



# Introducing economic policy institutions

A LEARNING RESOURCE FOR UNDERGRADUATE STUDENTS IN POLITICAL SCIENCE AND ECONOMICS

MANCHESTER CENTRE FOR ECONOMIC POLICY

Manchester Metropolitan University



Rethinking  
Economics

## About Manchester Centre for Economic Policy

The Manchester Centre for Economic Policy is part of Future Economies, a university centre for research and knowledge exchange based at Manchester Metropolitan University. The centre brings together academics from a wide range of disciplinary backgrounds, alongside policy and business practitioners, to conduct research into local, national and global economic challenges, ranging from Brexit, financial crisis, devolution and local industrial strategies to mega-sporting events and trade governance. Future Economies has a particular expertise in political economy, economic policy and applied economics, and also encompasses Future Economies Analytics, the Centre for Policy Modelling and the Sports Policy Unit.

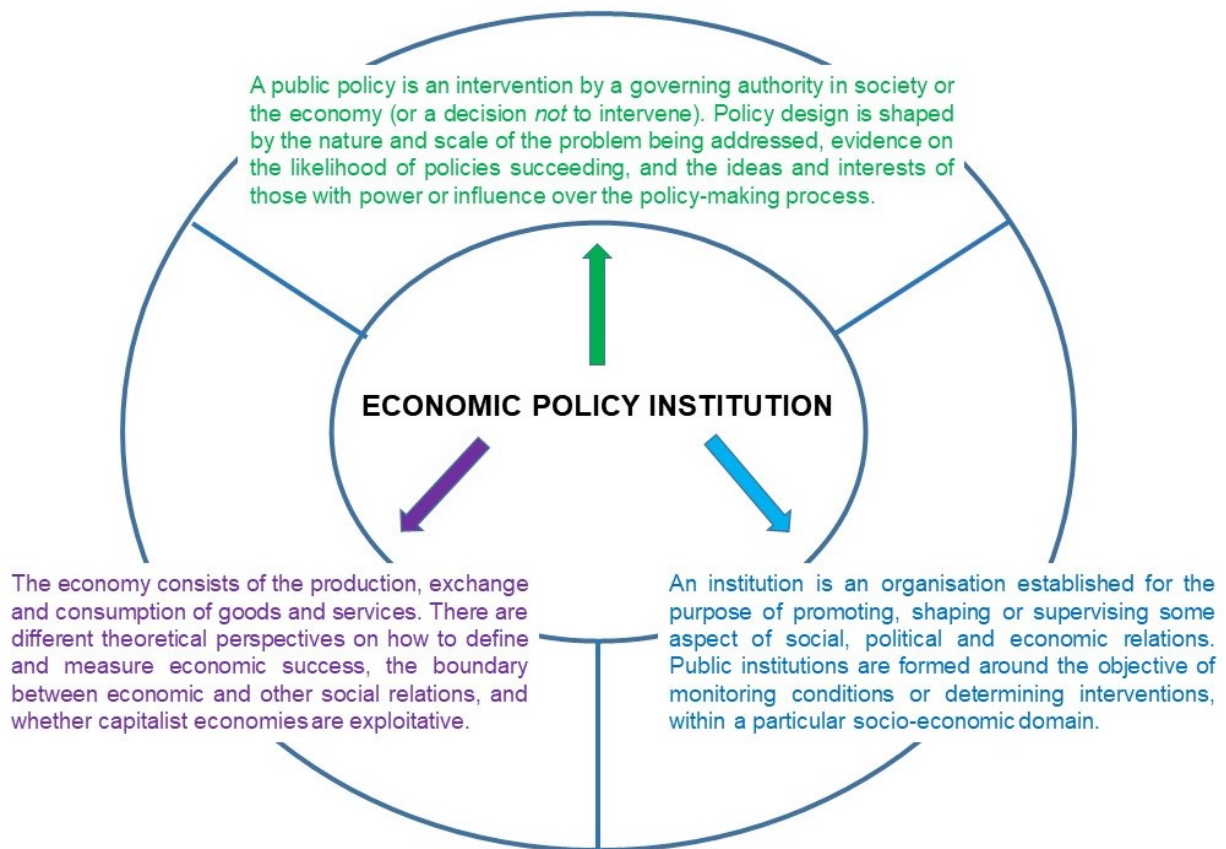
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*All views expressed in this report are those of the author, and are not necessarily shared by Manchester Centre for Economic Policy, Future Economies, Manchester Metropolitan University, Rethinking Economics or the Friends Provident Foundation.*

## Table of Contents

1. Introduction: what is an economic policy institution?	4
2. Economics versus politics	6
3. Analysing institutions: institutionalism and beyond	8
4. UK economic policy institutions in comparative context	10
Further reading	15

## 1. Introduction: what is an economic policy institution?



**Fig 1: Definitions of ‘economic’, ‘policy’, and ‘institution’**

The work of policy institutions will be familiar to students of political science, just as the aims and functions of economic policy will be familiar to students of economics. However, the nature, organisation and role of economic policy institutions is falling through the cracks of the two disciplines, especially within undergraduate teaching. This applies even to degree programmes which combine economics and political science (since the two disciplines are largely taught in isolation on such programmes), and even where degree programmes include opportunities to study ‘political economy’ (since teaching in political economy rarely focuses on specific institutions at the domestic level, where economic policy is usually made and contested).<sup>1</sup>

If we want to understand the impact that policy institutions (and therefore the political realm) have on society, then economic policy institutions cannot continue to be overlooked: the way

<sup>1</sup> Berry, Craig (2021) Teaching economic policy institutions, Manchester Centre for Economic Policy. Available at <https://www.mmu.ac.uk/media/mmuacuk/content/documents/business-school/future-economies/Teaching-Economic-Policy-Institutions.pdf>.

we produce, exchange and consume goods and services arguably has a more profound impact on our lives than most other forms of social relations, especially in a capitalist economy. Similarly, if we want to understand how and why economic policy takes the form it does, we cannot continue to overlook the formal and informal mechanisms by which it is determined: economic policies are not an automatic or technocratic function of economic conditions, but rather are shaped by influential ideas and interests, as mediated by institutional processes.

