Good Governance for Prosperity and Justice

Recent years have not been good to independent committees and policy advisory bodies. Last December, the entire Social Mobility Commission, headed by Alan Milburn, resigned, citing a lack of political progress towards a fairer Britain. Andrew Adonis left the National Infrastructure Commission with a tirade against political dysfunction around Brexit, as well as some specific criticisms of the government's handling of the East Coast Mainline rail franchise. The Office for Budget Responsibility, once lauded as a source of objective forecasts on the public finances, has found itself the object of repeated sniping for its Brexit pessimism, as has the Governor of the Bank of England.

In this light, it is striking that the IPPR's blockbuster report on Prosperity and Justice[1] advocates the creation of yet more independent expert commissions and regulators. To be sure, they would have plenty to do. The report ranges widely across contemporary economic issues, from old familiar problems like skills to cutting edge proposals such as promoting access to data as a public good. In each area, there are recommendations, and to implement these recommendations more and better governance is needed.

Some of this might be achieved by self-government: the report is strong on the reform of corporate governance, the constitution of executive remuneration committees, and the rights of shareholders vis-à-vis other stakeholders. But the report also argues for more coordinating bodies and regulatory agencies. There should be more 'social partnership', exemplified, according to the report, by the Low Pay Commission. There should be an industrial strategy, overseen by an independent Industrial Strategy Committee. There should be a new regulator for corporate governance and an 'Ofdigi' to promote the digital commonwealth. The Bank of England should have an extended mandate; among other things it would work closely with a development bank, the National Investment Bank, which will have a politically independent management. Economic devolution should be promoted by new regional executives, overseen by regional councils indirectly elected by constituent local authorities. And, as a final flourish at the end of the report, there should be a National Economic Council.

Before allowing recent experience to cast the taint of failure over these ideas, it is worth going back to first principles to ask what these various bodies might be expected to achieve. They are a diverse collection. Some have budgets and elements of democratic accountability; some have statutory powers to regulate, or disposition over policy instruments or funds. But a number of the bodies recommended in the IPPR report would not have such powers or resources: they would have consultative and advisory functions. These are not to be sniffed at. The Low Pay Commission has only ever had the power to make recommendations, but for governments seeking to avoid an argument, it was very attractive to accept recommendations backed unanimously by the Commissioners. For Labour, the Low Pay Commission steered a middle course between the Blairites and the union wing. Under the Coalition, the Liberal Democrats made it clear that they would not countenance any other course than following the Low Pay Commission, as they knew that some in the Conservative Party were shaping up to claim credit for a big increase in the minimum wage. But in 2015, with a single party government and no serious internal contestation over minimum wage policy, George Osborne took his own decision without waiting for the Commission. In short, its effectiveness stemmed from its ability to make recommendations that would solve a decision-making problem for the government.

In 2013, Labour commissioned Sir John Armitt, now successor to Lord Adonis at the National Infrastructure Commission, to review the way that infrastructure decisions were planned and made. He recommended the creation of a commission that would gather together the necessary expertise to produce cross-party consensus, so that decisions could be made without political vacillation and meddling. But this emphasis on expertise is misplaced, even leaving aside the uncomfortable sense that proponents of this approach to policy-making are writing their own job descriptions. Obviously no-one wants foolhardy proposals, but this is not the reason to create a commission. There is plenty of expertise in the civil service – indeed, the personnel of many non-departmental public bodies consists of civil servants on secondment. An explanation is needed of why it is useful to carve out that expertise and place it in a separate agency.

Expertise will not produce consensus, in the strong sense of agreement among all parties about the best course of action. Consensus would require that there are no conflicts of interest salient to the parties, which is a tough call. The role of an expert commission is to find proposals that are acceptable to the parties in the weak sense that they prefer the commission's proposals to the alternatives. Those alternatives are either the status quo – stasis and non-decision – or decisions made in other ways. In the UK context, this generally means decisions by ministers, pushed through cabinet and Parliament. The difficulty is that this latter option is often attractive and rarely blocked.

In many political systems, the threat of stasis and non-decision serves to make commissions effective. In a justly famous American study, Epstein and O'Halloran[2] documented the establishment of the Base Realignment and Closure Commission, which succeeded in formulating and implementing a plan for the closure of surplus airforce bases. Congress had been unable to do this, as base closures were fought to the bitter end by local representatives. Eventually, a battle-weary Congress decided to create the Commission, in order to reap the reward of billions of dollars of savings in military expenditure. The Commission was charged with preparing a list of bases for closure or downsizing. This list had to be accepted or rejected by the secretary of defense in its entirety; if accepted, it would go to Congress which also faced an all-or-nothing decision. It could disapprove of the list within 45 days; if it did not, the closures would proceed. Thanks to this decision-making set-up, the base closures went ahead.

