



House of Commons  
Treasury Committee

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# Jobs, growth and productivity after coronavirus

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**Fourth Report of Session 2022–23**

*Report, together with formal minutes relating  
to the report*

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## Summary

### Growth Strategy and the Plan for Growth

Witnesses were mostly unpersuaded by the Government's arguments for the abolition of the Industrial Strategy and its replacement with the Plan for Growth. More importantly, we are particularly concerned at the 'chop and change' and lack of long-termism in growth strategy and policy, without which businesses themselves are unable to plan and invest themselves. This churn also makes it difficult to assess the success or otherwise of initiatives such as the Industrial Strategy in improving growth and productivity.

Although witnesses were generally in agreement with the broad aims and priorities in the Plan for Growth, there was some dissatisfaction in both written and oral evidence with other aspects. It was suggested that there was a lack of detail and a lack of collaboration with businesses and regional bodies, and that there was no overall strategic vision of what the UK's economic problems were, how they should be prioritised, and what policies and interventions were therefore effective. It is not clear to us how the Plan for Growth offered an advance on the Industrial Strategy.

We are concerned at the abolition of, and the lack of a replacement for, the Industrial Strategy Council, which provided oversight and evaluation of the Government's growth strategy, and a suite of detailed metrics against which to judge the success of growth policies. The Council was a force for consistency and long-termism.

The Government as a whole is spending a large amount of money and time on devising growth strategies and policies. It is important to have a robust, overarching strategy for this that drives co-ordination across departments. This function may well sit best in the Treasury. However, it is unclear to what extent the Plan for Growth is an active strategy driving the Treasury's activities as the co-ordinating economics ministry. As a result, there is a risk that growth strategy and policy are fragmenting across departments.

In its response to this Report, the Treasury should set out how it is making the Plan for Growth an effective successor to the Industrial Strategy, given that it is not taking on additional resources for this purpose, and in particular the steps it is taking to ensure co-operation across departments, to take feedback and to monitor results.

We do not believe that the Plan for Growth should necessarily be discontinued, let alone the Industrial Strategy revived, as another wholesale change in policy would exacerbate the lack of long termism and consistency in policymaking. Nonetheless, there needs to be a renewed effort at a co-ordinated growth strategy across Government, with clear lines of accountability and co-ordination across departments, and with clearly defined and measurable metrics for success. Government should think about how to build institutional approaches that will embed its strategy across departments for the long term. It should also put in place an effective mechanism for carrying out oversight and evaluation of its growth strategy.

## Productivity

Post-pandemic scarring seems likely to be much less of a problem than first feared. But there are still risks, especially outside the labour market, that need Government attention. Notably, these include the long-term legacy of interruptions to education. Business indebtedness might also be a factor restraining investment and should be monitored carefully.

There are productivity-enhancing opportunities arising from the pandemic, in an increased take up of digital technologies and in remote working in certain circumstances. The Government should be looking at how it can facilitate these positive developments, while also being mindful of the challenges it could present to the UK's existing economic structure and geography.

Brexit has not been a major focus of this particular inquiry. Nonetheless, it will clearly have a profound impact on the economy's future direction and growth prospects, potentially greater than the long-term effect of the pandemic. In its response to this report, the Treasury should explain how growth policy is identifying and helping those sectors most adversely affected by changes in trade between the UK and EU, as well as more clearly identifying the economic opportunities that may arise from Brexit.

A consistent theme in this inquiry was that a significant part of the UK's productivity shortfall compared to other countries is due to a 'long tail' of low-productivity firms, usually small ones. Relatively poor digital technology adoption and management skills were seen as key interlocking causes.

Help to Grow: Management and Help to Grow: Digital are promising responses to the problems of relatively poor digital technology adoption and management skills among businesses, but there have been some difficulties in the early days of the schemes. Considering the importance of long-term stability in growth policy, it will be important to persist with these schemes while taking feedback and adjusting them as necessary. That will require backing from the Treasury. If a success can be made of the schemes, there may be scope for expansion. In its response to this report, the Treasury should indicate whether funding will be available for longer than the three years first suggested in Budget 2021 and on what success criteria continued funding would depend. This is important, given the negative impacts and costs of repeated policy change.

The Chancellor is correct to pinpoint business investment as a component of the UK's shortfall in productivity compared to other major advanced economies. The UK's record in this area has worsened since 2016. In addressing this investment shortfall the Chancellor's focus on reforms to tax incentives is a good start, and the Treasury should take on board the criticisms made of the super-deduction while designing future tax incentives. But wider economic certainty and coherence and stability in the Government's growth policy, which are currently deficient, are also important for getting businesses to invest.

The target to spend 2.4 per cent of GDP on research and development (R&D) is an important aspect of growth policy. We re-iterate our disappointment over the pushing-back of the target to spend £22 billion of public money on R&D and continue to warn against any further slippage.

## Jobs

The Treasury has allocated significant and welcome resources to initiatives to help people who are seeking work gain employment. However, a more urgent problem now seems to be becoming clear in the sharp fall in the number of people looking for work, compared to pre-pandemic trends. This is harming economic activity and could exacerbate inflation. The Treasury needs to consider allocating or reallocating resources to address the fall in the number of people looking for work since the start of the pandemic. In part, that may mean additional resourcing for ‘long covid’ treatment, to enable those suffering from long-term sickness to re-enter the workforce in greater numbers.

The Prime Minister has suggested that labour shortages should not be resolved through immigration, as part of a drive for a high-wage economy. At most, some witnesses to our inquiry thought this could have a small effect on wages. Moreover, labour and skills scarcity could hold back growth and stoke inflation. The Government should be looking to prioritise addressing the gaps in the UK’s skills and taking steps to ease labour shortages.

We have received a large number of proposals for reform of the Apprentice Levy in England. A full review is needed, and the Treasury should confirm that it is going ahead with such a review.

## Macroeconomic policy issues: summary of evidence

Global energy prices and supply chain disruptions arising from the pandemic are the main factors behind the outbreak of inflation. But second-round effects, in the form of inflation expectations among the public, and domestic factors in the UK, such as a tight labour market, Brexit, and weakness in sterling, could mean that inflation will not go automatically back to the 2 per cent target once energy prices stabilise or fall back.

There were mixed views on whether the Monetary Policy Committee should have raised rates earlier. Some former Monetary Policy Committee members now advocate steeper rises than the current Committee appears to have in mind, and there was concern that the Bank may need to do more to prepare people for the possibility that interest rates rise by more than currently indicated by its forecasts and guidance.

Interest rates are currently on a tightening cycle, but there was disagreement in the evidence we received over whether interest rates and inflationary pressures would continue to rise or would return to the low levels of the period between the financial crisis and recession. However, there was a general agreement amongst witnesses that it is desirable to have interest rates away from zero and to have quantitative easing wound down.

There were mixed views on the suitability of the existing 2 per cent inflation target set for the Monetary Policy Committee, but most witnesses felt that it was still suitable.

Witnesses did not express concerns to us about whether the Monetary Policy Committee had acted independently of the Government during and after the pandemic, although some noted the possibility of a perception of such interference.

Some witnesses argued that a looser fiscal policy could have helped lift interest rates off the floor over the period since the financial crisis, and that fiscal policy was too focused on borrowing and debt targets. However, for the time being, the ongoing outbreak of inflation has lifted interest rates off the floor in any case.

Several witnesses thought that the current fiscal framework was too restrictive of investment, notwithstanding the planned rises in public sector net investment. In particular, the net zero transition may need substantial public investment, and they thought the Treasury had been wrong to rule out financing this through borrowing. Witnesses also thought there was not currently a pressing need for tax rises.

Some witnesses saw a link between the strength of aggregate demand in the economy and productivity growth, and that this may help to explain the weakness in productivity growth since the financial crisis. However, there was scepticism over whether macroeconomic policy could exploit this by 'running the economy hot,' especially given the ongoing outbreak of inflation.

# 1 Introduction - Jobs, growth and productivity after coronavirus

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1. In the last decade and a half, the UK economy has been buffeted by a series of extraordinary economic shocks.
2. The global financial crisis saw the largest fall in economic activity in the post-war era to that point, 6 per cent peak to trough, and a protracted recovery: the economy didn't regain its pre-recession size for another four years and the path of GDP has still not returned to its pre-crisis trend. The recession associated with the pandemic lockdowns was many times deeper than that associated with the financial crisis, but the recovery was sharper, as the economy regained its pre-pandemic size within two years.<sup>1</sup> Between the financial crisis and the pandemic, the country voted for and embarked upon Brexit, a change that is and will continue to have a profound impact on our economic direction and prospects. And now, rises in global energy and other prices, exacerbated severely by Russia's ongoing invasion of Ukraine, are hitting just as the economy is embarked upon its recovery from the pandemic. While the OECD forecasts that the UK economy will grow 3.6 per cent in 2022, faster than the world average, it forecasts that the UK economy will be flat in 2023, the lowest expected performance of any G20 country bar Russia, citing the impacts of high inflation, rising interest rates and rising taxation.<sup>2</sup>
3. In addition, throughout this period, the UK's rate of productivity growth has slowed sharply. Had the UK continued along its pre-2007 trajectory, then today labour productivity would be around 30 per cent higher. In addition, while other advanced economies have also seen a slowdown in productivity growth since the financial crisis, the *level* of UK productivity is below that of several other major developed economies. In some ways, this is a more fundamental challenge than the repeated shocks to growth described above—as the Treasury stated in response to an OBR report in 2018, “Boosting productivity is the key to a stronger economy, a more sustainable fiscal position and, crucially, a better quality of life for everyone.”<sup>3</sup>
4. A further overarching economic challenge of the period since the financial crisis has been that Bank Rate has been near zero,<sup>4</sup> in response to subdued inflationary pressures experienced in advanced economies between the financial crisis and the pandemic.<sup>5</sup> This has resulted in new monetary policy tools being developed to stimulate inflation and growth, and additional burdens being placed on fiscal policy. The outbreak of inflation since 2021 has seen Bank Rate finally being raised above its post-financial crisis level.<sup>6</sup>

1 Office for National Statistics (ONS), '[GDP quarterly national accounts, UK: January to March 2022](#),' 30 June 2022. Following the financial crisis, real GDP fell for five-consecutive quarters and by a total of 6 per cent from peak in Q1 2008 to trough in Q2 2009, and regained its pre-recession size in Q2 2013. Amid the pandemic, GDP fell by 21 per cent between Q3 2019 and Q2 2020, and regained its pre-pandemic size in Q1 2022.

2 Financial Times, '[UK growth set to be worst in G20 apart from Russia, OECD warns](#),' 8 June 2022

3 HM Treasury, '[Managing fiscal risks: government response to the 2017 Fiscal risks report](#),' Cm 9647, July 2018, p2

4 Bank Rate is the overnight interest rate set by the Monetary Policy Committee to manage inflation and the business cycle. The 'zero lower bound' refers to the fact that conventional interest rates cannot be lowered below zero.

5 See, for example, Mohamed A. El-Erian in Bloomberg, '[The Lowflation Demon That Vexes Central Banks](#),' 23 August 2017

6 Bank of England, 'Official Bank Rate history,' <https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp>, accessed 1 July 2022

5. We launched this inquiry in 2021 to investigate how a strong recovery in growth and jobs could be secured following the pandemic, and to examine the causes of the UK's productivity shortfall and the Government and Treasury strategy for improving growth and productivity in the future.

6. We are taking evidence on other aspects of the post-pandemic economy. Our *An Equal Recovery* inquiry is examining forms of inequality that may have been exacerbated by the coronavirus pandemic, including regional inequality, and what the Treasury can do to mitigate them. Our evidence sessions on the *Cost of Living* are examining causes of the increase in the cost of living in 2022, its impact on different groups in society, and the likely effectiveness of Government policies to mitigate it.<sup>7</sup>

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<sup>7</sup> 'An Equal Recovery,' HC (2021–22) 152, <https://committees.parliament.uk/work/1218/an-equal-recovery/> and 'The cost of living,' HC (2022–23) 1094, <https://committees.parliament.uk/work/6488/the-cost-of-living/>

## 2 Growth after Coronavirus—Growth strategy and the *Plan for Growth*

7. The Government has relaunched its economic growth strategy via a series of new strategies and initiatives over the last 18 months.<sup>8</sup> At the Spring 2021 Budget, the Treasury published *Build Back Better: our Plan for Growth* (referred to in this Report as the Plan for Growth), replacing the Department for Business, Enterprise and Industrial Strategy (DBEIS)-sponsored Industrial Strategy that had been launched in 2017.<sup>9</sup> In the subsequent days, it emerged that the Industrial Strategy Council, an independent non-statutory advisory group that evaluated the Government’s delivery of the Industrial Strategy, would be abolished.<sup>10</sup>

8. Industrial policy can be characterised as comprising ‘horizontal’ measures, addressing cross-sectoral issues; ‘vertical’ or ‘sectoral’ issues, addressing particular sectors or industries; and ‘missions’ that address particular cross-cutting public policy goals.<sup>11</sup> The Industrial Strategy had been built around “5 foundations of productivity” (ideas, people, infrastructure, business environment and places), an eventual total of 12 “sector deals” (the earliest of which predated the Industrial Strategy), and 4 “grand challenges” (artificial intelligence and data, clean growth, future of mobility and ageing society).<sup>12</sup> These would seem to fall broadly into the horizontal, vertical and mission-based categories respectively.

9. The Industrial Strategy Council (ISC) was also launched in 2017 and abolished in 2021 alongside the Industrial Strategy. It was an independent advisory group comprising “leading men and women from business, academia and civil society,” with objectives “to recommend the criteria to measure and monitor the success of the Industrial Strategy [and] provide impartial and expert evaluation of the government’s progress in delivering [its] aims.”<sup>13</sup>

10. The Plan for Growth comprises instead “three core pillars of growth” (infrastructure, skills and innovation) that will deliver three “people’s priorities” (‘levelling up’, ‘net zero’ and ‘global Britain’).<sup>14</sup>

11. In addition to the Plan for Growth, the Government has a number of initiatives under various departments that could be characterised as being part of its growth and industrial policy. This include: an Innovation Strategy published by DBEIS in July 2021; a Net Zero Strategy also published by DBEIS in October 2021; an Export Strategy published by the Department for International Trade in November 2021; a ‘Levelling Up’ White Paper on regional policy published in January 2022 by the new Department for Levelling Up, Housing and Communities; and the Cabinet Office has gained an Office for Science and Technology Strategy and a Levelling Up Taskforce. Meanwhile, elements of the Industrial

8 See paragraph 11.

9 HM Treasury, [Build Back Better: our plan for growth](#), CP 401, March 2021

10 Sky News, [‘Kwarteng axes star-studded Industrial Strategy Council with hint at BEIS rebranding,’](#) 4 March 2021

11 House of Commons Library, [‘Industrial strategy,’](#) CBP 7682, 7 August 2019

12 Department for Business Energy and Industrial Strategy, [‘Industrial Strategy: Building a Britain fit for the future,’](#) Cm 9528, November 2017

13 Industrial Strategy Council, ‘What we do,’ <https://industrialstrategycouncil.org/index.php/what-we-do>, access 1 July 2022

14 HM Treasury, [Build Back Better: our plan for growth](#), CP 401, March 2021

Strategy remain, including the legacy sector deals and the Industrial Strategy Challenge Fund.<sup>15</sup> ‘Sector visions’ are promised from various departments,<sup>16</sup> while a forthcoming DBEIS Enterprise Strategy has been postponed.<sup>17</sup>

12. In June 2021 the House of Commons BEIS Committee published a report on *Post-pandemic economic growth: Industrial policy in the UK*. The replacement of the Industrial Strategy with the Plan for Growth had taken place while the Committee’s inquiry had been ongoing. Among its conclusions, the Committee found that “the abolition of the Industrial Strategy Council was a retrograde step.” It described the Plan for Growth as an opportunity to deliver a more narrow and focused set of policies than those in the Industrial Strategy, but it noted the Industrial Strategy Council’s analysis that “the Government has not started well in this regard”. It asked the Government to clarify the “respective roles of HM Treasury and DBEIS in delivering the Plan for Growth.”<sup>18</sup>

13. As part of our own inquiry, we asked “does the Government have the right mix of policies and a coherent strategy to promote long-term productivity growth and create new high-quality jobs?”, and “is the Plan for Growth an adequate replacement for the Industrial Strategy?”

## Chop and change—replacing the Industrial Strategy with the Plan for Growth

14. A joint open letter from the Chancellor and the Secretary of State for Business, Energy and Industrial Strategy to businesses explained that the reason for replacing the Industrial Strategy was that “in the last 5 years, the UK’s economic environment has changed [...] we have legislated to end our contribution to climate change by 2050, we are forging a new path outside of the European Union and we continue to fight the COVID-19 pandemic.”<sup>19</sup> In the House of Commons, the Secretary of State for Business, Energy and Industrial Strategy said that “I have read the industrial strategy comprehensively, and it was a pudding without a theme, in my view. [...] I am very pleased [...] that we are morphing and changing the industrial strategy into the plan for growth.”<sup>20</sup>

15. Several witnesses were unpersuaded by ministers’ reasons for abolishing the Industrial Strategy. Sir Geoffrey Owen, Head of Industrial Policy at Policy Exchange, said that “there did not seem to be any very strong reason for it [...] I felt that just describing it as a “pudding”, or whatever the phrase was, was not really enough of a rationale.”<sup>21</sup> Anna Valero, a Senior Policy Fellow at the LSE’s Centre for Economic Performance, said that “my feeling was that that framework could have been updated, but the framework itself

15 Department for Business, Energy & Industrial Strategy and HM Treasury, ‘[Letter from Chancellor Rishi Sunak and Business Secretary Kwasi Kwarteng to businesses on the government’s Plan for Growth](#),’ 30 March 2021, and UK Research and Innovation, ‘[Industrial Strategy Challenge Fund](https://www.ukri.org/what-we-offer/our-main-funds/industrial-strategy-challenge-fund/),’ <https://www.ukri.org/what-we-offer/our-main-funds/industrial-strategy-challenge-fund/>, accessed 1 July 2022

16 So far, a ‘life sciences’ sector vision has been published, while a ‘creative industries’ vision is reported to be in development. HM Government, ‘[Life Sciences Vision](#),’ 6 July 2022 and Department for Digital, Culture, Media & Sport, ‘[£50 million of Government investment announced for creative businesses across the UK](#),’ 1 February 2022

17 Financial Times, ‘[UK enterprise strategy delayed in focus on cost of living crisis](#),’ 13 May 2022

18 Business, Energy and Industrial Strategy Committee, First Report of Session 2021–22, ‘[Post-pandemic economic growth: Industrial policy in the UK](#),’ HC 385, 17 June 2021

19 Department for Business, Energy & Industrial Strategy and HM Treasury, ‘[Letter from Chancellor Rishi Sunak and Business Secretary Kwasi Kwarteng to businesses on the government’s Plan for Growth](#),’ 30 March 2021

20 HC Deb, 9 March 2021, [col 679](#) [Commons Chamber]

21 [Q153](#)

was not redundant,” while Stephen Phipson, the CEO of MakeUK (a trade association representing UK manufacturers), accepted that the Industrial Strategy was outdated “to a certain degree” but was concerned about the loss of a single over-arching strategy.<sup>22</sup> George Dibb, Head of the Centre for Economic Justice at the Institute for Public Policy Research (IPPR) was more forthright:

It was extremely disappointing to see the scrapping of the Industrial Strategy. It had been the product of years of engagement with academia and the business community. [...]

The ostensible reasons for replacing or scrapping the industrial strategy [were] entirely false.[...]the real reason the industrial strategy was scrapped was because of a “not invented here”-ism within the new Government [...]. The damage that has done is extensive [...].<sup>23</sup>

16. Moreover, putting aside any debate over the relative merits of the Industrial Strategy, many witnesses were disappointed at the lack of long-term stability in policy as a result of its abolition. Dr Dibb said that the “bigger challenge is not on specific policy, though; it is on long-termism in Government approach. Businesses cannot be expected to keep up with the whims of Government chopping and changing policy every year [... short-termism] has blighted industrial strategy policy for some time.”<sup>24</sup> Rain Newton-Smith, Chief Economist at the Confederation of British Industry (CBI) also referred to “chop and change”, as did the Institute of Directors (IoD) in written evidence. Ms Newton-Smith said that businesses needed predictable policy and long-term support in order to invest.<sup>25</sup> Bart van Ark, Professor of Productivity Studies and Managing Director of The Productivity Institute, told us that short-termism was a perennial defect in UK growth policy:

Having worked in Government in the Netherlands and in the United States, I find that there is a lot of short-term thinking in policymaking in the UK. Plans and schemes change very quickly. They get abolished even sometimes by the same Government. [...] That is really hard from the perspective of innovation and productivity. It needs to have a long-term focus; programmes need to be sufficiently scaled up and they need to have some time to play out and get properly evaluated before you follow up with another programme.<sup>26</sup>

17. Most written submissions to the inquiry that commented on the issue also regretted the cancellation of the Industrial Strategy,<sup>27</sup> although two exceptions were the National Centre for Universities and Business and the Producers Alliance for Cinema and Television, which both argued that the changes brought about by the pandemic meant that the Strategy needed a “refresh.”<sup>28</sup>

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22 [Q284](#)

23 [Q154](#)

24 [Q154](#)

25 [Q129](#) and Institute of Directors ([JGP0011](#))

26 [Q39](#). Elsewhere, Professor van Ark suggested that the replacement of Regional Development Agencies with Local Enterprise Partnerships in 2012 was an earlier example of where it would have been better to improve existing structures than overhauling them ([Q53](#)).

27 Institute of Directors ([JGP0011](#)), Chartered Institute of Management Accountants (CIMA) ([JGP0018](#)), Trades Union Congress ([JGP0040](#)), Torus ([JGP0041](#)), Mineral Products Association ([JGP0060](#)), and Make UK ([JGP0010](#)).

