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THE END OF THE TREASURY

Giles Wilkes and Stian Westlake

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The End of the Treasury

How breaking up the UK's most powerful department could change government for the better

By Giles Wilkes and Stian Westlake

1. Introduction

Her Majesty's Treasury is a remarkable institution. It has an unusually wide range of responsibilities for a finance ministry, overseeing tax, spending, economic growth and finance. Treasury officials are among the most able civil servants in Whitehall, and some might say the world. And it has great political power. No wonder its influence is felt throughout Britain's public sector and across much of our economy. It is a player in every act of political drama; to attempt practically any major act of government means working with or against the Treasury.

This mixture of broad responsibility, prodigious talent and political clout is not an unmixed blessing. This report argues that the Treasury has become too mighty and too wide-ranging, and that this power imbalance poses a serious risk to good government policy making. The Treasury's own ideological biases and rules of thumb (accreted over years of firefighting) constitute a political actor in their own right, and instill government as a whole with a chilling pessimism.

This is not a complaint about the tight-fistedness of a finance department dealing with an enormous deficit. Such austerity in its very nature generates painful tradeoffs, winners and losers, and as a key arbiter the Treasury will inevitably invite accusations of unfair or arbitrary conduct around government.

The issue is as much about how Treasury causes money to be spent as about the amounts in question. Austerity has merely made some of these biases clearer: as the flow of money recedes it lays bare the choices and biases forced upon the rest of government by the Treasury. During a time of plenty their sharper edges lie concealed. In particular, it leads to three problems:

- ***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.
- ***Overcentralisation***. 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 decentralisation of power, either geographically or beyond central government.

Whoever forms the next government will have a strong interest in tackling these problems. More localism, greater investment in infrastructure and energy, a more ambitious industrial strategy, and a long-term approach to public spending and public services are on most parties' agenda. The next government is also likely to have a small majority, if it has one at all, putting a premium on using what power there is at the centre of government well.

Of course, no-one would argue that these biases are solely the fault of the Treasury. It is in the nature of bureaucracies to centralize power, and short-termism is an endemic problem of democratic government. But the Treasury's power, its competence, and its combination of responsibilities make it an unusually effective mechanism for amplifying and transmitting these biases to the public sector at large.

This report argues that the next government can improve it chances of making good this agenda through a dramatic institutional reform: breaking up the Treasury. It proposes to do this by moving budgetary powers into a significantly enlarged Prime Minister's department, and economic policy into a genuine department of growth (which would be merged with BIS), leaving a much smaller finance ministry to deal with taxation and macroeconomics. This institutional change could be bolstered by setting aside the twice yearly cycle of Budgets and Autumn Statements, and putting in place a long-term process for tax reform.

This remainder of this paper is structured as follows. It begins with a history of how the Treasury came to occupy its current position at the heart of the British state. This is important, because we argue that many of the Treasury's intrinsic biases are rooted in historical trauma, and consequently are at risk of simply becoming out of date. It then describes some of the useful roles it currently plays, and then goes on to identify the dysfunctions it induces in Government as a whole. It concludes with a proposal for how to get the Treasury's job done in a way more likely to lead to the kind of long-termist, decentralised policies that many people believe the UK needs.

2. How today's Treasury came to be

The history of the Treasury since the War (which is difficult to find all in one place) is a fascinating tale of crises, false moves and abandoned creeds.

The background to the story comes in four parts: Britain's decades-long post-war period of relative economic decline, which the Treasury simultaneously fought and tried to manage; an ideological break marked by the advent of Margaret Thatcher and belief that short term micro-management was neither possible nor desirable; the New Labour period which saw the Treasury surrender even more short term macroeconomic powers but nevertheless increase its domestic policy role; and the period of austerity that followed the 2010 election, in which the Treasury's budgetary role took on a new significance.

1945 to 1979: "Pessimism continually confirmed"

Post-war Chancellors exercised the widest range of control over the British economy that has ever been seen. For the first three decades, the role of Chancellor was effectively to regulate spending throughout the economy in order to achieve external balance; too much internal demand would lead to a deteriorating balance of trade, gold flowing overseas, pressure on the pound, and often recourse to international lenders, while too little would mean rising unemployment and the curtailment of various social schemes.

To this end the Treasury would vary spending totals, credit controls, import restrictions and tax rates midyear, as well as taking sole responsibility for setting the Bank of England's base rate. Through the government's ownership of great chunks of heavy industry, the Treasury could attempt to speed or slow the economy through the investment it allowed through this channel. Most postwar Chancellors were forced at some point deliberately to slow down the economy and postpone or cancel ambitious programmes of social reform in order to hit the right level of demand. At a time when unemployment frequently skirted around one percent, the Treasury was constantly trying to calculate how it could shift resources toward exports.

To modern eyes many of the improvised solutions look archaic: for example, Chancellors would weigh up whether a surtax on profits would help persuade the unions to bear a particular incomes policy. It invented devices with a long-defunct purpose, such as the "regulator", a set of variable taxes and surcharges aimed at removing or adding purchasing power to the economy as quickly as possible.

During this stop-go phase of economic management, commentators watched closely to see whether the Treasury was accurately estimating the state of the economy. Were we booming or in recession? What was the situation across the international exchanges? Were his latest stimulus measures too soon, too late, stoking a boom or avoiding a recession? It was a department wielding the widest range of responsibilities in a fog of uncertainty. As Nigel Lawson wrote when City Editor of the *Sunday Telegraph*, "The Treasury has never done anything too soon… its actions fall neatly into two categories, too little too late and too much too late".

"Too late" reminds us that in retrospect economic management for many years was really about lurching from one crisis to another. The pre-eminent challenge of the Treasury and whoever occupied it was to stabilize a short run situation that had often spiralled out of control. Britain continually lagged the rest of the Continent in terms of productivity, ran almost constant trade deficits, and was bedevilled by the sort of macro-economic volatility that enlightened Keynesianism was meant to have dispelled. The nadir was in 1976, when the government came close to the kind of national bankruptcy that we have recently seen threatening the peripheral countries of Europe, with the Cabinet discussing threatened imposition of import controls in order to stem the overseas flow of money.

So for decades the Treasury contained all the levers of full blown Keynesianism, and the responsibilities that went with them, but was nevertheless buffeted between short term crises that appeared to emphasise its own lack of power when confronted with larger outside forces.

These escalating crises led to an ever firmer belief in the Treasury that for all their power within Whitehall, they lacked the means of resisting the grim reality of an increasingly unproductive Britain continuously trying to live above its means. Much of the resultant scepticism has been best expressed in a recent speech by the current Permanent Secretary. Money must be kept sound; markets generally work (particularly when they are delivering you unwelcome news); the state has a limited ability either to regulate demand or raise revenues; and therefore the state should focus on the supply side, building strong institutions and retaining effective people.[1] Despite speaking in 2014 he could have been recounting the harshest lessons from the failures of 1950-80. Given the decades of debacle, these lessons needed to be learned.

