had exceeded their quota back in the autumn, so you will have to do another payment.

Q50 **Kevin Hollinrake:** With the greatest respect, it is £450 for the lowest income and £300 for the other 6 million.

Torsten Bell: It is £450 for some on the lowest income, but mainly pensioners.

Q51 **Chair:** On that point, is the £2.5 billion cost in respect of the additional amount of funding that would go on top of the existing scheme?

Torsten Bell: That is correct, Chair.

Q52 **Dame Angela Eagle:** I will ask about renters and owner-occupiers because obviously housing costs are a huge issue for anyone trying to balance the household books. It is important to be able to keep up those payments and keep a roof over your head. In general terms, what effect will the current inflationary environment have on housing costs for renters in the social and private sectors? Also, what about mortgage payments?

Torsten Bell: There are a number of things going on here that I will focus on. It is worth doing both the longer-term context and what is happening right now.

The longer-term context over 20 years is that owner-occupiers' housing costs have been falling, driven largely by falling interest rates, but also by the move among that population from mortgagers to outright ownership. Lots more old people own their homes outright, so there are fewer mortgagers, not just because you can't get a mortgage in the first place but because you have paid it off. Overall, owner-occupiers' costs are coming down—great. That is why lots of people do not feel that the last 15 years have been a cost of living catastrophe, even though they have been a cost of living catastrophe. If you had a large mortgage and saw it fall over time, you are the winner from the last 20 years.

The biggest losers on housing costs have been in the social rented sector generally, if you look at individuals, because social rents have gone up by more than private rents, and particularly because housing benefit levels have become less generous over time.

Among private renters, the main problem has been the move towards having more private renters as both other sectors have shrunk. Because it is a higher-cost sector overall, that has given us a higher average housing cost, even if somebody within the sector has not seen huge rent rises.

There is quite a big regional difference there to think about. London consistently saw above-average rent rises for most of this century, but since 2016, and repeated during the pandemic, that has reversed. Now London is at the lower end. In the very recent past, Northern Ireland appears to be seeing the fastest rent growth. London is now at the extreme of having basically no rent increases while the rest of the country sees moderate 2% to 3% rent increases in the private rented sector.

Focusing on right now, the social sector is the big priority. Because what is happening there is, having cut social rents between 2016 and 2020 with 1% fall a year, we are now operating a policy of allowing rents to go up by CPI+1%. That means that rents will rise by 4.1% in April. Remember, just under half of social tenants don't receive housing benefit, so they won't get that covered by the state. That group is going to be particularly badly hit.

If I were running a housing association, people should think really hard about whether they are using all the headroom. That is what Government allow housing associations to do, but they can choose what rent levels to increase. Given their social purpose, there is a trade-off. No one wants to pretend it's easy for social landlords, but I would think really hard about whether I should increase rents by 4.1%. That is definitely not going to happen in the private rented sector this April.

Q53 **Dame Angela Eagle:** What is happening in the private rented sector?

Torsten Bell: It is about 2% to 3%. I am looking at the latest figures here. As I say, zero in London and highest in Northern Ireland, at about 5%.

Q54 **Dame Angela Eagle:** There is quite a big regional variation that isn't always picked up in the figures. Obviously, that will have implications for the so-called levelling-up agenda.

Torsten Bell: On rent, if you take out London and Northern Ireland, all the other regions are broadly in the same kind of ballpark. Wales has particularly low increases; Scotland is a bit above average. Northern Ireland stands out for very large rises.

Q55 **Dame Angela Eagle:** Current homeowners, as you've just explained, Torsten, have had it reasonably easy in the past period. We are now going to see rising mortgage interest, as we expect the Bank of England to put up interest rates. What implications do you think that has for those who have mortgages?

Torsten Bell: Overall, what has happened is that the way in which monetary policy feeds through to the economy has become less focused on mortgages over time. That is partly because there are fewer mortgages. With fewer homeowners, within that there are fewer mortgages, as I've just explained. Within the fewer mortgages, there are fewer variable-rate mortgages, because everybody gets a fixed-rate mortgage.

Dame Angela Eagle: The rise of the fixed rate.

Torsten Bell: Exactly. Fixed rates have now gone up on the mortgage side, even though they have just come down through the floor on the energy bill side. That means that the immediate hit from interest rate rises is lower than we would be used to. This is not the mid-90s, which is really important to understand.

That is the good news for mortgages. The bad news is that, if you look at what is happening in terms of expectations of interest rates, the change is really quite fast. If you go back to March last year, markets were expecting us to get back to only 0.5% interest rates by 2026-27. Basically, that is hardly any rise. By September, that had come up to 0.75% and now an over 1.5% rate is expected pretty soon.

Looking at what markets are expecting from the Bank of England this year, they may have got over-excited. They are basically expecting quite a large tightening cycle in the short term over the next year. Whether or not that happens, for the subset of people who will be affected, that is definitely bigger than expected in the autumn, but historically it is not 1992. We are not going to see huge rises like that.

A handful of people with large mortgages that are variable are more exposed, just because the scale of mortgage debt is higher. The flip side of low interest rates, and therefore high house prices, for those who do have them, if they are recent purchases in particular, they could be exposed. Our anxiety should be focused on a subset of that population, but the numbers I've just read out on the levels of changing expectations of what happens to interest rates should make us honest about the uncertainty involved in predicting what is actually going to happen.

Q56 **Dame Angela Eagle:** Tom, because of fixed rate, do you expect rises for those, particularly who have just got mortgages, to be held off until the other causes of the cost of living increases have subsided? So, the presence of fixed rate will help smooth out some of the cost rises.

Tom Clougherty: I think so. That is very plausible. You have three quarters of people with mortgages on fixed rates. It seems likely to me that that would be the case. Torsten gave a brilliant answer about the short-term pressures but, if you zoom out a bit, we are talking about the cost of living. Housing is the single biggest long-term cost of living problem we have in this country. It is really extraordinary. And it is not just cost of living; it is also a massive constraint on the performance of our economy. On energy prices, yes, we have some short-term issues. They will probably subside and things will change. Housing is an issue that just looks to be getting worse and worse and worse in this country, without any meaningful change in sight.

Q57 **Dame Angela Eagle:** You mean that shortages increase cost, meaning that it is out of most people's range, so they are in the more expensive private rented sector, which generally is lower quality. Is that what we are talking about?

Tom Clougherty: That is 100% right. It is great for people who have paid off their mortgages or seen their mortgage rates tumble, but the ladder has been pulled up behind them. I am not saying that they pulled up the ladder, but that is effectively what has happened. When we look at cost of living pressures in the longer term, this is the No. 1 thing we could do to make people's lives in this country more pleasant, more comfortable, and to make them better off.

