

The strategic view

IN THE ACT'S AUTUMN PAPER, SPONSORED BY CALYON, NICHOLAS MACPHERSON, PERMANENT SECRETARY TO HM TREASURY, SET OUT THE STRATEGIC ROLE OF HM TREASURY AS IT RISES TO THE CHALLENGE OF THE GLOBAL ECONOMY. PETER WILLIAMS REPORTS.



In his first major speech since his appointment on 2 August 2005 as Permanent Secretary to HM Treasury, Nicholas Macpherson explained how HM Treasury is working to help the UK economy rise to the challenge presented by the global economy. The key message was that HM Treasury is there to provide strategic direction and leadership.

Nicholas Macpherson said that there had been too much debate on the extent of the power of HM Treasury within government and he wanted to go beyond that. He maintained that HM Treasury had always sought to adapt and its role now was to shape and make ready the UK in the interdependent, complex global economy.

The global economy is at a radical and historical turning point thanks to revolutionary changes in technology, production and trade patterns. Macpherson pointed to China, whose share of world trade had risen from 0.5% in 1980 to 7% now. By 2015 it was forecast to be the third largest economy in the world, bigger than any single European country, with India and Brazil not far behind.

Alongside the emergence of new economic powerhouses, Macpherson pointed to the shift from manufacturing to services. In 1970 services amounted to 25% of the world economy, now that figure was 71%. He made it clear that HM Treasury realised the significance of the service sector – including financial services – to the UK economy as a whole and the South East of England in particular. And he acknowledged the need to make infrastructure investment in order to maintain the position of the financial service sector. Internationalisation of trade has been an increasing trend since the 19th century and it was not a trend that was about to reverse. World GDP would rise by 40% by 2015 and although the developed world's share of GDP would decline it would still grow in real terms. So how should the UK be responding to such scenarios?

"The risks lie in not being prepared," said Macpherson, adding that there is a premium on the UK economy possessing both stability and flexibility. He pointed to the recent natural disasters and the subsequent hike in the oil price as an example of how quickly shocks are transmitted through the global economy. The provision of stability and flexibility was one of the key tasks of HM Treasury. Other key tasks included creating and maintaining a tax system that operated fairly and efficiently, and he pointed to the merger of the

Inland Revenue and HM Customs & Excise as one step in achieving such a goal. HM Treasury is also responsible for the system of sound and balanced regulation. "The business climate needs to be free from undue regulation," he said. The UK also needs to tackle the historical low levels of productivity within the UK economy and that means concerted effort on improving skills. Macpherson said there had been improved levels in numeracy and literacy among primary school children, although such improvement took decades to work through into the economy. Government also needs to be mindful of the challenges of sustainable development and that means tackling major issues such as climate change and energy supplies. Macpherson said: "I see government as an enabler securing macro economic stability and combining flexibility with welfare responsibilities, we should not take lightly the idea of social dislocation."

Macpherson was keen to emphasise the increasing professionalism of the department. He said that despite the falling numbers of people employed at HM Treasury, since he joined in 1985, the number of trained economists working there had risen from 60 to 124. He also noted the "substantial progress" being made by Mary Keegan, ACT Advisory Board member, as Managing Director, Government Financial Management, in improving financial management skills within government. He said that 95% of HM Treasury staff had worked outside the department and 75% outside Whitehall. While the department had a reputation for secrecy in the past, Macpherson said the steps it had taken to face outwards were being recognised.

John Maynard Keynes called HM Treasury "an essential bulwark against overwhelming wickedness". Macpherson pointed out that compared to other governments, HM Treasury is unusual in that the one department combines the finance and economic ministry. The contemporary HM Treasury has divested itself of some of the roles it once had, such as university funding, arts funding, overseas aid and government catering (thus, said Macpherson, refuting Harold Wilson's dictum that HM Treasury could not run a fish and chip shop). He said: "There has been proactive consideration of where HM Treasury efforts are best focused. The lesson of recent years is that HM Treasury should concentrate on being a strategic enabler."