



## OPERATIONAL SELECTION POLICY OSP9

### FISCAL POLICY 1971-1979

Revised November 2005

## **1 Authority**

- 1.1 The National Archives' Acquisition Policy announced the Archives' intention of developing Operational Selection Policies across government. These would apply the collection themes described in the overall policy to the records of individual departments and agencies.
- 1.2 Operational Selection Policies are intended to be working tools for those involved in the selection of public records. This policy may therefore be reviewed and revised in the light of comments from users of the records or from archive professionals, HM Treasury's experience of using the policy, or as a result of newly discovered information. There is no formal cycle of review, but comments would be welcomed at any time. The extent of any review or revision exercise will be determined according to the nature of the comments received.
- 1.3 If you have any comments upon this policy, please e-mail [records-management@nationalarchives.gov.uk](mailto:records-management@nationalarchives.gov.uk) or write to:

Acquisition and Disposition Policy Project Manager  
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## **2 Scope**

- 2.1 This Operational Selection Policy is a pre-cursor to Operational Selection Policies giving more detailed selection criteria for records on the control of public expenditure and taxation policy. It should be used as a means of understanding both the general developments in fiscal policy in the 1970's and the interactions between Treasury divisions.
- 2.2 The scope of this Operational Selection Policy is the formulation of fiscal policy. Fiscal policy is defined here as government decisions about its revenue and expenditure.
  - 2.2.1 This Operational Selection Policy will cover the records pertaining to decisions about fiscal stance. For the purposes of this Policy fiscal stance refers to the government's use of the budget to influence the economy by managing total demand. It can be expansionary, contractionary or neutral, but the effect of a budget cannot be derived from whether a deficit occurred. From 1971 to 1986, governments ran public sector deficits, but fiscal stance itself varied. In each budget the government made a decision on how to manage the size of the deficit,

according to whether it believed that economic circumstances required the expansion or contraction of demand.

- 2.2.2 Decisions about fiscal stance include forecasts about future economic growth, and levels of investment and consumption. Records pertaining to these calculations are included in the scope of this Operational Selection Policy.
- 2.2.3 Decisions about fiscal stance include decisions about the use of fiscal policy as an instrument of demand management and economic management in general. This Policy therefore has a significant 'history of ideas' element covering changes in government attitudes towards the use of fiscal policy.
- 2.3 This Policy serves as a necessary introduction to more detailed Operational Selection Policies on topics which feed into the formulation of fiscal policy.
  - 2.3.1 As noted in 2.1, a future Operational Selection Policy will cover the control of public expenditure. This will cover mechanisms to control and monitor expenditure by government departments, local authorities and the nationalised industries, including advice on the selection of records on the work of the Public Expenditure Survey Committee (PESC), Programme Analysis and Review (PAR) and the use of cash limits.
  - 2.3.2 A future Operational Selection Policy will cover taxation policy. This will include the formulation of high-level decisions such as the balance of direct and indirect taxation and the means to calculate and collect taxes.
- 2.4 Decisions concerning the levels of public expenditure and taxation and the balance of revenue and spending are based on a wide range of forecasts and figures concerning current economic developments such as levels of unemployment or changes in the balance of payments. Detailed selection criteria for these topics will be given in future Operational Selection Policies.
  - 2.4.1 Decisions about fiscal stance are based on forecasts of economic growth (and hence levels of tax revenue and unemployment payments), and levels of investment and consumption. Ways of collecting and modelling these figures will be part of this Policy in so far as they affected the policy decision. The general development of economic modelling between 1970 and 2000 will be the subject of a separate Operational Selection Policy.
  - 2.4.2 Monetary policy, the management of sterling, and the balance of payments influenced decisions about public expenditure, but will be the subject of separate Operational Selection Policies. In this Operational Selection Policy there is, therefore, no detailed comment

on records relating to these subjects and their effect on fiscal decisions.