1979 to 1997: casting the tools aside

The advent of Margaret Thatcher marked the decisive break with economic micromanagement, although it was foreshadowed by the struggles of the governments in the 1970s. In a world of imperfect information and recalcitrant industrial partners, most Chancellors experienced the truth of Lawson's criticism; the Treasury was never able to carry out the right amount of stimulus, on time. Financial markets would realize far earlier than government statisticians whether an economy plan could really work.

British governments have gradually abandoned the practice of trying to regulate the quantity and direction of spending in the economy. The 1981 Budget, which appeared to disown fiscal means of boosting what appeared to be a deeply depressed economy, marked a watershed. Many of the larger macro-economic tools went as well in the early 1980s. Capital controls went early in the first Thatcher government, along with the "corset", a convoluted system for controlling bank lending. Many of the massive nationalized industries were sold to the private sector, removing another direct influence of the government on spending and investment in the economy. For the first time in a generation the government aimed for falling share of GDP devoted to public spending, clearly eschewing its use as a regulator of demand.

[1] Speech to the Mile End Group http://www.mileendgroup.com/event/reflections-british-economic-policy-1970s-2/

The new consensus was expressed in a speech by the Chancellor, Nigel Lawson in 1984:[2]

> "It is the conquest of inflation, and not the pursuit of growth and employment, which is or should be the objective of macro-economic policy. And it is the creation of conditions conducive to growth and employment, and not the suppression of price rises, which is or should be the objective of micro-economic policy."

Incomes policies were abandoned. Trade barriers gradually fell - the idea of using them to defend the pound or some industry of vital importance, actively discussed in Cabinet in the 1970s, was an anachronism by the 1980s.

By the 1990s both political and administrative opinion had moved against the idea that Britain could micro-manage its macro-economic destiny. Each new setback led to a further move away from the idea of politicians trying to steer the economy themselves; a key moment was when, following the misstep of ERM membership and consequent loss of control over interest rates, the government adopted inflation targeting and interest rate decisions taken jointly with the Bank Governor.

By the end of this process economic management in the UK had undergone a profound change (echoed throughout the developed world). British Prime Ministers and Chancellors shrugged at the sight of the pound rising or falling. They no longer boasted of what 'they' had done with interest rates. No one thinks the Treasury should have the tools to regulate in-year spending. The term "incomes policy" is now a political slur on those daring to interfere in the free market, alongside tariffs and tactical trade restrictions. Far from owning the means of production, all the government possesses are stakes in some unsaleable banks, which it vows not to use for any economic or political means.

1997-2007 Losing an empire, and finding a role

The final, and largest, step away from economic tinkering was taken when Gordon Brown surprisingly gave independence to the Bank of England upon arrival as Chancellor in 1997. This had long been discussed by the Conservatives when in government (and featured in Nigel Lawson's resignation speech), but for a variety of reasons both philosophical and tactical they were nervous to go the last step. (The bitter fights about monetary policy that had scarred the Conservative Party through the 1980s must have also made them unwilling to reopen the issue.)

Therefore was completed a gradual but decisive shift away from economic micromanagement. This ought to have left a Treasury with much less to do - a Treasury that, in a different world might be focused on only its core competence - keeping appropriate control of government spending. But this is not what happened.

Two seemingly unrelated events in 1994 set the Treasury on a very different trajectory. The first was a piece of grand Whitehall strategy, a significant re-think of the Treasury's organizational structure, the so-called Fundamental Expenditure Review, led by a bright

[2] The Fifth Mais lecture, which can be found here: http://www.margaretthatcher.org/document/109504

young civil servant called Jeremy Heywood. The FER proposed two big changes to the way the Treasury worked: a more hands-off culture with regard to departmental spending, and a radical delayering of the organization, stripping out middle management and making it a place where talented junior staff could get real responsibility quickly. **One of these was respected, the other flouted.**

Across London at much the same time, a rather more political meeting was taking place: the much-mythologized “Granita Deal” between Tony Blair and Gordon Brown over the leadership of the Labour Party.

There is plenty of speculation about what exactly was and wasn’t agreed over dinner on Upper Street (as an ex-special adviser, one of the authors has a particular horror of powerful politicians sitting down and making deals without a decent note-taker in sight). But as William Keegan writes, there is little doubt about what was agreed about what would be the configuration of power under a Blair Premiership:

> “The deal that was most certainly done was that under which Blair agreed to make Brown a very powerful Chancellor, with a remit covering not on the economy but also large areas of welfare and social policy”.

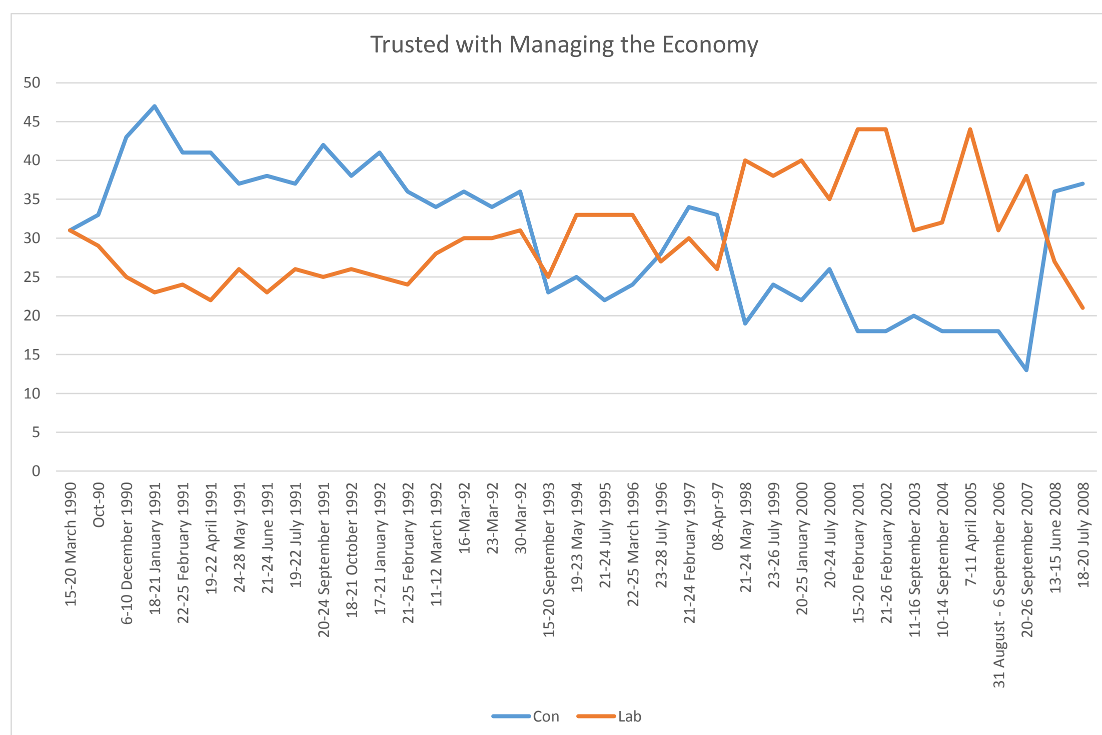
The combined effect of the Treasury’s retreat from economic micromanagement, the Granita deal and the FER came to be felt in 1997.