For our purposes, an economic policy institution is understood as **a public body (led or overseen by political actors) with the capacity and authority to monitor and intervene in certain aspects of economic life (in accordance with politically determined objectives)**. Figure 1 breaks down the component parts of this definition.

However, understanding what an institution does, or what an institution is for, is only part of the story. Institutions are generally complex organisations, with their policy decisions arrived at via internal processes characterised by conflict and power inequalities as well as routine and shared objectives. Furthermore, policy institutions are permeable, most obviously because their structure, resources and objectives are shaped by the wider political landscape. In the case of

<p><b>Economic function.</b> What is the purpose of the organisation in terms of managing the economy, promoting economic growth, or addressing the impact of economic activity? What formal powers does it have to carry out this role, and how are they typically used?</p>	<p><b>Relationships with other public bodies.</b> Where does the organisation sit within the wider 'machinery' of the state? Does it have primacy over other institutions, or a unique role in enabling the work of other institutions? Is it malleable to reform?</p>
<p><b>Founding or central ideas.</b> What ideas and theoretical perspectives underpin or influence the design of interventions undertaken by the organisation (or decisions not to intervene)?</p>	<p><b>Leadership and personnel.</b> Who appoints the organisation's leaders? More generally, how are staff selected, trained and rewarded? Are particular attributes or professional backgrounds favoured?</p>
<p><b>Evidence and other inputs.</b> What information about the economy does the organisation utilise, and how is it gathered? Are different types of input variably weighted? Are stakeholders involved in decision-making, and at what stage?</p>	<p><b>External scrutiny and accountability.</b> How are the organisation's decisions and performance scrutinised? Is it legally required to report to Parliament or other public bodies? Are its processes transparent to the media and academics?</p>
<p><b>Origins.</b> How long has the organisation existed for? For what purpose, and in what conditions, was it originally established? These roots may continue to shape how the institution functions.</p>	<p><b>Location.</b> Where is the organisation physically located? If there are multiple sites, where are the key personnel located? Geography may play a role in shaping the recruitment and outlook of the institution.</p>

**Fig 2. Features of an economic policy institution**

economic policy institutions, this political context is intimately related to wider economic conditions (which are of course shaped in turn by the decisions of economic policy institutions).

Similarly, to understand the outcomes produced by policy institutions, we need to understand how they are the product of interactions between different actors across the institution, as well as the habitual conditions that structure these interactions. We also need to understand institutions as both wilful entities, and simultaneously a set of processes which allow an array of actors to act *through* and even *upon* the institution to shape policy outcomes. Figure 2 summarises the various features by which the nature and role of economic policy institutions can be understood.

## 2. Economics versus politics

What is so special about *economic* policy institutions? In a sense, not a lot! They are public bodies that make policy decisions – and as such can be analysed and understood as any political organisation would be. Moreover, few scholars would disagree that economic policy institutions such as HM Treasury or Bank of England are among the most powerful policy institutions in the UK, or that they make highly consequential policy decisions. This means they warrant attention by political scientists, and should be a key focus of undergraduate teaching of British politics and/or public policy.

Yet this is often not the case. It may be perfectly reasonable to maintain that economic policy institutions are no more important than institutions focused on any other policy area – but, arguably, current pedagogical practice inadvertently gives the impression that they matter less. This may be because the work of economic policy institutions is understood as ‘technical’, requiring expertise in economic analysis, but not necessarily political judgements. Political scientists may therefore acknowledge the power and role of these institutions, but either lack the tools to assess why they make the decisions they do, or do not consider these decisions as political in nature. However, the definition of a policy area as technical rather than political is itself a highly political construction.<sup>2</sup>

We would not expect the economics discipline to illuminate the political nature of economic policy institutions – but this does not mean it should help to obscure it. Many macroeconomists, even while recognising the significance of economic policy interventions, tend to emphasise how policy-makers react to economic conditions, rather than the role that policy interventions play in shaping economic conditions. A neoclassical account of public policy, emphasising the role of policy interventions to correct ‘market failure’ is generally rooted in a microeconomics paradigm, in which private, market-based interactions are seen as the driving force of economic

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<sup>2</sup> This is an issue discussed in depth in the political economy literature on ‘depoliticisation’. For applications to UK economic policy institutions, see: Burnham, Peter (2001) ‘New Labour and the politics of depoliticisation’, *British Journal of Politics and International Relations* 3(2), 127-149; Clift, Ben and Tomlinson, Jim (2007) ‘Credible Keynesianism? New Labour Macroeconomic Policy and the Political Economy of Coarse Turning’, *British Journal of Political Science* 37(1), 47-69.

life.<sup>3</sup> None of this is to suggest that policy institutions are ‘unseen’ by economics, rather that their role is not central to accounts of how the economy functions. Economists tend to focus on assessing what economic policy institutions *should do*, at the expense of investigating actually-existing practice.

From a classical political economy perspective, the nature, role and work of economic policy institutions is both political and economic in nature. They do not simply respond to economic conditions; they are a constitutive element of how the economy (or specifically capitalism) is organised. Political economy is generally understood as the relationship between politics and economics, but it would be better understood as a perspective founded upon the indivisibility of politics and economics. The choices we make about the economy – even if they are highly technical, and/or removed from the day-to-day political arena – are intensely political, because they help to determine the basic functioning of society. They are also contested, by actors with uneven power and resources, within, across and beyond formal institutions. We may choose an economy based on markets and competition – but this is never absolute, and even if it were, clearly requires innumerable decisions (or non-decisions) by political authorities to support and sustain this order.

