

Treasury Committee

Oral evidence: Economic impact of coronavirus, HC 271

Wednesday 3 June 2020

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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 546-616

Witnesses

I: Rt Hon. the Lord Darling of Roulanish, former Chancellor of the Exchequer; Rt Hon. George Osborne, former Chancellor of the Exchequer; Rt Hon. Philip Hammond, former Chancellor of the Exchequer.



Examination of witnesses

Witnesses: Rt Hon. the Lord Darling of Roulanish, Rt Hon. George Osborne and Rt Hon. Philip Hammond.

Q546 **Chair:** Good afternoon and welcome to our next session of the Treasury Select Committee looking into the economic consequences of the coronavirus. I am delighted to be joined this afternoon by a very eminent panel of three former Chancellors of the Exchequer. I am going to ask each of them, for the public record, to introduce themselves.

Lord Darling of Roulanish: Good afternoon. I am Alistair Darling. Before we start, I draw attention to the fact that I have a number of interests within the remit of the Treasury Select Committee, all of which are recorded in the House of Lords register.

Philip Hammond: Good afternoon. I am Philip Hammond, Chancellor of the Exchequer from July 2016 to July 2019.

George Osborne: I am George Osborne, Chancellor from 2010 to 2016. I am here in the offices of the *Evening Standard*, so I may take an interest in the Committee's proceedings.

Q547 **Chair:** I suppose in the spirit of transparency I should confess to having worked with Philip Hammond as a Minister at the Treasury when he was Chancellor of the Exchequer. Generally, the questions this afternoon are going to be directed in the first instance at a particular person on the panel, but if you are not referenced in that way and you really want to come in on a question do not hesitate to raise your hand. I will endeavour to bring you in.

We are very hopeful that there will be no votes this afternoon. If there are, they tend to be rather lengthy, as I think we all know. If it happens very early in the session I will adjourn the session and we will come back. If it happens later in the session, given the length that these votes take, we may have to pull stumps at that point, but hopefully there will not be any votes this afternoon.

Can I start with the first question? I am going to direct this to all three panellists but I would like Alistair to answer first. There is clearly a big difference between the financial crisis and the current crisis in their origin and the nature of what is happening, but I have a feeling that there may be a split view on the panel as to which of the two is more serious and most likely to be difficult to handle and deal with. I wonder if you could express an opinion on that. Even though they are different, what can we learn from that financial crisis in terms of our approach to the current crisis?

Lord Darling of Roulanish: They are very different, and in my view this one is much more serious. 10 years ago, we were dealing with a situation where there was a complete fracture in the banking system, not just in the UK but throughout much of the world. The problem was relatively



straightforward in terms of how you fixed it, because the banks had to be recapitalised. You had to introduce schemes to make sure there was sufficient liquidity in the system and enough money to go around. The key point and the key difference between then and now is that, from day one, the Government wanted to get the economy going again, and therefore we introduced a range of measures that enabled us to do that.

The situation today is different. First, it is part of Government policy right across the world, and rightly so, to suppress economic activity through the lockdown and other measures, so we are not yet in a position where we are saying, "Look, we are going to pull out all the stops and get the economy growing again".

The other preliminary comment I would make is that you cannot distinguish between the problems we have in relation to health and the problems we have and are going to have in relation to the economy. The two are interlinked. Unless and until the Government get control of the virus and its spread, it is difficult to see how you can pull out the stops and get the economy going again, because people will be fearful about going out. There is always a risk of a second wave and so on.

Where there is a similarity will come in the coming weeks and months, and that is the economy having contracted so much so quickly. We are undoubtedly in a recession now, and the situation is similar in most other parts of the world. The Government will need to introduce measures, first to deal with a wave of unemployment, which will come once the furlough system starts being phased out, and to make sure that we can get people who lose their jobs and are displaced from the workplace back to work as quickly as possible.

In addition to that, it would be necessary for the Government to make sure that we do not end up with a recession becoming a depression. Many of the measures we did 10 years ago actually do bear repeating, such as a temporary VAT cut, the car scrappage scheme and time to pay taxes continuing. It is important to recognise that there are differences between the two. As I say, the key difference is that we are not yet ready to say to people, "Look, let us do everything we possibly can", because there is still the fear that the virus will spread. Frankly, unless and until we get testing properly operating, which we have not yet, I do not see that happening.

Q548 **Chair:** George, can I go to you? You might—I say "might"—have a different view as to whether this crisis is going to be worse than the financial crisis. I would be interested in your thoughts, particularly on that aspect.

George Osborne: It is good to be back before the Committee. The short answer is that no one knows, but I am more optimistic than Alistair. If you look at the history of pandemics and plagues in our society, the economic bounce-back has tended to be relatively rapid. If you look at the history of banking crises throughout our history, not just the one 10



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years ago but in the 1920s and 1930s, and then in the 19th century and before, recoveries are very slow, protracted and painful, because the credit channels of the economy are impaired. Despite all the work that Alistair and I did to try to unclog those channels, it takes a long time for the allocation of capital to get back to the efficiency it had before the banking crash. With the pandemic, we have obviously had a very sharp fall in GDP, which we are experiencing right now in this quarter. It is much greater than the one that happened in 2008 and 2009, but I think the recovery will be more rapid. That is certainly what the forecasts show. The area under the graph, the total loss of output, will be less than in the banking crash.

However, it will have this feature, which Alistair touched on and which thankfully was avoided in our Administrations. You can judge whether it was the skill of the Administrations we were both part of, good luck or whatever. We did not really have to deal with mass unemployment in the UK. We had a very flexible labour market. Unemployment did rise in 2008, 2009, 2010 and 2011, but we never faced the kind of structural unemployment that we saw in the 1980s when I was a child.

The challenge here is that the overall economy might look to have recovered. Indeed, that is where equity markets at the moment are racing. The overall GDP might look like it is back and the overall loss of GDP might be less than in 2008 and 2009, but there may be a large number of human casualties out there in the process. Essentially, Governments, the Federal Reserve and the Bank of England have stepped in on such a great scale that it is almost as if the laws of maths say GDP has to come back. They are the biggest purchasers out there in equity markets at the moment, but there will be loads of people in businesses that have gone bust and are not going to return, and people coming off furloughs into unemployment. That is going to be a big social and economic challenge for this Government. It will be different.

There is one lesson I would draw from my time. Obviously I came in after the immediate crisis in a recovery. Having put in your emergency measures, you need to set a path on how you are going to exit them. You need to give the country, business and markets a future direction. From what I can see, that is what Rishi Sunak is now pivoting towards after the emergency. The more you can do that, the more confidence people will have in the UK, and the more confidence people in the UK will have to start their new business again, to go looking for work and to be taken on.

Philip Hammond: In terms of which is the worst, it is too early to say, because a lot is going to depend on whether, over the next months, it becomes clear that we are heading towards either a vaccine and/or a treatment for this disease, and that the future trajectory is one of returning the economy to something like normal, or whether, by contrast, we are not heading towards an early development of a vaccine or a treatment, and we have to plan for restarting the economy living with COVID, and restructuring our economy and individual businesses to



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operate in an economically suboptimal way while living with the presence of the disease. It would be premature to say at the moment which of these two events is going to lead to the greatest level of total loss of output. My guess is that, in any scenario, because the decline in output has been so dramatic over the last few months, the first part of the recovery will look like a quite sharp V-shape, but the real question is what the last part of the recovery looks like. Once we get back to a loss of output of "only" 6%, how do we make that last bit back up? Is it a steep curve or is it a long, shallow curve?

George made the point, quite rightly, that the damage to the financial system in the financial crisis created some structural impediments in the recovery. It is too early to say whether any parts of the economy will be structurally damaged in a way that has a lasting effect, although the banking system itself at the moment does not appear to have been significantly impacted by the crisis in a way that is likely to affect the shape of the recovery.

Alistair made the very important point that, in this situation over the last few months, we are dealing with an economy in which supply has been deliberately suppressed as a matter of public policy. We are not yet at the stage where stimulating demand is the answer to the economy's problems, because we have an economy that is locked down on the supply side. The challenge for the Chancellor is going to be to manage these two huge moving parts in synchronisation as the economy comes back to life, so that, as the clamps are taken off the supply side of the economy and output begins to resume, we make sure that the effective demand is there. That is when the Chancellor will want to look at measures to support demand.

Q549 Chair: Can I go back to you, George, for a second? We are all agreed that what happens on the health front is a major driver of how bad this crisis will be. When do we get a vaccine? When can we go back to normal or near normal? Whenever it arrives, at whatever point, what are the main levers that you think the Government should pull here in terms of assuring a good recovery afterwards, particularly around the issue of jobs? In the financial crisis that was less of an issue, but it will inevitably be, whatever happens, a very major element of what is going on here.

George Osborne: The central challenge over the next year, if you look at the short to medium term, is how you withdraw some of the very necessary and, in my case, fully supported schemes to have kept people in work and businesses afloat during the crisis. This is a very hard judgment that the Government have to make. The furlough scheme has been absolutely essential for keeping people in work who otherwise would be made unemployed, and many of the people on furlough are going to go back to their jobs. When the restaurant reopens, the job will be there, because the restaurant will start to serve food.

We have to be honest and say that quite a lot of those businesses will not come back. The restaurant may not need as many staff as it did. Frankly,



quite a lot of businesses have used the furlough anyway for a permanent efficiency cut, as business would put it. Trapping people on a scheme that is generous to them in the short term but prevents them re-entering the labour force to get the new job they need is potentially very damaging.

The withdrawal of the furlough is going to be important for employment in the short term, and at the same time—we might come on to this—some of these loans to businesses that are never coming back are going to become an issue, essentially keeping zombie companies on life support. Again, that is not an issue for right now, because we are in the middle of the crisis, and we do not know exactly what the shape of society is going to look like and when the vaccines are coming.

Beyond that, Government can do a huge amount to create good employment schemes. Let us be honest. Governments of all colours since the Second World War have not done terribly well at getting people in structural unemployment back to work. They have often in the end been parked off—and this is a tragedy—on to various benefits that recognise their condition as permanently unemployed. It is not always called unemployment benefit, but in practice that is what has happened in the last 50 years.

With a short-term shock, getting people back into the labour market, making sure they are not out for a long time sitting on a furlough or sitting on unemployment benefit, is critical. The Government have a big role. Secondly—and I would say this—you have to then give business the confidence that the future is going to be a friendly one and, therefore, they will take the risk of taking people on. Ultimately, you need the private sector to have the confidence to go and employ again.

Q550 Chair: George, could I quickly pick up on the point you made about corporate indebtedness as we come out of this, which is going to be critical? As you are suggesting, if companies are loaded up with debt, they are not going to be making the investments that they need to make to help grow the economy and create the jobs we need. It seems to me that there are two types of businesses. There are the very big ones that are strategically important, and the Government can cherry pick their targets from the centre on those, perhaps airlines, steelworks, car manufacturers, et cetera.

There is a huge mass of companies that have taken on CBILS loans, et cetera—billions of pounds' worth of debt—that we are also going to be relying upon. What is the vehicle or mechanism by which we might reach out to those businesses and take away some of the onerous aspects of that debt, so they can get on with growing their businesses? How does that work, given that some of those companies will be relatively small?

George Osborne: There is a whole separate issue about what to do with these large stakes we are going to take in large companies, like airlines, aerospace manufacturers and so on. All of us on this panel had the experience of pretending that we were managing the bank holdings that



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we had in the last decade at arm's length, through UKFI and now UKGI, and still when Treasury questions came up or we were before the Treasury Select Committee we were asked about the bonuses being paid to the chief executive, why branches were being closed in the constituencies of Members and so on. I can imagine an airline saying it wants to shut an uneconomic route to a further flung part of the UK and people in Parliament asking the Prime Minister, Chancellor and others, "We own part of this airline. Why are we going to close it?" That is going to be more problematic than people probably realise at the moment.

