

The First 50 years of The Government Economic Service

Lecture by Dave Ramsden

27 April 2015

1. [Slide 1] Welcome to King's. Thanks to the Strand Group at the Policy Institute here at King's and to Hewlett Packard for hosting this lecture and to all of you for attending.¹
2. The Government Economic Service (GES) was created in October 1964. The new Wilson Government, with a majority of four, embarked on a more planned approach to the UK economy.² The Department of Economic Affairs (DEA) was created with a longer term mandate, with HM Treasury meant to focus more on its Finance Ministry role.
3. [Slide 2] Several of the new Special Advisers were economists, including Robert Neild,³ who re-joined HMT. Alec Cairncross, as Head of the Treasury's Economic Section the Government's chief economist, worked to ensure the section stayed under civil service management. It did and Cairncross in his words "ended up with the title Head of the Government Economic Service. Ironically the Economic Service has survived to this day while the Economic Section vanished in the 1980s".⁴
4. Ironically, because the fledgling GES, 22 strong of whom 18 were already in the Economic Section, was for Cairncross "at first largely a fantasy", with little influence over staffing or resources.
5. As we are well into 2015 we can mark another anniversary: 100 years ago in 1915 Keynes started working in the Treasury.⁵

¹ I would like to thank my colleagues Lisa Barrance, Andrew Gurney, Leeanne Johnston, Nayeem Khan, Nick Macpherson, Charlotte McKinley, Jake Nelson, Mario Pisani, James Richardson and Daniel Tomlinson for their help and comments. All errors are my own.

² An alternative title for my lecture could be *From Wilson's National Plan to Osborne's Long term Economic Plan*. Going back further the Central Economic Planning Staff was set up in 1947 headed by Edwin Plowden. It worked with the Economic Planning Board.

³ Neild had previously been at the Economic Section in the Treasury and went on to be Deputy Head of NIESR. Ed Balls was the next special adviser with a similar title, Chief Economic Adviser to the Treasury, from 1997.

⁴ *Living with the Century*, Alec Cairncross, 1998

⁵ *John Maynard Keynes, 1883 – 1946 Economist, Philosopher, Statesman*, Robert Skidelsky, 2004. "On 6 January 1915, Keynes at last got a job in Whitehall, in Treasury Chambers (looking out to Horse Guards at the back)."

6. [Slide 3] My personal potted history is told through the experiences of Alec Cairncross and the other ten Heads of the GES, whose photos hang on one of the remaining walls in the open plan Treasury, pictured here.⁶
7. They may not be diverse in terms of gender and race but they are in their background and in their approaches, reflecting the cycle in economic thinking over the last fifty years.⁷ I am delighted that four former Heads of the GES, Fred Atkinson, Terry Burns, Alan Budd and Vicky Pryce, are with us tonight.
8. This is a technocrat's account. Given my love of numbers, I start with the highs reached by Government economists in helping to create world-class data for the UK from 1940, and go on to weave in the lows from 1964 onwards. Mindful of the constraints imposed by the 30 year rule and purdah, I dwell more on the pre and early history.
9. It is a Treasury-centric macro story with little on microeconomic policy, the domain of the vast majority of the GES 1400 economists. I do touch on three facets of the GES' broader contribution: welfare reform to improve labour market performance; big existential issues, and institutional reform. And I end with some reflections on the current state and future direction of the GES.
10. [Slide 4] In his 2011 lecture, *Why listen to economists?*⁸ Alan Budd argues that if economists are to merit being listened to, they need to be able to meet three criteria: first explain events, second successfully predict events, and third "to propose actions which would make life better".
11. For the GES economist who wants their advice to be listened to by other officials as well as ministers, who make the decisions, they also have to adhere to the civil service values of integrity, honesty, objectivity and impartiality.

Economists in wartime, talk by Alec Cairncross to the GES Conference at Keble College, July 1994. Keynes was "one of only a handful of economists in government during the First World War."

⁶ I have included a bibliography. Cairncross' extensive publications deserve a bibliography in their own right. His successor Donald MacDougall also wrote an autobiography and Robert Neild wrote a memoir. I have also drawn on first-hand accounts by Douglas Wass, Sam Brittan, Edwin Plowden, Eric Roll and Christopher Dow as well as lectures and talks by former GES Heads Terry Burns, Alan Budd, Vicky Pryce and Gus O'Donnell, including at a GES event in the Treasury in February 2014, as well as 1995 review of the GES, led by the late Norman Glass. Peter Hennessy's *Whitehall* has helped me keep my bearings. I have in the main avoided the more political accounts of successive Chancellors.

⁷ What Alan Budd terms "the cycle of rationality." *Why listen to Economists?*, lecture by Alan Budd, Queens College Oxford, 2011

⁸ *Why listen to Economists?*, lecture by Alan Budd, Queens College Oxford, 2011

12. My three objectives are to: give a balanced but positive account of the contributions of GES economists; encourage further research into the GES including as part of the new King's MA module on the Treasury since 1945;⁹ and prompt debate about where next for the GES.

The prehistory of the GES

13. The start of World War II was also the start of the Civil Service's systematic employment of economists and statisticians. Planning for war needs good data.

14. While great theoretical strides were made by Keynes and others, the data lagged behind. Keynes could conclude in 1940 that, "Every government since the last war has been unscientific and obscurantist, and has regarded the collection of essential facts as a waste of money."¹⁰

15. Cairncross joined the Central Economic Information Service in January 1940, working with Austin Robinson and Harry Campion on the Stamp Survey.¹¹ Donald MacDougall and Roy Harrod, in Churchill's S section, Bryan Hopkin, James Meade, Lionel Robbins and others all began their Whitehall careers around this time.