### **3 Departmental responsibilities and automatic selection**

- 3.1 The Treasury was responsible for the formulation of fiscal policy.
- 3.2 Fiscal stance was determined in the last instance by HM Treasury's Budget Committee, chaired by the Chancellor of the Exchequer. The Committee comprised the Chief Secretary and Financial Secretary, the Minister of State, the Permanent Secretary, the Chief Economic Adviser, the Under Secretary of the Treasury's Fiscal and Incomes Policy Division and the Chairman of the Board of Inland Revenue and the Chairman of the Board of Customs and Excise.
- 3.3 The formulation of the Budget involved the co-ordination of decisions and forecasts about revenue and expenditure and hence all aspects of the work of the Treasury. The specific divisional responsibilities are outlined in Appendix 2.
- 3.4 A major review of Treasury organisation began in 1973 with changes implemented from October 1975. This Operational Selection Policy traces responsibilities before and after this change in Appendix 2.

### **4 Relevant Collection Themes in The National Archives' Acquisition Policy**

- 4.1 The Acquisition Policy statement outlines certain themes which form the basis of The National Archives' appraisal and selection decisions. Of these themes the following are of potential relevance to the area of the formulation of fiscal policy:

- 2.2.1.1 Formulation of policy and management of public resources by the core executive
- 2.2.1.2 Management of the economy
- 2.2.1.5 Formulation and delivery of social policies, (in so far as fiscal policy included consideration of the re-distributive effects of taxation policies)

### **5 Historical outline of Fiscal Policy 1970-1979**

- 5.1 The 1970's saw changes in the use of fiscal policy leading to the abandonment of the Keynesian system of demand management. In the post-war era the maintenance of full employment had been a declared central aim of economic policy, achieved through the use of fiscal measures to manage demand, namely variations in taxation and in levels of public expenditure.

In the course of the 1970's the shift away from this position was demonstrated by growing commitment to the control of inflation as the

primary concern of economic management. Government increasingly used monetary policy, especially variations in interest rates, and reduction of the Public Sector Borrowing Requirement (PSBR) (and hence government expenditure), to control inflation. In July 1976 the Chancellor of the Exchequer announced specific targets for the growth of the money supply.

- 5.2 The reasons for the shift are both theoretical - attacks from monetarists on the theory and practices of state intervention - and rooted in the actual economic conditions of the time, especially the oil crisis and instability in the exchange rate system. The role of the International Monetary Fund (IMF) is also significant: conditions attached to the loan extended to the British government by the IMF in 1976 helped to complete the switch to monetarist thinking. In addition membership of the European Economic Community (EEC) indicated that the long-term goal of monetary union implied stricter budgetary controls. (There is to be a separate Operational Selection Policy on British membership of the EC).
- 5.3 Some broad issues in the development of fiscal policy are outlined below and selection criteria noted. Notable events and developments are listed in chronological order in the Appendix 1.

## **6 Fiscal stance**

- 6.1 Assessments of fiscal stance vary according to the nature of the adjustments made to the nominal figures. The public sector deficit was high throughout the 1970's prompting accusations of fiscal irresponsibility. Historians now question this assessment arguing that one strong indicator of fiscal probity was the decline in national debt in Britain as a proportion of Gross Domestic Product. This stands in contrast to the experience of other developed countries whose national debts increased, especially in the period following the oil crisis. There are moreover reasons other than fiscal policy which contributed to the nominal deficit. Rising unemployment reduced the tax base while increasing the level of benefits payments, and the oil price rise constituted an indirect tax of 3%.

Bearing these caveats in mind fiscal stance in the period may now be summarised.

**Table 1: Public expenditure 1972/3 – 1978/9**

|               | <b>Public expenditure<br/>in 1981/2 prices (£b.)</b> | <b>Year on year change (%)</b> |
|---------------|--|--------------------------------|
| <b>1972/3</b> | 89.4   | 6.6                            |
| <b>1973/4</b> | 96.4   | 7.9                            |
| <b>1974/5</b> | 108.8  | 12.7                           |
| <b>1975/6</b> | 109.3  | 0.5                            |
| <b>1976/7</b> | 106.7  | -2.4                           |
| <b>1977/8</b> | 99.3   | -6.9                           |
| <b>1978/9</b> | 105.2  | +6.0                           |

Source: J. Tomlinson (1990): *Public Policy and the Economy since 1900*, p.285, from Leo Pliatzky (1984): *Getting and Spending*, 2<sup>nd</sup> ed., Oxford.

