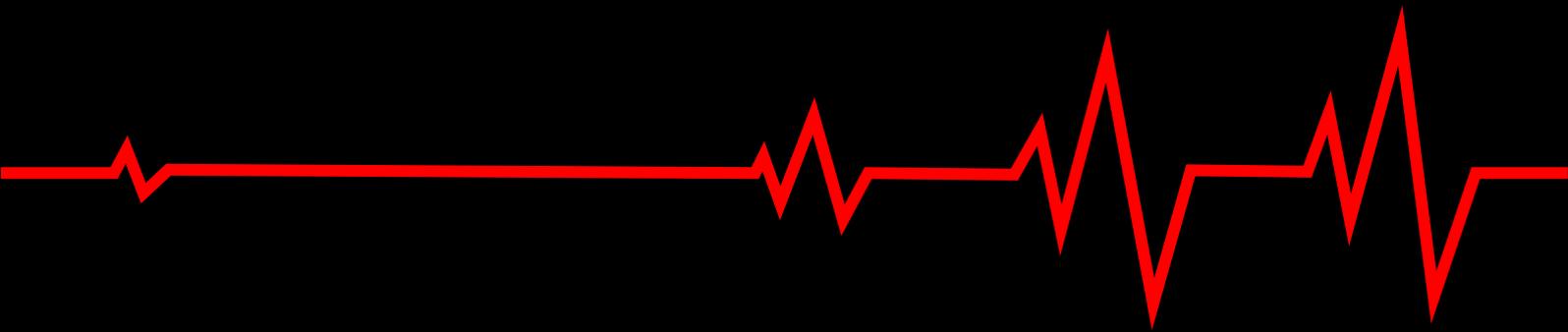


# Rewiring for Success

Reconfiguring Our Key Institutions to  
Enable National Renewal



*Progressive Economics  
Working Group*

Working Paper 2

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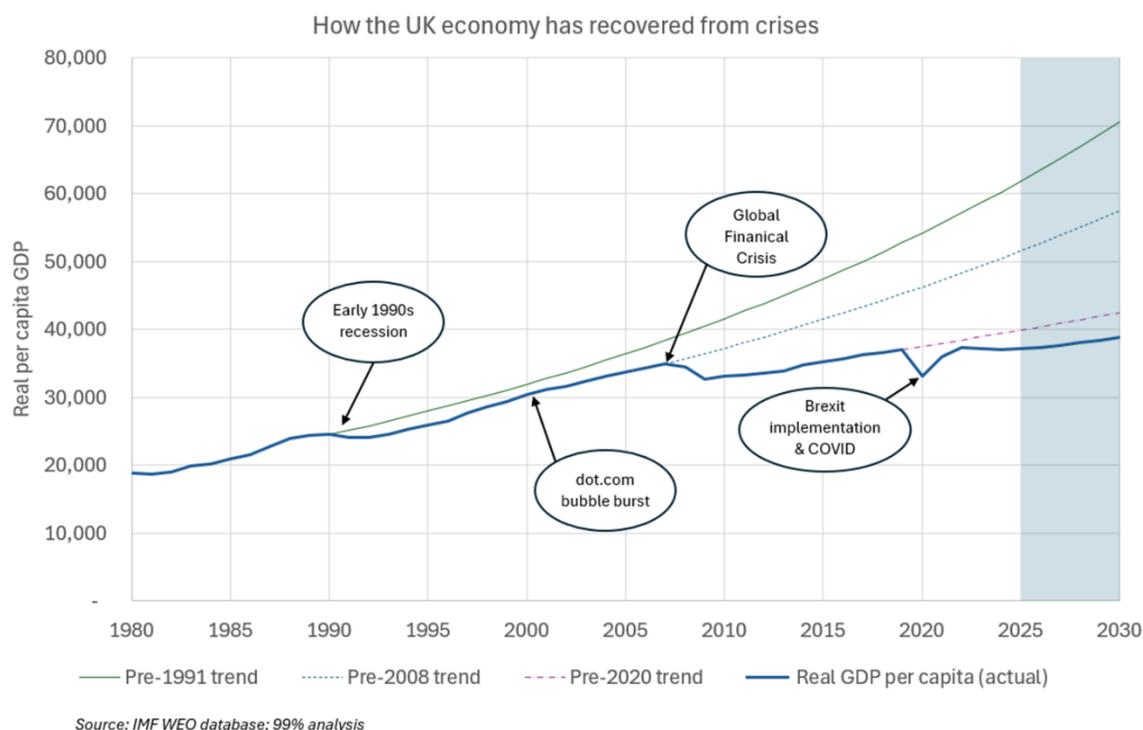
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# 1. Executive Summary

The UK economy has increasingly struggled to bounce back from crises.

Figure 1: The decreasing resilience of the British Economy

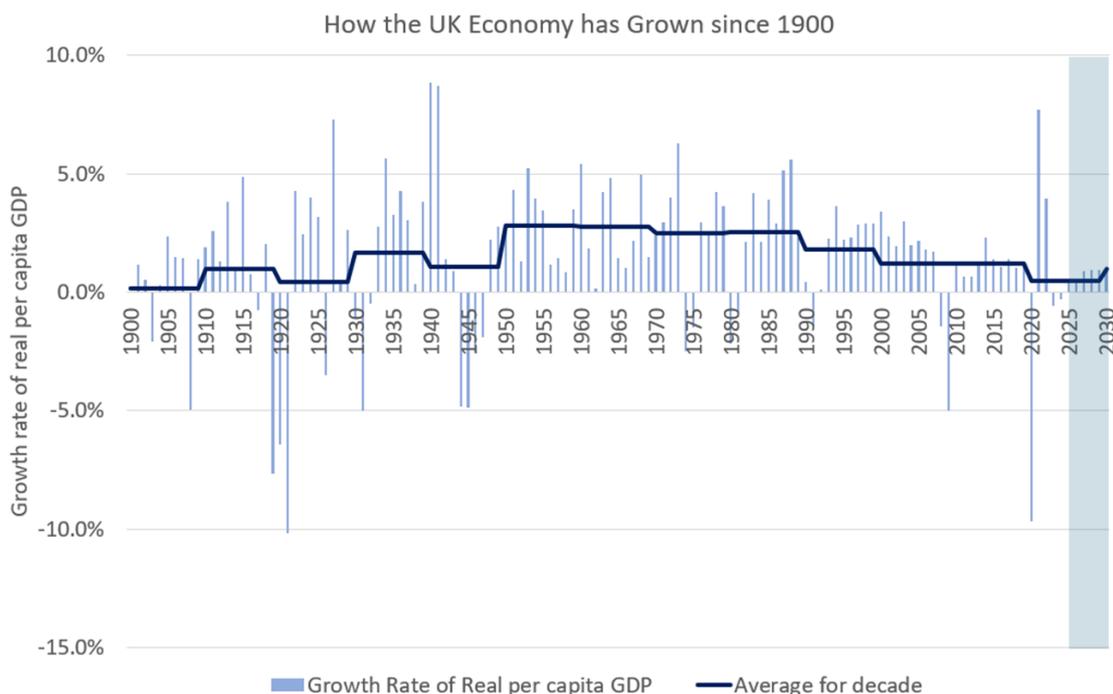


After the early 1990s recession, although recovery took time, our post-recession growth rate was at least as high as the pre-recession growth rate, and by the year 2000, we had almost returned to our previous trend-line. When the dot.com bubble burst, however, although there was little immediate recession, our growth rate dipped and did not recover. After the Global Financial Crisis (GFC) and the Great Recession which followed, the growth rates dipped again and never picked up. And after the combination of the implementation of the Brexit deal and the arrival of COVID in 2020, once the initial bounce-back was complete, our growth rate has been perilously close to zero.

But that is all history – perhaps we have turned the corner and can now expect robust growth. Not according to the International Monetary Fund (IMF). Their latest forecasts<sup>1</sup>, published in October 2025, suggest that the UK is on course for the worst decade since the 1920s.

<sup>1</sup> (International Monetary Fund, 2025)

Figure 2: Long-term history and IMF forecasts for UK



Note: IMF forecasts after 2024  
Source: BoE, IMF; 99% analysis

The key question this paper addresses is *what must we do to avoid this outcome?*

Our conclusion is that we cannot be complacent: renewal will not happen on its own. To deliver national renewal, **we need the government to act dynamically** with focus, energy and skill, and that will require rewiring some of our most important institutions:

- **Taking ‘hard decisions’ without hard thinking is irresponsible** – politicians have, in effect, delegated much of the necessary hard thinking on the most important issues to institutions Like HM Treasury (HMT), the Bank of England (BoE), and the Office for Budget Responsibility (OBR) – see Section 2;
- **Many of these institutions have become wired for regress** – they prevent the government from acting, or even thinking, radically; and if the government tried to do so, their reaction might cause a Truss-like effect – see Section 3;
- **We need the government to accept its responsibility** for driving national renewal and we need it to rebuild the capabilities to enable it to act in the national interest – see Section 4.

The need for rewiring is widely understood, and our specific recommendations are accepted by many – though not by the institutions concerned. But their counter-arguments rely on rhetoric and appeals to authority and are not consistent with the data. And there are some immediate steps which could show rapid benefits.

## 2. Taking ‘hard decisions’ without hard thinking is irresponsible

We can no longer afford to duck responsibility for hard decisions by hiding behind fiscal rules or delegating key decisions to officials.

