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; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Mike Hill; Siobhan McDonagh; Alison Thewliss.

Questions 662 - 739

Witnesses

I: Dr Adam Marshall, Director General, British Chambers of Commerce; Jon Moulton, Chair, finnCap; Lord O'Neill of Gatley.

Examination of witnesses

Witnesses: Dr Adam Marshall, Jon Moulton and Lord O'Neill of Gatley.

Q662 **Chair:** Good afternoon and welcome to the latest session of the Treasury Committee, looking at the economic consequences of the coronavirus. We are very pleased this afternoon to be joined by three witnesses. I will ask each of them to introduce themselves very briefly for the public record.

Dr Marshall: Good afternoon. Thank you very much for inviting me to appear today. I am here representing 53 chambers of commerce across the United Kingdom, which in turn represent over 75,000 businesses with 6 million employees, as well as our network of over 60 British chambers and business groups around the world. Together we are looking at the consequences of this pandemic, from both a UK and a trade and global view. I am delighted to be with you today.

Jon Moulton: I am a private investor in about 100 companies. I am chairman of finnCap, the largest AIM broker, and chairman of the International Stock Exchange. I chair an early-stage pharmaceutical company in Cheshire and do a few other things.

Lord O'Neill of Gatley: I am Jim O'Neill. I am a Member of the House of Lords. I apologise for my tardy dress code. I had not quite focused on the fact that everybody else would be so smartly dressed. I guess I am here in my role as vice-chair of the northern powerhouse Partnership, perhaps, as well as chair of Chatham House. Thank you very much for inviting me.

Q663 **Chair:** There may be a Division of the House this afternoon while the Committee is sitting. We are hoping not, but, in the event that there is, I will adjourn the Committee, probably for the best part of half an hour, I am afraid. Jim, you have let us know that you need to go at 4.30 pm, and we totally understand that. It is just possible, if we have a Division, that we will need to run beyond 4.30 pm, but hopefully that will not occur.

I am going to ask all Committee members to direct their questions to the panel as a whole, if necessary, or to individuals on the panel, but to at every stage make it clear to whom they are addressing the question. If you do not have a question addressed to you and you really want to get in on that question, please raise your hand and I will endeavour to bring you in, although bear in mind that we very much welcome correspondence from all who appear before us. If there is anything subsequently that you want to raise with us, there is always the opportunity to write to the Committee afterwards as well.

With that, I am going to move on to my first question. I will direct it at all three witnesses, please, but I will start with Adam. It is about this issue of Government support by way of loans. Clearly we have a wide variety of different approaches, from the bounce-back loans through to CBILS. We have had the larger version of CBILS and we have the CCFF at the higher end of loan support. Adam, do you feel that these loans are, by and large, fit for purpose, or are there still issues around any of these particular loan approaches? Do you feel that the banks have been getting these out, particularly to your members, for example, quickly enough?

Dr Marshall: The sense that we get from business communities around the country is that some of these loan schemes—in particular, CBILS and CLBILS—had a bit of a slow and rocky start. Some of that will inevitably have been down to the fact that they were brand new and that both the financial institutions and Government were feeling their way through how to provide support to businesses facing cash flow difficulties. But there were a number of issues that arose in the early weeks, for example around the ability to contact one's bank in order to get an application moving. Response times were rather difficult, and then a backlog appeared as well, particularly in CBILS, which left a number of businesses frustrated.

I am happy to report that that has improved somewhat after that initial spike of demand. We are seeing more businesses reporting smoother application processes for CBILS loans, with more of those businesses that are trying to use them getting a response and a decision within a reasonable period of time. That was not without the need to tweak some of the criteria of the schemes, and to make it easier for the application process to proceed quickly. One important change was with regard to the forward-look test, for example. That was altered and made things easier. There has been a need to continuously iterate the CBILS loans to ensure that cash gets out as those small and medium-sized businesses need it.

The experience on the bounce-back loan scheme has been significantly better. That is down to the fact that due diligence and credit processes are much more limited, given the scale of the Government guarantee. Cash has been getting out to the front line much more quickly from that particular scheme. Many businesses are reporting that they had a simple application process and they had the cash within 48 hours, as was expected. That has been positive.

There has been a difficulty with some businesses that have been customers of non-accredited lenders. They have felt they have been locked out of the bounce-back loan scheme because the accredited lenders were spending most of their time servicing their existing customer basis, because they had a huge number of applications from their existing customer base, rather than being able to take on applicants from outside their business itself. There have been some difficulties there, just in terms of servicing the huge volume of demand that has come through.

On CLBILS, there is a concern among the smaller number of companies that have used that particular route about clearing up questions around the debt stack and where the CLBILS debt ranks in comparison to other existing obligations. I know that has been a bit of a brake on getting cash through quickly to some. Again, that scheme is also hugely welcomed by us, because there were a lot of mid-size and mid-cap companies that felt that they could not get the scale of support that was required.

The overall message is that these are fundamentally helpful schemes for those companies that feel they are able to go out and borrow from the market, so they can see where the revenue is going to come from in order to pay back the debts they are incurring, but it is going to take continuous iteration and they are going to have to go on for some time to support businesses through the waves of cash difficulty ahead that they are likely to face.

Lord O'Neill of Gatley: To be candid, I do not have even a percentage of the experience that Adam can share about the realities on the ground. As a private investor, I certainly know of many of the difficulties in accessing some of these things.

This is the interjection I would offer, having participated in a House of Lords debate on the very initial support offered by the Chancellor, ahead of the big launch of the debt-based scheme. I am a huge fan of the furlough scheme, but I would not have approached the company support schemes through debt provision. It is easy for me to make that comment because of the speed with which the Treasury had to act, but in many ways it was taking from the books of the 2008 crisis and trying to apply things that were learnt through that. I would have had an approach that was more grant-based, tying it very closely to the furloughing for a two to three-month period.

As I suspect we may get into further, I would have considered forms of potential equity injection for those that really needed it for a longer period, rather than this very wide, scattergun debt approach. I cannot imagine how that many companies are going to be able to repay a lot of it.

Q664 **Chair:** We will come back to that aspect in a minute. Jon, did you have any comments specifically on the offering that the Government have gone out with?

Jon Moulton: Adam has given a very good account of what has gone on. I will add a couple of things. The tests about viability have been difficult. Companies that I have been involved with have found themselves being locked out for some fairly arbitrary accounting points in a prior year. That test has not worked very well. There is a requirement for the CLBILS, for example, that the loan will enable you to trade out of any short to medium-term difficulty resulting from coronavirus. That sounds perfectly reasonable until you try to work out how long and how deep it is going to be coming out the other end, which is completely impossible to guess.

The bounce-back scheme has been great and has worked very well for the companies involved. It has been fast and easy.

The future fund, which is the smallest of the schemes, is a very poor scheme. It provides funding for innovative early-stage companies. The effect of what has happening in the economy is that companies have lost revenues. Early-stage companies do not have revenues, or if they do they are very small. They are a small component of their funding. Fast-growing little companies were the least affected by the coronavirus, and they are operating in a world where there is a monstrous amount of private capital. The future fund seems to be, first, barely necessary and, secondly, just crowding out some £10 billion of dry powder, as they call it—unspent private equity to invest in growing businesses in London.

That one scheme is quite badly flawed. The need is not there and the structure is not going to do much good. The others have done some good, but, as Jim says, the real problem is going to be getting them to repay.

Q665 **Chair:** On that future fund point, Jon, we would love to have more time now to explore it with you, but, if you have a moment, could you drop your thoughts to the Committee by way of a letter or something of that nature? That would be particularly interesting to us.

Jon Moulton: I am very happy to oblige.

Q666 **Chair:** Sticking with you for a minute, Jon, we know that clearly we are going to have a vast number of businesses saddled up with an awful lot of debt as we come through the crisis. The concern is that they are going to be focused on deleveraging and servicing that debt, rather than investing in growing their businesses and creating the jobs that we are going to be in such desperate need of.

Taking a view of, on the one hand, the quite large businesses that will have, perhaps under CCFF and the larger schemes, borrowed substantial amounts of money, and also then the smaller businesses, which may have borrowed much smaller amounts, what approaches could Government take to easing that debt burden in both those particular cases? Is it debt forgiveness? Is it some equity-debt arrangement? Is it something that looks a bit like the student loan arrangements? How do you think it works for the big ones, on the one hand, and the smaller ones, on the other?

Jon Moulton: A very large report from the Recapitalisation Group at TheCityUK is being produced. It is really a very difficult report to write. We have no idea of the magnitude of the difficulty here. If we assume that interest rates remain low, difficulties will be low. If interest rates creep up over the course of the next three or six years, you could have very, very much greater levels of default than the numbers in here. They have taken some very crude approximations to guess that we might have a £100 billion of dodgy-looking debt in a year's time. It could be a lot worse than that in time.

You went through a list of techniques for sorting this out. One is that, if interest rates are low and you do not have principal payments, companies can hang on to debt forever. You do not really need to bring the thing to a crisis. You can have a lot more forbearance. You can have more risk transfer to the banks. You can transfer debt into equity in a variety of ways, such as preferred equity or ordinary equity. You can do things like the student-loan-type structure. A more creative idea is to make repayment of the loans as an additional layer of corporate tax, so companies basically pay it when they are making profits and can repay it. It is quite a complex idea but at least it is novel.

The scale of the problem is going to be enormous, unless we have a very good, strong economy and very, very low interest rates. It is clear that there will be a lot of rescheduling of debt if we are to clear it in time. There is every reason to be concerned about it.

Some of it is going to get recapitalised the hard way, known as corporate bankruptcy. That number is going to go up quite sharply in the course of the next year and may persist into the future, again depending on the strength of the economy and on future interest rates. It also depends on other things, but those are your two big variables.

