INSTITUTE FOR GOVERNMENT

Treasury 'orthodoxy'

What is it? And is it a problem for government?

Giles Wilkes | Olly Bartrum | Rhys Clyne

About this report

Liz Truss's attacks on 'Treasury orthodoxy' during her short-lived premiership in 2022 were just the latest in a long history of such criticisms levelled at the UK's finance and economics ministry. This report explores whether it is fair to say the Treasury has an orthodoxy – and if it does, whether it is a problem for government.

@instituteforgov
www.instituteforgovernment.org.uk

January 2024

Contents

Summary

Liz Truss's attacks on 'Treasury orthodoxy' during her short-lived premiership in 2022 were just the latest in a long history of such criticisms levelled at the UK's finance and economics ministry. The Treasury's rigid belief systems, and the tight control of the government's tax, spend and economic policy that result from it, are – to its critics – the reason for the ministry's failures, and damaging to the UK economy.

The Treasury reasserted its standing in the aftermath of the disastrous 'mini-budget' of September 2022, but interpretations of its 'orthodoxy' are important because it remains the most powerful department in Whitehall, with unrivalled and internationally unique control over tax, spend and economic policy. This report asks whether it is right to claim the Treasury has an orthodoxy, disentangles competing visions of what this is, and assesses whether this is causing problems for government.

Our view is that it is fair and accurate to say that the Treasury has an orthodoxy – defined here as a theory, doctrine and practice that guides its beliefs and behaviour. Its core beliefs are similar to those of other finance and economic ministries worldwide, reflecting the evolving consensus of the past several hundred years: that is, a commitment to the importance of spending control, free trade and the need to control inflation, support markets and enhance the supply side of the economy. The UK Treasury's adherence to this is best encapsulated by two lectures given by its former permanent secretary, Lord Macpherson, discussed more below.

There is good reason for this core orthodoxy. At its simplest it amounts to the need to guard against financial disorder; prioritising acting today to forestall having to take more drastic, and expensive, action tomorrow. But it has needed to evolve and grow over time, changing to reflect the economics of the age. And it is not monolithic. Treasury officials do, naturally, disagree with one another and emphasise some principles over others. There is little justification for the – often implicit, occasionally outspoken – accusation that Treasury orthodoxy is inherently anti-growth. Growing the economy has, after all, been an explicit priority of the department for decades, though one that it must balance against other objectives.

Politicians are, and have always been, in control. Treasury orthodoxy does not act as an undemocratic barrier to ministerial priorities, and ministers are quite capable of changing the orthodoxy – or of instructing the department to act in ways that go against it, as was shown in the preparation of the mini-budget. On the contrary, the Treasury is in many ways the most political department. Its first priority, above the beliefs of its officials, has consistently been to serve the interests of the chancellor, the second most powerful politician in cabinet, whose power Treasury officials wield by extension.

More nuanced criticisms of the Treasury relate to how its orthodoxy is put into practice by both civil servants and ministers. Short-termism is clearly a damaging outcome of the Treasury's public finance processes, in spite of the ostensible purpose of many of

its reforms being the very opposite. And short-term incentives are mostly the result of political cycles and considerations, rather than the actions of Treasury officials. But short-termism is nevertheless a problem that can also lead to 'static thinking'; a bias against ideas that are intended to achieve transformational change.

The charge that the Treasury adopts an overly simple analysis of departments' proposals is belied somewhat by *The Green Book*, the 2022 edition of which runs to just shy of 150 pages and provides high-level guidance on different types of costs and benefits that should be reflected in business cases. However, for some reason – maybe the Treasury staff's limited resources and their need to meet financial and, ultimately, political priorities – outside observers do detect a gap between its theory and practice. This can be compounded by the perception that the Treasury is overly sceptical of departments' proposals. Scepticism is a vital characteristic of any finance ministry but can lead to good policies being rejected, especially when combined with the Treasury's power, the lack of counterbalance from other parts of government, and the inexperience of its spending officials.

The Treasury's freedom of manoeuvre and sensitivity to the chancellor's interests also result in its orthodoxy being enacted with perverse outcomes. It can contribute to an unhelpful flow of policy tinkering – too many rabbits being pulled out of too many hats – and to inefficient micromanagement of departments' spending. On the other hand, there is a lack of reciprocal scrutiny of the Treasury, particularly on tax, exacerbated by an occasionally secretive approach to external engagement.

Underlying many of these criticisms is the question of the Treasury's power relative to and over the rest of government. In some ways, the Treasury needs to be more powerful than other departments: it is responsible for public finance and so needs the power to 'say no'. But in other ways the Treasury demonstrates a worrying imbalance of power in government that leads to bad outcomes in policy and spending. This includes it 'bouncing' departments into decisions, secrecy on tax, a lack of competence or authority in the rest of government to challenge Treasury decisions, and poor relations between the Treasury and the business department, in particular.

Most egregiously, there is an imbalance of power at the centre of government over the 'ownership' of whole-of-government strategy. A lopsided centre means the prime minister lacks the firepower, intellectual support or control of the levers to set and drive strategy, leaving the Treasury to fill the resulting vacuum. And it is this that can amplify the views and practice of its orthodoxy in problematic ways.

Our view is that rather than decrying the orthodoxy (or equivalent phrase) of its own finance ministry, a government eager to address the problems we outline here should first fix short-termism – primarily through changes to the fiscal framework and strong political direction. Part of this will involve reforming the spending review process to better align funding decisions with government priorities. Beyond this, it should also make a genuine effort to strengthen the whole centre of government, which is notoriously underpowered despite the UK being one of the most centralised states among comparable economies – to this end, the Institute for Government's Commission on the Centre of Government will report in February 2024.

Introduction

In the summer of 2022, during the battle to succeed Boris Johnson as prime minister, attacks on Her Majesty's Treasury (as it then was) became a regular feature of the political discourse. This sparked a short-lived but determined burst of articles about whether the philosophy and management of the UK's finance ministry were damaging the UK's prospects. In the words of one commentator, critics of the "Treasury orthodoxy" thought it responsible for "holding us back from a voyage into the sunlit seas of economic growth and rising living standards".[1]

While its antagonists were seldom precise in their definitions, there was some consistency in their critique. The orthodoxy was portrayed as something intrinsically anti-growth: perennially hostile to fiscal expansion, unduly sceptical of innovative ideas, obsessed with controlling spending above all. The implicit charge was that these deadening beliefs were imposed by the Treasury upon its ministers as well as other government departments. When Liz Truss rose to the premiership in September 2022, her apparent ambition was to return the UK to 2.5% yearly growth – almost twice the norm since the 2008 financial crisis – and to do so by taking on "vested interests".[2] The Treasury was prominent among those interests.[3] To restore the country's fortunes, Truss's thinking went, first the power of the Treasury must be broken. Her first move was to sack the department's permanent secretary, Sir Tom Scholar.

The market turmoil and political change that came in the wake of September 2022's mini-budget largely served to silence this debate, and in particular the attempt to chase growth through unfunded fiscal expansion. The sight of the government appearing to lose financial control made a poor backdrop for ideas about loosening the Treasury's grip. As Truss's chancellor Kwasi Kwarteng made way for Jeremy Hunt, who swiftly reimposed order with a reversal of his predecessor's expansionary measures, there were demonstrations of renewed respect for institutions such as the Office for Budget Responsibility. Some level of financial calm was restored. Before the argument was even fully aired, events themselves had settled it, brutally.

This apparent vindication of the Treasury orthodoxy has considerable weight behind it. The overheated attacks of July to September 2022 had little merit. It was always fanciful to suppose that underlying growth could be raised so sharply merely by the pursuit of tax-cut-driven fiscal expansion, at a time of rising inflation and interest rates. Moreover, the notion that the Treasury controlled its ministers in order to maintain an unwaveringly tight fiscal policy was never very convincing, as Gordon Brown's time as chancellor shows. The debt-to-GDP ratio over time (up from around 40% two decades ago to close to 100% now) is also strong counter-evidence.

But the purpose of this study is not to relitigate the arguments of mid-2022. The Treasury is, on many measures, the most consequential organisation in Whitehall. Its role in the centre of government is unavoidable; financial or economic considerations play a part in nearly every decision of note. Its influence over a wide range of policy, including as the department principally charged with macroeconomic management, is unique among international peers. The more key functions it holds, the more important it is to examine how these are balanced and constrained. The crude caricature of an anti-growth department can be easily waved aside, but there is still plenty of scope for investigation and debate: about the structures, culture and power of the Treasury, and the effects all these may have.

This topic also requires investigation because Truss and Kwarteng are far from alone in criticising the Treasury for its apparent 'orthodoxy'. The Treasury's critics are many and varied, spanning sectors and political persuasions. Some charge the department's thinking with responsibility for failures in the economy, whether low productivity, regional inequality, real wages, trade deficits or financial crises.[4] Others identify problems with the Treasury's supposed core economic beliefs; for instance, claiming a baked-in opposition to an investment-led, demand-raising, long-term approach to economic growth.[5]

Others still will point to apparent problems with the way the Treasury enacts its orthodoxy. These include criticisms of the department's evaluation of spending policy, such as an overly simple economic evaluation of other departments' proposals; a scepticism towards transformational, spend-to-save policies; and a bias towards immediate benefits over long-term consequences. Another strand of criticism levels accusations at the culture of the Treasury's workforce, arguing that problems with the department's economic doctrine are exacerbated by its officials' lack of policy expertise and its instinctive secretiveness, for example.

The purpose of this report is to present a balanced view of what Treasury orthodoxy – its theory, doctrine and practice – means, and its implications for the conduct of government. In researching it we interviewed several dozen current and former officials, advisers, ministers and other policy experts to understand and assess the merit of these accusations. We also signpost the direction in which a government eager to address criticisms of the Treasury should travel: namely strengthening the rest of the centre of government and reforming the fiscal framework and spending review process.

The report is structured in two parts, followed by our recommendations for reform:

1. **What is Treasury orthodoxy?**
    - The Treasury's economic beliefs
    - How Treasury views have changed over time and in response to ministers
    - What is missing from the orthodoxy.
2. **Is Treasury orthodoxy a problem for government?**
    - Justification for the orthodoxy
    - Criticisms of Treasury orthodoxy in practice
    - The power of the Treasury.

Part 1: What is Treasury orthodoxy?

The Treasury's image as an historic, powerful institution at the centre of government, ascribed to as much by itself as by others, has contributed to perceptions of a department consumed by 'orthodoxy'. This section examines the case for this claim.

The Treasury's economic beliefs

We identify the core tenets of Treasury orthodoxy as the views that Treasury officials and, often, ministers hold about how the economy works and, relatedly, the right policies to pursue. These variously include the effect that spending creates, the value of free markets, the design of tax policy, the right level and type of government intervention in the private sector, and the importance of strong public finances.

Some of these views are precisely expressed in the equations of the Treasury's macroeconomic model, guidance for policy appraisal and other similar sources. Others are less clearly expressed and we rely on the testimony of current and former officials, former Treasury ministers and those who have interacted with the Treasury to identify them.

Whether problems arise from this orthodoxy in *how* the Treasury puts these principles into practice is covered in Part 2 of this report; one of the recurrent themes of our research has been the ways in which the Treasury's behaviour, in practice, does not always reflect what its principles might dictate in theory.

Lord Macpherson's taxonomy

Historically, the term 'Treasury view' was mainly used to refer to a position on the role of fiscal policy in macroeconomics. It has been used for at least a century – as chancellor, Winston Churchill deployed it in 1929 – and denotes the belief that government deficit spending can do little to help raise demand in the economy, even in a severe slump. But Treasury economic views also extend into regulation, supervision of the financial sector, trade policy, taxation, and spending policy.

Their most prominent modern expression is found in a pair of speeches by the former permanent secretary to the Treasury, Lord Macpherson, delivered in 2014 and 2022.[1,2] His long tenure in that department certainly qualified him to speak with authority about the topic.

Macpherson's 2014 breakdown of the 'Treasury view' includes:

- a belief in free trade
- confidence that markets generally work
- advocacy of 'sound money', or inflation control
- scepticism about using public spending to regulate demand
- doubts about the ability of the state to raise revenues "beyond a certain point"
- the strong view that spending control matters
- a belief in the importance of the supply side
- a belief in the importance of institutions like the Bank of England and UK Statistics Authority
- the need to have rules, without being obsessed by them
- and that the quality of the people in the Treasury is of the utmost importance.

In his later lecture, delivered in the wake of the bond market turmoil in autumn 2022, Macpherson provided a richer historical account of changing economic customs in UK policy making in the past 100 years, partially rebutting the accusation of Treasury dogmatism. The impression provided by both speeches is of a Treasury holding a broadly consistent set of values that has evolved through time in response to changing circumstances and political steer.

Macpherson's account of Treasury orthodoxy is now seen as almost canonical; it was often cited without prompting in our interviews for this report. In nearly every case, former Treasury employees accepted it as a fair account, albeit not always with the same degree of approbation.

However, as we shall see, these core principles have evolved and expanded since Macpherson left the department in 2016; a point emphasised to us by those with most recent experience of the Treasury. One example they pointed us to is the importance of properly recognising the environment in developing policy. This is seen in the UK's net zero targets, and the net zero strategy published by the Treasury in 2021. Some officials claim the environment has become a guiding principle of the same order as those identified above.

Some questioned Macpherson's scepticism about the state's ability to raise taxes beyond a certain point. In his 2014 lecture he portrays this as a purely empirical point – in other words, he is not claiming that the Treasury thinks the tax burden *should* be capped at some level, just that governments struggle to raise it beyond a certain level.

Several interviewees, including former ministers, agreed that the Treasury did not have an institutional view on what the size of the state should be. But we met none who agreed with Macpherson's conclusion that the way that some tax rates had fallen over the past 40 years indicated a timeless rule that this is generally the only way they *could* go. The Treasury was more often depicted being as nervous about cutting taxes because it felt the government could seldom credibly commit to the necessary spending cuts.

The Treasury is not ideologically monolithic

No organisation is monolithic in what it thinks, and the Treasury is not an exception. Its culture is variously described as open, flat, challenging and willing to be challenged – at least within its own walls. Its economic views are open to be debated. Different teams and groups within the organisation have distinct incentives, and we heard from many interviewees how different parts of the Treasury, and individual civil servants, differ in their outlook.

