House of Commons

Treasury Committee

Oral evidence: Economic impact of coronavirus, HC 271

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[Watch the meeting]

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Ms Angela Eagle; Siobhain McDonagh; Alison Thewliss.

Questions 617 - 661

Witnesses

I: Torsten Bell, Chief Executive, Resolution Foundation; Paul Johnson, Director, Institute for Fiscal Studies; Dr Gemma Tetlow, Chief Economist, Institute for Government; Giles Wilkes, Senior Fellow, Institute for Government.

Examination of witnesses

Witnesses: Torsten Bell, Paul Johnson, Dr Gemma Tetlow and Giles Wilkes.

Q617 **Chair:** Welcome to the latest of our sessions looking at the economic impact of the coronavirus. I am delighted to be joined by, and welcome to the Committee today, our four expert panellists, and I would ask them to very briefly introduce themselves for the public record.

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

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

Dr Tetlow: Gemma Tetlow, chief economist at the Institute for Government.

Giles Wilkes: Hello, I am Giles Wilkes and I am a senior fellow at the Institute for Government.

Q618 **Chair:** Once again, welcome to the Committee. We are grateful to you for giving us your time. One point that I just want to make at the beginning, and also for those who are viewing, is that we will be suspending the Committee shortly before 11.00 as a mark of respect, for one minute's silence in memory of the life of George Floyd.

Just to explain for the witnesses, we will put our questions to you. We will often—or should, as a matter of approach—direct the question at a particular panellist or a selection of panellists in a particular order. However, if you have not been brought in on a particular question and you really wish to be so, we have a bit of extra time, given the relatively small Committee we have this morning. Do please raise your hand and I will then endeavour to bring you in.

I am going to start with a question; I am going to put my first question to Paul Johnson to begin, and then I will turn to the other panellists. When we look at the support that the Government are providing for the self-employed and those who are employed via the furlough scheme, there are some eye-watering amounts of money that are being put into this, and yet we still know that there are some people who will actually be better off as a consequence of the support measures than they would otherwise have been. We know, and we are just about to publish a report to this effect, that there are many others who have fallen through the gaps and are getting no support at all. Given that, and the cost here, do you believe that the Government could have been more effective in their targeting of these measures, even though they had to be rolled out at speed and considerable scope?

Paul Johnson: You are right that there are a lot of gaps. Some of them are very big: possibly as many as 2 million company owners or managers, around 650,000 self-employed set up since April 2019, around 200,000 self-employed earning more than £50,000 a year, and a bunch of other groups who have been entirely left out of this scheme, as well, of course, as employees who have moved jobs too late, as it were, to be entitled, and indeed a lot of self-employed who have had relatively modest falls in their earnings will have gained. You are right that this is a very broad scheme, and very rough and ready in terms of providing income replacement to very large numbers of people.

There clearly are some ways in which more could have been done. I believe the Scottish Government have done more for self-employed who have set up more recently, for example. One could have offered some more, at least, for some of the higher-earning self-employed and for some of the company owner-managers. Arguably, there might have been some clawback for some people who will get both universal credit in the meanwhile and then a lump from the self-employment scheme later on. There are clearly things that one could have done somewhat differently. It is very difficult to know, sitting outside, quite how difficult that would have been to have rolled out as quickly as the Treasury rolled all of this out. Remember that these were rolled out within a matter of a very small number of weeks right at the beginning of the crisis.

We have not seen much honing them through the crisis. Indeed, even when it comes to the extension of the schemes—the CJRS in particular—it seems there is no capacity to differentiate by sector, so everything is done the same for everybody and there is no change to the structure as time has gone on. To a degree that is understandable, given that this is an entirely new thing for the British state to be doing and for the HMRC to be doing. It is very hard for me to sit in judgment as to what would have been possible, but what they have achieved is a generally generous and very broad-brush approach that has, as you say, resulted in some pretty rough justice. Some people are doing really quite well and some people are being really completely left out.

Q619 **Chair:** I am going to come to Torsten next, but let me just follow up on one point there. You mentioned sectors; you are right that there has not been any sector-specific targeting at this stage, but it is possible that some of these support measures might ultimately go beyond the end of October, depending on what is happening with the economy. What do you see as the challenges associated with zeroing in on particular sectors that would appear to be more worthy, if that is the right word, for support at that moment in time?

Paul Johnson: The key challenge appears to be identifying those firms that are in particular sectors. Certainly, a lot of firms of any size straddle more than one sector; they might straddle retail, hospitality and transport, or what-have-you. They may have people who are working in different sectors, and that is certainly a barrier to it. Nevertheless, it ought to be possible, I would have thought, to identify those firms that have some employees in particular sectors and get them to self-certify how many are in the sectors that are trying to be targeted. After all, this whole scheme is dependent, to a very large extent, on self-certification by employers at the moment. In terms of the additional degree of complexity and self-certification involved in some of that—again, I stress from the outside and not as somebody who has had to try to make one of these things work—in principle it feels like it ought to be possible to get employers to self-certify what sectors their employees that they are trying to furlough are in.

Q620 **Chair:** Torsten, what are your comments? We need to make it a little bit brief. I am going to bring the rest of the panel in, but briefly, if you could.

Torsten Bell: I do not have lots to add. The defining feature of the crisis for households is a big labour market shock that the Government are insuring a lot of the pain of to date. The speed of that shock is also the defining feature. I agree with Paul on the rough justice within the elements of the schemes as they stand. What I would add, which is important and is being under-focused on, is, yes, you have the cliff edges within the existing schemes, but you also have big differences in treatment of people that were, to some degree, lucky enough to be furloughed versus those that actually lost their jobs or had their hours reduced.

There are very big differences in the income replacement rates that people have seen. On average, if you are furloughed you are seeing 90% replacement rates against your previous income. If you have lost your job and you have flown on to universal credit, you are, on average, at half replacement rate, and you will be down to a third if you are a single person. There is a very big amount that applies to hours cut aswell.

Q621 **Chair:** On that specifically, is that a case of it just being too complicated, given how quickly the Government had to move?

Torsten Bell: It is understandable why they did not feel able to do a partial scheme on day one. They should have set out the intention of getting there earlier, and it is welcome that they have brought the start of partial furloughing forward to July rather than August. That is a key element of protecting incomes and supporting the recovery—the key gap in the early first four months of the scheme.

On the sector divisions, all I would say is it is very hard to do sector, and there would be rough justice in sectoral differentiation, but this crisis is inherently a sectoral crisis. That is what is different about it. The sectoral variation is probably six times as high as we saw during the financial crisis, which sounds like a sectoral crisis in the headline but was actually much more evenly spread. Italy already has sectoral variations in its plans for short hours working, and Spain is looking at that. Yes, it would be difficult, but it may well be needed.

Dr Tetlow: I agree with everything that Paul and Torsten have said. To pick up on a couple of things, one thing that does seem to be important is how quickly the Government moved, particularly on the CJRS. That was partly not just when the money started going out the door, but a very early indication that the Government's priority was to try to maintain jobs in this crisis. That seems to have been in contrast to what some other countries had done; they were a bit slower off the mark in suggesting that they would support wage subsidies. If you look at Ireland, for example, they announced their plans later, and that seems to have been associated with an earlier loss of jobs, some of whom have now been rehired since that wage subsidy scheme came in. That early move, and particularly the announcement of an intention, was pretty important. Obviously, you could then ask the question, as Paul did, of whether further tweaks could be made to the scheme as we move through it.

To Torsten's point about covering part-time working or reduced hours as well, it is notable that the UK scheme follows something that is much more akin to what continental European countries have of short-time working or a more extreme version of that, which is only subsidising the wages of workers who are furloughed entirely. That is in contrast to the approach that some other countries took during this crisis, such as Australia, Ireland and Canada, where they are actually paying subsidies for workers' wages, regardless of whether or not those workers are furloughed in any sense. The eligibility criteria is much more about the revenue hit the business has taken, rather than being about, "Are workers working or not?" Other countries managed to take that approach earlier on, and the UK Government chose a different approach, which is much more about workers not working.

Giles Wilkes: I do not have very much to add to that. The suggestion that Gemma made there is one that I have seen suggested by economists elsewhere: that it is not so much the sectoral definition. After all, one retailer might be doing perfectly well and another retailer has zero revenues. It is about the fall in revenues. I imagine if they had absolute perfect foresight and design in advance, they might have wanted something that was attuned to the reported revenue fall that comes from the companies, but otherwise I would emphasise what the others have, which is that it is incredibly important to be effective when it is a crisis this extreme. It is better to be generous than not, and come back later for the ones who might have been unfairly rewarded, but when it is a liquidity crisis, with revenues dropping 90% to 100%, the difference between getting the money now and at the end of the month or the month after is absolutely critical, so they probably made the right call insofar as it was a binary call.

Q622 **Chair:** I am going to move on to loans in a second, but I have just got one gap that I want to raise with you as a panel. Perhaps you could raise your hand if you would like to come in on this, but I only want to take one or two interventions on it. It is in relation to furlough and the way in which those who work through their own companies and take some of their self-employment income by way of dividends do not currently have that dividend income counted when it comes to the calculation of their furlough entitlement. We have raised this with HMRC and the head of HMRC on this Committee, and the reason that the Treasury is giving as to why they are not doing that is that it is too complicated to disentangle self-employment dividends from dividends that may be received from elsewhere.

We just have a feeling on this Committee that there must be some kind of solution to this, maybe paying out and then clawing back later if they find that mistakes have been made, along with some penalties, et cetera. Does anyone on the panel have any comment to make on that, as to whether it is perhaps feasible or otherwise for the Treasury to include self-employment dividend income in calculating furlough entitlement?

Torsten Bell: The first thing to say is that the Treasury's general answer is obviously a true reflection of what tax returns looks like. Dividend income appears in a box, irrespective of the nature of the work and your relationship with the company paying that dividend. That is true, and it is also true that there is a fairness question that comes from treating different dividend income differently, and if they addressed this unfairness they would open up another set of unfairnesses about people saying, "Why are we insuring some dividend reductions but not other dividend reductions in general?" That is the argument they would make.

Is it technically possible? Clearly, if you are prepared to put in place a more complex system. For example, most of the people that you are referring to and you would want to be targeting are taking some earnings from the same company that they are drawing their dividends from, in general. That is the kind of subgroup you are trying to target, so clearly you could have restrictions like that if both those things were visible, provide a cap, but you would need more. You would not be able to run it on the automated basis that we are basically running most of the rest of the scheme through. It is definitely feasible, with a bigger fraud risk and them needing to do more checks from the other side, but you would open up an unfairness, in principle: if these are genuinely dividends not reflecting labour income from past behaviour, then why are you treating them differently to other kinds of dividend income?

