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BEYOND CORONAVIRUS: THE FUTURE OF THE TREASURY

Survival is the easy bit. Recovering will be much, much harder.

"Easy" is, of course, a relative term. The task of developing the current UK Government programme of supporting businesses, jobs and the economy has been both massive and labyrinthine. There have been immense challenges in constantly adapting to changing circumstances, testing policy in the field, and getting comfortable with things not being quite right first time. But what next?

The Treasury takes quiet pride in being "good in a crisis". What it actually is good at is quickly developing policy in line with a strong steer given by a united Government – which, though important, is not quite the same thing. So far, its efforts have been bolstered by a remarkable degree of consensus at Cabinet level: the PM has held firm and ensured collective responsibility, and policy differences have tended to be on nuances rather than fundamentals. But, as the conversation shifts from survival to recovery, can that hold? Will HMT, still bruised from the last few years' politics, seek to reassert its old beliefs in fiscal responsibility and non-intervention? And how might Rishi Sunak seek to align political and economic imperatives?

> *"Absolutely no intention of returning to the A word."*
>
> **Boris Johnson** on austerity, PMQs, 6 May 2020

Pints before the storm hits

After having seen the Chancellor successfully deliver a fiscal event, Treasury tradition is to head to the Two Chairmen on Dartmouth Street, SW1, and drink. It's a great evening for unwinding, gossiping and blowing off steam, and oddly democratic too: you'll see everyone from apprentices to directors-general, and even the odd Minister, everyone glad to have survived, hoping it doesn't all unravel the next day. The harder they've worked, the longer they stay.

I was there on March 11 this year, in the final days of my Treasury employment. (The Chancellor, meanwhile, was at FTI Consulting, briefing businesses…) It all felt oddly normal.

The fact that the Chancellor had just announced £30bn of Covid-19 spending certainly had no impact on our social distancing. Coronavirus was, at best, an inconvenience, another political obstacle to avoid; probably (they would whisper over the fourth pint) not as toxic as a no-deal Brexit. If you had told the officials there that night that within six weeks the Government would be guaranteeing business loans and paying workers to stay at home, you'd have been met with incredulity: this is Government intervention beyond even the scale of the 2008-9 crash.

Against their better natures

All of that has now changed; and, as happens after big political events, the key players have mobilised quickly in response. But is this level of intervention what the Treasury would have wanted to undertake? As an institution, there would have been considerable resistance. The Treasury has by and large tended to take a hard-headed approach on economic issues, not least because if it didn't no other department would. Officials have always privately been scathing about anything they perceive as spending taxpayers' money for the sake of a good announcement – a

speciality of Budgets in the 2010s. Coronavirus is of course much more serious than pork-barrel spending in a marginal seat. But the Treasury is also very much aware that the best way to ensure that your citizens die before they need to is to crash your economy, so the institutional bias favours anything that minimises economic damage – even if you end up taking short-term flak.

Treasury mandarins, while not overtly political, do not operate in a vacuum. Tom Scholar, the Permanent Secretary, would have been well aware that the Prime Minister and the Chancellor would be badly damaged if they were not seen to be taking coronavirus seriously; he would have appreciated that the support package had to be, at least in headline terms, more generous than elsewhere in the EU; and (a lesson learnt from 2008) it sensed that his department needed to direct largesse away from "the usual suspects" and towards SMEs and the self-employed. The Treasury is also aware that in recent years it has failed to read the British mood well (most notably over Brexit and Boris), and it is learning that in crises people listen to emotions, not economics. And so, though it may not always like it, the Treasury will play ball and listen to No 10.

Over the next weeks and months, that tension – between #soundmoney and #StayAtHomeSaveLives – will be played out at the highest level. It's no secret that the Treasury believes that while risks of infection can and should be reduced, they can never be eliminated, and therefore lockdown measures should be eased as much as possible in order to minimise the economic hit. But it is simply not ready to fight a losing battle, should the rest of the Cabinet be unwilling to take the political hit of a lockdown relaxation that causes even the smallest uptick in deaths.

