SIR PETER MIDDLETON'S NIESR JUBILEE LECTURE
MONDAY 28 NOVEMBER 1988

ECONOMIC POLICY FORMULATION IN THE TREASURY IN THE POST-WAR PERIOD

Introduction

1. It is a great honour to be invited to deliver this lecture to mark the National Institute's Jubilee. The Treasury and the National Institute have been neighbours since the Institute moved to Westminster during the war. We have benefitted from the exchange of staff and ideas. And I am delighted that the present Director is a former colleague from the Treasury.

2. The Dialogus, in 1177, said that:

> "The institution of the Treasury is confirmed well by its antiquity and also by the authority of the great men that sit there."

Robert Hall, whose Memorial Service took place earlier today, was one of those great men. He made a notable contribution to Government over many years and followed that by equally distinguished guidance to the National Institute after he retired.

3. My objective in this lecture is not to conduct a detailed examination of how the Treasury has approached economic policy since the war, still less to compare the performance of different administrations. Rather I want to give a personal view of the way in which the policy-making environment has changed and the main reasons for those changes.

4. I joined the Civil Service in 1960, 15 years after the war. GDP was rising at about 5 per cent but slowing down. Unemployment was under 2 per cent and falling. The current account deficit was about 1 per cent of GDP and diminishing. Inflation was about 3 per cent but rising. Wages were growing by over 5 per cent.

5. It was a period of confidence and consensus in the Treasury. A post-war deflation had been avoided. The commitment in the war-time White Paper on Employment Policy to maintain a high and stable level of employment had been achieved to an extent greater than anyone expected - and was reiterated both in the 1956 White Paper on the Economic Implications of Full Employment and in the Radcliffe Report in 1959. We had lived within the Bretton Woods arrangements - a little precariously at times but successfully.

6. Though the late A J Brown baptized the years 1939-51 as the period of "The Great Inflation" - a period when price increases averaged about 6 per cent a year - inflation was not regarded as a serious problem. Tight fiscal policy and price control during the war had suppressed inflation, and though it rose in the UK as it did elsewhere in the world following the Korean War in the early 1950s, it fell again quite quickly. If inflation was a worry, it was more because of its implications for international

competitiveness and confidence in sterling than for its own sake. Indeed the low levels of inflation that we experienced were generally regarded as a bit of lubrication in the economic process. People were broadly content to think in terms of money values and a gently rising price level was thought to be good for confidence in industry and certainly good for the Government's finances.

7. There were three instruments of policy: fiscal policy, direct controls and monetary policy. The first two, fiscal policy and direct controls including hire purchase controls, deployed in conjunction with increasingly sophisticated forecasting from 1947 onwards, were thought to be sufficient for stabilisation policy. Monetary policy was not seen as important in this context.

8. Indeed one of my earliest memories in the Treasury was being told that Mr Thorneycroft when Chancellor of the Exchequer had the eccentric notion that controlling the supply of money or the level of expenditure in money terms might have a part to play in economic management. But this line of reasoning did not survive his resignation in 1958. It had influenced policy neither before nor since and was of purely historical interest. The report of the Radcliffe Committee in 1959 fully supported this view. While not regarding the supply of money as unimportant, it was seen as part of the wider structure of liquidity which might be influenced by the structure rather than the level of interest rates.

9. Micro-economic policy was still heavily influenced by the pre-war and wartime legacy of controls. At its height this had involved rationing affecting a third of consumption expenditure, control of investment by licensing, control of imports and controls over the currency and banking. Building licensing was still in place until the end of 1954 and it was some time later that imports were fully decontrolled. Markets were freer but they were regarded with suspicion. Government stood ready to step in to set things right and would probably need to do so.

10. The role of Government more generally had certainly increased, but appeared to be in a fairly stable state. General government expenditure as a percentage of GDP had been in the low teens before the First World War, in the mid-twenties between the wars and since the Second World War had settled down in the mid-thirties.

11. Yet 15 years later this confidence in policy making had evaporated. The UK which had entered the 1960s as a relatively low inflation country had been transformed into a high inflation country. There was no improvement in other aspects of UK industrial performance. Policy swung between expansionary measures to reduce unemployment and contractionary measures to correct the current balance. Devaluation was tried in 1967 in an attempt to create more room for expansionary measures by easing the perceived balance of payments constraint. But, after each episode the economy emerged in worse shape. By the early 1970s we had both rising unemployment and rising inflation.

