

THE GUARDIAN

<http://www.guardian.co.uk/business/2010/feb/10/queen-economists-financial-crisis>

Economics briefings for Queen could head off financial crisis Academics suggest Queen be given regular official briefings on the economy to 'focus minds' on avoiding financial crisis

Katie Allen

She famously never carries cash but she likes to keep abreast of her subjects' economic woes. And now [the Queen](#) is being touted as the first line of defence between Britain and another financial crisis.

A group of economists has written to the Queen urging her to demand monthly briefings from ministers on the pitfalls ahead for the economy. Responding to the head of state's concern over [why no one foresaw the recession](#), first voiced in a visit to the London School of Economics last summer, the letter suggests she might play her own role in keeping key economic players on their toes in the future.

Signed by LSE professor Tim Besley, a former member of the Bank of England's monetary policy committee, and the eminent historian of government Peter Hennessy, the letter accuses ministers of shying away from crystal-ball gazing and highlights the failure by the Bank of England, Financial Services Authority and Treasury to spot risks ahead.

It admits "there are no simple answers" to dodging further crises. But it does suggest the Queen's involvement might sharpen minds.

"If you, your majesty, were to ask for a monthly economic and financial horizon-scanning summary from, say, the cabinet office, it could hardly be refused ... And if this were to happen, the spirit of your LSE question would suffuse still more those of your crown servants tasked to defend, preserve and enhance the economic well-being of your country," said the letter, a copy of which has been seen by the Guardian.

The three-page missive was the result of a high policy forum by 22 economic heavyweights at the British Academy in response to an earlier exchange with the Queen. The academy [first wrote to her last July](#) attempting to answer her question at the LSE of why no one had predicted the [credit crunch](#). The academy blamed "a failure of the collective imagination of many bright people". The Queen responded to that letter to say that she would be keen to hear what some of the country's top economists could recommend to prevent the financial crisis happening again.

The academy's response was to assemble the forum of key economic players, including the Treasury permanent secretary Sir Nick Macpherson and the former Bank of England

policymaker Sir John Gieve, in December to discuss ways to develop an "early warning capacity" so that the Queen would never have to ask her [recession](#) question again.

The letter explained the need for less complacency and more horizon-scanning, during which various scenarios are thought through, however unwelcome their outcomes might seem. "There is a need to develop a culture of questioning in which no assumption is accepted without scepticism and a sufficiently broad array of outcomes is considered," Besley and Hennessy write.

For several of the experts, ministers were seen as an obstacle to such long-term planning for fear of having their "noses rubbed in anxieties", according to Hennessy. The letter says: "Your ministerial servants were seen by some as an extra cause of anxiety. It was often very hard to persuade them to become properly involved in horizon-scanning. Some found it too gloomy; others saw the contingencies covered to be too remote ... Attracting and retaining the attention of busy senior policy advisers and decision-takers remains a perennial problem."

In fact, the experts were sceptical about finding or creating any institution to lead "horizon-scanning", hence their "modest proposal" for the Queen to demand monthly briefings.

"I really hope she does ask for this because I am sure if she does she will get it," said Hennessy. "That will sharpen minds ... Because it's for the Queen, they would give it their best shot."

He was reluctant to go as far as saying the Queen would get her wish in never having to ask the recession question again and the letter also stresses it is a "dangerous conceit to believe that economic cycles can be eliminated".

"'Never again' is not a pair of words I would use emphatically, it is about increasing the chances of 'never again'," added Hennessy.

That would mean avoiding the kind of herd mentality that saw a collective failure to contemplate various risks on the horizon before the last financial crisis.

"If you have a series of relatively buoyant years ... not only do human beings get flabby, also the feeling 'we've cracked that' is all too easy to spread," he said. "It is human nature. But it is a duty of crown servants to do this, however reluctant they are."

LONDON EVENING STANDARD

<http://www.thisislondon.co.uk/standard/article-23804145-ministers-should-hold-meetings-with-queen-every-month.do>

Ministers 'should hold meetings with Queen every month'

Ross Lydall

10.02.10

Government ministers or leading civil servants should be forced to outline any economic concerns to the Queen each month to prevent a repeat of the credit crunch, it was suggested today.