But such variety is not inconsistent with there being a core, consistent set of views that provide the default framework within which the department operates. Lord Macpherson's description of the Treasury's beliefs should be understood as such – a core theory from which the Treasury and its constituent parts may sometimes deviate, rather than an absolute, unifying doctrine.

Treasury views change to reflect ministers' priorities and shifting circumstances

To have an orthodoxy need not imply a static set of beliefs unchanged by history or the views of its ministers. Indeed, there is evidence that the orthodoxy has shifted to reflect economic consensus, under successive regimes and in response to political pressures. This is most clearly observed in macroeconomics. The Treasury's intense scepticism towards macroeconomic management in the 1920s gave way to a more Keynesian view in the 1940s, which led to the monetarist revolution from 1979 onwards. One interviewee recalled how making the Bank of England independent was not a generally popular cause in the 1990s among officials used to political discretion over interest rates. This attitude changed sharply with the imposition of that independence in 1998 by the incoming Labour government.

That 1997 transition from a Conservative to a Labour government provides more examples. Political insiders from the period have described how they coaxed the Treasury into adopting a more proactive and cross-governmental role in driving the *micro*economic agenda. Institutional creations like the Enterprise and Growth Unit became more significant within the Treasury and incubated policy ideas that were then developed and implemented in other government departments, such as reform of competition policy and the creation of a longer term science funding framework. According to Sir John Kingman, "the Treasury has slowly grown a third limb – a sustained interest in microeconomics and the supply side".[3]

The New Labour era shows how the Treasury orthodoxy was able to develop while staying within the same parameters that bound previous generations of officials and politicians. Speeches and articles from the chancellor, Gordon Brown, and his adviser Ed Balls set out its broad outlines, given weight by the publication of two hefty books on macro and microeconomic management known colloquially as the gold and silver books respectively.[4,5,6] Macroeconomic stability was to be achieved through credible rules and frameworks – very much in the Treasury tradition. Supply-side reform was also in that tradition, but now involved a greater emphasis on key investments in education, infrastructure, boosting the labour supply and the environment – all newer themes. Over the New Labour period, the Treasury's expanded role reflected not just a new economic philosophy but the power dynamics within the government, which had seen Chancellor Brown granted broad oversight of the domestic agenda. This included his department being made to bear responsibility for lowering child poverty, a switch that insiders acknowledged as "slightly jarring" for some officials.

This reflects another constant motif in our interviews – that the Treasury is an intensely political department. Not only in its actions but in the way it thinks about the world, the Treasury is always highly responsive to the political strategy of its leaders, trying to respond with alacrity to their steer.

The Treasury's malleability was seen again during the next transition, this time from Labour to the Conservative-led coalition in 2010. The two years up to the election had been dominated by policies designed to bolster the economy against the headwinds unleashed by the financial crisis and to put the economy on a path to recovery. The orthodoxy as set out by Macpherson contained little guidance for what was an unprecedented situation within the lifetimes of the officials concerned. Yet within a matter of weeks, the same officials who had been putting together spending proposals and developing ideas like the Strategic Investment Fund to flesh out Labour's industrial strategy[*,7] were putting together lists of spending cuts for the new government.

This same pragmatic flexibility was seen in action in the large support package following the coronavirus crisis, with the then chancellor, Rishi Sunak, promising that he and his department would do "whatever it takes".[8,9] It should be noted that in these examples the Treasury's apparent ideological flexibility only applied to temporary interventions, and that its tough attitude towards permanent calls on the exchequer was not changed. But these examples show that whatever might be seen as the orthodoxy does not constrain officials from thinking creatively when the situation demands.

These temporary interventions should not necessarily be seen as deviations from the norm. Following the orthodoxy in normal circumstances enables expensive reactions in the extraordinary: tactical flexibility requires a strategic commitment to a framework.

* The most notable example was a highly novel £80m loan for a small steelmaker to purchase a giant press for nuclear forgings. Groom B, 'Call it the Strategic Re-election Fund', *Financial Times*, 22 March 2010, www.ft.com/content/bca9aacc-35e8-11df-aa43-00144feabdc0

But it is not just the force of dramatic circumstances or change in government that has evolved Treasury thought. Deviations from strict orthodoxy have happened at other times, at a more micro level, again under political direction. The impact of climate change on senior officials' thinking might be one example. Another is the recognition of a need to update the *Green Book* guidance to reflect the levelling up agenda, in response to concerns that appraisal guidance might "mitigate against investment in poorer parts of the UK".[10] Another example offered by an interviewee was the Help to Buy programme of mortgage support, which was not well regarded in official circles but deemed a priority by the political leadership of the coalition for how it supported the agenda of home ownership.

Some commentators, particularly in autumn 2022, gave the impression that the Treasury habitually blocks the paths of ministers with unorthodox beliefs. That is clearly not the case. Despite all the external warnings and (we conject) internal concerns,[11] the Treasury *did* begin preparing to implement the Truss government's policies, and worked fast to publish a 'growth plan' as directed.[12] The then acting permanent secretary, now second permanent secretary, Beth Russell told the Treasury Select Committee in December 2022:

> **"Ultimately, the decisions are for ministers. It is our job to make sure that we give the best advice possible on the impacts and the consequences, and I think that we both [referring to fellow acting permanent secretary Cat Little] feel that we did that on the situation in the markets, particularly around the differing market expectations of the size of the package at that event relative to what was announced."**[13]

If anything, interviewees criticised the department for being *too responsive* to the views of its ministers and the chancellor in particular – something that might apply to its response to coronavirus, and civil service–ministerial relations more generally.[14,15,16]

Justification for the orthodoxy

Most government departments are in the business of spending money, to promote objectives that have their own inherent value: health, education, the welfare of the poor, the security of the nation and so on. The Treasury is the only one tasked with providing the opposite impulse, to constrain how the resources of the government and, implicitly, of the country are expended. That this is important might seem too obvious to state, but it is valuable to set out how the task appears from the point of view of the people with this responsibility, before levelling criticism at the Treasury for how it goes about the task.

From our interviews, there emerged two major concerns driving the Treasury's orthodoxy – the vital importance and difficulty of keeping spending under control, and the challenge of driving growth.

The Treasury sees its role as guarding against economic crises – of which the UK has seen a few

One former adviser placed the core justification for the orthodoxy in the course taken by the UK economy over the past 200 years – "a history of economic screw-ups", with episodes of inflation, fiscal crises, currency devaluation and spells of damaging protectionism. A former official said the Treasury's overriding preoccupation is the risk of a very large debt and failing market confidence combining to produce a crushing interest burden, citing crises in 1976 and autumn 2022 as the archetypes of such moments. Going back further through history, there are plenty of similar crises to worry a prudent official, including devaluation crises is 1931, 1947, 1967 and 1992 and the financial crisis of 2008.

These kinds of risk are what the Treasury has become a bulwark against. Such concerns manifest themselves in Macpherson's principles: sound money, spending control and limiting interference in the economy. While they may necessitate unpopular decisions in the short term, they prevent the greater disaster of runaway inflation, debt default and economic collapse in the long term. The argument runs that it is preferable to act prudently now at a time of your choosing than risk being forced to act even more austerely later.

The Treasury view is, as a result, often portrayed largely in the negative – a set of principles intended to provide justification for *stopping* things from happening. This portrayal might gain force from how many of Macpherson's principles point directly to the instruction "don't spend": the emphasis on spending control, sound money, scepticism about demand management and interference with the free-market economy, and doubts about the ability of the state to raise revenues.

Controlling public spending is difficult

Budgets[17] and spending reviews are the key processes by which the canonical Treasury principles of sound money and spending control are brought to bear. They give the Treasury considerable power over the rest of government – a fact that lies behind much of the criticism directed at it. Before assessing the merit of these criticisms, it is important to set out why these processes are needed.

Whatever the fiscal target the government is aiming for, managing tax and public spending to control the deficit and/or debt will always be difficult. This is in part because the government does not have access to all of the information that it requires, and in part because of the incentives it faces.

At any point in time, there are a wide range of competing claims on this public money, making it necessary to have a budget process in place that forces government tax and spending decisions into a 'single decision moment'. Countries worldwide adopt a number of approaches to do this. The UK's method is to use a 'delegation' model, which gives the finance minister a high degree of control over decisions relating to public spending and taxation.

The requirements of sound money and sustainability imply a limit to public borrowing (since 1998 usually expressed in the fiscal rules),[18] which (given the government's tax plans) necessitates a limit to overall public spending. Having an individual, organisation or process responsible for controlling spending within that limit, with the necessary tools, is a crucial function in all modern advanced economies.

Several factors render the task of managing spending to a limit very difficult; past evidence suggests they stack the odds against the organisation trying to exercise control. Since the collapse of the Bretton Woods system in the 1970s, advanced economies have exhibited a 'deficit bias', which means tending to add more to the stock of debt than is optimal. These factors include:[19]

- **Information problems, particularly related to future growth.** A government is often over-optimistic about the future growth prospects of a country and holds similarly buoyant hopes for tax receipts. This may arise either from a natural optimism bias or more politically motivated wishful thinking, intentionally altering forecasts to create an illusion of greater fiscal space. This latter problem in particular is one of the concerns that motivated proposals for the UK's Office for Budget Responsibility in the late 2000s, intended to address overly rosy internal forecasts for tax revenues from the Treasury.

- **Political short-termism.** The electoral cycle means that politicians are incentivised to prioritise short-term outcomes more than the long term. Ministers' focus will be skewed towards doing what they can do in the run-up to the next election (typically less than five years into the future) to convince the public to re-elect them. That will often mean running up debt to deliver short-term economic benefit, with the costs lying beyond the next election. This is linked to another key factor:

- **Inflationary bias.** Over the years governments have exhibited a tendency to pursue inflationary policies (such as out-of-control public spending) that generate short-term popularity, with the costs – higher interest rates, lower public spending – tending to arise over a longer timeframe. They also have little incentive to store up fiscal space for the use of a potential future rival.

- **The common pool problem.** There is a tendency for individuals to exploit a limited, shared resource to capture benefits that would otherwise go to their competitors. This is seen in all walks of life.[*] In the context of public finances, it results from having policy decisions collectively made by a cabinet of ministers who are responsible for distinct briefs and, therefore, distinct constituencies of people. These individual spending ministers will fail to internalise fully the costs of additional spending, which falls broadly on *all* the departments with claims on the pool of funds (and the taxpayers that provide these funds), rather than just the specific group of people on whose behalf they are advocating.

* The classic example is fisheries, which, without some mechanism in place to prevent exploitation, will see stocks run down as fishermen compete with one another to catch the current fish but, in the words of one, have no long-term "incentive to conserve the fishery, because any fish I leave is just going to be picked by the next guy". Quoted in Tierney J, 'A Tale of Two Fisheries', *The New York Times Magazine*, 27 August 2000.

The common pool problem merits focus because it relates directly to the method used by the chancellor and Treasury to control public spending. In particular, it is worth considering what would happen if there were no centralised budgeting process. Although speculative, there have been models developed by political economists that purport to show that, if spending ministers were left to determine their own budgets, they will not consider the full tax burden and consequently select spending levels larger than collectively optimal for the government in power.[20,21,22]

Without an institutional mechanism that forces the spenders to consider the tax burden, and how the total of spending increases from all departments increases it, both spending and deficits will be higher than each individual would like.[23] This is similar to a 'tragedy of the commons' – in which a fisherman does not want a fishery's stocks to become completely depleted, yet in the absence of a mechanism to force agreement on a sustainable arrangement, overfishes anyway so that he does not lose out to competitors. These theories enjoy empirical support. For example, there is some evidence that the greater the number of spending ministers in the cabinet the larger a country's deficit is.[24]

The Treasury view is intended to promote growth

Treasury thinking sees its concern with frugality and markets as an important factor in generating the conditions for growth in the long term. In the light of criticisms from Liz Truss and others who apparently saw the Treasury as standing in the way of their pro-growth plans, this point is worth emphasising. The Treasury orthodoxy is not anti-growth, in the sense of promoting some other value, such as stable public finances, above and beyond the health of the economy. Instead, in the words of the *Fundamental Expenditure Review* from 1994, the aim of the department is "to promote rising prosperity based on sustained economic growth". While the objectives given to the department will have changed over the years – the latest iteration in the 2021/22 outcome delivery plan specifies "strong employment and increasing productivity across all regions and nations of the UK" – this core emphasis on economic growth has remained.

The Treasury orthodoxy sees sustainable public finances and sound money as in a long-term, symbiotic relationship with promoting economic growth. For decades, the Treasury in its role as the UK's leading economic ministry has placed a heavy emphasis on the importance of the supply side of the economy. This does not mean that, in practice, the Treasury always hits its target, correctly balancing the risk of underinvesting against fiscal sustainability, for example. But failure to achieve growth is not proof that the Treasury has not been trying to achieve it (just as a large rise in the national debt does not imply that the Treasury has no interest in debt control).

Many of our interviewees cited growth-targeted reforms that have been the fruit of the Treasury's principles. Higher science budgets, the promotion of free trade, tax and welfare reforms to boost incentives to work; all are proactive agendas promoted by the Treasury, under various political leaders. And although the Treasury's free-market bias is normally associated with efforts to stop ad hoc interventions, this bias is also what has motivated efforts to drive more competition into the economy, through structural reforms such as modernised competition authorities. Even its role stopping other departments getting their way, such as through new regulations, can be presented as part of a growth mindset. As the former second permanent secretary to the Treasury Sir John Kingman argued in a 2016 lecture, stopping things from happening can be consistent with being pro-economic growth – if the things in question are bad for growth.[25] He gave the example of the Treasury resisting pressure for the government to bail out unproductive companies.

Other consequences of its free-market bias include the promotion of privatisation and accompanying regulatory settlements; a consistent bias in favour of more housing supply and higher immigration; previous advocacy of the value of the European single market;[*] and the development of tax credits under Gordon Brown to improve work incentives.

* The Treasury's robustly pro-Remain stance is perhaps a key data point here.

Part 2: Is Treasury orthodoxy a problem for government?

Few of the dozens of interviewees disputed the depiction of the core set of Treasury views set out above. Most could see how such principles were appropriate – so long as they are balanced against the other considerations a government must heed. But this still left room for considerable discussion of their merits and disadvantages, how malleable the Treasury has been through time – and what is missing. Its critics claim it is a barrier to better government.

What is missing from the orthodoxy

One common complaint about Treasury orthodoxy as defined by Lord Macpherson's words is not about any of its positive principles but, rather, what is missing.

