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Book Review: The Treasury and British Public Policy, 1906-1959 by GC Peden and The Centenary of Treasury 1901-2001. 100 Years of Public Service, Department of Treasury


The functions of the British Treasury were part of a system of public finance established primarily by Sir Robert Peel and William Gladstone. This system was based on the proposition that the State should not favour any particular economic interest and its three central elements were the balanced budget, the gold standard and free trade. Most senior Treasury officials, until perhaps as late as the 1950s, were brought up in this tradition, and continued by-and-large to support it - the gold standard by this time, of course, had been replaced by the desire for a fixed rate of exchange anchored to the United States dollar.

Of the Treasury’s role in this system, its control both of central government expenditure and the number of posts in government departments had evolved over the years from the 1780s to the 1860s, culminating in Gladstone’s Exchequer and Audit Act of 1866. This control meant, in effect, that no department could sanction new expenditure, or augment the number of civil servants, or raise their salaries, without Treasury authority. Treasury officials assiduously scrutinised all proposals for expenditure to ensure that ‘taxpayers’ money’ was wisely and efficiently spent. To Gladstone, ‘the saving of candle-ends’ was ‘the measure of a good Secretary of the Treasury’; following Adam Smith, David Ricardo and John Stuart Mill, he held that ‘money should be left to fructify in the pocket of the taxpayer.’ It is this tradition of Treasury control, and its operation within the context of the system of public finance based on the concepts of the balanced budget, a fixed exchange rate and free trade, that Peden seeks to examine over the first half of the twentieth century.

The period begins with Herbert Asquith’s budget speech of 1906, in which he reaffirmed that revenue in each year should cover central government expenditure in that year, that loans should only fund government activities that were able to generate income sufficient to meet interest charges and sinking fund requirements, and that such expenditure should remain as low as possible. It concludes with the budget of 1959, the first in Britain to announce a deliberate cut in revenue and a rise in expenditure aimed at augmenting aggregate demand for the purpose of expanding employment. It may be supposed that the author’s objective is to examine and explain the circumstances behind this seemingly remarkable transformation in the nature of British financial policy, and the role in this transformation of the Treasury, the nation’s pre-eminent agency of economic advice to
government. But it turns out that this is not the case at all. Rather, Peden’s major purpose is to emphasize continuities in the nature of the Treasury’s operations and advice to government. This, in turn, might suppose that the book’s aim is to provide a critique of the Treasury’s failure to adapt to changing circumstances, changes which Peden himself admits were considerable in the first half of the twentieth century. But, once more, to suppose that this is the author’s aim would be quite false. For Peden argues that much of the criticism traditionally levelled at the views emanating from the Treasury is myopic, failing as it does to acknowledge the complexity and nature of the Treasury’s work. In fact, the reader will find in the book a very sympathetic treatment of the Treasury’s exercise of its role.

Given the central role of the Treasury in the history of British public policy, especially in regard to economic policy, it may come as something of a surprise to learn that Peden’s study is the first comprehensive examination of the department’s operations during the first half of the twentieth century. This is not to say that the Treasury’s functions and its role in policy development have been neglected in the past by commentators and scholars. Indeed, in the past two years alone, there have been three important works on aspects of the contemporary Treasury, those by David Lipsey, Richard Holt and the Treasury itself. These add to earlier books on the Treasury by Henry Roseveare, Lord Bridges, Samuel Beer, Herbert Brittain, Samuel Brittan, Richard Chapman, and Colin Thain and Maurice Wright.
However, none of these studies were based on extensive examination of archival documents. In contrast, Peden's work draws heavily on Treasury papers available at the Public Records Office in London, the records of the Bank of England, and personal papers of officials and ministers stored in various repositories throughout Britain. He has also used United States Treasury and Department of State documents available at the National Archives in Washington, DC.

