



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

STANDING COMMITTEE ON FINANCE AND PUBLIC  
ADMINISTRATION

**Reference: Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009; Ap-  
propriation (Nation Building and Jobs) Bill (No. 2) 2008-2009; Commonwealth In-  
scribed Stock Amendment Bill 2009; Household Stimulus Package Bill 2009; Tax  
Bonus for Working Australians (Consequential Amendments) Bill 2009; Tax Bonus  
for Working Australians Bill 2009**

MONDAY, 9 FEBRUARY 2009

CANBERRA

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**SENATE STANDING COMMITTEE ON  
FINANCE AND PUBLIC ADMINISTRATION**

**Monday, 9 February 2009**

**Members:** Senator Polley (Chair), Senator Fifield (Deputy Chair) and Senators Cameron, Collins, Hanson-Young, Moore, Parry and Ryan

**Substitute members:** Senator Bob Brown to replace Senator Hanson-Young and Senator Joyce to replace Senator Parry

**Participating members:** Senators Abetz, Adams, Arbib, Barnett, Bernardi, Birmingham, Bishop, Bilyk, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cash, Colbeck, Coonan, Cormann, Crossin, Eggleston, Farrell, Feeney, Fielding, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Ludlam, Lundy, Ian Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Milne, Minchin, Nash, O'Brien, Parry, Payne, Ronaldson, Pratt, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

**Senators in attendance:** Senators Abetz, Bob Brown, Cameron, Collins, Fielding, Fifield, Forshaw, Joyce, Milne, Moore, Polley, Ryan, Siewert and Xenophon

**Terms of reference for the inquiry:**

To inquire into and report on:

Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009; Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009; Commonwealth Inscribed Stock Amendment Bill 2009; Household Stimulus Package Bill 2009; Tax Bonus for Working Australians (Consequential Amendments) Bill 2009; Tax Bonus for Working Australians Bill 2009

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**Committee met at 9.08 am**

**CHAIR (Senator Polley)**—I would like to open this morning's session of the Senate Standing Committee on Finance and Public Administration hearings into the Appropriation (National Building and Jobs) Bill (No. 1) 2008-2009 and related bills. But I would like to now adjourn for a private meeting.

**Proceedings suspended from 9.08 am to 9.39 am**

**CHAIR**—I want to recommence the hearings today but I would like now to formally adjourn the hearings until 4 pm this afternoon in light of the tragedies in Victoria. I ask committee members to recommence at 4 pm this afternoon. Thank you for your consideration.

**Proceedings suspended from 9.40 am to 4.02 pm**

**EVANS, Mr Greg, Director, Industry Policy and Economics, Australian Chamber of Commerce and Industry**

**WILSON, Mr Burchell, Senior Economist, Australian Chamber of Commerce and Industry**

**EVANS, Mr Richard David, Executive Director, Australian Retailers Association**

**DRUM, Mr Paul, Director, Policy and Research, CPA Australia**

**CHAIR**—I want to recommence the hearing of the committee into the National Building and Jobs Plan. I would like to thank the witnesses for their indulgence on the adjournment that the committee decided was necessary in light of the tragedies in Victoria. I appreciate their understanding on these matters. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to witnesses. I invite witnesses to make a short opening presentation, and at the conclusion of your remarks I will invite members of the committee to put questions to you. I would also like to remind my colleagues and witnesses that we are running to a tight schedule this evening. Mr Richard Evans would you like to make some opening comments?

**Mr R Evans**—Thank you for the invitation. Retailers have been concerned about the economy for some time—in particular, since the November 2007 rate rise. When retailers were identifying a reduced demand in consumer sentiment it seemed others within the supply channel had yet to identify the impending doom and gloom of reduced demand. Indeed, they did not until around July 2008. When retailers were advising caution with fiscal policy—in particular, raising interest rates, which have a negative impact upon consumers—calls to allow the market to adjust itself were ignored. So it seems the hands-on leaders were more focused on other aspects of the economy than on basic consumer demand, which ultimately is the essence of broader demand within the economy.

In January last year when retailers were already experiencing a severe reduction in demand, well-known economists, bankers and indeed politicians were identifying inflation as the key battle for the year with no reflection that demand had reduced significantly. They had missed the loss of demand already in the market. When the first signs of the credit squeeze began with banks raising rates independently in January, coupled with some uncertainty with trading on the stock market, it seemed that commentators were ignoring these signs of reduced demand. Indeed, many industry associations and economists waxed lyrical at the time about the economic nirvana Australia was heading to.

However retailers were experiencing something very different with a demand reduction which would match the reducing consumer sentiment, which spiked to its lowest since 1992 in July last year. It is our contention that the Reserve Bank read the signs of trading wrongly and we believe that they should have allowed the impact of its rate rises in 2007 to affect the market before raising them again in February and March. Interest rate corrections do not normally impact the market for between four and six months and it was our view that the market had not yet adjusted when they were raised again in February and March.

The bank advised, and indeed commentators believed, that inflation was demand driven, yet in many retailers' minds—and they were looking at empty malls early last year—any inflationary pressures were indeed supply driven. Apparently demand-driven inflation was the major problem and the bank increased interest rates, putting a greater squeeze on consumer confidence already reducing demand thus consigning the economy, in our opinion, into a downward spiral, a spiral which was compounded by the global meltdown in October. So in our view the damage that has impacted the market and the enormous negativity that has been driven by the media could have been mitigated much earlier in the year with a different narrative and the approach to the urgency we are now faced with.

In our view, once consumers stop spending then ultimately their cash reduces throughout the entire supply channel right back to the farm gate and the manufacturer. This lack of cash flows throughout the entire supply channel and impacts all decisions and, indeed, promotes contraction. When employer groups were talking up the economy retailers were advising that the economic bubble was about to burst, but according to media and press releases at the time no-one seemed to be listening.

Retailing operates some six months ahead of the broader economy. It is the barometer, if you like, and therefore when retailers suffer it will ultimately flow through the economy. Retailing is the cash hub that drives cash into the system. Cash flowing allows investment and thus growth. Couple cash with credit then the conditions for growth exist. Rob cash and credit access from the economy then we have a disaster waiting.

The motivation for the first stimulus package, I believe, was correct. It was meant to provide a cash injection into the economy. However it is too early to determine whether or not the cash has entered the market in any significant way. Indeed it may take six months before we actually see the results of the impact and this cash flow should be the major consideration for this package.

Whilst the December retail figures are encouraging, there is still further analysis to be made as there were many variables that were impacting the market for sales for that month. These variables included extended sales and thus reduced margins for the period extending from November last year until the current trading period. Usually the Christmas period also brings consumers back into the market and, if you add this to the reduction of interest rates and petrol prices and consumers who did not play the stock market and who were still employed—and most Australians are—then we cannot ignore the idea that consumers are beginning to get confidence to re-enter the market with their cash.

From our survey of members after Christmas, in January, only 56 per cent had identified any impact from the stimulus package. Other surveys have indicated that the bonus was used to reduce debt. This in itself is not a bad thing but the entire supply channel needs cash and needs it now. Early figures from the post cash trade indicate a growth of around five per cent from the previous year. We are yet to determine whether this is recurrent spending or indeed the impact of the stimulus package causing a cash spike. Retailers are optimistic about the future with the caveat that, whilst employment remains strong, then consumer confidence will ultimately return. For employment to remain stable the cash needs to flow throughout the supply channel to encourage banks to release credit funds for further investment.

So this is a recommendation to the government, and indeed this committee and therefore those charged with reviewing the package: ensure that the cash flows. We ask that consideration be given to ensuring that this money that is so important for the economy does not sit in bank accounts or draw down on the credit card debt of a selected few. Indeed, there is something uncomfortable for us about taxpayers' funds being used to reduce credit card debt. Rather than have money sitting in banks or drawing down debt if the bonus payments are meant to be spent then let us ensure that the money is indeed spent.