The Treasury gained an ambitious role in domestic policy and powerful Chancellor to lead it, together with a dynamic, relatively non-hierarchical culture that created big opportunities for talented youngsters. The FER’s plans to adopt a hands-off attitude to departmental spending were duly dropped, as the Treasury took a greater role in significant policies from public service reform to the productivity of the UK, and led over three dozen reviews into everything from the UK life sciences industry to its planning system.

The story of the power of Brown’s Treasury has been extensively told in the various memoirs and histories of Tony Blair’s Premiership. It is a story as much about the political power structures as the configuration of the government. But the two often go hand in hand. Gordon Brown effectively owned economic policy. Having for over a decade gradually reversed Labour’s disadvantage to the Conservatives on “Managing the Economy” (see Chart), he was temperamentally disinclined to lose any control on this vital issue. Far more than the usual power of challenge and veto, he expected to be able to initiate new policies and programmes.

Departmental officials from that era can recall entire new spending streams in their specialist area simply announced after minimal notice – “a take it or leave it offer” as one official described it to the authors. Micro-economic initiative migrated into a new unit within One Horseguards, the Productivity team, staffed with the best and brightest and effectively reporting to the Chancellor. In the last Conservative government, the microeconomic interest largely translated into deep involvement in privatisation and competition policy. Under Brown’s chancellorship, this extended further, under the heading of “five drivers”: increasing skills, enterprise, innovation, investment and competition again.

Chart: who is trusted with managing the economy? [3]



The power of the political boss is invariably reflected within his or her department, and this was manifestly the case with the Treasury. Its relationship with the rest of government was ambitious and at times imperial. Keegan talks of criticism “for the way that under [Brown’s] Chancellorship… stretched its tentacles far and wide and [became], in the eyes of many, too powerful and a baleful influence on government”. Colin Thain, a seasoned Treasury-watcher from the University of Birmingham, argues that this ambitious policy agenda led to the neglect of the Treasury’s “day job” of controlling spending, pointing to the gradual adjustment of fiscal rules and the deterioration of Britain’s fiscal balance from 2003 to 2007. While the economy was strong and Labour’s ratings strong, this could be dismissed in political terms as envy.

For the officials, the preponderance of political power in the Treasury must have been intoxicating. Several have described how empowering it was to arrive in a such a small and yet elite institution and discover that if they showed merit their opinions might soon influence decisions of immediate consequence; indeed, to work at the Treasury was clearly to gain influence far greater than that enjoyed by comparative veterans in the departments. Few might have paused to wonder if this was really a good thing.

2010 onwards: austerity the answer

In the short run the financial crisis temporarily changed the Treasury’s hegemony. However, this was not because the reputation of the Treasury’s reputation or its free market ideology had in any way been tarnished by the collapse of the UK’s financial

[3] Accessed on 1 September 2014 at <http://www.ipsos-mori.com/researchpublications/researcharchive/poll.aspx?oItemID=22>

sector - despite its role as in effect the sponsoring department for the City of London - but for more practical political reasons.

The response to the crisis was led by Gordon Brown, who was of course now in Number 10. As Dan Corry has helpfully described, economic policy became the government's number one priority, and was administered from 2008 by the National Economic Council, a Cabinet Committee chaired by the PM[4]. The remit and effectiveness of this committee, combined with an unusually powerful Business Secretary in the form of Lord Mandelson, meant that the Treasury was less pre-eminent in economic policymaking than before or afterwards. Mandelson even dared to propose a new industrial strategy, and have it backed with a fund wrestled from the Treasury, the "Strategic Investment Fund".

But this combination of circumstances was unstable, and the Treasury's supremacy was restored following the 2010 General Election. The Coalition Government's austerity programme put the Treasury, in its role as government CFO, firmly in the driving seat of the government policy. The Spending Review conducted in 2010, structured largely through bilateral negotiations, gave it a key role in decisions central to every other department's future strategy. The Cameron operation in Downing Street eschewed the option of running its own centre of economic expertise, and only haltingly rebuilt the heft and expertise that had been present during the New Labour years. In effect, the Treasury and its advisers were now also the economic advisers to the rest of the centre of government. Although both No10 and the Deputy Prime Minister's offices gradually gained more manpower, they never came close to having the authority or access of the Treasury advisers[5].

One key reason for this is that, at least at the beginning, controlling the deficit *was* the economic growth agenda- and only the Treasury can pronounce on that subject. The view was that what the economy needed was the certainty that the government's enormous fiscal gap would be closed. This would help produce lower interest rates, and confidence amongst businessmen to invest and amongst householders to spend. Insofar as the government could positively encourage growth through capital investment or industrial strategy, the benefits of so doing would always be outweighed by the cost in terms of (ill defined) "credibility".

This was a narrative tailor-made for a Treasury looking to justify its minute control over the whole Whitehall agenda. Even though circumstances played out very differently from how they warned – interest rates actually fell as the deficit widened, in a manner far more suited to the outlook of its Keynesian critics – the failure of growth to spring naturally from this fiscal determination did nothing to undermine the narrative, despite increasingly vocal calls from the Business Secretary for a more positive growth oriented policy. The worsening European crisis added a "there but for the grace of God go we"

[4] Corry, Dan, "Power at the Centre: is the National Economic Council a Model for a New Way of Organising Things?", *Political Quarterly* 82:3, July 2011, accessed 1 September 2014 at < http://onlinelibrary.wiley.com/doi/10.1111/j.1467-923X.2011.02176.x/full>

[5] The Treasury's command of the austerity programme and the hollowing out of the Number 10 operation are described in Ganesh, Janan, George Osborne: The Austerity Chancellor (London: Biteback), 2012

twist to the story, rather than showing the risks of failing to prepare a contingency plan should economic demand fail to materialise.

Nevertheless, the Coalition realized it needed more than a purely passive growth agenda that relied on confidence somehow returning. The difficult years of 2011 and 2012 saw: Vince Cable allowed to announce a stream of industrial strategies; a concerted push to create the structures needed to get infrastructure financed and built; repeated attempts to find ways of boosting house building, including the blatantly fiscal Help to Buy scheme that uses the government's balance sheet to underwrite private house buying (and extraordinary step for a fiscally austere government to take); Lord Heseltine's ambitious report into the structures needed for his interventionist vision for economic growth; the launch of Funding for Lending, an enormous quasi-fiscal programme launched with the Bank of England to lower the cost of bank lending; and the development of Catapult centres, designed to bridge the gap between academic research and business.