#### **6.2.1 Fiscal stance 1970-74**

Despite its manifesto commitments to withdraw from demand management and support for 'lame ducks', fiscal policy was relaxed throughout the period of the Heath government. The Chancellor of the Exchequer, Anthony Barber, restated the commitment to demand management in the Budget of 21 March 1972. Table 1 illustrates the marked increases in public expenditure in this period. Taxes were cut producing an increase in the PSBR from just over £1,000m in 1971 to over £6,000m by 1974. As a result the subsequent Labour Government had to reallocate resources away from social expenditure and towards financing the government's debt.

#### **6.2.2 Fiscal stance 1974-79**

Broadly, fiscal stance in this period was 'neutral', that is it neither served by itself to stimulate or to relax demand. To respond to the inflationary pressure induced by the oil shock, fiscal policy was tighter in 1974 and 1975. In March 1976 rising unemployment encouraged a more relaxed fiscal policy in the budget. Already, however, cuts in public expenditure over the next four years had been outlined in the government's White Paper *Public Expenditure to 1978-9* (Cmnd.6393) published in February 1976. Together with cuts agreed with the IMF (see Appendix 1) implemented in the 1977 Budget, that year saw a sharp fiscal contraction. Thereafter the pressure of increasing unemployment prompted limited fiscal expansion within the constraints agreed with the IMF. The cuts in public expenditure in succeeding years were larger than anticipated and larger in real terms than those agreed with the IMF.

#### **6.2.3 Fiscal stance 1979**

In two statements the Chancellor of the Exchequer, Geoffrey Howe, indicated the commitment of the government to further reduction of

the PSBR through cuts in public expenditure and the sale of nationalised industries.

- 6.3 The most significant records relating to the determination of fiscal stance are selected without review and will continue to be so.
  - 6.3.1 Discussions on fiscal stance took place in the Budget Committee. These records are selected without review (T 171) and will continue to be so. The same records cover major issues associated with the passage of the Finance Bills following each budget.
  - 6.3.2 The minutes and papers of all major Treasury committees will continue to be selected without review (T 277).
- 6.4 Reviewers should be aware that the formulation of fiscal stance involved co-ordination of the work of many Treasury divisions.
  - 6.4.1 Overall co-ordination of fiscal policy and work on the Budgets was the responsibility of the National Economy Group and the Policy Co-ordinating Unit before 1975 and of the Central Unit after 1975. Records pertaining to decisions on fiscal stance will be selected.
  - 6.4.2 Forecasts of economic growth and of the interaction of various government policies, public expenditure, private investment and public consumption were provided by the Economic Assessment Division before 1975 and by various divisions in the Chief Economic Adviser's Sector after 1975. Records will be selected to show the range of information available to the Treasury, the choice of forecasts made, and the way these choices influenced policy decisions.
  - 6.4.3 Assessments of the effect of taxation changes were made by the Fiscal and Incomes Policy Division before 1975 and by the Fiscal Policy Group after 1975. Such assessments will be selected and reviewers should be aware of the major reforms in taxation initiated in the 1970s to aid selection decisions. The Operational Selection Policy on taxation policy will detail these reforms, as well as changes in methods of calculating and collecting taxes and it will cover records at the Treasury and at the Board of Inland Revenue and the Board of Customs and Excise.

