The Treasury and the Global Financial Crisis (B)

A departmental stress test

Treasury routinely collects and monitors data on a bewildering array of factors indicating and affecting the state of the national economy. Its business is making meaning out of complexity. It has developed a robust architecture of internal capacity to enable it to follow trends and predict outcomes. It has constructed sophisticated economic models and analytical capacities. Detailed analysis and scenario-testing of accumulated data allows the department to reflect on the circumstances when providing policy advice.

This system is premised on the availability of time, and on the economic parameters changing incrementally. The global financial crisis (GFC) turned complexity into turbulence, and predictability into acute uncertainty. It also escalated the already high demand for Treasury advice from what was turning out to be a highly-activist and centralised Rudd government.

When the GFC hit, not only did the Treasury's workload increase significantly, but so too did the scope of the advice it was expected to provide and the range of stakeholders it was expected to consult. Suddenly, the department was engaged in areas of work with which it had little prior experience.

As Rudd held meetings on the GFC response almost on a daily basis, senior Treasury officials were required to brief the Strategic Priorities and Budget Committee (SPBC) ministers virtually every morning and take part in a wide range of intense, high-level negotiations. The deadlines were relentless and the complexity (and fluidity) of the policy

This case was prepared for ANZSOG solely for teaching purposes by Professors Paul 't Hart and John Wanna (both Australian National University) . They were given access to Treasury documents and held eight semi-structured interviews with key Treasury officials. However, the views expressed in this case are exclusively the responsibility of the authors, and do not necessarily reflect those of the Department.

Cases are not necessarily intended as a complete account of the events described. While every reasonable effort has been made to ensure accuracy at the time of publication, subsequent developments may mean that certain details have since changed. This work is licensed under Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International Licence, except for logos, trademarks, photographs and other content marked as supplied by third parties. No licence is given in relation to third party material. Version 07-01-2011. Distributed by the Case Program, The Australia and New Zealand School of Government, www.anzsog.edu.au.

demands were staggering. Meeting both required an intensive amount of backroom activity in key areas of the department, which for some groups lasted the best part of nine months.

By necessity, much of this domestic consultation was conducted at very senior levels with other regulators, the major banks, business groups and significant businesses. In addition, the pace and complexity of international negotiations over the global economy, in G-20 and other formats, added further burdens. Treasury was at the forefront of the overseas negotiations, working with other central agencies to work out a common position and representing Australia in international fora.

On the delivery side, the Treasury also had to quickly develop a raft of new legislation. Twelve separate bills relating to the GFC were drafted and presented to Parliament by Treasury ministers, and the department had a close involvement in many others prepared by other departments. Each of these required detailed analysis and detailed drafting instructions. Each required ministerial briefings, ministerial approval and prioritisation in the government's legislative schedule.

The sheer workload associated with the GFC placed intense strains on the Treasury as an organisation. There was an explosion in the analytical work required. There was extraordinary time pressure. Requests for early morning briefings often arrived late the day before. And there was overwhelming uncertainty.

To try to cope with the new demands, staff were required to stay back often until very late into the evening perhaps even to midnight, working in small teams to one of the board executives. One division head recalled:

> "We had to do stuff really, really quickly. One night we sat down with the Board to consider possible fiscal responses. The next day I got a phone call at 7 am in the morning asking me to do a paper by 9 am for a meeting with the PM. We then had the weekend Cabinet meetings and after each meeting we had to work well into the night to do the maths and update the bottom lines, as well as working with PM&C and Finance on all the briefing materials and Q&A's going to Cabinet."

Ken Henry reflected along similar lines: "Normally the government will ask you a question [as the Treasury experts], and then allow you time to construct a reply. Now we were required to give advice without the opportunity to conduct new research. You had to fall back on experience, work that had already been done and judgement a lot of the time." The response to a crisis cannot be managed with a "business as usual" approach. Some staff worked non-stop for entire days; others were "instructed" by their senior executives not to work beyond midnight. Entire divisions made up of specialist branches and analytical units were working to impossible deadlines. Often, they had to prepare briefs, provide analysis, give commentaries and assessments, within a turn-around timeline of 24 hours. Treasury was not an emergency response organisation, but a very significant proportion of the department's regular staff had taken to working on what came close to a 24/7, real-time basis nonetheless. As a result, "there was stress in those parts of the organisation that were under the gun uninterruptedly."

The short timeframe meant going out on a limb without all the relevant facts in hand. As one of Henry's colleagues observed:

> "Your ability to forecast all of this stuff [the impact of different types of stimulus] is very limited. You do a whole load of forecasting exercises all the time, but the whole process was

> iterative and laden with uncertainty. It wasn't until well into 2009 that we were getting a bit more sure of ourselves."

Under the pressure, a key ingredient of the Treasury's tried and tested formula began to unravel: its inclusive, consultative culture. At the Treasury, analytical rigour and cutting-edge advice usually arose out of work practices that favour broad circulation of information, robust internal debate, and a healthy lack of emphasis on rank when it comes to proposing and vetting policy ideas. Part of the allure of working at the Treasury was that staff lower down the hierarchy felt they were constantly in the loop, they could contribute meaningful input and that their voices were being heard.

This system was effectively suspended during the many months of the GFC peak period. The locus of knowledge and policy thinking was severely contracted. An Executive Board member recalls: "Many of the decisions got made at the Board level. People further down the line may have felt they were no longer part of it… I was giving public explanations of what we were doing, but I don't think I felt it important to communicate everything internally." More broadly,

> "…the election of the Rudd government led to a speeding up of everything and a centralisation of policymaking in the SPBC. There was a lot of drafting and redrafting of papers, and as they were bedding down their way of working, the GFC happened, which led to further centralisation through the daily early morning crisis meetings Rudd held. So the hyperactivity of the government fed into a change in our work patterns."

Many senior analysts were now reduced to observing rather influencing the thrust of the Treasury's diagnosis and advice. During the GFC response period, some of those decisions and actions went conspicuously against the traditional "Treasury line", yet their genesis and rationale were not communicated back to the department's base. The executive's preference for a significant fiscal policy response was not able to be widely debated in the department. Some officials were, for example, mortified that they saw their Secretary on television explicitly defending the Treasury's advice before the Senate. It seemed to them a conspicuous contravention of the department's assiduously maintained ethos of impartiality (or invisibility).

The reality was that for the duration of the GFC, from September 2008 until June 2009 (but to some extent continuing up to the August 2010 election) the entire Treasury senior executive was consumed by "fire-fighting". Many felt that this forcibly disconnected the leadership from the ideas and input of the rest of the department. It appeared that large components of the organisation were reduced to the thankless task of putting in impossible hours but seeing much of their work disappear into a "black hole". This feeling of being left out created tensions, affected morale and, among some, even bred a degree of resentment.

Clearly, the GFC generated its own reverberations within the Treasury organisation. What leadership challenges can be distilled from the experience? How should Henry and his colleagues tackle them? After all, the next period of economic hyper-turbulence might be just around the corner.