Ending Treasury-Induced Decline

Returning control of the levers of economic power to elected hands

Progressive Economics Working Group

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Table of Contents

1. Executive Summary

We have a new Prime Minister, who has promised[1] to rewire the state:

"A new political model and a new economic model. In the 1980s, Britain took some wrong turns. Political power was centralised, economic power privatised, large parts of the country de-industrialised, and they still haven't recovered. Many feel as though they're still in decline, and they don't have the ability to turn things around. And that's why we will change politics, to make it more collaborative, more about problem solving than point scoring."

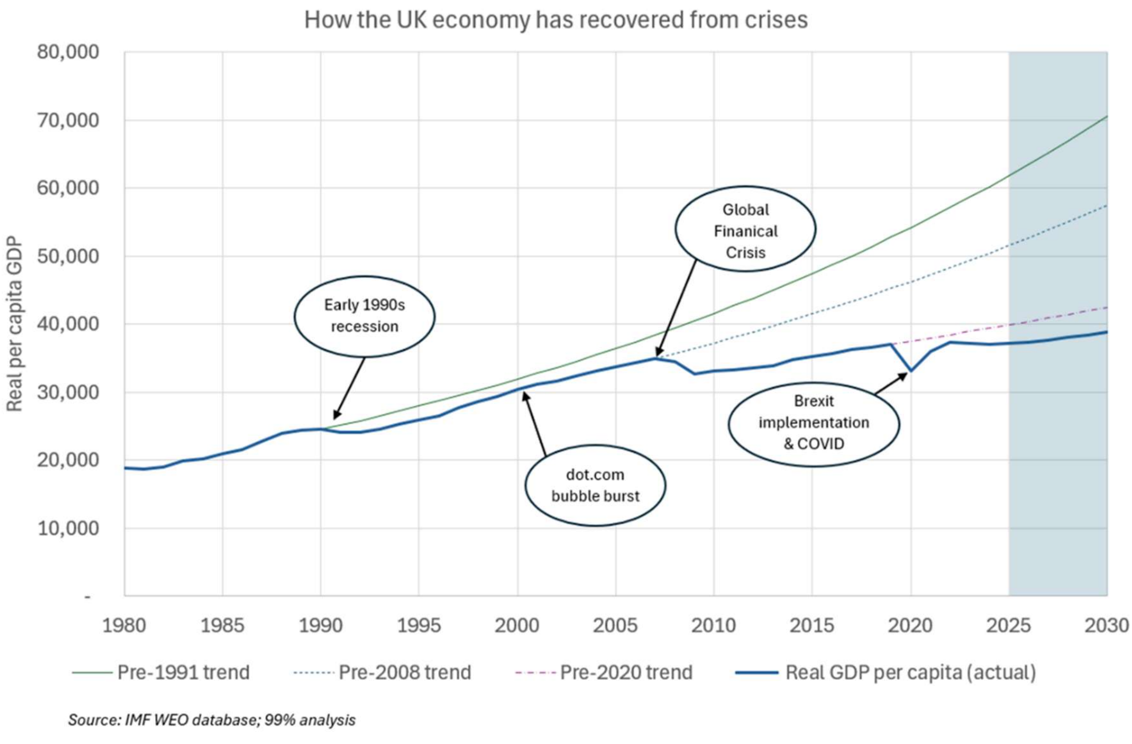
He has spoken of reducing the dominance of Westminster and devolving power to each region. And that will be a source of significant improvement.

But his task is not easy, as the last 40 years have shown.

This paper explains that one of the greatest obstacles to success has been the increasing tendency of elected politicians to cede control of the key levers of economic power to our institutions: HM Treasury (HMT), the Office for Budget Responsibility (OBR) and the Bank of England (BoE). Reestablishing democratic control over these levers is a critical part of what 'rewiring' must entail. It is essential if we are to achieve economic renewal.

And we badly need that renewal. The UK economy has increasingly struggled to bounce back from crises.

Figure 1: The decreasing resilience of the British Economy

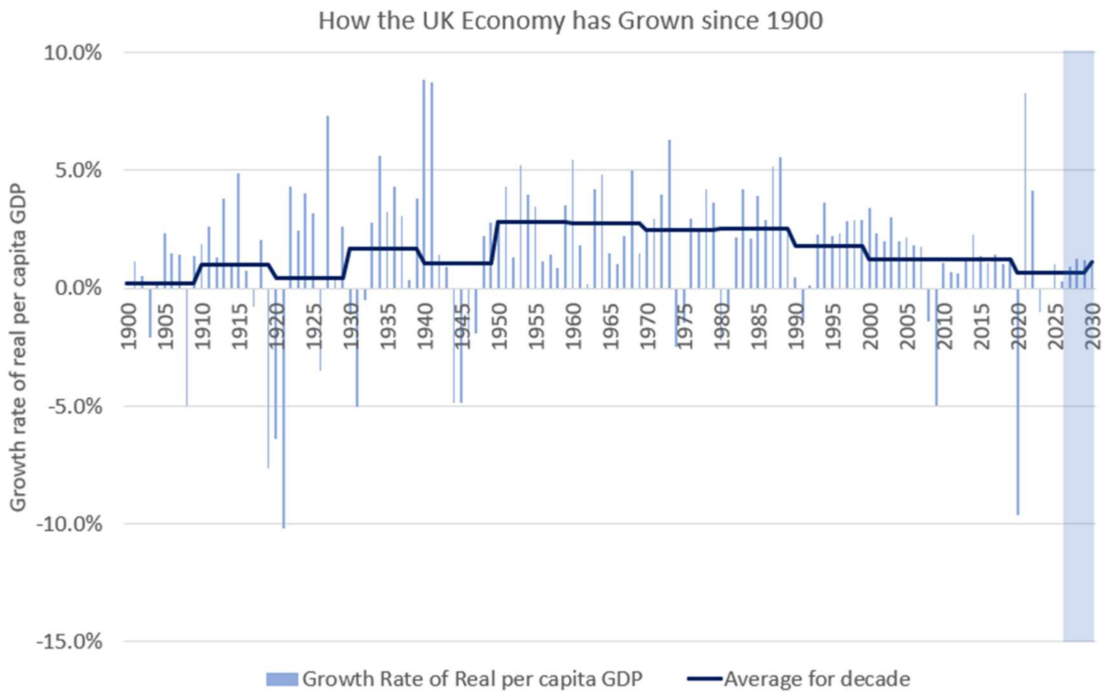


[1] (Burnham, 2026)

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, you may think, 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[2], published in April 2026, suggest that the UK is on course for the worst decade since the 1920s.

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



Note: IMF forecasts after 2025
Source: BoE, IMF; 99% analysis

The data are clear, and so is the evidence of our own eyes: homelessness is widespread, foodbank usage has more than doubled over the last decade[3], and child poverty is running at almost one in three[4] children – but policy-makers are told it would be irresponsible for government to tackle poverty directly. Vital institutions are struggling: universities are closing entire departments and shrinking others, schools are crumbling and the NHS is in danger of becoming a second-class[5] healthcare system.

[2] (International Monetary Fund, 2026)
[3] (Zaidi, 2026)
[4] (Joseph Rowntree Foundation, 2026)
[5] Only 15 years ago it was rated as the world's best performing healthcare system (Commonwealth Fund, 2014)

But policy-makers are told it would be irresponsible for government to fund them adequately. And the country is suffering unprecedented economic and health problems caused by climate change, with three-quarters of the country in drought and wildfires now a UK reality. But policy-makers are told it would be irresponsible for government to invest in tackling climate change.

It is, of course, continued inaction that is truly irresponsible.

The key question this paper addresses is: *how can the government tackle these challenges which are increasingly threatening our future?*

Our conclusion is that to reverse these trends, the new government will have to act far more dynamically than its predecessors, taking back control of the levers of economic power, and assuming responsibility for the outcomes that result from pulling them; and this will require rewiring some of our most important institutions:

- **Delegating key economic decisions has proven to be irresponsible** – politicians have, increasingly over the last 40 years, delegated much of the necessary thinking on the most important issues to institutions like HM Treasury (HMT), the Bank of England (BoE), and the Office for Budget Responsibility (OBR), whilst also embedding the notion of immutable fiscal rules – see Section 2;
- **Over time, our most important institutions have become wired for regress** – they have prevented successive governments from acting, or even thinking, radically; and it is now the case that dynamic government action, prior to any rewiring, risks a Truss-like effect – see Section 3;
- **The government must take back its power** to drive national renewal and rebuild its capability to act in the national interest, including control of the commanding heights of the economy – see Section 4.

The need for rewiring is widely understood, and our specific recommendations are accepted by many – though not, inevitably, by the institutions concerned. Their counter-arguments rely on rhetoric and appeals to authority, but are neither consistent with the data, nor with the evidence of our own eyes. It is time to be guided by reality. And there are some immediate steps which could show rapid benefits.

2. Delegating the most important economic decisions is irresponsible

We can no longer afford to duck responsibility for vital decisions by delegating them to institutions and officials or hiding behind fiscal rules.

We are in the bizarre situation where the last Chancellor created a set of fiscal rules, which she then treated as sacred and inviolable. And most commentators uncritically allowed 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 (we are now on the tenth set of such supposedly immutable rules); and that such rules have never worked in the past, and nor can they 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 when the country badly needs them.