Q58 **Dame Angela Eagle:** It is paradoxical, is it not, that having a roof over your head is probably seen by most people as a necessity and yet it is so rare that the price has been going up? What sort of policies do you think might be the best response to that, as opposed to dealing in the short term with a cost of living increase? This is really about scarcity of supply.

Tom Clougherty: The very fundamental thing is that you have to be able to build more homes where people want them. You can do that through top-down reform of the planning system. That has been tried various times. I am not sure that people have tried hard enough.

Dame Angela Eagle: It doesn't seem to be getting very far.

Tom Clougherty: No, it doesn't seem to be getting very far. It is quite possible to say that structurally, for political economy reasons, we are just not going to achieve that, so we have to look at alternatives. One of the things that is very promising is the radical decentralisation of planning, almost to a street or micro-neighbourhood level, and effectively letting people vote to densify the streets they live on by, for example, building more storeys on top of their houses. It is the street votes idea that Policy Exchange and various other think-tanks have talked about. The reason that works is that it would be massively in the financial interests of those homeowners to allow the densification of their neighbourhoods if they could vote for it.

That is one way around the hard political economy problem we have of people just not wanting stuff to be built near them. But it is certainly not easy.

Dame Angela Eagle: Do you have anything to add, Robert? You have been terribly quiet.

Robert Joyce: In terms of the impact of what is happening at the moment, or in the near future, I suppose one relevant point that springs to mind is if it affected the price of housing as an asset. That is one of the really big distributional issues that we have seen in recent years, particularly between generations, because the price of buying a house has increased so much. At the moment I don't think there is much sign that what is happening would in itself have a big additional impact on that. I say that because long-term expectations of real interest rates have not changed very much as yet. That is something that, if it did change, would affect asset prices in housing. It hasn't yet, but that is something to keep an eye on.

Q59 **Dame Angela Eagle:** Torsten, we have been through a period when interest rates have been pretty close to the floor. Those who have been lucky enough to get on the housing ladder have got used to big subsidies. Very few people are used to the thought that their mortgage might go up in cost. Are there things that we can do to try to smooth that out, or do you think we should be more interested in dealing with the problems in the social rented sector?

Torsten Bell: There are a number of aspects to this. Stepping back to look at the big picture over 40 years, we see that most housing cost issues in the UK, taking the population as a whole, are about the late '80s and the first half of the 1990s, when housing costs are bubbling on in a nice regulated but low-quality world and then shoot up. A chart of it is almost unbelievable when you look at it. They shoot up, get to around 30% and have sat there ever since. It is not true that housing costs are always going up: they are going along, they shoot up and then they are trundling along.

What has happened since then—since the late '90s—is big distributional changes within that. The really big winners are existing owners, and the really big losers are, broadly speaking, young people and people in social housing. In the short term, you have to sort your distributional problem, because some of that is about policy choices. You can't just remove housing benefit and hope that housing costs go away—that is not how our housing market works. If we want to get housing cost—not prices—down, we need to build more houses and in the places that people want them.

Stepping back, as the country becomes richer, people want more housing, not less. I think there are lots of arguments for building, even if you do not have lots more households in the population. That is not just rich people wanting second homes. Apparently, they are all doing their exercise in their houses these days, and half of them will be working at home. Overall, we need more housing stock, and that will help on the housing cost front, but that is a slow game—do it for decades, and it will have some effect on housing costs, but it is not a silver bullet.

Let's separate housing cost and home ownership: if you want home ownership up, you have to solve the distributional problem. That is, if you move to a low interest rate world, you move to a high asset value world compared to income. That benefits people who are not credit-constrained: buy-to-let landlords and people with cash and existing assets; and it harms those who need to buy out of income: young first-time buyers who, by coincidence, have also had their income relatively weakened compared with those older people. You want to deal with that.

You are going to have to move to policy options that are currently considered slightly wacky. You will need to be much more aggressive at suppressing demand among older people, and you can do that with the tax system or via regulation. But give it 20 years, that is where we will get to. If we are staying in a low interest rate world, at some point, your successors or you in later phases of life will be in favour of much more aggressive regulation of who can own which properties and taxes on second homes and buy-to-let landlords.

By squishing that demand, you will help some first-time buyers. Or you directly help first-time buyers. At the moment, that is being done via the Help to Buy scheme—moderately inefficiently, but that is what it is trying to do. You can look at other versions of that, which, basically, collapses into ways of either guaranteeing lending to people with low assets or younger people in general, or you just give them money. In the end, if you do not want to do those things, you are not going to make a material difference to home ownership in this country.

Chair: Thank you very much. It has started getting quite hot in here, we have noticed. You have probably noticed it too. We sent out a message, and such is the technology of the House of Commons, a lady from facilities came in and used a large key to open the windows, which is rather ironic given we are discussing fuel and heating bills. If anyone gets a little uncomfortable and wishes to remove a jacket, please do. I will now go to Emma.

Q60 **Emma Hardy:** Afternoon, everyone. You have been giving really interesting answers to the questions. Before I go on, I wanted to unpick some of that. Torsten, you mentioned making the warm home discount automatic. What are the benefits and drawbacks of making it an automatic thing that people would receive?

Torsten Bell: If you look at who is currently getting the warm home discount, among poorer households it is just not getting to enough people. That is partly because of eligibility—poor households are not eligible for it—but it is also because it requires you to make a claim. It is easy for me to say that it needs to be automatic. In the world of delivery, that involves data sharing between DWP and energy companies, which is not easy at all. There are ways around that—I could imagine DWP being the people sending the letter with the discount to the households, who then let their companies know. I am not saying there are not ways around it, but it is difficult.

Again, I do not want to sound like a civil servant, but I think we need to think about this: we have taken quite a while to make this decision on how to help households in April. The longer we wait, the harder some of the options become administratively. For example, the idea of sending people cheques will not happen by April. I would not do it anyway, but administratively it is probably not deliverable at this point, unless we mean sending it to households just on benefits and DWP doing that. Again, you should just do that via the basic benefits system rather than sending them a cheque if that is what you want to do.

There are real logistical difficulties. I am sure the lawyers at DWP are currently going over what data sharing would allow them to do with energy companies. That is a significant concern. It would need to be automatic to work, and to allow a Government to take a decision to use that route rather than the benefits system, but that brings with it significant operational difficulties.

