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The Rt Hon. Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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25 February 2021

Dear Rishi,

I am writing in regard to your Department's response to our report, *Employment and COVID-19: time for a new deal*. I was disappointed that it failed to engage seriously with many of our main conclusions and recommendations.

We were concerned that the Government is sleepwalking into an unemployment crisis. After a lengthy inquiry, our cross-party, evidence-based report set out a blueprint for a new economic plan for an investment-led recovery. We set out a substantial body of evidence on the urgent need for the Government to devise a strategy to shift public spending away from job protection and towards job creation. As you know, unemployment is forecast to rise this year and economic scarring is expected to persist. It is obvious that wage subsidies will not be enough to save the prospects of a generation of young people. They serve only to freeze the labour market and cannot be relied upon to protect jobs in the long-term.

First, we made proposals on how to revitalise and join up our muddled training and skills system (a system which the Financial Secretary to the Treasury described as falling "some way short of international best practice"). While we made a range of recommendations on how to improve the Government's existing policies, it was clear from evidence that these programmes would still not be sufficient to meet the scale of the unemployment challenge. We therefore called for the Government to combine its improved skills and training policies under the auspices of a new jobs and skills guarantee, available to every young person not in full-time education or employment for one year.

Second, we set out measures to deal with the substantial debt burden on many businesses. We backed TheCityUK's proposal to create a new state entity to manage debt and repayments. We were concerned that Government-backed loans will be recovered in the same way as standard commercial loans, so we called for innovative solutions that would restructure debt to make it more manageable.

Third, we concluded that the Government needs to invest strategically to generate demand and to create more job opportunities. We set out how the Government can harness

investment in a way that creates jobs, while helping to achieve many of the Government's most ambitious objectives, including levelling up left behind regions, repairing Britain's broken social care system, and renewing our neglected infrastructure. We identified two main areas for investment: social infrastructure (including the critically important social care and childcare sectors) and sustainable physical infrastructure. We said the Government should prioritise investment in green projects to align economic recovery with the Government's longer-term objectives on levelling-up and climate change. Investment to create job opportunities in these sectors is crucial. Such jobs are suitable for those most at risk of unemployment, can be rolled out across the country, and are most likely to have long-term benefits to the UK.

Delivering these three priorities will ensure that the nation can repair its labour market quickly and sustainably. However, your Department's response largely contained recycled policy announcements made last year, which we scrutinised during the Committee's inquiry and analysed in our report.

I look forward to hearing you set out measures in the Budget on Wednesday. While vaccines will help solve the health crisis, the economic crisis will continue, and different solutions are needed. Our recommendations were in line with those made by the IMF and the OECD, which called for substantial public investment to repair the damage caused by COVID-19 and to steer the economic recovery. I urge you to consider our recommendations again, and to set out how the Treasury is using our report in its plans for supporting the labour market through the next stage of the pandemic.

The Committee Clerk will be in touch with your office to invite you to give evidence on these matters soon. I intend to place a copy of this letter and your response in the public domain.

Yours ever
Michael.

Lord Forsyth of Drumlean
Chairman of the Economic Affairs Committee

CC Rt Hon. Jesse Norman MP, Financial Secretary to the Treasury