

# Treasury Committee

## Oral evidence: Economic impact of coronavirus, HC 271

Wednesday 8 July 2020

Ordered by the House of Commons to be published on 8 July 2020.

[Watch the meeting](#)

Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Julie Marson; Siobhain McDonagh

Questions 797 - 854

### Witnesses

I: Professor Hamish Low, Professor of Economics, University of Oxford; Lord Macpherson of Earl's Court; Bridget Rosewell CBE, Commissioner, National Infrastructure Commission.



## Examination of Witnesses

Witnesses: Professor Hamish Low, Lord Macpherson and Bridget Rosewell.

Q797 **Chair:** Good afternoon and welcome to the latest session of our inquiry into the economic consequences of the Coronavirus. I am delighted to be joined today by three very eminent witnesses with experience in the economics of these matters, and I will initially ask each of them to briefly introduce themselves to the Committee. Perhaps I could ask them to do that in the following order: Hamish, then Nicholas, and then Bridget, please.

**Professor Low:** My name is Hamish Low. I am a professor of economics at Nuffield College in Oxford. I work mainly on issues of consumer spending and savings, and how that interacts with labour markets. A lot of my recent work has been on understanding society to understand how Covid has had an impact on people's behaviour.

**Chair:** Hamish, thank you. Over to Nicholas, please.

**Lord Macpherson:** My name is Nicholas Macpherson. I was permanent secretary to the Treasury from 2005 to 2016.

**Chair:** Thank you, and Bridget.

**Bridget Rosewell:** I am Bridget Rosewell. I am a commissioner with the National Infrastructure Commission. I have a variety of other roles, including chairing a challenger bank, and having been chief economist to the Greater London Authority for 10 years.

**Chair:** Great. Can I thank all three of you for taking the time to join us today? We intend to finish at 5.30 sharp, if not a little earlier. I have asked colleagues on the Committee to direct their questions, where they can, specifically to one or more members of the panel, so you know who is being asked to reply. If at any point you have not been involved in a particular part of a discussion and wish to be so, please just raise your hand and I will endeavour to bring you in at that point.

I should begin with a very small declaration, which is that back in the early part of the 1980s Bridget Rosewell tutored me briefly in economics—to great effect I hasten to add.

**Bridget Rosewell:** That was a long time ago.

Q798 **Chair:** It was a long time ago, and I cannot claim I remember absolutely everything, but I remember you were a very impressive tutor at that time, so thank you for that.

Can I direct my first question to Hamish, please? The alphabet soup—what kind of recovery are we going to have? Is it the L, the U, the Nike tick, or whatever it may be? Based on what we know of the economy at the moment, and particularly—I know it has only just recently happened—the Chancellor's statement this afternoon and the measures



he has set out in terms of tax cuts, support for jobs and so on, what do you think the outlook looks like at the moment for recovery?

**Professor Low:** There are two separate bits to this. One is what we think has gone on up until now, and second is the speculation on what is going to happen as a result of these new measures. The key message that I think we take from the data we see at the moment is that there is huge heterogeneity—huge differences—across different sectors in how they are being affected. We see this precipitous decline in labour market outcomes in some areas and very little decline in other areas.

I find that talking about whether it is a V or a W, or whatever the alphabet is, is in some ways not that helpful in terms of understanding who is actually most affected. What we should be thinking of, if we look at different individuals in different sectors, and different bits of the distribution, is how they are affected, rather than trying to think about what the overall shape of the recovery is. That is on the historical—what has gone on up until now.

In terms of the projections going forward, I am sure we are going to spend a lot more time on the detail of what has gone on in term of the recent statement. Again, the key thing is the trade-off between understanding what the short-term and long-term effects are. The short term is going to be driven by the supply shocks, and the longer term is going to be about understanding how permanent the demand changes are. Again, I do not want to try to say this is a particular shape of recovery, but I do think the key parameter is distinguishing what we think is going on in the short run from the long run.

That feeds then in to how I think about the measures the Government are putting in place. In some sense, the short-run problem is really a supply problem, and then, in the more medium, longer term, it becomes a demand problem. That would be my broad thinking about the way things are playing out at the moment.

Q799 **Chair:** Thank you very much. Nicholas, can I just ask you, turning to the part of the statement today that was about a VAT cut specifically targeted on leisure and hospitality, is there a danger here that Government rush out this stuff too early and get it wrong on the basis that there is lots of pent-up saving out there, because people have not been able to engage with the economy in the normal way? We know that there are restrictions on the supply side, due to social distancing, and we could end up pumping a whole load of demand into an area where, actually, it just feeds through into price increases and does not actually do much to support jobs. What is your take on it? Having been an insider at the Treasury and knowing how it will have analysed these things and the tools it has, what insights can you give us on that, please?

**Lord Macpherson:** I thought the package announced today was relatively small, by which I mean that the VAT measure will pump in much less demand than a generalised VAT decrease. It is targeted. I do



not think that, in itself, that is going to give rise to overheating. It is quite a sensible, targeted measure in my view. If we do end up overheating, it is far more likely to be the cumulative impact of QE and fiscal measures already implemented and announced. The risk of that in the short run is reasonably low.

**Q800 Chair:** Just taking the broader point about overheating, I know inflation is down very low at 0.5%, but there is a scenario, is there not, in which inflation spikes up, perhaps in a recovery, or perhaps because energy prices increase or various things happen that might cause that? That would have an effect on QE—indeed, we might even have to unwind QE at that point—and on the Government's ability to borrow at very low rates. Is that kind of mechanism an argument, something that you think the Treasury will be keeping a very close eye on, or do you think they are relatively relaxed about the possibilities?

**Lord Macpherson:** I suspect the Treasury will be keeping a closer eye on it than most people, on the grounds that someone has to worry about these things. There is a risk at the current time that because the Government can borrow at virtually no interest rate at all, they are just going to keep on borrowing and spending. The residual Treasury official in me worries that this Government has yet to take a tough decision on public spending. Indeed, I am not aware of this Prime Minister ever taking a tough decision on public spending, either when he was Mayor or as Prime Minister.

It may be that, actually, when the time comes, they will do whatever it takes to ensure an even glide path and a steady consolidation. It is a slight worry, but as I said earlier, in the short run the risks are pretty low. The way inflation is most likely to become embedded is through a steady downward depreciation of sterling. There, the issue is that it does not really matter if our approach to economic policy is incompetent, so long as everybody else's is incompetent. At this stage, it is far too early to tell. We are doing broadly the same as other countries. Actually, the Government's intervention has been quite sensible, and if I was still in the Treasury I would be going down to the Westminster Arms tonight to have a celebratory pint of lager, because they have kind of got away with it and they have not been forced to do things which are completely excessive.

**Q801 Chair:** Interesting. Another approach to having problems servicing the debt at a low rate of interest would not just be inflation but might be that the markets feel, and maybe this is something of what you are saying, that the Government do not have a clear and credible plan for handling what would be an elevated structural deficit when we come through the crisis. If there is a risk of that, what do you think the Treasury will be thinking at the moment in terms of when it has to come forward with that plan? Are we talking about the autumn around the Budget, perhaps, or do you sense they might think that they have longer than that? What would your feel for that be from a Treasury perspective?



**Lord Macpherson:** I do not think the markets, or indeed anybody else, would be worried by what the Government is doing, provided it does not plan to run a deficit of 15% of GDP indefinitely. The autumn is the sensible point, not necessarily to populate the whole plan, but to set out how the Government expects to get back on to a broadly sensible path. It reminds me a bit of the debate in late 2009 and early 2010, when there was debate, certainly in the Treasury with No. 10 in particular, about whether the Government needed to set out a consolidation plan. Then there was a debate in the general election; Alistair Darling had set out one plan, which in fact was the one which pretty much got implemented in the end, and Mr Osborne had set out another. By the autumn, as I say, you do not actually have to set out ever last tax increase, but you want to set out a path for revenue and spending that you broadly want to stick to.

Q802 **Chair:** Thank you. That is very helpful. Bridget, can I turn to infrastructure? Of the tools that are being used here, we have some tax changes, some demand stimulus and so on, but we also have spending on infrastructure. Could you just unpack for us the particular benefits as you would see it of investing in infrastructure as opposed to things like demand stimulation, tax cuts and VAT cuts?

**Bridget Rosewell:** The big advantage of investment in infrastructure is that you should do it with some kind of a payback in mind, so that infrastructure is going to generate opportunity and long-term confidence in the economy, and you can see what it delivers in the longer term. Now, it is true that some of that infrastructure spend will be short term, and it has a direct impact if you can immediately spend money on companies that would otherwise really struggle. The construction sector has clearly been struggling, with stopping house building, and a number of other of those sorts of areas. Enabling some of those companies to use their existing resources on things, even really basic things, like local projects in road mending—it sounds rather boring, but it is actually very important and makes a big difference to all of us as we drive around, particularly outside London and in the rest of the country—has an immediate benefit, as do all those things. They also maintain an effective supply chain, and even small sums of money can help leverage that.

