HOUSE OF LORDS

Select Committee on Economic Affairs

Corrected oral evidence: Employment and Covid-19

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3 pm

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Members present: Lord Forsyth of Drumlean (The Chair); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Lord Fox; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 10 Virtual Proceeding Questions 73 - 86

Witnesses

I: James Smith, Research Director, Resolution Foundation; Paul Johnson, Director, Institute for Fiscal Studies; Helen Barnard, Joseph Rowntree Foundation.

Examination of witnesses

James Smith, Paul Johnson and Helen Barnard.

Q73 **The Chair:** James Smith, Helen Barnard, Paul Johnson, welcome to the Economic Affairs Committee.

Perhaps I may begin by asking the first question. To what extent is the Treasury correct that the economy is going through a significant structural adjustment, making many existing jobs unviable? How does it know which jobs are unviable? Are some of the jobs being made unviable as a result of state intervention in respect of the coronavirus regulations?

Paul Johnson: The obvious answer is we do not know the extent to which we are going through a structural adjustment and the extent to which a lot of jobs will become unviable. It seems plausible that many will in the longer run, if the pattern of work changes, and jobs in the centre of cities become very different. It seems unlikely that nightclubs, for example, will continue to be unviable for ever, but they might be unviable for a protracted period, and we do not know how long that will be.

The answer to whether the Treasury knows which ones are unviable is "no". I think it would defend what it has done by saying that, because it does not know which are viable and which are not, it has decided not to protect particular sectors and left it up to employers to decide whether they can afford to match within the Job Support Scheme.

I am not sure that that works particularly well for the sectors that have been shut down, some of which will be viable in the long run but are clearly deemed unviable by this policy. The fact that we cannot know which are unviable is driving them in this direction, but it is a direction that clearly means that a lot of jobs that might well turn out to be viable in the long run will be lost in the short run.

James Smith: I agree with Paul. The key point is that, when the job retention scheme was put in place, we thought that there was a chance that all this could be very short-lived and the support would not have to carry on all that long. We have found that the virus will be long-lasting and we are now talking about another six months of support.

The situation has changed and government support has changed. That is welcome. As circumstances change, policies change, and that is a good thing. As Paul was saying, in the long term there will be big differences to the economy, but it is hard to call those differences now. Some things such as business travel will not come back in quite the same way in the future, but we will want to use theatres, restaurants and football stadiums, and that kind of thing.

Lots of industries that are almost completely closed or operating very much below their usual levels will be viable in the long term and we will want to use them in the future. So it is very tough to make that call.

The key point here is to try to provide support for the economy in a way that does not preclude long-term, viable industries from continuing.

Helen Barnard: Yes, I agree that we cannot predict it. The jobs that are at risk during this period are the minimum wage ones in sectors where workers are in close contact with the public: hospitality, leisure and retail. It is plausible to say that there are some trends which this may well accelerate. With retail and the move to online shopping, it is plausible to say that this will have pushed that further and faster. With the move to more home-working and local working, it is plausible to say that this may well be a long-term trend.

The hospitality and leisure sector was growing pre-pandemic, and one thing we have learned through this is how much everyone misses seeing each other in person, so it seems inevitable that hospitality will bounce back. The question might be where. If we agree that everyone will go out to restaurants when they are allowed, if more people are home-working will those restaurants be local, town high street restaurants rather than city centre ones? There are likely to be potential movements in which businesses come back.

I agree that the Treasury has made the judgment that it will treat a job as unviable if the business cannot keep running during public health restrictions. It has made a very definite choice.

It is worth noting that the groups of workers who are likely to be hardest hit are people who will find it hardest to switch to other sectors. We will come on to this. This strategy requires much more intervention for those workers than if you tried to keep the existing economy afloat for the next six months in the hope that everything snaps back.

Q74 **Baroness Kingsmill:** What criteria would the panel apply to designate a job unviable? We have covered it quite a lot in the opening responses to your questions, Chair, but I would like to see whether they have any positive thoughts about the criteria that could be applied.

Paul Johnson: I do not think it is possible to answer that directly. One would want to take a number of things into account. One would want to treat businesses that have been deliberately shut down as different from those that have not. If you are deliberately shut down, that tells you nothing about your future viability.

The second set of things that you could look at if you are not shut down is what fraction of your previous profits or turnover you are managing at the moment. That might tell you something about the long-run viability; it might not.