Headaches, heartaches

There is, of course, more to life than lockdown relaxation. The major policy problem the Treasury is currently grappling with is around support to businesses. Its existential fear is of being politically press-ganged into propping up companies that would have been risky investments even without a pandemic: there is deep concern about executives' behaviour should Government be seen as a lender of last resort. Yet some companies and sectors will require that level of support, not least as Government rhetoric has been unexpectedly successful in persuading workers and customers to stay at home. Persuading the Treasury of the merits of such support will be practically impossible without ensuring other parts of Government are on board too.

Neither will the Treasury be allowed to construct its economic response in a vacuum, removed from the social realities of the crisis. Coronavirus will, if anything, heighten the extent of social and educational inequality in the UK and this is where public and opposition pressure will focus. The Government cannot afford, politically, to allow this to fall on deaf ears. The overwhelming public support for front-line workers in the NHS creates a political imperative, not only for some sort of "grand settlement" (including, whisper it, on social care) but also for running essential services with spare capacity so as to be able to respond more quickly and effectively to future emergencies. As a result, 'resilience' is set to become a key theme of politics and a fundamental measure by which departments will be judged for a generation.

Simultaneously, the Treasury is also looking towards the longer term. Here the problems are more vexing. The political messaging from the top has been that nothing that was on the pre-Covid shopping list should be removed. Austerity – always a symbol of the Cameron years rather than Johnson's version of Conservatism - is clearly out.

Indeed, while it may be counterintuitive, the crisis may drive the Prime Minister's "levelling up" agenda, and other personal priorities such as carbon reduction. However, for the Treasury, these additional spending demands, coupled with an astonishing spike in public spending for 2020/21 (the figure being bandied around is £300bn, at a time when it costs roughly £800bn a year to run the UK in its entirety), create a major headache.

> *"The Singapore-on-Thames proponents won the Brexit battle and (who knows?) they may have been right. But they are losing the war as our governing party enthusiastically embraces the continental Christian/Social Democratic model of a large tax & spend state."*
>
> Lord Macpherson, former Permanent Secretary, HM Treasury. Twitter, 16 April 2020

The options are not many. You could, at a pinch, repackage coronavirus-related debt along the same lines as WW2-era debt – on the basis that it is global and exceptional – and use some fiscal sleight of hand to rejig the figures. You could potentially trim infrastructure expenditure, on the somewhat dubious basis that many will be working from home far more – although that would be a gigantic personal U-turn for the PM. Or you could raise taxes, though the big-ticket areas of income tax, VAT and national insurance are precluded by the manifesto, and other increases might not have the necessary fiscal firepower (as well as being unhelpful when you're trying to signal international competitiveness). Finally you can pray that your life is made easier by the markets recovering quickly. This is not a happy place to be.

Planting lots of money trees

But life goes on. The task of the Treasury will be to seek policy solutions that are both economically and politically acceptable, and then apply – in the words of Johnson

himself – "great gushes of molten fudge" to mould them into a narrative that combines fiscal responsibility with a broad emotional appeal, and distract attention from the long-term fiscal problems that existed before the current crisis. They can be tackled later, and in a more private arena.

The obvious thing to prioritise is boosting economic growth. That plays to the Prime Ministerial agenda (levelling up, Global Britain, infrastructure, feelgood stories), the Dominic Cummings agenda (disruption, advanced research, technology), and the traditional Treasury agenda of getting more money into the coffers. Plus, it would have the pleasing side-effect of placing the Treasury back at the centre of political discourse.

Boosting growth is unfortunately much easier said than done. The opportunity is there, as many have articulated, including Wolfgang Münchau in the *Spectator* in April. But going for flat-out growth means answering some difficult questions – about, for instance, the nature of Government support for declining industries, the amount of regulation we are happy to accept, the extent to which we will wish to continue alignment with the EU, the perennial problem of what to do with low-skilled workers in industries that are no longer profitable, and how all of this squares with the environmental and social justice agendas. Many other departments have their own convictions on these issues, and they will inevitably clash. Finally, these are all debates that will be played out in public to an increasingly raucous audience, and with an Opposition – under new leader Keir Starmer - that is landing its punches far more effectively.