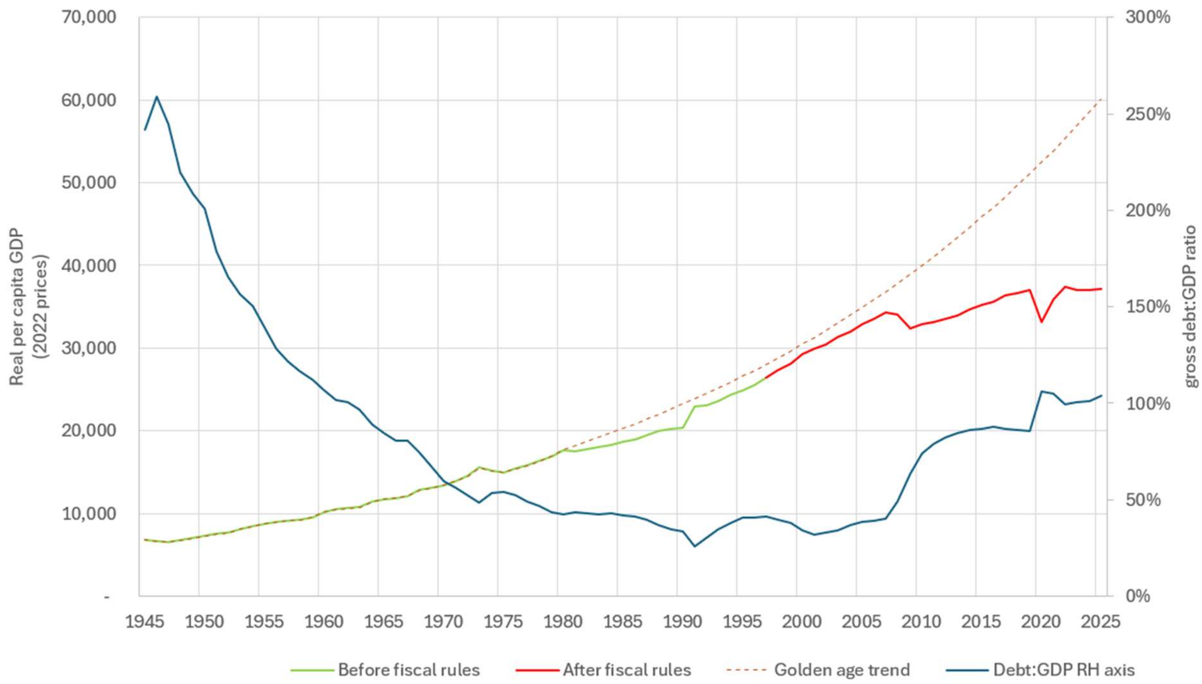
Whilst this adherence to immutable rules is often described as fiscal responsibility, it is in fact the height of irresponsibility.

Static fiscal rules have not worked in the past

As the chart below (derived from the first working paper[6] for the Progressive Economics Working Group) shows, we are now on the tenth 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.

[6] See (The 99% Organisation, 2025) for a full explanation of this critique

Figure 3: Fiscal Rules vs economic performance



Source: Bank of England, IMF; 99% analysis

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 surprise no one: our fiscal rules constrain growth, and this makes debt:GDP reduction far harder. Never in the last 300 years has the UK managed to reduce debt: GDP without robust growth in nominal GDP[7].

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 an almost childishly simplistic solution; and secondly because, by relying on them and on the current remits 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 whether there are surplus resources in the economy. And yet the fiscal rules take none of these factors into account – which is why none of them survived contact with reality. Such fiscal rules *cannot be expected* to do the job we ask of them.

[7] (The 99% Organisation, 2025)

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 more rational approach to managing the impact of globally-driven inflation?

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 hard decisions when necessary. The opposite is true: while we do often need to take some difficult decisions, taking them without first doing some very hard thinking, and without proper control of the economic levers, merely guarantees bad decision-making and outcomes.

'Hard decisions' has become almost synonymous with poor, and often harmful decisions, made in an ecosystem wired for regress and disconnected from real life in the UK. They are hard on the most vulnerable in society, but almost never hard on the wealthiest.

We argue in this paper that major decisions, hard or otherwise, must be based on rigorous analysis of the facts – not hiding behind fiscal rules or delegating key decisions to officials – and by an executive capable of enacting its choices.

In particular, we need much clearer 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[8].

When Putin's invasion of Ukraine 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[9], *"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.*

[8] (Thomas M. E., 2022)
[9] (Hinchcliffe, 2022)

We need harder thinking about government finances

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

1. **Borrowing** – Under the Full Funding Rule, the Debt Management Office issues gilts (government bonds);
2. **Raise Taxes**;
3. **Create money** – this can be done in many ways: both forms of Quantitative easing used in the UK were forms of money creation; even more simply, the government can create money simply by spending and leaving the overdraft in the Ways and Means account[10].

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.

Figure 4: Three Taboos constraining Government Financing

Taboo	Facts
"Government debt is dangerously high, so we can't borrow"	Debt today is below our historical average[11], and our government can create money when needed. Even if it could not, debt:GDP will rise only if economic performance remains so poor that long-term growth is below interest rates.
"Taxing the wealthy would stop trickle-down and the poor would suffer"	Both economic and wage growth were higher when top rates of tax were higher. The so-called 'trickle-down effect' has no evidential basis.
"Creating money just leads to dangerous inflation"	The BoE has created £895 billion since 2009, and this was not the cause of inflation.

The third option – creating money – is considered so outlandish that it is seldom even discussed. And yet, as Lord Turner wrote[12],

> *"…. 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*

[10] This would not require legislative changes, merely a change to the 'full funding rule' (Murphy, 2025)
[11] (Thomas M. E., 99%: Mass Impoverishment and How We Can End It, 2019)
[12] (Turner, 2016)

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[13]. 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 – and must therefore build – the institutional capability to address these issues.

[13] (Osuh, 2026)

3. 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 an elected 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 elected government: HMT and the 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 most important economic decisions. If it fails to deliver national renewal, it is unlikely that voters would 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 economy 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	Set up by George Osborne to give cover for his goal of shrinking the state	Calls out illusory risks of debt default in 50 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 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 CEOs 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, and instead return cash to shareholders

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

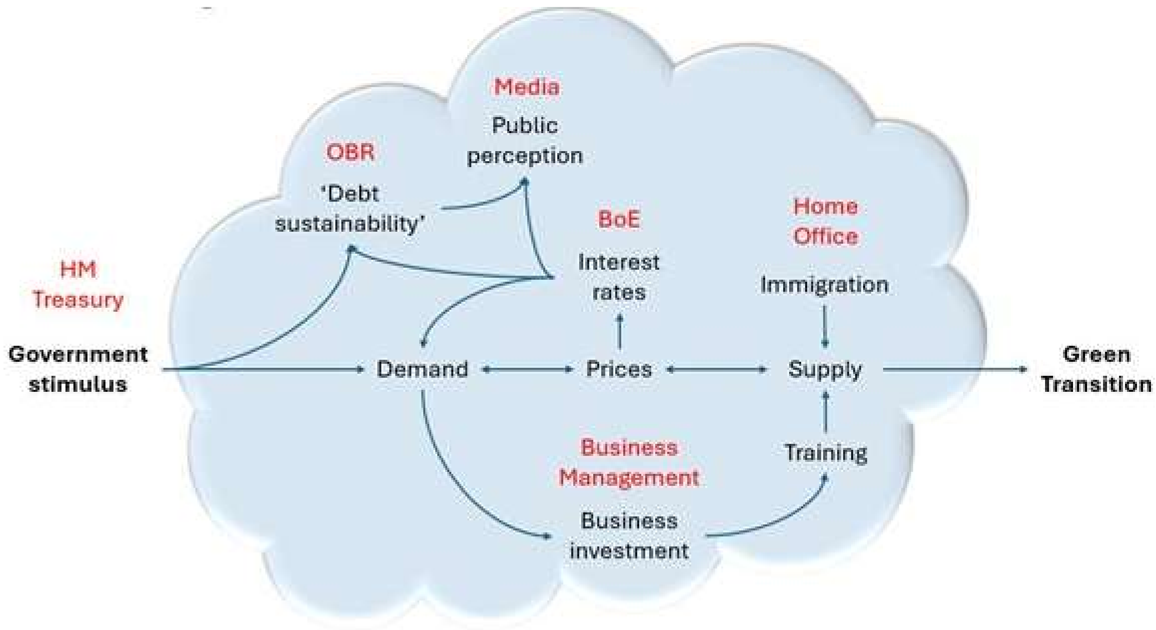
They could strangle a radical progressive initiative

A government which seeks to deliver national renewal within the constraints of today's wiring runs the risk of finding that, rather than rebuilding a troubled country, they will end up like Liz Truss's ill-fated government.

To see how this could happen, consider the following hypothetical scenario: the democratically-elected government wishes to engineer a green transition involving the large-scale thermal insulation of Britain's leaky houses. They earmark a considerable sum for stimulus and trust that this will drive the change they require: higher employment, 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 according to a market fundamentalist ethos, 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 elected government will, at best, suffer a huge loss of public confidence and at worst be forced by its institutions to abandon its plan for green transition before it has made a significant impact. It would be foolhardy not to plan for such a possibility because the outcome is so similar to what happened to Liz Truss's ill-fated government.