A panel convened by the British Academy believes that Whitehall departments will remain vigilant to another crisis if ministers have to account for themselves to the monarch.

They proposed the solution after the Queen, on a visit to the [London School of Economics](#) in November 2008, stumped academics by asking why nobody had spotted the looming credit crunch.

But the panel, headed by [Professor Tim Besley](#) of the LSE and Professor Peter Hennessy of Queen Mary, [University of London](#), has suggested she order a "monthly economic and financial horizon-scanning summary" from the Cabinet Office.

They note that such a request "could hardly be refused", and added: "If this were to happen, the spirit of your LSE question would suffuse still more those of your Crown servants tasked to defend, preserve and enhance the economic well-being of your country."

Professor Besley told the Standard: "I don't think we had formed a firm view about the form this would take. It could be delivered by a senior civil servant or by a minister.

"The reason the Queen's question resonated was because it was the kind of question people on the street were asking. The fact that Her Majesty asked it gave it extra poignancy."

Other panellists included former Cabinet Secretary Lord Turnbull, [Sir John Gieve](#), a former deputy governor of the [Bank of England](#), and Sir Nick Macpherson, the top civil servant at the Treasury.

The panel said the early-warning system involving the [Financial Services Authority](#), Bank of England and Treasury had "failed".

The Bank of England already prepares a World Risk Briefing but this is kept secret within the organisation to prevent a run on a currency or the collapse of an institution.

[Buckingham Palace](#) today declined to comment on the proposal.

THE PRESS ASSOCIATION

<http://www.google.com/hostednews/ukpress/article/ALeqM5hf7WTjLwczdhssr9u6-mkdhYQIbQ>

Queen urged to intervene on economy

(UKPA) – Feb 10, 2010

The Queen has been urged to play an active economic role in helping to defend Britain against a future recession.

The proposal has come from a group of academics and economists who have written to the Monarch asking her to request from the cabinet office a monthly financial "horizon scanning" summary.

Professor Peter Hennessy, the historian of government, who helped draw up the letter, said: "She's head of all the crown services and she's in a position to ask for any bit of paper if she wants. If she asked for horizon scanning documents on possible economic and financial problems she would get it. It will sharpen everybody up if the Queen asks for this."

But the move was criticised by Republic, the anti-monarchy group, who described the idea as a "bad joke".

At the height of the economic crisis in November 2008 the Queen asked during a visit to the London School of Economics (LSE) how, given the size of the financial problems, "everyone missed them".

The academics first wrote to the Monarch last July when they attempted to answer her LSE question and said they would be holding a forum to further examine the issue. In a written reply her private secretary said the Monarch was interested in their project.

The group convened their forum in December and came up with the proposal of the Monarch taking up an economic role looking ahead at possible problems. In the letter sent to the Queen this week the group wrote: "If you, your majesty, were to ask for a monthly economic and financial horizon scanning summary from, say, the cabinet office, it could hardly be refused."

They added: "And if this were to happen, the spirit of your LSE question would suffuse still more those of your crown servants tasked to defend, preserve and enhance the economic well-being of your country."

The group had come to their conclusion after deciding it would be difficult to get ministers and senior policy advisers to devote the time needed to looking ahead at potential economic problems.

Graham Smith, spokesman for Republic, said: "This must be some kind of bad joke. The idea that the Queen is in a position to avert economic disaster is laughable. The British people and their government are responsible for our national economy. It is pitiful that intelligent and educated people are wishing for some maternal figure to take that responsibility from them, to take decisions for us."

DAILY TELEGRAPH

<http://www.telegraph.co.uk/news/newsttopics/theroyalfamily/7202665/Queen-could-help-prevent-future-credit-crunch.html>

Queen could help prevent future credit crunch

The Queen could act as a first line of defence in helping prevent a future credit crunch, a group of financial experts has claimed.

By Martin Evans

Published: 6:56AM GMT 10 Feb 2010

By receiving regular updates from ministers on the state of the country's finances, any possible impending problems could be tackled before they go too far.

The idea has been suggested by a group of leading economists, who believe The Queen could act as a vital buffer against unforeseen financial disaster.