However, what is really important for the infrastructure story is that we maintain a long-term focus and we maintain confidence that Britain is open for business—all of those sorts of things. After all, almost all of the jobs in this economy will be, in the end, created by private sector firms. We need those private sector firms to be confident in their own ability and willingness to invest and to train people, and that requires them to have confidence and to have a supply pipeline that will carry them forward. That can have short-term impact, as well as knowledge that you are planning for the long term, and that can carry us forward into a period when you are getting payback on those investments.

**Chair:** Bridget, thank you very much for that. We are going to move on



now, as my time is up. We will go over to Julie.

Q803 **Julie Marson:** I would like to explore the effectiveness, or otherwise, I guess, of VAT cuts in stimulating spending, and how it might contribute to the recovery. Perhaps I can start in more general terms, rather than with the announcement today. Professor Low, could you briefly explain for the benefit of the Committee how VAT cuts can assist in stimulating spending?

**Professor Low:** Let me focus on a temporary VAT cut, but, as you said not think at the moment about restricting it to particular sectors. There are two different mechanisms that a temporary VAT cut uses to change people's spending to stimulate demand. The first, which I think is an important one, is that it changes the price today versus the price in a year's time. When the VAT cut was done in 2008-09, the price was low for a year and then it went up at the end of the year. What it means is that any spending which you can substitute over time, you are going to bring forward in time. That is exactly the sort of stimulus measure you want to put in place. You want to put in place a stimulus measure that changes the timing of consumption. Because you have managed to make things cheap today relative to tomorrow, you are going to bring things forward. I guess that is going to have an impact on different sorts of goods, depending on how storable they are. Goods which are storable or durable are much more likely to be benefiting because of that substitution over time that goes on. That is the main mechanism which I think works.

The other mechanism is just straightforwardly that you are giving people income. Because you have cut the amount of tax people are paying when they spend money, you actually end up giving them more income that they can spend on other goods. The reason why we think that is small for most households is that you are talking about a few hundred pounds across the year. It is not a lot of money that you are giving people to actually spend—for the majority of households—in terms of changes in their lifestyle. The question then is, if you gave people an extra £500, how much would they actually spend out of that £500? For a lot of individuals, it is not going to be very much.

So if I think about those two different mechanisms, one is about the price change, and having cheap today versus expensive tomorrow, which induces a lot of individuals to change the timing of their spending, as opposed to giving them extra money, which is only going to have an effect for some people. It is worth saying who that extra money is going to have an impact on? It is going to have an impact on households that have no savings or borrowing, and that are very constrained in what they are going to do. For households that are very much dependent on living hand to mouth, that extra money you give them, through a VAT cut or whatever it is through, is actually much more beneficial because they are going to spend more of it themselves. It is a crucial issue that the propensity in terms of how much of the money you have you would



spend anyway drives the size of that income effect. The bottom line, in terms of what we were concluding when we were looking at the last VAT cut, is that it is really that substitution effect that is driving the effect.

**Q804 Julie Marson:** Thank you. Because this is primarily a health crisis, whereas in 2008-09 it was primarily an economic crisis, how much do you think that makes things different this time in terms of how effective VAT cuts could be, given people's uncertainty as to how the virus will develop, whether there will be a vaccine and so on?

**Professor Low:** In some sense, one of the differences between 2008-09 and now is there is a different sort of impact that you can see, because different sorts of people are facing different economic shocks. It is a health shock, but it has become an economic shock. The uncertainty here that is really important in terms of demand stimulation and so on, is that a lot of it is going to be individuals uncertain about their jobs and uncertain about their future incomes. Of course, that is going to be tied into what happens if there is a second wave and what health measures are in place, but that level of uncertainty is a very similar underlying economic uncertainty, which may reduce the impact.

Why would you think a VAT cut was less effective now? You might think it is less effective because, as Lord Macpherson was suggesting, this is about supply constraints as well. You may not be able to meet the extra demand. You may cut prices, but if there is rationing, it is not going to be passed through to consumers, and so you will not see any demand boost. That is why it may be less effective.

On the other hand, it may be more effective. If you think about 2008-09, there were across-the-board falls in demand. There were supply constraints, primarily caused by lack of being able to borrow. It had a big dampening effect on what was happening. In this case, there are areas where there is still scope for expanding demand and where demand may actually lead to a boost in the economy. I can still see why it would have that sort of impact. There are some differences, but the core mechanism is still the same. The question is which areas of the economy are not going to be beneficially stimulated by these sorts of cuts.

**Q805 Julie Marson:** Thank you. You co-authored a paper in 2009 where you assessed a temporary cut of 2.5% as giving maybe a 1% increase in retail spending. How would you anticipate that transferring to the circumstances we see today? Do you think there is any comparison in those figures?

**Professor Low:** The main comparison for the figure I would like to take from that is that if the Government spend an extra £1 of its revenue on a VAT cut, what fraction of that do we see mapping through into spending increases? The numbers we were getting from 2008-09 in the subsequent analysis showed it was pretty much one for one. We were getting a pretty high pass-through, in the end, with Government spending being passed through into increased consumer spending. That would be a number



which I would think of as being the benchmark I would take for any stimulus package on that sort of basis now. There are reasons to think it may be different—because it is targeted, because uncertainty resolves over time or because of the supply constraints. There are reasons why it may be different, but I would start with one for one being my main metric.

What is interesting about that number is that a lot of our results were coming about from changes in durable spending, or we believed it was coming about from changes in durable spending. Durable spending is really one of the main ways you would expect to see VAT cuts working, because it is durable goods where you spend the money now, but you get the benefit in the future, whereas with other sorts of spending, you can see it is much less amenable to storage or it is much less amenable to getting the benefits today and then still feeling the benefits tomorrow. That number of one for one has been driven for a large chunk, or to some extent, by the durable spending.

**Q806 Julie Marson:** Thank you. Can I turn to Lord Macpherson? Taking aside today's announcement, could you give me your views on the pros and cons of a cut in VAT, from the different perspectives of the Government, businesses and consumers?

**Lord Macpherson:** There is a reason why Governments generally turn to VAT cuts in these situations: because it is very easy to administer. The problem with other interventions is often that there are lags. So you can do it immediately. From the Government's perspective, you can be reasonably confident, for the reasons Professor Low has just set out, that it is likely to translate into more expenditure. I did not really feel this much when I was at the Treasury, where I was quite cynical about these measures, but with time I am beginning to believe that, sometimes, taking action can instil confidence. I can remember Lord Mandelson being very proud of his car scrappage scheme in 2009, whereas my view was it was mainly a bung to the Bavarian car industry. However, actually, I think Lord Mandelson may have been on to something: action does look as if the Government is on your side.

So business and consumers should benefit. The only problem with time-limited interventions is that if things go from bad to worse, you then have a rather unfortunate choice of whether to extend the temporary reduction, in which case that could hit your public finances at the point you are beginning to really worry about them, or to withdraw it and then that is blamed for making things worse. There was a bit of that effect with the stamp duty reduction by Norman Lamont in the early '90s, where it was withdrawn quite early, and the big house price deflation followed the withdrawal.

There are a number of things which need to be balanced, but I think VAT is a good tool. It has an impact. You just do not want to reduce it for too long so that people get so used to it that they just expect it.



## HOUSE OF COMMONS

Q807 **Julie Marson:** Thank you. I am nearly out of time, but turning to today's announcement, if you look at having done nothing, there was a chance, even if it is theoretical, that because there is a pent-up demand, consumer spending could have just bounced back on its own. What do you think the impact of today's announcement could be?

**Lord Macpherson:** There is every chance that consumer spending is bouncing back. The question is, is it bouncing back quickly enough and is it impacting on sectors differently? In terms of going for the hospitality industry, interestingly, it does not fit Hamish's paradigm, because you cannot store tourism; you cannot store hot meals, at least not for very long. You could argue that if you want to have a real effect you should be focusing on cars or whatever, but the domestic content of the hospitality industry is very high; it needs a bit of a kickstart. They are not throwing massive amounts of money at it. You have the gimmick in August, where I am much looking forward to spending some vouchers. It is a perfectly respectable package.

**Julie Marson:** Thank you very much.

**Chair:** I am just going to bring Hamish in. I think he wants to come in.

**Harriett Baldwin:** I was just going to ask him about this subject.

**Chair:** Okay, then, I will go straight to Harriett. You ask away, and Hamish can make the point.

Q808 **Harriett Baldwin:** My first question to Professor Low was going to be about Eat Out to Help Out and any other thoughts on the VAT cut for the hospitality sector.

**Professor Low:** Eat Out to Help Out is a slightly gimmicky thing to do. It is nice, but it is not really a big issue. What is important about the VAT cut is that because it is targeted on the hospitality sector, we have to ask where the substitution is coming from. If it works, if we actually end up with people spending more money, it is a very different mechanism than the mechanisms I was describing. It is different because you have to move your substitution from some goods into the hospitality goods if you are going to increase demand in hospitality. It does not have that same over-time feel about it. I know it is temporary, but because it is not really an intertemporally substitutable good, you are taking your spending elsewhere and spending it in the hospitality sector. That sort of targeting of it creates a very different mechanism, which means it will be less effective at actually boosting overall demand.

