Sir Nicholas Macpherson 'The Origins of Treasury Control'
16th January 2013

Some 60 years ago, Sir Edward (later Lord) Bridges gave the Stamp Memorial lecture, in which he described the many ways in which the Treasury had changed since the end of the First World War. He chose Treasury Control as the lecture‟s title.

Tonight, I plan to roam a little more widely and to consider the origins of Treasury control itself. But, as a preface to my lecture, I cannot put it any better than Bridges himself:

To those of you who may regard this as an arid prospect, I would say … that having spent nearly all my working life in this business, I find in it today more of interest, indeed at times of excitement, than I did as an apprentice thirty years ago.

The rise of the Treasury

The Treasury‟s origins lie back in the mists of time. It is younger than the Royal Min but older than any other department. The Treasury‟s role in the Middle Ages almost certainly merits a separate lecture. I do not propose to go into it tonight.

Instead, I shall confine myself to the modern era: the period since the post of Lord High Treasurer first went into Commission, four hundred years ago last June. Tonight, I want to examine how the Treasury became the dominant institution within Whitehall; to what it owes its power; and why it is more than just a common or garden Finance Ministry on the continental model.

I would attribute the rise of the Treasury to three factors, which played themselves out in the two hundred year period from the Civil War to the rise of Gladstone:

war as a spur to financial innovation;

the Treasury‟s inextricable links to Parliament;

and its ability always to be just ahead of the rest of Whitehall in terms of quality of administration.

I will then touch on how Treasury control evolved in the 20th century, and finish with some contemporary observations.

First, war.

The Second Dutch war of 1667 perhaps did more to strengthen the Treasury than any other. The war itself was a disaster, culminating in the Dutch raid on the Medway, during which some fifteen English ships were destroyed, with the flagship HMS Royal Charles being captured without a shot being fired and towed back to Holland as a trophy. But above all it was a triumph of Dutch finance and administration. This was a country whose population was a quarter of Great Britain‟s, but which managed to deploy more money to finance the war.

Charles II realised it was time to reform the Treasury. Out went the Lord High Treasurer, the Earl of Southampton. In came, a new Treasury Commission. The King had been much influenced in exile by the administration by committee he had seen in Holland and France.

Charles II faced down his Lord Chancellor, Lord Clarendon, in insisting that "he would choose such persons, whether Privy Counsellors or not, who might have nothing else to do, and were rough and ill natured men, not to be moved with civilities or importunities in the payment of money". Lord Ashley as Chancellor of the Exchequer had a good understanding of finance; Sir Thomas Clifford had been a Commissioner of the Navy and Sir John Duncombe one of the Ordnance Commissioners, while Sir George Downing – the Secretary – was a skilled financier, as well as a property developer.

The new Commission was quick to assert its authority over the Privy Council and Secretaries of State. Within a week of their appointment, they demanded to be informed of every petition which would involve a charge on the revenue, and the right to give their opinion on the petition itself and the state of the revenues as a whole. The King agreed. Eight months later, when one of the Secretaries of State had presented a warrant for hay for the deer in New Park without the Treasury‟s knowledge, the Commissioners demanded yet more power. As a result, all money warrants for the Navy, Household, Guards and Garrisons were now to be countersigned by the Treasury Lords, and Warrants for the regulation of the revenue were to be passed by the Treasury. Moreover, as the Order in Council of January 1668 made clear, "no free gifts or pensions might be granted until the petitioner had set forth the value of the thing sued for, and the Treasury Commissioners have reported thereon".

The strengthening of the Treasury over the next forty years was reflected in the relative ease with which it funded the War of the Spanish Succession, the most expensive war Great Britain had fought to date and which more than doubled the national debt. The rapid development of the City of London, combined with the setting up of the Bank of England with the First Lord‟s support, ensured a much more favourable funding environment. Indeed, Marlborough‟s victories could be funded on the back of relatively benign interest rates. Not all were happy: Swift‟s History of the Last Four Years of the Queen contained forceful condemnation of Godolphin and the whole system of "Dutch finance" – that is "the pernicious counsels of borrowing money upon publick funds of interest". Unfortunately, the Treasury blew some of its hard won credibility by a cunning plan to convert floating government debt into stock in a chartered trading company – the South Sea Company.