Lord O'Neill of Gatley: One broader issue, because of the potential scale, as indicated by what Jon said, is about reviewing the whole framework for monetary and fiscal policy. As I have written about and been in the media about for the past six weeks, the whole idea of some kind of nominal GDP targeting should not be off the table as a way of trying to increase the probability of a V-shaped recovery, as opposed to just leaving it all to chance.

Secondly, as I suspect many people on the Committee are aware, I am a big believer in the concept of never letting a crisis go to waste. The whole idea of using patient capital through Government in some form of equity to achieve more strategic goals, particularly as they relate to our dreadfully low productivity performance, should be actively considered.

Dr Marshall: We agree that the scale of the challenge on recapitalisation is going to be very significant. From the demand side, you will have companies that are under-trading and unable to repay their debts, and you will have companies that are over-trading, run out of cash and find themselves in difficulty as well. We are concerned about both of those situations.

We have been supportive, as chambers of commerce, of some sort of contingent tax-liability-type structure for the smaller SMEs, particularly those that are in BBLS at the moment. We think that is easily understandable to those that have taken on that debt. We have to remember in all circumstances that the companies that have taken on some of this debt do not all have the highest levels of financial literacy. We need solutions that are easily understandable, so that they can then try to find a way to trade their way out and take advantage of those solutions.

Q667 **Felicity Buchan:** Thank you for taking the time. Let me address my first question to Jim. It seems to me that the Treasury is going to end up with a lot of bad debt on its books through the various schemes. That will have to be transferred to a vehicle like UKFI, which will have to manage that bad debt, whether that is through debt-to-equity swaps, bankruptcy or anything else. What are the implications of the state owning so many stakes, or indeed bond-type commitments, with so many businesses across the country?

Lord O'Neill of Gatley: To reaffirm what I said, it partly will depend on the broader framework for macroeconomic policy and the success or otherwise. If we get very fast nominal GDP recovery, the debt will not seem anything like as bothersome as it otherwise does.

On the specifics, I find myself being less bothered about it than I would have thought I might be in the past, because that is the reality we face. We cannot undo the past six months, hence the idea of never letting a crisis go to waste. Again, this might come up later, but we can think about and pursue routes of equity-backed capital in some kind of modern version of what came out of World War II, with the Government playing an active role in trying to create more sustainable and better productivity-enhancing businesses, which at some point will then be sold off to private investors, as with the whole end of nationalisation and privatisation that we saw in the 1970s and 1980s.

Q668 **Felicity Buchan:** Do you think that there are any risks of the state taking such an active role in determining where investments are going to be made?

Lord O'Neill of Gatley: You would have to create an arm's-length investment body. Rather topically given the past 24 hours, DFID is a 100% shareholder of something called CDC, which invests overseas. The investments are undertaken by experienced professional people. Around the world there are equity-based entities where the Government are the 100% shareholder, Singapore's Temasek being one that has some parallels, but the investments are made by experienced investors. The remit is given by the Government but the actual investing is done at arm's length.

Q669 **Felicity Buchan:** Jon, you have alluded to the report by TheCityUK and the talk of potentially £100 billion of unsustainable corporate debt. How much appetite is there in the private equity sector? Specifically, how much appetite is there for SMEs, where a lot of this bad debt will lie?

Jon Moulton: The larger end of private equity is very well placed to deal with the larger problem. Thankfully, £100 billion is now the size of the largest private equity fund, just on its own. Can it deal with it? Yes, it can.

There is good appetite for fast-growing companies in the private equity world, and there is good appetite for stable companies with decent cash flows. The problem will be smaller, less stable, less exciting companies.

They are difficult equity stories under any scenario. The UK has already done a great bunch of things, with EIS, VCTs and the like, to support small and medium-sized companies, but not really small ones; there is nothing there to do that.

If I might just pick up on Jim's contentment with the idea of large-scale Government ownership of UK companies, I would not be content with that. The general experience is that widespread ownership of companies by Government entities does not end very well. We can see that in many of the things that have happened regionally and in the devolved jurisdictions. It is to be approached very cautiously. The main thing is to try to avoid ending up with a lot of half-dead or three-quarters-dead companies needing to be tended by the state.

Q670 **Felicity Buchan:** Looking at these SMEs that are in the less attractive industries, not necessarily fast-growing, what is your solution for them if the private market is not going to be interested and you do not like the state investment solution?

Jon Moulton: There is no brilliant solution. They will end up with difficult financial bases. If they have too much capital because they borrow too much now, and they have a low-return business, there is no easy answer. Somebody has to take the write-off sooner or later. You can defer it a long time, which may be very helpful. Deferring pain is something that is very critical at the moment and will be over the years ahead. We will not be able to allow Darwinian free markets to deal with the small companies, or else you will have enormous problems.

Q671 **Felicity Buchan:** Given the fact that some of these companies will just not be viable going forward, so there is going to be bad debt out there, are you concerned about the resilience of our financial sector, our banks, in that scenario?

Jon Moulton: Our banks have done remarkably well in this crisis. They have had some help with releasing their reserves. They entered it with a stronger financial base. The Government and the Bank have been really aggressive in supporting that. I am not particularly worried about banking capacity at the moment, which is a surprise to me; I thought they would have found a way to get into trouble, but they do not seem to have.

Q672 **Felicity Buchan:** Jim, do you want to come back to Jon's point that state involvement in the private sector has historically not worked very well, given that is what you are proposing?

Lord O'Neill of Gatley: I do not really agree with the analogy, although it is factually true in the small specific instances we have chosen. As I remarked earlier, the UK, particularly in the past 20-odd years, has a dreadful performance on productivity. It depends on what criteria you are making such assessments. I am not aware, other than the 3i early-stages example, of our Government doing such a thing, other than in some very modest ways.

I assume Jon is implying Government-owned big businesses, as was the case across the board in the Second World War, which ended up being privatised. Deliberately providing longer-term equity for things that might be strategically important sectors for the UK economy of today and the future is something this country has not actively even considered pursuing in the past. That might be part of our problem.

Q673 **Felicity Buchan:** What are you, practically, thinking about? You are thinking of, for instance, a £20 billion to £25 billion fund, where we look to invest in strategic industries, through either equity or debt.

Lord O'Neill of Gatley: I would suggest that there are three possible alternatives; all three are quite attractive, at least in principle, to me. One relates specifically to the net zero climate emissions by 2030. Before this crisis hit, I cannot think of a human being I knew who would have thought there was the slightest chance of industries having the incentives to do that. In relation to the so-called Project Birch—I am not sure where that name comes from—for many of those kind of industries, this is an ideal chance to help gear them towards further appropriate financial investments, to help accelerate a move towards net zero climate goals.

The second one would be very specifically, on a regional basis, to support the so-called levelling-up agenda. I have talked publicly about this whole notion before. For example, a bit of research has been done by a few people to suggest that advanced manufacturing, alternative energies and life sciences are three things that the north of England has, in theory, the potential to be world class in, but there were not really the resources to do it. The Government have the chance, in this mess, to do that through such a vehicle.

The third one is the more conventional one that you touched on with your question, dealing with it on a national basis. The other two are really appealing, given the reality that the future of so much of business now depends on what Government do. It is not as if we are starting from a position where the Government are a passive player here. Given what this Government have stated as some of their priority objectives, this seems to me to be a sensible path to pursue.

Dr Marshall: I just have three points. The notions of breathing space and deferred payments are going to be extraordinarily important for a lot of the SMEs, as Jon mentioned previously. I note that at the moment some of the loan schemes have a six-year timeframe on them. That will need to be looked at again.

On Jim's point, mission-focused finance is going to be very important. It is very important that the Government have a clear vision of what that mission is. We have had lots of strategies over the years, and Jim and I have been party to many of them. We recreate them over and over again. If we could have some clarity and say, "There are two or three things that we are trying to achieve as a country and we will focus finance and any equity stake the Government might take on those missions, and we will stick with it for 20 years", that might actually have the desired effect.

Finally, I agree with Jim on the importance of the geographic element of all of this. So much of the venture capital, private equity and so on has gone in destinations within 90 minutes of central London over the years. I know this Committee has been very seized of that fact over time. If we do have a chance to build new structures or new ways to help businesses grow, we have to pay attention to their geographic distribution and to making sure that growth can happen in other areas of the UK.

Q674 **Ms Eagle:** I wanted to pursue this idea of a strategic planning role for the Government to recapitalise, making the best of this job that has seen the Government have to prop up with loans, effectively, so much of the economy. I am very struck, Lord O'Neill, with your view that a crisis perhaps creates opportunities to steer towards somewhere better and low-carbon, with innovation in some way, and thinking about how that could be done.

After the war, we had the Industrial and Commercial Finance Corporation. You have talked about what goes on in Singapore. Which models do you think are most likely to work? Are there any other examples existing in the world that you think we should be looking at as a model to do this?

Lord O'Neill of Gatley: The two you refer to are certainly particularly pertinent ones. 3i came out of the corporation that you just mentioned. Broadly speaking, that is regarded as having been successful and ended up becoming one of the earliest active players in the subsequent private equity world. That is a very good parallel to think about.

From my experience around the world, where I have spent a lot of my career in this regard, Temasek has a lot of experience, not just in domestic investments but in international ones, in taking significant long-term equity stakes. There are a number of others, including in some Middle Eastern countries. Temasek has greater applicability because of the amount of investment that it does in Singapore.

Q675 **Ms Eagle:** Do you get the idea that Project Birch, as it is emerging, might be an embryonic version of that, or do you think that is really just to be a place of last resort for what the Treasury decides is strategically important?

Lord O'Neill of Gatley: My impression is no more detailed on this particular aspect than any other, but my impression is that Project Birch might be thought of as a bit more of a traditional bad bank, and not in the same context as the two things that I said earlier; it would be an addition.

Linked to your question, for a number of the businesses and industries that are discussed in the context of Project Birch, some kind of conditionality, whether it was debt or equity, linked to strategic goals should be a requirement.