Q809 **Harriett Baldwin:** You have expertise in the behavioural side of things as well, as I understand, and one of the observations the Chancellor made in the printed materials was around how much households have actually added to savings balances during the lockdown, the caution that consumers are exhibiting in terms of going to restaurants, and the fact that consumers have increased the amount in their savings accounts. It is a very targeted behavioural measure and you are a behavioural expert.



Do you think it will do the job?

**Professor Low:** I would not say I am a behavioural expert. There are two different things. There is an issue about the pent-up savings, where those pent-up savings are going to go, what they are going to be spent on, and how we could use different packages to get those savings to be spent on consumption. That is one issue. There is a second issue, which is specifically about the hospitality sector. You have a substantial cut in supply, and it will be hard to see what capacity is actually remaining in the hospitality sector. If supply is at 50% with social distancing, we are not going to need to see any or much of a demand bounce-back to meet that 50% capacity. That is the real issue with the hospitality sector. I completely agree it is important we get people back to restaurants, but the extent to which we need them to be back is not actually that much if we are running at 50% capacity.

Q810 **Harriett Baldwin:** Sorry to cut you off, but can I turn to Bridget now about the pipeline of infrastructure spending and the importance of infrastructure spending in terms of the recovery. Did you get consulted at the National Infrastructure Commission on the projects that were announced in the economic recovery plan?

**Bridget Rosewell:** We have been talking for some while, and including in the national infrastructure assessment, which is with the Treasury, about the importance of energy efficiency, broadband roll-out and many of those aspects. We were in continuous conversation with the Treasury. All of those individual announcements are always kept close to the chest, so we are certainly not told about them in advance, but we have put in advice on all of these topics over the last few years of our existence.

Q811 **Harriett Baldwin:** Would you say that all of your projects are shovel-ready? Is there such a thing as a shovel-ready project on your list?

**Bridget Rosewell:** Thank you for asking about shovel ready. I hate this terminology; I think it is a complete misnomer to say that there are shovel-ready projects. Projects are ready for the shovel when the shovel goes in the ground, you have written all the contracts, and you know what you are going to deliver and who is going to deliver it. Then it is shovel ready. You can have continuous streams of activity—maintenance activity, for example—which you can accelerate and pull back, but, again, that is done efficiently if you do a long-term plan for it. Trying to change things like how Network Rail operate—I have been on their board—in a very quick timeframe is really, really difficult to do well.

So I would really like us to move away from saying that we should have a list of shovel-ready projects out there. We should have the ability to flex some things, like road mending and these sorts of things, where you can—you have an existing supply chain, and it can do more or do less. But the whole point of the National Infrastructure Commission, and why I was very pleased to be invited to sit on it, is the importance of that long-term



## HOUSE OF COMMONS

plan, and the importance of getting to the point where you can deliver projects in an efficient way. I had better stop before I start ranting.

**Q812 Harriett Baldwin:** I think you have made your feelings quite clear. Did you think that the £5 billion of infrastructure spending that was brought forward was a reasonable set of assumptions in terms of the ability to accelerate those?

**Bridget Rosewell:** Most of those are in the plans we have already set out, so something like putting more resource into energy efficiency is a fairly straightforward thing to do. Accelerating plans already in the pipeline for electric vehicle charging is something else we want to do, and we think that is fairly straightforward. Equally, there are a lot of resources that are available and which can be put into rolling out broadband. It needs, again, proper planning, but it is not that difficult to move some of it around. Some of these moneys are also already in there, so the actual additional pieces are being put into places where those resources exist.

**Q813 Harriett Baldwin:** Will they even offset the things that were postponed, because of coronavirus, from the infrastructure spending?

**Bridget Rosewell:** Some planning has been put back because people were not able to do it while they were planning to work at home and all of those sorts of things. However, almost all of the projects that I can think of are still rolling forward, albeit somewhat more slowly, in terms of their planning. In terms of, say, geophysical investigation, where you have to have people out there to do it, those things tended to be put back a bit. Although the gas got turned down a bit, it did not get turned off.

**Q814 Harriett Baldwin:** We have heard the Prime Minister talk about changing planning laws. What changes in the planning laws do you want to see on the National Infrastructure Commission?

**Bridget Rosewell:** At the National Infrastructure Commission, we have not taken any specific views on planning. Indeed, we are not part of all of that. I have personal views.

**Harriett Baldwin:** Okay, your personal views, then.

**Bridget Rosewell:** I have written about the need to streamline the way the local plan process works. I have written about the need to think more flexibly about the way we apply some of the tests to developments—needs tests, viability tests, these tests, those tests, the other tests. We have created a monster, and I would be very keen to see that simplified.

You can see some of that in things that the National Infrastructure Commission has looked at, like Cambridge to Oxford, Milton Keynes and that side of things, where we looked at the need to accelerate bigger developments and the infrastructure piece around that. How we make sure we are planning at the big scale to get the infrastructure and



## HOUSE OF COMMONS

housing developments, and indeed employment developments, to be aligned is something we need to pay a lot more attention to.

Q815 **Harriett Baldwin:** In terms of house building specifically, then, do you think that planning needs to concentrate on more big developments, rather than just deregulating the ability to build single houses?

**Bridget Rosewell:** Where there is an infrastructure requirement, we need to think about the size of the infrastructure requirement and the size of the development. That is not necessarily to say that is the only thing you should do. Indeed, in terms of CaMKOx, our acronym for Cambridge, Milton Keynes, Oxford, it is not just about a few academics—Sorry, Hamish—and it is not just about getting you to Cambridge; it is about having an effective labour market across the whole of the arc. When we were looking at that, we had a whole variety of options and optionality, including smaller extensions, larger extensions and new settlements, and how the infrastructure could facilitate all of that. It is all about, from our perspective, creating an effective labour market.

Q816 **Harriett Baldwin:** Thank you. Can I just bring in Lord Macpherson, just to ask if there are any particular kinds of infrastructure spending that are particularly powerful in terms of multiplier effects at the Treasury? Wearing your old Treasury hat, Nick.

**Lord Macpherson:** At the current time, I would want to focus most on transport projects. It is very nice to have new schools and hospitals, but, actually, the Blair Government put a lot of money into those areas. Transport has perhaps not got as much money as it should have done, taking the last 30 years into account. I am probably partly to blame for advising that.

I would go for transport. Bridget is absolutely right that “shovel ready” is the wrong term. You need a long-term plan, and it needs to be integrated. I welcome the move, both under the Labour Government and the Tory Government, to strengthen the infrastructure arm within Government and to get better planning, but it does need to deliver. I would want to see some sensible road building, but also some sensible road maintenance, because you can do that quickly. But you have to manage it, because there is an issue of capacity, and if you try to ramp up too quickly, it goes in very rapidly growing costs, which comes back to the planning point.

There is also an issue about the labour force. We are leaving the European Union at the end of this year. It is going to be really important that we have enough skilled construction workers, because as I walk around London, I am very struck by how many construction workers do come from central Europe.

Q817 **Chair:** Before I go on to Anthony, perhaps I can just ask Bridget a question very quickly. When Philip Hammond appeared before our Committee a few sessions ago, he made the point that I think Nicholas is



## HOUSE OF COMMONS

also making that you can set aside a lot of money for infrastructure, but does the country really have the right level of capacity for these projects in terms of construction businesses, skills and so on? Or do you think, from an infrastructure point of view, that there is a very significant gap and a problem there? Do you see it that way?

**Bridget Rosewell:** I certainly think you can talk about very large numbers for big infrastructure projects, and you cannot spend that all at once and you should not try. You should not try to spend more than a few billion on any individual project. Think about that carefully and allow that long-term pipeline to be known about so that companies have the willingness to invest. If you talk to any supply chain company they will all tell you the same; when I sat on the board of Network Rail, I would go to supply meetings and ask them what they needed, and they said, "Certainty of the supply chain, because that will give us the ability to train and invest." Once you have done that, then you can build that capacity. It is the stop-start which throws them.

But we also have to be willing to price things at a reasonable level. We have been very tight on pricing. We think we risk-manage that very well. What we have done is starve our domestic supply chain of the ability to build a balance sheet. It is actually, at the same time, the balance sheet that enables you to carry risk. I do not think Government have necessarily understood that as well as they might have done. I think Philip Hammond said we do not have those very large construction companies. We have quite large construction companies; what we do not have is companies with big balance sheets, which companies like Bouygues or Vinci on the continent do have. It is enabling them to build those balance sheets which can be developed with a secure supply of projects, which will enable them to then take better risk and do better risk management themselves.

**Chair:** Very interesting. Thank you very much.

Q818 **Anthony Browne:** I refer to the register of Members' interests, and I should also declare that Bridget Rosewell and I worked together at City Hall when she was chief economist. Indeed, she did such a good job that I reappointed her halfway through.

I want to ask about the second biggest tax measure today—the cut in stamp duty, but then ask for other measures. The Government have their package now, but the Chancellor made very clear that this was just one stage in the process; we have a Budget and spending review later in the year, and there may be other measures he will consider later on. I am interested in your ideas on that.

On the stamp duty, first of all, and coming to Bridget first, the Treasury estimates the six-month stamp duty holiday will cost about £4 billion of revenue forgone. How effective do you think that will be in stimulating economic activity in the short term?