On the smaller loans, I genuinely think the Chancellor has done a very good job over the last couple of months. The only area where I disagreed with him was that I thought it was unnecessary for the commercial banks to take a stake in some of these loans, because that was delaying getting the money out of the door. He then created the bounce-back loan scheme for smaller businesses. Again, this is something that Treasury officials will hate, and it will offend moral hazard, but there comes a point where it is for the overall good of the country that you write off some of those debts, even if they score as a loss on the Government's balance sheet. In a couple of years' time, the corporate sector owes a lot of money, particularly the microbusinesses and small businesses, which are engines of growth and can be completely held back by a large credit burden.

The Government should look at some kind of debt forgiveness. We never managed this on a big scale in the financial crisis and its aftermath, although looking back at that period of 2009, 2010, 2011 and 2012, if somehow the world could have arranged a big collective debt forgiveness, the advanced economies of the world would have recovered more quickly. In the UK, particularly the small business sector, at some point in the next couple of years, if there are loans that are just not going to be paid back, either you write them off or, as I suspect will happen in practice, every six or 12 months the Chancellor of the time announces that the lending terms are pushed out, the rates are kept very low and so on, but they still sit on a company balance sheet. A big active debt forgiveness would be better. After all, as Alistair was saying, we lent to keep these companies going while we deliberately shut down the economy.

Q551 Felicity Buchan: First, thank you so much for your time. I know how busy you are. My questions are on taxation. I only have 12 minutes, so keep answers quite brief if you can. There is an argument at the moment to say that we need to cut taxes to stimulate the economy, but there is a counter-argument, which says that because we are running up so much debt we should potentially consider increasing taxes. What is your view?

Lord Darling of Roulanish: I will obey your injunction. Let me just say one thing. There is so much uncertainty about at the moment. If I was in the Treasury just now, I would be planning for all sorts of eventualities. I hope that my pessimism is not justified. All I will say is that 10 years



ago, when I said that I thought the then crisis would be rather more long-lasting than people thought, it was not greeted with universal praise, but it did turn out that way.

On your tax point, if you want to stimulate the economy, the most obvious thing to do is a time-limited VAT reduction. We did it 10 years ago and the evidence is that it has some effect. I am not sure about cutting income taxes. That would not really make a difference in people going out to work longer, doing second jobs or anything like that. The challenge will be what you do to try to create jobs if people cannot get into jobs. I take all George's points about difficulties that Governments have had, but we are in a situation for the first time in nearly 30 years where the labour market is likely to be much, much tighter for reasons that we know.

When we get to the happy day when we are recovering and on the path to recovery, my view is quite clear. Yes, we are going to have very high debts like we had at the end of the Second World War, but a Government like ours, because we are a large economy and no one doubts our creditworthiness, can carry that for some period. I would be very concerned if we got ourselves into a situation where, in the recovery stage, we start clamping down on things prematurely, stop the growth and drive the country back into a recession.

Remember, at the beginning of this year, our economy was scheduled only to grow at just over 1%. We are not going to discuss Brexit today, I am quite sure, but you have that. We do not know fully what the effect of that will be. It depends on whether there is a deal. I am in no doubt. For the avoidance of doubt here, at some stage, if you are spending lots of money, you have to pay for it, but the best way of getting tax receipts is to get your economy going again. That is why I tend to the view that we will probably have to carry much higher levels of debt that we would ever have envisaged in any of our lifetimes for a bit longer than people might think.

Q552 **Felicity Buchan:** Those high levels of debt are possible at the moment with low interest rates. Are you concerned, however, if interest rates creep up again over a longer period, that the debt is not sustainable?

Lord Darling of Roulanish: There is always that risk, although the UK borrows at a much longer term than most other countries. If I remember rightly, our average loans are about 14 or 15 years, whereas the rest of the G7 are probably half that. If you look at what people and markets are saying generally, the evidence is that interest rates are going to be pretty low for some time, so it is not an immediate concern of mine. My bigger concern is that, if you attempt to prematurely or too sharply repair the damage caused over the last few months and the next few months, you will cause more problems than you solve.

Q553 **Felicity Buchan:** Can I come to Philip next on that question: increase or decrease taxes?



Philip Hammond: I do not think there is any economic logic to increasing taxes in the short term. We all accept that the UK as a creditworthy, mature, very large economy can carry more debt in the context of a short-term crisis. Of course, we have to remember that debt is cumulative by its nature. We increased our debt very substantially during the course of dealing with the last crisis, and we had only just got back to the point where we were starting to see debt very, very slightly decline as a share of GDP. Now we are going to see it significantly increase, again, as a share of GDP. As Alistair said, eventually we have to think about how we manage the challenge of debt in the long term.

To the point of fiscal management, all three of us would agree that, when you can, you make progress on rebalancing the fiscal balance sheet, but the point is to have firepower available when you need it. Clearly, we now need it, so I do not think you will find anybody seriously advocating increases in taxes at the moment. As we move more deeply into the recovery phase, there may be a need for some short-term fiscal stimulus to the economy. That could be delivered most obviously through tax cuts; Alistair suggested a VAT cut. The question is when to go into and when to come out of these stimulus measures.

This is going to be quite a careful balance for the Chancellor, precisely because we are unlocking the economy and we do not yet know what level demand will be at. That will be a function of people's confidence, unemployment levels and perceptions about the future trajectory of unemployment. Even if unemployment does not immediately rise sharply, if people fear that over the next six, nine or 12 months they may lose their jobs, they will certainly be reluctant to take on consumer finance or to make big ticket purchases, for example. In those circumstances, short-term, targeted stimulus measures may be the right prescription. The Chancellor should be open-minded about this in the short term.

Q554 **Felicity Buchan:** Philip, do you think there comes a point that we should be concerned about debt sustainability? We had a gilt auction that almost failed a few months ago.

Philip Hammond: As Alistair has already said, the UK has some significant advantages. We have much longer tenor on our public debt than any other country, so we have more stability. That means we are not immediately affected by short-term changes in interest rates, but it would be a mistake to think that, just because interest rates are low now, they are remaining low over the very long term. The point is that we have time to sort the debt situation out. I personally would be uncomfortable with a strategy that said we are happy for debt to run to more than 100% of GDP and just to leave it there forever, but I would absolutely accept that in the recovery phase, the next two years, where the debt is as a percentage of GDP is not the primary concern we should be addressing.

Q555 **Felicity Buchan:** George, can I come finally to you, showing that there is no favouritism to my constituent?



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George Osborne: You will find a high degree of agreement here among the three of us. We are still in the crisis. The question then comes in the recovery. The recovery might be through the discovery of a vaccine or a treatment, or it might be that we all learn to live as a society with this virus, accept the risks and make adjustments to the way we do business. That is the crucial question. At that point, two things are true.

First, the country is poorer than it would otherwise have been, and that is a basic truth. We have an elected House of Commons, and have had one for many hundreds of years, to make that judgment. Given the size of the country's economy, what is the right amount of money to raise in taxes in order to fund our public services? As a nation, we will just have to confront the fact—and another nations will have to do the same—that sadly we are poorer than we thought we were, and we have to either raise more in revenue or spend less than we were planning. That is the first central and obvious point.

The second one is that we do not know what is going to happen next. We all lived through the financial crash in different forms. I was Alistair's shadow, and Philip was the shadow Chief Secretary. I remember at the time everyone saying, "This is a once-in-100-year event and this is never going to happen again". Here we are, 10 years later, talking about an event that, as Alistair was just saying, is worse than the financial crash. We do not know what the world holds in the future. If we are in recovery and either we are living with the virus or there is a vaccine, and we are running a 15% budget deficit, which we might well be, how comfortable are we carrying that deficit forward over the coming years?

I am not here talking about the stock of debt. Countries like the UK are rich and have credibility in the markets precisely so we can borrow for these extraordinary events. You then face the challenge that I faced: how do you start to get back into balance? You can argue about the pace. Alistair and I used to argue about it, and the history books now suggest that I ended up following pretty much the path that he mapped out because things ended up coming along.

Nevertheless, both of us were on a path of fiscal consolidation. You do not have to call it austerity. You do not have to tell the public you are doing it; you can try to get away with it as a Government and pretend you are not doing it, but the truth is that you and Parliament will have to make judgments about levels of tax and levels of spending. I raised VAT—as I think Alistair would have done if he had got re-elected in 2010—because we had to take big steps to repair the public finances.

You can talk as much as you like about taxing billionaires, taxing tech companies and all those things, and it all adds up and helps, but the big money-raisers are income tax, national insurance, VAT, those big, central taxes that Government rely on. That is why there is now speculation about national insurance. Saying, "We are just going to get the



billionaires to pay for it” is a cop-out from the real questions that both Government and Opposition have to confront.

Q556 **Chair:** Can I quickly come in on that, George? You are right; the big heavy lifters for tax are the three that you have mentioned. The Conservative Party manifesto says that the rates will not be increased. Will we have to break the manifesto, or will the party have to break the manifesto, in your view?

George Osborne: Thankfully, I do not write manifestos any more, or indeed have to abide by them. I am sure the Government will do everything. I am of course still a member of the Conservative Party. I am sure they will do everything they can to hold to the manifesto. The world the Government were elected in, in December 2019, is completely different from the world of June 2020. There is all this conversation about going back: “when we get back”. It is going to be a different future.

This Government were elected to do a number of things, like getting Brexit done, as they would put it, and levelling up in the north, which I am very keen on as an agenda, with the northern powerhouse. But the truth is that economics has come back centre stage, as it always has a habit of doing in British politics. To anyone who thought that this is not going to be a Parliament completely dominated by the economic recovery, the public finances, debt, deficit and levels of tax, I am afraid that is what the politics is going to be all about.

Q557 **Julie Marson:** Thanks to everyone for being here; it is a pleasure to ask the questions. My questions focus on the role of Government and Government intervention to support jobs and businesses. I would like to start with Lord Darling. You mentioned in your opening remarks to the Chair the labour market and how the Government might support jobs going forward. Do you think the Government should be looking at very active intervention in the jobs market, such as funding training, public employment schemes, particularly for young people? Are the Government and the Treasury actually any good at running schemes like that?

Lord Darling of Roulanish: The short answer is yes. They need to look at a whole range of things. This is an example of where only the Government are big enough to provide the scale of support that will be necessary. As I said earlier, we need to get ourselves into the frame of mind where we are thinking about 1980s levels of unemployment. If it does not happen, that is great, but we need to be ready for that. If we are not, people will ask, “Why did you not start thinking about these things?” Do not wait until the problem builds up, with all the social as well as the economic problems.

First, they need to look at training or retraining. For example, in the aviation industry, most of them say it is going to take at least three years before we are back to where we were at the start of all this. People may need to be retrained to do other things. Equally, in the hospitality



industry it would be astonishing if there are not casualties there, especially with the smaller operators and so on.

They need to do that, but it is not just schemes for people who have lost their jobs. We also need to maintain our support, as has been said earlier, to make sure that the economic fabric we have at the moment is still there in a couple of years' time. That very act of supporting industries where it is necessary, through grants, loans or taking shares in some cases, helps preserve jobs as well. We need a whole range of things.

The short answer to your question on whether the Treasury is good at these things is that the Treasury traditionally has not done these things. It is the Department for Work and Pensions, the Department for Education and other Departments. The Government as a whole can set a structure. Critically, what they can set are the rates of pay. Remember, when people come off these job protection and furlough schemes, if they go on to universal credit, it is reckoned that their income could fall by nearly 50%. Only Government can address that structural problem, but there are plenty of lessons of what we should not be doing from the 1980s. I hope we can build on that, because there are good lessons in the last 15 to 20 years of things that do work and help people get into work.