The third set of things to take account of are those that we have just described, which I do not think would be operationalisable in supporting businesses: what sector they are in, whether they are city centre or out of town, or whether they are the sorts of businesses that we expect to return—theatres versus business travel.

That third one is not operationalisable, because you really are taking bets on jobs that, from the centre of Whitehall, you are almost certainly going to get wrong.

The Chair: Helen Barnard, in your answer you talked about hospitality and other businesses bouncing back. Once a business has gone bust or been closed, it is very hard for it to bounce back. Is this notion that people will be able to bounce back taking account of the scarring effect on the economy as a whole?

Helen Barnard: It is more that the sector will bounce back. There is no reason to think that the hospitality sector will not be viable again once everyone is allowed to go out. I agree: the idea that all the same businesses will come back is unlikely. However, we can assume that those types of businesses will be back. The question is when and where, particularly.

James Smith: Building on what Paul was saying about viability, the key point is that it is extremely difficult for government to decide which jobs will be viable in the long run and which will not. That is pretty clear.

I would approach policy, given that uncertainty, by doing it in different phases. If you are closing bits of the economy to suppress the spread of the virus, you need to support jobs and incomes and provide social insurance against the pandemic.

As you move out of that phase and the economy starts to open up—and we thought we were in that phase, but we have now seen the virus re-emerge—you can start to discover more about how the economy needs to redistribute itself in the face of the pandemic shock. You withdraw employment support, such as the JRS and the JSS, which are so important in supporting the labour market, and you provide support for people to find new jobs and businesses to start up. You can think about it as different approaches at different points in the crisis.

Lord Tugendhat: I add a word of experience. I live very near Westbourne Grove and Queensway, which has a great many restaurants traditionally. I have been struck by the fact that some of those that had closed in recent months are now reopening, apparently under different management, or at any rate with different names. In this part of London, even now, there appear to be signs that restaurants that had previously closed are now reopening. As I say, those that had been shut and boarded up now have different names; whether they have different owners, I do not know.

Q75 **Lord Livingston of Parkhead:** My question follows in some ways from Lord Tugendhat's comments, and I will ask Paul Johnson and perhaps anybody else who so wishes to comment.

Do we not have to distinguish between jobs that may not be viable, as difficult as that is, and companies that are not viable? The job may exist in the future—restaurants are a good example—but the company itself may be so loaded with debt that it is not viable, so retaining the job within a company may be wrong, and, as Lord Tugendhat said with his local restaurants, you may have to look to a new company. There are two different things happening here that we need to think about.

Paul Johnson: That is the kind of thing that would happen without support. Supposing there was no support, the large majority of restaurants would go bust, and everyone working there would become unemployed, but at the point at which the economy was recovering and social distancing was being loosened they would be snapped up by other companies or individuals and the sector would re-open.

There are two problems with that. The first is that there will be a lot of disruption in the process and the sort of scarring that we were talking about. Secondly, there is an injustice when, in a sense, the Government are forcing social distancing, which is leading to people losing their livelihoods. There is a really tough judgment in how much of that one supports and how much one allows the creative destruction, as it were, to take hold.

The other point I would make—

Lord Livingston of Parkhead: I am sorry to interrupt you. I think that it is happening and I was not suggesting that is a good thing. I was asking whether we are seeing jobs that may be viable but where the level of support, as big as it is, is not sufficient to maintain the companies. Many restaurant chains, for example, have already announced that they have gone into receivership. I understand that you could have an extreme version of that, but do we not have a version of that today? Is it not two different challenges: how you maintain the company and how you maintain the job?

Paul Johnson: It depends what you mean by how you maintain the job. It has tended over the last few months to be used to describe maintaining the same person in the same job. You are right that in the long run you might get those jobs back but potentially with different companies having different people working for them.

As Helen Barnard said, what is very notable about this time is that the majority of the jobs being lost are pretty low wage and, in some sense, relatively low skilled. From an economic point of view, those are also the ones where it is relatively easy, if a particular job goes and a new company forms, to hire someone who does not need an enormous amount of skill. That is where a lot of people entering the labour market go. They go into the hospitality, entertainment or retail sectors.

The cost of scarring, if one is being very economistic about it, is probably smaller in some of those sectors than it would be, for example, in the manufacturing sectors where traditional recessions tend to hit. The scarring effect on the economy may be smaller because of the types of jobs and sectors that are being affected compared with traditional recessions.