**Bridget Rosewell:** I think it will be effective. I do not think any of us really know how much. One of the difficulties with the sort of models we are all used to running in terms what would be an effective tax cut of any description—VAT or anything else—is that I am not sure the past is a good guide to the future at the moment. What we have been doing is unprecedented in terms of supporting people's incomes, but we do know that this complete stop to the ability to build houses, and therefore keep that chain of house building and house moving going, has had a big impact. I was interested in Nick Macpherson saying he had become a bit more convinced that the announcement effect can matter. It is all Keynes' animal spirits—something that just gives people a bit of confidence that they are able to go out there and do something.

Will it work? I do not know. Does it have a good chance of working? I believe so. If it does, then that actually would make a big difference to both people's ability to move and keep the labour market going, but also to the construction companies.

Q819 **Anthony Browne:** Thank you. Professor Low, what do you think of the cut in stamp duty for six months?

**Professor Low:** I always think, when we think about whether something will work, we have to think about what we are actually trying to achieve by doing it. That is particularly important here. What Bridget says is right; this will help the construction industry. I also think it will help people moving house. Who do I think will actually benefit in the end? I suspect it will be current homeowners who will be the ones who benefit. I take your point that it may not be a good guide to the future, but when these things happened in the past, we ended up seeing house prices rise and absorbing a lot of the benefit of the tax cut.

The one thing I would say on this is that you would find it really hard to find many economists who think stamp duty is a good tax.

Q820 **Anthony Browne:** The IFS called for it to be scrapped outright.

**Professor Low:** Exactly. In this sense, the IFS is going to be representative of 99% of economists. It just seems a bad way of raising revenue, and we have got locked into it.

Q821 **Anthony Browne:** Why is it such a bad tax?

**Professor Low:** Because it restricts people's ability to move. If you are a homeowner in one bit of the country and you have a job offer in a different bit of the country, you are basically putting a transaction cost on making that adjustment. That is basically the problem. You are restricting people's ability to adjust their consumption or living patterns. That is a major limitation on labour mobility. At the moment when we think the economy is having this need for structural adjustments, or potential need for structural adjustments, we would actually want to have as much flexibility as we can to move labour to where it is actually needed. The



stamp duty itself is exactly the sort of thing that will stop that from happening, or limit it happening.

**Q822 Anthony Browne:** Thank you. Coming to Lord Macpherson, what do you think of the stamp duty holiday and should we abolish stamp duty outright?

**Lord Macpherson:** Stamp duty is a terrible tax. It is a tax on transactions, it is a tax on mobility and it is really sad that it has been increased as much as it has over the years. When Norman Lamont was Chancellor, you had quite a big zero-rate band and then you had a rate of 1%. One per cent. is not an offensive rate of tax, but once you get it up to 5%—and I recognise this is a south-east issue—on properties of half a million, it starts being problematic.

It is one of my biggest regrets about the financial crisis. The Irish used the crisis to good effect. They lowered stamp duty and introduced a very sensible self-assessed property tax. Property taxation in Britain is hopeless, and it is not going to improve. I can fault every single Chancellor. Once you start mentioning property taxes, they begin to look at you as if you are slightly insane. Council tax has not been revalued in 30 years. It is the most absurd charge. Obviously, we should restore the domestic rates and schedule A on the imputed income of owner-occupation, but if you try to explain that policy even to politicians with PhDs, they think you are mad.

Do I think it is a sensible policy right here, right now? It is straight out of the playbook of recoveries. Norman Lamont did it, and Alistair Darling did it. This one, actually, is a lot more generous. Alistair just increased the threshold from £125,000 to £175,000. So it will benefit relatively well-off people in the south-east. That may be a good thing.

One of the reasons for wanting people to move is that they will then go out and buy new kitchens and household products, and that come back to the animal spirits effect, which I think is the case for this measure.

However, it is time-limited and, as either Hamish or Bridget said, the main beneficiaries will be the person selling. Actually, we need higher house prices like a hole in the head. What this country needs is lower house prices, but, then, the British people who own homes and the politicians they elect are addicted to house price inflation, and I do not expect that to change any time soon.

**Q823 Anthony Browne:** Thank you. So just coming to other options, we have the cut in stamp duty, the cut in VAT and discounts on meals out for August. There will be another Budget in the autumn. Are there other things you think should be done? There had been speculation about cuts in national insurance, and we mentioned car scrappage schemes, but what else would you like to see? I will come to Bridget first. Could you keep your answers short, because we are running out of time?



**Bridget Rosewell:** One particular idea I would like to get out there is a replacement for the European Investment Bank and potentially something like a DARPA, so an organisation whose job it is to spend on new stuff, with a proportion spent on SMEs. This is one of the things that could help create confidence.

**Anthony Browne:** That was a very concise answer.

**Professor Low:** Quickly, there is one thing I do not think we should be doing, and then maybe I can say what I think might be better. I do not think we should be doing income tax rebates, the way the US and other countries have done. Income tax rebates are given to people across the board, and a lot of it is not actually spent. That seems to me a pretty poor measure to put in place. I would be much more enthusiastic about a wage subsidy or something which was more directly trying to help employment across the board, rather than in these targeted ways which we are currently doing.

**Anthony Browne:** In fact, the Chancellor obviously did announce today the job retention bonus and the kickstart scheme.

**Professor Low:** Yes, but I think they are very different. In some senses, a job retention bonus is a very different sort of scheme because a job retention bonus is for people who have been on furlough. Those are people who are explicitly in sectors that have been badly hit, trying to protect their employment. A wage subsidy that is more general would allow reallocation to where you actually need more employment. There is a big difference between the job retention scheme that is in place and a more general wage subsidy scheme. The job retention scheme just prolongs the time until the adjustment will take place.

Q824 **Anthony Browne:** Thank you. Coming to Nick Macpherson, if you were back as permanent secretary to the Treasury, what would you be advising Rishi to put in his next Budget?

**Lord Macpherson:** It is slightly counter-cultural for this Government, but I would be advising increasing the benefit rates within universal credit because people at the lower end of the earnings distribution have a higher propensity to consume. The great thing about universal credit is it does seem possible to adjust it very quickly, whereas it was not in the old days.

**Anthony Browne:** They have done that during the crisis—an increase of £1,000 a year.

**Lord Macpherson:** Yes, exactly. The working-age poor took a disproportionate hit during the austerity era. If austerity truly is over, as the Prime Minister claims, this is the time to put that right.

**Anthony Browne:** Okay. Thank you very much.

Q825 **Felicity Buchan:** My questions are on household savings. Perhaps I can



come to you first, Nick. I want to congratulate you on your choice of title. Earl's Court is in my constituency of Kensington, so it is a great choice. Clearly, we have seen an increase in household savings, at a time when Government debt is ballooning. Are you concerned about that juxtaposition? Is there anything good about this increase in household savings?

**Lord Macpherson:** In one sense, it is the flipside of the deficit. It is good there are more savings out there, because somebody is going to have to buy all this debt. I dare say that pension funds and life assurance companies will play a part. This country has a chronic propensity to consume, both in the public sector and the private sector, so it would be nice if we entered a brave new world of higher savings. Maybe that would help generate more investment. But making a Keynesian point, the paradox of thrift, as I believe it is called, is that if everybody starts saving at this point and continues saving, you will get less economic activity. My guess is that much of this saving is enforced. It is not that people have wanted to save; it is just it has been impossible to spend their money. That is why the thing which will have the biggest impact is successful management of the coronavirus; the more confident we are, the more we will start spending.

Q826 **Felicity Buchan:** Thank you. Hamish, can I turn to you? I know that you have written a paper on this. Can you give us an overview of your thoughts as to how much of the savings are voluntary versus involuntary, just to pick up on Nick's point, and how you see the increase in savings falling across the country in terms of demographics and income groups?

**Professor Low:** There are a couple of things there. Just to pick up on something Nick said to start with, savings, from an individual perspective, is not a bad thing, because it is just deferred consumption. The fact we see savings rise is not necessarily going to be a bad thing from the individual's perspective. What we have seen happening across the last three recessions or so is these spikes up in savings each time when the recession has hit. Then we have seen, when we reach the end of the recession and the uncertainty is resolved, a very fast decline in savings rates. That speaks loudly to one of the things I have pushed quite a lot, which is that the spike in savings has really been driven by uncertainty in these previous recessions. People are unsure about their job future, and they are unsure about what their prospects are going to be, so they are saving against that. When they then reach the end of the recession, their uncertainty is resolved, and they then start running down the savings they have. That does speak to there being pent-up demand.

The question you asked about how this differs across different individuals is really important. There are two key different types of people. There are people who have had no income loss and they have just cut their consumption. We can see in the data we have that about 20% of those people with no income losses have still cut their consumption. That looks to be like a kind of forced saving going on. However, we have seen much larger cuts in consumption by people who have had the earnings losses,



## HOUSE OF COMMONS

who have had the income impact. For those individuals, it is not that there is some pent-up demand for consumption that is going on, and their savings are reflecting the fact they have pent-up demand and they are not able to spend their money. For those individuals, it is much more that they are concerned about their jobs, they have lost income already, and so they are cutting their consumption in response to that.