We are in the bizarre situation where the Chancellor has created a set of fiscal rules, which she now treats as sacred and inviolable. And most commentators uncritically allow her to talk in this way, despite the facts that such rules have been set by every Chancellor since 1997 and invariably changed by their successors; that such rules have never worked in the past; and that they cannot be expected ever to work in the future.

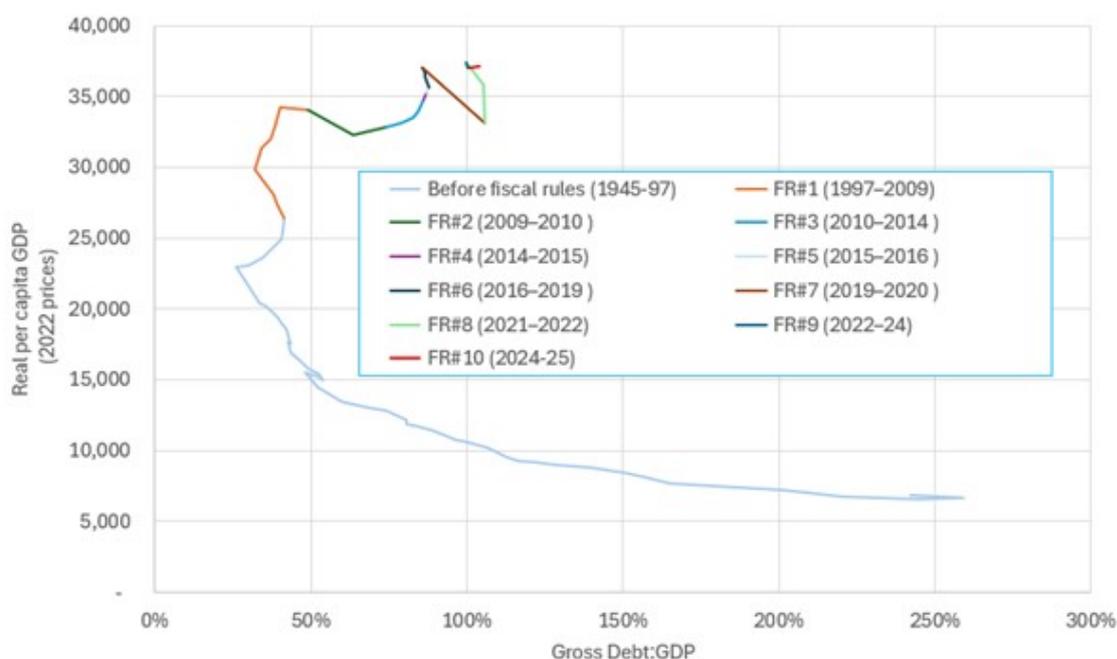
Furthermore, with such rules in place, most of the options for national renewal that the government should be working through in detail are ruled out before even being considered, simply because they conflict with the fiscal rules. The rules prevent creative thinking and problem-solving at a time the country badly needs them.

The government claims this is fiscal responsibility; it is the height of irresponsibility.

### Static fiscal rules have not worked in the past

As our first working paper<sup>2</sup> for the Progressive Economics Working Group showed, we are now on the 10th set of fiscal rules, none of which has survived contact with reality, and none of which has succeeded in accelerating either economic growth or debt reduction.

Figure 3: Fiscal Rules and economic performance



<sup>2</sup> See (The 99% Organisation, 2025) for a full explanation of this critique

In fact, the period before we had fiscal rules showed consistently higher rates of economic growth. And the fiscal rules have *failed entirely* in their principal objective of containing the ratio of debt:GDP. This should not be surprising: never in the last 300 years has the UK managed to reduce debt: GDP without robust growth in nominal GDP<sup>3</sup>.

## They will not work in future

Even worse, there is no prospect that the current set of fiscal rules – or anything similar – will ever work. First because they seek to solve an extremely complex problem with a simplistic solution, and secondly because, by relying on them and on the current remit of our key institutions, the government has in effect removed its own ability to pull most of the levers that determine our future economic performance.

The question of how much deficit (if any) the government should run in any given year depends on factors like whether we are at war or at peace, whether the economy is growing or contracting, whether we are in mid-pandemic or enjoying a period of good health. And yet the fiscal rules take none of these factors into account – which is of course why none of them survived contact with reality. Such fiscal rules cannot be expected to do the job we ask of them.

Even worse, by treating these static fiscal rules, and the associated institutions, as immutable, the government removes its own access to the economic levers it must pull to drive national renewal, for example:

- Should we lower interest rates to stimulate the economy?
- Should we use more government spending to stimulate the economy?
- Should the government create money to enable more investment?
- Should we adopt a different approach to managing globally-driven inflation? etc

## Hard decisions demand hard thinking and rigorous analysis

Paradoxically, defenders of the current fiscal rules often claim that without them, there would be no guarantee that the government would take some much-needed hard decisions. The opposite is true: while we do need to take some very hard decisions – no serious commentator from any perspective has denied that – taking hard decisions without first doing some very hard thinking merely guarantees bad decision-making.

The Chancellor told the Labour Party Conference<sup>4</sup>, *“There are still people who peddle the idea that we can cast off restraints on spending. They’re wrong – dangerously so.”* She has repeatedly said that she will not duck hard decisions – and implicitly (at least) suggested that those who criticise her fiscal rules are seeking to do so.

In truth, it is hard to find a serious commentator who would suggest that hard decisions are not needed. What we are arguing in this paper is that those decisions must be based

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<sup>3</sup> (The 99% Organisation, 2025)

<sup>4</sup> (Reeves, 2025)

on hard thinking and robust analysis of the facts – not hiding behind fiscal rules or delegating key decisions to officials.

Specifically, we need much harder thinking about inflation, about government funding and about joined-up policy-making.

### We need harder thinking about inflation

We currently treat all inflation as though it is a problem caused by UK consumers having too much money to spend, and for which the only cure is a rise in interest rates<sup>5</sup>.

When Putin invaded Ukraine and caused a spike in global energy prices, this was clearly not caused by UK consumers having too much money – as the Governor of the Bank of England recognised. He told MPs<sup>6</sup>, *“It’s a very, very difficult place to be. To forecast 10 per cent inflation and to say there isn’t a lot we can do about it is an extremely difficult place to be.”*

He knew that raising interest rates would harm household finances and the economy, and do little to reduce inflation, but his remit meant that he felt that he had to raise them anyway. That is no way to run a country.

### We need harder thinking about government finances

There are three ways the government can deal with additional spending or investment:

1. **Issue Bonds** – Under the Full Funding Rule, the Debt Management Office issues gilts (government bonds) which replace the reserves created by spending, converting the government's short-term liabilities into longer-dated debt held by the private sector. This is what many people think of as government borrowing;
2. **Raise Taxes** – Tax receipts extinguish the government’s deposit liabilities by reducing the net financial assets (reserves) held by the private sector;
3. **Leave the overdraft in the Ways and Means Account** – This is what many people think of as money-creation (although strictly the money was created by the act of spending; this approach simply leaves the reserves created by spending in the banking system).

We are constantly told that any of these three would be dangerous and irresponsible.

The table below summarises why we should be highly sceptical about such claims.

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<sup>5</sup> (Thomas M. E., 2022)

<sup>6</sup> (Hinchcliffe, 2022)

Figure 4: Three Taboos constraining Government Financing

Taboo	Facts
<b>“Government debt is dangerously high, so we can’t borrow”</b>	Debt today is below our 300-year average <sup>7</sup> , and our government can create money when needed. Even if it could not, debt:GDP would rise only if economic performance remains so poor that long-term growth is below interest rates.
<b>“Taxing the wealthy would stop trickle-down and the poor would suffer”</b>	Both economic and wage growth were higher when top rates of tax were higher. The so-called trickle-down effect has no evidential basis.
<b>“Creating money just leads to dangerous inflation”</b>	The BoE has created £895 billion since 2009, without causing inflation.

The third option – creating money – is considered so outlandish that it is seldom even discussed. And yet, as Lord Turner wrote<sup>8</sup>,

*“... inadequate nominal demand is one of very few problems to which there is always an answer. Central banks and governments together can create nominal demand in whatever quantity they choose by creating and spending fiat money. Doing so is considered taboo – a dangerous path toward inflationary perdition. **But there is no technical reason money finance should produce excessive inflation**, and by excluding this option, we have caused unnecessary economic harm. .... money finance of fiscal deficits is technically feasible and desirable, [and] it may be the only way out of our current problems.”*

As Lord Turner suggests, it is time to confront the taboos. It is time for serious thinking about these issues.

### We need harder thinking about policy coherence

We need much better joined-up policy-making across government. The number of areas in which government policy in one area undermines the objectives of another is so great that we will not attempt to catalogue them. Obvious examples include the restrictions on immigration which conflict with acknowledged staffing difficulties in the Care sector and in the NHS. The probable increase in taxes on electric vehicles conflicts with the government’s stated commitment to tackle climate change. Perhaps most fundamentally, the Treasury’s refusal to stimulate growth, while simultaneously declaring (correctly) that without growth, national renewal is impossible, is a clear conflict.

Demonstrably, we do not have the institutional capability to address these issues.

<sup>7</sup> (Thomas M. E., 99%: Mass Impoverishment and How We Can End It, 2019)

<sup>8</sup> (Turner, 2016)

### 3. Many of our most important institutions perpetuate regress

The government has ceded much of its power to our key institutions. These institutions in turn have become wired for regress and would be likely to strangle any radical initiative for national renewal. As things stand, if the government tried seriously to deliver the promised national renewal, it would risk facing the Liz Truss experience.

