

TREASURY ORTHODOXY: FACT OR FICTION?

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In recent months, we have heard much about Treasury orthodoxy.

First, it was “out”. The new government initially chose to define itself by its fight against “failed Treasury orthodoxy”. The Treasury’s “abacus economics” and “foot-dragging” were alleged to be an obstacle to growth; its group think prevented sensible decision making. The first act of the previous Chancellor was to tell the Treasury’s internationally respected Permanent Secretary that his services were no longer required. In an early talk to the department, Mr Kwarteng was reported as saying that the Treasury should focus “entirely on growth”. He subsequently announced the biggest tax giveaway since Anthony Barber’s in 1972.

But the markets bit back. The Chancellor was fired. The Prime Minister resigned. The new regime has gone to extraordinary lengths to demonstrate its commitment to sound public finances. And in a succession of statements over the last 18 days, we have seen tax cuts withdrawn and public spending reduced. The new watch-words are “stability” and “confidence”. Treasury orthodoxy, so it is claimed, is not just “in” but back with a vengeance.

That the nation’s problems are down to the Treasury is a compelling narrative. A party which had been in power for over 12 ½ years has to find new dragons to slay to explain why it has yet to build a new Jerusalem. It also has resonance: conjuring up Keynes’s criticism of the Treasury view in the 1920s and 1930s and Harold Wilson’s in the early 1960s.

His Majesty’s Treasury is an easy target. It has been around for over 800 years and is the oldest government department after the Royal Mint. It would be hard to pin the charge of orthodoxy, say, on the Department of Business, Energy and Industrial Strategy which has gone through five name changes and associated mergers since 2005.

And it’s also a legitimate target. If Britain has been in relative economic decline for 150 years, it is right to scrutinise the role of its finance and economics ministry: the more so since the country’s economic performance has deteriorated further since the financial crisis of 2008. Over the last 14 years, the economy has grown at less than 1 per cent a year, with productivity growing at less than ½ per cent a year.

Tonight, I want to explore whether there is such a thing as Treasury orthodoxy. Is it fact or fiction? In the process, I shall set out a little of what makes an effective finance ministry which could yet have some relevance as Scotland continues to consider its constitutional position.

First, some history.

William Ewart Gladstone in many ways created the modern Treasury. He was a towering figure who was Prime Minister four times and Chancellor of the Exchequer four times, combining the two posts on a couple of occasions.

Gladstone introduced many of the features of modern public financial management, in particular the theatre of the annual Budget statement, a finance bill for tax changes, and the bringing together of the system of Estimates, Appropriation, Expenditure and Audit. He was a passionate believer in free trade. He also devoted much of the 19th century to seeking to pay off the debt created by the Napoleonic Wars (which at one point represented twice the nation's income) through a prudent approach to fiscal management.

The caricature of Gladstone's stewardship of the Treasury focuses on his obsession with "the saving of candle-ends, which [as he put it] is very much the measure of a good secretary to the Treasury"¹.

Gladstone did not regard it as his role to regulate demand in the economy. The Gold Standard could be relied upon to deliver stable prices. And provided he continued to bear down on the nation's debts and therefore kept interest rates low, the market would take care of itself.

It may again be a caricature but this was broadly the view of the Treasury (and the Bank of England) in the 1920s. Returning to the Gold Standard in 1925 at pre-war parity was undoubtedly a mistake, given the real appreciation in sterling entailed and the lack of flexibility in the labour market at that time. And arguably the Treasury compounded the error by resisting calls for a large programme of public works to support demand, although once Britain came off gold in 1931 recovery was rapid.

Had history stopped in the early 1930s, there would be a passable case for equating the "Treasury view" with "Treasury orthodoxy", and concluding that the department together with the Bank of England had let the nation down. But history did not stop in 1931 and, as I shall go on to argue, economic policy has changed many times and evolved considerably since then.