**CHAIR**—Do you have much more of your opening statement?

**Mr R Evans**—I am just in the last paragraph. Our recommendation is rather than depositing cash into bank accounts that the government consider the use of one of two options, either a voucher system redeemable at a retail outlet or the use of the tax system with receipts of money spent which are redeemable through a system similar to the one Medicare uses. It may seem difficult to do either one of these options but it is a lot of money that we are talking about, it needs to enter the economy and we need to make sure that cash does flow. I am happy to answer any questions.

**CHAIR**—Before we move on to questions I would like to welcome Mr Paul Drum from CPA Australia. He is on the phone. Are you there Mr Drum?

**Mr Drum**—I am, thank you, Senator Polley.

*Evidence was taken via teleconference—*

**CHAIR**—I would also like to welcome Mr Greg Evans and Mr Wilson from the Australian Chamber of Commerce and Industry. Mr Drum, would you like to make a few comments?

**Mr Drum**—Thank you. I will try to keep it to under four minutes. I am a fellow of CPA Australia and I am also the Director of Policy and Research for that organisation. CPA Australia represents the diverse interests of more than 122,000 members in finance, accounting and business in over 100 countries throughout the world. Our mission is to make CPA Australia the global professional accountancy designation for strategic business leaders and we very much welcome the opportunity to present to the committee today.

One of our primary objectives, when we consider the development of policy or we are commenting on policy, is sustainable economic growth and this is accordingly factored into our processes when we develop positions on matters of interest for our members, the profession generally and also in the public interest. In our 2009-10 prebudget submission we considered sustainable economic growth and we made a number of comments regarding appropriate levers at the disposal of the government to address the global financial crisis and fiscal stimulus options. In particular, one suite of measures we proposed in this regard was for the government to consider bringing forward, either in whole or part thereof, the tax cuts already announced by the government for 2009-10 and/or 2010-11. The following reasons were appealing to us. Given the government's objective to stimulate consumption, there is a school of thought that many tax cuts are spent by taxpayers long before they even receive the money. Therefore, this would directly and immediately stimulate

consumption. Alternatively, the trickle in effect of tax cuts into the economy would mean that there is greater likelihood that the money would be spent rather than used to, for example, retire debt, pay off the credit cards, as the previous speaker referred to, or invested. Again, this will also provide fiscal stimulus.

Further, the tax cuts that we proposed are not new, we are just bringing them forward. They have already been announced and they are planned to come into effect in the short- to mid-term anyway. In this regard the International Monetary Fund's argument that tax cuts are not the most appropriate mechanism given that they are very hard to undo further down the track is less applicable in the Australian circumstance than to perhaps some other jurisdictions because again they had already been announced in Australia. Further, the cost of the tax cuts has already been factored into the government's forward estimates and finally they are relatively simple to implement. They do not require any new administrative procedures.

On the government's proposed package I would like to make the following points. We are not economists we are accountants and as such we have not invested, at this point at least, in econometric modelling on issues such as how much government spending is enough or on what particular areas Australia will get the best multiplier effect and increased consumption from. However, we make the following observations. The package is largely in accord with the International Monetary Fund's recommended approach of how to stimulate a slowing economy as set out in the IMF's staff position note, *Fiscal policy for the crisis*, which was released very late in December last year in that it is a packaged approach. All the eggs do not seem to be in one basket; there is public spending on infrastructure amongst other things.

The fact that the government has chosen at this point not to go down the pathway we had proposed is not really a showstopper. In fact, we note that this option is still open to them should it be determined that further fiscal stimulus measures are required in the coming months. Madam Chairman, I will leave it there. Thank you for the opportunity to make that opening statement. I look forward to questions.

**CHAIR**—Mr Evans, would you like to make some opening comments?

**Mr G Evans**—Thank you, Chair. First of all I would like to say on behalf of Australian business that we wish to convey our sympathies to the friends and families of all those who have been affected by the widespread loss of life in Victoria. We also wish to express our strong support for all those involved in dealing with the ongoing relief and recovery effort in Victoria.

With regard to some opening remarks, I will be brief as well. ACCI strongly supports the government's stimulus package and its attempt to lift aggregate demand across the economy. Such is the scope of our current economic difficulties that this package, combined with monetary easing, is absolutely essential. The size of the package at two per cent of GDP in 2009 is appropriate and in line with our own estimate of what is required. We recognise and accept that a temporary deficit is required to fund the program. After due parliamentary consideration, we consider it is in the national interest for those measure to be passed, and passed quickly, to avoid uncertainty and to promote confidence. With respect to events in the US, and looking at literature in the US about economic downturns and how they can be dealt with, we notice that fiscal responses can be that much more effective if they are implemented quickly and also if they are significant in size.

We support many of the specific measures in the package. We certainly support those measures which deal with investment, infrastructure and promoting further consumption. Specifically we support the investment allowance, and ACCI was a strong advocate of the investment allowance. The government first introduced that at 10 per cent and has now increased it to 30 per cent. We believe that that provides real impetus to investment, which provides for jobs and growth in the economy. We also support the fact that it as been particularly skewed now towards small business with the minimum investment requiring a threshold of \$1,000, down from \$10,000. We also support the direction of the infrastructure spending as it relates to schools, housing and roads. The various once-off bonuses are also supported by the Australian Chamber of Commerce and Industry as they will again provide for increases in consumption spending. With respect to tax cuts, ACCI did advocate tax cuts, with the bringing forward of those scheduled tax cuts of 2009 and 2010. We note that these scheduled reductions still remain in the pipeline and will boost household income and help small business when they are introduced. Nevertheless, we do believe that the \$12.7 billion cash bonuses will help consumer spending and enhance domestic demand. We also propose a number of measures with respect to specific business tax measures, including the carrying forward of tax losses and making it more attractive for accelerated depreciation of current assets held by a business. That is a quick exposition of the ACCI position, and we are obviously happy to take questions.

**CHAIR**—Thank you very much for your submissions.

**Senator ABETZ**—Mr Richard Evans, was your organisation of the view that the economy was overheated as late as July or August last year? Before you start, Mr Evans, I might invite all witnesses to truncate their answers as much as possible to assist us with time management.

**Mr R Evans**—We started identifying severe reductions in demand in January last year. Indeed, our modelling was indicating that demand within the consumer area was dropping off very quickly. Now, as I said before, we operate six months ahead. Therefore, what was happening in January was going to hit the rest of the economy in July-August—which, indeed, it did.

**Senator ABETZ**—And, of course, in May we had a budget—four months after your members felt the decline—that sought to slow down the economy by taking \$20 billion out of the economy through extra tax revenue. And the experience of your members is that that was a huge overreaction which has led to some of the difficulties in reduced demand that we now face.

**Mr R Evans**—Our view is that no-one got it right earlier in the year, even prior to the budget, and that the Reserve Bank should not have been increasing interest rates in February and March. They should have allowed the market to correct itself. We believe that the advice given to government did not, to a significant degree, consider retailing.

**Senator ABETZ**—A number of people have made commentary about the retail sales, especially in December. Are you able to provide us with any snapshot as to what has happened in January and February of this year, and whether the December figures include extra sales due to substantial discounting by some of your members in order to get the cash flowing through?

**Mr R Evans**—Retailers have been discounting since November to stimulate consumers. It was very soft in December. There was heavy demand towards the end of January. Post-Christmas sales have been encouraging. Indeed, we were modelling \$6.3 billion—this is excluding food and cafes and hospitality—and indeed our modelling indicates that we would have achieved a figure of \$6.5 billion. This is around a two per cent increase on the previous year, which is encouraging.

**Senator JOYCE**—Mr Drum, do you know of another major stimulus package throughout the world that does not include tax cuts or infrastructure spending?

**Mr Drum**—Not offhand. I think even the IMF has said that it did not say it should not include them. It just said to be wary that, if they are included, it can create problems further down the track. So ordinarily I think that the packages are meant to be broad, and I think that that really has been the government's approach. However, what they seem to have done with the package is try and target it on specific areas rather than have a more broadbrush approach.

**Senator ABETZ**—Directly following on from that, the IMF talked about tax cuts which would then be a permanent feature. But, in Australia, the debate domestically is about the bringing forward—by only about six months—of tax cuts that have already been factored into the forward estimates, and it is therefore materially different to the scenario the IMF is portraying.

