Understanding the Treasury

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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1. Introducing the Treasury

HM Treasury (hereafter: 'the Treasury') is, in its own words:

> [T]he government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.[1]

The Treasury is generally understood as the most powerful organ in the UK government, with power over – or responsibility for – most public spending by most other parts of government. Arguably the nature of its interactions with other government departments means it is a more important seat of power than 10 Downing Street and/or the Cabinet Office (which formally co-ordinates policy across Whitehall), although the Prime Minister of course has power of appointment over the Treasury's ministerial team.

Controlling public spending, to ensure that expenditure does not (regularly or unsustainably) exceed what the Treasury is able to raise through taxation and borrowing can be seen as a mundane function of budgetary management. In reality, the Treasury approach to managing expenditure (and indeed taxation and borrowing) is an application of its own approach to macroeconomic management through fiscal policy, rather than simply government accounting.

In this sense, the Treasury also sets the framework for economic policy interventions (or non-interventions) across government, with the framework also influencing how spending controls are applied. The department also intervenes more or less directly into the economy in some policy areas – generally but not exclusively via taxation – and in some ways overlaps (sometimes conflicts) with other departments with economic policy responsibilities.

There are probably two, key analytical questions that should be asked when considering the nature of the Treasury as an economic policy institution: first, does the Treasury's responsibility for public finances ultimately mean the department is rather apolitical, insofar as it carries out its enduring role irrespective of political leadership or ideological preferences? Second, does the Treasury have a particular outlook on the economy which underpins all of its macro and micro fiscal decisions (and which, again, is relatively immune to short-term political influence)? In short, it is important to consider whether an apparent conservative approach to public expenditure is a product of the Treasury's departmental function, or instead part of broader ideological commitments embedded in the institution. And even if the latter is correct, we need to consider how such a worldview is reproduced, and the relationships between the Treasury's civil servants and political leaders.

The figure below outlines the main features of the Treasury as an economic policy institution in line with the generic characteristics introduced in the accompanying paper *Introducing Economic Policy Institutions*.

[1] See https://www.gov.uk/government/organisations/hm-treasury/about.

Economic function. The Treasury's central purpose is the management of public finances, such as, controlling expenditure and securing tax revenue. This macroeconomic policy remit has expanded to include overall oversight of UK economic policy.	**Relationships with other public bodies**. The Treasury's dual role in fiscal and economic policy means it has authority over all other government departments, and local government, formally and/or informally. The department has increasingly taken on a co-ordinating policy role across Whitehall.
Founding or central ideas. A 'Treasury view' favouring a small state, sound money and low taxes is often posited by observers, although there are areas (such as supporting the housing market) where the Treasury is less fiscally conservative.	**Leadership and personnel**. The Treasury is led by elected politicians, with the Chancellor often seen as second in rank only to the Prime Minister. It has a very small workforce of civil servants, as a result of having few delivery functions.
Evidence and other inputs. Despite its high profile, the Treasury is not a 'public facing' department – stakeholders have little formal or significant role in developing or contesting policy. In general, the Treasury measures its performance against aggregate economic measures: GDP growth, employment and productivity (and, to a lesser extent, earnings and poverty or inequality) ahead of impacts on particular social groups or industries.	**External scrutiny and accountability**. The Treasury is scrutinised intensely by Parliament and the media around fiscal events, and regularly by select committees. Its management of public finances and the economy is also assessed by the Office for Budget Responsibility. However, it is mainly accountable in practice only to the Prime Minister – yet Prime Ministers often struggle to impose their will on the department.
Origins. The Treasury pre-dates all other political institutions in the UK; the modern system of economic governance has largely evolved around the Treasury over several centuries. The deep embedding of the Treasury's original role – collecting taxes and managing royal court finances – continues to shape its functions.	**Location**. The Treasury has been located at the heart of Whitehall and Westminster (in London) for centuries. Given its authority over the rest of government, this is often seen as contributing to the UK's highly centralised polity, and indeed spatially imbalanced economy. Parts of the Treasury will soon move to Darlington.

Fig 1. The Treasury as an economic policy institution

2. On Her Majesty's Service

The Treasury is led by the occupant of 11 Downing Street, the Chancellor of the Exchequer, but the Chancellor is, in a formal sense, only third-in-command. The First Lord of the Treasury is customarily the Prime Minister – the title is engraved onto the front door of 10 Downing Street – who of course technically only governs the country on behalf of the monarch. The role of the Prime Minister grew out of the role of managing the royal court, which became increasingly focused on collecting taxes. However, the formal position of Chancellor of the Exchequer predates that of Prime Minister by several centuries. The role of Prime Minister is generally equivalent to that of Lord High Treasurer, who was normally considered the head of government; this role is now carried out by committee, albeit symbolically, with the Chancellor of the Exchequer, as Second Lord of the Treasury, serving as the Prime Minister's deputy on the committee.[2]

This may seem like a tale of historical curiosities, largely over-ridden by the modernisation of government in the UK in recent centuries, and indeed the monarchy's acceptance of democratic rule. Yet the tale helps us to understand the Treasury's contemporary status, at least to some extent. Unlike almost any other similar country, there is an institutional lineage between the Treasury and the earliest forms of post-medieval governance, meaning that Treasury functions – collecting taxes and controlling public spending – are not only embedded in the UK's machinery of government, but also its legal and constitutional foundations. Certainly, we should think of the practices and institutions of parliamentary democracy not as superseding 'a Treasury-based machinery of government regime', but rather as developing around it.[3] It should of course be noted that the Treasury's expansion in the seventeenth and eighteenth centuries was due in large part to the demands of financing war.[4]

Like all UK government departments with significant policy responsibilities, the Treasury is of course now part of 'the Westminster model' of government. The political party with the most seats in the House of Commons forms the government, with its leader serving as Prime Minister. The Prime Minister appoints all other ministers (generally from his or her own parliamentary party), with the Chancellor of the Exchequer generally seen as the most important post. Senior ministers (generally those who lead departments) collectively form a cabinet to co-ordinate policy across government, and political circumstances (and sometimes personalities) tend to dictate the balance of power between the Prime Minister, key cabinet ministers, and the cabinet as a whole. The Treasury actually has two ministers in the cabinet, with the Chief Secretary to the Treasury (with ministerial responsibility for controlling public spending) also a member.[5]

The relationship between the Prime Minister and the Chancellor is perhaps the decisive dynamic underpinning how any UK government approaches its stewardship of the state machinery. While the Treasury sits at the heart of 'the core executive', its influence can

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[2] This historical account refers generally to the governance of England, since around the twelfth century. The union between the English and Scottish kingdoms in the early eighteenth century meant the territory of the country now known as the United Kingdom was brought into the (evolving) English system of government.

[3] Middlemas K (1991) *Power, Competition and the State: Volume III – The End of the Postwar Era: Britain Since 1974* (London: Macmillan), p. 457.

[4] Macpherson, Nick (2013) 'The origins of Treasury control', speech delivered in London on 16 January, available at: https://www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-sir-nicholas-macpherson-the-origins-of-treasury-control.

[5] This is not a privilege enjoyed by only the Treasury, but it is unusual, and should be seen as reflecting the Treasury's influence. During the Conservative-Liberal Democrat coalition government of 2010-2015, the Chief Secretary post took on even greater significance, as its incumbent Danny Alexander formed part of the informal 'quad' of ministers alongside the Prime Minister and Chancellor (both Conservatives) and the Deputy Prime Minister (a fellow Liberal Democrat).

obviously be curtailed, in theory and in practice, by a disapproving Prime Minister.[6] Such circumstances are rare though. Prime Ministers are often compelled by political circumstances to appoint powerful colleagues to the role of Chancellor, and subsequently allow them a significant degree of autonomy in the exercise of the department's powers (the relationships between Tony Blair and Gordon Brown, and between Theresa May and Philip Hammond, offer recent examples). Alternatively, some Prime Ministers are powerful enough to allow their Chancellors to accumulate influence, and attract media spotlight, without feeling their own position is threatened (the relationships between David Cameron and George Osborne, and Boris Johnson and Rishi Sunak (so far), offer recent examples). The table below is adapted from Wyn Grant's *Economic Policy in Britain* textbook.

	Chancellor is a political figure in their own right	*Chancellor lacks independent political base*
Harmonious relationship	Chancellor enjoys autonomy and support from the Prime Minister	Chancellor faithfully delivers the Prime Minister's policy agenda
Difficult relationship	Disagreements over policy or political strategy, which may lead to a breakdown of relationship	The Prime Minister lacks confidence in – or does not trust – the Chancellor; dismissal likely

Fig 2. Prime Minister/Chancellor of the Exchequer relationships[7]

The growing salience of economic policy in UK politics since the 2008 financial crisis has perhaps increased incentives for Prime Ministers to pay attention to how the Treasury is managing its core, macroeconomic policy functions – but at the same time underlined the department's importance, arguably reinforcing the requirement that Prime Ministers govern *via* the Treasury.

The Treasury is therefore powerful within Whitehall, but within Westminster more generally, there is perhaps no department that Parliament scrutinises more than the Treasury. Essentially, the government's ability to raise taxes must be renewed by Parliament on an annual basis, which means Parliament can formally hold the Treasury – far more so than the Prime Minister – to account for how the government intends to spend public money. This manifests as 'the Budget' process.[8] In practice, however, this constraint on the Treasury is usually a source of power for Chancellors, since they are afforded an opportunity to tell the story of the government's record on their own terms, to an audience which extends far beyond Parliament. This is one of the mains reasons that recent Chancellors have tended to increase the number of 'fiscal events' which require parliamentary reporting (as well as being an additional mechanism

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[6] Smith, Martin (1999) *The Core Executive in Britain* (Basingstoke: Palgrave).
[7] Adapted from Grant, Wyn (2002) *Economic Policy in Britain* (Basingstoke: Palgrave), p. 190.
[8] Describing the Budget process, David Lipsey says: 'Like the painting of the Forth Bridge, it never stops'; see Lipsey, David (2000) *The Secret Treasury* (London: Penguin).

for controlling other government departments). The Treasury is subject to scrutiny by a dedicated select committee (a cross-party group of backbench MPs), the Treasury Select Committee. The Treasury is also regularly subjected to scrutiny by the Public Accounts Committee (PAC) – but it is just as likely to work in alliance with the PAC in punishing over-spending by other departments.