Engaging with industry or specific sectors like housebuilding or green energy usually require the direct involvement of experts in departments, working with the private sector. So the re-emergence of what appeared to be a more activist approach to growth might, again, have seen the locus of power disperse away from the Treasury. But it didn't. The reasons are various. One is obvious: most elements of such an approach nevertheless involve fiscal decisions, even if they are merely reallocations of money from one purpose to another. This frequently requires Treasury sign-off. Even when it is new money, the Treasury's order of priorities is likely to dominate. For example, after months of political wrangling, the 2013 Budget announced a funding stream for Industrial Strategy (Table 2.1, line 36). At around £180m per year, its cost was barely half of that of two new stamp duty cuts (lines 30 and 31), and less than the heralded penny off a pint of beer (line 44).

Another reason is political: under the Coalition, despite the efforts of Vince Cable to proclaim a different approach, ownership of the economic narrative is always with the Chancellor, framed in bright lights at the Budget and Autumn Statement. His performance on those days is critical. Media commentary focuses tightly around those moments, and they are probably the only annual occasions on which the public pays close attention to economic policy. The reaction to the 2012 Budget is enough on its own to prove its importance.

A final reason, and one that touches most closely on the subject matter of this pamphlet, is that the habits and structures of government still overwhelmingly favour the Treasury having a central role in economic policy making. It is written into the DNA of any UK government. The Chancellor chairs the economic affairs cabinet sub-committee. Infrastructure UK sits within the Treasury. It holds the relationship with the Bank of England and the financial sector, critical for the design of schemes like Funding for Lending; as a result, the Business Secretary was forced to write letters to change its focus to small business lending. Above all, there is the force of institutional habit. Politicians demanding a new plan or scheme commission those young bright Treasury officials to find something, as was the habit for so long under Gordon Brown.

Politics must have also played a part. The change at the top in the department of Business from Lord Mandelson to Vince Cable contributed to this shift. Mandelson took

the role alongside that of First Minister and effectively strategist for the entire government. While Cable remains the most economically qualified minister to be Secretary of State for Business in a generation, and has consequently stamped his own style on the department, he sits outside the core “quad” of politicians driving the Coalition strategy and above all its economic and fiscal approach. This has decisively returned to the Treasury.

In conclusion, the decades since the war have seen an astonishing shift in both the functions of the Treasury and the guiding philosophy with which they are used. The latter is now a paradoxical combination of radical scepticism towards a government’s ability to guide the economy in an active way, alongside a persistent belief that tight control of everything within Whitehall is essential to prevent everything somehow getting out of hand. Control is a constant theme: but the focus of the control has shifted from a hopelessly optimistic urge to steer the entire economy through discretionary decisions, to an equally pessimistic belief that only tight interference over the rest of government can prevent some new economic disaster.

3. The Treasury Today

Within this changing story, some things remain constant: the Treasury's officials remain second-to-none, and maintain something of the greater interest in policy they took on in the Brown era. And the Treasury's responsibilities remain diverse and important. Before we look at the problems of the Treasury, it is worth reviewing the various things the Treasury currently does.

The Treasury's roles

The role that is felt most keenly within government is that of a **budgetary ministry**, agreeing how much departments can spend and taking responsibility for the affordability of the total. This is the role that, under Gordon Brown, provided the basis for the Treasury's influence over domestic policy as a whole.

The other side of the budgetary equation is the Treasury's **fiscal role**, setting tax policy. Spending decisions and tax decisions form the basis of the Treasury's yearly star-turn, the Budget, a ritual that dominates the internal workings of the department for weeks in advance and the media agenda for days on either side.

Of course, in the UK, the spending and the taxing sides of the budgetary process do not balance, and have not done so since 2001, which gives rise to the Treasury's role as a **financial ministry**, with a responsibility for financing and managing the UK's public sector debt. The technical aspects of this duty are discharged through the Debt Management Office, but the idea that the Treasury is, in the final analysis, responsible for the solvency of the British Government, undergirds the Treasury's perception of itself.

The distinction between the Treasury's *budgetary* role and its *financial* role may seem like a wonkish technicality, but makes a difference. The budgetary role is primarily the job of the Treasury's so-called spending teams, and involves continual negotiations with departments over their overall spending and in particular over novel or contentious expenditure. The financial role relates to how the government's debt is funded, and the macroeconomic consequences of this. These two roles are separated in several other countries.

The Treasury also acts as the sponsor of the UK's **financial services sector**. In recent years, the involuntary nationalisation of Lloyds and RBS has made this role particularly hands-on, but even when the Treasury did not own chunks of the City, it maintained a watching brief over issues like access to finance and financial regulation, and more than one Treasury minister was described as "City minister".

The Treasury also holds an **economics** brief, taking responsibility for the long-term growth of the UK. As discussed earlier, there has been a tentative revival of industrial policy, implying a more sectoral approach, but it has been heavily circumscribed by Treasury spending limits and controls. A good example of such controls is how the Green Investment Bank, set up to provide lasting commitment and certainty to long term investments in low carbon energy, was explicitly denied the ability to borrow against its own balance sheet.

Following an interlude from September 2008 to the 2010 election, when the National Economic Council and a powerful Department of Business, Innovation and Skills played a major role in industrial policy, the Treasury's economic policy role increased. George Osborne's interest in innovation and infrastructure as drivers of growth was given organisational form by the appointment of a second permanent secretary with specific responsibility for economic growth, and by what several officials have described as an increasing Treasury involvement in both innovation policy and infrastructure policy. The question of who exactly is in charge of these areas is now a matter of some uncertainty, with BIS having closer direct involvement and expertise in most industrial areas, but the Treasury control over funds and ownership of big Budget decisions ultimately deciding how priorities come out.

The rhythm of the Treasury

It's also worth reflecting on the timeframes that govern today's Treasury. The UK no longer facing the kind of day-to-day economic challenges it did in the 60s and 70s, when more than once the country was one sweaty weekend away from national ruin. But the Treasury is still governed by certain relatively short-term rituals, in particular the annual Budget and, more recently, the Autumn Statement.

The exigencies of the Budget are deeply embedded in the Treasury's organisational culture. It dominates the operations of the Treasury for weeks before, and provides a focus for departmental plans and announcements throughout the year. It also provides a familiar and accessible way for the media to cover financial and economic policy – in a convenient, well-scheduled chunk – and a regular opportunity for a Chancellor to keep himself in the public eye. An anthropologist would describe it as a highly *functional* tradition.