The Napoleonic Wars represented a further ratcheting up in the role of the state increasing the share of national income accounted for by public spending temporarily from 12 per cent to 23 per cent.

But more importantly, the size of the national debt rose inexorably: from £2 million or about 5 per cent of GDP in 1688 to £834 million in 1815 (twice national income). This put a high premium on the Treasury‟s ability to finance wars, both through borrowing and innovations in taxation (Pitt introduced the income tax in 1799): the Treasury‟s success on both these fronts was instrumental in Britain‟s eventual victory. Debt interest payments accounted for a half of public spending between 1820 and 1850.

Secondly, the Treasury‟s influence in the House of Commons was critical to its ascendancy. The most potent symbol of this was the emergence of the First Lord of the Treasury as Prime Minister in the early 18th century. To this day, if you knock on the door of No 10 Downing Street, it is not the title of Prime Minister which is on the name plate but First Lord of the Treasury. Only the Marquess of Salisbury of modern Prime Ministers has declined to be First Lord. But Salisbury always had a particular aversion to the Treasury: in 1900, he could say:

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.

Alongside the First Lord, the Second Lord (the Chancellor of the Exchequer) became increasingly important as the 18th century progressed. The Parliamentary Secretary or Patronage Secretary, as the Chief Whip is known to this day, was also of critical importance given the importance of sinecures to 17th and 18th century public life. And the junior Lords of the Treasury were important cheerleaders for the Treasury‟s agenda. And so the influence of the Treasury in the House of Commons grew; to this day, the Government still sits on the Treasury Bench. As Henry Roseveare put it:

with every extension of the financial basis of government, the Treasury‟s access to the roots of power grew more secure. At best, ambition to control the largest departmental empire – at worst, a desire to have some fingers in the till – ensured the attractiveness of the „place the money groweth‟. It was plausibly rumoured in 1690 that two members of the Treasury Commission had paid £200,000 „upon the nayle‟ for their places.

But the Treasury‟s role in Parliament was not confined to personnel. Until the 17th century, Parliament‟s role was to agree to taxes, often to finance war. But the King had considerable freedom to spend the revenue pretty much how he wanted. The Civil War, Restoration and Glorious Revolution changed all that. Again, it was the ubiquitous Downing who was the author of a change in procedure, introducing the principle of "appropriation of supply". He persuaded Charles II to incorporate in the bill which sought to finance the Dutch war in 1665 a provision appropriating the £11⁄4 million exclusively for the pursuit of the war, and through the rest of Charles‟ reign this became a device which increasingly curbed the royal prerogative. Admittedly, it took time for the principle of appropriation to become embedded, largely because expenditure financed by the Civil List – which included the small domestic departments of Whitehall as well as the King‟s personal expenses – remained outside the system of annual votes. However, during the course of the 18th century Parliament steadily chipped away at the Civil List, with the result that more and more expenditure became subject to annual votes. By the time William IV came to the throne in 1830, the Civil List only covered the expenses of the Royal Household. More recently, the Sovereign Grant Act of 2011 completed the process by bringing financial support to the Royal Household into annual estimates for the first time.

At the same time, Parliamentary control of the revenue side of the budget became increasingly regularised, which also strengthened the role of the Treasury. House of Commons resolutions of 1706 and 1713 conceded the right of financial initiative to the representatives of the Crown – in short Treasury ministers. And the setting up of the Consolidated Fund in 1787 – "a fund into which shall flow every stream of the revenue, and from which shall issue the supply for every public service" – made it impossible for revenue to be diverted to expenditure not covered by votes.

