

## **Covid-19 Inquiry Witness Statement for Stephen Millard**

### **Introduction to the National Institute of Economic and Social Research**

1. The National Institute of Economic and Social Research (NIESR) is the United Kingdom's longest established independent research institute. We operate as a charity, independent of all party-political interests and receive no core funding from government or other sources. Our mission is to "carry out research into the economic and social forces that affect people's lives, to improve the understanding of these forces, and the ways in which policy can bring about change". We do this by conducting high-quality research on topics either of contemporary interest, or of relevance to business, academia and policy-makers; using our global econometric model NiGEM, which is used by many central banks and international organisations, including the OECD and IMF, to produce our well-respected quarterly economic forecasts for the UK and global economies; carrying out expert economic analysis on current issues; and disseminating our work through academic journals, other publications, and the media. NIESR consists of two teams of researchers – a macroeconomic modelling and forecasting team and a public policy team – each head by a Deputy Director, an External Affairs team dealing with media, events and external partnerships, and a Professional Services team providing finance, HR, project management and legal support.

### **The NIESR during the pandemic**

2. During the pandemic, NIESR carried out independent research on the economic impact of Covid-19, contributing to the debate and suggesting a wide range of measures to assist with policy response. More specifically, we carried out research projects on the industry level origins of fluctuations in growth rates and economic welfare (given that Covid-19 affected particular industries more than others), the public understanding of the economic impacts of Covid-19, mitigating the impact of Covid-19 on early years education, the impact of Covid-19 on school starters and the impact of Covid-19 on children's language, education and socio-emotional skills. In addition, we produced a weekly 'Covid Tracker', which used time series models to project new cases in the United Kingdom and, later, in India.
3. During the pandemic, the key people involved in NIESR's work were NIESR's former director, Jagjit Chadha, and his Deputy Directors, Hande Kucuk (later Paul Mortimer-Lee) and Adrian Pabst. The research on the effects of Covid-19 on education

was led by Claudine Bowyer-Crane and on public understanding by Jonny Runge. Finally, the tracker was produced by Craig Thamotheram in collaboration with researchers at the Judge Business School in Cambridge. Given staff turnover, the key people working on the UK economy now are Adrian Pabst, Arnab Bhattacharjee, Ben Caswell and Stephen Millard.

4. As mentioned in paragraph 1, above, NIESR is an independent charity and so has no direct relationship with the government beyond carrying out specific funded research projects for specific departments. This relationship was unaffected by the pandemic. To the best of my knowledge, there was no direct correspondence between NIESR and the UK government related to the economic response to the pandemic, nor was NIESR consulted by the UK Government or HM Treasury or asked to advise on the design, implementation or monitoring of any economic interventions during the pandemic.
  
5. NIESR does not directly work with HMT or any other government department (except on specific funded research projects, to which I'll return) or local government. However, we are often asked to take part in research roundtables or similar, including a quarterly roundtable hosted by the Office for Budget Responsibility, and sometime asked specific questions about our research. Where this has happened, we have always had a good working relationship. In terms of the devolved administrations, we have developed – and continue to maintain – a macroeconomic model of the Scottish economy for the Scottish Government, with whom we have an excellent working relationship. We have no direct dealings with either the Welsh or Northern Irish assemblies. During Covid, the Department for Education funded the research project on 'Mitigating impacts of COVID-19 in the early years', which is described in exhibit SPM/01 - INQ000281375; to the best of my knowledge, NIESR researchers working on this project had a good relationship with colleagues at the Department who were in charge of the funding. During the pandemic, we also hosted the Economic Statistics Centre of Excellence (ESCoE), set up with funding from the Office for National Statistics (ONS). Again, to the best of my knowledge, this arrangement worked well with NIESR and ONS colleagues working together to improve our ability to 'measure' the economy. Given the issues around collecting data at the time of Covid, researchers in ESCoE were working with colleagues at the ONS to develop a wider set of statistics that could provide real-time information on the evolution of the economy. In turn, this development helped policy makers understand the effects of Covid on the economy and what needed to be done to ameliorate these effects.