Q76 **Baroness Bowles of Berkhamsted:** To some extent this question joins seamlessly with the things we have just been discussing.

Does the Job Support Scheme provide a high enough wage subsidy from government? Is it likely to lead simply to more redundancies in sectors where there is little or no training, where it is easy to hire and fire, which is what Paul Johnson has just been describing? In those sectors, will it be feasible for the company still to pay for some hours they are not getting, which is what they have to do under the scheme?

Helen Barnard: The issue with the Job Support Scheme is that the design of it does not provide a lot of incentive for businesses to keep hold of low-paid workers. We have been doing analysis of who is at risk in the next wave of unemployment. For minimum wage workers, we find that about 40% are at high or very high risk of losing their jobs. For workers paid more than about £40,000 a year, only about 1% of people face that risk.

The group that we are worried about is low-paid workers, but the design of the Job Support Scheme is such that you have to pay some of the hours they are not working to hold on to somebody, so the only reason financially you would do that is if you have invested enough in that worker such that you do not want to have to let them go, bring somebody back and retrain them.

The issue we already have in the economy is that employers do not invest in low-paid workers. In lots of businesses these workers are the ones on insecure contracts anyway who get pulled in and let go. In the design of this scheme, it seems pretty unlikely it will lead to lots of low-paid workers being held on to. If you look across Europe, even with schemes that do not ask employers to pay for unworked hours, you see that they are much better at incentivising and keeping high-skilled jobs in manufacturing than low-skilled jobs in hospitality.

The Treasury has made a choice that for these kinds of workers it will not try to use this scheme to hold on to them. We will come on to the fact that, if you are going to do that, you need a real plan for those workers, because this scheme will not avert that wave of unemployment for low-paid workers.

Baroness Bowles of Berkhamsted: I was going to ask whether you think that is a deliberate policy choice, not just bad design, and that it has said, "Let the unskilled go, because maybe they'll get the jobs again when something else grows, but keep the trained ones".

Helen Barnard: I have a high enough view of the Treasury that I do not think it has escaped its notice. The judgment that I think is being made from the macroeconomic point of view, as Paul was saying, is that if lots of high-skilled workers go out of work it will take a lot more time, effort and money to retrain them.

From a worker's point of view, if you are a low-paid worker who is already in poverty and struggling to pay the bills, and you have already been hit with your hours going down, the chances are that you will be let go, either because there is no point in the business keeping you, or, because it is so complicated and you are on an insecure contract anyway, it is better to keep you three months, get the job retention bonus, and let you go, rather than keep you for a whole six months paying out money when you can just rehire somebody when circumstances change.

That is putting a lot of burden on the low-paid workers. Our focus should be whether there is enough of a policy for them, because they will be at the sharp end of this.

James Smith: Stepping back a little, we were coming to November where we were facing increased restrictions and additional social distancing measures, which were suppressing the spread of the virus, but a withdrawal of the job retention scheme, which was crucial to providing income support to people who cannot go to work in the face of those restrictions. The change in direction and the setting up of the Job Support Scheme is definitely welcome in that context.

I agree with the way Helen Barnard described the incentive structure. It is extremely complex, in a way, because you have a short hours scheme that is spreading out low employment, but you also have a job retention bonus that is floating around for workers who are kept in jobs, so when you are thinking about that scheme you have to build together all those different moving parts and think about the costs of hiring and firing, which the Chancellor was talking about this morning.

There is a lot to this scheme and I think that things could be much simpler. We at the Resolution Foundation said that it would have been better to scrap the job retention bonus and to drive those employer contributions very low to create a much bigger incentive for firms to share the lower work that is stemming from the lower activity in the economy and therefore keep more people attached to their jobs.

What Helen says is exactly right: people have to find new jobs, they cycle through different jobs, but we know that it is tremendously costly in making the economy less efficient and hits people’s welfare, and all that kind of thing. It is definitely costly to have unnecessary people losing their jobs.

The Chair: Paul Johnson, do you feel you need to add anything to that or do you have any other points you want to make?

Paul Johnson: I agree with what Helen and James have said. What Helen was saying in particular is exactly the flip-side of what I was saying earlier: that, arguably, economically it is more valuable for the reasons that we discussed to keep that link between the higher-skilled worker and the firm. That seems to be how this system is designed. However, socially, the cost of losing that link between the lower-skilled or lower-paid worker and the firm may be significant.