You have to be flexible. I would say to the Chancellor, "Do not be afraid of coming back to the House of Commons again and again. Changing your mind and adapting is far better to do, but do it in advance. Do not wait". You are seeing a bit of that just now, where things that it was said were going to happen did not actually happen.

Q558 Julie Marson: The Chancellor has recently mentioned Project Birch to support structurally and strategically important businesses. In those and other cases for business, should the Government be looking quickly to transition from loan support to equity support?

Lord Darling of Roulanish: Whether you make a loan, make a grant or take equity really depends on the circumstances. Clearly, in a small or medium-sized business, you would not be taking equity. You might be looking at grants or loans, whereas if you are dealing with an airline or a utility company it is quite reasonable to say, "Look, we will help you through this, but it is only fair that the taxpayer gets rewarded for having taken part of that burden". There should be a range of options. Before you follow up on this, let me say that it is going to be difficult, because Government do not have a great record in picking winners and so on. We just have to be pragmatic about it.

The key thing is that, if we can preserve jobs and the economic fabric of our country, we should do everything we can. If that is not possible, let us look at a range of possibilities that, critically, can get people ready to go back into work as soon as the job is there for them. Bear in mind that



it all depends on getting our economy growing, where there are jobs to get people into.

Q559 **Julie Marson:** Following up on something you said, you mentioned picking winners. Can we do that? How do we decide which businesses should be saved and how we get value for money for the efforts we make to do that?

Lord Darling of Roulanish: Let me give an example of where, to my mind, there would be no choice but to do something. If one of the companies that provide our utilities, such as water or electricity, was going bust, we would have to do something about it, because you cannot leave citizens without those basic services.

If you take the aviation industry, you will notice that France and Germany are not indifferent to whether their national airline is surviving. Our model here is slightly different, in that the idea of a flag carrier is not quite what it was, but most people would take the view that we have to make sure we have a transport industry. The railway companies are a case in point, where, frankly, the days of privatisation are long behind us, and people recognise that the state is going to end up doing that whatever happens. When it comes to individual companies, you probably cannot have a set of rules that would accommodate everything. You just have to use your common sense.

Let me give you an example from nearly 50 years ago. It was highly controversial when the then Conservative Government nationalised Rolls-Royce because it ran out of money to develop its RB211 engine. People said, "Well, they made a silly mistake". Actually, that engine proved to be highly successful. Rolls-Royce is a very, very successful company. It is that sort of judgment you have to bring to bear, but I freely admit that, if you do all these things, there are bound to be cases where people can quite rightly say, "Well, that was never a go in the first place". That is usually, but not always, with the benefit of hindsight.

Q560 **Julie Marson:** Thank you very much. Could I turn to Philip Hammond, please, and ask you about decision-making, where the funds go and where the bailout funds go? Should the Government be looking to introduce green criteria in that decision-making? We have mentioned the aviation sector as an area where that consideration might come into play.

Philip Hammond: The Government have long-term strategic objectives, one of which is to deliver a zero-carbon economy by 2050. Unless the Government change that strategic objective—and I do not expect for a moment that they would—every initiative that they take needs to sit within the set of strategic objectives that the Government have already set out. What I think Alistair was hinting at, and I would certainly reinforce, is that we will get in quite a mess if we start taking equity stakes in businesses or giving loans to businesses on the basis that the Government then start interfering and micromanaging in the day-to-day management of those businesses and the decisions they take. It is never



a good idea and, frankly, Government do not have the capacity to do it well.

As we go into this next phase, there are some quite interesting contradictions here. Alistair talked about preserving jobs. We would all want to focus on maximising employment in the economy. That does not necessarily mean preserving old jobs that may have been made fundamentally non-viable, but it means that, where people lose jobs, we need to get them as quickly as possible into new jobs. That needs two things. It needs growth in the economy and investment, and it needs facilitation of retraining.

Your original question was whether the Government should do more in the area of retraining. Unequivocally, yes. We are looking at a world where skills are changing very rapidly. The least thing that the Government could and should do is ensure that, as unemployment starts to rise—as it surely will—we step up the efforts we are making to help people get back into employment by having the right skills.

There is always a tension with the desire to protect employment, so there will be a tremendous political pressure in this recovery to not let people become unemployed and to not let companies fail. We have to balance that against what we know from previous downturns, which is that the best economic outcome is to get the restructuring that is necessary done quickly, not to try to protect failed businesses, but to facilitate the people who work in them moving on and having good employment prospects for the future.

Getting that balance right between the desire to get through the transformation and move on, and the desire on the other hand to protect jobs in order to maintain employment as high as we can, is going to be a politically difficult one to navigate.

Q561 Julie Marson: When we are looking at investing in businesses and restructuring for employment, should we use existing structures such as the British Business Bank or British Business Investments, or should we look to establishing something completely different—an investment bank specifically for that purpose?

Philip Hammond: It depends on the scale of the challenge. It is too early to say yet. We have some good structures that were put in place at the time of or since the last crisis. They have capacity, but we do not know the scale of the challenge that will be facing us. If the requirement is very widespread across huge swathes of industry for recapitalisation of companies and the markets are not in a position to do that—and there is no sign yet that the markets will not be in a position to do it; the markets, as George said earlier, are very active—we might have to look at other structures. But we have quite a good set of structures in place at the moment.



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The bit we are missing, which alludes to something that was said earlier, is at the retail end of the business market. How do you get loans to small businesses? We had this challenge at the time of the financial crisis and we have had it again now. The Bank of England can do things to make money cheaper and can push money into the system, but only the commercial banks have the infrastructure to act as a delivery mechanism, to transmit that monetary stimulus down to the level of small businesses.

Frankly, I think a number of the banks are quite uncomfortable with the role they are currently being cast in, being essentially pushed to making loans to a set of customers that perhaps they are not particularly well equipped to deal with, knowing that quite a large proportion of those loans are likely to go bad, and with a set of rules around those loans—I am talking about bounce-back loans at the moment—that will require the banks to pursue those customers.

If you are a high street bank, you would probably have a sense of grievance, in some cases, that you are being encouraged or strong-armed into making loans to people you strongly suspect will not be able to repay them, knowing that you are then going to be told you have to pursue them, your customers, to repay loans they cannot repay. It is an uncomfortable situation.

Q562 **Julie Marson:** That is very interesting. Thank you. Could I turn to George Osborne, please? It is very obvious that you had lots of questions about bankers' bonuses a few years ago. What is your view on the conditionality that we should put on the Government investing in businesses?

George Osborne: I am a bit sceptical about conditionality. The reason we are lending money to these businesses is that we have taken a deliberate choice to shut down our economy to tackle a pandemic. In previous periods of British history, we would have allowed the pandemic to rage through our society because we would not have been rich enough to shut down the economy and people would have starved if they stayed at home even if they were ill. That is what happened in cholera epidemics, the plagues and so on.

Thankfully, we have moved on from that. You in Parliament have deliberately passed laws that say that people cannot gather, businesses cannot open and so on. The money we are providing is a rescue. It is the consequence of public policy; it is not part of an industrial strategy. If we want an industrial strategy, come up with an industrial strategy. That is not what this is. This is emergency finance to companies, whether they be the largest in the country or the smallest, to essentially keep them alive while we take the whole economy into an induced coma.

Once you start saying, "This company has to be green", "This company director should not get a bonus", or even—this is more controversial—"We have to make sure we make money on this investment", you are into



industrial policy. I remember when I was shadow Chancellor there was a lot of talk: "This investment in RBS is the best thing that has ever come our way". Here we are, 10 years later, still owning the thing, at way below the share price at which we would get our money back.

I always took the view, and I took this view when I sold an RBS stake as Chancellor, that my predecessor had bought RBS shares not because he was trying to make a fast buck but because he was trying to save the bank and save the British economy. We are doing the same. I would not attach a lot of conditionality. I would not get too hung up about making a profit. That is not what this is about and we should not confuse the two objectives.

Q563 **Julie Marson:** Do you think that this pandemic and the Government's response to it have changed people's perception of the role of the state, in general terms?

George Osborne: It has reminded people that the reason we have very large states is not to provide us all with physical security, which was the original concept of the state, but to provide us with economic security as well. It can step in there and provide for us at times of great need, whether driven by an economic cycle, a pandemic or whatever. It has reminded us essentially of the awesome power of Government. The British Government, because of their credibility and their institutions, which you are part of, can go out there and get the whole of the world, effectively, to lend them money, and very large amounts of money at this point. Yes, it has been a reminder of that.

We may come on to all the other things that will change about the role of technology and whether we are happy with Government being more intrusive into who we are, where we are and who we meet as part of pandemic control, but tax is one thing that I think will change. I wrestled with it and I am not claiming for a moment that I got it right. Both my predecessor and my successor also wrestled with it. There will be a sense that, if you want the protection of the state, you need to pay your tax, either as an individual or as a company.

I wrestled with trying to get the big international companies to pay more tax. We had OECD agreements and so on. I know that, for example, Philip tried to get self-employed people to pay more tax. I increased the tax on dividends for people who paid themselves through dividend. The basic argument is that, if you want the protection of the state, whether it is the economic protection or the physical protection to stop your property or your company being stolen, you have to pay for it. That is something that left and right can agree on as we come out of this pandemic. It has just been a reminder of why we pay our taxes.

Q564 **Siobhain McDonagh:** I would like to look at capital expenditure and changing priorities. In recent weeks, societal norms have turned on their head with long-lasting changes in how we work, travel and learn. As society has changed, has the priority of infrastructure projects also



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changed? Given the historically low interest rates, what scope do the former Chancellors think there is for capital investment or increased capital investment after the crisis?

Lord Darling of Roulanish: One of the many things the Government need to look at, if they are going to spend money, is spending money to improve our infrastructure, because that will bring a long-term benefit. I make a general point that it will be far better for the Government to look at stuff that is relatively new and shovel-ready and that can be delivered relatively quickly. As many of you will know, I have been a longstanding critic of HS2 because I think that, by the time it is finished, it will be even more out of date than it is now. You will be far better spending the money on projects that you can actually get going and deliver.

I am not against big transport projects. They are important. Going to a point that George Osborne will no doubt agree with me on, if we genuinely want to see the transfer of power to the regions, the northern powerhouse is one example of where we can do it. There are lots of smaller transport projects that will bring greater immediate benefit than some of these megaprojects. That is an example of where the Government can do things and do them quickly, because you want something that can deliver a benefit in a relatively short period.

There are other things like broadband, for example, where we have done an awful lot but we are still not as good as we need to be—nowhere near it. In some parts of the country the connections are not great at all. Those are two examples.

There has been a lot of talk of devolving power to the regions. We have mentioned the northern powerhouse but it is important that we involve other parts of England, particularly outside the south-east, where they should be allowed to and able to contribute to the decisions as to where money could usefully be spent that would add to the greater good in that particular region.

Both those things would be useful, but to your general point about spending on infrastructure, directly and indirectly, it is very important for the Government to be doing.

Q565 **Siobhain McDonagh:** Do George or Philip have any different points of view?

George Osborne: I will just stick up for HS2, although I will point out that it was launched when Alistair was Chancellor of the Exchequer.

Lord Darling of Roulanish: I am allowed to change my mind.

George Osborne: Yes. It is a very good example. When I became Chancellor in 2010, I gave the final go-ahead to Crossrail. Crossrail had been announced by Cecil Parkinson at the Conservative Party conference in 1988 and it is still not open. These big transformative projects take an unbelievably long time to get going, to get planning for, to pass through



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Parliament and then to be constructed. In fact, often the construction is relatively rapid once it has all those approvals. Look at the endless debate about the Heathrow runway, which Parliament has supported.