This does not mean that all political activity relevant to supporting, managing and shaping the economy happens exclusively within economic policy institutions – political processes around public policy-making are far too complex for any such conclusion. Nevertheless, institutions matter, partly because they formally possess the powers enabling policy interventions in the economy, and partly because their operations and processes are a key site of many of the political processes by which interventions are determined.

This does not mean there is not space for, and value in, a more ‘technocratic’ understanding of the work of economic policy institutions. We can take the challenges facing economic policy-makers at face value, and seek to develop the best policies which may address these problems (which is how the personnel of policy institutions generally, and quite understandably, understand their role). Moreover, there are important literatures on ‘policy failure’, informed by institutionalist analysis, which seek to account for the flawed processes within and across policy institutions by which erroneous decisions might have been arrived at.<sup>4</sup>

Nevertheless, a *critical* account of economic policy institutions is essential to show, firstly, how the outcomes produced by institutions are intrinsically linked to the political and economic ideas and interests embedded in the functioning of the institution, including the construction of the economic problems they are ostensibly trying to solve. Secondly, a critical account would emphasise the contingency of policy decisions, based not simply on how efficiently its internal processes are operating, but also the power dynamics between actors (with competing ideas and interests) who have an influence on the institution’s functioning.

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<sup>3</sup> See unit 12 of CORE’s The Economy curriculum, ‘Markets, efficiency, and public policy’. Available at <https://www.core-econ.org/the-economy/book/text/12.html>.

<sup>4</sup> The scholarship of Paul Cairney is recommended in this regard. See for example: Cairney, Paul (2016) *The Politics of Evidence-Based Policy Making* (London: Palgrave); Cairney, Paul (2019) *Understanding Public Policy: Theories and Issues* (London: Macmillan); Cairney, Paul, Heikkila, Tanya and Wood, Matthew (2019) *Making Policy in a Complex World* (Cambridge: Cambridge University Press).



### 3. Analysing institutions: institutionalism and beyond

The preceding section introduced institutionalist analysis, but it is important to stress that there is more than one way to think about policy institutions, and therefore several ‘institutionalisms’.<sup>5</sup> Traditionally, to some extent, formal political and policy-making institutions have been the default focus of political science, insofar as many political processes take place ‘within’ the institutions which possess legislative and executive powers. Scholars were concerned with observing and describing the processes that led to certain outcomes, but institutions were not necessarily deemed to have explanatory value. It would be unfair to overstate both the dominance of this perspective, or its simplicity or uniformity. Rich description of institutional processes is an important feature of political analysis, and ‘traditional’ institutionalism remains one of the foundations of *comparative* political analysis.

Nevertheless, the study of institutions has developed significantly from the mid/late twentieth century onwards, as scholars of institutional processes engaged in an overlapping set of debates on whether:

- Institutions should be understood as primarily a set of rules rather than organisations – with the former perspective suggesting that political institutions (or institutionalised political processes) are not necessarily synonymous with specific organisations.<sup>6</sup>
- The role of norms, effectively entrenched in institutions, in shaping the behaviour of actors within institutionalised processes, and ultimately outcomes. In this account, institutions exert an influence on the ideas and values of actors – but others contend that institutions are best understood as conduits by which actors with exogenous preferences interact.
- Institutions create powerful forces of ‘path dependency’, with outcomes to some extent pre-determined due to certain practices become habituated. Many scholars contend, in contrast, that institutions also allow for, and indeed create opportunities for, dynamic political action.
- The full landscape of political life – which obviously extends beyond what can plausibly be considered institutionalised processes – is properly accounted for in analysis focused on institutions as an explanatory variable.

‘Historical institutionalism’ is often used as a generic term for any approach which emphasises the influence of institutional rules, norms and habits on actors and therefore outcomes. Since these factors generally pre-date the presence of particular actors, they are historical, and insofar as they influence actors’ behaviour, outcomes can be seen as at least partially path-dependent.

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<sup>5</sup> The discussion in this section draws extensively upon Vivien Lowndes’ outstanding scholarship, primarily: Lowndes, Vivien (2010) ‘Institutionalism’, in Vivien Lowndes, David Marsh, and Gerry Stoker (eds) *Theory and Methods in Political Science* (London: Palgrave): 54-74.

<sup>6</sup> The opening of this paper referred to institutions as ‘organisations’. However, it is important to stress that this is in the context of discussing *policy* institutions, which are largely synonymous with government departments or agencies which have an organisational materiality. This does not mean that all institutions or institutional processes relevant to the political and economic realms are distinct organisations in a formal sense. Indeed, the institutional processes relevant to organisations such as HM Treasury and the Bank of England obviously extend beyond and between the two organisations.



However, the perspective was defined in more specific terms in the 1990s in a canonical paper Peter Hall and Rosemary Taylor.<sup>7</sup> Hall and Taylor argued that the structures of the state – above all, policy institutions – reflect the power relationships between different groups in the wider political landscape. Crucially, however, institutional forms may serve to amplify the power of some groups over others, by privileging their role in political life, and institutional forms generally persist beyond the particular constellation of forces from which they arise, thereby enabling historical power relations to exert influence on the present.

Normative institutionalism represented one of the first major challenges to traditional institutionalism. As indicated above, normative institutionalist scholarship emphasises how norms, insofar as they are embedded in institutional functions and routines, shape the preferences and behaviour of actors within institutions. We can understand norms as shared understandings about appropriate forms of behaviour, or more specifically the objectives that a policy institution should prioritise. Constructivist or discursive institutionalists offer a similar account to normative institutionalists. These perspectives emphasise the role of ideas and language (embedded and privileged by institutions) in not only shaping actor's behaviour, but in establishing frameworks of meaning which help to construct political action. Feminist institutionalists generally belong to this camp too, insofar as they emphasise the role of institutions in representing and enforcing gender-biased norms, ideas, discourses, etc.

