Everything is different now:

the UK economy and the Coronavirus crisis

Rt Hon Lord Darling of Roulanish; Lord King of Lothbury; Lord Macpherson of Earl's Court; Dr Gerard Lyons; chaired by Juliet Samuel

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Policy Exchange

Transcript

Introduction

'Everything is different now: the UK economy and the Coronavirus crisis' was the subject of Policy Exchange's first public webinar. Our speakers included the main triumvirate who led the policy response to the 2008 economic crisis – Rt Hon Lord Darling of Roulanish, former Chancellor of the Exchequer; Lord King of Lothbury, former Governor of the Bank of England; Lord Macpherson of Earl's Court, former Permanent Secretary at HM Treasury – as well as Dr Gerard Lyons, newly appointed Senior Fellow at Policy Exchange. The event was chaired by Juliet Samuel, Telegraph columnist and Senior Fellow at Policy Exchange.

The event was covered by The Times, The Daily Telegraph, The Daily Mail, The Guardian and ITV News among other outlets.

Event transcript

JULIET SAMUEL: Hello and welcome to the first Policy Exchange webinar, I think I'm right in saying. I am Juliet Samuel; I am a columnist with the Telegraph and I am also a Senior Fellow at Policy Exchange. So, we have a very eminent panel lined up to discuss what is probably an unprecedented economic crisis *[break in transmission]* … but we're going to be going through the panel. First, we'll hear from Gerard Lyons and I'm going to introduce everyone in turn. He is the former Chief Economist at Standard Chartered, a former advisor to Boris Johnson and he is also on the board of the Bank of China (UK) and he is also a Senior Fellow at Policy Exchange. We'll then hear from Mervyn King, former Governor of the Bank of England and author of a book coming out very soon, I think maybe it's out already, called Radical Uncertainty: Decision Making Beyond the Numbers. And then we'll hear from Nick Macpherson, the former Permanent Secretary of the Treasury and Alistair Darling, former Chancellor.

Three of these speakers obviously were actually at the helm during the 2008 crisis and so it would be very interesting to hear how they think the government and policy makers should be handling this crisis and also as to whether this crisis is in fact going to be bigger than the one that we went through just over ten years ago. In fact, I was looking at forecasts recently made by Deutsche Bank and they are predicting the third largest contraction in UK GDP in the last hundred years, either predicting a 6.5% drop in GDP versus 2009 which was 4.2% so are we staring down the barrel of a recession or possibly a depression that is worse than 2008? As we go through it, how are our policy makers going to be able to manage it because we've been hearing for at least five years that central banks are out of ammunition and we have also been hearing in the last two weeks the word 'temporary' quite a lot, especially from politicians who are trying to stem the crisis. This is a temporary hitch and everything at some point will bounce back to normal, so there is a question as to whether that's true and if it is temporary, are the knock-on effects also going to be temporary? Suddenly the fiscal backdrop will be totally different when we do come out of this and the question of whether we will be in a scenario that is actually rather like a post-World War Two scenario where taxes have to shoot up to compensate for the enormous fiscal outlay that has got us through the crisis and whether business structures will have to change, whether there will be questions put over certain business models to do with supply chains that span the world.

Anyway, we are now going to go to our panellists to discuss all of that and lots of other things I'm sure and we're going to start with Gerard Lyons, who is a Senior Fellow at Policy Exchange.

DR GERARD LYONS: Good morning. Let me go through three areas: first, this problem we have; second, about policy in broad terms and then some specific measures. The backdrop in my mind is where I'm constructive about the UK government's approach although I think they've made it too complex and not simple enough and maybe the three words that I would use that I think need to justify policy here and globally, is that policy needs to be unconventional, unlimited and urgent, with a sense of urgency about what needs to be done.

First, the scale of the problem. Juliet, you mentioned 2008/09 and there are some similarities with the global financial crisis, although at that time the global financial crisis, when I was heading up Standard Chartered Research, was viewed as a western financial crisis but the similarities are that just as then we had to overcome the key problem in the financial sector to become more optimistic about the economic outlook, now we have to address the key issue on the health side to become generally optimistic about the economic outlook but like then as now, there needs to be two strands to policy. Then it was financial and macro, now it's health and macro.

Also, then as now, the policy response needs to be significant. I would say it's been quicker now although markets have reacted quicker also now, although maybe the big difference with 2008 is I felt in 2008 the global response was quite significant and coordinated. Now, even though there is a response internationally, countries are doing things more on their own and I thought the G20 ahead of the real escalation of this crisis was wanting.

The real issue in terms of the problem though is that if we think globally it is the letters LUV. Earlier this year, it looked in the eyes of the markets as if this would be a V-shaped economic impact, down then recovering relatively quickly. Now, at the best it looks likely to be a U: standstill in Asia in Q1, although there are tentative signs of recovery there now; recession, deep recession in Europe, UK, US in Q2 and likely, at best, a recovery in the fourth quarter. What we need to avoid is that L and while there is no ideal policy response, different people have different views as to what needs to be done, I think there is agreement on the scale of the problem. It's a collapse in demand and income, therefore we need to actually ensure that events do not feed on themselves so the policy needs to be to minimise – the policy here and globally – to minimise and offset that lost income and demand, to provide liquidity and ensure financial stability and to ensure also that the hit to the supply side of the economy is temporary and not permanent.