Someone could say, "Cancel HS2 and build an east-west line across the Pennines", which I am very supportive of as chair of the Northern Powerhouse Partnership. But HS2 is now finally, after 12 years, beginning to be constructed and will make a big transformation to the economic geography of the north and south. It is just an illusion to think you can drop one massive project, which has taken 12 years to get to this point, and pick up some new project of building a railway line from Manchester to Leeds tomorrow. It is just not going to happen.

There are many things that Government can throw into capital spending on almost a turning-up-the-dial basis. That is why Chancellors always announce pothole funds. You can put more money into local authority transport budgets and the like, but the really significant economic change that big infrastructure can bring about, like our motorways and railways before us, is stuff that takes a long time in our country because we protect property rights and we have a democracy.

There is one obvious final observation that I would make, which this call is a demonstration of. We have been reminded of the enormous importance of digital infrastructure. Again, all Governments have struggled with broadband rollout, getting broadband to remoter areas and even to pockets of dense cities. I have never seen anything that worked as well as it should have, and I have knocked my head against the wall. I am not saying I came up with the answer. It is self-evident at the end of all this that we will be a more digitally connected society and, by the way, in many ways it is more efficient. Maybe we will even get to vote online one day.

Philip Hammond: Can I first add my voice to the support for HS2? I think it will be truly transformative. I know people are sceptical about it now but the test will be in 20 years' time, and I bet that people all over the country will be saying, "We could not live without this piece of infrastructure".

We do not yet know the extent to which digital working, working from home and different patterns of commuting will persist. We are probably six or nine months or a year away from understanding how much of this will change back to how it was before and how much will stick. Once we can see that, the infrastructure project priorities should change to reflect those changes.

I want to add one other point, which is that people in Parliament often talk as if the only issue around how much infrastructure we have is how much money the Chancellor decides to pour in the top of the hopper. The constraints—George just described some of them—are much more in the real economy than they are around the amount of finance available. We have seen periods in our modern history when investments have been



announced in the rail sector, for example, and then it has become clear to Government that all we are doing is fuelling inflation in that sector because there is a limited amount of capacity, for example, to deliver rail electrification.

Across the piece, whether we are looking at construction or network infrastructure like railways, if we want a step change in the amount of infrastructure we can deliver, we will first need a step change in the capacity of our infrastructure delivery industries. We do not have big construction companies in this country in the way that our continental neighbours and the Asians do. We do not have enough domestic skills in infrastructure delivery. BT, for example, will tell you happily that, if somebody wants to pour money into the system, it can roll broadband out more quickly, but only if it is allowed to import somewhere between 15,000 and 30,000 foreign engineers to do the work.

Q566 Siobhain McDonagh: I have a bit of special pleading. You have all mentioned digital connection. The whole crisis has thrown up how unequal our society is for some, particularly for children and those children who cannot learn from home because they do not have digital connection. Would the Chancellors support my Bill calling on the Government to ensure that all children entitled to free school meals have internet access at home? I need one word from each of the three of you.

George Osborne: This crisis has thrown up a real apartheid in our country between the people who have online schooling, access to a laptop and access to the internet, and people who maybe have no internet access or one computer in the household, who are expected to do their lessons while their parents are working and the children are supposed to be at school. It has really highlighted a sharp educational divide that perhaps was not so apparent. I do not know the details of your Bill.

Q567 Siobhain McDonagh: Is that a yes or a no?

George Osborne: I like the idea of it; put it that way.

Q568 Siobhain McDonagh: I will take that as a yes. Alistair, I am looking for your support now.

Lord Darling of Roulanish: The points that you and George have made are absolutely right. One of the many tragedies of this year is that there are an awful lot of children who will be severely disadvantaged when they eventually get back to school. It is not just the availability of equipment, of course; it is the ability of someone in the house to guide them through it. There is also, for good measure, from my own experience of talking to people where I am just now, a huge variation between what schools are doing. Some are very active; some are less so. The idea of making sure that everybody gets the same advantages must be right.

Q569 Siobhain McDonagh: Thank you. Philip, yes or no?



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Philip Hammond: Alistair is the only one of us who will get to vote on this Bill, of course. I do not know what is in it, but, like George said, in principle, it must be right that, if we are going to move to a world where more things are done online, where things that are not discretionary—I am not talking about entertainment here but basic education—are moved online, we have to ensure that all children in that compulsory education system have the equipment necessary to access that online education. If that means we have to operate school loan schemes where children take laptops home, I am sure that that is a sensible idea.

Q570 **Siobhain McDonagh:** The other big divide that this whole thing has thrown up for me as a London MP is the housing crisis. We see so many people sharing homes, kitchens and bathrooms with no outside space. Given that every pound invested in housing results in £2.84 spent in the rest of the economy, would the former Chancellors agree with me that now is the time for the Government to support an expanded social housing programme? Does Mr Osborne look back with regret at his decision to cut the housing budget by 50% and to move away from socially rented housing?

George Osborne: Actually, we got housebuilding going again and we invested a lot in shared equity schemes as well. This is similar to the infrastructure point. The problem in London, where I edit a newspaper, and in many other parts of the country—I was a Cheshire MP for almost two decades—is getting people to accept that you have to free up space for the houses to be built on. Sometimes they have to be in green fields.

Q571 **Siobhain McDonagh:** That is my other campaign, George. I was trying to convince the Government to build on green greenbelt.

George Osborne: We can convince ourselves that we have to talk about brownfield sites. The truth is that, if we want to have larger homes and more homes for people, I am afraid we will have to take more land. I used to have this argument. I can say this now as I am no longer seeking re-election in Tatton. It was a greenbelt seat. It was probably the single biggest issue other than aircraft noise that was raised with me as an MP. There were people objecting to planning permissions and objecting to new homes. When the new homes were built, you never heard another complaint about it. Indeed, when the new runway was opened in Manchester, you did not hear so much about aircraft noise.

It is about the objections. The temptation of an elected official is to go along with the village conservation group or the town conservation group. Here in London, people say that we cannot have higher buildings or whatever. That is fine, but the consequence of that is that you are denying housing to other people.

Philip Hammond: Depending on where we go in the recovery from COVID, whether people are still happy to live in cities and whether cities are still attractive places for people to live—if we do not find a vaccine or a treatment for the disease, people may recalibrate their views about



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where and how they want to live—we will have to consider quite fundamentally how the housing market works. That, as George says, comes back to the planning system.

The immediate problem, speaking to you as a Londoner, is what happens to the demand for market housing in London in the aftermath of this crisis. Of course, it is largely the building of market housing that drives the delivery of social housing in the system we have at the moment.

Siobhain McDonagh: It does not work.

Philip Hammond: We could have a long debate about whether mayors setting unrealistically high levels of affordable housing delivers more or less affordable housing, but perhaps that is a debate for another day.

Lord Darling of Roulanish: Just to get this away from London, the lack of affordable housing is a problem in just about every town and city across the length and breadth of the United Kingdom. The planning issues are a problem equally throughout the country; they are not that different. I agree with you that we are never going to solve the housing problem unless, frankly, we reform the planning system so that there is more land to build on. The Government, certainly on affordable housing, have to assist there. It is a problem just about everywhere.

Just as an aside, it would be interesting to see what happens in a city like Edinburgh to the Airbnb market now because, as far as I can see, people are rushing to get out of it. Will that mean more housing coming on the market for the people who live here? We will wait and see.

Q572 **Anthony Browne:** I should say that I have the George Floyd protest outside my window here in Parliament, if there is any background noise. I can hear some trumpets going. I would like you to imagine that you are back in No. 10 as Chancellor. What would you actually do now? There is consensus that the immediate focus for the next year or two is growth and that we need a growth plan. We can push back paying off the national debt a little as a focus. What would your growth plan be?

We have talked about some of the elements. You have touched on short-term fiscal cuts, maybe VAT, and mentioned retraining, broadband and some other infrastructure investments. Can you expand on that? Are there are other elements, like deregulation? There has been chatter in the media about the Sunday trading laws. We have just been talking about the planning system. The Prime Minister at Prime Minister's Question Time today focused on green growth. There is a lot of talk about that and how much substance there is to it. If you were the Chancellor again now, what would your growth plan be for the next year or two?

Lord Darling of Roulanish: We have talked about a lot of the things this afternoon and I do not want to repeat them. Obviously, if any one of us was back in No. 11, one of the things we would be working on now is a financial statement, probably for next month, certainly no later than that, looking at measures to get the economy going. A lot of that, of



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course, depends on what is happening on the health front to fit in with that.

On deregulation, I am in a bit of difficulty. I would have no problem with Sunday trading reform since I live in a part of the United Kingdom where, for most of my life, we have not had any restrictions. It was always frustrating for me when I travelled down to London to discover that I could not go to a supermarket to get something to eat because it had the wrong square footage. I do not have any problem with that but I accept that in parts of England it is more controversial.

I am not sure how much more deregulation would create the sort of jobs you are talking about. The key thing to me, as I said earlier, is short-term economic stimulus measures, as we have talked about. Critically, I would want to get the whole of Government involved in measures to help people, as I say, either stay in work or, if they lose their jobs, be retrained as appropriate to get them into work. We have been talking about infrastructure schemes and I do not want to repeat what I have said. That is fairly straightforward.

The Government, as I said earlier, need to plan on the assumption that things will be worse. If it is better, that is good and well, but do not leave it until it is too late, because it takes a long time to put these things in place.

Q573 **Anthony Browne:** George, what would your economic recovery plan be?

George Osborne: Beyond what we have already talked about, on the maxim that you should not waste a good crisis, first, scrap the ridiculous Sunday trading laws. I tried as Chancellor. It was one of the defeats I suffered at the hands, mainly, of a combination of Labour Members who were backing an USDAW shop-workers' motion—I am not sure they have done much to save their shop-workers' jobs as a result—and Conservative MPs who did not want it to happen either. It struck me as completely bizarre when you are trying to save the high street, and every MP I have come across wants to protect their local high street, that you want it shut for one of the days of the week when most people might have a chance of going shopping. Anyway, I lost that campaign so I might be tempted to go back into battle on that one.

We did actually make some important changes to planning laws in 2010, 2011 and 2012. Nick Boles was the Minister involved and we got past, frankly, Conservative MPs changes to planning in areas like south Cambridgeshire that, dare I say it, they would not otherwise contemplate, because the local population accepts that there has to be some sort of stimulus.

There is a more complicated thing around labour market flexibility, because what really saved Britain over the last 30 years, since the 1980s, was actually the labour market flexibility that was brought in there, which



enabled people to go to where the jobs were. I would remove impediments to that.

Q574 **Anthony Browne:** What impediments do you mean?

George Osborne: I mean things like, to Siobhain's point, tenure on council homes and social housing. It is incredibly difficult to move to a new job and get social housing, not just because of the lack of supply and the lack of new building, but because of very complicated issues around tenure, which do not apply in other parts of the economy.

Finally, I would triple down—here I am talking about my book—on the northern powerhouse as well as the Midlands. It is not just a slogan, although it is probably the one slogan that has endured longer than almost any other. "We are all in it together" seems to have come back, though. The northern powerhouse is a proper and serious economic theory that, if you bring the cities of the north closer together and connect them to their towns, you create a single economic area that rivals London, the Boston bay area, Tokyo and so on.

You do that with the transport connections we have just been talking about and by radical devolution to mayors. We created metro mayors in places like Manchester. That should definitely happen. The mayors that do not exist in places like West Yorkshire should be created. We should have the confidence to devolve real economic power and decision-making to organisations like Transport for the North, and then give a massive boost to science and the universities and teaching hospitals that are the jewels in the crown of those great northern cities.