This material will be far more familiar to students of political science than economics. However, the economics discipline has also influenced and developed institutionalist analysis. First, many institutional economists recognise the role of institutions within the economy – not policy institutions *per se*, but rather a range of institutionalised interactions with a greater or less degree of formality or organisational scaffolding.<sup>8</sup> Insofar as institutional economics challenges some of the behavioural assumptions of neoclassicism, it is associated with heterodox economics, but the field is extraordinarily diverse, ranging from those who recognise the importance of corporate entities and legal processes in structured market interactions, to those who situate all economic activity within wider social relations. There is an important literature which studies the link between informal economic institutions and formal policy institutions,<sup>9</sup> and many political scientists now recognise the importance of informal 'governance' processes alongside the formal work of government.<sup>10</sup>

Secondly, and perhaps paradoxically, neoclassical economics has had a significant influence on institutionalism within political science, via rational choice institutionalism. This perspective was actually one of the earliest challenges to traditional institutionalism. Rational

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<sup>7</sup> Hall, Peter and Taylor, Rosemary (1996) 'Political science and the three new institutionalisms', *Political Studies* 44(4), 936-957.

<sup>8</sup> Walton H. Hamilton is usually credited with codifying the school of institutional economics, but Thorstein Veblen – who integrated sociological thought into his economic analysis – is also considered a hugely influential figure (he remains influential within political economy as well as heterodox economics). See Hamilton, Walton H. (1919) 'The institutional approach to economic theory', *American Economic Review* 9(1), 309-318; Veblen, Thorstein (1899) *The Theory of the Leisure Class: An Economic Study of Institutions* (London: Macmillan).

<sup>9</sup> See for example: Morgan, Glenn, Campbell, John L., Crouch, Colin, Pederson, Ove Kaj and Whitley, Richard (eds) (2010) *Oxford Handbook of Comparative Institutional Analysis* (Oxford: Oxford University Press).

<sup>10</sup> Rhodes, R.A.W. (1997) *Understanding Governance: Policy Networks, Governance, Reflexivity and Accountability* (Oxford: Oxford University Press).

choice institutionalists treat individual actors within institutions as utility-maximisers, and assume they have (policy) preferences which precede engagement with institutionalised processes, but institutions serve to structure interactions between individuals, providing information and incentivising certain courses of action over others.

The implication that political and policy actors are largely self-serving is deemed too crude by most political scientists. Rational choice is also criticised for ignoring the structural context within which institutions exist, which ultimately gives rise to uneven power-relationships within, across and around institutions. Nevertheless, rational choice institutionalism has influenced some of the most important contributions to institutionalist scholarship, such as Patrick Dunleavy's work on 'bureau shaping' to explain preferences for institutional reform.<sup>11</sup> Treating actors as dynamic, rather than passive carriers of institutional norms, clearly helps to explain how institutions themselves are transformed over time (although rational choice scholars often emphasise the incentives actors have to conserve institutional forms which currently privilege their individual interests, and as such the perspective influenced the development of historical institutionalism). Processes of institutional change are often difficult to account for when the institution itself is the object of analysis.

As this section makes clear, it is not necessary to endow institutions with explanatory force in order to appreciate the significance of economic policy institutions. It is equally valid, as such, to place more emphasis on how a wider political and economic context fuels and shapes the ideas, interests, rules and norms that are present within institutionalised processes and formal policy organisations. Political economists, for instance, tend to favour a balanced approach, whereby the influence *of* institutions is identified alongside influences *on* institutions to produce particular policy outcomes (this applies also to economic sociologists and economic geographers, to some extent).

## 4. UK economic policy institutions in comparative context

The most important economic policy institutions in the UK are HM Treasury (hereafter: the Treasury) and the Bank of England (hereafter: the Bank) – as such these two organisations are the focus of the teaching resources which accompany this introductory paper. The Treasury styles itself as the UK's 'economic and finance ministry'<sup>12</sup>: in this context, 'finance' means the department oversees the public finances, 'economic' means it is responsible for monitoring economic performance and establishing the general framework of policy (non-)interventions, and 'ministry' acknowledges the department's leadership by elected members of the government. The Chancellor of the Exchequer is the head of the Treasury – and typically seen as second only to the Prime Minister in terms of seniority within government.

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<sup>11</sup> Dunleavy, Patrick (1991) *Democracy, Bureaucracy and Public Choice: Economic Explanations in Political Science* (Hemel Hempstead: Harvester-Wheatsheaf).

<sup>12</sup> See <https://www.gov.uk/government/organisations/hm-treasury/about>.

The Bank of England is the UK's central bank. Central banks manage a country's currency, which extends to using monetary policy to support the economy and, ordinarily, supervising the operations of private, currency-issuing banks. In organisational terms, it is not, strictly speaking, a ministry or department – it is a publicly owned company, generating revenue to fund its operations, with its leaders appointed by the Chancellor of the Exchequer (ultimately, the Prime Minister). However, the Bank has significant policy responsibilities, for monetary policy and financial regulation, although technically responsibility lies with the Monetary Policy Committee (MPC) and Financial Policy Committee (FPC) within the Bank, with the Treasury instrumental in the appointment of committee members. The Bank also plays a significant role in monitoring economic performance (and analysing long-term economic trends), generally within a framework established by the Treasury on behalf of the government. This framework is focused on controlling inflation, but has been applied very loosely, with seemingly minimal direction from the Treasury, in recent years.

Although the formal distribution and hierarchies of economic policy powers would suggest the Treasury 'outranks' the Bank within government, we must not assume that the relative power of different organisations is based exclusively, or even largely, upon their apparent status within the formal constitutional order. Indeed, the Treasury's status within the Whitehall machinery also means its operations are subject to greater oversight by both Parliament and the Prime Minister, and arguably the Bank continues to enjoy a degree of autonomy arising from its origins as a private bank. (The Treasury has always been part of, indeed synonymous with, the state, but the Bank was nationalised in only 1945.) Furthermore, the relationship and interactions *between* the Treasury and the Bank are highly institutionalised, both formally and informally – they are separate organisations, for the most part, but not necessarily independent institutional entities.

