Overcoming barriers to tax reform

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Biographical details

Civil service career

1995–1997: Special adviser to Ken Clarke (Chancellor of the Exchequer)

2004–2010: Director, Business and International Tax, HM Treasury

2010–2012: Director General, Tax and Welfare, HM Treasury

2012–2016: Second Permanent Secretary, HM Revenue and Customs

2016–2017: First Permanent Secretary, HM Revenue and Customs

Sir Edward Troup was interviewed by Gemma Tetlow, Joe Marshall and Thomas Pope on 2 July 2019 for the Institute for Government's tax reform project.

Gemma Tetlow (GT): When you first moved to the Treasury as a civil servant in 2004, you'd had a lot of experience working on tax in the private sector and as a special adviser to Ken Clarke. What struck you entering the Treasury as a civil servant?

Edward Troup: I think it is significant that I had been in the Treasury before as a special adviser and my journey to that had been through private practice as a tax professional. As a practitioner, I was very much a plumber dealing with the leaks and fitting new bathrooms, rather than looking at the house as a whole. But through working with the IFS [Institute for Fiscal Studies] Capital Taxes Group from 1987 to '92, I had become aware of some of the more architectural – or broader policy – issues around tax, and indeed I'd learned a lot about economics, which I'd not known anything about in any detail before.

My time with Ken Clarke, in a sense, took me right to the other end of the system from my tax professional role and it gave me a familiarity with both the broad politics and the machinery of policy making generally, including tax policy but not confined to tax. But it also gave me familiarity with the Treasury as an organisation and, at that time, 1995 to '97, it was separate from the Inland Revenue and Customs and Excise. At that point, of course, the tax policy advice was given by Inland Revenue and Customs and Excise. And the tax policy team at the Treasury was – I'm probably being a little unkind here – little more than a sort of co-ordination and a sort of budget organisation delivery team, obviously linking very much with fiscal policies (fiscal policy, of course, was with the Treasury).

So there were a number of things that struck me being put into that environment, which were relevant to my later joining the Treasury in 2004 as a full-time civil servant. One was the fact that nobody in the Treasury really knew anything about tax as I knew it, in the sense as a technical subject, as a subject which involved the translation of broad policy thoughts into legislation and the administrative challenges of turning policy into collected tax. And that I found quite shocking. Obviously I worked closely with the Inland Revenue then, and they clearly did understand it, but Treasury, who were ultimately taking the decisions and sitting with the chancellor and choosing the budgets, did not. That, as I say, shocked me.

Becoming familiar with the civil service, in a sense, was a more general process, with universal issues coming out of moving from the private sector where there's a profit motive. Yes, you worked in a team, but basically you were working much more broadly for yourself and for your clients. I went from that to an organisation which is not money driven and was very much a sort of one-client organisation. Your client was the minister, the chancellor. Everything in a sense ultimately revolved around that. So those are my broad learnings from ‘95 to ‘97. In the period from ‘97 to 2004, I went back into the private sector, I was doing more of a strategic role for clients, but I did quite a lot of work behind the scenes. I spent time really reflecting on what I had learned in the Treasury, and I suppose if there was one generic learning that I had from being in the Treasury it is that things, actions, reforms – whatever you like to call them – which from the private sector perspective seem far too big and far too difficult, can be achieved in government. And while as an individual you should never assume that you can achieve any change, you should always believe that it is possible, that you can and it's always worth arguing for it.

The relevance of that to this question is that I came out with two specific conclusions. One, that the Treasury was not really good enough at tax. And two, that the Inland Revenue and Customs Excise should be merged, that it was ridiculous having two organisations. And I overlaid that with a view that the fact that I did not have any authority *[laughs]* to do either of these shouldn't stop me, or get in the way of my arguing for that! I don't want to overstate my involvement in what happened subsequently [the O’Donnell review], but I was reasonably vocal, both in print and with the Treasury Select Committee, who held a number of enquiries into Inland Revenue and Customs and Excise in 1999 or thereabouts. And I put myself forward as a witness and every time I saw them, I said: “Well, you know, Inland Revenue and Customs Excise should be merged”.

Giles Radice was the chairman of the Treasury Select Committee at the time. I had some engagement on that topic with him and also kept in touch with Gus O'Donnell, who was [Treasury] permanent secretary in the period from 2002, where – following quite a lot of unhappiness with some of the things done by both Revenue and Customs and the history books will tell you what those were, I can't remember them all, but there was quite a list – Gordon Brown then launched the O'Donnell review. Or rather, although I wasn't on the inside, Gus felt that it would be a good idea to do the O'Donnell review and a combination of Ed Balls and others agreed.

The O'Donnell review was launched, I think with the intention of reaching the conclusions that it did, that Revenue and Customs should be merged and that the [tax] policy making function, or a substantial part of it, should be moved to the Treasury. So the reason that was relevant to your question is that, in a sense, I was being to a certain extent fitted up to come into the Treasury as a director to help deliver that change [recommended in the O’Donnell review], which happened on 17 March 2004, and I took that post in August 2004.