16. For some it was the start of regular interchange between Whitehall, academia,¹² international institutions, think-tanks, industry, and of course the National Economic Development Office.

17. At the end of 1940, the Central Economic Information Service split into the Economic Section¹³ and the Central Statistical Office,¹⁴ both in the Cabinet Office.

⁹ I have included a bibliography; many of the volumes are on long term loan from Bill Keegan's and Russell Jones' personal libraries, for which many thanks.

¹⁰ Quoted in *GDP, a brief but affectionate history*, Diane Coyle, 2014

¹¹ In accepting a job offer from Austin Robinson, Cairncross didn't take up a job conducting Mass Observation interviews in Edinburgh, an early Social Research job. The reports produced by the Stamp Survey in 1939-40 were "one of the best primers I have come across on the fundamental principles of a war economy", according to Cairncross, *Living with the Century*, 1998.

¹² Two year secondments from academia were prevalent in the Economic Section. There was no systematic interchange with the Bank of England through the years, though a steady stream of Treasury economists have moved to the Bank, often for higher pay, and more recently to the ONS.

¹³ *Living with the Century*, Alec Cairncross, 1998

¹⁴ *Keeping Score: The First Fifty Years of the Central Statistical Office*, Reg Ward and Ted Doggett, 1991 which celebrates the first fifty years of the CSO contains a comprehensive account. Harry Campion was Head of the CSO from 1941 to 1967.

Close working continues to this day but this demarcation put economists and statisticians on separate tracks.¹⁵

18. The first UK national accounts and detailed labour market data framed the 1942 Beveridge report and the 1944 Employment White paper, laying the peacetime foundations for the UK economy and welfare state, as well as for the development of macroeconomic analysis and policy.
19. By January 1944 the progress shown by Meade's latest report was such that Keynes could declare economic analysis, "has now reached the point where it is fit to be applied". Robert Skidelsky notes that, "Unusually for him [Keynes] he succumbed to an attack of arithmetical euphoria, proclaiming the dawn of an era of "Joy through statistics" when everything "will all be obvious and as clear as daylight with no room for argument".¹⁶
20. The next 70 years haven't turned out quite as Keynes envisaged.
21. But world class data has been a hallmark of the UK and has been central to understanding the economy and society: not just macro data but also the development of the census and several valuable longitudinal data sets. This data resource has been central to the development of the GES and the Government Statistical Service.
22. Michael Posner's 2004 obituary of Donald MacDougall highlighted, "my abiding memory of MacDougall, Cairncross and other holders of the top Treasury jobs is of their unerring statistical insight...the sort of nose developed only by hard work".¹⁷
23. [Slide 5] And for Donald MacDougall also the use of the slide rule: apparently in use well into the mid-1980s.¹⁸ In the calculator and computer age many still rely on their hard copy of the Treasury Pocket Databank.

¹⁵ *Living with the Century*, Alec Cairncross, 1998. "Officially" the split was because Churchill was fed-up receiving estimates of shipping tonnage on different bases. Unofficially there was thought to be rivalry between Lindeman's S section and the CEIS. For Cairncross it was "A separation of economists and statisticians that many in both camps have come to regret."

¹⁶ Keynes was referring to the *Employment White Paper Steering Committee report* taken from *John Maynard Keynes, 1883 – 1946 Economist, Philosopher, Statesman*, Robert Skidelsky, 2004

¹⁷ *Sir Donald MacDougall*, obituary by Michael Posner, 25 March 2004

<http://www.theguardian.com/news/2004/mar/25/guardianobituaries.obituaries>

This is also true of many later Heads of the GES. In 1988 at one of my first meeting with Terry Burns after I joined the Treasury he asked me to send him a data file on oil prices so he could do some analysis.

¹⁸ Where Nick Macpherson, now Treasury Permanent Secretary, worked with him.

24. In 1943 an early review¹⁹ recommended the Economic Section continue. Robbins, Head until 1945, wanted the Section to focus on solutions to practical questions, early echo of the GES's current description as "professional practitioners".
25. Meade took over from Robbins as Head in 1945 and stayed until 1947.²⁰ He was awarded the Nobel Prize for Economics in 1977, the third Government economist to do so, so far...²¹
26. The 1943 review also recommended employing more economists away from the centre, although according to Cairncross, aside from the odd stint at the Board of Trade, "...nothing much came of this until the 1960s."²² One outpost was the Central Economic Planning Staff, under Edwin Plowden, the Chief Planner, where Ken Berrill also worked.²³ Plowden collaborated closely with Robert Hall, Head of the Economic Section from 1947 to 1961, where Fred Atkinson, David Henderson and many others moulded their skills.²⁴
27. [Slide 6] For Neild the view of Edward Bridges, the Permanent Secretary of the Treasury was as set out in this slide. Comparing economists with plumbers reminded me that the machines built to demonstrate Phillips' model of the flow of spending in the economy used water and often sprung leaks.²⁵
28. In the 1950s the main cause of trouble was from Suez. But by the formation of the GES economic trouble was looming. After the years of "never had it so good" the UK was struggling to compete globally, with slowing growth and a current account deficit which needed to be financed at an exchange rate fixed since 1949.
29. Although structural issues were recognised, including by Keynes, macroeconomic policy was invariably seen in terms of demand management, using Government

¹⁹ *Economists in wartime*, talk by Alec Cairncross to the GES Conference at Keble College, July 1994. Lionel Robbins laid down four general rules: economic advisers should be members of the civil service; at least some of the members must be fully trained in economics if "the incredible muddles which continually emerge from lay discussion" of economic affairs were to be avoided; what was needed was continuous study of problems of economic policy as a whole from a comprehensive not a departmental point of view; the organisation must concern itself with the day-to-day solution of practical questions.