Q61 **Emma Hardy:** Thank you. I was just reading a briefing from Citizens Advice, which argues for using the benefits system. I do not know if you have had a chance to look at what it is proposing, but it has given examples of the number of people going to it for help and support. It is talking about an increase of 123%, compared with the same time last year, of people going to it for help with their energy bills. The data is shocking. It talks about having an energy support grant through the benefits system. What are your thoughts on doing it that way?

Torsten Bell: You can pay a lump sum through the benefit system and try to do it that way, although I am a bit cautious about that. If you are going to do it through the benefit system, then my preference would be to do it in the basic uprating. That is because although the energy bill rise is happening in April, what obviously matters is for how long a period you have to pay that higher energy cost, particularly while on a lower income.

Really, what you want is not to give everyone who happens to be on Universal Credit in April a cheque; you would be better off paying a slightly higher rate over a period of time, such as the year. Therefore, if someone is out of work for six months, they would get six months' worth of that extra support rather than the person who happened to be out of work in April getting it, but a person who is out of work in June not getting that support when they are struggling with energy bills.

You would be better off doing it via the basic rate of the benefit, but yes, you could also do it as a lump sum payment. Do think really hard about it, because doing it through a lump sum mechanism can lead to the unfairness between people who are in different situations at different times becoming more acute. But that is still definitely better than doing nothing.

A similar issue would probably apply with the warm home discount, although you could at least provide a time period over which it would apply; it wouldn't need to be just on day one. It could be anyone claiming those benefits over the course of, say, six months.

Emma Hardy: One of its suggestions was doing it similarly to the winter fuel payment but applying it to people on Universal Credit.

Torsten Bell: That is a similar mechanism that, again, anyone who has wrestled with the logistics of the winter fuel payment system will be aware of.

Q62 **Chair:** Sorry to interrupt, Torsten, but regarding benefit claimants, when you say that it need not be a lump sum just if you were in a particular situation in April, but actually if you were claiming those benefits for, say, a period of six months, how significantly would that impact the £2.5 billion cost? Do you have a sense of that?

Torsten Bell: I do not know off the top of my head, but yes, you do see a significant amount of churn, particularly among the short-term Universal Credit claimant population. You see some slower rates of churn among most other benefits over that period. It would increase the cost if you just say you have to be entitled to it at some point over that six months. That would increase the cost versus the £2.5 billion, which is taking the population as it is on a given day.

Chair: Anything you could write to the Committee about that would be helpful, I think.

Torsten Bell: We can do that.

Q63 **Emma Hardy:** Tom, I picked up on something you were talking about relating to the long-standing supply-side issues you said we need to deal with. Could you elaborate on what those are and how you would try to deal with them?

Tom Clougherty: They are not specifically in energy, which is the immediate crunch. When I was talking about long-standing supply-side problems, housing is one of them; childcare would be another big issue where costs are extremely high. Actually, the planning system and the cost of property feeds into expensive childcare, but so do things like staff-to-child ratios. We have much stricter regulations than most other countries.

Emma Hardy: That is good. I used to work in a children's nursery. Those ratios are good. No one with a two-year-old would tell me we should drop those ratios.

Tom Clougherty: With an eighteen-month-old at home, I know. Nevertheless, it does seem that other countries get by with much more relaxed ratios, which naturally tends to lower costs a little bit.

We have also driven an increase in formalisation of the childcare sector, perhaps without full recognition of some of the costs that brings along with it. Informal childcare has massively declined over the course of my lifetime, for example, so the cheaper options aren't necessarily there and the more expensive ones are increasingly out of reach for a lot of people. Of course, it helps when the Government provide subsidies, tax breaks or whatever, but that does also tend to push up demand, so we see the prices go up and up as a result.

Those are two of the particular areas, but it would actually be very valuable for the Government to do a comprehensive cost of living review and look across the whole range of issues, and say, "What could we change policy-wise to make things cheaper and more abundant for people?" There are obvious ones like housing, but I suspect there are also rather more obscure ones that that kind of review would throw up.

Fundamentally, there are a couple of different ways you can approach trying to make people better off. Obviously, one of the ways is to give them money, but the other one is to make the stuff cheaper so that they can afford more of it. In politics and in policy, you tend to focus on the immediate problem in front of you and fixing that—in most cases rightfully so—but those longer-term things maybe get neglected, so I think they also need a little more focus.

Q64 **Emma Hardy:** It is interesting—not that we are going to start talking about the Building Safety Bill—that there was not more in it on insulation and preventing the problem of escaping energy.

Although there has been a global gas and electricity price high, many have commented that the crisis is particularly acute in the UK, which they put down to low gas storage and the UK's heavy reliance on gas. What can the Government do to make the economy more resilient to these external price shocks in the energy market?

Torsten Bell: Lots, in the long term. It is really depressing that we have ended up in this place, but it is a long game and you need to tackle this at a lot of different levels. Insulation in Britain is a disaster. It has always been a disaster and our progress on it has been a disaster, particularly after we cut the green crap—the technical term for our policy change in 2012-13. It was a very big mistake. Look at the rates of insulation for households. People are not going to be doing this without policy support. You are going to have to get on with it. We have wasted a decade and we now need to take it seriously. We can't just wait for the next energy crisis to decide the way to get costs down is to not insulate homes again. It is a really, really big policy mistake. We have to crack this.

You can make your energy supply itself less carbon dependent, and in the end the volatility here is not really coming through wind, although that is causing some of it. It is basically to do with global gas prices, so have more renewable energy. There is really good news. Some of you will have seen the auction that took place that was run by the Crown Estate in Scotland. There was a really high uptake of people wanting to be able to apply for planning permission to build offshore wind. That is exactly what we need to see on a big scale—nuclear and the rest.

Gas is an unusual feature of the UK energy market. Although lots of energy is not coming from gas, because gas is the marginal provider it is moving a lot of our pricing system, and that is causing the wholesale price to be particularly acute for us, so we want to think about that element of the system, too.

We have made a mistake on storage, in not having it. We should be a bit cautious about saying that is everything that is going on. Having a large amount of gas storage would have protected us for a time from these wholesale prices coming through, but there is no way we would ever have had enough to get us through this whole crisis that's going on, so we should be a bit cautious about that. We should have had more of that, but that is not the overall answer to what is going on. That is mostly on the wholesale side, or the housing side.