That is where, really, there are two very different sorts of measures you would want to put in place if you did want to get people to be spending more and saving less. The measures in place to help people who have the pent-up demand because they have been forced to save are very different. They are the ones who will be much more responsive to the cuts in VAT or to stimulus packages. For the people who are suffering the income losses, or in sectors where there have been job cuts, it is really about reducing their uncertainty as a way of getting them to start spending more. It is important when we think about how we understand that savings behaviour that we make that distinction between those two groups.

The only drawback on this is that, at the moment, we still do not have good enough data at the micro level, the individual level, on who is actually cutting the most and where they are actually cutting their spending.

**Q827 Felicity Buchan:** Just addressing both of those groups, with the first group, you stimulate demand there, as you said previously, by accelerating their expenditure. However, if we look at the second group, where their income has fallen off and they are concerned about their prospects, how do you stimulate demand there if we cannot provide them assurance that they will definitely have a job in a year's time, for instance?

**Professor Low:** It is clear we cannot provide assurances about having a job. I think we need to provide assurances that their committed consumption is going to be maintained, so things like their mortgages are still going to be paid or their rent is still going to be paid. That is where Nick's suggestion of universal credit and building on what has already been done is a good one, because that is where you actually end up offering that safety net of support.

I do not think it is about guaranteeing jobs, or people being sure that they are going to have jobs next year. It is about making sure people understand that if they do lose their job, they are not going to lose everything. That helps. It is a different sort of uncertainty. That is where mitigation will come through.

**Q828 Felicity Buchan:** Thank you. Bridget, can I turn to you? Are you concerned about the increase in savings, and how would you stimulate consumption?



**Bridget Rosewell:** I am with Nick, in the sense that we are an under-saving country. Therefore, getting people into the habit of doing more saving is not a bad thing. It will take time for spending patterns to react to the kind of structural changes we are likely to see, whether that is about continued social distancing that we are going to have to have for some considerable time, or people have got into different habits. I am sure Hamish knows more about this than I do, but it apparently takes about three weeks for somebody to get used to doing something a bit differently, and we have had three months. There have been a lot of changes in behaviour about how you get things delivered to you, where you get it, and all of those sorts of things. We do not know how much of that people have felt forced to do and how much they now think, "Actually, that is quite a good way of doing things." It is a bit like finding a different way to go to work, in the days when you went to work, and then thinking, "I will use this new way rather than going back to the old way," even though the old way becomes available again.

We know that that stuff will happen. We do not know how much. Therefore, there will be some continuing savings flows during that adjustment process; people will be uncertain, and that will mean they save more. That is not necessarily a bad thing, because it will help to phase in some of those changes. What of course is a problem—and it comes back to the different ends of the income distribution—is families for whom that saving that they are undertaking because they feel they have to is very much undermining their family finances. That is the bit where universal credit might be more relevant—it is not my area of expertise—and where we really need to think about that end of the income distribution: people whose uncertainty is leading them to cut back on things they actually ought to be spending on. However, for much of the income distribution a little bit of saving is a very good idea.

Q829 **Felicity Buchan:** Can I just go back to Hamish on one final point about age distribution of savings? Savings are more likely to be held by older people, but older people have been recommended to stay at home and shield, whereas younger people are less likely to get the virus and more likely to be out and about, going to restaurants and pubs, but not with the same level of savings. Do you think there is an argument here for some sort of targeted age group stimulus?

**Professor Low:** There is one general thing about savings. When we talk about savings, we talk about so many different things that it is a hard thing to understand what we are really saying. If I think about people who are in their late 20s or early 30s, they do not have liquid savings, but they are likely to have high leverage in terms of having housing. When people are older, when they are retired, a lot of that savings pattern has completely changed. It is very difficult to make a case if we are talking about the same sorts of savings at different points.

That is a different point to your point about the age-related stimulus package. I am always very wary of these sort of things because the



hedge and edge we see within groups of a particular age is in some sense often as great as we see across different age groups. If I look at people aged 25 across the income distribution, their behaviour is just so completely different that I think it would be very hard to have something just targeted on them. Similarly with pensioners, if we go back to the time of the Beveridge report, pensioners were a much more homogenous group of people than they are now. For us to try to think about targeting things on pensioners as a group is a mistake because pensioners as a group are now not one group. There is a huge variety of abilities to mitigate and abilities to spend within that group.

**Felicity Buchan:** Thank you.

Q830 **Siobhain McDonagh:** Bridget, looking at the work of the National Infrastructure Commission and the nature of capital spending given the coronavirus outbreak, have the priorities of the National Infrastructure Commission changed in the light of the coronavirus crisis? Should the national infrastructure assessment now have a greater emphasis on social infrastructure, such as housing, schools and hospitals?

**Bridget Rosewell:** There are two slightly different questions in there. We take a long-term view. Our job is to look forward over 30 years in the national infrastructure assessment, and we are currently in the process of gearing up for the input into the second of those, which would be published in 2023. We are in that planning stage, and we will obviously be thinking about all sorts of scenarios, but we try to generate something that is likely to be robust to a number of outcomes. For example, in the first one, one of the things we said was that the investment that was a bit of a no-brainer no matter what happens in the economy was investment in broadband. That was shown to be absolutely the correct line to take. We have also said we imagine in most scenarios more electric vehicles and net zero, and all of those things are going to be important.

In the context of that long-term picture, we will be looking to see whether we should be thinking about a broader range of scenarios or a different way of thinking about our scenarios. However, in terms of the general stuff about saying which things are going to be worthwhile pretty much whatever you can imagine, which things are probably worthwhile in most circumstances you can imagine, and which things are a bit more of a bet depending on how things emerge, it is that last one that we might need to think about a little bit more, depending on what sort of future might emerge over the next 30 years. That is our job, to think long term. I do not want to do too immediate a reaction and get it wrong.

One thing I might say is that, so far, at any rate, I do not think any of us on the commission are taking the view that, for example, people are not going to live in cities any longer or that agglomeration, the productivity benefit of cities, has gone away. In fact, my personal view is that the importance of getting together in the face of something new is really, really important and we need to find ways to do that, and ways where we



can all get together and be a bit more interactive with one another than this process, however efficient it enables us to be.

**Q831 Siobhain McDonagh:** Thank you. You have kind of anticipated my next question in your answer there. A recent YouGov survey showed that 61% of employees would like to increase the frequency of remote working, and 32% thought there should be a transition to permanent home working where possible. Meanwhile, to my particular interest, 700,000 children have struggled to do any schoolwork at all because of having no access to the internet or not having the necessary devices. Does this unplanned experiment in remote working, learning and communication indicate that the Government should reassess infrastructure priorities? If so, how? Cheekily, would you support our cross-party bill to get internet connection to those 700,000 children?

**Bridget Rosewell:** At the Commission we have supported extending internet connections, definitely, and high quality and high bandwidth as well.

I am really interested in these surveys and how people respond to them. It is very interesting that across all kinds of age groups and across all kinds of working patterns what I am seeing is people increasingly fed up, and people increasingly wondering about how they are going to deal with new stuff. Everybody would like more flexibility; I do not get any feedback saying, "I want to be doing a long commute every day." Nobody is saying that. However, everybody is saying, "We are social animals and we do need to be getting together," and as time has gone on that reaction has become stronger. In my bank, we have reopened the office now. We had closed it completely, and we have people clamouring to come to work so they can enjoy working with one another and talking to one another. I really, really think that is actually quite important.

The public transport implications of that, if people come into work less but when they all come in, they want to come together, is something we are going to have to think about. Again, it is not something we should jump into too carelessly. We really have to wait a little bit and see how this begins to develop and how people's preferences begin to pan out. We certainly should not allow people to say, "I can now save money on my premises," because I do not think that is going to be the right answer. It is very easy to work at home if you know exactly what you are doing, why you are doing it and how you are doing it. However, if anything changes, it is much, much more difficult. What is going to happen in the next 10 years? Things are going to change. How are we going to cope with it? That we need to get together to discuss.

**Q832 Siobhain McDonagh:** The other huge impact for me, as a south London MP, is the issue of housing, access to housing and the dreadful conditions that so many people live in. The economic recovery plan focuses on social infrastructure such as housing. How does the impact of investment in social infrastructure differ from that of physical transport infrastructure, for instance, in terms of creating jobs, increasing productivity and



providing stimulus to the economy in the short run?

**Bridget Rosewell:** That is a big question. Social infrastructure—houses, schools and things—is actually not in the remit of the infrastructure commission. It is not our job description, so that is a caveat; it is not anything we have looked at. Anything in construction tends to operate in the same kind of way and include the same skills. Obviously, smaller scale things can be dealt with by smaller scale companies. It gives you a better range. On the whole question of what you mean by that social infrastructure and the extent you want to include things like housing, schools and hospitals in it, as I said already in answer to somebody else, my personal opinion is we have made all of that incredibly complicated and very developer-dependent, and we really need to think that one through. It is not my job as a commissioner, but it is certainly something I think about and have written about elsewhere.

Q833 **Siobhain McDonagh:** Thank you. What scope is there for increased capital investment after this crisis, given that the Government have already committed a substantial amount to HS2?

