HOUSE OF COMMONS

Treasury Committee

Oral evidence: Economic impact of coronavirus, HC 271

Friday 15 May 2020

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Watch the meeting

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

Questions 455 - 498

Witnesses

I: Professor Philip Booth, Professor of Finance, Public Policy and Ethics, St. Mary's University; Professor Jagjit Chadha, Director, National Institute of Economic and Social Research (NIESR); Dr Adam Posen, President, Peterson Institute for International Economics (PIIE); Dr Joshua Ryan-Collins, Senior Research Fellow in Economics and Finance, Institute for Innovation and Public Purpose (University College London); and Karen Ward, Chief Market Strategist, Europe, Middle East and Africa, JP Morgan Asset Management.

Examination of witnesses

Witnesses: Philip Booth, Jagjit Chadha, Adam Posen, Joshua Ryan-Collins and Karen Ward.

Q455 **Chair:** Good afternoon and welcome to the latest session of the Treasury Select Committee's inquiry into coronavirus and its economic consequences. I am delighted to be joined today by a panel of five distinguished economists and experts, and I would like to begin by asking each of them very briefly if they would introduce themselves.

Dr Ryan-Collins**:** Thanks for having me. I am Joshua Ryan-Collins. I am head of the finance and macroeconomics programme at the Institute for Innovation and Public Purpose at University College London.

Dr Posen**:** Good morning from Washington. I am Adam Posen, president of the Peterson Institute for International Economics. I had the pleasure to appear before the Committee when I was on the Bank of England MPC a decade ago.

Professor Chadha**:** Good afternoon, Committee. I am Jagjit Chadha, the director of the National Institute of Economic and Social Research. I am very happy to come and talk to you this afternoon about the prospects of the economy and coronavirus.

Karen Ward**:** Good afternoon. I am very happy to be joining you. I am Karen Ward, the chief market strategist at JP Morgan Asset Management.

Professor Booth**:** Good afternoon, I am Philip Booth. I am professor of finance, public policy and ethics, and dean of the faculty of education, humanities and social sciences, at St Mary's University, Twickenham. I am also senior academic fellow at the Institute of Economic Affairs.

Q456 **Chair:** For our panel's benefit, I should explain that because of the broadcasting requirements we will need to finish no later than 4.30, so we have plenty of time but we need to use it wisely. We have quite a large panel, so apart from my first question, which I will direct to all of you to answer, I have asked members of the Committee to try to direct their questions specifically to one member of the panel, maybe a second. If you are sitting there thinking, "I have something important to say about this particular question," please raise a hand and I will attempt to bring you in. We welcome any subsequent information you may wish to share with the Committee after the session by way of a note. I remind Committee members, please, to make sure everybody on the panel has a similar amount of time to engage with the discussion this afternoon.

Having said that, perhaps I could start with my question to each member of the panel. As we look at this economic crisis, how are you conceptualising it in your own mind? We know that crises typically have either a demand component, as we saw in the 2007-8 financial crisis, or a supply component, as in the 1970s with the oil price shocks and so on. How do you see demand and supply feeding into the particular problems that we face at the moment? Is there precedent for the kind of situation we are in, although it beats me where the precedent is? What can we learn from other crises, albeit they may be different to this one, about how we should work our way through it and out the other side?

***Dr Ryan-Collins*:** We are facing a simultaneous supply and demand-side shock to the economy. In advanced economies such as the UK, we are being hit especially hard because our economies are very dependent on consumption, which makes up two thirds of demand. That is one of the areas that have taken the biggest hit, given that to buy things, apart from online, requires going out to shops and restaurants, and tourism requires hotels, et cetera. It is a massive hit to both supply and demand, while, as you say, other financial crises or recessions have been oriented to one side or the other.

It is also quite asymmetric in its impact on different sectors within the economy. We have seen huge hits to sectors such as hotels, catering and transport, but other sectors such as food, agriculture and, to some extent, public services have increased. Policy needs to adjust to the asymmetric nature of the shock. I am not sure there are that many good historical precedents. There is the Spanish flu from 1918, but back then our jobs were quite different. There were probably fewer jobs that involved close physical contact, and there were obviously fewer office jobs, so the parallel does not quite work. The evidence is that, as far as I can see, the economies that closed down fastest fared better in the long run, but it is not that wise to look at historical examples.

***Dr Posen*:** Like everybody else on the panel, I will say it is a mix of supply and demand. I would add two main points. First, unlike every other downturn or crisis we have had in the economic sphere, there is a fundamentally exogenous, independent driver, which is the disease. The public health measures undertaken and how the public think about those measures are the fundamental determinants of how the economy responds. In the US, President Trump and various state governors can announce, "Everything is fine. Go back to work. Go back to restaurants," and the people will not necessarily do it. In Europe, we have seen the comparisons between Sweden and Denmark, countries that had very different approaches to lockdown, but a new study has shown that consumers broadly behaved the same in what they cut back on and how much they cut back. Ultimately, there will be a cap on the recovery, determined by how households and individuals feel the public health situation has been dealt with.

As a final note on that, "dealt with" does not mean "completely resolved." "Dealt with" means getting to a point where people feel they know what the risk is, and that the risk will not be abated by waiting now versus later. If you think of people who lived in Northern Ireland during the Troubles, or people in Israel or Colombia during the civil war, at some point you get used to the idea that there is an ongoing risk of violence or danger. It is not that you think it goes away; it is that you adapt because you know it is not going to change much. That is essentially, unfortunately, the way we have to think about the virus.

Secondly, the other responsibility for this Committee and this Government to think about is the reallocation of people and capital from sectors that will fundamentally have a downturn. Obvious ones include hospitality, tourism and entertainment. That is a significant problem. It is not a traditional supply shock, in the sense that it is mostly disinflationary rather than inflationary.

Chair: Thank you. That is very interesting.

***Professor Chadha*:** I very much agree with both Josh and Adam in their analysis. Let me try to add something to it. The way we have been conceptualising the economic response to the lockdowns is that the economy is being used as an instrument to limit the spread of the virus. The economy itself is responding flexibly to the overriding public health concerns that Adam was talking about. In that sense, to think about the immediate impact of this, it is much like a natural disaster. Once we start to think about this as a natural disaster, it opens up some interesting responsibilities for monetary and fiscal policy. It is not clear, in the case of a natural disaster that affects everyone in a particular way, either domestically or through the colleagues with whom they work, that there is any form of insurance available other than through the state, which means imaginative and widespread deployment of instruments to offset that shock.

As we think about the economy moving ahead, yes, it is both demand and supply. We have identified a number of channels for that, such as lower productivity and fewer hours of work. The activity will be lower because of the lockdown. It seems to us that only 30% of workers can work persistently in lockdown, over a long period, at the same levels of activity as they did in normal times. We can also imagine there will be lower desired consumption, spending and investment, as well as lower demand and supply from abroad. We have to concern ourselves with what might happen to risk appetite and the cost of capital in the middle of all this.

The key point is that, as we think about the path of the economy, it is almost entirely going to be a function of the extent to which we ease lockdowns, the permanence or otherwise of social distancing that we put in place and, as an open economy, the extent to which those measures are eased overseas. The UK is a very open economy and has a very high relationship with world growth rates, so if and only if they start to recover could we expect the UK to recover as well.

To touch upon Adam’s final point, where will this all lead? The really key question for us is the level of scarring. What bits of activity will fail permanently? How long will it take us to reorient those bits of the economy that cannot function as they did before towards the new areas that we think now matter more than they did in the past? Again, there is a very strong case there for Government help and support for retraining, both to minimise the long-term effects and to accelerate the adjustment of the economy to its new equilibrium level.

***Karen Ward*:** I agree that the demand effects are going to be overwhelming, certainly in the near term. With regard to supply, I would separate out supply dislocations and supply damage. As economists, it is the supply damage and the long-lasting ramifications that most concern us. The unprecedented nature is certainly in the shock itself, but the other unprecedented thing is the scale, breadth and nature of the policy response. We will talk about this in a lot of detail today, but in trying to create a sense of suspended animation for the economy, if that proves successful—we will talk about the cost of doing so, that bridging cost—we have reasons to be optimistic about the scarring and the long-term supply-side damage.

Former recessions have usually required quite a significant reallocation of resource across the economy. That is not obviously the case as we come out of this. I do not think that in three years' time, as social animals, we will have totally changed the way we conduct our day-to-day life. There are reasons for concern, but reasons for optimism as well.

***Professor Booth*:** I prefer to think of this as a supply shock by design. The Government have shut down, quite deliberately and quite rightly, large parts of the economy to try to deal with the problem of the disease. The demand aspect of this is somewhat derivative, as large numbers of people who are still working have become forced savers. They are unable to consume in the way they could before. Large numbers of people have had their incomes cut dramatically and, as a result, cannot consume in the same way. I prefer to think of it, by and large, as a supply shock.

The natural disaster is one parallel. Another possible parallel is what happens during wartime. The difference between this event and wartime is that, in wartime, the Government tend to forcibly move large parts of the economy from their previous activity into the war effort, whereas in this case the Government are simply shutting down large parts of the economy and those people, for the moment, are unemployed. When we come out of it, different people on the panel will no doubt emphasise different things. Maybe we will agree that all things should be part of the mix, to some extent.

I agree with Adam that the economy will have a different shape in two respects. First, there will be sectors that have been scarred, potentially permanently, due to changes in habits; the bankruptcy, potentially, of large numbers of companies in tourism, hospitality, et cetera; people perhaps not wanting to travel abroad as much as they did before, but people will also get used to new ways of working. Businesses will be adapting. Even if they stay in business, and they stay in the same line of business, businesses will work differently. In those circumstances, I would argue that a successful model was Germany after the Second

World War, where the economy was allowed to adapt rapidly to those changed circumstances, as opposed to the United Kingdom after the Second World War, where there was a great deal of planning of the economy. That was not as successful as what happened in Germany and other parts of continental Europe.