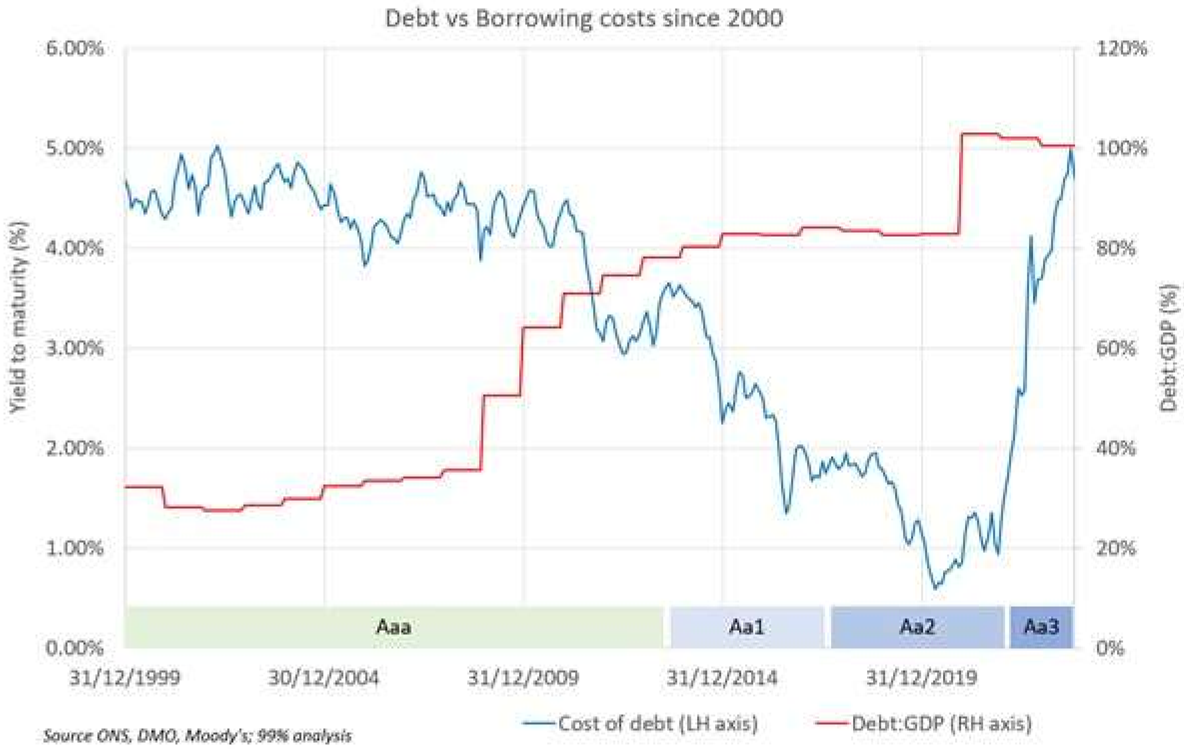
What really happened to Liz Truss

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[14] 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. A successful coordinated operation by our key institutions.

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 problems[15] 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[16] 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 the importance of coordinating the UK's institutions, not about the pace and scale of borrowing.

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14 (Giles & Georgiades, 2020)
15 (Scaggs & Ashworth, 2022)
16 (Kocherlakota, 2022)

4. The government must build the capability to drive renewal

Given the poor performance of recent decades, and the impact it has had on the most vulnerable in society, we cannot afford to continue with our current system of decision-making. We need the elected government to reclaim the power and rebuild the capabilities to take decisions in the national interest.

Only with rewiring can we credibly develop and deliver a strategy for national renewal. The Prime Minister has spoken of a rewired state, not over-centralised in Westminster. The creation of Number 10 North could enable the rewired state we need to see.

The stakes are too high for continued abdication

The government has 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 by the OBR today:

1. **Economic responsibility** – is the government taking 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** – is the government providing the services and support a wealthy, civilised society should expect? Since 2010, the answer has been, 'decreasingly'; and
3. **Financial responsibility** – are we meeting 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 acceptable.

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 an immediate 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*.

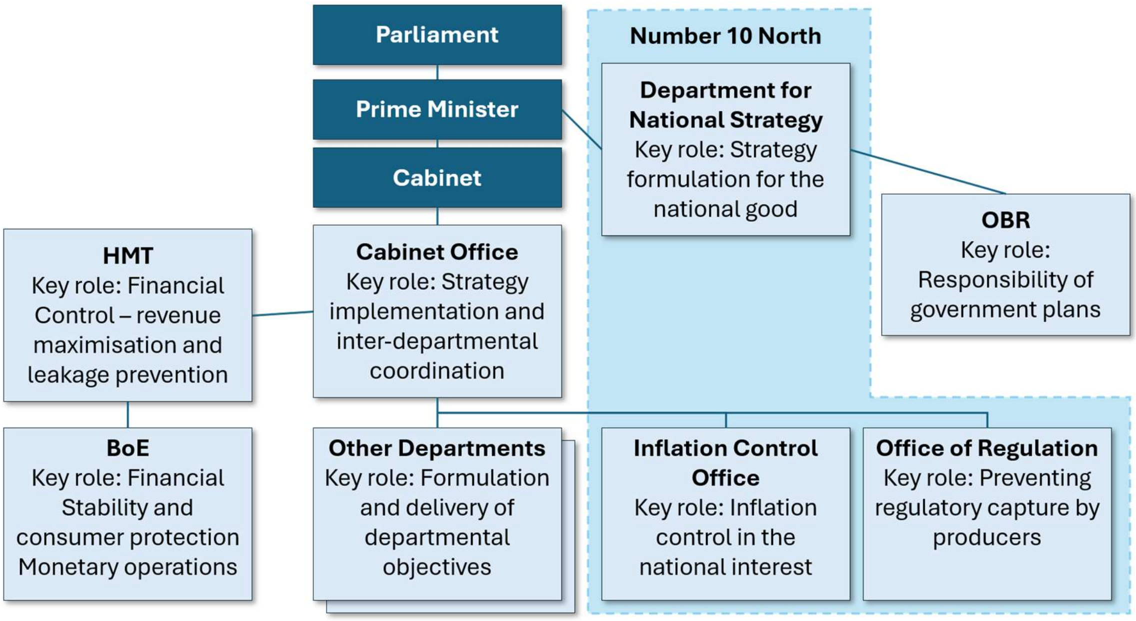
So, if we want national renewal, what should we do?

John Maynard Keynes's book, *How to Pay for the War*[17] 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[18].

[17] (Keynes, How to Pay for the War, 1940)
[18] (Pettifor, 2025)

The Prime Minister has spoken[19] of his intention to set up Number 10 North, as *"the nerve centre of a rewired Britain."* This is how he might do just that.

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 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[20],

> *"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.

And, 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.

[19] (Crerar, 2026)
[20] (Wilkes, Bartrum, & Clyne, 2024)

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

And the Bank of England would lose its inflation remit to a new independent body, the Inflation Control Office[21] 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,* consumption capping. It would also recognise that while inflation is undesirable, often the cure can be worse than the disease. As Paul Krugman pointed out[22], 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. It should not be deemed 'responsible' to ignore the damage done by climate change, failing universities, crumbling schools and a struggling NHS. The renewed OBR will need, significant change[23] to be capable of fulfilling this expanded role. 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, with key elements under direct national control. Currently everything from Energy and Water to the Press is regulated in ways which satisfy the shareholders of the companies involved but fail to meet the needs of the British people. We have among the highest energy prices in the world; our water companies flood our rivers and coastal waters with sewage; and our media routinely distort the facts on which voters should be able to depend. 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 initiatives from being strangled at birth in the way that the scenario in Section 3 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[24], under the heading of leakage prevention.

[21] See Appendix 1 for how other countries handled the oil-price inflation better than the UK, using a full set of tools
[22] (Krugman, 2016)
[23] We discuss the inadequacies of the current remit and direction of the OBR more fully in Appendix 2
[24] (Thomas M. E., The Budget we needed … and should have had, 2024)

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

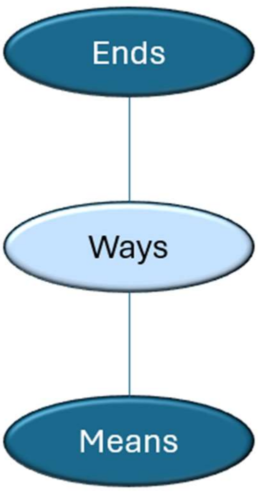
If we were looking at a 30-year or 50-year plan for the UK – established practice in some countries – we would want to see outcomes like:

- **A strong economy** (as measured by real per capita GDP[25]) with the benefits of growth fairly shared so that the poorest are removed 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[26] 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.

Figure 10: The Role of a National Strategy



Objectives we want to achieve	Major policy shifts for the benefit of UK citizens – eg ending mass impoverishment; saving vital public services and protecting democracy
Strategies to achieve the ends	Clarity about major irreversible commitments of resources to achieve our objectives
Operational plans (tactics) to deliver the strategies	Structures, processes, activities, timings, responsibilities to use the resources in line with the strategy and current circumstances
Resources at our disposal	Things we can use / access / build to help us achieve our objectives – eg workers, skills, reputation, relationships, partnerships, money, etc

[25] A badly flawed measure, but the best currently available.
[26] 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)

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

Creating Abundance		Ensuring Solidarity: Sharing the pie unfairly	Ensuring Solidarity: Sharing the pie fairly
	Growing the pie	***Type I: Captured Growth Policies*** *Balance with types II & IV* Widespread automation Large scale immigration Free trade with low-cost countries Unfunded tax cuts	***Type II: Shared Growth Policies*** *Focus policy here* Investment in: • R&D • Infrastructure • Education • Healthcare Direct job-creation Supporting Private Sector investment
	Not growing the pie	***Type III: Vulture policies*** *Avoid* Funding tax cuts by reducing benefits and public services Regressive tax changes	***Type IV*: Balancing Policies*** *Use to balance Type I policies* Raising the minimum wage Paying benefits to those in need Progressive tax changes

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, massively enriched a few but did great damage to the economy overall, as did top rate tax reductions and privatisation of water etc). 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?** – it must fit with the values and objectives of enough of the people who would have to make it happen;
2. ***Can* we do it?** – as Keynes reminded us[27], *"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 national outcomes, we should do it.

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. As others have suggested, an expanded role for citizens' assemblies can be very powerful in this respect.

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 rises, everyone is sure to benefit. This is far from axiomatic.

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.

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[27] (Keynes, We Can Afford This, 1942)

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. And, while there are still 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 our conclusion and to indicate in a little more detail *how* it can be done.

The need for rewiring is well-understood

Will Hutton, author and economic historian wrote[28],

"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[29] 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[30],

"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[31] 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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28 (Hutton, 2024)
29 (Haldane, It is time to rewire 'Treasury brain', 2025)
30 (Haldane, Free the government's hands by taking back its fiscal brain, 2025)
31 (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 together 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 weak

The former Permanent Secretary to the Treasury, Lord McPherson is one of HMT's staunchest defenders. In 2022, he made the following arguments[32] 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 serious 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[33] (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, capital controls, etc) 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 compared the data 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.