**Mr Drum**—That is quite correct. That was our thinking, and that is why I said in my opening statement that I think we can distinguish ourselves in that regard from the IMF's concern about that because our tax cuts are, so to speak, locked in. It is just that they are starting at a slightly later date than we were recommending.

**Senator JOYCE**—Mr Evans, who are your major members in the Australian Retailers Association?

**Mr R Evans**—We have members from all over Australia. There are major retailers—from Spotlight stores to, for example, Bakers Delight—right down to the local independent retailers. We have over 5,000 members.

**Senator JOYCE**—You include Coles and Woolworths, don't you?

**Mr R Evans**—No, we do not.

**Senator JOYCE**—You have nothing to do with them?

**Mr R Evans**—We do have plenty to do with them, but they are not our members.

**Senator JOYCE**—Okay. I am trying to address the actual figures that came out about what we put out there in the marketplace—the \$8.7 billion—and that, seasonally adjusted, the prospective sort of extra retail spend was \$700 million. Senator Abetz has already brought up the issue around discounting. I just wanted to know from your organisation where that spending predominates.

**Mr R Evans**—There are a couple of points to make. One is that the \$700 million that is being loosely quoted in the media is not our figure and we would be very cautious about saying that that is predominantly

the stimulus package, because a lot of people got that stimulus package the week before Christmas. To read it before Christmas is pretty hard. As I said, it may take six months to in fact come through. But, to answer your question specifically, the biggest significant one was household furniture and domestic appliances, which had been trading pretty softly for maybe four or five months previously.

**Senator JOYCE**—Just for the record, give me an example of ‘domestic appliance’—not everything but just a brief example of what you mean by ‘domestic appliance’.

**Mr R Evans**—Anything that is electrical really, within a household, whether it is a microwave oven, whether it is an oven itself or indeed furniture—couches. But domestic appliances primarily are plasma TVs, anything like that at all—anything electrical.

**Senator JOYCE**—TVs and things like that. What proportion of these appliances and things that are purchased are actually made in Australia?

**Mr R Evans**—Whether they are made in Australia—

**Senator JOYCE**—Give me a rough idea. Most of them? Some of them?

**Mr R Evans**—I do not personally know, but to identify whether they are made in Australia is the wrong thing. Consumers have said, many years ago, that they want cheaper appliances, and those cheaper appliances come from overseas.

**Senator JOYCE**—What I am getting to is the multiplier effect. If people go into one of your stores and buy a plasma TV made in, I don’t know, South Korea, how does the nation ascertain that that has a multiplier effect to the nation? You do not have to build another store. The money goes from the government to the taxpayer, to your store, to South Korea.

**Mr R Evans**—There is a supply channel that goes from the retailer right back to the wharf, for that matter, and there are agents involved. There are agents in China and South Korea involved. There are people touching that plasma screen from the wharf right through to the store, and there are probably people touching it before the consumer. So I would imagine that that particular screen from South Korea is in fact supporting the economy in Australia.

**Senator JOYCE**—Through the forms of service industry, of people handling that good on its way to someone’s living room.

**Mr R Evans**—Through the entire supply channel. This is the important thing. Retailers take the cash, but it goes right back to the supply channel, which may indeed be a manufacturer in Australia or indeed a farmer in Australia, or it may in fact be an importer. But there is a whole supply channel employing people between the retailer and the end result.

**Senator JOYCE**—Can you explain to me, from what you just said, how a farmer could benefit from the sale of a plasma screen.

**Mr R Evans**—I am talking about the supply channel. Maybe if they watch it they might benefit from it.

**Senator JOYCE**—That is probably the only benefit they get. With the increase in employers, how many are you still holding from the numbers? Did your membership take on new employees over the Christmas period by reason of the stimulus package?

**Mr R Evans**—Our surveys of our members indicate that they are trying to keep their staff. Retailing is more demand driven—in other words, they are mostly a casual based workforce, and they increase their workforce over the Christmas period.

**Senator JOYCE**—Did they take on any new employees over Christmas due to the stimulus package?

**Mr R Evans**—There have been no surveys done on that, but I would suggest to you that that would not be the case.

**Senator JOYCE**—You would suggest that that is the case but there is no empirical data to suggest that from your membership?

**Mr R Evans**—No.

**Senator JOYCE**—There has been a confusion with the terminology of ‘creating’ and ‘supporting’ jobs. What is your understanding of the term ‘supporting’ a job?

**Mr R Evans**—Semantics are an interesting aspect to this, but I would suggest to you that what we need is cash to flow through the supply channel back to the farm gate, in your terminology. If cash does come through

from retailers right back through the supply channel, it is indeed supporting those small businesses, who indeed are supporting their employees by keeping them on.

**Senator JOYCE**—Has your membership given a breakdown—has there been any differentiation between who are the benefactors of any stimulus packages? Is it more that there was a greater accelerator in expenditure in larger retailers as opposed to smaller retailers? Have you done any research into that?

**Mr R Evans**—It is too early to say, as the stimulus package came in just prior to Christmas and we have only had Christmas figures. It is too early to determine that. That will be analysed over the next three or four months.

**Senator ABETZ**—So you are saying the stimulus package cannot be assessed now but we have to wait another three months to determine its efficacy.

**Mr R Evans**—To give it an accurate assessment. It is a lot of money that went through—\$8.7 billion, if I recall properly. A lot of that was released a week before Christmas. To suggest that someone is going to go out and spend \$3,000 before Christmas—it is very hard to say that they would.

**Senator ABETZ**—I take your point. The reason I asked that question is: we are now being asked to deal with a package four times as big, before we actually know what the results of the first one are. That is the only point I wanted to nail down—but back to Senator Joyce.

**Senator JOYCE**—I have one other question and then I will defer to the next speaker.

**Senator XENOPHON**—I have a supplementary.

**CHAIR**—Is it supplementary to Senator Abetz's question?

**Senator XENOPHON**—It is directly supplementary. Mr Evans, once a year, I think, the government undertakes a household expenditure survey. I know of retailers who undertake their own surveys on the effectiveness of their marketing or whatever. Are you surprised that there has been neither a household expenditure survey conducted by the government in relation to this package, at least to get an idea of how the money was spent—whether it was saved and what it was spent on—nor a similar survey with respect to the employment outcomes?

**Mr R Evans**—We have done consumer surveys which indicate that, four weeks prior to Christmas, 20 per cent of folks were going to spend it on their mortgage. A week before Christmas, seven per cent said they were going to do that. In November, 65 per cent said we were in a recession when indeed we were not in a recession. While there are some surveys on what consumers might do, what they in fact have done will take some time to analyse. I will give you the example of my mother. She is 82. She got her money on 19 December and she spent the money on 2 January, which would not be recorded yet. It is too early to say. There are a lot of mitigating factors associated with Christmas trading and it is too early to say.

**Senator ABETZ**—So you did not get a bigger Christmas present?

**Mr R Evans**—No, I did not.

**Senator MOORE**—What did she spend her money on?

**Mr R Evans**—She went to Harvey Norman and bought a fridge.

**Senator MOORE**—Thank you.

**Senator JOYCE**—Where was the fridge made?

**Mr R Evans**—It was a Westinghouse, which I think used to be Australian—

**Senator JOYCE**—Where is it made now?

**Mr R Evans**—You can debate with me as to where it is now made. I have no idea.

**Senator JOYCE**—It is not made in Australia, I can assure you that.

**Mr R Evans**—I do not know what point you are making there. Consumers have said that they want cheap products, and these cheap products come from overseas. They are ultimately managed by retailers—

**Senator JOYCE**—My point is they are stimulating another country's economy, not our own. Mr Drum, you talked about not having all your eggs in one basket, which is why we should have infrastructure and tax cuts. Do you know of any infrastructure or tax cuts in the first stimulus package?

**Mr Drum**—There was infrastructure spending announced in the first stimulus package. I do not know whether you could technically call it part of the first stimulus package, but there was a raft of measures announced before Christmas which included expenditure on infrastructure.

**Senator JOYCE**—From what you have heard from Mr Richard Evans, would you say that the first stimulus package was a success?