12. Something had clearly gone badly wrong. How, instead of creating a record of stability building on the 1950s, did we

manage to establish a reputation for profligacy and an inability to compete which is still remembered?

<u>What went wrong?</u>

13. I think we must start with one legacy of the 1950s that did great damage: the inference, based on the Phillips curve, that a long-term trade off existed between inflation and unemployment. You could have less unemployment if you were prepared to put up with more inflation.

14. Second, was the increasing dissatisfaction, quite rightly in my view, with the United Kingdom's poor growth record relative to its competitors.

15. Put these two factors together in the prevailing climate and it is easy to see what happened. If macro-economic policy could be set free it might not only support employment but also increase output by maintaining high levels of demand. Something else was needed to deal with inflation. That new instrument was prices and incomes policy.

16. There was of course some concern about the effect of these policies on the flexibility of the economy, but a move in this direction was quite in line with the general suspicion of markets. And any disadvantages could be compensated for by the boost to demand.

17. Prices and incomes policies did not, however, do the main job they were intended to do. They did not control inflation - even of the "wage push" variety about which it was so fashionable to speak. Wages may have been held down by controls for a year or two, but they then caught up again. And with macro economic policy aiming to maintain a high level of demand, it is not surprising that inflation rose over time.

18. Moreover, as the Government regarded it as part of its natural role to intervene in markets to set things right it faced a daunting task. The economy was clearly not responding as it was expected to do. So there was an increase in intervention throughout the 1960s and 1970s. This is not in my view because we were unaware of what was happening in other countries, but because we looked rather myopically and imitated them selectively. We asked what governments were doing, not what markets were doing. And institutions were set up on foreign models such as NEDC, inspired by France, and the Industrial Re-organisation Corporation, inspired by Italy.

19. Too much industrial policy ended up as support for the inefficient. While it is easy for a consideration of short term costs and benefits to justify individual cases of intervention, cumulatively this process had all sorts of harmful effects. It slowed down the natural process of industrial adjustment, under which some industries expand and others decline according to changes in the UK's comparative advantage. It gave the wrong incentives to management and unions: government help, rather than bankruptcy and redundancy, might be the reward of incompetence and intransigence. And, of course, the cost of government support was

borne out of the profits earned and wages paid by other firms, their successful competitors.

20. The large nationalised industry sector meant that Ministers and civil servants found themselves involved in business decisions in some of the largest enterprises in the country. Governments were tempted into using their power in this area to further other policy objectives. Nationalised industry pricing decisions became part of counter inflation policy; they ceased to be taken so that resources involved in the industries were allocated efficiently. The result was low profitability and low morale in the industries affected - and some very strange pricing policies. One recalls, for example, the decision to freeze domestic gas prices in 1974 following the first oil shock.

21. By the mid-1970s there was little sign of the economy having benefitted from all this intervention. Indeed it had clearly become less competitive. Productivity grew only slightly quicker than in the 1950s, and well below the rate in other major countries - except for the United States. Productivity growth was also lower than the growth of real wages, so profits' share in national income fell and profitability with it. The UK slowed down with the other countries after 1973 and output per head fell further below that in leading countries. UK exports continued to lose share in world markets.

22. New ideas - or rather old ideas - began to arrive in the 1960s. Friedman, Brunner and others, by a combination of economics and presentational skills restored interest in the idea that inflation - which is after all a fall in the value of money - might in some way be related to the quantity of money put into circulation. Harry Johnson played a seminal part in extending these ideas to open economies such as the UK. But they did not really interest the Treasury, despite their obvious relevance to the way financial markets behaved and hence to policy.

23. In retrospect, it is clear that the Bretton Woods exchange rate arrangements acted as a powerful financial discipline. The UK had inflated broadly in line with the United States except when, predictably, we inflated faster following the 1949 and 1967 devaluations. But that was not how it was seen by mainstream opinion at the time. Instead, as in the 1960s when devaluation was thought by many to be the key which would open the door to continental growth rates, the exchange rate was still seen as a constraint. If it could be eased, tried policies of demand management and direct intervention in the economy would enable us to rise above our difficulties.

24. It was thus that the breakdown of Bretton Woods was regarded not so much as a source of regret but as an opportunity to achieve the growth we so much needed. Prices and incomes policy was still expected to deal with inflation; fiscal and monetary policy to maintain demand, and a declining exchange rate could take care of competitiveness.