I remember this argument about HS2 that, if you built a train line to London, everyone would come to London and you would depopulate Manchester. I was an MP near Manchester. You can take a different example of Reading and the Thames Valley. There is a very fast connection from London to Reading. Reading, when I was a child, was more of a dormitory town for London. Now, the Thames Valley and Reading area is full of company headquarters and businesses with people commuting into the area. Those efficient transport links, coupled with devolution and with a big injection of energy and, indeed, money into science, universities and so on would be great.

Finally, I would not have gone ahead—this is where I disagree with my party—with scrapping the 2p reduction in corporation tax that I legislated for, because at the moment that would be sending a big signal that Britain is open for business around the world.

Q575 **Anthony Browne:** Philip, if you were Chancellor back in No. 11 again, what would you do above and beyond what we have been talking about?

Philip Hammond: George has talked about the northern powerhouse. I agree with what he said on that but let me put it in a wider context. The UK's fundamental problem is that our productivity is too low. Try as all of us, and our successors, have done, it remains stubbornly low. Everything



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we do have to be in the context of improving productivity. One of the drivers of our poor productivity is the huge productivity gap between different parts of the country. Devolution, I am sure, will be a big part of resolving that.

This is an aside but, when this crisis is over and the analysis is done of how the UK has performed during the crisis with a very centralised system of Government compared to how some other countries have responded, that might—I do not know what the result of that analysis will be—prove to be a big impetus towards the movement for devolution to our major cities and economic areas.

We need to keep the focus relentlessly on driving productivity because, although it is a techie-sounding word, what productivity actually means is people's living standards. Higher productivity equals higher living standards for all working people. We should facilitate that and facilitate the transition of employment from businesses that have failed during this recession or had their demise accelerated, for example in the retail sector. We should invest in training, employment support and employment markets to help people move into future employment.

Then, as Chancellor, I would want to provide necessary fiscal support to demand in the economy, but I would do that little and often. It is very difficult to see at this stage what the balance of supply and demand is going to be as the economy recovers. I would advise the Chancellor to be prepared to make regular statements and regular adjustments to his position if it is clear that demand is inadequate to support the recovering supply side of the economy.

Q576 Anthony Browne: Can I ask one last question to George? This is a slight change of subject but I think people will be interested to know about it. You were one of the big champions of the new golden era of trade between the UK and China. Circumstances have changed, with not just coronavirus but the clampdown on Hong Kong. There is a new awareness among Government that we need a slightly more sceptical approach towards China as well as concern for Hong Kong. What is your stance now on China? Has your opinion changed?

George Osborne: It has not changed, but it may have been misrepresented. I am not remotely naïve about China. They have an authoritarian system. They suppress human rights. They have caused trouble with the security law in Hong Kong. It is also true that China is the longest continuously existing civilization in the world. It is a sixth of the world's population. It is going to be the world's largest economy, if it is not already, and it will be one of the great superpowers. The central question for the West is how to handle the rising power. It is the classic so-called Thucydides trap. How do you handle that? Issuing a press release is not an answer and just complaining about China is not a solution.



You are then faced with the question of what you do. Do you try to contain China like we did with the Soviet Union? First, China is vastly more connected to the global economy than the Soviet Union and does not impose the immediate military threat that the Soviets did. I do not think the West has anything like the appetite to engage in a serious containment policy of China. For a start, Trump tore up the TPP the moment he came into office. I do not want to mention the B word but Britain left the central European alliance, the EU, that was crucial, with NATO, in defeating the Cold War. If you are sitting in Beijing, it does not look like the West is doing much of a containment job.

Therefore, you have to look at a co-option strategy of bringing China into the global institutions and making it a so-called responsible global citizen, but doing it in such a way that, if it does not behave like that, there is a clear consequence. The thing this Government have done that I completely support is the offer to the Hong Kong Chinese citizens, the British nationals. There was a missed opportunity by the Conservative Government in the 1990s in the first place and I cannot think of many things that would do more for our economic recovery than having a load of highly skilled, very diligent and very committed Hong Kong Chinese people come and help us grow our economy again.

Anthony Browne: That is definitely true. Thank you all very much.

Q577 **Rushanara Ali:** Good afternoon. It is a pleasure to have you all in this Committee. I want to start off with a question about your own individual legacies, as an opportunity for you to set us all straight. Does each of you feel you did enough to invest in our healthcare system, and primary care and social care, on your watch in order to prepare us and make our healthcare and care system resilient enough to cope with this crisis?

Lord Darling of Roulanish: I am hesitant about writing my own obituary. I will let other people do that. Alternatively, you can buy my book, which is still on sale from all good booksellers, if you would like to.

On the health service, I would just make this point. Successive Governments have spent a lot of money on the health service. We spent a lot of money on it. We increased taxation specifically to do it. Gordon Brown did that at the beginning of this century. All of us, in one way or another, always put off the day when, as we know full well, because of demographic change, the bill for the NHS will go up, and it will go up again. None of us has solved the care problem, which of course is an adjunct to the health service.

After this, people will say, "Never again will we get a situation where it becomes so obvious that the thing is being funded just in time". There has to be resilience. We cannot have a situation where there is no protection equipment or where we cannot do testing. We would not be having this discussion if we were sitting in Korea or maybe Germany at this stage. They were just better prepared. It is a point George made



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earlier, in that perhaps people will realise that there are some things that Governments can do that we as individuals cannot do.

Rather than go back over who did what and who might have done more over the last 20 or 30 years, we should ask ourselves where we are just now. I am sorry to add to the bill that we have been mounting up this afternoon, but the health service is another area where the Government will have to spend some money, and staff as well, of course.

Q578 Rushanara Ali: George, the Health Committee witnesses warned in 2011 that the Lansley reforms were going to be a big diversion in terms of preparedness for when a pandemic strikes. Professor Pickles was documented recently in her prescient warnings and about £800 million has been taken out of support to local authorities in dealing with healthcare in recent years. Do you think that was a mistake with the benefit of hindsight in terms of the recent years on your watch and your successor's watch?

George Osborne: Obviously, we are still in the middle of this pandemic. Our NHS has not been overwhelmed. The central fear we had in March was that Britain would face the situation that was faced in Northern Italy, where people would present to the hospital, want an intensive care bed or a ventilator and not get it because the NHS could not cope and there were not enough beds or ventilators. That was the big central fear. That big fear has not happened. Sometimes in politics you have to spot the absence of war and the argument we are not having. I will come on to care homes, but the fact that we are not talking about the NHS being overwhelmed is an enormous credit to the people who run the NHS.

By the way, all the pandemic planning I saw, which was pandemic planning for a flu rather than a coronavirus—maybe there was an error there that the world made—assumed that you could rapidly ramp up NHS capacity, and those Nightingale hospitals are examples of that. Obviously, there will be questions about the Government and how quickly they went into the lockdown and so on, but where Britain has fallen down compared to some other countries, like Germany, is in the structure of our NHS. It is a very centralised bureaucracy. Other countries have a much more regional approach to it.

Q579 Rushanara Ali: With respect, my question was about whether each of you, on your watch, could have done more to build resilience in our NHS and care system. As Alistair and you have already mentioned, we need to look at what we do going forward, what we can learn and what our current Treasury can do building on your achievements. What needs to be improved?

George Osborne: The NHS is too centralised. When we do the inquiries into what happened on testing and PPE, it will not be just because some Health Minister did not put a call in to some company in China to get some PPE; it is because we were too slow in the procurement and too centralised. We should take a leaf out of what has happened in



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Manchester, which is the one part of England where the NHS is devolved. Of all the agencies I came across in Government, it is the most centralised and, by the way, the most difficult to penetrate for the elected Government of the day.

None of us solved the care home crisis for a very simple reason. There are two ways to pay for better care in our country. You can take the assets that people have, i.e. their home, and get them to sell their home and pay for care, which is very politically painful to do, or you can increase general taxation and provide a national care service, which would be very expensive to do. It may be the right solution but then you have to make your argument for another couple of pence on income tax to pay for it. Those are the two options.

Philip Hammond: The problem about resilience is that it is easy to say after an event, "We should have had more resilience against this event". We are all talking about ventilators and whether we had enough ventilators. If it had been a different type of virus, it would not have been ventilators we needed but something else. It is not just about budgets; it is about the way in which you manage resilience. We have a national risk register that lists literally hundreds of risks that the country is facing and is regularly reviewed to ensure we have a proper approach to resilience.

There is a balance. We would equally be mocked, and Governments regularly are mocked, if we stockpiled large amounts of stuff that never got used, got to the end of its life and had to be destroyed. We clearly did not get it right in relation to resilience around PPE and ventilators, but hindsight is a wonderful thing and I have no doubt at all that the process in the Cabinet Office of looking at how we manage resilience will be reviewed afterwards.

I want to say something about the NHS budget. We put a very large amount of additional money into the NHS in 2018. Of course, there were plenty of people around saying, "Thank you very much but we need much more". There is a capacity in the NHS and you can expand it, but you need to expand it with care. If you just pour money into the top of a system like the NHS, you risk creating sector-specific inflation where you do not get more healthcare but you just get better and more profitable drug companies. I do not think that is what we want to do. We want to expand the system carefully and methodically.

Q580 **Rushanara Ali:** Some would argue it should have been done over the decade, not towards the end after considerable pressure. I just want to get on to the point about the exit strategy. Others have touched on it. You have all highlighted the interdependence between health and getting the economy kick-started. Building on what you have already said, what else do our Treasury and other bits of Government need to do to organise themselves so that the exit strategy does not, in effect, mean a trade-off here in the UK? Given the international nature of this pandemic as well as the markets, what can we learn from the financial crisis, the



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infrastructure that was set up and the global co-operation that existed? Many would argue that that is missing at the moment and that global leadership is lacking while this pandemic and this crisis needs it more than ever before. Can you reflect on those issues and concerns?

Philip Hammond: Business needs guidance from the Government about how we reactivate the economy. What are the assumptions we have to make? Are we living with COVID? Do we have to rebuild our infrastructure around the two-metre separation distance? Is that really sustainable? Is there really a scientific base for two metres? For example, redesigning office space around a standard of one metre or 1.5 metres would be a radically different proposition from redesigning it around two metres. I do not have access to the scientific advice so I do not know if we have really tested whether we can make that more user-friendly without unacceptably compromising the health position.

Q581 **Rushanara Ali:** Alistair, do you have any reflections on the international side?

Lord Darling of Roulanish: The international co-operation that we had in 2009 was essential in getting the global economy working again, especially for a country like ours, which is a trading country. You had Communist China, Republican-led United States and other countries in the G20 all meeting in Washington at that time, and in London, of course, in 2009. It made a massive difference. Unfortunately, as you well know, the two biggest economies are barely speaking to each other at the moment and the G20, which is not perfect but happens to exist, is not able to function. Yes, it is important.

Equally, if you are dealing with something like a pandemic, by its very nature it does not stop at political boundaries. If only there had been more co-operation when this thing first started, perhaps we would have started our lockdown a lot earlier. We will certainly need to work together to look at what we might do in the future, because the chances are that the next pandemic will be different. Co-operation is critical.

Q582 **Rushanara Ali:** George, you have touched on a number of social consequences. Earlier on you mentioned social consequences. We see what is happening in the US. We see the inequalities in our own country and the effects on poorer people, frontline workers, and black and Asian people, as well as the differential death rates. In our exit strategy, do you think we should be investing more in those groups that need to be employed, so we do not have these radical imbalances that are exacerbated on top of what they have faced over the last decade? For instance, a million young people are unlikely to be employed. Should there be a job guarantee or some sort of intermediate labour market as was introduced during the financial crisis to help young people? The risk is civil unrest if we do not make sure we give hope to those who are likely to face unemployment.

