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BEER

CONTROL

TEASURY

TREASURY CONTROL

**THE CO-ORDINATION OF
FINANCIAL AND ECONOMIC POLICY
IN GREAT BRITAIN**

BY

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PREFACE

THIS book is not concerned with all aspects of the Treasury's work, but only with its role as co-ordinator of financial and economic policy. This means that much of what the Treasury does has been almost entirely passed over, particularly the business of Establishments, Home Finance, and Overseas Finance. Yet if in this respect the theme of the book is narrow, in another it is as broad as the constitution itself. To try to understand the relations of the Treasury with the other great departments of state is to be led into an inquiry which ramifies throughout the complex and ancient architecture of British government. Fully to explain some simple Treasury decision—the result, let us say, of a telephone conversation between two Principals, one in the Treasury and the other outside; to try to find out why some things were said in this exchange and others were not and what has made possible the settlement which these two people have reached, would be a hardly less formidable undertaking than that on which Sir James Frazer embarked when he set out to understand the strange ceremony of the priests of Nemi.

Needless to say my inquiry has been less ambitious. But I have at least pushed it far enough to learn one lesson bearing on the interdependence of the various parts of British government. This is that with regard

PREFACE

either to the Treasury alone or the government as a whole, it is impossible to describe what goes on at the official level without also considering events on the ministerial level. The responsibility of ministers for all official acts of their subordinates is a central convention of the constitution. In some sense, no doubt, this convention is a fiction; that is, many of the acts of his subordinates for which a minister is answerable to Parliament are not acts which he directly ordered or of which he would in the normal course even have knowledge. Critics sometimes push the point farther, suggesting, for instance, that Parliament demands so much of a minister's time and government has become so big and complicated that today the major decisions really are made by civil servants.

Ministerial responsibility would be a deep-dyed fiction indeed, if this were so. That it is not so is one conclusion of this book. We can hardly suppose that men who have fought their way to ministerial power will upon achieving it be content to surrender its exercise to subordinates. On the other hand, we need not imagine that men of the ability of the members of the Administrative Class are mere clerks, occupied solely with dotting the i's and crossing the t's of the orders of their political chiefs. They are appointed because they have judgement—and they use it. The official will advise his minister frankly and vigorously; once he has a ministerial decision, he will act boldly. But the official—in Britain at any rate—

PREFACE

profoundly needs that decision before he can act and it is highly unlikely that a department will be effective if its minister does not know his own mind. When the machinery of co-ordination at the official level runs smoothly, this is in no small degree owing to the fact that ministers do know their own minds and officials can therefore faithfully anticipate the decisions which their chiefs would or will make. Likewise, when ministers cannot agree—as, for instance, in the dying days of a coalition government—civil servants also will probably be unable to ‘get on with the job’. Even with regard to matters which it does not directly discuss, therefore, the role of the Cabinet in co-ordination is critically important. Upon its drive and its harmony the success of official machinery very substantially depends. In this sense, ministerial responsibility, individual and collective, is no fiction but plain, unvarnished truth about what goes on in British government and administration.

Since printed sources on the work of the Treasury leave many aspects untouched, I have had to rely for information mainly on conversation with informed people. Most of them, being civil servants, must remain anonymous. These, as well as the members of parliament, journalists, and scholars who have talked to me about the Treasury, I wish to thank for their generous and indispensable help. I must, however, make it clear that, as regards both the selection of material and the

PREFACE

interpretation placed upon it, the responsibility for this work is, of course, entirely my own.

I wish also to express thanks to the Social Science Research Council and to the Harvard Foundation for Advanced Research for grants which made it possible for me to get to Britain one summer for research on this book.

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NOTE ON SECOND EDITION

I HAVE taken advantage of reprinting to include reference to the appointment in 1956 of two joint Permanent Secretaries to the Treasury and to bring up to date the organization chart and the description of Treasury organization in Chapter I. I have left in the present tense the concluding passages of Chapter III on the phases of policy-making and the framing of the Budget, since in essentials they still accurately describe how things are done.

S. H. B.

*Cambridge, Mass.,
March 1957*

CONTENTS

PREFACE	v
I. TREASURY ORGANIZATION	1
II. THE CO-ORDINATION OF FINANCIAL POLICY	13
III. THE CO-ORDINATION OF ECONOMIC POLICY	66
IV. THE NATURE OF THE TREASURY'S POWER	107
NOTE ON SOURCES	131
INDEX	132
H.M. TREASURY ORGANIZATION CHART	<i>at end</i>

I

TREASURY ORGANIZATION

ANCIENT in a country where being ancient is important, the British Treasury has a history going back farther than that of the Cabinet. Descending from the medieval Exchequer, it has passed through periods of mercantilist and of liberal economic policy. In recent years it has entered a new phase as the centre of economic co-ordination in the British version of the mixed economy and the welfare state. Already before World War II its functions had grown immensely and its viewpoint sensibly altered from Gladstone's day when in his words 'the saving of candle ends' was considered to be 'very much the measure of a good Secretary of the Treasury'.¹ But the new functions in the field of fiscal policy, not to mention physical planning, taken on by the Treasury since the war would have horrified not only Gladstone, but also the Chancellors of the Exchequer and Treasury officials of only a generation ago. As recently as 1929 the then Chancellor of the Exchequer, Winston Churchill, could speak of 'the orthodox Treasury doctrine which has steadfastly held that, whatever might be the political or social advantages,

¹ Sir Algernon West, *Recollections: 1832 to 1886*, vol. ii, p. 82. Quoted in Sir Edward Bridges, *Treasury Control*, Stamp Memorial Lecture (London, 1950).

