

LECTURE TO THE WORSHIPFUL COMPANY OF ACTUARIES
Monday 26 October 2020
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Good evening and thank you for virtually joining this lecture.

As we are painfully discovering right at this very moment, the coronavirus pandemic is far from over.

But, at the beginning of August, when I accepted the invitation from Fiona Morrison to deliver this lecture, it did feel like the right time to start thinking about what lessons we should learn, as a nation, from covid-19.

The fact that we still have a very long way to go to control this virus means that, by definition, this is just an initial contribution to what we might learn.

The immediate issues around Personal Protection Equipment, testing, care home mortality and the timing of lockdown entry and exit have all, rightly, featured strongly in early analysis of lessons to learn.

So what I want to do tonight is point, in a spirit of enquiry, to some of the wider and deeper lessons we might learn.

Five questions

I want to focus on five questions, taking each one in turn.

They are:

First, do we need to improve how we manage the high impact, low frequency, risks to our national way of life, of which a global pandemic is obviously one? **[Slide 2]**

Second, since most of those, way of life threatening, risks cross nation state boundaries, do we, as a nation, need to do more to ensure that there are more effective international ways of managing those threats? **[Slide 3]**

Third, how are we going to tackle the deep scar of inequality in our nation which this pandemic has, once again, brought into sharp relief and is now exacerbating? **[Slide 4]**

Fourth, do we need to improve the way the machinery of the state operates with particular emphasis on the balance between local and national government? **[Slide 5]**

Fifth, given that we have successfully increased Government borrowing to meet the extra costs of the pandemic, to an extent unprecedented beyond wartime, what does that mean for the future of our public finances? **[Slide 6]**

It is, as you can hear, a broad and ambitious canvass.

So I am, by necessity, going to give you a top line, sketch, map for each of these questions.

Question one – national level risk management

So, first, national level risk management.

Preparing for infrequent, high national impact, events is a core function of Government. At its most basic, Governments are there to keep their citizens safe.

It's still too early to determine what has caused the vastly different covid-19 mortality rates in different countries.

Population density. National age and broader demographic profile. The underlying health of the nation and prevalence of relevant co-morbidities. The openness of national borders. The relative effectiveness of national health and care systems including recent previous experience of managing a pandemic. These are all likely to have played their part.

It is striking, though, that many East Asian countries seem to have more effectively heeded the lessons of earlier pandemics and prepared more effectively.

Sars in 2003. Two flu pandemics, H5N1 in 2006 and H1N1 in 2009. Ebola in 2013. And Mers in 2015.

These were, in hindsight, clear warning signs for us all.

It is concerning if, as widely reported, the impact of a global pandemic was top of our UK national risk register.

It feels reasonable to ask, as the former Cabinet Secretary, Sir Mark Sedwill, was doing last week, if a global pandemic was the top risk, should we have had better plans in place to mitigate and manage that risk? **[Slide 7]**

Better plans on personal protection equipment, care homes and testing and tracing?

I raise these issues not as a party political point, to attack the Government's response to the pandemic. But as an effective national governance point. If this was our number one risk, could we have done better?

I've been impressed by the way that the NHS trusts that my organisation represents, manage risk.

The amount of senior leadership team they spend identifying and mitigating their most serious risks.

The quality and rigour of the risk management process.

If they'd had this risk at the top of their risk register, and then seen some of these gaps emerge, they would want to ask themselves, in a spirit of learning and continuous improvement, what can we do better going forward?

For me, this fits into a wider pattern where a succession of UK national governments seem to have found it difficult to successfully tackle a number of long term problems.

Social care, housing shortages, technical education, tackling inequalities, to name a few.

Problems that are dependent on Government solutions and require local Government, central Government and civic society to come together.

Problems that transcend the immediate electoral cycle and require a strategic, long term, benefit the nation, approach. Not a tactical, short term, gain an electoral advantage, approach.

Problems that aren't easily solved and require complex, detailed, long term, thinking.

It would be easy to argue that all national Governments struggle with long term, complex, problems of this type. That it's difficult to create effective ways to solve them.

But that isn't necessarily true.

There are structural ways to govern which can deliberately look beyond electoral cycles.

[Slide 8]

Which can deliberately place a premium on anticipating future risks.