Q676 **Ms Eagle:** Do you think that the British Government, after many generations of leaving most of this to the market, and indeed allowing foreign takeovers of strategically important British sectors, have the experience or expertise even to think in this way, let alone deliver it? Were this an approach that the Government wanted to take, how do you think that they could equip themselves practically with the capacity to deliver it?

Lord O'Neill of Gatley: That is a tough question.

Ms Eagle: That is what we are here for. We want some practical answers, if possible, to these really important issues about delivery.

Lord O'Neill of Gatley: Let me try to give you three parts of it very quickly. First of all, it strikes me that over the past 20 years many aspects of capitalism have not really succeeded for all in the way that they are supposed to.

That is partly related to the second point: that our productivity performance is exceptionally weak and got worse over the past decade. Why would you want to just carry on with the exact same framework that was there before, particularly when, as you touched on, the reality of this very unique crisis has put this Government in a position that they never would have thought they would face? They have an opportunity to shape and frame things very differently than they could have done before.

Thirdly, from my own experience of the extensive 17 months I had as a Treasury Minister, I know we have some pretty competent people in the Treasury who can think outside the box if they are given the guidance to do so. If we have the right focus and intention, I do not see why it would be beyond the bounds of capability, given that there are examples, in our own past and elsewhere in the world, of such things being pursued.

Q677 **Ms Eagle:** That is a really interesting answer, thank you. Jon Moulton, you are used to being in that area where the market provides the money for investment. Do you have any observations about whether the Government ought to be getting into this kind of thing and, if so, how the expertise that has been involved in the way that capitalism has worked so far in our country could be harnessed to something a bit more strategic in these extraordinary times?

Jon Moulton: My experience in this neck of the woods was being on the board of the somewhat benighted Regional Growth Fund of a few years ago. We had the thick end of £4 billion disbursed, with nearly half of it against the advice of the board; it really was dissipated away.

However, you might be surprised to know that I am actually a fan of doing some industrial strategy. As Jim says, it ain't working the way it is; productivity is going nowhere. There are a stack of things that need to be done. Focus is really important. We talk about doing regional policy. When I was on that Regional Growth Fund, I was much taken by the discovery that there were about 50 life science hubs in the UK. Most of them were too small to ever have any chance of doing anything.

If we are to go regional, we have to go regional and concentrate. That is why London is so successful—because of the massive concentration. If you decide to do Manchester, Bradford Leeds and Liverpool, and given them all some of the same cake, you probably will not prosper. You need to make difficult decisions, and focus and concentrate, to make these little industries work and get them to grow. We need those growing industries really badly.

Q678 **Ms Eagle:** That is, again, a really interesting answer, because the idea that the Government should choose where these hubs ought to be, perhaps after they have had an analysis of where there are some points of excellence, has not featured at all in national economic discourse since probably before Mrs Thatcher. To hear it is very refreshing. Again, where would we get the expertise to decide to do that, so that we could make the best fist of it possible? Where would the people that could make that decision come from?

Jon Moulton: You need a few people of very high quality to make those difficult decisions. This is not about masses. It is about intelligence and careful analysis. If we decide to bet the UK extensively in nuclear fusion or advanced genetics, there are clearly areas in which people need a lot of knowledge to decide that is the right place to be putting the bets. You then have to be able to run those bets for quite a reasonable period. That is difficult because, of course, the politics is not easy.

Yes, there are people who are capable of doing this kind of thing, and relatively small amounts of money, carefully placed, could do a great deal of good. We have some of that visible in places like Innovate UK. We need something that is really focused and not with multiple objectives, which is what has tended to happen to the Government entities when they have strayed into this territory.

Q679 **Ms Eagle:** It needs to be focused and to not be diverted by the latest headline into adding something else in. How do you think that sort of focus could be achieved and baked into the structures?

Jon Moulton: I fear my idea of advocating a benevolent dictatorship will not go down well.

Ms Eagle: Not with this democrat, no.

Jon Moulton: But it would work if you could find one. I am afraid it comes down to political will. It simply has to be this: "We are doing this for the long term. Let us keep at it for the long term. Let us make sure this works. Let us not divide it in three and end up with three non-critical-mass units. Have one that is critical mass and make it prosper". You see that in the successful economies. Singapore has it easy; it is small enough to be one hub. In the United States, you have a few places that really motor that economy.

Q680 **Alison Thewliss:** I want to ask a few questions around the concept of a bad bank, which has been suggested, and debt relief around the bounce-back loan scheme. Could I ask Lord O'Neill, first of all, whether a so-called bad bank, under which the state would take over distressed loans and assets from banks, would be a useful intervention in the current crisis?

Lord O'Neill of Gatley: I am not sure. As you can tell from my answers to previous questions, I am more focused on the non-bad-bank parts. I am trying to look for something better in the future. It is so tempting because that is what has happened before. Arguably some parts of the banking sector still have very much part of themselves as bad banks from 10, 11 or 12 years ago, so that playbook is something that we are comfortable with. Because of the scale and diversity of loans that have been taken on board here, it is a little trickier, to put it mildly.

In my own view, when I think about the purpose of a so-called bad bank, you would want to have a clear purpose as to why you were doing it. Is it to maintain employment? Is it to achieve net zero carbon emissions with those industries? Is it a combination? What is it? To provide ongoing support for the huge potential scale of entities that could be in such a bad bank potentially would just be a guarantee of having a very large amount of debt for a very long time. From what I have seen, it needs to be thought about more carefully.

Q681 **Alison Thewliss:** Jon Moulton, do you see any advantages—or disadvantages, given what you have said already—of a state-led bank versus private-sector-led recapitalisation of distressed businesses?

Jon Moulton: My preferred route, and probably the best all round, is private-sector-driven recapitalisation. It is inevitable that the Government are going to have to help because of the scale of it. It is also inevitable, whether Jim likes it or not, that we will have some form of bad bank, because there will be a lot of them, just statistically. There will be a lot of bad loans.

At the moment, the main priority of the economy should be job preservation. That is the number one thing at the moment. Much of the other stuff that we are talking about is quite secondary. We need to be protecting jobs, not regulations. For the very short term, that is the main game. In the long term, you definitely do not want to just be focused on job preservation. I hope that helps.

Q682 **Alison Thewliss:** That is useful, thank you. That gives a bit of a focus. If it is job preservation that you are aiming for, that could be a road to go down.

Adam Marshall, bounce-back loans could see arrears and defaults among hundreds of thousands of small firms, some of which might be otherwise viable. Is there any way for the Government to sort through these firms and sift what is and is not viable? Do the Government need to consider widespread debt relief for these bounce-bank loans, given they have underwritten them?

Dr Marshall: That is a great question. The scale of the challenge is absolutely enormous. It is very difficult to come up with a viability test that you could apply to hundreds of thousands of firms consistently and get it right every time. Some of these inevitably will fail at some point in time. Others still have viable business models and viable operations.

Up until now, with the application process for CBILS and, to a lesser extent, BBLS, the criteria has been whether the firm was viable before the pandemic and the subsequent lockdown. Given that a certain level of due diligence has already been done there, there may be some benefit in using that to assess the very many loans that have been granted under the schemes when we are considering what should happen next with them in the future.

We have to find some sort of way to give these businesses the financial headroom to rebuild their operations, grow and then be in a better position to repay their debts. Coming back to the earlier conversation, changing the term and the repayment profile of some of this debt may be part of the solution, and indeed looking at the contingent tax liability type of approach or a student loan type of approach, so that firms get a chance to rebuild their revenues.

I very much agree with Jon that maintaining jobs and maintaining economic activity, particularly in regions where that economic activity is not as dense as it might be in some parts of the country, is incredibly important; otherwise we will face structural problems and scarring that will last for a very long time.

Q683 **Alison Thewliss:** Do you see the potential for arrears to be more likely to be geographically-based or sector-based? Are particular areas or sectors more vulnerable?

Dr Marshall: It could be a mixture. When I hear from chamber members all across the UK, there are some sectoral themes that come through, particularly in hospitality, leisure and tourism. In any business that is in the aviation supply chain anywhere at the moment there are again some difficulties. Commercial property is one, perhaps in the short term but maybe not in the longer term; people are having some very immediate difficulties. You can see some sectoral commonalities right now, but that is what applies right now; I could not tell you what would apply at the moment that the Government were considering what to do with the loan book that already exists. You would have to re-evaluate that yet again.

We need to have specific sensitivity to geography. I know Jim and I very much agree on this point. What is considered a systemically or structurally important business in one part of the UK might not be in another part. The loss of 250 jobs in some county economies may be a huge blow and have a very big follow-on impact, whereas that, in a big, major metropolitan area, may have very little impact, so there has to be an eye to that too.

Q684 **Alison Thewliss:** That makes sense. In his evidence to us, Philip Hammond highlighted that financial services firms are being put in the very uncomfortable position of having to issue bounce-back loans to companies that they suspect might not be able to pay them back. Those banks will then have to go and chase those debts from their customers. Would it have been preferable if that was given directly from some kind of state-funded bank, rather than damaging the relationship between banks and businesses?

Dr Marshall: The simple fact of the matter is that we did not have the financial institutions at the scale and speed required to do it any differently than was done. I understand the issue and I work very closely, trying to mediate between the businesses, which are at the sharp end of all of this, and the financial institutions, which are very concerned about their relationship with their customers right now, understandably so. I can understand that a bank does not want to be put in the position of having to take recovery action against a lot of businesses when, at the end of the day, it knows it may need to go and claim the Government guarantee.

As we look down the road here, we are going to have to look at ways to defuse that tension. The form of Government intervention will be very important. What we really must not see—and this is crucial for the recovery—is a moment in time when confidence between businesses and banks gets to what it was in 2008 and 2009. That left an impact on our business communities in terms of their attitude towards risk, debt and growth, which has taken a long time to overcome. If this were to lead to something similar, I would suspect that economic growth would be significantly hindered for a long time to come.