Q623 **Chair:** It has been an iterative approach to loans, has it not? We had CBILS, and then we had the larger version of CBILS to plug the stranded middle, and then we had the whole issue around bounce-back loans and 100% guarantees, et cetera. Overall, though, has the Government's approach to loans been broadly right? Where are the continuing weaknesses in that approach?

The second question I have is that clearly, as we come out the other side of this crisis, we are going to have a huge volume of businesses that are saddled up with debt, and they are going to be saddled up with debt at exactly the time that we are looking to them to invest and grow the jobs that we will so desperately need. I am talking here about the small-to-medium-sized companies, rather than the really big ones where the Government can pick and target their support accordingly, but the broad swathe of the businesses that are indebted. What is the solution to that? What is the best approach to ironing out that particular problem? Perhaps I could start with Giles.

Giles Wilkes: My overall impression is that they have done the right thing at quite astonishing speed, given that it has been a long time since we have had a crisis. We have never had a crisis like this before, and they have actually reacted incredibly quickly. The speed with which the CBILS programme got going was criticised at first in comparison to certain European peers, but when you compare it to how its predecessor programme, the Enterprise Finance Guarantee, operated in the wake of the financial crisis, it was astonishingly quick. Although it was not as fast as some of its European competitors, this might be down to structural features that you cannot expect the Treasury to have dealt with very quickly right there. We have a lot of sole traders in our SME system here, and we crucially also do not have direct lending from the state to companies to the degree that other countries seem to do, or they have a big oligopolistic bank. Overall, it is very good.

You used the word "iterative", and it has being very impressive. The Treasury has not treated this as a one-shop game and said, "If you do not like our system you have to adjust". They have been incredibly receptive to comments from the people receiving it and have come back and found new gaps, often surprisingly quickly. As you know, they are quite a small team, so it is quite remarkable that they have been able to operate that soon.

In terms of ongoing issues with grants and loans and so forth, they have a massive problem, because the scheme that you would design if you thought this was going to be a short run crisis—the V-shaped crisis that a lot of people spoke of hopefully at the beginning—would be very different from the one you would want if you thought it was going to go on much longer and see much more structural change in the economy. As time passes, guarantees and subsidised lending from the state can start damaging the fabric of your economy if you simply keep alive companies that should not be kept alive or will not be sustainable. You are then simply sending money away that you will not get back. There is a real unfairness issue.

I would raise a flag over the speed with which the bounce-back loans have gone out of the door. It is an incredible red flag. We will have to go through the history later, but I do not think anything has ever sold so quickly. You are talking about something like 750,000 small companies and some £20 billion straight out, and there is already talked about absolutely massive bad debts; the unfairness that might come about there, as well as the inefficiency, is quite something to behold. It is incredibly quick, but, honestly, it is very rare for state money to be drawn out that quickly without it meaning something has gone slightly wrong; in this case it must be the lack of commercial scrutiny that the private sector has needed to apply to these loans. It is hard to see how they will ever be gathered back in.

Dr Tetlow: I am not sure I have anything to add to what Giles has said. He has summarised the institute's work in this area.

Chair: In many ways that is one of the best answers. You have saved us time; thank you for not repeating what has been said before.

Paul Johnson: I also have very little to add to that. The striking thing is that the response to business, as opposed to the wage subsidies, has been almost entirely through loan schemes. As you said at the beginning, Chair, we are going to get this combination of a set of businesses that will just go under with the guaranteed loans that they have received, particularly through the bounce-back loans.

Q624 **Chair:** I am sorry to interject. On that, George Osborne gave evidence to us last week. He said that he thought that debt forgiveness was basically the way forward. He suspected that Governments might push out the term of these loans, lower the interest rate, do all of that kind of stuff, but actually what it should amount to is just writing a lot of this off.

Paul Johnson: That is effectively where we will end up for it. Of course, a number of businesses will be potentially taking on other debt through, for example, the rents that they are paying or the other fixed costs that they cannot avoid over this period. On the one hand, you have Government lending to business, some of that with 100% guarantees, which will look like loans are being written off reasonably quickly, I suspect, for a lot of those businesses. Potentially for other businesses, as you say, we are going to have a problem with their balance sheets for some time, as they have run down reserves and potentially got into debt for the fixed costs that they have faced over this period. I would have thought that one of the things that the Chancellor might be looking at, either in July or in an autumn Budget, is how to prop up the balance sheets of some of those otherwise perfectly viable companies that are facing problems with their debts, both to Government and to the private sector.

Q625 **Chair:** Torsten, what is the structure or the mechanism, other than straight debt forgiveness for these small and medium-sized businesses? Maybe it is debt-to-equity arrangements, but they are very small, so it is difficult to make those kinds of arrangements work at that size of business. What happens in that space if it is not just writing off debts?

Torsten Bell: We should be looking at income contingent repayment, which is the obvious option that we have not mentioned so far. The way to think about this in general terms is that we have impaired a lot of balance sheets of a lot of companies. That matters for their behaviour and it matters for the labour market recovery that follows; history shows that balance sheet recessions have weaker recoveries than just straight income shock recessions, so we should be worrying about that. The danger for all of us is that we all look at these policies, we look at some of the stats on the rates of the money going out the door and recognise we have a problem, but we do not deal with it. The lack of clarity means that even if we eventually write those loans off, the lack of clarity about what is actually going to happen has a lasting effect on behaviour over the course of the early phase of the recovery, and that is deeply suboptimal.

The analogy from that is, if you think back to the financial crisis, even at the point at which you are starting to try to answer some of the challenges that the banks' balance sheets face, until you provide complete clarity about the losses, where they sit and how they have been dealt with, you do not remove the challenges to both the banks' behaviour and how other people treat those banks. In this case, we need to take the decision about where we are eventually going to end up. At the moment, we are telling firms implicitly that we may well write some of this stuff off later while also saying to banks, "In an accounting sense, do not take into account losses during this coronavirus pandemic phase". That is suboptimal, because what you are not doing is providing clarity about what will actually happen. We would be better off recognising it but probably not going for a full write-off, and instead moving to income-contingent paybacks.

Q626 **Ms Eagle:** I just wonder, listening to that, why anyone who had a loan would pay it back. Why would they not just wait to see what the Government do with it? Anyway, I want to ask about the potential issues around employment and structural unemployment coming out of the coronavirus pandemic phase we are in at the moment. The three Chancellors that we took evidence from last week were in agreement about the huge task ahead in terms of unemployment. They all agreed, actually, that 1980s levels of unemployment were more likely than not. Starting with Torsten and then going through the rest of you, can you say how big you think this problem is and what we should be doing about it?

Torsten Bell: On how big, our starting point should be very big. I do not a spuriously accurate forecast, but even on the OBR's relatively optimistic scenario, it had 9% unemployment in the second quarter of this year, and that was before the phasing out of the JRS, which makes it quite hard not to see another second wave into unemployment during that phase. I will give you an example of the way to think about it. The main danger on the unemployment side of things is that there has been way too much talk of a V-shaped recovery. There has been way too much talk about the ease of reallocation between sectors taking place. There are history reasons why that is difficult and then there are reasons specific to this crisis.

On the history reasons, let us say unemployment peaks at 10%. Let us say that it is 9% in the second quarter, the OBR is a bit too optimistic but is not miles off, and there is not a huge wave from the JRS but there is some. Remember that there are probably 2 million hospitality workers on the JRS scheme, so they are the sector most affected. Let us say it is

10%, and let us say that unemployment falls at the average rate of the last few recessions, which is 0.7% for the year in the years following a recession. That means that we take a full seven years to get back to 5% unemployment. Another way of thinking about it is that in the financial crisis, which we all think was not as bad as we expected on unemployment, once unemployment went above 7%, it took a full five years to come back down again. Because we have all lived through record employment for the last five years, we have forgotten how slow in general history shows unemployment bounce-backs are.

There is a bit too much of a reaction to some of the data from the US last week showing a big bounce-back in employment rates. The key difference is that loads of people who we call furloughed in the UK are sitting in the unemployment rates in the US. They are being paid through unemployment insurance; they are furloughed from their companies, and, as some recovery is happening within the US economy, you are seeing them flowing out of unemployment and back into work. When that same thing happens here it is not going to bring down our unemployment rate because they are coming off the job retention scheme in most cases. That is why our unemployment rate looks a lot lower than the US. The underlying inactivity is pretty much similar, so I do not expect to see the same uptick in employment that they saw in the US. That is just reflecting the different ways we have responded to this crisis.

There is then what is specific to this crisis that makes me less optimistic than some about the pace of the recovery of employment. One is obviously the depth. We will see a spark back in activity as we lift the hard lockdown, but in terms of employment growth the reasons to be nervous are the sectors that have generally been the ones that most quickly start bringing people back from unemployment into work are hospitality and retail. If you look at hospitality and non-food retail after the financial crisis, they were 10% of the jobs but they were 22% of the move from unemployment into work after the crisis. They cannot do that this time in the same way, and that is a very different kind of crisis.

It is also really worth thinking about the macroeconomics of this. Last time all of us, including those of us in the Treasury at the time, were surprised about the fact that unemployment did not spike higher despite a very deep recession. The macroeconomic element of the reason for that is because we had a very big sterling depreciation and a very big inflation rise during that crisis. The real wages fell quite fast, in the private sector in particular, in the early phase of that crisis. The reason you often get lasting unemployment after recessions is that real wages cannot adjust to the shock that is going on. We are not seeing an inflation spike this time, so we should not just be assuming that the relatively benign relationship between unemployment and GDP that followed the financial crisis happens again this time.

Q627 **Ms Eagle:** Gemma, just to follow on from that, do you think that the job retention scheme, good though it is, is really just a hidden form of unemployment? How many of the 25% of the labour market that are on that scheme at the moment are actually essentially unemployed, and will end up on the unemployment registers once the scheme begins to wind down?

Dr Tetlow: You are right to raise the question. A quarter of the labour force is currently being supported through the CJRS. At the moment it is very hard to know what fraction of those people are going to eventually be unemployed. The answer to that question will depend mainly, in the longer term, on what structural changes have happened to the UK economy as a result of the coronavirus, so which bits of the economy and which businesses are no longer long-term viable, and therefore their workers are going to end up on the unemployment rolls, potentially for a long time.

You referenced the 1980s experience and that is probably one big concern that the Government should have. If there are sectors that are not going to come back after this crisis, that is akin to the 1980s, when we had sectors of the economy disappear. Workers from those sectors need to be reallocated somewhere else, and that suggests that we may need to think about retraining those workers to be able to be employed elsewhere. The lesson of the 1980s is, rather than allowing those people to end up permanently on incapacity benefits and unemployment, to try to make sure those people find jobs elsewhere. That is quite different from what the universal credit system and DWP's structures have been doing over recent years. As Torsten said, we have had very high levels of employment, so it is a different challenge for the Government to have to face to re-gear DWP back towards retraining programmes and getting people back into work in a way that it has not had to for the last few years at least.