There may well be a role for Government to play. We may have differences in emphasis there, but it is important that the economy is allowed to adapt, and is free to adapt, to the new circumstances that will prevail after the lockdown ends.

Q457 **Julie Marson:** Professor Chadha, continuing the contextualised questions on the virus and the economy, how would you describe the state of the UK economy as we came into the virus, potentially compared with other economies? We have heard Josh talk about how we might have been vulnerable to a consumer-led, demand-led pandemic. What elements make us more vulnerable or, indeed, more resilient to this pandemic and its impact?

***Professor Chadha*:** At a personal level, as an advanced economy with relatively well-developed health services and considerable fiscal space, overall, we are better able to cope with the shock of this than many emerging and developing economies. In the whole distribution of the world, conditional on this awful set of events around Covid-19, we are in a reasonable state. The proximate developments in the UK economy are ones we have discussed several times in this Committee: chronic levels of productivity growth, imbalances in the economy and undersupply of many public goods and services, such as in the health sector, infrastructure and broadband. Those structural things have arguably left us a little more vulnerable to the shock, but the shock has revealed, once again, the weaknesses we have discussed many times at this Committee and elsewhere.

As I said in my opening remarks, the UK is a very open economy. When we correlate its growth rate with that of the rest of the world, it is as close to one as can be. To the extent to which this particular shock is adding enormous frictions to trade and leading to capital flight from certain countries, it is potentially leaving the UK a little more vulnerable than it might be, had it been able to supply all its essential goods and services in the way that other countries may.

The UK is rather London-centric. Therefore, the interactions and the extent to which London is closed down may well act as a further drag on activity in the rest of the country. Some 10% to 12% of the UK workforce works in those areas that look particularly vulnerable: entertainment, recreation, real estate, services and restaurants. Those things are not only completely shut down during lockdown but will not be able to return to full capacity, to the extent to which we will have to implement social distancing for quite some time, at least until a robust vaccine can be found. The best guesses for that are a year to 18 months out. That leaves the UK a little vulnerable in this area.

There is not a lot of spare capacity, which I suppose is the other side of the productivity puzzle point. How quickly will we be able to lay down new firms with new ideas in the economy as we emerge from this crisis and have to set aside a new landscape?

To finish, I want to pick up on one point that Philip made. He was very right in looking at post-war Germany as an example. Another example we looked at was the very large contraction in GDP in the second quarter of 1921, as we came out of the Spanish flu epidemic that Josh talked about, but also a period of doldrums, at a time when monetary and fiscal policy was very tight. In the second quarter, there was a withdrawal of labour and a very large miners' strike. Some 2% of labour in the whole economy was withdrawn at that point.

The economy recovered reasonably rapidly, but there was not a return to the previous peak for three to four years afterwards. When this period was examined, one of the great failings in the British economy at the time was called the Macmillan gap. That was the inability of small and medium-sized firms to find finance in order to have more firm births and the development of ideas. It seems to me that, if the Government wish to pursue their levelling-up agenda, they need to address this question of how to get finance to small and medium-sized enterprises that may, as we enter a recovery, want to spring up and create employment and income for people around the country.

Q458 **Julie Marson:** This might be something of a $64 million question, but how bad is this downturn going to be, both on its own and with the measures we are taking, including the lockdown and what we might do to do come out of it? What are the parameters, the downside and upside risks, of those forecasts that we see from you and other institutions?

Professor Chadha**:** One way to think about this is that, when you get economists in a huddle, there always seems to be lots of disagreement, but it is typically about the decimal point in the forecast. We remember the debate we had about the impact of the uncertainty of Brexit. That generally revolved around whether the economy was now growing at 1.5% a year instead of 2% a year. We now have numbers that throw all those off the scale. We have magnitudes of falls this year of 10% to 15%, which is the range most people are now talking about.

To try to place an exact point estimate at the moment would be far too brave for me to want to do, but my point is that these numbers are huge compared with anything any of us have experienced in our lifetime. Therefore, we need to confront that level of uncertainty and ask ourselves some serious questions as to whether policy is doing enough to maintain the social fabric of the economy. Much of that will depend on the scale and speed of the recovery. As I said earlier, that is essentially a function of both the easing of lockdown and the extent to which we implement social distancing in the future.

To pick up on the uncertainty point, our own measures of uncertainty, either using quantitative methods or looking at surveys such as the Bank of England's decision-maker panel, would suggest that it is incredibly huge. We are talking about GDP growth fluctuating by some order of magnitude perhaps 10 times larger than we envisaged in the past. That then impacts on behaviour. Even if the economy recovers, one could reasonably expect both consumers and firms to hold back on expenditure, consumers via precautionary savings and firms by delaying investment, because they are just not sure when a robust economic landscape will return and whether there will be demand for the goods and services they are planning to produce.

Again, I throw that back to the Government to think about things that might be done, where possible, to limit that uncertainty, which is something we will be carrying for as long as we do not have the vaccine.

Q459 **Julie Marson:** You mentioned regional impact in your previous answer. How do you think regions will be impacted differently, and what should we be thinking about as a policy response to that?

***Professor Chadha*:** We have some idea of which bits of the economy are getting hit more. We have talked about retail, hospitality and other areas. You can try to understand which regions produce particular goods and services and how we might offset some of those impacts. It is interesting to think about those sectors where, if activity is brought in, it has positive spill-overs. As economists, what we mean is that, if we spend a pound in that sector, it might amplify itself by encouraging spending and the retention, or even creation, of jobs in other sectors.

When we look at the sectoral behaviour of production in the economy, Government investment and expenditure seem to be incredibly important, because they provide a set of expenditures and a set of plans that then have positive spill-overs to the other firms that might exist.

To the extent to which we have regional plans for public investment, for the development of infrastructure in particular ways, for the education sector, further education and retraining, as well as for more imaginative deployment of what universities can do through R&D, all these things seem to be incredibly important. Universities are, of course, well dotted around the country. Those are all avenues by which we may be able to not only pursue the levelling-up agenda, but limit what economists call the heterogeneous impact, the diverse impact across the country, from the impact of coronavirus.

Q460 **Julie Marson:** We have been told previously that household savings will probably rise because people have been constrained in their ability to spend. Do you think that will persist? Is it a matter of how we respond to the lockdown in behaviour? How long will it persist?

***Professor Chadha*:** We think it is at least this year. It is hard to go beyond that, because everything is ultimately a function of your view of the lockdown, and the easing of that and of social distancing. Yes, household savings will be sufficiently positive this year, probably, to lead to a current account surplus for the UK for the first time in a very long time.

There are two elements to the savings. One is what you have hinted at, which is essentially forced savings. Those who are in income are unable to spend their income in the ways they might have otherwise wished. That leads to a level of forced savings. People may also have reduced their target levels of consumption, taking the view that their permanent income has been affected. What are the things that drive permanent income and wealth? They are falls in assets prices and the sense that other assets they hold, such as housing, may have also taken a hit that affects their wealth. That would also drive down targeted levels of consumption relative to income.

We think all of that will persist for as long as we observe the economy in some form of lockdown. There will be sufficient savings this year, almost, to finance the Government deficit, whether it is 10% or 15%, so we do not have to borrow from abroad for this year alone. This is one of the odd things in economics: when there is a recession, people start to save more. That is what we are seeing at the moment.

Julie Marson: That is fascinating. Thank you.

***Professor Chadha*:** Thank you very much for asking me such good questions.

Chair: Thank you, Jagjit. That was a really interesting set of responses.

Q461 **Anthony Browne:** My questions are going to be about the fiscal consequences of the crisis. As you have been discussing, we do not know how deep it is going to be. We do know that we are going to end up with a massive national debt, probably the highest since the 1960s, but clearly a lot lower than it was in the Second World War and before that. Should we treat this large national debt as a wartime debt that we take decades to pay off, or should we focus on paying it back now? Should we do that through austerity, to use the phrase we have been using in the UK for the last decade, or should we have a looser fiscal policy and concentrate on other things such as growth?

***Dr Posen*:** You do need to look at this as fighting a war. It is a common cause that is unavoidable and is hugely expensive, but it is a one-off, we hope. It can therefore be paid off over a long span of time. The most important thing is not to pay off the debt quickly through austerity or any such measures. The most important thing is to get the economy so that it is growing faster than the debt is growing, which thankfully, given the low interest rates and the management of the Bank of England, seems very possible in the next few years.

Secondly, the way to bring it back is not so much through spending cuts. Jagjit spoke a moment ago about positive spill-overs. We have seen negative spill-overs on the NHS and on productivity from some of the spending cuts. The emphasis has to be on thinking about what is worth spending on and the things that have positive net return, which should not be that hard in an environment, globally and in the UK, where interest rates are so low and public investment has been so low.

Thirdly, one can think of a one-time tax, much like Germany did its solidarity tax after German reunification. There are ways on real estate, on wealth, not on an ongoing large-scale basis, but as a one-time support for what is, God willing, a one-off major assault on the budget. That can be part of the mix if the Government wish to consider it, but no austerity. Just concentrate on getting the growth rate above the growth rate in debt, which should be quite doable in the next few years.

Q462 **Anthony Browne:** On that growth rate, you mentioned continuing public investment. Are there other things the Government should do to promote growth?

Dr Posen**:** I give a lot of credit to the programme the Government have done so far. It has tied a lot of the aid and stimulus to be support for specific jobs and small businesses, which is the most important thing they could do in bridging the gap, preparing for the recovery and limiting the scarring that was talked about earlier. There are additional measures, and Jagjit and others mentioned retraining. There is a lot of debate and a lot of evidence on which programmes work. It is not my area of expertise, but something about mobility of labour is going to be key. If we think back 30 or 35 years to the closing of the mines and the shipbuilders in the north, and how certain communities got locked into bad cycles, the question will be how you either move jobs and investment into those communities, or make it possible for people to commute out of those communities.