That leads on to the policy approach. I'm not going to focus on the health side but on the macro economic policy side. It is quite clear here in the UK that we need a whole of government approach. That's monetary policy, fiscal policy, financial and regulatory policy. We shouldn't kid ourselves that we are able to quantify the scale of the hit about to befall us but in qualitative terms, as I've touched on, we can identify where the problems lie.

Now, the Chancellor has moved from talking of the 3T's to the 3C's: he said policy in this is going to be timely, targeted and temporary. The T he missed, I thought, was titanic, the scale of the measures, and I think he is now doing things to address that.

He then moved on to calling policy the 3C's – coherent, coordinated and comprehensive but the other C that could be added is that policy was maybe too complex, too many thresholds, too many delays but overall, I think he has done a good job. The route he has now gone down is very hard to reverse and there is no reason why he should reverse having gone down this route, but there are still clear gaps in the way that need to be filled.

Now, onto the specifics in terms of what needs to be done from here. As I say, I am positive about what has been done in many respects but if we think of three different aspects of the pyramid – individuals, companies and the financial sector. In terms of individuals, I think the Chancellor needs to still do more in terms of providing help to those people in work. A Policy Exchange report last week suggested 100% and not 80% of income being given while for those self-employed, the delay was a problem. He might not be able to do anything about it but he needs to actually reduce the complexity that is impacting the self-employed. Maybe therefore the best route he can do is dedicate more resources to Universal Credit and actually improving or increasing the amounts available.

In terms of the corporate sector, there are things that need to be done to fill the gaps. What we do not want to do is to burden the corporate sector with more debt, therefore ideally, as this is a temporary crisis and we want as many firms to come out of this still in as good shape as possible, it is from the government side directing more grants to firms. The initial £330 billion loan facility sounded sizeable but what become clear was that the threshold made it only available to investment grade firms. So, on the corporate side there are still things that need to be done but two perennial problems have come to the fore in the last few weeks, talking to people. One is that big companies are still not paying their suppliers quickly enough, that's an issue in good times never mind difficult times. Also, what is quite clear, and the papers are full of this, is that the banks have not been fully engaged in these government schemes and need to be.

Then, having talked about individuals and corporates, the other area is the monetary and financial side. There I think the Bank of England has done a lot and I think again, like the government aspects of policy, more still needs to be done. The short-term rates are low, alongside that I would encourage the Bank of England to focus on pegs and regs – pegging and regulation. I feel that the ten-year yield should be pegged as close to zero as possible, as the Americans did at the Fed in the 40s, as the Bank of Japan has done here recently. Regulatory policy has already been eased to ease the climate on capital and I think maybe more needs to be done on regulation but quite clearly what is going to happen is ensuring enough liquidity and financial stability.

The Bank of England also needs to work closely with the government to see why it is that money is not getting to the corporate sector as quickly or as easily as possible. Finally on the bank side, there is much talk about a magic money tree: I don't think there is a magic money tree. The government through the Debt Management Office can fund this debt but at the same time I feel the Bank of England, through expanding its QE – and that's the right thing to do – should be buying more government debt either indirectly through the market as it does now, or more directly, directly from the government itself.

Maybe, just to conclude, overall, just as the government has moved to enhance communication in recent weeks, one of the thoughts we have at Policy Exchange is that we should enhance communication even further on the macro side. Updates on usage of these schemes, on the various economic packages, how they are working, how they are helping the economy.

Post-crisis, it's about having a robust health system but on the economic side I think there are areas that we can look at in the future in terms of nominal GDP targeting, reducing debt to GDP and ensuring monetary and financial stability. Overall, good so far but the scale of the challenge though in my mind means more needs to be done – unconventional, unlimited and urgency. Thank you.

JULIET SAMUEL: Thank you, Gerard. One thing I forgot to mention is that we will have Q&A, each person is going to speak for five minutes as Gerard just did and there is button you can press to raise your hand. We won't be taking questions during people's talks because it makes things too complicated online but you can raise your hand and you will be put in the queue and we will get to questions very soon. So, we will now hear from Lord King.

LORD KING: Good morning everyone listening to this webinar. Five brief points: first, the comparison with 2008. There is one very important comparison which is we knew before the banking crisis that a banking crisis could happen and we knew before this pandemic that pandemics could happen but, in neither case, could that enable us to make precise predictions as to when and where or the precise nature of the crisis that would occur. In a statement that was made before the financial crisis, it was to allow the banking system to run down whatever spare capacity it had in terms of its ability to acquire liquid assets or have enough equity capital to absorb losses. It was running right up against the margin and I think one of the lessons we will draw from this crisis is that in future, even though we can't predict when pandemics will come, we know that we will need greater spare capacity to bring into action when needed.