## **7 The overall level of government spending**

- 7.1 The level of public expenditure was an enduring issue of political controversy in the 1970's. The controversy had two elements.
  - 7.1.1 The first element was the accusation that the sheer size of public expenditure was too high and 'crowded out' private investment.
  - 7.1.2 The second element centred on the notion that public expenditure was not subject to control. This idea was fuelled by accusations by

Professor Wynne Godley that half of the rise in public expenditure between 1970/1 and 1975/6 could not be accounted for by announced policy changes. An important issue here was that part of the growth of public expenditure was due to the 'relative price effect', or the tendency of costs in the public sector to rise faster than costs generally.

- 7.2 Files covering debates about the economic effects of the general level of expenditure should be selected, together with discussions of the relative price effect. These files are to be found mainly in the records of the co-ordinating divisions: the National Economy Group, the Policy Co-ordinating Unit, the Economic Assessment Division before 1975 and the Central Unit and Chief Economic Adviser's Sector after 1975.
- 7.2.1 The Operational Selection Policy on the Control of Public Expenditure will cover the main announcements of government public expenditure plans and the mechanisms to control public spending through PESC, PAR and 'cash limits'.

## **8 Measurements of public expenditure**

- 8.1 Historians have noted how government forecasts of consumption, investment and inflation, which lay at the root of fiscal stance decisions, were incorrect, prompting budgets that were either overly restrictive or expansionary. Significantly, the principles of inflation accounting had not yet been developed.
- 8.2 Technical assessments of the accuracy of national accounts should be selected, but the topic will otherwise be covered in a future Operational Selection Policy on the development of economic modelling 1971-2000.

## **9 Public Sector Borrowing Requirement (PSBR)**

- 9.1 The PSBR measures the total borrowings of central and local government and of the nationalised industries: it is that part of public expenditure not covered by revenue. Before 1970, governments financed some investment through borrowing but this rose in the 1970's from £1,372m in 1970 to a peak of £10.6bn in 1975/6. Its significance for policy derived from the inferences drawn about government profligacy by the financial sector. The IMF and private financial institutions used this measure as a key indicator of government commitment to work towards 'sound finances' and hence influenced their willingness to lend to the government.
- 9.2 The focus of public discussion was the nominal PSBR. However, as a guide to judgements of fiscal probity this measure was misleading and economists argued that it should be adjusted to take account of inflation and the level of economic activity.



9.3 Commitments to the IMF as well as public pressure to reduce the PSBR influenced discussions of the need to contain government expenditure and hence the nature of fiscal policy.

9.4 Records should be selected which discuss the problems of the nominal figures used by the IMF, and the impact of pressure to reduce PSBR on budget decisions.

## **10 The impact of IMF conditions on policy formulation and portrayal**

10.1 In two letters of intent to the IMF in November 1967 and May 1969, Britain agreed to targets for domestic credit expansion. Then, in exchange for a credit of £5.3bn from the Group of Ten in June 1976 and a loan of \$3.9bn from the IMF in December 1976, the government agreed a package of measures to reduce the PSBR. These conditions have been credited with a major influence on the changes in emphasis in modes of economic management in Britain in this period.

10.2 A major theme of historical enquiry as records are released will be the relative significance of this concrete pressure and the more gradual and less tangible influence of ideas on the demise of Keynesianism.

10.3 Records should be selected relating to the effect of IMF conditions on the fiscal stance.

10.4 The need to meet IMF targets necessitated developments in the collection and presentation of the relevant statistics and this should be captured under 'Economic modelling' (Section 12).

## **11 Developments in economic ideas within the Treasury and government**

11.1 This theme covers debates in the Treasury and elsewhere concerning the role of fiscal policy as a means of demand management. Two main schools of economic thought opposed the fiscal measures to manage demand that had been used in the post-war years. The Cambridge school proposed more interventionist policies including export-led expansion through depreciation of the real exchange rate, import controls, and prices and incomes policies to check inflation which might arise. On the other hand, monetarists developed the view that inflation was 'always and everywhere' a monetary phenomenon to be tackled through sound money, including monetary targets, and supply-side policies, especially policies geared to encouraging the private sector. Further theories sustained this view: that there was a 'natural rate of unemployment' and 'voluntary unemployment', which were beyond the reach of fiscal policies and that the public sector 'crowded out' private investment.