#### The government has ceded control over key economic levers to its institutions

Section 2 listed some key levers which *should* be accessible to government: control over its own money and interest rates, control over how inflation is managed and of course control over spending. That these are important and should be managed in the national interest should not be controversial.

And yet they are not managed by the government: HMT and BoE make most decisions about money; the BoE sets interest rates to control inflation; the OBR implicitly controls spending levels by defining the amount of ‘headroom’ available to the Chancellor.

The government has outsourced its key decisions. If it fails to deliver national renewal, it is unlikely that voters will consider this an adequate excuse.

#### The remits, attitudes and behaviours of our institutions perpetuate regress

The need for rewiring extends beyond the institutions listed above, as the table below summarises.

Figure 5: Issues with our key institutions

Institution	Issues	Behaviour
Bank of England	Has a remit to prevent inflation going above 2% and only one tool to use: interest rates	Raises rates even when it knows that will harm the investment and fail to address inflation
H M Treasury	“The Treasury View” is essentially market fundamentalist	It opposes government investment on the grounds it ‘crowds out’ private investment – even when private investment is in decline
Office for Budget Responsibility	Was set up by George Osborne to give cover for his goal of shrinking the state	Calls out illusory risks of debt default in 70 years but does not call out real immediate risks of both public and private slumps in

		investment and their impact on UK citizens
Home Office	Has been given a brief to minimise immigration	Does not join up with other government policies, eg to staff the NHS or care homes
Business management	We now have two generations of CEO who have never managed in a strongly-growing economy	It is safe for them to invest in cost-cutting, but risky to expand capacity – so they don't

Progressive policy-making which ignores these behaviour patterns is in danger of failing.

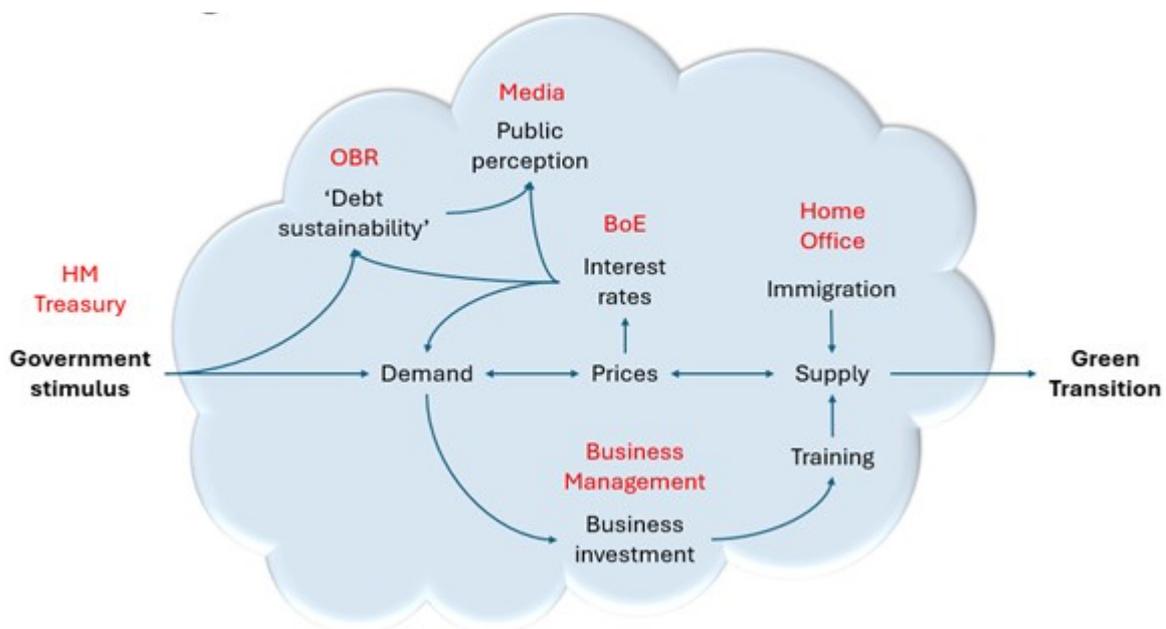
## They could strangle a radical progressive initiative

A government which seeks to deliver national renewal within the constraints of today's wiring runs the risk of finding that, rather than being seen as the saviours of a troubled country, they will be perceived like Liz Truss's ill-fated government.

To see how this could happen, consider the following hypothetical scenario: the government wishes to engineer a green transition involving the large-scale thermal insulation of Britain's leaky houses. They ear-mark a considerable sum for stimulus and trust that this will drive the change they require: a boost for the economy, a reduction in household bills and a reduction in the UK's carbon emissions. A simple, powerful idea.

But now let us consider the potential impact of the UK's institutions on this plan. A far more complex picture emerges.

Figure 6: Issues facing a renewal programme



In this scenario:

- HMT shapes the stimulus, ensuring that it is not for government to act on the supply-side – that is to be left to the market;
- The stimulus does drive demand, initially up to the level of capacity – which means that businesses happily meet that demand – and then beyond it. CEOs will hire already-skilled people for demand they can see, but after 16 years of false dawns, will be reluctant to make a major investment in training and developing new capacity for the future. They raise prices while they wait to be convinced that the demand will be sustained;
- The Home Office does not allow immigration of ‘semi-skilled’ people, only those whose salary exceeds the threshold;
- So inflation takes hold, and the BoE raises interest rates;
- The OBR notes the combination of higher stimulus spending and higher interest rates and warns of ‘serious risks’ to the nation’s debt sustainability;
- The media react hysterically, talking of the government ‘bankrupting the country’ and ‘economic Armageddon.’

If the scenario plays out this way, the government will, at best, suffer a huge loss of public confidence and at worst be forced to abandon its plan for green transition before it has made a significant impact.

Of course, we cannot be certain that such a scenario would materialise, but it would be foolhardy not to plan for such a possibility because the outcome is much like what happened to Liz Truss’s ill-fated government.

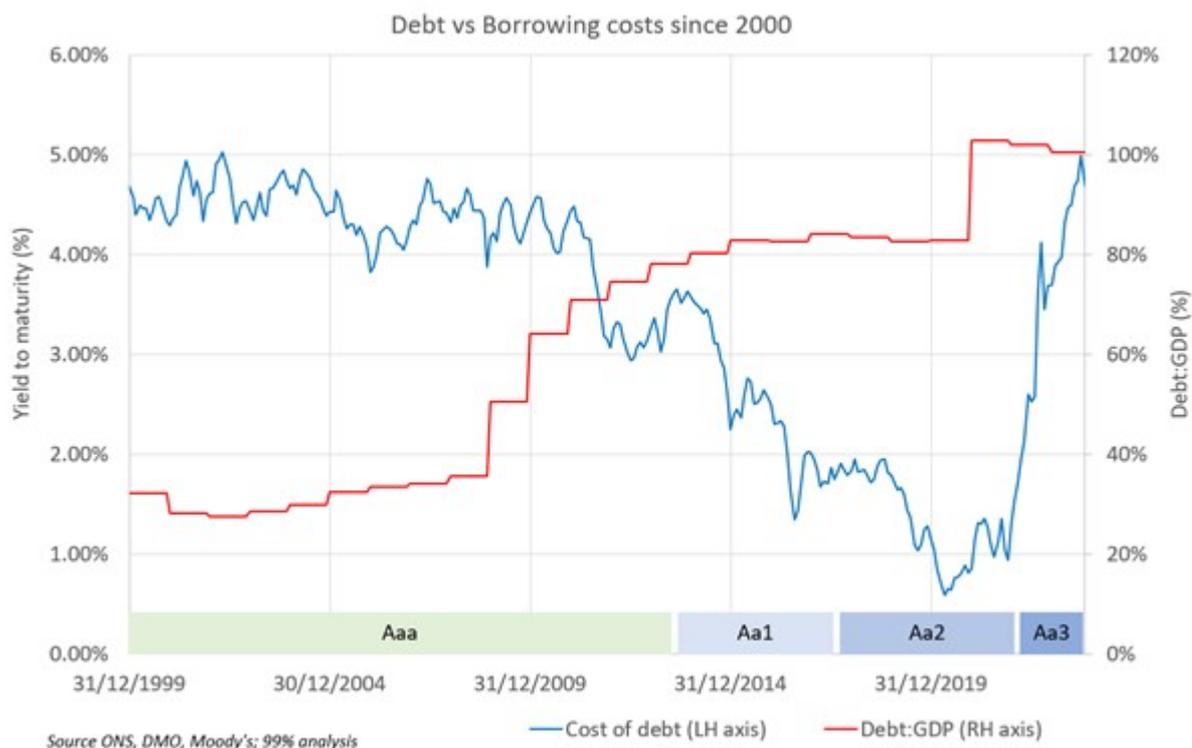
## There is a parallel with what happened to Liz Truss

The accepted story is simple: Truss ignored the advice she received from HM Treasury, ignored the OBR and the Bank of England and, most importantly, proceeded to borrow too much, too quickly. The credibility of the UK as a borrower was damaged by this and the bond markets took fright and moved against both bonds and sterling – and an inevitable crisis ensued.

If that story were true, there would be evidence in the data. We would see that when borrowing rises, bond ratings decline and the cost of borrowing rises. We would see that a very rapid increase in debt causes an immediate crisis in the bond markets. We would see in other words that if British politicians borrow too quickly, they are punished by the markets.

Instead, this is what we see.