One of the most important contributions to political economy and economic sociology scholarship on UK economic policy institutions Geoffrey Ingham's 1984 book *Capitalism Divided? The City and Industry in British Social Development*,<sup>13</sup> effectively treats the Treasury, the Bank and the City of London as a single macro-institutional entity focused on securing the finance sector's interests at the heart of UK economic governance. Arguably, the Bank constitutes the most powerful organisation in this 'City-Bank-Treasury nexus', insofar as it provides a conduit between the government and the City. At the heart of Ingham's account, however, is the sense of shared purpose, and interchangeable personnel, across the leadership of key (public) economic policy institutions and key (private) financial institutions.




Together, the Treasury and the Bank's respective responsibilities for fiscal and monetary policy mean they jointly determine and implement UK macroeconomic policy. There is a range of governmental bodies responsible for other areas of policy which directly affect the economy, most obviously other government departments such as the Department for Business, Energy and Industrial Strategy, the Department for Work and Pensions, and the Department for Transport. There are also hundreds of local authorities (technically overseen centrally by the Ministry for Housing, Communities and Local Government), generally responsible for

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<sup>13</sup> Ingham, Geoffrey (1984) *Capitalism Divided? The City and Industry in British Social Development* (Basingstoke: Palgrave).

promoting and developing local economies, and very large public sector employers such as the National Health Service (technically overseen by the Department of Health and Social Care). All of these institutions operate in a fiscal framework managed by the Treasury and – in some cases, especially industrial policy, pensions, devolution and housing – with significant Treasury and/or Chancellor of the Exchequer involvement in policy design.

Virtually all countries have separate (and powerful) finance departments and central banks, but the specific institutional configuration of economic policy powers and organisations differs across countries. The scope of responsibilities and autonomy of these two bodies varies, and arrangements are also shaped by varying relationships between central and local government, and indeed international agreements to ‘pool’ some policy functions. The table below briefly summarises how some countries compare to the UK in this regard.

	Fiscal policy	Public finances	Monetary policy	Central bank	Economy/ industry	Distinctive features
	HM Treasury determines policies on tax, public spending and debt issuance, with the Prime Minister involved in significant decisions	HM Treasury supervises all spending by other parts of government, with the Office for Budget Responsibility responsible for forecasts	Monetary Policy Committee (part of the Bank, but appointed by the Treasury) decides on interest rates and QE	The Bank of England manages the currency and supervises private banks, and monitors long-term economic trends	Junior departments (and local government) have some role in e.g. industrial policy, but the Treasury tends to lead	The Bank of England only recently took on regulatory powers for the finance sector – previously light-touch regulatory bodies had reported to the Treasury
	Fiscal policies are generally proposed by the US Treasury in conjunction with presidential agencies, but Congress plays a crucial role in designing and shaping policy	Presidential bodies are responsible for proposing federal budgets and producing forecasts, but with significant input from Congress	The Federal Reserve is responsible for interest rates and QE, via various committees and sub-national structures	The Federal Reserve assumes most central bank functions, but the currency is managed by the US Treasury. Independent Securities and Exchange Commission has important financial regulatory powers	Central government controls some key areas of regulation and industrial policy, but states have significant autonomy on economic policies beyond fiscal and monetary policy	The dollar's status as global reserve currency means the United States is easily able to finance federal budget deficits
	The Japanese finance ministry has traditionally been very powerful, and maintains responsibility for key fiscal policies including tax, but has lost other policy powers in recent decades	The ministry of finance is responsible for budgetary management including spending controls and forecasts	The Bank of Japan is responsible for monetary policies such as interest rates and QE, but this was the domain of the finance ministry until fairly recently	The Bank of Japan manages the currency, but took on the role of financial regulation only fairly recently	The Ministry of Economy, Trade and Industry was created fairly recently, as the Japanese government sought to rationalise economic policy functions	Economic policy-making in Japan must be understood in the context of a close relationship, historically, between the state and major corporations. The relationship has loosened in recent decades – which is part of why economic policy powers have been transferred to the central bank and new economy ministry