11.2 The 1970's witnessed the gradual erosion of the hold of Keynesian principles within the Treasury, and public renunciation of the use of fiscal policy to manage demand. The classic statement of this change of policy was James Callaghan's speech to the Labour Party conference of 1976 in which he asserted that the option of spending our way out of recession no longer existed.

11.3 Discussion of these ideas in government especially where leading economists or government economic advisers were involved should be kept, but the development of monetary policy will be the subject of a separate Operational Selection Policy.

## **12 Economic modelling and its impact on the formulation of fiscal stance**

12.1 The work of economic assessment and model building was expanded in this time. The Economic Assessment Division before 1975 had a complement of two economic model builders, three statisticians and a computer systems consultant. After 1975 the Economic Analysis Development Division of the Chief Economic Adviser's Sector had six statisticians to develop and maintain computer models and advise economists on the use of econometric techniques.

12.1 An Operational Selection Policy will be written to indicate the principles of selection for records illustrative of the development of economic modelling in the Treasury. Reviewers should select records which discuss these economic models, and their advantages and drawbacks, in the light of the need to formulate fiscal policy.

## **13 Organisational change**

13.1 A major review of Treasury organisation began in October 1973 and ended in 1975. This review reflected the new prominence of counter-inflation policy and the increasing importance of monetary matters, including those raised by membership of the European Economic Community. The responsibilities of a new, separate Monetary Policy (HF3) group included the potentially wide-ranging remit to assess 'the monetary implications of public expenditure, public ownership, taxation and so the PSBR'. The same reorganisation also represented a more explicit attempt to co-ordinate policy, through a Central Unit (CE) which provided the staff for the Treasury's Policy Co-ordinating Committee, prepared assessments of major options for economic policy and managed the organisation of the budgets. Finally work on economic modelling was expanded (see section 12).

13.2 Organisational change closely reflected changes in policy and thought, and in turn facilitated the further development of such changes.

- 13.3 Establishment files may provide useful historical evidence of the progress of thought and policy. Such records should therefore be selected, where they discuss the structure and functions of the new organisation and the rationale behind the reorganisation.

## **14 Implementation**

- 14.1 File series subject to wholesale selection will continue to be selected without review, but records pertaining to this Operational Selection Policy in other file series will generally be subject to file-by-file review.

## Appendix 1

### Budgets, Mini-Budgets and Major Associated Announcements 1971-1979

This annex is intended as reminder of the dates and content of major budget announcements. It should be read by reviewers in conjunction with more detailed accounts, for instance in Whitakers Almanac.

|               |   |
|---------------|---|
| 30 March 1971 | <p>Budget:</p> <ul style="list-style-type: none"> <li>• First priority was to defeat cost inflation</li> <li>• Increases in pensions and child allowances</li> <li>• Series of tax reductions</li> <li>• Announcement of sweeping taxation reform</li> </ul>  |
| October 1971  | <p>Budget:</p> <ul style="list-style-type: none"> <li>• Provided tax cuts, the end of hire purchase controls, lifted lending ceilings, repayment of the last post-war credits</li> <li>• Pensions increased by 20%</li> </ul>   |
| 21 March 1972 | <p>'Dash for growth' budget.<br/>Aims:</p> <ul style="list-style-type: none"> <li>• Encourage industrial efficiency</li> <li>• Improve economic growth and reduce unemployment (then standing at 900,000)</li> <li>• Continue taxation reform</li> <li>• Boost demand to prevent slowdown in investment and consumption</li> <li>• Output to grow by 5% between late 1971 and early 1973</li> <li>• Pensions to increase by 12.5% in autumn</li> <li>• Total cost was £400m in a full year. To pay for these National Insurance contributions were increased</li> </ul> |
| 6 March 1973  | <p>Budget.<br/>Background: unemployment at 200,000; growth rate mainly achieved 4.5%.</p> <ul style="list-style-type: none"> <li>• Aimed at growth rate of 5.2%</li> <li>• PSBR expanded by 50%</li> <li>• Budget was neutral in effect</li> <li>• VAT and car tax introduced</li> </ul>  |
| 21 May 1973   | Public expenditure cuts announced.  |