6. During the pandemic NIESR carried out its own research on the economic effects of the pandemic and the appropriate policy response so we could contribute to the public debate. The results of this research were not specifically shared with the government but, rather, were made available to the general public through our website. Specific examples of this research include our Covid Tracker – written up in exhibit SPM/02 - INQ000588691 – an economic model of the ‘health vs. wealth’ trade-off – written up in exhibit SPM/03 - INQ000588583 – policy lessons to be learnt from professional sport during Covid – written up in exhibit SPM/04 - INQ000588694 – modelling and estimating large macroeconomic shocks during a pandemic – written up in exhibit SPM/05 - INQ000588687 – and a sectoral model that enabled us to examine the effects of the pandemic, and government policies, on specific sectors – written up in exhibit SPM/06 - INQ000588688.

### **Analysis and reflections**

7. NIESR has produced the following pieces of analysis relating to the Provision Outline of Scope for Module 9:
  - 1 April 2020 – The economy on ice: Meeting the economic challenges during and after the Covid-19 crisis (Exhibit SPM/07 - INQ000588689)

In this work, the author suggested that the large swathe of measures announced by the government to support households and firms through the lockdown would still not be enough to cover the liabilities of a large part of the economy or – if the government did provide enough support – would lead to either an unsustainable rise in the national debt or a hyperinflation. The author recommended instead that the government provided direct support to households while all debt obligations, including taxes, were ‘put on ice’ for the duration of the crisis and all trading exchanges closed. He argued that this plan would ensure that all UK households were able to survive the crisis and would enable the UK economy to recover post pandemic by preserving its productive capacity. Although the government did not provide direct support to households, they did encourage forbearance by lenders, in line with some of the recommendations of this work. The successful direct support provided by the US government to US households would suggest that the conclusions of this research were in fact valid.

- 14 April 2020 – A program of guaranteed loans to compensate SME Covid-19 revenue losses: Rapid dispersal and large net economic benefits (Exhibit SPM/08 - INQ000588682)

This paper finds that the benefits of compensating UK Small and Medium-sized Enterprises (SMEs) are around five times the cost; that is, every £1 spent by the government to save SMEs has a benefit of £5. Given that, it recommends a specific way that the government can do this by quick-dispersing loans guaranteed by the government and routed through bank and non-bank lenders. The Bank of England supported SMEs in the way suggested by this research through the Term Funding Scheme with additional incentives for SMEs (the TFSME scheme). This scheme was successful in ensuring that SMEs were able to access finance during the Covid-19 pandemic.

- 26 May 2020 – Vulnerability from debt in the Coronavirus crisis (Exhibit SPM/09 - INQ000588693)

This paper examined trends in debt across sectors and countries. Ahead of the pandemic, private and public debt had been increasing leading to increasing vulnerability to an interest rate increase. The pandemic led to severe cashflow problems for companies, raising issues about their ability to refinance debt, and falls in household income, while raising public sector debt further. The policy implication is that governments may need to provide guidance to lenders on extending forbearance, arrange to make some payments for mortgage interest as part of income support directly to lenders, or provide guidance to lenders on permissible extensions of loan repayment periods. The author also suggested that the government may need to offer debt repayment breaks or debt write-downs to prevent or limit company defaults. The government actually took these actions in response to the pandemic and, we would argue, doing so helped ensure better economic outcomes during and after the pandemic than would have happened otherwise.

- 25 November 2020 – The pending review: Fiscal policy and Covid-19 (Exhibit SPM/10 - INQ000588690)

This paper was written in response to the Chancellor's Autumn 2020 Spending Review. The authors concluded that the furlough and business bounce back loan schemes had been successful in providing support to households and firms but argued that their effectiveness would have been greater had they been clearer and subject to less uncertainty about their withdrawal. Moreover, the

authors suggested that the policies designed to support households and firms through the pandemic were unlikely to address long-standing deficiencies in UK economic performance. Finally, they stressed the need for a new fiscal framework that provided flexibility for dealing with economic shocks while still ensuring long-run fiscal sustainability. The poor economic performance of the UK economy post pandemic would suggest that the concerns noted in this research were justified. And the current problems faced by the Chancellor around the lack of 'fiscal space would suggest that our concerns around the fiscal framework remain an issue.

- 12 August 2021 – Modelling the impact of Covid-19 on the UK economy: An application of a disaggregated New-Keynesian model (Exhibit SPM/06 - INQ000588688)

In this paper, the authors used a sectoral framework to evaluate policies intended to mitigate the economic effects of Covid-19. They show that the furlough scheme helped prevent the sharp rises in unemployment that might have arisen in the absence of the scheme. Further research carried out after the Covid-19 pandemic and reported below (Exhibit SPM/12- INQ000588686) backs up these results from a position of hindsight.