	Fiscal policy	Public finances	Monetary policy	Central bank	Economy/ industry	Distinctive features
	The Federal Ministry of Finance has a powerful role within the German govt, albeit with some tax policies devolved to sub-national levels	The Federal Ministry of Finance supervises spending by other parts of government, including sub-national govt bodies despite autonomy over policy design	Monetary policy is decided at the EU level for Eurozone member-states by the European Central Bank's (ECB) Governing Council, consisting of national central bank governors and European Council appointees	Eurozone member-states have retained national-level central banks, ostensibly to implement ECB decisions. Finance regulation has generally remained at the national level, although central banks in both Germany and France are generally not responsible for policy (in both countries, it is a finance ministry responsibility)	The Federal Ministry for Economic Affairs and Energy is a powerful govt department, overseeing an active industrial policy. Sub-national govt bodies also have substantial economic policy autonomy	Historically, German economic policy has combined an interventionist industrial policy with strong controls on public spending and the money supply. This helps to explain the power of the finance ministry. Monetary policy has been Europeanised, but with significant German influence
	The Ministry of the Economy and Finance (popularly known as <i>la forteresse de Bercy</i> , due to its physical appearance and location) is generally responsible for fiscal policy, albeit with tax policy set by semi-autonomous agencies	The economy and finance ministry manages public finances alongside the Ministry of Public Accounts and Action, with the latter being the junior department			The Ministry of the Economy and Finance is responsible for policy areas such as industrial policy, but this is a relatively recent phenomenon	Beyond monetary policy, the organisational structures around economic policy in France have undergone upheaval in recent years. Economic management has been reconfigured as major industries have been privatised
	The Ministry of Finance manages public spending, and generally oversees macroeconomic strategy and forecasts. However, there is a separate Ministry of Taxation	The Ministry of Finance supervises spending by other parts of government	The Danish central bank determines monetary policy and, in agreement with the finance ministry, manages govt debt. Monetary policy is focused on maintaining a fixed exchange rate	The Danish central bank manages the currency but is not formally responsible for financial regulation	The Ministry of Business, Industry and Financial Affairs is responsible for policy areas such as industrial policy and, unusually, financial regulation. Institutional forms have modified frequently	The limited scope of formal powers for the finance ministry is unusual – it is similar to the US in this regard (also in that the legislature has an important budgetary role)
	The Ministry of the Economy was created in 2019, combining previous departments for budget and finance. Its scope and powers are similar to the UK's Treasury – with the caveat that sub-national govt has significant autonomy in policy areas such as taxation	Public finances at the federal level are overseen by the Ministry of the Economy's budgetary division. State (sub-national) govts have autonomy but policy-making structures generally mimic the federal level	The Brazilian central bank determines monetary policy, with the Monetary Policy Committee focused mainly on setting targets for the overnight rate of interbank lending backed by federal securities	The central bank manages the Brazilian currency. It also has an important role in financial regulation (which operates independently of govt) given its responsibility for financial stability. The central bank is focused above all else on inflation control	The federal government has several separate departments for various areas of economic policy. The Ministry of Development, Industry and Trade was subsumed by the Ministry of the Economy.	Brazil has moved towards an interventionist 'developmental state' (evident in East Asia and other parts of Latin America) but is generally seen as a partial success in this regard, with key institutions still tied to the 'neoliberal' reforms which followed military rule

Fig 3. Comparison of economic policy institutions across selected countries

Note: QE = quantitative easing



As indicated in the previous section, international comparisons are an important part of the analysis of policy institutions. Generally speaking, a case study methodology allows scholars the specific factors which lead to different institutional forms, processes and outcomes across different contexts.<sup>14</sup> One of the most important works of comparative institutionalism also serves as a foundational text within contemporary political economy. In *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Peter Hall (whose historical institutionalist perspective was discussed above), David Soskice and others outline the ‘fit’ between institutional design and economic context.<sup>15</sup> They argue there are distinct ‘varieties’ of capitalism – primarily, whether the economy is market-based or more co-ordinated – and that institutional processes tend to produce outcomes which reinforce this economic model, partly due to path dependency, and partly due to the presence and power within institutional processes of actors who benefit from the status quo.

In the Hall/Soskice framework, the UK is treated as a ‘liberal market economy’: competitive markets are used to organise and distribute finance, labour, technology, etc., with limited regulation and/or collaboration between economic actors. Other ‘Anglosphere’ countries such as the United States and Australia are typically also seen as liberal market economies, to the extent that some scholars refer to the UK as typifying an ‘Anglo-liberal growth model’, where private consumption (invariably underpinned by private debt) is a major part of the economy, and is as such supported by economic policy. There is a large political economy literature on ‘growth models’ (and ‘growth regimes’) which, while not as explicitly institutionalist as the ‘varieties of capitalism’ literature, demonstrates the alignment between economic policy institutions and prevailing economic structures.<sup>16</sup>

Are UK economic policy institutions such as the Treasury and the Bank aligned with a ‘liberal market economy’ or ‘Anglo-liberal growth model’ framework? In terms of the former, the most relevant consideration is perhaps what policy institutions do *not* do. Traditionally, policy institutions do not systematically or extensively intervene in the private economy to support industrial development, infrastructure, wage growth, R&D, etc. We can perhaps associate this with the fact that the Treasury is considerably more powerful than the type of departments that might orchestrate such interventions. It is also worth noting a longstanding preference for low interest rates and light financial regulation, across both the Treasury and the Bank, which helps to sustain a debt-based, consumption led growth model. The key analytical question, however, is whether policy institutions merely reflect the requirements of, or instead act to produce and reproduce, the wider capitalist variety or growth model – or something between the two.

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<sup>14</sup> Thelen, Kathleen (1999) ‘Historical institutionalism in comparative politics’, *Annual Review of Political Science* 2: 369-404.

<sup>15</sup> Hall, Peter and Soskice, David (eds) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press); see also Coates, David (2000) *Models of Capitalism: Growth and Stagnation in the Modern Era* (Cambridge: Polity); Hall, Peter and Thelen, Kathleen (2008) ‘Institutional change in varieties of capitalism’, *Socio-Economic Review* 7(1), 7-34.

<sup>16</sup> On the Anglo-liberal growth model, see: Hay, Colin (2013) *The Failure of Anglo-Liberal Capitalism* (London: Palgrave); for a riposte, see: Barnes, Lucy (2016) ‘Private debt and the Anglo-liberal growth model’, *Government and Opposition* 51(4), 529-552. On comparative growth model analysis, see: Baccaro, Lucio and Pontusson, Jonas (2016) ‘Rethinking comparative political economy: the growth model perspective’, *Politics & Society* 44(2): 175-207.

## Further reading

### Wyn Grant (2002) *Economic Policy in Britain* (Basingstoke: Palgrave)

Published two decades ago, Wyn Grant's textbook remains one of the most important and comprehensive introductions to economic policy-making in the UK. The book outlines key policy issues around the economy in the UK's recent history, and how they have been addressed by various policy mechanisms. The core institutional relationships outlined – between Downing Street, the Treasury, the Bank of England, and Parliament – remain at the core of UK economic policy-making structures. For a wider account of governance processes and executive functions in the UK – grounded in a political economy perspective on the relationship between government, democracy and capitalism – see: Michael Moran (2015) *Politics and Governance in the UK* (London: Macmillan).