3. Structure and size

The Treasury's might is not matched by its size. According to Office National Statistics public sector employment data, the department had around 1,900 full time equivalent employees in March 2021. Furthermore, this is considerably more than the Treasury normally employs – it had only 1,600 employees a year before, and below 1,500 in March 2019. The increase is due to COVID-19, with the Treasury tasked with designing the 'furlough' scheme.[9]

In contrast, the Department for Business, Energy and Industrial Strategy (BEIS) has almost 4,000 employees, the Department for Education (DfE) has around 4,500, the Home Office has almost 30,000, and the Department for Work and Pensions (DWP) has more than 70,000.[10] Some of this difference relates to how employees are categorised. Unlike the Home Office and DWP, the Treasury is not a 'delivery' department, but if we included HM Revenue and Customs (HMRC) within the Treasury – since HMRC reports to Treasury ministers – then it would add more than 50,000 to the total. That said, BEIS and DfE are not delivery departments either – but they have much larger central workforces to oversee the work of delivery agencies and partners.

While the precise ministerial roles encompassed by the Treasury, like any UK government department, occasionally fluctuate, the department has five core ministerial roles: beyond the Chancellor of the Exchequer and Chief Secretary, discussed above, the third most senior role is that Financial Secretary, who leads on tax policy including oversight of HMRC. The responsibilities of the Economic Secretary and Exchequer Secretary generally adapt to the government's policy priorities, although the former tends to include oversight the finance sector and financial regulations, and the latter is currently responsible for the Treasury's interests in industrial policy and local government.

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[9] See https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/datasets/publicsectoremploymentreferencetable.

[10] See https://www.gov.uk/government/publications/department-for-business-energy-and-industrial-strategy-single-departmental-plan/department-for-business-energy-and-industrial-strategy-single-departmental-plan-june-2019, https://www.gov.uk/government/publications/home-office-single-departmental-plan/home-office-single-departmental-plan--3, https://www.gov.uk/government/publications/department-for-education-single-departmental-plan/department-for-education-single-departmental-plan--2 and https://www.gov.uk/government/publications/department-for-work-and-pensions-single-departmental-plan/department-for-work-and-pensions-single-departmental-plan--2.

Beyond HMRC, the Treasury has comparably few other government agencies within its domain. Previous responsibilities for the Financial Services Authority were transferred to the Bank of England after the financial crisis. There are small delivery bodies such as the Debt Management Office and the Office for Budget Responsibility (OBR; discussed further below), as well as the advisory body the Office for Tax Simplification. The Treasury also technically owns or oversees National Savings and Investment, a state-backed saving schemes for small-scale bond purchases, and the Royal Mint, which issues the UK's physical currency.

The Treasury's diminutive size reinforces a sense of an intense internal culture, with a relatively young workforce, and high rates of staff turnover, driven both by the cycle of fiscal events and the department's particular role in supervising much larger departments. Traditionally, its workforce is male-dominated (there has of course never been a female Chancellor or Permanent Secretary). The Treasury's staff are encouraged to challenge, even outwit, other departments' officials. It is possible to see this outlook as one which is necessary for Whitehall's spending watchdog to adopt, while also suggesting that the Treasury may be over-zealous in the exercise of its powers *vis-à-vis* other departments insofar as it rewards behaviours consistent with excessive fiscal caution at the expense of a broader understanding of policy effectiveness.[11]

4. Power and powers

As discussed above, the Treasury's power within government arises ostensibly from its control of public expenditure. This role is carried out as a matter of routine by the Treasury, but the department's control over other departments is exercised more stringently at some times, and less so at other times, depending on political conditions. Spending controls have become much more formal in recent decades – a process which ironically began in response to the Treasury's apparent failure to control public spending in the 1950s. As the fiscal footprint of the state grew in the postwar era, the unsophisticated mechanisms by which the Treasury kept track of spending across government drew criticism, and were replaced by the Public Expenditure Survey Committee (PESC) system. This allowed for quantitative targets on departmental spending, but also a more holistic assessment of how mulit-year spending programmes would operate. In short, while the PESC system was operationalised by the Treasury, it placed restraints on the Treasury's power to directly control spending.

However, the system was quickly deemed inadequate, insofar as it granted departments too much autonomy, and freedom to inflate spending as the wider economy experienced higher inflation. By the mid-1970s, the Treasury reassumed control, with strict cash limits on

[11] For further discussion of the Treasury's culture, and its impact across Whitehall, see Wilkes, Giles and Westlake, Stian (2014) The end of the Treasury, NESTA Provocation 15, available at https://media.nesta.org.uk/documents/end_of_treasury.pdf. Lord Marland, minister at various departments in the coalition government, argued after he left office: 'The Treasury had some good people in it. I think some of the people thought they knew more than they did' (see: https://www.instituteforgovernment.org.uk/ministers-reflect/person/lord-marland/).

departmental expenditure, essentially heralding the arrival of the spending watchdog Treasury as we know it today (and pre-empting the rise of monetarism in macroeconomic policy). As Prime Minister in the 1960s and 1970s, Harold Wilson had an ambivalent relationship with the Treasury, creating a rival economic policy ministry, but in his second term as Prime Minister, ruled that Treasury ministers could never be over-ruled in Cabinet committees (cross-departmental groups of ministers which report to the full Cabinet).[12]

Margaret Thatcher, as Prime Minister from 1979 to 1990, fully embedded the Treasury's power in this regard. Cash limits were retained, alongside other quantitative targets such as those for the Public Sector Borrowing Requirement, and a formal framework for expenditure planning was introduced. There was rarely a prospect of Thatcher clashing with the Treasury – she ruled via the department. The system was retained even as its monetarist underpinning was largely discarded – which meant that public spending continued to grow. As Chancellor of the Exchequer, Gordon Brown introduced the Comprehensive Spending Review in the late 1990s, formalising a new system of multi-year departmental spending programmes, while allowing the Treasury broad powers to assess departments' finances. It is worth noting that a 2019 report published by the Institute for Government was strongly critical of the Treasury for an excessive focus on departments' spending – at the expense of evaluating the *performance* of their policies.[13]

In terms of economic policy making processes, Brown's tenure as Chancellor is probably remembered mostly for an immediate decision to grant the Bank of England monetary policy independence (discussed below), and the establishment of 'fiscal rules'. Seeking credibility on economic stewardship – the absence of which was deemed to explain a series of election defeats for the Labour Party – Brown's 'golden rule' stipulated that, over an economic cycle, government could borrow only to invest (which would benefit future generations repaying public debt) rather than to fund current spending (which was understood as only benefiting the direct recipients). Several other principles were outlined by Brown, most importantly the 'sustainable investment rule', which mandated that public debt would not be allowed to rise above 40 per cent of gross domestic product (GDP), even if the government *were* borrowing to invest.

The rules were not major constraints on public expenditure by the Labour government, and indeed they were in due course modified by Brown, and abandoned after the 2008 financial crisis. Yet the shift to rules, rather than the 'limits' and 'targets' of previous regimes, marked a strengthening of Treasury power across Whitehall, in step with Brown's political ambitions. The idea that fiscal policy should be based on rules did survive the financial crisis, with the Conservative Party using Brown's necessary suspension of the golden rule to again criticise Labour for fiscal imprudence. Yet, as Chancellor, George Osborne did not actually establish new rules until 2015 – with a focus on reducing public debt – and even then, there was a large

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[12] Grant (2002), *Economic Policy*, p. 202.
[13] Wheatley, Martin *et al.* (2019) *The Treasury's Responsibility for the Results of Public Spending*, Institute for Government, available at https://www.instituteforgovernment.org.uk/publications/treasury-responsibility-public-spending; for a similar analysis, see: Richards, David *et al.* (2020) 'The Prime Minister vs the Chancellor: institutionalised conflict in economic policy-making', LSE Politics and Policy Blog, 17 March, available at: https://blogs.lse.ac.uk/politicsandpolicy/institutionalised-conflict-in-uk-economic-policymaking/.

degree of flexibility in how performance against the rules was assessed. Subsequent Chancellors have used this flexibility to modify the rules frequently, in light of the UK's continuing economic turmoil.[14] Osborne also consistently revised targets related to reducing the public deficit in the wake of increased spending during his time as Chancellor.[15]

The fiscal rules announced by the Johnson government's in 2019 were:

1. The current budget rule: to have the current budget in balance no later than the third year of the forecast period.
2. The net investment rule: to limit public sector net investment to 3% of GDP.
3. The debt interest rule: to reassess plans in the event of a pronounced rise in interest rates taking interest costs above 6% of government revenue.

These rules were generally suspended as a result of COVID-19. In October 2021, the Chancellor, Rishi Sunak, committed the Treasury to new rules which stipulate that, over a three year forecast period, public debt must be forecast to fall, and the government can borrow no more than it invests.[16] It is of course difficult to have much faith in 'rules' which change so frequently, even in highly unusual economic circumstances. It is also worth pointing out that is not apparent what role, if any, fiscal rules play in the day-to-day relationships between the Treasury and other government departments (in practice, the Treasury tends to rely on 'rules of thumb' in such interactions).

Nevertheless, it is clear that Sunak's rules, if respected, would be more restrictive than recent iterations. To date, however, Sunak has not embarked on significant cuts in public spending in most areas, in large part because – in direct contrast to the public image he has attempted to cultivate – he has been content to increase taxes. In late 2021, public spending reached 41.6 per cent of GDP, compared to 39.8 per cent before the COVID-19 pandemic (and the former figure does *not* include the colossal costs of the furlough scheme, discussed below, which has now ended). This is the highest sustained level since the 1970s. Tax revenue has risen from 33.5 per cent of GDP before the pandemic to 36.2 per cent – a level not seen since the early 1950s.[17]

A framework which has far greater relevance for routine Treasury operations is 'the Green book' system for appraising the cost-effectiveness of policy options. The Treasury expects departments to design policies in relation to Green Book advice *before* asking for the Treasury's approval to commit public resources. It is used most systematically in relation to large-scale public investment, but the Green Book's principles and methods can be applied to

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[14] Clift, Ben and Tomlinson, Jim (2007) 'Credible Keynesianism? New Labour Macroeconomic Policy and the Political Economy of Coarse Tuning', *British Journal of Political Science* 37(1): 47–69; Berry, Craig and Lavery, Scott (2017) 'Towards a political economy of depoliticization: Help to Buy, the Office for Budget Responsibility and the UK growth model', in Fawcett, Paul *et al.* (eds) *Anti-Politics, Depoliticization and Governance* (Oxford: Oxford University Press), pp. 245-265.
[15] Berry, Craig (2016) *Austerity Politics and UK Economic Policy* (London: Palgrave); Stanley, Liam (2016) 'Governing austerity in the United Kingdom: anticipatory fiscal consolidation as a variety of austerity governance', *Economy and Society* 45(3-4): 303-324.
[16] See https://www.reuters.com/article/britain-budget-rules-idUSS8N2QN04A.
[17] *The Economist* (2021) 'Rishi Sunak's budget marks a turn to big-state Conservatism', 27 October, available at: https://www.economist.com/britain/rishi-sunaks-budget-marks-a-turn-to-big-state-conservatism/21805957.

any area of public expenditure.[18] The Green Book process is official-led, surviving across multiple governments, with Treasury ministers often complaining that it represents a constraint on their scope for implementing their policy priorities. For example, former Chief Secretary (and now Mayor of Greater Manchester) Andy Burnham remarked in 2017 that:

> Officials took me through the cost-benefit analysis used by the Department for Transport and the Treasury to assess the viability of transport projects. This was almost exclusively an economic test and projects were judged by the economic value they created. In short, projects in parts of the country where the economy was strongest were more likely to score highest. What about areas with higher social need that required better transport to grow their economy? No weighting was given to that, I was told.[19]

As Burnham suggests, the Green Book process has been criticised mainly on the grounds that it assumes that a particular locality or industry's productivity rate as fixed. Further investment may expand production, but the possibility that it has a transformative impact which increases productivity in a non-linear fashion – meaning investment may actually represent greater value for money in under-performing areas and industries – is overlooked, at least to some extent.[20]

It should be noted that, firstly, the Green Book has been updated in recent years to allow for such possibilities, and to account for a range of wider benefits from investment even if the immediate economic impact is negligible. Secondly, verdicts delivered via Green Book methodology are of course never immutable – ministers can, and frequently do, approve projects for a wide range of political and economic reasons, irrespective of the Green Book.

