

Learning exercises on the Treasury and the Bank of England

**A LEARNING RESOURCE FOR UNDERGRADUATE
STUDENTS IN POLITICAL SCIENCE AND ECONOMICS**

MANCHESTER CENTRE FOR ECONOMIC POLICY

Manchester Metropolitan University

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.

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1. Quote unquote

Can you name the author of these quotes related to the Treasury and the Bank of England? For bonus points, can you explain the circumstances in which these words were first uttered or written?

A.

“My experiences at the Treasury have made me even more convinced that Wilson was wrong to think that finance ministry objectives and economic growth are natural enemies. The Treasury must be more than just a finance ministry – it must be the driver of economic reform across the government... Today, the Treasury is focussed on both the public finances and economic performance. When I look back at the decisions I have taken, I ask myself. Would a finance ministry faced with a huge budget deficit have reduced corporation tax to boost growth? Would a finance ministry looking for Whitehall budgets to cut have protected science spending, even though it’s one of the easiest taps to turn off? I believe it would have been more, not less difficult to make these trade-offs if there was an institutional split – and it’s right that the Chancellor of the Exchequer is accountable for getting that balance right.”

B.

“The Bank of England has long stressed that central bank policies are not the cause of low rates, but responses to them. We are actors in a play written by others... Long-run prosperity was never in the gift of monetary policy-makers. As the tenth anniversary of the start of the crisis approaches, a consensus is growing that escaping this low-growth, low-inflation trap will require a rebalancing between monetary, fiscal and structural policies.”

C.

“I’m afraid there is no money.”

D.

“Never explain. Never excuse.”

E.

“In some ways I think Treasury control might be compared to conventional morality. There is a great deal of it rather tiresome and absurd once you look into it, yet it is an essential bulwark against overwhelming wickedness.”

F.

“The Treasury has ceased to be neutral over public expenditure. It has become the guardian of certain programmes. A lot of people think that has unbalanced the debate. They can decide what they want for annually managed expenditure, and the other departments are left to fight it out. That’s been impressive, but in a sense reprehensible. There has been the absolute ruthlessness with which Gordon has played the denial of information as an instrument of power. He has maintained an iron grip on spending and on the distribution to departments.”

G.

The Bank of England has become addicted to quantitative easing (QE). It appears to be its answer to all the country’s economic problems and by the end of 2021, the Bank will own an eye-watering £875bn of Government bonds and £20bn in corporate bonds. The scale and persistence of QE – now equivalent to 40% of GDP – requires significant scrutiny and accountability. However, the Bank has faced few questions until now. Going forward, the Bank must be more transparent, justify the use of QE and show its working. The Bank needs to explain how it will curb inflation if it is more than just short term. It also needs to do more to mitigate widening wealth inequalities that have resulted from rising asset prices caused by QE... QE is a serious danger to the long-term health of the public finances. A clear plan on how QE will be unwound is necessary, and this plan must be made public.

H.

“James I am first lord of the Treasury and you can take it that we are backing you to do what you need.”

I.

“Sic vos non vobis”

J.

“Government spending has soared in epic proportions under the party and a Chancellor who would certainly like to see it go the other way. There have been some moments when the Treasury has been reluctant to spend; extending the furlough scheme, for example. They had to be pushed to do that. But remember when the pandemic first took its grip, Rishi Sunak said this is no time for ideology, and beyond a few skirmishes there has been very little dispute over the scale the Treasury has taken to keep shovelling cash out the door. But allies of his say he worries that if the Tories lose their reputation for looking after everyone's money, why not just vote Labour next time?”

2. Three little words

What three words first come to mind when you think about the Treasury or the Bank of England? How would this differ if you were a senior figure at one of these organisations, an external stakeholder, or a member of the general public?

A. The Treasury

You	A member of the public
Chancellor of the Exchequer	An official from another government department

B. The Bank of England

You	A member of the public
Governor of the Bank of England	An executive from a private bank

3. Scenario planning

Economic policy-makers are faced with highly challenging circumstances. What would you do (or advise) if you were a Treasury or Bank of England official? But what do you think will happen in practice? Why? How could things be different? Consider how the two institutions may act or think differently in each scenario.