|                   |  |
|-------------------|--|
| 17 December 1973  | Following oil price rises, industrial action and run on sterling, a package of measures announced: <ul style="list-style-type: none"> <li>• Public expenditure to be cut to reduce demand</li> <li>• Tax on property development announced</li> </ul>  |
| 26 March 1974     | Budget: <ul style="list-style-type: none"> <li>• Was slightly deflationary:</li> <li>• Pensions and food subsidies increased</li> </ul>  |
| 22 July 1974      | Economic measures to counter inflation mainly through limiting the growth of retail prices.  |
| 12 November 1974  | Budget.<br>Aims: <ul style="list-style-type: none"> <li>• Shift resources into exports and investment</li> <li>• Campaign against the waste of energy</li> <li>• Manage monetary policy to restrain inflationary pressures</li> </ul> Measures: <ul style="list-style-type: none"> <li>• Relaxed hire purchase controls</li> <li>• Replace subsidies for nationalised industries with revenue support</li> </ul> |
| 15 April 1975     | Budget.<br>Aims: <ul style="list-style-type: none"> <li>• Unwise to stimulate demand</li> <li>• Would rely on higher taxation to avoid extra costs of short-term cuts in expenditure</li> <li>• Programme of expenditure reductions for 1976-77 of £1b</li> <li>• This and tax changes (raising £1.2b) would reduce the PSBR by £1,200m in the current year</li> </ul>   |
| 11 July 1975      | White paper <i>The Attack on Inflation</i> (Cmnd.6151)   |
| 24 September 1975 | Measures to alleviate unemployment   |
| 17 December 1975  | Measures to alleviate unemployment   |
| 13 January 1976   | Announced the IMF approved UK credits of £975m.  |
| 19 February 1976  | White Paper <i>Public Expenditure to 1978-9</i> (Cmnd.6393) which forecast a fall in public expenditure in real terms every year to then.  |
| 10-11 March 1976  | Government defeated on the public expenditure debate but won the subsequent vote of confidence.  |
| 6 April 1976      | Budget was broadly neutral.<br>Announced: <ul style="list-style-type: none"> <li>• Reduction in taxation through increased tax allowances in return for TUC agreement to voluntary wage restraint aimed at halving the rate of inflation by the end of 1977</li> <li>• Strengthened powers of the Inland</li> </ul>  |

|                   |   |
|-------------------|---|
|                   | Revenue to reduce tax evasion   |
| 7 June 1976       | £5.3b credit from Group of Ten announced to be repaid by December. Condition that PSBR be reduced by £3b to £9b by 1977-8 and money supply targets devised.   |
| 17 June 1976      | Conditional tax reliefs formally implemented.   |
| 22 July 1976      | Public expenditure cuts announced of £1b for 1977-78. PSBR to be cut to £9b; money supply to grow by 12%.   |
| 29 September 1976 | Application to IMF for \$3.9b loan after £ falls to \$1.63.   |
| 1 November 1976   | IMF team arrives in London.   |
| 15 December 1976  | Package of measures agreed with IMF: <ul style="list-style-type: none"> <li>• Public expenditure to be cut by £1bn 1977-8 and £1.5bn 1978-79</li> <li>• Government to raise £500m by sale of its shares in BP</li> </ul>  |
| 27 January 1977   | <i>The Government's Expenditure Plans Volume I</i> (Cmnd.6721 - I) - the first statement to appear without previous economic assessment.  |
| 25 February 1977  | <i>The Government's Expenditure Plans Volume II</i> (Cmnd.6721 - II)  |
| 17 March 1977     | Debate on public expenditure White paper: government defeated on motion for adjournment   |
| 29 March 1977     | Budget: <ul style="list-style-type: none"> <li>• Announced tax cuts in return for pay agreement</li> </ul>  |
| 26 October 1977   | Against a background of recovery in balance of payments and realisation of miscalculation on the PSBR, a package of increased public expenditure announced of just over £1bn 1977-78 and £2bn 1978-79.  |
| 12 January 1978   | <i>The Government's Expenditure Plans 1978-79 to 1981-81</i> (Cmnd. 7049 I and II).   |
| 26 January 1978   | Early repayment to IMF of \$1bn.  |
| 11 April 1978     | Budget.<br>Aims: <ul style="list-style-type: none"> <li>• Set level of activity so that unemployment reduced</li> <li>• Special boost to small firms e.g. through changes in VAT administration</li> <li>• Use of tax cuts to moderate pay settlements</li> <li>• Set rolling targets for money supply</li> </ul> |
| 8 May 1978        | Government defeated on Opposition amendment to the Finance Bill reducing the basic rate of income tax to 33%.   |
| 30 October 1978   | Early repayment of further \$1bn to IMF.  |
| 17 January 1979   | <i>The Government's Expenditure Plans 1979-80 to</i>  |