Last year on a visit to the London School of Economics (LSE) The Queen expressed her puzzlement over why no one had managed to predict the devastating global crash.

Now a group of economists, including LSE professor Tim Besley and eminent historian Peter Hennessey, has written to her suggesting she takes a closer personal interest in the Government's management of the nation's finances.

It accuses ministers of failing to take a long-term view of the economy and shying away from making predictions which may turn out to be wrong.

The letter states: "If you, your majesty, were to ask for a monthly economic and financial horizon scanning summary, from say, the cabinet office, it could hardly be refused...and if this were to happen, the spirit of your LSE question would suffuse still more of those of your crown servants tasked to defend, preserve and enhance the economic wellbeing of your country."

The three page letter was the result of a meeting involving 22 leading economic figures who gathered to discuss how the credit crunch was so spectacularly missed.

The group first wrote to the Queen last July explaining that the financial crisis had been the result of a "failure of the collective imagination of many bright people".

The Queen responded to the letter to say she would be keen to hear what some of the country's top economists could recommend to prevent such a situation arising again.

The letter said giving the Queen regular updates would "sharpen the minds" of those whose job it is to monitor financial progress.

"There is a need to develop a culture of questioning in which no assumption is accepted without scepticism and a sufficiently broad array of outcomes is considered," the letter states.

Besley Hennessy Letter 8 February, 2010

On 22 July 2009, the British Academy wrote a letter to you following its forum held on 17 June 2009, which had been devoted to answering the question you had posed at the London School of Economics the previous November about why nobody had noticed that the credit crunch was on its way. In that letter, we mentioned an intention to convene another British Academy forum on financial and economic horizon-scanning capabilities, to examine what your Crown servants could do 'so that you never need to ask your question at LSE again'. Your Private Secretary kindly wrote back to us on 30 July, indicating your interest in our project. A second forum was held on 15 December 2009, and this letter is an account of the flow of thought and debate.

Horizon-scanning is distinct from forecasting. As we have seen in recent events, the challenge is about understanding discontinuities, and forecasts cannot cope with that. Creating scenarios has a role to play in emphasising that there are genuine uncertainties which cannot be quantified. But, for this to be effective, it is absolutely essential to ask the right questions and to have sufficient imagination. Effective horizon-scanning has both cultural and institutional components. There is a need to develop a culture of questioning in which no assumption is accepted without scepticism and a sufficiently broad array of outcomes is considered. But that comes to nothing unless the process is institutionalised within a body that pulls together these ideas and is responsible for drawing general lessons and concerns.

It is evident from our answer to your earlier enquiry that the UK had not been well-served by warning signs on the road to events of 2008. For example, the Standing Committee staffed jointly by the Treasury, the Bank of England and the Financial Services Authority (FSA), whose purpose, as one of our participants put it, was 'to spot risk coming down the track and act upon it', failed to do so. The FSA, we were told, 'spent much of the decade looking at the conduct of business issues. The Bank of England was very focused on monetary policy and indeed pared back its financial stability wing ... [and] ... the Treasury, which was ultimately responsible for bringing all this together, and therefore should have been able to spot the risks, failed to do so as well.'

Besides the Treasury, the Bank of England and the FSA, other organs of government were voicing their concerns about unfolding events. In their major analysis of Strategic Trends published in 2003, the staff of the Ministry of Defence's Joint Doctrine & Concepts Centre at Shrivenham (since relabeled as the Development, Concepts and Doctrine Centre) warned: 'The relative risks of economic shocks having major detrimental impacts on states is likely to increase. This is one of the potential prices of

globalisation. Difficulties in one part of the global system will have a wider impact due to deepening integration but equally the room for error in domestic policy decisions will reduce due to more mobile capital and more transparent information on national policy and performance. The impacts of such crises are likely to be increasingly severe in terms of national prosperity and potentially more likely to precipitate knock-on consequences for other closely dependent states.’ And in a 2006 paper ‘Financial Fragility Exposed by a Sudden Interest Rate Shock’, the Horizon-Scanning Centre of the Government Office for Science (now part of the Department for Business, Innovation and Skills) examined the dangers of ‘the explosive growth of the global capital market on the back of securitisation and derivatives which has meant that regulators have found it hard to keep up with the multitude of new instruments and the attendant risks involved.’ But, as we emphasised in our earlier letter, it is not enough to see the problem. It is essential to understand the timing and magnitude of likely consequences and to have a proper response to these difficulties prepared. And without an institution to draw together intelligence across relevant institutions, there was little scope for a complete picture to be formed.