Q628 **Ms Eagle:** Paul, the employment and training schemes in the 1980s were famously not very popular for those that had to experience them. Is there anything that the Government could do to create national retraining schemes or job creation schemes to deal with this wave of unemployment that is coming that could be more useful and popular, and a better use of Government spending than what we saw in the 1980s with YTS and various other such things?

Paul Johnson: There is even some evidence that having been on the YTS had a negative effect on your future wages relative to having waited longer to get into a job, because it had such a bad brand, as itwere.

Q629 **Ms Eagle:** It should not be too hard to do better than that. How do the Government go about it?

Paul Johnson: One would hope so. It is nevertheless not straightforward. There are things that we have learnt. Gemma has talked about the role of DWP. We have learnt an awful lot since the 1980s about active welfare to work policies. We have an advantage, in some ways, this time. If you look at the 1980s, the unemployment was very geographically focused, to some extent at least. It is much less so this time round. For example, the hospitality sector is most important in London, where there are, hopefully, many additional sorts of opportunities, though there are a lot of coastal places where this might be a real problem, where there is a weak labour market and lots in the retail and hospitality sectors.

There have been some relatively effective job subsidy schemes in the UK and elsewhere, where you take people who have been out of work for a significant period and give a significant subsidy to employers to take them on for a temporary period. That can be effective.

We know that the most effective training is training that happens with employers rather than, for example, taking someone who is maybe in their early 30s, has been out of work for a while and putting them on a Government training scheme and sending them off into the labour market. That tends to be less effective than something that actually engages them with an employer from day one.

The answer is that there is no single answer here. The active welfare to work stuff within Jobcentre Plus is going to be absolutely crucial. There is going to need to be some direct Government investment in infrastructure schemes, green energy schemes, or whatever, which employ people directly. There are going to need to be job subsidies, training programmes and a particular focus on people leaving school especially, but also university, this summer, where they are going to be graduating into a truly dreadful labour market.

While I am not convinced that a guaranteed apprenticeship for all is necessarily the way forward, certainly some significant additional support for employers taking on apprentices could really be quite an important part, particularly for school leavers, in providing them with opportunities. Big Government intervention will be needed just to keep apprenticeship numbers at their current levels because, of course, as work from the Sutton Trust and others has shown, a very large number of employers currently employing apprentices are planning not to take them on this year, for obvious reasons related to their cash flow and demand for their services.

Q630 **Ms Eagle:** I can see Giles jumping up and down, especially about apprentices. I wonder whether you might give us some written evidence. Clearly, the Prime Minister is talking about an apprenticeship offer for everybody. We know the current apprenticeship scheme is in deep trouble because of what has gone on with coronavirus, and it was in trouble beforehand. Perhaps you could let us know your thoughts on how this should be redesigned.

Giles Wilkes: The number one thing on skills provision is that we do need to stop messing around with the system. As Paul seemed to imply there as well, quality matters a lot. Apprenticeships have to be real apprenticeships, which means willing employers and real jobs. As well as the quantity problem of not having enough people in these training schemes, the quality problem has been a serious one. They are therefore regarded with low esteem and we end up with the worst of both worlds. We need to keep an eye on quality and not just announce big numbers.

Q631 **Mr Baker:** Welcome, everybody. I would like to turn to the perhaps vexed subject for free marketeers of what a good bailout looks like. Giles, you have written a paper in which you talked about having a state reconstruction bank or a coronavirus equity fund. Could you explain what the options are for Government taking equity stakes in business? In particular, why would Government want to take equity stakes at this time?

Giles Wilkes: I appreciate the scepticism of the question because, having sat in the Business Department for four years, the normal answer is that you really do not want to take equity stakes, as I quite appreciate. Normally, if a company is coming to Government for money, you have to ask why the private will not do so. The situation has to be highly idiosyncratic. You normally have very bespoke bailouts, as you will be aware from, for example, the steel companies' conversations of the recent years and so forth. You would not normally talk about systemic bailouts. We have to regard this situation as very different because, if people were proposing this at a time when employment was at a high level and there were not, for example, regional jobs issues, you would be right to be quite sceptical that, on the whole, the state ends up holding what the economists call "the lemons"—those that the private sector has already chosen not to have.

The Treasury would need to have a strong and consistent rationale: that it thinks there has been a systemic long-term structural problem of underinvestment that has now suddenly been accelerated by the coronavirus recession, which is quite possible. If you look at the figures from TheCityUK, there is suggestion that the small business sector might be underwater by £40 billion to £50 billion, and that would lead to the balance sheet recession that our chair referred to, and slow us all down.

As for the options for how to do this, it is incredibly difficult because, when it is bespoke situations, you can apply Treasury and BEIS brains on to the situation and you can be very challenging, you can impose conditions, you can look carefully at the underlying reasons for the crisis and you can try to make sure that you are not rewarding failure and encouraging the corporate sector to position itself in order to get bailouts in future. It is very hard to do that on a systemic basis. The methods that I see being discussed, at a European level as well as here, are ideas like the income-contingent investment that we might see the bounce-back loans refer to—and Torsten referred to earlier—where you allow people a fairly unconditional loan but ask for it to be paid back, contingent on profitability in future, and therefore generally raise the level of equity investment in the country.

As for the options on the state reconstruction banks, the advocates, including people from the right—I have heard Lord Heseltine speak of this before—say that we have always been a bit of an outlier in having such a laissez-faire system, and you can see the consequences of that. When a crisis like this happens, we have to work through the private sector, which means quite a slow process of contracting and vetting, and it means that we just do not get money out very quickly. We retain the advantages of private sector incentives, but when you end up with a situation as massive and unprecedented as this, the private sector will always prioritise maintaining its cash.

The justification would be that we will have something, maybe for the next one, that can directly recapitalise British business and have some of the expertise for it, but, as you can probably tell from my stammering response, this is a really difficult area and it is far better to have the macro-economy working really well and the private sector doing pretty much all of this stuff.

If I was in the Government right now and trying to allocate the Chancellor's time, if I felt that I had a way of making sure that the macro economy was going to grow strongly, better than that recession recovery that Torsten referred to earlier that produced some indifferent outcomes, I would put more of my emphasis there and then hope that you can retain interventions for the really difficult, long-term structural issues or the massive national priorities, such as AI and aerospace, for example, rather than trying to go much broader, because it is very difficult.

Q632 **Mr Baker:** If I could reflect back a little of what you have said, at the heart of the reason for engaging in the proposals you have been exploring is that the losses companies are making arise not from market phenomena but from a necessary state intervention.

Giles Wilkes: Yes.

Q633 **Mr Baker:** Torsten, do you want Government to be holding equity stakes in firms for the long run? What is your vision on this point?

Torsten Bell: The place where Giles ended is basically where the Government currently are, which is hoping that the recovery is strong enough and that we do not have a second wave and need a second lockdown, so that the number of firms whose balance sheets are so shocked that they cannot get through this is manageable. They are basically waiting to see which ones topple over before deciding which ones to bail out. That is an understandable strategy. It is high risk based on what then happens and if we have not decided what we would actually do.

In general, across all areas of policy, for the job retention scheme and particularly this firms aspect, in terms of deciding how your policy mix will be different if a second wave turns up, path dependency is a real thing, but, having been through one lockdown means that what happens in the second lockdown is very different, particularly for firms' balance sheets. You cannot use loans in the same way a second time around—in most cases, not all—and we need to think a bit harder. Yes, we should definitely be trying to get the macroeconomics as positive as possible. That is also what will make the biggest difference to unemployment.

The other thing that makes this recession stand out compared to the financial crisis and the ERM is that all of those were driven by economic phenomena and economic policy could answer the underlying cause of the crisis: "Sort your exchange rate. Sort your bank recapitalisations". The key feature here is that economic policy cannot remove the economic damage. Only health policy can sort that. Only our response to the virus can sort that in the long term. Our economic policy is bearing much more uncertainty than it normally would have to, and it is time we started being honest about that in all our areas of policy.

What our views are on firms is particularly big. I will give you some concrete examples. If there is a second wave, the idea that we are going to be offering loans to pubs to keep them going through another four months of inactivity is completely for the birds. You need to decide what your view is. Either they are important enough national institutions and have enough intangible capital, or you are going to let some of these places go bust and then reopen without their balance sheets being impaired.

The reason why that choice matters is, one, the politics of it are obviously complicated, but I will leave you guys to take a view on that. It is not just that. At the moment, the reason why you are not seeing any financial stability pressure really emerging in the system is that the state is underwriting household income hits and the revenue hits to lots of businesses. If that is not the case in a second wave then the financial stability stresses will be material.

At the moment it is slightly ridiculous. We are running stress tests and saying, "Look, everyone is passing their stress tests". Of course they are; the state is doing all the stressing, to a degree. I would expect that is not going to be the case, to the same extent, in a second wave. If it was not, you would definitely see financial institution failures—not systemically important ones, but you would definitely see it happening. Thinking those things through is really important as you think about the next year as a whole.

Q634 **Mr Baker:** Gemma, could I ask you to particularly touch on the IfG's view on whether this crisis is becoming a bridge to a change in policy and a more interventionist state? Is that where the IfG thinks we are going or where we should be going? Do you take a view along the lines of your senior fellow, Giles, from his experience of BEIS, that Government should worry if they are bailing out firms?

Dr Tetlow: The Institute for Government does not take a view on this, so perhaps I can give you my own view, to the extent that I have one. This crisis has clearly thrown Government into a far more interventionist role in all areas of our lives than we have been used to Governments, certainly in the UK but in most other countries, having that role in past years. You could come out of this on the other side with a view that we have learnt a lot more about the power of Governments to act in ways that we have not tried before. You may come out of the other side of this with a view that people realise they face risks that they want Government to insure them against more heavily than has been the case in the past, whether that is through more generous offers for people who lose their jobs or lose hours, or through a more extensive and more robust system of public services.

It is not obvious to me that that is definitely where we are heading. It is equally possible that, once the immediate risk of coronavirus wanes, we could well go back to something that looks much more like the world that we had before. I would not be guaranteeing that we end up with a very different shape of state in future. We have learnt some things about what the state can do and the risks that people face, but that is a conversation that we have yet to have.

Q635 **Mr Baker:** Paul, there is an opportunity for a last word from you on what a good bailout looks like.

Paul Johnson: I do not have a lot to add to what colleagues have said. One thing that is going to be really important in a good bailout is that it is not just about protecting those companies it is easiest to protect—in other words, the big ones. One of the biggest risks of this crisis is that we move into a world in which we have much more concentration of market power than we have had hitherto, because it is the bigger companies and very big multinationals, and indeed big national companies, that can survive because they have the balance sheets that enable them to. They are also the ones with the biggest lobbying power and the ones that BEIS may find it most difficult to say no to, whereas, in fact, if we are going to keep a competitive economy going forward, it is going to be terribly important to make sure that the small and medium firms, and not even the big-ish firms, are surviving through this so that we do not move to that much more concentrated market structure.