The one good thing perhaps, coming out of this crisis, is the shift to work from home for so many people. Obviously, for people working with their hands, in machining and other physical labour, it is much harder, but there will still be ways for Government to enable and encourage networks that allow people to work in a geographically dispersed way. That will not be transformative but will be helpful.

Q463 **Anthony Browne:** Can I pick up on one point you suggested in your last answer about a one-off tax? What are the arguments for and against having a one-off tax like that, a windfall tax, to ensure it does not lead to any longer-term economic damage?

Dr Posen**:** The positive argument is that if you tax something that is not very mobile, such as real estate or various forms of wealth, you are not distorting anything about forward-going decisions. For the most part, you are only taking advantage of what happened in the past. The damage that comes from such a tax is if people believe this is going to be a recurring problem, and that deters people from keeping their savings in UK-based assets. Given the history of the UK and the absence of such taxes, the fact that it is a Conservative Government in this case that would be putting in the tax, and that it is tied to a specific historic event, makes it credible that you would be taxing on only this one occasion. You would write the law that way, if you chose to do it. It should not be incredibly arduous, but it should be part of the solution.

Again, the key question of whether it causes a problem going forward is whether you set up an expectation of investors, of people, of savers, that this is a recurring piggy bank that you will keep trying to break into. That would, of course, deter savings and investment in future. Properly done, that is a very low risk, but that is the risk you have to consider.

Finally, Philip will probably say this, but if you take this money and spend it on short-term consumption, instead of paying down the debt or doing what is known to be productive investment, it is also a mistake. You have to do something long term with the money. You have to say up front that the money from such a tax goes to either debt repayment or a very clearly well-conceived investment.

Q464 **Anthony Browne:** Coming to Philip Booth, to ask the question I asked at the beginning, we have this massive increase in national debt, the highest since the 1960s. Should we treat it as a wartime debt and expect to pay it off over coming decades, or is it something we should urgently tackle now?

***Professor Booth*:** Let me start, for continuity's sake, with the issue of a potential one-time tax. I have written favouring this. In general, I am not in favour of high taxes.

Q465 **Anthony Browne:** I did read what you wrote. I was rather surprised to hear arguments for a tax rise from the Institute of Economic Affairs.

***Professor Booth*:** The reason is that I am very concerned about debt dynamics going forward. I will come to that in a second. A one-time tax would be easier to levy if it was a tax on incomes, time-limited to the period during which it is extremely difficult for those who are still in work to spend, for two reasons. First, it would be more obviously not repeatable, rather than a wealth tax. Secondly, most types of wealth tax, if you include housing wealth, are really quite difficult to collect, because people do not necessarily have the income to pay the tax.

When Germany levied additional taxation in the post-reunification period, from memory, that was a tax on income.

***Dr Posen*:** It was.

Professor Booth: I agree with Adam. As far as the specific additional debt that is being generated during this period is concerned, that is rather like wartime. I am not at all sanguine about it, as many other people who write in the same places as I write seem to be. First, we should not assume the addition to debt is simply the extra debt that we accumulate in the next four, five or six months. If you look at previous supply shocks and recessions, the additional debt that has been accumulated in the following four or five years has been a multiple of the first-year addition to debt.

Going forward, whether we can service this debt depends on a combination of real interest rates, inflation, real economic growth and the potential to generate a fiscal surplus. After the Napoleonic wars, we had a very high fiscal surplus. After the Second World War in the UK, we had very high levels of inflation. Both of those tricks are probably pretty difficult to pull off in the current circumstances, for reasons I will mention in a second. At the time of the Napoleonic wars, non-interest Government spending was only about 5% of GDP. It was pretty easy to generate a fiscal surplus.

The inflation we generated in the 1960s and 1970s caused huge damage. The debt portfolio today includes 25% to 30% index-linked bonds, and another 30% short-term bonds, so if you increase inflation you will more or less simultaneously increase the cost of servicing quite a big proportion of debt. If you then add the demographic pressures going forward, the OBR projected that, on unchanged policy before Covid, the national debt would increase to 250% within the next 50 years. It said, "on unchanged policy." It was, of course, not expecting a policy change like the one we have just had, which could add another 30% or 40% of national income to that figure. The debt dynamics going forward are very difficult, unless we are quite lucky. That does not mean to say we should bear the cost and pay down this debt immediately. That would be suicidal. But we also should not be sanguine about it.

When it comes to austerity or restraints on Government spending, we have to bear in mind that Government spending today, as a proportion of national income, despite everything that was done in the last 10 years, is still higher than at any point during the 2000s before the financial crash, except the year before it. Public spending today is not low by historical measures, even recent historical measures, never mind going back to the 1950s or before.

Unfortunately, whether this is because of the makeup of our political system or for some other reason, we do not seem to have an effective mechanism in Government for picking high-return projects when it comes to Government-led infrastructure spending. If you compare HS2, for example, with almost any other potential infrastructure project that the Government could have got involved with, it is a very bad pick. It was picked for largely political reasons. The political drivers behind investment spending choices, on the whole, tend to lead to bad choices. That is something the Government should be thinking about.

Q466 **Harriett Baldwin:** I need to start by declaring an interest, as once upon a time I was a managing director at JP Morgan Asset Management. I want to direct my questions to Karen. How much money does JP Morgan Asset Management now manage globally?

***Karen Ward*:** Gosh, I was prepared for discussing the economy. I do not have that specific number in front of me. It is a considerable amount, in the trillions, but I do not have the specific number among all the notes I have. Apologies, I will send that one in.

Q467 **Harriett Baldwin:** Am I right in saying it is a lot of money, so you get a good insight into what global investors are thinking?

***Karen Ward*:** Absolutely, that is correct.

Q468 **Harriett Baldwin:** With every Government around the world ramping up their need to borrow, what is the appetite from global investors to continue to buy this low-interest-rate Government debt? Can our Government continue to rely on there being an appetite out there to invest in this issuance?

***Karen Ward*:** Apologies for not having that specific number but, as you say, I certainly have very good insight into investors across the globe. I have good news to report. It is worth recognising that, yes, we are issuing record levels of debt, but we are issuing it at record low interest rates. One of the questions earlier was about strengths as we came into the crisis. One of the tremendous strengths we have is the institutional credibility of the Bank of England. There are no questions in the international community about its independence, or its focus on doing the right thing within the confines of its inflation mandate. That has opened up tremendous scope for the type of policy action we have seen, which has helped deliver those low interest rates, while at the same time not unsettling the international investor community.

The Bank of England, in the announcement of its asset purchases, instead of leading international investors to take fright, has done the opposite. It has crowded in international investors, because they see that it is the right policy. It will lead to a stronger economy overall, and therefore they are willing to purchase alongside the Bank of England.

Q469 **Harriett Baldwin:** Along the same lines, if you look across the world at the policy responses from other Governments, can you give us an example of where other Governments have taken more effective steps to provide this bridge across the shock of the coronavirus pandemic?

***Karen Ward*:** In terms of better policies, I am struggling to think of clear examples on the fiscal side. It is very hard for me to find examples where the UK has been deficient on the fiscal response. The speed with which the action was taken was very impressive. The Government were willing to listen when changes needed to be implemented to improve the efficiency of the policies. A good example of that is changing the business interruption scheme when the take-up was not so strong and putting in place the bounce-back loan scheme, which has had better take-up.

At the epicentre of the successful policies is the job retention scheme. The best international comparison I would make—this is really important to get into the public dialogue—is relative to the United States. Our approach has been to maintain the employment contract, to support individuals, keeping them within their current employment relationship. The US has done the opposite and has focused on increasing the social security net once people have left work. The relative cost is really important to bring out, because at the moment there is so much focus on the monthly cost of the job retention scheme, but in the US unemployment has risen to at least 15%. Over the coming months, it will probably be upwards of 20%. That cost per individual is about £3,250 a month, but they have lost their employment contract.

Our example, particularly regarding the job retention scheme, which is at the epicentre of the policy response and gives us the best chance to come out of this with little scarring, bodes very well, relative to international experience.

Q470 **Harriett Baldwin:** As a final question on this international comparison, in terms of the recovery, have you seen good examples around the world of the types of steps that are going to be needed to address the employability, retraining and relocation issues that Adam touched on earlier?

***Karen Ward*:** Very few parts of the world are markedly ahead of where we are. Some countries are a week or two ahead of where we are, so there are not really international comparisons. As I think about the fiscal response and whether it will be appropriate to withdraw or whether we should consider withdrawing, first, it is when the social distancing is no longer required and can be safely removed without the economic ramifications. There are perhaps some other principles. First, if the supply-side damage has been acute and is clearly leading to demand in excess of supply, we should reconsider. We would see the inflationary consequences. Those international investors I discussed would get more concerned at that point.

Alternatively, it might damage incentives, for example if it was not encouraging businesses to resume full production. Relative to the international comparison, the German short shifts scheme provides a good path for us to consider how that scheme could be adapted. The Chancellor has already hinted at adaptations in that regard.

Finally—and I think a number of panellists have touched on this—is whether there has clearly been a misallocation of capital that we need to address. I think I am a little more optimistic than the other panellists that we will come out of this without the clear need to reshape our economy, but that is for later in the day.

Q471 **Harriett Baldwin:** Do any other panellists want to take a contrary view and contradict anything Karen said?

Professor Chadha: It is not a contradiction; I just want to add a little colour. Let us not concentrate too much on international comparisons. As Karen was saying, the fiscal response by the UK Government and the speed of it has been impressive. That is a good thing to see, but we should innovate a little further.

