



Select Committee on Economic Affairs

Uncorrected oral evidence: The use of RPI

Tuesday 17 July 2018

4.30 pm

Watch the meeting

Members present: Lord Forsyth of Drumlean (Chairman); Lord Burns; Baroness Harding of Winscombe; Lord Kerr of Kinlochard; Lord Lamont of Lerwick; Lord Layard; Lord Tugendhat; Lord Turnbull.

Evidence Session No. 5

Heard in Public

Questions 50 - 60

Witness

I: John Pullinger CB, UK National Statistician, Head of the Government Statistical Service and Chief Executive of the UK Statistics Authority.

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Examination of witness

John Pullinger CB.

Q50 **The Chairman:** Mr Pullinger, thank you so much for coming to the Committee. I think you have seen some content from our previous session, so perhaps I could begin by asking you in particular about the last session we did, where the Chief Secretary made comments to the Committee. Following the Chief Secretary's remarks, will you now consider proposing changes to the RPI?

John Pullinger: The RPI represents a series of accumulated expectations of all kinds of parties. Any change that we were to make to it would result in some getting a windfall gain and some getting a windfall loss. It seems to me that it is very important to choreograph anything done by the statistics authority with actions by the Treasury and the Bank in particular. With my colleagues, I am working very closely with counterparts in the Treasury and the Bank, to make sure that any proposition that comes forward does not do anything to undermine the markets or send a signal about something that is not properly thought through.

The Chairman: You are under a legal duty to safeguard and promote official statistics. I wonder how you think you can adhere to that duty if you do not make a change.

John Pullinger: In looking at inflation statistics, we have looked at the purposes of the statistics and the characteristics of different measures that best capture those. That is the way I have sought to address that particular legal duty. In looking at that, we have concluded that there are three quite distinct purposes that those using inflation statistics are interested in. The first is looking at consumption of goods and services and how prices affect those. We have invested in the CPI family of indices to capture that and we believe it does that pretty well.

We have also heard that there is a group of users who want to understand how prices are impacting on households, particularly different types of households: pensioner households, non-pensioner householders, people at different stages of the income distribution. We have developed a suite of household cost indices specifically to meet those needs.

There is a third group, which has articulated those needs in the way I have described, as a set of accumulated expectations. Particularly in relation to the Debt Management Office, which was also in front of you at your last hearing, there is a set of expectations baked into the market, which are articulated through the current definition of the RPI as we are publishing it. Any change to that would potentially upset those expectations, unless it was very carefully signalled and choreographed. It would be for those reasons that I am meeting the statutory duty I have.

The Chairman: Liz Truss said that there were fundamental statistical issues with the RPI. She said, "The statistics authority should be

constantly reviewing how it calculates RPI, making sure it does that in the best possible way." "It is difficult for the Chancellor to say yes or no to a request that has not been submitted". "I am suggesting that it is the role of the ONS to put forward that proposal. Then due consideration can be made".

John Pullinger: My reading in the round of what she said is that we all need to consider this.

The Chairman: What does your "reading in the round" mean?

John Pullinger: I mean all the evidence you have received, including from her, that the Chancellor and she have signalled that there is a wish to move away from the RPI. Similarly, the Governor has signalled that. I do not want to put a proposal forward unless it is clear how that is going to fit together, given the risk, as I have said, of upsetting a very careful set of expectations that are themselves baked into the RPI as it is currently captured.

The Chairman: I am a bit confused, because Sir David Norgrove told the Committee that he was "very clear" that RPI was "an inadequate measure of inflation". When we asked whether he had been to the Chancellor, Sir David said that he could but the Chancellor would refuse to change it, whereas Liz Truss was saying to us, "We have not had a proposal so I cannot comment on that". It seems a bit of a circular argument.

John Pullinger: I am straightforwardly saying that the RPI is not a good measure of inflation as captured in relation to prices as they impact on consumption of goods and services. It is not a good measure of inflation if you are looking at the impact of prices on households. We have two perfectly good sets of measures that capture that.