¹ Gladstone to Algernon West, 1877

Before I go on to recent economic history, I would like briefly to mention Gladstone's other great reform: the commissioning and implementation of the Northcote-Trevelyan report which introduced the principle of open competition and promotion on merit into the Civil Service. This reform was led from the Treasury, which continued to be responsible for the management of the civil service until 1968. And it was a major beneficiary of it, enabling the department to recruit the brightest and the best from the universities, while the Home Office and Foreign Office dragged their feet claiming that character was more important than ability. As Peter Hennessy has put it Northcote-Trevelyan was "the greatest single governing gift from the 19th to the 20th century: a politically disinterested and permanent Civil Service with core values of integrity, propriety, objectivity and appointment on merit, able to transfer its loyalty and expertise from one elected government to the next".

You don't have to believe that the civil service has always lived up to Hennessy's lofty ideals to accept that ministers set priorities and make decisions while civil servants advise and implement.

To complicate matters further, I have often heard ministers and the media refer to the Treasury², as a decision-maker, as in "The Treasury has ruled out x", as if it somehow has an identity separate from politics. It doesn't.

And so that raises the question of whether Treasury orthodoxy – if it exists at all - is a political or an official phenomenon? Those who argue that Chancellors have been prisoners of orthodoxy will tend towards the latter view. Those who have worked for strong Chancellors, like Lawson, Brown and Osborne, may be more inclined to the former.

And so let's look at the evidence of how economic policy has evolved over the post war period.

I will start with macroeconomic policy where the wartime coalition had committed the government to maintaining full employment.

First, monetary policy, where the overarching theme has been the search for the Holy Grail of a policy anchor. Post war Chancellors thought they had found it in the Bretton Woods system – itself much influenced by Keynes – of fixed but

² A degree of humility is necessary in ascribing a collective view. As Douglas Jay once said: "what exist in the real world are not such strange creatures as 'the Treasury', 'Whitehall', 'the City', any more than, say 'Sussex', 'industry', 'racing' or 'cricket' but just a collection of individuals who change from time to time, and their views, habits and ideas with them". But since Douglas Jay was also the man who said "the gentleman in Whitehall really does know better what is good for people", I am inclined to discount his advice.

adjustable exchange rates. Generally, Chancellors from Dalton onwards pursued a policy of cheap money, since following nationalisation of the Bank of England in 1946 they directly controlled the interest rate lever; Chancellors for the first 30 years after the war tended to use fiscal policy and incomes and prices policies as the main way of regulating demand and controlling inflation.

It is difficult to detect any great consistency in Treasury advice in the period up to the collapse of the Bretton Woods system in the early 1970s. If there is, it was that the Treasury should constrain demand the better to ensure the country lived within its means. And this was a perennial challenge since the UK had ended the Second World War with considerable debt, high spending commitments and uncompetitive industry, giving rise to perpetual balance of payments problems. Perhaps, these advocates of deflation and a fixed exchange rate were the heirs to the Treasury view. And this tendency had its last hurrah when sterling joined the ERM in 1990.

But at any point in time there were also advocates for devaluation, to ensure the economy returned to a competitive equilibrium eroded by inflation. This tendency won out in 1949 and again in 1967. And there was also a more radical tendency, which advocated leaving a system of fixed exchange rates altogether. This was in the ascendancy in 1952 when RA Butler as Chancellor was briefly converted to a secret plan, code-named ROBOT, to let sterling float; again in 1972 (largely by default) and from 1992 onwards when sterling left the ERM. Arguably, it can also be seen in the decision not to join the Euro in 2003.

The ERM episode is an interesting case study. Yes, the majority of senior officials were enthusiasts. But then so were the CBI, TUC and the opposition, Labour Party. And there were no greater enthusiasts than the three 1980s' Chancellors of the Exchequer: Sir Geoffrey Howe, Nigel Lawson and John Major.