You have then got the supply market, which everyone is focusing on: the six old companies, now more—there are not as many as there used to be, as they are going bust—and what is going on there. We have been trying to make competition in this market work for some time. The energy price cap is a recognition that competition as it was taking place was not working for households that did not switch regularly. That is why the cap exists and why both parties voted for it. We are finding out that that is not the only problem. The problem is competition within the market, even for people who do switch. The bit of pricing where firms can compete was basically on the risk of their hedging strategies. Firms that wanted to give you a cheap fixed-rate deal were not hedging as much, which is why loads of them have gone bust. Some of the other ones were hedging for longer, which is why they will get in trouble, but not as early, and that is why they had more expensive provision.

It is not a good idea to be exposing households to that kind of competition, so that probably means we need to see more regulation of how long firms are hedging for, and better matching between the fixed-term tariffs that they offer and their hedging strategies. We need to be honest that that probably does mean slightly higher prices, but it means much less volatile prices for households. That, in the end, is probably where we need to end up, so there is a lot that we need to do.

Q65 **Emma Hardy:** There is a joke somewhere about lack of wind and lots of hot air in here, but I won't be the one to make it.

Tom, there are reports that the Government are considering taxing the North sea oil and gas sector and using those funds to subsidise electricity prices. What are your views on that?

Tom Clougherty: I think it would be a big mistake for a number of reasons. First, the North sea oil and gas industry is not what it once was. Sometimes these proposals assume we are still 10, or maybe more, years ago when this stuff was booming. From 2014 to 2019, with the oil price collapse, these have been really lean times for the North sea oil companies. It is not dominated by the major players to the extent that it once was. The margins are much lower. There is an awful lot of debt, as I understand it, as well. On the one hand there is this fundamental thing: the problem is fundamentally a shortage of gas. Does it make sense to tax heavily the people who are trying to find more? Maybe not. More broadly, you are going after an industry that is in decline and if you clobbered it with a big tax bill, you could see a lot of job losses.

The big problem with damaging the North sea oil industry, as it exists at the moment, would not just be in the short term, but in the fact that there are quite high hopes for a shift to green energy and a lot of what is currently going into oil and gas in the North sea can be repurposed. It can go into carbon capture and sequestration, and we will have a lot more offshore wind and so on. It will be those same areas and industries, and the same sort of skilled people will be involved.

If you had any kind of tax rise that severely hit those industries and that maybe led to people leaving them, the sort of ecosystem that exists at the moment, which could be extremely useful with the green shift, might get broken up prematurely. We have seen that post-2014: a lot of people have just left the sector, seemingly never to return. So I would be very worried about the longer-term consequences of a windfall tax.

Emma Hardy: Thanks, Tom. Torsten?

Torsten Bell: I think we should get on with it. Let us just step back. What is actually going on? Why are prices up? Because we are redistributing from producers of energy, who are either foreign producers of energy or some domestic producers, and they are not all oil and gas; some are renewable producers of energy who are also benefiting from windfalls.

You can decide, if you want, that the market is delivering the optimum level of redistribution from UK households to those few companies. If you do, you are a brave person; I see no justification for that argument. Or you can use a small tax to redistribute some of that windfall. You can't get at all the windfalls because lots of them are abroad and you haven't got a Saudi Arabia tax ready to roll, and they are not going to accept one.

Within the UK, there is an idea that there is no better solution to the level of redistribution that is currently taking place. Remember, this is not about fundamental changes in the level of supply. This is a straight redistribution, driven by wholesale price changes, from households to people who already owned the capacity to produce that energy. The idea that you don't want to tax some of that to make it a slightly less large redistribution is beyond me.

Where Tom is totally right is to say that the level of revenue you are going to be able to extract via this mechanism is going to be relatively small, compared to the size of the overall redistribution that is taking place, because lots of it is not taking place within the UK. You are still going to need to borrow money to provide the scale of support to low-income households that you need, but you should get on with some of it.

Emma Hardy: Robert, did you want to come in?

Robert Joyce: There are certainly worse ways of raising money. Windfall taxes always have certain advantages, at least in certain conditions. You are taxing the past, basically, so you are not distorting people's future incentives, at least potentially, as much as you would be with other taxes. There can be issues if there becomes an expectation that you are going to get windfall taxes every so often, but yes, there are worse ways of raising a bit more money.

If I did that, I wouldn't spend it by directly subsidising fuel, in terms of reducing the price of fuel, because that comes with downsides too, particularly if it were permanent. We have already talked about the long-term problem if we moved to a situation where we are encouraging the use of these things even more than we were before, which we don't want to be doing in the long term. I would be a bit wary about going down that route, but, on the tax side, there are worse ways of raising a bit more money.

Emma Hardy: Thank you. Sorry, Chair, I've overrun.

Chair: That's fine. Thank you, Emma.

Q66 **Julie Marson:** Thank you very much, Chair. I would like to ask about economic growth, so maybe I can come back to Torsten. What impact do you think the increase in the cost of living will have on our recovery as we come out of the pandemic, and on economic growth?

Torsten Bell: This is an absolutely crucial question. I do not have a numerical answer for you. The Governor obviously got into some of this when he was talking to you a few weeks—three weeks?—ago. Some people were slightly unfairly mocking his comment that inflation might be supressing demand, saying that that didn't make any sense because it was excessive demand that was causing inflation. I think he was making an important point, which is when you think about the effect of inflation on demand in the economy, it really matters which kind of inflation it is.

Cost-push inflation, being driven by the cost of energy, particularly that which is important, is making us all poorer and requiring households to spend a greater portion of their income. It will suppress demand for other things in the system. He is right to raise that, and that is different from wage-driven inflation from a tight labour market and the rest. We should be thinking about that, and if you are running a hospitality business, you will definitely be thinking: "My ability to sell stuff is going to be pressured by people having to pay more for their energy bills over that phase." That is something people should be thinking about.

That should be seen more broadly, and that is why it is a hard judgment and we should be suspicious of anyone who is really certain. It gets into this broader question about the balance of supply and demand in our economy, given that, broadly, the recovery has been quicker than we expected in terms of reopening on the labour market side and it has been, by more than we expected, or expected in the relatively recent past. At the beginning of the pandemic, everyone was hoping this was all over in a week. The labour market has recovered quicker, GDP is not quite as quick, but still, it has now got back to where it was before the pandemic.

The judgment call we have is that here we are focusing on these tax rises and these pressures on consumption from energy bills. How do they fit with the strength of that recovery? In the US, the version is slightly different. It is not about taxes going up but about support being taken away. Fiscal support has been taken away and then rates are rising on a timetable that is slightly slower than us, but which is expected to go further. You should see it in that context, which is: do we think that the economy is strong enough to withstand the tax rises and the energy bill hits to household incomes given the nature of that inflation? It is a reasonable judgment that that is possible.