²⁰ Meade maintained links and gave the keynote speech *Full Employment and Inflation*, to the first GES conference at Jesus College, July 1993

²¹ This has been corrected (with thanks to Joe Grice) from the original lecture where I had thought Meade was the sole recipient of the Nobel Prize. In fact, Richard Stone and Ronald Coase, both economists in Government during World War II, were also Nobel Laureates.

²² *Economists in wartime*, talk by Alec Cairncross to the GES Conference at Keble College, July 1994.

²³ One of the few "irregulars" from outside the civil service to stay on into peace-time.

²⁴ The Economic Section moved into the Treasury in 1953.

²⁵ *What next? A memoir*, Robert Neild, 2012

spending to maintain low unemployment, in line with the prevailing Keynesian thinking.²⁶

The GES' ups and "searing experiences".

30. [Slide 7] The fledgling GES grew from 22 in 1964 to 172, shown in Sam Brittan's table in the slide.

31. The DEA and the Treasury expanded as they tried to manage the planned economy in demanding times. Another driver of growth in the GES was Barbara Castle who employed more economists wherever she was a minister.²⁷

32. In a recent essay on the 1981 Budget,²⁸ Alan Budd explains "when he first joined the Treasury in 1970, the senior economists had experienced the effects of the Great Depression" and that has been their "searing experience" – an event or period which left a profound impression and which was to shape their approach to policy for years to come.²⁹

33. [Slide 8] Cairncross was a student of Keynes in the 1930s.³⁰ But his struggles with sterling and the policy to sustain the official rate were a focal point of his official career in the 1960s. His diaries capture the drama leading up to the November 1967 decision to devalue and the even greater sense of powerlessness afterwards in 1968, in the face of the backwash from a possible French devaluation, which never materialised.

34. Cairncross' suggested epitaph for the 1960s, "How much did we lose yesterday", is in line with Frances Cairncross' conference report of the views of another

²⁶ Spurred by the failure of neo-classical economists to predict or explain the Great Depression.

²⁷ "Thirdly, Barbara Castle liked to have economists around, and wherever she went recruited them in large numbers..." *Don and mandarin*, Donald MacDougall, 1987. The GES also had an increasing reach across the UK with both Alex Salmond and Rhodri Morgan, members of the GES or its affiliates in the early years.

²⁸ *The LBS and the 1981 Budget*, Alan Budd from *Expansionary Fiscal contraction*, Duncan Needham and Anthony Hotson Eds, 2014

²⁹ This is not to downplay the challenges of other periods working as a Government economist. Working during the war brought its own challenges and Cairncross recounts how in 1944 he returned to his flat in Philbeach Gardens, where the Treasury Permanent Secretary now lives, to find it had been hit by a V2 bomb. The peace started equally stressfully. The Robert Hall diaries start with the entry for 1 September 1947: "Today I began as full-time Director of the Economic section of the Cabinet Office in succession to James Meade who had to resign because the strenuous life gave him stomach ulcers." *The Robert Hall Diaries 1947-53*, Alec Cairncross Ed, 1989. The post-war memoirs of Meade, Hall and Plowden are all punctuated with episodes dealing with sterling: the convertibility crisis of 1947, the 1949 devaluation, the Robot episode of the 1950s.

³⁰ *Living with the Century*, Alec Cairncross, 1998

protagonist of the period. “Sir Fred Atkinson argued that the statistics the conference had been looking at made it appear that the 1960s had been a period of success. That was not how it felt at the time. There had seemed to be a series of sterling crises almost every year”.³¹

35. **[Slide 9]** The slide shows a page from the 1971 GES directory.³² At the end of 1968 Alec Cairncross retired from the civil service and Donald MacDougall had moved over from the soon to be defunct DEA to become Head of the GES and Chief Economic Adviser of the Treasury. As MacDougall puts it, “None of my predecessors had held both jobs but all my successors have done”,³³ which remained true up until Alan Budd joined the Monetary Policy committee in 1997 and Ed Balls became Chief Economic Adviser.
36. The Economic Assessment division was home of the National Income Forecast or NIF as it was known.³⁴ It was a multi-disciplinary division of economists, statisticians, model builders and computer experts with one policy official. Patricia Brown oversaw the short term projections section which included Peter Sedgwick and the late Huw Evans. Alan Budd, Rachel Lomax and Ruth Lea worked on the medium term, a distinction which was partly a legacy of the DEA.
37. **[Slide 10]** In his 1987 autobiography, MacDougall details the efforts made through 1972 to avoid unemployment hitting 1 million, which helped stoke the Barber Boom of 1973. This quote sums up the preceding 20 years well.
38. **[Slide 11]** Alan Budd’s own “searing experience” was the Barber boom.
39. **[Slide 12]** From Hennessey’s account,³⁵ it seems safe to assume that for Ken Berrill, coping with the quadrupling of the oil price, to \$12 in March 1974 was challenging, although at least Whitehall is near to some good pubs full of bar-room experts.

³¹ *The Legacy of the Golden Age: The 1960s and their Economic Consequences*, Alec and Frances Cairncross, 1992

³² According to Douglas Wass, *Decline to Fall*, Treasury economists were by now also “‘bedded out’ in the [expenditure] divisions, where they could help policy to be formulated”.