The response of the economy is a function of the lockdown and the social distancing that will be employed for a long time. Too many of the measures have been time-dependent, so we have said we will do them until June, or we have said we will do them until October. When we get to October, we might say we will do them until March. That does not really help the private sector to plan. They are worried about the uncertainty caused by the lockdown and the impact on the economy from that. It would be far better to make some of the support state-contingent and think about a world in which we are saying, "When we have lockdowns in place and the economy cannot function in the way that it would, we will make sure these support measures are in place for the whole of that duration." In a sense, that would give businesses a lot more comfort, rather than having to worry about dates and cliff edges attached to it.

The problem with cliff edges is going to come up time and time again, for example with new starters, who in some cases have been unable to access the job retention scheme, just because they started on a particular date rather than another date. Some state-dependent policies would be very helpful, innovative and a good thing for the Government to be thinking about.

Q472 **Felicity Buchan:** Good afternoon, everyone, and thank you for taking the time. I should declare that I, too, am a former employee of JP Morgan, but my questions are actually on monetary policy. Adam, you obviously were a member of the MPC. Can I ask you a broad general question? How do you think the Bank of England is doing? We have seen a lot of activity: a huge expansion of quantitative easing; base rates down to 10 basis points; and the restarting of the Government's ways and means overdraft. Do you think the Bank of England is doing a good job?

Dr Posen: Yes, I do, in all sincerity. The proof is in the pudding of some of the things, like Karen said, that we are seeing crowding in. I thought there was a risk that, given Brexit and the uncertainties around the UK Government response on the public health front, there might be more concern over sterling and the pound-denominated assets, and that has not happened. A key part of the reason that has not happened is because of the Bank of England's credibility. First and foremost, on the market aspect, it has the right job. It is of course collaborating with the Federal Reserve, the ECB, the Swiss National Bank, the People's Bank of China and the Bank of Japan.

In general, and this is not because I am a former central banker, I think the central banks have done an extremely good job for the last two to three months. They have created a floor underneath the financial panic so we can concentrate on the real issues, in both the colloquial and the economic sense, which are not the financial issues right now.

In terms of the Bank being flexible and going forward, I think it is doing the right things. Speaking for myself, I see no reason for them to go to negative rates, as I discussed online with the Fed chair, Jay Powell, two days ago. There is a lot of political baggage and a lot of economic uncertainty going to negative rates. If you feel you can do QE, the ways and means programme or other measures that will have much the same effect, why bother?

I would not say we need to do this, as I and my colleagues in the MPC said a decade ago, to preserve the mutual sector, the housing lending sector. That was a major concern about why we did not go negative back in 2009, 2010 and 2011. I do not think that is still relevant. If it is, that means that sector was not properly regulated. None the less, I think they can go ahead with the toolkit they have.

I have two additional points, if I may. First, we must reset our expectations. I think we saw in the last crisis—and this is something that is parallel then and now—that central banks can prevent some bad things from happening, but they cannot actively push recovery, except under what used to be called normal circumstances, which we are not in. As we saw in 2008 to 2012, you could cut rates and create a lot of liquidity, but people would not necessarily invest and banks would not necessarily lend. Even if they lent, people would not necessarily spend or invest. We have to accept that the fiscal and structural changes, and the public health policies, will determine how much of a recovery we get, not the central banks' behaviour or the Bank of England.

Secondly, I think the Bank of England, going forward, has to think about what point it does tightening. I think the answer is essentially not for the duration. There, I agree with Jagjit. You want to have the Bank thinking and speaking in terms of its inflation targeting mandate. That is not what he said, but I mean the idea that you move off time-specific targets to policy targets as the guidepost to when you change policy.

Q473 **Felicity Buchan:** That is great. Thank you. Josh, how concerned are you about deflation? Do you agree with Adam that we should not contemplate negative interest rates?

Dr Ryan-Collins: I certainly agree with Adam that negative interest rates are not the right policy approach here. Essentially, the cat is out of the bag when it comes to this debate around monetary financing. That has become clear. The Bank of England talks about it euphemistically as smoothing the yield curve and removing disruption in financial markets, but I think Andrew Bailey was fairly clear that he recognises fully that the central bank's actions are enabling this massive fiscal expansion, which of course is necessary to prevent a recession turning into a depression, in the UK and elsewhere.

Elsewhere, we have seen the Federal Reserve expanding its balance sheet to a completely unprecedented level and buying up various kinds of assets that previously were unimaginable, such as exchange-traded funds and private equity accounts. I will not get too deeply into that, because obviously we are focused on the UK.

Before I finish on this particular issue around the policy of monetary policy, the key issue is not so much monetary policy. Adam is right that the central banks have moved very swiftly and effectively globally to prevent a collapse in the financial system and prop up the economy. The issue is more the interaction between monetary policy and fiscal policy, in other words the co-ordination issue. In the post-war period, when we had this enormous apparent public debt problem, with UK debt at 250% of GDP, we saw close co-ordination between central banks and Governments. We had policies. Essentially, central banks were not independent and were not so closely focused on their inflation target, as they are today.

That meant the central banks were again financing public expenditure, whether indirectly by buying bonds on the secondary market and controlling the yield curve or more directly. It does not really matter. The consolidated accounts are the same. You had a much more active fiscal policy, and you had tools to direct bank lending and other forms of finance into those sectors of the economy where growth was needed, whether that be export industries, a vast housebuilding programme or the other expansion in the welfare state that we saw with the NHS in the post-war period.

My concern at the moment is that the central banks are doing their part of the job, but their focus is on just propping up the financial sector, propping up some industries, without very much concern about the longer-term future of those industries or much in the way of credit direction, as you might say. That does not need to be a problem if you have a very active fiscal policy, and Government are taking the lead and have strong industrial policies that drive us towards, for example, a low-carbon transition to a 1.5°C economy, but at the moment I do not see enough evidence of that.

Specifically on your inflation question, deflation is the biggest risk in the short to medium term by far. The reason for that has already been discussed somewhat by Jagjit. We have this incredible uncertainty. Even if we end the lockdown today, I would predict very few people would be going to restaurants, going on holiday or shopping. It will take a long time. As has been said, it essentially will take until we have a vaccine to get that level of consumer demand into the economy.

On the other hand, you have a serious insolvency problem with many firms, large and small. That is another difference for me between 2008 and today. In 2008, you had a fundamental liquidity crisis. You had a lot of firms and parts of the financial sector that just needed injections of liquidity to keep them going. Today, you have serious insolvency issues. A lot of firms are fundamentally insolvent, particularly in the hospitality sector, the catering sector, the aviation sector and the tourism sector. These are being propped up, whether by fiscal policy or by monetary policy. They are being propped up with loans, but they are not feasible businesses in the medium term. They are going to collapse.

That leads one to the question of whether debt is the right tool to be using here or whether we should be thinking more about equity, with the Government having a stake in those firms, having a seat at the table and directing them to the place we need to go, where there will be jobs going forward.

On inflation, there may be risks of inflation in specific sectors. The most effective tool for dealing with inflation is tax, rather than raising interest rates, in these kinds of conditions where you have an ongoing recession. I would support what Adam was saying about taxing those people who have the broadest shoulders, to use the cliché—a wealth tax of some sort. A tax on economic rents is what is required now. At the moment, a lot of the Government's support packages are propping up banks and propping up landlords indirectly, because a lot of the expenditure of people in the UK goes on rents, mortgages and bills. A tax on those sectors of the economy that can most afford it would be a way of deflating any excess money in the economy.

Q474 **Ms Eagle:** I want to ask about the international issues here and the international response to the global pandemic. The costs of Covid-19 are trillions of dollars because of the economic effects of it, and the costs of being prepared for the next one are going to be a tiny proportion of the costs of dealing with this one. Dr Posen, what do you think the global response to the coronavirus outbreak should be? Who do you think should co-ordinate and lead it?

Dr Posen: I want to confirm your view that the amount to be spent on public health, if we spend everything we should, will end up being trivially small in macro terms, compared with the amount we are spending on keeping the economy going, so we should be spending without hesitation in that area.

Thinking about the international response, there are four major areas to deal with. One was preventing huge financial spill-overs and financial panic, which we already discussed about the central banks doing. That has basically been done pretty well. We can go into more detail, but it is a B-plus or A-minus grade in US terms, so I would not waste your time talking about it.

The other three issues are more important. How do we co-ordinate on intellectual property sharing, investment and distribution of these healthcare innovations and future need for future pandemics? Excuse my redundancy. The second is preventing own goals in the trade area, starting with issues such as health, medicine and food. The third, most critically, is dealing with the incredible devastation we are likely to see in the poorer countries of the world because there has been such a large capital outflow, a collapse in tourism, in trade and in remittances from migrant workers back to those countries, as well as the burden of the pandemic on those countries directly under the face of existing debt.

On the first point about public health co-operation, I wish the Trump Administration were not attacking the WTO—excuse me, the WHO. I wish they were not attacking the WTO either, but it is the WHO in this situation. There are clearly failings because, like all international organisations, it cannot directly offend its major members, but it is the one forum. It has a lot of technological expertise. It has credibility. Working between that and the G20, there should be some agreements, as we are already seeing from the EU, towards common spending on vaccines, sharing of best practices and knowledge, simpler sharing on treatments for the disease, which is not the same as vaccines, as you know, and setting up, over time, stockpiles of things such as ventilators and personal protective equipment, which has been a huge issue in the UK.

These things are all straightforward in some sense, not getting the vaccine but best practices, distribution and common investment. My view is that these international co-operations work better when you ask countries to all move in the same direction, not do a trade-off: "You do this and I do that; you do this now and I do this in future." If it is a collective action, it is more credible and more attainable. This sphere should be doable. The G20 combined, essentially, with the WHO secretariat would be the way to do it.