In terms of principles to look at, that is an absolutely crucial one. The second point that I would make is really to reiterate what both Giles and Torsten said, which is that there is quite a strong case for these income-contingent liabilities for firms, rather like student loans, in a sense. If you do well, having had the loans, you may well be asked to pay quite a lot back, but if you do not then you will not.

Torsten Bell: I wanted to reiterate the point that Paul is making. If you look at what happened in the financial crisis, the revenue share of the biggest 100 companies in the economy was roughly around 19% in 2003. By 2011 it had gone to 25% and most of that increase happens in the heat of the crisis.

It has drifted down since. That general trend up and down after recessions is what you expect to see, but the rate of increase in the financial crisis was very significant. This crisis, because of what we have all been talking about, which is this pressure on balance sheets, if anything, risks having a more extreme version of that, basically, because the firms that are able to manage that balance sheet pressure are bigger firms in general.

Q636 **Ms Eagle:** I am going to ask some questions about the easing of lockdown. Gemma, you suggested in your evidence to us that the Government's five tests were not sufficient to exit from lockdown. Could you tell us what else they should have included?

Dr Tetlow: My main concern with the five tests that were laid out as being a condition for easing lockdown was that they focus exclusively on risks to life from coronavirus. Whilst that is clearly important and it could be that a Government was driven solely by a desire to minimise the number of people who die from coronavirus as opposed to pursuing other objectives, such as ensuring people do not die from other causes or ensuring people have adequate incomes and wider measures of wellbeing and mental health, having a set of tests that focus only on minimising deaths from coronavirus is not an adequate description of the way the Government is prioritising alternative objectives. It is therefore not an adequate description, from what we can see from Government actions, of what is driving Government decisions about when and how to ease lockdown measures. That makes it very difficult for the public and businesses to understand the basis on which the Government are going to make decisions.

Q637 **Ms Eagle:** I am reading this book by John Kay and Mervyn King called *Radical Uncertainty.* We are in a period of radical uncertainty. You are presumably suggesting that the Government need to be far more upfront and more transparent about the trade-offs that they are making and what their thinking is so that both consumers and business can plan ahead, at least with some radically uncertain views about where we might be going.

Dr Tetlow: We do face radical uncertainty. We are very uncertain about exactly what the degree of transmission of the disease currently is, given the current lockdown measures, or exactly how easing some of those restrictions might affect that. The thing that the Government could be clearer about is helping people to understand, if the scientific evidence tells us something about the spread of the disease and the relationship between lockdown measures and transmission, what the Government's response is going to be in terms of which parts of the economy they want to prioritise opening up and which social restrictions they want to open up.

At the moment, it is not at all clear how that decision process happens. Whilst there is uncertainty about the disease transmission that is going on, the Government could be much clearer about how they plan to interpret that evidence and translate that into changes in the lockdown restrictions. That is what we do not have at the moment. The Government have five tests, three steps to releasing restrictions and three phases of the crisis.

Ms Eagle: Do not forget the five pillars that are in there as well.

Dr Tetlow: Exactly. We have no sense of how these things map from one to the other. In contrast, if you look at a country such as New Zealand, for example, they have four levels, in terms of the degree of transmission of the disease going on in the country, and those now clearly map on to a statement of, "If we are at level 1, there will be these restrictions in place on businesses and social activities".

Q638 **Ms Eagle:** We thought we had that, but we do not anymore. We were told, when the threat level went down from 4 to 3, the unlocking would start, but they have now panicked about the economy, I suspect, and so the unlocking has begun anyway.

Torsten, could you say a little bit about whether you think the economy could afford a second lockdown? You hinted in the previous section that you are worried about that. If there is a second wave because we come out of lockdown too early, what will be the implications?

Torsten Bell: I agree with everything Gemma said. She set out very clearly the need for clarity in the communications. The only thing that I would add to that is that, overall—and this is not true on every micro aspect, but, as a macro aspect—my main view is that the wealth versus health trade-offs are overdone in this debate, partly because, if you look at behaviour change across countries, yes, the strength of your lockdown matters, but so do the basic health risks that are out there. If you have not removed the health risk then it matters a lot less what you have done to your lockdown policy. You cannot just move the dials on your lockdown and health, and calibrate what you want, even if you are taking a different view on the health and wealth trade-off.

On the second wave, to be fair to Government, there is a judgment call; you are inevitably bearing some risk as you remove the lockdown, given that we do not have a finely calibrated current level of R or marginal increase in R for any given change in the lockdown, and, in particular, any given change in R when you get interactions between policy changes on lifting the lockdown. That is hard. We need to be honest about that. That is hard. Clearly, you want a margin of error and, clearly, in an ideal world, you would start from a lower level of infections at the point at which you are doing that. To some degree, a lot of that is a feature of decisions made at the beginning of not getting the lockdown down as quickly as might have been preferable, in hindsight, though that is much easier to say with hindsight than it was at the time.

If you have a second lockdown, it is probably materially worse for the economy, i.e. it is not a linear thing. That happens both in terms of a repeating of the hit this year, but the scarring effect is probably non-linear in particular, so you see much less retention of staff and you see businesses starting to think, "Wait a second; that means there is no normal to return to", and that leads to very different behavioural changes.

For the Government, it is not right to say that we could not afford another lockdown. The truth is that if we had to have another lockdown we would have to have it. If you think about that, we have modelled a six and a 12-month lockdown, as well as the three-month scenario, which is the OBR's underlying scenario.

Ms Eagle: Cheer us all up, Torsten.

Torsten Bell: I will cheer you up. On the deficit you see big increases. Our numbers show 22% in a six-month scenario and 38% in a 12-month scenario. Clearly, that is completely unprecedented. Clearly, you would probably start, as I said earlier, doing policy differently in that world. You are not going to be as generous in your income replacement rates to people who are furloughed or to the self-employed in particular in that world, so you have more burden-sharing going on, and that could reduce the size of the state's deficits.

In any of those scenarios, we are heading to levels of borrowing that are totally unprecedented outside of wartime. On debt, you see 129% in a six-month scenario and 167% in a 12-month scenario; again, that is spuriously accurate here, so forget the individual numbers, but it is big in a six or 12-month scenario.

All I would say is that, against that, you have to remember that, first, yields have fallen again on Government borrowing; secondly, cover ratios are very high at the moment; and thirdly—this is why the first two have probably happened—the Bank of England QE issuance is broadly in line with the increase in Government debt increases.

I am not saying there are not risks to that, but the net effect of those things is that so far, on all of our scenarios, debt-service-to-revenue ratios stay well below the 6% that the Government have set as their threshold, and are falling in most of those scenarios because, basically, as you roll older, more expensive debt onto these low or even negative yields, you start to see the debt interest burden falling.

Clearly, that is all contingent on that on that debt interest level staying low and how the Bank of England's and Treasury's policies interact, but it is not right to say that you cannot afford a second lockdown. What is true is that it is really expensive and really economically damaging, and we definitely want to avoid it if we can.

Q639 **Ms Eagle:** Paul, I want you to cheer us up now. Is there any way that we can channel the capacity to build back better and take advantage of the current situation we are in, to try to influence what happens subsequently so that the economy that re-emerges might be more sustainable and greener? Can we channel investment in ways that are futureproofed and have faster speed of change towards a more sustainable economy, and be a bit more activist about where we are going?

Paul Johnson: There may be opportunities. I would suggest that, if you look at the way we have come out of previous recessions and crises, we have not tended to be terribly good at taking them. Maybe history is the first place to look. We came out of the 1980s recession in a way that did transform the economy, but transformed it in a way that was significantly dis-equalising and left a lot of people behind, and we came out of what felt like the biggest crisis in a lifetime in 2010 without changing an enormous amount, in truth, and having a decade of very slow growth, and no growth in living standards.

What lessons might you draw from those? One is that, despite what people say, we are pretty good at wasting crises. If you look at the underlying issues in the economy, what are the things you might want to work on? First, as a society, we have become increasingly aware of the importance of the majority of our fellow populace who have not been to university and have important skills in the workplace. We might want to rebuild with much better technical and vocational education. We are increasingly clear of the importance of, as you say, the green sector of the economy and the public services we rely on. Again, we did not really do this after 2010, but we have an opportunity to invest in the green economy.

Many more people are aware of the way the welfare state now works. We have had to bring in this furlough scheme. A number of continental countries have had to do much less of that kind of thing, because they have much more generous social insurance-based welfare systems. I am not saying that will be the appropriate place for us to go, but we will have some big choices to make, even within the construct of the welfare system we have. There have been increases in the generosity of universal credit. It is a big choice: do those remain or do they go next April?

The local housing allowance, which was, perversely, based on rents in 2012, is now based on rents today. It seems to me unlikely that we will go back to basing it on 2012 rents as a deliberate policy decision, but that leaves us with opportunities to think about the structure of welfare.

You would probably expect me to say this, but I would hope there are opportunities to look at the tax system. In the short run, we are not going to want to raise taxes, because we just need to get through this period and start rebuilding. In the long run, it seems to me unlikely, given the scale of the deficit and, I suspect, the scale of demands for increased public spending in health, social care and so on, that we will get away without additional taxes.

That gives us an opportunity, again, to think about the structure of the tax system, from things that would be stimulative in the short run—getting rid of stamp duty on housing, for example—to thinking, in the long run, about how we sustainably fund the health service and other public services we rely on. There are plenty of opportunities to do that in a way that improves the structure of the system.

Giles Wilkes: As a very quick point, one of the reasons why you might find the state directing more economic activity is this. If, as some of the gloomier colleagues here suggest, we have structurally less demand for whole swathes of industries, which have to lower their general levels of provision, we will have to find other jobs for people.

Some of the suggestions you came out with, as you might have as well, Angela, are in areas like green investment. For example, retrofitting boilers into 20 million houses will take a lot of employment. That area alone is costed by the Treasury at between £200 billion and £400 billion of investment, to get in line with net zero. If it takes too long to structurally adjust the private sector economy, the state might just have to pick up some of that slack. It would be good if it did so in a way that was broadly beneficial to our longer-term goals.

Q640 **Siobhain McDonagh:** Giles, you have introduced my section, which looks at the capital spending changes that might occur as a result of coronavirus. My first question is to Torsten. The pandemic has laid bare our housing crisis, with large numbers of people living in shared houses, with shared bathrooms or toilets and terrible conditions, which many children find themselves in.

Meanwhile, the Committee has heard worrying predictions about soaring unemployment rates and the importance of getting the economy moving. Given that every pound invested in housing results in £2.84 spent in the rest of the economy, is it time for the Government to support an expanded social housing programme?