Which can deliberately tilt policy formulation away from the short term where the natural political tendency, with its focus on the competition for votes, lies.

Which can deliberately embed a structural focus on longer term national needs.

Scandinavian countries have a much greater emphasis on using cross party machinery, rooted in parliament, to generate national consensus on these difficult, long term, issues.

The Welsh Government now has a formal legal requirement to consider the needs of future generations in what it does.

Singapore has a 20 year plan.

We are, to be fair, making some steps in the right direction.

We do now have a National Infrastructure Commission.

An Office of Budget Responsibility.

We did use independent policy commissions to address tricky, long term, problems such as the future of pensions and the third runway at Heathrow.

But one of the key tasks for any post covid public inquiry will be to determine whether we now need to go further.

And, in particular, to determine whether our national risk management system, approach and infrastructure need significant strengthening.

Question two: supra national risk management

I've just talked about our national management of high impact, low frequency, events that can threaten our way of life.

But the reality is that, in today's inter-connected world, all of the key threats are global, supra national, threats. Or have strong, global, supra national, elements to them. **[Slide 9]**

For covid-19, this is a virus that started in China but has transmitted across the globe because of the ubiquity of international air travel.

Given the novelty of the virus, it's been particularly important for nations to learn rapidly from each other how the virus works and how best to combat it.

This brings me to my second question.

Global pandemics. Climate change and global warming. Major volcanic eruptions. A coronal mass ejection from the sun causing a geo-magnetic storm that knocks out the electrical and IT infrastructure on which we are now so dependent

These aren't the stuff of science fiction.

They are real threats that should be amongst the top items on any global risk register of events that could threaten our current way of life.

Crucially, they all have no respect for national boundaries. They can only be managed effectively, or are best managed, on a supra-national basis. **[Slide 10]**

And yet, as climate change has demonstrated, the international infrastructure devoted to addressing these issues is weak, rudimentary and ineffective.

The dominance of the nation state over the last century has prevented the development of a robust, strong, capable international infrastructure that can ensure nations come together effectively to meet these global challenges.

Synchronised global action also tends to become particularly difficult when the predominant world powers are in conflict with each other.

And it seems pretty likely that the growing tension between the US and China is going to be one of, if not the key, geo-political dynamics of the next couple of decades.

We can already see how that might play out in the current problems the World Health Organisation faces where the US is now threatening to withdraw funding and participation because of a perceived WHO pro-China bias.

Despite the important contribution the WHO has made to combatting covid-19.

So, what does that mean for the UK? **[Slide 11]**

Some argue that we are a small, unexceptional, little island of 65 million people on the periphery of the European land mass.

And that we should stop having ideas above that station and accept the new world order.

That we are, in reality, bit players, who have been outpaced in the global influence stakes by countries with larger populations and faster growing economies.

But that ignores the fact that, as a result of our history, we remain in a strong position to influence world affairs.

We are members of the G7. We have a permanent seat on the United Nations Security Council.

The English language.

Our university and science sectors.

Our cultural output.

The status of London as one of a very small number of elite global cities.

These all give us outsized soft power and influence.

They give us the potential, in alliance with other nations, to help build the effective international structures that we so patently need to manage these global threats effectively.

UK Governments aren't going to get elected on manifesto commitments to work with India, Germany and Japan to improve the international infrastructure to meet global threats.

But it feels reasonable to ask whether, as one of the learnings from covid-19, we want to maximise our potential influence in pursuit of that end.

If we do, logical consequences follow.

Government leaders need to allocate appropriate amounts of their time and energy to this agenda, with a consequent impact on how much they can focus on domestic or other international priorities.

We need to develop, train and fund our foreign relations capability and capacity accordingly. Recognising, for example, that the role of British diplomats isn't just to improve Britain's international trading position, important though that is.

And we clearly need to work out how we are going to exercise the required influence in a post Brexit context when we have left the European Union.

Question three: the persistent inequalities highlighted by coronavirus

One of the truly shocking features of coronavirus is the way that it is disproportionately impacting our nation.

Put simply, this virus is having a much greater negative impact on the most deprived and disadvantaged in our society.

Widening existing inequalities that were already painful and difficult enough. **[Slide 12]**

So my third question is a more direct one.

What are we now going to do, as a nation, to address those inequalities?