Both this scheme and the CJRS have been pretty generous to the employee, at the expense, you might argue, of the employer. CJRS is an 80% replacement rate of gross pay and probably about 90%, or more than 90% of pay for some employees, of net pay. There is also a very high replacement rate under the Job Support Scheme. You might think that a different balance between employee and employer would have been something else to consider.

Baroness Bowles of Berkhamsted: Is the self-employed grant better targeted than the previous scheme? There was a lot of concern previously. Have you looked at that? Does anybody want to have a go at that? No.

The Chair: Lord Fox, you wanted to come in.

Lord Fox: Going back to where we were, James Smith, you broached the subject of the £1,000 job retention bonus and, Helen Barnard, you said the Treasury went into this with its eyes open. What do you think it was intending to achieve with this bonus? Is it merely moving the cliff edge and hoping that something will turn up by then? As James Smith points out, it is a large sum of money. What do you think the Treasury was betting on with this money?

Helen Barnard: I suspect James has done more detailed work on this. When it first came out, our view was that, although it is a large amount of money, it is probably not big enough to shift a lot of business decisions. For businesses for which it did not make economic sense to keep people on, a £1,000 bonus will not swing it the other way. It will only be a group of businesses in the middle for whom there is a marginal, "Should I or shouldn't I?" Those are the businesses where it might tip you into thinking, "Okay, I will keep someone on". But that will last for only a short period. I suspect the idea was to stave off a wave of unnecessary job losses in the hope that the wider economic conditions might have changed.

Lord Fox: It is moving the cliff edge and hoping something will turn up.

Helen Barnard: That would be my assumption. You are trying to nudge it down and hope we are in a better place by that point.

James Smith: I agree with Helen on that. The offer of the job retention bonus is trying to incentivise firms to bring people back to work. That is the obvious aim of this scheme. As Helen was saying, it does that only in the short term. After the January payment, there is no continuing incentive for firms to hang on to workers in the same way, and the size of the payment restricts the applicability to the number of workers who would benefit from it.

The big issue with the job retention bonus is that, because it is a blanket payment, it risks being poorly targeted; which sectors will benefit from it most? A lot of jobs will have come back from the nadir of the crisis and they would have come back whatever was going on. Those jobs will still benefit from the job retention bonus, so there is a deadweight loss associated with the scheme. That is the major problem for us with the job retention bonus.

The Chair: I am quite conscious of time. Baroness Bowles, are you happy? I think it would be helpful if colleagues directed their questions to whoever they want to answer so that our witnesses do not feel they are waiting for somebody else to answer.

Q77 **Lord Burns:** So far, we have discussed how the labour market has been affected in different ways, and particularly how people have been affected by lockdown and social distancing, and therefore whether jobs might come back. How far do you feel the Government's schemes that have been introduced reflect some of these distinctions? How far are the schemes aimed, in a sense, at the macro side and the overall level of unemployment? Are the schemes very well targeted?

Paul Johnson: We have moved on from the initial schemes—the CJRS and the SEISS—which were not targeted at all. The self-employed scheme in particular was not targeted at all; it was a blanket scheme with a lot of rough justice in it—I think that would be a way of describing it. As James was saying earlier, that probably made sense in a world in which we hoped that this might be a relatively short-term disturbance.

The back-to-work bonus is not targeted at all. I agree with the comments about a very large amount of that being deadweight spending.

More recently, though, we have seen an effort to target more. I think that was the thinking behind the Job Support Scheme but targeted in a way that relies on employers to decide whether jobs are viable.

As we have discussed, it is a very narrow target. The number of jobs supported by it will turn out to be relatively small. It seems to me that there is clearly space for some additional targeted support, in particular for firms and jobs that at the moment are simply not allowed to open, be that nightclubs or pubs in areas where the lockdown is hardest. There are targets of that kind.

There are also targets of the Job Support Scheme kind, which are aimed at the most viable jobs. I think that, in a sense, is the tightrope that we are walking when we think about targeting. You can target the jobs that are just gone for now, and you can target the jobs that are most viable in the longer term, and those may be two different forms of targeting. At the moment, the Treasury has moved very much towards targeting via employers jobs that might be most viable in the longer term, at the expense of those that are definitely not viable in the short run.

Lord Burns: How far did the measures have the capacity of being increased or decreased as the extent to which lockdown is required is changed? Is there much in the way of adjustment that can be made on the run, or would they require new measures?