Torsten Bell: There are a number of different aspects to this. If we focus first on the impact of this crisis on different kinds of tenure, we definitely can see a significant difference. Private renters are, in general, 50% more likely to have fallen behind on their housing costs since the crisis started, compared to mortgaged homeowners. That is driven by a number of features. It is partly driven by different people. The people in the occupations that have been hit hardest by this crisis are more likely to be in private rented accommodation.

It is easier, in some ways, to delay payments for mortgages. You will have seen the mortgage holiday, which is in some ways being treated as a policy, but the reason mortgage holidays are happening is not because the Government are doing anything. It is because mortgages in general tend to be on higher loan to values these days and they have equity stakes. There is an ongoing relationship with the banks, so the lenders have much stronger incentives to offer people the ability to delay their payments and there is security against them. That is why it is more straightforward for mortgagers and why the social security system does not provide the support on housing costs for mortgagers as it does for renters.

For renters in general, in our surveys, 10% of renters have tried to negotiate rent reductions or rent pauses. Half have been successful, whereas if you look at mortgagers 13% have applied for mortgage holidays and almost all have been successful. The mitigation strategies are different for different kinds of tenure. In renting in particular, we rely on the state to do that.

In terms of the answers, the housebuilding programme cannot help with those short-term pressures about housing costs staying high while incomes fall. There, the social security system needs to pick up the pieces for renters. As Paul has said, the move to the LHA makes a big difference. On that one, there is no way we are going to be reducing it again come April, and we may as well say that sooner rather than later.

Here is another way to think about it. The increases in benefits that the Chancellor announced on 20 March have delivered a 5% increase in incomes for the bottom 25% of the population. We are going to have lots of unemployed people come next April. Are we actually going to be talking about a 5% reduction in people's incomes being delivered in the middle of a crisis? No, so we should stop pretending we are and get on with what the policy inevitably will be. There may be freezes or other elements, but we are not going to remove these increases come next April.

There are groups that are going to miss out, though. I will give you some examples. You have more people who previously had higher incomes and have higher rents coming into the social security system during this phase. In general, the 50th or 30th percentile of LHA would have worked for most people who previously spent long periods on benefits. That is not going to be true for lots of people flowing on during this crisis. There will be lots of people with a rent gap not being covered by the state, so you need to think hard about that. Temporarily, at least, increasing the percentage of LHA would be a good idea.

Secondly, on the benefit cap, although people flowing out of work into universal credit are exempt from the benefit cap for the first nine months, lots of people are going to rely on this benefit to pay rent for a lot longer than nine months. The danger is that you get to Christmas, roughly, and you are suddenly saying to people in high-rent areas, "Sorry, we are not covering your rent anymore". Because of the increases that have happened to benefits, that is a lot of people we are talking about. There are specific policy areas right now that would make a difference.

Going forward, both for long-term housing need problems and for economic stimulus reasons, yes, social housing is part of the answer. Talking to housing associations today, if I reflect back on what was done to get housebuilding happening in the financial crisis, we placed too much emphasis on subsidies to private providers, to get on with building at quite high unit costs. That was done for understandable reasons. Some of us were semi-responsible for some of that, but if I reflect back on what we did then it definitely was not the optimal policy response. We should have focused more on what we needed, longer term, by way of housing. Focusing more on some—not all—housing associations that are in a position to get on with building now would be a good idea.

Q641 **Siobhain McDonagh:** Paul, in recent weeks, societal norms have been turned on their head, with long-lasting changes expected in how we work, learn and travel. This society is not fit for all, including those children who do not have access to the internet to continue learning from home. As society has changed, should our spending priorities also change? Would you support my call for all children entitled to free school meals to have internet access at home?

Paul Johnson: It is certainly the case that we have seen a really worrying impact on children's education over the last three months in many respects. We know that those children attending private schools are vastly more likely to have online lessons and other active teaching. For those from state schools, the more affluent they are, the more likely they are to be getting that kind of support. We know that more affluent children are spending more time on learning, particularly on structured learning, over this period.

We know that there are barriers to those from poorer backgrounds to doing that, partly to do with what is being offered by schools, partly to do with literally the space they have in their homes, partly to do with the support they can get from their parents, and partly, as you say, associated with their internet access. That is worrying in many dimensions. This is a long enough period that we could see this having a significantly negative effect on educational attainment among those from less well-off backgrounds.

It may be that some form of support for computing facilities or internet access for poorer children will be important. I suspect more important will be getting children back to school as soon as possible and, when they are back, having additional hours, teaching time and support for all children, but particularly those from less well-off backgrounds. You have identified a really important issue.

I suspect that, in the medium run, the support in school will be the most important thing we can do to help those children left behind. Certainly, if we do, heaven forbid, end up in a world in which children are not fully back to school by September, addition support around internet access and so on may well be required. I would stress that that is almost infinitely a worse outcome than children being properly back at school and getting additional time and teaching time at that point.

Q642 **Siobhain McDonagh:** Gemma and Giles, what should happen to departmental spending over the forthcoming spending review? Is it time for local authorities to be protected, given that they have been cut by 77% relative to a 2009-10 baseline, and concern that a number of them are very close to bankruptcy?

Dr Tetlow: To start where you started, with the question of what happens in the next spending review, we were expecting the Government, pre-coronavirus, to have a three-year spending review happening later this autumn. That seems increasingly unlikely to happen, because we do not really know what the pressures on the state are going to be for the next few years, and therefore it is hard to set out firm spending plans at the moment.

To run a full spending review also requires Departments and the Treasury to spend a lot of time looking at spending bids and figuring out where the money goes. Obviously, Departments and the Treasury have lots of other things going on at the moment, which mean they have not had the time needed to do that fully. It would not be surprising if we did not see a multiyear spending review happening later this year and it probably would be the right outcome, because if we set out multiyear spending plans and then things move on, and we find out that our priorities for public spending are different, we would want those to be able to be reassessed.

To your bigger point about our priorities for spending longer term and the things that, regardless of what happens with coronavirus, are going to be needed, we already knew, before coronavirus, that local authorities faced big increases in pressures, particularly for social care services, not just adult social care from the ageing population, but children's social care spending pressures have also been going up in recent years.

Local authority grants from central Government have been cut quite significantly, in the way you described. That has been the area of some of the largest cuts during the 10 years after the financial crisis. Social care spending has become an increasing part of what local authorities do, and they do increasingly less of the other things that local voters probably think they do, like filling in potholes, running libraries and cleaning parks. Social care is now the very biggest thing they do and takes up the vast majority of most local authorities' budgets.

We already knew that local authority budgets were very squeezed. There were severe difficulties in meeting those social care pressures already. If you look forward at the likely future demands, particularly given the ageing of the population, local authorities were already in a position where they needed more money. The Institute for Government's work on our performance tracker, looking at the performance of the services, highlighted social care spending pressures as the one area where there was a mismatch between the spending plans implicit in the Government's announcements and what was actually going to be needed by local authorities.

Yes, local authorities are likely to need more money to meet their social care demands. Coronavirus has no doubt added to those pressures. If, for example, care homes need to continue operating at higher cost, with more use of PPE, that will only add to the spending pressures. That is right, but it may not be the only area of public services that requires a different spending allocation on the other side of coronavirus. It is clearly one of the big pressure areas for the Government as they think about future spending plans.

Giles Wilkes: I powerfully agree with Gemma there. This sounds like a procedural point, but having sat through two spending reviews in Government, the way we did it, under the coalition, was to start with what we thought we could borrow and then what we could politically face taxing. The rest of public spending then simply had to be cut according to the cloth that was left after. That meant, within the spending, you would prioritise some things over others. The CLG budget, as we called it back then, was simply the residual, whatever was left. Nobody ever sat down to ask, "What does this budget need to be?" and build it up.

The most important innovation we could make in Government right now is to start with the question: what do we need to spend as a society to do all the things we need to do, including all these questions about resilience within the health service, the DWP budget and so forth? These are all fine spending ideas that I have heard in the last 10 or 15 minutes. Then we need to ask ourselves, since we need to do these things, how we are going to fund them.

The problem we have, which reached its peak—or trough, if you like—around the 2015 election, is that we did things the other way round. We said, "We have this intention for borrowing, these many political constraints on tax, and look what money is left". We tended to get by with that. I know Torsten and others were making this point. It was probably £40 billion or £50 billion short, but the Chancellors would be dragged kicking and screaming into that position.

We need to start with a conversation about what we need to be spending, and then have an honest conversation about taxes and so forth, so we do it the other way round.

Q643 **Siobhain McDonagh:** Maybe answering one of the big questions about the issues of where you spend your money and how much you have, spending on social security has increased and the state pension now accounts for over 44% of welfare spending. Should the Government review the triple lock?

Dr Tetlow: Shall I take this one?

Siobhain McDonagh: Yes, if you are brave enough.

Dr Tetlow: A decision was made after the financial crisis that one area in which the Government would seek to reduce spending was the working-age welfare budget. In contrast, spending on pensioner benefits was not cut and, indeed, was increased in various ways. One of those things was through the maintenance of the triple lock. I have to say that the triple lock is just a fundamentally poorly designed policy. Whatever your objectives are for spending on pensioners, the triple lock is not a good way of increasing spending on the pensioner population.

For people who are not familiar with the triple lock, it says that the state pension will go up each year by the maximum of price inflation, earnings growth and 2.5%. The 2.5% is in there for the entirely arbitrary reason that, some years ago, when inflation and earnings growth were very low, there was going to be an occasion where the state pension went up by a very small amount. I think it was 75p. It was seen as politically infeasible to have such a small increase in state pension, even though inflation at the time was very low. Therefore, the 2.5% was thrown in, to make sure it goes up by something each year. That does not relate to either the costs of living that pensioners face or anything to do with how earnings have grown in the past, and therefore how quickly inflation replaces people's previous earnings. That is entirely arbitrary.

You could make cases for having prices or earnings in there, but having both and using the maximum of them means that the state pension constantly ratchets up in terms of its value relative to both cost of living and earnings. That means, in the longer term, it puts growing pressure on public finances. You could make arguments for wanting to have higher benefits for pensioners. If you want to do that, design a policy that delivers on that outcome, instead of this weird ratchet, which is very unpredictable.

The state pension is important for the current living standards of pensioners, but the triple lock has the most impact when you think over the longer term. That longer-term impact affects how younger people save for their retirement and think about working into older age. Because it is a rampant, unpredictable thing that people are not able to figure out, it does not have very positive impacts. If you want to reassure people that they are going to have higher pensions in retirement, have a policy that is easy to interpret and predict how it is going to relate to your earnings or costs of living, rather than a random triple lock.

Torsten Bell: I am going to give you a really concrete example of what Gemma has just said. If you look at what the OBR is predicting for average earnings over the next two years, because we have a load of people furloughed who are earning 80% rather than the 100% that they were previously earning, it is predicting average weekly earnings falls of 7.3% this year being measured, but we will then be measuring an 18%,[1] increase in average earnings next year.