Inequalities in health, education and employment outcomes. Inequalities of income and wealth distribution. Geographical inequalities, for example regionally, between London and the rest of the country. Inequalities based on race and ethnicity.

The argument and statistics are much the same, whatever the form of inequality.

These inequalities are, in many cases, getting worse. The UK tends to be towards the bottom of European league tables on many of these measures. And covid-19 is exacerbating these inequalities.

So let me talk about the impact covid-19 is having. Drawing on the early work that the Health Foundation, amongst others, has done in this important area.

We didn't start from a good place going into covid-19.

In February, just as we were starting to see the spread of covid-19 across Europe, the Institute for Health Equity looked at UK health inequalities over the last decade.

They found that regional and socio-economic differences in health are large and growing. And that improvements in life expectancy had stalled.

Someone born in one of the most deprived areas of our nation is now expected to live 19 fewer years in good health than someone born in one of the least deprived areas.

A shocking statistic.

We therefore faced this virus from very uneven starting points.

Because the impacts of covid-19 are, as we now know, most acute on those who already have poor health.

Of the 50,000 people in England and Wales whose death between March and June involved COVID-19, 91% had at least one pre-existing health condition.

Pre-existing health conditions are related to age. But, as I just set out, the risk of developing a long term health condition is strongly influenced by where you live and the level of deprivation you face.

Health Foundation research found that, in the least deprived fifth of areas, people can expect to have more than two health conditions by the time they are 71 years old.

But, in the most deprived fifth of areas, people reach the same level of illness a whole decade earlier, at 61 years of age.

So, if you adjust for age, the covid-19 death rate in the most deprived areas of England has been more than double the death rate in the least deprived areas.

Another shocking statistic.

And it's particularly important to note that this doubling is greater than the inequality in mortality rates, from all causes, between those areas in the years before covid. Clear evidence that covid-19 is growing inequality, making it worse. **[Slide 13]**

But it's not just mortality rates where covid-19 is exacerbating inequalities. Wherever you look, the wider effects of covid-19 are having a disproportionate impact on the most disadvantaged in our society.

I suspect that most of us at this virtual lecture today have spent the last eight months largely working from home. In large, comfortable, houses. Jobs secure and income preserved. Probably spending less money than we normally do and saving more.

But the last eight months have been very different for the most disadvantaged.

Those on lower incomes are more likely to have had to continue travelling into work, exposing them to greater risk of contracting the virus.

Less than one in ten of the lower half of earners say they could work from home during lockdown. That compares to 50% of the highest earners saying they could do so.

31% of adults in the UK have said that they have experienced mental or physical health problems during lockdown linked to the lack of space, or the condition, of their home.

An estimated, record, 3.7 million people were living in overcrowded homes during lockdown, including 1.6 million children. People who reported a lack of space at home were, not surprisingly, more likely to report experiences of depression and lack of sleep.

People already in the deepest forms of poverty have experienced some of the worst employment impacts of covid-19.

Two-thirds experienced a negative employment change, either through losing their job, becoming furloughed or experiencing a change in hours or earnings. This contrasts with half that number from those living more than 20% above the poverty line experiencing similar negative impacts.

Many low-income families have been forced to rely on emergency support and cut back on essentials in the face of higher costs arising from their family staying at home.

A poll of 3,000 families with children claiming Universal Credit or Child Tax Credit showed around 7 in 10 families have cut their spending on essentials and activities for children such as books and toys.

50% of respondents said they had needed to cut back on food. 6 in 10 families said they have also been forced to borrow money since the start of crisis – with many relying on payday loans or credit cards.

This is in stark contrast to those higher up the income scale. 57% of adults in the top 20% of working-age family incomes reported falling, not rising, levels of household spending. And higher levels of saving. As lockdown cut non-essential spending.

There is also strong evidence that school closures will have disadvantaged those children with fewer opportunities for home learning.

Reducing the vital beneficial impact of education in social mobility, improving access to good jobs, higher wages and greater financial security.

And all this is before we consider the well reported disproportionate impact of covid-19 on race and ethnic inequalities. There are shocking statistics here too.

After accounting for the effect of sex, age, deprivation and region, people of Bangladeshi ethnicity were twice as likely to die from covid-19 as people of White British ethnicity.

