Behind the scenes of government

In 1994, the UK government’s Treasury Management Board met at 11am every Thursday. Among those seated round the table were the Permanent Secretary to the Treasury, the Treasury’s Chief Economic Advisor and the Head of the Government Accountancy Service. At the time each role was filled by someone with a London Business School connection – respectively Terry Burns, Alan Budd and Andrew Likierman (now Lord Burns, Sir Alan and Sir Andrew).

“I don’t think there’s any group of academics now that’s as influential as London Business School was in those days,” says Emeritus Professor of Finance Dick Brealey, himself a special advisor to the Governor of the Bank of England on issues of financial stability from 1998 to 2001.

The roots for such influence started with the School’s adept appointment of economist Sir Jim Ball from Manchester University as one of its founding professors. He continued his pioneering work on economic forecasting models at the School and set up the first working model of the British economy. In 1966 – just two years after the school began – it’s forecasts made front page splashes and were carried in The Sunday Times newspaper. [link to 1966 How to predict the future]

Cutting-edge insights into the British economy

“The School received an enormous amount of attention from it,” says Terry Burns, now Lord Burns, who was brought in by Ball as a research assistant to develop the model. “For much of that period this was the only thing people knew about London Business School.” In the late 1960s the Treasury hired Ball and the model’s computer programmer John Eaton to computerise its own forecasting system. The School was seen as an authority on the economy and the links with government began.

“Universities tend to do research that’s rather more distant from immediate things that are going on,” says Burns. “But London Business School was on a dividing line. It was an academic institution but it wasn’t simply a university, it was much more about the real world; it was much more about the things that mattered both to politicians and policy makers generally.”

The 1970s were a turbulent time for the UK economy and the School came to be seen as a source of ideas for the way ahead. Burns and Budd worked to develop ‘international monetarism’, and Margaret Thatcher embraced similar ideas when she came to office with her Conservative government in 1979. Burns was rapidly appointed as Chief Economic Advisor to the Treasury. Budd took over from him in that role in 1991 when Burns became Permanent Secretary of the Treasury. [link to 1977 Against the odds]

A focus on the real world

“Not many people who come from the outside prosper in Whitehall,” says Burns. “I think I was the first permanent secretary who came in that way. But what I learned at business school positioned me well. And I learnt a great deal from Jim Ball about how you combine intellectual integrity, robustness and respect for the data, with trying to apply it to the issues of the day.”

Since those early economists paved the way, the School’s faculty members have continued to play influential roles in policy advice, often taking the form of contributions to committees rather than full-time government roles. To give a flavour, Finance Professor Chris Higson is a member of the Business Ministry’s Industrial Development Advisory Board, set up to advise on whether the UK government should give financial support to businesses in economically disadvantaged parts of Britain. He created a cost-benefit framework to help the board come to decisions. Fellow Finance Professor Julian Franks was a member of the Department of Trade and Industry Treasury Committee for reviewing the UK’s insolvency code in 2001 and provided evidence on distressed and bankrupt companies. [link to: See also 1984 How the state was rolled back; 1995 How regulators turned the heat on utilities; 1995 How to stop the risk of contagion; 1998 How to win fairly]

“There’s a long tradition for the School advising government and getting involved in government,” says the Dean, Professor Sir Andrew Likierman – one of those round that policy table in 1994 and the architect of sweeping government financial reform in the UK. [link to 2001 What Britain’s worth] And since the early 1990s, that tradition has been extended to other countries as the School started recruiting more international faculty.

Leading ideas and understanding

Economics Professor Hélène Rey, who joined the School in 2007, has given policy advice in her native France. From 2010 to 2012 she was a member of the Conseil d’Analyse Economique, the non-partisan council of economic advisors to the French Prime Minister who at the time was Francois Fillon.

Rey advised on the economic issues of the
day but her main work was for the French Presidency of the G20. She wrote a report on the international monetary system, which was taken up by the French Treasury and discussed in a high-level seminar with the Chinese and the Americans. One major recommendation was to make the swap lines between the Federal Reserve and other central banks more systematic. These swap lines had operated in an ad hoc way during the financial crisis and Rey argued that they should be permanent, particularly in the European banking sector, as a way of swapping dollars for Euros when there’s a shortage of dollars, with controls to prevent them from being abused.

“Some of that was done, not entirely, but the swap lines were made permanent,” says Rey. “I can’t say I’m the only one who pushed that but it was one of the big things in the report. You’re trying to convey a set of ideas. It may lead to policy actions but it also contributes to what people think about what monetary policy does.”

Mauritius is known as Africa’s growth success story but it faces its own challenges. Scott has offered advice on restructuring the economy since the European Union stopped its support for the sugar industry, building a railway system, improving airport communications and lowering tax rates. He helps with the budget each year and his economic advice also crosses into other policy areas, such as health and education.

Sun, sea, sand and economics
Economics Professor Andrew Scott is British, but three or four times a year he boards a plane for a sunny island in the Indian Ocean where he’s been an economic advisor for the Prime Minister Navin Ramgoolam since 2006.

The connection came from someone he taught on a Sloan programme, Nita Deerpalasing, who went back to her native Mauritius and was elected as an MP for the victorious Labour Party. When the Prime Minister wanted an economic advisor she introduced Scott.

“It’s one thing sitting in a lecture theatre saying what countries should do, but when you’re sitting with the Prime Minister and Finance Minister it focuses the mind no end,” says Scott. “You realise what you know and what you don’t know and what you need to go and look up. It’s also great to understand the role of society and politics in the formulation of economics.”