Q685 **Alison Thewliss:** Very quickly, Jon and Jim, do you feel that this outbreak has really exposed a gap in the UK Government's ability to invest quickly and directly in businesses?

Jon Moulton: The size of what has happened is so large that there was no way that the capacity could have existed.

Lord O'Neill of Gatley: I am not going to answer what you asked. What it has exposed is that we have a really bad productivity problem in the UK. I slightly hesitate to be in full agreement with the others about the scale of the priority of employment. Of course we need to get everybody back to work, but we need to think about how to be more thoughtful. I am thinking, as I am listening to this, about 12 years ago. It was widely expected in 2008 that there would be a massive unemployment problem for the foreseeable few years from that, and there was not. We ended up with the highest levels of some form of so-called employment the country has ever seen, but a spectacularly weak productivity performance. There is an opportunity here, through direct and different ways of provision of capital, but also through incentives for how business behaves and how laws over employment behave, to do something more fundamental about some of these very long-term challenges we have.

Q686 **Siobhain McDonagh:** I want to look at issues of conditionality. Should there be any? If the Government are giving out money, should they impose on businesses some sort of conditionality in order to receive those funds? Lord O'Neill, you have called for greater conditionality to be attached to any Government bailout of business. What conditionality do you have in mind, and why?

Lord O'Neill of Gatley: I have spoken already, a couple of times, about net zero carbon emissions. If we as a nation have a genuine desire to get to net zero by 2030, business is not going to have incentives to do what is needed to get there without a powerful role by the state. That is definitely one that should play a role.

The second links to how I answered the previous question. My suspicion, for a number of years, has been that we need to change the incentives and the interplay between investment spending, employment of labour and the whole set of rules and form of engagement. To give a specific example, there is the whole role of share buybacks. I have been a long-time supporter, certainly for the past few years, of the idea that we need to cut them out of being such a regular part of balance sheet management by companies. Certainly, any entity that is planning to get some strong Government support should be stopped from pursuing share buybacks.

Q687 **Siobhain McDonagh:** Dr Marshall, do you agree? Should there be conditionalities attached to any business bailout? For example, should seven-figure bonuses or extraordinary pay ratios be challenged before bailouts are awarded?

Dr Marshall: I would expect that there would be scrutiny and a degree of conditionality. That conditionality can be quite broad in certain respects. Jim mentioned the environmental factors that could be in there.

I also think about local impact and social value. My company is a company that is limited by guarantee. I am under a duty to reinvest any profit that I make as a chamber of commerce in my local business community. That does not mean that I think every company should be in a similar model. Of course, having profit and having disbursements are absolutely essential to the functioning of the economy, but measuring the social value that a business puts into a community after a bailout could be considered as well.

Q688 **Siobhain McDonagh:** This is for anybody who wants to answer it. It was reported last weekend that two of the largest beneficiaries of the Covid-19 emergency fund 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 assistance for their businesses? The two companies named were CNH, which owns Iveco, the lorry-maker, and BASF, the giant chemicals group.

Jon Moulton: I am probably not unique in not knowing the particular facts of the companies, but in general terms it is a good idea to support your taxpayers, not your non-taxpayers. I have no idea whether they have a special reason for not paying tax.

Lord O'Neill of Gatley: I concur.

Q689 **Siobhain McDonagh:** Everybody always has a reason. Once the Government have invested in businesses, how can they ensure that they are not subject to political interference? How, for example, does business feel about the prospect of the Government taking significant equity stakes in private businesses? That is to Adam Marshall.

Dr Marshall: A lot of businesses that are in need of substantial support would understand that conditionality, including the possibility of some form of equity stake, could be attached to that support. The rules of the game need to be clear so that businesses understand that, when they are asking for support, that may be one of the outcomes. That is very important.

Equally, to the first part of your point, it is crucial for businesses and the professional managers in them to manage those companies and to not have constant interference from a single shareholder in that management, because that would make it very difficult to execute a recovery strategy and, indeed, to grow the company again. You would expect a Government equity stake to be managed and that shareholder to act in a similar way to other shareholders in terms of corporate governance.

Q690 **Siobhain McDonagh:** Mr Moulton, under what circumstances should the Government be considering taking equity stakes in businesses, rather than relying on recapitalisation through the private sector? Is it the right approach to deal with large and strategic businesses in a separate way from other businesses?

Jon Moulton: On the whole, I must admit that I favour private-sector solutions. If there is one, it will mostly be the right answer. There are very small but important bits of the economy that you can say are of strategic importance. The case for having the Government involved is more significant there. There will be a lot of involuntary Government stakes coming out of this. That has to be a fact. If there is a large chunk of guaranteed debt that cannot be serviced, the best way forward may well be for the Government to be a 40% shareholder for a few years, until such time as the private market can take them out.

Q691 **Anthony Browne:** We have talked a lot about capital, equity and recapitalisation. I want to widen it out to other policies that you believe the Government should adopt. We are all in the V camp. We want a V-shaped recovery and a bounce-back as quickly as possible. We want to retain jobs and minimise unemployment. Given where we are, halfway through the lockdown, what should be done to make sure that we have an economic bounce-back as quickly as possible, preserving as many jobs as possible and restoring consumer confidence?

Dr Marshall: We think a supply-side reaction, a demand-side set of measures and some measures in terms of boosting resilience are needed. Let me take each of the three in turn.

On the supply side, there has been some element of regulatory forbearance that many businesses have had during the crisis. Things have been made easier. Companies can focus on their day-to-day operations rather than regulatory compliance. As long as that does not prejudice their security or health in any way, that should probably continue for the foreseeable future.

Similarly, on the supply side, helping people get back into the labour market, so upskilling and reskilling, is going to be critically important. We may need to look to some very active labour market interventions to help people get back in. We may also need to look at things like a national insurance holiday for employers, to encourage them too.

We talk frequently about shovel-ready infrastructure projects. There are infrastructure projects there that genuinely could be brought forward and implemented immediately. They are not very sexy because they are not huge pieces of infrastructure, but there is road repair, maintenance and improvement. There is digital infrastructure, so the fibre rollout and some of the mobile phone rollout commitments. Those could proceed relatively quickly. That is what we would like to see on the supply side.

On the demand side, consumer and business confidence is absolutely critical. Some steps are going to need to be taken there. Again, I would love to see incentives that allow businesses that have cash right now to consider investing. We would love to see, for example, the annual investment allowance and other capital allowances significantly expanded right now, to enable businesses that do have cash to invest. Some of that money will then, of course, come back into local supply chains and the local economy.

On the consumer side, there are measures one could take to boost consumer confidence. They are temporary but significant. VAT is one that the Government could explore and very much are exploring at this particular time. They could also explore some form of local vouchers, for example, so money that could be spent in the local economy to help some of those sectors hardest hit, such as leisure, tourism and hospitality.

Finally, we cannot just look at supply and demand; we have to look at resilience. This comes back to some of the comments that Jim and others have made previously. We need an exit strategy to deal with the high debt burden that so many companies are facing, so the recapitalisation work is hugely important. In addition to that, we need to see some initiatives to strengthen supply chains. How do we help supply chains become more resilient? In some cases, it might mean shortening them and making them more local; in other cases, it might be diversification within a global strategy because that is what is best for the business in question. There need to be efforts on supply chains.

Going back to Jim's point, we need to ensure that some of the incentives that come in focus on a greener recovery and building resilience through building climate resilience as well.

I understand that is a bit of a laundry list, but a lot of them need to be done over the coming weeks and months. Some of this is going to have to happen quickly, in the near future. It cannot wait for an autumn Budget in November if we are going to get business and consumer confidence going again.

Q692 **Anthony Browne:** That is a very comprehensive answer, thank you. Jon, how would you ensure a V-shaped recovery, maximising jobs?

Jon Moulton: First of all, Adam has just nicked nine of my points.

Dr Marshall: Great minds think alike.

Jon Moulton: There are others. Preserving jobs is important to a V-shaped recovery. People going out of jobs and re-joining new ones slows a recovery. For example, you have an insolvency Bill going through Parliament at the moment. Bizarrely, it tries to protect corporate entities rather than jobs and businesses. It is a mistake; it has been a mistake for a long time in the UK. You cannot preserve corporations but you can preserve businesses. The new moratorium, for example, to help companies survive insolvency is trying to protect companies, not businesses. This is a very simple change that needs doing. It will save hundreds, probably tens of thousands, of jobs.

We need to get the Competition and Markets Authority to have to look at the impact on jobs when it is looking at business mergers. Again, it is not a big thing but it will save a few thousand jobs over the year ahead. It may not be something you want to do for the long term.

There are some short-term job possibilities. There is clearly a backlog of work in the NHS and in the education sectors. Perhaps we can get tens of thousands of people directed to work in those areas, to sort things out for the short period.

I will repeat the deregulation point. Keeping regulation from not increasing, if nothing else, would be a really good idea for the next year. It is something that bears on our long-term productivity too. Somewhere out there, one hell of a lot of regulation needs to go.

The Pensions Regulator needs to be a bit gentler for the next couple of years in terms of getting contributions in, so that it does not precipitate more employer failures.

We need to adopt a habit of a rather old Englishman, Nelson, in our attitude towards state aid. At the moment that is stopping some things from being done. Given the short life remaining, I would have thought that our civil service's capability at both obfuscation and redefinition would enable a great deal of state aid not to be seen. As it is, the rules are not far off insane. The Government cannot do large amounts of debt where they do 100% guarantees, but they can do limitless amounts if they do 99% guarantees. There is an opportunity to do all of those.

On infrastructure, I will just sound a small note of caution. I have done some serious work in the policies about infrastructure. Infrastructure is very attractive but, if it is poor-quality infrastructure work, you will just dissipate assets, rather than helping the economy.