Second, we must avoid bogus quantification. There has been a great deal of wish on the part of the media to have precise forecasts as to how the epidemic will develop, the likely part of the number of infections and indeed deaths and we must avoid it. Chris Whitty, the Chief Medical Officer, was absolutely excellent in the beginning of this crisis when he was asked by a tabloid journalist 'How many deaths will there be?' when he said 'We don't know, we still don't know much about the path of this epidemic.' What the models are very good at doing, and Imperial College is one of those models, is enabling us first of all to understand the general shape of an epidemic which is trying to push down on the peak number of infections in order to ease the burden of resources on the NHS, but also, equally importantly, the models are very helpful in terms of telling us what we need to find out and what we need to find out very much is how many people in Britain have actually been infected so there is a greater urgency in terms of developing an antibody test for a large random sample of the population because knowing how many people have actually had the virus will enable us to improve significantly the nature of the prediction that we make. At present I think we need to be very cautious about any quantitative predictions about the number of cases or indeed the length of time for which the lockdown restrictions are needed.

Third, collective insurance. This is an event which no one could easily have anticipated, certainly its timing, and I don't think it makes sense therefore to blame anyone in the private sector. The government has decided, for good reasons, to lockdown the economy which is going to damage business. I don't think it helps to think of this in terms of words like recession or even depression, this is not something emanating from decisions of economic agents in the private sector, it's a government decision to push down on economic activity and that means the government itself, on our behalf collectively, has to ensure first, cash flow to all businesses, large and small, and the self-employed and secondly, compensation for the lost takings.

The government needs to act as a purchaser of last resort. As Gerard said, many of the schemes that have been introduced are bold and big. I think there are still gaps and I think it's not really enough to say that the self-employed must wait until June. One of the difficulties is not so much the high-level policy decisions, although I think June is too far to wait for the self-employed, but it is actually the mechanism of delivery. Gerard mentioned banks and I think it's surprising that most bank branches are closed when we know in the financial crisis, the reason we rescued the banks was not to support the banks as such but to support the economy as a whole. What we now need is the banks and the people who work in the branches around the country to be there, both on the telephone and in person if necessary, to talk to businesses so that the emergency loans, which in principle are available, are available in practice.

Fourth, an exit strategy. I think this is going to become more and more urgent now, the idea that you can simply maintain this lockdown for months and months on end according to the development of a virus, I think is unrealistic and I think the government needs to find an exit strategy which is going to be gradual but it may lead to examine a method by which people who have had the virus are able to go back, travel and go to work. I also fear that if we maintain the lockdown for too long, there will be a rebellion against it because an awful lot of younger people will say, well we're the generation which has suffered in the last 20 years, why on earth is our future being put at stake in order to help prolong life expectancy for older people whose life expectancy may not be very high in any event.

The last point I'd make is that in terms of the future, what I hope will come out of this is when we think about systems that are vital to our economy and society, that we adopt the same measures as we do when we build nuclear power plants or even an aircraft, that is recognised that redundancy of capacity, some resilience is just as important as minimising costs that are currently running things more efficiently. We didn't do that in the banking system before 2007/08 and we must do it now for the health service in the future. Obviously, we can't build a hundred hospitals and leave them empty but we do need better plans I think for ramping up the ability to provide intensive care beds and to think about the sort of resources that we will need whatever the nature of the future crisis.

So, those are the few points I've made in comparison with 2008 – the need to avoid bogus complication when we don't have the information, the fact that we need to recognise this is a time for collective insurance, the need to build an exit strategy and the need in future to focus not just on efficiency but on robustness and resilience of key systems in our economy. Thank you, Juliet.

JULIET SAMUEL: Thank you very much and now we will hear from Lord Macpherson.

LORD MACPHERSON: Yes, good morning. I agree, not for the first and last time I agree with pretty much everything Mervyn said and I think Gerard made some very good points too. The government and the Chancellor have done a good job so far and, as others have pointed out, they are probably going to have to do more but the critical thing on these occasions is delivering policy quickly. My main reflection on crises is that the temptation *[break in transmission]* … and the critical thing, again policy intervention is about 66% right, we're doing a very good job. The critical thing from here on is to select policy interventions which make an impact quickly and my guess is that at some point we'll be using the social security system rather more actively to support those who are affected the most by this crisis, which tend to be the poorest in society.

The one point I'd like to emphasise along with Mervyn, is the issue of the exit strategy, you cannot continue in lockdown indefinitely and I'd also like to think that just as in the War – and I am cautious about wartime metaphors – just as during the War, Beveridge was writing his report on the future of the welfare state, I hope government is actively considering how we pay for this crisis, how we come through stronger. The critical thing there is getting the balance between taxation, borrowing and printing money – needless to say, I am quite cautious about printing too much money but the critical thing is to have a credible plan.

Also, we do need to use this crisis to get effect in terms of delivering new policies which up till now governments have found difficult to persuade the British people to adopt, so for example, Mervyn rightly raises the issue of excess capacity in the health service. I think the time has come to implement a health tax to help pay for both the demographic pressures and that spare capacity and just as Ireland used the financial crisis to good effect to reform the system of property taxation, I think there may be things that we can do there too. So, of course, we've got to focus on the short term but the shadow of this crisis is potentially great and we need to ensure that the country gets through this with relatively sound public finances.