### Peter Hall – various publications

Peter Hall's sizeable contributions to institutionalist theory and comparative political economy were discussed above. Hall has made several, specific contributions to analysis of the development of institutional practice related to UK economic policy, most notably his paper on the stages of policy change from Keynesianism to monetarism. Hall details learning processes within policy institutions, and the mechanisms by which new ideas about economy become dominant practice (see: Peter Hall (1993) Policy paradigms, social learning and the state: the case of economic policy-making in Britain, *Comparative Politics* 25(3): 275-196). More recently, Hall has published analysis of how growth strategies or regimes evolve (especially in interaction with electoral politics) with a particular focus on UK economic policy, identifying the emergence of a knowledge-based growth regime (see: Peter Hall (2019) From Keynesianism to the knowledge economy: the rise and fall of growth regimes, *Business Economics* 54(2): 122-126; Peter Hall (2020) How growth strategies evolve in the developed democracies, in Anke Hassel and Bruno Palier (eds) *Growth and Welfare in Advanced Capitalist Economies: How Have Growth Regimes Evolved?* (Oxford: Oxford University Press)). Nick O'Donovan has produced similar analysis with a more dedicated focus on the UK, charting the recent unravelling of the short-lived knowledge economy policy paradigm (see: Nick O'Donovan (2020) From knowledge economy to automation anxiety: a growth regime in crisis? *New Political Economy* 25(2): 248-266).

### Sheffield Political Economy Research Institute – various publications

Colin Hay's 2013 book *The Failure of Anglo-Liberal Capitalism* (London: Palgrave) was cited above. Hay's analysis is perhaps the key contribution to a large literature produced by scholars associated with the Sheffield Political Economy Research Institute (SPERI) in the early and mid-2010s, documenting how the interplay of specific economic, institutional and ideological factors contributed to the UK's vulnerability to the 2008 financial crisis, and the shape that economic policy has taken in its aftermath. Craig Berry and Liam Stanley have, separately, analysed the post-crisis institutional and discursive politics of austerity in the UK, finding a policy agenda seemingly aligned with a longstanding commitment to fiscal conservatism in UK economic policy institutions, but also helping to legitimate an expansive policy agenda



designed to restore the pre-crisis economic model (Craig Berry (2016) *Austerity Politics and UK Economic Policy* (London: Palgrave); Liam Stanley (2016) *Governing austerity in the United Kingdom: anticipatory fiscal consolidation as a variety of austerity governance*, *Economy and Society* 45(3-4): 303-314). The interaction between novel policy discourses and existing institutional practice was also at the heart of Berry's work with Colin Hay on economic 'rebalancing' (Craig Berry (2016) 'Great British "rebalancing" act: the construction and implementation of an economic imperative for exceptional times', *British Journal of Politics and International Relations* 18(1): 3-25), with Arianna Giovannini on local economic development (Craig Berry and Arianna Giovannini (eds) *Developing England's North: The Political Economy of the Northern Powerhouse* (London: Palgrave)), and on industrial policy (Craig Berry (2016) 'Industrial policy change in the post-crisis British economy: policy innovation in an incomplete institutional and ideational environment', *British Journal of Politics and International Relations* 18(4): 829-847; Craig Berry (2020) 'From receding to reseeded: industrial policy, governance strategies and neoliberal resilience in post-crisis Britain', *New Political Economy* 25(4): 607-625).

Jeremy Green and Scott Lavery examined pre- and post-crisis monetary policy (and related areas) to outline the state's role in the 'regressive recovery' unfolding in the UK, with the analysis broadened by Lavery in a book published after the 2016 Brexit vote (see: Jeremy Green and Scott Lavery (2015) *The regressive recovery: distribution, inequality and state power in Britain's post-crisis political economy*, *New Political Economy* 20(6): 894-923; Scott Lavery (2019) *British Capitalism After the Crisis* (London: Palgrave)). SPERI members also contributed to scholarly debates on the depoliticised nature of economic policy-making in the UK (see: Craig Berry and Scott Lavery (2017) *Towards a political economy of depoliticisation: Help to Buy, the Office for Budget Responsibility, and the UK growth model*, in Paul Fawcett *et al.* (eds) *Anti-Politics, Depoliticization, and Governance* (Oxford: Oxford University Press); Colin Hay (2014) *Depoliticisation as process, governance as practice: what did the 'first wave' get wrong and do we need a 'second wave' to put it right?* *Policy and Politics*, 42(2): 293 - 311). Scholars based at SPERI associated with International Political Economy also turned their attention to the UK during this time, exploring the prospect of developmentalism within UK economic policy-making (see: Matthew Bishop and Anthony Payne (2019) *Is Britain 'undeveloping' before our eyes?* SPERI Comment, 29 January, available at <http://speri.dept.shef.ac.uk/2019/01/29/is-britain-undeveloping-before-our-eyes-part-i/>; Colin Hay and Anthony Payne (2015) *Civic Capitalism* (Cambridge: Polity)).

### **CORE (2017) *The Economy: Economics for a Changing World* (Oxford: Oxford University Press)**

The CORE project has produced resources relevant to understanding economic policy, from a mainstream economics perspective. Chapter 12 of *The Economy*, which introduces concepts such as market failure and public goods as rationales for state intervention in the economy, was cited above. These are analytical concepts used by economists: but they are also employed by policy-makers themselves to determine appropriate policy actions. Chapter 14 and 15 consider the role of fiscal policy and monetary policy, respectively, in managing inflation, unemployment and aggregate demand. Chapter 22 introduces debates around how to design efficient public policies, and generally offers a rational choice perspective on the nature – and

limitations – of policy-making processes (see: <https://www.core-econ.org/the-economy/>). The follow-up book *Economy, Society, and Public Policy* offers a more expansive account of this perspective, covering a wide range of policy issues (see: <https://www.core-econ.org/espp/>).