Unofficial roles

This rather bare-bones description of the Treasury's functions does not convey the full role it plays in British public administration. Within a system of Cabinet government, and occupying a seat on practically every committee of any importance, the Treasury and its representatives influence everything else, which provides it with an opportunity to instil its priorities throughout government. It is possible to delineate four other roles it plays alongside its formal responsibilities:

- **Applying judgment** to departmental plans
- Rapid **resolution of conflicting goals**
- **Fighting the Blob**
- Acting as a nursery of **Civil Service talent**

Applying judgment to departmental plans. Jonathan Powell described the British Civil Service as more like collection of feudal baronies than a command-and-control organisation. Cabinet ministers have considerable freedom of action within their departments, and the Prime Minister has almost nothing in the way of staff or information systems to manage them, at least not in any way that would be familiar to managers of everyday businesses. Short of the nuclear option of removing a Cabinet minister, Downing Street has surprisingly few direct levers for keeping departments in line.

The Treasury's role in setting departmental budgets and approving "novel or contentious" expenditure provides a locus for challenging decisions that would otherwise go unchallenged. It's notable that in the current government the Treasury has been the toughest internal critic of the Universal Credit, a scheme that has proved difficult to implement. Behind the scenes, it has played this role in many other policy areas.

Rapid conflict resolution. It is truism to say that public administration is a series of trade-offs. What is more interesting is how these trade-offs are made. Powerful departments negotiate slowly, in relative terms, through Cabinet Committees, bilaterals, special adviser bargaining and less formal discussions between officials. Advantageous information leaks; proxy wars are fought in the media; politics come into play. Ultimately, disputes may get escalated to the level of Prime Minister and the ruling "quad" - but given the strains on their time and finite political capital, this is very much a last resort.

The Treasury offers a way to resolve some of these conflicts more quickly and more discreetly. In some cases, the Treasury can assert control over a policy that would otherwise cross several departments, like SureStart, providing an arbiter for disputes and, even better, preventing some of them arising. In others, the Treasury's own multiple role allows matters to be resolved with no reference to anyone else within Government. This was essential in the Treasury's activist period in the 1960s and 70s, when it needed to coordinate multiple economic levers, from prices and wages policy to financial policy to monetary policy, and to do it quickly to manage threats to the UK's solvency. Even now, it is useful – especially politically.

A nursery of Whitehall talent. Every survey of the Treasury remarks on the talent and dedication of its officials. The interesting work that they do and the early responsibility they receive (a function of the managerial delayering that began in the 1994 Fundamental Expenditure Review) means the Treasury can attract excellent people despite paying salaries that are low for Whitehall and very low compared to the private sector.

The quality of Treasury officials spills over into other departments, as high-flyers often begin their careers in the Treasury and then move on to senior roles elsewhere in Whitehall. The Treasury staff that migrate to other departments can often be the most expert, and particularly vital for the continuous process of bargaining that occurs with their old department. On the other hand, it can also translate into an endemic sense of superiority among some Treasury officials and reinforce the prejudice that all the really important (and expensive) plans should be incubated within its own walls.

Fighting "the Blob". Vested interests exert disproportionate power in many areas of public policy. It is impossible to make good health policy without talking to clinicians, industrial policy without talking to businesses, or skills policy without talking to FE colleges.

At the same time, it is naïve to think that these stakeholders will not promote their own interests in these discussions, or to expect there not to be movement of staff between the civil service and the external stakeholders they work with. (Indeed, in sectors like

Defence and Higher Education policy, it is unremarkable for senior public jobs be filled by generals and vice-chancellors respectively.)

To deliver a good deal for citizens, Government needs to challenge these interests. Treasury spending teams, staffed as they are by relatively young officials who are not deep subject-matter experts and are unlikely to take jobs in the services they fund, can be in a stronger position to do this than spending departments. This is not to say that departments are inevitably and inherently unable to resist producer interests, or that only a powerful centre can resist them – but it is a certainly a role that the Treasury can and does play.

This role embodies a serious tradeoff between the risks of making complex policy in a fog of ignorance about its consequences, and becoming so expert that the risks captured are impossible to avoid.

The combination of so many functions and roles carried out by one Treasury is unusual. Some other countries separate their finance and economics ministries – Germany and Japan are two examples. Other countries separate the management of departmental budgets and performance from their finance ministries – in the United States, departmental oversight is handled by the Office of Management and the Budget, for instance. The rhythm imposed by regular Budgets and Autumn Statements is also far from universal.

The advantages of the British system are fairly clear, and are again embodied by that word, "control". One doesn't have to look far to find international examples of countries that have undergone crises because the government was not in control of itself. From the mismanaged (and mis-stated) accounts of the Greek government to the local government bankruptcies of the United States, from seemingly unreformable public sectors in union-dominated Europe and producer-captured inefficient industries of the sub-Continent, there are plenty of examples of times and places where a Treasury as powerful and controlling as the one Britain enjoys is exactly the medicine needed. As the earlier section implies, some of these can be found in our own recent history. But this paper argues that such an approach has serious downsides that are particularly ill-suited to the challenges faced by 21st century Britain.

The next section explores this argument in more detail.

4. The problems of a powerful Treasury

It is our contention that the Treasury's combination of powers, together with the administrative timelines to which it works, makes the good government we currently need more difficult. In particular:

a) **Government by accountant** Giving the role of overseeing departments and their spending to a powerful department with a strongly financial focus makes the budgetary function within Government overly powerful and one-sided
b) **Wheeze-itis**. The combination of the Treasury's powerful oversight role with its regular short-term deliverables – Budgets and Autumn Statements – also encourages an unhealthy short-termism in policymaking
c) **"Don't trust the natives"**. The power of the Treasury relative to departments, and the importance of the budgetary process, discourages decentralisation of power or policymaking.

a) Government by accountant

There is a long and ignoble tradition in British industry of entrusting great industrial concerns to accountants and financiers, where in Germany, France or the United States they would be more likely to be run by engineers or general managers. While it is impossible to generalise, this can lead to prioritizing the certain returns provided by efficiency and cost cutting over the less certain fruits of long term investment. The result is underinvestment and an excessive focus on the numbers at the expensive of the business itself - on short-term performance rather than long-term health. John Kay ascribes the demise of major British industrial firms like ICI and GEC to this penny-wise, pound-foolish mentality.

In its budgetary relationship with departments, the Treasury risks playing the same role as the short-sighted bean-counters of British industry. The Treasury's combination of highly competent staff, an agglomeration of important responsibilities and two powerful Cabinet ministers gives it unusual political power; the fact that the department lives and breathes money makes financial considerations particularly salient in its way of working.