People of Chinese, Indian, Pakistani, Other Asian, Black Caribbean and Other Black ethnicity were between 10 and 50% more likely to die from covid-19 when compared to people of White British ethnicity.

More evidence of covid-19 exacerbating what were already significant inequalities.

The causes behind these patterns for different ethnic communities are likely to be complex and interlinked.

Because these different forms of inequality are linked. They are not separate silos - pockets of race and income inequality here and housing and educational inequality there.

In the words of the Health Foundation, the search for why people from many ethnic minority communities have been disproportionately impacted by covid-19 needs to start by recognising the economic disadvantage that places these communities at greater risk.

Deep rooted race discrimination in our society creates systemic barriers to the conditions needed to live a healthy life. It drives unequal access to the good jobs, good housing and good educational opportunities that underpin healthy lives.

These systemic barriers, and this deep rooted discrimination, directly contribute to poorer health outcomes among some within our Black, Asian and Minority Ethnic communities when compared to white British people.

So, wherever you look, the evidence is clear. Covid-19 is rapidly exacerbating what were already wide and significant inequalities.

It is presenting our nation with societal challenges not seen since the second world war.

History shows that the searing experience of that second world war galvanised our nation into a new social compact based on the principles of equality and fairness.

Freedom from want, disease, ignorance, squalor and idleness.

It was a social compact that led to the foundation of our welfare state including the National Health Service, its globally admired centrepiece.

The question is whether we can now use covid-19 to forge a new social compact for a new generation. To tackle the inequalities that exist in our generation. **[Slide 14]**

Ensuring our social security system protects people from severe deprivation, providing an adequate standard of living with a particular focus on avoiding child poverty. Whilst avoiding the welfare dependency that saps the legitimacy of that support.

Shifting health spending to the prevention, rather than treatment, of illness. Better supporting citizens to look after their own health and wellbeing, with a particular focus on deprived communities.

More equal access to quality, secure, affordable housing.

Concerted action on the systemic barriers facing Black, Asian and Minority Ethnic Groups.

Economic development and regeneration to the communities where it is needed most.
Creating good, high quality, 21st century jobs.

Question four: the effectiveness of our state machinery in the day to day work of combatting coronavirus

My fourth question is to ask whether our state machinery has been effective enough in the day to day work of combatting coronavirus. **[Slide 15]**

And whether there are wider lessons for how we run our public services.

I've already talked about national level risk management – how effective were we, as a nation, at anticipating and meeting what was reportedly our number one national risk?

This is a different point.

How effective has our state machinery – the centre of Government, the different Government Departments, their delivery arms, and local government – been in the day to day work of combatting coronavirus?

I suspect that coronavirus has, once again, demonstrated that, in our highly centralised country, we may have the wrong balance between national and local government. That we need to devolve more and centralise less. **[Slide 16]**

One of the striking features of covid-19, playing out strongly at the moment, is the way in which the virus strikes at different rates, at different speeds, in different places, at different times.

Much of the media coverage focusses on a single national outbreak.

When, in reality, covid-19 is much better thought of as a series of regional and local outbreaks.

It was very striking how, in the first phase, the virus spread from London, through the West Midlands and then to the North. With the South West largely untouched.

It's very striking talking to hospital chief executives in the current phase. There is much public focus on the pressures in, for example, Yorkshire or the North West. But these pressures are being experienced to very different degrees by different areas within each different region.

Of course, there are many elements of the response to covid-19 that must be directed at a national level.

Vaccine development and purchase.

The strategic framework for financial support for businesses and workers.

When and whether to have a national lockdown.

But there are also many issues that are better handled at regional and local level.

It's no coincidence that if you look at many of the areas where we appear to have struggled most – PPE distribution, testing, contact tracing, the protection of care homes – the refrain has been that more local control would have provided better answers.

And that in many cases local solutions started to bubble up, of their own accord, to fill these gaps.

Local resilience forums acting as PPE distribution points for GP surgeries and voluntary organisations that couldn't get the kit they needed.

Local NHS trusts helping with infection control and testing for local care homes that desperately needed them.

These local solutions have, in many cases, organically sprung to life from the bottom up. And then assumed formal status, with top down approval, when they were proved to work.

NHS Test and Trace itself is perhaps a good example of some of the issues here.

The Government's initial, reflexive, response to the need for mass scale test and trace was a centralised approach.