**Mr Drum**—I think it is too early to tell. I think I would agree with Mr Richard Evans that we really do not know. We have not seen any hard economic data to see what percentage of the original stimulus package actually flowed through in the way that we have been discussing in terms of consumption.

**Senator JOYCE**—In light of the evidence that Mr Richard Evans has quite rightly given, that at this point in time the results are inconclusive, do you think it is prudent and wise to be spending \$42 billion when we do not actually know what the effects of the first stimulus package were?

**Mr Drum**—It carries quite a lot of risks, particularly when we are talking about a proposed spend of that magnitude. As I mentioned earlier, we do not do our own econometric modelling and we have not seen hard data come out on this, so there is a certain degree of trust that must be put in those who are in charge of the numbers—the Treasury and others—to do what is appropriate. I said at the outset that we are not in a position to comment on how much the spend should be. We are really relying on their judgment and hoping that they get it right in quite unprecedented circumstances. It is like finetuning a highly complex machine. We do not have all the answers, nor does the IMF.

**Senator JOYCE**—I will declare my interests. I am also a fellow of the CPA. When someone comes to borrow a substantial amount of money from you as a client, what is the primary concern you have at the forefront of your discussions with them?

**Mr Drum**—We would like to see that it is a good investment and what their capacity to repay is.

**Senator JOYCE**—'Their capacity to repay'—that is extremely important?

**Mr Drum**—Return on investment.

**Senator JOYCE**—Have you seen any signs whatsoever from the government, in any substantive way, shape or form, of how they are going to repay this money?

**Mr Drum**—No.

**CHAIR**—I have one follow-up question. Mr Drum, are you suggesting then that we should take the position that has been espoused: that we should just sit back and wait and see?

**Mr Drum**—No, not at all. Again, I said that we need to rely on those who are actually watching this daily and in charge of the numbers in Treasury, because doing nothing carries a lot of risk as well. All I was really saying was that we cannot quantify what the right amount of money—the right spend—should be and when.

**Senator FIFIELD**—Mr Evans, ACCI have made clear their support for the concept of a stimulus package and for this particular stimulus package as well. In terms of the quantum of \$42 billion, does ACCI support that quantum?

**Mr G Evans**—We certainly do. In looking at this issue, we reviewed what was happening internationally and the size of various fiscal packages. We looked at the UK and the USA, which are partly analogous, although the depth of their economic decline has certainly been a lot greater than ours. Indeed, their fiscal stimuli has been greater than ours. So we thought, on balance, around two per cent of GDP was appropriate and, in 2009, that is basically what this package delivers.

**Senator FIFIELD**—I will put to one side the number 42, because we have had some difficulty eliciting evidence from Treasury as to why that number holds greater virtue than a lower number or a higher number.

**Senator ABETZ**—*The Hitchhiker's Guide to the Galaxy* will tell us that!

**Senator FIFIELD**—Indeed. I have a follow-up question. Accepting that you support the quantum of \$42 billion, do you think that the profile or the structure of what constitutes the \$42 billion is ideal and, if not, would you have structured it differently or emphasised one sort of spending over another sort of spending?

**Mr G Evans**—Looking at the profile, we certainly understand the government's logic and how to best lift aggregate demand over basically the next 18-month period. We can see how they have phased that initially for cash bonuses and then for infrastructure, which necessarily takes longer due to planning processes et cetera. So we do understand the logic for doing that and believe it is an appropriate mix. As I said at the outset, we did

support the notion of tax cuts. However, on balance, the government have made this decision and we support it.

When we were looking at the issue of tax cuts versus spending, I suppose we were concerned about what that spending might be. But the nature of the spending seems to deliver a quick or a timely lift in consumer spending, so therefore we are supportive of it. That is not to say that we are not supportive of long-term tax cuts; we certainly are. We have been a long-term advocate of taxation cuts, but in the future they may well need to be linked to reductions in government outlays if we are to achieve significant tax reductions.

**Senator FIFIELD**—So if the government said to you, ‘We’re intending to spend \$42 billion and we’d like you to design the profile,’ would you have included Bradford bats and boom berries, for instance?

**Senator ABETZ**—Boom gates—get it right!

**Mr G Evans**—We certainly support the notion of infrastructure spending and spending, which will deliver long-term economic benefit. We as an organisation do not represent any particular industry, so we were certainly not proposing sectoral responses such as insulation but, there again, we can understand the logic behind such an initiative.

**Senator FIFIELD**—You are extremely diplomatic—a very good role model for an industry organisation. But I will take it that you might not necessarily have chosen some of those components, if that is not an unfair characterisation.

**Mr G Evans**—We were quite forthright in our advocacy of tax cuts, not just now—we just did not think of it. We have been at the forefront of advocacy for taxation cuts in the Australian economy over, at least, the last 10 years.

**Senator CAMERON**—What would be the implications for the economy, in your view, if there were any delays to this package?

**Mr G Evans**—Quite significant. We have looked at what has happened internationally. We have looked, for example, at economic downturns in the US, as I have said—in fact, since the war. We looked at some of the literature there. One of the key constraints on any fiscal stimulus package and the effectiveness of a fiscal stimulus package has been the fact that it was perhaps implemented too late and also that it was not of a significant size. Therefore, we put great importance on early action in this regard. That is not to say that there should not be due parliamentary consideration. We are obviously very supportive of that, but the profile of the package we think should be implemented sooner rather than later.

**Senator CAMERON**—Mr Evans, there is a bit of a scare campaign being mounted against the package in terms of the debt to the nation. We have had evidence to the inquiry from Dr Ken Henry to say that the concentration on public-sector debt in Australia is like no other country on earth. Do you think that there is anything in the package that means that it would be an irresponsible package and that we could not pay the debt back if we followed the repayment fiscal strategy outlined in the package?

**Mr G Evans**—We agree with the concept that there needs to be a temporary deficit to deal with the current economic circumstances. We are on record as an organisation as being fiscally conservative in these matters, so we believe that this is not the time to relax any sort of government discipline with respect to wasteful government spending or inefficiencies. They should also be dealt with. We think over the longer term—

**Senator CAMERON**—You are not characterising this package as wasteful, are you?

**Mr G Evans**—No, certainly not. I am saying, with respect to any spending in the current government, that that should still be examined to test for whether there are any inefficiencies or waste. That still needs to be done. Fiscal prudence still needs to be pursued. I guess we are saying that over the longer term as well, in order to get the budget back into surplus—and that happens through the automatic stabilisers upon economic recovery—but we also think the government should take a strategic look at government outlays into the future and indeed reduce the size of government. That has been a long-held view of the Australian Chamber of Commerce and Industry—not least to help fund further taxation cuts that will help the economy.

**Senator MILNE**—Mr Richard Evans, in the event that the package was split and the infrastructure component of \$30 billion or thereabouts was passed but the cash injection was blocked and there was therefore no support for aggregate demand in this quarter—which is clearly what the Treasury strategy is—what do you anticipate the impact on employment in the retail sector of the supply chain would be, given the current global outlook?

**Mr R Evans**—Retailers operate under demand employment—in other words, it is a casualisation of the workplace, which is quite significant. It was only six months ago that there was a shortage of staff within retailing. The paradox is that demand was dropping off. Indeed, you might recall Woolworths and Myer last year incentivising their staff with maternity leave packages.

Retailers will do a couple of things. They will alter their operating trading hours, and therefore they will alter their staff working hours, because of the casualisation. Our modelling indicates that without a stimulus package we will see some improved growth in the September quarter this year. However, the mitigating factor there is, indeed, employment generally within the supply channel. Employment is very important because they are consumers and they will spend money.

The problem with the stimulus package that we had pre-December is that we have not quite seen the cash flow through. That is the point I make about this stimulus package. We would prefer to see the cash used immediately, as opposed to in three, four or six months time. That is why I think that if we used a voucher system, such as in Taiwan, or indeed a redeemable receipt system where they can get their money back based upon presentation of receipts—if you put it into the system into bank balances, there is no guarantee that that money will flow through, and it is the supply channel that needs the cash, as much as retailers.