What should be done?	What will be done?
Have these circumstances arisen before? What happened?	What would need to change for different policy outcomes to be realistic?

A.

General strike. After a prolonged period of sluggish growth, the government has proposed a significant reduction in levels of employment protection in order to attract investment from overseas companies. The UK's largest trade unions are threatening simultaneous industrial action, which threatens to have a devastating impact on output (therefore tax revenues), as well as destabilising the value of sterling and the stock market.

B.

Housing crash. The government is concerned that the housing market is about to sharply downturn. A steady rise in prices and transactions has slowed for the third consecutive month. Interest rates were recently increased slightly to curb inflation, new restrictions on buy-to-let mortgages have reduced demand, and the Treasury's programme of subsidies for first-time buyers is due to end in six months. There is a risk that many mortgage-holders will default on their payments and/or go into negative equity.

C.

Climate catastrophe. New analysis by the Intergovernmental Panel on Climate Change has indicated that global warming is likely to reach 2.5°C (above pre-industrial levels) by 2050 (i.e. much earlier than expected). This will make parts of the planet uninhabitable, cause extreme weather events in every country on a regular basis, and have a devastating impact on economic activity. The panel has advised that if total decarbonisation of the world economy is achieved within five years – just after the next general election in the UK – it may be possible to delay or prevent the expected warming.

4. True or false?

Which of these statements about UK economic policy institutions are true – and which are false?

A.

The Treasury was the first Whitehall department to recruit its staff through open competition.

B.

There was a Bank of Scotland before there was a Bank of England.

C.

The Treasury was the first of the UK's 'great offices of state' to be led by a woman (the Treasury, the Home Office, or the Foreign Office).

D.

The Bank of England is run by trade unionists.

E.

The Office for Budget Responsibility was established in 2010, under the leadership of Sir Alan Budd.

5. Tracked changes

Below are statements which summarise the key priorities and objectives of the Treasury and the Bank of England (adapted from the institutions' own corporate publications). How would you tweak the wording of these statements so that – if the changes were adopted across the institution – different policy outcomes are reached? Is piecemeal change possible – or should the institutions be replaced altogether?

A.

The Treasury's three overarching aims are to:

- Place the public finances on a sustainable footing by controlling public spending and designing sustainable taxes.
- Level up the economy, by ensuring strong employment and increasing productivity across the regions and nations of the UK.
- Ensure the stability of the macro-economic environment and financial system.

B.

The Bank of England's central mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. On monetary policy, the Bank's objective is to deliver price stability and, subject to that, to support the government's economic objectives including those for growth and employment. Monetary stability means stable prices and confidence in the currency. Stable prices are defined by the government's inflation target (currently 2 per cent), which the Bank seeks to meet through the decisions delegated to the Monetary Policy Committee, explaining those decisions transparently and implementing them effectively in the money markets.

6. Making inquiries

Economic policy institutions are regularly scrutinised by Parliament and the media. For both scenarios below:

- *Write a 300-word tabloid newspaper article explaining how the Treasury or the Bank of England has failed on some aspect of economic policy (for an example, see: <https://www.thesun.co.uk/-news/15690112/boris-johnson-revolt-national-insurance-hike/>).*
- *Design the terms of reference for an inquiry by a parliamentary select committee (for an example, see: <https://old.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2017/inquiry7/>).*

A.

Dozens of local authorities are expected to become insolvent in the next 3-5 financial years. Local government spending cuts, and the rising cost of delivering social care, are seen as the main drivers of this trend.

B.

Quantitative easing has been used to both stimulate private economic activity, and mitigate the cost of borrowing for the public sector. Yet it has exacerbated longstanding wealth inequalities by inflating the value of some assets.