|               |  |
|---------------|--|
|               | 1982-83 (Cmnd. 7429)   |
| 3 April 1979  | 'Caretaker' budget. <ul style="list-style-type: none"> <li>• Noted sluggish response of business to stimulus to demand and wage inflation</li> </ul> |
| 12 June 1979  | Budget geared to reducing the PSBR to be achieved through the sale of nationalised industries, cuts in investment.                                   |
| November 1979 | Announcement of further cut of £3.5b in future government expenditure, and sale of a further £1.5b of nationalised industries.                       |

## **Appendix 2**

### **Responsibilities within HM Treasury**

**Treasury divisions before 1975 with name of division, Treasury file series reference, The National Archives series number and fiscal policy responsibilities**

#### **1 The National Economy Group - 2NE(G) - T 340**

This was one of three groups within the Treasury. It co-ordinated economic policy in general but had a particular responsibility for general fiscal policy and co-ordination of work on the annual Budget and other related measures. Elements of work on fiscal policy may therefore be found here.

Within the National Economy Group four divisions have relevant files.

##### **1.1 Policy Co-ordinating Unit**

This was set up in 1972 and by 1974 had become Economic Management. Its aim was to co-ordinate various aspects of Treasury work with a view to maintaining a consistent economic strategy. The Unit also advised on the general presentation of the Government's economic policies.

##### **1.2 Fiscal and Incomes Policy Division - 2FI - T 328**

This division provided a secretariat for the Budget Committee and for any other committee under Treasury chairmanship that dealt with taxation or related questions. The head of this division was represented on the Budget Committee. Inland Revenue and Customs and Excise Departments provided advice on taxation policy. The role of Fiscal and Incomes Policy Division was to co-ordinate taxation policy and make assessments of the way taxation contributed to overall economic objectives. It gave direct advice on two taxes not collected by Inland Revenue and Customs and Excise, namely vehicle excise duties (until its abolition in 1973) and the selective employment tax.

##### **1.3 Economic Assessment Division - 2EA - T 338**

This division contained the forecasters who conducted three forecasting rounds - in November, February and following the Budget. Short and medium-term assessments were made of the interactions of various government policies, public expenditure, private investment and public consumption. These assessments, together with those provided by the Industrial and Incomes Policy Division (below) were essential components of forecasts of economic growth and hence likely level of yields from taxation.



#### 1.4 **Industrial and Incomes Policy Division - 2IP - T 342**

This division had taken over from the Department of Economic Affairs responsibilities for industrial assessment, which contributed to economic forecasts, and provided the chair for the Industrial Assessment Steering Group. The division consulted with industry on investment incentives, a common theme of Budget policies.