Treasury spending controls are employed ostensibly to ensure probity in the management and allocation of public money. But the notion of government-wide rules on expenditure is suggestive of a specific fiscal strategy, consistent with a broader approach to macroeconomic management. It is clear that specific rules have been modified or replaced (or ignored) when their application might be inconsistent with overall macroeconomic objectives.

The Treasury has considerably more direct power over taxation than it does over public spending – to the extent that it barely needs to consult other government departments at all. The Treasury is therefore able to establish a tax policy agenda in line with its macroeconomic objectives, which more often than not, in the UK, has meant seeking to maintain low rates of taxation, relative to other, similar countries. That said, there is a tension between an apparent preference for low tax rates, and the Treasury's responsibility for managing the public finances. The department often deems it necessary to introduce or raise certain taxes in order to 'balance

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[18] See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data-/file/938046/The_Green_Book_2020.pdf.

[19] Burnham, Andy (2017) 'Why England's North is still waiting for its powerhouse', *The Guardian*, 22 August, available at: https://www.theguardian.com/commentisfree/2017/aug/22/north-powerhouse-infrastructure-andy-burnham.

[20] Coyle, Diane and Sensier, Marianne (2018) 'The imperial Treasury: appraisal methodology and regional economic performance in the UK', Bennett Institute for Public Policy, available at: https://www.bennettinstitute.cam.ac.uk/publications/imperial-treasury-appraisal-methodology-and-region/; see also Berry, Christine (2014) 'The tyranny of the benefit-cost ratio', *Fabian Review*, Summer 2014, available at: https://fabians.org.uk/wp-content/uploads/2014/08/FabianReview-Summer2014-2.pdf and Meadway, James (2019) *Greening the Green Book*, Common Wealth, available at https://www.common-wealth.co.uk/reports/greening-the-green-book.

the books', with the need for revenue deemed to outweigh what some ministers or senior officials might understand as adverse economic consequences (even if such consequences rarely materialise). Some would of course argue that lower taxes *increases* revenue – as noted below, this belief is part of the so-called 'Treasury view' – but there are far too many real-world variables which shape the impact of tax decisions for any such theory to be verified in any meaningful sense. (Sometimes, taxes rise by 'stealth' or 'fiscal drag', as tax thresholds remain constant while earnings inflation pushes a larger number into a higher tax band.)

Furthermore, taxation is not a singular policy: there are dozens of forms of taxation in the UK (and most with an accompanying system of exemptions and allowances). The Treasury's preferences on the balance between direct and indirect taxes, and between personal and business taxes, obviously change over time, in line with wider political and economic conditions. We should not assume, moreover, that there is a singular approach to taxation which tends to prevail at the Treasury, or among its leaders. A series of reviews in recent years – for instance by Nobel Prize-winning economist James Mirrlees, the Institute for Fiscal Studies and the Institute for Government – have criticised various anomalies, and overall incoherence, within the UK tax policy.[21] Yet politicians are always reluctant to make tax changes which create losers as well as winners among the electorate, and Treasury officials are reluctant to recommend tax changes without a degree of certainty that revenues will not be significantly affected as a result. Left-leaning critics of the Treasury consistently criticise the department's willingness to tax income from employment at a significantly higher rate than income arising from asset ownership.

In a conventional sense, the Treasury 'lost' or relinquished monetary policy powers when Gordon Brown granted monetary policy independence to the Bank of England in 1997. Similarly, after the 2008 financial crisis, the architecture of finance sector regulation in the UK was transformed, with the supervision of key agencies transferring to the Bank. However, this conventional account is probably an over-statement. Most obviously, the Treasury remains in control of the inflation target which the Bank is obliged to pursue via interest rates (more so than in other countries). In terms of financial regulation, the Treasury relinquished direct control of the Financial Services Authority's (FSA) successor bodies after the financial crisis – but the FSA's creation in 1997 had represented a transfer of control from the Department of Trade Industry (which largely evolved into BEIS) and various Bank of England functions to a Treasury agency. The post-crisis changes were in some ways a reversion to longstanding practices, and perhaps allowed the Treasury more control than before 1997, since the key Whitehall relationship was now between the Treasury and the Bank, with BEIS excluded.

The Treasury has personnel on both the Monetary Policy Committee and Financial Policy Committee, which make monetary policy and financial regulatory decisions, respectively, as well as power of appointment over other committee positions. And the Chancellor of course appoints the Governor of the Bank of England, who in turns makes other appointments at the

[21] Mirrlees, James *et al*. (2011) *Tax By Design: Final Report of the Mirrlees Review*. Institute for Fiscal Studies, available at: https://ifs.org.uk/publications/5353; see also Johnson, Paul (2014) 'Tax without design: recent developments in UK tax policy', Institute for Fiscal Studies, available at: https://ifs.org.uk/wps/wp201409.pdf; Rutter, Jill *et al.* (2017) 'Better budgets: making tax policy better', Institute for Government, available at: https://www.instituteforgovernment.org.uk/sites/default/files/publications/Better_Budgets_report_WEB.pdf.

Bank, included those involving membership of these two committees. The Treasury has therefore adapted to a new international orthodoxy in macroeconomic policy and regulatory practice – central bank independence – without substantively surrendering control.[22]

What about the 'economic' bit of 'economic and finance ministry' – does the Treasury's remit extend beyond *macro*economic policy and monitoring? The answer must be, unequivocally, yes. Most government activity has an impact on the economy, and it is inconceivable that any department – and, increasingly, local government – would make any major policy decisions affecting the economy that are inconsistent with the Treasury's economic agenda. This applies in particular to policy areas such as social security and employment support managed by DWP – in part because they involve large sums of public expenditure, and in part because they shape the performance of the overall labour market – and industrial policy, managed by BEIS. The latter is a particularly contentious issue, with industrial policy powers often granted to BEIS and predecessor departments in order to circumvent Treasury dominance, but which effectively cannot operate without Treasury approval. In recent years, the Treasury has been seen to 'own' a policy agenda around addressing the UK's poor productivity performance, and sought to ensure that BEIS's broader 'industrial strategy' is aligned with its own diagnosis of and objectives on productivity.[23]

As noted above, the Treasury retains near-total control of tax – and tax decisions are clearly a key, constitutive element of any economic policy agenda. Even where particular tax policies interact intimately with the policy areas of other departments, the Treasury is in the driving seat. As former pensions minister at DWP, Steve Webb remarked (after leaving office) about a 2012 decision on pensions tax relief:

> So I wanted to do something tiny, weeny on pensions that would involve spending probably a million pounds, I think, which when it comes to pensions as you can imagine is a rounding error, it's not even a rounding error. And you know, I couldn't do it, I couldn't get it done. I could have saved them £50 million here and £70 million there, but to actually want to spend a million pounds on it, no, you can't do it. So it was a blocking, I mean the biggest frustration I think is because the Budget is so sort of hallowed, tax is so hallowed. You know, pension tax relief, you might imagine they'd have some engagement with the Pensions Minister, but they'd make a big change to pension tax relief and not tell me. Now, I did know what was happening in the 2014 Budget when the pension reforms happened and that was a good thing. But in 2012 I think it was when tax relief changed for 2012, I heard it the same time everybody else did. And that's ridiculous, you know, my vanity aside, that's just a stupid way to run government. But it's the Treasury, you know. It's tax.[24]

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[22] For a mythbusting account of central bank independence in the UK, see: Murphy, R. (2020) 'Mythbuster: the Bank of England is independent', *Tax Reseatch*, 4 June, available at https://www.taxresearch.org.uk/Blog/2020/06/04/mythbuster-the-bank-of-england-is-independent/. Murphy argues in particular that quantitative easing is a Treasury agenda, with the Bank of England merely an agent of the Treasury in this regard.

[23] Berry, Craig (2020) 'From receding to reseeding: industrial strategy, governing strategies and neoliberal resilience in post-crisis Britain', *New Political Economy* 25(4): 607-625.

[24] See https://www.instituteforgovernment.org.uk/ministers-reflect/person/steve-webb/.

The Treasury's management of fiscal events like the Budget is clearly part of this story too. The governance structure of the UK provides Chancellors to announce any policy to Parliament which has a fiscal implication (costing public money or raising revenue), and it is not always the case that announcements are (fully) agreed with the relevant departments in advance. It is worth reiterating, of course, that the Treasury is not simply 'acting alone' when making such decisions. The Prime Minister and the Cabinet are ultimately responsible for whatever Chancellors decide. If it seems at times that the Treasury is acting with impunity, this has as much to do with political circumstances (for example, a weak Prime Ministers who grants autonomy to a strong Chancellor because it is in their interests to do so) as it does the inherent strength of the Treasury as a policy institution.

5. The Treasuries

There are few finance departments internationally that match the power enjoyed by the Treasury in the UK. The United States' own Treasury is superficially similar to the UK's but there are an array of other agencies involved in both macroeconomic policy and budgetary management at the national level, as well as a more powerful role for the legislature and sub-national authorities in decisions on taxation, spending and economic policy more generally. However, despite the absence of a departmental powerhouse to match the US Treasury, economic policy-making in the United States generally aligns with the 'Treasury view' (discussed below). Germany is also said to be a proponent of the Treasury view, to some extent, particularly in relation to controlling inflation. The German finance ministry is a powerful actor within the German government, albeit within a political system with stronger tax-raising powers at the sub-national level, and a strong tradition of industrial policy, which the finance ministry has little role in.