JULIET SAMUEL: Thank you very much and we are now going to hear lastly from Lord Darling.

LORD DARLING: Thank you Juliet and good morning to everyone. I also agree with much of what's been said by my fellow analysts but let me start on making one point. Comparisons with what happened in 2008 are of limited value. There we could see what the problem was, we knew how to fix it – it was expensive, it was difficult economically as well as politically but we were able to do that. The problem with this today is really quite different, we are clearly not on top of this problem and if I make one point, which isn't a particularly economic point, and that is in relation to testing. Now, it's critical in any crisis and I've been through one or two when I was in government, that your message has clarity and the governments message on testing simply does not have clarity at the moment. I do not know if it is their intention to go beyond testing to rightly those who work for the NHS to testing the population as a whole, like they seem to be doing in Germany or South Korea, but it does seem to me that unless you know who has got this virus or who has had it, and therefore is more likely to be safer to go out and about to return to work, then we are always going to be on the back foot and I think the government really needs to be clear and tell us what are the intentions as far as testing is concerned. Is it just NHS staff, is it for the population as a whole? And if it is not for the population as a whole, how do they intend to find out who's got it and who hasn't?

Which brings me on to the second point that I wanted to make. I agree with much of what the government has announced, particularly their economic measures which the Chancellor has announced – and he has been very clear in his message and I think that's much appreciated. But the key – and again in my experience, it is very easy to announce a policy, it is much, much more difficult to get it delivered. Now, that applies in health measures that we have seen with the supply of equipment and so on but in relation to the economic measures that have been announced which are absolutely vital, particularly on wage replacement, it is relatively easy I think in relation to the people who are being furloughed where 80% of their wages are being paid by the government. But for the self-employed, as Mervyn King has said, actually delivering this is going to take far longer than I think many people may have actually got in financial terms and equally, the announcement made in relation to the bank facilities for individual businesses, just this morning we were hearing reports that people are finding it difficult to get access to the information they need from the banks in order to keep their businesses going. It is absolutely imperative I think for the government to concentrate on getting that delivery right. Policy is one thing but actually delivering it is a major part of what's needed.

When we are talking about exit strategies and what might come next, one of the difficulties of course is that we are very much in the foothills and I have my reservation about wartime analogies but it is a bit like asking in 1939, what's the world going to look like in 1945 and the answer is, completely different to what you might have thought. But I do think the government is going to have to start planning now on things that can be done fairly easily like a temporary VAT reduction for example, which I did ten years ago which was very easy to administer and did seem to have some effect.

Then there are also the bigger issues and maybe we won't have time to touch on those today. I agree very much with what all the other panellists have said in relation to resilience: it is a classic case of something that has come on upon us, it was reported a few months ago as being something that was happening in China on the other side of the world and therefore people noted it but, as far as I can see, they didn't do too much about it and lesser governments have been guilty of this in the past but we do need to make sure that we are resilient because this won't be the last thing that will come and get us. We need capacity in the health service, we need capacity to deal with these things if we are physically not able to go to work or are restricted in what we actually do.

The second point I would make, a general point, is that in 2009 international cooperation was absolutely critical. We had countries from all over the world working together because frankly they were scared stiff as to what would happen if they didn't. Now, that international cooperation some might think is in rather short supply at the moment but just because one or two people perhaps won't play doesn't mean that others don't and I think we need to see far more both on the health front, because patently this is a virus that doesn't respect frontiers, but also on the economic front because governments will need to work as never before together, if we are going to get through this and rebuild our economy and the economy generally. We are never going to do that simply trying to do these things on our own.

JULIET SAMUEL: Thank you very much and we are now going to have some questions and we had some submitted ahead of time so I'm going to start with one that has come up a few times and that is on the theme of monetary policy and whether what we're seeing effectively is into the use of modern monetary theory and if so, whether we are going to get massive inflation after this crisis subsides and what the policy developments could be after the worst of this is over and we're dealing with the aftermath. So, Lord King, if you would like to start by answering that.

LORD KING: I think the big answer is to echo directly what Alistair Darling has just said which is I don't think that we're suffering from inadequate policies at central bank level, it's the implementation and delivery of the special schemes to get cash for businesses, large and small, and the self-employed and to make sure the schemes, having been announced actually work as intended. I don't think that slipping into modern monetary theory – which I don't have a lot of time for because it's actually not new at all. In essence central government can always print more money by engaging in asset purchases, that's what we've been doing for a long while now. The issue is how much money to print and the answer to that question depends on circumstances. When circumstances are as they were in 2008 or as they are today, it may well make a lot of sense for the central bank to print more money to deliver a bigger demand for liquidity but as long as the central bank can reduce that or offset it in years to come, there is no reason to believe this would feed through to higher inflation.