- 17 February 2022 – Covid-19 and productivity: Impact and implications (Exhibit SPM/11 - INQ000588684)

The authors found that the Covid-19 pandemic amplified the poor UK productivity performance. In addition, it widened productivity disparities between and within regions, while increasing asset and income inequality. If policymakers return to the same economic structures post-pandemic that failed to resolve the productivity problem pre- pandemic, then the UK is set for another decade of a low-growth, low-productivity and low-wage economy. Specifically, the authors recommended developing an effective and consistent industrial policy involving more delegation of policy to local authorities. We can note, with the benefit of hindsight, that these problems around aggregate productivity and regional productivity differentials continue to persist, suggesting the research has stood the test of time.

- 28 November 2022 – Financial stocks and flows in the time of Covid-19 (Exhibit SPM/12 - INQ000588686)

The author found that the Job Retention Scheme went some way to maintaining employment through the lockdown; the increases in government spending and the additional Quantitative Easing carried out by the Bank of England (to the extent this led to a fall in bond rates) helped support consumption, investment and output; the Coronavirus Business Interruption Loan Scheme and the Coronavirus Large Business Interruption Loan Scheme, by underwriting a proportion of the non-performing loans, greatly reduced the rise in bank lending rates; and that the cut in the Bank rate also helped keep lending rates lower than they would have been otherwise. This research was carried out with the benefit of hindsight and suggests that the results of the earlier research reported above have not been overturned given what we know now.

Generally, with the benefit of hindsight we can say that the analysis carried out by NIESR reported above stands the test of time. Where our recommendations were implemented, they were successful and where our analysis was critical of government policy our concerns would appear to have been justified.

8. The main strength of the UK government's overall response to the pandemic was the recognition that the lockdowns would have serious ramifications for employment and taking action – in particular, via the Coronavirus Job Retention Scheme – to ensure that the fall in employment would be smaller than otherwise, that firms would not lose workers who had developed firm-specific skills and that, more generally, firms would not have to spend large amounts of money on recruitment once normality had been restored.
9. And the main weakness was that there appeared to be little coordination between public health interventions and economic interventions. For example, the 'eat out to help out' scheme likely led to an increase in the prevalence of Covid. In addition, it is possible that by using 'broad brush' interventions that the support provided by the government was more costly than might have been strictly necessary, eg, supporting firms to hold on to workers in cases where they might have done that anyway. Finally, it is possible that the government could have withdrawn support sooner, again reducing the overall cost.

10. At a high level the strengths of the following policies were:

- **Coronavirus Job Retention Scheme**

This policy substantially reduced the increase in unemployment that would otherwise have resulted from the Covid-19 shock. In addition, the policy ensured that firms would not lose workers who had developed firm-specific skills and that, more generally, firms would not have to spend large amounts of money on recruitment once normality had been restored.
- **Self-Employed Income Support Scheme and uplift to universal credit**

These policies helped support the incomes of households where individuals were not employed by firms but were either self-employed and/or reliant upon benefits. Had these policies not been in place, self-employed workers would have had to rely on universal credit and other benefits and so would have suffered a significant fall in their standard of living while those already on benefits would also have suffered a fall in their standard of living as prices rose in the wake of the Covid-19 shock. Most importantly, these policies protected the incomes of the poorest UK households, who otherwise would have really struggled during the pandemic.
- **Loans to businesses**

The Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS) were lending schemes through which loans by accredited lenders were 80% guaranteed by the government in case of default. These policies enabled companies to stay afloat through the pandemic and so reduced the amount of non-performing loans on the books of the banks. In turn, this limited the rise in bank lending rates that would have otherwise transpired, allowing firms to invest more than otherwise. And the cost to the government of running these schemes was small, amounting to less than one tenth of one percent of total government spending during 2021, according to our analysis.
- **Eat out to help out**

This policy was aimed at increasing the demand for restaurant food. The possibility of catching Covid meant that households were not eating out at restaurants and so the catering industry was really struggling. The eat out to help out policy clearly lessened these struggles.

NIESR has not carried out any research on the effects of the other policies listed in the questionnaire.