³³ *Don and mandarin*, Donald MacDougall, 1987. The title of Economic Adviser had not been used after Neild’s departure in the summer of 1966, which according to Neild’s memoir (*What next? A memoir*, 2012) was “the result of disenchantment and an invitation out of the blue to do something attractive”. The title Chief Economic Adviser was also not in use between 2005 and 2008.

³⁴ *Decline to Fall: The Making of British Macro-economist Policy and the 1976 IMF Crisis*, Douglas Wass, 2008

³⁵ *Whitehall*, Peter Hennessey, 1989

40. [Slide 13] The mid-1970s were a watershed for the UK economy with the “misery index” of unemployment and inflation peaking at over 25 per cent.³⁶ Series such as the current account and public finances, more prone to revision and central to IMF surveillance then and now, created their own issues.
41. The UK had to ask for an IMF programme in 1976, as brilliantly recounted by Douglas Wass, the Treasury Permanent Secretary from 1974 to 1983, in *Decline to Fall*.³⁷
42. The mid-1970s also marked the peak in civil service numbers, 750,000, of which 375, or just 0.05 per cent were in the GES.³⁸
43. [Slide 14] Bryan Hopkin, Head of the GES through this period, can be seen at the back of this photograph. After his death in October 2009 the Daily Telegraph obituary concluded, “Hopkin’s three years with Healey are probably the toughest the Treasury has faced.”
44. Douglas Wass, standing between Hopkin and Healey in the photo, recalls that even by the mid-1970s Treasury economic thinking didn’t recognise the NAIRU³⁹ and still considered there to be a trade-off between inflation and unemployment around it. The experience of the 1970s brought increasing emphasis on the rational expectations “revolution”, which threw doubt on whether there was a short run trade-off, which policy could exploit.
45. [Slide 15] Fred Atkinson moved from the Board of Trade to the Treasury in 1977. As is often the case, the Treasury economic policy advice he became responsible for was lagging behind advances in economic thinking, and July 1978 saw the last throes of incomes policy. The recommended Stage 3 wages norm of five per cent was below inflation. The norm was by the pressures for catch-up after years of restraint. Another bout of cost-push inflation led to inflation doubling to 15 per cent by the summer of 1979. Prime Minister Jim Callaghan was famously cornered by a journalist in the exchange quoted on this slide on 10 January. 22 January,

³⁶ Okun is credited with producing the first misery index: the sum of the inflation and unemployment rates. Here using the consistent series for claimant count unemployment as this is the longest time series available.

³⁷ *Decline to Fall: The Making of British Macro-economist Policy and the 1976 IMF Crisis*, Douglas Wass, 2008

³⁸ *Whitehall*, Peter Hennessy, 1989

³⁹ Douglas Wass. Friedman developed the concept of the NAIRU or Non-accelerating inflation rate of unemployment from 1968.

during the “winter of discontent”, was the biggest single day of strike action since the general strike.⁴⁰

46. In January 1980 Terry Burns joined the Treasury from the London Business School. The 1981 Budget’s policy mix of tight fiscal and loose monetary policy, against a backdrop of sharply rising unemployment became a rallying point for opposition to the Thatcher Government. 364 university-based economists, including James Meade, Mervyn King and many other luminaries wrote a public letter of protest. Atkinson, Cairncross, Hopkin and MacDougall were signatories; after the Second World War and 1964 their third coming together at a significant moment.⁴¹
47. Growth soon started to pick up and inflation came down. Unemployment stayed high until the Lawson Boom and subsequent recession generated another cycle.
48. **[Slide 16]**. The pound’s exit from the ERM in September 1992 provided one more sterling related “searing experience” for Terry Burns, by then Treasury Permanent Secretary, and Alan Budd, who rejoined the Treasury in 1991 having worked for the LBS and Barclays.
49. **[Slide 17]** And perhaps also for Gus O’Donnell who by that point had moved to No10 and is seen leading the way towards another famous press statement in this photo, taken late on Black Wednesday.
50. What Burns calls the “very difficult period” of ERM exit was quickly followed by the adoption of an inflation target. This along with the relatively shock-free global environment ushered in an unprecedented 15 year long period of stability, spanning most of Alan Budd’s and all of Gus O’Donnell’s and Nick Stern’s stewardship of the GES.
51. **[Slide 18]** Vicky Pryce and I became joint Heads of the GES in summer 2007.⁴² The next three years until Vicky left the civil service saw: Lehman’s, multiple whole or part bank nationalisations, the biggest fall in UK GDP since World War II, a discretionary fiscal stimulus, Quantitative Easing, post war record fiscal deficits and

⁴⁰ Though the Government eventually lost a vote of no-confidence in March 1979 on Scottish devolution.

⁴¹ In fact, Cairncross and Hopkin had also been together in Cambridge in the mid-1930s.

⁴² I am always at pains to stress this is an example of correlation not causation in light of the events which were to follow.

- the start of a major fiscal consolidation. And institutionally the creation of a National Economic Council, an echo of NEDO or the DEA in its sectoral focus.⁴³
52. Since 2010 monetary policy has remained supportive, the fiscal consolidation has been stepped up, measured public sector productivity has increased, and shocks have continued.⁴⁴ Employment growth has been strong and unemployment has fallen but the recovery has been weak, though not out of line with the aftermath of previous crises, as indicated by the historical analysis of Carmen Reinhart and Ken Rogoff.⁴⁵
53. [Slide 19] While visiting the LSE in 2009 the Queen famously asked “why didn’t you see it [the crisis] coming?”⁴⁶ The “you” could refer to the GES as much as any other group of economists. Like most conventional indicators the Misery Index wasn’t even glowing amber as an early warning indicator. It didn’t register a global crisis which originated in the financial sector and reflected the burgeoning balance sheets of banks and households.
54. It is for others to assess the record of the GES over the crisis period and drawn lessons.
55. In his 2011 lecture Alan Budd drew attention to the role of financial regulation and how economists put the theory of regulation into practice.
56. [Slide 20] Vicky has recently joined forces with Andy Ross, retired stalwart of the GESR team, and Peter Urwin to write a book which sheds light on her thinking.⁴⁷
57. One lesson I will draw for now, and which I owe to John Llewellyn from his time as a consultant to the Treasury, is that the last decade shows why economists have to look at the widest range of data.