Some critics question whether the Treasury's view is really what is needed for driving improved growth – after all, it has been the premier economic ministry throughout a long period of economic underperformance. There is a vibrant debate, unlikely ever to be settled, about the culpability of government policy for this stagnation. It goes beyond the scope of this paper to weigh in on arguments about whether a laissez faire, minimalist approach to economic growth is sufficient.

But it is fair to observe that the core Macpherson principles would need further modernisation to reflect more recent, more interventionist approaches to growth and to the kind of economy the country needs. These are originating from across the political spectrum, be that Labour with its 'securonomics' and explicit industrial policy, or the current chancellor, Jeremy Hunt, and his championing of specific growth sectors. Politicians of all stripes often talk about technologies of the future with extra promise, sectors or regions that are lagging and need more support, and other specific, proactive interventions needed to kick-start growth.[1] The Macpherson principles are strong enough to take the Treasury a certain distance, but not sufficient for a more muscular and choice-laden role if that is what is demanded.

Then there are other values that core Treasury principles are less suited to. Economic policy actions are not solely directed at raising growth. Workplace rights need to be balanced against their cost or inconvenience to business owners. Regulatory interventions may be justified because of their effect on important political or social goals, such as the reduction of inequality or the creation of an economy that facilitates social mobility. National security is a consideration increasingly present in government economic policy making, through new powers like the National Security and Investment Bill.

However, government is about balancing competing interests, with the trade-offs settled through the process of interdepartmental argument, collective agreement, prime ministerial direction, bargaining or any number of other informal mechanisms. The Treasury recognises this, setting out in *The Green Book* a variety of dimensions through which business cases should be made for policy, including the suitably adaptable strategic case. It is not a condemnation of Treasury thinking that it fails to instantiate some kind of algorithm that perfectly incorporates every possible political angle. The Treasury is meant to fight its corner for public finance and growth, just as Defra is meant to fight for the environment and the MoD for national security. We encountered multiple criticisms of the Treasury through our interviews. As well as reflecting differences of opinion about the orthodoxy as a theory, they often reflected criticism of the frameworks and procedures the Treasury used to put its beliefs into action, the culture of its workforce, and the sheer imbalance of power that the finance ministry exhibited in its relations with the rest of government.

It makes sense to begin with the most basic and inevitable criticism of the Treasury: complaints about its role as the finance ministry and therefore very often the entity denying other departments what they want. We contextualise this regular complaint by comparing the UK's approach to public finance to other models worldwide.

Being 'public enemy number one for the rest of government' is a feature of the system, not a bug

HM Treasury is the sole 'guardian' in the UK central government's budget process, acting to contain the impulses of the other government departments, agencies and other public bodies and the interests they represent. Inevitably, this frustrates the spenders, who can often be found criticising "the dead hand of the Treasury", and this type of criticism was heard continuously during the austerity years of 2010–16. But it also thwarts the tax cutters too, and was a feature of commentary around the time of Liz Truss's premiership and the 'mini-budget', with the former prime minister herself attacking the Treasury for obsessing over the "abacus economics of making sure that tax and spend add up".[2]

In fact, such criticism is nothing new:

> **"by exercising the power of the purse, [the Treasury] claims a voice in all decisions of administrative authority and policy. I think that much delay and many doubtful resolutions have been the result of the peculiar position which, through many generations, the Treasury has occupied."**
> *– The Marquess of Salisbury, former prime minister, speaking in 1900, quoted in Nicholas Macpherson's speech, 'The Origins of Treasury Control'.*

However, there is little force to such complaints if the critics do not see the whole problem. While it is easy for a spending department to point to a worthwhile policy being blocked at the behest of the Treasury, for this to be proof of bad policy making in the round they would have to identify what other spending they would cut, or convincingly identify how to raise additional revenue. That the losers from tough decisions will tend to complain and point to damage wrought by a loss of some specific expenditure is not sufficient evidence that the Treasury is badly motivated or pursuing the wrong ends. Indeed, an absence of any such complaints would raise questions about whether the Treasury was doing its job properly.

In many conversations, interviewees – even outsiders – would acknowledge the difficulty of the task that the Treasury faces in having to balance all of the competing claims on a limited pot of money. It is not easy deciding, for example, whether investing in a railway brings greater value to society than upgrading hospital infrastructure. One even challenged the premise of our project, saying the "real story is departments with begging bowls and schemes… why ask about Treasury orthodoxy rather than the whole of Whitehall".

The UK's approach is not the only path

However, it is fair to question whether the institutional structure the Treasury inhabits is the right one.

Certainly, the common pool problem of government budgets requires a mechanism to ensure the budgeting takes full account of the total burden on the taxpayer. There needs to be institutions and processes to help government internalise competing incentives. The UK system rests on a strong chancellor and Treasury with near-unilateral power to set the overall spending envelope, expenditure limits for departments, and strong influence over how those expenditure limits are allocated. It is the 'delegation' model, because the power is delegated to the finance minister. But there are other systems that differ in several respects:

- **Coalition government contracts.** Rather than a single empowered individual, some countries operate through collective agreement to stick to a set of pre-determined fiscal aggregates. This typically happens in coalition governments, where a cabinet of ministers with diverse ideological standpoints and party loyalties will be unlikely to delegate unconstrained power to the finance minister. Commitments set out in a coalition agreement are then the responsibility of the finance minister to enforce, often supported by legislative committees.

- **A bigger role for parliament.** While there is the formal 'estimates' process by which parliament approves expenditure, in practice the House of Commons has little influence on public spending decisions in the UK.[3] The UK parliament's capacity in this regard has been labelled as "extremely limited", with the author quoting the Procedure Committee as describing the House's power over expenditure as "if not a constitutional myth, very close to one".[4] In an "index of legislative budget institutions", the UK ranks in the bottom quartile of a sample of 36 countries (alongside other countries with a Westminster system of governance). Other countries generally have parliaments with powerful budget committees – we provide the example of the Netherlands in Box 1.

Box 1 Budget negotiations in the Netherlands

While the UK is at one 'extreme' in terms of endowing its finance minister with a large degree of power, the Netherlands could be thought of as being at the other end of that spectrum when it comes to the annual budgeting process – described as the "ideal case" of the contracting approach outlined above.[5]

When a new (typically coalition) government is elected, the partners agree to spending targets that the government will stick to for its entire term before deciding which party's politician will receive which ministry. These limits – set out in the Dutch medium term expenditure framework (MTEF) – consist of an aggregate ceiling for central government as well as 13 individual ceilings for each spending department, and two special ones for social security and health spending.[6] Every increase in spending must be offset by a decrease under the same ceiling. The main difference between this process and the UK spending review process is that the Ministry of Finance and Bureau of Economic Analysis are contributors to the process, while the prime minister's office will co-ordinate it; whereas the UK spending review process is led and dominated by the Treasury.

A more significant difference to the UK, though, is how things play out in the annual budget process after medium-term limits have been set. While coalition agreements will tend to set out specific conditions under which the agreed four-year ceilings can be deviated from (typically in response to adverse shocks), individual ministers are generally responsible for annual changes in their budget. There is a strong emphasis on sticking to the agreed ceilings, and any spending increase (due to new policy or indeed changes in information about costs or demand of services) must be matched by an equivalent spending decrease within the department.

The Ministry of Finance generally does not have many rights during the annual budget process and tends not to get involved in the decisions of individual spending departments. Only if financing changes within an individual spending department's budget are not feasible or the scale of the problem exceeds the responsibility of a given finance ministry does the Ministry of Finance become involved. Such 'inter-ministerial reallocation packages' used to be exceptional, though they have become more common in recent years. The finance ministry also has the power to propose the topics for cross-departmental reviews of policy (called spending reviews)[*] in order to identify savings to solve budgetary problems and/or policy improvements.

[*] This is somewhat confusing as Dutch spending reviews are not the same as spending reviews in the UK. In the Netherlands, it refers to a process of cross-departmental working groups continuously reviewing specific policy topics and proposing a set of reforms, which may or may not be implemented by the government. Spending reviews in the UK tend to be a combination of this review of policy, as well as setting medium-term budgets for departments (which, as above, happens separately as part of government formation in the Netherlands). For more information on the Dutch process see www.pempal.org/sites/pempal/files/knowledge_product/2023-01-06/pempal_bcop_netherlands.pdf

Parliamentary committees are designed to monitor whether parties are sticking to their contracts. The chair of a given committee usually is from a different party than the minister's party, each committee monitors only one ministry, and committees can compel ministry officials to testify. These powers allow committees to monitor what ministries are doing and whether they are sticking to the fiscal contract.

The UK's set-up for managing public finances – with power delegated to the finance minister – is therefore not the only one. However, given the broader political system in which the Treasury operates, it is perhaps the most obvious way of going about things. Reforming how the UK approaches fiscal policy is therefore not something that can be done through reforms to the Treasury alone, but the whole system.

Some changes, if desirable, are possible. To alter the balance of power between legislature and executive, for example, would likely require substantial changes to the standing orders that govern how government 'gets and spends' money and the conventions surrounding them. This includes the fundamental principle that only the government, not parliament, can make proposals for spending or taxation (the financial initiative of the Crown).[7] Enhancing the role of parliament in providing scrutiny may require less significant reforms: establishing a Parliamentary Budget Office along the lines of the US Congressional Budget Office is a common proposal, as is establishing a standalone Budget Committee to provide ex-ante scrutiny of government spending proposals.

Other changes – such as moving to the Dutch-style system of establishing a binding contract for expenditure ceilings through collective agreement at the beginning of each government's term (see Box 1) – are instructive, though might be less feasible in the UK context. Such an approach is a function of the wider political system and thus not easy to 'import' into the UK context. Dutch elections typically produce coalition governments. In this situation the delegation model of empowering the finance minister is less likely to work, because one or more opposition parties are part of the cabinet and therefore unwilling to empower a finance minister of a different party. For converse reasons, agreements made at the start of a government are less likely to bind in the UK's (mostly) single party system: there is no effective threat against reneging on those initial targets.[8]

This is not to say, though, that the Treasury and chancellor should be as powerful as they are. It is still possible to stay broadly within the 'delegation' model but give other parts of the centre of government such as No.10 and the Cabinet Office a greater share of that delegated power.[*]

* This is another topic on which the forthcoming report from the Institute for Government's Commission on the Centre of Government will have much to say.

Concerns about how the Treasury operates in practice

Quite beyond the inevitable complaints about thwarted spending bids, we found through our interviews a range of other legitimate concerns about how the Treasury operates, which blend disagreement about its priorities with complaints about how it puts them into practice. We have attempted to group them into the following categories:

- **Simplicity:** a tendency to evaluate others' proposals using an overly simplistic approach to economics, which brings with it a persistent **scepticism** towards novel ideas and thereby discourages others from producing ambitious proposals

- **Static thinking:** a bias against ideas that are intended to achieve transformational change, related to insufficient link between inputs, outputs and outcomes

- **Short-termism:** a tendency in financial decisions towards policies that prioritise immediate benefits over longer-term considerations

- **Tinkering and micromanagement:** the Treasury's freedom of manoeuvre and sensitivity to politicians' needs can generate a constant flow of announcements and contribute to inefficient micromanagement of departments' spending

- **Lack of reciprocal scrutiny**, particularly on tax; leading to a tax system that is overly complicated and inefficient, exacerbated by a culture of **secretiveness**; that, while open to debate internally, the department is overly secretive to others

- **Inexperience and arrogance:** a view that relatively junior, but powerful, Treasury officials have insufficient experience of the policy area over which they are making decisions. Relatedly, Treasury officials can be perceived as arrogant in their dealings with colleagues across Whitehall.

None of these tendencies are apparent from a straightforward reading of key guidance documents used to guide ex-ante evaluation, analysis or appraisal of policy. They follow instead from conversations with former and current officials and politicians, and are not definitive. However, they are included here because they appear to reflect a broad range of people's experience of how the Treasury operates, and may help identify ways in which it could be better.

Simplicity and scepticism

When asked to consider the Macpherson principles in abstract, a number of interviewees remarked on the relatively simple model of the economy they reflect. This was seen by many as being manifested in Treasury decisions.

One former official described "a culture of young people drawing straight lines on graphs" and analyses that treat everyone like "homo economicus". A phrase often heard was "Econ 101" – referring to the first, simplified introduction to economics found in undergraduate courses. In caricature, this imagines that markets allocate resources perfectly and sees the economy as an interaction between rational agents.

In this depiction, interventions are allowed only in circumstances of certain, clearly identifiable market failures, with a focus on economic considerations above all. Examples might include the need for the state to provide vital public goods such as education and infrastructure or policing monopolistic behaviour, which the Treasury clearly accepts.

Critics see this as a too-simplistic conception of how the world works for complex policy areas such as industrial development or the regulation of the financial sector. For example, an interviewee from another department claimed that the Treasury deployed a rule of thumb that regional spending has no effective multiplier – that is, any activity it brings about simply displaces activity that might have occurred elsewhere – despite knowing that the academic evidence contradicts this. Others say the Treasury method can fail to capture important, non-monetary values (like social cohesion or security) that may be the very object of the policy under discussion.

Related to this concern is a persistent complaint about the Treasury's general scepticism towards novel or ambitious ideas. Proposals to improve radically a desired policy goal are hard to defend when the economy is assumed to be allocating resources perfectly. Layer upon this a bleakly realistic view of human frailties and biases, and it is easy to see how spending ideas are likely to be discounted. We heard regularly that 'invest to save' ideas, even if the savings arise, are hard to bank for the Treasury and therefore discounted.* Some interviewees suggested the Treasury adopted this posture of scepticism because it was convenient to – it takes much less effort to cast doubt on an idea than to put in the work to make it feasible.

Defenders of the Treasury could deploy several rebuttals. First, guidelines such as found in *The Green Book* for appraisal recognise considerable complexity in how the economy works in practice. For example, when it comes to non-economic considerations, it says:

> **"The appraisal of social value... is based on the principles and ideas of welfare economics and concerns overall social welfare efficiency, not simply economic market efficiency. Social or public value therefore includes all significant costs and benefits that affect the welfare and wellbeing of the population, not just market effects. For example, environmental, cultural, health, social care, justice and security effects are included."** – *The Green Book*, 2.3.

Second, it is right to acknowledge that over the years there are plenty of complex policy proposals that *do* make it through the Treasury process – particularly those that enjoy clear political support and strategic rationale. The development of mayoral combined authorities is one that was suggested to us, initially helped along by the sponsorship of the then chancellor, George Osborne.

