Should We Abolish the Commonwealth Treasury?

John Forster
School of Economics
Griffith University

Questioning the Role of Treasury

Established in 1901, Treasury was one of the original five Commonwealth departments. It is not surprising then that the Commonwealth Treasury seems both a permanent and central feature of executive government in Australia. But is this merely because it has endured since Federation, being possibly the only government department dignified by a place in the Constitution? Over 100 years after Federation, and given a different world, perhaps there are better ways of arranging the government affairs that now come under its control? In other words, we should ask if there is any longer a need or a role for the Treasury? No more than any other department should Treasury be able to claim that its existence as a department is inviolable. It cannot rely on its Constitutional mention as the words could imply either treasury as a bank (consolidated revenue) or the treasury function of government.

At Federation, and immediately after, Treasury fulfilled little more than a bookkeeping and budget function. It made no claim to an economic policy role. Over the years, with two world wars, depression, postwar reconstruction and, arguably, most important of all, the Keynesian revolution in economic policy, the role of Treasury became larger. This larger role came to be seen as almost the natural order of things. But the world has continued to change, and arguably its role is redundant in a global and market-oriented economy, especially when Reserve Banks around the world play dominant roles in macroeconomic stabilisation. The world economy has changed so dramatically that no nation can independently create and implement the short- and medium-term macroeconomic policies that were long the postwar raison d’être of Treasury. And even if this were possible, there are potentially more rational ways of organising the work than is presently the case.

It is argued that current Treasury functions can be split in a way that more clearly represents not only the nature of economic policy but also of economic and budgetary management. If this does not mean the abolition of Treasury, it does require a more focused and more limited role for the department.

Given past criticisms of Treasury, especially in the Whitlam–Fraser–Hawke period, it can be asked why there are so comparatively few sustained critiques of Treasury, especially in recent years. Moreover, does this lack of criticism absolve Treasury from change at present? One reason for the lack of criticism is the tenure of a politically strong Treasurer, Peter Costello, in successive Howard governments, making the current position of Treasury seem secure. In addition the Australian (and world) economy has enjoyed several successive economically good years, while suffering little in the Asian financial crisis of the late 1990s. Unemployment is low by the standards of the 1980s and 1990s, as are interest rates and inflation. Other reasons include the success of the design and implementation of the GST, for which many of Treasury’s officers deserve much of the credit. At the same time, Treasury seems distanced from potentially damaging controversies such as the federal IT outsourcing fiasco.
If Treasury has not accumulated recent criticism, it has accumulated over the years a diversity of functions and responsibilities (see Figure 1). So what does Treasury now do? And especially what does it do that can be claimed to be a central or even an essential role in executive government?

Treasury and the Treasurer

How does Treasury itself view its role? According to the department, Treasury’s mission is:

to improve the wellbeing of the Australian people, by providing sound and timely advice to the government based on thorough analysis of the options, and by assisting Treasury Ministers in the administration of their responsibilities and the implementation of Government decisions (http://www.treasury.gov.au/Overview.asp), accessed 1 March 2001.

This mission has not ventured far since the days in 1975 when Sir Frederick Wheeler argued that the department’s function was to ‘advise and assist’ the Treasurer and its objective was to ‘carry out its function as efficiently and effectively as possible’.

This mission statement says little or nothing about the work of Treasury but it is, paradoxically, an enormously revealing statement. It is a mission statement that could be applied to any Commonwealth department by substituting in any ministerial or departmental titles. It excludes nothing and includes nothing, except the known relationship to the Treasurer and the two ministers assisting. Conversely, at the Treasurer’s website, we find explicit functional responsibilities, namely:


In many of these areas Treasury — the department — plays little or no active part (eg in the census or statistics gathering; the administration of taxation as opposed to policy; currency; banking, insurance, corporate and securities law and corporate insolvencies). So, given that Treasury consists, in effect, of only a subset of the Treasurer’s portfolio, the Treasurer’s statement neither defines Treasury nor ties the roles of Treasurer as minister to that of Treasury. This means that Treasury’s functions can be re-ordered inside the Treasurer’s portfolio without necessarily diminishing the Treasurer as the nation’s senior economic policy-maker and manager (other than the prime minister). In any rearrangement Treasury could, for example, be given a largely symbolic role, broadly similar to that of the US Treasury. This may be an effective way of modernising the decision-making and the implementation of economic policy in Australia.