Q51 **Lord Lamont of Lerwick:** Taking up your phrase "in the round", not all witnesses we have had took the same view of the RPI. I do not know if you read the evidence from Geoff Tily from the TUC but he said this: "It is a bit hard to avoid the fact that some of this rhetoric hides the fact that the intellectual case against the RPI is not strong. The fundamental issue with the RPI is with the formula. Many of the other issues which the ONS raised in its paper looking at the shortcomings of the RPI are red herrings. They result mainly from changed priorities for inflation measurement rather than problems in their own right". Do you have some sympathy with that?

John Pullinger: Dr Tily himself recognises that the RPI is inadequate. In mentioning the intellectual case, he was arguing that we should argue this on the basis of the statistical merits of each of the measures, and I absolutely agree with him on that.

Lord Lamont of Lerwick: Is there a case for saying that the formula effect is also caused possibly by the underestimation of inflation by the CPI? Again, we heard evidence from Simon Briscoe, who said there was lots of evidence that the CPI is underestimating the rate of inflation. He said, "I could point you to work done by the Joseph Rowntree

Foundation", which showed that "more often than not the RPI is much closer than the CPI. For 20 years until 2010, the CPI was woefully wrong". We had a graph purporting to support that.

John Pullinger: I am seeking to work out how best we measure inflation going forward from here. In doing that, I will always be open to thinking about the right sources of information and the right measures to apply to that information. We need to continually look at which formula most accurately captures the experience of inflation against the concept we are trying to measure.

Lord Lamont of Lerwick: The clothing effect that seems to have caused part of this problem seems to have been partly due to increased volatility from clothing prices moving very rapidly in aftermarket or after-fashion sales. One would have thought there might be very similar problems now with online prices. Is there a parallel there, and is that posing the same sort of problem that clothing has for the RPI?

John Pullinger: It increasingly is. We are looking at the moment to introduce scanner data systematically across the inflation indices. If you look at internet pricing, it is going up and down very rapidly, almost by the minute. We need indices that are robust to that, and our research programme is actively looking at that. Fortunately, some other countries have already incorporated scanner data into their CPIs, and we are trying our best to learn from them. The Netherlands would be a good example of that. You are absolutely right, yes. We are seeing that kind of volatility much more widely spread across purchases that people are making than has previously been the case in the fast fashion area.

Q52 **Baroness Harding of Winscombe:** I declare my interest as a director of the Court of the Bank of England. It is 12 years or so since I left retailing; EPOS data has been available for at least 20. Why is it taking so long to bring it into the calculation of our inflation indices?

John Pullinger: The main reason is to make sure we understand the properties of that data when we are bringing it in, so we maintain the conceptual coherence of it. You can add together the prices and get a number from that. We have modelled it, certainly. One of the key features of prices data is the way it is used, particularly in contracts and particularly in relation to the RPI, where you cannot revise it. We really need to be cautious. We have been quite cautious, for my taste, I have to say, but in our research programme we are prioritising different things. I would love to have got this in sooner. We need to get it in and it is very important for people's understanding of inflation to have it properly measured.

Our priorities to date have been: first, to get good assurance around the CPI measure and particularly the treatment of housing in that, which was itself challenging, due to the need for good, robust data through the Land Registry, which we now have; secondly, to understand this household costs index, where there was a clear demand from users to have something that was specifically designed to look at the experience of

households. We are now moving, and have published some details about how we are going to move, to really prioritise that question, because we need to do that.

- Q53 Lord Turnbull:** You and your chairman are making two propositions. One is that the RPI is inadequate and not good, but you also make a stronger proposition that it is irremediable—it does not have the potential to be good. Now, you make changes from time to time. Indeed, you made a big change, which many people think was a mistake, in 2010. Over time, you have made changes. First, can you explain which features in the RPI make it inadequate, in your view? Secondly, why can you not progressively make changes, of the kind you have been making for 50 years, to deal with problems as they arise?