28 Producers Alliance for Cinema and Television (PACT) ([JGP0009](#)) and National Centre for Universities and Business ([JGP0046](#))

18. Witnesses were mostly unpersuaded by the Government's arguments for the abolition of the Industrial Strategy and its replacement with the Plan for Growth. More importantly, we are particularly concerned at the 'chop and change' and lack of long-termism in growth strategy and policy, without which businesses themselves are unable to plan and invest themselves. This churn also makes it difficult to assess the success or otherwise of initiatives such as the Industrial Strategy in improving growth and productivity.

## The Plan for Growth

19. There was little disagreement among witnesses or evidence submissions over the broad areas of focus in the Plan for Growth—infrastructure, skills and innovation. Irene Graham, the CEO of the ScaleUp Institute,<sup>29</sup> said that it had met the Institute's call in 2020 for a "national blueprint for growth" and that "its pillars around skills, innovation and infrastructure, including growth funding and exports, are absolutely right [and] needed for the scale-up economy." Geoffrey Owen noted that the Plan for Growth had fewer initiatives than the Industrial Strategy and that this could be more manageable and focused.<sup>30</sup>

20. However, other business representatives appeared less impressed. Stephen Phipson told us that it is a "good concept [but] I think it has a lot of white space in it. [Manufacturers like to see] long-term certainty, and what we tend to have at the moment is a lot of short-term interventions."<sup>31</sup> Kitty Ussher, Chief Economist at the Institute of Directors, felt two things were missing:

The first is the element of co-creation with business, which was so strong in the industrial strategy, both at a sectoral and a national level, and at a local, regional level. I think that proved itself hugely powerful by enabling firms to come together and talk quite freely within the sector in a way that was not covered by anti-competitive concerns or practices that led to more targeted investment and a real sense of partnership and leadership. [...]

The second thing that is missing—[...]is any sense of long-term skills mapping. [The focus is on] entry-level skills, rather continual reskilling and identifying future gaps.<sup>32</sup>

21. George Dibb thought that it was lacking in specificity and could lead to a proliferation of initiatives:

In my view, the plan for growth is a step backwards in terms of specificity and in terms of how it will achieve [outcomes]. In fact, there is very little delivery plan. The net zero strategy [and] innovation strategy [...] is also

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29 The ScaleUp Institute is "a not-for-profit company focused on making the UK the best place in the world to scale up a business." The ScaleUp Institute, 'About,' <https://www.scaleupinstitute.org.uk/about/>, accessed 1 July 2022. It defines a scale-up business using the OECD's definition of a high-growth enterprise as "enterprises with average annualised growth in employees (or in turnover) greater than 20 per cent a year over a three-year period, and with 10 or more employees at the beginning of the observation period."

30 [Q287](#) and [Q161](#)

31 [Q284](#)

32 [Q285](#)

part of that. Those strategies themselves are full of hundreds of individual policy areas. I fear that we are not going to have a reduction of policy; it is going to be a further expansion.<sup>33</sup>

22. Giles Wilkes, Senior Fellow at the Institute for Government, and previously a government special advisor on industrial and economic policy from 2010 to 2014 and from 2017 to 2019, told us:

The Plan for Growth is not there yet. It was produced alarmingly quickly, and it gave some of the signs that it had been a ring-around of Whitehall—“Let us get as many things as we can into a document”—rather than there being an overwhelming philosophy. There was not the philosophy for what had gone wrong and therefore what needed to be addressed, but it is a good start.

He also explained what he saw as the role for an industrial strategy:

Industrial strategy is important for those areas of the economy that need special attention, be they challenges, sectors or particular technologies. There is often a political choice of which ones they should be. [...] You need a theory for where it stops and where most of the economy is just allowed to operate in a market base.<sup>34</sup>

23. In written evidence, there was concern about a limited geographic perspective or local consultation around the Plan for Growth. The Local Enterprise Partnership (LEP) Network told us that the Plan for Growth had a “lack of focus on place [...] there is now no real framework for local areas led by LEPs or other bodies to develop strategies and action plans that together across England/UK will be more than the sum of their parts.” It was concerned that the Plan for Growth did not have the ‘local industrial strategies’ mechanism that had been present in the Industrial Strategy. The Regional Studies Association echoed concern that the Plan “gave no clues as to how place will operate as a cross-cutting theme.” The Centre for Cities had a particular concern that the Plan for Growth’s rhetoric on the creating of a world-class city in every region is not followed through in policies, where towns are more likely to benefit.<sup>35</sup>

**24. Although witnesses were generally in agreement with the broad aims and priorities in the Plan for Growth, there was some dissatisfaction in both written and oral evidence with other aspects. It was suggested that there was a lack of detail and a lack of collaboration with businesses and regional bodies, and that there was no overall strategic vision of what the UK’s economic problems were, how they should be prioritised, and what policies and interventions were therefore effective. It is not clear to us how the Plan for Growth offered an advance on the Industrial Strategy.**

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33 [Q163](#)

34 [Q54](#)

35 LEP Network ([JGP0017](#)), Regional Studies Association ([JGP0024](#)), and Centre for Cities ([JGP0044](#)). Chartered Institute of Management Accountants (CIMA) ([JGP0018](#)), Chartered Management Institute ([JGP0021](#)), Community Union ([JGP0049](#)), and National Institute of Economic and Social Research (NIESR) ([JGP0062](#)) also criticised elements of the Plan for Growth.

## Oversight and evaluation of growth policy

25. There was widespread concern about the abolition of the Industrial Strategy Council (ISC), the lack of any analogous body to monitor the Plan for Growth, and the consequent loss of independent analysis and evaluation of growth strategy and policy. In contrast, the Levelling Up White Paper does announce the creation of a ‘Levelling Up Advisory Council’, which seems intended to provide a similar function to the ISC.<sup>36</sup> The former Chair of the ISC and Head of the Levelling Up Taskforce, Andy Haldane, has been appointed to be Chair of the Levelling Up Advisory Council.<sup>37</sup>

26. George Dibb described the abolition of the Industrial Strategy Council, which he saw as “a means for external engagement” as “a great loss.” He continued:

[It] was tasked specifically with developing metrics alongside the Office for National Statistics, and that has been lost. [...] The fact that there is no successor body that is taking on those jobs of external scrutiny evaluation and metrics development is a challenge.<sup>38</sup>

27. Stephen Phipson told us that the ISC “had the role of taking an overarching view of all these strands [of growth policy] and bringing them together into a national plan. [Manufacturers] would like to see something like that.”<sup>39</sup>

28. Sir Geoffrey Owen explained the importance of evaluation:

It is also a little puzzling as to why it was necessary to scrap [the] Industrial Strategy Council. One of the key things [...] is the importance of evaluation. What has been achieved? [What] are the objectives of the particular intervention? [There] must be a process of evaluating what has been achieved, what lessons can be drawn and, if necessary, whether a programme should be shut down because it is not achieving what it was intended to achieve.

[...]

I am less concerned about having a specific council than the principle of regular evaluation, learning from what has been achieved and being willing to close something down if it is not working. Those sorts of features are very important.<sup>40</sup>

29. Several written submissions also expressed concern at the abolition of the ISC, including those from National Centre for Universities and Business, Seetec (an employment services provider), the Regional Studies Association, the Trades Union Congress, and the Institute of Directors.<sup>41</sup>

36 HM Government, ‘[Levelling Up: Levelling Up the United Kingdom](#),’ CP 604, 2 February 2022

37 Department for Levelling Up, Housing and Communities, ‘[Andy Haldane appointed as Chair of Levelling Up Advisory Council](#),’ 27 June 2022

38 [Q156](#)

39 [Q288](#)

40 [Q153](#) and [Q172](#)

41 Institute of Directors ([JGP0011](#)), Regional Studies Association ([JGP0024](#)), Trades Union Congress ([JGP0040](#)), National Centre for Universities and Business ([JGP0046](#)), and Seetec ([JGP0053](#))

30. In its response to the BEIS Committee’s 2021 report on industrial strategy, and specifically on the abolition of the ISC, DBEIS claimed that “rigorous monitoring of delivery will take place through Outcome Delivery Plans (ODPs), and each department with responsibility for the individual policies and publications within the Plan for Growth will determine their own monitoring and evaluation processes in the usual way.”<sup>42</sup> In the case of the Treasury ODPs, “ongoing delivery of the Plan for Growth” appears as part of a broader ‘outcome strategy’ “to foster economic growth, support employment, improve productivity, and maintain competitive strengths throughout the UK.” The success metrics for this outcome strategy are:

- UK and regional employment rates
- Business investment as a share of GDP
- Growth in output per hour
- Economic performance of all Functional Economic Areas relative to their trend growth rates<sup>43</sup>

31. The far larger range of metrics defined and monitored by the ISC did include a number of high-level economy-wide metrics similar to those in the Treasury’s ODP, but they also included a wide range of lower level and intermediate metrics that are more direct checks on the implementation and effectiveness of individual policies. For example, on infrastructure alone, it monitored government expenditure; access to broadband; full fibre access; rail travel; road travel; bus services; investment in transport infrastructure; and commuting time.<sup>44</sup> George Dibb told us he was “somewhat sceptical” about the ODPs as replacements for the ISC.<sup>45</sup>

**32. We are concerned at the abolition of, and the lack of a replacement for, the Industrial Strategy Council, which provided oversight and evaluation of the Government’s growth strategy, and a suite of detailed metrics against which to judge the success of growth policies. The Council was a force for consistency and long-termism.**

## The role of the Treasury and the risks of fragmentation

33. The replacement of the Industrial Strategy with the Plan for Growth would seem to indicate that the Treasury will be assuming a greater role for co-ordinating the Government’s economic growth strategy than it had during the period from 2017 to 2021, although the Government has said that “there has been no change in the machinery of Government or in departmental responsibilities.”<sup>46</sup>

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42 Business, Energy and Industrial Strategy Committee, Sixth Special Report of Session 2021–22, ‘[Post-pandemic economic growth: Industrial policy in the UK: Government Response to the Committee’s First Report of Session 2021–22](#),’ HC 708, 21 September 2021

43 HM Treasury, ‘[Outcome Delivery Plan 2021 to 2022](#),’ 15 July 2021. The latter metric “tracks the economic performance of a functional geography (i.e. larger than local authority, smaller than region – an economic hub and its surrounding commuter zone), and compares this to its economic performance over the long-term.”

44 Industrial Strategy Council, [Measuring the Success of the Industrial Strategy - Schedule of Success Metrics](#), February 2020

45 [Q160](#)

46 Business, Energy and Industrial Strategy Committee, Sixth Special Report of Session 2021–22, ‘[Post-pandemic economic growth: Industrial policy in the UK: Government Response to the Committee’s First Report of Session 2021–22](#),’ HC 708, 21 September 2021

34. George Dibb felt that the Treasury had taken back influence over growth policy with the Plan for Growth, and that this could restrict its scope due to a Treasury focus on the costs of measures:

The Treasury and its general view on economic growth and models of economic growth and development, coupled with short-termism, lead to negative outcomes for industrial policy in the long term. [...] The Treasury's penny-pinching or pound-pinching instincts are not coupled with an equal and opposite reaction within Whitehall, a Department that can really have long-term agenda-setting powers. [...] We are likely to see again that same tension between the Department for Levelling Up and the Treasury as we see between BEIS and the Treasury on investment for net zero.<sup>47</sup>

35. He cited a restrictive methodology for cost-benefit analysis propagated by the Treasury in the Green Book and the inclusion of debt held by public corporations in the fiscal debt targets as two ways in which the Treasury's operating methods can hold back proposals for growth policy.<sup>48</sup> Dr Dibb has also published a blog post criticising the fact that staff numbers in the Treasury's Growth and Productivity Unit have been broadly unchanged since the publication of the Plan for Growth while the 50-strong Industrial Strategy Directorate in BEIS was abolished.<sup>49</sup> Giles Wilkes also thought the Treasury could be overly restrictive:

You need a Treasury to be auditing policy to make sure that it is pro-productivity in lots of ways, but perhaps a slightly humbler Treasury that does not think the answer is always, "How can we conserve the power and the finances of the Treasury?"<sup>50</sup>

36. Professor Jagjit Chadha, the Director of the National Institute for Economic & Social Research (NIESR), suggested that the Treasury needed more of a counter-balance within government:

What might be missing in the middle of all this is a Ministry of the Economy, something that thinks about where the economy needs to go to, rather than necessarily trying to balance the books in that way. The Treasury, by its nature and its very name, is very much about trying to limit expenditure and ensure the books are balanced. [...] The country needs a little bit more than that at the moment. It needs some way of bringing forward investment on a medium to long-term basis to deal with the gaps that we are seeing year after year in the economy.<sup>51</sup>

37. However, witnesses generally agreed that the Treasury had a crucial role in evaluating effectiveness and value-for-money in any growth strategy. Mr Wilkes said that the "Treasury as a backstop against bad productivity policies [...] really counts."<sup>52</sup> Geoffrey Owen told us:

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47 [Q159](#)

48 [Q168](#)

49 George Dibb, 'Failing to plan (for growth) is planning to fail,' <https://www.ippr.org/blog/failing-to-plan-for-growth>

50 [Q54](#)

51 [Q392](#)

52 [Q54](#)

The Treasury, historically, has had the role of curbing perhaps some overambitious or unrealistic projects coming out of the Business Department. That is a very important role, because one of the dangers of industrial policy and industrial strategy [...] is the danger of lobbying and special interests pushing the Government to put money into particular projects.<sup>53</sup>

38. We asked Treasury officials what additional responsibilities the department had taken on as a result of the launch of the Plan for Growth, and whether there had been any changes in resourcing as a result. Their answers emphasised the Treasury's existing co-ordinating role as the UK's economics ministry, and they seemed to confirm that there had been no increase in responsibilities or resourcing. Sir Tom Scholar, Permanent Secretary at HM Treasury, told us:

The Plan for Growth is the successor to the Industrial Strategy. It incorporates large elements of it, updates it and adds new things. [...] It is a framework approach that tries to set out an approach right across the whole Government. Since the Treasury is not just the finance Ministry in this country but the economics Ministry as well, it is natural that it should be a Treasury-led exercise, although of course important elements of the strategy fall to other Departments as well. [...] In terms of Treasury internal work and resourcing, we have for many years had an enterprise and growth unit, which leads our work on the supply side.

[...]

Over the last two years, growth and recovery from the pandemic has been a principal focus of the Department. We have expanded enormously our work in that area. In some sense, the new plan formalises that. [...] It is not that there has been, if you like, some kind of machinery of government change that has conferred new formal responsibilities on the Department that we did not have before. We have always been the economics Ministry

Charles Roxburgh, Second Permanent Secretary to HM Treasury, told us:

[The Plan for Growth] brings much greater clarity that it is the Chancellor's plan—the Chancellor being the senior Cabinet Minister responsible for the economy and economic growth—[...] very clearly now integrated right at the heart of economic policy making. [...] [It] is completely integrated into the spending review, meaning we now have the spending to back up the ambitions in the plan for growth, so it is more ambitious [than the Industrial Strategy]. [The] Treasury sits at the heart of the Government and is well placed to co-ordinate across all the relevant Departments that have important roles to play[...].<sup>54</sup>

39. As noted in paragraph 11, the Government has launched a series of strategies and machinery of government changes in the areas of growth strategy and policy since 2021. To some extent, the additional strategies could be said to have filled some of the gaps that witnesses felt were present in the Plan for Growth itself. However, notwithstanding Treasury

53 [Q167](#)

54 Oral evidence taken on 1 December 2021, HC (2019–22) 912, [Q2–Q4](#)

officials' insistence that the Treasury is best placed to co-ordinate these activities, with the Plan for Growth as a framework, some witnesses felt there were risks of fragmentation of growth policy across departments and strategies. Stephen Phipson told us:

We have seen the innovation strategy and we are going to see an enterprise strategy coming. We are in danger of having lots of individual strategies now that were before in an overall industrial strategy. [...]The question is, can we pull it together under a plan for growth? At the moment, I would say there were a lot of gaps at the detail level.<sup>55</sup>

40. Bart van Ark, Professor of Productivity Studies at the University of Manchester & Managing Director of The Productivity Institute, was concerned that co-ordination was not effective beyond the Treasury and DBEIS:

There are another half-dozen policy domains that are absolutely critical and that are often left out or not being really integrated in the debate on growth and productivity. The [...] most important are education, housing, transport, health [...] regional and agriculture. Those Ministries quite often are missing out on the debate of how we drive productivity and growth. I have experienced it myself in discussions that I have had with Government Departments [...] It is probably not going to work to start a new Ministry or a big co-ordinating group. Leave the co-ordination to Treasury and BEIS, but make sure that the other Departments get involved in the policy domains that are relevant for their stories.<sup>56</sup>

41. The transition to a net zero carbon economy is one area where co-ordination with wider growth policy is important. Dr Valero stressed the need for co-ordinated strategy across government:

We are moving too slowly currently. We really need to make sure that the co-ordinated incentives, policies and investments are all in place. That might be [...] having public support for R&D in a particular technology, for example. It might be through regulation, which is relatively costless for the Government, but when Governments can refer to regulation, it gives industry the certainty of direction of travel and then steers innovation in that direction.

Of course, carbon pricing and all the other environmental policies are also required, but they are not enough. [...] It needs to be complemented by these broader growth and societal policies.<sup>57</sup>

42. The levelling-up White Paper, *Levelling Up the United Kingdom*, includes no mention of the Plan for Growth, and the Export and Net Zero Strategies include only one mention each.<sup>58</sup> In his 2022 Mais Lecture, the Chancellor evaluated the drivers of growth and where the UK had struggled, coming to the view the Government had three priorities—

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55 [Q284](#). The Enterprise Strategy is still pending - see footnote 17.

56 [Q54](#)

57 [Q58](#)

58 HM Government, ['Levelling Up: Levelling Up the United Kingdom'](#), CP 604, 2 February 2022

capital, people and ideas. Although these could be seen as overlapping to an extent with the three ‘pillars’ of the Plan for Growth—infrastructure, skills and innovation—he made no reference to it in his lecture.<sup>59</sup>

**43. The Government as a whole is spending a large amount of money and time on devising growth strategies and policies. It is important to have a robust, overarching strategy for this that drives co-ordination across departments. This function may well sit best in the Treasury. However, it is unclear to what extent the Plan for Growth is an active strategy driving the Treasury’s activities as the co-ordinating economics ministry. As a result, there is a risk that growth strategy and policy are fragmenting across departments.**

*44. In its response to this Report, the Treasury should set out how it is making the Plan for Growth an effective successor to the Industrial Strategy, given that it is not taking on additional resources for this purpose, and in particular the steps it is taking to ensure co-operation across departments, to take feedback and to monitor results.*

**45. We do not believe that the Plan for Growth should necessarily be discontinued, let alone the Industrial Strategy revived, as another wholesale change in policy would exacerbate the lack of long termism and consistency in policymaking. *Nonetheless, there needs to be a renewed effort at a co-ordinated growth strategy across Government, with clear lines of accountability and co-ordination across departments, and with clearly defined and measurable metrics for success. Government should think about how to build institutional approaches that will embed its strategy across departments for the long term. It should also put in place an effective mechanism for carrying out oversight and evaluation of its growth strategy.***

### 3 Productivity after Coronavirus—The key challenges facing the UK

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46. Our inquiry has taken evidence on the prospects for UK growth and productivity, where the country has particular problems or could do better, and what the Government can do to address these issues. There are a huge number of factors that determine an economy's prospects for growth and productivity, and as discussed in the previous chapter, a growth strategy needs to characterise and prioritise the key challenges that it aims to tackle. This chapter considers the key productivity challenges facing the UK and that were widely cited in our inquiry.

47. First, we summarise the impacts of some of the major challenges and changes facing the UK—a shortfall in productivity; the legacy of the pandemic; and the impact of Brexit. We then examine the key productivity challenges that emerged over the inquiry.

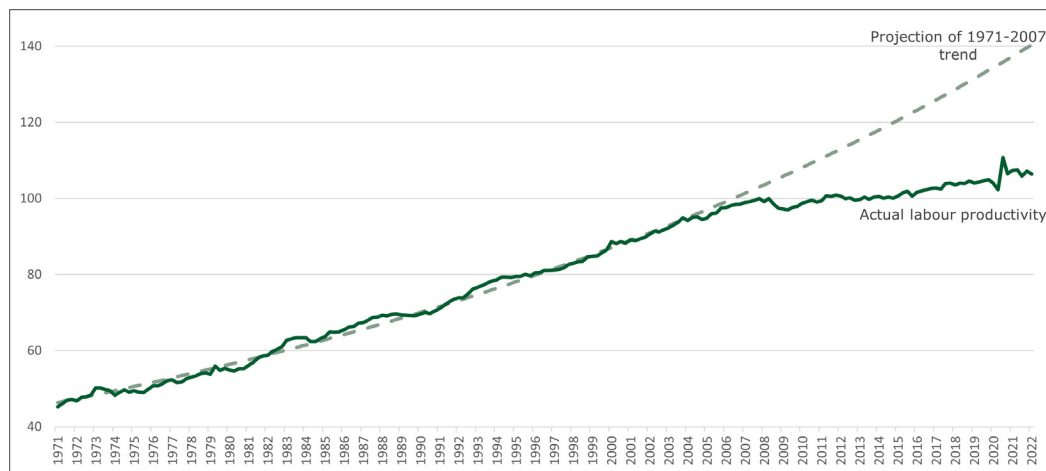
#### Productivity—a historic puzzle

48. Between the financial crisis and the pandemic, the UK suffered a slump in productivity growth. UK labour productivity (defined as the quantity of economic output generated per hour worked by the UK labour force) fell almost 2 per cent between 2007 and 2009, and it recovered at a rate of only 0.7 per cent per annum up until 2019. That compares to a 2.1 per cent rate of growth per annum from 1971 to 2007. Had the UK stayed on that historic trajectory, productivity would be around 30 per cent higher than it is today.