Previous changes in Treasury’s functional realm indicate the possibility of future change. But they do more than this: they suggest that the role of Treasury is not only changing but diminishing over time. Relevant changes have varied in timing and significance and have included:

- the establishment of the Reserve Bank of Australia (RBA) in 1959;
- a floating exchange rate for the Australian dollar in 1983;
- the RBA taking on the role, as a quasi-independent economic agency, of managing short-term interest rate adjustment and of monetary policy in general;
- establishment of the Department of Prime Minister and Cabinet and its assumption of an economic role, as well as budget creation and gatekeeper responsibilities;
- establishment of the Department of Finance in 1976 and its assumption of expenditure and budget management roles; gatekeeper responsibilities; public service management and government accounting roles;
- the creation and/or demise at various times of various other federal government bodies, not just agencies and departments, some with significant inputs to macroeconomic policy.

There is no doubt that some of these changes have flowed from political movements but all are consonant with deep-seated changes in the world economy and the ways in which it is managed at the global level — for example, by the WTO and the major formal trading blocs.
Current Structure and Functions of Treasury

This suggests that there is an increasing need for the role and the functions of Treasury to be systematically analysed and re-created in the light of these changes. Treasury currently comprises three groups: Budget Group, Markets Group and Economic Group. The main divisions and non-divisional elements (in italics) assigned to each group are listed below (Figure 1). Not included are six international offices and the Corporate Services Division.

The titles are largely self-explanatory, but the individual elements can be examined on each group’s web pages: (<http://www.treasury.gov/about/budget.htm>, <http://www.treasury.gov/about/markets.htm> and <http://www.treasury.gov/about/economic.htm>). Some, however, require explanation for the present argument. These include, for example, Foreign Investment Policy, whose title is slightly misleading as it is also an operational unit, which is usually the first point of contact for foreign investment applicants and prepares draft reports on proposals’ (<http://www.treasury.gov/about/markets.htm>). The Structural Reform Division is especially concerned with microeconomic reform and competition policy. It also deals with The Trade Practices Act 1974 as does the Consumer Affairs Division. AXISS Australia has the brief of promoting Australia as a global financial service centre, while the Corporations and Securities Panel deals largely with takeovers. In the Economic Group the Australian Office of Financial Management has responsibility for managing the Commonwealth debt. Most of the non-divisional elements are not specifically within Treasury but come under its aegis as part of the Treasurer’s portfolio. Other miscellaneous elements such as the Royal Australian Mint, the GST Start-Up Office and the Charities Definition Inquiry are not core Treasury functions.

It is the lack of coherence in these functions that suggests a key point: that currently Treasury is an agglomeration of functions without any clear defining role, other than support of the Treasurer.

Arguably, many of these functions, agencies and offices are most certainly better housed elsewhere, even if remaining in the Treasurer’s portfolio. In many ways they are together in Treasury solely because the Treasurer’s portfolio remains a single department. And they are so mixed as to prevent the reacquisition of any defining role. This suggests the urgent need for dispersal and/or the creation of a second or third department or large agency within the Treasurer’s portfolio. Recent corporate events both in Australia and overseas, for example, suggest that the corporate watchdog role involving regulation, enforcement and policy activities require a focused and forceful structure of their own, especially if they can be combined with relevant elements from other departments.