John Pullinger: My preference would always be to make changes as they arise. That was the history of the RPI up to 2010. We made the change in 2010 and it has had a larger set of consequences than was anticipated then. In the light of that experience, any change is now subject to this consideration that is baked into the legislation about a fundamental change that may or may not be materially detrimental to one party. All the changes you might make, almost by definition, are going to have a significant impact, because otherwise why make them?

The specific ones—you asked me to be specific—are the impact of the index formulae, which create an upward bias; and the impact of the way in which housing costs are treated, particularly thinking about the housing index being proxied by a combination of the house price index and mortgage interest payments, which has a series of problems from a price index point of view because of the way in which the cost of land is baked into that. There is a series of smaller issues with the RPI that I would wish to correct, but particularly the fact that we are missing the top 4% of the income distribution, and pensioner households that are primarily dependent on the state.

We could fix all those, but depending on which concept you wanted to measure. Over the last 10 years, in the analysis that Paul Johnson did, for inflation we have been trying to capture two rather different things. There is an economic concept that we are trying to capture, which we have based on consumption. It is consistent with the measure used in other European countries and has been the basis of the inflation targeting that successive Chancellors have asked the Governor of the Bank of England to look at. It has consistency and coherence. You could turn the RPI into that.

At the same time, there are others who say, “The key thing here is the experience of households in relation to prices”. For that, you need something different. You need something that captures things such as mortgage interest payments, that has a more sophisticated or different treatment of issues such as student loans and, perhaps most fundamentally, that treats each individual as one unit, whereas an economic measure inevitably gives greater weight to those who spend more. Up until now, the RPI has sought to bridge that divide but, as Paul

Johnson's review illustrated, that is sometimes an unbridgeable divide. We are now faced with a situation where we have two types of measure that we believe successfully capture the reality of prices, in an economic space or in a household payment space.

Lord Turnbull: The household measure is the CPI.

John Pullinger: No, the economic measure is the CPI. That is based on consumption. Including for housing now, we have looked at what the price of consuming those goods and services is.

Lord Turnbull: If you have the other measure, I still do not understand why you cannot progressively make changes, provided they are based on sound statistical principles and are not targeted at either doing up or doing down any particular group. You basically say, "It is difficult, so we are just not going to bother". There are lots of people whose incomes are RPI-related. It would take a long time to wean them off it, although maybe you should make an effort to do it. Meanwhile, as long as you can justify yourself and say, "We have done this because we think, given the kind of index we are trying to produce, these are the best principles for that kind of measure", whether you are using arithmetic or geometric means, or however you are collecting the data, I do not see why you cannot keep progressively modernising the index. You are changing the weights all the time. There is not much in there for candles these days. All sorts of things have changed. Then, all of a sudden, the ONS has adopted this idea that we cannot do any more modernisations or updates.

John Pullinger: There are two reasons why that is the case. The first is the parameters set out in the legislation that identify this issue of accumulated expectations, in that any change we make has this windfall effect on different people. Those are modelled in. They are baked into the price.

Lord Turnbull: You made a change that had a massive windfall effect, with a bonus for a lot of people. Given what we are trying to measure, whether it is in the economic space or the household space, the index you should be trying to produce should be the best of its kind that you can produce from the statistical principles. The fact that someone would have done better if we had carried on with the old one I do not think should be a bar, as long as you can justify the basis on which you took the decision, because that is the best way to measure what we are trying to measure.

John Pullinger: Let me see if I can explain it another way. I understand absolutely where you are coming from. That is the way I have sought to think about it myself: what are you trying to measure and how do you best capture that? Paul Johnson's review was starting when I took on this post. I saw that through. A lot of things came out of that, but I wanted to build on that and set off a separate consultation that really focused on the question that you have asked: what is it that people need to measure? I heard back, very clearly, that some people wanted to measure this macroeconomic concept of prices and some people wanted

to measure the impact on households of prices. We sought to come up with the best conceptual set of statistics that measure both those things, and we have those.