I don't think that monetary policy is the essence of what we need, there is something that will come into play once the epidemic comes to an end, the lockdown ends and we can get back to normal and then central banks can decide how to calibrate their stance on monetary policy. I don't think that's a serious challenge or an issue for us today. Whether we get inflation down the road or in the future will depend on what central banks and governments together do to handle the question of the much larger amount of government debt with which we will leave this crisis and as long as we do it sensibly and are willing to take time to gradually allow the ratio of national debt to national income to fall slowly over time, then we'll be fine. The only risk in terms of inflation is, to use the phrase that many people have been using, fiscal dominance which is where the government determines how much money gets printed and I don't suppose and I have no reason to believe we'll go down that way. What we've seen in England is the Bank of England, the Treasury, regulators working extremely well and closely together and in many ways more effectively than their counterparts overseas, and after we've been through this there is no reason to believe that the government is suddenly going to tell the Bank of England this is what you must do to interest rates or money printed. We can revert to our normal independence in the central bank for monetary policy but in a crisis, naturally they all work closely together and that is exactly what is happening now.

JULIET SAMUEL: Do any of the others of you want to say anything on that topic?

LORD DARLING: Just briefly, Juliet, if I may. I agree with what Mervyn said, the most likely cause of an inflationary period is supply constraints. If you can't get fruit and vegetables out of the ground, out of the fields and into the supermarkets, prices will go up. It comes back to the point I was making earlier which is about delivery. It is not beyond the wit of us I think to ensure that there is the labour there, there is the transport to get stuff into shops and supermarkets and so on but if we don't concentrate on delivery, we will have problems. I agree with Mervyn King that it's not monetary policy we are talking about here, I'm afraid it is just rolling up your sleeves, talking to the individuals concerned and making things happen.

DR GERARD LYONS: If I could just very briefly say something, Juliet. I echo what has been said, in terms of the worries about inflation etc. With any policy response one needs to judge it in terms of the starting position and the context of the time, the problems you face and I echo what's been said. It is quite clear that monetary policy has done much of the heavy lifting over the last decade and I think going into this crisis and actually most people were in agreement that in the next crisis, whenever it occurred, whatever it was, there was a greater scope for fiscal policy to play a bigger role and that's what we're seeing. What is clear is that we need to have a whole of government approach in terms of consistency between monetary and fiscal policy and in terms of exit strategies, whilst the inflation worry is there as Lord King has touched on, I don't think those inflation fears need to be overstated given the likely policy response. It also depends, as Alistair Darling just touched upon on the supply side, we need to ensure that as much of our supply side is protected, it is effectively in hibernation during this crisis, so that we don't suddenly hit supply-side constraints. But one of the longer term problems of the UK – and it's not just true of the UK – is that in good times we often spend too much and these are the times policy needs to be tightened. If one looks back to 1970, we have only had six years when we've had a budget surplus. Obviously, that is not the issue at the moment but maybe when we start to return to normality, it is about trying to achieve some normality, whether it may be in terms of budgetary policy and also monetary policy in the future. But I think we need to be doing as much as possible at the moment.

Question and answer

JULIET SAMUEL: So, we are now going to go to some questions and the first person we are going to go to is Tim Wallace and it may take a second or two for your microphone to turn on so start with a pause then say who you are and what organisation you are from, so Tim. Hello, Tim? He has disappeared again. We'll come back to Tim and maybe we will go instead to Julian Brazier.

JULIAN BRAZIER: Is that working now? Julian Brazier, Chairman of Pathway Risk Management, a security company. Can I just say a long-term gain for Policy Exchange from all this business is keeping this really good new format for some of your events. My question really was, have the panel thought at all about the relationship between economic activity and mental health because we hear a lot, and Mervyn touched quite centrally on this, about the importance of finding an exit strategy. It's not only the economic implications of all this enforced activity, it's also the health implications.

JULIET SAMUEL: Who wants to respond to that?

LORD KING: Can I step in, Juliet, and make one comment. Good morning, Julian. I think this is a very important point because it's understandable that in present circumstances the health officials focus on the broad brush of introducing the lockdown in order to diminish the spread of infection but the reason why we need to think carefully about an exit strategy and why it's urgent, is because the lockdown itself is creating damage, not only to the mental health of people who lose jobs and whose businesses disappear, the people who find it hard to get food, who are stuck and on their own. Particularly the younger generation for who we have cancelled their university education, we've cancelled the exams of people at school – this is going to have a long-lasting effect on their wellbeing and careers. Therefore, I think it is very important that we think carefully about how we can diminish the side-effects of the lockdown we have introduced. It is just not enough to talk in terms of we'll need to keep the lockdown going for so many months in order to squash down the curve: the lockdown itself is potentially damaging, we need to balance that against the benefits of squashing down the curve. We need to be conscious of the fact that the lockdown should not be permitted to stay in place indefinitely because of the damage it will do, not in economic terms – as you stressed Julian – but in terms of welfare and more generally mental health and the wellbeing and future of the younger generation who have been adversely affected.

LORD MACPHERSON: I very much agree with Mervyn on this point and I'm going to be watching the Swedish experience closely because they have adopted a very different approach from most countries in Europe. I do think the most important thing is to maintain consent and that also requires police forces and other agencies to act proportionately and sensibly.