49. Productivity has been volatile through the pandemic as the sectoral composition of the economy has shifted around, and the lasting impact is not yet clear. Total labour productivity grew 1.2 per cent per year between 2019 and 2021, but there was a contraction of 0.7 per cent in the first quarter of 2022.<sup>60</sup>

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60 Office for National Statistics, 'Productivity overview, UK: October to December 2021,' 7 April 2022, Office for National Statistics, '[UK productivity flash estimate: January to March 2022](#),' 17 May 2022 and staff calculations

**Figure 1: UK labour productivity since 1971 (GDP per hour worked, 2007Q4=100) (Source: ONS)<sup>61</sup>**

50. An alternative yardstick of productivity is multi-factor productivity (MFP) (or total factor productivity). MFP is the part of GDP growth that cannot be accounted for by the quantity or quality of all labour and (unlike the labour productivity measure used above) capital inputs. It can be interpreted as a measure of technological progress and utilisation. This has slowed in a similar fashion to labour productivity according to the ONS: it grew by 1.4% per annum from 1970 to 2007, and by 0.4% per annum from 2009 to 2019.<sup>62</sup>

51. Prolonged low productivity growth has been labelled the ‘productivity puzzle’. It has little precedent since at least the 19th Century and has defied easy explanation.<sup>63</sup>

52. In addition to the fall in the rate of increase in productivity since the financial crisis, the level of UK labour productivity is relatively low compared to other major developed economies: among the G7, it is well below that of the United States, Germany and France. While all major advanced economies have experienced a productivity slowdown since 2007 (the UK’s has been a little worse than most), this long-standing gap presents a second ‘productivity puzzle’ that is more unique to the UK.<sup>64</sup>

53. As seen in Figure 2 below, in 1950, UK labour productivity stood third among the then-future members of the G7. However, the UK lost ground rapidly against Germany and France from 1950 to 1980, being overtaken by all three in the 1960s. From around 1990 to the financial crisis, the UK experienced some catch-up, but this trend has reversed since then, indicating that the UK has suffered slightly more in terms of the ‘productivity puzzle’ than the United States, Germany and France. From 1950 to the 1980s, the UK began to catch up with the United States (which came out of the Second World War with a very large lead in productivity), but the US has pulled back ahead since then.

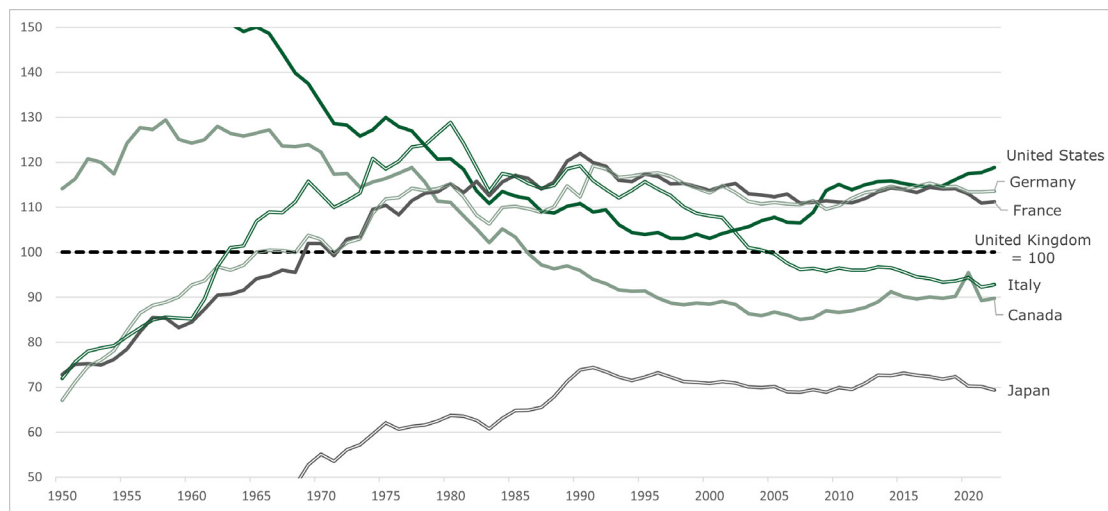
61 As above

62 The ONS has published a full explanation of MFP in: Office for National Statistics, ‘[A simple guide to multi-factor productivity](#),’ 5 October 2018

63 For example: Richard Heys, Office for National Statistics, ‘[The productivity puzzle – “The key economic issue of our age”](#),’ 7 December 2017

64 OECD (2021), OECD Compendium of Productivity Indicators, OECD Publishing, Paris, <https://doi.org/10.1787/f25cdb25-en>.

**Figure 2: Labour productivity among the G7 as a percentage of UK labour productivity since 1950 (source: The Conference Board)<sup>65</sup>**



## The impact of the pandemic

### Scarring

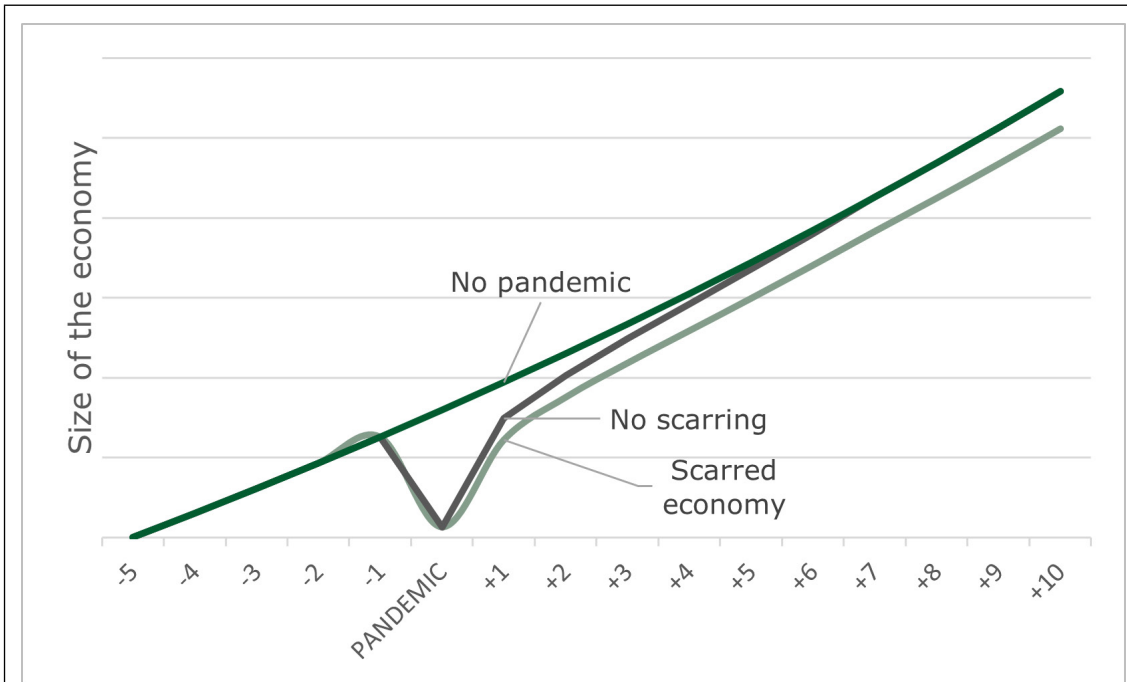
54. There have been fears that the deep turndown that the UK economy suffered as a result of the pandemic and lockdowns will result in a permanent loss of the size of the economy compared to its pre-pandemic trajectory, referred to as ‘scarring’. Figure 3 below illustrates this.

55. For its November 2020 *Economic and Fiscal Outlook* (EFO), the Office for Budget Responsibility (OBR) had assumed long-term scarring of 3 per cent in its central forecast scenario, but in its March 2022 forecast it reduced that assumption to 2 per cent. Compared to its November 2020 forecast, the OBR now expects less than half the contribution to scarring to come from labour productivity and none from unemployment, but it expects a greater contribution from a smaller labour supply.<sup>66</sup>

<sup>65</sup> The Conference Board, ‘[Total Economy Database](#),’ April 2022 and staff calculations

<sup>66</sup> Office for Budget Responsibility, ‘[Economic and fiscal outlook, March 2022](#),’ 23 March 2022, Table C.1, p228

Figure 3: Stylised example of economic ‘scarring’



In the ‘no pandemic’ scenario, the economy grows smoothly at its trend growth rate. In the ‘no scarring scenario,’ the economy suffers a recession, but afterwards there is a strong-enough period of above-trend growth to return the economy to the path it would have been on in the absence of a pandemic, after which it proceeds at the trend growth rate. In the ‘scarred economy’ scenario, there is a recession, but the subsequent period of above-trend growth does not last long enough to return the economy to the path it would have been on in the absence of a pandemic. The economy returns to the original trend growth rate, and surpasses the pre-pandemic peak, but remains smaller than it would have been in the no-pandemic counterfactual.

56. Witnesses to our inquiry echoed the OBR’s judgement that the level of scarring was likely to be lower than originally feared, particularly around unemployment (the labour-market aspects of scarring are examined in the next chapter). However, they remained concerned about scarring in certain areas, particularly interruptions to education. Alan Manning, Professor of Economics at the London School of Economics, said that “the bigger concern on scarring is around kids and education. [ ... The] estimates I have seen say that primary school kids are a few months behind, which they should be able to pick up over the course of the next decade, [but] there is probably a huge amount of inequality in there.”<sup>67</sup> Professor Bart van Ark, Professor of Productivity Studies at the University of Manchester & Managing Director of The Productivity Institute, told us:

Investing in catching up kids in schools and improving the intermediate skills of the workforce, for example, are important Government priorities to avoid the scarring effects as we emerge from the crisis.

[...]

Every month lost in this respect is going to have a significant cost down the road. It may be that we will not even recognise it down the road, because the kids will have grown up and be in their 20s, and we will probably have forgotten about the fact that this problem occurred in 2020 and 2021, when they were losing literacy and numeracy skills, et cetera.<sup>68</sup>

57. The House of Commons Education Committee has published a report on the Government's catch-up programme for the education sector, *Is the Catch-up Programme fit for purpose?* They found that “the Government has made some welcome efforts [but] current plans do not go far enough [and] the Government must re-focus its catch-up efforts.”<sup>69</sup>

58. There were mixed views on whether a scarring effect would arise from businesses that had taken on additional debt to survive the pandemic being deterred from investing as a result. Anna Valero, a Senior Policy Fellow at the LSE's Centre for Economic Performance, warned that “small businesses are emerging from this crisis heavily indebted [and] the evidence from previous crises has showed that financially constrained firms do not invest for longer.” Stephen Phipson, the CEO of MakeUK, told us that “we are starting to see a lot more inquiries [...] on restructuring and how we do that.” On the other hand, Kitty Ussher, Chief Economist at the Institute of Directors, told us that only a small fraction of their members were in arrears.<sup>70</sup>

**59. Post-pandemic scarring seems likely to be much less of a problem than first feared. But there are still risks, especially outside the labour market, that need Government attention. Notably, these include the long-term legacy of interruptions to education. Business indebtedness might also be a factor restraining investment and should be monitored carefully.**

## Opportunities

60. On the other side of the ledger, there was a general feeling that the adoption of digital technologies by businesses during the pandemic, such as remote working, presented an opportunity for the future. Dr Valero said that firms she had surveyed were optimistic about the impact of newly adopted digital technologies and management practices on productivity and employment going forward. Since firms were ‘path-dependent’,<sup>71</sup> being forced to adopt digital technologies in a crisis could have a permanent effect on their future adoption of technology:

If you had previously adopted new technology, you were more likely to have that initially positive response to the pandemic. [...] Will we see some positive impact of this experience whereby firms have shifted on to a more innovative trajectory where they will continue innovating, or will it be the case that this was just a oneoff and they will embed this new technology

68 [Q16](#) and [Q40](#)

69 Education Committee, Fourth Report of Session 2021–22, ‘[Is the Catch-up Programme fit for purpose?](#)’, HC 940, 17 June 2021, p3

70 [Q14](#), [Q236](#), and [Q241](#)

71 ‘Path dependent’ refers to a situation in which past processes or decisions constraint the possible range of future processes or decisions. See, for example, Economics A-Z on The Economist website, <https://www.economist.com/economics-a-to-z/p>, accessed 4 July 2022. In this context, the investments firms make build upon the investments they have made in the past.

but everything else will go back to normal? That is [...] where government policies and support will make the difference so that we can leverage that opportunity rather than letting it go to waste.<sup>72</sup>

She also described the opportunities arising from remote working:

I have been generally quite optimistic about remote working in terms of improving the allocation of talent. In an ideal world, people would be more flexible and perhaps more female talent would stay at more senior levels in the workforce and could do jobs that were not possible before.<sup>73</sup>

61. Some witnesses raised possible risks and disruption that could arise from the adoption of remote working. Dr Valero saw scope for the exacerbation of inequalities: “if women disproportionately worked at home and were away from [...] office interactions, you could have bigger gaps there. There are also massive concerns about housing inequalities [...] because your housing becomes your workplace.”<sup>74</sup>

62. Giles Wilkes, Senior Fellow at the Institute for Government, described how challenges could arise as sectors and economic geography shift in response to remote working:

I would not regard the fact that some industries are going to be smaller and some are going to be larger as itself a concern so long as the workers are able to move around between them. The concern is where there are really big and concentrated pockets of this. [...] For example, if London’s city centre emerges with 15% less demand than there was going in, there are going to be a lot of stranded assets, stranded people and stranded jobs. That kind of concentrated problem can take a long time to work out [...].<sup>75</sup>

However, Professor Manning could see opportunities arising from this process:

You might well see more sandwich shops in the suburbs, because that is where people are rather than in the city centre. As poor workers are much more likely to live a long way away from [for example] central London, I am not sure that is inevitably going to be to their disadvantage. [...] If it gives more opportunities for lowerpaid workers to work closer to home, that actually probably makes them slightly better off.<sup>76</sup>

63. Professor van Ark explained some of the structural changes that could arise from remote working:

Where Government needs to come in [...] is around the potential implications that this all has for the environment in which companies are operating and people are working. For example, even if only 25 per cent of the workforce move to hybrid working, it has major implications for commuting patterns, for where people live and work, for city centres and

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72 [Q19](#)

73 [Q14](#)

74 As above

75 [Q11](#)

76 [Q143](#)

for commercial real estate versus the desire for residential real estate. [...] Public transportation is another where Government really needs to begin to understand what the implications of these changes in preferences are.<sup>77</sup>

64. We are also examining the impact of remote working as part of our *An Equal Recovery* inquiry.<sup>78</sup>

65. *There are productivity-enhancing opportunities arising from the pandemic, in an increased take up of digital technologies and in remote working in certain circumstances. The Government should be looking at how it can facilitate these positive developments, while also being mindful of the challenges it could present to the UK's existing economic structure and geography.*

## The impact of Brexit

66. The UK's official forecasters project that Brexit will have a negative long-term impact on the economy greater than that of the pandemic. The Bank of England leadership recently confirmed to us that they have not changed their view that Brexit will lower trade intensity, which will in turn result in a 3¼ per cent reduction in productivity.<sup>79</sup> The OBR's assessment is for a 15 per cent reduction in UK trade (total exports and imports to all partners) and a 4 per cent reduction in long-term productivity.<sup>80</sup>

67. In its analysis to accompany the 2022 Spring Statement, the OBR pointed out that trade intensity<sup>81</sup> had collapsed in both advanced economies as a whole and the UK on the outbreak of the pandemic, but that by the fourth quarter of 2021, trade intensity in other advanced economies had rebounded to above the pandemic level, whereas in the UK it remained 12 per cent below.<sup>82</sup> Professor David Miles, a member of the OBR's Budget Responsibility Committee, told us that these data were consistent with their assessment of the long-term impact of Brexit but did not prove it. He also said that he had more confidence in their pandemic scarring assumption than their Brexit assumption.<sup>83</sup> The Chancellor told us that Brexit “might well be [the reason that trade intensity hasn't rebounded], but it is too early to be definitive about it.” He emphasised that the Government's general approach is “to be much more open to the world on trade.”<sup>84</sup>

68. In this inquiry, Professor Bart van Ark agreed that the productivity impacts of Brexit were uncertain but could be negative:

We will have to see in the longer term whether Brexit is creating a situation in which many companies cannot perhaps benefit as much from deep relationships in the supply chain with Europe. That could have an impact on their productivity performance. [...] A lot of it will depend on innovation

77 [Q44](#)

78 'An Equal Recovery,' HC (2021–22) 152, <https://committees.parliament.uk/work/1218/an-equal-recovery/>

79 Oral evidence taken on 16 May 2022, HC (2022–23) 143, [Q474](#) and [Q481](#)

80 Office for Budget Responsibility, 'Economic and fiscal outlook, October 2021,' 27 October 2021, Box 2.5

81 The sum of exports and imports as a share of GDP.

82 Office for Budget Responsibility, 'Economic and fiscal outlook, March 2022,' 23 March 2022, Box 2.6

83 Oral evidence taken on 28 March 2022, HC (2021–22) 1226, [Qq66–67](#)

84 Oral evidence taken on 28 March 2022, HC (2021–22) 1226, [Q239](#) and [Q232](#)

and whether companies are able to better innovate and substitute the original supply chains that they had between the UK and Europe. That is still a little bit in the works, and too early to call.<sup>85</sup>

69. Stephen Phipson told us that 17 per cent of manufacturing exporters supplying unfinished goods to the supply chain had stopped trading with the EU, according to a Make UK survey. Kitty Ussher told us that trade “has contracted. There is far too much friction, for very obvious reasons.”<sup>86</sup>

70. In written evidence, the National Institute for Economic and Social Research (NIESR) said that the Plan for Growth is not well-focused on how policy will help sectors affected by Brexit:

The document outlines a commitment to “removing market access barriers”. However, the Plan for Growth says very little on how trade and investment policy will be used to support the UK’s key sectors. This is particularly important as some manufacturing sectors are more affected than others by the disruption in UK–EU trade flows. The industries that purchase most of their inputs from the EU are ‘motor vehicles, chemicals, electrical equipment, rubber and plastic, and pharmaceuticals’. Therefore, a permanent reduction in trade with the EU poses particular risks for these industries. In services, exports of ‘business services, finance and insurance and wholesale and retail sectors’ generate the most value added for the UK, largely through strong EU linkages.<sup>87</sup>

71. Brexit also entails significant changes and challenges for the labour market, which are covered in the following chapter.

72. **Brexit has not been a major focus of this particular inquiry. Nonetheless, it will clearly have a profound impact on the economy’s future direction and growth prospects, potentially greater than the long-term effect of the pandemic. *In its response to this report, the Treasury should explain how growth policy is identifying and helping those sectors most adversely affected by changes in trade between the UK and EU, as well as more clearly identifying the economic opportunities that may arise from Brexit.***

## Key productivity challenges

73. This section draws out some of the key factors behind the UK’s poor productivity performance that need policy attention and that were most cited in our inquiry.

### *The long tail of low-productivity firms*

74. The issue of the UK having a ‘long tail’ of low-productivity firms compared to other major advanced economies was notably raised by Andy Haldane, then the Bank of England’s Chief Economist, in his 2018 speech ‘The UK’s Productivity Problem: Hub No Spokes.’<sup>88</sup> As the chart below from the speech shows, the UK has a higher percentage of firms with far below-average productivity than Germany and France. This so-called

85 [Q7](#)

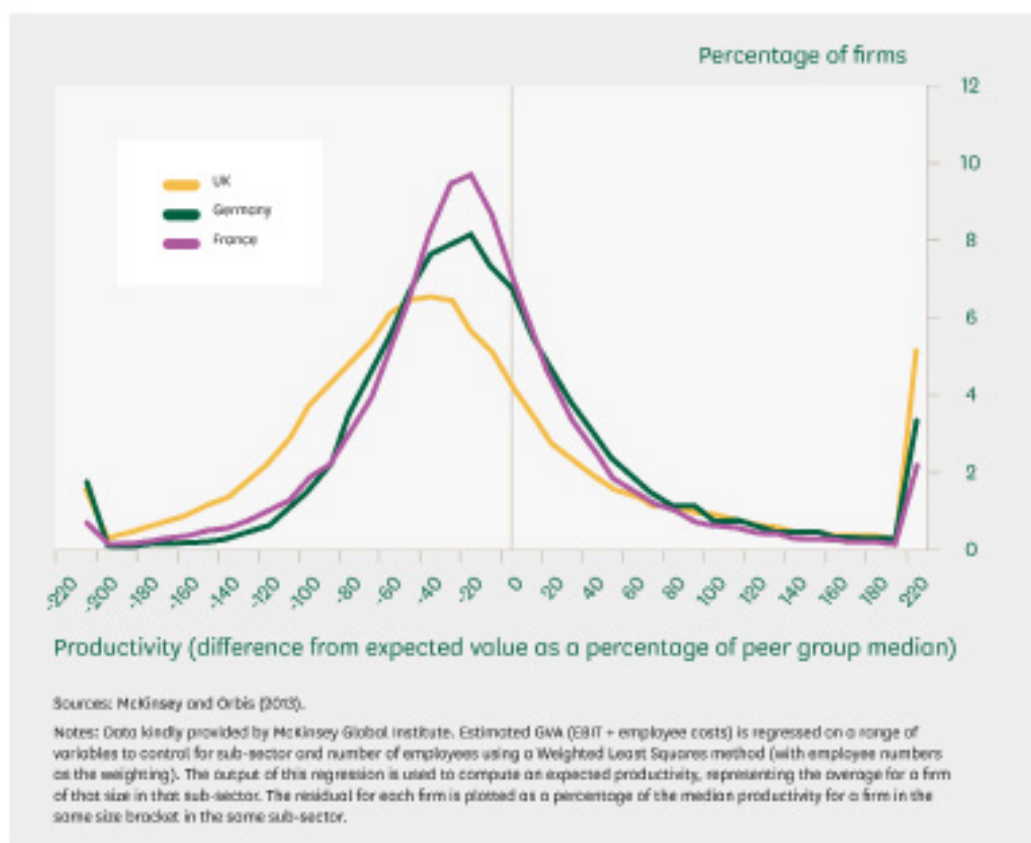
86 [Q310](#) and [Q306](#)

87 National Institute of Economic and Social Research (NIESR) ([JGP0062](#))

88 Andrew G Haldane, ‘[The UK’s Productivity Problem: Hub No Spokes](#),’ 28 June 2018

'long tail' has been held to be part of the explanation for the UK's productivity shortfall compared to other major advanced economies, although it has been questioned whether it is the right priority for boosting growth or can explain why productivity growth has slowed since the financial crisis.<sup>89</sup>

**Figure 4: UK, Germany and France firm-level productivity, from Andy Haldane, 'The UK's Productivity Problem: Hub No Spokes,' 2018**



75. A 'long tail' of low-productivity small businesses was widely cited by witnesses to our inquiry as a factor underlying the UK's lower levels of productivity and growth. Bart van Ark told us:

What is most important here is that [...] very many firms in many sectors of the UK economy have these very long tails that were not close to the frontier [of high productivity], although pretty much every sector did have a couple of firms that were very close to the frontier. These tails are relatively long in the UK, which partly translated into faster employment growth but slower productivity growth in the post-financial crisis period.<sup>90</sup>

[...]