So, this was a sort of organic process of getting me into something which I wanted to do. Being in the Treasury beforehand, I wanted to come in and see what I could do to help.

GT: Why was it that you felt it was important to move the tax policy making into the Treasury, as opposed to just merging the Revenue departments?

ET: Well, I wouldn't say that I had such a strong view about the merging element, my recollection of my expressed view is that the Treasury's policy team should be strengthened. The O'Donnell review was very much about moving and it made, I think, a slightly artificial distinction between the different aspects of the policy making process, which was one of the challenges we then had to deal with from 2004 onwards. I think the phrases were rather ill-chosen, but the Treasury team was responsible for policy advice and the tax department, the revenue teams, were responsible for policy maintenance, which as I say is not a very happy phrase. But it did make a broad distinction between, if you like, the broader strategic advice [with the Treasury] and the more sort of technical supporting advice [with HMRC].

That was a difficult distinction to make. One, because in a sense it slightly downgraded the revenue departments' roles and two, because it was a very difficult division to make. And indeed, when we worked through the various teams and the various taxes, we tended to describe the boundary as being crenulated, in other words, it sort of went up a bit, lower a bit, up a bit, and the same with taxes. In some of the taxes, the boundaries were shallower so that we had more technical VAT people in the Treasury, but we had fewer technical corporation tax people within the Treasury. And that was a more or less conscious choice which flowed out of the nature of the different taxes.

But that boundary helped manage how the roles were allocated, and indeed how the teams worked together and what we called from the outset, and we still call, the policy partnership. Managing the boundary was a major focus of what I did in the early period, and indeed continued throughout my career, both in Treasury and in HMRC.

Joe Marshall (JM): Do you think it was an effective way of addressing some of the challenges O'Donnell had highlighted in his report?

ET: Let's leave the merger on one side, because the merger in a sense absolutely had to happen, I mean it obviously had its own challenges, but it had to happen. Having some, but not a huge experience of tax policy around the world, there is a problem which is that tax departments are, and should be, separate: either formally separate or organisationally separate – from the finance ministries, mainly because of the protection of taxpayer information, which is a necessary feature of most administrations.

So you are, in all systems, going to have a separation between the finance ministry and economics ministry function, and the tax administration in terms of the actual collection and administration of the rules. But it is also necessary that both of those parts of the system need to contribute to tax policy making. [Good policymaking] needs both the broad design, the economic and the fiscal and political background which comes from the finance ministry. But it absolutely needs the input from the tax administration who know what to do and who know what will go wrong and who actually have to deliver whatever is desired.

Any governmental system for tax policy making is going to have to deal with the fact that two bodies are going to contribute to this function. And to a certain extent you then just have the problem of how you manage across that boundary. Up to 2004, the boundary was much closer to the Treasury – the mass of the resource came from the tax administration end and HMRC or Inland Revenue was organised with a technical division who effectively were policy specialists. The technicians tended to be kept away from ministers, because they were very smart but not very savvy, and it was all sort of coordinated through the technical division.

So the boundaries are up there. What we did in 2004 was move the boundary much further towards the tax administration. So, was that a good thing or a bad thing? I have to say from my experience of working in organisations, most organisations have the problem that there are a lot of things that have to be done which involve more than one part of the organisation and therefore we have the problems of boundaries. The one thing you should do with a boundary is move it from time to time. Because if you have a boundary, people find ways of working across it, but equally you have the divisions of the two separate organisations. If you move the boundary, you retain some of the old working styles, but you create some interesting thoughts and challenges around your view of boundaries, which may be do things better.

So I don't think that the place [the boundary] was moved to should ever be regarded as the permanently right answer. I think the fact of moving it was genuinely a good thing. But equally it hasn't moved since 2004, it's just drifted. It was certainly regarded as fixed at the time, and there's an interesting comparison of how different jurisdictions deal with this issue. So, the Australians in 2002 had a major row between the Treasury and the ATO (the Australian Tax Office) and effectively just cut the ATO out of policy making, not with happy results. They effectively moved the boundary right over so the Treasury had everything, and of course there was a series of cock-ups because people in the Treasury, wherever they come from, couldn't work through the mechanical consequences of policy design, plus the delivery. They had the ATO in front of them, but the ATO just sat there and these things appeared. There has been quite a lot of history where the US Inland Revenue Service (IRS) has been in a very similar situation. Indeed, I think partly because of the complete dysfunctionality of American tax policy making, it is still very much the taker for policy decisions, without having much input into it and there have been quite a few issues.

So there is an interesting international comparison in both how closely the tax administration and the finance ministry function is integrated in tax policy, but also where the organisational boundaries are drawn. It might be interesting, for instance, to look at France, where of course the tax administration is not a separate organisation. It is the DGIF, which is effectively a directorate general of the ministry of finance, taxpayer confidentiality is protected, but organisationally it's a directorate of the finance ministry.

GT: You said that you appreciated getting on top of the economics of tax reform, and you felt within the Treasury that understanding was limited. Could you say a bit more about what capacities the Treasury had?