Bearing in mind the scope and the complexity of the Treasury's responsibilities, and the massive amount of documentation available, the author has been compelled to follow a strict set of organisational procedures. Following an introductory chapter on the Treasury and its changing roles, together with a preview of the general themes to be explored later in greater detail, the book is then divided into eight chapters, each covering about five to eight years. This division is admittedly orthodox: Liberal Finance and Social Reform, 1906-1914; the First World War, 1914-1919; Reorganisation and Retrenchment, 1919-1924; the Gold Standard and Public Finance, 1924-1931; Recovery and Rearmament, 1931-1939; the Second World War, 1939-1945; the Treasury under Labour, 1945-1951; and the Treasury and the Managed Economy, 1951-1959. Each chapter begins with a general overview, followed by a section headed ‘Personalities and Organization’; further sections depend on the major issues of each period, with considerable stress on financial management, public expenditure, civil service management, and economic policy.

As one might expect from the author of acclaimed works on rearmament and Treasury policy in the 1930s, Keynes and the Treasury, and the Treasury and unemployment policy in the 1930s, The Treasury and Public Policy exhibits an impressive degree of scholarship, not the least of which is the exemplary command of Treasury archival material. All the major issues of Treasury concern are covered in abundant detail, against the backdrop of the dominant economic trends and events of the time. Treasury heads and other senior officials are also given their due. The structure of the book, though conventional in some respects, is nevertheless entirely appropriate, and the writing is both clear and unpretentious. While strong on narrative, the work is decidedly weaker on analysis. Further, the author struggles to identify central themes, and when he does they are often somewhat jejune.

The main thesis of the book is that the Treasury 'sought at all times to maintain rules that would ensure that the nation's financial system could remain sound, that government business was conducted in an orderly way, and that policy commitments did not outrun the prospective resources available. There is always a temptation for governments to try to do too much too quickly and in response to political pressures. The Treasury played a key role in enabling governments to establish priorities' (pp. 28-29).

Even following the adoption by the Treasury of Keynesianism, it is argued that the Treasury maintained its traditional role, using the Keynesian system for this purpose: 'By the 1950s the Treasury was using Keynesian macroeconomic concepts to manage the British economy. On the other hand, Chancellors and officials continued to regard control of public expenditure as an equally important function of the department. Indeed the two functions were not separate and distinct...Keynesian economics did not displace the traditional goals of public finance; rather macroeconomic analysis was deployed to persuade ministers to decide priorities in policy in much the same
way as had occurred in the days of balanced budgets. Responsibility for managing the economy made the Treasury more dependent upon professional economic advice, but traditional currents of Treasury thought persisted; for example, in the belief that public expenditure and taxation should be held at levels that would not damage private enterprise; in the priority given to maintaining a stable exchange rate; and in the bias in favour of removing restrictions on international trade' (p. 516). Moreover, 'high levels of demand in the long post-war boom made inflation rather than unemployment the more pressing problem to be faced, and Keynesian economic management generally required that public expenditure be held down, a task in line with the Treasury's traditional role' (p. 516).

So, although the head of the Treasury (Bridges) and his deputy (Gilbert) retired from the Treasury in 1956 'from a very different institution from the one which they first entered in 1917 and 1914 respectively…it had by no means lost touch with its traditional aims and objectives…Whereas traditionally Chancellors had aimed at a balanced budget, with a small surplus to pay off some of the National Debt, post-war Chancellors aimed at a surplus above the line that would offset at least part of the borrowing below the line. The gold standard had gone, but its place had been taken by the discipline of a fixed exchange rate that could be adjusted only in exceptional circumstances' (p. 531).

Was the Treasury's influence upon British public policy positive or negative? A precise answer to that question, of course, would depend on identifying policy objectives and assessing outcomes against the objectives. Policy in the early 1920s, designed to deflate demand for the purpose of restoring the gold standard, might be considered to have been successful, since the gold standard was restored, but considered unsuccessful had the reduction of unemployment been the policy aim (which it was not). Peden's general conclusion is that, while criticism can legitimately be directed at particular policies, 'the issues were often more complex than critics have assumed. There has been a tendency for academics to specialize in one part of public policy only, and to assume that more resources could have been made available for the aspect of policy in which they are interested, without giving too much thought to what other purposes these resources might have been directed' (p. 29).