Figure 7: Why Truss's Budget failed



The red line is the ratio of Debt:GDP – the thing which is supposed to drive the market reaction. It starts to rise sharply after the Global Financial Crisis, so we should expect to see the blue line (the interest rate demanded by the market for holding government bonds) rise with it. We do not see that: we see it fall. Even when the bond rating agencies started to reduce the UK's rating from triple-A to lower levels, we saw the yield continue to fall.

And in 2020, when Debt:GDP was already at around 80% and the government suddenly found that it needed to find an additional £70 billion to fund the COVID furlough scheme – money it had previously insisted it did not have – and debt shot up to over 100%, bond rates still did not rise.

This is because the government made good use of its institutions – the UK became the first country in the world<sup>9</sup> to use direct monetary financing to pay for the spending. In this case, the Treasury instructed the Bank of England (BoE) to create the money, and the Debt Management Office turned it into bonds which the BoE then purchased directly without troubling the bond markets at all.

But when Truss launched her Budget, *without* getting the institutions on board, we were in an inflationary environment. The BoE had already started to raise interest rates. And so when Truss's inflationary Budget came out, with no institutional support, we finally saw a rapid rise in bond rates. After just a few days, this began to cause dangerous

<sup>9</sup> (Giles & Georgiades, 2020)

problems<sup>10</sup> in the pensions industry and the Bank of England stepped in. At that point, bond rates quickly stabilised, and with the BoE now backing gilts and a reversal of the Budget provisions, the problems started to subside.

The data above flatly contradict the conventional story of Truss's failure.

Failure to control the BoE and ensure its backing, not excessive borrowing, was the fatal flaw in Truss's approach. As the former President of the Federal Reserve Bank of Minneapolis, Narayana Kocherlakota<sup>11</sup> wrote,

*“The precipitous fall of former UK Prime Minister Liz Truss’s government has been widely credited to the objective discipline of financial markets. Her misguided policies, the logic goes, elicited such a negative reaction that she had no choice but to backtrack and resign. I see a very different story. **Markets didn’t oust Truss; the Bank of England did.**”*

There is a vitally important lesson for the UK government in the Truss debacle, but it is about inflation and coordination of the UK's institutions, not about the pace and scale of borrowing.

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<sup>10</sup> (Scaggs & Ashworth, 2022)

<sup>11</sup> (Kocherlakota, 2022)

## 4. To accept new responsibilities we must build new capabilities

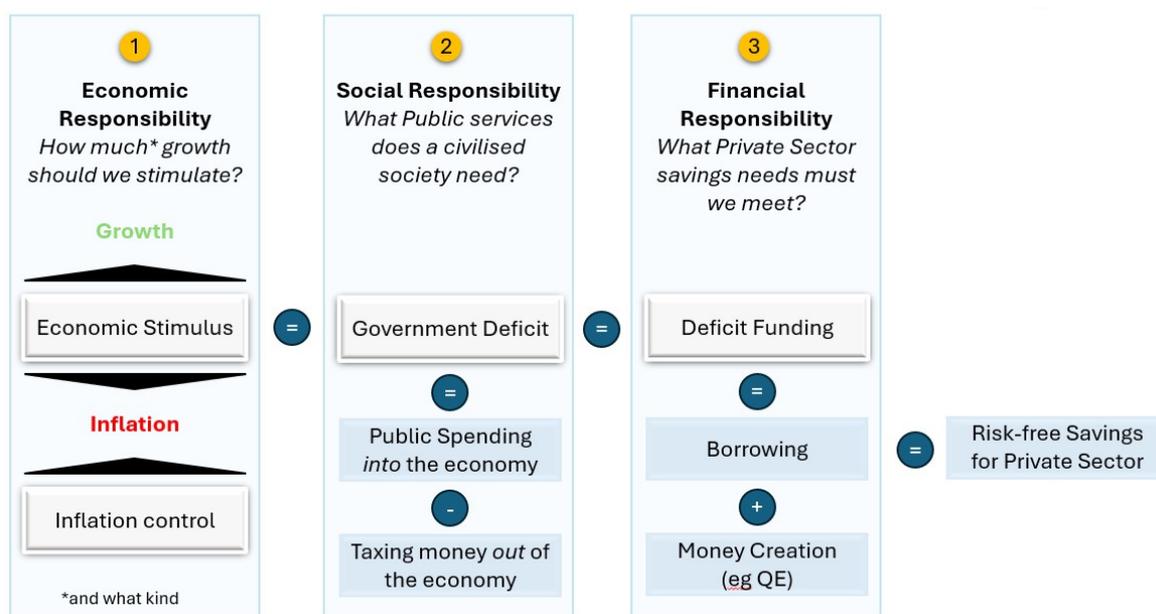
### The stakes are too high for continued abdication

The government has repeatedly promised to deliver national renewal – and the need for it to do so is clear. A responsible government must deliver on that promise, and that means addressing three dimensions of responsibility which are largely unaddressed today:

1. **Economic responsibility** – has the government taken the steps necessary to create robust, sustainable economic growth? For the last 40 years, the answer to that question has been ‘no’;
2. **Social responsibility** – has the government provided the services and support a wealthy, civilised society should expect? Since 2010, the answer has been, ‘decreasingly’; and
3. **Financial responsibility** – have we met the private sector’s need for risk-free savings? In general, the answer has been ‘yes’.

As Figure 8 illustrates, these three questions are interrelated. And getting robust (responsible) answers will require both joined-up thinking and tackling the institutional issues described in Section 3.

Figure 8: A dynamic framework for fiscal rules



The alternative is unacceptable: if we carry on as we are, the IMF forecasts will be right: we will experience the worst decade since the 1920s. And the economic, social and political costs are too great for that option to be taken seriously.

## A rewired state would give the government the power and the capability to drive renewal

The scenario set out in Section 3 illustrates just one initiative that might fall foul of our institutional wiring, but of course there are many others. We can divide sound policies into two classes:

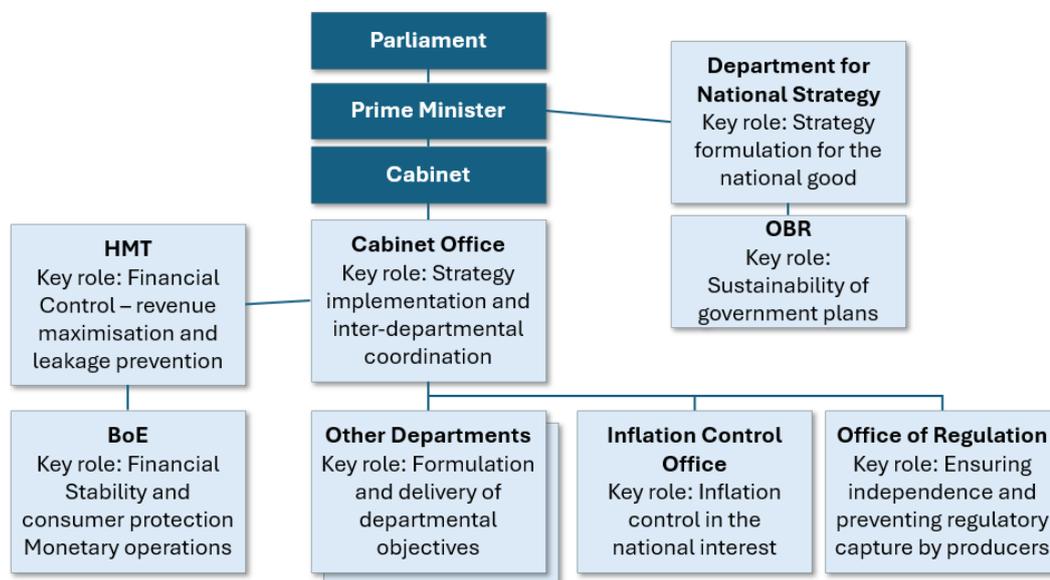
1. Those which are good for the country, but not for the Exchequer – the example above fits into this category as does repair of critical national infrastructure, proper funding of the NHS and other public services, etc;
2. Those which are good for the country and produce a financial return to the government – eg investing in closing the tax gap.

Any initiative in class 1 is likely to be strangled by our institutions unless we change the wiring – and that means that the national renewal we need will not happen.

So, if we want national renewal, what should we do?

John Maynard Keynes’s book, *How to Pay for the War*<sup>12</sup> is instructive. Keynes had to think through how Britain would cope with a challenge far greater than we face today, maximising our chances of winning the war without starving the British population. He thought radically. Even though our challenge is not so great, it is great enough: we should also think radically<sup>13</sup>.

Figure 9: A possible Rewiring for Progress



The first change is the creation of a Department for National Strategy. China and Singapore have created long-term plans for their countries, using a range of systems thinking and other techniques to assess the trade-offs involved. They have been remarkably successful in achieving their aims. And virtually every significant business

<sup>12</sup> (Keynes, *How to Pay for the War*, 1940)

<sup>13</sup> (Pettifor, 2025)

has a strategy department for the same purpose. The UK, however, does not have a department with the attitudes, instincts, and skills to produce such a plan. The result is a lack of joined-up thinking and a naïve reliance on ‘the magic of markets’ to solve every problem. As the Institute for Government put it<sup>14</sup>,

*“An imbalance of power at the centre, due to No.10’s comparative lack of firepower and ability to drive strategy, allows a dominant Treasury to fill the vacuum and take ‘ownership’ of whole-government strategy. This leads to bad outcomes in policy and spending, with Treasury spending staff too inexperienced and unable to draw on adequate expertise to make the spending decisions asked of them.”*

The need for more strategic thinking is clear.