ET: The Treasury teams were very good at economics, very good at public finances, but their knowledge of the tax system was – sorry, I don't mean this in any way an unkind way – about the level of a smart person in the IFS. They completely understand conceptually how the taxes work, but not how the mechanics of capital gains tax assessment or corporation tax computations or capital allowance claims, or interest relief, or mortgage interest relief as it then was, works. And there is quite a distinction between the two, and it wasn't that the Treasury didn't recognise that lack of knowledge. The relationship with the people who did was somewhat odd, in that on some matters, they simply let the Inland Revenue get on with it.

For example, let's say you speak to the minister and you give him advice on something about the challenges with the tax treatment of share options and how they're not being taxed properly, which actually was the cock-up I dealt with in 1995, as it happens. And I came in, in part, because Ken [Clarke] had been encouraged to acquire somebody who knew about tax, precisely because the Treasury had let him down. Because on the tax relief and mortgage indemnity insurance, it had been a classic case where the Inland Revenue had gone in and said, "Here is a problem, this is what you need to do", and completely failed to anticipate the political handling issues.

And the Treasury, I don't know who was there at that point, but they were just not in the room, or if they were in the room, they didn't understand enough about it to be able to anticipate the problem. So, the difficulty you have relates to what I would call the high-level tax decisions, and in too many of them the Inland Revenue was effectively just dealing with ministers. That's technically fine, but they were obviously viewing policy from the perspective of tax administration, where the advice to ministers is: "We've got a problem, here's what you to do fix it".

[The Inland Revenue position on the] treatment of share options was all technically very sound from their perspective, but hopelessly wrong [on a political level] because it failed to anticipate the political handling. It wasn't that there weren't good working relations, it was just the way the responsibilities were carved up meant that you did not have a set of advice which was both technically well informed, but also politically, with a small 'P', well informed in terms of thinking about things like, when is the policy actually going to be announced, and how are we going to explain it and how are we going to handle it?

It was almost my first day as a special adviser that the announcement came up on the share options and I remember sitting around the table with ministers and the ministers are sitting there and saying “Well, how the bloody hell are we going to explain this?”. And I can remember saying to them, it was literally my first or second day with the ministers, saying “Well, this is quite hard, but you can say something like this”. Which was probably the best handling advice at the time, but it still fell flat on its face because they shouldn't have done the policy in the first place and they had to roll it back two weeks later.

So, coming back to the policy making structure. I wasn’t saying you should move policy making from the Revenue departments to the Treasury like O'Donnell, I was just saying that the Treasury needed to be strengthened and more joined up, so that the advice that goes to ministers is both technically sound, administratively deliverable and capable of being presented and sold. To this extent, I think the O'Donnell review has worked. Which is not to say there have not been policy failures, but that the machine has been much more joined up, the advice is much more sensitive to handling, as well as delivery issues.

And it's an interesting question as to how much of that is down to the O'Donnell reforms and how much is it due to better ways of working? Because there is a hypothetical question you could ask: could you have left the structure the same as it was and just got people to work better and differently to achieve the same answer?

GT: Is there any danger that we’ve gone too far in the other direction and now worry too much about the politics and that all policies are going to fall flat?

ET: I think that's a very good question. I was at the Treasury for two years with Ken Clarke, I came back at the height of the Gordon Brown era when Gordon bestrode the stage of Whitehall. Everything other than military and Foreign Office – which Blair dealt with, not always too successfully – were down to Brown, so Brown just strode the stage on economic and domestic matters. Gordon’s success was that he was hugely sensitive about handling and the chief nightmare of the first two or three years I spent at the Treasury, which was from 2004 to 2007 while Gordon was still chancellor, was Shriti Vadera, who is a good friend of mine now, I hasten to add for the record.

But Shriti was absolutely feared by officials because she was so sensitive to handling, and in a sense quite rightly. She was a Rottweiler on behalf of Gordon and in a sense there is a question as to whether, if you lobbied on reforms, on policies being successful, part of that success is down to the degree of rigour and scrutiny which Shriti brought to every single policy before they got near Gordon and made our lives hell asking difficult questions about how it was going to play [publicly]. And I do remember after Shriti went to Number 10 with Gordon in 2007, I was very concerned that the semi-formal process which she took officials through in the run-up to budgets, of scrutinising every official, every policy, in a sense would leave a gap which carried risks in terms of delivery.

I then instigated a process which, in a sense, was intended to replicate that to a degree – but with a slightly different tone, because Alistair Darling's special advisers were nice people but they didn't have the, you know, bite-your-leg-off tendency that Gordon's did. So, we were inevitably less feared and less respected and that was not good for fulfilling [that challenge function].

GT: And are there any particular examples you would point to under either Shriti or your own regime where something ended up landing better because it had gone through that process?

ET: Without the budget books in front of me I couldn't say, but I have no doubt that things did land better. In a sense, most policies are quite binary: you either do them or you don't. There are policies which in a sense you can tweak, although most tax policies are pretty binary. What we definitely did was bring the management and give the handling issues much greater focus. Because in a sense any tax change which isn't giving money away is going to make some people unhappy and the question is not that they're going to be unhappy, but how far their unhappiness takes them.