But how should a new set of function be decided? The general, non-specific way in which Treasury appears to view its functions, as in its mission statement, suggests the key areas are: advising and supporting the Treasurer on economic and other policy issues; creating policy alternatives; evaluating policy issues;

<table>
<thead>
<tr>
<th>Budget Group</th>
<th>Markets Group</th>
<th>Economic Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Policy</td>
<td>Foreign Investment</td>
<td>Domestic Economy</td>
</tr>
<tr>
<td>Commonwealth–State Relations</td>
<td>Structural Reform</td>
<td>Macroeconomic Policy</td>
</tr>
<tr>
<td>Business Income and Industry Policy</td>
<td>Financial Markets</td>
<td>Economic</td>
</tr>
<tr>
<td>Business Entities and International Tax</td>
<td>Financial Institutions</td>
<td>International Finance</td>
</tr>
<tr>
<td>Indirect Tax and Payment Design</td>
<td>Corporate Governance and Accounting Policy</td>
<td>International Economy</td>
</tr>
<tr>
<td>Retirement and Personal Income</td>
<td>Consumer Affairs</td>
<td>Asia-Pacific</td>
</tr>
<tr>
<td>GST Start-Up Office</td>
<td>Royal Australian Mint</td>
<td>Australian Office of Financial Management</td>
</tr>
<tr>
<td>Board of Taxations Secretariat</td>
<td>AXISS Australia</td>
<td>-</td>
</tr>
<tr>
<td>Charities Definition Inquiry</td>
<td>Corporations and Securities Panel</td>
<td>-</td>
</tr>
<tr>
<td>Australia Government Actuary</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Figure 1: Current Groups and Group Elements within Commonwealth Treasury
alternatives (including those from other areas of government to gauge their economic impacts); federal–state economic relationships; coordinating and integrating of functions as well as other additional functions.

Unfortunately this approach allows little to be said about splitting functions as these responsibilities tend to go across functions. They are perhaps indicative of Treasury seeing itself as having an over-arching role. However, it is not necessary to accept this view. Among innumerable possibilities, one way of organising current Treasury functions is adopt a more functionally oriented structure: budget; taxation; macroeconomic and international economic policy; business corporations and activities; financial markets and institutions and federal–state economic relationships.

Some of these functions correspond to current divisions and others to responsibilities now spread across several divisions. With this perspective the possibilities of creating more focused departmental elements are readily seen. Given such possibilities the next section presents the basis for a rearrangement of functions largely remaining within the Treasurer’s portfolio.

The Shift from Economic Policy to Economic Management

Central to considering the functions and role of Treasury is its position as a macroeconomic policy department. But this is not a constant. Just as Treasury has moved from its simple recording of government activities role in the early days of Federation, so there has now been a move away from fiscal interventionism, and with it much of Treasury’s role has also disappeared. Supporting this argument, short-term macroeconomic policy attention has turned away from Treasury and has moved towards the Governor and the Board of the Reserve Bank of Australia (RBA). As a vivid illustration of this, Treasury is mentioned just once in what is probably the most widely used introductory macroeconomics text in Australia, ‘In Australia, economists work in the Treasury and the Department of Finance to provide advice on taxation and fiscal policy’ (Stonecash et al. 1999:27). As opposed to this the RBA receives several mentions and its changing role is discussed often and in detail (Stonecash et al. 1999:27, 215, 255–58, 261–63, 375, 381–82, 385, 409, 413, 426–29). While this imbalance partly represents the ideology of the text, it is not alone among economics texts in emphasising the role of the RBA. This is a recognition that fiscal policy in most of its guises is too cumbersome to be effective. Indeed, it may even be counter-productive, with mis-timed counter-cyclical government expenditure able to exacerbate upturns and downturns rather than dampening them. In addition expenditure intervention is potentially ratchet-like in its effects, increasing the relative size of the government sector and also public debt. And while the alternative (of increasing or decreasing taxation as fiscal policy) is faster to implement than expenditures, it is equally uncertain in its impacts upon the economy. Overall, concentrating on short-term and even medium-term policy makes it difficult to keep long-term structural budgeting to the fore. Yet the demise of short-term fiscal policy takes away much of Treasury’s previously core role. So it is less than surprising that Treasury’s own mission statement is so vague as to its current role.