Paul Johnson: The specific ones we have at the moment are not terribly amenable to that. In a sense, the furlough scheme was fairly amenable to change and, indeed, adapted over time. The Job Support Scheme clearly could change as regards the fraction that it is paying. If you want to move towards some sectoral support for sectors that are fully closed down, you would want something new and different. If you want to move towards support for a significantly wider set of jobs that are currently at risk, again you would probably want something new and different, which could be some continuation of the furlough scheme. It would be quite difficult just to tweak the Job Support Scheme to achieve everything you might want.

Q78 **Lord Skidelsky:** May I follow up on Lord Burns's question and address it initially to Paul Johnson? In your view, have the Government done enough to support aggregate demand in the next six months? In my understanding, the steeper the fall in aggregate demand, the slower the rate of recovery will be, so you cannot discuss the rate of recovery in individual sectors without considering the effects of government policy on the economy as a whole. Do you think that enough has been done to support aggregate demand, given the forecasts of unemployment and downturn that we have?

Paul Johnson: It depends how you measure aggregate demand. In one sense, there is a truly vast amount through the level of fiscal expansion, and indeed monetary expansion. We also know that the savings rate among many households has gone up a huge amount, and a lot of the issue is that the demand has fallen off because of things that are almost outside the Government's control, such as fear of the virus, and things that are very much in the Government's control, such as shutting things down to stop people spending money.

The schemes that have been directed specifically at demand—Eat Out to Help Out, for example—have certainly come under some criticism, but were clearly effective at increasing demand over that period. I do not know whether you would describe the continued reduction in VAT for hospitality and the cut in stamp duty in the housing market as supporting aggregate demand, but they are certainly supporting demand in particular sectors.

It seems to me unlikely that in the short run significant additional fiscal loosening would have a big aggregate demand effect, given that what is holding back the demand are things in sectors of the economy where the virus is preventing people from purchasing things. James may well be in a better position than I am to answer on some of these aggregate demand issues.

Q79 **Lord Stern of Brentford:** My question is a nuance on or extension of Lord Skidelsky's question, so it is good to ask it now.

Given that we do not know what the state of the economy will be, and given the risks of major unemployment, would you agree that it could be dangerous to try to close the fiscal deficit too far, and that we should be looking five or 10 years out to manage the deficit rather than trying to close it in the next few years, from the point of view of the risk of serious unemployment?

Paul Johnson: I can answer that very quickly. Yes.

The Chair: That is a very good answer. Thank you.

Paul Johnson: The idea that we might be looking at big tax increases in the next year or two strikes me as being far wide of the mark in what I suspect the Treasury is even thinking about, let alone what is a sensible set of policies. We will clearly have to deal with it, but not in the next couple of years for sure.

Lord Stern of Brentford: We can deal with it in part through growth as well as tax increases. It will be a bit of each, will it not? We do not want to choke off the growth.

Paul Johnson: Exactly.

James Smith: I completely agree with Paul. It is very important at the moment. One of the key things that is different about this crisis is that the Bank of England cannot do the heavy lifting in supporting the economy. It is mired in low interest rates. It does not have capacity to provide large-scale support. More of that has to come from fiscal policy. That means that you have to be more aggressive with fiscal policy and subordinate the objectives that Paul was just talking about of bringing down debts and deficits. Those are less important than delivering a rapid recovery. Without a rapid recovery, the fiscal damage will be much larger. There is a key difference in this crisis to the previous ones and that really affects how fiscal policy should be set.

Q80 **Viscount Chandos:** Helen Barnard, you alluded briefly to international comparisons, so perhaps you will answer this question first.

Why have other countries deemed it to be economically viable to extend their job retention schemes largely unchanged, yet the UK has not? In particular, should the Treasury have looked more closely at the German Kurzarbeit scheme? What trade-offs might have been needed to make that applicable in the UK?

Helen Barnard: We would have liked to see a follow-on to the job retention scheme with a more targeted furlough scheme, more like what other countries have done. My reading is that the choices that most countries are making are political and not economic. Different countries choose different models and tools to address this crisis, which I think is perfectly reasonable.

I am finding it slightly disturbing that, given that our Government are choosing essentially to accept that we will have some large-scale job losses, some of the other elements of that approach have not been ramped up far more than we have seen so far. There is a missing piece of this puzzle and we need to see a lot more on skills and creating new, good-quality jobs. If we are going to choose this approach, we have to get those things in place to a greater degree than we have yet. Fundamentally, I think it is a political choice and not an economic choice.