The evidence generally points to the fact that smaller firms are at the tail end of the curve. [...] On the whole, larger firms tend to be closer to the frontier. [...] There are so many companies in the UK that do not want to grow; there are entrepreneurs who have no ambition to grow. They want

89 Centre for Cities, 'The wrong tail: Why Britain's long tail is not the cause of its productivity problems,' 24 May 2018; and Chris Giles, Financial Times, 'UK's biggest companies are productivity slackers,' 24 May 2018

90 Q5

to stay small, partly because they are locked up in the local market, do not immediately see the opportunity, or they have to overcome a huge hurdle in order to be able to grow.<sup>91</sup>

76. In written evidence, the Local Enterprise Partnerships (LEP) Network said that the long tail “is undoubtedly the practical experience of LEPs, we all have some excellent businesses in our area that are engaged and focussed on innovation, however they tend to represent the minority in all sectors.”<sup>92</sup>

77. Turning towards how to engage with the ‘long tail’, Kitty Ussher felt that policymakers did not yet have a model for how to spread pro-growth attitudes to low-productivity businesses:

Looking at a perfectly comfortable, unambitious, yet successful smaller company, what is your model for affecting the culture within that company so that it becomes more ambitious? [...] How [do] you increase entrepreneurialism and innovation in the SME sector? Is it, for example, through the touchpoints to the accountancy profession, as everybody fundamentally has to file accounts? [...] Anecdotally, the conversations we have with our members suggest that there is something really crucial about those types of connections. I am not seeing that in Government policy.<sup>93</sup>

78. Giles Wilkes thought that perverse policy incentives and barriers to competition were one reason that small businesses failed to grow:

[This is a] policy discussion between trying to help companies that do not do the right things to move up the ladder a bit versus trying to work out why they are not going bust. [...] The policy that dares not speak its name is to look at all of the implicit subsidies that encourage companies to remain small, like our quite high VAT threshold or policies like the employment allowance. We need to ask ourselves whether they are giving a subsidy for not being quite good enough.<sup>94</sup>

[...]

I was struck by the lack of curiosity about competition as a policy issue within politics when I was there. [...] Businesses’ interests, collectively or individually, are not the same as the economy’s. A business is trying to maximise what we economists call their economic rent. [The overall economy] needs more churn and more of that rent being taken away by the next hungry competitor.

[...]

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91 [Q32](#)

92 LEP Network ([JGP0017](#))

93 [Q232](#)

94 [Q21](#). The UK has the highest VAT threshold in Europe and one more than four times that in Germany, according to research by the Tax Foundation. Tax Foundation, ‘[VAT Exemption Thresholds in Europe](#),’ 1 July 2021.

The Government cannot intervene all around the place to deal with competition [...] You need to look at conditions [such as] whether the structure of taxes is biased towards keeping too many small companies going and whether that is impeding competition.<sup>95</sup>

79. Irene Graham, the CEO of the ScaleUp Institute, emphasised a need to segment the wider SME<sup>96</sup> sector and for policy to also support rapid-growth ‘scale-ups’.<sup>97</sup>

SMEs are not all the same. We have 5.9 million SMEs and [...] some 33,000 of those are scale-ups [...] We need to have the right interventions for the scale-up economy as well. It is important that the Government is now seeking to do that segmentation. [...] and do not think of them as one homogeneous group.<sup>98</sup>

### *Technological adoption and management skills*

80. We were told by several witnesses that two interlocking factors behind the UK’s ‘long tail’ of low-productivity firms were deficiencies in technology adoption (especially digital and ICT technologies) and in business management skills. Bart van Ark told us that the slowdown in productivity growth is more reflective of a failure to adopt technologies throughout the economy, rather than a slowdown in the rate of innovation itself:

A lot of the technology challenges that we are seeing are not around the fact that the technology is not available and not even that it does not get diffused but that it does not get absorbed by many companies. To make this happen, we need to facilitate the companies that can do this and, indeed, the companies that will ultimately not do it should be allowed to fail.

These new technologies—in particular the latest vintage of digital technology: mobile, data analytics, the move to robotics and artificial intelligence—are quite complicated technologies for companies to integrate into their business models. It tends to be larger companies, companies that have been able to invest significantly. [...] This is investment in organisational capabilities, management capabilities and reskilling the workforce, who are able to advance most quickly on their journey. [...] A lot of the research has shown that the long tail [...] is very much due to the fact that they do not absorb technologies properly. A lot of that relates to management competencies and a lack of intermediate skills in the workforce.<sup>99</sup>

81. Anna Valero referred to international analyses that show the UK underperforming in these areas:

The European Commission has comparisons of various types of digital technologies [in 2019], and the UK is generally middling. [...] Larger firms do better, but it is in the smaller firms where we do not have as high adoption

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95 [Qq29–31](#)

96 Small & medium-sized enterprise.

97 See footnote 29

98 [Q234](#)

99 [Q18](#) and [Q23](#)

as some of our peers. On management practices, the World Management Survey has shown that on average we have worse management practices than, say, Germany and the US and we do have a thicker longer tail [...]<sup>100</sup>

82. Stephen Phipson reported that technology adoption and management skills are also challenges in UK manufacturing:

There is a gap that is starting to widen more, particularly with our European competitors, in advanced manufacturing. We put that down into three different buckets. One of them is around management skill [...] [Secondly] We lag behind in investment and new technologies, particularly some of the new additive manufacturing technologies that have been invested in very heavily by other countries, and in digital investments.<sup>101</sup>

83. Irene Graham identified computing and entrepreneurial skills as important to ‘scale-ups’:

Scale-ups invest heavily in training their staff on a day-to-day basis, but they are looking for the right technical, social and entrepreneurial skills from the education system. It is important that computing currently is mandated at an educational level. It is not mandated to exam level.<sup>102</sup>

84. In written evidence, Be the Business, a government and business-funded organisation that provides support to businesses to improve productivity, told us that its focus is on “two levers that have a proven link to higher productivity, the first being [...] good management practices [...] and the second being that UK businesses still compare poorly [...] in terms of ICT adoption.”<sup>103</sup>

**85. A consistent theme in this inquiry was that a significant part of the UK’s productivity shortfall compared to other countries is due to a ‘long tail’ of low-productivity firms, usually small ones. Relatively poor digital technology adoption and management skills were seen as key interlocking causes.**

### **Help to Grow**

86. The Government’s Help to Grow: Digital and Help to Grow: Management schemes, announced by the Chancellor alongside the Plan for Growth at the Spring 2021 Budget, are responses to the challenges of SME technology adoption and management skills. The Management scheme offers a 12-week course, networking and a “1:1 business mentor,” with 90 per cent of the cost paid by government leaving £750 for businesses. The Digital scheme offers online support and a 50 per cent-off voucher for approved software up to £5,000.<sup>104</sup> At Budget 2021, the Government assigned £295 million to Help to Grow: Digital and £220 million to Help to Grow: Management over three years, from 2021–22 to 2023–24.<sup>105</sup>

100 [Q24](#)

101 [Q221](#). Mr Phipson’s third ‘bucket’ was infrastructure.

102 [Q292](#)

103 Be the Business ([JGP0055](#)), p2

104 Home page, Help to Grow Campaign, <https://helptogrow.campaign.gov.uk/>, accessed 4 July 2022

105 HM Treasury, ‘[Budget 2021 - Protecting the jobs and livelihoods of the British people](#),’ HC 1226, 3 March 2021, p42

87. Witnesses were optimistic about these schemes and felt that they represented the right priorities. Dr Valero, who has been involved in peer review of the schemes, told us:

Better trained managers are more likely to know and able to implement productivity-enhancing management practices, but better trained workers are more likely to understand and implement them and to work together with managers. Training programmes are a promising way forward, and there is quite a lot of evidence from around the world with randomised control trials trying to build causal evidence in this regard.[...] From what I see, the Help to Grow management programme will combine some general learnings with one-to-one support. [...] [It] is set up in a really promising way. I understand that it is going to be evaluated as well to help build the evidence base, which is so crucial.<sup>106</sup>

88. Professor van Ark wanted the schemes to be expanded:

Help to Grow can help. [It] is way too small in size; it will have to be bigger. Management skills and digital skills are exactly the things to focus on. The other thing that I would say on Help to Grow is that it has to be executed in a regional or local context. A lot of these companies are often very localised. Helping them to get out of the local environment needs to be done in a way that understands what the local constraints and barriers are.<sup>107</sup>

89. Kitty Ussher said that the Institute of Directors is “very much in favour” of the Help to Grow schemes but said that the Government needed to consider how to reach firms that are not looking for help.<sup>108</sup>

90. Giles Wilkes, based on his experience working in government, said that it would be important to persist with Help to Grow:

The commitment to keep at it is a really important one. I am sure there is a whole world of policy hobbyists counting the things that get created and then destroyed. For example, we left behind something called growth hubs and growth accelerators, and then they were destroyed in 2015. [...] It is almost better to have a second-best thing that you stick with than a best thing that somebody keeps having to learn again. However good Help to Grow is, I just hope that they stick with it.<sup>109</sup>

91. It has been reported that the Management scheme has suffered from low take-up.<sup>110</sup> In May 2022 the Business, Energy and Industrial Strategy Committee took oral evidence on the progress of the schemes. Tina McKenzie, Policy and Advocacy Chair at the Federation of Small Businesses, reported concerns that the Management scheme excludes firms without at least five employees, and about the £750 fee and the time commitment needed

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106 [Q26](#)

107 [Q32](#)

108 [Q232](#)

109 [Q52](#)

110 Financial Times, [‘Banks enlisted to boost take-up of skills scheme for small businesses,’](#) 3 May 2022

from participants. Neil Ross, Associate Director for Policy at techUK said that the Digital scheme is too restrictive in terms of which software providers can put their products on the scheme, but he noted that DBEIS “seems very willing to iterate the scheme over time.”<sup>111</sup>

**92. Help to Grow: Management and Help to Grow: Digital are promising responses to the problems of relatively poor digital technology adoption and management skills among businesses, but there have been some difficulties in the early days of the schemes. Considering the importance of long-term stability in growth policy, it will be important to persist with these schemes while taking feedback and adjusting them as necessary. That will require backing from the Treasury. If a success can be made of the schemes, there may be scope for expansion. *It its response to this report, the Treasury should indicate whether funding will be available for longer than the three years first suggested in Budget 2021 and on what success criteria continued funding would depend. This is important, given the negative impacts and costs of repeated policy change.***

## **Investment, research & development and capital and innovation**

### **Boosting business investment**

93. Business investment has seen little recovery so far following the pandemic. It had fallen by over 20 per cent between 2007 and 2009, but subsequent growth saw it closing the gap on the pre-financial crisis trend up until 2016. It was then broadly flat until the pandemic.<sup>112</sup> Kitty Ussher told us that it had “been muted since 2016 due to a perceived lack of economic confidence following the Brexit vote.”<sup>113</sup> With the outbreak of the pandemic, business investment fell by over 11 per cent in 2020, and it has seen little recovery since. According to the most recent estimate by the Office for National Statistics, business investment fell by 0.6 per cent in the first quarter of 2022.<sup>114</sup>

94. Additionally, the *level* of business investment in the UK is low by comparison to other major advanced economies—at 10 per cent of GDP compared to a G7 average of 13 per cent of GDP.<sup>115</sup>

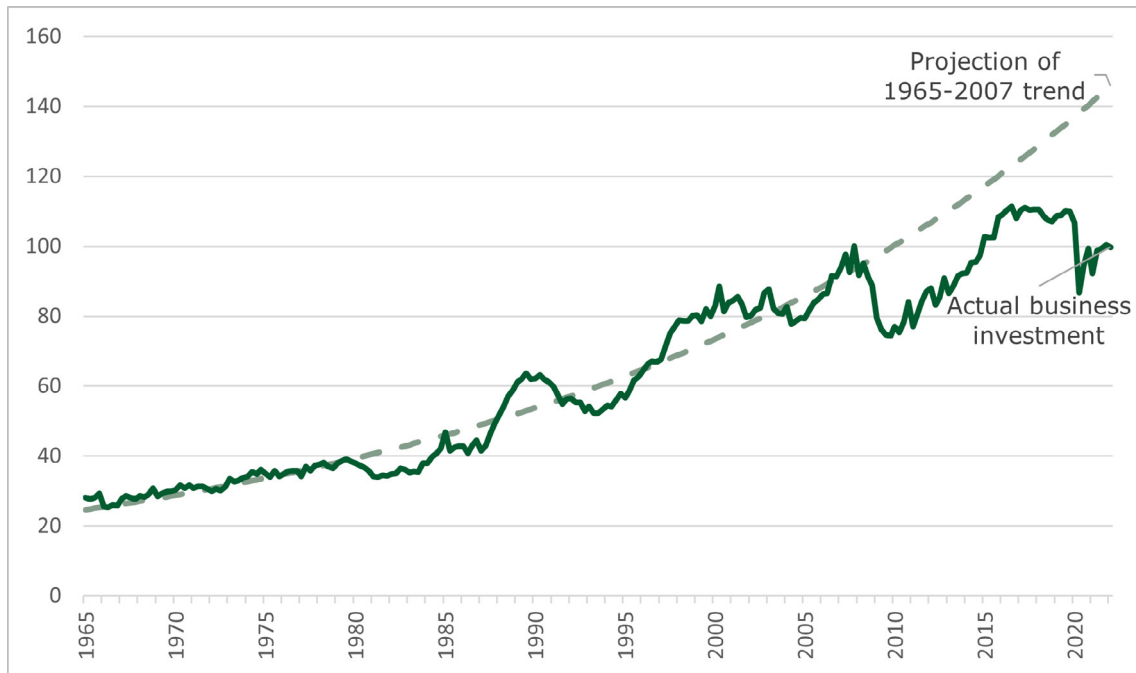
111 Business, Energy and Industrial Strategy Committee, oral evidence taken on 17 May 2022, HC (2022–23) 207, [Q1](#) and [Q4](#)

112 Business investment comprises the net acquisition of non-financial assets by corporations, including transport, information & communication technology and software, machinery, buildings and intellectual property. Office for National Statistics, ‘[Business investment in the UK: January to March 2022 revised results](#),’ 30 June 2022

113 [Q221](#)

114 Office for National Statistics, ‘[Business investment in the UK: January to March 2022 revised results](#),’ 30 June 2022

115 Confederation of British Industry, ‘[Green light for investment](#),’ 23 November 2020, Exhibit 2

Figure 5: Real UK business investment since 1965 (2007Q2=100) (Source: ONS)<sup>116</sup>

95. The Treasury’s main initiative to boost business investment in the recovery from the pandemic has been the ‘super-deduction’, announced at the Spring 2021 Budget, which allows 130 per cent tax relief in the first year on most new plant and machinery investments made from 2021–22 to 2022–23.<sup>117</sup> The evidence submitted to our inquiry generally agreed that the super-deduction would incentivise business investment. However, there were criticisms of its coverage. Giles Wilkes described the restriction to plant and machinery rather than intangible capital as “slightly atavistic,” while Kitty Ussher called for it to be extended to human capital.<sup>118</sup> In written evidence, the Finance & Leasing Association, the ICAEW and the British Chambers of Commerce called for it to be extended to leased assets. The Women’s Budget Group and the TUC criticised the super-deduction for carrying a large deadweight cost.<sup>119</sup>

96. One point made was that the super-deduction may only be offsetting the impact of the corporation tax rises from 2023–24 also announced at the Spring 2021 Budget. Rain Newton-Smith, Chief Economist at the Confederation of British Industry, told us that businesses “accept that increase in corporation tax” but would need new investment incentives from 2023, while in written evidence, the Institute of Directors told us that for large firms “the proposed hike in corporation tax could likely detract from the incentive to bring investment plans forward.”<sup>120</sup>

97. In the event, the super-deduction seems not to have had the impact on business investment that was originally expected. Officials from the Office for Budget Responsibility

116 Office for National Statistics, ‘[Business investment in the UK: January to March 2022 revised results](#),’ 30 June 2022 and staff calculations

117 HM Treasury, ‘[Guidance—Super-deduction](#),’ 5 March 2021

118 [Q13](#) and [Q291](#)

119 Finance & Leasing Association ([JGP0005](#)), Women’s Budget Group ([JGP0007](#)), Institute of Chartered Accountants in England and Wales ([JGP0052](#)), British Chambers of Commerce ([JGP0038](#)), and Trades Union Congress ([JGP0040](#))

120 [Q93](#) and Institute of Directors ([JGP0011](#)).

told us that investment had grown by less than they expected due to supply-chain bottlenecks and uncertainty,<sup>121</sup> while Andrew Bailey, Governor of the Bank of England, has told us that “it is not at the moment having the impact that was expected,” due to the same two factors.<sup>122</sup>

98. We received evidence on some possible alternative or replacement incentives for the super-deduction. Ms Newton-Smith said that “from 2023 there should be full expensing of capital allowances over the lifetime of an asset to have a real incentive around business investment.” In written evidence, MakeUK called for “a focus on extending the Annual Investment Allowances as well as increasing R&D [research and development] tax credits whilst making such schemes easy to access.”<sup>123</sup>

99. At a keynote lecture in February 2022, the Chancellor identified cutting taxes on business investment as a priority.<sup>124</sup> The Spring Statement in March 2022 confirmed this ambition, which was to be achieved “by reforming capital allowances and R&D tax reliefs.”<sup>125</sup> A consultation on reforms to capital allowances was launched in May.<sup>126</sup> The Chancellor admitted to us that the super-deduction had helped but “not as much as one might have originally thought,” and confirmed his view that business investment is a key component of the UK’s productivity shortfall. He expected to announce reforms in the autumn of 2022, to be enacted in Spring 2023.<sup>127</sup>

**100. The Chancellor is correct to pinpoint business investment as a component of the UK’s shortfall in productivity compared to other major advanced economies. The UK’s record in this area has worsened since 2016. In addressing this investment shortfall the Chancellor’s focus on reforms to tax incentives is a good start, and the Treasury should take on board the criticisms made of the super-deduction while designing future tax incentives. But wider economic certainty and coherence and stability in the Government’s growth policy, which are currently deficient, are also important for getting businesses to invest.**

### *Research and development*

101. The Government introduced a target to raise UK private and public spending on research and development (R&D) to 2.4 per cent of GDP by 2024–25 as part of the Industrial Strategy in 2017, broadly in line with the current OECD average. The target has been retained despite the abolition of the Industrial Strategy. At present, the UK spends less on R&D than the United States, Germany or France (Figure 6).