7. Policy briefs

Write a 'mini essay' (250-300 words) on each of the policy decisions below, explaining – with reference to economic, political and institutional factors – why the institution made the decision it did.

The Treasury

- A. The decision to not join the European Monetary Union.
- B. The combination of tax and spending cuts as part of 'austerity' after 2010.
- C. The introduction of Help Out to Eat Out in 2020.
- D. The establishment of the Office for Budget Responsibility.

The Bank of England

- E. The 'softening' of the Monetary Policy Committee's inflation target in 2013.
- F. The application of 'stress testing' to climate-related risks.
- G. The proposed introduction of 'Central Bank Digital Currency'.
- H. The significant expansion of quantitative easing throughout 2020.

Bonus points

- I. The Treasury's 'recapitalisation' of the UK banking sector in 2008.
- J. The granting of operational independence to the Bank of England in 1997.

8. Where in the world?

Can you identify these economic policy institutions?

A.



B.



C.



D.



E.



F.



Some answers

1. Quote unquote

A. George Osborne. Part of a speech delivered when Osborne was Chancellor of the Exchequer in 2012.

See: <https://www.ukpol.co.uk/george-osborne-2012-speech-at-speakers-house/>

B. Mark Carney. Excerpts from a speech delivered when Carney was Governor of the Bank of England in 2016. He was speaking at a meeting of central bank governors on climate change in Berlin.

See: <https://www.theguardian.com/business/2016/sep/22/carney-backs-green-finance-to-cut-emissions-and-boost-growth>

C. Liam Byrne. This quote is the full text of a letter left by Byrne to his successor, immediately before he left his position as Chief Secretary of the Treasury after the 2010 election. The letter – intended as a private joke – was publicised by the Conservative-Liberal Democrat coalition government as evidence of the outgoing Labour government’s fiscal profligacy.

See: <https://www.theguardian.com/commentisfree/2015/may/09/liam-byrne-apology-letter-there-is-no-money-labour-general-election>

D. Montagu Norman. This is thought to have been a maxim of the Bank of England’s longest-serving Governor (1920-1944). The quote typifies the Bank’s traditional attitude towards transparency and scrutiny.

See: <https://www.ft.com/content/9f694546-8f92-11e8-b639-7680cedcc421>

E. John Maynard Keynes. Keynes said this in 1921. While critical of the ‘Treasury view’, Keynes nevertheless regarded controls on public spending as necessary, both politically and economically.

Quoted in D.E. Moggridge (1992) *Maynard Keynes: An Economist’s Biography* (London: Routledge), p. 246

F. Lord Alan Turnbull. A response given by Turnbull in 2017 in an interview with *The Financial Times*. Turnbull was Permanent Secretary at the Treasury for four years while Gordon Brown was Chancellor of the Exchequer.

See: <https://www.ft.com/content/7a58bfa0-d6d7-11db-98da-000b5df10621>

G. Lord Michael Forsyth. Forsyth is a Conservative member of the House of Lords, and Chair of the Economic Affairs Committee. Forsyth was quoted in a news release accompanying the committee’s 2021 report on quantitative easing.

See: <https://committees.parliament.uk/committee/175/economic-affairs-committee/news/156630/bank-of-england-must-spell-out-the-risks-of-quantitative-easing-says-lords-report/>

H. Boris Johnson. This is the contents of a text message sent by the Prime Minister to the entrepreneur (and Conservative donor) James Dyson in 2020, after Dyson complained this his

Singapore-based staff may be subject to UK taxes if they entered the country to assist with the manufacture of ventilators during the COVID-19 outbreak. ‘First Lord of the Treasury’ is a largely ceremonial title traditionally bestowed upon the Prime Minister. Ultimately, Dyson’s company did not supply any ventilators to the UK government.

See: <https://www.bbc.co.uk/news/uk-politics-56819137>

I. A Latin phrase meaning ‘Thus we labour, but not for ourselves’. The phrase appears at the entrance of the Bank of England’s historic ‘Parlour’ rooms, and was used on a £2 coin in 1994. It was the motto of Scottish banker Sir William Paterson, one of the Bank’s founders.