25. One only has to ask how these policies would appear to anyone without a deep sense of post-war UK thinking to see that trouble would result. And our fortunes were increasingly bound up with

such people. The UK's position in the world had become quite different from what it was in the 1950s. Foreign trade in goods grew rapidly, the production and sale of goods and services was increasingly organised on multilateral lines. Capital flows grew even more rapidly than trade. Foreign banks became an increasing influence in London. The Euromarkets began what has been a spectacular development. And of course we joined the EEC in 1973.

26. Though exchange controls remained in force, the relative power of the Government and that of the foreign exchange markets began to change noticeably. Leads and lags in trade payments and capital transactions other than by Government made adverse external perceptions increasingly difficult to combat. And the easing of the exchange rate constraint without the application of some other nominal discipline simply let inflation loose.

27. The UK response to the oil shock at the end of 1973 is very instructive against this background. The UK, unlike most other Western countries, decided to respond to what was a sharp relative price increase by offsetting its deflationary effects and allowing most of the strain to be taken eventually on the general price level. Both fiscal and monetary policy were used. The PSBR rose sharply, from 3½ per cent of GDP in 1972-73 to 9 per cent in 1974-75 and 1975-76.

28. Other countries to a greater or lesser degree applied restrictive policies in order to prevent the rise in the relative price of oil from feeding into prices in general. The significance of this episode was not so much whether we were right or wrong - the recycling of the surpluses of the oil producers raised interesting theoretical possibilities - but that we imagined our position could possibly seem tenable in the financial markets who could clearly see others taking a much tougher stand against inflation.

29. Not surprisingly the Government's credit began to crumble. We found it easier to borrow via the nationalised industries than on the Government's own credit. Eventually we could borrow no more, and the IMF arrived for a prolonged stay in the autumn of 1976.

Policy changes from the mid-1970s

30. Though we have a vast amount to be grateful to the IMF for, the turning point in macro-economic policy thinking had, I believe, already happened. From the mid-1970s attempts were made to put counter-inflation policy under some sort of monetary umbrella. The words began to change - a bit too subtly perhaps - towards giving fiscal and monetary policy an increasing role in restraining inflation, while prices and incomes policy had the very different emphasis of securing a high level of employment through the control of costs and stimulating efficiency.

31. Among the influences were two changes in the theoretical conventional wisdom. First, the ability of changes in fiscal or monetary policy to alter the level of output or employment for more than a temporary period was increasingly questioned. Secondly, the belief in a long-run trade-off between unemployment

and inflation - the Phillips curve - broke down. There were no long-run gains in terms of lower unemployment to be had from tolerating a higher level of inflation.

32. But in the minds of the markets, and probably also in terms of public perceptions within the UK, the IMF agreement marked a decisive point. What exactly was decisive about it?

33. First, in my view, was the explicit embracing of monetary policy. This enabled us to join those other countries which established monetary targets as a way of imposing financial discipline in a world of floating exchange rates and differential inflation. Monetary targets are intermediate objectives which enable countries to establish programmes to reduce inflation in line with their own particular circumstances. If further demonstration was needed that things were different, the choice was made in 1977 to stick to the monetary policy by allowing sterling to float upwards - something which would have been impossible 5 years earlier.

34. The importance of this episode is nothing to do with text book monetarism, though there was quite an industry at the time to work out who was a dedicated monetarist, who was a reluctant monetarist and who went along with it because the markets believed it although they didn't (the disbelieving monetarist). It was the first step in acknowledging that we really were part of the world system and that we could no longer ignore financial markets or treat them as enemies. We became prepared to espouse what everyone else - both markets and governments - regarded as essential priorities.

35. Second, we succeeded because the IMF insisted on ceilings for public borrowing as well as domestic credit expansion, in getting all the instruments of macro-economic policy - fiscal and monetary - pointing in the same direction: the direction of lower inflation.

36. This had one other important benefit for the Treasury. It created a climate in which it was possible to implement an effective system of cash control of public expenditure. Since the Plowden report in 1961 public expenditure control had become an esoteric and to a considerable extent an incomprehensible process, even in the Treasury.

37. Much of what Plowden said was entirely sensible and remains the basis of the public expenditure planning system - looking at the whole of expenditure annually and reviewing forward plans. And it was absolutely right to stress the importance of this system in providing a basis on which departments and others could improve management and produce good value for money - their will and enthusiasm determine the efficiency of the public sector.