Let us end with a little thought experiment: there is no question that the Prime Minister faces a difficult set of challenges. But is it more difficult than that faced by Attlee's 1946

[32] (McPherson, 2022)
[33] Appendix 3 shows that his version of events is inconsistent with historical data

government? After the war, debt:GDP stood at over 250%; the cost of servicing that debt was over 5% of GDP; more than half of national income had been diverted to the war effort and over 5 million people mobilised into the Armed Forces; some 5% of national wealth had been destroyed, and 1% of the population lost.

If Attlee's government had been constrained by anything like today's institutions, Attlee would have had to say, *"although I am personally committed to the Beveridge plan and the idea of a National Health Service and a welfare state, somebody has to tell the country that it is simply unaffordable at the moment."* Had he done that, generations of Britons' lives would have been blighted – and shorter.

Instead, Attlee's government *rose to the challenge*. It listened to Keynes and Beveridge, and it created the NHS and the Welfare State, at a time when it was told that it would be economically irresponsible to try. And what was the economic cost? **There was no cost**: *the UK enjoyed the most successful economic period in our history.*

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[34] 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 the economy although it already has the power to prevent this. It should be instructed firmly to use this power in the national interest.

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

[34] (de Grauwe, 2021)

Appendices

Appendix 1: Tackling Inflation in the National Interest

Appendix 2:The Failure of the OBR

Appendix 3: The Success of Keynesian ideas

Appendix 4: Contributors

Appendix 5: References

Appendix 1: Tackling Inflation in the National Interest

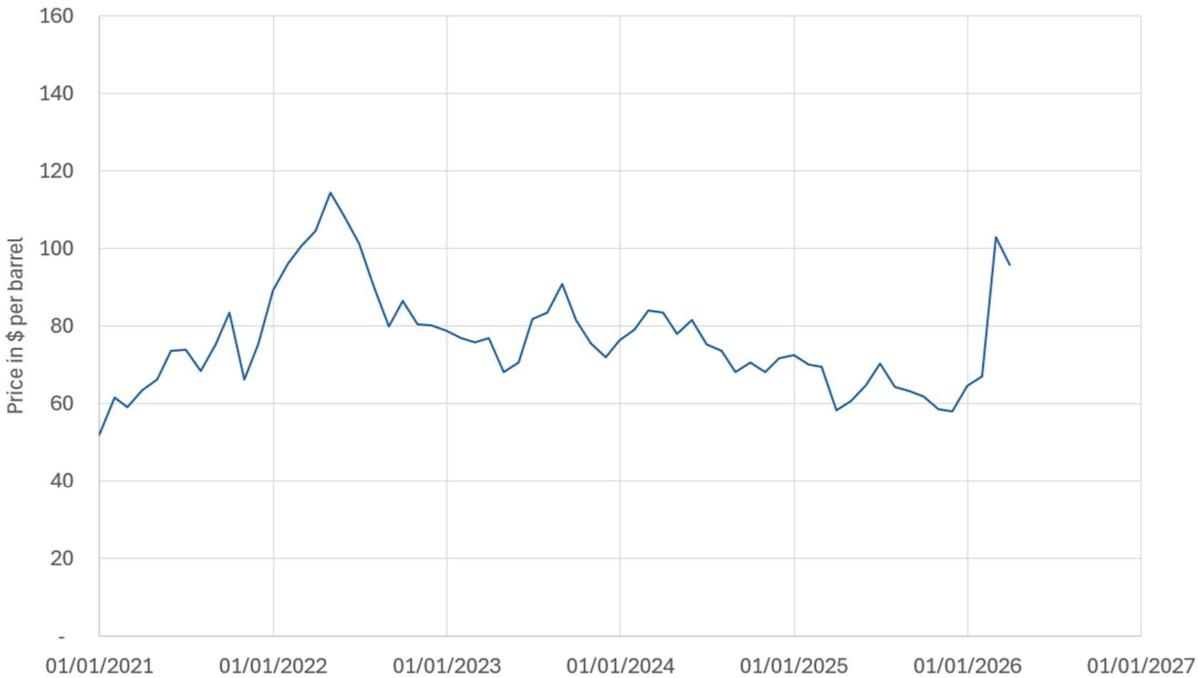
This appendix considers the impact of government policy in relation to oil price shocks, (such as those we saw after Putin's invasion of Ukraine and are now experiencing again) on the UK economy and on UK citizens.

War-driven oil price shocks

In February 2022, Russia invaded Ukraine. By May of that year, oil prices had spiked sharply to well over $100 per barrel.

This pushed-up global energy prices and caused particular hardship in the UK.

Figure 12: Oil Prices over time (nominal)



Source: Macrotrends; 99% analysis

As oil prices are now rising again, along with prices of other vital goods that pass the Strait of Hormuz (like fertilisers), this prompts the question *was our approach last time flawed and can we do better this time?*

Our conclusion is that last time, our response was badly flawed:

- The impact was worse in the UK than in most other leading countries;
- Our policy response was weaker in the UK than in most other European countries;
- To improve we must rethink our management of inflation and rewire our key institutions.

The impact was worse in the UK

In comparison with other European countries, the UK protected consumers less effectively from the impact of rising oil prices.

Figure 13: Electricity prices in Europe 2021-2023

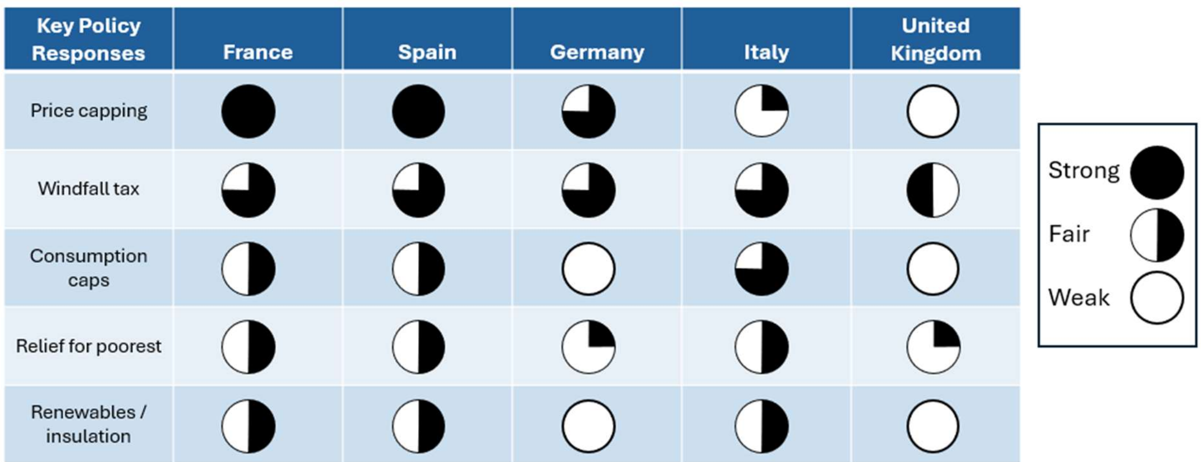
Cost of electricity €/kWh	France	Spain	Germany	Italy	United Kingdom
2021	0.13	0.19	0.16	0.18	0.20
2022	0.17	0.29	0.23	0.32	0.31
2023	0.22	0.21	0.29	0.25	**0.33**

Source: Breugel, Eurostat, ONS

The UK policy response was weaker

The policy response in the other European countries was in general swifter, more wide-ranging and more effective.

Figure 14: European policy responses to oil price shock



France quickly adopted a tariff shield[35] to protect electricity consumers, and in July 2022 imposed a windfall tax on EDF and other big energy companies to fund the protection of consumers. It also introduced an ‘energy sobriety plan’ which cut energy consumption by around 10%. An inflation premium was paid to households below median income.

[35] (Lemoine, Petronevich, & Zhutova, 2024)

Spain (and Portugal) took advantage of the Iberian Exception[36] when, in June 2022, the European Commission allowed them to decouple the price of gas from that of electricity for 12 months. Though there were some unintended consequences, this policy is estimated to have reduced prices by around 24% between June 15 and August 31, translating to potential savings of nearly €700 million for 10 million households, and by 17% over the first six months.

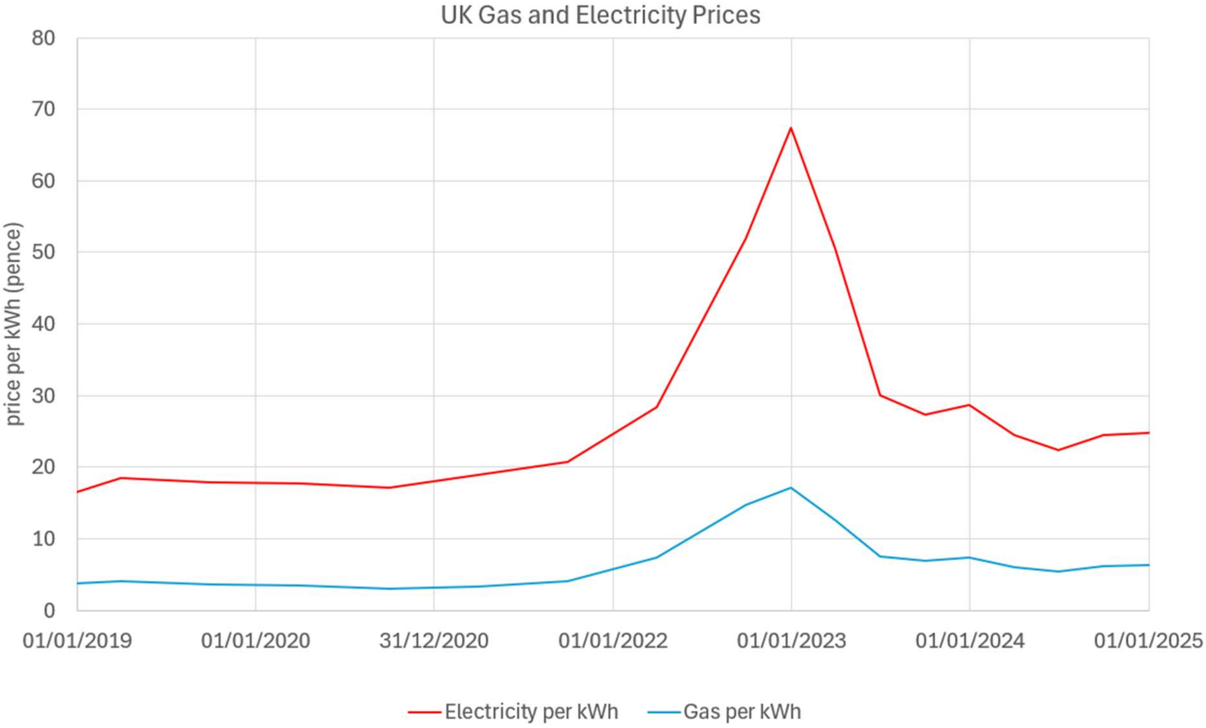
Germany was slower to respond, but for 2023, Germany capped prices on the first 80% of energy usage[37] and introduced a windfall tax. It also offered relief packages for the most vulnerable households.