Chair: I am sorry to interject. George, can you give a very short answer



to this? I am just aware of the number of people still to come in.

George Osborne: I certainly think that we should have a very comprehensive job programme. In this country and elsewhere, there will be an ongoing battle, which this crisis has accentuated and not removed, between those who essentially want a more progressive approach, with Government getting involved and helping people, and a big role for the private sector, and those who want to close borders or whatever. This crisis has given both fuel for their causes.

Q583 **Ms Eagle:** I want to ask this one initially to Alistair. Demand is going to stagnate if there is no global recovery. In fact, COVID-19 is echoing round the world at different levels, and may persist in places and keep coming back. Therefore, it will have a huge effect on global trade. In fact, I think the IMF is predicting a 3% fall in global GDP, which is unheard of in our lifetimes. What do you think we should be doing? You began to answer this but how can we use the international institutions to try to pull a global response together?

Lord Darling of Roulanish: This is difficult because, if America and China—the two largest economies—are not there, you are always going to make pretty limited progress. I would look at it in a slightly different way. The key thing to concentrate on at the moment is what we need to do to open up our economy. The key for that is to get a testing system that actually works. We are a long way off that just now. The only people being tested are people who report in thinking they might have had COVID. Most of us do not know whether we have had it, because for a lot of us the symptoms just are not there.

If people in this country had the confidence to go out and do all the things they wanted to do, it would be great and, internationally, it would also help people say, "Yes, the UK is okay to go to". We have this debate just now about quarantining people coming off aeroplanes, which might have been a great idea three months ago but I am not convinced at the moment.

We have both been in Government and you will know that Governments find it difficult to concentrate on more than two or three big things at one time. If I was in not No. 11 but No. 10, I would concentrate on everything I was doing to make sure that we have a testing system that can be up there with the best of them. At the moment, we are not there. That is where we should be putting our effort at the moment.

Obviously, we can contribute to and continue to call for international co-operation. Who knows? Countries may eventually see that we all live on the same planet and we need to co-operate with each other. I fear that, at the moment, as George was alluding to just now, those who take a more protectionist approach are in the ascendency.

Q584 **Ms Eagle:** You are cheering me up, Alistair. I wonder whether you also think that countries like Germany did so much better because they had



their own quite large manufacturing base. On the PPE issue, they could generate and manufacture machines, whereas our manufacturing sector is too small to respond. For example, although we manufacture vaccines in the UK, we do not have companies that we own that we can direct. We do not have a manufacturing base to deal with some of the deglobalisation that might be happening as a result of protectionism. Is there something we should be doing to make ourselves more resilient as a country in the build-back of that strategic nature?

Lord Darling of Roulanish: I have three quick points. This is an argument that has been going on since the end of Second World War when, arguably, we were very lackadaisical about the fact that we needed to rebuild our industries whereas countries like Germany and Japan obviously had to do it and they did it very well. Our economy has been predicated on us having access to markets to import from and export to throughout the world, which is why we took a relaxed view about the fact that the stuff that we needed here or its component parts were made on the other side of the world. That is the world in which we live.

We will have to look at our resilience and our ability to do things, but you will never get to a situation—and I am not sure you would want to get to a situation—where we said, “Look, we are going to build and make just about everything we need in our country, and we are not going to have to engage with anybody else”. If everybody takes that attitude, the world will be the poorer for it. As you well know, there is lots of literature on all that.

Ms Eagle: I do not think I was advertising autarky. A little more balance would be helpful.

Lord Darling of Roulanish: I understand the point you are making, which is why I said right at the outset that I do not think we should be indifferent to what our economic infrastructure looks like at the end of this. We should be careful about the fact that you cannot always rely on being able to get essential things at times like this. I agree with you there but I was just cautioning against—I know you would not do this—the people who believe that we can shut ourselves off from the rest of the world or our big markets. That is perhaps going into another argument.

Q585 **Ms Eagle:** Yes, I agree. George Osborne, you earlier said, “Do not let us waste a crisis”. Given the interrelationship now between companies and the Treasury of a quite unexpected proportion, are there opportunities the Government could strategically take to put us in a better place to face the future? In other words, do we need to rebalance and ensure we devolve decision-making to the regions? Can we come up with a concept of inclusive growth that makes us a more robust, more resilient and fairer country going forward?

George Osborne: There was a debate before this crisis about the responsibility that companies had beyond that to their bottom line and



their shareholders. It was summarised as ESG. There was a big debate, which, by the way, we need to get back to as a world, about the environment. The S and the G were less defined. If anything, the tragic death of George Floyd and all of that has reminded people that companies also have obligations towards inclusion and their communities, and so on. This will turbocharge all of that, which was already in train.

When it comes to rebalancing, the private sector will follow where the Government lead. I came to this late when I was in Government during the last couple of years that I was Chancellor. The desire to run everything, particularly in the Treasury but more broadly in the Government, is a mistake. We need to understand, coming back to the theme, that one of the reasons Germany may have done better is that, in all sorts of ways, it is a more regional system, including in healthcare.

We could take a big bet here on our regions being better at running things with elected mayors, transport authorities, economic decision-making and planning control. With all those things, we could take a really big step forward and, by the way, not do the reverse, which I see here in London. We can get into an argument about why Transport for London needed to be bailed out, but I am not sure the answer is for the Government to start running London transport policy again.

Q586 Ms Eagle: Philip Hammond, do you think there is an opportunity in not wasting the crisis, which, if we do not respond quickly and we are not lucky, might not be a recession but a depression? Do you think we ought to see if we can guide investment so that we make it more environmentally sustainable, for example, we reach our carbon neutral targets and we guide companies to the areas that we want them to innovate in? I suppose it is very much like the Mariana Mazzucato approach to things where you can try to get the right kind of incentives for innovation and build back better, as I think the phrase is.

Philip Hammond: Investment is already heading in a greener direction for all sorts of reasons, and a major one is pressure from investors themselves. Companies are finding that the people investing in them are increasingly interested in the companies' investment strategies to ensure that they align with their own.

Of course, we should encourage investment in innovation, but there is a very big gap between creating an environment that is conducive to investment in innovation and the Government telling people what they should innovate in. Frankly, I am not at all convinced that UK Governments of any colour would be very good at that. It is about creating the environment for investment, and using this crisis to remind ourselves of the relentless need to focus on productivity improvement, because that is the way to improve living standards, competitiveness and our economic growth.

As you rightly said at the beginning, the UK is probably more vulnerable than any other large economy to the trends in global trade. The situation



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there looks rather depressing at the moment. There were headwinds to global trade as we went into this crisis. There are real risks that the sort of protectionist instincts that the crisis has aroused will lead to even more problems in the very near future. The UK needs to be a flagbearer for the principle of free trade because, for decades, we have been used to rallying behind the US as the champion of free trade and we can no longer rely on the US to make that argument in international fora.

Q587 Harriett Baldwin: I am going to start by asking Philip a question, as you were the most recent in post, about monetary policy. Some are arguing that, de facto, the Bank of England is engaging in monetary financing at the moment. Do you think there are any significant concerns about the Bank's monetary independence?

Philip Hammond: I do not see concerns about the independence of the Bank of England. As you know, the Bank of England is fiercely protective of its independence. This is a delicate balancing act. Because fiscal and monetary policy interact, as they do, there clearly has to be a sensible level of co-ordination between Chancellors and Governors of the Bank of England. I do not think that compromises independence but it is clearly important that we do not have monetary and fiscal policy pulling in opposite directions as, for example, we have arguably seen in the US within the last few years.

If we are trying to deal with a problem, we need to be using fiscal and monetary policy tools in a way that is complementary. No, I do not have a fear about Bank of England independence.

Q588 Harriett Baldwin: This question is for Alistair in terms of the ways and means facility, which I know you had to use during the financial crisis. Do you have any issues or concerns about the Treasury using the ways and means facility this year?

Lord Darling of Roulanish: Not at the moment, no. I should explain that normally, if the Government want to borrow money, they will do it by issuing bonds and they do that through the very efficient Debt Management Office, but you cannot do that overnight. If you need money short term, you need to get it, and that is what you use your central bank for. As long as you repay it in a reasonable time, it is discharging the function that it was. That is what we did 10 years ago.

Where it becomes a problem is where a country effectively prints money for you because, in the long term, that will have a detrimental effect. I am not concerned about it just now. It seems to be a very sensible thing to do because the Government will have to spend money at short notice and they obviously need to get it. Like Philip, I am not concerned about the perception of the Bank of England's independence, although I would say that one of the Bank's statutory duties is to support the Government's economic policy. That has been there since we made it independent in 1998. Using the ways and means facility is perfectly



sensible, and both the Government and the Bank have said they expect this to be temporary.

Q589 Harriett Baldwin: George, we heard from the Bank of England at the last session that, if it felt it needed to target its inflation target, it would allow an auction to fail and it was not its responsibility to stop an auction failing. Do you think in reality that the Government would allow that level of independence from the Bank with debt over 100% of GDP?

George Osborne: I am with my former colleagues in that I do not think there is anything to particularly worry about at the moment. In many ways, British central banking independence has grown up. When the Bank was made independent by Alistair's Government, understandably the Bank wanted to really prove it was independent and it had a very formal relationship with the Treasury and with Chancellors. Then, with recent Governors, that has become more informal. I saw that happen in my own relationship with Mervyn King and then with Mark Carney, and now you have the very excellent Andrew Bailey. As the Bank itself has become more confident about its independence, it has not had to stand on ceremony, and that is very healthy.

There is one question that your question implies: what happens when a Government start to depend on the central bank as their source of financing? That is not in an emergency, as with quantitative easing over the last 10 years, which Alistair started and I continued, or what the Bank is doing now around yield curve controls. Let us imagine a world in three or four years' time where there is no attempt to bring the public finances back into order, but there is just an assumption by whoever is in Government that the Bank will always buy their debt, so they do not have to worry about their international credibility and whether their bond auctions fail or succeed. That is where you potentially get a risk.

This is not by any means specific to this country—I think we have more credible institutions here than others—but central banking is changing. We are moving away from a world of the academic institution on the hill that set the inflation target, and that was it, into a world where it was already deeply enmeshed in the banking system, because of the financial crisis, and is now enmeshed in the financing of many Governments in the West. Institutions, protocols and parliamentary scrutiny will have to change to catch up and keep pace with it.

Q590 Harriett Baldwin: Can I cast your mind back to when you changed the remit for the Bank in 2013 and made it easier for it to temporarily prioritise growth over inflation in exceptional circumstances? Clearly, everyone would agree that we are in exceptional circumstances at the moment. Can you recall if that change was initiated by the Bank at the time?

George Osborne: I am happy to write later if my memories fail me, but it came out of a discussion after a period of quite high inflation. In fact, it was one of the toughest times I had as Chancellor, which is a reminder of



a world of inflation that we thought we had left behind a very long time ago. My toughest years as Chancellor were when inflation rocketed, driven by a very high increase in the oil price. The Bank, quite sensibly at the time—and this was the independent judgment of the MPC—looked through the inflation target and did not raise rates at a time when that would have been terrible for an economy just coming out of the financial crash.

The remit was partly a reflection of what was already happening and partly a reflection, from memory, that the Bank was taking on responsibilities for the financial system. Obviously, one way to regulate a financial system so that it never fails is not to have one, but you also had to have a financial system that was driving credit into the economy in the way we have just discussed during this session.

Q591 Harriett Baldwin: It sounds as though that was probably initiated by you, former Chancellor, but I would appreciate if you could follow up with a letter. I want to move on to Alistair, because his perspective is that of the longest ago in post. Do you think, now we have institutions that are robust enough, that there would be an outcry if a future Chancellor were to change the Bank of England's inflation target for politically expedient reasons?