38. Unfortunately, the way in which Plowden was implemented effectively meant that public expenditure went out of control for a decade and a half. Planning was in terms of specific volumes of services, so departments could expect their spending to be preserved irrespective of the rate of inflation. And planned volumes were based on assumptions about GDP growth which were

often over optimistic, because of course it was imagined that we could achieve the necessary growth in GDP through demand management supported by intervention. The frontiers of the state were therefore expanded almost by accident and rises in inflation were accommodated. General government expenditure rose from 36 per cent of GDP in the mid-1960s to 41 per cent in the early 1970s and then to a peak of 48 per cent in the mid-1970s.

39. But it is easier to install such a system than to correct it. And though public expenditure was gradually transformed to a cash basis, the process was not completed till 1981. Value for money in public expenditure at the same time was pursued much more thoroughly and comprehensively.

40. The third major advance was that the IMF agreement introduced the principle of setting fiscal and monetary policy objectives for a number of years ahead. This was to demonstrate the commitment to a progressive improvement in the balance of payments and inflation.

41. The Medium Term Financial Strategy, introduced - without external pressure - in 1980, marked a further advance in setting policy in a medium term nominal framework. Medium term horizons are important in three respects. They give policy a sense of purpose which can be presented with simplicity, coherence and clarity. Second, it implies the intention to eschew measures which might bring short-term benefits but with long term costs. Third, the medium term dimension to policy itself adds greatly to market credibility and the chances of success.

42. The international developments to which I referred earlier have since increased in pace. Direct investment has grown at twice the speed of world trade. The value of foreign exchange transactions is 40 times greater than visible trade. Turnover in the Euromarkets is twice the value of world exports. And financial markets trade around the world 24 hours a day. Closing the markets - something I was instructed to arrange on a number of occasions in my early days in the Treasury - would now be a completely futile gesture.

43. This is a hard world to live in for everyone. For business, it is fiercely competitive and cost conscious. For governments it can seem equally brutal. Huge amounts of money flow in and out of countries, sometimes on the basis of half truths and misconceptions. Minor transgressions in the eyes of the market can bring huge penalties. Governments, much like business, are competing with each other in these markets.

44. Credibility and expectations in financial markets are crucial to policy making in today's world of global markets. It is no use thinking that those involved in financial transactions will take the trouble to understand the nuances of domestic economic policy. They are not interested in economic theories, political strategems, or social considerations. They are concerned with much cruder things: confidence in the authorities, confidence in the country and the broad priorities of economic policy. They are certainly not likely to suffer from money illusion when faced with differential inflation prospects between countries. Track record

is by far the most important thing - consistent, coherent, credible policies are of the essence. Without these the economy is likely to be subject to massive pressures whenever there is a temporary shock. Effective policy-making becomes much more difficult, if not impossible.

45. Confidence in the authorities has a peculiar dimension in the UK. Ours is a system without checks and balances. The Government has all the levers of macro-economic power at its disposal. It is able to tackle problems with the full panoply of instruments. The economy is also able to go completely off the rails very quickly. So it is especially important for the UK to demonstrate its commitment to the right things in order to secure the increased prosperity which comes with trade and integration. But equally it is in a very good position to establish this commitment and so to secure the advantages - which no one disputes - from the growth in world trade.

46. Building up a track record takes time and careful presentation at home and abroad. It depends on achieved results more than words or philosophy. It can be helped by certain things - medium term approaches, constant vigilance against inflation, supply side policies which are outward rather than inward looking. But achievement in terms of inflation and the dynamism of the economy count most.

47. Against this background, I see policy since the mid-1970s as painfully establishing the sort of macro-economic track record with the rest of the world that will enable us to enjoy to the full the benefits of the world market while staying resilient to shocks. Policy is now firmly within a medium term umbrella based on money values. Its precise expression has changed as events have changed. Fiscal policy, monetary policy and the exchange rate have received different emphases at different times. There is no reason why they should not be adjusted intelligently to changing circumstances. But the objective of having them move compatibly in support of a counter-inflation approach has remained.

48. Fiscal policy has been given more of a structural role in the UK, as in most countries. The international community, with the UK alongside, has resisted attempts to design policy on the assumption that because we have forecasts we are clairvoyant. We have tried to develop an approach which is robust to different outcomes. The actual deficit will of course vary with the cycle; discretionary tax and expenditure changes have to be sustainable - and seen as such - to be effective. The dangers of using fiscal action to deal with unexpected changes in activity are acutely felt. There are long lags, volatile tax and expenditure changes are extremely damaging, and of course it is always easier to reduce taxes and raise expenditure than vice versa. Deficits are easy to increase and incredibly difficult to reduce.

49. Monetary policy, also set in a medium term framework, has assumed the role for which it is best suited: the achievement of whatever goals are set for nominal demand. Interest rates can adjust quickly and affect all components of spending to some degree.