* This is less of a problem for tax and welfare policies, where future savings can be built into individual policy costings, which are subjected to independent scrutiny by the OBR. The extent of Treasury influence over other invest-to-save policies is also a function of how much authority it delegated to spending departments, discussed further below.

Third, we found that even critics of the Treasury would concede that some scepticism is a natural and understandable characteristic of any finance department. It needs rules for rejecting ideas in order to fit proposals into a finite envelope. Most interviewees saw merit in there being a high bar for ideas to be accepted: "wheezes that can't be evidenced" will ultimately fail anyway, and better they fail before they cost too much.

A fourth, partial defence is that the Treasury does not have an inherent belief system set against complex or difficult ideas, but constraints of time and resources muffle its better instincts. There are only a couple of hundred officials in the Treasury tasked with evaluating hundreds of billions of pounds in annual spending. Although described as "bright and capable of handling a very high throughput", the press of work must produce a clear incentive to reduce complex ideas to simple essentials, running the risk that the analysis does not benefit from sufficient time to evaluate all its implications. Another reason might be insufficient quality in spending departments' proposals – which may well be related to a lack of economic heft outside the Treasury, as mentioned above. If departments are falling short of the standards of *Green Book* advice in what they submit to the Treasury, the latter's hands will sometimes be tied.

Most would agree that sceptical challenge is a valuable feature of how Whitehall works, but it can wear down ministers and their policy teams and lead to lower risk appetite in the government as a whole. However, at least part of the blame must lie with a lack of counterbalance to the Treasury's scepticism where appetite for greater risk may be beneficial. It is a matter of power, in other words, which we discuss below.

Static thinking and its effect on regional policy

A key criticism of '101ism' is that it does not assess adequately how the economy might be changed by an intervention. An oft-heard instance of this complaint comes from advocates for cuts in taxation, who often argue that Treasury analysis fails to account for the stimulative effect of tax cuts. The former prime minister Liz Truss, in the Conservative Party leadership election, her premiership and indeed subsequently, has made this charge repeatedly.[*]

Rightly, neither the Treasury nor the Office for Budget Responsibility accept this charge. There is a very well-established 'indirect effects' process for analysing the *dynamic* effects of tax and welfare policies.[**] The OBR, with input from the Treasury, HMRC and DWP, incorporates the 'behavioural' effects of any tax changes, such as the extent to which they (dis)incentivise work.[9] The OBR has recently published work explaining its dynamic approach as well.[***]

* "Ms Truss told the audience of Tory members: 'This whole language of "unfunded" tax cuts implies the static model, the so-called abacus economics that the Treasury orthodoxy has promoted for years'", Lynch D, 'Truss attacks 'Treasury Orthodoxy' as she promotes tax-cutting leadership pitch', *The Standard*, 23 August 2022, www.standard.co.uk/news/politics/rishi-sunak-liz-truss-treasury-nadhim-zahawi-margaret-thatcher-b1020474.html

** There is also a process for analysing the economic impact of spending policies, though this is less detailed and tends to rely on a couple of high-level 'multipliers' and bespoke analysis of a handful of policies.

*** "The OBR never presents purely static estimates of the fiscal impact of individual policy measures, except where it has considered dynamic effects and deemed them to be so small as to be negligible", Staff at the OBR, 'Dynamic scoring of policy measures in OBR forecasts', Office for Budget Responsibility, 9 November 2023, https://articles.obr.uk/dynamic-scoring-of-policy-measures-in-obr-forecasts/index.html

Another area where the charge of static thinking is made is the topic of regional economic inequality. The charge is as follows: an analysis will evaluate places with high levels of current activity and wealth as being more deserving of investment than poor, struggling and badly connected places, thanks to the higher returns that naturally accrue in wealthier places.[*] So, for example, a programme of transport investment that cuts travel times in already prosperous areas will score more highly, because the workers affected have higher salaries. The Greater Manchester mayor – and former Treasury minister – Andy Burnham blamed cost-benefit analyses of this nature for underinvestment outside of the greater south-east, writing:

> **"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."**[10]

Professor Diane Coyle, of the Bennett Institute, has written in depth about Treasury business case appraisal and its effect on the regional balance of investment, as well as the need for analysis to consider wider benefits and costs of a proposal.[11] And while *Green Book* methodology has been updated to reflect such considerations, Coyle argues that with current market prices still central to analysis, the bias towards favouring places that are already doing well will make it harder to rebalance investments to lagging regions. She and others also think that Treasury models are simply not able to simulate the dynamic, complex systems, with positive feedback loops, that may be the object for economic intervention. This is a problem that might lead to industrial policies being undervalued, or large complex changes such as investment in city infrastructure.

Some government insiders agree, saying that the Treasury has a particular blind spot when it comes to market failures related to a lack of the right co-ordination mechanisms in an economy. These might occur when economic factors are mutually dependent – for example, when investment in capital, skills, infrastructure and technology are all needed in combination for an industrial cluster to succeed. Resolving such failures is part of what industrial or regional policy is for.

Defenders of the Treasury say these criticisms are contradicted in black and white (or green and white?) in *The Green Book*, which devotes hundreds of words to the importance – but also the difficulty – of evaluating transformational change. It was even updated after a 2020 review, which explicitly rejected the idea that simply ranking proposals in order of their benefit-to-cost ratios (BCRs) is the right way to decide upon projects:

> **"A single and often spuriously accurate BCR, developed without reference to a strategic case, does not give a comprehensive view of the social value offered by an intervention and should never be the sole defining factor in appraising options."**[12]

* This is sometimes termed the 'Matthew effect', for the quote from the Gospel: "For to every one who has will more be given."

Moreover, the review argued that many business cases are submitted without a good strategic case – either because departments and public bodies lack the capacity to do so or simply believe the chance of success is too low to merit the effort. This ties the Treasury's hands.

Official Treasury thinking clearly recognises the possibility of transformational change, and its evaluation methods do not always stop at first-round costs and benefits. But officials emphasise that while it is easy to make an outline 'transformational' argument, it is also right to be sceptical that the benefits will necessarily come about. It demands a high bar for analysis. They warn against giving a spurious impression of accuracy and advise that "transformational effects are rare and only seen when projects and programmes are part of a coherent strategic portfolio designed to deliver such changes".

Only so much can be proven by parsing the text of *The Green Book*. Those designing policy are as likely to be influenced by their expectations of how others receive their suggestions as any text. The majority of those we spoke to from outside the Treasury felt that bids would be assessed on the merit of the economic case, or the return expected on the marginal pound spent – the blunt ranking of projects by their BCRs that the Treasury itself recognises as being far from sufficient.

Who is right? In our view, all sides recognise that static thinking is a poor way of evaluating economic proposals, and know that ambitious ideas also demand a high bar that departments do not always clear. The problem is less about Treasury scepticism and more indicative of a 'co-ordination game' gone wrong. Bidders expect their business cases to be evaluated in a simple, static way, and therefore emphasise the economic case relative to strategic considerations. The Treasury judges the proposals accordingly. Despite the Treasury making clear its desire for departments to argue more strategically, those being asked to are not confident that this is a serious ask. Both sides have work to do to demonstrate a commitment to serious evaluation of these transformative projects whose return is more difficult to prove. If correct, the problem is not that the Treasury rejects radical proposals as a point of principle, so much as a combination of other factors: lack of enduring political commitment, finite administrative resource on all sides, lack of mutual trust and the old chestnut of Whitehall not acting in a joined-up way.

Short-term thinking and the role of the financial function

A persistent claim is that Treasury analysis and behaviour is too short-term in nature, prioritising immediate savings or easy wins in the next few years over potentially beneficial longer term ideas.

The charge of short-termism overlaps with the view that the Treasury supports the dominance of the finance side over all else. We met no one who disagreed with Macpherson's proposition that spending control matters, but this was often accompanied with concern that the financial imperative outweighed other agendas and was the core cause of short-termism. Financial targets are generally for the next one to five years. Proposals that pay back over a longer period will have a lesser effect on incentives. One interviewee referred to a "profound time preference for short term over long term". Whether accurate or not, the perception of this preference affects incentives throughout the system. A National Audit Office report into the 2015 spending review found that most finance directors believed the Treasury was only interested in impacts that were felt over the spending review period of just 3–4 years.[13] George Dibb, the head of the Centre for Economic Justice at the IPPR, has written that "the phrase 'Treasury brain' is thrown around in Twitter discourse to describe the Treasury's observed tendency to always prefer short-term financial savings to long-term non-financial returns".[14]

Examples of short-term thinking offered in our conversations include the recent reprofiling of spending on HS2 (before the government's subsequent announcements on the project's northern leg), the time limit put on the 2023 announcement of 100% capital allowances, and the closure of the Rough storage facility for natural gas several years ago (this was in part a commercial decision, however). Going further back, Sir John Kingman in his 2016 lecture recalls how the Treasury "strenuously opposed" London's Jubilee Line when it was proposed in the 1990s, and that in hindsight this was surely wrong, given the transformation wrought on London's Docklands as a result. It is evidence of the problem that the authors of this report have had to continually redraft the references to HS2, on the basis of the government's continuing policy manoeuvres here.

The portrayal of a Treasury fixated on the short term is by no means unanimous. Its concern with the public debt ("burdening our grandchildren") is itself ostensibly the epitome of long-term thinking.[*] Other counter examples include the considerable work the department has produced about the longer term outlook and pressures over many decades. Another is the separation of capital from resource spending in the public accounts: a policy innovation intended to support the long term as capital spending by definition repays over a long period of time. This was a reform championed by the Treasury – albeit relying on future capital budgets being kept secure from future short-term pressures. Episodes such as the transfer of billions of funds out of capital and into resource spending (following the 2015 spending review) undermine the value of the separation.

A more recent example of longer term thinking is the NHS Long Term Workforce Plan, which in principle commits the government to training staff to meet needs all the way out to 2036/37.[15] As Max Warner and Ben Zaranko have observed, this commits budgets for a decade ahead.[16] Again, for this to be a strong example the Treasury now needs to take the sustained actions necessary to enact it.

* Setting aside the observation that our grandchildren inherit assets and liabilities too, so their interests are not unambiguously on the side of lower debt.

We often heard in the course of our interviews that the problem lies with departments as well as the Treasury. For example, the 2015 National Audit Office report found that just 10% (47 of 458) of capital bids from departments indicated a need for capital expenditure beyond the years 2020–21. Most submissions were focused on what might be achieved within the parliamentary term (though submissions, of course, will reflect what departments think HMT will fund, not necessarily a full reflection of what departments will want to implement).

Another possible mitigating factor is the sheer press of events that have hit the government in recent years, from the financial crash and ensuing fiscal crisis through the Covid pandemic to the energy price spike of 2022. It is easier to take a longer view when the skies are clear.

A short-term focus is definitely a problem for UK policy making. Despite being quite aware of it, and trying to address the deeper reasons responsible, it is unrealistic to avoid allotting some blame to the Treasury with its preoccupation with making the numbers add up. However, on the matter of short-termism it is more important than ever to distinguish official Treasury instincts from the myopic tendencies that can be brought about by the political cycle. In the words of one interviewee, short-termism is undoubtedly "a political preference problem". Politicians demand policies that show their value in time for the next election. Some of this comes down to the very nature of the challenges facing the government; as one interviewee put it, the dilemma might be caricatured as "solve urgent issues in the public services now or invest in R&D where we may (or may not) see the benefits in 10 or 20 years".

This drives the demand for budgets at such short intervals, and policy announcements with an impact in the next day's newspapers rather than the long term. Fiscal rules can also create incentives biased towards the short term, and are ultimately the chancellor's responsibility, not officials'.

So, while there are steps that the Treasury could take to improve the extent to which the frameworks for public spending enable a longer term view, it could not solve the problem on its own. The necessary decisions require political support. Official-led changes cannot override the fundamental short-term incentives at play.

Micromanagement and centralisation

An enduring complaint about the Treasury has been that its tight control over spending has stymied sensible attempts to devolve power and responsibility[17] – as Kenneth Clarke said: "I never imagined that, in the end, my people were going to second guess all the policy and delivery of policy in individual departments." One interviewee who had worked elsewhere in government before joining the Treasury reported how surprised he was at the "minutiae" that the spending team would get involved in, such as public appointments and project decisions above a fairly low approval point. It may be that the ultimate reason for this involvement was a political direction, however.

Whatever its genesis, such tight control risks robbing departments and other bodies of the ability to act strategically and can lead to accounting officers or indeed spending ministers passing the buck – "this is the Treasury's call" – rather than owning the decision. This is where countries like the Netherlands – whose spending ministries have much greater responsibility for their financial management (described above) – take more ownership of the tough decisions that must be made.

The extent to which the Treasury involves itself with how departments spend their allocated budgets is a decision for it to make, though one that relies on the political support of the chancellor. In cases where departments must secure sign-off for lower levels of spend – as was reportedly the case for DLUHC's capital spending in 2023, for instance[18] – the Treasury and the chancellor are making a conscious decision about the level of scrutiny over spending they believe appropriate. Critics of the Treasury's micromanagement are right that greater autonomy for departments over spending their budgets would give them more room for strategic manoeuvre.