The French finance ministry has come to closely resemble the UK Treasury in recent years, insofar as it has taken in responsibility for economic policy in general as well as budgetary management. However, the latter function is shared with a junior department, and the finance ministry has fewer direct powers over taxation. The Japanese finance ministry has moved in the opposite direction. It was once a highly powerful institution within the Japanese state, and remains in control of budgetary management and taxation, but it has relinquished economic policy powers to other departments and the central bank in recent years.[25]

[25] For a longer and systematic discussion of finance ministries across the developed world, see Allen, Richard *et al.* (2015) 'The evolving functions and reorganization of finance ministries', IMF Working Paper 15/232, available at: https://www.imf.org/external/pubs/ft/wp/2015/wp15232.pdf.

6. Does the Treasury have a view?

One of the most widely held views among critical political economists is that the Treasury is influenced by, and indeed the leading proponent of, a view of the economy and public finances which warns against the use of fiscal policy or, at the very least, believes that fiscal policy has a limited or negligible impact on economic activity, including key metrics such as the level of unemployment. In this account, the dominance of the 'Treasury view' helps us to understand the specific decisions made by the department, and furthermore, the dominance of the department helps us to understand the overall character of economic policy in the UK.

The Treasury view is often associated with neoliberal ideology – and as such seen as synonymous with a general economic policy agenda in favour lower taxes, lower regulation on private enterprises, and lower expenditure on social security – but it pre-dates the identification of neoliberalism by several decades. It is often dated to the 1920s, and specifically John Maynard Keynes' critique of the Treasury's commitment to both austerity (specifically, public expenditure cuts) and the gold standard (the mechanism underpinning sterling's role as a global reserve currency) during the Great Depression. More specifically, its origins can probably be located in the emergence of liberalism and the economics discipline in the nineteenth century, or the interaction of these creeds with the Treasury's abiding interest in controlling public spending.[26]

It is necessary to be more specific about the nature of the Treasury view. There is no definitive account, but it is usually said to rest upon three, key assumptions or beliefs:

- The dangers of deficit spending, which creates fiscal risks, and displaces or 'crowds out' private investment.
- The importance of sound money, a view which translates to a belief in maintaining a strong currency ad controlling inflation.
- The benefits of low taxation, allowing individuals and private companies to determine how to spend or invest their income (a related belief in the 'Laffer curve' suggests tax revenues will increase when tax rates are reduced, because the latter will stimulate growth).

It is clearly possible to identify these ideas within the objectives of UK economic policy, both historically and recently.[27] In a recent paper, Martin Craig argues that the Treasury's decision to privatise the Green Investment Bank (GIB) in 2017 (only five years after its creation) represented an application of the Treasury view in terms an aversion to providing public

[26] William Gladstone is often seen as a key figure in this regard. Gladstone served as Chancellor four times, and as Prime Minister four times, in the late nineteenth century – and actually combined both roles for several years.
[27] Mattei, Clara (2018) 'Treasury view and post-WW1 British austerity', *Cambridge Journal of Economics* 42(4): 1123-1144; Skidelsky, Robert (2015) 'The failure of austerity', SPERI Paper No.23, available at: http://speri.dept.shef.ac.uk/wp-content/uploads/2018/11/SPERIPaper23-the-failure-of-austerity.pdf.

finance to support industrial transformation – as well as an attempt to assert its own power over a rival department.[28]

On the other hand, critics of the notion of the Treasury view would be able to point to occasions – perhaps whole eras in UK economic history – when one or more of these assumptions or beliefs appears to have been diluted or discarded altogether. As discussed below, this is certainly the case at times of economic crisis. But there are many examples of the Treasury sanctioning high levels of public expenditure into certain industries, and indeed of taxes being raised in opposition to the business community.

At stake here, ultimately, is the extent to which ideas – including economic theories – can ever be said to be embodied in particular institutional frameworks, leading to their survival over the long term even when their advocates no longer occupy positions of authority within the institution in any formal sense. Related to this is the question of how ideas are reproduced over time: even if we assume the Treasury view is a powerful and embedded sets of ideas within the Treasury, what is the mechanism by which new actors within the Treasury come to advocate for and implement these ideas? Keynes believed in the power of ideas, but this power is dependent, at least to some extent, on their alignment with the interests of actors with material power at any particular moment in time.[29]

There is of course no 'correct' answer to such questions – they are answered, and indeed asked, in different ways by various theoretical perspectives. It is worth noting however that no account of a particularly influential set of ideas, even if it is broadly accurate, can ever fully capture the breadth and complexity of activity within, and decisions by, a department such as the Treasury. The Treasury view might influence what the Treasury does, but it does not determine it. While the Treasury view might *seem* to be embodied by the Treasury as a policy institution, it might be better conceptualised as a set of assumptions and beliefs prevalent among UK political, media and intellectual elites more generally – but arguably few contemporary academic macroeconomists – which may be influential within or upon the Treasury.[30] Equally, and as noted in the previous section, it may be that the 'Treasury view' is also influential beyond the UK, within or upon finance departments and economic policy thinking more generally in other countries, most notably the US and Germany.

[28] Craig, Martin (2020) '"Treasury control" and the British environmental state: the political ecology of green development strategy in UK central government', *New Political Economy* 29(1): 30-45. The Treasury had been sceptical of the GIB from the start. Former environment minister, Chris Huhne, criticised the Treasury's decision to deny the bank any borrowing powers, accusing the Treasury of 'simply… making it up as it went along to kill an idea that it never wanted' (see: https://www.instituteforgovernment.org.uk/ministers-reflect/person/chris-huhne/).

[29] This is increasingly being recognised even by mainstream economists; see Weldon, Duncan (2020) *Two Hundred Years of Muddling Through: The Surprising Story of the British Economy* (London: Little, Brown).

[30] For a lively discussion of these issues, see Wren-Lewis, Simon (2018) 'What Brexit and austerity tell us about economics, policy and the media', SPERI Paper No.36, available at: http://speri.dept.shef.ac.uk/wp-content/uploads/2018/11/SPERI-Paper-36-What-Brexit-and-austerity-tell-us-about-economics-policy-and-the-media.pdf.

7. The political economics ministry

There is a tendency to see the Treasury as apolitical. This arises in part from the department's role in supervising other departments' spending plans; while other parts of governments may have specific, political objectives which shape their policy agenda, the Treasury is concerned primarily with whether the numbers add up. It also based in part on the Treasury's role as economic ministry, with economics in this account cast as the application of science to the evaluation of government activity.

In short, this view is incorrect. At the intellectual level, it is clearly too simplistic to view the economics discipline as scientific rather than political – all scientific paradigms are political insofar as they involve judgements on which phenomena should be included or excluded from study, and which outcomes should be privileged. We can apply this understanding to the notion of budgetary management in the public sector, or more precisely, the notion that seeking to 'balance budgets' is an entirely neutral activity – it is also based on contestable assumptions which might lead to some policy outcomes being favoured over others, with distributional implications.

However, even if we take the Treasury's dual mission – supporting the economy and managing the public finances – at face value, it is still the case that the Treasury is a highly political organisation. It is headed by one of the country's most powerful politicians, the Chancellor of the Exchequer, and its work is inevitably shaped by the political objectives of the ministers ultimately responsible for its policies. This dynamic obviously shapes how the Treasury's exercises its power over other departments within Whitehall, and over local government. It is also sometimes a constraint upon the Treasury pursuing its objectives; former Conservative minister argues, for instance, that the Treasury was unable to make the positive economic case for immigration after 2010, because the Chancellor supported the government's policy on immigration targets.[31]

The Treasury's unique relationship with Parliament – with its work underpinned by the need to report to and gain the approval of Parliament on a very regular basis – also provides for a politicised culture. There are few moments of political theatre in UK politics that compare to the Budget, and inevitably, Budget decisions are made based on political as well as economic considerations – as Treasury officials understand perfectly well. The Treasury's political significance of course helps to explain why Prime Ministers often fixate on maintaining control of the department: an extreme example arose in 2020, when Boris Johnson's chief adviser, Dominic Cummings, created a single team of political advisors working across Downing Street and the Treasury, thereby undermining the Chancellor's political autonomy. The newly appointed Chancellor, Sajid Javid, resigned in protest. His successor, Rishi Sunak, acquiesced to the plan, but Cummings himself left government shortly afterwards, and Sunak is believed at the time of writing to enjoy significant autonomy in Treasury decision-making *vis-à-vis* Downing Street.

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[31] See https://www.instituteforgovernment.org.uk/ministers-reflect/person/damian-green/.

Although responsible for economic policy across government, it is worth noting that the Treasury employs relatively few economists. Some commentators believe that this partly explains why Treasury officials failed to challenge the coalition government's plans to cut public expenditure following the financial crisis (an agenda which most academic macroeconomists disagreed with).[32] This does not mean that some Treasury civil servants do not have some degree of training in economics – increasingly so, in recent decades, including among the most senior officials[33] – but most are not *employed as* economists by the Treasury. The typical Treasury post relies on judgement, critical thinking and relationship management, rather than formal analytical skills. Other departments themselves employ economists to assist in policy design, with these officials nominally part of the Government Economic Service. The service is overseen by the Treasury, but is not a major source of Treasury control.

There is another, important sense in which the Treasury can be considered a highly political institution: its commitment to the integrity of the United Kingdom. As argued above, the fact that the department technically exists to serve the reigning monarch can be seen as a historical continuity, overridden by the emergence of parliamentary democracy. In the UK's modern constitution, the Treasury must do what Parliament (therefore the majority party or coalition) tells it to do, just as the monarch must do what the government tells them to do. However, these unwritten conventions were tested by the 2014 referendum on Scottish independence, when Treasury civil servants appeared to intervene directly in the referendum, thereby contradicting rules on party-political neutrality, in order to outline the fiscal and economic costs of independence. This was the view taken by members of the PAC, and a leading political scientist who accused the Treasury of misusing his research to over-estimate the cost of independence.[34]

The Treasury of course did so at the behest of the elected government, as during the 2016 referendum on European Union membership. And Treasury officials can of course argue that, firstly, their role in such circumstances is to provide factual information to ministers, which, secondly, can only be shared with the public if ministers decide to do so. Nevertheless, there remains a sense that, for a department rooted in the earliest forms of British statehood, unionism is a political commitment which over-rides any commitment to abide by the outcomes of democratic processes. Arguably, the Treasury used its (not entirely warranted) reputation for economic expertise to both serve and obscure this political agenda. Aside from the fact that its analysis of the prospect of Scottish independence was overwhelmingly negative, the resources deployed by the Treasury to this analysis were rather incredible. As then Permanent Secretary Nick Macpherson reported in a 2015 speech on 'The Treasury and the Union':

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[32] This was an argument made by former Treasury officials who participated in the stakeholder summits reported in Berry, Craig *et al.* (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.

[33] Lipsey (2000) *The Secret Treasury*, p. 33.