Thirdly, the Treasury tended to be ahead of other public institutions in terms of the quality of its administration. My point here is that for the Treasury to be in control it did not need to be at the cutting edge; it just had to be ahead of the Whitehall pack. Under Downing‟s Secretaryship, the Lord Commissioners improved the organisation of the Treasury: introducing basic principles of administration such as record keeping and "Treasury minutes". They also used exhortation to get better service from the Exchequer – which dealt with payments and accounts: thus, the Treasury minute book of 3 June 1667 records:

The officers of the Exchequer called in and told that their ordinary hours of attendance are not sufficient and… they are to take care that there be no further occasion of complaint of …a refusal to attend longer.

G M Trevelyan concludes in his England under Queen Anne that the best modern traditions of the permanent Civil Service emerged in the Treasury at this period. However, progress was slow. It was not until 1776 that that much maligned Prime Minister Lord North introduced a series of reforms designed further to improve the performance of the Treasury : in particular, the principle that each Treasury official should "personally transact the business assigned to them", thus ending the prevalence of pluralism or absenteeism; the introduction of training; and the principle of merit informing promotion – or as the relevant Treasury minute puts it "ability, attention, care and diligence of the respective clerks, and not their seniority". In effect, the age of sinecurism was over.

Gladstonean reforms

In many ways, the forces behind the inexorable rise of the Treasury came together under William Gladstone, who dominated the Treasury of the 19th century. He was Chancellor, four times, and First Lord, four times, combining the two posts both in 1873-4 and 1880-2. According to his biographer HCG Matthew:

Gladstone acted independently [as Chancellor]. He also acted aggressively. His years at the Treasury coincided with reform of that institution from within, which Gladstone both shared and encouraged. The Treasury was asserting its right to control the activities and personnel of the Civil Service as a whole. Gladstone asserted the political position of the Chancellor in the Cabinet, in Parliament and hence in the country generally.

To this day, Gladstone‟s influence still dominates the Treasury. The current Chief Secretary – the first Liberal Treasury minister since Sir John Simon – has a picture of Gladstone on his wall. And Gladstone‟s image also dominates the Chancellor‟s study at 11 Downing Street. Gladstone‟s economic principles of sound money and free trade have endured in the Treasury for 150 years. And at a time of austerity Gladstone‟s focus on candle-ends lives on. The context of Gladstone‟s original reference still has a certain resonance: when the Hon F A Stanley (later 16th Earl of Derby) was appointed Financial Secretary to the Treasury in 1877, Gladstone wrote to Sir Algernon West:

Stanley is clever but can an heir to the Earldom of Derby descend to the saving of candle-ends, which is very much the measure of a good secretary to the Treasury?

Writing in 1950 Sir Edward Bridges was a little defensive about Gladstone‟s approach:

It recalls at once the wish believed by many to be still endemic in Treasury Chambers, to refuse all proposals of expenditure however worthy the object.

And preferred to interpret it "as a sign of the exceptionally prudent housekeeping appropriate to those who are handling other people‟s money". To this extent, the fabric of the Treasury has always contrasted with other great institutions, such as the Foreign and Commonwealth Office and the Bank of England. I think Gladstone would have been proud of the Treasury‟s recent adoption of cheaper paper and the reduction in the size of desks, and a move to desksharing, the better to maximise rental income here at 1 Horseguards Road.