The final thing is construction. The construction industry is typically the one that gets going the fastest and makes the biggest difference. Dumping things like stamp duty, getting rid of some of the planning constraints, speeding the stuff up, would probably give you part of the economy that could go uphill very quickly.

Q693 **Anthony Browne:** Lord O'Neill, how would you get a V-shaped recovery?

Lord O'Neill of Gatley: On that specific question, I would say three things. First, given that two of the most promising vaccine developers in the world are British, if there was any need for additional finance to increase the probability of either of those really working and being available quicker, that would easily be my priority. Once we have a vaccine that works, and the sooner it does, the biggest challenge we are going to have will be the scale of the V-shaped recovery that then follows, at least for a while. In terms of the amount of money being spent on other things, the rate of return of investment on that would be absolutely astronomical.

Secondly, as has been debated in the past few days in the media, while I understand it is difficult for the Government with the various uncertainties about this infection around, it would be very helpful for the Government to be more precise about the rate of daily infections at which social distancing would be reduced from two metres to one metre. It is the same for getting rid of this new quarantine system, so that those businesses, which otherwise have no chance of getting back to normal, can at least have some kind of plan for a time in the future, linked to the recovery from the infection.

Thirdly, as I touched on earlier and will repeat now, in terms of the framework for policy, there is a case, for both monetary and fiscal policy management, for the Bank of England to be given a different mandate than just narrow inflation targeting. Inflation targeting has generally worked brilliantly for the UK, but in the past few years it seems to me to have lost its way as a single-target mandate. If we have nominal GDP, not only would it require the Bank to think about possible further measures that it perhaps otherwise would not, but, crucially, it could give some kind of framework for how the Government themselves will try to manage fiscal policy coming out of this crisis.

Q694 **Anthony Browne:** I am very sympathetic to nominal GDP targeting. I agree it makes sense. I have one last question. We did not touch on the job retention scheme. I think about 10 million people are employed by that now. The Government have announced a taper out of it, up to October, with companies having to pay a bit more. Adam, do you think that taper will help reduce the job losses as we come out of the job retention scheme?

Dr Marshall: The taper certainly treads a careful balance. When we started our coronavirus business impact tracker early on and found that 75% of businesses were using the scheme in some form or another, with predictions that there were going to be 9 million people on it, very few believed us. It has been a hugely important tool, and it has to be unwound extremely carefully. The idea of a 5%, followed by a 14%, followed by a 23% contribution will be fine for those businesses that are generating revenues again and that have been able to reopen and try to get their custom back.

I have concern in those sectors of the economy where reopening has been impossible or where it is completely uneconomic. Some form of follow-on support is going to be required in some specific sectors, which have significant employment and regional impacts in various places around the UK, but where, even paying those small contributions, as envisaged by the taper, those firms would have great difficulty. The sooner we can look at what that newer form of support might be for those targeted areas, the better.

Q695 **Chair:** I want to follow up with one question to Adam. You mentioned the use of vouchers locally and local support for businesses. One aspect that confuses me as to why there has not been more debate around it is the use of a public good other than money, which is space. If we are perhaps going to start unlocking, for example, pubs and restaurants in early July—maybe—one of the major determinants of whether they are successful is whether they have enough space to accommodate the social distancing. Given the kinds of adverse forces that these businesses are going to be facing, should we not also be looking specifically at the use of pavements, quieter roads or even a licence, possibly, to pop up some kind of operation in a local park, if necessary? I wondered whether you had looked at that and had any comment on it.

Dr Marshall: Yes. Chambers of commerce are looking at this extensively, because the concern here is that you could push town and city centres in many parts of the UK past a tipping point if some of those businesses are not able to reopen to a level where they can generate enough revenues to pay their people and suppliers, and keep going.

We would favour a relaxation of planning regulations in all four countries of the UK. We hope both HM Government and the devolved Governments look at taxation that enables more businesses to use outside space and open safely. Our big concern is that, if that is snarled up in any form of additional process or difficulty, it will take too long to have an impact. If it is going to be done, it will have to be done quickly.

To Jim's point from before, in terms of a roadmap on social distancing, businesses need to know ahead of time if they are going to be able to do this. They need to know if they are going to be able to use outside space. They are going to need to know exactly what the trigger point would be to reduce the social distancing required, et cetera. So far, the Government's communication on that roadmap could be far better, enabling businesses to plan once for what they will be doing in the future. I have too many companies in the hospitality and leisure space right now saying that they cannot afford to do stickers for the floor for two metres right now if it is going to change to one metre in a week or two. They do not want to spend the money twice.

Chair: It is worth pushing on the space element. It is taken for granted, almost, that the Government will think about it, but they need to think about it.

Q696 **Rushanara Ali:** Good afternoon. I am going to start with some follow-ups for Adam Marshall. You mentioned the particular sectors. Can you say more about which sectors would face greater challenges, in terms of retaining employment? We are obviously particularly concerned about hospitality. You mentioned the regional dimension. Can you be specific?

Dr Marshall: It is those sectors that cannot see, with any reasonable prospect, when they will be able to rebuild their P&L and their revenues, because they do not know where demand will be coming from over the next three, six, nine or 12 months, which is when the biggest problem exists and when you are likely to see a lot of employers taking the decision to look at redundancies if there is no additional support in place for them.

Q697 **Rushanara Ali:** Forgive me. Run through some sectors by name.

Dr Marshall: If I was to take the leisure and tourism sector, take Cumbria and the Lake District, the south-west of England or the highlands of Scotland, for example. In any place where you have a significant concentration of leisure and tourism businesses uncertain of how they can reopen and how much of their custom they would be able to get back, that is a worry.

One that may not be so much on your radar but is equally important is in the civil aviation supply chain. Global aviation demand is going to be off for a very long time. If you look at Lancashire, Bristol or north Wales, for example, you have significant concentrations of activity in the civil aviation supply chain, where businesses will face some difficulty. There are some specific sectors and geographies that will need additional attention.

Q698 **Rushanara Ali:** Run through geographies, and then can you tell me whether you think the Government should be taking a much more sector-by-sector approach to retaining employment, given what you have just said?

Dr Marshall: Up until now, we have said that we think support for retaining employment should be universal.

Q699 **Rushanara Ali:** Sorry, this is what I was getting at. In the context of the transition towards employers making a contribution, should the Government now be refining it, both in what advice is given on the social distancing, as the Chair has mentioned, but also in what support is provided, given some of them are going to take longer to return to some sort of normality, such as aviation.

Dr Marshall: Now there is definitely a case for a more focused sectoral approach, as we go into the next stage. Up until now, universality has been very important. The thing we have been worried about is specific companies that do not fit within a SIC code, within a specific industrial code, but they are part of a supply chain in an industry that might have fallen out of support. They might have been on the wrong side of an arbitrary dividing line for support. That has been the importance of universal stuff up until now.

As we go ahead, as more businesses are able to open, the focus should be on those that are not able to reopen fully or where they see that demand is going to be suppressed for some time to come.

Q700 **Rushanara Ali:** What will be the scale of redundancies? In our session with former Chancellors, they were pointing to a 1980s level of unemployment. Given that we are going to ease towards employers making a contribution, how badly do we think redundancies are going to hit as this happens? I wonder whether Lord O'Neill wants to kick off on that.

Lord O'Neill of Gatley: I have no idea.

Q701 **Rushanara Ali:** Do you want to have a guess?

Lord O'Neill of Gatley: As I mentioned briefly in a previous discussion, and as somebody who knows all the pitfalls of forecasting, with 30 years of scars from it, in 2008 it was widely expected that there would be a dramatic rise in unemployment, which never happened. The real answer to your question is that it depends on the success of policy in the coming weeks and months.

Q702 **Rushanara Ali:** This crisis is obviously very different from the financial crisis. Do you think that the outcomes could be very different? Do not repeat the policies that you have already mentioned, but are there any other policies that you, if you were Chancellor, would introduce to accelerate recovery rapidly, in terms of boosting employment?

Lord O'Neill of Gatley: I will not go through them all, but I would repeat the three I have just said.

Q703 **Rushanara Ali:** You do not need to repeat. It is just if there is anything else that you would suggest that the Government do.

Lord O'Neill of Gatley: I want to emphasise the context. We had a record level of employment ever this year. If that is the goal, going to the previous question, you want to increase the probability of a V-shaped recovery. You can do that by doing whatever you can to get a vaccine and by something like nominal GDP targets.

Q704 **Rushanara Ali:** Can I take you to the question of conditionality? The Bank of England's Covid corporate financing facility, for instance, has meant that a lot of companies have received support. You mentioned other kinds of conditionality, but is there a case for attaching conditionality, for instance, in terms of employment, particularly for youth employment, where we have a million young people who are likely to face unemployment by the end of the year? It links to your broader point about productivity and investing in a recovery that does not lead to another lost generation. Do you have a view on that?

Lord O'Neill of Gatley: Yes, I do. It is partly why I answered the first question you asked me the way I did. Again in the spirit of never letting an opportunity or a crisis go to waste, do we want to have the same kind of employment market that we have had over the past decade? We should have a lot more interest in the quality of the employment future, rather than just rushing to have some kind of job for the sake of it being described as a job. This is partly why I set out conditionality as to how business could get loans. I am a big believer in what I would call stakeholder capitalism as opposed to being obsessed with profit maximisation.

Q705 **Rushanara Ali:** You would be comfortable attaching a conditionality to, at the very least, training and employment opportunities for the young.

Lord O'Neill of Gatley: Yes, definitely. I have not had a chance to talk about it yet but the intergenerational consequences of this are colossal.

Q706 **Rushanara Ali:** Mr Moulton, would you like to reflect on this point about conditionality, young people and unemployment in the recovery?

Jon Moulton: There is certainly going to be a sharp rise in unemployment. Jim is right to duck the number because it so depends on a lot of things, principally how quickly we come out of lockdown and the restrictions we have. That makes a huge difference. If it is going to take until the end of December or something to get everything up and running, you could be staring at 9% unemployment quite easily. It might not last very long.