He does concede, however, that there were some deficiencies in Treasury administration. One was the failure to undertake and promote systematic collection and compilation of statistics, including national income estimates, until the establishment of the Central Statistical Office in the early years of the second world war. Even in the late 1950s, the Radcliffe Committee investigating the British monetary system found significant gaps in the availability of financial statistics. Another was the lack of economic expertise in the department. In 1919 Ralph Hawtrey, then a Treasury official of long-standing, was appointed to head a Financial Enquiries branch. But this branch seems to have played a limited role in the formulation of Treasury advice. During the second world war, Dennis Robertson and Hubert Henderson were brought into the Treasury to provide economic advice, and Keynes, of course, was appointed to the Chancellor’s Consultative Council, with an office in the Treasury. But it was not until 1953, when the Economic Section, under the direction of the Australian, Robert Hall, was transferred from the Cabinet Office to the Treasury that an economic group was located in the department. Further, the training of officials during the period covered by the book was left to in-house
procedures, and this no doubt explains in large measure the continuity of outlook among senior officials. Moreover, this system tended to produce all-rounders, rather than officials with particular competence to advise on financial or economic policy, or to conduct international negotiations. Management systems, too, were primitive, with an inordinate responsibility given to the permanent secretary.

Yet Peden dismisses any idea that Britain's poor economic performance relative to most other industrial countries in the twentieth century can be levelled at the Treasury, for Britain's economic deficiencies, he believes, 'do not by any means lie wholly within the sphere of public policy' (p. 530). And he rejects much of the traditional criticism of the Treasury, including the common view that Treasury officials exerted undue influence upon ministers. On the contrary, it is Peden’s view that Treasury officials were generally sensitive to the fact that, in the nature of responsible government, ministers are ultimately responsible for policy, while officials are responsible for advice and the implementation of policy.

These are not views that have constituted the conventional wisdom in economic histories of the period. Nor is it always the case that Peden’s conclusions follow from his detailed examination of the Treasury’s work and policy advice. What can be said is that Peden has provided an impressive amount of useful material relating to the British Treasury and its contributions to public policy, based on a thorough command of Treasury and other archival records. As a consequence, this book will be the starting point for all further work on the British Treasury in the first half of the twentieth century.

In contrast to Professor Peden's scholarly work on the British Treasury, the Australian Treasury's contribution to the centenary of Federation is a decidedly more modest affair. Produced within the Treasury, with limited resources, and according to a very tight timetable, The Centenary of Treasury seeks to highlight some of the major events in the Treasury's work over the past one hundred years, and draws attention to the contributions of officials, particularly Secretaries to the Treasury, and Treasurers. Unfortunately, not much is said in relation to what might be considered to be the major aspect of the Treasury's evolution over the century covered by the book, namely, its transformation from an institution whose responsibility at the beginning of the century was to manage the government’s expenditure and revenue, to an economic department whose responsibility is to provide economic policy advice to government – not just macroeconomic policy advice, but microeconomic policy advice as well.

Even so, the Treasury deserves to be praised for the effort it made to produce this book, which in its factual accuracy, lucidity of style, the aptness of its photographs, and the cogency of its discussion, is more impressive than most of the other works on the Commonwealth bureaucracy that were published last year in commemoration of the centenary of the Australian Federation. One of the great difficulties in writing a history of the Australian Treasury, a task which this reviewer is undertaking, is the deficiency of archival materials. In contrast to the wealth of extant records of the British Treasury, which have been preserved in detail and with great pride by former Treasury officials and archivists at the Public Record Office, the records of the Commonwealth Treasury have generally been poorly looked after. Some years ago consultants engaged to recommend on the destruction of records for cost-cutting purposes accomplished their task so thoroughly, and with such zeal, that many key
records of the period before the second world war were despatched to the incinerator. One finds it hard to believe that such an act of vandalism would be contemplated in other countries. It is testimony perhaps to the small regard we place in this country on the study of our history.

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