Viscount Chandos: In a way, the longer the time horizon you look at, the more there is a case, I suppose, for concentrating your fire power on new jobs rather than the retention of old ones.

Helen Barnard: Yes. In the context right at the beginning, with Paul and James saying that it is impossible to predict exactly which businesses and jobs will be viable after this, I think it is a credible choice to say, "We're not going to try to predict it", but only if you make enough effort to help those workers shift into alternative jobs, and they will need help to do that.

Q81 **Lord Fox:** James Smith, in the light of the extension of the loan schemes and the various changes of the terms, how much more do you think Treasury needs to do? I know you have proposed an income-contingent scheme, but what are the consequences of not doing more if you think more needs to be done? In a sense, what is the scale of the problem? You have proposed one solution, but what are the implications of not addressing it overall?

James Smith: I think that is a key question. Businesses will absolutely crucial in driving the hiring and investment that we need to deliver a rapid recovery. A key fact that we know from looking at past recessions is that recessions that are hobbled by really high levels of private sector debt are slower, more protracted, have a longer-term economic impact and will therefore cause public finances to deteriorate more.

So far, I think the schemes have been pretty good at getting out about £60 billion of lending to a range of businesses, and that is taking up a big chunk of what the Bank of England estimates to be about a £140 billion shortfall in corporate sector borrowing and the need there.

It has been so far, so good as regards those schemes, but it depends crucially on the path of the virus. After Christmas, when the schemes are shut off and no support is available, cash flow will dry up very quickly, and businesses will have to take on more expensive debt or cut their factors of production—so cut employment or sell off bits of their physical capital and all the rest of it.

If social distancing restrictions are going to continue, as the Government are saying, we will need further support, and that support should continue to be generous. We should keep in mind the need to keep debt down, and that is why we have proposed this income-contingent loan scheme under which firms do not pay it back if they are not receiving the revenues to keep things going.

Lord Fox: Presumably, that debt goes on to the Government's books at that point.

James Smith: Our view is that the Government would not be well placed to manage hundreds of thousands of holdings of small bits of debt from businesses, and it becomes an equity injection into those businesses to keep debt down so that the corporate sector can support that rapid recovery.

Lord Fox: That is a different proposal from simply moving the debt over, if you are adding equity injection, because there are elements of control and not control, and all those kinds of things.

James Smith: To be clear, we mean that it is like a student loan. If earnings are not high enough from a firm you do not pay the loan back, and if you get to the end of the term the loan is written off. It would be a similar scheme, so effectively it becomes an equity injection at that point.

Lord Fox: And just like student loans it would be on the Government's books.

Q82 **Baroness Kingsmill:** Are there any more practical steps the Government could take to encourage people to take up different kinds of work, other than telling them just to get on their bike and look for work? What are the barriers that they could remove? I have in mind, for example, the provision of childcare or allowances for childcare. I know quite a lot of people who feel unable to move because of the childcare arrangements they have, or indeed because they do not have childcare arrangements.

The childcare sector could be encouraged and supported as a provider of jobs. A lot of small nurseries are struggling quite a lot and they need some help and support, as indeed do self-employed childcare providers.

Paul Johnson: Childcare is an issue inside and outside of the crisis. Government support for it has grown dramatically over the last 20 years. There is some evidence, of course, that more support for childcare helps people into work, but it is not the silver bullet that some people think it is.

Part of the issue about helping people into work is where things get much more complicated than the blanket subsidies that we have been talking about. It is very notable that a very large majority of additional government funding over the last year has gone on things that are, frankly, easy to do, such as giving money to companies, increasing welfare benefits, or reducing taxes.

When you look at the things that are more about delivering things—whether it be the extra investment, to the extent there has been any, or the support for young people moving into work—the scale of those things is vastly smaller. That is because it is much harder for government to manage those things. When we are talking about helping people into work, we are talking about smaller-scale interventions and interventions that take some time to make work, rather than things that will be immediately effective at the height of the crisis.

The main thing I would say is: step back from this and think about what will be important for the long run and build that up. Do not think that some of these things will move people very quickly into work at the height of the crisis as it stands at the moment.