On the balance of risks—on the economics rather than on the political economy—is it absolutely ideal to be doing the tax rise at exactly the same time as the energy rise at the moment? Probably not, but that is where we are. What makes me slightly cautious about some of the forward markets now on Bank of England rates getting up to over 1.5% really quite fast is that that is assuming that everything goes smoothly and there is a lot of other things going on. If you look at what is happening to wages, if people worrying about wage-price spiral were waiting for this wage take-off to come as everyone starts bargaining—average weekly earnings 7% back in the summer, now down to 3.5%—if you look at the survey out from Lloyds this morning showing firms' expectations of wage rises, we are seeing quite large falls in people's expectations of giving wage rises of 2%, 3% or 4%. I do not think that is how firms are responding.

What is actually going on is that firms are looking at their input costs going up—not just energy, but other goods and other things—and thinking about how much of that they are going to be able to pass on in terms of price rises themselves. That is going to be difficult for some of them but that is going to happen. Then they are thinking: can I make that problem even more difficult by raising wages lots? I probably can't. So I think that is why you should not be too worse off. Well, I do not think the evidence right now is pointing to, admittedly, a tightish labour market, but I do not think it is leading to runaway wages. That is because firms do not think they can afford it, given what else is going on and their ability to push up prices. Obviously, there is a limit to that. If the labour market gets really tight, workers will be able to demand those wage rises and firms will have no choice, but I do not think the evidence shows that we are there yet.

Q67 **Julie Marson:** Thank you for that answer. Given the many factors that you have talked about, can you differentiate between the impact on goods, for example, as compared to services? We have seen during the pandemic when people could not get out that demand for goods actually increased. As we unwind and recover, what is your assessment of the difference between those two? Could there be a rebalancing?

Torsten Bell: I hope so, for the hospitality sector and for everyone actually seeing their friends again at some point. There is lots going on. Overall, the rebalancing is what we are trying to see. What we are actually seeing is that the cost-input inflation is much larger on the goods side, although not the longer-term trend, so we should expect the second-round effects to come through largest on the goods side. I have to say that it is picking up as well on the services side, but it is much lower, which again makes me think that we do not have some wage-price trauma going on yet, but it is there.

If you look at the difference with the US and globally, what we are seeing is similar patterns within Europe and then the US being an outlier with higher inflation than the rest of us. That is mainly about goods, although they have higher service inflation than us as well. We should be thinking that this is mainly goods at the moment. We are going to see some coming through in services, as long as it does not lead to wages significantly outpacing productivity in a way that the labour share increasing cannot deal with, with profits being shrunk, then we do not have a wage-led inflation problem coming through.

In terms of the rebalancing, it has been slower than I expected in some ways. Omicron has obviously put us back on that. If you look at durable spend more recently, we have seen it drop back down again after Christmas. I think people do want to go out and get back into some of the social spending, but on holidays, in particular, we are not quite at that point in the year yet, so the rebalancing is a longer game than maybe some of us thought a year ago.

Q68 **Julie Marson:** Thank you. Robert, did you have anything that you wanted to add?

Robert Joyce: I don't think so.

Q69 **Julie Marson:** Okay, thank you. Before I go to Tom, I will pick up on something else you said, which is about the way firms might react. Increasing prices could potentially have a positive impact on productivity as firms react and invest in certain ways to stop passing those costs on. What is your assessment of that possibility?

Torsten Bell: Obviously, the best version here is that there is cost pressure on firms that respond—there is some evidence of that. When do firms do things very differently? When they are really under pressure, and that is why a tight labour market that drives wage pressure is desirable in the long term, because it forces firms to think hard about how they use that labour and get our productivity up. The big picture is that low productivity is a catastrophe in levels terms and in rates of change terms.

I am slightly nervous about some of the more optimistic takes out there at the moment, such as, "It is all going really well. We came out of this pandemic. We have all learned how to use this tech, and there is going to be really good productivity growth, and therefore wages will be able to surge", because we have invested in lots of tech—some tech—to get us through remote working and the rest. Overall investment levels are down, but we have invested in it. That has mainly helped us operate in a world where we were facing new costs. Operating in a pandemic was more restrictive, so we have invested to cope with the world we were living in.

Largely, that is what firms have done. It is not productivity boosting; it is just being hit by a supply shock and paying to deal with it.

There is some good news. Investment intentions are looking up, which may partly have been driven by some of the things you are talking about, and that is true across a number of surveys. That is optimistic, given how big a problem it is. If you asked, "What is wrong with UK firms?" Not investing is what is wrong with UK firms, compared with other countries, particularly France.

Surveys of firms are basically saying, "We think we will basically be as productive after the pandemic as we were before". There is a really wide variation on how they answer that but, on average, that is broadly it. I think that would be quite a good outcome, because there are lots of extra costs that have been imposed, so if they get back to that situation in the short term, that would be quite a good outcome. What it is not is, "Everything has been transformed. I can suddenly run this business more cheaply" because for loads of businesses it has gotten more expensive.

In the short term, we do not see evidence to support the hypothesis that pressure on firms has led them to some new, high productivity level. Could that happen, and has that happened from some cost pressures, such as the minimum wage, in the past? Yes, although it also put prices up and cut profits, so it did all three. I hope we see more of that in future. I do not think we should confidently say that the evidence says there is a productivity surge coming through right now, and that is going to allow wages to go through the roof. I do not think the evidence supports it.

Q70 **Julie Marson:** Thank you. Tom, do you have a comment on that? Are you any more optimistic on productivity, for example?

Tom Clougherty: I try to be optimistic, but it is quite hard when you look at the track record of productivity over many years now. I think your question about the impact of all of this on growth is a great question. It is actually the question we should be asking about almost everything, and I worry that we do not ask that question enough.

Clearly, I do not think cost of living pressures are going to help in the short term—they will hurt a bit. If they are not persistent and long-lived, hopefully the hit will not be a great one. Maybe we need also to think about all the other things we are doing at the moment, particularly on the tax front, which I think is going to undermine growth. That worries me.

We should think about the growth of the cost of living, but we should think about it with everything, because that really is the huge challenge we face as a country. Our growth has been lacklustre since the financial crisis. That has huge effects on people's living standards. One of the reasons why so many people are hard hit when you get a cost of living spike like this is because they are not better off in the first place. The tendency is to think that all that growth is something that happens to us, not something that we can affect, but I do think there are things we can do, and there are things that we should not do, that would help.

Julie Marson: Thank you very much. I am out of time, Chair.