**Senator MILNE**—Are you suggesting some sort of system like the stamp scrip system that was proposed in the 1930s before the New Deal? Is that the kind of thing, where you would issue vouchers, as you say, so that you cannot bank it and you have to spend it in a certain time?

**Mr R Evans**—Our view is that we would like it spent.

**Senator MILNE**—So you believe that a voucher system is a much better way of going for that purpose?

**Mr R Evans**—I do not know enough about voucher systems. It was used in Taiwan recently, and quite successfully, I believe. But the point I am trying to make to you is that using voucher systems in the way you use the difficult Medicare system, by presenting receipts and getting paid back, seems better to me. People would say, ‘Oh, it is too complex, too hard.’ We are putting out \$12 billion, and I think we should be giving it some consideration because we need the cash to flow.

**Senator MILNE**—That is interesting, because there are some economists suggesting that that be looked at as a way of increasing the velocity of the money in the system.

**Mr R Evans**—The problem we have with retailers and, indeed, small business right now is access to capital and access to credit. If they cannot get access to credit, they need cash. Cash is king. There is no cash flowing through, so if you are going to put cash into the system via the retail hub it needs to be entered, it needs to be spent, as opposed to drawing down debt. We need the cash in there, so you have to ensure that this \$12 billion that you put out there is in fact spent as opposed to being put under the bed.

**Senator MILNE**—Why do you think that tax cuts would increase the likelihood of somebody spending as opposed to a cheque for \$950 coming their way?

**Mr R Evans**—We are not arguing for tax cuts to be brought forward. What I am saying is that—

**Senator MILNE**—My impression from what has been said here is that there is a preference for bringing forward the tax cuts as opposed to a cash payment. What I am asking is, given what you have just said, why would you assume that somebody receiving a tax cut on a regular basis is more likely to spend it than somebody getting a \$950 cheque? I am interested in what the psychology is and why you think that would be the case.

**Mr R Evans**—Cash is king. Cash in the hand makes a difference, and that is why it takes four to six months for an interest rate reduction, for instance, to take effect. It is because it takes that long for someone to psychologically realise that they have increased spending capacity. In our view what is needed is for some money to be given to someone who is told, ‘Look you have to spend this money before the end of the year.’ It needs that cash spike to flow through the system. In the longer-term, with the economy, tax cuts will add more cash into the system.

**Senator JOYCE**—I have a question about one issue, and you would not be aware of this. Have you heard of a thing—

**CHAIR**—This is a supplementary follow-up to that?

**Senator JOYCE**—Yes. It is about the responsibility to spend. I think of it as Sawyer’s aphorism, which is that if you have someone who borrows who is not responsible for the expenditure and someone who expends

who is not responsible for borrowing, you get an uncontrolled paradigm which basically leads to no real conclusion. Would you not see that as exactly what happened with the first stimulus package?

**Mr R Evans**—As I said earlier, and I reiterate my colleague's comment as well, it really is too early to tell. But the government's intent, to me, seems to be the right one. It wants to get cash into the system. The weakness is whether the consumers take the government's advice. Our view is that if you use a voucher or redeemable system, it is much easier and quicker to get that cash into the system.

**Senator XENOPHON**—Mr Richard Evans, you talked about the importance of making sure that that money is spent in the system. You have talked about vouchers or a redeemable receipt system. What about debit cards? You can get a debit card through one bank if you are going overseas to load your Euros onto for as little as \$12. Is that something that you have considered in the context of ensuring that the money is spent, so that it is actually stored on that card and has to be spent on goods and services in a set time?

**Mr R Evans**—I do not know enough about that system to be able to comment. I would prefer a deadline, as a retailer knowing that we need to get the cash past retailers into the supply channel; we need to put a deadline on the spend and it needs to be spent effectively. But, then again, there are probably people who are behind in their rent. There are people who need to pay insurance. So we need a system that can cater for all those differences within the community, but it seems to me that we do not need people drawing down their debt. It just seems to me that taxpayers should not be paying for someone else's holiday that they took to Fiji recently. If you do this by giving cash to someone, which we did in December, that is in fact what could be happening.

**Senator XENOPHON**—So you would have it, if it were time limited—

**Senator CAMERON**—What if you were to fly with Qantas?

**Mr R Evans**—But they are spending money over in Fiji, and they should be spending it on the Gold Coast.

**Senator XENOPHON**—So you would prefer it if it were time limited, whether by a redeemable voucher or by a debit card. What time limit would you want—three months? Four months? What would be your preference?

**Mr R Evans**—Currently unemployment is 4.6. I believe full employment is five per cent. What we need now to sustain and support employment is cash in the system. We need cash in the system, because the banks are not lending to small business. They are carrying their employees at the moment, but they need the cash.

**Senator XENOPHON**—I have one final question before I ask the other panel members. Margy Osmond, ANRA's chief executive, says in her submission that the key measure in the strategy of easing tax burden on employers is payroll tax relief. Have you done any work on it? I invite other members of the panel, and Mr Drum as well, to say whether any consideration or work has been done on the impact of a reduction in payroll tax directly on employment.

**Mr R Evans**—ANRA are a good industry body. They operate with 10 major members, who all pay payroll tax. The majority of retailers in Australia would not pay payroll tax, and therefore I would not necessarily consider that, at this time, we should be focusing on payroll tax.

**Senator XENOPHON**—I invite the other members of the panel to say whether they have considered a cut in payroll tax as a mechanism to stimulate employment.

**Mr G Evans**—Certainly. With respect to state taxation, our immediate priority is to fund the abolition of transaction taxes. One of our policies is, in fact, to reduce and, hopefully, abolish payroll tax, which, although it is an efficient tax, we believe does discriminate against labour-intensive industries such as retailing.

**Senator FIELDING**—I have a question to ACCI. Do you have a good feeling for which industries and sectors employment is going to be hit in and for rough numbers?

**Mr G Evans**—We do not do that specific analysis, though I would say that our general business surveys show weakness across the economy. We look at all sectors. If you look at all the key measurements of sales, profitability, investment and employment growth, they all continue to record weakness. Many are at their lowest level since those surveys began some 10 or 15 years ago.

**Senator ABETZ**—Which areas are those?

**Mr G Evans**—As far as we can tell—as I said, we do not specifically survey for that—it is definitely in industries such as retail, hospitality, tourism et cetera.

**Senator FIELDING**—Hospitality, tourism and retail. Building would be the other one, I assume.

**Mr G Evans**—Yes, building as well.

**Senator FIELDING**—The reason why I was asking was that I asked the department, trying to work out who in Australia has a good handle on which industries and sectors are going to be the hardest hit and then to see, as well, whether this package addresses those in most need from this. I am trying to get a bit of a handle on who in Australia has a handle on which industries and sectors are going to be hardest hit to see where the money should be spent in those areas. Do you have any further information you can provide? I asked the department the other night and they did not seem to know.

**Mr G Evans**—From what we are able to tell at this stage, it is those sectors nominated, both commercial construction and, I would add, housing construction.

**Senator FIELDING**—I could repeat the questions on vouchers, but I will let those go. I think that many years ago there was a voucher system; maybe someone else could correct me here. It may have been around the GST. It related to small business. There was a \$200 voucher, or more, for each small business; it had to be spent by a certain date. Do you have any recollection of that at all? It was software packages. They targeted a certain area. Do you have any recollection of how difficult or easy that was?

**Mr G Evans**—My recollection is that it was implemented through the ATO, and it was quite a successful scheme.

**Senator FIELDING**—From memory, I think it was voucher based.

**Mr G Evans**—I think so.

**Senator FIELDING**—And it had to have a time limit on it, so it got through the economy pretty quickly, I think, from memory.

**Mr G Evans**—I think it was for software, and also you could get some sort of business education service.

**Senator FIELDING**—Thank you.

**Senator JACINTA COLLINS**—Mr Greg Evans, I am interested in ACCI's reflection on their international audit of what is occurring with stimulus packages. I just wanted you to confirm a statement that I think Peter Anderson made as well. He thought that the magnitude of the package was broadly in line with the package that represented two per cent of GDP. That is what you said earlier, wasn't it?