Conditionality is a much more complex subject. I talked briefly about the insolvency Bill going through Parliament at the moment. The conditionality was attempted to be attached to it by one of the amendments that a company could not get restructured if it had an outstanding allegation of sexual harassment. This is probably inappropriate. The idea that you would like to have all kinds of other things is good but the trouble is about pace here. In getting people to commit to maintaining a percentage of youths or a percentage of workers, these are difficult things to do at high speed, though they are desirable.

Q707 **Rushanara Ali:** If significant amounts of support are being provided, it does not have to be very rigid conditionality, but is there a case for insisting, for those businesses that can, that they should do more to boost employment—yes or no? I am sorry; I want to move on to another question for you, so what do you think? Is it a yes or a no?

Jon Moulton: There is a case; of course there is, but it is quite dependent and it is a minority of cases that should be given conditions.

Q708 **Rushanara Ali:** Moving on to redundancies, there is quite a lot of concern in a considerable amount of the evidence we have received that employers are likely to make people redundant as we move towards them making a contribution. Do you or other panellists have a view on the scale at which we might expect to see that happen? What do you think the Government could do to mitigate that? It is early days but there is a great deal of concern about it.

Jon Moulton: It is obviously fairly easy to maintain an employee who is costing you no real cash. That has definitely stacked up. It depends what the drop is in the economy. As a very first approximation—Jim will undoubtedly get very angry with this—if we have 10% out of the economy, we are probably going to lose 10% of the workforce, and we are in that sort of territory. You are going to see quite a serious jack-up in redundancies. One hopes it is offset by the sight of the other side of the V meaning that people do not take everybody out because they think they will need them in a few months.

Q709 **Rushanara Ali:** You are assuming there will be a V-shaped recovery, when we know there are very different views. Are you making the assumption that it is going to be V-shaped? There are different views about that, including within the Bank of England.

Jon Moulton: Nobody knows what the shape of that is. The damned virus can mutate and become more or less infectious. Anything can happen. You would expect that some employers would expect a V shape and would therefore not get rid of everybody that they possibly could. They would retain some people against the upturn. There will be people who do that.

Lord O'Neill of Gatley: Cast your mind back to January, when this first started. The widespread presumption then was that it would definitely be a V-shaped recovery. That now seems to be wrong but we do not know. At the end of the day, while it is possible that, as we progress over the weeks and furloughing is tapered off, we will have massive unemployment, if a lot of additional economic demand is created we will not. Companies will then be pleasantly surprised and some might even go on a hiring spree. It depends on policies that are yet to be implemented.

Dr Marshall: Directors of these companies, whether they are small or large, have a fiduciary duty to act in the interest of the business, so some of them will feel that they have to consider redundancies over the coming months because they cannot see where their demand is going to coming from or where they are going to be able to rebuild their P&L from. The furlough scheme has bought time for a lot more businesses to rebuild their P&Ls than might otherwise have been the case, and has saved a lot of jobs by consequence.

The sooner we acknowledge that there are going to be significant redundancies and the sooner that we start paying attention to the fact that it is the companies losing five, 10 or 50 people that add up to a big number over time, rather than just a few of the very high-profile household names, the better we will be able to use policy tools to try to address the challenge.

Rushanara Ali: Your view overall is that it needs to be much more nuanced as we shift.

Chair: We need to move on now. Just on that point of forecasting, I think it was JK Galbraith who said that economic forecasters were there to make astrologers look good. That has probably always been the case.

Q710 **Mike Hill:** I want to focus back on the regions. I know it has been touched on before, but, according to TheCityUK group, there is a regional imbalance in the provision of equity finance to UK businesses. I would like to ask Adam, in the first instance, what evidence he has on how different regions have fared in the Covid crisis. Which of those regions face the greatest challenges going forward?

Dr Marshall: I addressed some of this in a couple of my previous answers. Those regions that have been most exposed to some of the sectors in greatest difficulties have been those that we have seen particular difficulty in. As I mentioned in one of my previous answers, those that have a high concentration of hospitality, tourism and leisure businesses in their local economies, and those that have had heavy concentrations in civil aviation and engineering, face great difficulty.

What surprised me about all of this is that there is a fair universality across the UK as well, with a lot of places faring particularly badly and having a lot of difficulty in the first couple of months. It is about the speed of recovery and which regions are able to recover more quickly. I suspect that those that have higher proportions of business-to-business service jobs, which can be done from home rather than a place of work, for example, will be able to recover more quickly than those where you have to be in the workplace to be productive and contribute to that business. We will see some differential effects coming in the months ahead.

To your point on equity finance, it is a standing issue and, as I said earlier, it is the 90-minute train journey from London that draws investment in a lot of cases. I want to pay tribute to the work of bodies such as the Business Growth Fund over the past few years, in trying to get more equity finance into growth companies in regional economies around the UK and finding out where those opportunities will be. There is going to be a need for more in the years ahead, as we look to future growth beyond the immediate recovery. We still need to solve this problem so that businesses, wherever they may be in the UK, have an equal shot at getting investment as those that are very close to the greater south-east. It is a problem that will require consistent focus, not just from this Committee but from Government as well, over the next five years.

Q711 **Mike Hill:** I am from the north-east. I am from part of the so-called northern powerhouse. I know, Lord O'Neill, that you are associated with that; you are vice-chair. I would like to ask you, as a follow up to Adam's points, how you see the regional agenda being shaped by the coronavirus crisis, and what lessons should we draw from it?

Lord O'Neill of Gatley: I could spend the rest of the week talking to you about that particular topic; I will try to refrain. Again, in the spirit of never letting a crisis go to waste, the evidence is accumulating that those less advantaged are suffering more than others from this crisis. The Government of the day have an apparent priority of so-called levelling up. They should make their focus on specifics of that agenda even more important than before, plain and simple.

Q712 **Mike Hill:** You think specific regions have strengths that they can draw upon and that the Government need to refocus on those areas.

Lord O'Neill of Gatley: There are two quick things, in slight difference to the tone of your question to Adam. My experience on the northern powerhouse goes back to its very first days. This is often not understood in Whitehall but my experience from being in business tells me this, specifically with the northern powerhouse. If the Government make it really clear that it is a major priority, that in itself will attract more private investments to the region. We partly saw this from 2015 through to 2017, when that Government gave it a lot more prevalence and Greater Manchester, for example, not only achieved quite a bit of inward capital, as did one or two other parts of the north, but for quite a while in the period since has seen a faster rate of GVA growth than London.

The main thing is for the Government to demonstrate that they are serious about these things. There definitely are, close to, I think, where you are from, a number of things particularly related to the environmental policies that we espouse, which are highly attractive things to be given support and developed, to give the UK a world-class leading edge. Jon touched on an aspect of it over the Pennines in Cumbria, to do with advanced modular reactors, for example, in nuclear.

Q713 **Mike Hill:** AMRs and green new technology are massive things for the future. I believe it is the regions, areas outside London, that can contribute more to the so-called new technology industrial revolution. It leads me to my third and probably most complex question, to both Lord O'Neill and Jon Moulton. It is about the Recapitalisation Group led by TheCityUK, which I quoted earlier on. It has indicated that around half of SME equity deals are based in London and far more than that by value. What are the repercussions of that for businesses outside London?

Jon Moulton: I am afraid it is a horrible circle. You have concentration. You have bright people. You have pools of talent. The more money you pour into it, the more you reinforce that. The more you reinforce it, the more the money gets sucked in. It is about concentration. London is a spectacular example of concentration. There are not many places on earth that have such an impact. To make it work outside, as I said earlier, if you want to succeed in the regions, you cannot succeed everywhere. You need to concentrate in the regions, and do fewer and bigger rather than many and smaller. I have no better answer and it is slow, hard work. Jim is right about the Government having to say they are doing it.

Mike Hill: It is a very interesting point you make.

Lord O'Neill of Gatley: The only thing I would add is from my own experience. Jon touched on this earlier in a broader sense. Despite this crisis, there is plenty of capital all over the world looking for a good future return. If investors believe that some of these places are going to be given strategic support, especially as it relates to improving productivity, the money will follow. We have seen a little bit of this, for example, in Manchester and in Leeds, and in tiny ways in other places. On the SME financing problem, there have been some structural issues in the markets, but it needs the role of the state to demonstrate that it is serious about trying to have a better future, economically, for these places.

Q714 **Mike Hill:** It is interesting, in terms of ideas around things like regional investment banks. I have a broad question to both of you. Should these imbalances in equity finance be rectified? How are they to be rectified? Do you believe they should not be rectified and we should keep things as they are?

Jon Moulton: It is probably better if they are rectified rather than seeing London become everything. It needs time, effort, concentration and some very long-term stuff, such as getting more vocational education into the north. Part of the UK's productivity issue is not enough vocational education, so bang that in. It will take years to make an impact, but it is really powerful stuff if you do. The human resource being available is a critical component of ending up with attractive businesses.

Q715 **Mike Hill:** That is very thoughtful. Thank you very much.

Lord O'Neill of Gatley: I agree with that. I often say there are six criteria needed to deliver the ultimate success of the northern powerhouse. If I had to pick two of the six, they would be, separately, education and skills. They are the two most important. SME financing is a consequence of these other factors, not a cause.

Jon Moulton: The SME finance can move in a day. That is the easy bit. It is making sure there is something that attracts it.

Chair: There were some very interesting answers there. Thank you.

Q716 **Mr Baker:** Thank you very much. I want to ask you about business investment and taxation, and then come on to industrial strategy if I get a chance. It has been absolutely fascinating. Normally this Committee is told exclusively that Government should do more: spend more, intervene more and so on. Mr Moulton, I want to tempt you back to the area you have kindly agreed to write to us about. I think you have told us that the future fund is actually doing much. You have told us that, in an environment where small companies are in an early stage and do not have an income, it is for private investors to sort them out. Is that what you have told us?