50. Direct controls have more or less dropped out of the armoury of economic policy instruments. Restrictions on financial intermediaries are likely to cause them to take their business elsewhere, something which they can all do to a greater or lesser extent with the greatest ease. And when faced with the present multiplicity of instruments and organisations it is difficult to envisage a set of controls which would have much effect, quite apart from the costs in terms of lost efficiency in the financial system and distortions caused in the rest of the economy.

51. The international context of macro-economic policy is important. Policy here is inevitably affected by policy in other countries and, as I have said, the behaviour of financial markets and other economies. This means that Governments need to agree and support rules for international trade and monetary systems so as to provide a framework within which the private sector can trade and invest with confidence. They also need to co-operate in seeking compatible policies - policies which avoid excessive divergencies and the disturbances to which they lead. In this way it is possible to reap the rewards of economic interdependence while achieving economic stability.

52. It will be pretty obvious from the comments which I have made on the 1960s and 1970s that there is much more to economic policy-making than macro-economic policy. Indeed that should be the easy part. The difficult problems lie with the supply performance of the economy. Only if this is successful will the real benefits of expanded world markets arise, and resilience be built up against unpleasant surprises.

53. Quick results on the supply side are hard to come by. Policies have to be long term. They bring few immediate benefits, political or otherwise. There are gainers and losers - and losers complain loudly while thanks are thin on the ground. And the international dimension is very difficult to handle, as we are only now beginning to understand.

54. Despite the shift in macro-economic priorities in 1975, the twin pillars of the government's strategy, endorsed by the IMF, were the incomes policy and the industrial strategy. My view at that time was that there were not many options for macro-economic strategy if we wanted to re-establish our reputation in the world. But the choice between a controlled approach and a free market approach to the supply side of the economy was very much a matter of preference. Really it was an empirical question : which worked best in the circumstances of this country?

55. There is no doubt about the direction in which the world has been trying to go. It is in the direction of questioning policies long taken for granted, accepting that policies are most likely to be effective when their limitations are recognised. The tendency has been towards less government but more efficient government; towards freer markets and increased competition; and towards forcing managers to survive in a highly competitive world environment, so that the economy becomes more flexible and responsive to change. International organisations - such as OECD

- now spend at least as much of their time on these issues as on the broad sunny uplands of macro-economic policy.

56. There are considerable advantages from going in this direction. It is an economical use of government itself. I am quite sure of one thing. Government is a finite resource. There is not an unlimited supply of any sort of government and there certainly is not an unlimited supply of good government. Governments like other organisations have to choose, if they are to provide value for money and allocate their own resources efficiently.

57. There are some things which governments have to do. However successful a government is in its public expenditure aspirations, there is a huge chunk of resources to manage and taxes to raise. Carrying out these functions efficiently is important in its own right, quite apart from their role in stimulating efficiency elsewhere in the economy. The present emphasis on value for money in the public sector through policy review, considering new forms of organisation, tight control over costs and performance related pay, seems to me to be wholly desirable.

58. This, together with maintaining credible macro policies and dealing with the international aspects of economic policy, is a massive task. Arguably it is enough. Even if you have a badly functioning economy - which in many ways we still do - it is always possible to make it worse by government initiatives unless they are very delicately honed. So it is not surprising that the present international climate is based on allowing the private sector - imperfect though it is in practice - to get on with its own job with a minimum of regulation.

59. The signs are that the British economy has become more flexible and competitive in the 1980s. Supply performance has improved and productivity - where it can be measured - is growing more rapidly than in any country except Japan. Our share of world trade is no longer declining. But there is still a long way to go. And it will be for the lecturer on your next anniversary to comment on the all important question: whether the improvement has been sustained and become part of the British way of life.

Conclusions

60. Let me end by drawing together the main themes of the lecture. And then offer a postscript

61. Economic policy is heavily constrained by the nature of the world we live in. Policy-makers have to be sensitive to changes in the environment and ready to adjust their policies as appropriate. With global financial markets, the main effort must be directed towards maintaining the credibility and reputation of macro-economic policy so that financial markets behave in a way which generally supports it. It is not possible to intervene in financial markets to produce directly the results the government wants.

62. More generally, the power of governments to influence the economy is limited. Even in the confident days of the 1960s it

was more limited than was believed at the time, as the difficulties of the 1970s revealed. The key to good government is to recognise the limits of the government's ability to influence the economy, to resist pressure to do something about problems which government cannot solve, and to make sure that those things for which the government <u>is</u> directly responsible - macro-economic policy, taxation and the provision of public services - are done as efficiently as possible.