Short-term macroeconomic policy, previously exercised in the hands of Treasuries and Treasurers, has now been replaced by short-term macroeconomic management via interest rate adjustment by central banks. And while Treasurers around the world still exert public and private pressure on interest rate adjustments, central banks both individually and as a group are increasingly able to assert their autonomy. At the beginning of the 20th century there were only 18 central banks, all with few policy functions, whereas today there are over 170 (Woodall 1999). Despite differences in their individual remits this enables a quasi-coordinated approach to interest rate adjustment through a global network of central banks. Along with its interest rate management role, to the limit of its abilities given the size of international exchange markets, the RBA now also looks after the short-term dollar exchange rate, as well as having a responsibility to curtail inflation.

The argument is that Treasury has accumulated functions while losing its key economic role.

A Department of Revenue

The question then arises as to what alternative arrangements are possible? While a plethora of
possible alternatives exists only one is outlined here. It is assumed that tax changes are generally not a viable short-term macroeconomic policy tool, with both business and individuals desiring tax certainty and stability. It is also apparent that the GST is neither politically nor administratively suited for rapid changes, and there are similar limits to the use of other indirect and direct taxes. It is suggested that a major problem with taxes such as the GST is that they may be admirable tax policy but difficult for tax administration. In other words taxation rates, not just the taxes themselves, are structural elements, and of little use for macroeconomic stabilisation.

Consequently taxes and government revenues in general require their own policy, management and operations department. A Department of Revenue, reporting to the Treasurer or an assisting minister, allows this crucial specialist function to be more coherently planned and administered. It would also mirror the Department of Finance and its concern with public expenditures. The Departments of Revenue and of Finance would then be able to operate as ‘guardian’ departments in their complementary but specialised areas. A Department of Revenue could include tariffs and customs, all other tax and non-tax income of government and virtually all revenue collecting agencies. Within this departmental structure, the Australian Tax Office, for example, would be an independent agency under a more directly accountable minister for revenues and taxation than is presently the case. Within a Department of Revenues areas such as tariffs policy and customs can be better coordinated as economic functions.

Conclusion: A Treasurer’s Policy Department

One other department is required to complete this arrangement. This would be a very small and entirely advisory and policy coordination department, concerned with budgetary and economic policy and reporting directly to the Treasurer. The small size of the new policy department implicitly recognises the limits on macroeconomic policy, while allowing it greater flexibility and freedom from administrative duties under the Treasurer. The creation of this policy department would then allow budgetary management to fall more sensibly under the Revenue and Finance departments, the Treasurer having the oversight role. This more focused role would require, for example, that the new policy department retain Commonwealth–state relations directly under the Treasurer. Yet the creation of a department concerned with federal revenues is an acknowledgment of the gathering-spending relationship that exists in Australian federal–state relationships.

The world economy and its institutions such as free exchange rate markets and a network of central banks have been evolving over time, and this has seen a diminution in the powers and significance of Treasury. Under this interpretation Treasury did not abdicate the role of macroeconomic policy-maker. Rather it lost it to external movements in the world economy and global economic institutions. Under these circumstances, economic management is required more than short-term economic policy; and increasingly complex structural forms of taxation require a specialist department. A radical change is required, preferably the Treasury abolished and a much smaller Treasurer’s policy department in its place. This would remedy the current overwhelming of Treasury’s role by its diverse and odd acquisition of functions. Creating a strong Department of Revenue allows this, as well as being superior to present ad hoc arrangements for federal revenues. In addition, there is clearly a pressing need for a more coherent approach to corporate governance responsibilities, rather than them being spread throughout Treasury and other departments and agencies.

Note

1. The relevant section (IV.83) is ‘No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law’ (Constitutional Commission, n.d., p. 22).

References

Constitutional Commission n.d. The Constitution of the Commonwealth of Australia, St James, NSW.