[34] BBC News (2014) 'Scottish independence: Prof Dunleavy says Treasury claims "ludicrous"', 28 May, available at: https://www.bbc.co.uk/news/uk-scotland-scotland-politics-27611563; Stone, Jon (2015) 'Civil servants "compromised" their impartiality during the Scottish independence referendum with "partisan" statements, conclude MPs', *The Independent*, 23 March, available at: https://www.independent.co.uk/news/uk/politics/civil-servants-compromised-their-impartiality-during-scottish-independence-referendum-partisan-statements-mps-conclude-10126960.html.

> The Scotland Analysis programme was an extraordinary logistical feat. Some 15 papers were produced running to 1400 pages. Eight departments contributed. The project was run by a standing Treasury team of six officials, though during the course of two years' work some 50 officials contributed to the analytic work.'

His speech concluded 'Her Majesty's Treasury is by its nature a unionist institution. The clue lies in its name.'[35]

8. Should the Treasury be cancelled?

It is perhaps inevitable that a department as powerful as the Treasury attracts a constant flow of calls for its reform, or even abolition. Given that its precise form is unusual in international terms, it is of course reasonable for observers to speculate whether alternative arrangements for economic policy and managing the public finances might be more appropriate or effective. Furthermore, it is not surprising that political actors with reason to fear or resent the Treasury's influence might want to suggest breaking up the department.

It was noted above that Labour Prime Minister Harold Wilson sought to create a rival department to the Treasury to oversee economic policy within Whitehall. The Department of Economic Affairs was established in 1964, but saw its powers reabsorbed into the Treasury before Wilson left office in 1970. There had been several attempts in the late 1940s and early 1950s to establish a ministry of economic affairs within the Cabinet Office, but all were short-lived. There were of course several departments in Whitehall with economic policy functions in the postwar era, but all were relatively junior departments with narrow remits. Many of these functions were brought together as the Department of Trade and Industry (DTI) in 1970 under a Conservative government, but the department was split into three main pieces when Wilson returned as Prime Minister in 1974. (It was not actually the government's intention to weaken DTI, but rather to endow a new Department of Industry with a more specific set of responsibilities for economic policy – a move that largely failed to curtail Treasury power).

DTI was resurrected by the Thatcher government, but with a more limited role.[36] It was split in two by New Labour (into the Department for Business, Enterprise and Regulatory Reform, and the Department for Innovation, Universities and Skills), then resurrected again as the Department for Business, Innovation and Skills (BIS) in 2008. The most direct challenge to the Treasury's authority came in 2016 when Theresa May became Prime Minister; May added responsibility for energy policy and industrial strategy (the first time the latter term had appeared in Whitehall nomenclature) to BIS to create BEIS. BEIS persists, but its challenge to

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[35] Macpherson, Nick (2015) 'The Treasury and the union', speech delivered in London on 21 January, available at: https://www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-the-treasury-and-the-union.

[36] Aeron Davis and Catherine Walsh argue that the Treasury 'attempted to remake the DTI in its own image, subjugating its alternative economic outlook to that of its own'; see Davis, Aeron and Walsh, Catherine (2015) 'The role of the state in the financialisation of the UK economy', *Political Studies* 64(3): 666-682.

the Treasury (and the Treasury view, insofar as the Treasury is generally sceptical of industrial strategy) arguably lasted for less time than May did as Prime Minister, as the Treasury offered limited support to the new industrial strategy agenda published in 2017.

It is worth noting that, before the Blair government broke up DTI, it had attempted to break up the Treasury – widely seen as part of Tony Blair's struggle with Gordon Brown for domestic policy supremacy. DTI would have actually been strengthened under this plan, being reborn as the Department for Productivity, Energy and Industry (DPEI) and wrestling responsibility for overseeing economic policy from the Treasury. The Treasury's role would have been scaled back to a focus on the public finances. Brown of course never acquiesced to the plan, which was effectively shelved after a week when DPEI reverted to being known as DTI due to concerns that the new department's acronym could be pronounced as 'dippy'. It was around this time that Brown effectively strengthened the Treasury via a merger of the Inland Revenue and HM Customs and Excise (becoming HMRC), with the Treasury assuming sole responsibility for tax *policy*, while HMRC focused on tax *collection*.

In recent years, there have been several proposals from people with experience of working for or with the Treasury for major reform on the department. In 2014, Giles Wilkes and Stian Westlake published *The End of the Treasury*, which argued some of the Treasury's operating norms were responsible for ineffective governance across Whitehall:

> **Government-by-accountant.** Powerful short-term budgetary control manifests itself in distortionary rules and procedures, and in an inability or unwillingness to use tax measures to raise revenues. This leads to a lopsided focus on spending cuts as the only means of dealing with the deficit.
>
> **Wheeze-itis.** The power of Treasury spending teams, combined with the short-term nature of Budgets and Autumn Statements encourages a tendency towards policy wheezes, where a long-term approach to policy-making would generally be more productive.
>
> **Over-centralisation.** The Treasury's influence (combined with the quality of its staff) means that a handful of often relatively junior staff in the Treasury deploy more power than experts in the departments. The culture this fosters is not conducive to wider decentrralisation of power, either geographically or beyond central government.

For Wilkes and Westlake, the solution was, firstly, the transfer of budgetary powers to an enlarged Prime Minister's department (with an end to the theatre of annual budgets), and secondly, empowering BIS to become 'a genuine department of growth'. The Treasury would be retained solely for the purposes of tax policy and macroeconomic supervision.[37]

Bob Kerslake (former head of the UK civil service) conducted a review of the Treasury in 2017, on behalf of the Labour Party. Kerslake was not quite as scathing of the department as Wilkes and Westlake, but expressed dismay at the Treasury's recent performance, especially in terms

[37] Wilkes, Giles and Westlake, Stian (2014) *The End of the Treasury*, NESTA, available at: https://media.nesta.org.uk/documents/end_of_treasury.pdf. Wilkes worked as an adviser on industrial and economic policy for both the coalition and May governments, and Westlake worked as an adviser on science and innovation policy for the May government, having earlier worked at the Treasury.

of financial regulation, tax policy and preparing for Brexit. Kerslake ultimately did not recommend breaking up the Treasury, on the basis that this would be unnecessarily disruptive, but he insisted that the Treasury returned to its core function of macroeconomic supervision and managing the public finances. He identified the Treasury's role, which grew under Brown, of 'arbitrating and even initiating domestic policy' as the main culprit.

One of the dilemmas associated with reforming the Treasury is that, while the department arguably uses its centrifugal power to restrict the radicalism (or costs) of policies that might be pursued by other departments, the particular set of levers it controls could be useful for the proponents of radical change in UK economic policy.[38] In 2017, the Industrial Strategy Commission (which featured the current author alongside several other former Treasury officials and advisers) concluded that it was unlikely that a rival department could ever shift the centre of gravity in economic policy making. As such, if the government wanted to develop and embed a genuinely transformative industrial strategy, it should be managed from the Treasury itself, rather than BEIS.[39]

While the notion of an interventionist industrial strategy may refute some aspects of the Treasury view, we should not, as argued above, assume that the Treasury is rigidly attached to any particular set of beliefs. Moreover, making the Treasury responsible for an industrial strategy with cross-government programmes and objectives would align with the department's apparent craving for Whitehall supremacy. The Commission recommended, however, that while the Treasury would be responsible for co-ordinating and implementing an industrial strategy, the strategy itself would be devised by representatives of several departments, and local and devolved governments.

9. Examples of historical and recent Treasury policies

Austerity during the Great Depression

In his 1929 Budget speech, then Chancellor of the Exchequer, Winston Churchill, offered a classic exposition of what he called 'the orthodox Treasury view':

> when the Government borrow[s] in the money market it becomes a new competitor with industry and engrosses to itself resources which would otherwise have been employed by private enterprise, and in the process raises the rent of money to all who have need of it.[40]

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[38] Berry, Craig *et al.* (2016) 'Reforming the Treasury, Reorienting British capitalism', SPERI BPE Brief No.21, available at: http://speri.dept.shef.ac.uk/wp-content/uploads/2018/11/Brief-21-Reforming-the-Treasury.pdf.
[39] Barker, Kate *et al.* (2017) *Final Report of the Industrial Strategy Commission*, available at: http://industrialstrategycommission.org.uk/2017/11/01/the-final-report-of-the-industrial-strategy-commission/.
[40] Cited in Peden, George (1996) 'The Treasury View in the inter-war period: an example of political economy?', in Corry, Bernard (ed) *Unemployment and the Economists* (Cheltenham: Edward Elgar).

Within months, the world economy was plunged into depression after the Wall Street Crash, and similar crashes on the London Stock Exchange. Churchill's term as Chancellor had been largely defined by Britain's return to 'the gold standard' in order to facilitate price stability (also central to the Treasury view) – it was a flawed and fateful decision which helped to create the conditions for stock market collapses, but strongly supported by the Treasury. Yet the Treasury view continued to prevail as the depression ensued, even under a Labour government.[41] In 1924, Ramsay MacDonald and Philip Snowden were the first Labour MPs to become, respectively, Prime Minister and Chancellor of the Exchequer. They returned to these roles in 1929, and retained them as part of a Conservative-dominated 'National Government' after 1931. The government was strongly fiscally conservative, enacting spending cuts that almost certainly prolonged the economic downturn in an effort to balance the national budget in the wake of downturn-related spending increases. The economy only began to recover when the gold standard was abandoned, occasioning a devaluation of sterling which improved export competitiveness, with inflation helping the Treasury to service public debt.

The postwar embrace of Keynesianism

The conventional narrative suggests that the Treasury embraced Keynesian management after the Second World War, with deficit financing of public services expansion, and a commitment to full employment as part of the macroeconomic management of demand. Yet the postwar era was also one of austerity, with reductions in public spending in some areas, and tax increases. The tools of demand management were in many ways professionalised and modernised – effectively establishing the Treasury's pre-eminence in monitoring economic performance, which remains a key source of its influence over government – but this was as much a product of war as an ideological shift. The Labour government of Clement Attlee remained committed to controlling inflation, largely via an incomes policy to mitigate wage increases, and emphasised the importance of increasing labour productivity. Arguably, in terms of macroeconomic policy, the Conservative governments of the late 1950s more closely resembled a Keynesian archetype, as the postwar recovery slowed, but the economy's continuing sluggishness throughout the 1960s undermined the Treasury's commitment in this regard.[42]

The 1976 International Monetary Fund loan

1976 is generally seen as the end-point of Kenynesianism in UK economic policy, as an over-valued sterling declined rapidly in value against the dollar, due in part to a balance of payments crisis triggered by oil price rises after 1973. Central to this story is the $3.9 billion loan – with strings attached – the UK government received from the International Monetary Fund (IMF) in December 1976. The IMF's conditions included cuts to the Labour government's spending programmes and the introduction of cash limits on future spending, the abandonment of full employment as a macroeconomic policy target, and the use of monetary targeting to control inflation. Steve Ludlam's work (and the account of cash limits offered above) demonstrates

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[41] Bridel, Pascal (2014) 'The "Treasury view": an unexpected return', *The European Journal of the History of Economic Thought* 21(5): 920-942.
[42] Tomlinson, Jim (2005) 'Managing the economy, managing the people: Britain c. 1931-1970', *The Economic History Review* 58(3): 555-585; see also Hall, Peter (1993) 'Policy paradigms, social learning, and the state: the case of economic policymaking in Britain', *Comparative Politics* 25(3): 275-296.

however that the impact of the IMF loan has been significantly over-stated. This agenda had already been set firmly in motion. This does not mean that there were no international influences on the direction of UK economic policy at this time – but the more telling interventions (and loans) came directly from the United States Treasury, rather than indirectly via the IMF, after the United States became concerned about the impact that sterling's volatility would have on a US-led world order.