**Diane Coyle (2020) *Markets, State, and People: Economics for Public Policy* (Princeton: Princeton University Press).**

Diane Coyle’s approach to public policy economics builds upon the CORE approach and deepens its analysis of policy institutions. This book explores public policy design in theory and practice, offering a wide range of real-world examples. One of the book’s strengths is its account of the influence of political, institutional and historical contexts within an otherwise technocratic account of policy-making – for Coyle, this helps to explain cross-national variation in policy outcomes. Coyle’s work on Gross Domestic Product (GDP) is also hugely valuable. She historicises the establishment and application of GDP as a metric of economic performance, outlining both the positive and negative implications for economic policy-making in countries such as the UK (see: Diane Coyle (2015) *GDP: A Brief But Affectionate History* (Princeton: Princeton University Press)).

**Gordon C. Rausser, Johan Swinnen and Pinhas Zusman (eds) (2011) *Political Power and Economic Policy: Theory, Analysis and Empirical Applications* (Cambridge: Cambridge University Press)**

As discussed above, rational choice theory, drawing upon neoclassical economics, offers a vital perspective on how outcomes are arrived at by policy institutions. This collection offers a comprehensive account of the various approaches present in this varied field. It also focuses specifically upon the role played by the distribution of political power and ideological perspectives (within and beyond policy institutions) in policy-making processes. (For an introduction to rational choice written from the perspective of political science, see: Andrew Hindmoor and Brad Taylor (2015) *Rational Choice* (London: Macmillan)). The International Monetary Fund recently published a short but very insightful piece on ‘the political economy of economic policy’, emphasising how the ‘tools of economics’ can be used to understand politics, which in turn helps us to understand the impact of economic policy on the economy, especially in the context of COVID-19 (see: Jeffrey Frieden (2020) The political economy of economic policy, *Finance and Development* 57(2), available at <https://www.imf.org/external/pubs/ft/fandd/2020/06/political-economy-of-economic-policy-jeff-frieden.htm>).

**Ronald Michie and Philip Williamson (2004) *The British Government and the City of London in the Twentieth Century* (Cambridge: Cambridge University Press)**

Economic sociologist Geoffrey Ingham’s account of the relationship between the City of London, the Treasury and the Bank of England was discussed above. This collection, written largely by economic historians, covers much of the same territory, albeit with more detail on the political and institutional processes which both fuel and mediate this relationship. The book also offers an account of the internationalisation of the relationship, given the influence of Europeanisation and City’s renewed international relevance on policy-making in the late twentieth century.

## Jacqueline Best – various publications

Critical political economist Jacqueline has developed a powerful account of ‘governing failure’ whereby policy-making processes have been characterised by the application of ideological dogma rather than independent expertise, and political elites have developed an account of ‘policy failure’ which ironically leads to a broader failure in the management of capitalist development. Focusing originally on international policy institutions, Best has recently applied this understanding to UK economic policy. She has analysed the way in which the early application of neoliberal ideas in UK and US economic policy failed to avoid recessionary conditions, while ultimately – and perhaps inadvertently – succeeding in embedding expectations about the scope of economic policy (see: Jacqueline Best (2020) The quiet failures of early neoliberalism: from rational expectations to neoliberalism in reverse, *Review of International Studies* 46(5): 594-612), and specifically the failure of quantitative inflation targeting in UK monetary policy-making (see: Jacqueline Best (2019) The inflation game: targets, practices and the social production of monetary credibility, *New Political Economy* 24(5): 623-640. Best has also reconsidered Peter Hall’s scholarship by instead emphasising the varieties of ignorance in UK and US economic policy, including wishful thinking, confusion, fudging, denial and puzzling. Crucially, ignorance is often deployed deliberately as a narrative to legitimate certain policy preferences, or mask policy failures (see: Jacqueline Best (2021) Varieties of ignorance in neoliberal policy: or the possibilities and perils of wishful economic thinking, *Review of International Political Economy*, advance online publication, DOI: 10.1080/09692290.2021.1888144).

## Annaliese Dodds (2012) *Comparative Public Policy* (London: Palgrave)

This book is an excellent introduction to comparative analysis of public policy, exploring the varying roles of ideas, interests, institutions and the international context on policy outcomes. Dodds left academia to become a Member of Parliament (serving briefly as the Labour Party’s Shadow Chancellor, before becoming party chair). The chapter on economic policy is a particularly useful introduction to the specificities of, and recent debates around, economic policy-making across various countries.

## Ben Clift (2014) *Comparative Political Economy: States, Markets and Global Capitalism* (London: Macmillan)

As discussed above, comparative political economy has been dominated in recent decades by institutionalist analysis, principally Peter Hall and David Soskice’s ‘varieties of capitalism’ framework. Ben Clift offers an alternative (but complementary) account of the field’s origins and occupations, locating comparative political economy in the classical political economy of Adam Smith and Karl Mark, and identifying connections to the related (and arguably much larger) field of International Political Economy. Like Dodds, Clift identifies ideas, interests and the international context as explanatory variables *alongside* institutions, rather than centring institutional processes *per se*. While the book is ostensibly focused on disciplinary and methodological issues, it also serves as a valuable introduction to the recent development of economic policy practice across various countries, and at the international level.

**Bob Jessop (2012) *The State: Past, Present and Future* (Cambridge: Polity)**

It is impossible to fully appreciate the nature and role of economic policy institutions without recognising them as constitutive elements of ‘the state’. State theory is a cross-disciplinary literature which draws upon sociology and history as well as political science and political science. State theory generally takes its cue from Marxist scholarship insofar as it represents an attempt to understand how forms of statehood support the maintenance of capitalism. In this book, Bob Jessop outlines the four core features by which we can understand the state: 1) a set of apparatuses; 2) the governance of a particular territory; 3) the governance of a particular population; 4) ideas about the state which legitimate the state’s form and actions.

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