Lord Turnbull: You are not saying that. You are saying that, when it comes to RPI, you are not producing the best measure you can produce for the kind of index that it purports to be.

John Pullinger: I am saying that the RPI purports to be no more and no less than this set of accumulated expectations, which, if I shift it, will have this impact. It would be unwise for me to make an announcement on shifting it without working with counterparts who will be dealing with the consequences of that shift in the market.

Lord Turnbull: You are not even undertaking that work. You are just leaving this thing to die.

John Pullinger: No, I do not agree with that. We have undertaken a huge amount of work looking at the best way to measure price, but we have come up with two separate answers. You could shift the RPI—

Lord Turnbull: If you have two different measures, each of them in its own way has to be first class.

John Pullinger: The two sets of measures we have are our best call on those two concepts at the moment.

The Chairman: Mr Pullinger, perhaps I am being a bit thick here, but I still do not understand why you would not correct the error that was made on the 2010 clothing prices, on the basis of what you have just said.

John Pullinger: If I were to make that correction given what I know now, I would also want to make a change relating to the other things that I know are not as I would do them in the RPI.

The Chairman: What are the other things?

John Pullinger: Clothing is one. The second is the impact of housing. The third is the coverage effect that I mentioned of missing out the top of the income distribution and pensioner households largely dependent on a state pension.

The Chairman: You are saying that you accept there is an error, but there are so many other errors that, if you are going to put one error right, you need to do all the others at the same time.

John Pullinger: I am saying that, if I were to make a change, I would want to deal with all the things that I think need to be changed. That would be to turn the RPI either into the CPI or into the household costs index.

Q54 **Lord Layard:** You are saying it is very difficult to change the way anything is done because there are expectations built into it. That must

apply to the CPI as well. Do you ever change the way you do the CPI?

John Pullinger: We have a research programme in relation to each of the indices so that we can update them. As I said in response to Baroness Harding earlier, we look at the impact of internet pricing in the retail space. We are continually updating all our indicators. You and I were recently at a meeting looking at the understanding of the modern economy more broadly.

The unique thing about the RPI is that we do not do that through what I would describe as a continuous process. We do it through the provisions of the Act, which require us to more specifically think about the extent to which this is a fundamental change. The changes we are talking about here, it seems to me, would be fundamental, although that is a matter for the Governor to consider. I would not want to unilaterally put forward a change to this index without considering it with those in the Treasury and the Bank who would have to deal with the consequences.

Lord Layard: Something could be a fundamental change and done all in one year, or it could be done in 10 separate pieces over 10 years. You are talking about judicial review. Is that concept at the back of your mind? Can you not fend that off if you do it gradually?

John Pullinger: I was not particularly thinking of judicial review, although you always have to think about such things. I was simply thinking about directing myself to the things I must consider. I want to create a set of prices that help you understand prices as they occur in the economy and prices as they impact on households. But, at the moment, I have a thing here in front of me called the retail price index, which, were I to change it, would affect in some windfall way one group of people in one direction and one group of people in another. This is an uncomfortable space, and will be until there is a way of moving off it, not just in the world of statistics but in the real world, in terms of the gilts market, the commercial bonds market and various other markets that are significantly impacted in this, all of which are priced into the RPI as it is now. All the decisions made in the past are effectively sunk decisions now. In a sense, the only place I can start is here.

Q55 **Lord Tugendhat:** This is a most extraordinary inquiry, Mr Pullinger. At each meeting we become more aware of the inadequacies of the RPI, and each witness draws our attention to ones we did not know about before. Yet many contracts are linked to it and it is a significant determinant of wage levels. I just wondered what you feel the net impact of using this faulty compass has been economically. Has it led to a higher real rate of inflation than would otherwise have been the case? I refer there to the degree to which wages are linked with RPI. Has it led to people—the population at large—feeling better off or worse off than they actually are? Is there any guidance you can give us as to what the effects of using this faulty compass have been on the economy and on people's attitudes towards the economy?