Under a floating regime, there have been two eras. The first between 1976 and 1989 saw the implementation of monetarism with varying degrees of conviction, the problem with which was that whichever monetary aggregate the Treasury targeted its relationship with prices tended to change, Goodhart's law. And so from 1992, successive Chancellors have pursued the more pragmatic approach of inflation targeting, underpinned by the granting of operational independence to the Bank of England from 1997.

That the inflation targeting regime has lasted longer now than Bretton Woods does suggest a policy orthodoxy has emerged. But this has less to do with inflation targeting per se and rather more with the embedding of central bank independence and international best practice. The UK followed New Zealand

and Canada in introducing an inflation target: but many countries have adopted inflation targeting since.

Turning to fiscal policy, the Treasury, influenced by “irregular” officials like Keynes and Catto, adopted a new approach to demand management early in the second world war³.

Fiscal policy remained the main regulator of demand for thirty years or so. When a squeeze was necessary, invariably to support the balance of payments and hence sterling, spending was cut and taxes increased. When unemployment became too high, the Chancellor would invariably loosen policy. Often this coincided with the electoral cycle as in Reginald Maudling’s dash for growth in 1963. But sometimes it didn’t: Roy Jenkins final Budget may have been good economics but is often argued to have lost the Labour Party the 1970 election.

But fiscal fine tuning, as it became called, had its faults. Lags in implementation make public spending a poor regulator of demand: once current spending is increased it’s difficult to cut it; shovel ready investment projects sadly are never shovel ready. Tax is a better instrument. The regulator allowed for duties and latterly VAT to be changed at the flick of a switch. But tax cuts too are difficult to reverse.

And so the post war optimism that macroeconomic policy was somehow solved proved an illusion. With each cycle, unemployment tended to rise. And arguably crude Keynesian demand management was tested to destruction over the 1972 to 1976 period, culminating in the IMF emergency loan. As Jim Callaghan, the Prime Minister, said that year:

“We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting Government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step.”

Thereafter, fiscal policy tended to take a back seat, with governments seeking to constrain their discretion through deficit and debt targets and rules: sometimes cyclically adjusted, sometimes not. The role of fiscal policy was generally to support monetary policy though in crises such as in 2008 and 2020 it has played a bigger role. On rare occasions, it has been used as a counterweight to

³ 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”.

monetary policy: for example, in 1981, arguably 2010 and definitely September 2022.

If it's only possible to detect a modicum of orthodoxy in macroeconomic policy, what about microeconomic policy? The Treasury's economics ministry role only really became formalised when the Economic Section of the Cabinet Office was transferred to the Treasury in 1953.

It's fair to say that the Treasury of the 1950s broadly accepted the post war consensus on nationalisation, regulation and regional policy. Unlike in Japan or France, there was no push for economic planning as a way of promoting growth. When Chancellor, Butler made a virtue of a bonfire of controls. But Harold Wilson could run a successful campaign against the Treasury in opposition: as he put it "the only thing we need to nationalise in the country is the Treasury, but no one has ever succeeded". And when elected he created the Department for Economic Affairs, which published a National Plan in 1965 just as balance of payments problems were intensifying. The Treasury's role as finance ministry trumped the DEA's economics ministry role. The DEA was abolished, and thereafter the Treasury took on a more advanced economics ministry role, which would be based around structural reform. As Nigel Lawson put it in his seminal Mais lecture of 1984:

"The conventional post-War wisdom was that unemployment was a consequence of inadequate growth, and economic growth was to be secured by macroeconomic 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 wisdom"

Over the last forty years, it's possible to see a number of recurring themes:

- First, privatisation, pursued with varying degrees of enthusiasm and success. Nationalising banks in 2007-08 are exceptions which prove the rule;
- a focus on competition policy at home, and reducing trade barriers at the border by working through the GATT, WTO and EU;
- labour market reform, whether through active labour market measures, the minimum wage or tax credits;
- a focus on innovation. Science expenditure has been prioritised now over two decades, and the R&D tax credit has received cross party support;
- an emphasis on skills, which has been reasonably successful in relation to higher education, much less so when it comes to further education and vocational skills; and

- continuing efforts to ensure small and growing businesses can access finance.