It was Gladstone who commissioned the Northcote-Trevelyan report of 1854 which ushered in recruitment by open competition and promotion on merit. Indeed, it was Gladstone who pressed Trevelyan to recommend open competition when his early drafts showed signs of compromising on this principle. Not for the last time in Whitehall, there was considerable foot-dragging about implementation – between 1854 and 1868 only six departments made use of open competition in relation to 28 posts in all. But Gladstone‟s Chancellor, Robert Lowe gave it renewed impetus in the late 1860s. According to Hennessy. Lowe was "a tormented soul … [whose] deeply unappealing manner and striking albino appearance had not endeared him to his contemporaries". Nevertheless, he insisted that all Treasury posts were open to competition1 and sought to impose the same principle on all other departments, though the Foreign Office and Home Office exempted themselves on the grounds that performance in those departments hinged on character and not intellect. And other departments like the Department for Education failed to honour the agreement. And so the Treasury tended to be the main beneficiary of a reformed university system. This resulted in the Treasury attracting a more able – though not a more diverse – intake. For all his support of meritocracy, Lowe had a curious obsession with the social composition of his elite, telling the Select Committee of Civil Service Expenditure in July 1873, that he valued:

The education of public schools and colleges and such things, which gives a sort of freemasonry among men which is not very easy to describe, but which everybody feels. I think this is extremely desirable.

And when challenged by his inquisitor that it might be:

a great hardship upon [a naturally intelligent] man [that he] should find that because he has not the good fortune early in life to be at a public school, or to have learned Greek iambics he is to be debarred from the highest departments of the public service.

Lowe replied:

He accepts the situation with a knowledge of what it is, and I see no hardship whatever in it…. And very likely with all his qualifications and merits he might be found wanting in the very things to which I attach very great value in the upper class; perhaps he might not pronounce his „h"s" or commit some similar solecism, which might be a most serious damage to a department in case of negotiation.

It was Gladstone who provoked by the Lords" rejection of a Paper Duties Bill in 1860 brought budget procedures into the modern era. He determined that all tax proposals should be consolidated annually into a Finance Bill. But more importantly, in terms of theatre, it was Gladstone who perfected the modern Budget speech, with its attendant rituals and traditions. Central to a Gladstone budget speech was a focus on what the country could afford. As he put it in 1860:

it would not be fair to speak of the great increase in the expenditure of the country without considering the great extension of the means by which that increase is supported … We ought to have a clear knowledge of the proportion which our wealth bears to our expenditure, in order that we may be able to take a comprehensive view of our financial position.

And when his increasingly fragile Budget box was finally pensioned off in 2010, it is no coincidence that the National Archive – to whom the box belonged – chose to present the Chancellor with a new box modelled on Gladstone"s, albeit updated for the Elizabethan era.

Gladstone"s reforms to Treasury control were themselves a response to the increase in expenditure arising from the Crimean War. Of course, the Treasury did not control everything. Sir Charles Trevelyan could still complain to a Select Committee in the mid-19th century that though the Treasury had managed to get the War Office and Admiralty to use cheaper stationery, the Foreign Office and Home Office continued to use paper of a very expensive quality.

In 1861, Gladstone set up the House of Commons Select Committee on Public Accounts – a crucial ally to the Treasury in ensuring that public money is spent wisely and as

Parliament intended. And the Exchequer and Audit Departments Act of 1866 brought together the procedures of Estimates, Appropriation, Expenditure and Audit into one coherent system. The inefficient and unwieldy Exchequer was finally swallowed up by a strengthened Audit Office under an independent Comptroller and Auditor General. In 1872, the Treasury introduced the system whereby permanent heads of departments would be nominated as „Accounting Officers‟: they would sign off the Appropriation Accounts submitted to the Comptroller & Auditor General in effect taking responsibility for the economy and efficiency of spending, as well as accounting accuracy. And, although there were subsequent attempts to diminish the role of the Accounting Officer, for example by making the Principal Finance Officer rather than the Permanent Secretary responsible, the Treasury has always resisted any change to the core principles of the Accounting Officer regime. As Warren Fisher, Permanent Secretary to the Treasury between the wars told the PAC in April 1921:

it should not be open to any permanent head … to say "please, sir, it wasn‟t me" … Pin it on him in the last resort and you have got him as an ally for economy.

There have been subsequent revisions to this mid-19th century settlement. For example, the Resource Accounts Act of 2000 replaced cash accounting with modern accounting practices and opened the way to Whole of Government Accounts. More recently the Clear Line of Sight project has sought to create even better alignment between planning, control and accounting for public spending.