121 Oral evidence taken on 28 March 2022, HC (2021–22) 1226, [Q105](#) and [Q113](#)

122 Oral evidence taken on 16 May 2022, HC (2022–23) 143, [Q530](#)

123 [Q124](#) and Make UK ([JGP0010](#))

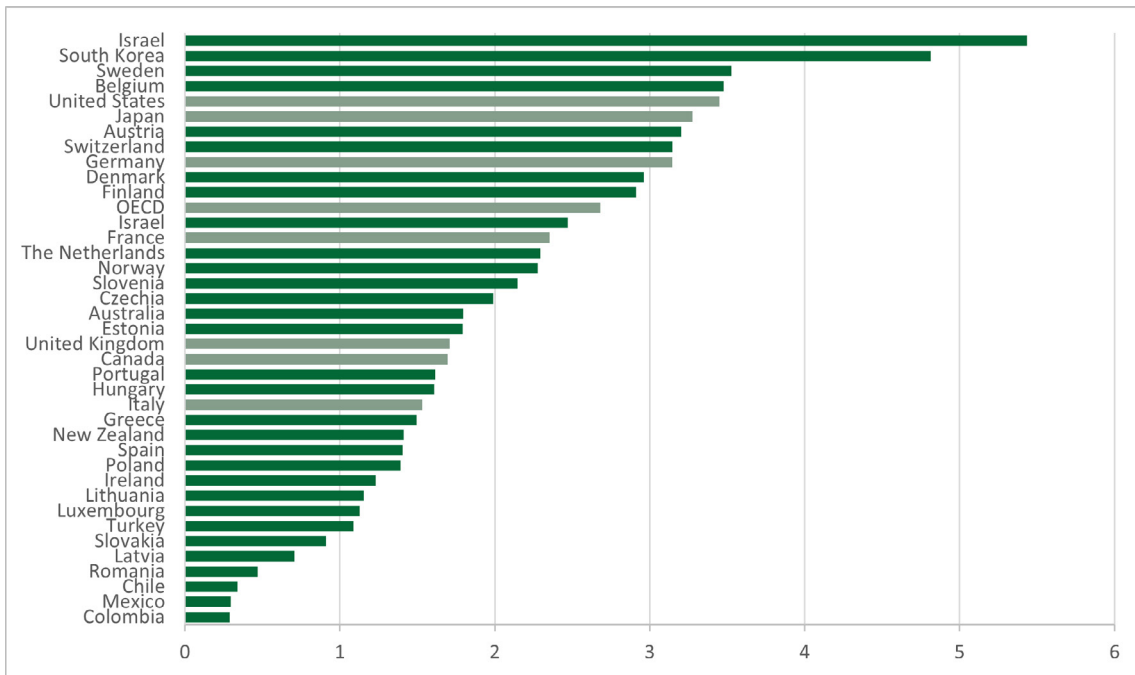
124 Rt Hon Rishi Sunak MP, ‘[Chancellor Rishi Sunak’s Mais Lecture 2022](#)’, 24 February 2022

125 HM Treasury, [Spring Statement Tax Plan](#), 23 March 2022

126 HM Treasury, [Potential Reforms to UK’s Capital Allowance Regime – Inviting views](#), 9 May 2022

127 Oral evidence taken on 28 March 2022, HC (2021–22) 1226, [Qq266–267](#)

**Figure 6: Research & redevelopment spending as a % of GDP among OECD members, G7 members and OECD total highlighted, 2019 (Source: OECD)<sup>128</sup>**



102. Witnesses generally believed that the R&D target was an important aspect of growth policy and that in some cases it should be expanded. George Dibb, the Head of the Centre for Economic Justice at the Institute for Public Policy Research (IPPR), described progress towards the target as “quite disappointing.” He said that the increase in R&D would be important, as it could increase spending on bringing technologies to market. However, Sir Geoffrey Owen, Head of Industrial Policy at Policy Exchange, doubted that public money could be well spent on close-to-market technologies.<sup>129</sup>

103. At the 2020 Budget the Chancellor set out a target to raise public expenditure on R&D to £22 billion by 2024–25. However, at the Autumn 2021 Budget, he pushed this target back to 2026–27, citing competing demands for public investment.<sup>130</sup> Earlier, Rain Newton-Smith had told us that the target should be brought *forward*, as other countries are conducting R&D in key areas such as low-carbon technologies and could build a head-start over the UK.<sup>131</sup>

104. In our Autumn 2021 Budget report, we concluded that:

It is disappointing that the Government has pushed back its target [for spending £22 billion on R&D from 2024–25 to 2026–27] [...] While the target for R&D spending remains historically high, there is a risk that at future fiscal events—as was the case with this Budget—the Chancellor

<sup>128</sup> OECD (2022), Main Science and Technology Indicators, Volume 2021 Issue 2, OECD Publishing, Paris, <https://doi.org/10.1787/a4cf3cb8-en>.

<sup>129</sup> [Q166](#), [Q189](#), and [Q185](#)

<sup>130</sup> Oral evidence taken on 1 November 2021, HC (2021–22) 825, [Qq105–107](#)

<sup>131</sup> [Q92](#)

will again opt to make savings by delaying [it] [...] R&D spending is important and the Government should pursue this target with considerable determination.<sup>132</sup>

**105. The target to spend 2.4 per cent of GDP on research and development (R&D) is an important aspect of growth policy. We re-iterate our disappointment over the pushing-back of the target to spend £22 billion of public money on R&D and continue to warn against any further slippage.**

### *Growth capital*

106. Witnesses were concerned about UK firms' access to growth, venture and patient capital, especially for SMEs. Bart van Ark told us:

One of the reasons for the slow growth of small and medium-sized enterprises in the UK is a lack of access or limited access to other sources of finance like angel investors and venture capital for rapidly growing firms.

Some research [...] finds that angel investors are quite often too locally orientated and do not have the ambition to grow. Therefore, even if entrepreneurs have growth plans, their investors will say, "We are not sure whether that is really a great opportunity". [...] Quite a few of those angel investors may not actually be looking at the long-term results but the short-term results. That is a big difference, for example, with Germany, where the Mittelstand firms do have investors behind them that look at a longer timeframe.<sup>133</sup>

107. Irene Graham, the CEO of the ScaleUp Institute, described access to growth capital and angel or venture capital follow-on funding as "the key issue for our scale-ups," and she suggested that this was more of a problem the further a firm was from London and the South East. She also praised the Future Fund Breakthrough, "a £375m UK-wide scheme which will encourage private investors to co-invest with government in high-growth, innovative firms,"<sup>134</sup> as an "opportunit[y] for the future."<sup>135</sup>

108. In written evidence, the Octopus Group and the Venture Capital Trust Association submitted proposals to boost the funds in venture capital.<sup>136</sup>

109. Growth, venture and patient capital are important issues for growth policy, and on 28 April 2022 we launched an inquiry into the Venture Capital Market, which will examine these issues in detail.<sup>137</sup>

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132 [Tenth Report - Autumn Budget and Spending Review 2021](#)

133 [Q39](#)

134 British Business Bank, 'Future fund: Breakthrough,' <https://www.british-business-bank.co.uk/ourpartners/future-fund-breakthrough/>, accessed 4 July 2022

135 [Q244](#) and [Q232](#)

136 Octopus Group ([JGP0013](#)) and Venture Capital Trust Association ([JGP0023](#))

137 ['Venture capital market inquiry launched'](#), 28 April 2022

## 4 Jobs after Coronavirus

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### The state of unemployment and employment

110. At the onset of the pandemic and lockdown, there was concern that job destruction could be widespread and that the pandemic would leave a legacy of mass unemployment.<sup>138</sup> These concerns informed the original terms of reference for the inquiry, and the launch of the ‘Plan for Jobs’ announced by the Chancellor in July 2020. This included a new £2.1 billion Kickstart scheme “to fund the direct creation of high-quality jobs for young people at the highest risk of long-term unemployment”, and £1.6 billion for “boosting worksearch, skills and apprenticeships”, including funding to double the number of work coaches in Jobcentre Plus.<sup>139</sup> At the Spending Review in November 2020, the latter initiative was allocated a further £1.4 billion, while the Chancellor announced a £2.9 billion Restart scheme to offer enhanced job support to Universal Credit claimants who have been out of work for 12 to 18 months.<sup>140</sup>

111. However, in the event, the rise in unemployment has been relatively muted; returnees from the furlough scheme seem to have been reabsorbed into the workforce; and the unemployment rate briefly fell *below* its pre-pandemic low to a new near-fifty-year low (although it has since edged up slightly). Attention has turned instead to labour shortages: the number of vacancies per unemployed person has fallen to 1.0 for the first time since the data were first collected in 2001.<sup>141</sup>

112. A labour market weak spot has emerged instead, in the form of a smaller-than-expected workforce. The employment rate (the proportion of working-age people in work or looking for work) has not returned to its pre-pandemic peak, with increased numbers not looking for work due to long-term sickness and not being interested in looking for a job. In addition, the working-age population has shrunk since the pandemic. Growth in the non-UK-born workforce has slowed while the UK-born workforce fell over 3 per cent between Q4 2019 and Q1 2022.<sup>142</sup> Overall, around 900,000 more people would be in work today had the 2000 to 2020 trajectory continued.

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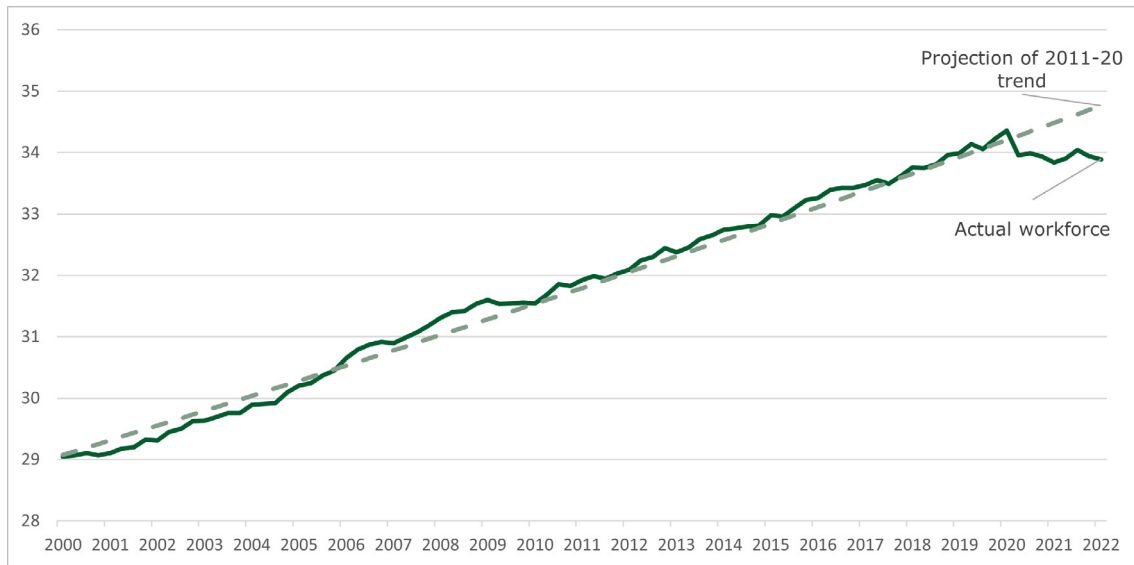
138 For example: BBC Radio 4, ‘[The Briefing Room: Can Britain avoid mass unemployment?](#)’, 25 June 2020

139 HM Treasury, ‘[Plan for Jobs](#),’ CP 261, July 2020

140 HM Treasury, ‘[Spending Review 2020](#),’ CP 330, November 2020

141 The unemployment rate fell to 3.7 per cent over January–March 2022, the lowest since October to December 1974, and ticked up to 3.8 per cent over February–April 2022. Office for National Statistics, ‘[Labour market overview, UK: June 2022](#),’ 19 July 2022

142 As above

**Figure 7: Numbers in employment or looking for employment, millions (Source: ONS)<sup>143</sup>**

113. Meanwhile, unemployment may worsen going forward: the Bank of England is forecasting that unemployment will rise back to above 5 per cent as the economy slows, due to global price rises.<sup>144</sup> Long-term unemployment (the number of people who have been out of work and looking for work for at least 12 months) remains higher than it was prior to the pandemic.<sup>145</sup> The October 2021 Spending Review extended elements of the Plan for Jobs, including an additional £2.7 billion to be spent on work coaches over three years.<sup>146</sup>

## Furlough

114. Witnesses credited the furlough scheme and the Self Employment Income Support Scheme with avoiding the mass unemployment that had been feared at the height of the pandemic.<sup>147</sup> Rain Newton-Smith, Chief Economist at the CBI and Paul Nowak, Deputy Director General at the TUC praised the schemes and the co-operation that had taken place between their organisations and the Government in the scheme's design.<sup>148</sup>

115. We asked witnesses whether furlough could serve as a model for labour market interventions in future downturns, or whether it should be viewed as a one-off response to the unique circumstances of the pandemic. There were mixed views. Mr Nowak was enthusiastic:

In the medium to long term, we absolutely believe there is an argument for a son or daughter of furlough. [...] Twenty-three OECD countries currently have some sort of short-time working subsidy scheme and that is really useful in terms of supporting employers and employees through periods of industrial transition.

143 As above and staff calculations.

144 Bank of England, '[Monetary Policy Report—May 2022](#),' 5 May 2022

145 Office for National Statistics, '[Labour market overview, UK: June 2022](#),' 19 July 2022

146 HM Treasury, '[Autumn Budget and Spending Review 2021—A stronger economy for the British people](#),' 27 October 2021

147 'Furlough scheme' refers to the Coronavirus Job Retention Scheme

148 [Q64](#) and [Q69](#)

[...]

People who lose their jobs through no fault of their own, because of industrial change, find themselves out of work for two years, three years, five years and more. The idea of a short-time scheme was that it would support employers and employees, not for indefinite periods of time but in a very targeted manner to support some of those big industrial transitions. [...]<sup>149</sup>

116. Others were opposed, however. Kitty Ussher, Chief Economist at the Institute of Directors, thought that “there could be quite difficult problems if firms started believing they got a furlough scheme every time there was a downturn.” Irene Graham, the CEO at the ScaleUp Institute, said that it “needs to be recognised as an emergency measure.”<sup>150</sup>

### The post-pandemic workforce

117. Business groups expressed concern at the decline in the workforce that has persisted during the recovery from the pandemic. Ms Newton-Smith expressed “concern” about trends in self-employment, while Stephen Phipson, the CEO of MakeUK, noted that “we don’t yet understand” why people in the 50-plus age group were not returning to work.<sup>151</sup>

118. Business representatives were concerned about the impact of labour shortages. Ms Ussher said:

Half our firms say it is having a very negative effect on their organisation, of which professionals, associate professionals, skills, trades are very much up there. [...] I would certainly say that it is very widespread and that seems to be showing up in both the ONS data and the real-time data from Adzuna, which is showing that it is across the board as well [...] We know that both staff and physical supply chain shortages are leading to problems fulfilling orders.<sup>152</sup>

119. Since we took evidence from these witnesses, unemployment has continued to fall, but there has been no change in the numbers not working due to long-term sickness. The tight labour market is identified as an upward risk to inflation in the Bank of England’s May 2022 Monetary Policy Report. Andrew Bailey told us:

The scale and persistence of the fall [in the workforce] has been very unusual. If you go back to the period after the global financial crisis, there was a much smaller fall in the labour force, but it recovered much more quickly after that. The notable difference this time [...] is that we have got this quite large long-term sickness element in there.

I have to be honest: we don’t know much, really, about what is behind that. We have discussed it with health experts. We have asked: is it long covid?

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149 [Q70](#) and [Q80](#)

150 [Qq276–277](#)

151 [Q101](#) and [Q262](#)

152 [Q252](#) and [Q294](#)

Is it, as some health economists have suggested to me, people with other pre-existing conditions who feel insecure about going to work in the covid era? It is possible.<sup>153</sup>

120. The Kickstart scheme was praised in evidence to us by the CBI, TUC and ScaleUp Institute representatives, although in March 2022 it was closed.<sup>154</sup>

**121. The Treasury has allocated significant and welcome resources to initiatives to help people who are seeking work gain employment. However, a more urgent problem now seems to be becoming clear in the sharp fall in the number of people looking for work, compared to pre-pandemic trends. This is harming economic activity and could exacerbate inflation. The Treasury needs to consider allocating or reallocating resources to address the fall in the number of people looking for work since the start of the pandemic. In part, that may mean additional resourcing for ‘long covid’ treatment, to enable those suffering from long-term sickness to re-enter the workforce in greater numbers.**

### Shortages, skills, productivity and a high-wage economy

122. In his speech to the Conservative Party conference in October 2021, the Prime Minister, in reference to labour shortages, said that: “the answer to the present stresses and strains [...] is not to reach for that same old lever of uncontrolled immigration to keep wages low; the answer is [...] to allow people of talent to come to this country but not to use immigration as an excuse for failure to invest in people, in skills, and in the equipment, the facilities, [and] the machinery they need to do their jobs; [and instead] this country is going now towards a high wage, high skill, high productivity [...] economy.”<sup>155</sup>

123. When we asked George Dibb, the Head of the Centre for Economic Justice at the IPPR, whether labour scarcity and a higher cost of labour could drive up investment in capital and lead to further high wages, he was blunt: “I am not aware of that model working in the past or elsewhere.”<sup>156</sup> But others thought there could be a limited link. Bart van Ark, Professor of Productivity Studies at the University of Manchester & Managing Director of The Productivity Institute, told us:

When there are shortages of labour, wages will go up [...] and it will give companies an incentive to automate or to advance digital transformation. The problem, however, is that in the sectors where we see bigger shortages—again, hospitality, services, accommodation and some transportation—there are limited opportunities to drive digital transformation and to substitute low-wage labour for automation. In a restaurant, you cannot replace the waiter with a robot [without changing] the experience. [A further problem is that] the companies that have not made that investment may find it at this point perhaps even harder, because they will now have to do that automation at a time when they cannot find the skilled labour to implement the automation.<sup>157</sup>

153 Oral evidence taken on 16 May 2022, HC (2022–23) 143, [Q423](#)

154 [Q101](#), [Q257](#), [Q263](#), and [Qq278–279](#)

155 Rt Hon Boris Johnson MP, ‘[We’re getting on with the job](#),’ Speech to the Conservative Party Conference, 6 October 2021

156 [Q218](#)

157 [Q8](#)

124. In the specific case of immigration, Alan Manning, Professor of Economics at the London School of Economics and a former Chair of the Migration Advisory Committee, thought that more restrictions on immigration could increase aggregate productivity due to a shift in sector composition, but only by a small amount:

On the immigration side of it, I actually think it will slightly raise our productivity because the immigration we have will be shifted towards higher-productivity-type jobs, but not enough to offset the negative hit from the increased trade frictions.

[...]

People talk about automation [...] whereas often what happens is that, in any sector, you have high and low-productivity firms [and] when you, say, end free movement [...] the lower-productivity firms within the sector find it harder to offer attractive jobs; they begin to struggle a bit more. You then just really get a batting average effect within sectors that raises productivity. [...] It is a small effect. I really do not want to give the impression that this is a very large effect, but it is in that direction.

[...]

If we take the impact of European migration on wages in the UK, because we had the minimum wage, [...] we did not see much downward pressure on wages in that part of the UK labour market, but what we did see is that some jobs that would have normally paid above the minimum wage [...] were able to pay close to the minimum wage. [...] This is food-processing, hospitality and agriculture. In those sectors, it probably was the case that EU immigration after 2004 had a small downward effect on wages.<sup>158</sup>

125. In any case, Professor Manning did not think immigration was a solution to the prevailing labour shortage:

The evidence is accumulating that we are seeing a more generalised shortage of labour. [...] It is important to realise that you cannot use immigration as a way to resolve generalised labour shortages in an economy, just as you cannot use immigration to reduce unemployment in a recession. [...] The problem is that you get an immigrant who fills a vacancy, they start earning money and then start spending money. That then creates demand for labour elsewhere in the economy. All the evidence is that, just as you raise supply, you basically one-for-one raise demand as well.

He continued by saying that immigration could help solve particular shortages, but may not always be appropriate:

You can [ease] localised shortages [through immigration]. There, you have to think a bit about what the cause of the shortage is and how serious the particular shortage is. [...] The worry about using immigration as a short-

term gap while we train people up is that too often it takes off the reason for the pressure and it does not happen.[...] I do not think one should go, “Shortage: let us press the immigration solution”.<sup>159</sup>

126. Representing the CBI, Rain Newton-Smith told us that some migration was needed immediately to plug particular skills gaps:

We do not think some of the challenges we are facing around skills shortages and labour shortages are going to be short-lived. Some of them represent longstanding challenges. The idea that we can just stand aside and everything will just resolve itself is a false assumption. [...] [The Government] need to look at the shortage occupation list. [...] We should be using those more flexibly to address some of the skills shortages we know we have[...]<sup>160</sup>

127. Representing the TUC, Paul Nowak thought that co-operation between “employers, unions and companies in the supply chains” was needed to resolve localised skills shortages. More broadly, he said that improved workplace conditions could help improve productivity:

Where Government have a role to play as well [is] in terms of driving up the floor of employment standards. One thing the Government did five years ago, I think, was commission Matthew Taylor to review modern employment practices. Five years on, we are still waiting for the Employment Bill that would take action on things like cancellation of shifts at short notice on zero-hours contracts.

[...]

Government need to have a strategy for driving up the standard of employment. That in turn also helps drive up productivity. The Government recognise that. What we have not seen is action to take that forward.<sup>161</sup>

In written evidence, the Joseph Rowntree Foundation made a similar point about a link between working conditions and productivity.<sup>162</sup>

128. Witnesses put most stress on the importance of improving skills as part of a drive towards a high-wage economy. Professor Manning identified this as the key thing the UK needed to fix in order to improve productivity:

In terms of what we should do, for a country like the UK skills are critical. Human capital is the critical thing. Our wealth is not based around natural resources or anything like that. It is human resources. We have to make sure we have investment to give those people the capital to work with.<sup>163</sup>

[...]

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159 [Q74](#)

160 [Q66](#)

161 [Q78](#) and [Q113](#)

162 Joseph Rowntree Foundation ([JGP0031](#))

163 [Q95](#)

The UK has well-known, very longstanding weaknesses in its skills system. There is a long tail of people with very poor basic skills. It has been rather poor in providing vocational education. The Government are making the right noises in this kind of area, but many Governments have done that before without it turning into much. I am not sure that I would feel that we have gone from the words stage yet [...] to the actions.<sup>164</sup>

129. Several witnesses felt that lifelong learning and retraining was a key priority. Ms Newton-Smith said:

Over the medium term, we need to see that focus on long-term adult retraining, particularly a proper scheme for people who have been unemployed for a period of time, so that we have a proper adult retraining scheme [...]. We really need to focus the training on those who have not had any access to training and bring them all up to a certain level, so it is lifelong learning, because we are all living and working longer.<sup>165</sup>

130. We received a large number of submissions from business representatives and other organisations calling for reform of the Apprentice Levy in England.<sup>166</sup> For example, Stephen Phipson, representing MakeUK, called for an extension to the period over which funds can be spent and for firms to be allowed to use some funds for capital investments.<sup>167</sup> At the 2022 Spring Statement, the Chancellor said that over the summer “we will consider whether the current tax system, including the [...] Apprenticeship Levy, [is incentivising] the right kinds of training”;<sup>168</sup> but it has since been reported that the Treasury has said “there will be no formal review.”<sup>169</sup>

**131. The Prime Minister has suggested that labour shortages should not be resolved through immigration, as part of a drive for a high-wage economy. At most, some witnesses to our inquiry thought this could have a small effect on wages. Moreover, labour and skills scarcity could hold back growth and stoke inflation. The Government should be looking to prioritise addressing the gaps in the UK’s skills and taking steps to ease labour shortages.**

**132. We have received a large number of proposals for reform of the Apprentice Levy in England. A full review is needed, and the Treasury should confirm that it is going ahead with such a review.**

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164 [Q68](#)

165 [Q83](#) and [Q114](#)

166 Women’s Budget Group ([JGP0007](#)), Make UK ([JGP0010](#)), Institute of Directors ([JGP0011](#)), The Prince’s Trust ([JGP0019](#)), British Retail Consortium ([JGP0032](#)), Co-op Group ([JGP0033](#)), and ADS Group ([JGP0037](#)). The Apprentice Levy is collected by the UK Government but rules around use of the Levy funds are devolved.