Italy was quick to respond to rising energy prices[38] with a combination of tariff and income-based fiscal policy measures. Italy was also effective in demand reduction[39] both through rationing and a switch to renewable sources of energy.

The UK response was both slower and overall less effective. The energy price cap was actually *raised* by 54%[40] in April 2022 to protect suppliers; and the regulator Ofgem planned to increase it by a *further 80%* on 1 October 2022. (To be fair to Ofgem, given the combination of a limited remit and a genuine threat to the solvency of some generators, they felt they had little choice). The government realised that this would be an impossible burden for households and introduced an Energy Price Guarantee. Nevertheless, typical household energy bills increased by 54% in April 2022 and 27% in October 2022. Lower wholesale prices since then have led to some fall in prices, but in 2025, bills were still 43% above their winter 2021/22 levels. In May 2022, the government introduced a windfall tax[41] on oil and gas companies which raised £6.2 billion in its first two years. There was also limited help for the poorest households, and limited support for demand reduction through insulation.

[36] (Corbeau, Farfan, & Orozco, 2023)
[37] (Vogel, 2023)
[38] (Bonfatti & Giarda, 2025)
[39] (Reuters, 2022)
[40] (Bolton & Stewart, 2025)
[41] (BBC, 2024)

Figure 15: UK energy prices over time



Source: electricityprices.org.uk; 99% analysis

Other countries were quick to use a full range of mechanisms to support their populations and their economies: price capping, windfall taxes, consumption caps, relief for the poorest and investment in renewables and insulation. We were not.

To improve we must rethink and rewire

The relatively poor UK response was conditioned by two institutional weaknesses:

1. The regulator of electricity supply (as with many other regulators) has been captured to the extent that its decisions serve the interests of the shareholders in those it is meant to be regulating, not the customers or the wider economy;
2. Our approach to management of inflation assumes that the Bank of England is best placed to tackle inflation and that it should do so by raising interest rates.[42]

These factors produced two extraordinary effects. The first of which has already been mentioned: the regulator approved a 54% increase in prices and would have approved a further 80% increase: neither household nor business consumers would have been able to weather such a storm.

The second is that when Putin invaded Ukraine and caused a spike in global energy prices, the resulting inflation was clearly *not* caused by UK consumers having too much money – as the Governor of the Bank of England recognised. He told MPs[43], *"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."*

[42] (Thomas M. E., 2022)
[43] (Hinchcliffe, 2022)

He knew that raising interest rates would harm both 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.

Our previous Working Paper, *Rewiring for Success*[44] sets out a proposed rewiring of our institutions to address these (and other) issues which harm households and the UK economy.

In particular, we called for the removal of the Bank of England's inflation remit and the creation of 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,* consumption caps. It would also recognise that while inflation is undesirable, often the cure can be worse than the disease. As Paul Krugman pointed out[45], 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.

Without such rewiring, both Ofgem and the Bank of England will stick to their remits and we run the risk that our reaction to today's oil price surge will be as damaging to households and to the economy as it was to the last one.

[44] (The 99% Organisation, 2026)
[45] (Krugman, 2016)

Appendix 2: The Failure of the OBR

The data in Figures 1 and 2 make it clear that we need a change in direction from the economic policies of the last 40 years. Since we began the journey of 'rolling back the frontiers of the state' – i.e. cutting public services – economic growth has been in decline. But the OBR suggests the responsible thing for the government to do now is to cut health and welfare spending.

Can that really be responsible?

No, the OBR's systemic failures of analysis have led it to a dangerously irresponsible recommendation of vast fiscal tightening which would accelerate the UK's decline – that is *not* responsible, and it must be dealt with:

- The OBR has made systemic errors in its analysis;
- These have led to a recommendation which would accelerate our long-run decline; so
- The new government must act swiftly to make the OBR truly responsible.

The OBR makes systemic errors in its analysis

There are fundamental failings in the way the OBR addresses the issue of Budget responsibility: they pay no heed to the fact that we run a *fiat* currency system, they distort the facts around debt in a way which is unprofessional, and they do not analyse future scenarios reasonably. All these errors lead it to suggest – as it almost always does – further austerity.

Failure to take into account that we run a fiat currency system

The OBR's analysis is based around the idea of debt sustainability – the risk that at some point, the UK will no longer have enough money to service its debt. This is the 'crisis' that the newspapers dutifully report.

For well over half a century, the UK has run a *fiat* currency system which means that the government can create money at will. And it does so whenever it considers that there is an emergency[46] (like needing to bail-out the banking system). This is self-evidently an important factor in looking at debt sustainability, so it is more than slightly surprising that there is no mention the word *fiat* in the entire report (nor of money creation nor quantitative easing). This glaring omission alone is enough to make the report highly suspect.

Failure to analyse future scenarios reasonably

Most of the OBR's report[47] focuses on their scenarios for the future trajectory of the debt:GDP ratio. This requires them to forecast future GDP and future borrowing. Future GDP growth depends on the size of the healthy working population, how fully employed

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[46] Indeed, technically, the government creates money whenever it spends, which is daily, though most of this is cancelled on receipt of taxes or turned into borrowing

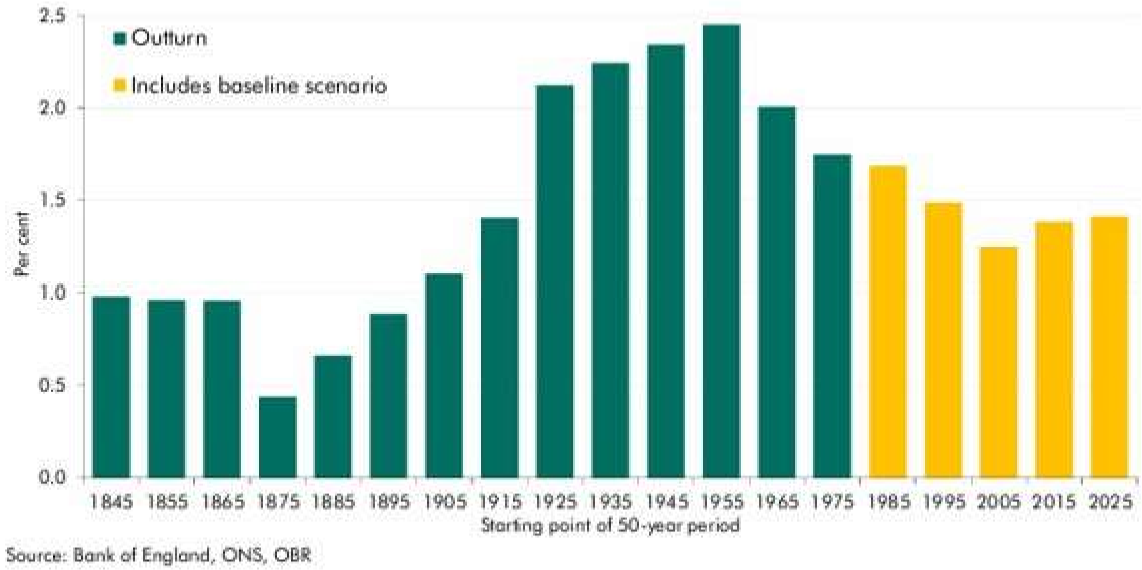
[47] (Office for Budget Responsibility, 2026)

they are and the GDP per hour worked (which is called productivity). The term ‘productivity’ sounds as if it has a lot to do with how hard people work, but in fact it is much more to do with factors like technology, skills, economies of scale, quality of infrastructure, etc.

To take an obvious example, productivity in ploughing a field is largely down to technology and skills. Even a very strong man using a spade cannot hope to compete with one driving a tractor.

The OBR’s baseline scenario for productivity is crucial in determining the future scenario for GDP. This graph is taken from their report. It shows the average annual real GDP per person growth over 50-year periods, starting in the year shown on the horizontal axis.

Figure 16: The assessment of future productivity growth



The green bars show historical data from the Bank of England; the orange bars are hypothetical, based on the OBR’s own scenarios. So, **the facts are green**. And what the green bars show is that, over the last century we have *not* seen a 50-year period with productivity growth as low as 1.5%. The average has been closer to 2%.