TREASURY ORGANIZATION

very little additional employment and no permanent additional employment can, in fact, and as a general rule, be created by State borrowing and State expenditure'.¹ Whatever Government may come to power in the recognizable future, its and the Treasury's view is certain to touch wider horizons than those bounded by that doctrine.

The purposes of Treasury control have undergone a cautious, but emphatic, revolution. So also have the instruments through which it is exercised, the machinery of government at both the ministerial and official level having been very considerably altered. Yet the relationship of the Treasury and the 'great departments of state' bears a striking similarity to what it was in the past. The framing and co-ordination of economic policy and the processes of central economic planning have adapted themselves to the old model of Treasury control. The Treasury, as its officials themselves will say, is 'the traditional co-ordinating department', and its mode—one is tempted to say its 'style'—of co-ordination is derived from the past. New machinery has been erected and a new viewpoint guides Treasury control, but that term, commonly applied to the role of the 'liberal' Treasury, may still be applied to the role of the Treasury of the welfare state.

What is Treasury control? Any work on British government will lay stress on the importance and power

¹ 227 H.C. Deb. 54 (15 Apr. 1929).

TREASURY ORGANIZATION

of the Treasury. But what precisely does the Treasury do? And how does it do it? How is co-ordination achieved under Britain's peculiar plural executive? Given the large powers of the Treasury, should it not be said to direct and command rather than merely to co-ordinate? Where is the similarity between the old processes of Treasury control shaped by the Supply divisions and the new processes of economic planning? And how, incidentally, does the budgetary process over which the Treasury presides compare with that of the American system with its unitary executive?

The Treasury has not yet found its historian, nor have its present-day operations been subjected to close scrutiny by outside observers. Although the parliamentary side of British financial procedure has been fully described in many works, only one book on the Treasury as a whole has been published—Sir Thomas Heath's volume of 1927—and rare are the articles or special studies concerned with its operations within the administration.¹ At the outset, therefore, it will be necessary to give an account of the main parts of the Treasury—bare and brief, but serving at least the purposes of what the Army calls 'nomenclature'. Then we may turn to a description of the control exercised by the Supply divisions, comparing it afterwards with that of the new economic units of the Treasury. The concluding pages will be concerned with bringing out the factors in the

¹ See Note on Sources, p. 131.

TREASURY ORGANIZATION

British Civil Service and constitution which give co-ordination in British administration its peculiar style.

Since the time of Queen Anne the office of Lord High Treasurer has been in commission and formal control of the Treasury has been vested in a board of 'Lords Commissioners of Her (or His) Majesty's Treasury'. The board—which, incidentally, never meets—includes the First Lord of the Treasury, a post nowadays always held by the Prime Minister, the Second Lord of the Treasury, who is Chancellor of the Exchequer, and not more than five Junior Lords. The Junior Lords are Government Whips, serving under the Chief Whip, who has the title of Parliamentary Secretary of the Treasury. They play no part in the administration of the Treasury, except to sign certain formal documents from time to time. The Prime Minister's connexion with the Treasury is not by any means purely nominal, but the minister in charge of, and responsible for, the department is the Chancellor of the Exchequer. He is assisted by two ministers, the Financial Secretary to the Treasury and a minister of recent creation in charge of economic matters, the Economic Secretary.

Until 1956 the official head of the Treasury was a single Permanent Secretary, first appointed under that title in 1867. His salary was rather larger than that of other Permanent Secretaries and, by long usage and by formal designation dating from 1919, he also enjoyed the

TREASURY ORGANIZATION

title of 'Official Head of the Civil Service'.¹ In the latter capacity he advised the Prime Minister with regard to certain senior appointments in the Civil Service. In 1953 the Permanent Secretary was given a deputy with the rank of Second Secretary to assist him with the increasingly important and burdensome work in the fields of economic and financial policy. In 1956, upon the retirement of the then Permanent Secretary, two joint Permanent Secretaries were appointed. The senior, who was also Secretary to the Cabinet, was given charge of all establishments questions as well as those falling within the responsibility of the Prime Minister as First Lord. The other Permanent Secretary, who was responsible solely to the Chancellor of the Exchequer, took over the financial and economic work of the Treasury.