[1] Mr Bell later clarified that the 18% figure from OBR is not a good reference point for average wage growth in 2021. This is because the OBR's forecast assumed furlough payments in 2020 would not be classified as wages, but the ONS have been clear that these payments will in fact be treated as wages. Therefore, although there will be a bounce back in measured wages in 2021 it is likely to be well into single digits rather than anything like 18%. However, the general point about large movements in average wage measures posing significant problems for the triple lock still stands.

I do not think we are going to increase the state pension by 18% next year, so the triple lock is going in its current form, at least temporarily. Unless some of you are planning to support very generous increases in state pensions next year, I suspect we are not going to increase them bynearly a fifth over the course of next year. The nature of the discussion about the triple lock is odd. The real problem with it is not that we have been too generous to pensioners in some abstract way over the last 10 years, or even that the generational unfairness is particularly acute, because future pensioners will benefit more from a longer-term uprating at a higher rate than current pensioners. The real issues are twofold.

First, it is a silly system, for the reasons Gemma has set out, for implementing a higher state pension policy. Secondly, it stands in stark contrast to what we did to broader working-age benefits during that phase. The issue is the contrast, given the very significant reductions and poverty-increasing policies we have implemented towards families with children over that phase, rather than the actual policy of increasing the state pension per se.

Yes, the triple lock turned up in the last decade, but increasing the state pension per se reflects a longer-term move towards a higher basic state pension that was implemented during the 2000s. Although the individual mechanism may look like part of the last Government, there is a bit of cross-party consensus over the 20 years as a whole about where we are moving on the state pension.

Q644 **Siobhain McDonagh:** It was reported at the weekend that the two of the largest beneficiaries of the COVID-19 emergency funding scheme did not pay a penny of corporation tax last year. Should companies that pay no corporation tax in the UK be able to access tax-funded support for their businesses?

Giles Wilkes: I do not know the names of the companies themselves. I can understand the sentiment there. One of the problems is that you pay corporation tax if you are making profits. Sometimes companies genuinely do not make profits.

Q645 **Siobhain McDonagh:** Can I tell you who they are? They are CNH, which owns Iveco, the lorry-maker, and BASF, the giant German chemicals group. I suspect they make money.

Giles Wilkes: If the suspicion is that they are not correctly reporting their profits, and therefore are not paying corporation tax, that should be addressed as a separate matter. I imagine that this Committee has put a lot of work into that question. Quite a slew of these stories came up seven or eight years ago. I believe the companies involved were Amazon, Starbucks and Google. It was difficult, because each of them had its own idiosyncratic reasons for seeming to report low levels of corporation tax in the UK. In the case of Starbucks, it might well have been that it just was not making money, because its corporate strategy had been very miscued.

You ask whether they should receive money. If the suspicion is that they have a lot of resources, because they have found cunning ways of not having to pay tax through clever structures, that suggests they ought to be able to support themselves in this sort of circumstance. The problem is, a little like the answer with the bailouts, that it is highly idiosyncratic. In this emergency, we are seeing the companies not just in themselves, but as a way of continuing to employ people. You would have to think very carefully in the Treasury before you did not support a company and risked a lot of redundancy because of quite strong, principled objections to how it operated its tax affairs.

Q646 **Rushanara Ali:** I will have time for one question and a quick answer before the minute's silence. Going back to the impact on different sectors, we have already heard about the effects on the hospitality and leisure sector and the people working in it. Perhaps starting with Torsten, how should the Government support the hard-hit sectors, in particular hospitality and leisure, and any others you think need particular attention and differentiated responses?

Torsten Bell: I will give a quick answer, given the time constraints. We recognise that these are very different. It is not just looking in the abstract at the expected output falls by sector where you see this big variation. If you look at what firms are actually saying right now, 36% of manufacturers that were closed—and fewer of them were closed in the first place—say they expect to reopen in the next two weeks. If you look at accommodation and food, it is only 12%. If you look at recreation and the arts, it is 4%. These are huge differences by sector, so a one-size-fits-all policy in general is not going to work.

How have we been dealing with that? For the hospitality and retail sector, as Paul mentioned earlier, some sectors have had grants rather than loans. It is basically for businesses with properties. That is the main area where the grant has been a big part of the policy response. Small cafés have received grants to keep them going, to pay their rent, basically, during these times. We have done some elements of that.

The main thing is to support the workers, insofar as lots of these companies can get through if you take their wage bills off them. That is not going to be true for everybody. If we look at the places where we can see the biggest hits, there are some areas that previously had weak labour markets.

The Committee observed a minute's silence.

Torsten Bell: I will make two other points, because others will have lots of better points to make. On the timing, for the sectors that are most affected, one of the key issue is the uncertainty they face about the level of future demand for their services. It is not just that, during this phase of extended social distancing, they will have a smaller demand, which they will, so the sector will shrink. It is that the uncertainty about the eventual level of that demand, where it will settle, is particularly high. Giving those sectors more time to realise where that demand will settle is desirable.

The Chancellor is right not to have gone for very high employer contributions to the job retention scheme from August, because the sectors need time to adjust to the opening up, to see that there is hopefully more demand than they might fear and then to get to the highest level they can, given the constraint of social distancing, as we all change our behaviours.

First of all, they need time. The second issue I would highlight—and this is not a comprehensive answer—is rent adjustment. In general, the rents you pay in an economy are based on the income of the business or, indeed, of the family, for housing costs. In general, we do not have a great system for business rents adjusting in the face of income shocks, particularly if they happen this quickly.

There are a number of elements to that. First, many leases are upward-only rent reviews, which does not make a lot of sense in the face of a crisis like this. In the way this is happening at the moment, businesses are basically putting themselves into versions of administration and using that as a mechanism to renegotiate their rents. That probably works for some big chains and others, not least if they have good lawyers, for example.

We talked about income-contingent loans. Moving to revenue-contingent rents during a crisis like this would make a lot of sense. The Government could provide more clarity about the regime under which that could happen. Landlords are worried about accepting permanently lower rents, whereas we need to encourage them to accept temporarily lower rents, because the revenue that can be generated by a given site has just gone through the floor, and they need to share that pain with the tenants. That would make a big difference.

Q647 **Rushanara Ali:** There are comparisons with Germany, where they seem to have been returning pretty much to a near normal level. What is Germany doing better than we are? Does that provide a line of sight for our hospitality and tourism sector? Be very brief, because I want to come to other contributors.

Torsten Bell: My really quick answer is that I am slightly nervous about the headlines saying that Germany is completely back to normal. Yes, it is true that bookings at restaurants went back up to previous levels, but that is partly because we are all booking now. Eating has not gone back to previous levels. What matters for the economy is eating levels, not booking levels. The Germans have done great. Fine, we all like saying the Germans are brilliant, but let us not overstate how far they are back to normality. People are not eating out at the level they were pre-crisis.

In general, the reason why Germany has seen a relatively benign opening up is because its health risks have gone down significantly more quickly. As we have said before, there is not a trade-off between the health and the wealth sides.

Q648 **Rushanara Ali:** No, absolutely. Paul and Gemma, can you talk a bit more about what levelling up means in this context, in the wake of COVID? What should Government be doing to promote that agenda and how is it different from what is going on? We talked a lot about the need for investment. Earlier on, there was a reference to infrastructure investment, which could be in the hundreds of billions.

We have the spectre of 1 million young people who are going to face unemployment. We have people out in the streets demonstrating against racial injustice, something that the Government, in my view, are not waking up to the reality of. We have seen very high death rates among black and Asian people, and poorer white people, in terms of the class differentials. What does that really mean? Does it mean anything now?

Paul Johnson: Levelling up was really focused on geographic inequality, so I will start with that and come back to the wider ones. It is not obvious that this crisis will widen geographic inequalities, in the sense of inequality between London and the Midlands or the north, particularly in terms of overall labour market performance. As I was saying earlier, some of the more prosperous areas have more of the relatively low-paid hospitality and retail jobs.

It is also the case that some of the more prosperous local authorities are more dependent on the income streams that have reduced. Parking charges, charges for leisure facilities and so on are more important in the south-east than they are, on average, in most of the north, outside the very tourist-focused areas. More prosperous local authorities are more dependent on council tax, where you may have more people who are no longer able to pay their full council tax.

There are a number of reasons for thinking the short-term impact may exacerbate inequalities within areas, between the rich and the poor, and between ethnic groups, but I do not think it need be the case that it will increase inequalities between areas or regions. That is part of the issue.

Secondly, on the levelling-up agenda more broadly, that means the underlying issues probably have not changed enormously. It may be that, if we move to a world in which this sort of interaction becomes more common, being in London, for example, may be less important to doing the sort of jobs that are currently based in London. It is possible, and I put it no more strongly than that, that some of the agglomeration effects that benefit London and the south-east could be spread more widely.

That would all imply that the most important focus for investment then might be more associated with broadband and the capacity to work online than the traditional hard investment we have usually thought about in the past. Let me stress again that I am speculating about the future here. I am not saying this is definitely where it will go, but these sorts of things may point in that direction.

There are other issues around levelling up. Education in particular, which is probably under-focused on, is going to be especially important. What is the biggest difference between the richest and poorest parts of the country? It is the number of people with high levels of education, which reflects the availability of jobs in those areas.

Q649 **Rushanara Ali:** I am going to turn to Gemma. Do pick up on the points around levelling up if you want to. I want to dig deeper into inequalities. We can see existing inequalities playing out in death rates and so on. Are new inequalities emerging? You have all talked about some of the impacts on those in particular sectors. We have seen gaps in Government intervention. New starters, for instance, have not been supported and are crying out for help. Young people, as you have mentioned, are being hit very hard, as are the self-employed and others. Many millions are still left out.

Does that create a big gulf between those who have support and those who do not, where the Government are not listening? Is that going to create much more friction and a sense of grievance, because the Government have not equally supported everybody in need? What does that mean for inequalities going forward, post COVID?

Dr Tetlow: I will start, but you should definitely ask Paul and Torsten this as well. I know IFS and Resolution Foundation have done a lot of work on inequalities at this time.

To pick up on a few of your points, the groups that Paul was talking about having not been covered by the support packages tend to be relatively high-income groups, in some ways. One group highlighted was self-employed people with profits over £50,000 a year. That is clearly a pretty high-income group and tends to be made up of people like partners in law firms and firms of accountants. Similarly, some company owner-managers have been taking very high levels of income in dividends from companies. To the extent that those groups have been left out, that may reduce rather than exacerbate some previous inequalities.

One of the groups you talked about that we are particularly worried about is young people, both at the tail end of their education and going into the labour market, who are likely to be badly affected by the poor state of the economy at the moment. IFS and others' previous work has shown that going into a poor labour market can have lasting scarring effects on people's earnings opportunities. At the moment, not much is being done to help those people, apart from being eligible for slightly higher levels of universal credit if they are not able to find a job.