Q71 **Chair:** I have a couple of quick questions. One is on the point you were making, Torsten, about productivity and companies having extra costs, as well as having maybe tech-ed up a bit. If you take Zoom meetings, for example, a number of businesses can now talk to lots of people potentially right around the world, whereas previously they would have had to get in a car, get on a train, spent a whole day travelling and so on.

You have to imagine that without the problems that we have faced, which necessitated everybody suddenly logging on to Zoom, we might not have quickly got the critical mass that you need for something to be embedded and used technology. Could that be a factor, among others, that will yield greater productivity beyond the pandemic?

Torsten Bell: I hope so. Lots of firms say that they are more productive with that, and it opens up new opportunities—you would have to travel less, which is a cost saving. Assuming there is no detriment to the quality of the discussion, that should boost productivity. Absolutely, I think we should expect some of that.

What I am cautious about is the idea that that is transformational. Another context is that lots of MPs from all parties regularly say to me, "The real lesson of this crisis is that we need a more resilient economy." When you push on it, "more resilient" generally means less productive in the short term; holding larger supply chains; paying to have some things re-shored in the UK. Lots of firms have come to that conclusion as well. Rightly—it would be a bit weird if you didn't—you come through this thinking, "I want to hold a bigger stockpile in case anything bad happens around the world." That is going to cost.

Basically, the huge optimists are talking just about their firm. Some of the people talking about that are slightly on the atomised end of the market, shall we say. Some people are fine doing their transactional work in their bedrooms with their heads down, never meeting another soul—their work is really suited to that. All I would say is that nobody should generalise from their own experience to the entire economy. The entire economy is not telling us that there is some kind of productivity miracle going on. Equally, we should not discount the fact that there will be some areas where we have become much productive. If you do not need a transatlantic flight to have a meeting, that has saved you a lot of money and made you more productive in terms of that short-term situation. If you are a hospitality business right now, you are not feeling more productive—your tables are further apart; your customers are more nervous.

There are still supply shocks going on. The cost of shipping around the world has gone through the roof. That is a really large supply shock to our goods sector.

Q72 **Chair:** I guess there are so many variables we could have discussed at the beginning of the pandemic. Where was unemployment going to go? What was going to happen to growth? How quickly would we bounce back? What would inflation be doing if we had been discussing that six months ago? We have got it all completely wrong, or largely wrong. Maybe we will all be surprised in six months' time that productivity has suddenly whacked up through the roof, and then we can all rationalise it at that point—I do not know; that is just a thought.

Torsten Bell: The lesson of life, not just of economic forecasts, is that humility is a good thing—I agree. On the OBR forecasts specifically, they already expect productivity to bounce back to 1.3% by 2024. That is what is giving you some pay growth at the end of this forecast period. That is already significantly faster than the productivity growth you saw before the pandemic. In so far as there is an upside scenario, you may have already had some of it.

Q73 **Chair:** My next question will be very brief because we want to conclude. On the OBR forecasts from the last Budget, focusing on borrowing, we know that we have undershot central forecasts by £13 billion for the nine months up to October, I think. Inflation is taking off in a way that many had not predicted, as we have been discussing, and interest rates will consequently follow, which has an impact on the public finances—although there is a debate about where the inflation is coming from, and if you are getting wage inflation, you are getting something back because fiscal drag is raising more income tax and all that kind of stuff. Where do you think the balance lies? If you are the Chancellor, are you thinking, "I'm £13 billion better off—that is the good news—but I've got these dark clouds. Am I going to be sitting here in a year's time above or below the OBR's forecast on borrowing?"? What would your view be on that? Short answers, if possible, because of time.

Robert Joyce: Product market inflation should be bad from that point of view. It should add to borrowing, because it is going to push up different items of spending: welfare spending, public service spending, debt interest spending. As long as the wage response is only limited, and is not one for one, which it will not be—it will impact on real wages—you do not get enough extra receipts from taxes to compensate. That will be a negative factor weighing down on things, and that has of course got significantly worse in terms of the outlook there since the OBR said what it said back in the autumn.

Q74 **Chair:** Torsten, in the overall balance, is the Chancellor sitting there thinking, "I'm okay for now but I could easily end up on the wrong side of the central forecast on borrowing a year or so"?

Torsten Bell: My cop-out answer is that on the balance of probabilities, when we come to the renewed forecasts in March, because of the scale of the borrowing improvement over most of this year so far—giving you £13 billion for October—we should come in below forecasts for this year's borrowing. I don't think that is very interesting. If I was the Chancellor, I would be saying, "Maybe it's £13 billion, as you say"—or whatever it is—"I've got something in that order of improvement happening this year, but I will also probably borrow £180 billion overall." The level is quite important, as well as the rates of change from a forecast. I suspect that will be dominating his thinking.

As you say, within that, what matters is the balance of risks. The two risk elements are that inflation is already much higher than the OBR expected it to be and, because a quarter of our debt is index linked, that is feeding directly into our debt interest costs. We might see the rates rise that the markets are expecting this year, which would be quicker than I would have expected. The Bank of England's balance sheet is now 40% of GDP, because of quantitative easing, so that is going to feed through.

The Chancellor would be right to say, "I've had some short-term good news. The big picture is that I'm borrowing a lot of money." That good news relates to the labour market recovering better than expected, as well as corporate profits; basically, corporate taxes, VAT and income tax are all up, compared with the OBR's forecast. The economy is doing slightly better than we thought, pre-omicron. That is good news. That doesn't mean you need to spend it; you can bank that, because the economy has done better than you expected, and then you should worry about what the future looks like. Uncertainty is very big.

Q75 **Chair:** Tom, do you have anything to add? If not, we can move on.

Tom Clougherty: I think the short answer is that there are a whole range of different factors and it's hard to disentangle everything. The single biggest determining factor is the question of how well is the economy doing? If the economy is growing quickly, we're going to be in a good position. If we have lacklustre growth, we are not. That is what we really need to focus on. We need to try to avoid doing anything that harms the potential recovery—no unforced errors—but, if we can, let's try to do some more pro-growth stuff as well.

Chair: Very good, thank you. Rushanara.

Q76 **Rushanara Ali:** My questions are mainly about inflation expectations. We have seen some reports, such as the Citigroup/YouGov inflation tracker, that suggest that there is an increase in household inflation expectations. Starting with Torsten—and then anyone who wants to come in—what are the repercussions of increases in household inflation expectations? How far would that need to go for you to be concerned?

Torsten Bell: I think we should distinguish between household and market inflation expectations.

Rushanara Ali: Yes; I am talking about households.