The evolution of the GES

⁴³ For some a worthwhile attempt at coordination across the various economics ministries; for others more of a throwback to previous attempts at a planned approach.

⁴⁴ The Treasury’s focus has been on policies such as Credit Easing, trying to influence the supply and demand drivers of credit, harking back to issues first looked at by the Macmillan Commission in the 1930s. More recently to encourage more balanced growth regionally through Northern Powerhouse and regional Long Term Economic Plans.

⁴⁵ *This Time is Different*, Carmen Reinhart and Kenneth Rogoff, 2009

⁴⁶ <http://www.lse.ac.uk/newsAndMedia/news/archives/2009/07/LetterToQueen2.aspx>

⁴⁷ *It’s the Economy, Stupid: Economics for voters*, Andy Ross, Peter Unwin and Vicky Pryce, 2015

58. Talking of data what has all this meant for GES numbers? A 1980 study was confident “that the peak in the numbers of professional economists and statisticians in Whitehall has passed”.⁴⁸
59. [Slide 21]. Numbers did fall through the 1980s but by the time of a 1995 internal review of the GES led by the late, much missed Norman Glass they had risen to a new peak of 500. The review⁴⁹ cited four reasons for increasing demand for economists: to meet the needs of the new regulators; to analyse the newly developing internal markets; to assess the effects of Government policies in departments like DH and DSS;⁵⁰ and to look at new areas of policy such as the environment.
60. [Slide 22] Similar drivers explain the continued increase to 1,400 GES members now.⁵¹ The pie charts bring out how that the vast majority of GES economists on microeconomic issues, shaping policy on labour, product, capital and land markets across 37 departments and regulators.⁵²
61. With resources scarce economists have been able to apply their workhorse tools, such as cost-benefit analysis to assess the value of different policies, as framed by the Green Book appraisal guidance.⁵³ And these tools can be used to assess efficiency, and to ensure trade-offs are properly considered.
62. This is the day-to-day work of departments like Transport and BIS, who have broadly retained their shares of the total at 7 per cent and 10 per cent. The Treasury’s share has fallen sharply, to 10 per cent.⁵⁴ The Treasury’s resourcing particularly on microeconomic issues has been queried over the decades⁵⁵ and continues to be debated today.

⁴⁸ *The Sociology & Professionalisation of Economics*, A. W. Bob Coats, 1993

⁴⁹ *Economic Advice in Government: A Review of the Government Economic Service*, 1995

⁵⁰ Department of Health and Department of Social Security

⁵¹ Nearly 3 per cent of the total of 450,000 civil servants. There are another 4000 GES members in non-economist posts.

⁵² Around 150 economists work for the Scottish Government or for the UK Government in the North of England. We now have annual GES conferences in Scotland and the North of England.

⁵³ <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

⁵⁴ Hennessy details how Treasury control of Whitehall started to wane from the time of the IMF crisis. My Mile End Group argued this was re-established on questions relating to currency policy.

⁵⁵ *Why we need a strong Treasury*, David Henderson and David Sawers, published in the Independent, 1994

Three examples

63. There are many microeconomic policies I could have highlighted, which have driven the more efficient workings of most markets since the 1980s. I have chosen welfare reform, because sound economic analysis, grounded in evidence, has been listened to consistently in making the case for politically difficult reforms to the labour market.
64. The 1960s and 1970s saw a progressive deterioration in the UK labour market, through the interaction of negative shocks with poor institutions and policies; the Selective Employment Tax introduced in 1968 was a particular bugbear of Cairncross and MacDougall.⁵⁶
65. Unemployment peaked at 6 per cent in the late 1970s – though many more were underemployed in state-owned industries – and at double that rate, 12 per cent in 1984. A very high proportion were long-term unemployed, detached from the labour market, with no influence on wages: leading to hysteresis, the ratcheting up of structural unemployment.
66. In academic work led by the LSE Centre for Labour Economics by Richard Layard, Steve Nickell and Richard Jackman, unemployment began to be seen as much as a supply side as a demand side phenomenon.⁵⁷ Regulation, trade union legislation and the incentives provided by the tax and benefit system were all facets.⁵⁸
67. Focussing on the benefits system, former DWP chief economist Jonathan Portes describes how factors such as inadequate support, generous benefits, and political pressure, created “a prevailing view that many of these men would never get another job... leaving them there with no attempt to return them to the labour market.”⁵⁹

⁵⁶ *Living with the Century*, Alec Cairncross, 1998 and *Don and mandarin*, Donald MacDougall, 1987

⁵⁷ *Unemployment: Macroeconomic performance and the labour market*, Richard Layard, Stephen Nickell and Richard Jackman, 1991. I remember reading Richard Layard’s *How to beat unemployment* on joining DHSS in 1986.