There is a chance that this will increase inequalities, but I am not sure it is mainly to do with the gaps in existing support schemes. It is probably more to do with the fact that existing inequalities mean people have had a worse experience of this crisis. That includes the people Torsten was talking about before, who live in much more cramped living conditions, which means those children find it harder to learn through the schooling being provided to them. They are more likely to be at risk of transmission of the disease, because they are living in much closer confines with other people.

Q650 **Rushanara Ali:** You are describing much of the experience of my constituents, in terms of these multiple factors, with the fourth highest age-adjusted death rate in the country. Giles, do you want to contribute very quickly? Then I will go back to the others.

Giles Wilkes: I do not have very much to add there. Every single feature of this disease seems to be diabolically prejudiced against certain disadvantaged groups, from the health effects to the nature of the work they are in and their prevalence among frontline staff. I strongly agree with your concern that this kind of a disease seems, at least in the very short term, to make it very, very difficult to deal with.

On levelling up, as you asked earlier, it was meant to be a geographical statement, but it really is just a slogan. The Government went into the election campaign with this phrase that they thought worked very well, but they had not got round to working out really what it meant or how to go about doing it before coronavirus came. Right now, it is still quite a big blank. There may be an opportunity to provide them with some better content.

Q651 **Rushanara Ali:** Torsten and Paul, we know that there are differential effects on those at the bottom end of the income bracket. There are big issues around gender and race. Can you tell us more about what assessments you have done on the differential effects? I know Resolution Foundation has done work on childcare and gender, but also the high-income earners who are saving more, for instance, than lower earners. We are having different experiences of COVID. What does that mean for inequalities? Are we losing out, with hard-won battles going into reverse, and what are the policy implications for that? What should Government be doing?

Another angle is around youth unemployment. Is there a case for giving young people an income guarantee? There is nothing for them at the moment. It is likely to cost £1.5 billion to £2 billion, if we give every young person a minimum wage. We could use the £600 million or so unused money from the apprenticeships scheme to provide an income for young people, so they can make a positive contribution to society. Should the Government be much bolder about those groups?

Torsten Bell: The honest thing to say is that we are three months into this crisis, so I can tell you what is happening on the inequality aspects so far. We then move into speculation about the effect over the whole period.

Running through the issues you have raised in turn, among earners, there is a very clear split. Lower earners are bearing bigger economic risks and bigger health risks. They are the ones losing the jobs, more likely being furloughed and more likely to be key workers, and therefore facing ongoing risks. That is not just about what happened in the lockdown itself; it will be true as we see the opening up, where they have less ability to continue working from home and controlling their level of health risk. It is not just about who faces what level of health risk; it is about who has control of their level of health risk. That low earners thing is very clear in all the survey data so far.

On age, it is definitely the younger workers, particularly the very youngest, 18 to 24, who face the biggest job losses and furloughing to date. Other than the very youngest, you basically have a U-shape, where the over-60s and people in their 20s have slightly higher risk of furloughing and job losses than people in the middle of the age range. That is the current young workers. This point about future young workers, people coming into the labour market, is crucial. All our income support schemes are supporting previous incomes, not potential future incomes.

We published a report a few weeks ago, saying that, if we see the kind of unemployment increase we are expecting, and the effect on young people mirrors that of previous recessions, we expect young people without degrees to see, even three or four years into this, a 30% effect on their employment rate, so really big.

On income inequality, this is the area where there is less data, but we published a report today saying a few things. First, the income hit, so everybody in and out of work, and in households, not as individuals, is more evenly spread across the income distribution than the earnings hit. The way of thinking about it is that the bottom of the income distribution is less reliant on labour income than the middle and the top. Therefore, because this is a labour market crisis, they have seen less of a hit immediately than you might think from looking at the low earners being hit hardest. There are low earners in the middle and the top of the distribution too, because they are second earners in households.

The first point was that, if you look just at incomes, it looks like maybe it is not so bad; everyone is just having a really bad time. The danger of thinking about it just like that is that the other half of the household budget is obviously what you spend. If we look at who has been able to reduce their spending in the face of those big income hits, it is incredibly top-heavy. You see huge savings rates among the top half of the distribution and much lower rates among the bottom half. If you take that and the income change together, it means that the measures of financial distress are at the bottom of the income distribution, but they do not show up in the income stats. They will show up in the other measures of spending and how you think about family budgets. That is going to feed through to the bottom taking on more debt, while the top is able to increase its savings significantly.

Rushanara Ali: Paul, if you can pick up on some of the points that have not been picked up, I would be grateful.

Paul Johnson: I will try. There are a lot of points to get through.

Q652 **Rushanara Ali:** What should we be doing on gender and youth, perhaps?

Paul Johnson: In terms of gender inequalities, we thought beforehand that women would be more likely to be furloughed and unemployed than men, because of the sectors they work in. The indication from the Resolution Foundation's work at least is that that is not the case, so much as you would expect. Among mothers, we really are finding, from our own surveys, that they are more likely to lose their job, reduce their hours or reduce the number of hours in which they are focused solely on work than fathers are.

You might expect that to have, potentially, a long-run effect on their labour market outcomes and wages, because we know that time spent out of the labour market or working part-time can have significantly negative effects.

We know that, among ethnic minorities, some groups, for example Pakistani and Bangladeshi men, are much more likely than others to work in shut-down sectors. Some of them are much more likely to be self-employed. Many black groups are disproportionately represented in key worker occupations. We are seeing really quite stark differences, by ethnic minority groups, as well as those gender differences.

In terms of younger people and generational inequality, as I said earlier, a significant issue is what happens to young people moving into the labour market at this point. There are one or two other things it is worth saying. It is not necessarily all going in the wrong direction. Fathers are spending more time with their children during this crisis.

Q653 **Rushanara Ali:** Sorry to push you, but what should we do about it? What should we do to make sure their opportunities in the work of work are enhanced with Government support? At the moment, there is nothing for them. If you were a Government Minister, what would you do?

Paul Johnson: Do you mean for young people?

Rushanara Ali: Yes, and any other groups, if you can think of ways forward.

Chair: I will need a fairly quick answer. I am sorry to press you.

Paul Johnson: I do not have a lot to say, so that is probably good. At least maintain the numbers of apprenticeships where they are. That is going to require some significant support for employers, as one part of the answer. Reinventing some of the employment support schemes we have had in the past, where you provide employers with reasonably significant—

Q654 **Rushanara Ali:** Is there a case for a future jobs fund equivalent?

Paul Johnson: Indeed, the future jobs fund was quite well evaluated. That was brought out in the last crisis and the evaluations of it were really quite positive. We have some success stories to learn from, from previous crises.

Q655 **Alison Thewliss:** I have some questions about the future and the new normal, as much as I hate that phrase. Can I ask everybody to give their thoughts on what life will be like post lockdown, once things get into that more normal scenario? After the virus is contained, do you think life will be materially different and, if so, how?

Torsten Bell: This is a big question. I am nervous of grand claims that the world will be completely different that are not grounded in evidence of trends that were at least latently visible prior to the crisis happening. Let me touch on a particular example. In the world of work, a lot of columns are being written saying, "It is the end of the office. Nobody will ever go back to the office". I am very sceptical that that is the case. There are lots of reasons why people work in offices. There are benefits on the economic side. There are micro versions of agglomeration effects that you would talk about more broadly. People need to engage with each other.

Without sounding like an economist, there are also human reasons why people work in offices. Lack of human contact is not healthy for people over long periods, at least not for most people. On that front, I would expect to see a continuation of the trend that was underway pre-crisis, which is for professionals in particular to see a significantly fast growth in the pace of professionals who work some of their week from home. The number has gone from just under 6% at the beginning of this century, and I think it was around 12% by the time we entered this crisis. There is big growth going on in that anyway. I expect to see that continuing, rather than a complete transformation with no offices.

If we are predicting how the world of work changes from this crisis, it is really weird that none of those articles starts with really high unemployment for the foreseeable future. What are the big changes happening to our political economy? We are going to be dealing with unemployment when we thought we were dealing with record employment, and we are going to be debating the size of tax rises over the first half of this decade. Those are the two big things that are going to be coming out, which I am reasonably confident in predicting, as to how the world has changed, before we get into the slightly more utopian end of the market.

Giles Wilkes: It is a fascinating question and I share the uncertainty. If there is one area that I see could be struck by lots of things at once, causing a bit of a problem, it is really big, dense cities like London. Because of the combination of the reliance on public sector transport, the premise that everyone wants to cluster really closely and lots of sectors, in particular entertainment and the theatre district, you see all these things hitting at once. Although some of the more excitable claims about things like commercial property might be wrong, it is the combination of all of these.

I am particularly worried about the transport system. Everyone has envied it for such a long time, but if there is any prevalence of this disease, even if masks are absolutely wonderful, anyone who tries to go on the Victoria line between 5 pm and 8 pm will have to take a really significant risk. Ironically, reflecting on that levelling-up agenda, as Paul implied earlier, we might be getting on with the phrase "levelling up" at the very time when this outstanding city we have, which sticks out like a sore thumb in terms of its performance, takes several structural hits at once, and that causes us to have a real headache for quite a while.

I imagine that might be the one that lasts, even as gradually using human ingenuity gets us ways round various sectoral problems, like how to have a pub or restaurant meal, or cinemas. All these things happening to London at once is the one that worries me.

Q656 **Alison Thewliss:** Do you think there are environmental benefits, if people are not moving around and travelling so much? Should those be sustained?

Giles Wilkes: That could be a really massive positive, particularly if the Government hold their nerve on the electric vehicle transition. That could be a really fantastic benefit, partly because people do not see the benefit of the thing until they have seen it. In the last three months, we have all seen how wonderful it is having cleaner air, less noise and so forth around us. That could be a real upside. It is about time we had an upside.

Dr Tetlow: I do not have a huge amount to add. Your question was premised on a world in which we no longer have to worry about the spread of the disease.

Alison Thewliss: You do not think that exists.

Dr Tetlow: It may be a very long time away. In part, the answer to the question will depend on quite how far away that is and how much we have adapted our ways of living to something that needs to take more account of the virus being around.

What Torsten and Giles have been getting at is that this is probably going to be very different for people in different parts of the country. In London, the vast majority of people commute to work on public transport, so there is a real, big question about whether we are going to need to live in a different world where it is not possible to get to work on crowded public transport and what that means. If you are in a different part of the country where the vast majority of people drive to work anyway, in their own cars, not so much of a change is going to be needed there.

Similarly, it is different if you have the type of job where you can sit at home and do it. I am not disagreeing with Torsten that it will accelerate a trend towards somewhat more working from home, as opposed to the end of the office, but I have to say it seems unlikely that we will go back to as much working in offices as we had before this crisis, having now proved that technology can work and it is possible to do more things remotely than in the past. For other types of workers, if you work on a manufacturing production line, your work is probably going to be very similar in future to how it has been.

