The Treasury and Social Policy

Transforming Government

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The Treasury and Social Policy

The Contest for Control of Welfare Strategy

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General Editor's Foreword: Transforming Government

There are enormous gaps in our knowledge of the key actors and institutions in British government. We cannot do simple things like describing the work of ministers of state, permanent secretaries, and their departments. Also, there have been large changes in British government during the post-war period, such as: the growth of the welfare state; the professionalization of government; the consequences of recession; the effects of New Right ideology; the impact of the European Union; the effects of new technology; the hollowing out of the state; and the new public management with its separation of policy and administration. We do not know how these changes affected British government. And we cannot understand the effects of these changes by focusing only on Britain. We must also analyze the experience of the advanced industrial democracies of Europe and the Commonwealth.

To repair these gaps in our knowledge and to explain how and why British government changed in the post-war period, the Economic and Social Research Council mounted the Whitehall Programme on 'The Changing Nature of Central Government in Britain'. This series on 'Transforming Government' reports the results of that four-year research programme. The series has five objectives.

- Develop theory – to develop new theoretical perspectives to explain why British government changed and why it differs from other countries.
- Understand change – to describe and explain what has changed in British government since 1945.
- Compare – to compare these changes with those in other EU member states and other states with a 'Westminster' system of government.
- Build bridges – to create a common understanding between academics and practitioners.
- Dissemination – to make academic research accessible to a varied audience ranging from sixth-formers to senior policy-makers.

The books cover six broad themes:

- Developing theory about the new forms of governance.

- The hollowing out of the state in Britain, Europe and the Commonwealth.
- The fragmenting government framework.
- The changing roles of ministers and the senior civil service.
- Constitutional change.
- New ways of delivering services.

Nicholas Deakin and Richard Parry explore the ways in which the Treasury's roles and relationships with other departments have changed by examining in some detail its links with social policy departments. In Chapter 2 they describe the Treasury's search for more effective ways of carrying out its functions. We see the rise and fall of PES (the public expenditure survey) and the 'Treasury under the Tories' again. The system in 1983 is seen as 'unsystematic and politically contingent', with little effective purchase on social policy. Chapter 3 documents how, under the (then) Chancellor Nigel Lawson, the Treasury developed a new technical repertoire. The shift from cash to volume public expenditure planning undermined PES. It gave the Treasury 'a more secure basis for controlling the public sector' and fuelled fears in the social policy departments they would be punished with cuts in their running costs if they did not meet their spending targets.

Chapters 4 and 5 are devoted to the internal reform of the Treasury. The *Fundamental Review of Running Costs* (1994) (otherwise known as the Heywood report) not only streamlined the organization but also sought a thorough re-examination of its working style and culture. Thus, there was to be a shallower hierarchy with responsibility for the Treasury's links to departments and discussions about spending devolved to team leaders at Grade 5. Spending divisions were to be more proactive, strategic with each team reviewing the trade-offs and options available, and responsive to their customers, the departments. In theory at least, the adversarial role was in the past but the strategic role admitted the Treasury into departmental policy development. It intervened on cross-cutting issues as arbitrator and facilitator, causing fears the Treasury had too much power.

Chapters 6 to 8 explore the Treasury's changing role and departmental fears through revealing interviews with key actors. The familiar distinction between guardians (of the public purse) and advocates (of expenditure) is too simple but there are important cracks in the Treasury-department links wonderfully captured in the following quote. There is:

a view which I think the rest of British government should stand firmly against, that they see themselves as getting out of the detail and operating at a strategic level across every strategic issue that government faces. They see themselves actually as a holding company for the British government, with a lot of operating companies, being controlled by the 'Hanson head office' who will check them mostly on numbers, but will also have an overall sort of company strategy which will be capable of affecting every aspect of life, and they think they are capable of doing that, and they could not be more wrong. If they came out and said that was what they were about, loudly, they would have met with a sort of fierce response, but I do think that is what they think they're about, and as I say, it would be disastrous if they were allowed to get away with it. They've got enough power as it is . . .

