

Economic fix ‘a must to protect weakest’: John Fraser

DAVID UREN, *The Australian*, February 25, 2015



The new head of Treasury, John Fraser. Source: News Corp Australia

AUSTRALIA faces a future of low economic growth, weak tax revenue and rising debt — and unless these problems are confronted the country will be unable to protect its most vulnerable, says the new head of Treasury, John Fraser.

Mr Fraser, in his first interview since being appointed last month, said Australia did not yet have a budget crisis, but it faced economic problems that would become harder to fix the longer they were left unresolved.

Tackling middle-class welfare, including superannuation concessions, needed to be part of the solution, he said. “Our net commonwealth government debt is rising to high levels when the average cost of servicing that debt is less than 3 per cent per annum,” he told *The Australian*. “If we don’t start trying to turn around the rise in the quantum of debt, we leave ourselves very vulnerable to what will be the inevitable increase in interest rates somewhere down the track.

“More and more of our outlays will be going on government debt interest, paying the holders of government bonds, rather than being directed to more noble objectives.”

Mr Fraser, who left Treasury as a deputy secretary 22 years ago for a career with the global banking group UBS, said multiple forces were combining to slow world growth. These included the continuing malaise in Europe and the steps by the Chinese authorities to put their economy on a more sustainable path. “Lower growth has impacted the budget and clearly impacted our revenue and also meant we’re paying out more for a number of programs that would otherwise have been the case. “I find it hard to see prospects for a return to much stronger growth in the medium term and we’ve got to recognise that reality and adjust our expectations.”

A lower exchange rate gave Australia some breathing space, but not enough to rekindle growth. “We can’t pin our hope on a lower exchange rate to do all the magic. The lower exchange rate was a massive plus for us in the 1980s only because we used it to reinforce good fiscal policies and tackle structural problems.”

Although Mr Fraser could not discuss the upcoming budget, he said any lowering of the growth outlook would add to deficits from 2016-17 on, where current projections are for a return to pre-crisis 3.5 per cent annual growth rates.

Expectations of government had been shaped by a 23-year stretch of growth bringing steady rise in living standards. "During that period, my generation — the baby boomers — have come to expect more and more from governments," he said.

This had shaped health, education and welfare budgets and been boosted by measures to spend the proceeds of the mining boom of the last 10 years. "A lot of the proceeds went into what could reasonably be called middle-class welfare and, in some cases, higher income welfare through the super scheme.

"What's changed is we don't have a mining boom anymore and we're not getting the growth more generally from other parts of the world economy or domestically to sustain higher rates of growth. On top of all that, there's a looming recognition that we have an ageing problem. That means that our children and our grandchildren will be asked to shoulder more and more of the burden.

"To my mind, the first priority, after the defence of the nation, is for the government to make sure it is generous in looking after the genuinely disabled and those who are genuinely unable to look after themselves. That is a fundamental sign of a compassionate society.

"I don't want to see our ability to look after those weaker members of the community, the disabled and those who can't look after themselves, being diminished because money is being spread too thinly."

The absence of an immediate crisis made it harder to gain attention. "It's a harder task to make sure people understand what those issues are in the longer term and perhaps even a harder task to make sure people recognise the choices ... that will have to be made."

The hostile political environment made this more difficult. "It's worrying at the moment that a lot of the debate gets quashed before it even gets started. There seems to be this ravenous desire to create divides between politicians, to rule out options right, left and centre."

He is looking to business and community organisations to engage in debate about challenges confronting the country. "I believe a lot of people recognise the major problems are looming ... I don't think we've got an endemic problem where Australians feel so entitled they're not going to do the right thing. That's the great thing about our society: Australians will do the right thing."

We need to think outside capital circle: John Fraser

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JOHN Fraser brings 22 years of private sector experience to the position of Treasury secretary and would like to make it easier for others to follow in his footsteps.

Working across a vast policy terrain including competition, tax, foreign investment and bank regulation, Treasury needs people who understand how business works but has never attempted to lure them, he says.

"There's no sense of going out and trying to attract good people. There's a sense of, if you want to join us, you've got to jump a number of hurdles and people in the private sector may find the height of the hurdle a bit too much," Mr Fraser says. "The bureaucracy needs to be much more flexible in attracting people on shorter term contracts. Not everybody can be a 30 to 40 year public servant. Some do and God bless them, but some might want to come in for shorter periods to build their careers," he said.

Since Mr Fraser left Treasury in 1993, at which point he was deputy secretary in charge of its macro-economics division, the recruitment process has become bogged in formality. No longer can senior officers make their own hirings.

Mr Fraser says the public service needs to look beyond Canberra. “Canberra is not overrun with people from the private sector; hence having people who work from Sydney and Melbourne I think makes a lot of sense.” “You’re not going to attract people in mid-career if they have partners who have jobs or children at school in other cities. To come down here in mid-career is a big ask and not many will to make that sacrifice, particularly when the remuneration is unattractive compared with the private sector.”

Another change to government since Mr Fraser left has been the growth of ministerial offices. Although he understands why ministers want their own staff and admires their calibre, it imposes challenges on departments to ensure advice goes directly to the minister, not to the ministerial staff. “There’s a lot of things can get lost in translation,” he says.

Mr Fraser has been heartened by the growth of independent economic analysis over the past two decades, the bulk of which he has spent in the United Kingdom. “We’ve had the growth of very good think tanks outside government, for example the Grattan Institute in Melbourne under John Daly, professional groups like Deloitte Access, a number of the universities are doing very practical research on issues and we’ve got a lot of people who are probably freelancers who are deep policy thinkers.” “I want to make sure we get the benefit of all that and have a dialogue with them in the same way that anybody who’s trying to run a business wants to get people exposed to the best brains of thought around the world.”

John Fraser is one of two high profile private sector hirings by the Commonwealth public service, alongside Michael Thawley who has also been lured from investment banking to head the Department of Prime Minister and Cabinet.