Q475 **Ms Eagle:** I want to drill down a bit into some of this. The WHO has said it would cost about $110 billion over five years to put in a system of global pandemic preparedness, which could be on the front foot rather than reactive and slow, as we have seen. Given that scientists estimate that they have identified about 1.5 million pathogens out there that might be potentially serious to human health if they get out, so to speak, does this not demonstrate that we need to grow that global pandemic preparedness and that the WHO and the G20 ought to be the organisations leading that?

Dr Posen: Yes, full stop. It is a very small amount of money for potentially huge benefits. We have to accept that there will be recurring pathogens and recurring epidemics, if not pandemics, and this one may not go away in any meaningful sense for some time. I do not want to oversell, but having quicker shutdowns and lockdowns, quicker, more honest reporting, more protection for medical staff, less friction between countries over testing standards and testing technologies, and less interruption in international trade of medical equipment could all be hugely embedded by just a small amount of extra money. In the real world, $110 billion is real money, but over five years across the G20, let alone the 180 or 200 countries in the world, it is trivial, so I would just have them do it.

Q476 **Ms Eagle:** I am wondering how we might entrench a bit more delivery rather than talking about global pandemic preparedness, without creating highfaluting new international organisations, which takes time, as we know. Do you think IMF article IV, multilateral surveillances, should include a section on the assessment of health resilience to support pandemic preparedness, therefore seeing health as a kind of economic investment, rather than current expenditure?

Dr Posen: I am disinclined to do that, not because of excessive concern for the purity of IMF article IV, as I am eclectic on that, but because it will not provide the leverage that you want to move things forward. You need a club of countries at the Head of Government level, or at least the ministerial level, to make a multiyear commitment of funding. This may be something that is a classical public good, meaning you provide it and pay for it, and not everybody who benefits from it pays their full load, which may include the US, unfortunately, right now. I would use the WHO and the UN. I would use the European Union, the UK, the Commonwealth, Japan—basically the civilised societies—and say, "We are going to make this happen." Even without, say, the US or China contributing, we can pay for it. That is very easy for me to say.

Q477 **Ms Eagle:** With a pandemic, our weakest link is the most unprepared country, given that it can reinfect and then recirculate around the globe. How can we try to assist those countries that do not have robust health systems in place and are going to be overwhelmed by a pathogen such as Covid-19, thereby causing similar problems across the globe in economic disruption and cost?

Dr Posen: I agree with you completely in principle that, both within our own societies and within the global network, the weakest link is in some ways the place the pathogen gets in, changes and spreads. We have to recognise that the picture of public health capacity in the developing world is more mixed and, in some ways, better than we sometimes think. One of the surprises of recent weeks has been how effective it looks like the responses have been from South Africa, India and a few other countries that we thought were at very great risk. We have seen capacity in other parts of Africa and south Asia where they are, sadly, accustomed to dealing with recurring epidemics.

It is not to disagree with you, but I think it is less that we are going to patch it up and import one particular set of resources or one particular set of practices, and that will do it. You are absolutely right to be thinking of what the right organisation is to tangibly deliver. I would encourage us to have the WHO and the World Bank do something similar to article IV on an annual or biannual basis on health assessment and environmental assessment. It should be them, rather than the IMF. That is not to spare the IMF but because more expertise is in those places and it can be a longer-term issue. The IMF is about short-term financial issues. The

World Bank and the WHO together can be talking about the longer-term issues on the ground.

Q478 **Ms Eagle:** I suppose it is human nature that we all knew there was a possibility of a pandemic. The Global Preparedness Monitoring Board, led by Gro Harlem Brundtland, published its report, *A World at Risk*, last September, saying there was a high likelihood that we were very open to damage from a highly infectious respiratory pathogen, which was probably generating at the time that report was printed. Everybody read it and said yes, but nobody put the kinds of things in place that we need to have to limit the trillions of dollars of damage that have now been caused by this pathogen. I suppose I am trying to ask you how we can re-engineer the global institutions so there is more of an appetite to deliver, rather than just talk about it.

Dr Posen: Again, I am not trying to put you off. I appreciate what you are saying, and I think it is the right impulse, but I am afraid I am a little humbler in what I think we can achieve in terms of pre-empting. A lot of the failures were not about the poorest countries in the world and not about not having enough supplies. It was about China, the US, the UK and Italy messing up how they handled the epidemic when it first broke out in their countries. None of the organisations we are talking about is in a position to police and effectively leverage how countries behave internally, in their initial response to a crisis of this kind. I am in favour of monitoring and investment, but it is not something where we can pre-empt entirely what we need.

I know you do not believe that, but to make the biggest difference we would have had to have had much different behaviours on the part of national Governments in countries that have very well-established healthcare systems and had plenty of resources. Maybe the best thing is to have somebody, whether it is the WHO, the World Bank or that commission you mentioned, make some very blunt language. I realise you think it is just talk. That may be the only thing, which is to name and shame how many lives and how many trillions of dollars in livelihoods were lost because of delayed action and lack of transparency and accountability by certain Governments. Trying to do that is somewhat quixotic, but I think that is the single biggest thing.

Everything else you are talking about will help. However, if the Xi Administration in China, the Trump Administration in the US, the Italian Government or the regional government in Milan do what they did, it is not all for naught, but some of this is going to happen. Part of the solution has to be figuring out a way to make it shameful and unacceptable to mess up, and to make it easy not to mess up, in terms of a playbook. Unfortunately, I do not see another way around that.

Q479 **Ms Eagle:** There is just one other question that I want to ask because of time. Do you think the pandemic has exacerbated and sped up the problems of deglobalisation and protectionism? Does that also pose a new threat to our ability to cope with some of these global issues?

Dr Posen: Put simply, I think you are right, yes, or at least the question you frame is right. Yes, it has. I tend to think of what I call the corrosion of globalisation, which is a language choice. It is not about deglobalisation because globalisation continues. We are seeing it expand in Africa and south Asia, at the same time as it retreats in some sense elsewhere. It is more about the quality and the unevenness of it playing out. Of course, it is the developing world that gets most hurt when that happens.

The economic nationalism that we already saw in places such as the US, Poland, Hungary, Brazil and India is exacerbated by this. There has been some constructive effort by places such as New Zealand and Canada to push back on some of the protectionism in medical equipment and food. There is a group of countries at the WTO trying to do that. This is critical mostly for the developing world. For the rich world, the trade will always get through. In the long term, protectionism and economic nationalism, in place of freer trade and development, lead to corruption and lower productivity growth.

This is all bad and the pandemic is playing into that, but it is also, as I have argued, exacerbating pre-existing conditions, to use the health analogy. The distrust between China and the US, and China and the EU, was already there. Some of it was legitimate and some of it was exaggerated, but the pandemic and the way people are talking about the pandemic are making that worse.

Dr Ryan-Collins: I want to comment on your previous question, if that is okay. There has been some research quite recently showing a strong relationship between the exploitation of nature and human beings essentially bumping into animals.

Q480 **Ms Eagle:** That increases the number of pathogens.

Dr Ryan-Collins: Yes, exactly. There is now quite concrete scientific evidence that there is that relationship. It is called zoonotic disease transfer. The solution may be to think about preventive actions to remove the chances of domesticated animals coming into contact with bats, for example, particularly for coronavirus-type diseases. Those sorts of policies might be effective in preventing the disease spreading in the first place.

Q481 **Rushanara Ali:** I had one quick question on this topic. Adam, you were talking about the international effect and how some countries that are used to crises or emergencies are faring quite well. One could characterise it as that they are much more resilient but resource poor. We are more resource rich but less resilient in coping with this stuff. I am particularly concerned about the disruption to the supply chain, with western multinationals cancelling orders to, for example, the garments sector in countries like Bangladesh.

I wonder whether you or other colleagues have done any research into understanding to what extent contracts or orders are being cancelled, and how much it amounts to. I know that, in relation to that one country, the garments sector is over £4 billion, and UK multinationals not paying up is about £2.4 billion. Is any research being undertaken on the impact that our trading relationships and how our companies behave is having on those countries? On top of dealing with the pandemic, they face the double risk and threat of their workers not being paid for the work they have done or have started to do.

Dr Posen: That is right. I just want to be very clear: when I speak about the resilience of some of these resource-poor countries, as you rightly put it, I want to stress that it is versus a baseline, specifically in public health, that a lot of people feared very large numbers of deaths. Thank God and thank the actions of people in those countries, we are seeing an order of magnitude fewer deaths than we feared, which is a miracle.

Rushanara Ali: For now.

Dr Posen: No, exactly. We do not know the data and we will see. I am not saying everything is wonderful and I am complacent. I just want to recognise the progress. On your more important point about the supply chains, others may have other sources of data. We do not have a log at Peterson of all these aspects. We are seeing a reallocation and duplication of supply chains. Particularly in advanced manufacturing, we are not so much seeing people pulling out of, say, China, but they are already building duplicate facilities, redundant facilities and additional capacity in other places, usually closer to the home base of these companies. Related to the previous comment, there is an issue of greater divergence across the world. Multinationals are going to have one supply chain and system for feeding into China, one for North America and one for Europe.

For countries in the garment trade that have been very badly hit in this situation, which may or may not be what you were referring to—I think of Nepal—you have to separate the issue of multinationals cancelling contracts or failing to make payments versus supply chains shifting. That is not in any ethical sense, just in a practical sense. The first category, the cancelling and failure to pay, are legal contracting issues. It is just like when I was at the MPC in the UK. I remember it was always the small vendor that was getting abused by the company further up the value chain, which was delaying payments, rescinding or renegotiating how much margin it got. That is an ongoing issue that has to be dealt with.

In terms of the supply chains changing, however, I am more confident that will come back over time. That is a temporary interruption, particularly in things such as garments. The weird side of the fact that there are very low-income industries is that there are not that many other places to move them, and it is not very cost efficient to replace them with capital. It varies between specific sectors and specific countries but the bottom line is that, where people in the poorer developing countries are part of global supply chains, it is because they are the cheapest option and they give good value to those companies, putting it bluntly.