Jon Moulton: Absolutely, and there are tonnes of those private investors with stacks of cash in London. We are now using Government money to crowd out private money that wants to do it. That does not seem like what we should be doing in the midst of a crisis.

Q717 **Mr Baker:** That is very refreshing evidence. What would you do with the future fund?

Lord O'Neill of Gatley: Close it.

Mr Baker: Thank you very much. Adam or Jim, do you want to make a contrary comment before we move on, bearing in mind that I am currently very happy with that evidence?

Lord O'Neill of Gatley: I think I will pass.

Adam Marshall: As will I. Thank you, Steve.

Q718 **Mr Baker:** Earlier, Adam, you mentioned capital allowances. You got drawn into this area of business investment and taxation. Can you tell me a little more, in particular about VAT? Expand a little on what you said in relation to capital allowances and investment, and then, on the other side, VAT. Perhaps you would do capital allowances first.

Adam Marshall: I would be very happy to. In the chamber of commerce network, we have long been proponents of expanded capital allowances and an expanded annual investment allowance. Indeed, one of the things that we won a couple of years ago was the extension of the annual investment allowance to £1 million, scheduled to taper back in the very near future. That would be a mistake in the current environment that we find ourselves in. The consequences of that would be businesses investing less in productivity rather than more. We would like to see that limit as high as possible for a short period of time, in order to tempt business that do have cash to spend on improving their productivity.

We would also like to see the annual investment allowance criteria become broader. Right now, you can spend it on plant and machinery. If you could spend it, for example, on improving premises for your employees and your workforce, that would be helpful. If you were able to use it to capitalise training over a period of time, that would be incredibly useful.

Q719 **Mr Baker:** Can I pick you up on that point? It is very important. You seem to have suggested that, in terms of fixed capital and property in particular, you want to broaden the scope of what people can invest in. On the other hand, you seem to be indicating that, as a services-based economy, it is an investment in people to spend money on skills and training. Just flesh out that particular point on the contrast. In fact, on both hands, you seem to be suggesting that you are investing in people and their productivity.

Adam Marshall: You are, in a sense. Right now, if a business invests in its premises, so its air conditioning and heat systems, it cannot claim that on its annual investment allowance, whereas it could claim on some other forms of plant and machinery. You would want them to be able to do that. That investment makes the workforce better off, but it also triggers an immediate—*[Inaudible]*—bill as well, so there are disincentives for doing good things in the way that the system works at the moment, which you would like to remove for a period of time. It is not just physical capital, but human capital. Previous answers from colleagues speak to that. The ability to capitalise training and investment in skills over a period of time would be very attractive to a lot of business too. You need the two sorts.

Q720 **Mr Baker:** I am sorry to cut you short, but I know that time is flying past. Just say a few words about VAT and then we will go to Jim.

Adam Marshall: The thing we are seeing in chambers of commerce all across the country is a question of confidence: are businesses confident in getting out there and spending with their suppliers? Are consumers confident in getting back out there or are they going to hold back over a long period of time? We are seeing in many parts of the country a reticence to get out there and get spending, whether it is business to business or business to consumer. That may need to be encouraged, so a short, sharp cut to VAT for a very time-defined period may be necessary in order to convince people to spend again. That requires careful examination by the Treasury.

Q721 **Mr Baker:** What level of cut are you asking for: back to 17.5%? Do you want 15% or 10%? What are you asking for?

Adam Marshall: We have not put a precise number on it yet. I would be very happy to come back to the Committee when we do and let you know exactly what we may recommend.

Mr Baker: Jim, say a few words on tax specifically.

Lord O'Neill of Gatley: I like the idea of tax incentives for skills. As one of the broader takeaways for me through this crisis, if you look at a whole range of so-called infrastructure, the importance of the human infrastructure has always been greater, in my view, than most people often think, relative to physical infrastructure, together with one thing I will come to in a second. I think it has been increased by this crisis.

Obviously this could change with a vaccine, but the importance of certain forms of physical infrastructure for getting people from A to B is drawn into significant question by the specifics of this crisis, whereas having the skills, particularly for the regions, as we touched on before, is hugely important. Tax incentives to encourage companies to be more serious about their own skills training should be hugely attractive.

There is something I have just realised I have not mentioned or has not been touched on. I look at our performance through this crisis relative to other countries. We all know the reasons why we should not do that too much, but one does. It seems to me that many of the countries that have coped better with this than we have so far have much more inclusive technology than we do for all their people. South Korea is a perfect example. On some indices that I helped create in my old life, many years ago, they scored very highly for sustainable economic development. One reason was not necessarily because of their technological innovation. It was because of the availability of all the best technologies to their people. Repeatedly, through this crisis, we see the limits for our country in the lack of modern technologies for all our people. We need to incentivise that.

Q722 **Mr Baker:** I want to pick you both up on a point. You are suggesting we have tax allowances to invest in people skills. Those people, of course, can move to other jobs. Companies will only invest for a return. It seems to me that there is a disincentive for firms to invest in their people skills if it is very expensive, even though it might lead to big rises in productivity. Is there a case for firms being able to require some amortisation from their staff? If so, what would that look like?

Lord O'Neill of Gatley: You have answered it partly yourself. I was careful in not being prescriptive as to the precise form of incentive, but, partly for the reason you have raised, it has to be thought through. Again, if you look at other countries around the world, Germany comes to mind in this regard. I think I am right in saying that, historically, something like 20% of the broader education spend comes from private sector Germany. Typically in this country, we think that this is a job that the Government provide and most companies do not have to.

Q723 **Mr Baker:** Jon, you are a man in the business of investing for a return. What tax changes do you want to see to encourage investment and particularly investment to drive up productivity?

Jon Moulton: I am afraid I have to come back to the long-term answer. It is a big issue in the UK. We need to diminish the number of people doing non-vocational courses in higher education and increase the number doing vocational courses. We need to increase skills training further down. It is difficult to do very much with the tax system for that. You can take a bit off national insurance; 1% off NI would cost you about £7 billion and result in a few more people being employed, but there would not be any quality test there. That is any job.

In tax terms, I am very much in favour of keeping that initial allowance for the next year or so, but otherwise you have this awful problem that capital allowances become industrial policy. Capital allowances that favour manufacturing companies disfavour service; swap the verbs if you wish to. I would personally favour something akin to the R&D tax credit about training spend. That could easily be done. Again, in the short term to help industries' liquidity, you could accelerate R&D tax credit payments a little. You also have to allow people to use tax loss carry-forwards and convert them into cash. You can do that in a small way in the current tax system, but we could do more of that. That is just a timing difference for the Government rather than a cost. It seems the kind of thing that would be appropriate for these days.

Q724 **Mr Baker:** In your earlier evidence, you talked about the need to keep interest rates low to avoid bankruptcies. Jim, you talked about nominal GDP targeting. I do not want to upset my associate Professor George Selgin, who has advocated nominal GDP targeting, but I am rather worried about it. I want to ask Jim O'Neill to explain how nominal GDP targeting would work. What would be the transmission mechanism and how would we avoid it being highly inflationary?

Lord O'Neill of Gatley: You contemplate its implementation purely in the context of where we are today and overinflating. Again, I could spend hours talking to you about it. As I touched on earlier, the circumstances of the single target inflation pursuit, in this and a number of other countries, has sort of lost its way, in my view. It was only because of inflation being so persistently low that our and other central banks perhaps had an easier monetary policy than otherwise would have been the case, which itself may have played a role in contributing to the rise of inequality, because of the inflation of asset prices. It is not just for this reason.

That said, to your specific question, the whole reason why you would have a target is that, when it gets towards the upper bounds—and I dispute those who argue that we do not have the data quality to know what is happening to GDP to some period in the future; you could, with the right quality of people, create a weekly GDP indicator these days—you do something to have a less expansive monetary policy. You are just obliging the central bank to think beyond a very narrow, single-purpose pursuit, particularly in the circumstances where, for the best part of the past decade, the problem has been an undershoot rather than the opposite.

Q725 **Mr Baker:** The point I am driving at is this. We have taken evidence from the Bank recently in relation to the bond markets. To put it to you in a nutshell, I rather fear that next year inflation might be coming in, if the stock of money is going up, and we might get to a point where the Government need the Bank to continue expansionary monetary policy as inflation is rising. This is a point we explored in previous evidence, if people want to look at it. This is the point I am putting to you, as somebody who has advocated nominal GDP targeting. We might be quite stagnant on GDP but have inflation coming up. Would there not be temptations for the Government and, indeed, for Parliament to go for nominal GDP targeting and relegate the role of inflation targeting, in order to allow the merry-go-round to keep going and have the Bank keep expanding credit and QE?

Lord O'Neill of Gatley: This is a theme for a much more detailed discussion about the specifics, but it would depend on the precise way the Bank of England was given a nominal GDP target, whether it was a level or rate of change. As I am sure you are aware by your interest in it, there are some who advocate that it would be perfectly sensible for the UK to have a higher level of prices, as part of a target of accelerating GDP, that would be different from the focus just on the rate of change of both GDP and inflation. It would depend on the very precise way the target was given. You would need to definitely give some consideration to avoid the genuine fear that you have in your mind.

Q726 **Mr Baker:** Let us come on to industrial policy. We have just a moment on it. Jon, you earlier said something about capital accumulation being slow and hard work; that is what I think you were referring to. Do you think politicians are impatient when they look at industrial policy or do you think they appreciate that it is slow and hard work building businesses?

Jon Moulton: Mostly they are impatient and a few are realistic. I am afraid that has been my experience over a very long time and I have no idea how to change it.

Q727 **Mr Baker:** I was thinking about what you said earlier about the future fund. Do you want to see a more interventionist industrial policy?

Jon Moulton: In parts I certainly do, if only because the current system simply has not prospered. We need to be doing things differently to get the productivity going back up again, which is just imperative. Jim and I were exchanging views on his GDP targeting approach before the session.