**Mr G Evans**—That is correct.

**Senator JACINTA COLLINS**—Would you also agree with an article published in the *Economist* on 29 January by Messrs English and Tune. They say that article, and I will quote this and see if this is consistent with your concerns as well:

If politicians dither over bank rescues, if countries that can stimulate safely do not do enough, and if fearful investors shy away from emerging markets, the odds of a lasting recovery of the global economy seem slim.

Would that be consistent with the position you have put to us today?

**Mr Greg Evans**—From our understanding of what has occurred internationally and in our general approach on these matters, if governments do not act quickly then the recession could well be longer and deeper than it otherwise would be.

**Senator JACINTA COLLINS**—Would you regard Australia as a country that 'can stimulate safely' and should 'do enough'?

**Mr Greg Evans**—We certainly have more fiscal flexibility than probably any other advanced comparable country.

**Senator JACINTA COLLINS**—I want to finish by taking due to the tax cuts issue. I want to be quite clear on what you are putting to us today about tax cuts. I will go again back to comments by Peter Anderson. In his view, the government:

... has made a decision that it wants to move with the increasing of household incomes through the cash payment in a very immediate sense. There is some merit for that argument as well because, obviously, when you have a serious circumstance, immediate stimulus does have some benefit.

Do you accept the government's concern in relation to this package for the cash payments to achieve immediate stimulus?

**Mr Greg Evans**—Certainly we would agree that one of the most effective ways you could do that would be the implementation of a cash bonus. However, that is not to say that in the longer term you should also ignore the potential to increase productive capacity through tax cuts.

**Senator JACINTA COLLINS**—Thank you.

**CHAIR**—In response to our short deadline, can I thank each and every one of the witnesses today. We have to do is wind this up, because the next people have to leave on time and they have flights to catch. I would like to thank witnesses again for your indulgence in our having to reschedule today because of the tragedies in Victoria. Mr Drum, on the phone, thank you very much.

**Mr Drum**—Thank you, Senator Polley. We will be lodging a hard copy submission tomorrow based on our discussions today.

**CHAIR**—Thank you very much.

[4.58 pm]

**BELCHAMBER, Mr Grant Douglas, Australian Council of Trade Unions**

**APPLE, Mr William Nixon, AMWU Industry and Economic Advisor, Australian Council of Trade Unions**

**PEARS, Adjunct Professor Alan, Private capacity**

**CHAIR**—I welcome Mr Bellchamber and Mr Apple from the Australian Council of Trade Unions and Adjunct Professor Pears. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. I now invite you to make a short opening presentation. At the conclusion of your remarks I will invite members of the committee to put forward questions to you. Again, can I reiterate: we really do appreciate your indulgence in having to reschedule the program today. I would remind you that this is a very brief segment and people do have to catch planes. So please keep your opening remarks very brief.

**Mr Belchamber**—Thanks for having us. We understand the reasons for the delay, and our condolences lay with all Victorians too.

We welcome the stimulus package and we urge the Senate to pass these bills as soon as possible. In recessions, unemployment rises fast and falls slowly in subsequent recovery. This puts pressure on the number of long-term employed. Long-term unemployment rises and it creates a long-term social and economic problem. The critical task now is to limit the increase in unemployment at this time. We still have a chance. Unemployment is yet to ramp up here in Australia as it has already in the Northern Hemisphere. In 1992 the One Nation statement came two years after unemployment began to rise in Australia and the horse had largely bolted. The infrastructure measures in the One Nation statement were worthwhile but were not available for immediate expenditures.

This package is timely and pre-emptive. We urge the Senate to take the path of least regret and to implement the package now. The tax bonus and cash payments are timely and targeted and provide an immediate kick to consumption. Infrastructure spending has a longer burn and a much longer return. The housing, energy efficiency, schools and skills and transport spending will set Australia well for recovery when it comes—and it will come. This package complements and reinforces other measures—the earlier fiscal stimulus package, the fiscal measures being implemented across the rest of the world and the action by the Australian central bank and central banks internationally.

We would urge employers to play their part—in particular, to retain workers through the period immediately ahead. We would particularly be looking for some conditionality on assistance that has been provided to the major banks—for example, the jobs in the banking sector and the maintenance of the branch networks. We think there is scope for some creative initiatives to address mortgage foreclosures and to provide assistance and ensure credit is available for small and medium business. On labour market initiatives, we think that there is scope for more to be done with downtime training, school leavers and measures for workers who may become redundant in the period ahead. But these are small issues relative to the pressing task of getting this stimulus package up and in place pronto.

**CHAIR**—Thank you. Professor Pears, would you like to make a brief opening comment?

**Prof. Pears**—Thanks very much, Senator. I have quite a few years experience in developing energy efficiency policy and programs across the residential, commercial and industrial sectors—and some of them have been quite successful. The key issue for me is that the stimulus package should focus on actions that deliver both short-term and long-term benefits. In this sense, energy efficiency has an important role. The purchases of energy efficient products, the labour involved in installing them, in doing renovations and things like that, create jobs in the services and light manufacturing sectors, which are the most employment intensive sectors of the economy. Energy efficiency offers ongoing economic, environmental and social benefits—in particular through reduced energy bills, which effectively is the equivalent to an ongoing tax cut. It also improves business productivity and the health of our community and reduces pressure on our seriously stretched energy supply systems.

To me, it is critical how the money is spent if we are going to capture both the short-term and the long-term benefits. I want to give a quick example. If, say, a million Australians, in response to the stimulus package, go out and buy present technology inefficient plasma TVs, that would increase Australia's energy bills by about \$100 million a year and increase our greenhouse gas emissions by about a half a million tonnes a year. If,

instead, that same number of people replaced their old inefficient fridges with the most efficient fridges on the market today, they would actually save \$100 million a year on their household energy bills and half a million tonnes of greenhouse gas. So there is an enormous difference in the long-term outcome of spending the same money on inefficient versus efficient products.

I will make a submission late tonight or tomorrow with a list some of the measures that could be applied, but I just want to focus quickly on options for how we could deliver these outcomes for energy efficiency. Indeed, the previous speakers mentioned the idea of vouchers or debit cards that target specific products from certified suppliers. Partnerships with manufacturers and/or retailers can be very useful. I think the insulation proposal that is already on the table reflects that kind of approach.

There is a real case to look carefully at the first home buyers scheme to use it to encourage investment in higher efficiency homes, which will be assets for the future, and also to have it on a sliding scale so that the benefit declines as the home size exceeds a certain level. I believe there will be more jobs if we build more smaller homes than fewer large ones.

For government projects and purchasing, using the right specifications is very important. For example, the public housing proposal could easily just say: they must all be six-star rated. In business, again there are a range of options, such as vouchers or subsidies, for energy efficient equipment and for measurement equipment. Energy diagnosis equipment would be very valuable. Also, we should note that government programs such as the Commonwealth's Energy Efficiency Opportunities Program and a number of state programs have meant that many Australian businesses have prepared detailed business cases for a lot of investments in energy efficiency within their operations. I believe that they could bid in to a pool of money with well-documented projects that could happen pretty quickly and would support Australian industry.

Those are the main points that I would like to make, and I am happy to answer questions.

**CHAIR**—Thank you very much, Mr Belchamber.

**Senator FIELDING**—I noticed that the ACTU recently acknowledged that workers who lose their jobs cannot be confident of finding a new job and, therefore, would have difficulty in covering housing loan repayments or rent and so on. That comment was made generally, but it was also a comment that I picked up from the ACTU. It seems to me that, if you were looking at this package and you were saying, 'We're going in to a huge battle of fighting a recession', you could also say that the government might have meticulously planned this package to fight the war and overcome a possible recession but it could win that battle and lose the war if 100,000 Australians lose their jobs and 300,000 or more are added to the unemployment queue. What do you say about the people who are and/or will be losing their jobs? Do you think the \$42 billion could be spent a little more wisely to look after more jobs?

**Mr Belchamber**—If I understand your question right, it is: what does this package provide for unemployed Australians?

**Senator FIELDING**—It also about the forecast that 100,000 will lose their jobs and that another 200,000 will become unemployed, even after spending the \$42 billion.