In comparison with other departments the Treasury is small. In 1914 its personnel numbered 140, of whom 35 belonged to the Administrative Class. There was some growth between the wars and an enormous expansion in very recent years. Now the total is around 1,500, of whom some 200 belong to the Administrative Class. Among those, however, whom Dale would put in the

¹ Referring to the Permanent Secretary, a Treasury Minute of 1919 said, 'He will act as permanent Head of the Civil Service and advise the First Lord in regard to Civil Service appointments and decorations.' For a discussion of this controversial title, see 125 H.L. Deb. 224 ff. and 275 ff. The senior of the joint Permanent Secretaries appointed in 1956 was given the title in a slightly modified form—'Official Head of the Home Civil Service'—reflecting the fact that the Foreign Service does not come within his responsibilities.

TREASURY ORGANIZATION

'higher civil service',¹ numbers are not so great as to prevent officials from seeing one another frequently and getting to know one another quite well.

Under the two joint Permanent Secretaries with their respective responsibilities, the business of the Treasury is divided into five sides. (The term 'sides' is as close to a term of art to describe these parts of the Treasury as British usage comes; the term 'division' refers to a subordinate unit.) They are Establishments, Supply, Home Finance, Overseas Finance, and Economic Affairs. With Supply and Economic Affairs we shall deal at length later on. The work of Supply, which consists of the control of expenditure, including review of estimates, is conducted by seven divisions, each headed by an Under Secretary or Assistant Secretary and dealing with a group of departments administering similar or closely allied services.² Economic Affairs includes the Home and Overseas Planning Staff—originally established in the Treasury in 1947 as the Central Economic Planning Staff—and the Economic Section. Long virtually part of the Treasury, the Economic Section was formally transferred to it from the Cabinet Office in 1953, its head being given the title of Economic Adviser to Her Majesty's Government. A public relations unit, the Economic Information Division, prepares briefs for ministers' speeches and press conferences, as well as releases for press and radio,

¹ H. E. Dale, *The Higher Civil Service of Great Britain* (London, 1941).

² See organization chart at end.

TREASURY ORGANIZATION

and assists the Central Office of Information in publicity campaigns.

Home and Overseas Finance deal respectively with the finance of government expenditure, including monetary policy, and with economic and financial relations with other countries. The Home Finance (Exchequer) Division handles the technical and executive work connected with the preparation of the Budget and the Finance Bill, although the precise size of the Budget and the proposed changes in taxation are dealt with at a high level in great secrecy until they are announced in the House of Commons. This division handles government relations with the Banks of England and Ireland and the National Debt Office, through which the public debt is managed, and maintains close liaison with the Board of Inland Revenue and the Board of Customs and Excise.

Home Finance (Capital) has the duty of advising on the most appropriate method of financing in line with the Government's general economic and financial policy. Among its duties is that of keeping in close contact with the Public Works Loan Board, the Development Areas Committee, and the Capital Issues Committee. The first two bodies are concerned with loans to local authorities and loans to companies wishing to conduct business in the development areas. To the Capital Issues Committee, which receives its policy instructions from the Chancellor of the Exchequer, come all applications for permission to make capital issues of £50,000 or over.

TREASURY ORGANIZATION

Closely connected with these two divisions are the two Treasury Officers of Accounts and the Treasury Accountant. The former, under the authority conferred on the Treasury by the Exchequer and Audit Act of 1866, control the form in which departments shall keep their accounts, a power which involves control over the form of departmental estimates. Under the same authority a Treasury Officer of Accounts also represents the Treasury at the hearings of the Public Accounts Committee of the House of Commons.

The Treasury Accountant has charge of payments from the Treasury's own vote and for certain other votes for which the Treasury is responsible. He is also responsible for issues to meet not only the service of the National Debt—whose detailed management is in the hands of the Bank of England—and other Consolidated Fund Services, but also the needs of the spending departments for funds. Controlling the formal disbursements to the Paymaster General, on whom departments directly draw, he is in a key position to watch over and to govern with some element of discretionary power the daily outflow of cash from the Central Government.

As Britain's international economic problems have become more critical, government control in this sphere has been extended and tightened and the business and size of the Overseas Finance side have grown accordingly. From the time of its separate establishment during the First World War and into the middle thirties, the

TREASURY ORGANIZATION

work of this side of the Treasury was done by a single division. Today it includes eight divisions. Some are organized on a territorial basis and conduct the work of Overseas Finance as it relates to particular countries. Others are functional, dealing with the same problems—above all, of course, the problem of the balance of payments—but from the angle of special subjects, such as import programmes, exports, exchange control, American aid and relations with international bodies. With the important part played by Overseas Finance in co-ordinating interdepartmentally the import requirements of the economy as a whole, we shall be concerned in some detail later on.

Since we shall not deal with Establishments in the main body of this book, it may be given more attention at this point than the other sides of the Treasury. Much of its work, like that of Supply, consists in the control of other departments, being in fact one part of the former business of Supply which, because of its size and special character, was separated off and put into another set of divisions. And in the strictness of the control exercised by Establishments there has been a certain relaxation in recent years comparable to a similar change in control by the Supply divisions proper.

In the prevailing British view, control over expenditure necessarily involves control over establishments. With few exceptions officials and independent students alike reject the suggestion that a commission or other