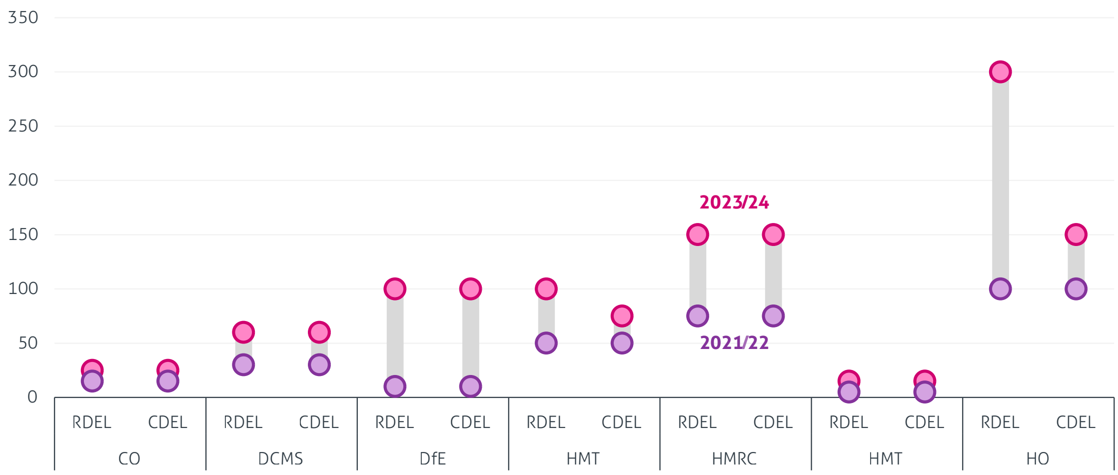
Current Treasury officials were keen to point out that, at least for some departments, the Treasury has been increasing delegated authority limits (DALs) – the amount departments can spend within their allocated budgets before having to ask for the Treasury's 'consent'[19] – over recent years. This follows what others described to us as a tightening of control during the Brexit and Covid years. The Treasury is also working to enhance the Finance Function (led by the second permanent secretary, Cat Little) across government, and rewards those departments with good financial performance with greater autonomy:

> **"Every year, we undertake an assessment of the quality of financial management within departments, and those departments that we assess as having higher levels of financial quality and expertise have higher delegated authorities from the Treasury. Every year, we review those at the bottom of the league table and those at the top, and we make a commensurate and proportionate judgment on how much autonomy to provide them."**[*] – *Cat Little, second permanent secretary to the Treasury and head of the Government Finance Function*[20]

The Treasury provided us with a limited amount of data on how DALs have changed over the past few years to illustrate its point that the department's grip is loosening (Figure 1). It is encouraging that controls are loosening in some places, but we cannot say that this is indicative of a general trend because we only have the data for a few departments over a relatively short period of time and know of notable exceptions, such as the DLUHC example cited above.

* Cat Little also noted in this hearing that, somewhat reassuringly, the Treasury itself was in the top quartile of the league table.

Figure 1 **Increases in delegated authority limits (DALs) across a subset of departments, 2021–22 to 2023–24**



Source: Institute for Government analysis of HM Treasury, email to the authors, 21 November 2023.

A related but separate charge is that the Treasury has a centralising mindset that will instinctively opt for central government control over greater devolution, apparently rooted in a self-reinforcing lack of trust in lower levels of government. But interviewees often reflected that opposition to further devolution came more frequently from departments, who might lose control of a given policy area, than from the Treasury. The Department for Education was cited as maintaining a controlling instinct, despite greater flexibility from the Treasury itself.

The Treasury's responsiveness to its chancellor also means that its attitude towards devolution reflects that of its political leaders. The Brown Treasury helped to push the creation of the regional development authorities, which with their single pots of funding had an inherently more devolved, less micro-managed spending structure. George Osborne was an instigator behind the creation of mayoral combined authorities and the devolution deals that went alongside them.

More recently, the ineffectiveness of competitive, centralised funding pots is cited as an example of the Treasury's centralising mindset.[21] Yet Treasury-led 'trailblazer' devolution deals with Greater Manchester and the West Midlands indicate that it might be willing to let go of power, and funding, when convinced of the case for doing so and supported by the chancellor.[22]

The overcentralisation of UK government does cause ineffective and inefficient use of public money. But it is a government-wide problem that can only be overcome with political leadership from around the cabinet table. It is not a direct consequence of the Treasury's orthodoxy either in theory or practice.

The charge of micromanagement can be more squarely laid at the feet of the Treasury. It is the choice of the Treasury, and its chancellor, how much delegated authority is given to departments to choose how to spend their budgets. Greater autonomy, and less micromanagement, could strengthen the strategic capacity of departments.

Inexperience

Some of the Treasury's critics question the department's ability to make effective spending decisions not because of its worldview, or the processes by which it analyses policy proposals, but because of the apparent youth, inexperience and lack of expertise its civil servants bring to their roles.

Interviewees frequently reflected on the Treasury being staffed by "bright, young officials". Less flatteringly, one former local authority chief executive reflected on their many engagements with "the children from the Treasury", while another interviewee described the prevalence of "young people with little life experience" in the Treasury's spending teams. These reflections on youth are borne out by the government's workforce data – as noted in the introduction – with higher proportions of its staff under the ages of 40 and 30 than any other department.

Of course, youth is not itself a barrier to the Treasury working effectively; in fact, it helps to provide an important degree of diversity and reflect the lived experience of younger people. Criticisms of the Treasury's youth are perhaps better taken as proxies for accusations that Treasury officials lack the requisite real-world experience or relevant policy expertise needed to make the decisions they are responsible for. One economist described the "deep, fundamental lack of contextual knowledge" behind those decisions. In fairness, this is not a problem specific to the Treasury; the former second permanent secretary at the Treasury, Sir John Kingman, has described a "disdain for knowledge and expertise" as "deep-rooted" in civil service policy making[23] (a problem similarly identified by previous Institute for Government research).[24] It is exacerbated by high levels of staff turnover across the civil service, with particularly high churn rates in the Treasury.[25] But as applied to the Treasury the accusation is more serious in light of the disproportionate power that its small teams wield.

The counter-argument runs that it would be neither possible nor appropriate for a small Treasury spending team to maintain expert knowledge of every relevant policy area. Subject matter expertise is the responsibility of the relevant department. Functional expertise – in issues such as project management, HR and digital – is provided by central civil service functions in the Cabinet Office. Spending teams are instead required to scrutinise proposals, test their assumptions and act as an intermediary between departments and general expenditure policy (GEP).

It is a matter of fine judgment whether the right balance between expertise and objectivity has been found. Treasury teams cannot expect to match the policy nous of a spending department, and do indeed add value using the fresh perspective of a policy generalist. But from what we have heard, there is merit to what the Government Office for Science wrote in the 2010s: that the Treasury tilts "too far towards 'flexibility' and away from experience".[26] The same report argues that Treasury teams should be willing to make up for this by drawing in outside expertise in order to enhance their scrutiny of departments' plans. Failing to do so is a long-standing problem.

Arrogance or a 'flat' culture?

The apparent youth and inexperience of Treasury officials, combined with their relative power over departments' proposals, can be perceived as arrogance when dealing with colleagues across government. Interviewees described an "intellectual arrogance", "swagger" or "self-congratulatory" attitude among Treasury officials despatched to engage spending departments.

This is clearly an issue of which Treasury officials should be conscious. Leaving this impression, whether or not justified, will not help its interdepartmental working. But it is difficult to distinguish between a perception of arrogance caused by the behaviour of Treasury officials, and the inescapable dynamic of the finance ministry's need to be able to say 'no' – as described above.

In fact, this perception of arrogance might sometimes by a symptom of the Treasury's healthy, open internal working culture. Many former officials and ministers, including the former chief secretary to the Treasury, David Gauke, described a 'flat' culture in which junior officials are "encouraged to be confident and debate in meetings, sometimes with ministers". Interviewees emphasised that this open culture is contingent on the chancellor of the day – with some embracing open debate more than others. Ken Clarke, for instance, described his desire to "encourage a lot of discussion" and run the department "as a kind of debating society".[27]

The Treasury's flat culture is a positive, productive characteristic to be encouraged. Of course, Treasury officials should consider how they are perceived across government. But the finance ministry's need to say 'no' will inevitably be met with frustration by departments and limited significance can be drawn from – often vague – accusations of arrogance.

Secretiveness

Another reflection by some interviewees on the culture of the Treasury was that, while its officials are open to challenge within the department, it is less open to outsiders – whether across Whitehall or beyond.

Nowhere is this more the case than in the Treasury's close control of tax policy, and in the run-up to budgets more broadly, described at greater length above. The chancellor may well wish to maintain an element of surprise and an ability to pull many rabbits out of many hats, but in doing so they undermine the potential of collaboration and discussion to improve the effectiveness of budgets.

Secretiveness is sometimes justified on these matters due to market sensitivity, yet a common complaint was that this excuse is wielded even when not justified. Examples such as New Zealand, where tax options are presented to the cabinet in advance of the budget, show that other countries manage to be more transparent without causing market chaos.

The Treasury also maintains this secretiveness outside of the budget process. We heard of many cases where, if the Treasury actually decides to send someone along to official discussions on cross-cutting issues, they will often say very little, but insist on having the final say on anything. This behaviour is rooted in the department's relative power: if it gives away information or its position, other departments may be able to use that as leverage. On the other hand, unlike spending departments, it does not feel the need to argue its case because it can either get its way through its power over government finances or through bilateral discussions with No.10.

Recent Institute for Government research also found that, during the pandemic in particular, the Treasury fell short of effective standards of transparency. It published "very little of the social and economic evidence that informed ministers' decisions", particularly before 2021, and it "shared almost none of its analysis externally, even with trusted experts". This lack of transparency may have undermined the Treasury's response to the pandemic; for example, in convincing the public of the merits of public health restrictions.[28] The Treasury's attitude to openness has not always been consistent. One interviewee reflected on the Treasury's practice in the 1970s and 1980s of encouraging its economists to publish working papers setting out the department's approach in great detail. It is a political decision, however, what level of publication is chosen.

Some interviewees reflected a more nuanced picture of the Treasury's stakeholder engagement, in particular. One senior partner external to government reported that they felt "relatively well stakeholder managed, but you don't know how real it is". Others similarly described frequent opportunities to consult on policy, but that engagement tended to flow one way. This was echoed by the Government Office for Science's analysis of the Treasury in the 2010s, which concluded the Treasury was "better at listening to what others have to say rather than truly engaging in discussion or debate".[29]

The problem of secretiveness to the outside world is not unique to the Treasury. Greater levels of transparency would be helpful across most aspects of government. But the Treasury is too secretive in some of its work.[30] Greater outside understanding of, and opportunities to meaningfully engage with, deliberations over government spending and tax policy would certainly add value to UK government. And it is particularly important the Treasury opens up in its dealings with the rest of Whitehall including, in particular, on tax policy.[31]

The Treasury's power in government

The final criticism of the Treasury is the most important and fundamental. Disagreements with how the Treasury sees the world and operates would matter far less were it not for the manifest imbalance of power between the Treasury and the rest of government. In any government system built upon checks and balances, lopsided power is an issue of concern in its own right.

There are good reasons for the Treasury's power – but it is in a unique position of power in UK government. When in tune with its political leadership, it usually gets its way and, in the absence of a sustained and active counterbalance from No.10 and the Cabinet Office, its views tend to become government strategy by default.

None of the sources or interactions that helped create this report contradicted the idea that the Treasury is indeed powerful. Whichever side of the table they sat, people with experience of how the Treasury interacts with other departments would describe a relationship that could be extremely lopsided. A typical quote ran "in most discussions the HMT official will have the advantage over other people and comes across as willing to use that advantage".

The source of the Treasury's power is derived from the position of its chancellor. The manifestations of this power are, however, various and are worth teasing out – not least because sometimes it is right that the Treasury voice is loudest, while at other times the question is more controversial.

'Power' is a flexible concept; we have chosen to categorise manifestations of the Treasury's power as follows:

- The Treasury's role in expenditure policy
- Power to 'bounce' other departments into decisions
- Sole and secret control of tax policy
- Dysfunction between the Treasury and business department
- Imbalance of influence within the Treasury between the finance and growth functions
- Imbalance of power at the centre of government, particularly over strategy.

Taken together, these support the concern that there is something unbalanced about how Whitehall operates, with too much depending on the decisions emanating from one part of the government. In the words of the Kerslake review (commissioned by the then shadow chancellor, John McDonnell, and published in 2017), they justify concerns about "the increasing role that the Treasury has played in recent years in arbitrating and even initiating domestic policy", with the result being "to both disempower departments and stretch the Treasury beyond its underlying capabilities".[32]

The Treasury's power reflects that of the chancellor…

The UK chancellor of the exchequer is nearly always seen as the second most powerful minister, which is not always the case for finance ministers elsewhere. The chancellor's ongoing support for the prime minister is often seen as critical to the health of UK governments. This gives the Treasury, acting on the chancellor's behalf and with their authority, a great deal of influence in setting the government's agenda.

Time and again, when discussing specific case studies, former insiders would emphasise the role of political power, rather than any power inherent to the institution. Take, for example, the failure to reform and adequately fund social care. One interviewee pinned this on the shortness of the parliamentary cycle – arguing that this created incentives to delay expensive long-term reforms in favour of short-term steps within the chancellor's medium-term fiscal rules – rather than a prejudice of Treasury officials against the reforms themselves.

Many interviewees described the Treasury as the most political of Whitehall's departments, most eager (and able) to respond to the political thrust of the government's leaders. This malleability throws doubt upon the notion of a department determinedly pursuing its own 'orthodox' agenda and turns attention towards the decisions of politicians as the key factor behind government actions. Over the last decade, the spending cuts of the coalition era (2010–15) constitute the policy most regularly cited as an example of the Treasury 'getting its way' – but this was clearly driven by the change of government, not simply the Macpherson principle that spending control is important. The same Treasury that orchestrated the tough spending review of 2010 was largely in place under the preceding Labour government, which pencilled in a much slower pace of spending cuts.[33]

There are, moreover, ample instances of political priorities guiding policy that do not neatly fit with Treasury orthodoxy or that were otherwise met with concern from officials. Examples included devolution during its initial rebirth under George Osborne, the free schools policy, arguably some aspects of the expansive Covid support spending, and certainly the introduction of the mini-budget.

In contrast, there are no clear examples of Treasury officials getting their way despite the contrary political views of its ministers. Liz Truss may lay blame at the feet of a "large and powerful bureaucracy which has the whip hand over the elected government" but, in reality, the Treasury's power is not separate to that of its political leaders.[34]

… in that whoever holds the chequebook is first among equals

The Treasury's primacy in expenditure policy is the clearest expression of its power. This is frequently seen in the day-to-day processes of government. We heard several anecdotes of cross-Whitehall policy discussions in which often a quite junior Treasury official's view is decisive. By wielding veto power over spending decisions (when above delegated limits, when the department is asking for new money, or the policy is judged to be "novel or contentious"), any Treasury official knows they can have the final say over the actions of another department, unless overruled by someone with even higher authority in the spending team or, ultimately the chancellor or (sometimes) No.10. This is why one former such official felt able to say that the "junior Treasury official outranks senior officials from other departments de facto".

This is not surprising, given the Treasury's role as finance ministry. Having responsibility for how money is spent has to mean something, after all. One former official observed that, as the sole entity that stands for spending control, the Treasury *has* to outweigh other departments, because the numbers pressing for more expenditure greatly outnumber it. If it were merely one among equals on money matters, it is hard to see how other departments would be kept to their allotted spending totals. As a former special adviser and official put it: "In the Treasury you feel all these mad departments are desperate to spend money and your job is to stop that and allocate money in some coherent way."