John Pullinger: That is a very difficult thing to assess. I have not seen or done an assessment that tries to capture the various ifs and buts that are involved in that. I would observe that the whole thing is done in plain sight. People are observing the impact of it in relation to the gilts market. The prices are set in recognition of the particular properties of the RPI where the gilts are denominated in RPI terms. Just to choose one example, the rail industry makes no secret of the fact that this formula enables it to get more money into the rail industry to enable investment to take place. In this situation, the fact that this is done in a very transparent way enables everyone to consider what those impacts are. I have not seen a model that captures each of those various things.

Q56 **The Chairman:** In relation to the gilt market, do you accept the evidence we got that the windfall created by the changes in 2010 was £1 billion to those people who held index-linked bonds?

John Pullinger: I cannot really comment on that. That is a calculation done by others. It is what it is.

The Chairman: What does "it is what it is" mean?

John Pullinger: There is a report that you are quoting.

The Chairman: You accept there was a windfall, but you are not sure about the number.

John Pullinger: It is not something I feel able to make a judgment on.

The Chairman: If the measure of inflation is higher than it actually was, surely by definition there must have been a windfall gain. I am not a statistician, but that seems to me to be obvious.

Lord Tugendhat: I feel I have had a windfall gain through my index-linked national savings certificates. I think on balance they have been a remarkably good investment because you get a rate of interest on top of an additional inflationary measurement.

John Pullinger: Mathematically, if an index is going up faster than another index, it is going to be more favourable to you, so yes.

Q57 **Baroness Harding of Winscombe:** Can I try to summarise what I think I have heard? First, you acknowledge that you make changes to all the inflation indices on an ongoing basis. You change what products are included. You change weightings. You make some changes. Secondly, you acknowledge that there are considerable errors in RPI today, not least because of the changes that were made in 2010, such that you advise government to not use RPI. I am interested in what would have to change for you to decide to do something about RPI, other than just hoping that other people stop using it. That advice is not working. Government and others are continuing to use it. What would be the conditions that meant you felt you could start making changes to those errors, in addition to the other changes you already make?

John Pullinger: I am saying that changes I make to the statistics have real-world consequences and I would want to make those changes with some confidence that they were not going to have a destabilising effect on markets that have already baked in a set of expectations on what the statistics are doing now. What happened in 2010 is long past. The impact of that is now taken broadly into account, so I can only think of what changes I could make now. They need to be choreographed if they are not to have a destabilising effect.

Baroness Harding of Winscombe: What would that choreography need to look like, for us to move forward?

John Pullinger: You have had statements from the Chancellor and the Governor that we need to move away from this position. You have heard from me and other members of my authority that we want to move away from this position. As for the impact on the gilts market, you have heard from the DMO that it is anxious about a fragmented market or a market that is inflation-linked in a different way, which it would need to build and make work properly. You have heard from the Chancellor and the Chief Secretary to the Treasury that there are potentially real-world fiscal implications from that, and the Government remain fiscally challenged, as they have said to you. A move in this direction, I believe, needs to take account of those considerations.

Baroness Harding of Winscombe: Is that not a very elegant way of saying “never”?

John Pullinger: I really hope this is not a “never” situation. This is not about “if”, but “when”. Several witnesses here have talked about different time periods. Some have talked about 10 years, for example, which seems an awfully long time to me. I would really hope this is resolved much more quickly than that.

The Chairman: How many years should it take?

John Pullinger: It can be as soon as you like—seriously—but “as soon as you like” in the sense of something that is not going to destabilise the position. Others are better placed to judge that than I am.