But, as a saying attributed to Sun-Tzu points out, *“Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.”* So there also needs to be a powerful Department capable of ensuring that the tactics are consistent with the strategy: i.e. that the national strategy is translated into operational plans, that these plans are resourced and coordinated and that they deliver. That would be an expanded role for the Cabinet Office, working with the other Departments of state.

The role of HM Treasury would be reduced to those areas where it can make a major positive contribution: revenue maximisation and ‘leakage’ prevention.

And the Bank of England would lose its inflation remit to a new independent body, the Inflation Control Office which would have a full range of inflation control tools: not only interest rates (which place the burden of inflation reduction on those least able to bear it) but also taxes, price controls and, *in extremis*, rationing. It would also recognise that while inflation is undesirable, often the cure can be worse than the disease. As Paul Krugman pointed out<sup>15</sup>, the risks in relation to inflation are asymmetric – we need an institution with a remit which recognises the asymmetry and does not harm the economy (and households) needlessly.

The OBR, in contrast, would see its remit expand beyond debt to consider all aspects of responsibility as set out in Figure 8. If it sees that the government is moving towards failure on any important dimension, it should call it out. And, if the warning is found to be correct, the strategy should be modified.

Finally, we need proper regulation of our major industries. Currently everything from Energy and Water to the Press is regulated in ways which satisfy the shareholders of the companies involved but do not meet the needs of the British people. A new and powerful Office of Regulation should ensure that regulators are protected from capture by those they should be regulating.

How would such rewiring affect our ability to deliver initiatives which are good for the country, but not for the Exchequer? In the short-term, it would prevent the initiatives

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<sup>14</sup> (Wilkes, Bartrum, & Clyne, 2024)

<sup>15</sup> (Krugman, 2016)

from being strangled at birth in the way the scenario describes. In the long-run, it would increase the capacity for such initiatives.

What about the second kind of initiative? Those which are good both for the country and for the Exchequer? They can be done anyway – and they create more headroom for the first kind of initiative. We gave many examples of such initiatives in our alternative Budget<sup>16</sup>, under the heading of leakage prevention. But that is not an exhaustive list: fixing the housing crisis could be done in such a way as to create assets for the Exchequer whose value exceeds their cost if the ‘planning gain’ on agricultural land remained in public hands.

## A rewired state could plot a strategy for renewal

With a rewired state we can begin to expect renewal: we can set out the long-term outcomes we want to see, and we can construct a strategy which will deliver those outcomes. Creating such a strategy requires capabilities and attitudes no longer present in our key institutions, so the creation of new institutions will have to be done with great care.

### We can define the outcomes we need

If we were looking at a 30-year or 50-year plan for the UK – established practice in some countries – we might want to see outcomes like:

- **A strong economy** (as measured by real per capita GDP) with the benefits of growth fairly shared so that the poorest are far from poverty;
- **A rebuilt critical national infrastructure** whose key elements are under national control;
- **Strong environmental policies** and achievement of the net zero target, and beyond;
- **Public services** which are once again<sup>17</sup> the envy of the world.

### We can construct a strategy to deliver those outcomes

A national strategy links the ends, ways and means we adopt into a coherent whole. The ends are the outcomes we seek to achieve. The ways are the strategies and tactics we follow. And the means are the resources we can use in those strategies and tactics.

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<sup>16</sup> (Thomas M. E., The Budget we needed ... and should have had, 2024)

<sup>17</sup> It may be hard to remember today that the NHS was repeatedly rated the best healthcare system in the developed world – as recently as 2014. (Commonwealth Fund, 2014)

Figure 10: The Role of a National Strategy



Our strategy must be a dynamic (changing with time) portfolio of policies to achieve our desired outcomes. Policy formulation is fiercely complex, but for every policy, there are just two things we must work to understand:

- Will this policy help increase the size of the economic pie (of which the best currently available measure is real per capita GDP)?
- Will this policy help share the pie fairly?

This means there are fundamentally only four types of policy:

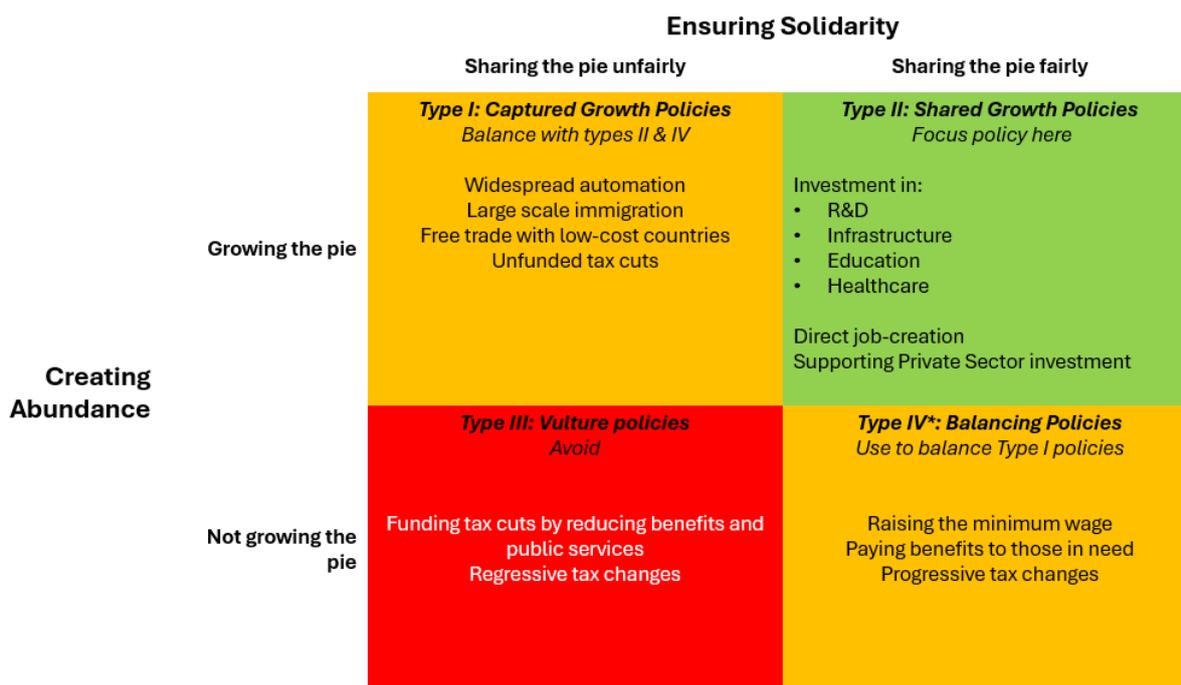
**Type I: Captured growth policies** – policies which will increase the size of the pie but lead to less fairness in how the slices are allocated;

**Type II: Shared growth policies** – policies which will both increase the size of the pie and distribute the slices fairly;

**Type III: Vulture policies** – policies which will shrink the pie at the expense of the poor; and

**Type IV: Balancing policies** – policies which will improve distribution of the slices but will not themselves grow the pie.

Figure 11: The Four Fundamental Policy Types – with examples



In recent decades, we have experienced a policy mix which is overweight in Type I policies and has not been devoid of Type III policies (Brexit, for example). This poor policy mix largely accounts for the poor outcomes we have experienced; we need a major shift to Type II and Type IV policies.

### We must rebuild the capabilities and attitudes

Getting that shift right is, of course, easier said than done. First, good strategy is multi-dimensional: it is heavily analytical, but not purely analytical. And it requires skills and attitudes we no longer have in abundance.

#### Good strategy is multi-dimensional

There are three tests a good strategy must pass:

1. **Do we want to do it?** – if it fits with the values and objectives of enough of the people who would have to make it happen, there is a chance it will happen; if not, however clever it is, it will not;
2. **Can we do it?** – if we can physically do it, it may happen, and as Keynes reminded us<sup>18</sup>, “*anything we can actually do, we can afford*”; but of course if we cannot physically do it, it will not happen;
3. **Should we do it?** – if achievement of the strategy will result in delivery of our desired outcomes we should do it; if not, we should not – this is the analytical dimension.

<sup>18</sup> (Keynes, We Can Afford This, 1942)

Checking whether a proposed strategy passes these three tests is far from straightforward and requires analytical and other skills – and a lot of effort. It is hard thinking.

*It requires capabilities and attitudes not currently present*

The first test will only be passed if we have the communications and stakeholder management skills both to assess current attitudes and to provide leadership if we need those attitudes to change.

The second test will only be passed if those compiling the strategy include the most senior resource controller. In the case of a business, this is the CEO: no business strategy means anything if the CEO has not been sufficiently involved to commit to it, and to providing the resources it requires. In the case of a national strategy, of course, this means that the Prime Minister must be personally involved to that same extent.

And the third test will only be passed if those working on the strategy have the analytical skills to determine accurately if the proposed strategy will deliver.

This requires good systems thinking skills, a skill-set more often spoken about than observed. Some policy-makers are ‘system blind’ (in business as well as in government): this is the root cause of the lack of joined-up thinking we highlighted earlier.

And conversely, some systems thinkers are ‘mix-blind’: they assume that averages are representative: so, for example, if GDP per capita is rising, everyone must be benefitting.

What is needed is a careful blend of skills. Other countries have managed to assemble teams with these skills – we could also do so. But we should not assume that we could create a high-performing new department simply by transferring staff from our existing institutions.