This helps us to better understand the role of the UK's Treasury; it was clearly not, at this stage, in full command of the country's economic destiny. But it was certainly in agreement with the direction of travel established by its American counterpart in the mid-1970s. Officials has been unusually vocal about the need for spending cuts to protect sterling in advance of 1976, and seemingly considered the IMF loan unnecessary due to decisions already taken. In this more nuanced account, therefore, the IMF loan – which was not fully drawn upon – may have provided additional fiscal breathing space, but was mainly used by the Labour government as political cover for unpopular decisions.[43]

The Treasury and Europe

The Treasury's seemingly instinctive Atlanticism – evident in the postwar era – is one of many reasons for its Eurosceptic reputation. As *The Financial Times*'s economics editor Chris Giles wrote in early 2016:

> Ask almost any Whitehall official which government department is the most Eurosceptic and they would say it was the Treasury. So its conversion to being the most outspoken defender of Britain's position in the EU has raised eyebrows — and hackles.[44]

The experience of 'Black Wednesday' in 1992 reinforced the department's pre-2016 outlook. But it was a catastrophe born just as much from the Treasury's own inclination as from any shortcomings in the design of the Exchange Rate Mechanism (ERM). The department was generally opposed to joining the European Economic Community in 1973. By the late 1980s, monetarism has been effectively abandoned, but the Treasury remained committed to price stability, and the UK economy had sufficiently integrated with the continent to mean joining the ERM was seen as an opportunity to mitigate exchange rate fluctuations. The otherwise Eurosceptic Chancellor, Nigel Lawson, had already initiated a policy of shadowing the Deutsche Mark, recognising Germany's commitment to very low inflation. John Major had replaced Lawson as Chancellor when the UK formally joined the ERM, and had replaced Margaret Thatcher as Prime Minister by 16 September 1992, when the UK was forced to withdraw from the ERM due to a failure to maintain the value of sterling at the required level, and with high interest rates exacerbating recessionary conditions.

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[43] Ludlam, Steve (1992) 'Gnomes of Washington: four myths of the 1976 IMF crisis', *Political Studies* 40: 713-727; see also Hall, Peter (1993) 'Policy paradigms, social learning, and the state: the case of economic policymaking in Britain', *Comparative Politics* 25(3): 275-296. For an insider account from the Treasury's then Permanent Secretary, see Wass, Douglas (2008) *Decline to Fall: The Making of British Macro-economic Policy and the 1976 IMF Crisis* (Oxford: Oxford University Press).
[44] Giles, Chris (2016) 'How a Euroscpetic Treasury became Remain's anti-Brexit champion', *Financial Times*, 31 May, available at: https://www.ft.com/content/dc838140-23f0-11e6-9d4d-c11776a5124d.

The ERM was a precursor to the European single currency, a prospect which the Treasury generally opposed. While the key architects of the New Labour government were generally Europhiles, Ed Balls, chief adviser to the new Chancellor Gordon Brown, was a longstanding sceptic of monetary union[45], and enjoyed the support of Treasury officials in devising the 'five tests' which would determine whether the UK would adopt the euro. In practice, most of the tests – related to business cycle alignment, the prospects for inward investment, and the impact on the City of London – were either met, or vague enough to allow for either a positive or a negative assessment. But it was the most ambiguous test, the catch-all summary question 'will joining EMU promote higher growth, stability and a lasting increase in jobs?' which swung the decision against joining in the early 2000s. While the housing market was not explicitly referenced in any of the tests, by this time the UK's model of economic growth had become highly dependent on the housing market – and expanding home-ownership was a key social policy objective for New Labour – and the prospect of effectively surrendering control of interest rates to the Bundesbank again was deemed too dangerous.[46] The Treasury's determination to defend and (re)inflate the housing market – without making its objectives explicit – would become a hallmark of UK economic policy in subsequent years.

During the referendum on EU membership in 2016, the Treasury was strongly associated with the 'remain' position. The quote above from Giles might suggest an inconsistency in this regard, but the department has always been able to distinguish between a loss of control over economic policy threatened by some aspects of EU membership, and the deepening of a cross-border marketplace for goods and services. The remain case centred on hard-headed economic realism in relation to the latter – making the Treasury the ideal messenger. The department's contributions to the pre-referendum debate were viewed by many as political rather than straightforwardly evidence-based: but this is exactly as should be expected, given the requirement of any department to act upon instructions of democratically elected politicians, in this case the Chancellor, George Osborne.

What the Treasury's involvement in the referendum revealed was in fact the department's limitations as a political actor. It may excel in internal Whitehall politics, and in designing headline-grabbing budgetary measures, but it was unable to produce evidence or arguments that had any meaningful impact on the more emotive politics around EU membership. Its more nuanced approach to European policy was lost amid the din of Brussels-bushing which the department had itself occasionally contributed to. Moreover, the evidence on the negative economic impact of Brexit produced by the Treasury was itself highly flawed, since it generally assumed an immediate impact after 2016, discounting the likelihood of years of political stalemate before the main economic implications came about, which allowed leave-supporting

[45] Balls, Ed (1992) 'Euro-monetarism: why Britain was ensnared and how it should escape', Fabian Society Discussion Paper No.14.

[46] HM Treasury (2003) *UK Membership of the Single Currency: An Assessment of the Five Economic Tests*; Bennett, Rosemary (2003) 'Brown's five tests put euro minds at rest', *The Times*, 31 May, available at: https://www.thetimes.co.uk/article/browns-five-tests-put-pro-euro-minds-at-rest-ksdmz0gqh2t. For an extensive (pre-Brexit) account of the internal Treasury processes involved in the management of the UK's integration with Europe, see: Smith, Matthew (2014) *Policy-Making in the Treasury: Explaining Britain's Chosen Path on European Economic and Monetary Union* (London: Palgrave).

politicians to discredit Treasury analysis, and therefore the Treasury's post-referendum preference for a 'soft Brexit'.[47]

Private Finance Initiative

The Private Finance Initiative (PFIs) was introduced by the Major government in the early 1990s, and was used extensively by the Blair government after 1997. It is not a Treasury policy *per se* – since many departments utilised private finance to pay for public goods, but was permitted and promoted by the Treasury's approach to managing public money. In short, PFI projects entailed the private sector financing the construction and maintenance of new public assets, such as schools, hospitals, physical infrastructure and military facilities. The public sector would repay the private providers over several decades. According to the National Audit Office (NAO), around 700 PFI contracts are in place. In 2018, the NAO reported the deals had a capital value of around £60 billion, with annual payments of more than £10 billion, which would result in total PFI payments of almost £200 billion by the 2040s.[48]

The NAO estimated that PFI projects cost around 40 per cent more than if they had been financed solely by the public sector. There were also significant delivery risks – with the public sector often having little recourse against its private partners. One of the key benefits of PFI, however, was that deals were essentially done 'off the books': the public sector avoided large up-front construction costs, and its liabilities were not included in the national debt. Under George Osborne, the Treasury reformed the PFI – which was rebranded as PF2 – to ensure a fairer allocation of risks between the public and private sector, and control of PF2 was further centralised within the Treasury.

PF2 did not eliminate the problems of PFI, however, and was scrapped by Osborne's successor as Chancellor, Philip Hammond, in 2018. The PFI story is a fascinating example of how some of the Treasury's main preoccupations can interact in problematic ways. Above all, it reflects a (misplaced) faith in the efficiency of private sector companies – competing for public sector contracts – over the state, and in the public utility of the banking sector (since most PFI projects were underpinned by bank debt). PFI and PF2 also satisfied a rules-based regime by minimising spending and borrowing in the short term, statistically speaking – despite ultimately costing the public sector more over the long run.[49]

The bailout state?

In the last fifteen years, the Treasury has twice acted decisively to rescue the economy from collapse. First, by nationalising major UK banks during the 2008 financial crisis[50] (and

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[47] Tetlow, Gemma and Stojanovic, Alex (2018) 'Understanding the economic impact of Brexit', Institute for Government, available at https://www.instituteforgovernment.org.uk/publications/understanding-economic-impact-brexit.

[48] NAO (2018) *PFI and PF2*, available at: https://www.nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf.

[49] Although David Lipsey argues that it was *ministers* that pressed for private finance to be used to fund public services, in the face of resistance from Treasury *officials*. He cites an anonymous official as saying 'The great fear was that this was little more than creative accounting. We would ruin the public finances by building up lots of liabilities that would come back to hit us'; see Lipsey (2000) *The Secret Treasury*, p. 200.

[50] Treasury officials acknowledge that they failed to spot the warning signs of crisis in the run up to 2008; see Macpherson, Nick (2013) 'The origins of Treasury control' speech delivered in London on 16 January, available

essentially establishing that some banks are 'too big to fail'), and second, by effectively paying the wages of millions of workers employed by companies unable to trade as a result of the COVID-19 pandemic across 2020 and 2021. The former cost more than £100 billion, with the state actually exposed to more than £1 trillion in liabilities at the height of the crisis. As it stands, the furlough scheme alone has cost more than £100 billion.

It could be argued that these policies contradict the department's anti-interventionist instincts.[51] Yet there are a number of caveats we must attach to any such reading. First, as discussed above, the Treasury as a department cannot be separated from the politicians who ultimately determine policy – and even Treasury ministers, quite obviously, have a direct interest in protecting livelihoods in the short term, which trumps concerns about the long-term fiscal and economic implications of intervention. Second, the 2008 intervention was followed by a period of (partial) austerity in public spending, and it seems likely that a similar path will be chosen once the pandemic recedes.