From the 1990s, an objective of sustained growth was hard wired into the Treasury's objectives, and some 30 years later the Treasury's mission statement still has it "working to achieve strong and sustainable growth".

Turning to tax policy, there have been large swings in tax rates and between direct and indirect taxation. The post war consensus favoured high rates of income and capital taxes. Indirect taxes were generally low, while national insurance contributions took the form of a flat rate stamp. But successive governments from the late 1970s chose to reduce income tax rates: the basic rate of income tax has fallen from 35 per cent in 1975 to 20 per cent today. The standard rate of VAT has doubled since it was introduced in 1973, while the combined rate of employee and employer national insurance contributions stand at 25.8 per cent compared to 16.5 per cent in the late 1970s. The main rate of corporation tax has been halved; and inheritance tax rates have fallen from 80 per cent to 40 per cent. These represent substantive changes though interestingly the overall tax take has been remarkably stable. If there is any orthodoxy detectable in the Treasury's tax policy it is perhaps the Lawsonian principle of low rates and broad base, honoured as much in the breach as the observance. Taxation is the most political of activities. And the slow substitution of national insurance for income tax seems to me to have been driven much more by political sleight of hand than Treasury dogma.

An obsession with public expenditure control is a charge often levied against the Treasury. But in this respect, it isn't any different from the Tresor in France or the BMF⁴ in Germany. I've never met a finance minister who once he or she has set a budget doesn't want a department to live within it. And it's hard work: Sir Leo Pliatzky once compared dealing with spending departments to animals herding around a waterhole: "*You beat them off, and beat them off, and in the evening, back they come*". There have been many a change in the Treasury's approach to the planning and control of public spending over the years. First, there was volume planning. Then there were cash limits, followed by resource controls, and then near cash controls. You will be glad to hear I won't trouble you with the twists and turns of DEL and AME. It's often argued that the Treasury is too inclined to interfere in what departments do. But the reality is the Treasury has become more strategic over time. In my first post in the Treasury, I was asked to advise on the approval of a Forestry Commission hut costing £20,000. Now the relevant Defra delegation is £100 million. I would high-light three other changes:

⁴ Bundesministerium der Finanzen

- the separation of capital from current budgets by Gordon Brown which makes the Treasury less inclined to cut capital when it needs to find spending reductions;
- the move to multiyear spending plans, facilitated by lower inflation; and
- a move towards greater focus on outputs and outcomes of public spending, formalised in Public Service Agreements in the first decade of this century. However, the government elected in 2010 dropped PSAs, arguing that it was unrealistic to seek to determine outcomes.

When it comes to financial services, it is difficult to detect any great consistency in policy, The Bank of England's role in relation to banking supervision was only formalised in 1979. The Treasury took on responsibility for wider financial service legislation in the 1990s. Even then, most of the financial service industry was self-regulated. It took the political leadership of the new Labour Government both to take banking regulation away from the Bank of England and to set up an all-encompassing regulatory body in the form of the Financial Services authority, ending self regulation. Again, reflecting the political leadership of George Osborne, the Treasury legislated for a twin peaks model of regulation in 2010. For much of the period prior to 2016, much of the regulatory architecture was either determined in Basel or Brussels. The UK can and did influence the nature of that legislation. But it is difficult to see any overarching theme other than that in the good times there's a tendency to want to reduce the burden of regulation and in the bad times (for example after the collapse of Johnson Matthey or RBS) a desire to tighten regulation.

And so the evidence suggests government policy has changed frequently in the post war period, sometimes because of market pressures, sometimes because Chancellors have made a strategic change of direction. Amongst these convolutions, it is possible to detect traces of orthodoxy: the determination to find an anchor for stability, the desirability of rules for fiscal policy and the importance of the supply side. But it is also clear that these traces are faint: emphases change with the economic and political tide.