Lord Darling of Roulanish: It depends on the circumstances you are talking about. All three of us have said that we have had to deal with different economic circumstances. There has always been a debate about whether the central bank should be targeting growth as opposed to inflation. Naturally, when inflation is at rock bottom, that is a live debate. The independence of the central bank is important.

Q592 Harriett Baldwin: Of course, you heard what the Governor said at the last session about not ruling out negative rates. If negative rates were on the table, is that something that you would see them engaging with the Chancellor on or would that be something they would do completely independent of Government?

Lord Darling of Roulanish: The Bank has the power to fix rates, but it is inconceivable that Andrew Bailey and the Chancellor would not sit down to discuss the implications of that.

Q593 Harriett Baldwin: If they did it, would you support it?

Lord Darling of Roulanish: I have some difficulty in that I am just wondering what the effect would be on banks. Then there is the political problem. Are you going to exempt savers? If a pensioner has some money in the bank, will they have a negative rate?

Q594 Harriett Baldwin: That does not sound like strong support for it. Philip, would you support it?

Philip Hammond: This must be a decision for the Bank of England. As a Chancellor in office, you have to be very careful to protect the



independence of the Bank of England. Commenting on monetary policy decisions, implicitly criticising or supporting a decision of the Bank of England, is not appropriate. I hope I did this; I always intended to be strictly neutral. When the Bank made a pronouncement of any kind in its area of responsibility, it was for me simply to note that this is an area for the Bank to make decisions within the remit that the Government have given it.

Q595 Alison Thewliss: I have some questions on the area that you were hoping to avoid. I want to ask about Brexit and the impact that the coronavirus will have on that. First, I would like to ask Philip Hammond about the impact of the coronavirus outbreak on the cost of the UK leaving the EU transition period without a deal relative to the status quo because of the impact on the way that trade flows. Are there any comments on that?

Philip Hammond: It is no secret that I have always been a strong advocate of the UK having the closest possible trade relationship with the European Union. That is not out of any kind of sentimentality; it is out of an observation that, for better or worse, over 45 years our economy has shaped itself around a close trading relationship with the European Union and complex interconnected supply chains.

My observation would be that, in the second half of this year, hopefully, the UK economy is going to be recovering from an extremely painful economic shock. We are going to have that in common with many of our competitor economies. To place ourselves at a disadvantage by then having a second shock later this year would not be helpful. I am very supportive of the Government's stated objective of getting a good trade deal done with the European Union, but there are some real, practical challenges around bandwidth and the inability to travel.

I wonder whether it might be possible for the Government to agree at least a temporary trade deal with the European Union that is perhaps not satisfactory to them in the long-term but would allow us at least more time to negotiate the full-scale trade deal. Respecting the fact that the Government have made a clear political decision that they are not prepared to extend the transition, there has to be a way of avoiding placing an additional challenge for the recovering UK economy later this year.

Q596 Alison Thewliss: Would it be your feeling that the UK does not have the capacity at the moment to negotiate that trade deal and to do all the things that it needs to do before the end of the year?

Philip Hammond: It is not just the UK. Obviously, the Government here have as their number one priority the management of the coronavirus crisis. Governments across Europe are in the same place. The EU itself is facing quite a lot of internal challenges partly as a result of the coronavirus crisis and partly as a result of the German Constitutional Court. This is not the ideal environment to try to reach a long-term deal



that will shape the relationship between the UK and its most important trading partner for decades to come. If there is a way of doing something quick and dirty, a simple arrangement that might not suit either party as a long-term settlement but that is an acceptable temporary stopgap, that may be the best way forward.

Q597 Alison Thewliss: Do you think it would be simpler to extend the transition period?

Philip Hammond: The Government have ruled that out as a matter of policy. Rather than bang on a closed door, I would suggest another way forward. If it is not possible to get an all-singing, all-dancing deal done over the next few months, I would urge the Government to think about some kind of interim trade deal, which at least avoids a second shock to the economy later this year.

Q598 Alison Thewliss: What do you feel the best outcome for the financial sector would be post-Brexit?

Philip Hammond: The best realistic outcome is an expanded equivalence regime. It is possible to negotiate such an arrangement but only in the context of a broader deal that feels like it works for both sides. If we are looking at a minimalist trade deal in general terms, it will be very difficult to then get a financial services deal that really underpins and protects our financial services industry's trade with the European Union.

Q599 Alison Thewliss: Can I expand this out to Mr Osborne? Scenarios were produced about the impact of the UK leaving the EU. All of these scenarios are now drowned out by the impact of coronavirus. Do you think it is important that the Government know the impact of the UK leaving the EU in these circumstances?

George Osborne: Yes is the short answer. When I was Chancellor, I produced some forecasts, which was pretty controversial at the time because it was before the referendum, including a medium-term forecast of the impact on the UK of leaving the EU, and what would happen with different types of future arrangements, like a free trade deal, EFTA or whatever. I could not help but notice a couple of years later when a Government now committed to Brexit produced a similar analysis that came up with a very similar result. Indeed, everyone who has looked internationally at the British economy has concluded that we have already lost around 2.5% GDP over what we would have had, if we had not taken the choice we had.

We have made that choice but there is no point in not commissioning the analysis. You can commission the analysis and, by the way, choose some very good other reasons. Maybe you want to take back control of parliamentary sovereignty, for example, and weigh that against the economic costs. Those are perfectly reasonable things to do. Although I might not support them, they are reasonable political judgments. But do it with the analysis in front of you.



Q600 **Alison Thewliss:** Would you think that an extension to the transition period or something else is wise or sensible in the circumstances?

George Osborne: I will tell you what I think will happen. I do not know if that answers your question. I think they will have a deal but it will just be a deal to go on dealing. Neither side wants to go off a cliff, not least because of what has happened with COVID. Both sides have revealed, including this current British Government and current British Prime Minister, that they do not want to take the economy off a cliff. This was pre the recession we are now in. I think by the end of year we will end up with something that is called a trade agreement but is actually just an agreement to go on talking about this sector, that sector and whatever. I am more optimistic than quite a few people that we will avoid that cliff edge.

Q601 **Alison Thewliss:** Lastly, to Alistair Darling, a new study from the Scottish Government out today says that without an extension Scottish GDP could be up to 1.1% lower after two years. I wonder what your thoughts would be about an extension or a deal, and what the Government would do if you were in charge of this scenario.

Lord Darling of Roulanish: I largely agree with what George and Philip have said. You know my view. I think it was a profound mistake but I accept the result of the referendum and we just have to move on from there. No deal would be absolutely disastrous. With everything we are going through with COVID, you would have to be mad to want to end up with a situation where you erect huge trade barriers and tariffs just at the time when you are hoping your economy might begin to recover.

My experience is that, if you can get some sort of deal that is acceptable, the EU will do it. George Osborne's suggestion there that perhaps the deal will be a deal to carry on talking cannot be ruled out, but I cannot get into the mind of the Prime Minister so I have no idea where he will end up. I cannot believe that he actually wants to take the risk because people will notice it.

As for the loss to GDP, yes, as you know, there are lots of estimates there. Of course it will have an effect on the whole UK, Scotland included. If they can reach a good deal, that is good and well, but my guess is that it will be the sort of deal—I lived through a lot of them in my time when I dealt with the European Union—where everybody says, "Isn't this great?", but it means you are coming back to the table the next week to carry on talking. However, talking is better than breaking off relations.

Q602 **Alison Thewliss:** Yes. You talked earlier about international co-operation being particularly important. Do you think that the coronavirus will have an impact on the trade deals that the UK can make during this period?

Lord Darling of Roulanish: I am not so sure about that because international trade deals tend to take years to put together. A frequently cited example is the one we have with Canada at the moment, which



took the best part of seven years to negotiate. Hopefully the virus will be under control long before then.

The biggest concern with trade deals is that countries will look at us and say, "They need to do a deal and we will take as long as it takes". On the other hand, from the United States, for example, you may see one of these breakthrough deals that are not quite what they seem but you live to fight another day. I do not think the virus will affect them so much. The virus will have an economic effect on us. We have broken a big trade deal and are seeking to replace it with an awful lot of others with an awful lot of discussions to take place. It will take some time and cause harm to us. Naturally, in the near term, nobody can fly to meet anyone else. Despite the wonders of Zoom, I do not think it is great for negotiating trade deals.

Q603 Mr Baker: Thank you all very much indeed for coming. It is a real privilege to have you here. I would like to take advantage of your considerable expertise by asking you about the machinery of government and how some of these decisions are taken as we go through recovering from this COVID crisis. How important do you think it is that the Treasury maintains a degree of independence from No. 10?

Lord Darling of Roulanish: On a broader point, yes, I do think that the Treasury and the Prime Minister's office have two separate functions. The Prime Minister is the first among equals. It is not a presidential system. I have worked with two Prime Ministers and I understand the frustration that they sometimes have that the No. 10 office is very small and that the Cabinet Office is a gather-up place for lots of other functions in the Government. They sometimes feel that they do not know what is going on in the Treasury or in other places as well.

At the end of the day, if the Chancellor does not like what is going on in the Treasury, he has the ultimate power to hire and fire. The idea that you can have the Chancellor of the Exchequer as the equivalent of a paid-up civil servant just to do what No. 10 wants is not how our constitution works, and it should not try to work that way. Ministers are accountable to Parliament. All Governments are healthier if there is constructive tension there and robust discussions between colleagues. It reflects well on the Prime Minister. This is not a presidential system. All these analogies to how other Governments work are wholly inappropriate.

The other thing that is relatively unusual—I am sure George and Philip have noticed this—is that many Finance Ministers in Europe are not elected. They are there to serve the Prime Minister. I remember one of them asking me, "How can you take decisions if you have to think of the voters?" I would say, "How on earth could you take decisions if you do not?"

Q604 Mr Baker: I must just press you on the characterisation you used there. Are you really suggesting that the present Chancellor is there as a paid-up civil servant to do the bidding of No. 10? That seemed to be the



implication of what you said.

Lord Darling of Roulanish: No, I was not saying that. For the avoidance of doubt, I think the present Chancellor has been doing a very good job in the time he has been appointed. I suppose my remarks were more prompted by the events of the last week, where you have a special adviser to the Prime Minister—because that is all he is; at least, that is supposed to be all he is—and the idea that all the other special advisers, including all the ones in the Treasury, would be subservient to him. That is really what I was getting at.

Q605 **Mr Baker:** That is a relief, because I think the present Chancellor is doing a fantastic job too. George, could I turn to you? You had a famously close relationship with David Cameron. What is your reflection on the need for a degree of independence at the Treasury?

George Osborne: It is good to see you, Steve, by the way.

Mr Baker: You too.

George Osborne: Prime Ministers are stronger themselves when they are more comfortable with a semi-independent Treasury and a strong Chancellor alongside it. Margaret Thatcher was at her best when she had a pretty independently minded Nigel Lawson doing a lot of the great Thatcher reforms. The most successful period of the Blair Government was when Tony Blair and Gordon Brown were working well together in those first few years. As for the Cameron Government, you will have to ask him but I think he was able to do the things he wanted to because he was the First Lord of the Treasury, but he did not have to constantly prove it, as he knew he had a Chancellor who respected that but was also getting on and delivering on the agenda. Prime Ministers who are anti-Treasury come a cropper, not that I can think of anyone.

Q606 **Mr Baker:** Would you have accepted a common pool of advisers when you were Chancellor of the Exchequer?

George Osborne: I thought Sajid Javid was placed in an impossible situation, frankly. As far as I can see, no one expected him to resign and it was a big cock-up. My advisers were actually also advisers to the Prime Minister. That is when it really works well. You want a bit of tension. Ultimately, the Treasury is often the Department in the room that has to say no. It has to say, "Unfortunately, we cannot afford that". Sometimes that is a lonely function.