Third, both sets of interventions were designed in ways that limited their scope and permanence (and, clearly, Treasury officials have more influence on the specific design than the overall objectives of economic policy interventions. While the Royal Bank of Scotland and the Lloyds Banking Group were taken into majority public ownership, the government's stake was managed at arm's length from ministers, with a commitment to not interfere in the banks' business practices, and indeed to return the banks to private ownership as soon as possible. In relation to the 'furlough' scheme and related initiatives (such as a temporary uplift in the value of means-tested benefits, and support for self-employed workers), it should be noted that almost every developed country has implemented similar policies, or strengthened existing safety nets. In practice, the UK's pandemic-related interventions have been sizeable, but nevertheless generally less generous, and withdrawn (or scaled back) more quickly, than those elsewhere.

It is clear that the Treasury is prepared to sanction and support major interventions in the UK economy at times of crisis, effectively propping up entire industries, or the entire private sector if necessary. Yet such interventions invariably come with strings attached. A period of austerity followed the banking bailout – it might be wise to expect the same after the pandemic.[52] Moreover, decisions to intervene have to be judged in light of an economic model which relies upon private debt (hence a commitment to underpin the banking sector) and household consumption (hence a willingness to replace lost earnings for those with a propensity to consume). Interventions to defend an economic status quo, irrespective of the cost, are clearly different in type to prospective interventions which might act to transform the basic features of the UK's economic model.

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

[51] Some argue that pandemic-related interventions represent a victory for Boris Johnson's less cautious approach to fiscal policy, at the expense of the Treasury's authority; see Davies, William (2021) 'The secret of Johnson's success lies in his break with Treasury dominance', *The Guardian*, 20 May, available at: https://www.theguardian.com/commentisfree/2021/may/20/johnson-fiscal-orthodoxy-gordon-brown-golden-rules-prudence.

[52] Sam Warner *et al*. (2020) 'More austerity? The Treasury must act against the grain of its own history in responding to the COVID-19 crisis', LSE Politics and Policy Blog, 11 May, available at: https://blogs.lse.ac.uk/politicsandpolicy/treasury-covid19/.

Help to Buy (and Eat)

The housing market is also central to the UK's economic model.[53] Accordingly, the Treasury has consistently acted to boost house prices, increasing confidence, and allowing for equity release to fund consumption, among home-owners. The most obvious recent example of this is Help to Buy, which in various guises has offered cheap loans to first-time buyers, guarantees to mortgage providers, and tax incentives for housing-related saving. The loan and guarantee elements expose the government to significant default risks. The current government has extended and expanded Help to Buy, continuing the equity loan scheme, and reintroducing the mortgage guarantee, with existing home-owners as well as first-time buyers also eligible. This is very much the Treasury's domain: the department technically responsible for housing policy – the Ministry for Housing, Communities and Local Government (MHCLG) – seemingly has little role. Help to Buy and related initiatives are actually delivered by private banks. It is also worth noting that Conservative (led) governments since 2010 have also reduced stamp duty liabilities to encourage housing transactions which ultimately inflate prices.

Support for the housing market and home-ownership in the UK has a long history, and has been undertaken by both main parties.[54] Disentangling the extent to which interventions have been driven by politicians or officials is ultimately impossible, but nevertheless it can be seen as a recurring Treasury agenda. Often, housing-related interventions are founded upon a progressive agenda to extend home-ownership to disadvantaged groups, typified by targeted subsidies. The Treasury is therefore able to reinforce norms about individuals being required to invest in their own financial security – rather than relying on the welfare state – but commits considerable sums of public money in order to do so.[55]

During summer 2020, following the first wave of the COVID-19 pandemic in the UK, the Treasury again devised a programme to support consumption – on a smaller scale than housing-related interventions, but far more directly. Individuals were given a 50 per cent or £10 (whichever is lower) on 'eat in' meals at restaurants (from Monday to Wednesday). When it was discontinued in September 2020, the scheme had cost close to £1 billion. There is also evidence that the scheme had fuelled the continuing spread of COVID-19, contributing to the devastating second wave that cost many thousands in lives, and many billions in cash.[56] The impetus for the scheme – protecting employment in the hospitality industry – was of course political, but the method of achieving this goal was consistent with this interventionist blueprint. Eat Out to Help Out was targeted on supporting restaurants, but it was left to individual consumers to decide which businesses should be supported, and firms received a sizeable subsidy without any discrimination between local, national and multi-national enterprises.

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[53] Hofman, Annelore and Aalbers, Manuel (2019) 'A finance- and real estate-driven regime in the UK', *Geoforum* 100: 89-100.
[54] Wood, James (2018) 'The integrating role of homeownership and mortgage credit in British neoliberalism', *Housing Studies* 33(7): 997-113.
[55] Berry (2016) *Austerity Politics*.
[56] Fetzer, Thiemo (2020) 'Subsidizing the spread of COVID-19: evidence from the UK's Eat Out to Help Out scheme', CAGE Working Paper No. 517, available at: https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/wp.517.2020.pdf.

Corporation tax

The Treasury generally favours lower taxes. Since the 2008 financial crisis, income tax has been cut drastically for middle-earners, and until recently, reductions in corporation tax (levied on private company profits) had been a core part of the economic policy agenda of the coalition and Conservative governments. The main rate fell from 30 to 19 per cent from in the decade from 2007 (although this agenda is not novel – the rate had been as high as 40-50 per cent in the first few decades after the tax was introduced in the 1960s). Furthermore, a system of allowances – generally to encourage private investment and R&D – allows many firms to further reduce their corporate tax liabilities (these measures exemplify the British state's preference for 'horizontal' industrial policy[57]). Some have argued that this agenda was constitutive of a move to a more 'regressive' tax base, but curiously, corporation tax revenues have *risen* as a result of cuts in the rate.

This outcome could be read as affirmation of the Laffer curve, a belief in which is conventionally seen, as discussed above, as part of 'the Treasury view' (indeed the Treasury expected such as impact, albeit only over a longer time period). However, there is little evidence for any such impact. Company profits of course grew as the UK economy finally emerged from the downturn associated with financial crisis and austerity. But this does not mean that recovery and growth more generally are a product of corporation tax cuts. The weakness of the pound in recent years has helped UK firms with foreign revenues to increase their profitability. Increased corporation tax revenues are also due to better enforcement of tax avoidance regulations, and stronger regulation on the prevention of profit diversion. It should also be noted that the banking sector has faced a surcharge on its corporation tax liabilities (revenues have generally increased in line with banks' return to profitability) and that far fewer companies than anticipated are taking advantage of investment and R&D allowances to offset their liabilities.[58]

There are two very recent developments also worth noting here. First, the Treasury has decided to increase the corporation tax rate sharply to 25 per cent from 2023, in part to reflect the impact on the public finances of pandemic-related support to business. While the Treasury generally favours lower taxes, it is equally concerned with securing revenue so that the state may meet its obligations – it seems belief in the Laffer curve is wavering. Secondly, the UK is a signatory to a new G7 initiative to establish an international corporation tax floor of 15 per cent, initiated by the US President, Joe Biden. The UK and Irish governments had apparently resisted a higher floor of 25 per cent. While the floor of 15 per cent is lower than current and planned corporation

[57] Former senior official at the Treasury, Jill Rutter, has been critical of the department in this regard. Tax reliefs are often announced at the Budget to create positive headlines about supporting the economy, but Rutter argues that such measures do not receive the kind of scrutiny from officials that the Treasury imposes upon other departments' policy propoals'; see Rutter, Jill (2015) 'Time to end Budgets' special treatment', Institute for Government, available at https://www.instituteforgovernment.org.uk/blog/time-end-budgets%E2%80%99-special-treatment.
[58] Jackson, Gavin and Houlder, Vanessa (2017) 'Riddle of the UK's rising corporation tax receipts', *Financial Times*, 26 April, available at: https://www.ft.com/content/ca3e5bd2-2a7e-11e7-9ec8-168383da43b7.

tax rates in the UK, stronger rules cross-border profit diversion would be likely to undermine the attractiveness of the UK as a base for multi-national companies and their subsidiaries.[59]

English devolution

The 'Westminster model', with the Treasury at its heart, has long underpinned a highly centralised political system in the UK. The importance of central government – and therefore the Treasury's role – grew throughout the twentieth century as public services and the welfare state expanded. No comparable country administers a greater proportion of its taxation and public spending at the national level than the UK does. There are ostensibly 'local taxes' collected by local government – council tax and business rates – but their design, and resulting revenues, are largely controlled by the centre.

However, after 2010, following devolution to Scotland, Wales and Northern Ireland under New Labour, devolution within England became a firm priority of the Treasury under the leadership of George Osborne. Osborne pushed for the adoption of directly elected mayors across city-regions, in return for the release of funds to support local economic development, or the right to retain a portion of the revenue from business rates locally. The Treasury supported the creation of business-led Local Enterprise Partnerships (LEPs), which also received central funds for local economic development. Osborne promoted catch-all agendas such as 'the Northern Powerhouse' and 'the Midlands Engine' to associate devolution deals with the 'rebalancing' of the UK's post-crisis economy.

For the most part, the Treasury's commitment to devolution has now waned. The Johnson government has favoured the allocation of funds to local areas without the prospect of policy powers being devolved, often bypassing local government institutions altogether. Moreover, there are reasons to doubt that even Osborne's agenda represented a genuine attempt to devolve power to local government in any meaningful way. First, local government under the coalition government suffered significant budget cuts as part of the post-2010 austerity agenda.[60] The new funds for local economic development made available did not come close to compensating for these cuts, and could not be used on statutory services such as social care and education. The LEPs have received far lower funding than the Regional Development Agencies which they ostensibly replaced.

Second, the allocation of development funds – often on the basis of competition between local authorities – has been inspired by 'agglomeration theory'. Agglomeration theory points to the dynamic benefits of the co-location of firms and industries within large cities – but tends to prescribe a very limited role for public authorities.[61] Third, the English devolution agenda has actually been accompanied by new forms of centralisation, as the proportion of local government funding provided in the form of untied grants has declined in favour of, in part, discrete deals between the Treasury and different localities for specific funding initiatives. This

[59] Boffey, Daniel (2021) 'Biden corporate tax plan could earn EU billions, study shows', *The Guardian*, 1 June, available at: https://www.theguardian.com/us-news/2021/jun/01/biden-corporate-tax-plan-could-earn-eu-and-uk-billions-study-shows.
[60] These cuts – and the messy implications of devolution – have been exacerbated by the significant pressure placed on local authorities by COVID-19; see Richards *et al.* (2021) English devolution and the COVID-19 pandemic: governing dilemmas in the shadow of the Treasury', *The Political Quarterly* 92(2): 321-330.
[61] Ron Martin *et al.* (2016) 'Spatially balancing the UK economy', *Regional Studies* 50(2): 342-357.