See: <https://www.inyourarea.co.uk/news/the-parlour-of-the-bank-of-england-in-1870/>

J. Laura Kuenssberg. Kuenssberg, the BBC’s Political Editor, was speaking on the Today programme in 2021.

Recording available at: <https://www.express.co.uk/news/politics/1364315/bbc-laura-Kuenssberg-rishi-sunak-spending-review-boris-johnson-latest-VN>

4. True or false?

A. True. Open competition in civil service recruitment was a principle established by the Northcote-Trevelyan report of 1854, commissioned by William Gladstone as Chancellor of the Exchequer. It was implemented at the Treasury, while most other departments resisted, with some insisting that appointments were made based on character rather than intellect. Former Treasury Permanent Secretary, Nick Macpherson, argued in 2013 that the reforms ‘resulted in the Treasury attracting a more able – though not a more diverse – intake’.

See: <https://www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-sir-nicholas-macpherson-the-origins-of-treasury-control>

B. False. The Bank of Scotland was established in 1695, a year after the Bank of England. The former, however, was not a central bank in any conventional sense, although it was granted the power by the then Parliament of Scotland to print banknotes – it still has the power to issue banknotes in sterling. Unlike the Bank of Scotland, the Bank of England began life as a private company, but nevertheless functioned as a central bank. It is the world’s second oldest central bank, behind only its Swedish counterpart (Sveriges riksbank).

C. False. The Treasury is the only one of the UK’s ‘great offices of state’ to have never been led by a woman (either in terms of ministerial or civil service leadership).

D. Partially true. The Bank’s Court of Directors is technically responsible for setting the organisation's strategy and budget, including key decisions on resourcing and appointments. The current set of non-executive directors include Frances O’Grady, General Secretary of the Trades Union Congress; former head of Unison, Dave Prentis, was a member until recently. Other notable members include Dido Harding, a controversial Conservative peer criticised for her leadership of the COVID-19 Test and Trace service. Non-executive directors are paid at least £15,000 per year. The executive members of the court are generally the Bank’s Governor and Deputy Governors.

See: <https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2021/boe-2021.pdf?la=en&hash=965204F6565CB8CAD29A86E595CB7F02E8A54E07>

E. A bit of both! The OBR was officially established in 2010 when the coalition government took office, with Budd – a former chief economic adviser at the Treasury – appointed as Chair of the Budget Responsibility Committee. However, the OBR was first set up ‘in shadow form’ in 2009, by future Chancellor of the Exchequer George Osborne, while still in opposition, essentially as a political stunt. Budd was appointed as head of the shadow OBR before taking on the role officially, leading to concerns he was effectively a political appointee with strong partisan affiliations to the Conservative Party.

See: http://news.bbc.co.uk/1/hi/uk_politics/8401517.stm

8. Where in the world?

A. Paris, France: Ministry of the Economy and Finance (‘la forteresse de Bercy’)

Image by Zairon - Own work, CC BY-SA 4.0,
<https://commons.wikimedia.org/w/index.php?curid=71103738>

B. Frankfurt, Germany: Bundesbank (central bank).

Image by Matthew G. Bisanz, CC BY-SA 3.0,
<https://commons.wikimedia.org/w/index.php?curid=18321622>

C. Tokyo, Japan: Ministry of Finance

Image by Rs1421 - Own work, CC BY-SA 3.0,
<https://commons.wikimedia.org/w/index.php?curid=22811280>

D. Washington DC, United States: Federal Reserve (central bank)

Image by AgnosticPreachersKid - Own work, CC BY-SA 3.0,
<https://commons.wikimedia.org/w/index.php?curid=6282818>

E. Frankfurt, Germany: European Central Bank

Image by Epizentrum - Own work, CC BY-SA 3.0,
<https://commons.wikimedia.org/w/index.php?curid=38317255>

F. Washington DC, United States: International Monetary Fund

Image in public domain

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