We have also seen substantial changes to how public expenditure is planned. First, through the Plowden reforms of the early 1960s, which sought to replace annual control of supply with volume planning of functional programmes on the basis of a multi-year public expenditure survey. And more recently through the adoption of a top down approach to public expenditure planning in 1992, and the adoption of fixed multiyear spending totals under Gordon Brown, Alistair Darling and now George Osborne.

But the basic Gladstonean principles of spending control and accountability remain in place. The Treasury is accountable to the House of Commons for the stewardship of public spending. But through its alliance with the Public Accounts Committee – formalised through the Concordat of 1932 and more recently through the modern bible for Accounting Officers, Managing Pubic Money – it effectively delegates responsibility for the efficiency and effectiveness of public spending to departments. As Warren Fisher put it, rather than the Treasury acting as:

the single handed champion of solvency keeping ceaseless vigil on the buccaneering proclivities of Permanent Heads of departments", "the Heads of Departments should work together as a team in the pursuit of economy in every branch and every detail of the public service.

To this day, the Treasury relies on the implicit threat of a Public Accounts Committee appearance and potential censure of an Accounting Officer if a department spends in excess of the estimates voted by Parliament. And also on the National Audit Office‟s powers to carry out value for money studies of particular areas of public spending, ranging from the award of national rail franchises to the sale of Northern Rock.

Very occasionally the guild of permanent secretaries will grumble about the NAO and PAC, either for missing the point or trivialising complex issues. But I would tend to attribute this to the discomfort of being held to account. I am in no doubt that the PAC, under the chairmanship of Edward Leigh and Margaret Hodge, supported by Amyas Morse the C&AG, have made a real difference to the quality of public administration. And I speak from experience, having appeared before the Committee some eleven times over the last two years. I welcome and endorse the Committee‟s determination to "follow the pound" from the Treasury through to the front line of public services, whether in a Jobcentre or an Academy school.

The Treasury in the 20th century

If Gladstone established the main principles of control, they have continued to evolve since his retirement in 1894. Most importantly, the size of the state grew in the 20th century. Indeed, there were incipient signs of this in his last administration when Harcourt reformed the estate duties.

But – in succession – rearmament in the run up to the First World War; the creation of the welfare state under Lloyd George; the First World War itself; Neville Chamberlain‟s further extension of the state into social security and housing in the 1920s and the great depression changed the role of the Treasury inexorably.

Treasury control evolved in two ways.

First, its finance ministry role became more strategic, particularly in the second half of the 20th century. Not only did the Treasury retreat from managing the civil service – the Fulton report on professionalising Whitehall led to sponsorship and leadership of the Civil Service moving first to the Civil Service department and then to the Cabinet Office. But the Treasury also delegated the setting of pay to departments in the early 1990s, and has tended to increase delegations on more general spending. For example, when I joined the Treasury in the 1980s I had to approve Forestry Commission spending on a hut in the Lake District costing just £15,000. Today, the relevant delegation for Treasury approval is £100 million.

The Treasury has pulled back from other areas too: from running the central catering organisation of the civil service; the telecommunications agency; and more recently from sponsoring the Office of Government Commerce an organisation dedicated to achieving better procurement. We have been happy to transfer the latter to the Cabinet Office, whom under the Paymaster General, Francis Maude, is doing an excellent job in driving forward the efficiency agenda.

And it is not as if these changes have made the Treasury less effective in controlling public spending. Over the last fifteen years or so, the Treasury has been much more effective at delivering public spending outturns in line with plans than it was in the 1970s and 1980s. It has been the planning of revenue – reflected in continued shortfalls in tax for a given level of national income – which has been the perennial problem of the public finances.