Policy is perhaps the wrong place to look. A more productive approach may be to look at the mindset of politicians and officials, forged on the anvil of experience and history.

Evolution has something to tell us. The British state has often looked into the abyss, only to pull back from it. Survival matters. You don't go through defining moments like the global financial crisis, as I did, without emerging older and wiser.

So, for example, I don't think any politician or official today would advocate pegging sterling to another currency. Britain's experience of defending currency pegs was simply too painful. Capital markets are too deep. And in the world of free capital flows, Britain's foreign exchange reserves are simply too puny to defend a parity.

But there are more generic lessons, from history, which I will argue impact on the mindset of ministers and officials. It is possible to detect certain presumptions or propositions, derived from economic theory or practical experience, which have informed policy advice and decisions.

My first proposition is that classical economists had it right when they said there was something called supply and demand. Issue too much debt and the price of it is likely to fall, and the return on it - also known as the rate of interest - to rise. Run an excessive current account deficit and in the absence *ex ante* of offsetting capital flows you are likely to get downward pressure on the exchange rate. Of course, there can be long periods when these relationships appear not to hold true. For example, the Treasury issued a lot of debt during the time of coronavirus and gilt yields did not rise. But at that point there were countervailing forces: the Bank of England was still buying debt and there was a glut of savings across the world because in lockdown people couldn't spend their money.

In short, markets generally work. And where they do the state should generally stand back: for example, few would argue that the state should still be running Jaguar Land Rover. Of course, where there are monopolies, or negative externalities such as pollution, or other market failures, the state should intervene. But efficient product markets create the competitive pressures to help keep prices down, encourage firms to innovate and to minimise their costs of production – combining factor inputs in the form of labour, capital and land in the most efficient way.

Well-functioning capital markets ensure that firms have access to the capital they need, enabling them to finance investment and to expand operations to meet demand. And well-functioning labour markets are also vital for generating growth. The more flexible the labour market is, the more easily the economy can adjust either to shocks or to new opportunities.

My second proposition is that trade barriers make people worse off. The world has changed since the 19th century when Gladstone could make the case for unilateral free trade. In those days, other countries imposed tariffs; the UK didn't, a position which has been echoed by Jacob Rees-Mogg in recent years. And he has a point. Multilateral agreements which reduce trade barriers tend to be more successful than bilateral deals. That is no doubt why the Treasury was

a big supporter of successive GATT rounds in the post war period, and latterly of the World Trade Organisation. It has also influenced the Treasury's position on the European Union. Before Brexit, the Treasury was always perceived as the most Eurosceptic of departments; since Brexit, it has been perceived as the most Euroenthusiastic. The reality is its basic position hasn't changed.

Protectionism, whether the Common Agricultural Policy when we were in the EU or trade barriers with our main trading partner now we are out, make consumers worse off and although it gives the illusion of protecting jobs and producer interests more generally, it is hard to find evidence that it increases aggregate welfare.

My third proposition is that the key to long term growth is the supply side of the economy. Infrastructure, skills, competition, innovation policy need to work in tandem. It's also necessary to have a tax and regulatory system which encourages enterprise. My guess is that the official Treasury was well aligned with the Kwarteng Growth Plan, save in one respect: it placed too much emphasis on tax cuts. Coherence, consistency and persistence are also essential. All too often over the last decade a new growth plan has been published before the last one has even been implemented. Even then, it takes many years before governments can have any impact on the trend rate of growth, and most governments end up mistaking cyclical for structural improvements.

My next proposition is that macroeconomic stability, in particular price stability, is good for the economy. Indeed, it is arguably a necessary condition for sustained growth. As Alistair Darling put it in 2008, "*stability is the platform that helps us deliver everything else...Stability is essential to allow businesses to invest, to allow people to find work and plan for the future*⁵". The more inflation gyrates, the less easy it is to do so, and the more likely interest rates are to vary making it difficult for mortgage-holders, investors and savers alike. Low inflation also keeps the government honest. Take the example of taxation: the freezing of tax allowances at a time of rising inflation has resulted in a massive stealth tax. Similarly taxing savers' interest when the real value of their savings is falling is less than fair.