167 [Q228](#)

168 HC Deb, 23 March 2022, [col 337](#) [Commons Chamber]

169 FE Week, ‘[Treasury plays down apprenticeship levy review](#),’ 25 March 2022

## 5 Macroeconomic policy

133. A successful macroeconomic policy that smooths the business cycle and enables the economy to grow while keeping inflation low and stable is a crucial element of an economic climate conducive to a healthy labour market and high productivity. But the time during and since the 2007–08 financial crisis has been challenging for the UK’s monetary and fiscal policy.

134. For much of this period, inflation seemed a largely tamed force in the UK (and indeed in other advanced economies), even with interest rates at record low levels and a quantitative easing (QE) programme to the value of hundreds of billions of pounds. The greater challenges seemed to be around ‘lowflation’, stimulating growth and productivity and steering the economy through the impacts of the financial crisis, Brexit and the pandemic.

135. As the economy began to recover from the pandemic, inflation rapidly re-emerged and has now reached its fastest rate in three decades. Initially, the outbreak of inflation seemed driven mainly by global goods and energy price rises amid disruption to supply chains from repeated locking and unlocking of economies, strong recoveries and persistent shifts in demand from services to goods. Latterly, the Russian invasion of Ukraine has greatly exacerbated disruption to global energy and commodity supplies. Meanwhile, there are growing signs of domestic inflationary pressures, with price rises broadening across goods and services and a tight labour market (see previous chapter).<sup>170</sup> The Bank of England has joined other central banks in entering a monetary policy tightening cycle, which in the UK has brought Bank Rate<sup>171</sup> to its highest rate since the financial crisis.

136. It remains to be seen how high inflation will rise, how long-lasting its return will prove to be, and whether interest rates will shift to a higher plane or return to post-financial crisis norms. In the meantime, we have taken evidence both on the ongoing outbreak of inflation and on issues around stimulating growth and the impacts of low interest rates. The uncertainty around the ongoing outbreak of inflation makes it difficult to draw any firm lessons for the UK’s macro-economic framework at this time.

137. These issues have significance for the overall economic climate and have wider relevance than purely to the matters covered in earlier chapters of this Report. In this chapter we have therefore taken the approach of setting out the evidence on each issue in turn, without drawing conclusions in each case. We believe that there is merit in drawing the House’s attention to the range of views which were expressed to us and which will inform us in our future work.

138. We held two oral evidence sessions focusing primarily on issues around monetary and fiscal policy. Our first, with independent economists, took place a few weeks before the Russian invasion of Ukraine, while our second, with former members of the Bank’s Monetary Policy Committee (MPC), took place afterwards.

170 Office for National Statistics, ‘[Consumer price inflation, UK: May 2022](#),’ 22 June 2022

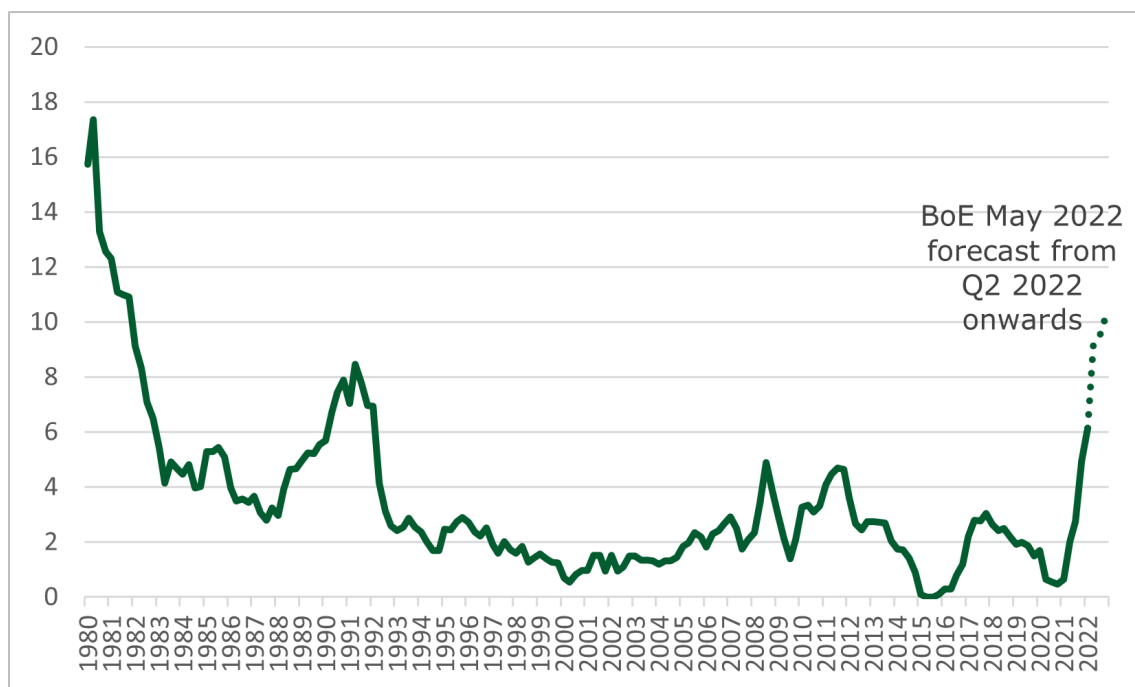
171 Bank Rate is currently the Bank’s primary tool of monetary policy and the current incarnation of the Bank of England base rate. It is the interest rate paid on deposits held by commercial banks at the Bank of England, and it influences the price of credit and creation of deposits throughout the economy.

## The outbreak of inflation

139. UK Consumer Price Index (CPI) inflation reached 9.1 per cent in May 2022, the highest rate in four decades, and it is forecast by the Bank to reach 11 per cent in the last quarter of 2022.<sup>172</sup> The housing and household services and transport categories, which are highly exposed to energy prices, account for around half of overall inflation, but ‘core’ inflation excluding energy and food prices reached 6.2 per cent in April before edging back to 5.9 per cent in May.<sup>173</sup> The UK’s rate of inflation is the highest in the G7, having overtaken the United States in April 2022.<sup>174</sup>

**Figure 8: Consumer Price Index inflation since 1980, per cent year on year (Source: ONS)<sup>175</sup>**

140. Former members of the Monetary Policy Committee told us that while global



commodity prices lay behind much of the spike of inflation, and that these would eventually stop contributing, there are domestic risks to inflation in the UK. Kristin Forbes, the Jerome and Dorothy Lemelson Professor of Management and Global Economics at the MIT Sloan School of Management, and an external member of Monetary Policy Committee from 2014 to 2017, told us:

Much of the reason why inflation is so high now is because of temporary factors: high energy prices, high traded goods prices, shifts in spending patterns related to Covid. Many of those will fade [...] but it does not mean inflation will get to 2 per cent [the Bank’s target].<sup>176</sup>

172 Bank of England, ‘[Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 15 June 2022](#),’ 16 June 2022

173 Office for National Statistics, ‘[Consumer price inflation, UK: May 2022](#),’ 22 June 2022

174 OECD (2022), Main Economic Indicators, Volume 2022 Issue 6, OECD Publishing, Paris, <https://doi.org/10.1787/aa3e384d-en>.

175 Office for National Statistics, ‘[Consumer price inflation, UK: May 2022](#),’ 22 June 2022 and Bank of England, ‘[Monetary Policy Report—May 2022](#),’ 5 May 2022

176 [Q408](#)

She listed six factors behind inflation that are all present in the UK and therefore make it “a particularly difficult challenge for the UK”: energy prices (although these have an impact everywhere); other global goods price rises (which have persisted more than expected); falls in the exchange rate; a recent history of higher and more volatile inflation; rising inflation expectations; and a tight labour market.<sup>177</sup>

141. Adam Posen, the President of the Peterson Institute for International Economics, and an external member of Monetary Policy Committee from 2009 to 2012, thought that Brexit was playing a role in inflation in the UK:

The UK did not have the huge spike in unemployment and drop in labour force participation that the US did [...] It engaged, rightly, in large-scale fiscal stimulus over the course of 2020, but it did not, like the US, put on this extra, very large burst of stimulus in a short time period at the start of 2021 [...] For those two reasons, you would think that inflation should be looking like it looks in the Euro Area. [...] Instead [...] you have a labour market that looks a lot more like the US, with wage inflation. You also have more food inflation. [...] That tells you that this is something idiosyncratic to the UK about how the same inflation shock of Covid reopening, of energy prices out of Ukraine is being transmitted [...] I think that a large part of this is Brexit. You do not have the flexible labour supply of migrants coming in from Europe who can add to the labour supply but also go in and out of work as needed.<sup>178</sup>

142. Jagjit Chadha, the Director of the National Institute for Economic and Social Research (NIESR), was concerned about what he called “second-round effects,” whereby price and wage setters decide to factor that higher level of inflation into their plans for the next couple of years.<sup>179</sup>

### *Summary of views on the factors underlying the outbreak of inflation*

143. Global energy prices and supply chain disruptions arising from the pandemic are the main factors behind the outbreak of inflation. But second-round effects, in the form of inflation expectations among the public, and domestic factors in the UK, such as a tight labour market, Brexit, and weakness in sterling, could mean that inflation will not go automatically back to the 2 per cent target once energy prices stabilise or fall back.

## **The monetary policy response to inflation**

144. From December 2021 to June 2022 the MPC voted to raise Bank Rate at five consecutive meetings, by up to 0.25 percentage points—something which is unprecedented since monetary policy independence in 1997. At its June meeting, it discussed further rises but did not commit to them, saying that “the scale, pace and timing of any further increases in Bank Rate would reflect the Committee’s assessment of the economic outlook and inflationary pressures.”<sup>180</sup>

177 [Q413](#)

178 [Q409](#)

179 [Q324](#)

180 Bank of England, ‘[Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 15 June 2022](#),’ 16 June 2022

145. Although inflation rose over the second half of 2021, the MPC did not raise Bank Rate until December. Until then, a majority of members had argued that inflationary pressures would ultimately prove transitory, that inflation expectations were well anchored around the 2 per cent inflation target, and that risks of raising interest rates too soon and disrupting the recovery outweighed the risks of raising too late and pushing up inflation, since it would be easier to reverse course in the latter case.<sup>181</sup>

146. We took views on how monetary policy ought to respond to the ongoing outbreak of inflation. Charles Goodhart, an Emeritus Professor of Banking and Finance at the London School of Economics, and a member of the MPC and the Bank's Chief Economist from 1997 to 2000, described the present as "the most challenging set of circumstances that the MPC and the exercise of inflation targeting have ever had to address." He said that given the uncertainty over the war in Ukraine, "the present [approach] of slow and steady, of 25 basis points every meeting, is probably just about as good as you can get in these incredibly difficult circumstances."<sup>182</sup> Speaking in February 2022, Professor Chadha also called for a "gradual increase in interest rates to signal the end of extraordinarily loose monetary policy" and said that the MPC should try and avoid a recession.<sup>183</sup>

147. Some called for a stronger response. Professor Forbes said that she "would support more aggressive tightening earlier to show that the central bank is going to bring inflation down" and that "if the economy slows more sharply than expected, [the Bank] could lower rates in the future as needed." She said that more aggressive action down could help avoid a recession by dampening inflation expectations.<sup>184</sup> Dr Posen called for still stronger moves:

I want a higher terminal rate and a faster move to that point than is currently priced into markets [2½ per cent when Dr Posen was speaking] [...] The sad reality is that there is going to have to be an economic slowdown in the UK, beyond what is already on the cards, in order to get inflation sustainably back to target.<sup>185</sup>

148. Some witnesses thought that the MPC needed to do more to prepare people for higher interest rates. Roger Bootle, the Chairman of Capital Economics, said that "the Bank has not communicated clearly enough how tough it may need to be."<sup>186</sup> Professor Forbes told us that "it is important to be very public about the risk that [interest rates] are going up and they could go up quite a bit [...] anyone who is buying a home or might have a variable interest rate on a credit card needs to be aware that rates could go up to the 3% type level [...] I worry that [in Bank forecasts] there does not seem to be a sense that interest rates will go up much more."<sup>187</sup>

149. Several witnesses thought the Bank had been too slow to act on inflation. Mr Bootle said "it is a very difficult situation [but] they look to me as though they are way behind the

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181 For example, "As had been the case for some time, the ability to loosen monetary policy in response to any significant negative demand shock in the future was to some degree constrained by the effective lower bound of Bank Rate, whereas interest rates could be increased by as much as was needed to bring inflation back to target sustainably should any second-round effects materialise." Bank of England, '[Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 2 November 2021](#),' 4 November 2021

182 [Q405](#)

183 [Q324](#)

184 [Q407](#)

185 [Q409](#)

186 [Q328](#)

187 [Q432](#)

curve” and that it was “slow to recognise the dangers” and insufficiently “aware of what is going on in what I might term the real world.”<sup>188</sup> Jim O’Neill, Lord O’Neill of Gatley, said that there had been too much stimulus because “multiple years of underachieving the target has created this psyche of constant underachievement [...] it seems to me quite clear that not just the Bank of England but a number of other central banks should not have behaved in the way they have in the past two years.”<sup>189</sup> Professor Forbes made a similar point about central banks “fighting the last war”:

The lesson after the global financial crisis was that probably central banks and Governments could have provided more stimulus. The recovery took a number of years. The labour market took a long time to recover and inflation was very low in most countries. There was a sense that it is better to wait to remove stimulus, wait to tighten interest rates until the recovery is well ingrained and unemployment has fallen quite a bit [...] Covid was different. The recession was much faster. The recovery was much faster. Central banks should not have waited so long [to tighten] as they did after the global financial crisis.<sup>190</sup>

150. Others downplayed the issue. Professor Chadha said “we might argue a little about whether it should have gone a few months earlier or a few months later. [But] the path that we are on [now] looks more likely than not to yield price stability, which I think is fine.”<sup>191</sup> Ann Pettifor, the Director of Prime Economics, did not “think that we should be critical of the Bank” since inflation is a global phenomenon that interest rates could do little about.<sup>192</sup>

### *Summary of views on the monetary policy response to inflation*

151. There were mixed views on whether the Monetary Policy Committee should have raised interest rates sooner. Some former Monetary Policy Committee members now advocate steeper rises than the current Committee appears to have in mind, and there was concern that the Bank may need to do more to prepare people for the possibility that interest rates rise by more than currently indicated by its forecasts and guidance.

### **Are inflation and higher interest rates back to stay?**

152. The Bank of England’s base rate (Bank Rate and its equivalents in the past) has trended down over the past few decades, having regularly reached double digits over the 1970s and 1980s, fluctuating near 5 per cent over the 1990s and 2000s, and settling at near-zero since the financial crisis. At the time that Bank Rate was cut to a then-record low of 0.5 per cent in 2009, it was declared to be the lowest possible without causing counter-productive disruption in financial markets. This ‘zero lower bound’ was later lowered to 0.15 per cent, a rate reached at the onset of the pandemic. Since August 2021, the Bank has been operationally ready to impose a negative Bank Rate and has not specified a minimum rate.<sup>193</sup>

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188 [Q327](#) and [Q321](#)

189 [Q324](#)

190 [Q433](#)

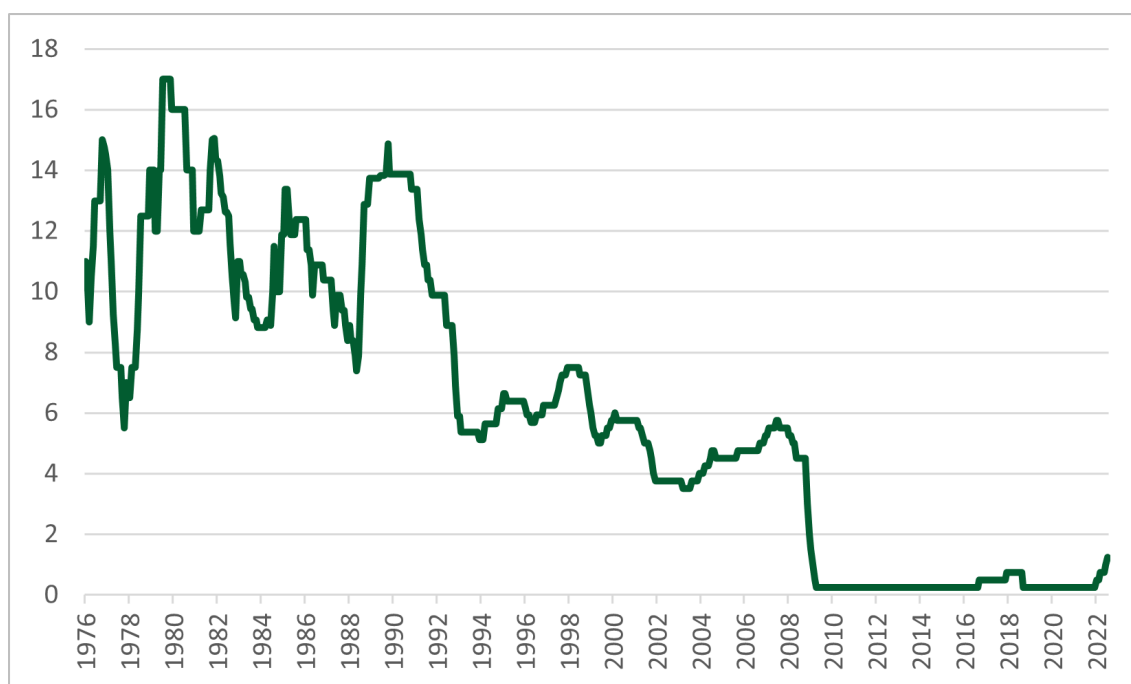
191 [Q336](#)

192 [Q328](#)

193 Bank of England, ‘[Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 4 August 2021](#),’ 5 August 2021

153. At the time that this Report was agreed, Bank Rate had reached 1.25 per cent and is forecast by markets to rise to over 3 per cent in 2023—by far the highest rate since the financial crisis but still below the rate that was typical before then.<sup>194</sup> Analysis published by the Bank in August 2018 argued that structural economic forces including slower population growth, increased life expectancy (and the resulting reduction in the rate of savings), and slower productivity growth had pushed down interest rates.<sup>195</sup>

**Figure 9: Bank Rate since 1976 (Source: Bank of England)<sup>196</sup>**



154. After Bank Rate hit 0.5 per cent in 2009, the Monetary Policy Committee (MPC) and Treasury developed alternative tools of monetary stimulus. Under ‘quantitative easing’ (QE), the Bank’s Asset Purchasing Facility has purchased £875 billion of government-issued gilts using newly-created money. £400 billion of those purchases took place from March 2020. In an additional QE programme launched in 2016, it also purchased £20 billion of private corporate bonds (sometimes called ‘credit easing’). QE is intended to stimulate economic activity by lowering the interest rates on longer-dated bonds and riskier investments, easing liquidity in financial markets and signalling policymakers’ commitment to stimulate inflation and growth.<sup>197</sup> At its February 2022 meeting, the MPC commenced the unwinding of QE, in line with guidance issued in 2021 that it would do so once Bank Rate reached 0.5 per cent. Purchases of Government bonds will be unwound passively at first, by ceasing to reinvest maturing assets, while the stock of corporate bonds will additionally be unwound through active sales.<sup>198</sup>

194 Bank of England, ‘[Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 15 June 2022](#),’ 16 June 2022

195 Bank of England, ‘[Inflation Report August 2018](#),’ 2 August 2018, ‘Box 6: The equilibrium interest rate’

196 Bank of England database, ‘[Official Bank Rate history](#),’ accessed 5 July 2022

197 Bank of England, ‘[QE at the Bank of England: a perspective on its functioning and effectiveness](#),’ ‘Quarterly Bulletin—2022 Q1,’ 18 May 2022

198 Bank of England, ‘[Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 2 February 2022](#),’ 3 February 2022

155. Whether or not interest rates remain close to zero will help determine whether monetary policy will have to resort to unconventional tools such as QE or negative interest rates again in future. That may depend in part on whether the economy returns to the ‘lowflation’ world that prevailed between the financial crisis and pandemic, or whether inflationary pressures are here to stay. Charles Goodhart has been a prominent proponent of the latter view, based on his analysis of global demography:

One of the key features of recent decades is that China has actually been dis-inflating the world. That is going to end because the Chinese working age population, having been rising very rapidly, because of the one-child policy is now going to tank very sharply. [...] [It] meant that there was a valid, credible threat that employers could use against their workers in manufacturing and other sectors, where they could move their production offshore [...] and that meant that it was terribly easy to keep wages down, because, effectively, labour supply was coming out of everybody’s ears.