**Bridget Rosewell:** HS2 is in our fiscal remit and plan. There are two bits. The fiscal remit for the National Infrastructure Commission, which is the amount of public spending we should live within, is 1% to 1.2% of GDP. When you think about it per year, over time that adds up quite substantially. That could be increased, but even with that that still allows a fair amount of leeway over time, as different programmes develop. It entirely depends on allocation of funds that people want to put into infrastructure.

**Siobhain McDonagh:** Thank you.

Q834 **Rushanara Ali:** Good afternoon. I am going to start my questions looking at the differential impact of Covid on different groups. I wanted to start off with a question to Professor Low, given your work in this territory. Other commentators have talked about the impact on women, ethnic minorities, poorer people and so on, and there is a trend. In recessions they are often the worst hit. Could you talk us through what sort of interventions would be particularly beneficial for those groups, and also reflect on today's announcements and which ones are going to be particularly helpful to those groups of people who are affected?

**Professor Low:** I was trying to think about how different groups of people are impacted. It is helpful to think about the impact on earnings, as distinct from the impact on income and living standards. If I think about earnings being about the impact on jobs people have, their employment and so on, the impact on their income and living standards is really about how well they are able to mitigate those shocks. It is really important to distinguish between those two things. We know there are people who are heavily affected by the earnings shocks, but they are able to mitigate those shocks because they have access to savings, borrowing and family. It is important we do not just think about the impact on



## HOUSE OF COMMONS

earnings, but how well people are able to mitigate those shocks. We see that people's ability to mitigate shocks is very different across the distribution.

Thinking about the gender differences as a starting point, if I do a raw split of the impact on earnings across men and women, we do not find that much of a difference. That is not where the difference is really coming. The real difference comes where we split by single parents or couples; then you do see a much bigger impact. My concern about some of this is that we see single parents are paying much more of a cost because of the caring responsibilities. They are also more likely to be requesting furlough and reducing their hours at work. The question then is how well they are protected, given that that is what is happening. For them, what is important is coming back to how generous the tax credit scheme is, how much we are doing in terms of childcare facilities and whether we are actually thinking about how to mitigate those direct losses. That is one of the key things we are finding in terms of impact in terms of gender. One thing I want to stress is it is a bit more nuanced than just saying, "Women are being more impacted than men." There is a big difference according to—

**Q835 Rushanara Ali:** It is a given that there is a class differential as well. There will be similar issues with other groups. Can you just list, quickly, which other groups, taking into account the nuances, are particularly hit hard by this crisis?

**Professor Low:** The other striking things are that the people who are in the bottom income quintile and the second income quintile are the ones who are hit hardest. The other thing we find is there is a big ethnicity difference. There is a big ethnicity difference particularly in furloughing. We see that ethnic minority groups are more likely to be made unemployed rather than furloughed. That was one of the striking things we found. Those were the main groups that I think of as being affected: single mothers, the bottom two income quintiles and ethnic groups. There is a cross-cutting thing across occupations because occupations matter, but in terms of the individual characteristics, which is what is important, it is those characteristics.

**Q836 Rushanara Ali:** Thank you very much. Lord Macpherson, earlier you talked about increasing support in universal credit, and yet last week we saw the Government introducing sanctions again. In terms of what you might have done or advised Ministers to do if you were still running the Treasury, what do you think, given what you have heard about the impact on certain groups?

Also, let us be clear, we have seen a very high prevalence of deaths in minority groups. Certainly in my constituency, with the fourth highest standardised death rates, the highest is amongst Bangladeshis. We have all seen effects in our constituencies. You mentioned austerity and certain groups having to pay the price of it—not your words, mine. What would you have advised Ministers to do this time that would be different from,



## HOUSE OF COMMONS

say, the Osborne chancellorship, in terms of addressing and learning from what has happened and how we move forward to tackle these differential impacts on certain groups in our country?

**Lord Macpherson:** The first point I would make is a point about implementation. Back in 2009, it is quite possible that the Brown Government would have wanted to do something about benefits, but the implementation lag was so long, six months to a year, that it just was not seen as a particularly effective instrument of demand. That seems to have changed with universal credit. I have been really impressed by the speed with which it is possible to channel money through it. I have this sense that the elderly have had a very good run on social security in Britain over the last 10 years. Those of working age, particularly those with larger families, have taken quite a big hit. There may be wider public policy reasons for doing that, although I am still struck that when I signed on back in 1978 as a teenager I think I got more benefit then in real terms than you would get now.

As part of a civilised society it is worth looking at that, but as a former Treasury official, I would be worried about the cost and embedding extra costs. This is not something you can mess about with on a temporary basis.

Q837 **Rushanara Ali:** Sure, but just picking up on Professor Low's points, it is single parents. Politically, some find it difficult to support single parents. There is a long history of the way single parents have been treated. Childcare has not featured in today's announcements that I can see. What specifically do you think the Government should be doing, looking towards the later statement? Many of the interventions today are welcome. What else needs to be done to mitigate the 9% potential unemployment rate, possibly up to 15% if we have a second wave, and what would you be looking for in a later statement? It would be good to have some concrete suggestions on what else should be done.

In the current climate, what has certainly been useful is interventions in this Committee from experts or former permanent secretaries that can be fed into Ministers and so on. It would be very helpful to have a list. What would you do? You have mentioned some of those things, but what are some more specifics on what needs to happen to mitigate this big challenge that is coming?

**Lord Macpherson:** Childcare is a really important issue. There are whole lot of reasons for that. I am embarrassed to say that it is four years since I left the Treasury and I am no longer an expert in the details of universal credit. If we were back in the year 2000, when I was in charge of welfare reform in the Treasury, I would have been seeking to increase the childcare tax credit, but I do not know whether that exists anymore within universal credit. Childcare is expensive. It is fair to say that the Covid crisis has hit parents with caring responsibilities pretty hard, especially if they are living in relatively small units of accommodation. I do think, as a matter of social policy, but also because I still firmly



## HOUSE OF COMMONS

believe that work is the best route out of poverty, that, for employment policy reasons, this is something that needs to be looked at. Maybe as part of the Budget in the autumn the Chancellor will act.

**Rushanara Ali:** Bridget, did you want to add anything on these points? If not, I am going to move to you for my next section.

**Bridget Rosewell:** It is not my area of expertise, but I have looked at childcare costs in the past, and I think that is a problem generally, particularly in London, in terms of improving people's ability to work. It is something we looked at when I was at the GLA.

**Professor Low:** I was just going to come in to say that I think there is a striking difference with the response in Denmark and in the Scandinavian countries in terms of their support for childcare. We should take a lot of lessons for how, in this situation, it is enabling people to go back to work. Offering long parental leave and having heavily subsidised return to work is shown to have these long-term benefits in terms of employment. That was my only point.

Q838 **Rushanara Ali:** Thank you very much. Continuing with work and employment, and perhaps Bridget could start, what is your overall sense of where job-rich infrastructure can be encouraged? I am not going to say "shovel ready", but there have already been references to areas where you could intervene. Where could we have infrastructure where we are going to boost employment? You have mentioned a few, but are there any additional ones you want to mention.

**Bridget Rosewell:** I think we have already mentioned generally supporting the construction industry where it is possible to respond best. We also need to think in the longer term as to how infrastructure investment is supporting productivity growth and economic growth more generally, both through connectivity, but also improving our route to zero carbon, for example, and through investing in the potential of hydrogen and hydrogen potential for decarbonising gas. That is a potential both for high job richness in the transition, but also improving our long-term prospects as an economy.

Anybody who is old enough to remember the transition to North sea gas will know there was a huge replacement of boilers and so on, which was an incredibly job-rich thing. There was a period where solar panels were also a very job-rich infrastructure movement, and indeed moved to zero carbon. Lots of firms popped up to implement that, and it was spread all over the country. It was also very much able to respond not just in some parts of the country. Electric vehicle charging and roll-out of broadband, with full fibre to premises, are other implementations. All of these are job rich in their implementation, plans already exist, and indeed they create a better focus for the economy long term.

Q839 **Rushanara Ali:** I have one more for you around this. Do we have the correct architecture for training, apprenticeships and skills development,



## HOUSE OF COMMONS

in the context of what was mentioned earlier by the former permanent secretary about Brexit? Some of my colleagues will not like mentioning the B-word, but the reality is that London, as one example, relies on a lot of EU nationals in the construction sector. Are we ready for that? Will today's announcements on investment and support to young people actually help or hinder the apprenticeship programme? Why would employers not switch to the kickstart programme, which I welcome, from apprenticeships? Are there some unintended impacts that could be negative?

**Bridget Rosewell:** There may be. To be honest, I have not looked enough at the detail to know whether that is a serious risk or not. I cannot answer that question, I am afraid. Are we ready with training? No. Have we ever been ready with training? In my whole career, we have been spending time saying we do not have a good enough vocational training system. I cannot really answer the question as to why in all that time we have not been able to. I wish I could give good answer for it. I do not know how.