However, it is not just through the day-to-day policing of budgetary limits that the Treasury exercises control, but also the budget and spending review processes. As mentioned earlier, these play a crucial role in the key allocative decisions that define the priorities of a government. A spending review is a moment of key importance, and there is considerable Whitehall process behind how its eventual outcomes are arrived at, both formal and informal.[35] Ultimately, the Treasury is at the centre of it all, being where the numbers are finally made to add up. It is true that the prime minister and his team in No.10 are capable of influencing these processes; when alert to an issue, they will very often have the final say on a funding decision. However, the Treasury's spending teams are invariably more across the detail of a department's policies than the smaller units of officials available to No.10. They, rather than the No.10 team, will often be who briefs the prime minister on the merits of particular choices.

Therefore, while No.10 will agree the government's overall priorities and be involved in the most consequential decisions, on the detail it is ultimately Treasury officials advising their ministers on which policies are most aligned with those priorities. It is also Treasury officials who write the guidance on how business cases for spending programmes should be constructed and who make judgments in practice about how to weigh different business cases against one another.

The Treasury 'bounce'

It is not only through sheer veto power that the Treasury has the whip-hand over its spending departments. When money was flowing during the pomp of the New Labour period, big spending decisions were incubated in the Treasury and simply handed to departments – who themselves often doubted the wisdom of the spending idea. An adviser from that time recalls how the Treasury decided that education would be given a 4% boost, even though there was not 4%-worth of good ideas to use the money on. This kind of behaviour continued under the coalition when, according to another adviser, the admiration of the political leadership in the Treasury for university technical colleges was in no way matched by advice in DfE, but the scheme received significant sums of money regardless.

The use of the word 'bounce' to describe someone being forced into a decision is found more in politics than anywhere else. The former No.10 adviser Bernard Donoughue (who served both Harold Wilson and James Callaghan in the 1970s) described how the Treasury during times of financial crisis would attempt to 'bounce' the rest of the cabinet into accepting tough decisions to stave off currency devaluation, often without having the figures to justify the decision.[*] But the technique has been seen at lower levels of government and on less fraught occasions, such as last-minute spending decisions in the lead up to budgets or spending reviews – including the 4% boost to education spending described above. A pamphlet from Demos published in 2011 saw this as a feature of Gordon Brown's way of operating:

> **"Brown's position within the Labour Party as an alternative power base gave him every incentive to engage in what became known as Treasury 'bounce', where other departments would find out at the last minute that the Treasury had secretly been working on policy documents that directly affected their own spheres of influence."**[36]

An insider from that time ruefully described how the process might work in these terms: "We rang up departments saying you're going to get some money in this… the press release in your name can be picked up from the department this afternoon."

Nor is it always about spending. An example of this from the New Labour period was the development of competition policy, in particular the Enterprise Act of 2002, which expanded the powers of the Office of Fair Trading. Former advisers and officials from the Treasury at that time described how this was developed largely through Treasury work, albeit with some involvement from expert outsiders. According to one official, they didn't formally tell the leadership of the DTI what was going on. Instead, after the election of 2001, they simply handed the policy to the department to deliver.

Those involved in this style of policy making have conceded to us that this was not an ideal way to behave, but also felt that there was "no way on earth that reforms this radical would come out of the DTI at this time". Treasury staff at that time would portray the spending departments as slow, unimaginative and in need of the impulse. The spending side in return spoke of their greater experience in the policy area and justified caution. The clear risk was of hastily devised policy conceived by people who were not subject experts, and liable to be tripped up by unforeseen consequences.

Such high-handedness must also have reflected the particular configuration of political power at the time – not every Treasury of the past 20 years has been either inclined or politically able to act in this way. Nevertheless, it is noteworthy just how much decision making power rested with the relatively small Treasury teams when the politics did align correctly, and not just when it was a matter of controlling public spending.

* Multiple uses of the term can be found in Donoughue's diaries. For example, from late June 1976: "The PM resisted a Treasury attempt to bounce through a package of public expenditure cuts without ministerial consideration… it was a bounce which was well resisted."

Sole and secret control of tax policy

Numerous interviewees reported that the Treasury's control over tax decisions is total – it is seen as solely its own concern with the technical help of HMRC. And though chancellors' decisions are in theory subject to collective agreement of their cabinet colleagues, in reality, on tax, this seldom happens.[37]

This secrecy of tax policy making was reported in the Kerslake review of 2017:

> "The treatment of tax and spending in the aggregate budget and public expenditure planning processes is too secretive, especially on the tax side, where decisions on tax are only known to the Treasury and HMRC. This results in insufficient scrutiny and the potential for 'Omnishambles'."

For procedural reasons, issues are often stored up for resolution at budget time – but that heightens the secrecy. One of the authors of this report recalls budgets under the coalition, when new tax ideas would be introduced – a higher levy on North Sea oil, new tax breaks for enterprise, a carbon price – that were clearly of key relevance to the business department, but which would remain shrouded from view until the evening before budget day.[*]

It is fair to say that there are some occasions when the Treasury speaks to other relevant departments before announcing tax policies, but these tend to be the exception to the rule and apply to sectorally specific tax. Examples include development of the electricity generators levy with BEIS, property developers levy with DLUHC, and the creative industries tax reliefs worked up with DCMS and the UK Film Council.

But even then, final decisions would usually take place outside of the view of departments. To those on the other side of the engagement, this has felt like an information-gathering exercise (no bad thing) but not one intended to share fully in the decision itself. The impression of those outside the Treasury is that it is capable of engaging and can choose to, but this choice definitely rests with the Treasury, and it can elect *not* to engage when that suits its interests. The relationship therefore remains asymmetric, as similar discretion over whether to engage with the Treasury is not as apparent. Departments *must* engage, as otherwise they might fail to gain the agreements they need.

When it comes to engaging with the outside world of experts, recent Institute work on the use of evidence in tax policy making finds that there are formal processes for consulting some types of stakeholder (such as business groups and those representing taxpayers), but there are no formal processes for consulting other types of expertise (such as academic researchers), meaning that this is patchy. Where it does happen it is highly conditional on the individuals in respective teams in the Treasury.

* Covid-era support schemes also epitomised this approach, with the business department responsible for delivering loan schemes that they had little opportunity to help design. See Tetlow G and Bartrum O, *The Treasury during Covid: What lessons can be learned from the pandemic?*, Institute for Government, 2023, www.instituteforgovernment.org.uk/publication/treasury-during-covid

The Treasury often justifies this secrecy on the grounds that tax announcements are often market sensitive. Note that this assumes, however, that the other departments that might be involved cannot be trusted, even though they often also oversee market-sensitive news. It is also a consideration that does not prevent a stream of media leaks of many measures in the lead up to the big day.

It is easy to see why the Treasury might want its control over tax policy to be unfettered. Changes in tax rates affect people or businesses with the sort of directness that can easily alter the political course of the entire government. It is hard to see why any chancellor would want to give up this monopoly. Budgets are rare occasions when the voting public pays attention to what is going on in Westminster. The political stakes are always high. Mismanage a spending programme and you face an awkward appearance before the Public Accounts Committee; do the same with tax, and furious tabloid headlines and a plummeting poll rating is the result. The "omnishambles" budget of 2012 provides a classic example, as does the botched abolition of the 10p tax rate by Gordon Brown in 2008.

One former minister emphasised that Treasury officials know that the secretive, politicised nature of making tax decisions is far from optimal. Officials and even politicians understand the abstract case for constraint on the tax policy process through rules, roadmaps and collective discussion. One official contrasted the tax process unfavourably with the way the Bank of England's Monetary Policy Committee evaluates and makes interest rate decisions.

The process of challenge usually serves to improve policy making. This is a valuable role that the Treasury itself plays, so it is mildly ironic that it eschews its reciprocal application on something as important as tax policy. Bringing in other perspectives on an issue of common concern can prevent mistakes – one interviewee suggested that the Treasury on its own lacked the capacity to see what everyone else would find so obnoxious about the 2012 measure that came to be known as the 'pasty tax'. Another recalled when the environment adviser in No.10 was not involved in the decision to impose VAT on domestic fuel and power, because tax was seen as the "wholly owned property of HMT", despite its environmental ramifications. In both cases, Treasury policy would have been helped by more openness.

Perhaps there is a belief that the Treasury's own internal processes might provide the challenge needed. But we heard claims from former insiders that the business cases for new tax reliefs often were not produced and that ex-post analysis is not as systematic as it is for spending. "Once things are in the system it is hard to get them back out again" is a typical observation about how tax measures become embedded.

A more open and deliberative process would demand of politicians, and the chancellor in particular, a degree of self-denying discipline that is not easy to practise. That the Treasury is now wholly in favour of the OBR and of the independence of the Bank of England provides evidence that it is not opposed to the loss of power in principle, so long as it thinks the overall results are beneficial, even if these reforms only happened through the impulse of politicians. One interviewee from the coalition era recalled how there were attempts to introduce more scrutiny and restraint in that period, acknowledging that where the Treasury has been responsible for bad policy, it is mostly about tax. But the political process inevitably took over.

It is the blend of tax making powers with politics that creates problems. The combination of a department with a politically responsive mindset, the leadership of a powerful politician, decision making that in the final reckoning is the Treasury's alone, and the large and immediate impact of tax decisions creates strong incentives to maintain a secretive approach to tax policy making.

The Treasury–business department dysfunction

Speaking to people from the chancellorships of Gordon Brown and George Osborne, there were plenty of stories about excessive Treasury power relative to the business department (in its various incarnations and initialisms: DTI, BERR, BIS, BEIS, DBT).

Relations between HMT and the business department have been determined by more than simply the ability of the finance department to veto spending ideas, but often a lack of mutual respect and fundamentally different perspectives.[38] Some put this down to a certain jealousy in the Treasury about any other department having ownership of the economic agenda. Others have suggested it to be a reflection of the settled institutional status of the Treasury compared to the frequently changed business department. Occasionally, interviewees suggested Treasury staff did not highly rate the quality of analysis coming out of the business department. One described a "deep scepticism" towards the business department, with certain elements in the Treasury questioning whether it does anything useful. Similar sentiments were recorded in 2011 when Demos interviewed government insiders about giving more responsibility to BIS, with descriptions like "no good" and "hopeless" thrown around.[39] The feeling has often been reciprocated, with BEIS alumni doubting that staff as young and inexperienced as the Treasury's can match the responsibilities that they give themselves.

In a 2013 article written for the OECD about the capability of the Treasury, Lord Macpherson is quoted as saying that "growth policy is developed in partnership with the Department of Business".[40] This was not evident from the conversations we undertook for this report about much of the past 20 years. Engagements between the two departments appeared more tactical than strategic much of the time, and one-sided at other times, with information flowing one way and decisions in the other direction. New structures to produce a more rounded, cross-governmental view on the economy are reported to have been created, but it is too soon to judge whether they will really represent a shift in power.

It is not easy to evaluate how much the friction between the Treasury and the business department reflects a settled, institutional antagonism as opposed to the power and political alignment of the politicians in power at the time, which naturally fluctuate. Informal status and power shifts with political leadership. When Michael Heseltine led the DTI, and particularly once he became deputy prime minister in 1995, he was regarded as relatively powerful and autonomous, and helped to steer his agenda through cabinet committees. When Lord Mandelson took over the successor department (BIS) in 2008 – while also operating as de facto deputy prime minister – he was able to give heft to his department and, like Heseltine, provide some impetus to the industrial strategy agenda. Each managed to do this in part because the Treasury was under pressure from fiscal and financial market difficulties.

The Growth people vs the Spending people – who really 'runs the country'?

It is not just the Treasury's power over other departments that matters, but how power works within its walls. This inevitably has implications for how various interests trade off against one another.

An interviewee who had been senior in the enterprise and growth unit (EGU) admitted that it could be the "junior partner" within the Treasury. By his account, its voice was not as loud as that of spending control – in the form of the public spending group and, within that in particular, general expenditure policy (GEP), who are one point on what used to be called the 'fiscal triangle' along with the fiscal group, and strategy, planning and budget.* GEP's crucial role is to advise on how to plan spending at the budget so that it fits within the overall envelope and aligns with government's priorities. While most teams within the public spending group will be advising on the relative merits of different proposals from a particular department, GEP will be advising on how to trade-off *between departments.*

This vital function has led some to describe the GEP to us as the real heart of the Treasury. The tax, macroeconomic and spending functions and their concerns simply rank higher in the chancellor's priorities, suggested another. To be heard, the EGU is highly reliant on the experience and stature of the relatively small number of staff that work on that aspect of Treasury policy. Often key decisions come down to the small number of people in the room with the chancellor when the trade-offs are wrestled with. Even if the EGU is "fantastic", this counts for little if it is not strongly represented at the most senior level.

We should note, however, that former officials can only be expected to talk authoritatively of their own time in Whitehall. In many cases this means a long time ago. The EGU is generally regarded as having been at the peak of its power under Gordon Brown in the first few years of the millennium. Voices from more recent times under the coalition have seen it as underpowered – in this sense, the finance part of the department always trumped the economics part in terms of resourcing.

* The fiscal group works closely with the OBR to develop forecasts for government borrowing and debt, and whether the chancellor is on track to meet their fiscal rules. Strategy, planning and budget has overall control of the budget process, including co-ordinating with No.10 to agree overall priorities.

Against this, it has been pointed out that the EGU now has 200 staff, and that if one counted some of the officials focused on the financial sector or labour market as 'growth-oriented', then the heft of the growth faction in the Treasury is greater than many realise. This growth in numbers, though, has been accompanied by EGU teams taking on responsibility for managing the spending of individual departments (especially those seen as important for economic growth). While some have suggested this move should encourage greater integration of spending decisions with the department's thinking on economic growth, others with experience of the unit under Brown argued that its effectiveness was partly derived from not having incentives to manage down spending, like other teams in the Treasury.

It is difficult from the outside to judge which voices are really the most influential within a closed off and discreet organisation like the Treasury, so we forswear any attempt to provide a definite verdict on the question in this report. The view from outside the Treasury is clear. Typical is a comment from an official who saw the finance ministry aspect of the Treasury as "first, second and third". Growth policy does get a look in, but only insofar as the OBR might evaluate the effect of any measures on economic growth (which necessarily means over a timescale of fewer than five years).