So, Deakin and Parry conclude, the Treasury seeks 'more control over less' but there is a gap between its wish to intervene and its capacity to do so. Money lies at the heart of government. The Treasury is strong and getting stronger. But it lacks the staff, expertise and analytical ability to intervene effectively in substantive social policies. It needs a refit so it can exercise its influence in a more systematic and informed way.

There have been many fine books on the Treasury. Hugh Heclo and Aaron Wildavsky's *The Private Government of Public Money* (Macmillan, 1974) is a classic of modern political science. Colin Thain and Maurice Wright's *The Treasury and Whitehall* (Clarendon Press, 1995) is a monumental and exhaustive study of the planning and control of public expenditure. Inevitably Nicholas Deakin and Richard Parry's book will be compared with its distinguished predecessors, but they can hold their heads high. It is a fine addition to the canon. Of course a series editor would say that, wouldn't he? But just because I am the editor of the series, I do not lose all judgement. They combine Thain and Wright's grasp of detail with Heclo and Wildavsky's eye for the telling quote. The result is both authoritative and readable, technically up-to-date but accessible. Above all, it communicates the feel of what it is to like to work for the Treasury and what it is like for a department to deal with the Treasury. Their book is a major addition to the Whitehall Programme's series.

Newcastle upon Tyne

R.A.W. RHODES
 Director, ESRC Whitehall Programme, and
 Professor of Politics, University of Newcastle

The ESRC Whitehall Programme had published four books in the 'Transforming Government' series by March 1999:

Rhodes, R.A.W., Weller, P. and Bakviss, H. (eds), *The Hollow Crown* (London: Macmillan, 1997)

Smith, M.J., *The Core Executive in Britain* (London: Macmillan, 1999)

Theakston, K., *Leadership in Whitehall* (London: Macmillan, 1999)

Theakston, K. (ed.), *Bureaucrats and Leadership* (London: Macmillan, 1999)

It had also published six books outside the series:

Bradbury, J. and Mawson, J. (eds), *British Regionalism and Devolution* (London: Jessica Kingsley, 1997)

Day, P. and Klein R., *Steering but not Rowing? The Transformation of the Department of Health: A Case Study* (Bristol: The Policy Press, 1997)

Lowe, R., *The Welfare State in Britain* (London: Macmillan, 1999)

Rhodes. R.A.W., *Understanding Governance: Policy Networks, Governance, Reflexivity and Accountability* (Buckingham: Open University Press, 1997)

Rhodes, R.A.W. and Dunleavy, P. (eds), *Prime Minister, Cabinet and Core Executive* (London: Macmillan, 1995)

Sergeant, J. and Steele, J., *Consulting the Public: Guidelines and Good Practice* (London: Policy Studies Institute, 1997)

Preface and Acknowledgements

This book originally grew from our dissatisfaction with some common stereotypes of the Treasury's role in British government. Academics and practitioners in our own field, social policy, generally held a conspiratorial view of Treasury attitudes and behaviour that sometimes bordered on the paranoid. Despite the existence of a series of heavyweight academic studies of the Treasury that put its activities in a more objective perspective, that view persisted. We felt that the Treasury's performance could and should be seen in a different light, looking at the impact that its actions and location at the centre of British government has had on the shape and development of social policy but without prior prejudice.

The advent in 1995 of the Whitehall research programme, negotiated by the Economic and Social Research Council with the Cabinet Office, provided us with the opportunity to do so. We owe a great debt to the Council for funding our project and to the programme's academic director, Professor Rod Rhodes. His energy, enthusiasm and general sense of buoyancy have sustained us and our colleagues on the programme. Professor Ben Pimlott, as chair of the ESRC Committee supervising the programme, gave great encouragement, especially to our attempts to provide readable and challenging published output. The support for the programme and active participation in its discussions both formal and informal of successive heads of the home civil service, Sir Robin Butler and Sir Richard Wilson, set the tone for the programme from the outset. On a practical level, it helped us in the crucial task of securing access to the people we wanted to interview.