**Rushanara Ali:** These ex-students of yours who went on to be Ministers!

Okay, so we have to do more. Ahead of a Budget statement, what would you expect or hope that Government could do very quickly to meet that challenge? We are having to do everything at the speed of lightning. The Treasury has demonstrated it is able to speed things up and do things faster than ever before. Perhaps this is for you and Lord Macpherson: what else would you expect or hope they could do to speed this up? Infrastructure is all very well, but if you do not have the workers—you do not have people ready for it—it is going to be pointless.

**Bridget Rosewell:** There are two specific things you could do. First, you could really put some welly behind the colleges of training in specific areas in infrastructure, like railways and so on, that have been set up, and really give them some visibility. You could work hard, as I am sure other people have and I try to, to support STEM education in schools and get people into those at an earlier stage, to improve the visibility of women in engineering, and all of these things. There is no one thing. There is no silver bullet for this. If there were, we would have found it by now. Every aspect of this needs to be supported. We need to make sure that those kinds of careers are seen as valuable. If you go to Germany, being an engineer is a good thing. In France, an engineer is a good thing. Here, what is an engineer?

Q840 **Rushanara Ali:** Thank you very much. I have one question each, and I will start with Professor Low. Is there anything else you want to add, if we look at the scale of what we are dealing with and the potential for unemployment? Obviously, we have a million young people who face unemployment by the end of the year, and despite the current programme that has been introduced today, it is for six months. It is comparable to the Future Jobs Fund, but some would argue we need something much more ambitious, for a longer period of time for young



## HOUSE OF COMMONS

people. Then you have the overall unemployment rate. What else would you propose happens in the context of, potentially, another health crisis later on in the year, if we have similar spikes that other countries are showing signs of?

**Professor Low:** I will make a couple of comments. One is we have such a problem with the young in unemployment because of the narrowness of where they are being employed. The focus is on the hospitality sector and the retail sector, which are hit. With those sectors being hit, we have seen this implication for young individuals. The measures put in place are trying to prop them up in those sectors. We have to find ways of shifting them across sectors, and the problem is this is not a solution which is going to be achieved in six months. It is back to Bridget's point about why we have ended up in the situation we are in now. It is because every time this comes up, we are saying training is a long-term issue and we are not actually serious about training the bottom 50% of the population. I do not have a magic solution for what we should be doing at Christmas when this all ends, and it is all going wrong, but I do think that now we should be making that commitment to a five-year plan on how we are actually going to stop the dependency of young people on the hospitality and the retail sectors.

One of the things I would not have done is to try to bolster hospitality and retail in the way that has happened, because that does not help with the realignment we actually want to happen with younger individuals. That is why I think having a wider wage subsidy scheme would actually have a much more beneficial effect in allowing that reallocation towards sectors that have a more long-term future with genuine job progression.

Q841 **Rushanara Ali:** Would you have put wage subsidy instead of kickstart today?

**Professor Low:** We know from the evaluation when the Labour Government did it that the kickstart programme was a pretty effective short-run thing and it did have this ongoing bonus. I am completely in favour of the kickstart programme.

Q842 **Rushanara Ali:** Might you put in this other idea as a second stage, as the next step?

**Professor Low:** Exactly, and instead of the coronavirus ongoing job retention payment scheme.

Q843 **Rushanara Ali:** Lord Macpherson, you get the last word in my section. Some people, even a Labour MP, might say the Treasury's response has been much more rapid, and it has been responsive to some of the challenges around, for instance, introducing the job retention scheme and others, so credit where it is due. It has been quicker to respond to some challenges. We have lots of criticisms, of course, about other areas, which you will have heard. However, there is a disjuncture with what is happening in health and the mismanagement in terms of testing, PPE and tracking. These are interdependent to economic recovery and what we



## HOUSE OF COMMONS

do. To the extent that the health and pandemic response continues to be the weakest link to the Government's strategy, what do you think we need to learn from that experience to ensure that poorer handling of the health crisis, especially if we get a second wave, does not undermine the effort to recover and we do not go back into lockdown and retreat in terms of trying to recover on the economic side?

**Lord Macpherson:** I cannot really speak for the Department of Health. In one sense, it is lucky—not lucky, because nobody would want this to happen—that the people running the Treasury, like Tom Scholar, were at the heart of the 2008-09 crisis. They have the experience, the knowledge and the evidence base to act quickly. It should be incumbent on all Government Departments that go through really difficult times to really try to distil the knowledge and embed it. Whilst there have been some missteps, the Department of Health has also done some good things and I hope, as it is going along, it is learning the lessons.

I do not want to get into some wider discussion about the civil service. I was very impressed with Mr Gove's speech the other day, which showed remarkable knowledge, not least of Gramsci's writing. However, it is really important that Mr Gove and others practise what they preach. Expertise matters.

**Rushanara Ali:** That is a good note to end on. Thank you very much, Lord Macpherson.

Q844 **Ms Angela Eagle:** I suppose this one is initially for Nick. Do you think that reconstruction banks, potentially even regionally based, might help to begin to switch the economy away from its debt-fuelled consumption characteristics towards a more balanced approach that might make us more sustainable, both socially and environmentally going forwards?

**Lord Macpherson:** They could do. I should be clear I have always been quite sceptical about reconstruction banks or regional banks, or Governments getting into banking. Generally, in my experience, there is only one set of people worse at banking than bankers, and that is Ministers and civil servants.

Q845 **Ms Angela Eagle:** If you look at the way that investment has been skewed since the big bang, down towards London and the south-east, all political parties now finally recognise that we probably should have had a much more robust regional strategy. We had one when I was in government, which stalled in 2010 with the abolition of the regional development agencies. Now we do not have enough of a structure to try to get those decisions made locally. I suppose I am looking to see what you think, if it is not a reconstruction bank or a fund, we can do to ensure we are not going to get the same bias in Whitehall away from investing where it is really needed.

**Lord Macpherson:** I may have been unfair to your original question, because I think you definitely need funds. Venture capital can play part of that, and you may want to develop things that increasingly do look like



## HOUSE OF COMMONS

banks. The Government are in favour of greater devolution, as am I. England, and for that matter Scotland in its own terms, are very centralised states. That centralisation is anchored in London and the south-east. That has had undesirable consequences. The challenge is how you create the democratic structures that go with devolution. Simply decentralising to a bunch of bureaucrats does not actually take you very far. You will recall we had some regional health authorities, but to whom were they accountable? Yet, whenever voters are given a chance, they are not very interested in regional government.

I do think there have been some positive developments in the wider Manchester/city regional structures, which have huge potential. There does seem to be cross-party support, which is essential because you really do not want people rearranging the deckchairs every five to 10 years. If you can get some cross-party consensus behind greater devolution of regional funding, that can only be a good thing. It needs to be done at the city region level because it tends to be cities that, usually combined with really successful universities—and there are some very successful universities across the north of England—are the drivers of skills and economic activity.

**Q846 Ms Angela Eagle:** There is a bit of light at the end of the tunnel, finally, Nick. I do not know, Bridget, whether this might be one for you. The Treasury has been talking about Project Birch, which is its strategic recapitalisation programme for highly indebted companies that have suffered in the crisis, but there was no sign of any announcements about that today. Do you think that some kind of vehicle like that to try to shore up some of the larger companies with high levels of debt is a good idea, or do you think we should just let them go?

**Bridget Rosewell:** Some of them will have to be supported. I have no doubt the Treasury is working hard to make sure that that is being minimised. That could end up with some kind of a bad bank, which we discussed intensively in 2010, but on rather different grounds from this, where we are talking about trying to support entities that are, over time—and it is about the “over time” bit, because, again, this should not be rushed into—likely to fail. How you are going to manage that workout is always the biggest problem. It was the biggest problem in the '90s, and it was the biggest problem in the '80s, for that matter.

I would like to come back to some of the comments about devolution.

**Q847 Ms Angela Eagle:** I know you are pretty sceptical about it, aren't you?

**Bridget Rosewell:** No, not at all. I think that devolution, particularly around city regions but also more broadly, is really important. We do need some bigger institutions, so at the infrastructure commission we think a replacement for the European Investment Bank is actually going to be really important. I do not mind what you call it. The forward funding stream you need to make sure you can get the infrastructure in that will then support subsequent development and big housing



## HOUSE OF COMMONS

development is really important. I think we need that to have a regional or a local dimension.

Q848 **Ms Angela Eagle:** Do you mean a democratic dimension when you say that?

**Bridget Rosewell:** Absolutely. Metro Mayors are really important. The original way we did this, with regional offices run through Whitehall, and examinations in public into the completely incomprehensible plans really took us in the wrong direction. That is one of the reasons regional assemblies are thought to be a bit fake. We need to show that there are real powers in local government, real funding for those powers and power over what you can spend. That means Treasury has to be willing to take some risks that it has largely found it very difficult to take. My big point would be you have to take a risk that devolved organisations and authorities will have the capacity to use that. NIC has been working with a variety of cities, and it is really interesting that, as they get more confidence and begin to be given the opportunity to think through some of the things they could do, they are building their own capacity to do it. That is investment we need to make.

Q849 **Ms Angela Eagle:** At the moment it is a very centralised structure, and council tax is very highly leveraged and not a very useful tax. Do you think that it might be a better idea therefore to devolve some of the tax revenues that are currently disposed of centrally much more down to local authorities?