But almost in parallel with its abdication of control of the civil service, the Treasury acquired a new role to supplement its finance ministry responsibilities: that of an economics ministry. To some degree, this happened by stealth. Bridges detected a change emerging during the 1920s where "the Treasury staff began to think of expenditure rather less in terms of the prospect of the spending of so much public money and rather more in terms of the employment of resources". It was the Second World War which really changed the Treasury. First, through the enlisting of a staff of distinguished advisers including Keynes, Catto, Robertson and Henderson. Secondly, through a new approach to macroeconomic policy and demand management: as Bridges put it "1941 marks the date when a new theme was introduced to the making of the Budget, namely the inflationary- deflationary scheme, a conscious attempt to use fiscal measures to hold the balance between the money in people‟s pockets and what they could buy with it…It is now a well established and important feature of the general aims of Treasury control".

However, the Treasury‟s dominance of economic policy making was largely fortuitous. Until the 1950s, economic planning responsibilities resided in the Cabinet Office. It was that department which had serviced Ramsey MacDonald‟s Economic Advisory Council. And during the war it was the Cabinet Office – through its Economic Section – which was responsible for planning and forecasting.

It was only when Sir Stafford Cripps became Chancellor in 1947 that responsibility for coordinating functions on economic policy moved to the Treasury, the Economic Section moving over from the Cabinet Office some six years later. This change, along with the nationalisation of the Bank of England in 1946, the adoption of a Keynesian approach to demand management and the creation of the Bretton Woods system meant that the Treasury was not only responsible for the macroeconomic policy framework but also for operationalising it.

Of course, some areas of economic policy remained more contested: in particular, those relating to microeconomic policy and the supply side. Harold Wilson took a dim view of the Treasury‟s capacity arguing that "the only thing we need to nationalise in this country is the Treasury, but no one has ever succeeded"2. His creation of the Department of Economic Affairs with a remit to prioritize economic growth reflected the view that the Treasury was too laissez- faire and that its commitment to controlling public spending was somehow antithetical to the promotion of growth.

As Sam Brittan said even before he took up a post as an "irregular" in the DEA:

the snag in most … plans for … an economics ministry is that there is something called finance quite apart from economics or production. In fact the instruments by which production is influenced … are the budget, monetary policy, exchange rate policy and one or two very general controls.

But it was far from inevitable that the DEA would fail. Other countries – in particular, Germany – have managed to create strong Economics Ministries alongside strong Finance Ministries. But fail it did not least because the National Economic Plan could not withstand the pressure on sterling through the mid- 1960s. And it fell to the Treasury to pick up the pieces. As Sir Douglas Wass said in the 1970s:

as the attempt of the DEA failed … so it fell on the Treasury to fill that gap and to concern itself with the supply potential of the economy.

And thereafter the Treasury has progressively built up its role on the supply side – not least because of the recognition that ultimately it is microeconomic policy which is most likely to promote growth. As Nigel Lawson said in his Mais lecture of 1984:

The conventional post-War wisdom was that unemployment was a consequence of inadequate economic growth, and economic growth was to be secured by macro-economic policy … Inflation, by contrast, was increasingly seen as a matter to be dealt with by micro-economic policy … But the proper role of each is precisely the opposite of that assigned to it by the conventional post war wisdom.

Privatisation, labour market reform, and growth policy – whether through innovation, infrastructure, deregulation, and skills – have all become a focus of Treasury activity in recent decades. This perhaps accelerated under Gordon Brown, with the Treasury setting up the Enterprise and Growth Unit in 1997, and bringing together work on personal tax, labour market and distributional issues. Both groups live on to this day, as does the Treasury‟s enhanced role on tax policy – transferred from the Inland Revenue and Customs and Excise in 2004.

The abolition of exchange controls in 1979 began a process which would transform the City of London, and the Treasury has had to play a bigger role in relation to the financial sector. The 1979 and 1987 Banking Acts put banking supervision on a statutory basis. Responsibility for securities services and insurance moved from the DTI to the Treasury in the 1990s.