So if you look at the 2007 budget, in which we did a lot of corporate tax reform and got rid of a lot of our existing allowances like industrial buildings allowance, we absolutely worried to death about the sectoral, geographical, business-type impact of that effective tax increase. And quite unusually, on the morning of the 2007 budget, I got a whole roomful, (it must have been 40 or 50 people) from what I would call DTI [Department of Trade and Industry] (but it was probably called something else at that point) and a few other random departments to take them through the budget's biggest changes, the impact, give them scripts etc. Actually, I think we did it while the budget was going on so they couldn't go off and do anything when Gordon stood up! I mean, we might have locked them in a room or locked them in rooms that they couldn't get out of. So, we did a huge amount, urged by Shriti, to land that budget. And so that policy, which could have gone wrong, you know if you'd got the reception George Osborne got at the time of the omnishambles 2012 budget, some of those things could have come unstuck. I take credit for the execution, but the driving force, that was very much down to Gordon, ministers and special advisers to making that work.

I do take a degree of responsibility for the omnishambles budget because there was questioning of 'Were these sensible measures to do?'. Which obviously in hindsight you can say, no they weren't. But if we had managed to land them you wouldn't say that and so the question comes back to handling. The failure [of the omnishambles Budget] was down to poor anticipation of handling and lack of the sort of work we did in the 2007 budget. I know it's a 'what if?' question, but I do feel a degree of sort of, 'Could I have done something different?'.

JM: Do you remember why the processes you talked about in 2007 didn't happen in the 'omnishambles' budget? Was it because the structures weren't there or there were different personalities or political pressures?

ET: Well, the structures were there in 2012, so you either have to say the policies were bad ones, which I think is my preferred answer, although I'm equally responsible. I think I'm inclined to say that even if we had done better handling, we still would have had trouble with them. As I say, this is a sort of what if, but I think the lessons from this come down to the key question for any tax policy, which is if it makes a change without giving money away, it is creating losers, how do you effectively ensure that the losers don't win the subsequent argument? It's as brutal as that. And there are a variety of ways you can stop the losers winning.

I don't know whether knowingly or not, you used the phrase 'tax reform' in a number of cases and then you've just talked about tax policy making. And I do think that there are some quite important, if slightly subtle, differences between the two and I grow increasingly unhappy with the phrase 'tax reform' because almost by definition tax reform is likely to fail. Because generally when you ask people what they mean by tax reform, they mean changes to the tax system which are more than changes of rate, but are so wide reaching that they affect the whole structure of the system. And if that's what you think tax reform is, given that this is a system which touches virtually everybody in the country, or at least every economic actor, once you've defined tax reform you realise you are stacking up such a massive army of opposition that you're almost bound to fail.

Whereas tax policy making in a sense is more incremental, it's a nice question as to whether you can make an incremental change, but tax reform almost defeats itself. It gets bogged down. In a sense, my description of tax reform, which I suppose is up for debate, links to the thesis that I've run in articles and talks in the past, which is that the only way to make an effective tax reform is to have a war. Because it's only when there is a far greater threat than paying more tax, whether it's Napoleon, the French at the end of the 17th century, the French again in the 19th century, the First World War and the Second World War, that you can overcome the massive amount of resistance you get to anything which you would badge as being tax reform.

So if we just sort of park tax reform in that sort of grand sense as being very difficult and hence, once in a generation or once in a global thermonuclear war event, the question comes is, how do you just get tax policies? Because I don't think you can see the omni-shambles budget as being a tax reforming budget, of course chancellors always call their budgets tax reforming, I don't think any objective observer would have said that what was attempted in 2012 was tax reform. As much as George Osborne, in the position of chancellors with any aspirations always find themselves, once they got used to how the machine works, they want to have a tax reforming budget. And in a sense George Osborne came to 2012 thinking "this is going to be my budget for tax reform".

And well, in a sense they were also the seeds of its own destruction because Gordon [Brown], who'd done something close to a tax reforming budget in 2007, did have a very clear story with it, as did Nigel Lawson in 1984. Whereas in 2012 there wasn't really a clear story. Certainly, the question is, what allows you to make tax policy changes where the losers lose, and the government wins the subsequent argument?

The first ingredient is obviously a strong story which you can always fall back on, which was one of Gordon Brown's great strengths. Apart from the fact he had a massive parliamentary majority, as did of course Nigel Lawson in ‘84, and so parliamentary opposition was irrelevant. And like Nigel Lawson, he had a very compelling, not one that everybody agreed, but a very compelling, overarching argument and case for the reform. One of the lessons for subsequent budgets was to always have an overarching narrative and story and press lines for the minister to fall back on as to why we're doing this.

And the problem with the 2012 changes, is that the individual measures had highly technocratic justification, which were sometimes little more than administrative tidiness. The VAT changes, I'm afraid, could be seen as that. Or they appealed to a sense of fairness, as in the attempts to restrict the deduction for charitable and other giving, a sense of fairness which simply didn't accord with quite a lot of people's sense of fairness – those affected and those not affected. And so, I think those individual measures neither linked to a big story, nor could they stand up on their own merits of fairness or genuine administrative simplification and ease of operation.