**Mr Belchamber**—The unemployment rate is yet to ramp up in Australia. It has not done that yet. The forecasts are for it to go to seven per cent, but the increases that have occurred in the Northern Hemisphere have not yet taken place here. On my reading of the package, any worker retrenched since 1 July 2008 and any worker retrenched between now and the end of June 2009 will get the cash payment if they paid some tax in the 2007-08 financial year and if they have lodged their tax return by the end of June this year. So, to the extent that there are retrenchments and job losses in the period immediately ahead, the cash payment benefit will flow to those people too. Secondly, in the package there is the training bonus, which is available for unemployed people who undertake training and preparation for job readiness. The package as a whole is directed at supporting economic activity and avoiding the increase in unemployment that would otherwise occur. The cash payments are the front end of the package, with the infrastructure spending to follow on from them. We think both parts are absolutely critical in assisting currently unemployed Australians to find work and in preventing job losses amongst currently employed Australians. On the whole, the package delivers substantially in the interests of unemployed Australians and those employed in firms that find the going tough over the coming year.

**Senator FIELDING**—Some of the people who lose their jobs will get the \$950, but there are some who will not. That is a fact.

**Mr Belchamber**—If people were employed and paid tax in 2007-08—

**Senator FIELDING**—I understand that, but there are a lot of people who are employed who do not.

**Mr Belchamber**—There are definitely people at the bottom end of the labour market who cycle between joblessness and jobs.

**Senator FIELDING**—Even if people do get \$950, that is only \$3 extra a day. I thought you would be more focused on unemployed people and those who are going to lose their jobs rather than on being a salesman for the government, to be frank. You are trying to sell me on the 950 bucks, whereas we should really be focusing on jobs.

**Mr Apple**—The ACTU does not view what is coming before you as a series of events and one-off packages. As you correctly said, after \$52 billion of announcements of stimulus you are still looking at an increase in unemployment from 500,000 to 800,000. We were always of the view that most OECD countries and other countries would have packages at the end of last year, as they did; that there would be a package such as this; and that there would be initiatives such as Laura Tingle's front page article in the *Fin Review* today regarding what we are going to do about this year's 200 school leavers. In the 1990s recession in New South Wales, among teenagers that were not in full-time education, unemployment went from about 14 to 27 per cent. It then took five years to get that back down to 13 to 14 per cent. So one would have thought that along the continuum this committee is likely to be looking at a range of measures, as is every other committee in the OECD. What we say about this package is that, staring down the barrel of \$52 billion worth of announcements and 300,000 more unemployed coming, let's not make the mistake that we made in the 1990s.

In the December quarter 1989 in trend quarterly terms there were 475,000 people unemployed. Three years later it was 916, 000, so 441,000 more. Thirty-eight per cent of that came in the first 12 months, 69 per cent came in the first 18 months. So we have some sympathy and, having watched you on Apex TV for three hours with Drs Watt, Gruen and Henry, we have seen the debate that has gone on about how we get an injection in now. I understand that both sides of politics want to get an injection in now; you just have a difference over how you do that. We would not argue that support on training and the unemployed is not necessary. I guess it is a question of sequencing.

**CHAIR**—Given the time, we are moving on now to Senator Milne.

**Senator MILNE**—Professor Pears, I want to go to the question of energy efficiency and the capacity to improve the jobs part of the infrastructure spend. We have slightly more than \$3 billion for energy efficiency as it stands. If we were to require at least six star and water efficiency as part of that for the \$6.6 billion spend on affordable housing, including defence, plus if we were to require higher energy efficiency standards of the \$14.7 billion for the school spend, what do you estimate the improved jobs outcome of the package could be and also the energy savings aspect of the package? It is ballpark obviously because we cannot go into detail.

**Prof. Pears**—I must admit I have not done numbers like that. The reality from studies overseas and in Australia is that investment in energy efficiency typically generates at least four times as many jobs as investment in energy supply side activity. As I said, fundamentally we are looking at energy efficiency driving employment in the services sector and the light manufacturing sector, which are the most employment intensive sectors of the economy. I am told by the insulation industry that that measure—I think it is \$3.9 billion for the insulation program—would create at least 4,000 additional jobs. That is one indicator. But it will depend which measures you choose. For example, if you compare, say, installing a solar hot water service with installing an energy-efficient gas water heater, the solar system typically has a lot more labour in it. If you are investing in energy-efficient buildings, again there is a lot of labour in those areas relative to some others. I think that is the other problem, that it is variable, but it is very positive, from all the studies that have been done.

**Senator MILNE**—If \$3.9 billion is going to result in at least 4,000 additional jobs in insulation, if we then apply high energy efficiency standards to the \$22 billion spend on infrastructure you could expect several thousand additional jobs additional to what will be there if we just went with a cheap building spend.

**Prof. Pears**—Many thousands. The key point I come back to is that by reducing people's energy bills there would be an ongoing flow-on effect of that money saved flowing into the economy, in a sense like a tax cut.

**Senator MILNE**—So there is a strong social dividend in energy efficiency and also an ongoing cost to schools in the operation of those facilities.

**Prof. Pears**—Absolutely.

**Senator MILNE**—Okay. I want to go to the energy efficiency spend. What is the relative merit of wool as a ceiling insulator compared with other insulating products? What I am getting at here is would there be merit in the government preferring wool as a ceiling insulator? Would we have the capacity to deliver at this scale across the country, therefore delivering a benefit to the rural sector at the same time?

**Prof. Pears**—I personally would not recommend driving a strong emphasis on wool insulation. My view is that all of the insulation products I have looked at have strengths and weaknesses. We have Australian standards and the Australian Building Codes Board gives guidance on new homes, and I think we should be rolling out those kinds of standards to existing homes and the retrofit market. To that extent, we should be allowing the market to respond. The wool industry has a position in the marketplace now and I think if they can make the case then they will get more of the market.

**Senator MILNE**—What is the standard that you would recommend for all new government housing in terms of energy efficiency and water efficiency if they are rolled in together?

**Prof. Pears**—In terms of star ratings or R values?

**Senator MILNE**—We are having this \$6.6 million spend on new housing. If someone came to you and asked, ‘What standard should we be applying to have the maximum social dividend,’ what would you say? My concern is that a lot of this housing is going to be built on the edge of cities and we are going to be putting people in a poverty trap if they are in inefficient housing which is nowhere near a public transport route. You will have a carbon price coming in, old cars and no access to public transport—a maximum poverty trap. What we need to do is turn that around and have maximum energy efficiency, access to public transport and maximum water efficiency so that those at the lower socioeconomic end get the maximum social benefit. So I am asking you: if we were to apply a standard to government housing—and I think Defence already has a five-star rating for theirs—what would you recommend should be the standard attached to this package for this public infrastructure spend for housing?

**Prof. Pears**—Certainly as far as the building envelope is concerned, my modelling and that of other people suggests that a seven-star rating is a pretty good standard for new housing, and I believe the government has flagged that it might move to six stars in 2010 but seven stars is where you start getting houses that really work well. We should also be applying efficiency standards for lighting and other fixed equipment in homes. The government has not flagged any there, but I think you can put something like four or five watts per square metre as a requirement on lighting. In terms of water efficiency, New South Wales, through BASIX, is fairly easily meeting a 40 per cent reduction from average consumption today, and I think that, depending on climate zone and water supply, 50 to 60 per cent reductions from average are the sorts of things that are doable.

**Senator MILNE**—I know that Senator Xenophon will have a question on this, but the issue also is that the government is offering a \$1,600 rebate for ceiling insulation. If you have ceiling insulation, the rebate would be for solar hot water. If you were to extend the rebate for people who already have both ceiling insulation and solar hot water so that you are not penalising early adopters, what would be, say, the four next best things in a hierarchy of rankings that you might apply that \$1,600 rebate to?

**Prof. Pears**—Draught proofing is incredibly important, as is shading of glazing from the hot summer sun. The retrofitting of wall insulation, which the ACT government actually offers a subsidy on, is extremely important too. So those are three suggestions.