Non-decision is not a general feature of British government. On the contrary, Patrick Dunleavy has argued that hasty policy-making and political hyperactivity are among the causes of the UK's dismal track record of policy disasters.[3] However, constituency-based representation can lead to situations where the Commons bears an uncanny resemblance to Congress. A feature of many areas of non-decision is that they concern matters which have pronounced local impacts. Heathrow airport expansion exemplifies this. The Davies Commission, established by a coalition government, was meant to find a way through the impasse, but, by the time it reported, the Cameron government had an outright majority that it was not prepared to jeopardise by accepting Davies' recommendations. As Steven Griggs and David Howarth have recently documented in this journal, Cameron 'welcomed' the report but indicated that it was 'yet to decide' its preferred scheme.[4] It took a weak minority government to give up the possibility of political gain, accept cross-party support, and proceed with Heathrow expansion.

From this perspective of political decision-making, the most interesting aspects of the Armitt proposal for a National Infrastructure Commission were procedural: the idea of producing a ten-year package of infrastructure plans, of requiring a parliamentary vote, limiting powers of amendment and creating a restricted timetable for review. But when the Conservative government established the Commission, it did not adopt Armitt's ideas about the decision-making process. Ministers had no reason to accept such constraints. They can make decisions if they want to, obfuscate and postpone if they don't. The chances that infrastructure recommendations will be as influential as those of the Low Pay Commission in its heyday are slight. There is too much at stake, especially when long-term plans are in the throes of turning into short-term realities.

The fate of the advisory bodies proposed in the IPPR report is likely to be similar. Despite the current divisions in Cabinet and gridlock in government, there is little sign that ministers feel at all inclined to seek solutions from such bodies, at least not in the economic areas that the report discusses (the Human Fertilisation and Embryology Authority operates in a more receptive political environment). Social partnership may be a lovely idea, but it has only taken root in countries where the political system presents governments with major barriers to making decisions, where coalitions of support have to be assembled. A National Economic Council could be valuable to a Chancellor who faced serious obstacles to implementing his programme, but this is rarely the case. The IPPR report castigates the 'rabbit out of a hat' policy-making of the Budget, but these rabbits usually run, and the Chancellor gets the credit.

In short, advisory bodies struggle to be effective, and many are not. But the IPPR recommendations take in other models of governance too. Take the Bank of England, widely seen as the leading example of successful delegation of economic powers in recent years. The model is that the government gives the Bank its goals, and the Bank gets to decide on how to achieve those goals. It is the repository of policy knowledge about how instrument settings translate into outcomes. The IPPR has noticed that the range of instruments under the control of the Bank has been enlarged beyond interest rates to include financial regulatory powers, and so the outcomes can be enlarged too. A successful model of governance can be extended.

Unfortunately for the Bank, the outcomes it is asked to achieve depend not only on its instrument settings, but also those of the Treasury. Faced with preventing deflation while the Treasury imposed fiscal austerity, the Bank had to find ways of adopting an ultra-expansionary monetary policy. Given a house price inflation target, as the IPPR proposes, would see it struggling to counteract fiscal measures like the Help to Buy scheme. When Governor Carney criticised that measure, Osborne was blunt: he should shut up and use the macroprudential powers he had been given to reach his targets. This independent central bank is a lonely place, forced into costly measures, detrimental to other goals, as it tries to undo the damage done by the government.

Writing in the Financial Times, Jesse Norman criticised the IPPR Commission for paying attention to market failure but not government failure. This criticism is unfair. Recognition that the political system prevents the necessary decisions being taken permeates the report, which is why it repeatedly proposes new mechanisms for economic governance. But the report is evasive in its steadfast focus on the economic, averting its eyes from the awfulness of the country's politics. Unfortunately, prosperity and justice need political revitalisation as well as economic ideas.

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[1] *Prosperity and justice: A plan for the new economy*. The final report of the IPPR Commission on Economic Justice, 5 Sept 2018. <https://www.ippr.org/research/publications/prosperity-and-justice>

[2] Epstein, D. and O'Halloran, S. (1999) *Delegating Powers: A Transaction Cost Politics Approach to Policy Making Under Separate Powers*, Cambridge: Cambridge University Press.

[3] Dunleavy, P. (1995) 'Policy Disasters: Explaining the UK's Record', *Public Policy and Administration* 10(2): 52–70.

[4] Griggs, S. and Howarth, D. (2018) 'So Close, but so Far? The Davies Commission and the Contested Politics of UK Airport Expansion', *The Political Quarterly*, 89: 427-433.