The evidence suggests that these are arguments the Chancellor will be happy to have. And he will be surprisingly well supported by his department if he chooses to take a bold approach. For the first time since George Osborne, the Treasury machine senses that here is someone who is both personally close to the Prime Minister and intellectually signed up to the politics of the day, including Brexit. True, he lacks his own power base at the moment and therefore remains under the Prime Minister's patronage; true, there is plenty of scope for his plan to unravel and his reputation to be shot; true, the Prime Minister has been more dovish on the issue of relaxing the lockdown; but there is at present real warmth and support between the two figures. This has not been the case for a long time, which goes some way towards explaining the Treasury's hesitance in fully grasping post-Brexit politics: which boss, senior officials had previously asked themselves, do I listen to? Now it is clearer.

The institutional power of the Treasury has tended to track the importance assigned to the economy within the wider Government narrative. This peaked under Brown (as Chancellor), when Labour wanted to signal economic competence, and Osborne, when the focus was rebuilding the public finances. The Treasury liked this very much, as it made it easier to get its own way. It now has an opportunity to return to this position: once the social shock of coronavirus passes, political attention will inevitably turn to economic recovery. In that scenario it is not difficult to see an emboldened Treasury, grown in confidence, having come back in from the political cold, playing a far more prominent position within Cabinet. This, in turn, will give it greater leverage when it comes to considering some of the truly difficult decisions.

New facts, new orthodoxies

All of this means change. On a personal level this may be difficult for some of the most senior Treasury officials: some may seek greener pastures (or at least less blue ones). But coming to terms with a shift in departmental culture is not entirely new territory: it is not unheard of for senior civil servants to dismantle the policies they had themselves set up, in response to changes in the political weather. Indeed, many officials will quite enjoy the challenge of coming up with a new set of priorities, and exploring avenues that they might not have dared go down before.

> *"In the past, the great changes in the Treasury have followed events causing economic turmoil…"*
>
> David Lipsey, economic historian, writing in 2000

As an example, the Treasury has for a long time defied attempts to introduce hypothecation – the practice of allocating revenue streams to certain pet projects. But might the new normal, and its political imperatives, see the introduction of a post-Covid social care levy? If it is considered a politically acceptable way to raise funds, then don't rule it out. And if that works, what other things might follow?

The Treasury will seek, and be grateful for, allies from outside Government. It will take some time for the Treasury to settle on its new priorities; but once they do, they will be keen to hear from external organisations that will help them on that journey – while combining economic and political interests. For instance, there are two separate and contradictory Treasury narratives on cash – the economic narrative, that it is an inefficient anachronism in the digital age, and a more political one, that it is the lifeblood of deprived and isolated communities. Could a digital inclusion scheme therefore help bridge that gap?

Finally, bandwidth will be a problem – not only is there never enough Parliamentary time to get the legislation you need through the Commons and Lords (a situation only made worse by social distancing), but there also aren't always enough senior advocates within the Treasury to set the wheels in motion. In parochial terms this means that now more than ever, engagement with the Treasury will

need to be precise, targeted, and present a workable solution to any problems posed. In more general terms, it suggests that there will be an internal process of triaging policies, which will doubtless lead to frustration when delivery fails to match rhetoric. That creates its own problems, though they are much more manageable if the economy is felt to be bouncing back.

Much could – and most likely will – change in the coming weeks. The trajectory of coronavirus is as uncertain as that of the economy. Currently, there is relief in Whitehall at having averted a short-term financial crisis, but also great unease about what comes next. Everyone is well aware that there will be some fiendishly tough choices to make about the country's long-term future. The Treasury's main objective will be to be in the room where it happens, be helpful on the politics, and then try and get its way on the economics.

Adrian Pascu-Tulbure is a Director in FTI Consulting's Public Affairs team. Before joining FTI he worked in HM Treasury in a number of communications and policy roles.

Adrian.Pascu-Tulbure@fticonsulting.com +44(0) 207 632 5109