LORD DARLING: It's worth remembering that we are only two weeks into this and when people talk about it may have to continue until June or July, that's a long way away. Coming back to the point I was going to tell you about testing, I've spoken like a few others have, to people who think they have had this virus but they don't know and they would like to know because if they knew then they could plan accordingly, so I think the government does need to start thinking about this and now is when they need to start thinking about it.

JULIET SAMUEL: Our next question is from Eric Albert.

ERIC ALBERT: Hi, I am from Le Monde, the French newspaper, thank you for organising this, it is very interesting. I just had a quick question, Mervyn King said it was hard to ask in 1939 how the war would look like in 1945 but can I try to see if you see this crisis as the great return of the ??. There is consensus now among the panel that there will be a need for more resilience in the health system. More resilience in the banking system has been put in place in the last ten years, Britain has always been at the forefront of creating the welfare state in '45, creating privatisation and liberalisation in '79, are we seeing one of those turning points now with the state coming back? A more precise question, the UK and also Italy and France and others in the eurozone will have massive debt following this crisis, what should they do? How should they handle that? Should they start to worry about the kindness of strangers, a lot of foreign countries, not necessarily nice foreign countries, owning a lot of debt of western countries? Thank you.

LORD DARLING: I'd just say this, I'd be worried about making sweeping statements about it's all going to be different. Some things will be, there are some things that won't. I think perhaps there will be a recognition that governments, the state is not just the owner and the insurer of last resort but it may for a while be the provider of last resort and I think we need to recognise that at the end of the day, only the state is the big enough to do some of the things that we need to do. Some things will change, you were asking Eric about privatisation and I think death knell of the railway franchising system has been sounded very clearly, it won't go back to what it was because patently it didn't work. The government, the state, may well have to for a while, either on its own or in partnership, will need to provide other big infrastructure, whether it is energy, whether it's for sewage, whether it's airlines, I don't know, but I think there has to be a recognition, a grown-up recognition that there are some things that individuals can do and should do and are expected to it but there are times actually, the reason that we have a government is to do those things we can't do, especially in terms of emergency.

DR GERARD LYONS: I'll just come in if I may, maybe if I could take the second part of Eric's question on debt first. It is a worry always but if one looks at the UK, we have had a number of times where debt/income ratios have really soared, usually after wars for natural reasons but if we take the lesson after the Second World War when debt was at 240% of GDP and now it is about 80% and likely – who knows – to go above 100%. One needs to have policies aimed at reducing it steadily over time. A money to GDP target, I think, would help, so it's about consistency between monetary and fiscal policy and it's about a credible framework to actually reduce that debt over time and to do it in a consistent way. One of the benefits the UK has compared to some of the European countries that Eric mentioned in his question is the Debt Management Office here has done a fabulous job, the maturity of our debt is very long, it's about 12, 13, 14 years. Some of the countries on the continent clearly face a bigger challenge there, so it's about ensuring the markets are kept on side but the debt challenge is there. One of the things we need to make sure of after this crisis is that we don't burden corporates and individuals with debt. The government here and elsewhere has the ability to borrow cheaply and easily and it should take the strain.

Just secondly, and very briefly, on the longer-term lessons. Obviously, it depends on consumer behaviour but there are some areas where there will be a need for greater globalisation, on health issues as there was on the financial issue after 2008, but there will be some de-globalisation, driven as much by the behaviour of consumers and companies, in terms of taking more activity back home, but that's a natural consequence. But some of the longer-term global trends that we saw in place before this crisis, the fourth industrial revolution, the emergence of the Asia Pacific Region, those will still remain in place. It is the UK having stability and policy at home that is still positioning itself globally as well. Globalisation will still be there in some key areas but de-globalisation will be evident, as much driven by consumer and corporate behaviour as well.

JULIET SAMUEL: I would like to hear Nick Macpherson's answer to the idea that the role of the state will be owning our railways and our water and whether that would be a permanent change.

LORD MACPHERSON: On the face of it, we are going to see some change. Alistair mentioned the railways, I don't see how the franchise system can survive this crisis. The state may end up owning a few airlines and the sheer cost of this crisis is going to result in a lot more debt so we are going to have to tax people more, this has to be paid for in one way or another. But ultimately there's a choice, the approach after the Napoleonic Wars where effectively the debt was paid for by Gladstonian liberalism based on sound public finances or you can use the approach after the Second World War which was effectively to use inflation as a way of running down the debt and by the mid-70s, despite going to the IMF, actually our debt to national income was considerably lower than it was after the war. Inevitably at times like this everybody focuses on macro-economic policy, actually if we are going to pay for any of these things it is micro-economic interventions which matter, have we got the skills, the investment, the innovation systems in place which will enable the economy to grow because along with inflation, one of the great successes in the 1950s and 1960s was a higher rate of growth which makes it far easier to pay for a bigger state.

JULIET SAMUEL: We are now going to go to Phil Aldrick.

PHIL ALDRICK: Thanks for your comments everyone. I just wondered, in terms of delivery, is it easier to use grants or to use the banking system, state grants or the banks? Is it conceivable that the exit strategy for public finances and the level of debt could be managed through temporary tax rises or do you think it is going to be a permanent shift in the size of the state, in terms of the size of tax revenue taken by the state?