The particular way the three specific elements of financial policy are decided – taxation, spending, and borrowing – also has an immediate consequence for power relations within government and the priorities that inevitably emerge. Firstly, fiscal rules determine the profile of borrowing. The assumption is that if these are not prioritised, financial market confidence in the ability or willingness of the government to keep its promises will evaporate, sending bond markets into crisis, hitting business confidence and raising interest rates to damaging levels. Secondly, tax policy is largely hoarded by the Treasury, although departments can attempt to influence it at fiscal moments. (Obviously the Treasury has to bow to the political leadership of the government to deliver their commitments in the area of tax.) Responsibility for forecasting how much tax will be harvested is outsourced to the OBR to eliminate the risk of optimism bias. Finally, the amounts left over for public expenditure are whatever is needed to make the figures balance. For example, if it is determined that tax in for a particular year will be £710bn, and borrowing should be no more than £40bn, then total spending *has* to be £750bn. It is a residual.

From here on the question is how the spending envelope is divided out. More than half government spending is "annually managed expenditure" – the demand-led transfers

that are largely determined by pension and benefit policy and contracts, such as debt interest. Much of this is *de facto* fixed by settled policy and political positions – regardless of the rhetoric, no one would vary benefits entitlements by more than a percentage point or two a year to make in year numbers add up. This means that departmental spending totals (RDEL) need to take the strain. Within this envelope, large parts like the NHS will be explicitly protected, and others like MoD and spending on the devolving regions implicitly, by the positions taken by the political leadership.

Therefore at the end of this entire process, a small fraction of all public spending (the amount spent on most of the major departments) is expected to absorb all the volatility of the changes in all the other elements. For example, if a Chancellor announces that he is going to pursue a surplus in the government accounts (as George Osborne did in 2013); if the Coalition unveils a continuing freeze of fuel duty or new rise in the tax allowance; or if the slowing economy causes spending on benefits to rise – all might take priority in determining the spending amounts that go to the Home Office, Ministry of Justice, Transport, Environment, or Business Innovation and Skills.

To put this another way, the *modus operandi* of government currently means that departmental spending is determined not on the basis of what might be needed in that area, according to some expert analysis of what may be needed, but by what happens to be left over once a host of other political commitments have been made.

This approach has its benefits. Successive OBR forecasts for Total Managed Expenditure have shown that controlling spending is one thing the Treasury does extremely well (as acknowledged by its current Permanent Secretary)[6]:

TABLE 1

			Total managed Expenditure				
Budget	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
2010	697	700	711	722	738	758	*779*
2011	694	710	720	730	743	764	*786*
2012	687	696	683	720	734	744	756
2013	687	693	673	720	730	745	755
2014	687	693	673	716	732	744	753

			Tax revenues				
Budget	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
2010	548	584	622	662	700	737	*776*
2011	549	589	620	660	697	734	*773*
2012	551	570	592	623	658	692	735
2013	551	573	587	612	633	658	694
2014	551	573	593	619	648	675	711

[6] Accessed on 1 September 2014 at <http://www.mileendgroup.com/event/history-treasury-part-1/>
"Over the last fifteen years or so, the Treasury has been much more effective at delivering public spending outturns in line with plans than it was in the 1970s and 1980s. It has been the planning of revenue – reflected in continued shortfalls in tax for a given level of national income – which has been the perennial problem of the public finances"

As the table shows, successive Budgets since the Coalition have seen Total Expenditure come in below forecast, and similarly for projections of future spending. In the meantime, forecasts for future tax revenues have subsided, as economic growth has weakened, and successive Budget moments have seen Coalition politicians bargain tax cuts for further tax cuts. The story behind Britain's deficit is always "spending out of control". This could not be further from the truth; it is a loss of control over revenues that has always been the culprit.

There are clearly times when a Treasury applying a total short-term control over all state spending is vital. Times of acute national financial crisis, such as those currently experienced in the periphery of Europe, often need all control brought back to an unsentimental centre. There are certainly those in government that see Britain's challenges in exactly those terms. Clearly these include the current Chancellor and his Permanent Secretary. And it is hard to shake the feeling that there is something in the DNA of the Treasury that has been programmed by the searing experiences of the 1960s and 70s, when as the Bank's reserves drained away there really was a risk that cash would literally run out.

But this sort of model is not cheaply bought. What it means is that even if every consideration points to the desirability of committing more funds to a cause, it can only be funded if some other element of spending is simultaneously cut.

In the past five years, it has led to a number of situations in which the few long-term investments that were made could only be made at the expense of other equally important commitments. Science spending was only protected because other elements of important growth spending were cut, such as spending on further education, student support or regional spending. Corporation tax cuts were only "affordable" because other last minute tax ideas were found: for example, taking £1 billion from the previously revenue-neutral Carbon Reduction Commitment, badly upsetting industry and undermining an important incentive to improve industrial efficiency, and the sudden imposition of a Carbon Price Floor (at an unsustainably high price), that did little for carbon reduction but sent an instantly chilling message to long term investors in heavy industry.

"Investing to save" through, for example, early intervention to prevent youth crime or acute ill health, also faces an uphill struggle. The first social impact bond, an innovative attempt to reduce offending by inviting investors to spend money on youth services in return for a share of the gains if the costs of crime fell, nearly fell through when Treasury rules meant that the Home Office could not take on the liability associated with the payment-by-results component of the bond. The scheme went ahead only because other organisations agreed to subsidise the cost. The social impact bond has since been copied by governments around the world: fortunately the financial wrangling has not.

It would be wrong to think of this unwillingness to invest as a transitory byproduct of austerity. For a start, austerity is unlikely to end in 2015, no matter who is elected. Equally, signs of the Treasury's hostility to investment predate the financial crisis. It was Treasury officials who argued in the 1980s that the M25 only needed to be two lanes wide, after all.

The effect of this system is to strip from departments the ability or incentive to act in a long term, strategic way. A department that knows it cannot be sure that it will be granted certainty of funding (because such funds might be hostage to last minute tax decisions, say) will certainly not want to make strong commitments, in case they later prove impossible to

fulfil. As a result, government becomes an unreliable partner for the private sector to deal with. This uncertainty can extend to the "type" of money that a department has to spend: Treasury rules are very firm on the question of whether the funds granted to a department count as "capital", "programme" or "administrative" expenditure, and shifting between these headings can be extremely difficult.[7]

An obsession with cost reduction, a lack of strategic budget-setting, and excessive control of departmental spending are all familiar characteristics in the business world of finance departments with too much power. It is no surprise that we see them in the UK civil service, where the finance department is the most powerful of them all.

b) Wheeze-itis

The Treasury also contributes to government's addiction to policy wheezes. A "wheeze" can be defined as an arbitrary policy or use of money that is not determined by technical need, but some political need to be shown to be doing something. Whereas the problem in the previous section might be said to be a chronic risk of underfunding where there is a definite need, this is the opposite problem: that the Treasury might arbitrarily demand that money is actually spent in a particular way that isn't justified.

This problem stems from combination of the Treasury's power over departmental spending and the timeframes to which it operates, particularly the expectation of an annual Budget and Autumn Statement. It is also a consequence of how performance at these showpiece events is disproportionately used as a yardstick of how well the Chancellor is doing his job.