It is worth pointing out that, as things go, the grossly over-summarised "keep printing" approach carries with it risks of inflation and higher interest rates. That would be a really, really bad outcome. It is not probable. It is not even quite likely, but it is not a nil risk. We should never forget that.

Q728 **Mr Baker:** Earlier on, in a moment of levity, you were saying it would be like a benevolent dictatorship, but where would we find the dictator? I hope you will not mind me saying that this takes me back to Karl Popper and *The Spell of Plato*. It is a very old problem. Where do you find the benevolent dictator? I would not say for one moment that I would be better at capital allocation than you are. I am absolutely confident that you are a better investor than I am. As soon as the Government get into thinking about industrial policy, do you not get to the point where it is not even MPs accountable for it? It is going to be officials, one way or another, doing the capital allocation. Why would we think they would be better at this than you?

Jon Moulton: I do not think they would necessarily be better at it than I am. Frankly, if they are roughly as good, that would be a lot of progress.

Q729 **Mr Baker:** I wish we were all roughly as good, let me tell you. Adam, can you tell me a little more about why, in these circumstances, you would have faith in an expanded industrial policy?

Adam Marshall: What businesses would have faith in, Steve, is a consistent industrial policy. they tell us time and time again all across the UK that, in British political culture, no Government of whatever political colour is able to resist constantly tinkering with, changing and reforming what is already there. The success of things like industrial policy and the apprenticeship system in other countries, Germany often being cited as a model, is often down to consistency, despite change of political approach over time. We have been uniquely bad at this for a very, very long time.

I have to say, in my years in economic development and things like that, I have seen the cycle of change in the approach getting faster, not slower. Our business communities do not have a problem with the notion of industrial policy. They have a problem with one that is politically driven, that changes on a month-by-month basis and that is not trying to achieve a consistent 20 to 30-year goal for the good of the country. That is where you see businesses start to invest and get some traction themselves with that policy.

Q730 **Mr Baker:** I do not want to show off, but you have reminded me to promote the thinking of another friend of mine called Roger Koppl, who wrote a brilliant book called *Big Players and the Economic Theory of Expectations*. Since I have this platform, I am going to recommend people read it. Jim, earlier on you mentioned education and skills. You also said that there were six things that the northern powerhouse needed to make things work. Since we have been talking about the need to concentrate effort in order to get this levelling up to work, as my last question, would you mind stating these six things that are needed to make the northern powerhouse work?

Lord O'Neill of Gatley: Sure, they are devolution, physical infrastructure, education, skills, more business engagement and more genuine ambition and accountability from policymakers in the north.

Q731 **Mr Baker:** Of those things, which things have the Government been doing best and worst?

Lord O'Neill of Gatley: They talk a lot about all of them.

Q732 **Mr Baker:** What do they need to improve most?

Lord O'Neill of Gatley: They need to be more serious about all six. The sixth one is to do with local people in the north. They need to be serious about five of the six.

Q733 **Harriett Baldwin:** Thank you, gentlemen. It has been an absolutely fascinating session. I want to pivot at the end to look towards the long-term changes that will have come about as a result of this crisis and the potential way in which you see the world shifting to a new normal. I wanted to start with you, Jim, and ask specifically about deglobalisation. Is that going to be a permanent shift or just a blip in the bigger theme of globalisation?

Lord O'Neill of Gatley: I am pretty dubious about the phrase, to be honest. You look at the way we are engaging here. One of the things I do in life is chair Chatham House. We probably have something close to 50% increased attendance at our events, partly because we have more people from around the world participating than before. As I touched on earlier, if you look at the remarkable things going on in the vaccine and treatment space involving co-operation of companies around the world, it is something I would never have dreamt of.

People are typically assigning this theme to the reduced role of China in the global supply chain. That part certainly looks like it is going to be less important than it was, but in any case it was already diminishing before this crisis. The idea that we are at the end of some kind of globalisation in my view ultimately means that consumers do not want to have the things they can get at an affordable price from wherever the best place is to get them from. I do not believe it has any real validity.

Harriett Baldwin: Do Adam and Jon agree with that stance? Does anyone have a different point of view?

Jon Moulton: I have a different point. There are things that are going to stay different. Physical property for offices, for example, is going to go really quite badly backwards, where houses are going to go forwards.

Harriett Baldwin: That is going to be my next lot of questions. Do you have any comments specifically on globalisation?

Jon Moulton: We have lost a bit on globalisation in the short term, but in the medium term we will not notice. It will be back to where it was.

Q734 **Harriett Baldwin:** Are there things that the Treasury ought to be leaning into or leaning away from in terms of that ongoing globalisation? Should they be taking policy steps? I am hearing from all of you that this is just a glitch and globalisation will continue to be a theme. Do you see the Treasury needing to take any policy steps to counter that?

Jon Moulton: The one thing that has become apparent is that we have some areas where the UK economy is clearly nowhere near self-sufficient. It is a somewhat different statement, but it is the same territory. We suddenly found out we could not make respirators and could not do enough testing. We need to get somebody, which may not be Treasury, to give us an industrial strategy for some of these areas.

Q735 **Harriett Baldwin:** What about takeovers? Should there be any change in policy on foreign direct investment?

Jon Moulton: I do not see much different at all there. We have a narrow area of strategically important stuff where we should worry a lot about foreign owners. Other than that, we do not have to worry very much at all.

Lord O'Neill of Gatley: I see it as the external tangent to what I was saying about equity-backed capital particularly on a regional basis. There is a case to have a more rigorous framework for how we would consider foreign investors in UK businesses. It seems to have been a perennial challenge, ever since my career first started, that we have lots of great things going on at various universities in the UK, but whether that many of them ever turn into sustainable businesses that give a lot of value-added jobs to people in the UK is questionable. We probably need a clearer framework as to why we would or would not have such easy access to foreign investment buy-outs.

Q736 **Harriett Baldwin:** If I could turn to the next theme, which you began to touch on, Jon, around working from home and flying less, do you think that is going to be a permanent shift? Should the Treasury lean into it or try to resist it in any way?

Jon Moulton: It is going to be progressed, rather than anything else. Property is probably going to be something of a victim. Work habits have definitely changed and probably for the long term. From my own experience, oddly, the older people seem keener on working from home than the younger, which I had not expected to see. We will see one other thing that is a benefit for the economy, but not much fun for those involved and in fact very painful. In among all the failures that are going on, many of the weakest business models in the UK corporate world are being taken out and will be being taken out over the months ahead. The remaining stock of businesses in the UK in a year's time will on average be better than the current stock. It will just be smaller.

Q737 **Harriett Baldwin:** Adam, what do you think about that as a permanent shift?

Adam Marshall: There will be some permanent shifts, but it is still very early on for us to suggest that we know what the full extent may be. I would agree with colleagues about the shift in property, but that leads on to the wider point about the future of town and city centres across the UK. You ask what things the Treasury could lean into. One very important thing is going to be how you help town and city centres, particularly in secondary centres that do not have the benefits of agglomeration that the biggest cities have, reinvent themselves for the future. Otherwise, you could have significant areas of employment today, in the leisure economy, the night-time economy, et cetera, that tomorrow simply are not there any more. Reinvention of that is going to be very important.

Q738 **Harriett Baldwin:** What about deregulating Sunday trading—yes or no?

Adam Marshall: Yes, at least in the short term. You could probably look at giving businesses the ability to do whatever they can to rebuild their custom for a period of time.

On the point about what the Treasury can do, businesses are going to have increased costs over the next few years, no question, because they are going to have to become more resilient. They are going to have to become more resilient to unexpected shocks like a pandemic. They are going to have to become more resilient to the impacts of environmental and climate change, which we are already seeing in many of our communities. If the Treasury wanted to lean into something to help businesses adapt for the longer term, it would be to help businesses make some those changes and accommodations, so that they can be more resilient for the future.

Harriett Baldwin: Jim, on Sunday trading, is it yes or no?

Lord O'Neill of Gatley: I do not see it as a particularly important initiative, to be honest. Obviously, I agree that that could be permanent. On the travel, I will jokingly say, not least because I have to dash, that I would not mind owning the shares of various travel companies the day after a vaccine was found, because I imagine there would be an explosion in the desire of people to go all over the world.

Harriett Baldwin: Jon, do you have any thoughts on those two things?

Jon Moulton: The Sunday trading I would be more in favour of, possibly just for a year or something, to help the retailers get going. On the aviation front, Jim, if you are going to start buying the shares, you had better have a look at how much debt they have before you put any money up. There will be major bankruptcies there.

Q739 **Harriett Baldwin:** Jon, what do you see as being the long-term impact in terms of the financial services sector?

Jon Moulton: It will be very slight. The financial services sector has done remarkably well over the recent weeks. There has not been much of a downturn in the areas in which I am involved. The bigger thing coming up for financial services is what happens post-Brexit, what regulatory environment we operate in, what regulations we keep and discard in the UK. That can make a very large difference, but I have no idea which way that will swing.

Harriett Baldwin: It has been fascinating having you all. Thank you very much for your time and your thoughts today.

Chair: Thank you, everybody. That brings us to the end of this session. It has been a particularly interesting one and of course we still have Jon's letter to the Committee on the future fund to look forward to. We look forward to reading that.

We have had a dozen sessions now looking at coronavirus and its economic impact. We have largely focused to date on the support measures. There seems to have been a large level of consensus there. Interestingly, in this discussion, while there have been points of agreement, there have also been clear points of disagreement. Perhaps that is reflective of the greater challenges that now face the Government as we come out of the crisis and try to rebuild and repurpose the economy.

We have had a lot of very good answers today. The other thing you have done for us is to throw into shaper relief the questions we now need to focus on as a committee as we go forward. Can I thank each of you very much indeed, from the whole Committee, for having so generously given up your time with us this afternoon? It has been a really fascinating discussion. Thank you very much indeed.