JULIET SAMUEL: Who wants to answer that first?

LORD DARLING: A temporary tax? That's what Income Tax was when it was introduced by Pitt and it is still temporary as were the prefabs after the Second World War, some of which are still going strong albeit a bit re-clad. Look, let me say briefly, I don't think you can talk about temporary taxes. The fact is at some stage this is going to have to be paid for but to go back to a point that Nick Macpherson made, one of the best things the government can do at the moment is to try and avoid the damage that will have to be paid for, reduce the damage and that's why I emphasised at the start the delivery of these policies to make sure that people get the money that they have been promised, the businesses get the money. You asked should it be grants or should it be loans, I suppose you need a mixture of the two. The point I am really getting at is to make sure there are actually the people who can ensure the loan is granted or the people who can ensure stuff gets into supermarkets and that's a logistical thing rather than passing a policy and so on. I keep emphasising this point, the experience that we had when we had the fuel shortages at the beginning of the century and foot and mouth and so on, it is the delivery, actually getting people to do things, that's the crucial bit and if we don't get that we'll pay a much heavier price than would otherwise be the case.

LORD MACPHERSON: Look, grants and loans, it is lot easier to use existing systems than invent new ones from scratch but as you've seen with the building of the hospital at the ExCel centre, if the state really turns its mind to thing, it can do it. Imagine foreseeing the Treasury printing a whole lot of bank notes in three days, ration books were produced at very short notice, so it's a question of prioritisation more than anything else. Coming back to the taxation issue, there was a really interesting debate after the First World War where a number of people advocated a capital one and for all way of dealing with the debt which had been accumulating. It didn't happen but I do think we need a better debate about taxation and the government can take the lead on that by acknowledging that there aren't simple solutions to these problems, in the end public expenditure has to be paid for one way or another.

LORD KING: Juliet, can I make one comment on this which is the whole point of having a national debt is when you face a short-term crisis or emergency, you actually allow the national debt to go up. You don't suddenly impose much higher taxes in order to finance short-term demand and there is a risk at present that because the size of the national debt may go up considerably, that means that the economic damage will in the long-term be very great. Provided we listen to what Alistair has just said, that we should focus on the logistics and make sure that we do not allow businesses to fail and collapse in this current crisis, then the turnround in GDP could be very rapid and we may find that the longer economic cost is actually pretty small and can be financed by what seems to be quite a large rise in national debt but which, spread over many years, will be actually relatively straightforward to finance. That's why the national debt, it's to smooth the tax burden that we have to impose on businesses and on households and if we can get the logistics right, then the economic cost could actually be relatively small.

JULIET SAMUEL: We are now going to go back to Tim Wallace, hopefully.

TIM WALLACE: Hello, this is Tim Wallace from The Telegraph. I am interested in the view that we might use more international collaboration. I was thinking about a new Marshall Plan, so what would that look like and who would pay for it?

LORD DARLING: Going back to 2009, one of the things that helped restore confidence was the fact that all countries, all of the big economies, did exactly the same thing. They put money in to shore up their banking system and, critically, in the post-crisis months that followed, to put in place reflationary policies that stopped a recession becoming a depression and the fact that everybody was doing it meant that no one country was picked off, it meant that you had confidence that everyone was working together. The problem we have got to day is the response both on the health front, from when we started telling people to self-isolate, in terms of testing which I've mentioned, that is not being done in the same way and I think if there were more coordination on that, trauma cooperation, that would be helpful. Equally, in relation to the economic response, quite clearly it will have to be tailored to individual circumstances of individual countries and I think here there is a bit more encouragement in the sense that everybody has announced a package of one sort or another but I think that, and also the message coming out from world leaders, the more people who make it clear that they are on the same page, that affects confidence and confidence matters because it is not just a question of going out and keeping economic activity going but also, the point that both Nick

Macpherson and Mervyn have made, that it's people's morale, if they think people are pulling together. So, I am not advocating, who knows what a Marshall Plan would be in these circumstances and it is very difficult to see that happening actually, but who knows whether a big measure like that might be appropriate a little bit further down the road, but I can't over-emphasise this. If we can get things sorted out better now – and don't get me wrong, a lot of good things have been done but if we could execute them now, as Mervyn has said, we might save ourselves a lot of pain later on.

LORD MACPHERSON: Just to reinforce that, I think the striking thing in 2009 and 2008 was the extent of international cooperation. I think we now see far less cooperation internationally, partly because many countries in the G7 hold different views on the way forward but if ever there was an opportunity to start reducing trade barriers and encourage freer trade, it's now.

DR GERARD LYONS: I would echo was Nick has said and Alistair Darling. One small thing is the idea of a G20 Secretariat needs to be raised. I was very disappointed on the eve of this crisis with the G20 meeting in Saudi. It was only the last sentence of the first paragraph that in passing they mentioned the virus. I think the idea in political terms of having the roaming G20 makes sense but maybe to actually coordinate policy and to make sure things don't fall through the gap, to learn the lessons of this crisis, maybe there should be a case for a G20 Secretariat and who knows, maybe London would want to host it. I think that's another issue that should be raised in the future.