#### 2 **General Expenditure Division - 2GE - T 331**

This division was a part of the Public Sector Group but is relevant to the formulation of fiscal policy. It analysed public expenditure and public receipts in relation to each other. As the co-ordinator of public expenditure it provided the secretariat for the Treasury Public Expenditure Committee and compiled the totals of public expenditure with a remit to advise on methodology for pricing. Hence it is another division whose work towards the Budget was in the nature of providing the basic information on which decisions were based.

#### **Treasury divisions after 1975 with name of division, Treasury file series reference and fiscal policy responsibilities**

The following outline is based on *Guide to the New Treasury Organisation, October 1975*.

In 1975 the Public Sector Group became the Public Services Sector and the National Economy Group became the Domestic Economy Sector. In addition a freestanding Central Unit was formed under an Under Secretary and an Information Division headed by a Chief Information Officer.

#### 2.1 **Central Unit - CU**

The Central Unit provided a central staff for the Policy Co-ordinating Committee, and managed the organisation of the Budget and other packages of economic measures and prepared drafts of the budget speech. The Unit contained one member responsible for contact with the Central Policy Review Staff and the Chief Economic Adviser's Sector. In the period immediately before and after a Budget an Economic Adviser was drafted from the Policy Analysis Division (see below) to provide a quality check on all calculations of the economic effects of measures announced in the Budget.

#### 2.2 **Information Division - IDT**

The Information Division had a role in fiscal policy through its responsibility for ensuring that presentational aspects were taken into account in policy-making.

### **3 Chief Economic Adviser's Sector**

The 1975 reorganisation created a new sector responsible for forecasts and medium term assessments. The roles of the divisions within this sector are outlined to indicate their involvement in the formulation of fiscal policy.

#### **3.1 Short term Forecasts Division - SD1**

Its role was to prepare integrated short-term forecasts of demand and other indicators of economic activity.

#### **3.2 Economic Analysis Development Division - SD2**

The main role of the Economic Development Analysis Division was the development of the Treasury's macro-economic model.

#### **3.3 Medium Term Assessments Division - MP1**

Liaising closely with the General Expenditure Policy Group and the General Expenditure Analysis Group (see below), this division made medium-term projections of value in assessing future levels of public expenditure.

#### **3.4 Policy Analysis Division - MP2**

This division was responsible for analysing the economic implications of macro-economic policy options. It was to act as the link between forecasters and specialist divisions making initial calculations of the effects on the economy of particular policy measures. It liaised with the Fiscal Policy Group (see 4.1 below) on calculations of taxation and provided that Group with information from the model needed to prepare the 'Brown Book' containing tax ready reckoners.

### **4 Domestic Economy Sector**

#### **4.1 Fiscal policy Group - FP**

This group advised on the use of taxation as an instrument of short and medium term economic and social policy. It gave advice on the balance and scale of tax changes appropriate for the annual Budget or an interim package. It also advised on Parliamentary, Budget and Finance Bill procedures relating to taxation. It had a Direct Taxation Division (FP1), an Indirect Taxation Division (FP2) and Economics of Taxation Division (FP3). The economic adviser in the last division provided advice on the distributional effects of tax changes.

#### **4.2 Monetary Policy Division - HF3**

This division within the Domestic Economy Group is of significance for this Operational Selection Policy because of the growing importance attached to control of the money supply in successive Budgets.

## **5 Public Services Sector**

### **5.2 General Expenditure Division – GEP1**

This division was part of the Public Services Sector which covered all Treasury divisions regulating expenditure by government departments, local authorities and the nationalised industries. The work of GEP1 is included in this Operational Selection Policy because its responsibilities included ensuring future levels of public expenditure were compatible with the Government's economic aims. It made recommendations about the desirable totals of public expenditure and advised the Central Unit on the public expenditure elements in wider economic packages.

## **6 Overseas Finance Sector**

### **6.1 Finance Economic Unit – FEU**

One of the roles of this Unit was to provide a link between divisions responsible for overseas and domestic financial policies and specifically to supervise the production of domestic forecasts by the Monetary Policy Division.