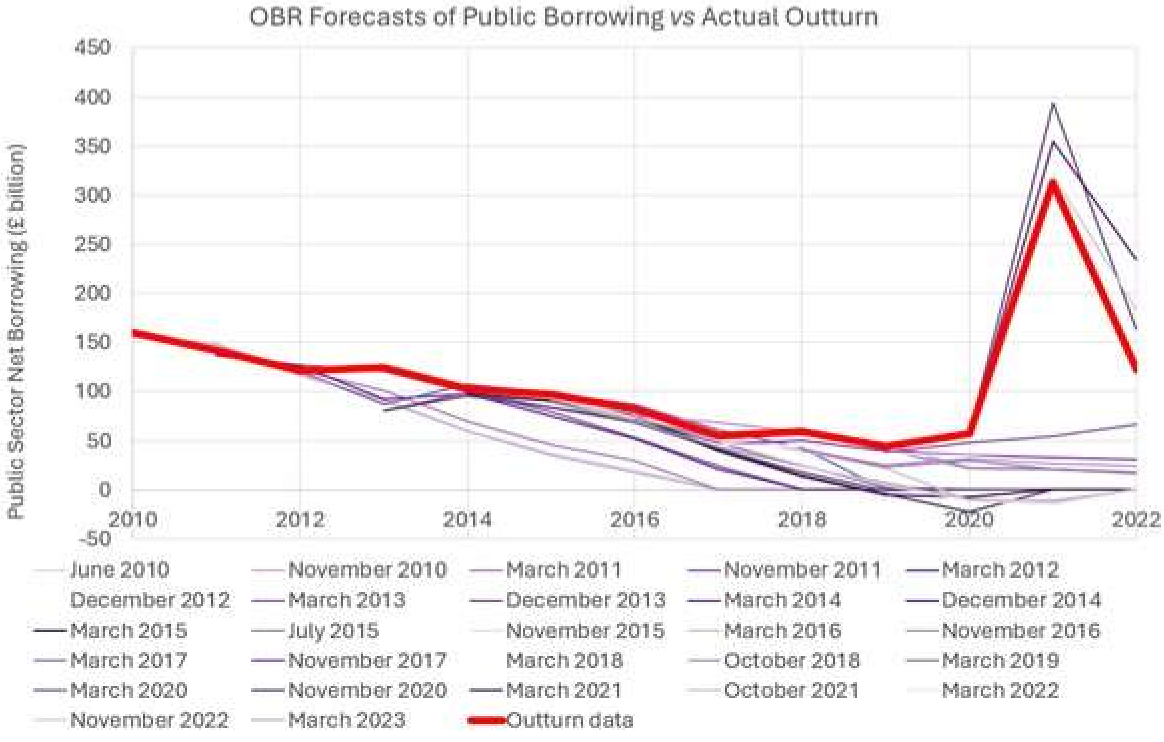
In the next 50 years, we would expect that AI and other technologies will make a significant difference to productivity, so what would be a reasonable average for the next 50 years – 2% like the 20th century, 2.5% to reflect a transformation in productivity driven by technology, or somewhere in between?

No, as the graph shows, the OBR base case is below 1.5%. This single dubious assumption is enough to drive the scary ratios in their forecasts for debt:GDP.

The other key thing they need to forecast is, of course, borrowing. A couple of years ago they analysed their own forecast accuracy[48]. And this is what they found.

[48] (OBR, 2023)

Figure 17: The OBR's assessment of its own forecast accuracy



Source: ONS, OBR

The thick red line is what actually happened – how much the government actually borrowed in each year. All the other lines represent the forecasts made at different dates by the OBR.

The first thing you may notice is how large many of the errors are: in several cases the size of the error is greater than the actual borrowing itself: more than 100% error. The second thing you may notice is that under austerity, when the government was reducing its borrowing year on year, the OBR forecasts were consistently over-optimistic. But when, during COVID, government borrowing unexpectedly shot up, the OBR forecast was over-pessimistic. There are reasons to believe this is a systematic pattern: a result of the way in which the OBR assesses the impact of government spending. If so, this means that the OBR is hard-wired to regard an austerity budget as more responsible than an expansionary budget.

If the OBR cannot forecast borrowing 10 years ahead, what chance do they have of producing a meaningful forecast over 50 years?

Nevertheless, most of our media report these forecasts as if they are reliable and should drive action, however painful and damaging to the UK population as a whole.

Failure to report facts accurately

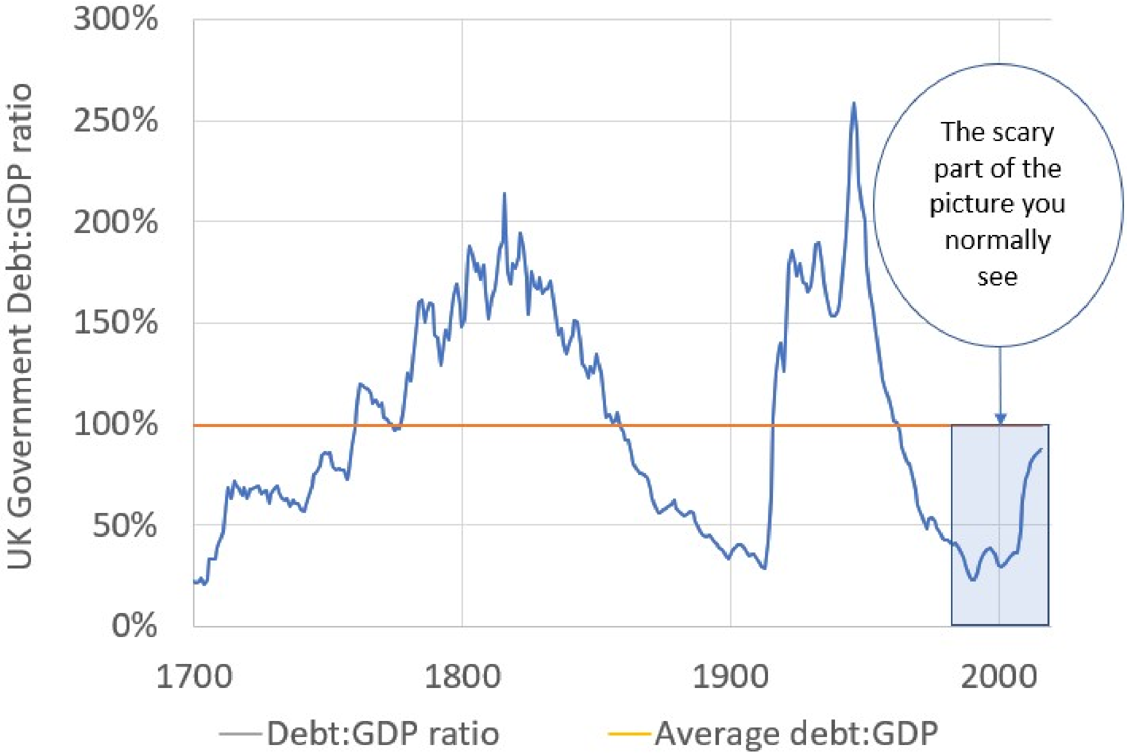
Even on basic issues of fact, the report is unreliable. On historical debt ratios, the latest OBR report[49] states,

> *"Debt at 95 per cent of GDP is high by historical standards and so we also show the required tightening to return debt to a pre-financial crisis level of around 40 per cent of GDP."*

The clear implication is that our current level of debt to GDP is an historical anomaly, and 40% would be a much more 'normal' level to aim for. A reader would be justified in hoping that, coming from the OBR, they could safely rely on that comment.

The facts show an entirely different story.

Figure 18: The UK's historical levels of debt



Source: Bank of England; The 99% Organisation

Either the OBR is unaware of the facts, or they *are* aware of them but nevertheless wrote the paragraph above – in a report focussing on debt, either explanation is unacceptable.

An honest summary of the data would instead say, *'debt at 95 percent of GDP is marginally below our long-run historical average. In 300 years, despite all the challenges we have faced, this has not made our debt unsustainable. Nevertheless, we felt it appropriate to consider the adjustment needed to make a dramatic reduction to around 40 percent, a level which has been reached only in 43 of the last 300 years.'*

[49] (Office for Budget Responsibility, 2026)

But that would not make a convincing case for more austerity.

Policy-makers should be able to trust the OBR on basic issues of fact. It is shocking to see that they cannot. Changes in direction and leadership are urgently needed.

Its recommendations would accelerate our long-run decline

The OBR does not officially make recommendations, but they hint. This is how the Financial Times[50] interpreted the hints.

Figure 19: Press interpretation of the OBR's report

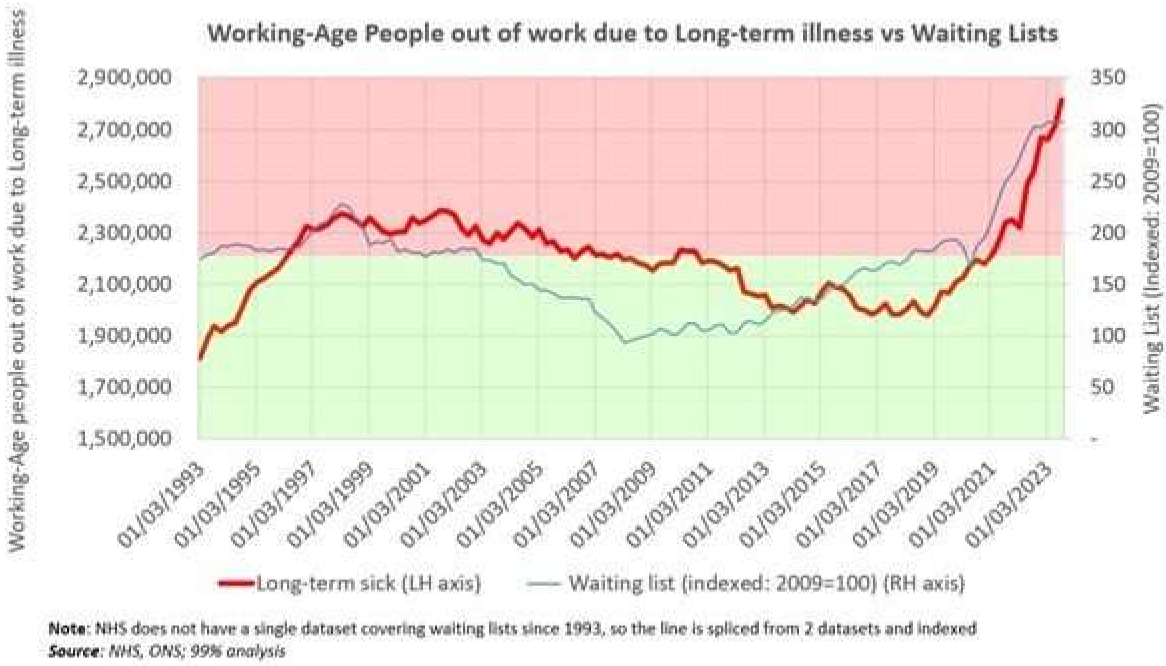
Burnham warned of 'unsustainable' public finances by UK fiscal watchdog

Office for Budget Responsibility's annual report says urgent action is needed to cut spending

Specific areas the OBR hinted at were healthcare spending, and benefits.