The government has an important role in regulating demand alongside the Bank of England. Generally, the regular cycle of meetings of the monetary policy committee are the best way for influencing the economy though this became much more difficult in the low interest era of the last 13 years. The role of fiscal policy has generally been to support monetary policy. The automatic stabilisers - those tax receipts and areas of expenditure, primarily social security, which tend to vary with the economic cycle – have helped in this respect. But at times of crisis such as 2008 and 2020, it has been necessary for

⁵ Mais Lecture, 29 October 2008

a step change in policy in terms of fiscal stimulus, in each case facilitated by other countries pursuing broadly similar policies and so the UK did not appear an outlier. There can be occasions when it is sensible for fiscal policy to run counter to monetary policy. Such an approach can work if the economy is at a low employment equilibrium and interest rates are sufficiently high for tighter fiscal policy to make a monetary impact. Arguably, the 1981 Budget and more controversially the post 2010 fiscal consolidation allowed interest rates to be lower than they otherwise would have been. But such an approach also carries risks. Expanding demand when the economy is already running hot risks stoking inflation and interest rates, as the recent rise in mortgage rates bears testimony.

My fifth proposition is that credibility matters. It has become a cliché that credibility is hard won and easily lost. The disasters of 1967, 1976, 1992, 2008 and September 2022 are etched in the collective consciousness of the Treasury. This perhaps accounts for the Treasury's obsession with frameworks designed to save the government from itself. In recent years, many fiscal rules have been and gone. Sometimes, they have constrained decisions on tax and spending. But when the political price of keeping to them becomes too high they are jettisoned. I was always surprised by the persistence of Treasury officials in making the case for new rules and of Chancellors in announcing them. Regularly breaking rules damages credibility. That is why I always attached more importance to the substance of fiscal policy – is there a coherent plan underpinning the numbers?

The liking of rules also explains why the Treasury has a tendency towards caution. And why when the going gets tough, the finance ministry tends to trump its economics ministry function. That doesn't mean the Treasury cannot act quickly, imaginatively and at scale: the recapitalisation of the banks in 2008 and the furlough scheme in 2020 are obvious examples. But you don't have to subscribe to the late Alastair Morton's view that "the Treasury has done more damage to this country than the Luftwaffe ever did", to conclude that the UK has underinvested. Public investment did fall off a cliff in 1976 and has never really recovered. Now, that is as much down to the politicians' desire to prioritise current consumption – they are rarely there to see the return on investment – as official caution. I think it also explains why the Treasury was slow to act on climate change, as Howard Davies⁶ has pointed out in his otherwise sympathetic recent book on the Treasury, even though Gordon Brown commissioned the seminal Stern Review of 2005.

My final proposition is that institutions matter. One of the reasons Britain was successful as a naval and military power from the late 17th century until the mid-

⁶ Howard Davies, *The Chancellors: Steering the economy in crisis times* (2022)

20th century was that it was better at funding wars than other countries. And this is attributable to the way the Treasury and Bank of England operated. The country did not default. And property rights were respected.

Over the last 25 years, there have been four important steps which have strengthened the credibility of economic policy. Indeed, Ed Balls has described the institutional framework as the new Treasury orthodoxy⁷.

The granting of operational independence to the Bank of England in 1997 ended the widespread perception that politicians would manipulate interest rate decisions to suit their political interests rather than the economic interests of the country. The government still sets the Bank of England's remit – to use the term in vogue at the time, the Bank has constrained discretion. But as we saw in the summer when some suggested a change in the Bank's remit, anything other than a principled change gives rise to suspicion in the market. Few dispute that bank independence has strengthened the credibility of UK monetary policy, and the evidence suggests that it led to a reduction in the risk premium in British debt of some 50 basis points.