The Chairman: Perhaps I misread the legislation, but I thought you guys were there with a clear duty to produce a statistic that was reliable, not to say, “Can we just wait and make sure that this party or that party is not going to be adversely affected by the change?” Am I misreading your statutory duty?

John Pullinger: No, not really, but, as I interpret it, my statutory duty is to produce the statistics that serve the public good as the public good is perceived by me. I am hearing three different types of request to me, each of which I am currently seeking to fulfil.

The Chairman: I do not mean to be impolite, but would an unkind way of putting that be that you are prepared to mould the statistics according to the public pressure coming from government and other agencies?

John Pullinger: That would be unkind.

The Chairman: Would it be accurate?

John Pullinger: No.

Q58 **Lord Burns:** The Committee is worried by some of the evidence we have received on this question of whether the UK Statistics Authority is sufficiently independent of the Treasury and the Bank of England. This stems largely from the fact that we seem to be being presented with an extraordinarily unpalatable mix of views here. One is the letter from Sir David Norgrove. It says that the retail price index is not a good measure of inflation, it does not have the potential to become one and its use is discouraged, yet we know there are many outstanding contracts that have decades to go before they are completed and rely on the RPI.

It seems to me that one has placed all these things in an extraordinarily difficult position by then saying that not only will the decisions about the RPI be taken on what are quasi-political grounds, but they will be taken in relation to an index that is being allowed to wither. You talk of 10 years, but we know that many of these contracts are going to last many, many more years than that, as Lord Tugendhat pointed out earlier. Surely you must concede that this is a hugely embarrassing and really very unfortunate position that we have been put in.

John Pullinger: It is definitely an uncomfortable position and, as I said in response to the Chairman, if we can find a way out of it, no one will be more pleased than I am, but we are faced with a situation. We have these three different sets of arguments, the third of which is the position that has arisen since 2010, where it is very hard to move from the RPI as it currently is because of these expectations, one way or the other. I am being urged. I do not see this as political pressure. I see this simply as a user requirement. Simply because these contracts are denominated in RPI with these characteristics, and people are in them with a set of expectations around them, it is tricky to fix it, either in part or in whole.

Lord Burns: I will move on to easier territory: the accounting for student loans in the national accounts. When we were doing our inquiry, the written evidence said that the ONS was "firmly of the view that the economic nature of student loans closely matches the definition of a loan in national accounts". I understand further work is now going on with this and, indeed, an announcement is being made today in relation to it. We now seem to have moved to a position where the interpretation is that the treatment of it should depend on the proportion of the loans that are not expected to be repaid. Can you take us through this evolving story, how we got from the position when we embarked on our inquiry on student loans to where we are today, and where you think we are headed?

John Pullinger: Yes, certainly. When student loans initially came about, they were considered by our national accounts team and classified in accordance with the Eurostat guidance as loans. That is how they have appeared in the national accounts since, and that is how they are picked

up and treated within the public sector finance statistics. In hindsight, we could have been more nuanced in our consideration of that in response to the Committee, but in that response we said simply, as a matter of fact, that this is what had happened. The inquiry here, the inquiry of the Treasury Select Committee and the Government's selling off of parts of the loan book put a sharp focus on the fact that these should perhaps not be considered as loans at all.

Since April, we have opened that box and said, "Are they loans and, if they are not, how should they best be treated?" The paper we published today sets out four options for that. The Office for Budget Responsibility has also done an evaluation of those options and added a fifth, to look at what it would look like in commercial accounting terms. Each of those options has different implications for the different aggregates. We have opened that box and we are looking at it. We are looking at it quite carefully, because there are potential implications and precedents for the way other countries operate. Where we have rested so far, and continue to rest, is following the United Nations guidance on national accounts. We want to follow national accounting principles in doing that.