Sometimes the Prime Minister's job is to overrule the Chancellor. Chancellors need to accept that they are, to Alistair's point, part of a team and sometimes there is a broader judgment for the Government: "Actually, we do need to spend this money" or, "This audacious tax rise that the Chancellor has proposed is going to hole the Government below the waterline". Indeed, Chancellors should pay close attention to their Chief Whips as well.



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It is about everyone understanding their role in the system. Obviously, politics is also about personality and it does not always work out like that. Rishi Sunak is manoeuvring what is, to be honest, quite a complicated situation and relationship by getting on, doing the job well and coming up with the ideas.

Q607 **Mr Baker:** Philip, you were nodding along in agreement at the idea of the lonely task of the Treasury to say no. Would you like to elaborate on that point? In particular, I am wondering whether the Treasury might have lost something on that point by becoming a bit closer to No. 10.

Philip Hammond: I agree with what George has said and Alistair's point that there needs to be some tension between No. 10 and No. 11. A Prime Minister does not need a bunch of yes men or yes women around him. He needs people who will challenge him and put the counterarguments. As George has said, and as he said to me many times when he was Chancellor, you do all this never forgetting who is actually the boss. In the end, once you have said your bit, presented your arguments and made your case, if you are overruled by the Prime Minister, the Prime Minister is the Prime Minister and the Prime Minister's view prevails.

If No. 10 and No. 11 are too close together, it will not be possible for the Chancellor to even make those coherent arguments. Prime Ministers and Chancellors come at issues from different perspectives. Prime Ministers are often very focused on the public view of the Government and the delivery of overall strategic objectives. Chancellors are often focused on the warning bells ringing in their own cellar. Keeping enough distance to be able to provide strong independent advice and then acquiescing if, having done it, you are overruled is the right relationship between Prime Minister and Chancellor.

Alistair mentioned the very small size of the Prime Minister's office at the centre of Government. I think all Prime Ministers look at the Treasury as part of the centre of Government and see disproportionate muscle: too many people in the Treasury compared to the number of people in the Prime Minister's office and Cabinet Office team. That sometimes provokes a reaction, but the Treasury is a tool to be used by the centre of Government in delivering the policy objectives and doing them in a sustainable way.

Q608 **Mr Baker:** Would you have tweeted support for the Prime Minister's chief adviser when he was in the difficulty he was in? Was that something that surprised you or could you imagine yourselves doing it as Chancellor? Perhaps I could start with Alistair since you are most distant from this.

Lord Darling of Roulanish: I am all right because I certainly would not have been sending out a tweet. Apart from a few short months in the Scottish referendum campaign, I have never knowingly tweeted.

Q609 **Mr Baker:** George, you tweet. I have seen you. I follow you and you follow me. We have occasionally perhaps needled each other. Would you



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have tweeted support for the chief adviser as Rishi did?

George Osborne: We had some success helping Rob Halfon vote over the last 24 hours thanks to Twitter. I would have said it is a bloody stupid idea to get us all to tweet, because it is just going to reveal what a crisis we have in the middle of the Government. If you all suddenly issue all these tweets about the Prime Minister's special adviser, it tells you one thing, which is that the special adviser is clinging on.

Mr Baker: Since we are running out of time, Philip, I will not put you on the spot unless you want to leap in.

Philip Hammond: When I see lots of tweets from Ministers that all say the same thing, I can easily envisage that there was an earlier tweet from the Chief Whip suggesting how Ministers might want to tweet.

Mr Baker: Indeed. Thank you very much, all of you. It has been a pleasure and I very much appreciate it. We have all finished smiling, so that is a good forward step.

Q610 **Mike Hill:** Thanks, everybody, for coming. It has been an interesting session for me. I would like to touch on the future prospects for the UK. The COVID crisis has thrown up a lot of conundrums. Rushanara touched on child poverty. There are issues of mental health and stress. There are environmental issues. George, you said that there is a real apartheid in this country around education and access to equipment. All of that is in the mix. Some countries—in particular Iceland, which we have been looking at, New Zealand and Scotland—have begun to develop wellbeing budgets to incorporate wellbeing as well as economic growth.

I would like to ask a general question, starting with Philip. Given the focus on mortality rates, because of COVID, is it time for the Treasury now to focus on a wider set of measures of welfare rather than just economic growth? If so, would it be difficult to wean the Treasury off traditional measures of economic growth and how can that be done?

Philip Hammond: The Treasury does not look only at economic growth. It is interesting you mention Iceland and New Zealand, both countries with significantly higher GDP per capita than we have in the UK. Continuing to grow your GDP per capita ad infinitum is perhaps not in everybody's interest or anybody's interest. But there will be an awful lot of people in this country who feel that, at present levels of income, they need this economy to be growing, they need to see a path to raising their earnings and standards of living, and they need to see their children having better prospects than they have.

It is a luxury that we should definitely aspire to, but I fear we may not be there yet, to be willing to sacrifice some economic growth in order to achieve some other good. I would be wary of letting the system off being accountable for delivering on the objective we have set it. I am sorry to be repetitive but, at the very end of this session, the clear objective of the Treasury and the economic part of Government should be to raise productivity so that we have rising living standards in this country.



Q611 **Mike Hill:** Alistair, what is your opinion?

Lord Darling of Roulanish: First, do not knock growth, not least because we do not have much of it at the moment. In fact, there is a distinct lack of it. How much people get paid, whether they are in a job and the availability of products, services and so on impact their general wellbeing. That, I suppose, is the bigger point. I have seen examples of countries setting up a wellbeing fund and a few years ago someone advocated that we should have a happiness index. I was wondering how on earth you could construct an index where everybody was happy and what everybody thought was a good thing.

I spent 13 years in the Cabinet and, frankly, I would rather the Government concentrated on a few things that they did well than start going into areas where I am far from convinced they would make a difference. The more general the aim, the less likely you are to deliver it.

Q612 **Mike Hill:** George, you were behind the northern powerhouse. My constituency, Hartlepool, is part of that and part of the green technology agenda, which is very exciting. We have some social responsibility, haven't we? What is your opinion on this?

George Osborne: We did introduce a general wellbeing index. It came from Bhutan. That was the original idea and I think the ONS does produce it. It is not as airy-fairy as it sounds; it is actually quite a good guide as to how people feel in a country and whether they are optimistic about the future. The Treasury and the rest of the Government very regularly—indeed almost always—will trump economic efficiency with some broader social goal. They will redirect resources around the country to poorer areas. They will help poorer, more disadvantaged people. This pandemic is a great example of not putting GDP first.

Governments exist to take those decisions to intervene in markets and avoid the outcomes that a pure and untrammelled free market, if ever such a thing could be constructed—I am not sure you would ever have a free market with Government setting the rules of the game anyway—would in theory deliver. We already have that kind of thing. Maybe we are not as good as Iceland, Bhutan or New Zealand in that area.

Q613 **Mike Hill:** I have not been to New Zealand but I have been to Iceland and it is beautiful. George, again, what will be the key challenges for nations when low rates of productivity and economic growth are the norm?

George Osborne: The biggest one, as Philip has been quite rightly repeatedly telling us about, is productivity. It is such a boring word. I remember that the Chamber would fall asleep when in one of my Budgets I got on to the productivity section. But it is incredibly important because it drives improvements in living standards, which are ultimately, as Alistair was saying, an important component of many people's happiness. Trying to find ways to make our economies more productive is the essential task and challenge ahead.



Q614 **Mike Hill:** Alistair, during the lockdown there was an increase in remote working and the country had lower rates of air pollution. Is it feasible for the Government to sustain those trends in the medium term given that it also has to stimulate the economy?

Lord Darling of Roulanish: Working habits will change. If people were asked at the beginning of this year, "Can you operate with 90% of your staff not in the office?", they would say, "No, that would be impossible". But a number of businesses are doing that. It is almost certain that over the next few years—maybe not immediately—people will think, "Do I really need to have such a big office?" That trend was starting anyway.

One of the things the lockdown has also shown is that the instinct for us as humans to meet each other and work with each other is pretty strong. A lot of people have said, "Okay, I am not going to the office; I can function doing Zoom meetings and all the rest of it", but you cannot beat the casual conversation when you are making coffee or talking to someone across your desk. The idea that we will all end up just working in our homes, if that was possible, is fanciful.

It is bound to have an effect. Equally, it will occur to people that you do not necessarily have to fly around the world for endless meetings or even travel long distances for meetings, with a knock-on effect to the transport industry, the hotel industry and so forth. Yes, it will have an effect but at this stage it is terribly difficult to be certain about anything. It is an assumption that people make that there will be more remote working at home from time to time, but remember that that in itself can cause difficulties with people with children and so on. We were talking about happiness, wellbeing and so on. Human contact is very much part of that, both in business and at leisure.

Q615 **Mike Hill:** Philip, even before the crisis, UK growth and productivity were sluggish, with the highest annual growth rate since the recession being 2.6% in 2014. Do you expect these growth rates to be the new normal? If not, how can the UK stimulate growth and productivity into the future?

Philip Hammond: It is about productivity. The lower growth rates that we are talking about reflect a lower trend rate of growth, which is a function of our productivity. Unfortunately, one of the things driving the productivity conundrum is the demographics. The population is ageing. The proportion of people in work will decline as the population ages. The response to an ageing population has to be that the working part of the population becomes even more productive, because we essentially have a smaller working population supporting a larger non-working population. We have to focus all our effort on ensuring that we deliver higher productivity.

How do we do that? If we knew the answer to that, we would have solved the problem a long time ago. If we look at the UK's problem compared to many other similar countries, we can identify a few things. We have had very poor levels of intermediate technical education, something we have



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addressed with the introduction of T-levels. We have a very highly centralised system and we would probably all agree during this call that greater devolution is likely to lead to higher productivity.

By the standards of our competitors, we have low levels of private as well as public investment. Chancellors over the last few years have done something about both, trying to stimulate private investment but also increasing public investment in productivity-enhancing infrastructure. There is training. We have a less good track record of training people with employment skills than many of our competitors.

There is also the regional divide and trying to close the gap. Inner west London is the most productive sub-region within the European Union plus the UK, but the UK also has some of the least productive sub-regions within it. Closing that gap between the most productive and the least productive, which is probably bigger in the UK than in any other European country, has to be key. That is why many of the initiatives this Government announced before the crisis around investing in the more deprived parts of the country are part of the solution. They are not just some kind of good works; they are part of the solution to Britain's productivity challenge.

Q616 **Chair:** I would like to end with one very quick question of our three panellists. I would like a one-sentence answer if that is possible. You have all been through moments of crisis when you were in office and, certainly, extreme challenge. There is Rishi Sunak. He is burning the midnight oil. He is in the Treasury seven days a week until midnight, et cetera. What is your one sentence—or maybe two—of advice to the Chancellor today?

Lord Darling of Roulanish: Be your own man.

George Osborne: Do not get frazzled and keep your eye on the long term.

Philip Hammond: Stick to your principles. Recognise that you might have to do some short-term things that challenge them, but in the medium to long term stick to your principles.

Chair: Thank you very much indeed to everybody. I think it was Steve who said it was a privilege to have you all here. That is exactly how I feel about the session today and to see you all interacting with the Committee. I have had a sense of drawing on a fairly deep well of experience and quite a lot of wisdom as well.

What has struck me in these uncertain times—perhaps rather comfortingly—is that there seems to be quite a high level of consensus on the broad principles of how we should both address the short term and emerge in the longer term from this crisis. Can I thank each of you from the whole Committee for having been so incredibly generous with your time? We have really enjoyed you being with us and it has been extremely useful as well. Thank you all very much indeed.