11. At a high level the weakness of the following policies were:

- Coronavirus Job Retention Scheme

The policy was extremely costly for the government – £70 billion was spent by the time the scheme was finally close on 30 September 2021 – and was likely kept in place for too long, given the final lifting of Covid restrictions in July 2021 meant that the economy was already back to something close to normal. In addition, it could have been the case that by protecting existing employment relationships, the scheme led to a lack of ‘creative destruction’ (ie, the replacement of low productivity jobs with higher productivity jobs), which meant that UK productivity stalled during and after the Covid pandemic. It is noticeable in this context that US productivity greatly increased after Covid, though at the cost of a much sharper rise in unemployment during the pandemic.

- Self-Employed Income Support Scheme and uplift to universal credit

At an aggregate level, it could be argued that these subsidies were simply not needed, given the household sector was a massive net saver during the pandemic. Indeed, our analysis suggests that most of the additional income received by self-employed workers and those on universal credit was saved rather than spent, given the lockdowns meant that consumption spending on many services (eg, restaurants, hotels and transport) was not possible and, even once the lockdowns were lifted, households were loath to spend money on these services – given the personal contact involved – anyway. That is, the schemes were expensive for the government – our estimates suggest a cost of around £25 billion – while not resulting in an increase in economic activity.

- Loans to businesses

The main weakness of this policy was that firms used these loans to remain in business rather than to increase investment. Given the lockdowns and the general uncertainty around when these would be lifted, there was little incentive for firms to invest, regardless of the interest rate. It also meant that some firms which should probably have gone out of business did not, which in turn reduced the ability of the economy to increase its productivity post Covid by moving workers from low to high productivity jobs.

- Eat out to help out

The main weakness of this policy – aside from costing the government around £850 million – was that it encouraged people to mix and so led to a resurgence in Covid cases. This is the classic example of where a policy that

might have been good on economic grounds was clearly not good in terms of its public health aspects.

NIESR has not carried out any research on the effects of the other policies listed in the questionnaire.

12. NIESR has not conducted any research into the separate response of the devolved nations to the pandemic.

13. As argued by Flavio Toxvaerd and Miltos Makris in their blog 'Effective COVID-19 policy is not only about public health, but also about economics' reproduced as exhibit SPM/13 - INQ000588685, the UK government – at least as far as I can tell – based its analysis of economic policy during the pandemic on models that failed to take account of the effects of public health policies (eg, lockdowns) on the economy as well as the effects of economic policies (eg, eat out to help out) on public health. This work came to the following conclusions and recommendations:

- Understanding behaviour and incentives is fundamental for formulating policy
- The government needed to consider economic and public health policies together rather than in isolation, as appears to have been the case
- Policy needed to have been based on a model that took into account both the economic and public health effects of different policies: so-called 'economic epidemiology' models
- The government should have carried out a cost-benefit analysis that weighed up the economic costs (including the implicit costs of ill health and, more importantly, loss of life) and benefits of the various economic and public health policies that were considered during the pandemic

14. During the pandemic, the economics profession swiftly developed models that could be used to examine the joint effects of a pandemic, public health policies such as lockdowns and economic policies designed to cushion the blow on households and firms of the economic effects of the pandemic and associated public health policies. But, as discussed in the previous paragraph, it is not at all clear that the UK government paid much, if any, attention to these developments. And this resulted from a lack of engagement by the UK government and the devolved administrations with economic researchers based at NIESR or elsewhere. In future, it will be important for the government and devolved administrations to reach out to researchers, eg, by publishing

the questions they need answered and inviting researchers to contribute their views and/or organizing seminars/presentations at which researchers are able to present their work to policy makers.

15. In general, NIESR supported much of the policy that was enacted at the time of Covid. Where we would differ is the approach to quantitative easing taken by the Bank of England during Covid. In particular, we recognize that the prompt action of the Bank to announce an increase in asset purchases of £200 billion in response to the market turmoil in March 2020 caused by Covid-19, but we would question the need for the additional £250 billion announced over the rest of 2020. At the very least, this expansion in the Bank's balance sheet should have been reversed once the financial markets had settled. The NIESR view is that this helped lead to the large rise in inflation we saw over 2021, even before the Russian invasion of Ukraine led to a further marked rise in inflation and has also been financially costly to the government.

I solemnly declare that the contents of this statement are true and accurate to the best of my knowledge and belief.

**Personal Data**

**Dated: 14/04/2025**