JULIET SAMUEL: We have three more questions so if you could keep your answers brief everyone. The first one is from Nicky Morgan.

NICKY MORGAN: Talking about delivery, which is absolutely right, Mervyn talked about having people potentially in bank branches because obviously lending and approving loans is going to be part of this and then Alistair talked about having people to approve the loans. The trouble with this crisis of course is having people in branches is the one thing the public health people do not want, they don't want people going in so actually is this an opportunity for Fintech, for new ways of approving getting money to businesses and I wondered if you think the banking sector is set up enough for this and in particular, this issue about them asking for personal guarantees from directors for loans to SMEs. So, they are just carrying on doing things in the way that they normally do. Do you think that our banks are prepared to be flexible enough and that they have got enough tech so that people aren't necessarily physically sitting there talking to customers but are able to help them get money to their business?

MERVYN KING: If I may respond to that. I don't think that the banking system has got time now to think about Fintech and all this. I think that the management of the banking system needs to give very clear instructions to their staff, I see no reason why we shouldn't think of banks as part of the essential emergency system to keep the economy going. We're allowed to go into supermarkets, people can manage that, they have a queue outside, a limited number of people in the supermarket. We have learnt to cope with that in a way that is compliant with the health restrictions and I see no reason why banks could not be open and comply with exactly the same sort of restrictions. Unless we find some practical mechanism – there may be others – but we have to do something to ensure that the schemes that have been announced can actually have the effect that they are designed to achieve. I am not sure that that's happening at present.

LORD MACPHERSON: Just to agree with Mervyn. A well-run bank will have a well-developed business continuity plan and I know of at least one small bank which is very much open for business, working from home consistent with the restrictions so it can be done and it is down to the banking system to step up to the plate.

LORD DARLING: It's a useful first step, just to be able to speak to somebody because they can say yes, you quality or you don't or yes, you qualify but this what you have to do and I think most people would be happy to visit the bank on that basis. I think all of us are probably one step removed from that but what I would say is I think the government has to get in there and find out what is actually happening on a day to day basis because it is clear that there is still quite a bit to be done to deliver it. Again, there are things that we can do that can be done today rather than at some point in the future.

JULIET SAMUEL: Bank IT projects don't have the best track record. We are now going to go to Vicky Pryce.

VICKY PRYCE: On March 11th, which seems like ages ago, the Chancellor had very ambitious infrastructure spending plans for the following years and also all that levelling up that we heard about. Do you think that it is quite likely that in order to do something about the finances when we come out of this crisis would be the simplest thing that we've always done, which is basically cut capital spending and what would the implications of that be? Or is that one way that the Chancellor will react, or certainly the government will react, when we get out of it? So, in other words, forget everything else that was said, we have to build finances first?

LORD DARLING: I have always said that the best thing the government can do is to concentrate on those projects that can be delivered quickly and without delay and therefore smaller, more manageable projects also seem to be, and I'm thinking about transport in particular or housing, to be much more sensible than perhaps, how shall I put it, some of the more grandiose projects that may materialise in the next 20 or 30 years but possibly not before that. Still, I would concentrate on what you can deliver now. It will be very short-sighted to say we're not going to do any of these things because the problems that we had before March 11th are still here now but for goodness sake, I've said this before, I've announced projects in my time in government which still haven't been delivered, particularly the largest ones. Concentrate on something that you can deliver, that's almost shovel-ready and get going on it and that would be my best advice to whoever's in charge at that time.

DR GERARD LYONS: If I can come back to Vicky on this, I don't think infrastructure should be or will be the casualty on this. We've touched, all of us, on longer-term lessons for the robustness of the health system but in terms of economic policy it is about delivering stronger economic growth, certainly as Nick touched on, to actually start to reduce that debt to GDP ratio. As part of that stronger economic growth and raising our bar and raising our game has to be delivering on infrastructure and all the other I's – investment, innovation and getting the incentive structure right and reducing inequality. So, infrastructure should not and I don't think will suffer and I hope it doesn't, obviously.

LORD MACPHERSON: I am in complete agreement with Alistair on HS2, it's expensive and I think it may well involve technology that is obsolete by the time it's finally built so again, I'm with Alistair, you want to prioritise projects that you can deliver quickly, which will make a real difference, i.e. those which have the biggest economic returns. HS2 doesn't have a very high return. Vicky, let me reassure you, I think it is important that you prioritise infrastructure more than ever but that might require difficult decisions on consumption because one of the problems in Britain is not only the British people but the politicians they elect are addicted to consumption, which is why as a country we tend to save less and invest less.

JULIET SAMUEL: And we are just going to squeeze in one more … Oh sorry, no, we're out of time so thank you very much to all our panellists and thank you to everybody watching this first Policy Exchange webinar. I was going to say hopefully the first of many but hopefully not because hopefully we'll be able to do this in person standing two metres apart very soon. So, thank you all and see you next time.