Our main debt of gratitude for help in writing this book is to the many civil servants in the Treasury and other departments who agreed to see us and talk to us about their work. Convention still requires that we do not name the other civil servants with whom we have had extended discussions. We completed thirty formal interviews with officials at a wide range of different grades. Almost all of them allowed us to record their words on tape; they have offered comments on the precise words we quote, but the use made of quotations from the interviews and the interpretation is our responsibility alone. We are very grateful to have been permitted to

proceed in this way, which let us report our respondents' approach to key issues in their own words.

We hope thereby to have been able to convey some sense of the dynamism of the Treasury teams and of their leaders that we interviewed, fearlessly combative in argument, and of the reactions of the long-suffering departmental finance officers in the social spending departments who had to do business with them, who often unburdened their frustrations to us, sometimes almost in confessional style.

Two Treasury officials have had a public profile in the area of our work which we can acknowledge – Norman Glass, Deputy Director of Public Services, a member of the Economic and Social Research Council and a commentator on a paper we gave in 1996, and Sir Terry Burns, who before his retirement as Permanent Secretary in 1998 broke new ground for a senior official in giving thoughtful public lectures, including one on no less sensitive a subject than the transition to the Labour government.

One of the stipulations that grant holders in the Whitehall programme have had to meet is the requirement to feed back the findings of their research to the subjects of their inquiries. In December 1996, we were invited to speak to the Treasury Spending Directorate by its director, Robert Culpin. The entire staff turned up to hear us: to paraphrase President Kennedy, never has there been such a distinguished assemblage of brainpower on spending control since Gladstone dined alone. The Treasury's unique mixture of power and informality that even casual visitors can scent when they walk through the door at Great George Street was on luxuriant display in the discussion that took place that day.

A word on timing. Most of our interviews, which constitute the main but not the only source for our account, took place under the Major government. We are well aware that it can be suggested that some lines of criticism that we advance have already been dealt with by subsequent changes. Nevertheless, we felt it necessary to await the outcome of the 1997 Election before writing up our material and then had to wait for the Labour government to declare its hand on public spending through the Comprehensive Spending Reviews and Public Service Agreements. After the 1999 Budget and some other policy announcements at the end of the financial year, we hope we have hit a relatively calm period during which the ageing process of our book will not accelerate too fast, but by the time this is being read who knows what crises and cuts

may have dashed the Treasury's perennial hope that, finally, everything is under reasonable control.

In the course of our study, we were assisted by an advisory group of retired senior officials – David Faulkner, Paul McQuail, Ian Penman and William Plowden – who provided wise advice at the outset and allowed us to try out some of our preliminary conclusions with them. We are most grateful for their help. Our secretarial tasks were lightened by Norma Macleod at Edinburgh and Sue Gilbert at Birmingham, to whom our gratitude also goes.

The writing and redrafting of this book was done equally by both of us, the order of our names on the title page being of alphabetical significance only. On a personal level, Nicholas Deakin would like to thank his nephews Phineas and Felix and niece Romola for their boisterous hospitality on those frequent occasions when work on this book took him to Edinburgh; and Richard Parry gratefully acknowledges the hospitality of Penny Clark in Oxford and Liz Davies in London that facilitated his visits in the opposite direction.

Parts of Chapter 3 draw upon the chapter 'Does the Treasury have a social policy?' we contributed to N. Deakin and R. Page (eds), *The Costs of Welfare* (Avebury, 1993). An earlier version of Chapter 9 appeared as 'The Treasury and New Labour's social policies' in the Social Policy Association's *Social Policy Review 10* (1998). Part of chapter 10 draws upon our end-of-award report to the ESRC.

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The Economic and Social Research Council showed striking entrepreneurial skill in launching and sustaining this research programme, and our final acknowledgement is to them, mentioning as they would wish that they funded our research under grant number L 124 25 1004.

Birmingham and Edinburgh

NICHOLAS DEAKIN
RICHARD PARRY