

THE AUSTRALIAN

What ails Treasury cannot be fixed with a night of the long knives

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TO reform our economy, an Abbott government needs an effective Treasury. That requires addressing problems whose roots stretch back to the Whitlam years. But solving them is not a question of returning to the past, nor can those solutions be viewed in isolation from broader reforms to the public service.

In the lead-up to the 1972 election, Canada exercised a greater fascination on left-leaning Australian intellectuals than at any other time in our history. Pierre Trudeau, the charismatic law professor turned politician, seemed to combine the social activism of Don Dunstan with the towering intellect of Gough Whitlam.

Having become prime minister in 1968, Trudeau dramatically expanded public spending in an attempt to reshape Canada as a European-style social democracy. One reason Trudeau could do so, concluded Peter Wilenski - at the time a junior diplomat posted to Ottawa, later Whitlam's highly influential private secretary - was that the "dead hand" of Treasury had been lifted from public expenditure.

Thanks to the separation of financial oversight, which became the responsibility of the newly created Treasury Board Secretariat, from economic policy generally, which remained in the Department of Finance, economic advice in Canada was no longer dominated by "bean counters" who "knew the cost of everything and the value of nothing": instead, Wilenski argued, it concentrated on the big picture.

With myriad twists and turns, the Canadian example gathered momentum in the Canberra of the early 1970s, including through the Coombs Royal Commission on Australian Government Administration. By the time Malcolm Fraser, furious at what he considered Treasury obstruction over exchange rate policy, decided to put the Treasury mandarins in their place, it was squarely on the agenda.

The result was a three-page cabinet minute, dated November 18, 1976, recording a decision to transfer the management of government finances to a new Department of Finance, relegating Treasury's functions to "broad policy analysis and advice".

Whatever the merits of that decision, it severed Treasury from detailed exposure to policy implementation.

No longer would young Treasury officials grow up on the maxim that "spending money is wrong". Nor would they be exposed to a daily diet of misadventures that invariably grind grand schemes to improve the human condition into dust.

Little wonder Treasury showed blissful naivety about the ill-conceived spending programs that were at the heart of Kevin Rudd's stimulus package.

But ignorance of the brambles that entangle such programs was only part of the difficulties. The changing intellectual climate was also important.

The 70s drama of stagflation, in which spiralling inflation combined with high unemployment in a cocktail the Keynesian remedies only worsened, focused attention on rigidities that pervaded the advanced economies. By the 90s, however, the priority accorded to dismantling those rigidities had receded as other issues, particularly environmental concerns, came to the fore.

"Government failure" seemed less central to these new issues than "market failure"; and with economics placing ever more emphasis on the factors that might lead markets to fall short, it was all too easy for yesterday's nay-sayers to become today's apologists, finding sophisticated rationales for interventions whose noble objectives hid questionable motives.

The Treasury Wellbeing framework, released in 2004, embodied that shift. Its striking feature was not what it had to say; it was that Treasury thought it worth saying. After all, its content had been more cogently expressed in Treasury papers dating back to the early 70s; what the framework did was signal a move to a kinder, gentler public positioning.

Increased competition only added to the pressures promoting Treasury's transformation. Economic advice was becoming a crowded market, within government and outside it; and the transfer of control over monetary policy to the Reserve Bank intensified that competition and weakened Treasury's standing.

Having lost an empire, Treasury was struggling to find a role. Rudd proved the godsend the department required. Whatever his defects, a shortage of ideas was never among them. Unfortunately, none of them was any good. But especially once the global financial crisis broke, Treasury became their enthusiastic advocate. And its enthusiasm was all the greater as the GFC brought fiscal policy - the one substantial instrument Treasury still controlled - back into fashion. Bell-bottoms and platform shoes had returned big time, and Treasury owned the only pair in town.

Yet the crisis also highlighted Treasury's shortcomings. Its defence of schemes such as Rudd Bank, FuelWatch and pink batts was of shockingly poor quality, as was its submission to the Fair Work Act review. Its assessments of the carbon and mining taxes rested on wildly implausible assumptions, and repeated testiness about disclosing the detailed workings did Treasury no credit.

As for the Asian Century report Treasury co-ordinated, it had all the gravitas of a rubber duckie. And Treasury's macro-economic modelling capacity had withered, with budget forecasts that scarcely made sense.

That was not because of any resource shortages; Treasury is five times larger than at the peak of its influence 40 years ago, with expansion at the senior ranks even greater, while pay levels are enviable. Instead, the difficulties reflect a culture that has lost none of its arrogance but much of its sharpness.

That is an illness no night of the long knives can cure. Addressing it will require a frank review of Treasury and the other central agencies. And, most of all, Treasury needs a minister who not only values the department but is able to challenge it and hold it to account.

British Labour MP and long-time minister Barbara Castles famously described the relationship between a minister and officials as a "companionable embrace". Treasury's relationship with the Labor government was closer to a torrid affair. With the end of the affair, a venerable institution will need a fresh start.