'deal-making' approach to local government finance resembles the Treasury's approach to managing the finances of other Whitehall departments. Councils have become more reliant on local tax revenues, but are only permitted to raise council tax in strictly limited circumstances.[62]

10. Examples of Treasury 'agencies'

Office for Budget Responsibility

The OBR was established in 2010 to provide economic forecasts and analysis of the public finances, at arms-length from ministerial control. Its functions were previously carried out by the Treasury itself. The OBR's fiscal and economic analysis is published alongside the Budget and related fiscal events. There have been concerns since the OBR's inception that its independence from government is little more than nominal: it has a tiny workforce and few resources. The Chancellor of the Exchequer appoints the OBR's senior figures, including the chair of its governing body. However, it has established its independence under recent leaders, often delivering verdicts on (future) economic performance and fiscal circumstances that are unfavourable to the government of the day. As Chancellor, George Osborne essentially agreed to allow the Treasury Select Committee – a group of backbench MPs which scrutinises the Treasury – a veto on the appoint of the OBR's chair.

At the same time, the OBR has also been criticised for excessive optimism, due to its frequent assumption that output and productivity (and therefore tax revenues) will begin to grow rapidly in a near future that never seems to arrive. While the OBR represents a challenge to the Treasury's omnipotence on economic and fiscal matters, arguably the OBR's existence serves to reinforce elements of the 'Treasury view' in terms of how the public finances should be managed, and therefore helps the Treasury to maintain control of other departments and local government. The OBR is frequently criticised for a lack of transparency.

The willingness of Chancellors to respect the OBR's independence clearly varies. In October 2021, Rishi Sunak asked the OBR to based its fiscal analysis on data available in September, which painted a gloomy picture of the UK's short-term economic prospects – even though later data, which would have painted a rosier picture, were available by the time the OBR's analysis was published. The OBR complied even though it was not compelled to do so. It is widely believed that Sunak wanted the OBR to produce a more pessimistic forecast in 2021, so that he would be handed sufficient fiscal 'headroom' in 2022 to justify tax cuts in the immediate run-up to a likely 2023 election.[63]

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[62] Bailey, Daniel and Wood, Matthew (2017) 'The meta governance of English devolution', *Local Government Studies* 17(6): 966-991; Berry, Craig and Giovannini, Arianna (eds) (2018) *Developing England's North: The Political Economy of the Northern Powerhouse* (London: Palgrave);

[63] Giles, Chris (2021) 'Sunak to impose tight spending settlement by using "old" official data', *Financial Times*, 15 October, available at: https://www.ft.com/content/0c160b29-02f7-4b14-9f72-11df6b5e68fa.

UK Financial Investments

UK Financial Investments (UKFI) was a limited company wholly owned by the Treasury on behalf of the UK government. UKFI manages the government's shareholdings in various banks that were acquired as part of the 2008 'bailout'. Many of these shares have been sold in the decade following the financial crisis (for example, in the Lloyds Banking Group and Northern Rock – the latter was fully nationalised by the government) but the government retains majority ownership of the Royal Bank of Scotland (RBS) Group. UKFI was wound up in 2018, and its assets transferred to UK Government Investments (UKGI), but UKGI has maintained the UKFI's approach to stewardship. The most important aspect of the UKFI's remit was its incredibly narrow scope. UKFI sought to stabilise the firms it effectively controlled, but not to fundamentally alter their business models. With the RBS Group still seemingly some distance from achieving a share price which would enable the government to sell its stake without a significant loss – since its pre-crisis business model is effectively defunct – many have called for RBS to be remodelled as a public investment bank. The design of UKFI meant this was never a realistic prospect.

Treasury North

Rishi Sunak has committed to transferring a sizeable portion of the Treasury's staff to the North of England – specifically, Darlington, a large town in County Durham. It remains unclear which functions will move to the 'Treasury North' base (and plans have been disrupted by COVID-19). The move does not represent devolution, but rather is part of the longstanding trend of relocating some civil service jobs away from London, which has been accelerated by the Johnson government – that it has been embraced by the Treasury itself is intriguing. It is expected that staff from both MHCLG and BEIS will join the Treasury in Darlington as part of a Northern 'economic campus'.

It remains to be seen whether greater diversity in the geographical base (and perhaps, in time, the geographical origins) of Treasury staff will have a meaningful impact on economic policy thinking in the UK. Treasury North's establishment in Darlington was announced at the same time as the Treasury announced that Leeds would become the home of the new National Infrastructure Bank, leading to criticism that an opportunity to create a genuine economic policy 'powerhouse' beyond the capital had been missed. The Bank of England are also creating a hub in Leeds. (Before 2020, the Labour opposition has vowed to (partially) relocate the Treasury to Manchester, on the basis that Manchester's devolution process was more advanced than other parts of the North.) There were suspicions that Darlington was chosen both because it is the closest large town to Sunak's Richmond constituency, and to influence the 2021 mayoral election in Tees Valley.

Further reading

Ministers Reflect

The Institute for Government is an excellent source of information and commentary on the Treasury, often led or informed by former Treasury officials and ministers. In its 'Ministers

Reflect' series, the Institute conducts interviews with ministers who have left office about the processes – and politics – of Whitehall policy-making (see https://www.institutefor-government.org.uk/ministers-reflect/). Former senior Treasury official, Jill Rutter, provided a summary in 2015 of what coalition government ministers had reported about the Treasury in particular (see: https://www.instituteforgovernment.org.uk/blog/ministers-reflect-treasury).

The Secret Treasury

David Lipsey's 2000 book *The Secret Treasury* is one of the most valuable accounts of what the Treasury does, and how it does it, seen through the eyes of the ministers and officials involved in some of its most important and high-profile policy decisions.

In 2011, Michael Cockerell produced a documentary of the same name for the BBC. It is available on YouTube (see: https://www.youtube.com/watch?v=NEwdo_AlqKQ). Among print journalists, few have done more to uncover the Treasury's secrets than William Keegan. His most recent book *Nine Crises: Fifty Years of Covering the British Economy from Devaluation to Brexit* is a memoir of his time observing economic policy-making processes, and includes the series of interviews he conducted in the mid-2000s with all living former Chancellors.

Treasury documents

While the Treasury's role and importance extends far beyond the formal framework it applies to managing and evaluating public spending, it is worth reading some of these frameworks directly for an insight into the vocabulary of the day-to-day interactions between the Treasury and other government departments. The Green Book is a guide to appraising the economic impact of spending proposals (see: https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent), the Magenta Book is guide to designing policy evaluations (see: https://www.gov.uk/government/publications/the-magenta-book), and Managing Public Money outlines the duties and relevant accountability processes of those with responsibility for public spending (see https://www.gov.uk/government/publications-/managing-public-money). They are all regularly updated, often in response to criticism.

Scrutiny processes

The Treasury holds others to account, but is also held to account itself, in a formal sense by bodies such as the National Audit Office, the Treasury Select Committee, and the Office for Budget Responsibility. Relevant inquiries and reports are available respectively at https://www.nao.org.uk/Department/hm-treasury/, https://committees.parliament.uk-/committee/158/treasury-committee/, and https://obr.uk/.

Nick Macpherson's speeches

As the Treasury's Permanent Secretary (from 2005 to 2016), Nick Macpherson was somewhat unusual in that he regularly gave speeches, while in office, which reflected on the Treasury's history, decisions and ideological views. See for example Macpherson's 2014 speech on the Treasury view (https://www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-the-treasury-view-a-testament-of-experience), 2013 speech on Treasury control (https://www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-sir-nicholas-macpherson-the-origins-of-treasury-control), and 2015 speech on the union (https://www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-the-treasury-and-the-union). Since leaving office, Macpherson has become an increasingly outspoken observer of UK macroeconomic policy. It is also worth reading the 2016 speech on the Treasury's approach to supply-side economics by John Kingman, a former Second Permanent Secretary at the Treasury (see: https://s26304.pcdn.co/wp-content/uploads/328294000-Kingman-Speech.pdf). The speech ends by asking his former colleagues to 'to continue the real God's work – stopping bad things happening'.

Austerity politics

Analysis of the austerity agenda pursued by Conservative-led governments after 2010 touches upon many issues relevant to understanding the Treasury's abiding mission, ideological assumptions, and intra-governmental relationships (as well as the balance of power between politicians and officials). Much of this literature places recent Treasury policies in a historical and comparative context. Some of the key contributions are:

- Craig Berry (2016) *Austerity Politics and UK Economic Policy* (London: Palgrave).
- Mark Blyth (2013) *Austerity: The History of a Dangerous Idea* (Oxford: Oxford University Press).
- Fernando Cardim De Carvalho (2018) 'Arguments for austerity, old and new: the British Treasury in the 1920s and the Bundesfinanzministerium in the 2010s', *European Journal of Economics and Economic Policies: Interventions* 15(3): 262–288.
- Andrew Gamble (2015) 'Austerity as statecraft', *Parliamentary Affairs* 68(1): 42-57.
- Suzanne Konzelmann (2019) *Austerity* (Cambridge: Polity).
- Suzanne Konzelmann (2017) 'The political economics of austerity', *Cambridge Journal of Economics* 38(4): 701-741.

The Treasury on Trial

In 2014, the Fabian Society (a think-tank affiliated to the Labour Party) published a special issue of *Fabian Review* on the Treasury (see: https://fabians.org.uk/wp-content/uploads/2014/08/FabianReview-Summer2014-2.pdf). It features contributions on many of the issues discussed here, from academic and policy experts such as Dan Corry, Catherin Walsh, Christine Berry, Colin Thain, and Giles Wilkes and Stian Westlake.

Colin Thain

Colin Thain is the UK's leading authority on how the Treasury controls public expenditure – expertly detailing the constantly evolving processes, and the politics of public administration. His most important book is *The Treasury and Whitehall* (1995; co-authored with Maurice Wright), and there are a range of excellent outputs associated with his ESRC-funded 'The Treasury Under New Labour' project (see: https://www.birmingham.ac.uk/schools-/government/departments/political-science-international-studies/research/projects/archive-/treasury-under-new-labour-since-1997.aspx). Overall, Thain's work details how the Treasury lost control of public spending under the Conservative governments of the 1980s and 1990s –

but regained control under a very strong Chancellor after 1997 (Gordon Brown), albeit at the expense of its own effectiveness as a co-ordinator and scrutineer of government activity.

David Richards *et al*

Alongside Diane Coyle (Cambridge), Martin Smith (York) and Sam Warner (Manchester), David Richards at the University of Manchester has been conducting research into the Treasury and its relationship with other government departments since 2020 (funded by the Nuffield Foundation). Much of their work has focused on the Treasury's approach to local government finances and devolution, and the sudden shift in the Treasury's approach to managing public money as a result of COVID-19. For a full list of outputs, see: https://www.research.manchester.ac.uk/portal/en/researchers/david-richards(4b474d49-8034-479d-a85c-858954229c70)/publications.html.

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