One former growth official described the GEP part as "the people who really run the country". We think this is an exaggeration. No matter how important, theirs is a power of advice and co-ordination. To claim that civil servants in GEP, or any Treasury officials, "run the country" is hyperbolic. Their power is real but it is the power of the chancellor. They act on behalf of the chancellor and cannot, in reality, originate policy or spending decisions without the chancellor's – at least tacit – support.

Lack of counterbalance, particularly on strategy, from the rest of government

The risks resulting from an over-mighty Treasury are heightened by a lack of counterbalance from the rest of government. This is especially true at the centre, where the Treasury is, in practice, left to set much of the government's strategy via its spending reviews and budgets.

There is nothing inherently wrong with a strong, confident Treasury expressing its views on spending control and economic analysis. But, as argued above, the Treasury's core beliefs do not amount to a set of principles desirable for shaping *all government policy*. There are times when a government may legitimately want to balance its priorities with others. At the least, departments will sometimes differ on how the government's objectives might be balanced against the need for financial sustainability.

In the previous section of this report we set out some ways in which Treasury orthodoxy on its own might impede good policy making – but these are only likely to manifest when there is an absence of a counterweight elsewhere in government. The problem is most acute when No.10 is unable to provide and drive a whole-of-government strategy. This has quite often been the case in recent times; most prime ministers fail to translate their manifestos into a programme for government capable of prioritising its objectives and preparing for trade-offs.

The vacuum created by the absence of a whole-of-government strategy, or coherent set of government priorities, is in practice filled by the Treasury's spending review and budget processes, which make trade-offs between departments' bids and, in doing so, set an implicit whole government strategy. These decisions in turn shape departments' plans and the government's performance frameworks. It is, of course, critical for the government's strategy to be reflected in its spending plans. But by leaving whole-of-government strategy to be set via the Treasury's processes, successive prime ministers have implicitly opted out of more fully engaging in the decisions and trade-offs at the heart of their governments' strategies.

Interviewees frequently stressed that the prime minister can still, usually, get their way on individual spending decisions, provided they believe the issue important enough to insist on a course of action and that they have the political power to sway the chancellor. But in practice . the prime minister has neither the time nor the resources to cover a broad swathe of policy. This leaves the Treasury largely in control of the allocative decisions that amount to government strategy.

A former adviser argued that it is the inadequacies of the Cabinet Office and No.10 that create Treasury power – "because everything else is crap, Treasury ends up powerful". Indeed, economic expertise that belongs wholly to No.10 has been a regular bone of contention. In the 1980s, the arguments between Chancellor Nigel Lawson and Prime Minister Margaret Thatcher over her use of Professor Alan Walters as an adviser ultimately led to the demise of both. During the first six years of Gordon Brown's long chancellorship, Tony Blair, the prime minister, had the services of a single economic adviser, Derek Scott, who reportedly struggled even to have access to the papers he needed in the role.[41] When Brown became prime minister, the economic support available to No.10 was not transformed. According to one former government economist, senior Treasury officials were determined that neither the Cabinet Office nor No.10 had their own expertise in economics sufficient to outweigh the Treasury's. Institute for Government research on the department's response to the pandemic found that officials elsewhere in government reported getting "scolded" by the department's senior officials when sharing macroeconomic analysis.[42] As another official told us: "The Treasury is very keen on markets, but like any monopolist, it is not keen on any competition with itself."

The prime minister's capacity deficits are not limited to economic firepower. They require robust, connected support with a combination of long-term strategy, policy development, economic analysis, delivery expertise and more to be in a position to set effective strategy. Previous Institue research has found that No.10 and the Cabinet Office do not provide that level of strategic support to match the Treasury's capacity.[43]

This imbalance of power is also a matter of process and the active decisions of the prime minister and their team. The coalition government provides an interesting example of how this balance can be achieved. The formation of the coalition necessitated the development of the Coalition Agreement, which, while not as comprehensive or lengthy as those of other governments (see Box 1 on budget negotiations in the Netherlands), did act as a whole-of-government strategy that, in turn, informed the subsequent spending review. The 'quad' – made up of the prime minister, deputy prime minister, chancellor and chief secretary to the Treasury – managed the politics of the coalition but also provided a forum in which trade-offs could be worked through between Nos.10 and 11. Interviewees pointed to similar mechanisms used in previous governments such as the 'EDX' cabinet committee under John Major.

This imbalance of power is important because it can amplify problems with Treasury orthodoxy in practice. The Treasury should not be blamed for pursuing sound money and the objectives of its chancellor. If perverse outcomes result, blame lies as much in the absence of counterbalance provided by the rest of government and, in particular, No.10.

Recommendations

Our view is that there exists a set of reforms that should be implemented to specifically target the problems that have been identified throughout this report, many of which are the subject of other, specific Institute for Government research.

Fix short-termism through changes to the fiscal framework and political leadership

Short-termism should be addressed by reform of the fiscal framework, a renewed spending review process, and strong political direction from a chancellor and prime minister committed to making long-term decisions.

Changes to the fiscal framework should involve slowing down the pace of decision making to enable more strategic thinking – crucially, with a move to only one major fiscal event a year – changing fiscal rules and the role of the OBR in a way that limits the chancellor's ability to make the numbers add up by setting out implausible spending plans, increasing the transparency and scrutiny of tax and spend decisions, and improving government's analysis of the long-term impacts of policies. More detail will be outlined in a new Institute report, due to be published in February, on strengthening the fiscal framework.

Technical changes can limit the extent to which politicians with short-term horizons can hide the long-term costs of certain policy decisions. However, as is the theme of this report, the greatest change can be achieved through a politically directed cultural shift. A chancellor (and prime minister) who tells their officials that their priority is making policy for the long term will shift the focus of the Treasury and the rest of Whitehall.

As important as process is, a chancellor who commits to one fiscal event and charges officials to spend the 3–4 months of freed up time to work with their departments to develop long-term strategies will create a more measurable shift in policy than any amount of changes to process. This will be further enabled by stronger links between spending allocations and a government's overarching strategy and an improved spending review process, set out below.

A stronger centre and reformed spending review process will ensure spending better reflects government priorities

Linking spending decisions more comprehensively with the government's strategy and priorities can be achieved by **strengthening the rest of the centre (No.10 and the Cabinet Office) to fill the strategic vacuum in central government** that currently necessitates the dominance of the Treasury's budgeting processes. Strengthening other parts of the centre, and changing the way the centre sets priorities across government, would help to resolve the problem of fiscal supremacy within government as a whole. The report of our Commission on the Centre of Government, to be published in February, will address this imbalance of power at the heart of government and make recommendations for how the centre of government could be reformed in response.

This will include the need for the prime minster and their cabinet to set clear priorities for government at the start of each term. This set of priorities, developed by the prime minister and their top team including the chancellor, and agreed by cabinet, could act as a more robust framework from which strategy can be devised and policy can be aligned to budgets. It would help to address some of the problems associated with Treasury orthodoxy, through its fiscal dominance, described above.

It will also include the need to reform the spending review process, to be a more collaborative endeavour between the prime minister, chancellor and key secretaries of state so that spending allocations for cross-departmental priorities like economic growth can be made more coherent and align with the government's priorities. The report of the Commission on the Centre of Government will outline an alternative approach to aligning spending decisions with strategy. Following that, another report in March will set out more detail on the spending review process as a whole: what has worked well in the UK context in the past, and how it could be reformed to deliver better outcomes in the future, particularly when it comes to cross-cutting priorities. It will draw on past Institute research on spending reviews,[1] performance management frameworks[2] and infrastructure.[3] We also plan to publish in March a report specifically addressing problems in the allocation of funding to capital projects.

Opening up the civil service, including the Treasury, to more specialist expertise would help to improve the quality of spending decisions, too. This is particularly the case for individual spending teams, who could do more to recruit those with deep expertise of the policy area into the teams, and undertake more formal engagement with external experts. We have set out how that can be done in past work on building specialist expertise in the civil service.

A long-term and more strategic government can better deliver a coherent economic policy agenda

The above reforms would help to join up the centre and relevant departments (DBT, DSIT and others) to develop a coherent long-term economic growth strategy. Again, **political direction from the chancellor is also important to deliver this, as well as internal reform of the Treasury**. The Treasury is capable of developing a more activist economic policy agenda if that is the desire of the chancellor of the day. Our analysis of the evolution of the department's thinking over time shows that it is highly responsive to the steers and priorities of its leader, possibly more so than any other department. The Treasury's objectives are the chancellor's objectives.

If a chancellor were to clearly set this out as a priority, it is our expectation that the department would respond actively, **reallocating more resource to its economic growth unit and related teams, and involving those teams more in the budgeting process**.

Conclusion: a Treasury unchained?

In analysing Treasury orthodoxy, we took the term to mean the theory, doctrine or practice of the institution. Investigating the former, we found the core beliefs of any finance ministry: a worldview that broadly reflects the economic consensus of the past few centuries and, at its heart, a prioritisation of sound money. There are debates to be had about the nuance of these principles and what might be missing – they do not reflect a comprehensive theory of effective government – but they are not inherently to blame for the government's woes.

That is not to dismiss substantial and long-standing problems with tax and spend policy in UK government, including short-termism, tax tinkering and sceptical analysis that struggles to appraise complex systems. The question becomes – what is causing these problems and what blame, if any, can be laid at the feet of the Treasury and its orthodoxy?

Much of the problem is politics. More than anything, the Treasury tries to enact the policies and preferences of its chancellor. Where spending decisions result in perverse outcomes, they reflect the preferences of the chancellor or prime minister. Short-termism is more the result of political incentives – formed by the parliamentary cycle and entrenched by the chancellor's fiscal rules – than the conduct of Treasury officials. What power the Treasury has to block the initiatives of other departments is, in reality, the power of the chancellor rather than the institution itself. To grapple with the impact of political incentives on the Treasury's work, including its fiscal policy, the Institute for Government is currently investigating the role and practice of fiscal rules and the wider fiscal framework, as well as how spending reviews and the allocation of funding to capital projects could be improved, and will make recommendations for reform in early 2024.

There are still issues for the Treasury to address. Given the immense power it has over government policy, its spending staff remain too inexperienced and unable to draw on adequate expertise to make the spending decisions that are asked of them. It is in the gift of the Treasury to delegate more power to departments over how they spend their budgets, choosing to micro-manage less would, over time, enhance the strategic capacity of the rest of government and help focus the Treasury's energies where it can add most value. And the Treasury remains too secretive, especially in its tight grip over tax policy. More transparency would help, rather than hinder, its work.

While we have outlined issues with the Treasury's orthodoxy – particularly how it is practised – these are most problematic for the government due to a fundamental imbalance of power at the centre of government. The prime minister does not have the firepower, the intellectual support or the control of government processes required to match the might of the Treasury. The result is too often an abdication of the prime minister's responsibility to set the strategy for his or her government. The Treasury is left to fill that vacuum and own much of government strategy through its tightly gripped spending and budgetary processes.

The path forward for a government seeking to improve policy making is to strengthen the whole centre so that it is better able to form a coherent strategy and translate that into spending allocations. This fundamental reform would change the complexion of fiscal decision making in government for the better – benefiting prime ministers, chancellors and the departments to whom the funds are delivered. This should be accompanied by a series of reforms to the fiscal framework and spending review processes.

References

Introduction

1 Chu B, 'The case against the Treasury', blog, 22 August 2022, updated 28 August 2023, www.benchu.co.uk/post/treasuryorthodoxyliztruss

2 Parker G, 'Liz Truss vows to take on 'vested interests' and boost UK economic growth', *Financial Times*, 21 September 2022, www.ft.com/content/d5fb57ae-ee9d-42ce-b283-da9a51961d21

3 Williamson D, ''Back to growth': Liz Truss takes on 'status quo' to boost UK economy 2.5%', *Express*, 17 September 2022, www.express.co.uk/news/politics/1670753/liz-truss-mini-budget-growth-economy-tax-cuts

4 Kerslake R, *Rethinking the Treasury*, 2017, www.industry-forum.org/wp-content/uploads/2017/03/9076_17-Kerslake-Review-of-the-Treasury-_-final_v2.pdf

5 Dibb G, Written evidence submitted by George Dibb to Jobs, Growth and Productivity After Coronavirus inquiry, Treasury Select Committee, November 2021, https://committees.parliament.uk/writtenevidence/41148/default

Part 1: What is Treasury orthodoxy?

1 Macpherson N, 'The Treasury view: a testament of experience', speech delivered to the Mile End Group, GOV.UK, 17 January 2014, www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-the-treasury-view-a-testament-of-experience

2 Macpherson N, 'Treasury orthodoxy: fact or fiction?', speech delivered to the Strand Group, 1 November 2022, https://thestrandgroup.kcl.ac.uk/event/lord-macpherson-of-earls-court-treasury-orthodoxy-fact-or-fiction

3 Kingman J, 'The Treasury and the Supply Side', speech delivered to the Strand Group, 20 October 2016, https://thestrandgroup.kcl.ac.uk/wp-content/uploads/328294000-Kingman-Speech.pdf

4 Balls E, 'Open macroeconomics in an open economy', LSE Research Online Documents on Economics 28748, London School of Economics and Political Science, LSE Library, 1997, http://eprints.lse.ac.uk/28748

5 Balls E, Grice J and O'Donnell G eds, *Microeconomic Reform in Britain: Delivering Enterprise and Fairness*, Palgrave Macmillan, 2004.

6 Balls E, O'Donnell G and Grice J eds, *Macroeconomic Reform in Britain: Delivering Opportunities for All*, Palgrave Macmillan, 2004.