Contact tracing performed nationally in a nationally contracted and nationally outsourced operation.

But there was always a strong argument that giving more control to local authority Public Health Departments was a better approach.

Because local Public Health Departments are better able to track hard to reach contacts.

Because they understand how their communities work.

And because they have multiple sets of data records they can cross reference.

They are better able to fashion targeted public health messages that will resonate with hard to reach local communities because they understand how to communicate effectively with those communities.

They are better able to identify the local leaders and informal networks that carry influence with those local communities because they work with those leaders week in, week out.

I understand why, in the initial rush to establish Test and Trace, Government went for a centralised, national, model.

Some things NHS Test and Trace is responsible for clearly have to be done at a national level.

But the last few months have, rightly and helpfully, seen a continual transfer of resource, power and control from national to local.

Because that's what works.

And that's what's needed.

But it would have been better to set the right balance between national and local from the start.

That requires a fundamentally different mindset in central Government.

That control needs to be vested as close as possible to where the required service is delivered.

In a word, subsidiarity.

And the right structure, the right funding and the right legal powers need to be vested at that local level.

There are massive opportunities here.

I talked, for example, about the importance of tackling inequalities. The economic data in the developed world is clear – more devolved systems tend to be more equal.

And, measured by the percentage of total tax revenue raised centrally, regionally and locally, Britain is, by some distance, the most centralised country in the G7.

One final quick observation on the effectiveness of our state machinery over the last eight months.

Much of the heavy lifting on combatting coronavirus day to day has been done by the delivery arms of central Government.

The Departmental arms length bodies, executive agencies and non ministerial departments.

Her Majesty's Revenue and Customs overseeing the distribution of much needed financial support.

NHS England and Improvement overseeing the frontline NHS response

Ofqual overseeing the response to the unique circumstances of having to cancel public exams.

Public Health England overseeing the public health activity required in any major pandemic.

NHS Test and Trace overseeing, at the drop of a hat, the creation of an at scale test and trace operation to cover 65 million people over 95,000 square miles.

This is difficult, complex, back breaking work.

Often being done for the first time ever.

At breakneck speed.

Involving almost impossible trade offs between competing objectives.

Where much is uncontrollable. A lot is unknowable. And some is undoable.

Where future projections of what might be needed are subject to massive fluctuation or wildly differing estimates.

And where, as we have seen, things can go wrong quickly, very publicly.

We will need to carefully review what has worked and what could have been done better.

[Slide 17]

There are, for example, as the Institute for Government has highlighted, important questions about accountability and governance.

What should Ministers and those delivery arms respectively be responsible for?

How do we marry the fact that Ministers should be responsible to parliament. With the fact that those Ministers will never have the technical skills and big organisation leadership expertise to lead those delivery arms day to day?

In doing this work, we must avoid the inevitable temptation to treat those delivery arms as a herd of handy scapegoats.

Threatening to deprive them of required independence.

Summarily abolishing them.

Or arbitrarily removing their senior leaders.

What we need is due thought and reflection.

In a spirit of openness and learning.

Not blame shifting and recrimination.

Question five: the future of our public finances

One of the main features of the response to coronavirus has been the impact on our public finances.

And this brings me to my fifth and final question. **[Slide 18]**

The Institute for Government estimated in mid September that the combined cost of government support, including the furlough scheme, extra spending on public services, help for business, higher welfare spending, and a drop in tax revenue, will be well over £300 billion of extra Government borrowing in this financial year alone.

And that's obviously now increased again, given the Chancellor's announcement last Thursday.

The Institute for Fiscal Studies estimates that, to fund the required borrowing, we will have to sell £1.5 trillion of gilts over the next five years. Double the estimate in the March 2020 budget. And easily the highest amount in recent history, outside the two world wars.

Interestingly, though, there seems no real doubt that this level of gilt sales is achievable.

No sense, as we had in the late 70's, of the Government being forced to alter its policy course due to its inability to fund its borrowing requirements.

So there is now an important debate about how we manage our public finances going forward.

And that debate comes at a fascinating time.

As The Economist argued in late July, a profound shift in economics now seems to be taking place. The size of shift that happens only once in a generation. **[Slide 19]**

Similar shifts, in a UK context, might include the arrival of Thatcherite monetarism in the early 1980's and central bank independence in the late 90s.