Torsten Bell: This is a bit unfair to households, but my view is that, broadly, household inflation expectations track actual inflation. They are not really expectation measures; they are just what people are experiencing right now. Looking at the pattern of that, it is bubbling along at around 3% before the pandemic hits and then it falls, because inflation heads towards zero in the first year of the pandemic. It's weird: this time last year, we were looking at inflation rates of 0.4%, 0.5% or 0.6%. The world has changed very fast. Looking at the autumn—the last Bank of England datapoint—you are back to where you were pre-pandemic, because households have basically seen their inflation going up and their expectations have risen with it. Are there really worrying signs in household inflation expectations right now? No.

On the market side, we have gone through a phase where markets have looked around the world and said, "Look, inflation's at risk of getting out of control." Expectations went up around the world. They have now come back down, particularly in the US, because central banks have gone around saying, "I didn't mean it when I said, 'low for ever'. We're going to be raising rates through 2022—don't worry, I really mean it." Particularly in the US, they have bought that; there is a much better macroeconomic case there for saying that than there is here. UK market inflation rates haven't fallen as fast as in the US, but they have started falling. I don't think either gives you cause for alarm. Broadly, what the markets are telling you is, "We now believe that central banks are quite serious about this inflation thing if a problem develops." These inflation expectations are all five years out or 10 years out. They are telling you that the markets do not think central banks are going to give up on doing their job. Obviously, the flip side is that they are all expecting higher interest rate rises than they previously were. Overall, we should not be too worried.

The thing to think about, though, is that when we are discussing these wage-price spirals, there are two ways of thinking about it. One is how wage spirals happen. Is it that workers have inflation expectations and therefore they get those higher wages, because they are bargaining harder because they are worried? I think we are thinking too much in those terms. Instead, you should think about whether the labour market is really tight. If it is, workers will be able to bargain for higher wages. They might be motivated by the higher inflation, but it is not the higher inflation that is giving them the market power; it is the labour market tightness. When we are talking to the central bank and thinking about its judgment, it should be about the tightness of the labour market at the moment, not about externally driven inflation shocks. It is all about the labour market.

Q77 **Rushanara Ali:** Would the answer to that be more immigration? What else would it be, in the short term?

Torsten Bell: Right now, we have 500,000 people who have dropped out of the labour market, and we should try to get them back into the labour market, basically.

Q78 **Rushanara Ali:** What combination of things need to be done to reduce the pressure?

Torsten Bell: In the medium term, I want the pressure on the labour market. Clearly, when you have got to a labour market at full employment, and you have done what you can to increase the supply of people who are already here, interest rates will return to their equilibrium level, in so far as we think that is the conceptual framework we are using. I think that is a reasonable conceptual framework. On that basis, the labour market has tightened significantly, with high vacancies, low unemployment and an inactivity problem. That is why it is reasonable for the Bank of England to be raising rates—not raising them above their long-term trend, but raising them back towards an equilibrium level, and normalising them. I think that is a reasonable judgment to be making.

There is then a separate issue, which is that structurally we want to have the highest participation that we can have, and that is what policy should be focusing on in DWP. That is not going to be driven by macroeconomic policy, except in so far as it is beneficial in general to have a tight labour market in terms of drawing people into activity.

Rushanara Ali: Does anyone else want to come in on that?

Tom Clougherty: Just to note that long-term inflation expectations in the YouGov/Citigroup poll are at 2013 levels, so while they are high, they are not unprecedented. I do not think history suggests that we are going to face a serious problem there.

Q79 **Rushanara Ali:** If interest rates are going to keep going up, there are consequences for the economy. You were saying earlier that that was an issue. Can each of you talk us through the trade-offs if we are going to keep going down the route of interest rates having to go up for some time?

Tom Clougherty: Briefly, interest rates are going to go up, I suspect, and I think that is probably the appropriate response from central banks. I think they will gradually unwind some of the QE that we have seen over the last decade.

I also think that a lot of people think that rising interest rates mean we are going to go back to the sorts of interest rates we had before the financial crisis, or what are historically thought of as normal interest rates. Of course, that is possible—it is very hard to predict these things in advance—but it does strike me as unlikely, because I think that there has been, more or less since the 1970s, a long-term secular trend towards lower interest rates across developed economies. That is not really driven by central bank policy, in my view, so much as by economic fundamentals, demography and so on. I do not think that is going to change.

When we talk about interest rates rising, yes, they are rising in central bank terms, but I do not think they are going to be rising to the extent that ordinary people are going to see huge impacts on their lives based on the rising rates.

Q80 **Rushanara Ali:** Whatever the rise is, even if it is not to the pre-crisis level, would you see those rises dampening economic growth at all?

Tom Clougherty: Not necessarily, no. My view is that it is not necessarily the case that low interest rates are better for growth or high interest rates are worse; when you are talking about the Bank of England, you really want a policy rate that is appropriate to the economic conditions. There are risks in both directions. If you have inappropriately low policy rates, there are risks that inflation can get out of control, and we have seen that in the past. There are dangers as well that if monetary policy is too tight, you can suppress the economy. There have been incidents in the past—the great depression in the United States was probably a classic example—when monetary policy was way too tight and it led to catastrophic impacts. It is always important to remember that the risks are on both sides there, but I don't see us heading towards any big problems.

This is probably going way off topic, but I am not convinced that CPI inflation is the best thing for the Bank of England to be targeting. The kind of inflation we are seeing at the moment, driven by supply chains and energy prices—things that are nothing to do with monetary policy—shows that maybe there are changes we could make to our monetary framework to guide the path of policy interest rates better in the future. Nevertheless, I think that as long as you have a central bank that is independent and broadly guided by clear, well-understood rules, then we are not going to have a big problem here.

Rushanara Ali: Robert, would you like to add anything?

Robert Joyce: Just that—perhaps this is obvious—the Bank is playing the long game here. One of the worst things that could happen in the long term is for people to no longer believe that the Bank will control inflation. That is critical and hard to repair if it goes wrong, if the Bank is not seen to be keeping an eye on the rate of inflation in the medium term.

The Bank has very difficult short-term decisions to make, based on how it sees the economy shaping up over the next year or so. But big picture, that is the thing that will matter most in 10, 20 years' time—that inflation expectations don't become de-anchored. We would go through a lot of pain trying to undo that error, if it happened.

Q81 **Rushanara Ali:** What is your assessment? Do you think that the Bank is on the right track against the framework you have described?

Robert Joyce: As far as I can tell, yes. I am not a macroeconomist and I am not on the Monetary Policy Committee, but, as Tom said, historically, we are not yet talking about particularly large rises in interest rates or absolute levels of interest rates.