**Bridget Rosewell:** I was encouraged at the outset by business rate localisation. Then when you looked at the detail, it was very weakened. Again, that is a place where we need to be willing to take more risks, but also to allow local authorities to vire between different budgets rather than, "This has come from this stream, so you have to spend it here, and this has come from this stream, so you have to spend it there." We make it very, very difficult for authorities to work to their own local conditions, and that is a big weakness.

Q850 **Ms Angela Eagle:** There is a shortage of finance generally, even with the Metro Mayors. They were granted over 30 years the same amount of money that was lost in cuts over the last 10. There has to be a way of capitalising them and giving them more say, I think, if they are going to be asked to be effective.

**Bridget Rosewell:** The infrastructure commission has had a whole stream of work around cities, the support of cities, and the sorts of funding and infrastructure funding they ought of have. Obviously, we do not say anything about the consumption part of it. My own personal position is that that needs to be more flexible as well, certainly around the stream of infrastructure funding for cities. The Government have moved in that direction. We would like to see that done more.

Q851 **Ms Angela Eagle:** Professor Low, do you think there should be a more strategic, sector-specific approach to different companies in the



## HOUSE OF COMMONS

aftermath of the crisis? For example, aerospace happens to be extremely important in the north-west and is a very high-skill, high-value-added, high-export sector. Again, there is absolutely no mention whatsoever of that today, and yet particularly the civil side is in very, very straitened circumstances. Other countries have supported their aerospace sector with big loans and packages.

**Professor Low:** It is very difficult for us to predict what firms are still going to be in business in the private sector in the next couple of years. It is very hard to see why it is the right way for Government to be spending their money supporting particular industries in that way. We should be focusing on supporting people rather than supporting industries, and making that our starting point and then seeing what follows. There is a real danger with supporting industries or supporting companies that we end up supporting shareholders, and we maintain shareholder prices, rather than thinking about actually supporting workers or enabling them to retrain.

If I was thinking about aerospace, in particular, it seems this is actually an opportunity for us to change the way in which we travel and in which we are doing things, which means we should not have the same need for aerospace, the airport sector and flying as we have done, if you think it is not sustainable for us to still have flying in 20 or 30 years' time, with climate change.

Q852 **Ms Angela Eagle:** Unless you have innovation in the vehicles themselves to make them more climate-friendly, perhaps.

**Professor Low:** Of course, there could be that sort of innovation. However, if the specific question is whether I think the Government should be supporting the aeroplane sector over the next two or three years, that is going to end up supporting the holders of the debt and the equity of the aeroplane sector, as opposed to actually helping the particular individuals who are working there.

Q853 **Ms Angela Eagle:** You were saying earlier, Nick, that you were sceptical about local and regional banks. Do you think there are any other structural innovations we need so that we can begin to make this move towards rebalancing our economy? We talked about it when I was a Treasury Minister. It seems not to have been achieved by this Government. Now we have the Chancellor exhorting people to spend, spend, spend, when we normally spend our time worrying about the savings ratio. He seems to have made a decision to reinforce the dependence we have on consumer spending, rather than save, for example, manufacturing or any of those other things. Do you think there are any structures we could be putting in place or maybe strengthening, like Bridget's infrastructure commission, that would take us away from this short-term reinforcing of the current shape of the economy, to something more guiding in the medium to long term?



**Lord Macpherson:** The fundamental problem that worries me about the British economy is that public investment fell off a cliff in 1976 when we went to the IMF, and it has never recovered. Up until that point, we were spending 5% to 6% of GDP on investment. I recognise that some of that related to nationalised industries that were privatised, but the public sector chronically under-invests and the private sector chronically under-invests. We have a serious productivity problem, which is reflected in very low living standards. I have been much encouraged by the creation of the National Infrastructure Commission. However, I think Parliament might want to consider how we can hardwire greater investment at the expense of current consumption.

Now, I dare not mention another fiscal rule, because fiscal rules—

**Ms Angela Eagle:** We do not seem to have any at the moment.

**Lord Macpherson:** They change the moment they come under pressure. I hate input targets, I hasten to add. I am reluctant to argue that we should have an investment rule like the overseas aid rule which is embedded in legislation. I am not saying we should invest more and spend more; we actually need to invest more at the expense of current consumption. However, something which forces us, almost reluctantly, to invest more would be desirable. If you could then underpin that by regional investment plans, which would be, again, reasonably hardwired so that they could not just be slashed at a moment's notice, we would be on the way to a more successful economy. I have not even mentioned skills, but I agree with Bridget's speech earlier.

Q854 **Ms Angela Eagle:** I do share your frustration about our chronic inability to create a working skills and vocational sector.

There is one final question I just wanted to ask all of you to maybe make a short comment on. When the OECD and the IMF gave evidence to us a few weeks ago, I asked them about this shift from the Washington consensus, if I could put it that way, to inclusive growth. I asked them what they thought about the emerging issues around those who are most affected by coronavirus, those who are poorer and those who are in more vulnerable groups, as well as the old. Clearly, with the challenges of climate change looming, we have to think about both social and environmental sustainability. Would you all just give us a quick comment on how you think we might try to embed this concept of inclusive growth, which the OECD and the IMF have taken up, which is really about having a more balanced economy socially and environmentally? How might we get to a stage where we can try to be focusing on that, rather than just very raw, very price-driven GDP levels?

**Bridget Rosewell:** Okay, no pressure, no challenge. There are two things. First, thinking really constructively about how we are going to get to net zero and how that is going to be done in a way which balances everybody's needs is a good way into this. It both takes us to a better carbon usage and, in thinking about the income distribution



## HOUSE OF COMMONS

consequences of that, it enables us to think about the inclusivity as well. The core thing is to think about that balance, because the balance is about how you also have a successful economy that is generating the resources you need to support whatever other investments you need to make. That is why I think devolution is absolutely key, because it is also a place where it enables you to have a better diversity of the way that people are thinking about these things, instead of it just being very top-down.

At the infrastructure commission, we try to go out and talk to everybody. We go out around the country, we have sector discussions and so on, trying to incorporate as many ideas as possible. One idea would be to have a special proportion of funds in any British business bank, or whatever, that has to go to small business. Those are small things, possibly, but with the potential for big pay-off and for generating that right kind of diversity that we will in the end need in order to deal with all the under-served and the excluded groups.

**Professor Low:** It is a big question. Let me start by saying that trying to measure the size of economies or how viable economies are by GDP just seems like complete nonsense. The fact that it is perpetuated has only happened because we have not been able to think of anything better. That is just a bit of a failure. Where it has really come to affect us now is in terms of thinking about climate change. This is where we have to make substantial differences to the way in which we are structuring the economy. We are not actually able to measure that or think about whether it is worthwhile doing, because we are using metrics which are based around narrow prices and current measures. Tied in with thinking about inclusive growth is thinking about what it is we are trying to achieve and to measure. I think we are making a mistake in the way we are doing it.

The other side of the approach that I think we get wrong on this is the timeframe in which we are operating. This is partly because all our measures of success are on flow measures of where the economy is or how well it is doing at a particular point in time, rather than stock measures of what the stock of wealth or the stock of capital is. Unless we think about those stock measures, we are not going to be able to think about the trade-offs involved in reaching our climate target of 2050, and we are also not able to think about how we seriously take individuals who are at the bottom of the distribution into a better situation, because we are always focused just on the snapshot of the current situation.

At the heart of this is that we have to change the way we are thinking about it. I know measurements is a dull topic, but a bit of it is about changing how we think about what we actually mean by an economy and what we mean by where we want that economy to go.

**Ms Angela Eagle:** Really interesting.



## HOUSE OF COMMONS

**Lord Macpherson:** Just to give you a diversity of views, I am afraid I am going to be quite unreconstructed on this. I am all for improving the environment. I am not a climate change denier, but Britain has done a lot on this front. It produces so few emissions relative to other countries, and I fear focusing too much on it actually hits the left-behind the hardest. It would just be nice to get our GDP growing a bit. Let us not call it GDP; let us call it national income. It has grown hardly at all in 10 years. Living standards have not changed. Let us try and get living standards up. My approach to inclusion would be, rather than letting the old folk get all the benefits of growth, let us share it around a bit and ensure that everybody benefits from growth.

**Ms Angela Eagle:** Good old redistribution.

**Chair:** Thank you, Angela. That brings us to the end of this session, so can I thank all three of our panellists? It has been a particularly interesting session. Hamish, your insights around uncertainty and behaviour, given the amount of uncertainty there is around and all the issues of behaviour we have been discussing, have been really interesting. Bridget, nice to know the various connections you have with this Committee. It seems to me you have never been far away really. Given these Rooseveltian times and the emphasis there is now on infrastructure, what you have imparted to us has had huge value. Nick, I see you as the wily insider who has probably seen it all before, but you have imparted to us great seasoned wisdom as a consequence of the experiences you had on the inside of the Treasury.

What has also been really helpful has been the timing of this session, with the Chancellor just having made these announcements literally this afternoon. It has been a great benefit to us actually to have an opportunity to talk these kinds of issues through with you as we continue our deliberations. Thank you all very much indeed. It is very generous of you to have given us your time, and that brings us to the conclusion of this session.