The financial crisis itself has had a big impact on the structure of the Treasury – with significantly more officials working on financial service issues. The banking interventions have had serious finance ministry implications, not least on the Treasury‟s own finances – with its balance sheet ballooning and – for a time – dwarfing all other activities. But more important still is the economics ministry role of shaping a financial service regime which better suits the needs of the economy. Financial service legislation both here and in the EU has become a hardly perennial.

The financial crisis also raised important questions about the Treasury itself. Like the Bank of England and many others, the Treasury underestimated the build up of risk in the financial system. And although the Treasury ultimately assumed a leadership role in resolving the British banking system in the autumn of 2008, it had a faltering start reflecting limited capacity in financial services following the run on Northern Rock in 2007. It is important that we learn the lessons from that period. We are currently implementing the recommendations of Sharon White‟s review of the Treasury‟s management response to the financial crisis. And I am particularly pleased that Charles Roxburgh is joining us from McKinseys as Director General to lead our work on financial services.

And it is in recognition of the Treasury‟s enduring and intertwined role as an economics and finance ministry that I recently restructured the senior team with the creation of an additional second permanent secretary, with Tom Scholar and John Kingman respectively in charge of the Treasury‟s finance and economics ministry functions, supported by the

Chief Economic Adviser, Dave Ramsden, whose group of economists roam across both areas.

As Alistair Darling put it in 2008, “macro and micro policy are not only indivisible – they reinforce each other”, and more recently George Osborne has said:

My experiences at the Treasury have made me even more convinced that Wilson was wrong to think that finance ministry objectives and economic growth are natural enemies.

The Treasury must be more than just a finance ministry – it must be the driver of economic reform across the government…

When I look back at the decisions I have taken, I ask myself.

Would a finance ministry faced with a huge budget deficit have reduced corporation tax to boost growth?

Would a finance ministry looking for Whitehall budgets to cut have protected science spending, even though it‟s one of the easiest taps to turn off?

I believe it would have been more, not less difficult to make these tradeoffs if there was an institutional split – and it‟s right that the Chancellor of the Exchequer is accountable for getting that balance right.

However, for those of you who think that the Treasury‟s power has become excessive, it is worth taking you back to the early 1960s. Then it not only managed the whole Civil Service, but directly funded the overseas aid programme, higher education, museums and art galleries – these cultural institutions were deemed too important to be entrusted to ordinary Whitehall departments. At the same time, the Treasury of those days was not only creating the macroeconomic framework, it was also operationalising it by setting interest rates when and how the Chancellor saw fit. And it was presided over by five permanent secretaries and seven deputy secretaries.

I would argue that the Treasury of today is much more strategic. It tends to work through others. For example, it sets the monetary policy target. It delegates its operationalisation to the Bank of England. It determines the regulatory framework, but delegates its operation to the FSA soon to be succeeded by the Prudential Regulatory Authority at the Bank. It sets the public expenditure totals: it falls to the departments and the Cabinet Office through the Efficiency and Reform Group to drive forward the efficiency improvements necessary to maintain services at a time of falling public spending. It determines that there should be two economic and fiscal forecasts a year. But it leaves it to an independent Office of Budget Responsibility to provide them. Growth policy is developed in partnership with the Department of Business and others, and operationalised through a number of departments and agencies. Indeed, it has no choice if the Treasury is to remain a lean and agile department of around 1000 officials. And to underline this, its senior management structure is half the size it was in the 1960s.

Treasury control has evolved. But I believe it remains something which Downing and Gladstone – if they came back today – would recognise.

As George Osborne said at a dinner to celebrate the foundation of the Treasury Board in 1612:

The people assembled here today – serving under different administrations and different policitcal parties – have understood that the responsibility for the health of the public purse and the stability of the economic system is heavy one, fraught with difficulty and beset by competing claims and often requiring the answer no.” But “The spirit of the Treasury created 400 years ago –born of a desire to bring order to the public finances, managed by persons of merit – survives to this day.

I could not put it any better than that.