## 5. Conclusion

At a high level – the need to rewire our key institutions – our recommendations are well-understood: for years, many economic experts have said the same. While there is no shortage of defenders of the *status quo*, their arguments tend to be rhetorical rather than fact-based. What we have sought to do in this paper is to highlight the enormous weight of empirical evidence supporting this conclusion and to spell out in a little more detail *how* it can be done.

### The need for rewiring is well-understood

Will Hutton, author and economic historian wrote<sup>19</sup>,

*“The problem is the Treasury, reluctant to let go of its traditional role as bean counter-in-chief. Already it has persuaded Reeves to cancel the £800m exascale quantum computer project at the University of Edinburgh and is ready to lose AstraZeneca’s vaccine production to the US as it quibbles over investment support. I would be astonished if more than 10% of its officials are aware of the desperate data produced by Connell and Reddy. The Treasury should beware. If the economy fails to perform in the next five years because of its evident obstruction, its break-up will become a national necessity.”*

Andy Haldane, the former Chief Economist at the Bank of England recently wrote<sup>20</sup> about the Treasury,

*“Like those of its human counterparts, the Treasury department brain has two sides. There is a fiscal hemisphere that safeguards the public purse using logic and reasoning and a growth hemisphere that stimulates growth using creativity and imagination. Unlike in the population at large, however, the Treasury brain is not equally balanced; it is fiscally dominant.”*

And on the OBR, he commented<sup>21</sup>,

*“One way of freeing the government’s fiscal hands is by partially taking back control of fiscal assessments. Outsourcing your brain is rarely wise.”*

Martin Wolf, Chief Economics Commentator of the Financial Times wrote a 2021 article<sup>22</sup> titled, *It is time to lop off the dead hand of the Treasury*,

*“The Treasury is competent, but it is also defensive and defeatist. ... It is institutionally sceptical about anything that comes from spending departments and is particularly sceptical about schemes for economic improvement.”*

The argument is even stronger today than it was when he made it.

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<sup>19</sup> (Hutton, 2024)

<sup>20</sup> (Haldane, It is time to rewire ‘Treasury brain’, 2025)

<sup>21</sup> (Haldane, Free the government’s hands by taking back its fiscal brain, 2025)

<sup>22</sup> (Wolf, 2021)

While it would be an exaggeration to say that our economic problems are entirely the result of Treasury-induced decline, our economic institutions bear heavy responsibility. If their performance is measured by that of the economy – and how else should we measure them? – they are failing institutions.

## The counter-arguments are not evidence-based

The former Permanent Secretary to the Treasury, Lord McPherson is one of HMT's staunchest defenders. In 2022, he made the following arguments<sup>23</sup> in its defence:

- He claimed that Liz Truss was a fierce critic of the Treasury, but that when she ignored the Treasury view, she was punished by the markets; as the data in Figure 7 demonstrate, this is a misrepresentation of the Truss debacle;
- He claimed that *“crude Keynesian demand management was tested to destruction over the 1972 to 1976 period, culminating in the IMF emergency loan.”* Ignoring both that the 1970s showed far better overall economic performance than any decade since<sup>24</sup> (and the previous post-war decades, which were even more successful, followed Keynesian principles) and that the government, *had it been supported by its institutions* (for example with an active QE programme) would not have felt it had to turn to the IMF to contain its borrowing costs;
- He revealed his attitude to spending departments by quoting Sir Leo Pliatsky, who compared other government departments to animals herding around a waterhole: *“You beat them off, and beat them off, and in the evening, back they come.”*
- He repeated the claim that rising debt inevitably brings with it a rising cost of debt (a claim which Figure 7 shows is incorrect);
- He said *“In short, markets generally work. And where they do the state should generally stand back”* despite clear evidence of market failure in many sectors today; and perhaps most fundamentally, he concluded
- *“The Treasury stands for reality”*

In short, he argues that the Treasury and markets know best, and politicians and spending departments should not seek to challenge them.

Apart from its supreme self-confidence, what is notable about his speech is that while it is anecdote-rich and imbued with all the authority of office and citations from other weighty figures, it contains little or no empirical data. Where we have our own data to compare with his claims, they are in contradiction.

The stakes are now so high that we cannot accept arguments based on authority and rhetoric. We must demand hard data.

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<sup>23</sup> (McPherson, 2022)

<sup>24</sup> Appendix 1 shows that the data contradict his version of events

As Hume<sup>25</sup> wrote in 1748,

*“When we run over libraries, persuaded of these principles, what havoc must we make? If we take in our hand any volume; of divinity or school metaphysics, for instance; let us ask, Does it contain any abstract reasoning concerning quantity or number? No. Does it contain any experimental reasoning concerning matter of fact and existence? No. Commit it then to the flames: for it can contain **nothing but sophistry and illusion.**”*

## The first steps are clear

We have set out in Section 4 a concrete proposal for rewiring. Clearly, this is a major change and could not be accomplished overnight.

But there are things that could be done quickly. The Chancellor could, tomorrow, make the behaviour of our key institutions far less damaging:

- **Refine the Bank of England’s remit:** The Governor told MPs in 2022, *“It’s a very, very difficult place to be. To forecast 10 per cent inflation and to say there isn’t a lot we can do about it is an extremely difficult place to be.”* He nevertheless felt obliged to raise rates. A new remit would enable him to make a rational recommendation to the Chancellor in such circumstances. Had he done so in 2022, the economy today would be far stronger;
- **Refine the OBR’s remit:** currently, we are in an extraordinary situation where the OBR’s remit obliges it to call out a ‘risk’ that in 50-years’ time our debt:GDP might be higher than we would ideally like, while not calling out the real risk of rising poverty, failing universities, crumbling infrastructure and a stagnant economy right now. Redefining responsibility in line with the dynamic framework set out in Section 4 would enable it to comment on the real issues of responsibility;
- **Refine the remit of the Treasury:** The Treasury ‘owes’ money to its wholly-owned subsidiary, the Bank of England, but it has not cancelled the debt and instead permits its subsidiary to sell the bonds into the market at a loss. It also allows interest rates to remain too high for the good of either government finances or the health of the private sector although it already has the power to prevent this. It should be instructed firmly to use this power in the national interest. Doing this would enable an immediate political ‘win’ – around 20% of our debt:GDP would vanish, without economic consequences<sup>26</sup>.

When governments are determined to succeed, they **can** find a way. We need to see that determination now.

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<sup>25</sup> (Hume, 1748)

<sup>26</sup> (de Grauwe, 2021)

# Appendices

Appendix 1: Did the 1970s invalidate Keynesian ideas?

Appendix 2: Contributors

Appendix 3: References

## Appendix 1: Did the 1970s invalidate Keynesian ideas?

The post-war decades were the Golden Age of Capitalism during which most countries, successfully adopted a Keynesian view of economics.

But then, so the usual story goes, came the 1970s, the decade which gave us the phrase ‘stagflation.’ That dismal decade showed the weaknesses of the Keynesian approach. Thatcher in the UK and Reagan in the US then introduced a series of reforms and the era of market capitalism was born, relying on the dynamism of markets to drive economic success where governments had failed.

Martin Sandbu summarised<sup>27</sup> (but did not endorse) this argument in the *Financial Times*,

*“Comparisons of our current challenges with the world’s economic and political struggles in the 1970s are now a dime a dozen. ... Overall inflation is the highest in decades, and many fear we face a repeat of the 1970s scourge of stagflation. The similarities end with the effects for political and economic thinking. **Once the turmoil of the 1970s had discredited the mixed economies of the post-war era, it paved the way for the market-liberalising transformations pioneered by Margaret Thatcher and Ronald Reagan.**”*

This narrative is hugely important in policy-making. If it is true that Keynesian approaches were tested and found wanting, then there is really no alternative to market capitalism; and though we may not be entirely happy with our current performance, it would be irresponsible to return to the pre-market capitalist consensus.

*But if that narrative is false, then by rejecting the alternative, we are condemning ourselves to continued and needless economic decline.*

This appendix contains data which show clearly that the accepted narrative is dangerously wrong – indeed it is diametrically opposed to the truth:

- The Golden Age was indeed hugely successful for many countries around the world;
- The period since then has been far less successful economically; and astonishingly, given what we are normally told,
- The 1970s were more successful economically than any decade since, despite having to weather greater challenges.

### The Golden Age was hugely successful for many countries

After the end of the Second World War in 1945, both among the victors and in the defeated countries, there was a clear need to rebuild national economies and a determination that the rebuilding should result in a better world. Economically, the Great Depression was still a living memory, and those in power were determined not to make the same mistakes again. Many countries duly experienced an economic miracle: Germany had its *Wirtschaftswunder*; France enjoyed *Les Trente Glorieuses*; Italy

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<sup>27</sup> (Sandbu, 2022)

experienced *Il Miracolo Economico*; and Japan and many other countries used similar language to describe similar phenomena. In the US and the UK, this period was termed the *Golden Age of Capitalism*.

There is some debate about the duration of this Golden Age: the late 70s were a period in which many economies slowed down and began to experience inflation. The results were far less golden. This has led some to date the end of the Golden Age to the early 1970s. In this paper, we have taken a different approach: since the dominant ethos – the way societies ran their economies – remained essentially the same until the end of the 1970s, we have credited these results to the Golden Age, which reduces the shine a little. In the same way, and for the same reasons, we have credited the results of the Global Financial Crisis to the Age of Market Capitalism. This seems a fairer way of comparing the effects of these two eras.