The role of the Budget as a staging ground for "eye-catching initiatives" gives the Treasury another strong incentive to prioritise its own room for manoeuvre over flexibility for other parts of government and exacerbate the problems mentioned in the previous section.

Not all wheezes are bad. Departments know that policies of their own that may have been matured over a long time have a better chance of success if they can be "offered" to the Chancellor (over the head of a sometimes jealous departmental minister) and put into a Budget or Autumn Statement speech. However, for this to work, the Treasury needs a financial system that allows it to hoard all the flexibility to itself, so it has the resources to pick the initiatives it wants at the critical moment.

Most officials who have dealt with the Treasury will be aware of the pressure to come up with proposals to go into the Budget and Autumn Statement. Many will also be aware of the temptation for Treasury officials to not only solicit ideas but to help craft them, and in some cases to develop their own in parallel to their spending departments.

To some extent this is the result of a cultural change that took place in the Brown Treasury; Colin Thain describes how from 1997 to 2007 the Treasury began to "engage proactively in policy solutions rather than act as a traditional veto player"[8]. But too often this engagement

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[7] To the extent that money is, by definition a store of value and a medium of exchange, the Treasury's budgetary micromanagement raises the question of whether the sums allocated to departments are really money at all.

[8] "The changing of Horse Guards", Colin Thain, *Fabian Review,* Summer 2014, pp12-14

grows to the extent where departments are disempowered and long-standing plans sacrificed for short-term presentational needs.

The cost of this within government are twofold. First, economic policy is made in a way that involves partial analysis and frequently very little involvement of stakeholders. Good recent examples can be found in the way an extra levy on North Sea extraction was announced in the March 2011 budget, and also the Carbon Price Floor. Both deeply unsettled high-investment sectors of the economy; the pennies off Corporation Tax that they helped to fund are unlikely to have had anything like the same effect on investment incentives.

The second cost is that once again it spreads uncertainty through the rest of government. In effect, by trying to maximize its own room for manoeuvre, a controlling Treasury maximizes the degree to which other spending departments are restricted from sensible planning themselves. It would not be surprising if this created a sort of learned helplessness in some parts of Whitehall, sapping departments' willingness and ability to plan, and further justifying Treasury micromanagement.

c) "Don't trust the natives"

It is often observed that government in the UK is unusually centralised. Cities and council have relatively little political or financial power. Periodically, the idea of delegating industrial policy or skills policy to localities and to non-governmental groups, along German lines, is mooted (most recently in Lord Heseltine's growth review and the City Deals), but so far, little has changed. City leaders gave up holding their breath a long time ago. Similarly, proposals to give hospitals and schools greater financial autonomy have been political priorities since the mid 1990s, but have faced continuous opposition, not all from outside government.

The troubling centralisation of British politics is exacerbated and maintained by the role of the Treasury. During Tony Blair's premiership, many of the most significant reforms to increase the autonomy of various public services, such as the creation of Foundation hospitals and Academy schools, were opposed by the Treasury.

Some of this was a function of politics: the Chancellor of the time opposed them, and used his department to run interference. But the arguments against Foundation hospitals that emanated from the Treasury came naturally to it: hospitals could not be allowed to borrow, since this would recklessly disperse financial power across the public sector.

The UK's major cities cite the Treasury as the main opponent to their attempts to gain borrowing powers, especially with regard to their housing assets. Such borrowing would contribute towards the totals that the Treasury feels it needs to control to satisfy the financial markets. Since, as discussed earlier, that takes an absolute priority over other considerations, it is straightforwardly unacceptable for real financial discretion to be ceded to local authorities.

Furthermore the Treasury's occasional desire to generate short-notice eye-catching ideas for Budgets and Autumn Statements sits uneasily with a more decentralized, Teutonic model of industrial policy in which technology roadmaps and investment plans are developed slowly and consistently in partnership with industry groups.

An alternative?
These three characteristics – government by accountant, devotion to wheezes, and distrust of decentralization – stand in contrast to the kind of budgetary, financial and economic policies the UK needs.

There is a remarkable and increasing degree of consensus among the centre-left and centre-right about at least the major elements of what government economic policy needs to do.

- Some sort of continued austerity programme, to reduce the UK's still significant deficit
- An industrial strategy for important parts of the UK's economy, in which regulation, government procurement, innovation funding, competition policy and access to finance are devised in a coordinated way and with significant input from businesses, to boost economic growth
- A rational energy policy, giving enough stability for investment in new capacity (and, most would agree, that significantly reduces carbon emissions)
- Much greater devolution of economic power from the centre, whether this is to individual public service organisations, like free schools or foundation trusts, or to parts of the country, such as English city-regions or a putatively devo-max Scotland.
- Significant reform of public services, to deliver greater investment in prevention and the deeper involvement of civil society

The authors would add some other economic desiderata, which while not universally supported have at least garnered backing from people across the political spectrum, including willingness to consider new forms of macroeconomic policy, such as NGDP targeting, and a reformed tax policy designed on more rational lines.

What these policies have in common is that they are long-termist, and rely on a degree of decentralization, characteristics that today's Treasury in some respects discourages.

5. An organizational solution

The problems outlined above stem from two causes. Firstly, a dismal post war history of recurrent crises led to a specific, pessimistic mindset and urge to control that for a long time was perfectly well justified. British governments *were* profligate, disinclined to consider systematic spending control, and frequently victim to losses of financial market confidence that left them with no choice but to take urgent short term. Every recession up until the 1990s was effectively caused by too much spending in the economy and the inevitable retrenchment and high interest rates needed to restore balance. The Treasury deserves credit for instituting the sort of rules and biases that lean against this pattern recurring.

The trouble is, the economic crisis that took hold in 2007 is the first since the Depression to be caused by the opposite – an acute and then chronic fall in spending, and the sort of deleveraging, low interest rate conditions that suggest that the last thing this economy will be victim to is spending gone mad. Instead, we may be in a world of secular stagnation, requiring a very different mindset to break free, a world where irresponsibility is less of a vice and some traditional virtues no longer so virtuous.

Secondly, they are problems of organization, and of culture shaped by organizational imperatives. The current configuration of government places one department, the Treasury, in the centre of so much that an organizational change may be vital to resolve them and deliver the kind of public policymaking the UK needs.

The solution we propose is both radical and, in some ways, rather traditional. It is radical in that it consists of breaking up the Treasury entirely, and moving its multiple functions elsewhere. It is traditional in that it reflects plans and proposals for Treasury reform that have been circulating in more or less official forms since the 1960s, and for that matter is the way things have been done for decades in many other countries. It needs to be both these things: radical, because challenging such deeply ingrained conventional wisdom requires some sort of shock therapy; but also sufficiently achievable and familiar that it has a chance of working.

The central idea behind this proposal is to break the nexus between the government's budgetary function, its macroeconomic remit and its economic ministry.