⁵⁸ Policies included: the Employment Act of 1980s which curbed the power of the trade unions, by abolishing closed shops and tightening the legal constraints on industrial action; The Restart Programme, which provided job-search assistance to the long-term unemployed; 1986 Reform of Invalidity Benefit The introduction of Job Seekers Allowance to replace Unemployment Benefit in [1996]; The Introduction of tax credits in 1999 to “make work pay” for those with low incomes; New Deals for young people, the long-term unemployed, lone parents, and disabled people; And, since 2010, the development of Universal Credit

⁵⁹ In parallel, the number of lone parents on Income Support tripled between 1980s and 1995, partly as a result of a welfare system that allowed them to receive the benefit as long as they had a child who was aged

68. From the Restart programme of 1986 this sustained reform programme has aimed at encouraging greater labour market participation, with activation at its heart, to allow labour supply to respond more freely to changes in labour demand, all the while testing different policies to establish what works.
69. Although some of the more recent policies and evidence remain contested, the overall direction of reform – at the time seen as radical and controversial – now attracts a broad domestic and international consensus.⁶⁰
70. [Slide 23] In terms of outcomes in the aftermath of the most recent recession UK unemployment has peaked lower than the previous peak, and has since fallen to 5.6 per cent, close to most people’s estimate of the NAIRU.
71. Notwithstanding the challenges reform creates, particularly for those with disabilities, the record shows how Government economists like Rebecca Endean and Bill Wells have made a consistently positive contribution explaining, predicting and proposing.⁶¹

Existential issues

72. My next theme is the GES contribution to existential issues: by which I mean an issue which would fundamentally change the economy of the UK.
73. [Slide 24] I covered the UK’s decision on EMU membership⁶² in a Mile End Group lecture. This slide quotes the concluding paragraph of the Five Tests. This and the analysis of a currency union for Scotland,⁶³ covered by Nick Macpherson in a Strand Group lecture earlier this year [Slide 25] illustrate how GES economists were able to apply a range of existing analysis to a risk-based approach to new policy questions, drawing extensively on academic input.
74. [Slide 26] But my focus today, albeit brief, is on a different class of existential issue: less discrete, not binary and not specific to the UK. And harder perhaps to get a

under sixteen. *Welfare and work: continuity and change*, J Portes, National Institute Economic Review no. 221, July 2012 <http://ner.sagepub.com/content/221/1/F4.full.pdf>

⁶⁰ *Boosting Jobs and Incomes: policy lessons from reassessing the OECD Jobs Study*, OECD, 2006 <http://www.oecd.org/els/emp/36889821.pdf>

⁶¹ And many others including Jacque Mallender, my first boss when I joined the DHSS in 1986.

⁶² *The Euro: 10th Anniversary of the Assessment of the Five Economic Tests*, Dave Ramsden, June 2013, MEG98

⁶³ *The Treasury and the Union*, Nick Macpherson, January 2015 <https://www.gov.uk/government/speeches/speech-by-the-permanent-secretary-to-the-treasury-the-treasury-and-the-union>

grip on in the existing structures of the GES. In common with other types of market failure the GES was already putting more resources on environmental issues from the early 1990s. But it took the Review of Climate Change, led by Nick Stern from 2005 to 2006, while Head of the GES, to do justice to this existential issue.

75. Stern's analysis was ground-breaking in its approach as this summary quote highlights and had to be in order to explain, predict and propose solutions to this existential challenge. Many aspects were contested.

76. A key analytical issue was the appropriate rate at which to discount the future cost and benefits of alternative strategies to mitigate the economic and social impacts of climate change. The Treasury Green Book recommends a discount rate of 3.5 per cent for use in cost benefit analysis. Stern argued that the particular characteristics of climate change mean a much lower discount rate should be applied to assess the economics of global warming.⁶⁴

77. At the time some argued for the use of market interest rates: since the crisis these are much closer to the levels proposed by Stern.

78. DECC⁶⁵ was set up with analysis of climate change at its centre. The wider GES continue to be heavily involved in the issues.

The importance of institutions

79. My final theme in this lecture is institutional reform.⁶⁶ GES members have been at the forefront of reform of the UK's economic and fiscal institutions, often as a strategic response to earlier experiences, some of them searing. [Slide 27] Most significant were the successive reforms to the monetary policy framework spearheaded by Alan Budd and Terry Burns, culminating in 1997 with operational independence for the Bank of England. Independence for the UK statistics system

⁶⁴ These special characteristics include the fact that actions that are, or are not, taken today cumulate slowly, affecting the extent of global warming over many decades. This characteristic is exacerbated by the non-linear relationship of the impact of global warming on economic performance.

⁶⁵ Department for Energy and Climate Change with 87 members of the GES as of January 2015.

⁶⁶ These sort of changes can be a type of "searing experience" for the uncertainty and upheaval they generate. Hennessey describes how the Treasury learnt to live with the DEA, or as it was nicknamed by the Treasury (according to Ian Bancroft) the "Department of Extraordinary Aggression" until it was abolished in 1969. Ultimately according to Wass the DEA's lack of policy responsibility meant "it really was left beached, studying the longer term problems of the UK economy". A view shared by Cairncross.

and the creation of UKSA in 2007 was another milestone, which Simon Brooks, and Jon Cunliffe from the policy side, led on.⁶⁷

80. I want to focus on the creation of the Office for Budget Responsibility (OBR) in 2010 which as with other reforms has been designed to build credibility and foster trust.

81. The OBR was established on principles first set out in Terry Burns' 1995 lecture *The Management of Economic Policy*: measurable objectives; clarity on responsibilities, transparency of approach; predictability of process.⁶⁸ Through these principles opening the whole system up to encourage greater scrutiny and accountability.