The setting up of the Office for Budgetary Responsibility represented a similar step forward in terms of transparency of fiscal policy. Until 2010, the economic forecasts on which fiscal projections were based were the Chancellor's. That did not necessarily mean the Chancellor fiddled the forecast – though I do remember the odd argument both within the Treasury and between No 10 and No 11. But so long as the markets thought the forecasts were fiddled that detracted from the credibility of fiscal policy. The OBR's forecasts will never be right. For example, they have tended to overestimate growth in productivity over the last decade. But the main point is they are perceived to be unbiased. They therefore provide as sound a basis as any for understanding likely trends in public borrowing and public debt.

And their credibility is further enhanced by the further studies they produce on long term fiscal trends and on fiscal risks.

Creating an independent UK Statistics Authority has enhanced the credibility of economic and demographic statistics.

And the decision to make debt management policy much more transparent from the mid 1990s– with regular auctions, a clear timetable and twice yearly

⁷ Seminar at King's College, London, September 2022. See also his quote in Financial Times, 30 September 2022: "It is not about whether taxes went up or down...for 25 years there has been a cross-party consensus on the right way to go about making monetary and fiscal policy. If you rip that up, you are totally exposed." And 3 October article in The Times: <https://www.edballs.co.uk/if-the-market-wont-buy-your-budget>

publication of the debt remit - has undoubtedly increased the efficiency of the market in gilt-edged securities and reduced costs to the government.⁸

I recognise some of the propositions I have set out verge on being truisms; others are more open to debate. Most reflect the importance of leadership. For example, the election of the 1979 government increased the priority attached to low inflation; the elections of 1997 and 2010 accelerated institutional change. But taking the propositions I have set out together, it is possible to detect an orthodoxy with a rather clearer definition than was observable from an examination of policy decisions.

What I think they underline is that the propositions which constitute Treasury orthodoxy are a fusion of political and official views and experience. Treasury ministers and officials are viewing the same set of problems from the same side of the table. Moreover, they are involved in constant debate and iteration. Nigel Lawson once told me that in his experience all radical ideas had come from the political side of the Treasury. He is probably right. The politicians inject challenge, direction and urgency. Officials absorb those ideas which work and will remain advocates for them long after the politicians have been replaced. They may even develop and improve the ideas over time. But those ideas which don't work tend to suffer tissue rejection. It generally takes two generations for a bad idea to be repeated.

Does Treasury orthodoxy overly constrain government? I don't think so. Over the post war period, governments have pursued very different visions of the role and size of the state, very different tax rates, and very different approaches to regulation. If Reaganite tax cuts didn't work in the UK in 2022, or for that matter socialist Keynesianism in France in 1981-3, that's not because of Treasury (or Tresor) orthodoxy. It is because the UK and France are open economies with a tendency to over-consume and therefore more vulnerable to market reaction.

I fully recognise that I am biased in making the case for the form of orthodoxy I have set out. I spent half my life working at the Treasury. I accept the Treasury has made many mistakes over the years. It is far from perfect. It sometimes errs on the side of caution. But it does at least try to represent the consumer and taxpayer in Whitehall. And, if it didn't exist, some other institution would have to carry out the role it plays in government. As Keynes once said, it is an

⁸ Until the 1990s, there was a suspicion that the Bank of England was trying to outwit the markets when it came to debt sales. I recall the row which followed the Bank using the Commissioners of the National Debt to buy excess debt when a gilt auction failed to attract sufficient demand.

“essential bulwark against overwhelming wickedness.” Or as Leo Pliatzky put it in 1986: “the Treasury stands for reality”⁹.

⁹ Peter Hennessy, *Whitehall* (1989), p398, quotes Pliatzky as saying “A lot of people, including some Prime Ministers, don’t like the force of circumstances, they don’t like the force of reality. They think “if only somehow I could get a different sort of Treasury”. Okay, why don’t they abolish the Treasury instead of trying to set up a counterpoint Well they can’t because the Treasury stands for reality”