Splitting the budgetary function from the financial and economic briefs would, we believe, encourage greater long-termism in spending decisions. Splitting off the economics ministry would make it possible to create a fully-fledged department of growth.

The most significant organizational changes required would be:

1. Move budgetary responsibilities to a **fully-fledged Office of Management and Budget**, which would become the core of a genuine Prime Minister's Department, which the UK currently lacks[9]. The Chief Secretary to the Treasury would move to this department.

[9] A point made forcefully in Harris, Josh and Rutter, Jill (2014) Centre Forward: Effective Support for the Prime Minister at the Centre of Government, Institute for Government, accessed 1 Sep 2014 at <http://www.instituteforgovernment.org.uk/publications/centre-forward>

2. Move responsibility for microeconomic policy and those aspects of financial policy that the Treasury currently controls to a **new Department of Growth**, which will include what is currently the Department for Business, Innovation and Skills.

3. Keep the remainder of tax policy, international financial policy, and relationships with organisations like the Debt Management Office in a **slimmed down finance ministry**.

Alongside these organizational changes, we would propose three significant legislative changes to foster long-termism and discourage wheeze-itis:

a) **Ending the current process of annual Budgets and Autumn Statements**, and in particular the process of bundling up dozens of micro tax-and-spend announcements with the government's high-level spending plans.

b) Replacing tax-policy tinkering with a commitment to long-term simplification and reform of the tax system. A new government could do this by setting up a commission to outline how to **implement the Mirrlees Review**, the Institute for Fiscal Studies' exhaustive review of the UK's tax system, and then limiting its tax policy to putting the commission's recommendations into action.

c) The re-establishment of a cabinet committee along the lines of the **National Economic Council**, through which the growth minister can, with prime ministerial support, enlist the help other departments (for example through their procurement and regulatory activities) in promoting growth.

None of these proposals is new to the world. The Office of Management and Budget is a time-honoured American institution, and was proposed in the UK in 1970, and then at least twice during Tony Blair's prime ministership.

Perhaps the most vivid parallel is with Australia. In 1976, Prime Minister Malcolm Fraser became "frustrated by the dogmatism of [Australia's] Treasury" and its unwillingness to provide him policy advice. (The sticking point was the Australian dollar: Fraser wanted to defend a 17% devaluation, but his officials did not.) Fraser responded first of all by appointing his own economic advisers, and then split the Treasury in two, creating a separate Department of Finance responsible for government expenditure and operations. The division seems to have worked well, and no-one has seen fit to reverse the change[10].

The UK's experiment with the Department of Economic Affairs in the 1960s proved unsuccessful, but both Michael Heseltine in the mid-1990s and Lord Mandelson in 2008-10 made a worthy go of creating a growth ministry using the DTI/BIS as a platform. And the division of roles between a finance ministry and an economic ministry is common to many countries, including Germany, Japan and France.

A sensible question to ask of any reform, especially a radical one, is whether it would cause more harm than the good it intends. In the case of these proposals, it is worth considering whether dividing the Treasury would compromise the unofficial roles of the Treasury

[10] Ayres, Philip, "The Realpolitik of Malcolm Fraser", *Quadrant*, May 2010, accessed 1 September 2014 at <https://quadrant.org.au/magazine/2010/05/the-realpolitik-of-malcolm-fraser/>; Kemp, David, "The 1976 Cabinet Papers", *Quadrant*, 1 December 2007, accessed 1 September 2014 at <https://quadrant.org.au/magazine/2007/12/the-1976-cabinet-papers/>

described in Section 3 – applying judgment and scrutiny to departmental plans, combatting the Blob, nurturing talent, and resolving disputes quickly.

In fact, it seems likely that all of the functions would work better with a divided Treasury than at present. A separate budgetary ministry residing in a Prime Minister's department would be as well placed to apply scrutiny as the Treasury, and to the extent it reports to the Prime Minister, it is more likely to scrutinize not just the financial impacts of departmental plans, but their effects on public services. The same is true of the Treasury's role in counteracting vested interests – the so-called Blob. (Indeed, it may be that in the absence of an overly powerful Treasury, departments may be more willing to stand up to vested interests themselves, rather than falling into the role of their champions in the face of Treasury opposition.) The Treasury's other two roles – as a nursery of talent, and a place where government disputes can be quickly resolved – would arguably benefit from being dispersed more widely across government: after all, the Treasury's dominance comes in part from the excellence of its people and its ability to act as final arbiter of thorny policy issues.

Dividing the Treasury would of course have political ramifications as well as administrative ones. Above all, it would greatly reduce the power of the Chancellor (depending on the functions of the rump finance ministry, he or she would be a rather junior Cabinet minister at best), and increase the power of the Prime Minister. We leave it to readers to speculate on the effect this would have on party politics, depending on who wins the 2015 election. But in the longer term, it is possible that this would make party leadership races more fierce, since the value of the second prize would diminish.

The plan would also rely on a strong minister to take on the growth brief. Michael Heseltine and Lord Mandelson were effective in their roles in part because they were big beasts in the Cabinet.

The effects of these changes would, we believe, be significant.

Departments would still be subject to serious scrutiny over their spending plans, but this would be run not by a finance ministry with a bias towards austerity, but by a department whose goal is to deliver the Prime Minister's agenda.

The twice-yearly round of hurriedly negotiated sweeties and footling tax bungs, and all the accompanying nonsense at the dispatch box and in newspapers' budget-day specials would be replaced with a longer-term negotiation of spending priorities and the implementation of a rational tax policy.

Supply-side reform and long-term economic growth would fall under the remit of a single minister, rather than being an uneasy condominium between the Treasury and BIS. (Since this department would also oversee financial regulation, it would offer a chance to roll back what many feel to be the subjugation of British industry to the City, and foster long-termism in capital markets.)

And it would create institutional space for devolution to flourish: both devolution to departments in the sense of giving them room to set priorities and deliver on them without Budget-induced tinkering, and devolution to the English regions, Scotland, Wales and Northern Ireland, whose ambitions for greater spending autonomy have in the past fallen foul of the Treasury's power.

The Treasury is, as we stated at the outset, an excellent department, staffed with some of Whitehall's most talented and dedicated officials. But the concentration of power it holds is too great, and the effects this has on the wider British state are damaging.

Whether the 2015 General Election results in a big political change, a small change, or continuity, it represents a golden opportunity to set right the imbalance of power at the centre of the British state, and to change the culture and mechanics of government for the better.

Giles Wilkes
After a decade working in financial markets and a late pivot towards policymaking with two years at the liberal think tank CentreForum, Giles spent four years as special adviser to Vince Cable at the department of Business. He now writes on government and economics.

Stian Westlake
Stian is Executive Director of Policy and Research at Nesta.

This provocation represents the views of the authors, and not those of Nesta. We would like to thank all those who spoke to us in the compilation of this report. We dedicate it, with respect, to the talented and dedicated officials of HM Treasury.