We are looking at these different options. The first is simply to look at revenues and expenditure and treat them effectively as commitments to payments, as a stream of money coming in, and completely move away from the loan concept. The second is to think particularly about the interest payments that students have, and to think of the capital as a loan but of the interest as a series of payments. The third is a hybrid approach, which reasonably closely approximates the commercial accounting approach, discounting against the likelihood of repayment of both the capital and the interest. We are working through that, but we are working through it against the national accounting rulebook, which is what was done in the first instance.

Lord Burns: What are the next stages in this? When will we get your view as to what should happen?

John Pullinger: In the paper we published today, we say we expect to have a view by December. We want to think this through properly and get it right. Part of that is consulting colleagues in other countries to make sure we are drawing on the best expertise for that, but December is the date that is published in the paper today.

Lord Burns: It is slightly curious to us that it should have taken the ONS quite so long to arrive at this position, when we were taking evidence on this for many months and could see many of the problems there were in reaching a clear view of what has happened to public finances. We recognised that, when it was clear that large amounts of these loans were not going to be repaid, it was very curious to treat them in the way that they were treated. Is there something built into your processes which means that it takes an enormous amount to move you to recognise some of these issues?

John Pullinger: The short answer to that question is no. Our processes are and should be nimble and able to reach timely conclusions. This area has been very busy, certainly over the last three or four years, and there have been a large number of decisions to look at. In this particular case, if you start from the position that these are loans, particularly if you look at it from the perspective of the individual student, the national accounting treatment is not so odd, because the student still has a liability for the complete amount of the loan and the accrued interest until the point at which they do not. That is the logic of the treatment in the national accounts. It is only when you are looking at it from a different direction that you start to see there are many alternative ways of considering it.

Lord Burns: In terms of trying to emphasise to students that all might not be as it seemed, the emphasis has been on the fact that this was not really a loan, but an income-contingent repayment. The fact that that has now become dominant in terms of how this is presented has, no doubt, created some of this uncertainty in your mind.

John Pullinger: That is true. That is an emerging narrative that has built up since student loans first came in. That is what we are trying to reflect in this current review.

The Chairman: When the Chancellor came before the Committee last September, I asked him—not knowing the answer to the question, which is always a mistake—why they had effectively doubled the rate of interest on student loans while at the same time cutting the discount rate. I did not really get a response. The Committee discovered that it was because it enabled his predecessor, George Osborne, to take a big reduction in the deficit, which of course would not emerge as a problem for the public accounts until 30 years down the line. Following up on Lord Burns's question, you must have been observing what has been described by the IFS as a fiscal illusion, and what I see the OBR has today in its statement described as a pyramid of fiscal illusions. It seems odd that this has not been picked up earlier.

John Pullinger: We are seeing this as you are, and we are reacting to it now. As Lord Burns said, maybe we could have reacted more quickly. I accept that. We are observing a whole range of these different transactions and we are reacting to them as quickly as we can. The key thing here is whether, from the point of view of the national accounts, these are loans. We are now opening up that question and all else follows.

The Chairman: We are extremely grateful to you for having responded. Perhaps it is a bit churlish to complain about the timing.

Lord Turnbull: One thing that distinguishes these loans from bank loans is that, with bank loans, by and large you lend money and you want to get it back. It has been built into the scheme itself that a large amount of this money will not be coming back, and we even have a concept for it: the RAB charge. The Government calculate year by year how much is not

expected to come back. If you know in advance that much about the characteristics of the loans, it seems to me that the bit that is not going to come back has to be treated separately and recognised. I welcome this. You may say that this thing has kind of crept up on you; the fees have gone up bit by bit; the interest rates have gone up; maintenance grants have been turned into loans. Eventually, this becomes such an enormity that you cannot just stick with what you have. I hope you will pursue this. It will be an embarrassment for the Government. It will be reversing previous flattering presentations. It will not be making the economy any worse. It will not be making the real state of public finances any worse. It will just be recognising better what the situation is, so I hope you will stick to your guns on that.

John Pullinger: Of course we will.

The Chairman: Good. If there are no other questions, I think we can end the public session. Thank you very much.