Q82 **Rushanara Ali:** What we have seen is that quite a number of those things are outside the Bank's control, but we have also seen that inflation is going up very quickly. For the public, it does not inspire confidence to see the inflation level where it is. Obviously, when it starts to go down again, people will feel less anxious, but that is what is going on.

Do you think that there is more the Bank can do? What additional policy interventions should be made to reinforce the actions of the Bank? The Bank cannot take responsibility for everything.

Torsten Bell: There are a number of things. One is that I think the balance of conversation is overly focused on the Bank of England when it comes to this. The big picture of what is going on in macroeconomics is that fiscal is what matters; it mattered in the middle of the crisis and it is making more difference now.

The Chancellor of the Exchequer chose a reasonably significant short-term fiscal loosening in the Budget last year, which should make us slightly more relaxed about what is going on now. It is not happening on the tax side, but it is happening on the spending side. There is fiscal loosening relative to what was previously planned, so the pace of withdrawal of fiscal support is not ridiculous. Whether or not that is the right judgment is much more important than what the central bank does over the coming months, which is, rightly, the thing we want to talk about. That is likely to remain the case for quite a while, because the numbers moving on the fiscal side are much bigger.

In the medium term, the scale of rises is not likely to be very large compared to what we are used to historically, so I don't think that is a massive problem. We should probably think about it in terms of where the risks lie—a bit less in terms of how we would have worried about it in the '90s—and I would focus a bit more on the fact that if people's expectations change significantly about longer-term rates, that will affect asset prices. So it is not about the short-term effects on mortgages; it is about the longer-term effects on house prices, share values, bonds and so on.

If I was coming at this from, "What do I worry about?", well, a lot of people will not like seeing the recent 10% rise in their house price reverse as interest rates resurge. That is more likely to be where you see a problem. I am perfectly fine if that happens, although obviously people are not going to think it is good when it happens to them. I have more confidence that something like might happen than that the actual rates themselves are a big deal. Focus on the fiscal policy in the short term.

Chair: Gareth.

Q83 **Gareth Davies:** The great thing about being last is that most of the things that you planned to ask have been covered. So I will not detain you longer than necessary, but I want to pick up on something that you said, Torsten, about unemployment. I think you mentioned that among 18 to 24-year-olds the rate of unemployment has dropped to pre-pandemic levels, which is quite remarkable. We have simultaneously seen older people leave the labour market. What impact do you think that will have on wages overall?

Torsten Bell: I should be clear what I am saying. Among young people, unemployment has gone back down to pre-pandemic levels. That is really good and it basically reflects the fact that it was the right policy decision to extend furlough—

Q84 **Gareth Davies:** Particularly for young people?

Torsten Bell: Among young people, yes. The level of employment among young people has not yet recovered, partly for a good reason, which is a three percentage point increase in full-time study. That is broadly a good thing. The Government have, slightly under pressure as a result of the cock-up on the university admissions process, allowed more people to be in full-time study during the crisis. That may not have been intentional, but it is quite a good outcome. There is also a bad reason, which is that we have also seen an increase in inactivity among some younger people, and that is what we should focus on.

The big picture, as you say, is that the increase in inactivity of around half a million is being driven by older workers and younger men. We have seen an offsetting increase in participation among younger women—by younger, I mean working age, prime working age. We have also seen an increase in the hours that they work. So the supply increase is not just about more women working; the ones who are working are more likely to work full time. So that is the big picture.

In terms of what that means for the overall economy, I think about a number of things. We should be worrying now about what is happening to those older workers. You should be particularly worried about what has happened in the past six months, when the drivers of that inactivity have been changing towards people reporting that they have long-term health problems. That increased during the pandemic because people said, "I am just not looking for a job"—understandably. Now, it is people saying, "I am not going to look for a job because I am sick." We should definitely be worried about that, particularly because history does not give us lots of good reasons for hope. We previously had lots of failures in policies to get older workers who were anywhere near retirement back into work once they had dropped out. So policy should be really talking about that, which is why it is slightly annoying that we are focusing on short-term universal credit sanctions when this is a really hard problem to solve. That is an issue.

Q85 **Gareth Davies:** What will older workers leaving do to wages overall?

Torsten Bell: It is complicated because workers are both suppliers of labour and drivers of demand for labour by spending their income. If nothing else changes, and everyone carries on spending as much as they did previously in the economy, a group dropping out of the labour market makes the market a bit tighter, and that can allow wages to grow in the short term—although remember that the Bank of England will make sure that they do not grow beyond sustainable limits, and that could be a short-term effect. It may just mean that you get to interest rate rises sooner.

If what is actually going on is that older workers are dropping out and have lower income, in their 50s—there is a point where there is a huge gap between how much money they get as a pre-retirement person relying on benefits and someone on benefits—we see them also dropping their consumption. So you cannot think about a fall in participation as good news for young people and their wages, which in the end are determined by productivity in the economy. You have to think about the main effect being a smaller economy.

Q86 **Gareth Davies:** Are you saying that it will hit the so-called silver pound?

Torsten Bell: Well, it will hit the pre-silver pound or whatever it is. This is really serious. People who cannot retire when they were planning to can suffer a really serious effect on their living standards, especially if they do not have large occupational pensions to draw down earlier. We should be really worried about some of those people. It is bad for the macro economy as well in terms of the size of the economy.

A lot of people say that the long-term trend is towards more older people working. I am really worried that we do not have a policy response that is remotely up to getting these older people back. How have we traditionally dealt with participation problems among older workers? The answer is that we age out of it. It takes 10 years and we have lost them. Then a new cohort comes through who do work for longer. It has been a catastrophe. That is the incapacity benefit story from lots of the populations in the '80s and '90s when we had concentrated long-term unemployment among older groups in some parts of the country. Our policy interventions did not work and we let these people retire and then die rather than solving the problem. So it is really serious.

If you look at where the employment growth came from in the last decade, it is basically women—older women in particular—and it is being driven by some of the state pension age rises. And remember, that is done in the short term.

So in so far as there is a push into higher participation among older workers from raising the pension age, that is also done. We should not assume that if we just sit back we will definitely get back to where we were before on older people's participation.

Gareth Davies: I think if the Government were here, they would at least reference the lifetime skills guarantee. I will leave it there, Chair, because all my areas have been covered.

Chair: That's great. Thank you very much indeed for appearing before us. It has been very helpful. We have covered a wide range of areas. You generously agreed to write to us on one or two matters, which will be helpful. That concludes the session.