The economic historian Lord Skidelsky describes<sup>28</sup> the Golden Age (which he dates from 1951 to the early 1970s) in the following terms:

*“For roughly a quarter of a century after the Second World War, Keynesian economics ruled triumphantly. No one wanted to go back to the 1930s. Nationally, governments accepted responsibility for maintaining high and stable levels of employment. Internationally, institutions, collectively known as the Bretton Woods system, were set up to prevent depressive forces from being transmitted through the international payments and trading system.”*

In practice, this period also saw governments funding large infrastructure projects, creating strong social security systems, creating healthcare systems, and investing in education for their populations.

### The period since 1980 has been far less successful economically

As Lord Skidelsky describes it:

*“... by the 1980s both theory and policy had swung back to pre-Keynesian ideas. Government was seen once more as part of the problem, not the solution. Expansionary government policies were accused of fuelling inflation and crowding out better-informed private investment without reducing unemployment in the long run.”*

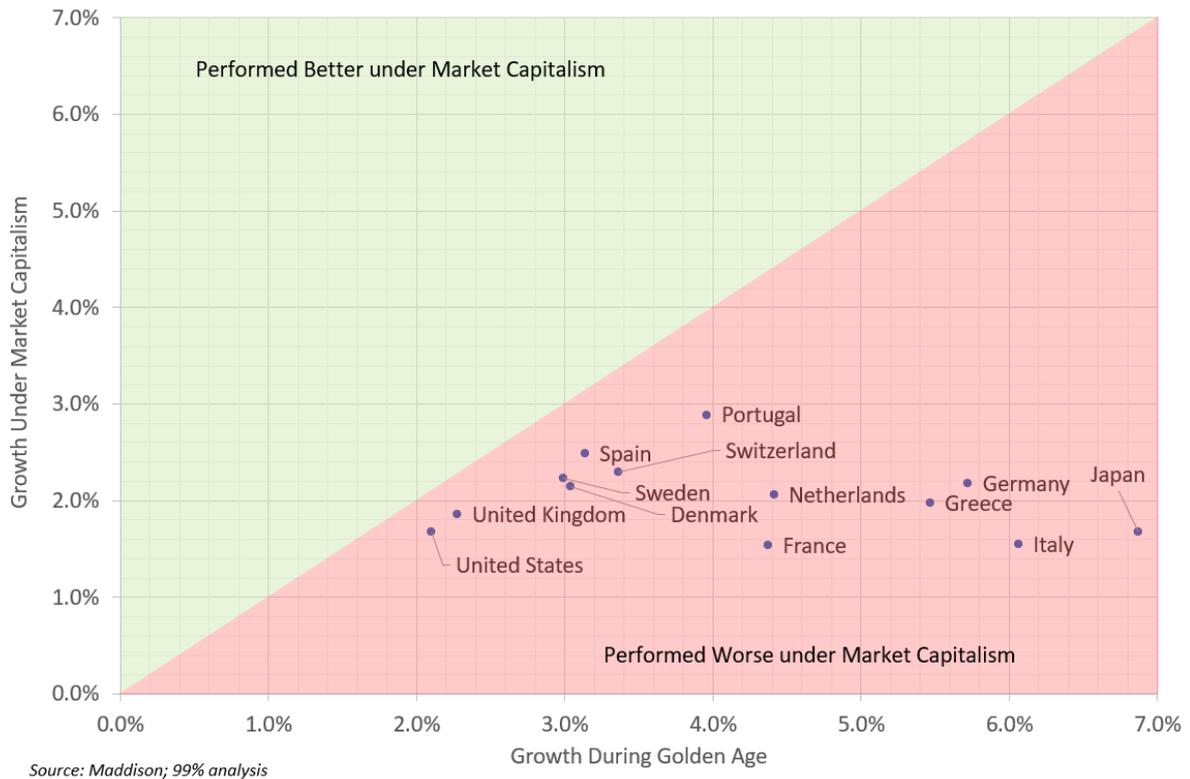
The market reforms of the 1980s and later claimed to unleash the power of the markets – but they have been uniformly less successful economically. A simple comparison of the growth rates before and after shows that the market-based reforms produced worse results in the US, the UK and in most countries in Western Europe.

Some countries – eg China – have been more successful since, but their success is not down to having abandoned Keynesian ideas.

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28 (Skidelsky, 2009)

Figure 12: Real per capita GDP growth rates before and after Market Capitalism

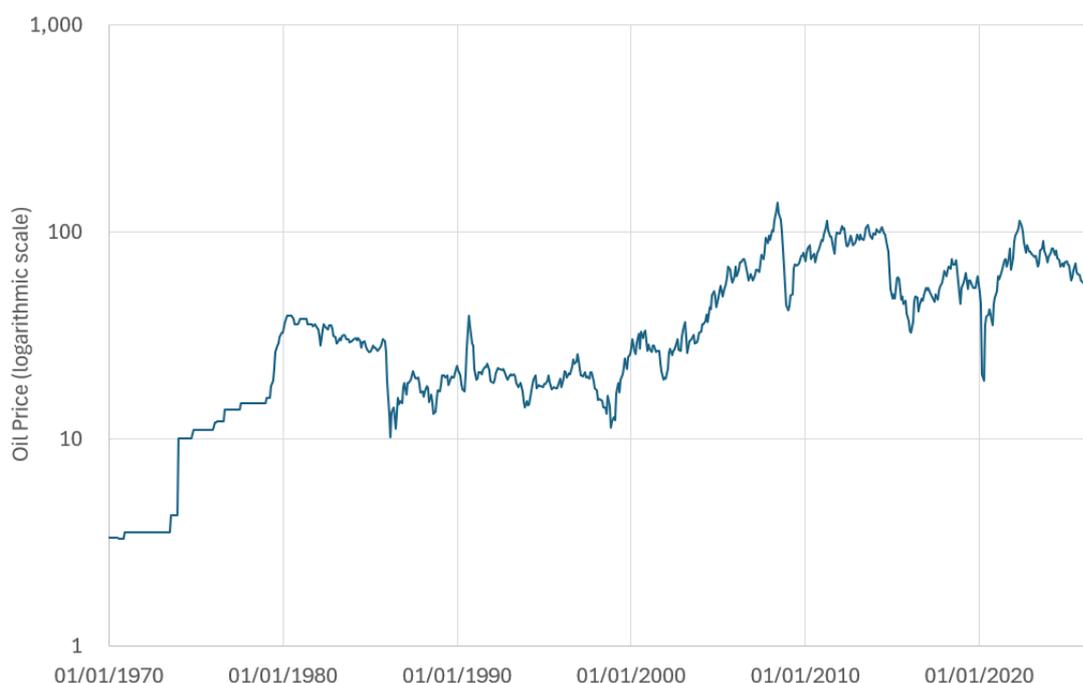


No leading economy did better under market capitalism than it had during the Golden Age.

### The 1970s were more successful than any decade since

The 1970s had to cope with an external shock to the world economy far greater than any we face today. During the 1970s, oil prices quadrupled and then almost doubled again – a total rise of almost 700% over the decade. Oil prices today are about 50% higher than they were 10 years ago and only around double where they were from 2015-20.

Figure 13: Oil price per barrel (nominal US \$)



Source: Macrotrends; 99% analysis

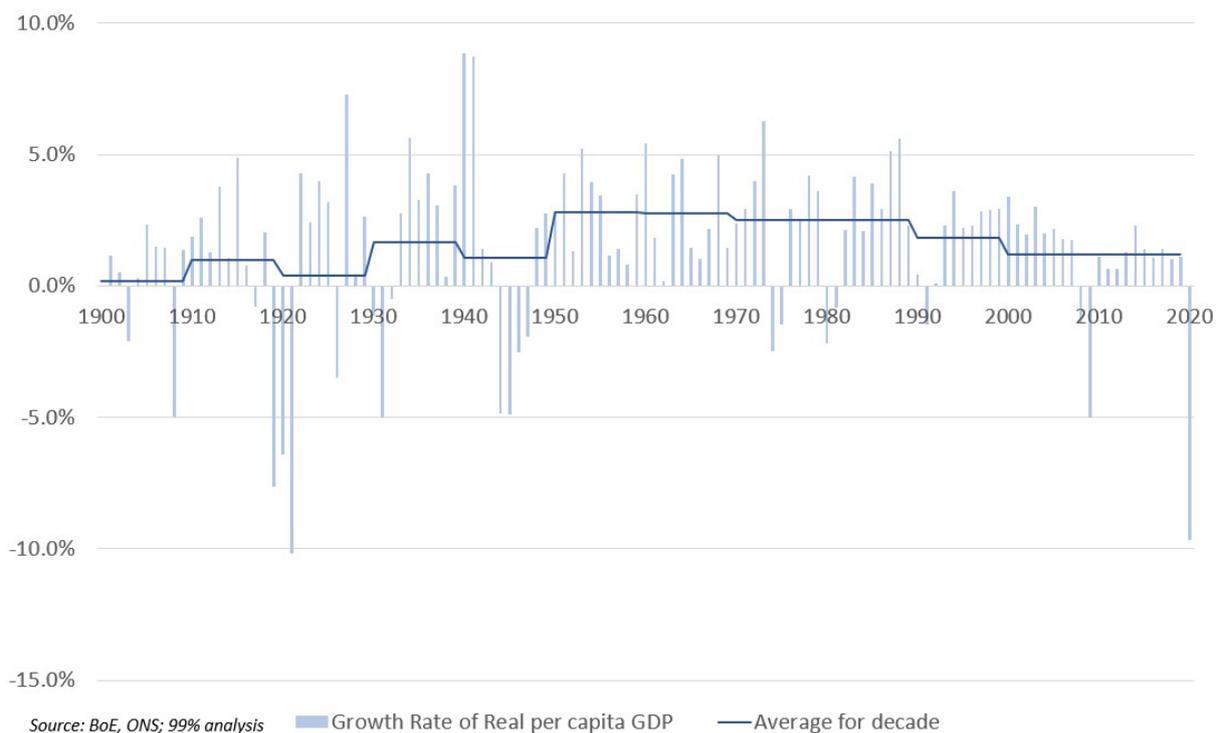
And when we look at how the 1970s coped with that extraordinary shock, what we see *is itself a shock* to most of us: the economy performed as well in the 1970s as it has in any subsequent decade – indeed *better* than most of them.