82. The Government's macroeconomic forecasting function has always attracted attention. For Cairncross the forecasts in the 1960s (overseen by Wynne Godley) "were not themselves advice, they were simply guidance to the Chancellor on the balance of risks he faced".⁶⁹

83. Most Chancellors have challenged their own forecasts, none more so than Dennis Healey.⁷⁰ The first Budget of a new Parliament has often been an opportunity to decry the previous set of forecasts. Both Ken Clarke and Gordon Brown thought about having the Treasury forecast market-tested.

84. The potential for "optimism bias", the built-in institutional incentive to change the fiscal forecasts rather than to take the much harder decision to change policy, which is particularly acute in the UK, given the wider administrative set-up⁷¹.

85. Simon Wren-Lewis had real impact, leading the academic argument for transferring certain functions to independent fiscal councils.⁷² The forecast errors

⁶⁷ There are lots of other reforms which merit a mention. The phalanx of regulators to oversee the privatised utilities and the various waves of financial regulation spring to mind. Although different in character also noteworthy is the O'Donnell review which led to the merger of Revenue and Customs to create HMRC in 2004.

⁶⁸ *Management of Economic Policy (Eleanor Rathbone Memorial Lectures)*, Sir Terence Burns, 1995. They were set out at length and generalised in *Macroeconomic Reform in Britain* edited by Ed Balls and Gus O'Donnell published in 1999, a unique book length collaboration between the then CEA and then Head of the GES.

⁶⁹ *Living with the Century*, Alec Cairncross, 1998

⁷⁰ *Whitehall*, Peter Hennessey 1989: "...the William Armstrong years - saw as part of the Keynesian apotheosis begun in 1941 when the Treasury swung to a new economics, the expansion and sophistication of Treasury's Economic forecasting capability without which, self-evidently, attempts to fine-tune the economy would be as successful as a symphony orchestra without a score. There were those that believed that a policy cacophony would result however many computers were installed in Treasury chambers and however bright the members of the rapidly expanding GES (21 to 375 between 1964 and 1975) who manned them." And *Treasury forecasters, Boston stranglers and Whitehall policy-makers*, Alan Budd, Economic Affairs, 1980: "...he wanted to do for forecasters what the Boston strangler had done for Door to door salesman"

⁷¹ The UK has less political and institutional checks and balances than for example the US and Germany.

⁷² <http://mainlymacro.blogspot.co.uk/>

of the late 2000s sharpened the case, although international case for change was not as clear cut as with monetary policy. As is often the case it took a new Government to effect the change.

86. Past and future GES Heads played a big part in making the case for change and create the OBR with sole responsibility for producing the Government's economic and fiscal forecasts. Gus O'Donnell, as Cabinet Secretary, made the case internally. Alan Budd practiced what he preached and became the interim Head of the OBR in May 2010. Nick Stern flagged the issues around forecasting performance in the House of Lords. From the next generation, Samantha Beckett, now Director General at BIS and Deputy Head of the GES, led the Treasury's work to establish the OBR.⁷³

87. Under the leadership of Robert Chote, Steve Nickell and Graham Parker the OBR has quickly established itself as an integral part of the UK economy's institutional framework. The forecasts will still be wrong, but there is no longer the risk of bias. Importantly the OBR's commitment to transparency means that all the analysis and judgements that go into the forecasts can be scrutinised, as it can increasingly with the MPC's forecasts. A recent independent review marked the OBR highly and both main UK political parties reference the OBR in their current manifestoes.

88. It says a lot that perhaps the biggest champions of the OBR are the civil servants who used to produce the forecast.⁷⁴

The current and future GES

89. I want to conclude my lecture by considering the current state of the GES. The UK Civil Service is considering how to benchmark itself against the best civil services internationally.⁷⁵ While New Zealand and India have similar services the GES is unique in its breadth and scope.

90. I think there are a lot of positives.

⁷³ Terry Burns became the lead non-executive in the OBR.

⁷⁴ *External review of the Office for Budget Responsibility*, Kevin Page, 2014

<http://budgetresponsibility.org.uk/first-external-review-obr-published-3/>

⁷⁵ <https://civilservice.blog.gov.uk/2015/04/21/who-has-the-best-civil-service/>

91. There is significant demand from the rest of the Civil Service. The excellent GESR team are meeting it by taking in a record 200 new recruits this year, making the GES still the biggest recruiter of economists in the UK.⁷⁶
92. The civil service is one of the few professions which has seen the general public's trust in it rise.⁷⁷ Economist engagement scores on the civil service staff survey are higher on average and continue to rise.
93. Because GES economists are good they are in demand and retaining economists has always been a challenge.⁷⁸ But the GES' loss of the likes of Angus Armstrong, Marian Bell, Ben Broadbent, Paul Johnson and Jonathan Portes has been to the Bank of England's, IFS' and NIESR's advantage.
94. I am proud that GES economists were instrumental in delivering 19 of the first 50 projects completed by Pro Bono Economics, a new charity which advises other charities on how to measure their impact to economic and societal outcomes.
95. [slide 28] The GES of 2015 is still recognisable from the GES at the time of the first conference in 1993, as shown in these photos. The challenges are much the same: how best to communicate our advice internally;⁷⁹ how best to communicate what we do externally, including through the use of social and other media; ensuring excellent management and enhancing leadership, in line with the rest of the civil service.
96. Taking a more structured approach to talent management is a current priority. For those that want to continue as professional economists there are increasing opportunities for senior leadership, of people and of policy. Members of the analytical professions have always moved into the rest of the civil service.⁸⁰ Terry

⁷⁶ The economics and social research professions in government are supported by the Government Economic and Social Research team located in the Treasury. This has continued to provide a first class recruitment and development service while delivering major efficiencies.