The reverse of that is obviously what you need to get the policy through. But I wouldn't underestimate the political strength of the chancellor as being a really key part of this, which is why I'm basically a bit pessimistic about the prospect for good tax policy outcomes in the future. Because it's hard to see a time when we are going to get the sort of parliamentary majority which we've had in the past.

GT: Do you think the strength of the chancellor is just about the parliamentary majority or is it also about something else?

ET: Well, it's quite interesting actually, looking at Ken Clarke in ‘95 to ‘97, because although the parliamentary majority was, for practical purposes non-existent. And clearly the [Major] government did have quite a lot of problems with the usual suspects on Europe, but actually when it came to economic and tax affairs, Ken [Clarke] carried great authority with his colleagues. The 1991 to ‘96 budgets which I was involved in weren't great reforming budgets, but when people ask me afterwards, “Well what did you achieve?”, I would say we did two budgets where nothing went wrong, there was nothing I was ashamed of. And Ken [Clarke] managed to carry things which were broadly sensible, not hugely controversial, quite interesting, and this was largely through his force of personality. After the VAT increase in ‘94 was reversed and Ken [Clarke] came in, he basically banged up tobacco and fuel duties by eye-watering amounts and he stuck with them, which when we look at what happened in 2000 [with the fuel strikes], it was quite impressive.

That was not achieved through a parliamentary majority; that was done by Ken being Ken. There is an interesting point in the failure of the second VAT increase [in 1994], which was that a huge mistake that was made. The two-stage VAT increase was not legislated for in one go and it is always a huge mistake to give your opposition – give the losers – time to marshal their forces. And what happened then is that the second stage effectively required a further vote in Parliament when the government's majority was very slender and was lost – and that was bad advice. I don't want to point the fingers at anybody in Revenue and Customs, I don't know who actually it was, but it's the kind of thing which I think post-O'Donnell we're so much more sensitive to: you know, what parliamentary votes are needed in order to get this through? Not just, "Does this work?", but "How do you handle it?".

So I'd say there are two separate points there. One is about the extent to which force of personality can actually get things through, but there's also a point about timing things. I don't want to make it sound as though all tax policy is completely tactical, although I do recommend any policy maker reads Clausewitz's *On War* because in a sense he explains many of the issues you have trying to get people to do things. But [tax policy] is important for the reason that what you're doing is you're taking money away from people and they don't like it.

GT: Going back to the capacity within Treasury and HMRC, you've talked mainly so far about the extent to which Treasury accesses expertise within HMRC. Are Treasury and HMRC also good at accessing expertise from outside the civil service that they might need?

ET: Well, it's something that comes up every time there's some difficulty in policy, you know, "Well why didn't we consult on this?". My first defence would be to say there is an awful lot of consultation. But the second one is that tax policy making looks very different from the inside than it does from the outside. By and large, to a very significant extent, you don't learn that from people outside. I'm sorry for being sort of harsh about that.

Outside expertise can be incredibly useful in technical details of issues which you're thinking about and they can be really useful in helping you spot things which you might not have spotted. But the idea that they can help make better policy is very overstated because, this is about politics. And I'm a tax technician from outside, I don't want to talk down the technical, administrative side of tax, quite the opposite. Actually, somebody who I saw recently put it very well, they said: '"f you're a regulator, if you're the FCA [Financial Conduct Authority], you can quite legitimately spend your time thinking about the customer and your regulation for that. If you're regulating a tax professional what are you thinking about? Are you thinking about the client? Or actually are you thinking about the tax system, and hence the state, and the good collection of tax revenues?"

It comes back to the obvious point; that tax is not there for any social purpose, it's not there to facilitate any commercial or personal transactions, and by and large it's not there to actually achieve any economic change. It is there to take money away from people. That perspective is obviously diametrically opposed to the perspective of the externals. I've been there, so I'm not criticising, I'm just saying, it's an obvious point. The externals are sitting there thinking about it from a taxpayer perspective, rather than from the perspective that you have in government. It doesn't mean that governments don't think about the taxpayer, but the priority of government is to balance the books and ways they're going to achieve that, get the money in and make the system work.

And the reason that all these reforms are so difficult and have so little traction is that in a sense there is no burning platform from an internal perspective. There is only a burning platform if it looks like the revenues are falling off a cliff, or if the economy's falling off a cliff. And it's only on the rarest occasions that ministers feel comfortable enough or confident enough to say, "Actually I want to make a major change for some reason other than just getting more money in". If it ain't bust, don't try and fix it. As long as HMRC are doing their job and 650 billion is coming in, why do anything? Because nobody's going to thank you. Which is why listening to externals is not always very useful and why the Mirrlees Review was always going to struggle. The question is: "Why should I do all this damage to this machine which intimately connects with 30 million individuals and five million businesses? Because you say it would look neater or arguably more economically efficient in a way you can't quite measure."