This is unbelievable to many people: we have all heard of stagflation – the combination of low growth and high inflation – a term which was coined to describe the 1970s experience. Can it be true that the 1970s were *not* actually that bad?

The Bank of England has helpfully compiled a historical dataset which goes as far as 2016; we have taken the data for 2017-2020 from the Office for National Statistics.

What the Bank of England data show are that, although the UK economy did indeed slow in the 1970s, compared with previous decades, and suffered from serious recessions, we have never since had a decade with higher growth.

Figure 14: Long run growth in the UK economy



Despite the oil shocks, the UK economy performed – in real terms (i.e. adjusted for the higher inflation) – almost as well as the 1960s and the 1950s, as well as the 1980s and substantially better than any subsequent decade.

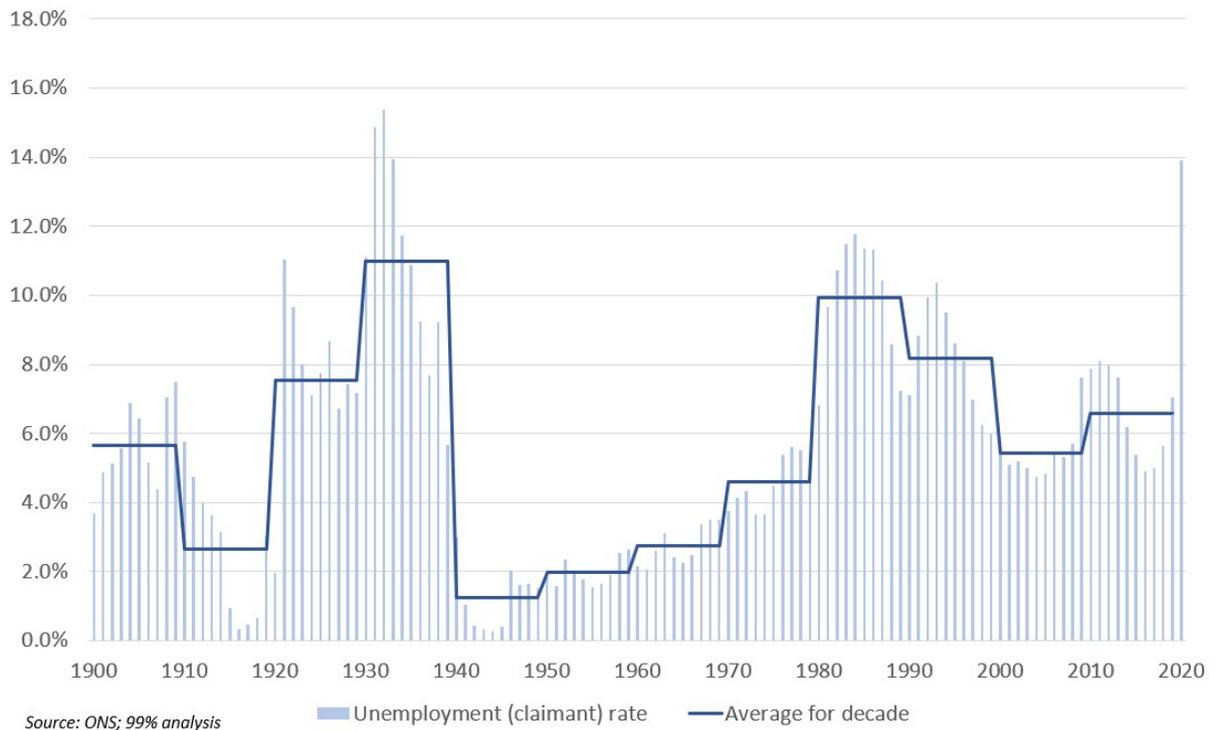
The 2000s might have matched the 1970s if it had not been for the Global Financial Crisis; but that Crisis did happen, and our economy was demonstrably less robust than it had been in the 1970s.

The 2010s had no external shocks to cope with – only a self-imposed austerity – and yet they were as poor as the 2000s (the decade which had to cope with the Global Financial Crisis).

The truth is that the 1970s were far better for the economy than were the 2010s. And the 2020s are not starting even as well as the 2010s.

And it is not just top-line growth where the Golden Age looks better. Many remember the waves of unemployment which swept Margaret Thatcher to power at the end of the 1970s. It is no consolation that the economy is growing if you don't have a job. So again, it is worth looking at the facts. And again, they are rather shocking. Having come to power claiming that she would tackle unemployment, Thatcher almost tripled it.

Figure 15: UK Unemployment rates over time



In terms of unemployment, the 1970s were indeed significantly worse than previous post-war decades, but they were far better than any since.

But unemployment is less than 10% of the working population – what about the other 90%? How did the 1970s treat those who *were* in work?

Figure 16: Growth rates of real average wages in the UK

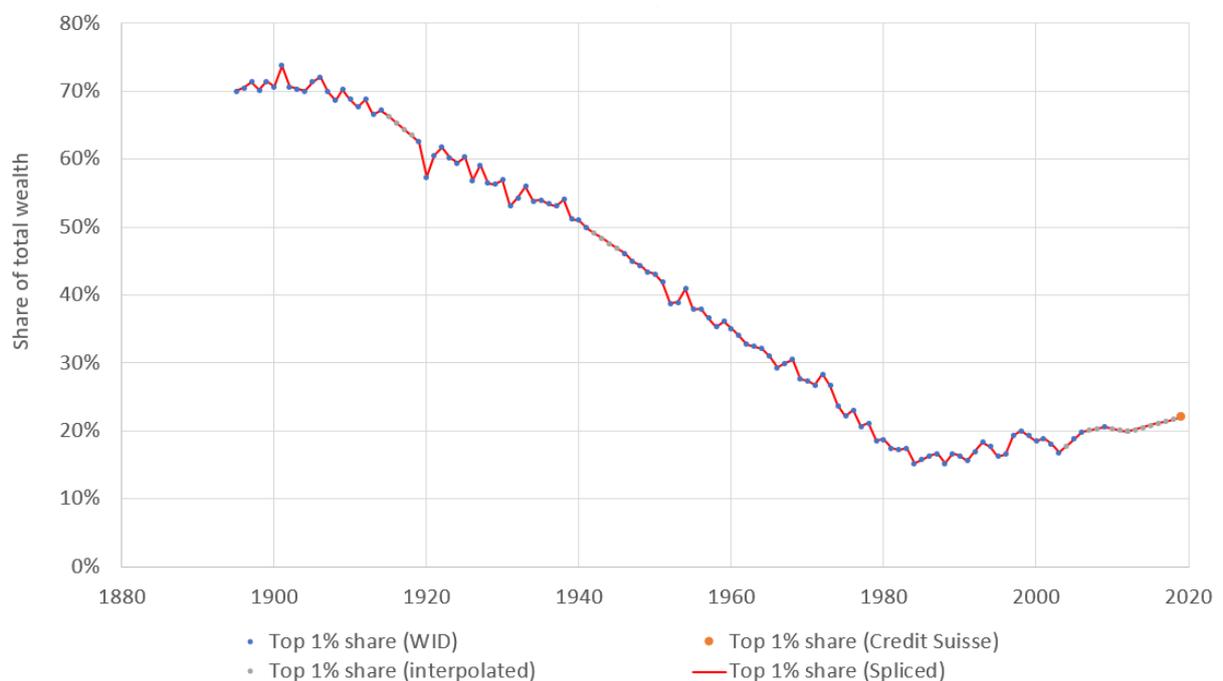


The answer is: surprisingly well. Despite the higher inflation, real wages grew strongly in the 1970s. From the 1990s, however, wage growth has been subdued. And from the 2010s, it has been dire.

Despite the oil shocks, despite the inflation, for most people, the 1970s were a period of increasing incomes. Each year, they could afford to buy a little more than the year before. Since 2010, we have been getting used to the idea that each year we shall be able to buy a little less.

The charts above reflect most people's lived experience. But they are also in direct conflict with what we hear from most media and many politicians. How could so many intelligent, successful people possibly be wrong? The chart below offers one possibility: they simply have a different lived experience.

Figure 17: Wealth share of the UK's richest 1%



Source: World Inequality Database; Credit Suisse; 99% analysis

For them, market capitalism has been working well, and they would rather not see changes.

## Conclusion

The widespread narrative about the failures of the Keynesian approach is simply inconsistent with the facts – it is an inversion of the truth.

By accepting it and allowing policy-makers and their advisers to rely on that narrative to continue with market capitalist policies, we condemn the UK to continued and unnecessary economic decline.

## Appendix 2: Contributors

Contributors to this report include Christopher Banks, Vincent Gomez, Liwia Klipa, Ann Pettifor and Mark E Thomas (lead author).

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