Professor Goodhart also listed the entry of women into the workforce, immigration and offshoring as sources of labour force growth that he expects to slow in future, concluding:

All that is going to mean that labour power over the next three or four decades is going to be recovering, and recovering really quite sharply. [...] As labour bargaining power strengthens and remains high over coming decades, the level of unemployment to reach and maintain [inflation at 2 per cent] is going to be somewhat higher than it has been in the past.<sup>199</sup>

156. However, Adam Posen told us that he expects the UK to return to the pre-pandemic low inflation environment, although “it is going to be painful to get there,” citing Japan as an economy that had experienced deflation despite ageing demographics.<sup>200</sup> He described the challenges that would come with a return to low inflation and interest rates:

Because the economy has a low fundamental interest rate and we kept being in a low inflation world, which I expect us to return to, the central banks do not have much space to stimulate the economy or react before they hit zero. Then they have to do quantitative easing or negative interest rates, which are probably less effective and have more distortions.<sup>201</sup>

157. Other witnesses also saw interest rates near zero as problematic. Roger Bootle told us that it “is bound to cause massive distortions in the economy and, in the long run, to inhibit productivity growth” and that policymakers should be “trying to get monetary policy back to something like a more normal level.” Lord O’Neill of Gatley said that “there should be [...] some policy goal to get the real rate of interest back to something like the trend real rate of growth.” Ann Pettifor told us that low rates were a consequence of weak economic activity, and that it was needed to “get the economy going again” before they could be raised.<sup>202</sup> Witnesses were also in agreement that “QE needs to be

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199 [Q414](#)

200 [Qq418–419](#)

201 [Q438](#)

202 [Q344](#), [Q353](#)

unwound.”<sup>203</sup> Professor Chadha said that “our long-run objective must be to shrink the size of [quantitative easing], [from 30 per cent of GDP now] coming down in the medium term to 5 per cent or less.”<sup>204</sup>

### *Summary of views on likely future levels of interest rates and inflationary pressures*

158. Interest rates are currently on a tightening cycle, but there was disagreement in the evidence we received over whether interest rates and inflationary pressures would continue to rise or would return to the low levels of the period between the financial crisis and recession. However, there was general agreement amongst witnesses that it is desirable to have interest rates away from zero and to have quantitative easing wound down.

### **Is the inflation target still fit for purpose?**

159. The Monetary Policy Committee’s remit is set by a letter from the Chancellor. Since its establishment and the granting of operational independence in monetary policy to the Bank in 1997, the MPC has been tasked primarily with ensuring price stability in the form of an inflation target, with wider economic objectives such as employment and growth being secondary to that. The current target is 2 per cent inflation as measured by the Consumer Price Index (CPI). The target is symmetrical—if inflation rises or falls by more than one percentage point either side of the target, the Governor of the Bank is required to write to the Chancellor to explain what has happened.<sup>205</sup>

160. The remit letter states that the inflation target applies “at all times.” However, it also allows flexibility, in that it allows the MPC to ‘look through’ temporary deviations of inflation from target if returning inflation to target quickly would cause undue volatility in output (and employment). An update to the MPC’s remit in 2013 gives it an undefined extent of latitude over the speed with which it brings inflation to target “in exceptional circumstances”, but it must explain the reasons why it is doing so.

161. We asked witnesses whether the Bank’s inflation targeting framework and target remained suitable given experiences since the financial crisis. A few advocated a new target. Based on his view that low inflation and low interest rates were likely to bite again in future, Adam Posen thought that the inflation target should be higher, because it would give the Bank more room to cut interest rates in a downturn:

The inflation target should be changed [...] when there is real structural change. [...] It is unreasonable to think that the target that was set for a variety of convenient reasons [in the 1990s] is necessarily the right target. [...] There are a bunch of reasons why a higher inflation target would be right for the UK right now. If it turns out that getting inflation back down is less painful than I expect, [...] it would be more reasonable for Parliament and the Treasury to discuss with the Bank whether it should stop at 3 per

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203 [Q329](#)

204 [Q370](#)

205 Rt Hon Rishi Sunak, ‘[Remit for the Monetary Policy Committee](#),’ 3 March 2021

cent rather than 2 per cent and raise it going forward. [...] If we were in a situation where bringing down inflation proved difficult, I would be more worried about making that shift.<sup>206</sup>

162. Lord O’Neill advocated a switch to a nominal GDP target (the total amount spent on all goods and services in the economy, not adjusted for inflation). He argued that the Bank had been forced into excessive use of QE in order to meet its narrowly-defined 2 per cent CPI target, whereas a broader nominal GDP target would grant it more flexibility over how it approached inflation.<sup>207</sup>

163. However, several witnesses defended the existing target, or were wary of changing it. Charles Goodhart was concerned that:

Once you change it, it is clear that you can change it again [...] and people will stop believing that this is something you are credibly going to achieve over the longer term [...] Can you imagine what news commentators would say if the Chancellor of the Exchequer got up and said, “I want the target now to be 3 per cent rather than 2 per cent”?<sup>208</sup>

164. Kristin Forbes and Jagjit Chadha both praised the flexibility in the UK’s inflation-targeting framework and pointed out that the Bank had hit the target, on average, over the full twenty-five years of monetary independence and the period between the financial crisis and the pandemic. The former warned that “right now, when inflation is so high and so above target, is not a time to talk about raising the inflation target,” for fear of undermining inflation expectations. Professor Chadha was concerned that a higher target would see prices doubling or tripling over two decades, and on nominal GDP, he was concerned that it was poorly understood by the public and would broaden the target beyond what is within the Bank’s control—the price level—to growth in the quantities of goods and services.<sup>209</sup>

165. Some witnesses who were not in favour of changing the inflation target nonetheless thought that the existing target had been interpreted too strictly. Roger Bootle thought that an excessive focus on inflation targeting had led central banks to ignore asset bubbles.<sup>210</sup> He favoured instead “a system where it was understood that, if the pursuit of price stability—i.e. 2 per cent inflation, pure and simple—gave you asset bubbles, central banks would react.”<sup>211</sup> Professor Goodhart thought that the Bank could have avoided what he saw as excessive use of QE if it could have widened the bounds of its target and tolerated inflation at 1 per cent, saying “we have massively exaggerated the failure of having inflation below 2%. As a result, the central banks undertook unduly expansionist policies.”<sup>212</sup>

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206 [Q438](#)

207 [Q356](#)

208 [Q438](#)

209 [Q358](#) and [Q438](#)

210 An asset bubble refers to a situation where asset prices have risen above their fundamental value. See, for example, [Economics A-Z on The Economist website](#), accessed 22 June 2022.

211 [Q362](#)

212 [Q422](#)

### *Summary of views on the Bank's inflation target*

166. There were mixed views on the suitability of the existing 2 per cent inflation target set for the Bank's Monetary Policy Committee, but most witnesses felt that it was still suitable.

### **Quantitative easing and Bank independence**

167. Witnesses expressed some concerns about the links between monetary policy and fiscal policy that have been created by quantitative easing (QE). Professor Goodhart and Professor Chadha both discussed how QE had effectively reduced the maturity of the national debt by swapping long-term gilts for central bank reserves remunerated at Bank Rate, meaning that rises in Bank rate would quickly raise the Government's spending debt interest.<sup>213</sup> Professor Forbes discussed the perception that QE may have been intended, in part, to help finance fiscal borrowing:

When Covid hit, there was a large monetary stimulus from the Bank of England and a large fiscal stimulus from the Government. That made sense [but] there was some talk and concern that there was actually too much coordination. I know there has been criticism that some of the QE programme done by the Bank of England was to finance the Government deficit.

It is important to make clear that, especially now as we are switching to the next phase, the Bank of England is not there to buy Government debt. The Bank of England is there to meet its mandate, which is the inflation target. [...] Being aggressive, raising interest rates now to fight inflation and unwinding the balance sheet would go some way to making that clear.<sup>214</sup>

168. However, witnesses said they had no doubts that the Bank had acted independently. Professor Goodhart—in reference to his criticisms of the scale of QE—said that it has “been scrupulously independent and at the same time wrong.”<sup>215</sup>

### *Summary of views on quantitative easing and Bank independence*

169. Witnesses did not express concerns to us about whether the Monetary Policy Committee had acted independently of the Government during and after the pandemic, although some noted the possibility of a perception of such interference.

### **The contributions of monetary and fiscal policy to growth and inflation**

170. The overall impetus to growth and inflation given by macroeconomic policy, and the consequent environment for jobs and productivity, is determined by the combination of fiscal and monetary policy. At the Autumn 2021 Budget, the Chancellor introduced a new Charter for Budget Responsibility with three new fiscal rules:

213 [Q370](#) and [Q447](#). The Office for Budget Responsibility has set out the mechanism by which this occurs in Box 4.1 in Office for Budget Responsibility, '[Economic and Fiscal Outlook March 2021](#),' 3 March 2021

214 [Q433](#)

215 [Q437](#). Dr Posen also confirmed that he had no doubts about independence.

- to have public sector net debt (excluding the Bank of England) as a percentage of GDP falling by the third year of the rolling forecast period;
- a target to balance the current budget by the third year of the rolling forecast; and
- a target to ensure that public sector net investment does not exceed 3 per cent of GDP on average over the rolling forecast period.<sup>216</sup>

171. In our report on the Autumn Budget and Spending Review 2021, we concluded that:

The Chancellor’s fiscal rules are reasonable in the context of the pandemic and its effects. [...] By setting himself rolling targets the Chancellor has given himself the flexibility to respond to any deteriorations in the forecast at future fiscal events. However, the Chancellor should not use a rolling target as a mechanism to allow himself to present a series of future Budgets that [...] are never fiscally sustainable in the near term.<sup>217</sup>

172. Based on analysis from the Institute for Fiscal Studies, these latest rules bring the total iterations of the rules since 2010 to 14. These rules have all set public deficit and debt targets, as opposed to macroeconomic outcomes such as inflation and growth, but generally have had some built-in latitude to allow fiscal policy to support growth in the event of a macroeconomic shock. Moreover, previous fiscal rules were suspended and replaced each time the UK economy has faced a large economic shock in the last two decades: in 2007, 2016 and 2020.<sup>218</sup> The latest Charter makes the option to suspend the rules explicit: “In the event of a significant negative shock to the UK economy, the Treasury may temporarily suspend the fiscal mandate and supplementary targets and make a statement to Parliament.”<sup>219</sup>

173. While monetary policy has been almost uniformly stimulative since the financial crisis, public sector net borrowing fell or was flat every year from 2010–11 to 2018–19 inclusive, and, according to the OBR’s latest March 2022 forecast, will do so again from 2021–22 to 2026–27<sup>220</sup> (the forecast was made before the Chancellor announced in May 2022 an additional £10 billion of borrowing in 2022–23 to fund cost of living support).<sup>221</sup> The Rt Hon. George Osborne, Chancellor of the Exchequer from 2010 to 2016, referred to his approach to macroeconomic policy as “a combination of fiscal responsibility and monetary activism.”<sup>222</sup>

174. Professor Jagjit Chadha told us that this balance was tilted too far towards leaning on monetary policy to support the economy:

There is a danger that we are asking the Bank of England a little too much here in terms of demand management of the economy. Our view is that the

216 HM Treasury, ‘[Charter for Budget Responsibility: autumn 2021 update](#),’ 27 October 2021

217 [Tenth Report - Autumn Budget and Spending Review 2021](#)

218 Institute for Fiscal Studies, ‘[The IFS Green Budget October 2021](#),’ 12 October 2021. For the total number of fiscal rules since 2010, see figure 4.6. The figure includes three rules that appeared in the 2019 Conservative manifesto, rather than the three rules enacted in the Charter for Budget Responsibility in October 2021.

219 HM Treasury, ‘[Charter for Budget Responsibility: autumn 2021 update](#),’ 27 October 2021

220 Office for Budget Responsibility, ‘[Economic and fiscal outlook, March 2022](#),’ 23 March 2022

221 HM Treasury, ‘[Millions of most vulnerable households will receive £1,200 of help with cost of living](#),’ 26 May 2022

222 Rt Hon George Osborne, ‘[Chancellor speech on the economy](#),’ 9 September 2013

monetary-fiscal mix has been wrong for a very long time [...] Fiscal policy has been on a path that is too tight, for a decade, which means that, for the Bank of England to meet its inflation target [...] it has to have a more expansionary monetary policy than it would have ideally wanted.

[...]

If we are going to go through a recovery phase [from the pandemic], the question is how we manage that recovery and ensure that inflation is stabilised. That is a question for monetary policy to move as gradually as it can and contain that level of inflation, but also for fiscal policy to continue to provide the stimulus that it requires.

[...]

We have had a lot of discussion on monetary policy and arguably not enough about fiscal policy. That reflects the weight that we put on monetary policy to manage demand in the country, and we need to move away from that.<sup>223</sup>

175. Ann Pettifor, the Director of PRIME Economics, went further, calling for “a new model of both monetary and fiscal policy working together” and told us that since the financial crisis the “system of monetary dominance<sup>224</sup> [and] the provision of QE has meant that we are now suffering asset price inflation.”<sup>225</sup>

176. The former Monetary Policy Committee members from whom we took evidence were more cautious, due to their concern with the ongoing outbreak of inflation. Adam Posen said that, “over the long term, the more one can build up essentially automatic stabiliser taxes that go up and down with the business cycle more aggressively, the better it is for stabilisation of the whole economy and the less monetary policy has to do [...] [but] if you are asking me simply [about] the macroeconomic policy mix right now, [it] is broadly right.”<sup>226</sup> Professor Kristin Forbes said that she had had concerns about the reliance on monetary policy to stimulate the economy between the financial crisis and the pandemic, but that rises in interest rates and the beginning of the unwinding of QE had eased this. She also warned about the UK’s “high debt level”.<sup>227</sup>

### *Summary of views on the contribution of fiscal policy to inflation and growth*

177. Some witnesses argued that a looser fiscal policy could have helped lift interest rates off the floor over the period since the financial crisis, and that fiscal policy was too focused on borrowing and debt targets. However, for the time being, the ongoing outbreak of inflation has lifted interest rates off the floor in any case.

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223 [Q336](#), [Q354](#), and [Q369](#)

224 That is, monetary policy having primary responsibility for stabilising inflation and growth while fiscal policy follows borrowing and debt targets.

225 [Q373](#)

226 [Q452](#)

227 [Qq454–456](#)

## Public investment and taxation

178. In its latest March 2022 forecast, the OBR projected that public sector net investment (net spending on assets, such as infrastructure, buildings and research & development<sup>228</sup>) would be above 2 per cent of GDP every year from 2020–21 to 2026–27, by far the longest such run since the 1970s (when a larger number of nationalised industries were contributing to public investment). However, it is not forecast by the OBR to reach the 3 per cent of GDP cap set out in the fiscal rules, peaking at 2.7 per cent of GDP in 2023–24 and then falling back to 2.5 per cent.<sup>229</sup>

179. Several of our witnesses were sceptical about fiscal rules and thought there was more room than these allowed for fiscal policy to support the economy. In particular, they saw greater scope for public investment spending. Professor Chadha thought in particular that the cap on public investment was arbitrary:

We know that [...] fiscal rules have been changed nearly every year since [the OBR was formed in 2010], because they have not been able to be hit. What it has meant is that we have been constantly focusing on whether a particular budget balance would be hit, rather than asking the broader question of what we need for our economy [...] The budget balance does not distinguish between current expenditure or investment. It does not allow us to think hard about what level of investment we have.

[It is often asked whether] 3 per cent of [GDP] public net investment is [the] right number or not. It is not. It is a magical number. It depends upon the state of the economy, the gaps that we have and the extent to which certain regions have been left behind [...]. Public investment in the UK over the last 40 years has been 1.5 per cent on average. We have gone over 3 per cent only once in that period. We do not have a system to understand the extent to which the public sector creates net worth in the economy, so we are constantly focusing on what I have called the budgetarian flows, which do not help us think about the broader economy.<sup>230</sup>

He suggested that fiscal sustainability would be best achieved by growth alongside a “credible monetary-fiscal framework” and “there is no sense at the moment that people are unwilling to hold UK debt on the margin in their portfolios”:<sup>231</sup>

The main concern I have is over the country’s ability to become more prosperous over time. [...] If we can focus what we do on growing the size of income in the economy, the tax and debt obligations that we have will themselves become affordable.<sup>232</sup>

180. Ann Pettifor put forward a similar argument, saying that “in order to balance the books [...] the Government just needs to use public investment to ensure that incomes rise.”<sup>233</sup> Lord O’Neill also called for “a completely different framework [for] fiscal policy” that would more credibly split out public investment spending: “if debt went to 100% of

228 Office for Budget Responsibility, ‘[Economic and fiscal outlook March 2020](#),’ 11 March 2020, Box 4.1 Page 162

229 Office for Budget Responsibility, ‘[Economic and fiscal outlook, March 2022](#),’ 23 March 2022

230 [Q343](#)

231 [Q384](#)

232 [Q404](#)

233 [Q338](#)

GDP next year as a consequence of us having a proper structural approach to raising education spending [...] and we have proper preventive healthcare spending [...] I would positively welcome it”.<sup>234</sup> Roger Bootle thought that fiscal rules helped underpin the UK’s credibility, but he said that he was “struck by what I think is a much greater pessimism in the Treasury institutionally about the position of the UK sovereign as a borrower in markets than exists in markets themselves.”<sup>235</sup>

181. The transition to a net zero carbon economy is set to require substantial private and public investment. In its Net Zero Review, published in October 2021, the Treasury suggested that “seeking to pass the costs [of additional public spending on the transition to a net zero carbon economy] onto future taxpayers through borrowing would deviate from the ‘polluter pays’ principle, would not be consistent with intergenerational fairness nor fiscal sustainability, and could blunt incentives.”<sup>236</sup> Professor Chadha dismissed this:

It is the future generations who will benefit from net zero, because the planet will be in a better state than it would be otherwise [...] Because they will be living better lives as a result, they certainly ought to share in the costs of it, so issuing debt in order to meet that is entirely sensible. I just do not understand where that idea has come from at the Treasury.<sup>237</sup>

182. Turning to taxation, over successive Budgets, the Chancellor has announced a series of revenue-raising measures, including rises in employee and employer National Insurance in April 2022, and the Health and Social Care Levy that replaces this from 2023, a freeze in income tax thresholds, and a rise in corporation tax from 2023. A number of cuts to personal taxation were announced at the 2022 Spring Statement, but overall the OBR forecast that taxes as a share of GDP would rise from around 33 per cent of GDP today to over 36 per cent in 2023–24, the highest level since the late 1940s. In our report on *Tax after Coronavirus*, published in March 2021, we had concluded that “now is not the time for tax rises or fiscal consolidation, which could undermine the economic recovery [...] [but] significant fiscal measures, including revenue raising, will probably be needed in future.”<sup>238</sup>

183. Mr Bootle told us that the timing of the rise in National Insurance in particular and the speed at which the Government was balancing the books in general was wrong:

A lot of people think [...] we are heading for disaster because the debt ratio is 100 per cent. We have been there many times in our history. It was 250 per cent at the end of the Second World War and disaster did not break out. Japan is at something like that level now. [...] It is a judgment call. Do we need to proceed quite as fast as we seem to be doing? The answer is no, we do not.

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234 [Q341](#) and [Q382](#)

235 [Q395](#)

236 HM Treasury, ‘[Net Zero Review - Analysis exploring the key issues](#),’ October 2021

237 [Q396](#)

238 [Twelfth Report - Tax after coronavirus](#)

[National Insurance] is a ridiculous tax in the first place. It is taxing jobs; it is one of the worst taxes around. If you are going to increase this ridiculous tax, why would you do it at a time when there is a) a cost of living crisis, and b) an inflationary danger?<sup>239</sup>

Professor Chadha and Dr Pettifor were in agreement that the need for tax rises was not pressing.<sup>240</sup>

### *Summary of views on the fiscal framework, investment and taxation*

184. Several witnesses thought that the current fiscal framework was too restrictive of investment, notwithstanding the planned rises in public sector net investment. In particular, the net zero transition may need substantial public investment, and they thought the Treasury had been wrong to rule out financing this through borrowing. Witnesses also thought there was not currently a pressing need for tax rises.

### **Demand, productivity and ‘running the economy hot’**

185. In giving evidence on how to boost productivity growth, some witnesses thought that sluggish aggregate demand, as opposed to structural supply side factors, had been a cause of the slowdown in productivity growth since the financial crisis. Giles Wilkes, Senior Fellow at the Institute for Government, and speaking while inflation was below 2.5 per cent, told us:

Keeping the macroeconomy growing strongly, even at the risk of inflationary outbreak, is more important than we might have realised 10 years ago. A rising tide oils the economy beautifully. Biasing on that side stops people from being stuck in their positions and stops businesses failing to be able to float off the rocks of debt.

[...]

Demand being run too slowly, people’s incentives to invest being hit [...] and all of the negative feedback that can come from that, it might be a really significant [part of the reason that the economy never returned to the pre-financial crisis trend].<sup>241</sup>

186. Bart van Ark, Professor of Productivity Studies and Managing Director of The Productivity Institute, questioned “whether we can be certain that we are out of this period that has been characterised as secular stagnation, where there is a lack of demand, low interest rate and low inflation, which is clearly not a good environment to operate in.”<sup>242</sup> Ann Pettifor argued that “productivity will improve with higher levels of investment and higher incomes. The demand side is really what is important.”<sup>243</sup>

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239 [Q340](#)

240 [Q339](#) and [Q344](#)

241 [Q17](#) and [Q41](#)

242 [Q43](#)

243 [Q351](#)

187. The possibility that stronger demand growth could induce stronger productivity growth led to a debate in 2021, primarily in the United States, over whether fiscal and monetary policy should be more stimulative and ‘run the economy hot.’<sup>244</sup> However, the former members of the MPC from whom we took evidence were sceptical. Adam Posen had changed his mind on the issue:

My bias during the financial crisis was [...] that if you let a bad outcome occur and persist, and you underutilised particularly people, there would be workforce scarring and it would have ongoing effects as well as missed investment. Fortunately or unfortunately, the data does not really support that. Even though it seems intuitively right, it has not turned out that way. [...] We have seen in country after country, including the UK, that the number of people dropping out of the workforce or being scarred permanently and not able to get back into labour force participation is quite small. [...] As much as I would like to believe that monetary policy and running the economy hot would have that benefit, the last 20 years of evidence does not support that as a claim. We should not be taking it into account.<sup>245</sup>

188. Professor Kristin Forbes agreed that “there are intuitive reasons why it sounds like running the economy hot could bring more people back in the labour force, raise productivity and growth, but the evidence is very weak.” Dr Posen, Professor Forbes and Charles Goodhart all agreed that the outbreak of inflation in the United States showed the limitations of ‘running the economy hot.’<sup>246</sup>

### *Summary of views on demand, productivity, and “running the economy hot”*

189. Some witnesses saw a link between the strength of aggregate demand in the economy and productivity growth, and that this may help to explain the weakness in productivity growth since the financial crisis. However, there was scepticism over whether macroeconomic policy could exploit this by ‘running the economy hot’, especially given the ongoing outbreak of inflation.