Helen Barnard: The Government could do a lot more. They could do a lot more to create new, good-quality jobs, including investing in social infrastructure—adult social care and childcare. We need a lot more on skills. We have seen the lifetime skills guarantee, which is a good start, but we need a lot more on basic skills and more for people who have a level 3 qualification but it is not the one that will get them into new jobs.

On childcare, a big part of our strategy is getting people to retrain while there are not a lot of jobs around. However, at the moment you can only get help with childcare if it is for work. One thing they need to do very quickly is line up work requirements and a claimant's childcare support with the idea that getting people good-quality skills that are linked to a local job is a good thing to do. They need to take the three adult education pots, put them into one and devolve them to the mayoral combined authorities, so they can be used for the local labour market rather than directed centrally.

Baroness Kingsmill: Childcare itself is a sector that could be encouraged.

Helen Barnard: Absolutely, and it is a sector with an awful lot of workers in poverty, so a better funding model would be much better for everyone.

Q83 **Lord Livingston of Parkhead:** This is a question for James Smith. The Resolution Foundation proposed ending the job retention bonus and using the money freed to make the other government measures more generous. We have discussed already whether that is a good idea or a bad idea. Do you think it is feasible, advisable and good government to remove something after it has been promised and companies have made decisions on that basis? Whether it was the right thing to do, given where we are now, is that a feasible outcome?

James Smith: It is tricky as regards creating additional policy uncertainty. It creates issues for the Government's presentation of their overall policy, so there is obviously a big downside to that.

I guess the thing that we were doing was trying to ask: what could you do that allows you to spend roughly the same amount of money—removing the job retention bonus and making the Job Support Scheme more effective in allowing it to share out the low amount of total employment across more workers, allowing more people to stay in jobs? Those two made sense in combination. You could do those two things and have an even more effective support scheme as a result.

Going back slightly to Lord Skidelsky and Lord Stern's points earlier, a key point is that you want to be pushing hard for a rapid recovery, and returning the deficit to a sustainable level should be for further down the track. In that case, you are worrying less about the overall cost envelope and therefore you should be thinking more about, "What can I put in place to really drive that rapid recovery and reduce the overall economic impact of this crisis?"

Lord Livingston of Parkhead: Correct me if I am wrong, but I think the Resolution Foundation suggested scrapping the job retention bonus. I was asking whether a Government can do that four or five months after they have announced its existence?

James Smith: I think it is tricky to do that. I do not think it is unfeasible. We are talking about a horizon over which you can change those decisions. If you did that and drove down the employer contributions, you would create good incentives for a roughly similar group of firms that would have been using that scheme.

Q84 **Lord Monks:** Are the Government correct to target specific sectors—for example, hospitality and tourism—for VAT reductions, when it has been argued that that is not appropriate for the wage support measures and the Job Support Scheme? You mentioned earlier that the Job Support Scheme favours the high-paid worker against the low-paid worker, so is there some targeting going on which the Government have not admitted? That is a question perhaps for Helen Barnard first.

Helen Barnard: I suspect Paul and James can speak to whether it is feasible to target. As you say, other measures have been targeted by sector, so I do not think it is impossible. It is about a choice: how long you want subsidised low-paid jobs when you cannot predict whether the same businesses will be around. I think it would be possible. I think that it is a choice that has been made, not an inevitability.

Paul Johnson: It is very hard to make that judgment sitting outside government. I know that Treasury officials believe that it is somewhere between impossible and extremely difficult, and that this is not just a political statement.

That said, as I said earlier, there has been an awful lot of rough justice in what has been done so far. It would strike me as possible if one were willing to accept some significant rough justice in some targeted intervention, which might be better than nothing.

Arguments are made—I am not in a position to judge whether they are relevant—that there are state aid issues by targeting at sector. My guess is that if you really wanted to do this, at least with some measure of rough justice, some targeting would be possible. As I say, it is dangerous for someone in my position to say that when I am not the person who has to deliver it.

Lord Monks: I seem to remember that there was a temporary employment subsidy for textiles in the late 1970s/early 1980s, so particular sectors have been targeted historically.

Q85 **Lord Skidelsky:** What needs to be done to make the Government's lifelong learning policy a success? How can it be integrated with the short-term updating of skills that people have been talking about? After all, there are estimates of up to 3 million unemployed in 2021. What proportion of those will be on training schemes? Is there enough money to get more than a tiny proportion on to training schemes, or are they mostly just going to go on to universal credit? What amount of funding for this training will be available to deal with this increase in unemployment?