7 Eaglesham J, 'Coalition set to chop £1bn more in Budget', *Financial Times*, 17 June 2010, www.ft.com/content/d1c6bc80-7a4c-11df-aa69-00144feabdc0

8 Sunak R, 'Chancellor of the Exchequer, Rishi Sunak on Covid-19 Response', speech delivered at Downing Street, GOV.UK, 17 March 2020, www.gov.uk/government/speeches/chancellor-of-the-exchequer-rishi-sunak-on-covid19-response

9 See Tetlow G and Bartrum O, *The Treasury during Covid: What lessons can be learned from the pandemic?*, Institute for Government, 2023, www.instituteforgovernment.org.uk/publication/treasury-during-covid

10 See HM Treasury, *Green Book Review 2020: Findings and response*, CP331, The Stationery Office, 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/937700/Green_Book_Review_final_report_241120v2.pdf

11 House of Commons Treasury Committee, Oral evidence: Work of the Treasury, HC 137, Q 113, https://committees.parliament.uk/oralevidence/12428/pdf

12 HM Treasury, *The Growth Plan 2022*, CP 743, The Stationery Office, 2022, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1105989/CCS207_CCS0822746402-001_SECURE_HMT_Autumn_Statement_2022_BOOK_Web_Accessible.pdf

13 House of Commons Treasury Committee, Oral evidence: Work of the Treasury, HC 137, Q 113, https://committees.parliament.uk/oralevidence/12428/pdf

14 Tetlow G and Bartrum O, *The Treasury during Covid: What lessons can be learned from the pandemic?*, Institute for Government, 2023, www.instituteforgovernment.org.uk/publication/treasury-during-covid

15 Lilly A, Thomas A, Clyne R and Bishop M, *A new statutory role for the civil service*, Institute for Government, 2022, www.instituteforgovernment.org.uk/publication/report/new-statutory-role-civil-service

16 Rutter J, *Relationship breakdown: Civil service-ministerial relations: time for a reset*, Institute for Government and the Bennett Institute for Public Policy, 2022, www.instituteforgovernment.org.uk/publication/civil-service-ministerial-relations

17 Tetlow G, Pope T and Marshall J, 'Budgets', Institute for Government, 17 October 2018, www.instituteforgovernment.org.uk/explainer/budgets

18 Pope T and Hourston P, 'Fiscal rules in the UK since 1997', Institute for Government, 16 March 2022, www.instituteforgovernment.org.uk/explainer/fiscal-rules-history

19 List adapted from Calmfors L and Wren-Lewis S, 'What should fiscal councils do?', *Economic Policy*, 2011, vol. 26, no. 68, pp. 649, 651–695, www.jstor.org/stable/41262007

20 Hallerberg M, Strauch RR and Von Hagen J, *Fiscal Governance in Europe*, Cambridge University Press, 2009.

21 Velasco A, 'Debt and deficits with fragmented fiscal policymaking', *Journal of Public Economics*, 2000, vol. 6, no. 1, pp. 105–125, 2000, www.sciencedirect.com/science/article/pii/S0047272799000547

22 Von Hagen J and Harden IJ, 'Budget processes and commitment to fiscal discipline', *European Economic Review*, 1995, vol. 39, no. 3–4, pp. 771–779, www.sciencedirect.com/science/article/abs/pii/001429219400084D

23 Hallerberg M, Strauch RR and Von Hagen J, *Fiscal Governance in Europe*, Cambridge University Press, 2009, pp. 24–34.

24 Wehner J, 'Cabinet structure and fiscal policy outcomes', *European Journal of Political Research*, 2010, vol. 49, no. 5, pp. 631–653, https://ejpr.onlinelibrary.wiley.com/doi/abs/10.1111/j.1475-6765.2009.01914.x

25 Kingman J, 'The Treasury and the Supply Side', speech delivered to the Strand Group, 20 October 2016, https://thestrandgroup.kcl.ac.uk/wp-content/uploads/328294000-Kingman-Speech.pdf

Part 2: Is Treasury orthodoxy a problem for government?

1 Hunt J, 'Chancellor Jeremy Hunt's speech at Bloomberg', speech delivered at Bloomberg, GOV.UK, 27 January 2023, www.gov.uk/government/speeches/chancellor-jeremy-hunts-speech-at-bloomberg

2 Parker G and Payne S, 'Truss rejects 'handouts' in favour of tax cuts to help households', *Financial Times*, 5 August 2022, www.ft.com/content/0d4e8e8c-a9f5-409b-86b8-884304ce0568

3 Wehner J, 'Written evidence submitted by Dr Joachim Wehner, London School of Economics and Political Science', EST 02, n.d., https://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/procedure-committee/scrutiny-of-the-governments-supply-estimates/written/31053.pdf

4 Wehner J, 'Assessing the power of the purse: An index of legislative budget institutions', *Political Studies*, 2006, vol. 54, no. 4, p. 778, https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-9248.2006.00628.x

5 Hallerberg M, Strauch RR and von Hagen J, *Fiscal Governance in Europe*, Cambridge University Press, 2009.

6 Kraan D-J, 'The finance function of line ministries in the Netherlands', *OECD Journal on Budgeting*, 2021, vol. 2021, no. 3, https://read.oecd-ilibrary.org/governance/the-finance-function-of-line-ministries-in-the-netherlands_b82fd512-en#page3

7 Talbot C, 'The Budget – getting and spending', blog, The Constitution Society, 16 March 2023, https://consoc.org.uk/the-budget-getting-and-spending/

8 Hallerberg M, Strauch R and von Hagen J, *The design of fiscal rules and forms of governance in European Union countries*, working paper series no. 419, European Central Bank, December 2004, www.ecb.europa.eu/pub/pdf/scpwps/ecbwp419.pdf

9 Office for Budget Responsibility, *Policy costings and our forecast*, briefing paper no. 6, 2014, https://obr.uk/download/briefing-paper-no-6-policy-costings-and-our-forecast/?tmstv=1700491131

10 Burnham A, 'Why England's north is still waiting for its powerhouse', *The Guardian*, 22 August 2017, www.theguardian.com/commentisfree/2017/aug/22/north-powerhouse-infrastructure-andy-burnham

11 Coyle D and Sensier M, *The Imperial Treasury: appraisal methodology and regional economic performance in the UK*, working paper no: 02/2018, Bennett Institute for Public Policy, University of Cambridge, 2018, www.bennettinstitute.cam.ac.uk/wp-content/uploads/2020/12/The_Imperial_Treasury_appraisal_methodology_and_regional_economic_performance_in_the_UK.pdf

12 HM Treasury, *Green Book Review 2020: Findings and response*, CP331, The Stationery Office, 2020, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/937700/Green_Book_Review_final_report_241120v2.pdf

13 Comptroller and Auditor General, *Spending Review 2015*, Session 2016–17, HC 571, National Audit Office, 2016, www.nao.org.uk/wp-content/uploads/2016/07/Spending-Review-2015.pdf

14 Dibb G, 'Written evidence submitted by George Dibb' (JGP0061), Parliament.uk, 2021, https://committees.parliament.uk/writtenevidence/41148/default/

15 Holden J, 'The NHS Long Term Workforce Plan explained', The King's Fund, 27 July 2023, www.kingsfund.org.uk/publications/nhs-long-term-workforce-plan-explained

16 Warner M and Zaranko B, 'Chapter 8: Implications of the NHS workforce plan' in Emmerson C, Johnson P and Zaranko B eds, *IFS Green Budget 2023*, Institute for Fiscal Studies, 2023, https://ifs.org.uk/publications/implications-nhs-workforce-plan

17 See, for example, Kerslake R, *Rethinking the Treasury*, 2017, ch. 3, iv, 'Central control vs Greater Devolution', www.industry-forum.org/wp-content/uploads/2017/03/9076_17-Kerslake-Review-of-the-Treasury-_-final_v2.pdf

18 Dunton J, 'Treasury tightens reins on DLUHC spending decisions', *Civil Service World*, 10 February 2023, www.civilserviceworld.com/professions/article/treasury-tightens-dluhc-spending-decisions

19 HM Treasury, *Managing Public Money*, May 2023, https://assets.publishing.service.gov.uk/media/64c383ccf92186001486670d/Managing_Public_Money_-_May_2023_.pdf

20 House of Commons Treasury Committee, Oral evidence: Work of the Treasury, HC 137, Q 222, https://committees.parliament.uk/oralevidence/12428/pdf

21 Pope T, 'The Levelling Up Fund will not deliver on the government's flagship agenda', blog, Institute for Government, 19 January 2023, www.instituteforgovernment.org.uk/comment/levelling-up-fund

22 Henderson D, Dalton G and Paun A, 'Trailblazer devolution deals', Institute for Government, 16 March 2023, www.instituteforgovernment.org.uk/explainer/trailblazer-devolution-deals

23 Kingman J, 'Why is civil service reform so hard?', speech at the Institute for Government, 16 December 2020, www.instituteforgovernment.org.uk/sites/default/files/sir-john-kingman-speech.pdf

24 Sasse T and Thomas A, *Better policy making*, Institute for Government, 2022, www.instituteforgovernment.org.uk/publication/better-policy-making

25 Clyne R and Bishop M, 'Staff turnover in the civil service', Institute for Government, 12 April 2022, www.instituteforgovernment.org.uk/explainer/staff-turnover-civil-service

26 Government Office for Science, *Science and Analysis Assurance Review of Her Majesty's Treasury*, 2013, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/369440/13-1143-science-review-hm-treasury-update.pdf

27 Ministers reflect: Kenneth Clarke, Institute for Government, March 2016, www.instituteforgovernment.org.uk/sites/default/files/2022-11/kenneth-clarke-ministers-reflect.pdf

28 Tetlow G and Bartrum O, *The Treasury during Covid: What lessons can be learned from the pandemic?*, Institute for Government, 2023, www.instituteforgovernment.org.uk/publication/treasury-during-covid

29 Government Office for Science, *Science and Analysis Assurance Review of Her Majesty's Treasury*, 2013, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/369440/13-1143-science-review-hm-treasury-update.pdf

30 Rutter J, Dodwell B, Johnson P and others, *Better budgets: making tax policy better*, Institute for Government, 2017, www.instituteforgovernment.org.uk/publication/report/better-budgets-making-tax-policy-better

31 Pope T, Tetlow G and Advani A, *How is evidence used in tax policy making?*, Institute for Government, 2023, www.instituteforgovernment.org.uk/publication/evidence-used-tax-policy-making

32 Kerslake R, *Rethinking the Treasury*, 2017, http://www.industry-forum.org/wp-content/uploads/2017/03/9076_17-Kerslake-Review-of-the-Treasury-_-final_v2.pdf

33 Wilkes G, *A Balancing Act: Fair Solutions to a Modern Debt Crisis*, CentreForum, 2009.

34 Truss E, 'Keynote speech: Rt Hon Liz Truss MP', speech at the Institute for Government, www.instituteforgovernment.org.uk/event/liz-truss

35 Maddox B, Kidney Bishop T and Wheatley M, *The 2019 Spending Review: How to run it well*, Institute for Government, 2018, www.instituteforgovernment.org.uk/publication/report/2019-spending-review

36 Ussher K and Walford I, *National Treasure*, Demos, 2011, https://demos.co.uk/wp-content/uploads/2011/03/National_treasure_-_web.pdf

37 Rutter J, Dodwell B, Johnson P and others, *Better budgets: making tax policy better*, Institute for Government, 2017, www.instituteforgovernment.org.uk/publication/report/better-budgets-making-tax-policy-better

38 Sasse T, 'Why can't BEIS and the Treasury get on?', *The House*, 23 June 2022, www.politicshome.com/thehouse/article/why-cant-beis-and-the-treasury-get-on

39 Ussher K and Walford I, *National Treasure*, Demos, 2011, https://demos.co.uk/wp-content/uploads/2011/03/National_treasure_-_web.pdf

40 Allen R, 'Evaluating the capability of the UK Treasury, 1990-2013', *OECD Journal on Budgeting*, 2013, vol. 2013, no. 3, https://read.oecd-ilibrary.org/governance/evaluating-the-capability-of-the-uk-treasury-1990-2013_budget-13-5jxx2xcvjpth#page1

41 Kavanagh D, 'Derek Scott: Economic adviser to Tony Blair who warned against joining the eurozone', *The Independent*, 3 August 2012, www.independent.co.uk/news/obituaries/derek-scott-economic-adviser-to-tony-blair-who-warned-against-joining-the-eurozone-8005609.html

42 Tetlow G and Bartrum O, *The Treasury during Covid: What lessons can be learned from the pandemic?*, Institute for Government, 2023, www.instituteforgovernment.org.uk/publication/treasury-during-covid

43 Thomas A, *The heart of the problem: a weak centre is undermining the UK government*, Institute for Government, 2021, www.instituteforgovernment.org.uk/publication/report/heart-problem-weak-centre-undermining-uk-government

Recommendations

1 Maddox B, Kidney Bishop T and Wheatley M, *The 2019 Spending Review: How to run it well*, Institute for Government, 2018, www.instituteforgovernment.org.uk/publication/report/2019-spending-review

2 Davies N and Clyne R, *Outcome delivery plans: the case for keeping and improving the government's performance management framework*, Institute for Government, 2022, www.instituteforgovernment.org.uk/publication/report/outcome-delivery-plans

3 Institute for Government, 'Infrastructure', 4 January 2023, www.instituteforgovernment.org.uk/infrastructure

About the authors

Giles Wilkes

Giles is a senior fellow at the Institute for Government. Before joining the Institute, Giles spent two and a half years as special adviser to Theresa May on industrial and economic policy, and four years in a similar role to Vince Cable in the Department for Business, Innovation and Skills. He has also been a writer of editorials for the *Financial Times*, chief economist at the think tank CentreForum, and spent 10 years in the financial markets.

Olly Bartrum

Olly is a senior economist in the Institute's public finances team. His current projects focus on the effectiveness of economic policy making, the role of the Treasury, and energy policy and regulation. Before joining the Institute in 2022, Olly was an economist in the civil service. Most recently he led research projects on economic growth, productivity and investment for the Department for Business, Energy and Industrial Strategy, having previously worked on forecasting and macroeconomic strategy at HM Treasury. He studied political economy and behavioural and experimental economics at university.

Rhys Clyne

Rhys is an associate director working on civil service and wider government reform, including the Institute's annual Whitehall Monitor. Before joining the Institute in 2020, Rhys worked in local government on a range of policy areas including welfare reform, health and social care integration, citizen participation, preparation for Brexit and pandemic response.

The Institute for Government is the leading think tank working to make government more effective.

We provide rigorous research and analysis, topical commentary and public events to explore the key challenges facing government.

We offer a space for discussion and fresh thinking, to help senior politicians and civil servants think differently and bring about change.

instituteforgovernment.org.uk

enquiries@instituteforgovernment.org.uk

+44 (0) 20 7747 0400

@instituteforgov

Institute for Government, 2 Carlton Gardens
London SW1Y 5AA, United Kingdom

The Institute for Government is a registered charity in England and Wales (No.1123926) with cross-party governance. Our main funder is the Gatsby Charitable Foundation, one of the Sainsbury Family Charitable Trusts.