GT: So it's the difficulty in being able to make that strong case for reform?

ET: It comes down to the fact that you can only make a change if you can really make a case and you can't just make technocratic arguments – they don't run very well.

JM: Do you think there's a way to convince politicians that they should make the sort of reforms proposed in Mirrlees?

ET: The challenge is to find a chancellor who believes in the long-term goal and is prepared to make changes in that direction as part of something else. And I hope I don't sound too downbeat about this, I do think that over the years there have been ministers who have been able to describe a trajectory which individual measures fit into. And [Nigel] Lawson clearly fitted that category up to a point. I think Gordon [Brown] did, again up to a point, and I think the coalition government of the Conservative party a bit, largely through the combination of George Osborne and David Gauke. (Though you have to take off all sorts of marginal nonsense which George Osborne liked because he liked the bells and whistles, as Gordon [Brown] had done. But at the heart of it, George Osborne did have a trajectory. He did believe that actually the tax burden on businesses, on companies at least, should be reduced because ultimately it was just another way of taxing individuals. And we discussed our Treasury analysis showing the relative distortionary effects and economic inefficiencies of various categories of tax. There were some really good slides done which basically showed you what you'd expect, that broadly based VAT is probably the most efficient and the business rates and corporation tax were at the opposite end.) So I think in answer to your question, you can make changes, but again it comes back to using the phrase 'tax reform', which both suggests a size and a relative brevity over time of events which almost would be, if not definitely, impossible to achieve, at least now.

JM: Is there anything you can do to marry the long-term nature of fiscal challenges and the short-term political cycle?

ET: Well, again it sort of comes back to the starting question about the Treasury function and I do think one of the strengths of the enlarged Treasury teams, and you shouldn't under-estimate how much just increasing the Treasury tax team from whatever it was, 18 or 20 people, at its core to well over 100 depending on how you divide it, is beneficial. Because, if you have a particularly close-knit organisation like the Treasury – and we were all very consciously part of one team – it creates a critical mass which is able to think about these long-term issues, which is able to do charts and things on the relative efficiency and inefficiency of taxes and to do some of the thinking which helps to underpin a longer-term view.

There's the question of the sustainability or the effectiveness of the tax teams now. But what I would argue for very strongly is a Treasury orthodoxy. I don't want to suggest that there should be a Treasury view, as there was 50 years ago, which was independent from ministers' views, but I think we've still not got to the extent of a Treasury orthodoxy. Which is slightly different from having a Treasury view, it means orthodoxy of analysis about tax policy. It's quite interesting because it would be quite a good challenge to Beth Russell [Treasury Director General of Tax and Welfare]: do you feel that you have a consistent, coherent analysis of the advice that you give on, you know, corporation tax against VAT, on what would be good performance of corporation tax, and VAT or NICs or whatever?

And I think Beth [Russell – Director General of Tax and Welfare, HM Treasury] would say that she has, and I think that is a credit to what we have done since 2000 and we did after 2005, but the resources of the Treasury have been squeezed, partly just normal squeezing, but also because of the financial crash where lots of Treasury resources were put into that responding to that and I suspect the broader tax resources are being squeezed by Brexit, putting a lot of resource into Brexit-type stuff.

GT: Is having a Treasury orthodoxy helpful because it gives a consistency of message to ministers when they ask the same question?

ET: I don't want to suggest there should be a Treasury view, but getting money out of people in an economically efficient way should, inside the rates and distributive elements, at its core should be a matter of general cross-party agreement. Because in a sense it should reflect good, sound, consistent, objective, economic and fiscal analysis. So, if you put a group of intelligent people together, they should form a reasonably coherent view of what the core of a good tax system does and looks like.

I think the Treasury does have that, to be fair, but I think more importantly, it actually has quite a lot of the evidence to support that. Because it's all very well to say, well we'll have broad based VAT with a minimal number of exemptions – it is the right thing. But if you've asked me to write a paper on that for an inquisitive minister, I wouldn't get much past that sentence to be honest. Whereas the Treasury could actually write a really good evidence-based paper and I do think that there's scope for developing that coherent overall position. Which still gives the political freedom to play around with the redistributive elements of income tax and possibly other things as well.

GT: Is there anything else you think the civil service could be doing to put themselves in a better position to help advise ministers on taxes?

ET: An awful lot. I do think that the question of international engagement on policy is under-explored, and I choose that phrase carefully because I don't think, in many cases, there's much to be learned from talking to some people. In my experience, what you can learn from other jurisdictions, often it's negatively. Well, that wouldn't work here, for instance. But you also learn a lot of organisational things and you do see things working. I'm not saying the Treasury has set its face against all this, but it doesn't have the resource to do it. I worry a little bit that economic analysis is under pressure. We were pretty well-resourced at the 2000s, I fear – perhaps it's Brexit and perhaps it's post-financial crash – there isn't the depth of economic analysis now.