Paul Johnson: The meta-answer is that we have failed for such a long time to provide adequate training and education, particularly for those who do not go on to university, largely as a result of a lack of institutional capacity and consistency in setting policy and delivering it, whether you measure that by the number of Skills Ministers every six months or the changes in direction of policy every few years.

The meta-answer, as it were, is that we need a much better institutional and governance framework for delivering education.

Helen Barnard: The money that has been promised is quite a significant amount of funding, but only a small amount of it has come forward, so a lot more can be done. The announcement last week about funding for first-time level 3 qualifications was really important, because it is a significant hole in the system, but it is only the first step, and to make it work we need more investment in basic skills. There is a significant number of people who do not have literacy, numeracy and digital skills, but who will need them to be able to get new jobs. We also have quite a lot of people who have a level 3 qualification, but it will not be one that will get them into the new jobs. Those are two things.

We have an incredibly centralised system, and I do not think that works well because it is better if the people spending the money are closer to users. I would like to see the three pots of money for adult education combined into one streamlined funding stream and devolved to mayoral combined authorities in England, so they can be spent alongside labour market and local growth policies.

Lord Skidelsky: What do you mean by “alongside labour market and local growth policies”? There are a lot of phrases that are not very easy to decipher. What did you mean by that?

Helen Barnard: I will give a practical example of what I mean. I am on the West Yorkshire Economic Recovery Board, and the local authorities in that group have pretty detailed plans for the jobs in their areas—which sectors they want to boost, what are the growth sectors, which are the sectors they need to keep going in some way—and they are developing a strategy that says, “For our local growth we need this set of skills. We know we have health tech over here, and if we can train people up in health tech there are clearly jobs coming”.

It is at that labour market or regional labour market level that you need the strategy. At the moment, a lot of the skills funding is determined somewhere else, so it is not joined up.

We also need it to join up with Jobcentre Plus. We will get lots of people on universal credit, which is good because it will keep them afloat, but we need for the Jobcentre Plus in that area to be integrated. If we have agreed that we have a growing sector, and a bunch of people who need training for that sector, and we will fund training for them, we need them not to be penalised for not spending 30 hours a week looking for jobs that do not exist, when we want them focused on that training to get into that jobs pipeline.

That is the system that we need to move to. It is eminently doable. It is done in a lot of other places. We have not done it with skills, because it is very centralised and we need to devolve that.

Q86 **Lord Stern of Brentford:** This question is for Helen Barnard and follows on somewhat from what you were just saying, Helen.

We have been focusing mostly on labour market policies in some shape or form. Do you think we should be pushing still harder in our focus on social security systems in the context of the degree of unemployment that we have?

Helen Barnard: The boost which the Government put very early on into universal credit—the extra £20—has been an absolutely vital lifeline and it has kept people's heads above water. What is quite worrying at the moment is that the Chancellor has not confirmed that that will continue past next April.

That circles back to the demand question from earlier. If you think about next April, if that £20 goes, some 16 million people will be affected; their incomes will be cut overnight by around £1,000 a year. That is taking an enormous amount of demand out of the economy at the point we need it.

We have done a bit of economic analysis, and the stimulus effect of social security spending is better than the stimulus effect on demand of things like tax cuts. Social security spending is targeted at people who will spend it because they spend their money on essentials, and you can still buy essentials even if everything is shut down. It has a very good stimulus effect.

There is also a geographical argument. There are certain places where there has been a lot of suppressed demand, with lots of better-off people who cannot spend money on leisure. As soon as they can, they will spend on these things. You also have lots of poorer areas where people are building up debt because they cannot cover everything. Keeping social security strong will create demand in those local areas, which can otherwise get into a vicious cycle of falling demand and fewer jobs, where people can afford even less. Social security is one of the ways in which we can break that cycle and boost demand in the first part of next year in particular, if we need to.

The Chair: I am afraid the clock is against us. Helen Barnard, I think you might find the Committee's report on universal credit, on which we are awaiting a response from the Government, very supportive of some of the points you have made, particularly on universal credit and the allowance, and the improved measures that were made at the beginning of the crisis.

May I thank you, Helen, and Paul Johnson—a hardy annual for our Committee, and we are very grateful to you for appearing again—and James Smith? It has been a really useful session. I wish we had had another hour to explore the questions, but I am very grateful for your answers.