A victory of sorts

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KEN Henry sidelined? Just about everyone seems to think so. And just about everyone is missing the point.

Partly it is the result of a cartoon view of how government works, a belief that what is all-important is the person rather than the institution. And partly it fails to acknowledge that Treasury remains incredibly influential.

Days into her prime ministership, in a bid to end bottlenecks, Julia Gillard set up a new ''business of government'' section within her Parliament House office. To run it, she hired a division head from Treasury, Dr Steven Kennedy.

Treasury's influence is omnipresent in Canberra, in part because each year it recruits about 50 of Australia's brightest university graduates. Although other departments also try to do this, they typically have a hiring problem — not enough good graduates want to work for them. Only Treasury, along with, at times, the Department of Environment, has no problem.

Some of this comes from its esprit de corps, which preceded Henry's time at the top, and will continue after it. And some comes from Malcolm Fraser's attempt to kill it. Furious with what he felt was Treasury's narrow advice in 1976, the new prime minister split it in two. A new Department of Finance was to manage the spending and provide competing advice.

The decision freed Treasury from having to manage anything very much and gave it a high-level oversight into everything the government did.

It now has a revenue group (the one that worked on the mining tax) but does not collect revenue; it has a markets group, even though the work of regulating markets is done by the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission, and a fiscal group, even though the Finance Department spends the money. Oh, yes, and a macro-economic group, even though the Reserve Bank sets interest rates.

In place of mundane management it has become the pre-eminent specialist in strategic management. Lenore Taylor and David Uren's book, Shitstorm, details how in 2004, when the economy was strong, Henry held two top-secret ''war-gaming'' workshops to work out how to handle an economic crisis. Examining what had gone wrong before and what could work if it was done differently, the team built a plan ready to pull off the shelf when it was needed four years later.

At any time, such strategic thinking would have been useful. From the moment Kevin Rudd was elected it became exceptionally so. Henry and senior staff flew to Brisbane to brief the new prime minister and Treasurer for two days about what they would need to know and how to make their policies work.

Any government elected from opposition would be keen for such advice. But what made Rudd's government different was that it remained keen. The rumblings that preceded the global financial crisis were beginning and the crisis exploded in the first year.

This is when the idea of a Ken Henry cult took hold. In the lead-up to his first budget, Wayne Swan had himself photographed working with the Treasury secretary on the weekend, sleeves rolled up, and so on. Lacking obvious economic credibility as a new team (all the more so as a new Labor team), Swan and Rudd drew Henry close to them in public in the apparent hope some of his credibility would rub off. (They may have also wanted to portray attacks on them for doing so as attacks on Henry and therefore unfair. If so, they succeeded. Henry drew repeated fire from the opposition, which is now treading more carefully, reciting the mantra: ''Our argument is not with Dr Henry.''

Appointing the Treasury boss to head the tax review still stands as an excellent decision. Along with former Treasury officer Greg Smith, who was also appointed to the review panel, Henry has more experience in tax design than any other Australian, a product of his time working on Bob Hawke's 1985 tax summit, working to kill the Coalition's plan for a goods and services tax when it was in opposition, and then working to introduce the GST when the Coalition took office. There had been a recent precedent for getting a departmental head to run such an inquiry. A year before, John Howard had appointed the head of the Prime Minister's Department to run his emissions trading inquiry.

Henry said when he began the inquiry he did not necessarily expect its recommendations to be adopted. Asked this week if he was disappointed at what had happened, he said without apparent bitterness: ''Believe it or not, not really, or at least not much — the fact is, after 25 years of providing difficult and controversial or contentious advice to government, it is almost something of a surprise when something does get up.''

Asked last year to describe the contradictions inherent in his role (the exact question was: ''Is the Treasury independent?''), Henry said the most important point was that the Treasury did exactly what it was ordered to do, ''so in that sense, of course, Treasury is not independent of government and it can never behave as if it is.
''But there is another sense in which it does have independence, and that is that the Treasury conducts its analysis without government interference. It is up to the government of the day to decide whether to accept that analysis or to reject that analysis.''

He could have added that there is a bit more to it.

Treasury can alter decisions at the margin — win battles for good policy as it sees it — while it is losing them.

Years ago, as an adviser to the then treasurer Paul Keating, Henry did it with telecommunications. Keating had lost a battle with communications minister Kim Beazley to open Telstra to full competition. At the last minute, at Henry's suggestion, Keating inserted a sunset clause in the decision - after so many years, Telstra would lose its protection.   Henry and Keating won while losing.

Henry and Treasury were at it again late last week. As ministers Swan and Ferguson negotiated with the mining bosses, Treasury was in touch throughout the day, crunching the numbers and also performing ''due diligence on design parameters that the mining companies themselves came up with''.

In other words, Treasury was snatching some sort of victory from the jaws of defeat.

This type of situation is all through the mining decision.

The big companies have got a lower tax rate and it comes in later, but the small companies will no longer be supported by the taxpayer as they would have been. The original scheme would have refunded all the royalties made by most of the small miners and charged them nothing.

It won't now. Even big miners will have to pay royalties until they make enough profit to pay the new tax.
Prime Minister Julia Gillard has good reason to be pleased with the way Treasury protected government revenue through the entire process. While it may not get as much as it was planning, if the mining boom continues, as it probably will, it is set to make far more money than most people imagine.

Treasury never released its estimate of how much money it was set to raise   a year after the five-year phase-in period of its original tax was complete. Some guesses are enormous.

Henry's second five-year term as Treasury secretary expires in April. If he wants a third he will be offered it, at least by a re-elected Gillard government. But if he does not, little will change.

The people at the top of the Treasury, executive directors such as David Gruen and David Parker, helped design the resource rent tax and helped design the stimulus plan that probably saved Australia from recession.

The stock of knowledge and expertise in the Treasury building is too big to be ignored.

Would another Treasury boss, or Ken Henry himself if he continues, adopt a lower profile? Maybe. But it is not right to say Henry's profile is new. Treasury secretaries have for decades had broader public roles than other departmental heads. Frederick Wheeler, John Stone and Bernie Fraser were among those in the public eye who at times were (unfairly) attacked for being political. Most of Henry's time in the public spotlight was as Treasury secretary for the Coalition's Peter Costello. Never once was he publicly disloyal.

This brings us to his private comments directed to staff in the lead-up to 2007 election, seen by his Coalition masters as grossly disloyal when leaked to The Australian Financial Review. He warned that as the election approached there was ''a greater than usual risk of the development of policy proposals that are, frankly, bad.

''... we need to be mindful of the high opportunity cost of proposed policy actions, to advocate sound and wellbeing-enhancing policy action, and to educate others on the full implications of policy interventions.''

It seems innocuous with the benefit of hindsight — the sort of thing Ken Henry and his successors should be suggesting.

Source: theage.com.au