To make reform work, you're highly dependent on having skills in the Treasury and people that understand the tax system well. And the initial [post-O'Donnell structure] was based on transferring people from the Inland Revenue and Customs and Excise to the Treasury teams, in other words there was an explicit skills transfer. And those who warned us at the time said, that's fine, but those people are not going to be in those jobs forever. Although we worked hard at it, we did not succeed in either maintaining a flow of quality resource, or quantity of tax resource, tax specialist resource, from the Revenue to the Treasury. Nor did we manage to build a self-sustaining body of tax skills within the Treasury.

And so while the role has largely remained the same, the skills experience has depleted over time and that I think is a challenge. Now, you can see it as a challenge to the structure. And the challenge would go something like, you cannot expect in an organisation like the Treasury, whose core business model is a broad base look across the whole piece, largely economics based, move jobs every two years, probably don't stay in the Treasury more than five years, unless you're one of the very exceptional people. You cannot expect within that to attract and retain a cadre of people who are tax experts, which by necessity requires long training, a degree of specialisation, a degree of application. And therefore, you could say on that basis, well the model was never going to succeed to the extent that it was intended to because of that, as it were, cultural division.

Now, I fought against that for probably the first four or five years in the time I spent in the Treasury. I'm afraid either because I was just weak or because I was realistic, or both, I came to the conclusion that it was going to be very hard to sustain real in-depth tax skills in the Treasury. And that you had to compensate for it in different ways. Indeed, I sort of ended up slightly making a virtue of it and emphasising to people in the policy partnership that there were two different characters of people involved in tax policy. The long-term tax experts in the Revenue (not that I wanted to discourage them from going to The Treasury) and the more policy-based, economics-based people in the Treasury who would like to stay in tax but might detach a bit and then go somewhere else. But the policy partnership could work if you could get those people to work together, at which I think we were reasonably successful. I think that was slightly different from the original model and does raise questions about "was that actually the right move in the first place?".

GT: Do you think tax policy making is weak in the Treasury and you should get people to stay in posts for longer and build some expertise in that?

I think tax policy making is different, partly for the reasons previously given, that it's unlike, any of the other Treasury policy areas: it has a direct and immediate impact on individuals. So, if you make some changes to financial regulation, nobody is going to pick up the phone and say, I'm a customer, I'm an investor and what does this mean for me? It's going to take a long time to filter out through the various regulatory organisations, the advisers, if you've got monetary, macroeconomic, or indeed spending policy, in a sense all the impacts are delegated, either out through the markets, or out through the spending departments. And so, the Treasury department by and large does not need to worry if it makes an announcement. But with tax, it's got to sort of worry about "How is [the person on the street] actually going to be affected by this?". The reality of budgets is when the chancellor sits down, the phones ring and people actually read this stuff and think that they're going to have to pay more tax. And so, the steps needed to protect the ministers from the consequences of that, which we failed to do on some occasions are, I think, always going to be different, which is why tax policy making is different. I don't want to suggest it's unique or exceptional, but… it is unique and exceptional. I mean exceptional in the sense of being an exception to all other policy.

JM: Do you think new independent bodies like the OBR [Office for Budget Responsibility] and OTS [Office of Tax Simplification] change tax policy making?

ET: I would not put those two institutions together. They were both created at the same point in history, but the OBR is a very different body, because the OBR is the sort of high-level conscience. It is effectively just keeping the chancellor honest. Previously, in his forecasts – rather like interest rate setting – however objective the chancellor chose to be, it was not visible and however good the Treasury forecasts were, in reality they were not rated by Gordon [Brown] anyway. The OBR is performing a function which undoubtedly is having huge impact and I think almost wholly beneficial.

The OTS in a sense is just a lightning conductor, a lightning rod. There'd been a horrible fuss about the tax system being so complicated. And it was just a way of having a manifesto commitment which sort of ticked the box and I don't think George Osborne really expected it to do anything except tick the box. "I've done this, I've given it to somebody else, it's not my problem anymore." It was set up to take a bit of flack and is a moderate check on excess.

GT: A few people have suggested that the OTS has managed to raise some issues in the public debate?

ET: Yes, I hasten to say, they've done some pitch-rolling, which has always been the thing to do. It's best when you've got a reform to stand up and say, the public have demanded that I do this so I'm doing it. Rather than, "Here's a brilliant idea I thought of earlier and like it or lump it". *[Laughs]* But there's obviously a much broader question which is not just how the party politics and the parliamentary politics have impacted on the ability to do tax policy changes and tax reform, but how much has the external environment and the relationship between the taxpaying public and governments impacted on the ability to do tax reform?

It's a nice thought experiment to think about whether the current population, if presented with the 1984 Lawson budget or indeed like the 1998 budget, would wear it. Whether the age of deference – sorry, I don't want to say that I approve of the age of deference, but what I mean by that is the sense that one's 'betters' would make the right decisions – has gone so completely that nobody believes anything that's said here anymore and it's pretty hard to do anything or convince anybody of anything.

GT: On that subject, a few people have suggested to us that it's more difficult now to create losers through tax policy. Reflecting on the years that you've been in this field, do you think it has become more difficult, despite the sort of mitigations that you were talking about?