We can already see the impact of long-term underfunding of the NHS on waiting lists, and on the number of people who drop out of the workforce due to long-term ill-health.

Figure 20: Impact of waiting lists on workforce



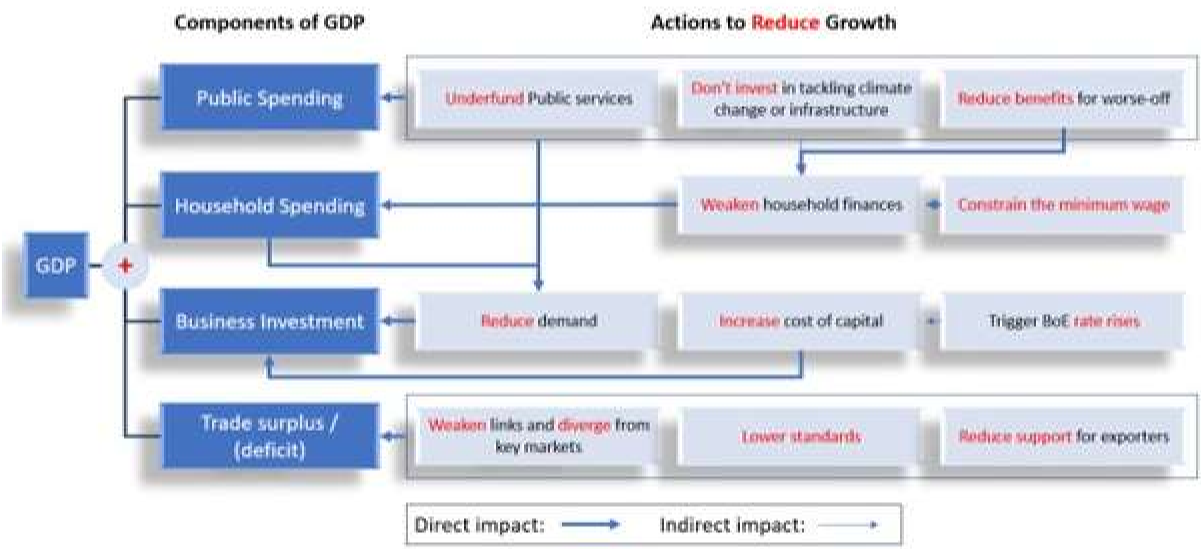
So further underfunding would have huge economic costs.

The biggest area of benefits is pensions, the second largest is Universal Credit (~40% of which goes to people in work but not earning enough to live) and disability benefits.

[50] (Strauss & Fleming, 2026)

Reducing the benefits to these groups will weaken household finances – and drive down household spending: the largest component of GDP. That in turn reduces the demand for business and reduces the need for them to invest in adding capacity.

Figure 21: Actions which would constrain economic growth



In short, if you were looking for a way to *constrain* economic growth, following the OBR's hints would be a good way to do it.

The new government must make the OBR truly responsible

The Office for Budget Responsibility (OBR) was created by George Osborne when he wished to introduce austerity. At that time, many leading UK economists were saying, and 57 wrote to the FT saying so, that to recover from the Global Financial Crisis, ensuring growth was the key – that austerity would weaken the recovery.

So, to make his austerity appear respectable, Osborne set up the OBR with a brief to focus on debt:GDP as a key measure of 'Budget responsibility' and an assessment framework that assumes that government spending crowds out the private sector – thus ensuring that any expansionary Budget would be 'irresponsible.' On the other hand, a Budget which weakened public services, constrained growth and impoverished many of the UK population would be deemed 'responsible.'

After 15 years of this, we have seen that the 57 economists were right, and Osborne was wrong.

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, failing NHS, crumbling infrastructure and a stagnant economy **right now**. We cannot continue down this path.

It is time to redefine Budget responsibility.

Appendix 3: The success of Keynesian ideas

The post-war decades were the Golden Age of Capitalism (1945-1980) during which most countries, successfully adopted a Keynesian view of economics.

But towards the end, 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[51] (but did not endorse) this version of history 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 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

[51] (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[52] 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:

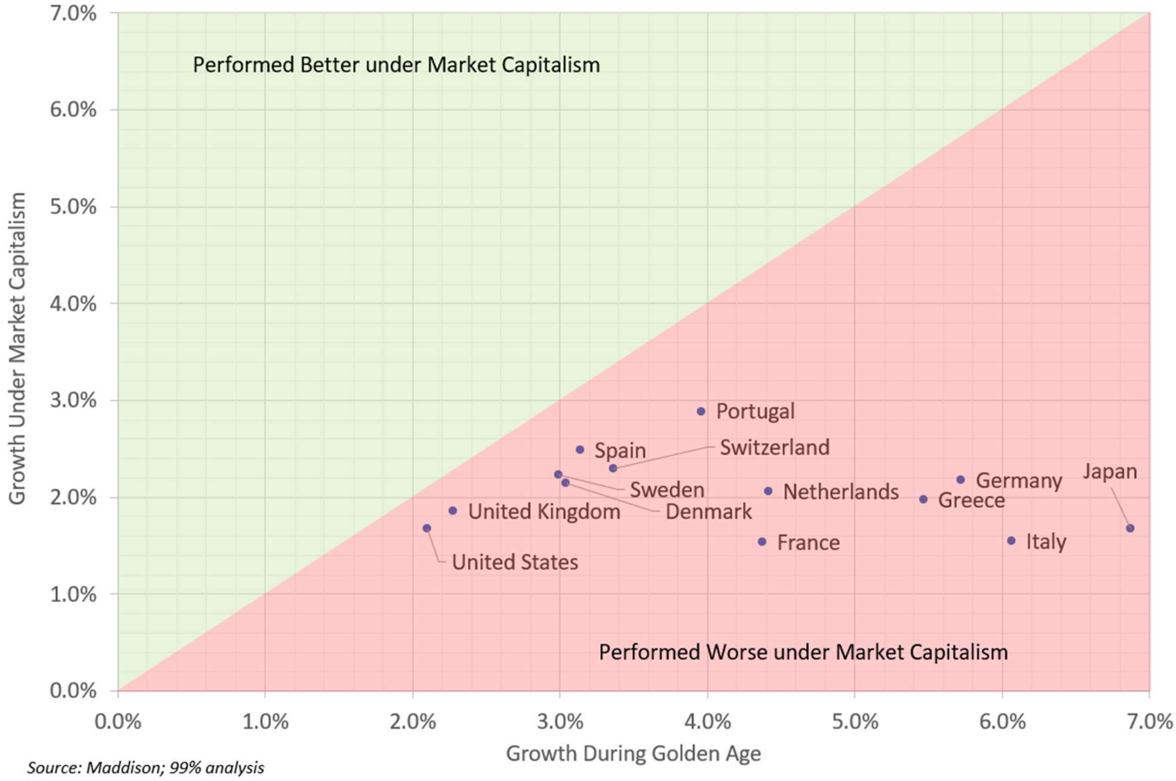
"… by the 1980s both theory and policy had swung back to pre-Keynesian ideas. Government was seen once more as part of the problem, not the solution. Expansionary government policies were accused of fuelling inflation and crowding out better-informed private investment without reducing unemployment in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

52 (Skidelsky, 2009)

Figure 22: Real per capita GDP growth rates before and after Market Capitalism



Source: Maddison; 99% analysis

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 23: Oil price per barrel (nominal US $)

Source: Macrotrends; 99% analysis

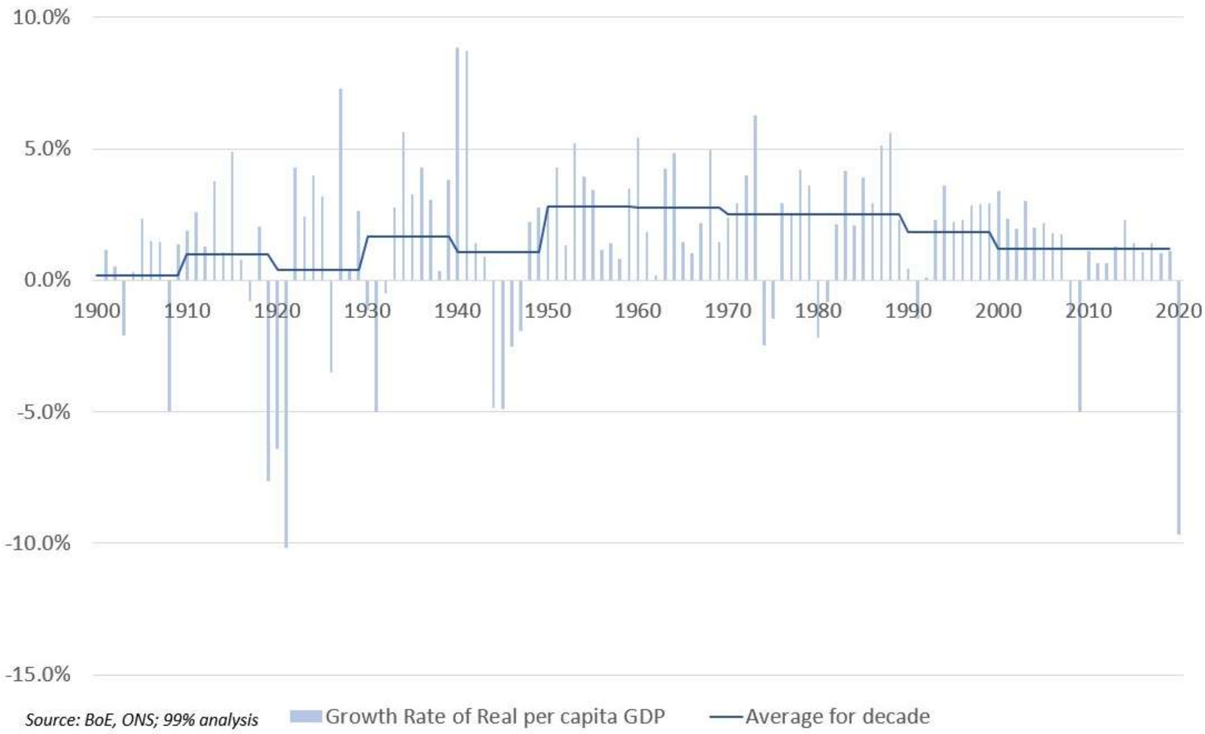
And when we look at how the 1970s coped with that extraordinary shock, what we see *is itself a shock* to most of us: the economy performed as well in the 1970s as it has in any subsequent decade – indeed *better* than most of them.