In a UK context, this shift has three key features.

First, the scale of Government peacetime borrowing, which I've already talked about, and the seemingly unlimited potential for more borrowing in the future.

Second, the scale of quantitative easing, or printing of new money, which means that, in reality, it's the Bank of England that's buying most of that newly created Government debt. Which helps explain the perceived low level of risk around those gilt sales.

Third, and most importantly, low inflation that has lasted for some time already. And, for many, looks set to last for some time yet. Potentially persistent low inflation rates of the

type we have seen in Japan. Sufficiently low inflation rates that make Government borrowing now look increasingly like free money.

So, what next? The public commentary on the future of our public finances shows, for me, the uncertain nature of this crucial debate. **[Slide 20]**

There are some who are arguing that we should take advantage of these unique economic circumstances, particularly the persistently low levels of inflation.

That large Government deficits and printing new money to fund the required Government borrowing are the new economic order of the day.

So we should take the opportunity to expand Government spending. To invest in our infrastructure, tackle climate change, make up for a lost decade of austerity. And not just cover the costs of covid-19.

There are others who are saying, just as passionately, that we forget the hard lessons of the 80's and abandon the gains of that decade of austerity, at our peril.

The discipline of sound public money is key.

That if we fail to get public borrowing under control after the temporary blip of extra covid costs, we risk saddling future generations with crippling levels of debt.

That by allowing central banks to buy such large amounts of Government debt, we are making our public finances dangerously vulnerable to even very small rises in interest rates.

Particularly since the current level of low interest rates may be a temporary, rather than a long term, phenomenon.

There are yet more who argue that there is a permanent shift here and higher levels of public debt are acceptable.

But if we are going to increase public spending, we should only do so to invest in the permanent expansion of our economy and its underlying productivity.

That the last thing we want is profligate Governments using this shift to try to splurge their way to short term electoral success.

There is, in short, good and bad extra public spending.

Much of this debate is rightly held in the political arena. That is where the key decisions on public finances are, and should be, made.

So it's fascinating to see this debate playing out inside the political parties just as much as between them.

You can almost touch the tension in the Tory Party between the old style monetarists and the exuberant new levellers up.

Between the Corbynite public spending advocates and Blair and Brownite sound public money supporters in the Labour Party.

For me, that's another indication of how important this debate has now become.

But, and this is my key point, this is a debate that has profound implications for all our lives. It's not a dry and dusty, political or economic, debate. It affects us all.

Take my world of the health and care sector.

If we want to keep up with the growth in demand for health and care that comes from our ageing population.

If we want to reform social care.

If we want to deliver the improvements in cancer, mental health and cardiac care outcomes in the 10 year NHS Long Term Plan.

If we want to fill the nearly 200,000 vacancies in the NHS and social care workforce so we stop asking our existing frontline health and care staff to go an extra mile and a half every shift, every day, every week.

We have to invest more in our health and care system.

And that's just health and care.

I've already talked our current housing crisis.

The imperative of creating a world class technical education system.

The need for a new social compact with appropriate investment to reduce inequalities.

Our ability to meet these challenges depends on how we resolve these questions on the future of our public finances.

So my fifth and final question is do we need, as a nation, to now have a proper, open, public debate on these issues?

And can we fashion that debate in a way that is able to generate some form of national consensus, at least on where the realistic range of options lies?

Five questions

So, to summarise.

Five areas where we may want to start looking, as a nation, for wider lessons from coronavirus.

Do we need to improve how, as a nation, we manage the big, way of life threatening, risks like a global pandemic?

Do we need to do more to build the effective international machinery to manage those risks since they transcend national boundaries?

How will we tackle the inequalities in our nation that covid has not only brought into sharp relief, but is now rapidly exacerbating?

Do we need to rebalance our machinery of state to give greater responsibility and devolve more to local government?

And

Do we need to spend time building a national consensus on the future of our post-covid public finances? **[Slide 21]**

A spirit of optimism

Let me finish by saying that I am a committed, firm, strong optimist.

I keep returning to our experience after the second world war.

How, after a period of unprecedented national trial.

And the loss of more than 400,000 lives.

We built a fairer, more equal and more prosperous society.

That, I believe, is our task once again.

Thank you for asking me to deliver this lecture tonight.

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