⁷⁷ Ipsos MORI polling 2015

<http://www.instituteforgovernment.org.uk/blog/10350/public-trust-in-public-servants-in-six-graphs/> Although economics and economists have been more in the dock.

⁷⁸ As a snapshot of how dynamic the GES and HMT labour market is, in the last months, my Group of 50 in the Treasury has lost four economists to the private sector, to a consultancy, a think tank, an investment bank and an asset manager and one economist has moved to the Bank of England, with one Bank economist joining HMT on secondment and one moving to the VOA (Valuation Office Agency).

⁷⁹ *What Economists Do – And How Universities Might Help*, Paul Anand and Jonathan Leape taken from *What's the Use of Economics? Teaching the Dismal Science after the Crisis*, Diana Coyle Ed, 2012

⁸⁰ In addition to the 1400 members of the GES in economist jobs there are 400 GES members in non-economist jobs including the Permanent Secretary to the Treasury and the Principal Private Secretary to the Chancellor.

Burns was the first senior GES leader to become Treasury Permanent Secretary. Rachel Lomax followed suit, going on to lead several departments. Five of the current crop of Permanent Secretaries started in the GES.

97. Reflecting the welcome and necessary lowering of the barriers between professions many Chief Economists would now identify more with the title Head of Analysis. To thrive in the modern analytical world economists must be open to new techniques and skills, such as data analytics.⁸¹
98. Like the rest of the civil service, the GES has to remain attractive to new recruits, if not necessarily through pay then through the wider career offer: things like quality of work, the development offering, flexible working patterns and being part of a diverse, high performing team.
99. On diversity we have made progress against the challenges Sue Owen highlighted at the 1993 GES conference.⁸² But there is much more to do on senior representation on the key metrics of diversities including disability. [Slides 29] The slide shows GESR team data on trends on gender and ethnicity over the last ten years.
100. On gender we lag the civil service but we are ahead of the rest of the male-dominated economics profession, where well under a third of university economics faculties and around a third of economics students are women. 40 per cent of the latest GES intake are women. But we should look hard at why there are proportionately more senior women leaders – the likes of Jenny Dibden, Karen Dunnell, Denise Lievesley and Jil Matheson – in statistics and social research.
101. On ethnicity GES recruitment of Black and minority ethnic staff is representative of the society we serve but progression isn't. We need more future leaders to join Osama Rahman and Shamik Dhar on the GES Board. Hopefully BAME economists will be inspired by them and also by Ronald Fryer, the winner of the 2015 John Bates medal for the best US economist aged under 40.
102. As "professional practitioners" we need to prioritise our own professional development and that of our discipline.

⁸¹ <https://gds.blog.gov.uk/>

⁸² *Equal opportunities*, seminar led by Sue Owen at 1993 GES conference.

103. We have to engage more systematically with academia to enhance their and our impact.⁸³
104. In terms of the discipline my own view is that we are in good place. Many would disagree but I think we are well served by macroeconomic theory and models.⁸⁴ There is more consensus that microeconomics is in good shape, and has been augmented and extended into fields such as behavioural economics and broadened into measuring and assessing well-being. But we have to keep engaging, testing and feeding back.
105. Just as we must with developments in the teaching of economics, spearheaded by Wendy Carlin and Diane Coyle, and now starting to bear fruit in new curricula and the development of new courses, including here at King's.
106. I think the GES can look ahead with confidence based on a solid track record of being listened to. Recapping on the four areas I have flagged tonight the GES needs to:
107. Keep contributing to the development of the data, without which it is impossible to explain, predict and propose. John Pullinger, the National Statistician, recognises this. The ONS is recruiting more economists, and with the recent addition of a new DG and Director to join Joe Grice, the ONS now has as many senior economist posts as the Treasury.
- I. Always be an advocate of efficient and fair markets in the private and the public sector. All are key but the labour market remains central to the fortunes of the UK economy.
 - II. Be willing and able to contribute economic analysis to the big existential issues the UK faces, both existing ones like the environment and devolution, and new ones.
 - III. Be pro-active and bold in recommending institutional reform.

⁸³ This was probably Cairncross' biggest concern when he reflected on the GES of the late 1990s and how it had changed since 1964. In this blog, *Bacon and Waldegrave: Towards a Broader Definition of impact*, Denise Lievesley, Dean of KCL, gives a good summary of the issues around impact.

<http://blogs.kcl.ac.uk/policywonkers/bacon-and-waldegrave-towards-a-broader-definition-of-impact/>

⁸⁴ In response to a recent question from a KCL undergraduate I said John Hicks was the economist I most admired. I learnt most of what I know about Hicks, Malinvaud and disequilibrium economics from Peter Sinclair.

108. I hope I have met my three objectives: first to give examples of where GES advice has been listened to and acted upon; second to encourage further research in the GES, which would be aided hugely if Fred Atkinson and Bill Keegan would complete their memoirs; and third to raise some issues for the future GES.
109. **[Slide 30]** GES economists should keep striving to explain the world, using theory, models and evidence while recognising there are limits.⁸⁵ And on the basis of the rollercoaster history of our first 50 years, approach the tasks of explaining events, predicting behaviour and proposing policy solutions with the necessary humility.⁸⁶
110. Thank you.

⁸⁵ In his 2011 lecture Alan Budd says economics is a 60 per cent discipline.

⁸⁶ I was lucky enough to be introduced to Ken at Bill Keegan's 70th birthday party early in the period.