63. The postscript is this. My time in the Treasury has been dominated by the problems of inflation. But so in reality has the whole of the period since the National Institute was created. In the half century up to 1938 the annual price increase averaged 1½ per cent; prices had not quite doubled. Going back further, in the 50 year period to 1888 prices actually fell by around a quarter.

64. In the 50 years as a whole since 1938, inflation has averaged some 6½ per cent: prices on average are now 23 times higher than they were when the Institute was founded. Over the last 20 years as a whole it had averaged virtually 10 per cent.

65. During the last 5 years we have been more successful but, even so, inflation has averaged about 4 3/4 per cent. This is still significantly higher than the inflation rate of 1¼ per cent in the 5 years up to the foundation of the Institute in 1938. I hope that the recent improvement will continue during the Institute's next 50 years, as it should do if the lessons we have so painfully learned over the first 50 years are not forgotten. You can then all hope to celebrate an inflation performance even better than when the Institute was founded.

PA → Nigel Wicks

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Nigel

These are all exactly as in written text.

Alan

REPORT ON MIDDLETON NATIONAL INSTITUTE LECTURE

Transcript from: BBC Radio 4, Financial World Tonight, 28 November 1988

PRESENTER: (Johnathan Charles) Good evening, tonight the top civil servant at the Treasury implies the Chancellor has to do more than just talk about getting the economy back on course. The £ rises sharply on the foreign exchanges, although the $ strengthens as Americans' banks increase their prime rates. And Lonro sells its European drinks business to Brent Walker for £180 million. According to one Conservative MP this evening the jury is out on the Chancellor of the Exchequer, Nigel Lawson. He's on political trial after Friday's bad trade figures and the rise in bank base rates. Tomorrow he'll defend himself at the end of the debate on the Queen's Speech. And in the past few hours he's received both praise and implied criticism from an unusual source. The National Institute of Economic and Social Research's golden jubilee lecture was given by the Permanent Secretary to the Treasury, Sir Peter Middleton, and he said that confidence that economic policy is right is the highest priority for the financial markets.

MIDDLETON: "... Credibility and expectations are crucial to policy making in today's world of global markets. It is no use thinking that those involved in financial transactions will take the trouble to understand the nuances of domestic economic policy. They're not interested in economic theories, political strategems, social considerations. They are interested in much cruder things, confidence in the authorities, confidence in the country and the broad principles and priorities of economic policy. ..."

PRESENTER: And Sir Peter went on to tell the audience that effective policy making was reliant on building up a track record of success. He said that depended on actually achieving results rather than on simply espousing words or philosophy. Those lines seemed to imply criticism of the Chancellor and a warning of what happens when economic forecasts go wrong.

MIDDLETON: "... Track record is by far the most important thing. Consistent, coherent, credible policies are of the essence. Without these the economy is likely to be subject to massive pressures whenever there is a temporary shock. ..."

PRESENTER: And in a comment about the dangers of badly timed Government intervention Sir Peter emphasised the need for a cautious approach in correcting problems.

MIDDLETON: "... If you have a badly functioning economy, which in many ways we still do, it is always possible to make it worse by Government initiatives unless they are very delicately honed. ..."

PRESENTER: The Permanent Secretary to the Treasury, Sir Peter Middleton.

REPORT ON MIDDLETON NATIONAL INSTITUTE LECTURE

Transcript from: BBC Radio 4, Today,BUSINESS NEWS

PRESENTER: (Peter Day) Top civil servants at the Treasury are not renowned for saying things in public. So the Permanent Secretary to the Treasury must have kicked himself just a little when he realised that his lecture to celebrate the golden jubilee of the National Institute last night happened to fall on the eve of the Commons debate on the economy when the Chancellor will be fighting to retain his political credibility. Sir Peter Middleton told the National Institute audience that crude confidence is what financial markets are seeking not subtle economic policies.

MIDDLETON: "... Track record is by far the most important thing. Consistent, coherent, credible policies are of the essence. Without these the economy is likely to be subject to massive pressures whenever there is a temporary shock. ..."

PRESENTER: And Sir Peter also had a warning for the incautious and the over-ambitious.

MIDDLETON: "... If you have a badly functioning economy, which in many ways we still do, it is always possible to make it worse by Government initiatives unless they are very delicately honed. ..."

PRESENTER: Sir Peter Middleton, the top civil servant at the Treasury.