I would support and encourage people in international law to be looking at ways of better enforcing contracts and limiting the abuse that multinationals can put on their suppliers. In terms of the supply chain utilisation, I am more confident about its robustness.

Q482 **Mr Baker:** I want to talk about exiting the lockdown, because a substantial reopening of the economy seems to be largely pushed back to July now. How do you see the risk of permanent economic damage developing? I would like to go to Karen and Philip, and then I will slightly reshape the questions before moving on. Karen, how do you see the risks of permanent economic damage developing as we stay in this lockdown state?

Karen Ward: With regard to the job retention scheme, these policies are about creating a sense of suspended animation. We do not know how long we will need to be suspended because we do not know the profile for the virus and how long that social distancing will be required. Their success at the moment, in creating that sense of suspended animation, looks very good. There are the numbers: 7.5 million on the job retention scheme. Going through the ONS survey, one statistic that really jumped out to me was that, of those businesses that are not currently trading, 81% of the workforce was furloughed and less than 1% made redundant.

If the virus itself allows life to proceed and, therefore, we continue through the coming months with the infection rate coming down, and if we can continue on this path of safely reopening, our chance of coming out the other side with relatively little economic scarring is fairly good. If the virus prevents that very rapid reopening, if it turns out we need to go more slowly or if we need to stop and start, the risks certainly increase.

With regard to the specifics of the scars, clearly the labour market is one aspect of those. If the furlough scheme was removed, perhaps companies would not have the choice, but if the furlough scheme was still in place, even so, they could make more permanent decisions to shift from furlough to redundancy. We have talked a lot about public debt today, but I think companies will come out of this with a lot more debt. One of the things we should be discussing to aid that recovery is the possibility of forgiveness schemes that would be conditional on how that debt is used, to promote adapting the business to cope with the virus, investing in the future or rehiring workers. The main long-term scarring consequence I have is with regard to corporate debt and the amount of financing required in this bridging period.

Q483 **Mr Baker:** Philip, how do the risks develop as we stay in lockdown?

Professor Booth: The risks multiply enormously. Freezing the economy for three weeks or something like that causes relatively little damage. You just go back to normal after a few weeks and things carry on, by and large, as they were. If you extend that period to a number of months, say into September and October, perhaps with some nuances as far as parts of the economy are concerned, you multiply those risks enormously. You have companies running through their equity capital and going bankrupt. You cannot simply put those companies back together again.

You have the natural changes in the economy that would always take place in any case but would take place gradually. Every few months about a million jobs are destroyed and created. Instead of that process happening gradually, you effectively freeze the economy where it is, put people on furlough and then try to start again, and you cannot replicate that process of gradual dynamic change and expect to pick up where you left off.

Then there is the question of policy uncertainty and the difficulty for companies planning going forward. If a company is running through its capital and is not sure what the appropriate business model is going to be, or indeed whether there is going to be business in its area of work a few months afterwards, there is a greater chance that it will cut its losses and pull out.

Perhaps I can use my own sector, higher education, to illustrate that point. Stopping and moving to online learning for students for four or five weeks is fine. We can cope with that. Most universities have sufficient capital, or have access to sufficient capital, to carry on a bit longer. If you then move into September and October, so you do not get revenue from new groups of students going forward, everything begins to look a bit dodgier for a larger number of universities. If, in July and August, you have no idea how to plan for September, October and November, the costs of running the organisation also multiply. The length of time is important, but the uncertainty as to how we are going to come out of this is also important for the business community.

Q484 **Mr Baker:** Thank you, Philip. I intend to come back to you in a moment. Karen, you want to come in, but briefly, because I want to get on to the NIESR model.

Karen Ward: I want to make what I think is a really important point. The narrative is developing as if we have either an economic choice or a health choice. We should be careful with that. If the lockdown is not mandatory but the health situation is not under control, the lockdown will happen on a voluntary basis. We have to recognise their interdependence and that it is an endogenous decision.

Q485 **Mr Baker:** I certainly agree about the interdependence. Jagjit, NIESR made a forecast that we would see the economy 3.5% smaller permanently. Can I ask you just to talk about the lockdown policies because of time constraints? What lockdown policies could cause us to underperform or overperform against that forecast?

Professor Chadha: I think the lockdown policies do better than that. We ended up with a contraction relative to the previous line. Let me explain what that means. The economy in a pre-Covid-19 world would be on a particular expansion path, which would be growing over time. What we see is a very large fall and a return below that pre-Covid-19 expansion path. The difference between the two lines is around 3%. That does not mean the economy is not growing; it is just not getting back to its previous level.

The reason we got there in the first instance was trying to understand which bits of the economy can continue during lockdown in a particular form. We took the view that there would be some loss of activity in the region of 25% to 30% per period of lockdown. To echo Philip's point, the longer it goes on, the larger that fraction becomes, because you end up with some permanent loss of activity as well. If we take the reassuring scenario of a relatively quick easing of the lockdown, we are going back towards something a little less than that because of social distancing and other factors that would limit a return to the types of activity and extent of activity we saw in the past. That is how we arrived at that story, a return but not a complete return to our previous level.

Q486 **Mr Baker:** I am going to come back to Philip. You wrote a piece that was very critical of the Government taking a centralised approach. I would like you to say something about that, bearing in mind what I think we are seeing with the regional nature of the epidemiology of this virus. You argued for a phased lifting of lockdown. How do you think the Government have managed the various trade-offs involved in this phased lifting, bearing in mind that I think we all want to absolutely minimise the damage to our society and economy?

Professor Booth: The initial objective is to minimise damage to society, the economy and health overall. The interdependence Karen talked about flows in both directions, of course. The more economic damage there is, the more mental health damage and other forms of health damage will arise too. I was critical of the Government in two ways. One would not be unexpected, that we have an incredibly centralised health service, which relies very little on local initiative and innovation as compared with, for example, Germany, but I do not think that is what you are getting at.

You are getting more at the issue of lifting the lockdown more generally. We should have had a much more nuanced and, if you like, a more regional approach to lifting the lockdown some weeks ago. The pattern of this disease in the north-east and London is very different from the extent of the spread of the disease in other parts of the country. The way in which the disease spreads, or the likelihood of it spreading, in densely populated areas is very different from the way in which it spreads and the likelihood of it spreading in less densely populated areas.

In addition, we have not really been here before, so we do not know that much about the impact of incremental policies, such as allowing a certain degree of opening schools, garden centres, small shops, golf courses or whatever it might be. I suggested some weeks ago that, on a regional basis, taking into account the different factors in different regions, experiments be tried out in different regions, with garden centres opening in some regions of the country, certain leisure facilities opening in other regions and schools opening on a limited basis in other regions to see what we could learn from those experiments for when the lockdown is lifted more generally. There are some areas of the country where there is very little risk in doing these things.

Q487 **Mr Baker:** I need to come to my last question, and I can see Jagjit wants to come in. Bearing in mind this is a public health crisis, what is the legitimate role of the economist in a public health crisis?

Professor Chadha: To very briefly pick up Philip's points, where economists can help is that we are pretty good at understanding how to interpret numbers. More than anything else, before deciding on the kinds of policies Philip has mentioned, with which I have considerable sympathy, we need much better local measures of the reinfection rate at the granular level. We also need surveys that tell us accurately who has antibodies and who has had the virus in the past. Without these two critical parameters, it is incredibly hard to decide how lockdown should be eased at the regional level, even if that is what we wanted to do.

We know that, even if the reinfection rate is 0.7 on average, there could still be many regions and areas, or even streets, in which the number is 1.1 or 1.2. It is not entirely possible to create a safe climate if there are any areas in which R is greater than 1. We need measurements. We need surveys to understand who has the disease at high frequency and surveys and estimates of the antibodies that are available. I think we have only just now discovered a test that may be reliable. Those things together would then be able to guide the policies we might want to do to ease the lockdown.

Dr Ryan-Collins: You say it is a public health crisis, but at some point it tips over into being a wider economic crisis and recession, which creates new health problems. We are already seeing that in higher levels of domestic violence and anxiety. I do not want us to underestimate today the extent to which we could be looking at potentially millions of job losses or a severe fall in average or median real wages for large portions of the population. I would particularly emphasise the impact on younger graduates coming into the job market. It is not clear to me that there are going to be jobs for these types of people. The Resolution Foundation is estimating an increase in unemployment of about 600,000. That creates this scarring and hysteresis-type problem, which originates with the public health crisis but swiftly turns into a wider problem.

Mr Baker: Thank you very much indeed. I am glad I asked, and I agree.

Q488 **Rushanara Ali:** I want to pick up on Josh's point first, which is about the scarring effects. Despite the Government's intentions with the job retention scheme, we are already seeing that some groups have been left behind. That includes new starters, and there is a big campaign called New Starter Justice. There are hundreds of thousands of people who do not have anything, and the Government's response is to tell them, "Go on welfare." That is just not good enough. We are already seeing that. You made the point about young people and the 640,000.

What do panellists think about the need for some sort of young starter programme, for that 1 million or so who are likely to face unemployment, so they can have a decent wage while they go and get training and support, and so they are not condemned to being in the NEETs category, which is very stigmatising?

Dr Ryan-Collins: That is vital. We need to be thinking quite big here. This is an unemployment crisis on a scale that we have not seen in our lifetimes. I would be promoting some form of job guarantee scheme across the board, across the whole population, at this time. You could try to ensure it focuses on younger people, but I think the emphasis should be that, if you need a job, you can get a job or get into a training scheme, rather than careful means testing of every single person.

Q489 **Rushanara Ali:** In total, it could be 1 million young unemployed. If there was some sort of intermediate labour market arrangement where they got paid a wage and were supported into meaningful work, and in the meantime had training, do you know what that could cost the Government?