### Summary of evidence

190. The key points made by witnesses on macroeconomic policy issues were:

- **Global energy prices and supply chain disruptions arising from the pandemic are the main factors behind the outbreak of inflation. But second-round effects, in the form of inflation expectations among the public, and domestic factors in the UK, such as a tight labour market, Brexit, and weakness in sterling, could mean that inflation will not go automatically back to the 2 per cent target once energy prices stabilise or fall back.**
- **There were mixed views on whether the Monetary Policy Committee should have raised rates earlier. Some former Monetary Policy Committee members**

244 For example, Vivekanand Jayakumar, The Hill, ‘[The pros and cons of running the economy hot](#),’ 1 February 2021, and Jeremy Warner, the Telegraph, ‘[Why it’s time to run the economy hot](#),’ 7 May 2021

245 [Q459](#)

246 [Qq459–460](#)

now advocate steeper rises than the current Committee appears to have in mind, and there was concern that the Bank may need to do more to prepare people for the possibility that interest rates rise by more than currently indicated by its forecasts and guidance.

- Interest rates are currently on a tightening cycle, but there was disagreement in the evidence we received over whether interest rates and inflationary pressures would continue to rise or would return to the low levels of the period between the financial crisis and recession. However, there was a general agreement amongst witnesses that it is desirable to have interest rates away from zero and to have quantitative easing wound down.
- There were mixed views on the suitability of the existing 2 per cent inflation target set for the Monetary Policy Committee, but most witnesses felt that it was still suitable.
- Witnesses did not express concerns to us about whether the Monetary Policy Committee had acted independently of the Government during and after the pandemic, although some noted the possibility of a perception of such interference.
- Some witnesses argued that a looser fiscal policy could have helped lift interest rates off the floor over the period since the financial crisis, and that fiscal policy was too focused on borrowing and debt targets. However, for the time being, the ongoing outbreak of inflation has lifted interest rates off the floor in any case.
- Several witnesses thought that the current fiscal framework was too restrictive of investment, notwithstanding the planned rises in public sector net investment. In particular, the net zero transition may need substantial public investment, and they thought the Treasury had been wrong to rule out financing this through borrowing. Witnesses also thought there was not currently a pressing need for tax rises.
- Some witnesses saw a link between the strength of aggregate demand in the economy and productivity growth, and that this may help to explain the weakness in productivity growth since the financial crisis. However, there was scepticism over whether macroeconomic policy could exploit this by ‘running the economy hot,’ especially given the ongoing outbreak of inflation.

## Conclusions and recommendations

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### Growth after Coronavirus—Growth strategy and the *Plan for Growth*

1. Witnesses were mostly unpersuaded by the Government’s arguments for the abolition of the Industrial Strategy and its replacement with the Plan for Growth. More importantly, we are particularly concerned at the ‘chop and change’ and lack of long-termism in growth strategy and policy, without which businesses themselves are unable to plan and invest themselves. This churn also makes it difficult to assess the success or otherwise of initiatives such as the Industrial Strategy in improving growth and productivity. (Paragraph 18)
2. Although witnesses were generally in agreement with the broad aims and priorities in the Plan for Growth, there was some dissatisfaction in both written and oral evidence with other aspects. It was suggested that there was a lack of detail and a lack of collaboration with businesses and regional bodies, and that there was no overall strategic vision of what the UK’s economic problems were, how they should be prioritised, and what policies and interventions were therefore effective. It is not clear to us how the Plan for Growth offered an advance on the Industrial Strategy. (Paragraph 24)
3. We are concerned at the abolition of, and the lack of a replacement for, the Industrial Strategy Council, which provided oversight and evaluation of the Government’s growth strategy, and a suite of detailed metrics against which to judge the success of growth policies. The Council was a force for consistency and long-termism. (Paragraph 32)
4. The Government as a whole is spending a large amount of money and time on devising growth strategies and policies. It is important to have a robust, overarching strategy for this that drives co-ordination across departments. This function may well sit best in the Treasury. However, it is unclear to what extent the Plan for Growth is an active strategy driving the Treasury’s activities as the co-ordinating economics ministry. As a result, there is a risk that growth strategy and policy are fragmenting across departments. (Paragraph 43)
5. *In its response to this Report, the Treasury should set out how it is making the Plan for Growth an effective successor to the Industrial Strategy, given that it is not taking on additional resources for this purpose, and in particular the steps it is taking to ensure co-operation across departments, to take feedback and to monitor results.* (Paragraph 44)
6. We do not believe that the Plan for Growth should necessarily be discontinued, let alone the Industrial Strategy revived, as another wholesale change in policy would exacerbate the lack of long termism and consistency in policymaking. *Nonetheless, there needs to be a renewed effort at a co-ordinated growth strategy across Government, with clear lines of accountability and co-ordination across departments, and with clearly defined and measurable metrics for success. Government should think about*

*how to build institutional approaches that will embed its strategy across departments for the long term. It should also put in place an effective mechanism for carrying out oversight and evaluation of its growth strategy. (Paragraph 45)*

### Productivity after Coronavirus—The key challenges facing the UK

7. Post-pandemic scarring seems likely to be much less of a problem than first feared. But there are still risks, especially outside the labour market, that need Government attention. Notably, these include the long-term legacy of interruptions to education. Business indebtedness might also be a factor restraining investment and should be monitored carefully. (Paragraph 59)
8. *There are productivity-enhancing opportunities arising from the pandemic, in an increased take up of digital technologies and in remote working in certain circumstances. The Government should be looking at how it can facilitate these positive developments, while also being mindful of the challenges it could present to the UK's existing economic structure and geography. (Paragraph 65)*
9. Brexit has not been a major focus of this particular inquiry. Nonetheless, it will clearly have a profound impact on the economy's future direction and growth prospects, potentially greater than the long-term effect of the pandemic. *In its response to this report, the Treasury should explain how growth policy is identifying and helping those sectors most adversely affected by changes in trade between the UK and EU, as well as more clearly identifying the economic opportunities that may arise from Brexit. (Paragraph 72)*
10. A consistent theme in this inquiry was that a significant part of the UK's productivity shortfall compared to other countries is due to a 'long tail' of low-productivity firms, usually small ones. Relatively poor digital technology adoption and management skills were seen as key interlocking causes. (Paragraph 85)
11. Help to Grow: Management and Help to Grow: Digital are promising responses to the problems of relatively poor digital technology adoption and management skills among businesses, but there have been some difficulties in the early days of the schemes. Considering the importance of long-term stability in growth policy, it will be important to persist with these schemes while taking feedback and adjusting them as necessary. That will require backing from the Treasury. If a success can be made of the schemes, there may be scope for expansion. *In its response to this report, the Treasury should indicate whether funding will be available for longer than the three years first suggested in Budget 2021 and on what success criteria continued funding would depend. This is important, given the negative impacts and costs of repeated policy change. (Paragraph 92)*
12. The Chancellor is correct to pinpoint business investment as a component of the UK's shortfall in productivity compared to other major advanced economies. The UK's record in this area has worsened since 2016. *In addressing this investment shortfall the Chancellor's focus on reforms to tax incentives is a good start, and the Treasury should take on board the criticisms made of the super-deduction while designing*

*future tax incentives. But wider economic certainty and coherence and stability in the Government's growth policy, which are currently deficient, are also important for getting businesses to invest. (Paragraph 100)*

13. The target to spend 2.4 per cent of GDP on research and development (R&D) is an important aspect of growth policy. We re-iterate our disappointment over the pushing-back of the target to spend £22 billion of public money on R&D and continue to warn against any further slippage. (Paragraph 105)

### Jobs after Coronavirus

14. The Treasury has allocated significant and welcome resources to initiatives to help people who are seeking work gain employment. However, a more urgent problem now seems to be becoming clear in the sharp fall in the number of people looking for work, compared to pre-pandemic trends. This is harming economic activity and could exacerbate inflation. *The Treasury needs to consider allocating or reallocating resources to address the fall in the number of people looking for work since the start of the pandemic. In part, that may mean additional resourcing for 'long covid' treatment, to enable those suffering from long-term sickness to re-enter the workforce in greater numbers. (Paragraph 121)*
15. The Prime Minister has suggested that labour shortages should not be resolved through immigration, as part of a drive for a high-wage economy. At most, some witnesses to our inquiry thought this could have a small effect on wages. Moreover, labour and skills scarcity could hold back growth and stoke inflation. *The Government should be looking to prioritise addressing the gaps in the UK's skills and taking steps to ease labour shortages. (Paragraph 131)*
16. *We have received a large number of proposals for reform of the Apprentice Levy in England. A full review is needed, and the Treasury should confirm that it is going ahead with such a review. (Paragraph 132)*

### Macroeconomic policy

17. The key points made by witnesses on macroeconomic policy issues were:
  - Global energy prices and supply chain disruptions arising from the pandemic are the main factors behind the outbreak of inflation. But second-round effects, in the form of inflation expectations among the public, and domestic factors in the UK, such as a tight labour market, Brexit, and weakness in sterling, could mean that inflation will not go automatically back to the 2 per cent target once energy prices stabilise or fall back.
  - There were mixed views on whether the Monetary Policy Committee should have raised rates earlier. Some former Monetary Policy Committee members now advocate steeper rises than the current Committee appears to have in mind, and there was concern that the Bank may need to do more to prepare people for the possibility that interest rates rise by more than currently indicated by its forecasts and guidance.

- Interest rates are currently on a tightening cycle, but there was disagreement in the evidence we received over whether interest rates and inflationary pressures would continue to rise or would return to the low levels of the period between the financial crisis and recession. However, there was a general agreement amongst witnesses that it is desirable to have interest rates away from zero and to have quantitative easing wound down.
- There were mixed views on the suitability of the existing 2 per cent inflation target set for the Monetary Policy Committee, but most witnesses felt that it was still suitable.
- Witnesses did not express concerns to us about whether the Monetary Policy Committee had acted independently of the Government during and after the pandemic, although some noted the possibility of a perception of such interference.
- Some witnesses argued that a looser fiscal policy could have helped lift interest rates off the floor over the period since the financial crisis, and that fiscal policy was too focused on borrowing and debt targets. However, for the time being, the ongoing outbreak of inflation has lifted interest rates off the floor in any case.
- Several witnesses thought that the current fiscal framework was too restrictive of investment, notwithstanding the planned rises in public sector net investment. In particular, the net zero transition may need substantial public investment, and they thought the Treasury had been wrong to rule out financing this through borrowing. Witnesses also thought there was not currently a pressing need for tax rises.
- Some witnesses saw a link between the strength of aggregate demand in the economy and productivity growth, and that this may help to explain the weakness in productivity growth since the financial crisis. However, there was scepticism over whether macroeconomic policy could exploit this by ‘running the economy hot,’ especially given the ongoing outbreak of inflation. (Paragraph 190)

# Formal minutes

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**Monday 4 July 2022**

**Members present:**

Mel Stride, in the Chair

Rushanara Ali

Harriett Baldwin

Anthony Browne

Dame Angela Eagle

Emma Hardy

Kevin Hollinrake

Julie Marson

Alison Thewliss

Draft Report (*Jobs, growth and productivity after coronavirus*) proposed by the Chair, brought up and read.

*Ordered*, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 190 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Fourth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

**Adjournment**

[Adjourned until Thursday 7 July 2022 at 10.00 am

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Monday 12 July 2021

**Professor Bart van Ark**, Managing Director, The Productivity Institute, and Professor of Productivity Studies, Alliance Manchester Business School, The University of Manchester; **Dr Anna Valero**, Senior Policy Fellow, Centre for Economic Performance and Deputy Director of the Programme on Innovation and Diffusion, London School of Economics (LSE); **Giles Wilkes**, Senior Fellow, Institute for Government

[Q1–62](#)

### Monday 20 September 2021

**Rain Newton-Smith**, Chief Economist, Confederation of British Industry (CBI); **Paul Nowak**, Deputy General Secretary, The TUC; **Alan Manning**, Professor of Economics, London School of Economics

[Q63–64](#)

### Wednesday 20 October 2021

**George Dibb**, Head of the Centre for Economic Justice, Institute for Public Policy Research; **Sir Geoffrey Owen**, Head of Industrial Policy, Policy Exchange

[Q147–218](#)

### Monday 13 December 2021

**Irene Graham OBE**, Chief Executive, ScaleUp Institute; **Kitty Ussher**, Chief Economist, Institute of Directors; **Stephen Phipson CBE**, Chief Executive, Make UK

[Q219–322](#)

### Monday 7 February 2022

**The Lord O'Neill of Gatley**; **Professor Jagjit Chadha**, Director, National Institute of Economic and Social Research (NIESR); **Roger Bootle**, Chairman, Capital Economics; **Ann Pettifor**, Director, Prime Economics

[Q323–403](#)

### Wednesday 11 May 2022

**Charles Goodhart CBE FBA**, Emeritus Professor of Banking and Finance, London School of Economics; **Adam Posen**, President, Peterson Institute for International Economics; **Kristin Forbes**, Professor of Management and Global Economics, MIT's Sloan School of Management

[Q404–462](#)

## Published written evidence

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The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

JGP numbers are generated by the evidence processing system and so may not be complete.

- 1 AAT (Association of Accounting Technicians) ([JGP0001](#))
- 2 ADS Group ([JGP0037](#))
- 3 Adam Smith Institute ([JGP0051](#))
- 4 Anglo American plc ([JGP0057](#))
- 5 Anonymous ([JGP0012](#))
- 6 Association of Convenience Stores ([JGP0029](#))
- 7 Aubrey, Thomas (Founder, Credit Capital Advisory) ([JGP0006](#))
- 8 Be the Business ([JGP0055](#))
- 9 British Beer and Pub Association ([JGP0008](#))
- 10 British Chambers of Commerce ([JGP0038](#))
- 11 British Retail Consortium ([JGP0032](#))
- 12 CLA ([JGP0016](#))
- 13 COVID-19 Review Observatory, Birmingham Law School, University of Birmingham ([JGP0027](#))
- 14 Centre for Cities ([JGP0044](#))
- 15 Chartered Institute of Management Accountants (CIMA) ([JGP0018](#))
- 16 Chartered Management Institute ([JGP0021](#))
- 17 Co-op Group ([JGP0033](#))
- 18 Community Union ([JGP0049](#))
- 19 Core Cities UK ([JGP0043](#))
- 20 Dibb, Dr. George (Head of the Centre for Economic Justice, Institute of Public Policy Research) ([JGP0061](#))
- 21 Directors UK ([JGP0045](#))
- 22 District Councils' Network ([JGP0036](#))
- 23 Finance & Leasing Association ([JGP0005](#))
- 24 Good Things Foundation ([JGP0047](#))
- 25 Greater Manchester Combined Authority (GMCA) ([JGP0056](#))
- 26 Green Alliance ([JGP0058](#))
- 27 Homes for the North ([JGP0022](#))
- 28 Institute for Government ([JGP0025](#))
- 29 Institute of Chartered Accountants in England and Wales ([JGP0052](#))
- 30 Institute of Directors ([JGP0011](#))
- 31 JISC ([JGP0050](#))
- 32 Joseph Rowntree Foundation ([JGP0031](#))

- 33 LEP Network ([JGP0017](#))
- 34 Local Government Association ([JGP0030](#))
- 35 Make UK ([JGP0010](#))
- 36 Mastercard ([JGP0020](#))
- 37 Mineral Products Association ([JGP0060](#))
- 38 National Centre for Universities and Business ([JGP0046](#))
- 39 National Institute of Economic and Social Research (NIESR) ([JGP0062](#))
- 40 Octopus Group ([JGP0013](#))
- 41 Office for National Statistics ([JGP0059](#))
- 42 Office for Statistics Regulation ([JGP0035](#))
- 43 Office of the City Remembrancer, City of London Corporation ([JGP0028](#))
- 44 Producers Alliance for Cinema and Television (PACT) ([JGP0009](#))
- 45 PwC ([JGP0014](#))
- 46 Regional Studies Association ([JGP0024](#))
- 47 Rhys, Mr Peter James (Macroeconomist, PJR Morgan) ([JGP0003](#))
- 48 Seetec ([JGP0053](#))
- 49 Social Market Foundation ([JGP0015](#))
- 50 The Open University ([JGP0048](#))
- 51 The Prince's Trust ([JGP0019](#))
- 52 The University of Manchester ([JGP0054](#))
- 53 Torus ([JGP0041](#))
- 54 Trades Union Congress ([JGP0040](#))
- 55 UK Music ([JGP0034](#))
- 56 Venture Capital Trust Association ([JGP0023](#))
- 57 Werner, Professor Richard (Professor of Banking and Finance, De Montfort University) ([JGP0002](#))
- 58 Women's Budget Group ([JGP0007](#))
- 59 Zoom Video Communications ([JGP0039](#))

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website.

### Session 2022–23

Number	Title	Reference
1st	Future of financial services regulation	HC 141
2nd	Future Parliamentary scrutiny of financial services regulations	HC 394
3rd	The appointment of Dr Swati Dhingra to the Monetary Policy Committee	HC 460
1st Special Report	Defeating Putin: the development, implementation and impact of economic sanctions on Russia: Government Response to the Committee's Twelfth Report of Session 2021–22	HC 321

### Session 2021–22

Number	Title	Reference
1st	Tax after coronavirus: the Government's response	HC 144
2nd	The appointment of Tanya Castell to the Prudential Regulation Committee	HC 308
3rd	The appointment of Carolyn Wilkins to the Financial Policy Committee	HC 307
4th	The Financial Conduct Authority's Regulation of London Capital & Finance plc	HC 149
5th	The Future Framework for Regulation of Financial Services	HC 147
6th	Lessons from Greensill Capital	HC 151
7th	Appointment of Sarah Breeden to the Financial Policy Committee	HC 571
8th	The appointment of Dr Catherine L. Mann to the Monetary Policy Committee	HC 572
9th	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility	HC 966
10th	Autumn Budget and Spending Review 2021	HC 825
11th	Economic crime	HC 145
12th	Defeating Putin: the development, implementation and impact of economic sanctions on Russia	HC 1186
1st Special	Net Zero and the Future of Green Finance: Responses to the Committee's Thirteenth Report of Session 2019–21	HC 576

Number	Title	Reference
2nd Special	The Financial Conduct Authority's Regulation of London Capital & Finance plc: responses to the Committee's Fourth Report of Session 2021–22	HC 700
3rd Special	Tax after coronavirus: response to the Committee's First Report of Session 2021–22	HC 701
4th Special	The Future Framework for Regulation of Financial Services: Responses to the Committee's Fifth Report	HC 709
5th Special	Lessons from Greensill Capital: Responses to the Committee's Sixth Report of Session 2021–22	HC 723
6th Special	The appointment of Professor David Miles to the Budget Responsibility Committee of the Office for Budget Responsibility: Government response to the Committee's Ninth Report	HC 1184
7th Special	Autumn Budget and Spending Review 2021: Government Response to the Committee's Tenth Report	HC 1175
8th Special	Economic Crime: responses to the Committee's Eleventh Report	HC 1261

### Session 2019–21

Number	Title	Reference
1st	Appointment of Andrew Bailey as Governor of the Bank of England	HC 122
2nd	Economic impact of coronavirus: Gaps in support	HC 454
3rd	Appointment of Richard Hughes as the Chair of the Office for Budget Responsibility	HC 618
4th	Appointment of Jonathan Hall to the Financial Policy Committee	HC 621
5th	Reappointment of Andy Haldane to the Monetary Policy Committee	HC 620
6th	Reappointment of Professor Silvana Teneyro to the Monetary Policy Committee	HC 619
7th	Appointment of Nikhil Rathi as Chief Executive of the Financial Conduct Authority	HC 622
8th	Economic impact of coronavirus: the challenges of recovery	HC 271
9th	The appointment of John Taylor to the Prudential Regulation Committee	HC 1132
10th	The appointment of Antony Jenkins to the Prudential Regulation Committee	HC 1157
11th	Economic impact of coronavirus: gaps in support and economic analysis	HC 882
12th	Tax after coronavirus	HC 664
13th	Net zero and the Future of Green Finance	HC 147

<b>Number</b>	<b>Title</b>	<b>Reference</b>
1st Special	IT failures in the financial services sector: Government and Regulators Responses to the Committee's Second Report of Session 2019	HC 114
2nd Special	Economic Crime: Consumer View: Government and Regulators' Responses to Committee's Third Report of Session 2019	HC 91
3rd Special	Economic impact of coronavirus: Gaps in support: Government Response to the Committee's Second Report	HC 662
4th Special	Economic impact of coronavirus: Gaps in support: Further Government Response	HC 749
5th Special	Economic impact of coronavirus: the challenges of recovery: Government Response to the Committee's Eighth Report	HC 999
6th Special	Economic impact of coronavirus: gaps in support and economic analysis: Government Response to the Committee's Eleventh Report	HC 1383