Q657 **Alison Thewliss:** Do you think there will be different types of jobs and people will move from the sectors that have been very public-facing to different types of jobs or different sectors, which might be more traditionally office-based but now you can work at home, perhaps from hospitality into service and IT jobs done from home?

Dr Tetlow: It is possible. It will depend on both the mix of skills required in those jobs and their attractiveness. If hospitality jobs have previously been attractive for the excitement they bring and the possibility of engaging with customers, and that no longer seems like an attraction, it may shift some people away. You would require the right skills to go and work in those more office-based jobs.

Q658 **Alison Thewliss:** Paul, we have found out an awful lot about the operation of Governments within this crisis. Are there things you would like to see change in how Government operate for the future?

Paul Johnson: We have seen some good and some bad. The speed of response, to some extent, on the economic side was pretty impressive. For the CJRS to have been designed and got out of the door at that speed, for universal credit to have survived and for people to have largely received what they claimed for, suggests that there are parts of Government that can work pretty well.

Some parts of Government are going to be under real strain going forward, Jobcentre Plus being the most obvious. They are going to have not just a huge amount more people to deal with, but a much harder labour market in which to place them. Going back to the conversation we had earlier, we are going to have to see Government, yet again, reinvent the ways they are helping people to get back to work.

Going back to an earlier discussion, there has been a lack of clarity about the response to the crisis. Under what circumstances and when does the lockdown come to an end? How are we trading off the risks going forward? We remain in the position, as employers—I say this as an employer—of thinking about what we are going to be doing in September. The answer is that I do not have the foggiest notion. That is not entirely Government’s fault, because there is clearly quite a lot of uncertainty, but equally more could have been done to co-ordinate across those things.

There have been elements of Government that have performed pretty well, but elements where they performed less well, both in terms of co-ordination and information, and in terms of things like delivery of PPE and so on across the NHS. I do not have an idea, and I suspect colleagues at the Institute for Government may have more of an idea, about whether there are general lessons or specifics they can tell us about why DWP and HMRC appear to have performed better than some other arms of Government.

Dr Tetlow: I can say a little bit. It is quite notable that the policies DWP, HMRC and Treasury rolled out were clearly chosen to be ones that were possible to roll out quickly. It is worth praising them for the fact that policies were designed not just from theory, but thinking, as we design the policy, about what we can implement quickly. If you look at how other countries dealt with supporting incomes for people out of work, many of them had to introduce entirely new pandemic unemployment payments, because they simply did not have the existing systems to be able to ramp them up for the increase in demand, in the way the universal credit system seems to have coped reasonably well with that big surge in demand. That is quite laudable.

I will probably have to get back to you with written evidence on some of the other areas, which I know colleagues have looked at. We can probably send you some evidence.

Q659 **Alison Thewliss:** That would be great. Thank you very much. Lastly, can I ask Torsten a couple of questions? The financial crisis led to fundamental changes in regulation in the financial sector. What should this recession lead to?

Torsten Bell: In terms of the impact, as I said right at the beginning, one of the weird things about this crisis is that it has not had an economic cause. The change that comes is not just on the economic side. Focusing on the economic side, you can see existing trends that were pushing somewhere, where this crisis has put an issue up in lights and could lead to a significant change on the policy front. I will provide two and others will have better ideas.

The recognition of low earners and the degree to which both policy and, to a degree, public attitudes have undervalued low-paid work, less to do with the rate of pay and more to do with the way the rules of our labour market provide dignity and respect, is one area where you could see significant change. That is partly because it is eminently doable. We know the things we would do to change policy on that front, and they are achievable. I would say that on low pay.

On the NHS, all else equal, a pandemic probably leads to more spending on health, but that is not a binary change. We were probably going to see increases in health spending anyway. On social care, we have gone through at least 20 years of catastrophic failure to deal with it, principally because the politics of it are a nightmare. It is difficult, but is also felt by a minority at any given time, so pressure never builds to provide the answer to that technically difficult question, which involves big trade-offs. All political parties have basically ducked the need to resolve that.

It is still early; we will need to do a full inquiry for our results, but it is hard not to conclude that our excess death rate has being higher than most other countries' is related to our failure, both north and south of the border, on social care. It is hard for anyone to think we have done a good job on that front. That reflects a longer-term failure to pay the attention and care we needed to that sector. It has now gone from a chance for Government to grasp the nettle of solving the social care problem to it being untenable for politics to continue to leave it.

On low pay and social care, there are reasons for hoping that, in the way we sorted financial regulation post the financial crisis, we grasp longstanding problems that we already face.

Q660 **Alison Thewliss:** That makes absolute sense. It is clear that the models there just are not working for people at all. Lastly, Torsten, have you any thoughts on the way the OBR and the Treasury have interacted in this crisis? You mentioned that the OBR's scenarios were quite optimistic. Could that have been done better? What should they be looking at, if they are not doing it in the way you think would be wisest?

Torsten Bell: There is a slight danger of this being an insider's answer to a big problem. Most of us think the OBR has generally been a good innovation over the last 10 years. The way in which it was designed is an easier fit for normal times, outside crises, where economic developments are not happening very quickly and economic policymakers are not being asked to make lots of decisions swiftly. There is a little bit of a challenge in terms of the degree to which the Treasury has outsourced its forecasting function and lot of the people who embody the human capital and understanding of looking at data on what is happening in the economy.

In normal times, I think that is fine. There are long-term discussions and people are talking. It is more of a problem when politicians and Ministers are being asked to make swift decisions, where a more iterative engagement with your forecasters and people with lots of understanding is more valuable. That has been a particular challenge this time. I would say that, first of all. The model is just harder to work during a fast-developing crisis. It is not impossible; lots of countries manage it, but it points to the need to have more capacity inside the Treasury for some of these elements.

Secondly, I think it was really good that the OBR stepped up off its own back and provided a scenario and a forecast. It is irrelevant what I think about the individual elements of that forecast; many of us have views and we should all say, "I have no idea which of us is right". It would have been preferable if we had set out multiple scenarios at that point. I basically think nobody should be producing single scenarios in the current world, because the nature of this crisis is huge uncertainty.

It is uncertain because we have not seen it before and we do not know when we can resolve the underlying health cause of the crisis, so we should provide scenarios and policy needs to be better adapted to that uncertainty, rather than saying with spurious accuracy, "We can definitely do this on the job retention scheme for these months, at these exact payment rates, with this reopening on these individual dates". That is all for the birds, if we are honest about it.

The OBR has promised, which is great, to do another set of numbers. We are now told we are not getting a Budget, but it will provide some scenarios around the *Fiscal Sustainability Report* in July, I think. That is very valuable, but they should be scenarios, plural. That is my main lesson.

Q661 **Chair:** We are coming right to the end now, but I have a final question, to which I would like a 30-second answer, please, from each of the panellists, and only 30 seconds because we are tight on time. On a slightly more optimistic angle, we had George Osborne before us last week. While in no way did he play down the severity of the current crisis, he said he thought it would be less difficult and easier to recover from, compared with the financial crisis.

He basically made two points. First, the whole history of pandemics—you can go back centuries to look at this—is that they tend to pass through relatively quickly. Secondly, the supply and demand-side challenges we face with this crisis are quicker to put right, on balance, than the gumming up of the financial system and the lack of an efficient allocation of capital, et cetera, that he had to grapple with in this time. Could he be right, do we think? I am going to start—30 seconds only—with Torsten, please.

Torsten Bell: No, unless you get a vaccine turning up in the very near future. That is a complacent approach to take to it. The reason I think it is harder is that I do not think the history of pandemics says they pass through incredibly quickly. Short-term epidemics in individual countries can do, but unless you resolve the health problem the effects are really significant and last.

Secondly, on the supply and demand, it is wrong—and I would include us in being wrong about this before—to think about the reallocation being really straightforward. In reality, we are seeing two phases. We need a reallocation to the new normal while we wait for a vaccine to turn up, and then there may be a reallocation that has to follow that. There is actually a two-stage reallocation to go through on the supply side. That is difficult, particularly given that the people in the jobs being reallocated are not those who tend to travel for work or to move place for work. I am afraid I am not as relaxed.

Paul Johnson: It depends to a large extent, as Torsten was saying, on how quickly the virus disappears, either because it just disappears or because we get a vaccine. In a world in which that happens quite quickly, there are perhaps some reasons to be slightly optimistic. This was not fundamentally an economic crisis. It did not reveal fundamental economic problems in the way the financial crisis did. If it has essentially disappeared from the world by the autumn, which I agree is very optimistic, we may be able to get back, not immediately, but at a reasonable pace.

There is one counter to that, which we have not focused on anywhere near enough. This depends enormously on not just what happens here but what happens right across the world. We are dependent, from a health point of view, on every other country in the world doing better than we do, or doing a good job of it. We are also dependent on international supply chains and all those things reopening properly. Most of the macro scenarios suggest that the negative impact in other countries is a significant part of the negative impact here. We suffer because the rest of the world is suffering, and vice versa. It really matters that this gets tackled internationally.

Dr Tetlow: I agree with what Paul and Torsten painted. The answer depends on a question that none of us is the right person to answer, which is how quickly we can eliminate the risk of this disease. If it hangs around for a long time and there is a continued risk that we have multiple subsequent waves, we are in a world of perhaps multiple big structural shifts, which Torsten talked about. That could be as large as or bigger than the structural adjustments we had to make after the financial crisis. If this disease goes very quickly or we come up with a vaccine quickly, and we can just get back to what we always used to do, we may be in a much more benign world than the financial crisis, which revealed some structural problems that we had to adjust to.

Giles Wilkes: I will agree with George Osborne, but not for a reason that he would like. We can do better this time, partly because policymakers this time appreciate much more that we need to get the demand side working again. The baseline against which we are measuring, which is a long, slow recovery, is one that we will not accept this time. There is much more optimistic talk about using the state, changing the Bank of England’s target, doing anything we can. I think we can beat it, but this is partly because we now have a much more expansionary mindset, which we need to keep. If we do, we can do better than the financial crisis.

Chair: Thank you very much, Giles. That brings us to the end. Can I thank everybody on the panel for giving us your time so generously? This has been a fascinating session. Some of the observations and insights you have shared with us have been deeply valuable. Apart from perhaps the last question, where I detected a slight divergence of opinion, generally there has been a broad sense of consensus about how we should approach coming out of the crisis, as indeed there was when we had three former Chancellors with us last week.

I suspect, as we get into the detail, as these policies become a reality, as unemployment starts to increase, as all these things happen, there might be some divergence of opinion, even among you. We will wait and be very interested in the observations you have to make as we come through and the Government enact new policies in the future.

Thank you all very much indeed for joining us. Thank you very much for giving us your time.