Dr Ryan-Collins: I have not done any estimates on that figure. It would cost a hell of a lot. It is very important that we take a bit of the emphasis off the cost and the debt. We are in a situation where we are looking at what is called a balance sheet recession. The private sector is borrowing to stay afloat, households are deleveraging—there has been a massive deleveraging if you look at the latest Bank of England figures—and there is no export demand because, as we have talked about, trade is collapsing. There is only one player left when those three sectors are contracting and that is the state. That is the Government.

When a Government deficit spends, that is someone else's income. Let us not forget that. Government debt is not the same as household debt, and it should not be described in that way. As I have talked about already, the Bank of England has made it clear that there are no limits to its financing of Government spending, so I do not think we should have too much emphasis on that. The final point is that it will be much more expensive anyway if we leave those 640,000 young people without a job for however many years.

Q490 **Rushanara Ali:** I would be grateful if you and the other panellists could come back to me with some numbers on—I will not call it cost—investment and benefits, if we just focused on that 1 million, and the implications if we did not act. The next question is about the wider economic recovery and shape of recovery. I wonder if each of you could tell me what shape you think the recovery could be. Is it V-shaped, U-shaped, L-shaped, W-shaped or some other shape of recovery, or are we going to be perpetually condemned to a sustained depression? Could you all keep your answers brief please, in one letter perhaps?

Professor Booth: I do not think it will be a rapid V-shaped recovery at all, for the reasons I have already mentioned and the fact that it is pretty clear that the lockdown and the uncertainty about the future will go on for quite some time. On the other question that you just talked about, liberating the apprenticeship levy might be a useful thing to do, to allow it to be given to individuals to spend on training. At the moment, the bureaucracy behind the apprenticeship levy is extraordinary.

Q491 **Rushanara Ali:** That is a good point. It is not a V-shape for you. Which shape is it, or would you rather not say?

Professor Booth: It is sort of crawling back at 45 degrees, but taking quite a long time to reach where we would have been had the virus never happened.

Dr Posen: I am actually very similar to Philip. I have been speaking about what I call a reverse checkmark, down incredibly quickly, back up at maybe less than half the slope you went down, but that is still pretty steep back up. If you want to get cute, it bends off at the top depending on how many sectors have permanent damage, the further back you get.

Professor Chadha: Drawing one line suggests that you think one path is going to happen. That is not what we are talking about here. Everything that everyone is talking about this afternoon is this unprecedented event and the fact that it has thrown open so many uncertainties. You have to think of a large number of possible scenarios. There is a central case, the reassuring case that Adam and Philip have outlined, but I do not think you should plan around that. There is enormous downside risk to that that means we may end up in a world in which the economy does not recover as quickly as anyone anticipates. The way you avoid that is more active fiscal policy. I am happy to talk about that later. I will not take any more of your time here, but there is scope and scale for more active fiscal policy to offset some of those risks.

Q492 **Rushanara Ali:** Can you just list a few?

Professor Chadha: We have talked about: job retention schemes or new starter schemes; basic training; job support or job guarantees; bringing forward investments, such as the list we have from the National Infrastructure Commission, and making them bitesize and shovel ready; deciding what could be done quickly in certain areas when lockdowns get eased; and ensuring that regional authorities can undertake granular levels of investment. Can we look across our regional authorities and say, "What could you do in the second half of July if the lockdown was eased?" That is the level of planning that we need. All those things are feasible, possible and affordable, but I will come back to the Bank of England question.

Q493 **Rushanara Ali:** Although there are unprecedented challenges and the Government have done a reasonably good job of trying to respond to some of it, they are leaving out large numbers, such as the new starters. Now we have a better sense of what is going on, we need more strategy and longer-term prep, as you mentioned earlier, so we do not constantly have to chase to fill gaps and fill these imbalances that are already showing up between some groups getting help and others not.

Professor Chadha: That is a very good point, and it is one we have talked about before, in the sense that we have had some uncertainty as to when there will be fiscal events. We have had this emergency Budget. We had the Budget in March. As you say, we have learned a lot, albeit about an incredibly uncertain situation. There is definitely scope for some summer reassessment of the expenditure plans we have in place, in light of what we have learned, that would project longer into the future and, where possible, try to offset some of the uncertainty many people are facing. I would very much back such an event, if possible.

Rushanara Ali: I am going to come on to Karen and ask you the same question about what you think the shape of recovery might look like, particularly given your background. Also, who are going to be the winners and losers in our society? This is not personal. Some would argue that, in the banking crisis, we ended up trying to balance the books off the back of public sector workers, with pay freezes for 10 years. There is talk of pay freezes now on public sector workers. There are already issues around those who have not benefited, like the new starters and so on. For young people, we do not know what is going to happen because the Government have not announced anything for the 1 million who are likely to be unemployed. What is the shape of recovery in your view, from your perspective and your sector's perspective? Which other groups are going to be left behind? Are we going to learn any of the lessons from past scarring patterns? This is likely to be on an even bigger scale.

Chair: I am sorry to interject at this point. I need literally a 20-second answer to this question.

Karen Ward: That was a very long question for 20 seconds. It is U-shaped. Very clearly, though, there are two assumptions behind that. First, the reopening itself is very gradual, so that is us crawling along the bottom of the U. I think by Q2 we should have faith in our medical profession to deliver us a vaccine to end social distancing. That helps provide the light for the other side of the U. Really critically, the other assumption I am making is that the bridging, the fiscal response, takes us right to the other side of that U. If it is taken off pre-emptively, that is going to change the other side.

In terms of whether that side changes, you have identified some of them: job leavers, women and the lower-income deciles. If we look at the scarring, it is going to be leisure and hospitality. I do not think they are going to be finding alternative sources of employment very rapidly, so I think that is where the scars will be, unfortunately, if the policy option is not as I think it should play out.

Q494 **Alison Thewliss:** I would like to ask some questions about withdrawing stimulus and any issues that might arise through that as the economy recovers. Professor Chadha, the Treasury has talked about withdrawing stimulus schemes, scaling back the furlough scheme and moving some of the cost to employers, rather than the Government. Do you think it is prudent to begin talking about scaling back the support before we have a real sign of recovery happening?

Professor Chadha: It is always worthwhile having plans in place, but it seems a little premature to be making these signals. Remember, in the first round the job retention scheme was announced for three months. We needed that to be extended and we heard that it was extended. That is a good thing but, as I said earlier, that should be made state-contingent, to say, "We will support firms for as long as these lockdowns are in place."

Where it becomes helpful over time to encourage firms to pay some of that and participate in it is where particular employees have firm-specific capital or knowledge. They would want to hold on to those people so that, when we start to ease the lockdown and the economy starts to return to normal, those firms have held on to those people and have shown they want to work with them. There is a case for some smoothing, but I would not want that to be at the cost of giving clear commitments to firms that this will be in place for as long as it is required.

We had a discussion earlier about raising taxes. The appropriate response to a large, temporary increase in fiscal expenditure is something the economists call tax smoothing. We will raise taxes, but not today. We will do it at some point in the future. To talk about it now would unduly restrain demand further. We have a credible system. We have talked about this a lot this afternoon, the credible fiscal monetary system we have. If we say, "We will raise taxes in the future," we probably will, as a country. It is not something we do not tend to do. We can deploy that flexibility, make those plans for further on down the line and not worry about that too much now. We all need a bit more certainty, if possible, in planning in very difficult times.

Alison Thewliss: That sounds sensible.

Karen Ward: I agree. Quite simply, we should not be talking about austerity right now because we do not know if it is going to be required. We do not know the scale at which it is going to be required. It will depend on whether we come out of this with a structural deficit. The deficit may prove to be entirely temporary and entirely cyclical. We do not know the economic scars. We have been discussing what they may be, but we do not know. Talking about it today does more harm because it adds to the uncertainty. If you are a small business today that is thinking, "Gosh, do I take this loan and continue trading?" and on top you are thinking, "Am I going to have to repay that loan when I may have higher taxes at the same time?" it is going to hinder that recovery.

In fairness to the Treasury, it is its job to do that exercise on a monthly basis, and I think those documents were not meant for public consumption.

Q495 **Alison Thewliss:** Do you think there are particular principles that could guide that phasing out of fiscal support? Would it need to be across particular sectors?

Karen Ward: The sector point is very critical here. The starting point for all this is when the virus itself allows our economy to normalise, and that is going to differ dramatically by sector. Therefore, the support may need to be in place for longer for leisure and hospitality. Particularly here, I am making the assumption that there will not be alternatives for many of those employees. The sectoral point is excellent.

As I very briefly said before, if it was clear that the fiscal efforts were leading to demand overwhelming supply and inflation was starting to show up, we should reassess. If it was clearly hindering incentives and our ability to get back to work, we should reassess, or, alternatively, if there was a clear misallocation of capital. I do not think we are in a world where those are our three constraints right now.

Dr Ryan-Collins: The problem for the Government at the moment, and for the Treasury in particular, is that they have put in place this job retention scheme and various other schemes, including by the Bank of England, to support firms, but, as I said before, it has mainly been liquidity support. The job retention is obviously spending. The problem is if a large proportion of these firms are not solvent, and of course it is hard to tell at the moment the degree to which they are or are not.

For that reason, I think we need to transition away from just grants or loans towards more equity-like forms of support. Equity will give you greater flexibility in both the conditions you put on that support and the influence you have over the direction that firm is moving, including as to whether it is sacking people, paying huge dividends or doing share buybacks, these financialised processes that UK companies are increasingly starting to do. We need to use this crisis as an opportunity to restructure the economy towards productive investment rather than household debt-led consumer growth. If we do not take this opportunity to do that, we are missing a trick.

The focus should be on productive investment, productivity, the transition to a lower-carbon economy and full employment. It should not be on the debt-to-GDP ratio or the deficit. As we have already talked about, that is not a prime order issue.

