



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



THE SENATE

COMMITTEES

Economics References Committee

Report

SPEECH

Tuesday, 27 October 2009

BY AUTHORITY OF THE SENATE

SPEECH

Date Tuesday, 27 October 2009
Page 7286
Questioner
Speaker Eggleston, Sen Alan

Source Senate
Proof No
Responder
Question No.

Senator EGGLESTON (Western Australia) (5.47 pm)—I present the final report of the Economics References Committee on the government's economic stimulus initiatives, together with the *Hansard* record of proceedings and documents presented to the committee.

Ordered that the report be printed.

Senator EGGLESTON—by leave—I move:

That the Senate take note of the report.

The global financial crisis began about a year ago with the collapse of Lehman Brothers in the United States and was followed by the collapse of hundreds of banks in North America and Europe with a concurrent crisis in confidence which saw reduced consumer spending across the globe. It seemed as if the world was on the edge of a repeat of the Great Depression of the 1930s. However, a repeat of the Great Depression has not occurred and the world economy is now showing very definite signs of recovery.

Australia has come through the crisis particularly well. The committee examined whether the actions taken by the Australian government were appropriate, the various reasons underlying Australia's strong performance and whether the package should now be wound back. The report showed there was a range of opinions from credible economists on the need for and the appropriate size of and the timing and duration of the economic fiscal stimulus in Australia. The report also showed there was a range of views as to the appropriateness of reconfiguring the package given the improvement in underlying economic conditions.

At one extreme was the view that a more rapid winding back of the fiscal stimulus would reduce economic growth and increase unemployment from what it would otherwise have been. An alternative view was that continuing an appropriate degree of poorly targeted fiscal stimulus would also have costs. These would include higher inflation, higher interest rates, a crowding out of more productive private sector investment and therefore higher unemployment. This shows that continuing with an inappropriate degree of fiscal stimulus is not a cost-less option. In this regard the committee noted that the Reserve Bank of Australia recently stated that its expansionary monetary policy

settings are no longer appropriate and may indeed be imprudent:

In particular, underlying inflation was still, on the latest data, above the target and, while current forecasts suggested it would fall in the coming year, the expected trough in inflation was significantly higher than earlier thought. Keeping interest rates at very low levels for an extended period could therefore threaten the achievement of the inflation target over the medium term. More generally, very expansionary policy could result in the build-up of other imbalances in the economy, which would ultimately be detrimental to economic growth.

Overall, members concluded—

that is, members of the Reserve Bank board—

that, while downside risks to the domestic economy could not be ruled out, they had diminished significantly over recent months. This meant that the balance of risks was now such that the current very expansionary setting of policy was no longer necessary, and possibly imprudent. The Board therefore decided in favour of raising the cash rate.

This opinion lends weight to the view that an expansionary fiscal policy is also no longer necessary and possibly also imprudent, leading to the committee's view that the fiscal stimulus package should also be recalibrated with a view to maximising value for money for all remaining projects.

There was a consensus view that a range of factors have contributed to Australia's exemplary economic performance. These included the continuing strong growth of China and the demand for Australia's exports; the legacy of rapid growth, strong budget position and sound prudential regulation of the financial system that was left by the previous coalition government; the rapid move to strongly accommodate monetary policy; the fall of the Australian dollar in the second half of 2008; and the fiscal stimulus package. There was a range of opinions as to the relative contribution of each of these factors to the exemplary performance of the Australian economy. What was clear, though, was that fiscal policy alone was not the only significant factor and that the twin factors of the basic underlying strength of the Australian economy and the resurgence of the Chinese economy, resulting in increased purchasing of commodities such as coal and iron ore from Australia, were among the most significant factors in protecting Australia's economy.

As stated above, there is a strong view that an expansionary fiscal policy is no longer necessary and the fiscal stimulus package should be recalibrated. The overall stimulus imparted to the economy from fiscal policy could be reduced in a number of ways. One way would be to focus on the components of spending that are classed as part of the fiscal stimulus package and to reduce or reschedule these expenditures over a longer period of time. It would appear that out of the \$45 billion over the forward estimates there is about \$31 billion of discretionary stimulatory spending remaining out there unspent. Most of this funding is for useful infrastructure projects, and one option would be to consider reducing the annual expenditure levels while retaining the gross expenditure proposed. That means the government could, for example, extend the period over which this \$31 billion was to be spent to 10 or 15 years, which would reduce the inflationary impact of the program. An alternative approach would be to reduce the total stimulus injected into the economy by identifying offsetting cuts to other areas of government spending.

The committee noted that the economy has strengthened and that the rationale for maintaining the spending levels proposed by the Rudd government is no longer valid, and it is of the firm opinion that the levels of spending need to be reduced, postponed or offset to prevent the economy from overheating, in line with the Reserve Bank's view as expressed in their latest board minutes of 6 October 2009. Accordingly, the committee recommended that the government commission an urgent independent report to be prepared on the fiscal stimulus package; that it include a cost-benefit analysis of all the remaining projects, including the timing and implementation for spending on those projects and recommendations on the feasibility of reducing, postponing or recalibrating the remaining discretionary funding on a project-by-project basis; and that the report be published in the Treasury's website within 14 days of receipt.