ET: I think that risks sounding as though it's somebody else's fault, you know that it's "I would do this change, but it's just really hard to create losers". I think for a variety of reasons the government has become less good at doing it. Whether that's to do with large societal changes and the attitudes of the public to Parliament, whether that's to do with the inadequacy of the current political class, whether it's to do with social media and the fact that anybody can whip up a Twitter storm if they've got a lot of followers, I don't know, but I don't see why it should have become more difficult. But in a sense looked at simply, yes it has. But equally, you've got to be a bit careful, you've got to realise that people look at Gladstone and his tariff reforming income tax in 1853, and I'm not a great historian of the budget, but that was a hell of a battle. That was the most amazing battle and founded on the best possible story ever, but he got it through;

he was a titan, obviously, but even he had some trouble with it. He gave the budget speech in, what, six hours? Straight through, with the finance bill, that's the way to do it!

[Laughter]

Thomas Pope (TP): Do you think that enacting tax reforms like Mirrlees, at least as far as possible, is actually important?

ET: Of course it's important that the economy and the tax system, which is such a large model, is run as efficiently as possible – efficient in terms of in the most productive way possible. So, it is important. I think the question is how do you link up academic thinking with the reality of policy making? What are the structures which link through and what sort of timescales should you envisage to take something from an academic idea, which is a good one, to delivering the policy? And I think there are both questions of structure: why is it, and let me be brutal, that the Treasury tax teams would just roll their eyes when somebody came in and talked about Mirrlees?

Part of it must be that it all seems so utterly and totally undeliverable, even in a Parliament of five years, it just feels completely mad to think about it. So that's sort of fairly brutal. There should be a part of the tax policy making machine which effectively works in a more engaged and long-term way. Which sort of comes back to establishing an orthodoxy which can run beyond the political cycle? I think it is deficient, I think there are a lot of deficiencies in that respect. Canada's always interesting to look at, very slow to do reform, but the people who work on tax have done it forever. If you meet the Canadian official dealing with some bit of the tax code, he's probably twice the age of his Treasury counterpart. And I'm probably not exaggerating because your Treasury counterpart might be 27 and you're 54, which is not a joke, that's an observation. And 54-year-olds can be completely hopeless because they're so stuck in their ways, but 27-year-olds haven't really seen things.

GT: So just to finish, if you were advising your successors or civil servants in the government who actually wanted to change tax policy to stay on top of the issues around supporting the economy and raising revenue in the future, what advice would you give them?

ET: There's a combination of having longer-term goals you can always come back to. I think there's something about finding a way of engaging with the more Mirrlees-like conversations which are quite explicitly not about immediate reform, to try and build a longer-term consensus. These conversations cannot be completely unrealistic, but they fit with the OBR's work on long-term sustainability in the public finances. Indeed, the Treasury is still doing this kind of thinking, it has done work on the long-term sustainability of individual taxes. So, you build up within the Treasury some longer-term views about the state of the public finances, the path of the economy, the composition of the economy, the composition of the tax system and the nature of the tax system.

I think the second part is – and I wouldn’t say in conflict with O'Donnell – but finding some way, without taking HMRC's eyes off the fact that they should be measured first and last on whether they get the money in, that they have a greater degree of buy-in to policy development. I choose the word development, rather than delivery, because I think in a sense too many people at HMRC don't quite think enough in those terms. I think we've effectively lost some of that initial [post-O’Donnell Review] synergy between the Treasury and HMRC of having really experienced tax people in the same teams in the Treasury, building on what we had in 2004, ‘5, ‘6.

And so I would say, find some ways of achieving the same outcome without the organisational change. And again the same caveat applies, but there’s something there about the leadership and remit of HMRC, something about actually the way HMRC and the Treasury are or are not challenged by Parliament and in particular the Treasury Select Committee. One of the gripes I had with Andrew Tyrie – and I had this conversation with him on a number of occasions after the financial crash – is you have forgotten about tax and are obsessed about the banking system and you're letting the PAC [Public Accounts Committee] trample all over tax policy. And it's not that the PAC was wrong, but it was completely the wrong perspective to carve out the capability of the Treasury and HMRC. It was all about letting people off tax rather than actually, “Why is the tax system like this? What should the tax system be like?”.

The Treasury Select Committee ought to have the capability and capacity to do that rather better than it has done – but then there’s been Brexit. I think there's something about better using Parliament, parliamentary scrutiny, and, although I've maybe been slightly over-dismissive of this, external engagement. And I don't have an answer as to how to do this, I do feel there's a two-way process. One side of it is educating the external world on how the reality of tax policy is because I spent a lot of time doing it formally. People would come in and have some brilliant idea, I'd say “Look, get over it, this has got no chance of working”. But why did I have to do that? Why did they not appreciate the reality? I'm not advocating a Washington-style lobbying system, but it would be nice to have more people out there who do understand how tax policy is made and how to have the right conversations.

Not easy. *[Laughter]* But you know, if it was easy it wouldn’t be such fun! What a trip down memory lane!

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