Q496 **Alison Thewliss:** Do we have the structures in place to allow for that equity buy-in?

Dr Ryan-Collins: We are perhaps missing some sort of national financial institution, a large state investment bank or sovereign wealth fund, that could hold those assets in a way that is separate from the Treasury or the Government of the day. You want to avoid those types of institutions becoming too politicised and driven by short-term political considerations.

To give you an example from the US, the troubled asset relief program, TARP, bought up equity stakes in the auto industry, in insurance—for example AIG—and in banks, and made a return over time. If you start thinking slightly more long term about the investments the Government are making, they can make a return but only if they have an ongoing equity stake. That is the sort of shift the Treasury needs to start thinking about now.

Alison Thewliss: Dr Posen, were you looking to come in there?

Dr Posen: I am afraid I do not have much to add beyond the broad principles. I am not going to waste your time.

Q497 **Alison Thewliss:** Dr Ryan-Collins, you have mentioned that it will take a long time for the building up of particular sectors as well. I suppose there is a risk that those restrictions might cause bottlenecks and spikes in prices. Is there anything particularly that could be done to address that within the framework we have at the moment?

Dr Ryan-Collins: Do you mean inflationary dynamics in particular sectors?

Alison Thewliss: Yes.

Dr Ryan-Collins: I suppose that is a risk. This is another reason why we need to be rethinking the role of the state a bit and stimulating investment in areas of the economy that are labour intensive, that support regional inequalities and that create jobs in those areas where they are most needed, rather than in the areas that already have quite high levels of employment. Research has been done on this. An example is home insulation across the whole country. Insulate all social housing that is out there. That creates jobs, and it requires a bit of training but not that much. It would support regions. Electric vehicle network installation is another example.

These types of things have high economic multiplier effects. They are labour intensive and support a zero-carbon transition. These are no-brainer policies. You could attach a job guarantee scheme to them. You could direct them at younger people. I think now is the time you start talking about these types of policies.

Professor Chadha: I realise we are short of time, so I will keep it very brief. I am interested in the idea of a Government or a new bank taking stakes in equities. There are some concerns, though. First, in extreme crisis situations, rather like central banks deciding which banks need to be supported because they are systemically important and they are the ones that get some help in that period, there is a particular sense of thinking about those things in a crisis time. When and if we return to normality, we have not worked out how the state deciding to hold large equity stakes in firms should work.

I am concerned as that may lead to the over-stabilisation of asset prices. Asset prices give information about firms that are doing well, firms that are doing badly and how we should allocate capital. If it is felt that the state is controlling those asset prices, there would be a concern there on an ongoing basis. What kind of criteria would we use for deciding which firms we would invest in and to what extent? Who in Whitehall would we send to sit on these boards? I am not saying these are unsurmountable problems, but these issues emerged in the past when serious industrial strategy was deployed. I must say it was not deployed with any great success.

There is a distinction. In a crisis, let us try to stop any systemic spill-overs that lead to the failure of our economic frameworks. That is what all the mechanisms we are talking about today are about. But let us not then get the state involved in things for which it essentially does not have competence. A lot of that is in the private sector. Let us not mix the two up. It is important we do not do that.

Professor Booth: Josh was talking almost as if you could put British industry on a chessboard and move the pieces around. There are about 5 million incorporated businesses in the UK, as well as a huge number of organisations that contribute to the economy that are not incorporated businesses. It is going to be a lot of small and medium-sized businesses that suffer as a result of this pandemic. I think I am right in saying that, on average, about one in 600 microbusinesses turns into a large business. To the idea that the state should be taking an equity stake in these businesses and guiding their decisions, first, it is practically impossible.

Secondly, your answer already illustrates one of the other problems. Ultimately, the business decisions will be guided by political criteria. As soon as you started talking about it, you started to introduce various criteria by which these companies would have to operate if Government took an equity stake. This is very different from TARP, where the US Government took stakes in a relatively small number of large companies that were especially affected by the financial crisis.

Chair: It is only fair to bring Josh back in at this point.

Dr Ryan-Collins: I appreciate that. I am obviously not suggesting that a state investment bank takes equity stakes in small firms. Small firms are clearly not suited to that type of support. They need debt and grants. Maybe what has been missing from the debate today is the starting position the UK was in before we were hit by this terrible pandemic.

It is worth recapping the structural problems of the UK economy. Just on the finance side, about £1 in every £10 lent by the UK banking system supports non-financial firms; that is, it supports working capital or supports firms to pay their staff. The rest of that lending goes mainly into existing housing and real estate—that is about 50%—and supports various parts of the financial sector, many of which practice financial activity, which was famously described as "socially useless" by Adair Turner. Then we have a bit of consumer credit. I am suggesting that there was a fundamental structural imbalance in the financial system pre-Covid. We are now facing the worst recession in history. This is an opportunity to try to address that imbalance.

One final point is that the UK is very distinctive in not having a major state investment bank; that is, a public bank of any significant size. Of course it is important to protect it from political interference, but it should be driven by the industrial policy objectives of the Government of the day. We seem to have re-embraced industrial policy. I do not know if Jagjit and Philip think that is a mistake, but the Government have embraced it. To do industrial policy properly, you need some sort of ongoing vehicle for making those investments that is independent of very short-term decisions. Otherwise, you are leaving it purely to the Government.

Germany has an extremely effective large state investment bank, the KfW, that has supported, for example, green energy innovation and the transition of the German economy, and it makes a lot of money for the state. I do not think we should get bogged down in dogma: "The state should not be allowed to do this or that." This is a time of emergency, and it is a case of potentially hundreds of thousands of people losing their jobs. It is a chance to redirect the economy.

Q498 **Chair:** We have about three and a half minutes, so maybe I could ask a question that has occurred to me as we have been going through this. It takes us back to one of the earlier questions about the appropriate response, as and when we come through this, whether to lean on taxes, controlling expenditure or Government debt, which seems to be the preferred option. That preferred option seems to be predicated on long-term low rates of interest at which Government can borrow, but that may not transpire to be the world into which we emerge.

Adam, what are the circumstances under which the Government might end up in a position where they cannot borrow at sustainable rates and borrowing becomes extremely difficult? What would the world look like under those circumstances to lead to that particular outcome? I appreciate that is a delicate question.

Dr Posen: No, it is not at all. It is a critical question and one my colleagues and I have spent a lot of time worrying about. The way to think about it is that you could end up in that state in two ways. There is something global, where real interest rates and nominal interest rates rise around the world simultaneously, or there is something UK-specific, where the markets view the UK as moving from the safe side of the ledger to the unsafe or at least the riskier side of the ledger.

On the first point, I am relatively confident that we are not going to see any jump in interest rates any time soon. The response to this pandemic, just the rational response, no matter how well we handle it, will likely be a rise in savings rates that persists, a decline in risk appetite that persists, a decline in productivity growth that persists and a lack of inflationary pressures, because of displaced labour and some displaced capital. If you put that together, those are all things to put downward pressure on real interest rates and nominal interest rates. Nominal interest rates and real interest rates can diverge, but that is usually a question of the specific country you are in, so I would not worry about that part too much.

Additionally, as my colleagues have pointed out—Olivier Blanchard and Jason Furman, who was Obama's chief economic adviser, among others—if you are really worried about the future, you want to issue a huge amount of long-dated debt now, when interest rates are so low. Then when interest rates start going up you can worry about it. The UK, like many other wealthy democracies, does not have a rollover risk of a huge amount of debt coming due at any one time, let alone in a foreign currency.

Then comes the question of what the risk for the UK specifically would be. As I said, going in, I was pleasantly surprised how little lasting damage the UK and sterling suffered from the turmoil of the last few years over Brexit and governance. There seemed to be a slight upward move in risk perception about UK assets, but not very large or persistent. That is heartening, with some credit to the Bank of England, some credit to the UK Parliament and some credit to the underlying strengths and institutions of the UK economy.

I would worry that, if you take the money you are borrowing in the next few years and blow it on non-investment things, not just basic human needs in the emergency, and put on ongoing consumption programmes, that would erode Britain's security. The Bank of England, as Josh mentioned, is financing Government debt to some degree right now. As we have seen in Japan and other historical episodes, as long as it is credible that it can stop doing that when it is time, it is not really a problem. It is only a problem if it gets locked in and forced in some way that it cannot stop it when it gets out of control. I have full confidence in the UK system and the Bank of England to stop it when needed.

It is all the things that would take the UK back to the 1970s, or to look more like Argentina in the 1980s. That said, I do not want to be dismissive in the following sense. We are seeing very fundamental changes in politics, not just in the UK, which I love dearly, but in my country, in Germany and in many places around the world, where party systems are fragmenting. Regionalism is coming back. The support for mainstream parties and experts is going down. This is the big threat. It is a big threat more importantly to our human rights and political values, but it is also the big economic threat. We know that countries get into inflation and hyperinflation trouble when it is no longer credible that the Government can make a decision and raise taxes when they need to in a politically legitimate way. The challenge to you all, as elected officials in the United Kingdom, is to prevent that from happening.

Chair: That is an excellent way to end this session and a really interesting answer. Thank you very much, Adam. Can I thank the whole panel? We have had an extremely wide-ranging discussion, but we have inevitably dipped into some areas of detail and you have answered all the questions we have put to you very carefully and cogently. You have given us a lot of information and a lot to think about. This is clearly a very critical time for politicians and many others right around the world. One of the things we need is going to be some deep and intelligent thinking. Thank you very much indeed to all five of our panellists for having contributed to our thinking as we go forward.

Please keep in touch with the Committee. We would be very interested in hearing any further thoughts you have on any of the matters we have touched on today, or indeed any others. Thank you very much. I think this has been one of the more interesting, helpful and useful sessions that the Committee has had during this particular inquiry.