To be fair to the Treasury/FSA/Bank of England Standing Committee, they did mount a dry-run in 2005 of what would happen if a bank failed, although the legislation needed to improve the existing bank-failure regime was not regarded as a priority and did not materialise. Since the onset of the crisis, the Standing Committee has concentrated powerfully on horizon-scanning. However, the unprecedented nature of the events has made it very difficult to do so with any precise analysis of the likely prognosis for the economy. The Treasury too has reviewed its capabilities and its managing director on the international side now chairs a group which brings together all of its riskmanagement/horizon-scanning elements. The Treasury also has taken steps to increase in-house challenge to existing assumptions and analyses.

The British Academy forum reflected a consensus on the need for improvement. However, when it comes to the economy one has to be realistic about what can be achieved. Economies are inevitably unstable and it is a dangerous conceit to believe that economic cycles can be eliminated. However, it is essential for the organs of government to be readied and armed with the best intelligence.

Those who emphasised cultural change argued that the best chance of avoiding the need to repeat your LSE question lies in quickening the sensitivities and states of mind of those charged with trying to anticipate what economic and financial shocks may occur in future. This can only happen where there is an environment which provides sufficient criticism of assumptions and is open to considering a wide range of possibilities. The hierarchical structures and histories of our many organisations provide a major challenge to making this work effectively. It was even suggested that there should be a rule that allows nobody to work in a particular position of responsibility for more than eight years.

Others thought the lessons of the past – not least the difficulty the Cabinet Office’s Joint Intelligence Committee has had over several decades with the acquisition, handling and dissemination of economic information – suggested that a more bespoke institutional

arrangement might help in future; perhaps a Unit or Group charged with pulling together all the relevant information from the existing wider institutional churn. Some saw merit in a combination of cultural and institutional reform.

All recognised the difficulty of scenario building in this area and the particular sensitivity of financial information. This has long bedevilled the wider dissemination of the most delicate economic information, for fear of both leaks and the consequences of such leaks (precipitating precisely those events the horizon-scanners and policy-makers most feared, in terms of runs on the currency or institutional failure). It is for this reason that the Bank of England's monthly World Risk Briefing does not pass beyond its formidable walls. The age of freedom of information adds still more peril. Nonetheless, your senior Crown servants at the forum professed a willingness to try.

To be candid, Your Majesty, your Ministerial servants were seen by some as an extra cause of anxiety. It was often very hard to persuade them to become properly involved in horizon-scanning. Some found it too gloomy; others saw the contingencies covered to be too remote. Sometimes involving Ministers in exercises related to horizon-scanning and the resultant contingency planning helped, but not all were keen to devote time to these. Attracting and retaining the attention of busy senior policy advisers and decision-takers remains a perennial problem.

There was a general reluctance at the forum to endorse a proposal to produce a regular horizonscanning summary, drawing on all providers for the purpose of making maximum use of the information and the thought swirling around in the various parts of your Crown services. Nobody volunteered either individually or institutionally to lead this task and there was scepticism about the ability to institutionalise such activity within government within current structures.

In the end, the major challenge is to make institutions and organisational cultures work together. This means also getting the right people involved who see the task as a central part of their role in government. One can have as much scenario planning as one likes, but if there is no buy in from the people who will be taking the decisions in a crisis, then it is probably counterproductive. As you can see, there are no simple answers.

So, we end with a modest proposal. If you, Your Majesty, were to ask for a monthly economic and financial horizon-scanning summary from, say, the Cabinet Office, it could hardly be refused. It might take a form comparable to the Joint Intelligence Committee's 'Red Book', which you received each week from 1952 until 2008 when it was abandoned. And, if this were to happen, the spirit of your LSE question would suffuse still more those of your Crown servants tasked to defend, preserve and enhance the economic well-being of your country.