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 24: 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.

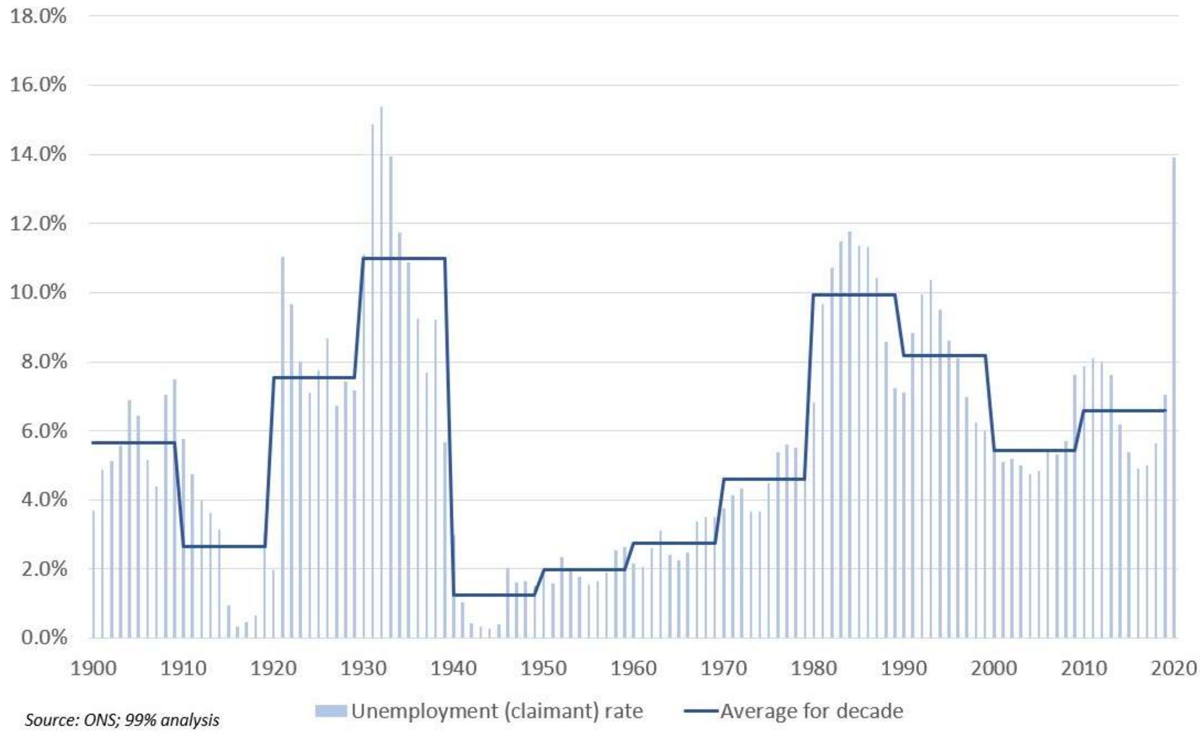
The 2000s might have matched the 1970s if it had not been for the Global Financial Crisis; but that Crisis did happen, and our economy was demonstrably less robust than it had been in the 1970s.

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.

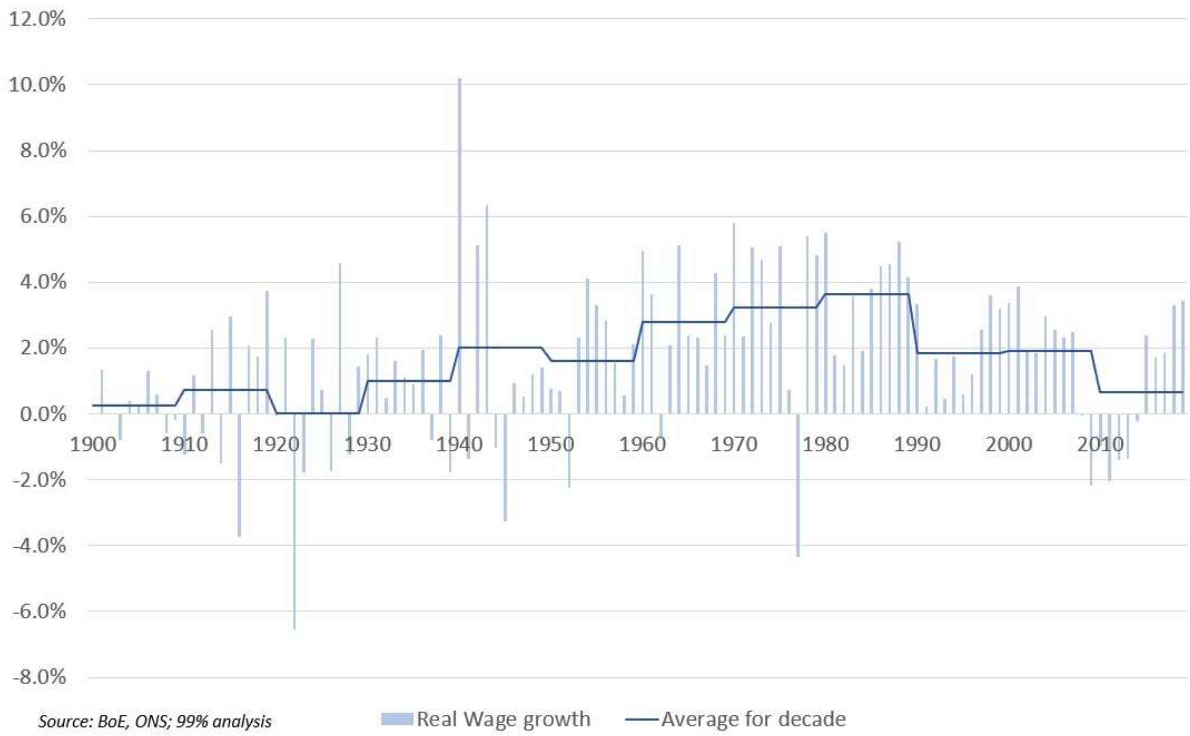
Figure 25: UK Unemployment rates over time



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 26: Growth rates of real average wages in the UK

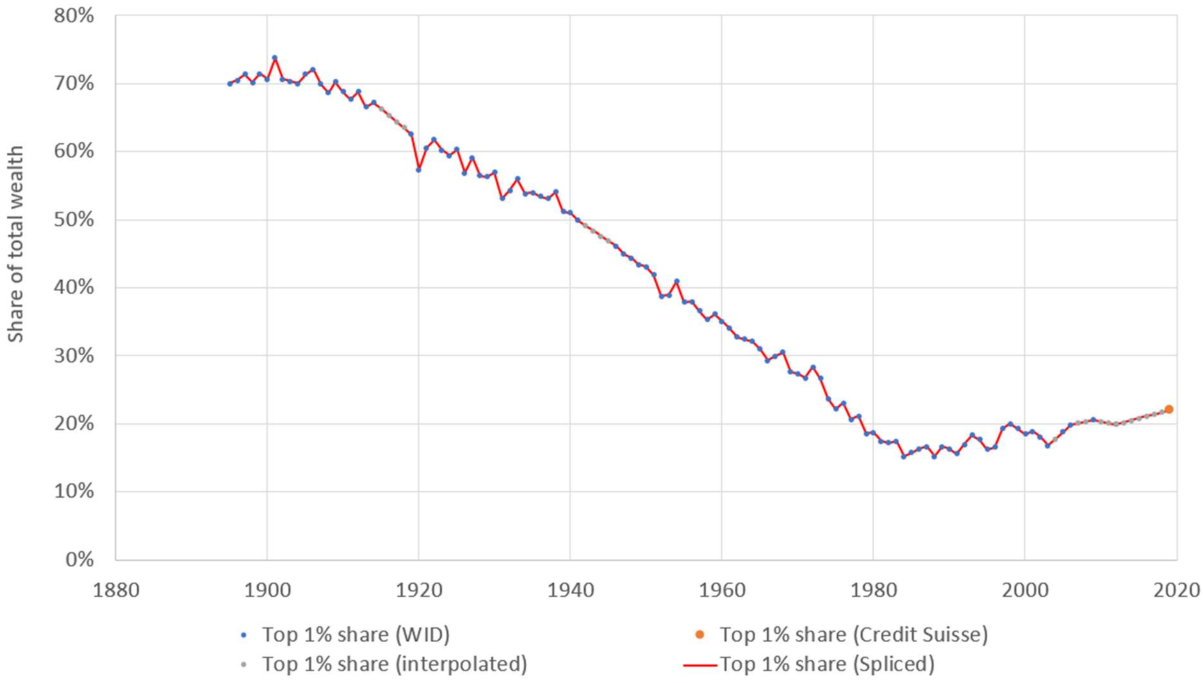


The answer is: surprisingly well. Despite the higher inflation, real wages grew strongly in the 1970s. From the 1990s, however, wage growth has been subdued. And from the 2010s, it has been dire.

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 27: 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 4: Contributors

Contributors to this report include Esther Giles, Vincent Gomez, Liwia Klipa, Dominic Minghella, Ann Pettifor and Mark E Thomas (lead author).

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