**Senator MILNE**—So in order of hierarchy you would say draught proofing, shading of your windows and then wall insulation if you already had ceiling insulation and solar hot water.

**Prof. Pears**—Yes. I think beyond that I would then be looking at advanced glazing retro fits.

**Senator XENOPHON**—Further to Senator Milne’s question on the so-called low-hanging fruit in terms of energy efficiency, in some states there are some programs that actually install energy-efficient light bulbs and low-flow showerheads. Is that something that is worth considering? It is not of the same intensity, but does that deliver results for those who have already got—

**Prof. Pears**—Halogen lighting, given you have got up to 100 light globes in your house, is probably one of the really big issues to deal with which I did not flag. Replacing those with more efficient lamps would be very cost-effective and have a very large impact. We could get rid of a million tonnes of CO<sub>2</sub> a year and take \$100 million off energy bills.

**Senator XENOPHON**—So that would be quite significant, and that is a cheap way of doing that?

**Prof. Pears**—Yes.

**Senator XENOPHON**—And what about low-flow showerheads? Do they make a difference in terms of energy and water use?

**Prof. Pears**—Yes, I think the thing with low-flow showerheads is that, certainly in Victoria, the water authorities are giving them away.

**Senator XENOPHON**—Do they install them though or are they just giving them away?

**Prof. Pears**—They will do swap overs, and in some cases you will get free installation, I believe, through councils.

**Senator XENOPHON**—Although in the GGAS scheme in New South Wales, as I understand it, once people actually installed it for you there was a huge take-up. Apparently there were a lot of light globes in people's cupboards.

**Prof. Pears**—I would agree. If we could package it so that they were actually installed then that would be good. Wearing another hat, I am a member of the Victorian government's Plumbing Industry Advisory Council and I can say that the Victorian Plumbing Industry Commission is very keen to get plumbers actively engaged in this kind retro-fitting work.

**Senator XENOPHON**—And installing greywater systems and things like that?

**Prof. Pears**—Indeed.

**Senator XENOPHON**—So those are things, in addition to the matters you put before Senator Milne, that could make a real difference.

**Prof. Pears**—Yes, again I guess that is why I was attracted to some kind of voucher or debit-card system or something like that where there was a range of choices people could make. A big issue there is the fact that if we spread it across a range of options for people then we will overcome some of the potential supply constraints or even profiteering that could happen if there are shortages or things like that. So I would rather see people have a range of choices that they could take from among a range of measures all of which we felt would be very effective.

**Senator XENOPHON**—Finally, Professor, I know you will be providing a submission—I think the sooner the better given the time constraints that we have—but can you make reference not just to the options you have referred to in your evidence but also to their cost effectiveness and the impact they would have on employment in terms of the multiplier effect, if you like, and return on investment in terms of energy efficiency and water conservation.

**Prof. Pears**—Okay, I will see what I can do.

**Senator CAMERON**—I understand that we will be receiving a submission this afternoon that says that one of the longer term options to deal with this crisis is to reduce wages within the economy. What is the ACTU's view on that?

**Mr Belchamber**—That would be an entirely wrongheaded and counterproductive approach. Already in the labour market there are negotiations in all quarters of the economy negotiating shorter working time arrangements in some firms, overtime reductions, and annual leave arrangements where annual leave is taken early and some workers going to deficit and so on with respect to long-service leave. The real danger there is that a strategy of wage cuts or wage reductions would transmit the deleveraging that is happening in the financial sector into households and the residential property sector.

Many households have high repayment-to-valuation ratios already and wage cuts would reduce their capacity to meet mortgage repayments, leading to more defaults in the residential property market which would flow on into house price falls which would further increase the leverage on remaining households and could well create a downward spiral in the household sector not too dissimilar to the spiral that started this all off in the United States. So we think that would be a wrongheaded approach and would undercut the demand-maintaining objectives of the package as a whole.

If I could just take this opportunity to add to the answer to the question from Senator Fielding before which did mention housing, the ACTU called in its December executive meeting for particular use of the productivity places program to target reskilling for workers where there are some short-working or some voluntary stand-down days being used, and we have called for a guarantee of six months training and case management back into work for workers who have been made redundant. I did mention the banks as well. We think that there is a

need for the banks to make some credit provisioning to facilitate debt for equity swaps in the housing market and to provide for mortgage holidays for those losing their jobs.

**CHAIR**—You have to get to the airport.

**Mr Belchamber**—I need to reply to—

**CHAIR**—I do understand that but we have a very tight timeline.

**Mr Belchamber**—The other issue there concerns the mortgage holidays. So we think that there are many things that can be done for current and potential unemployed Australians, and this package is critical for them. In saying all of this, I speak on behalf of the Australian Council of Trade Unions, as I said in opening, and not for other parties.

**CHAIR**—Thank you very much Mr Belchamber, Mr Apple and Professor Pears for appearing before us. Again, thank you for your indulgence in understanding that we had to reschedule and the very tight timeline, but I understand you all have to travel to the airport, so travel safely.

[5.31 pm]

**HATFIELD DODDS, Ms Lin, President, Australian Council of Social Service**

**DAVIDSON, Mr Peter Andrew Geoffrey, Senior Policy Officer, Australian Council of Social Service**

**QUINLAN, Mr Francis Gerard, Executive Director, Catholic Social Services Australia**

**HELYAR, Ms Susan, Director of Services Development, Uniting Care Australia**

**CHAIR**—Welcome. You have all received information about parliamentary privilege and the protection of witnesses and evidence, which has been provided to you. The committee has a submission from the church providers. I invite you to make a short opening presentation. At the conclusion of your remarks I will invite members of the committee to ask questions. Unfortunately, we have a very tight timeline, so I ask people to be fairly succinct with their answers. Again, I thank every one of you for understanding the reasons why we had to reschedule to this evening.

**Mr Quinlan**—I am here today representing the major church providers group—Anglicare, Uniting Care Australia, Catholic Social Services Australia and the Salvation Army.

**Ms Helyar**—I am also here as part of the major church providers' group.

**Mr Quinlan**—I would like to pass on Major David Eldridge's apologies. As you might expect, he was caught up in the business over the weekend and the Salvation Army are working pretty hard in Victoria at the moment, so he has been called away.

**CHAIR**—We all understand and we place on record our thanks and appreciation to all those organisations that are going to be involved for some months to come.

**Ms Hatfield Dodds**—Thank you for the opportunity to speak today. ACOSS has a short statement and then we would be exceptionally happy to take questions. The first thing we want to do is to put on the public record our distress at the devastation that the bushfires are wreaking right across Victoria. Many of our members and many of the people our members serve have been affected.

In terms of the stimulus package, difficult times lie ahead for many low-income and disadvantaged Australians. While we do not know how severe the downturn is going to be, or when it will come or how long it will last, it is pretty safe to predict that those who are the most vulnerable and the most disadvantaged are going to take the biggest hits. So those people face the greatest risks of prolonged unemployment, of financial hardship and of social exclusion. It is those who are already jobless, people in insecure jobs, people with low skills or other barriers to work such as having a disability or living with an impairment, and young people and mothers entering the workforce who will be the most hard hit.

Together we must do all in our power to keep unemployment low, to speed the recovery from the downturn that lies ahead and to help those most affected to adjust and bounce back. A downturn like this is new ground for many people who have not experienced such a thing before. There is a whole cohort of young people who have come to maturity in times of economic growth and who are floundering at the moment. Public policy is also breaking new ground. The government is taking pre-emptive action against a problem whose size, shape and timing are not yet known.

ACOSS supports this approach. The risk of higher public debt and lower confidence amongst consumers must be weighed up against what we believe is a greater risk: that the economy will contract, unemployment will rise sharply and confidence will fall more dramatically if people are not prepared for the downturn in advance. We do not, at ACOSS, claim expertise in economic forecasting or the precise size and timing of the stimulus package. You will have already seen and heard the views of Treasury and other experts on that. We do, however, have views on the broad strategy that should be pursued. Governments, we believe, should pursue a combination of three approaches. First, governments should boost the incomes of people who are the most likely to spend the money in a timely way. This is the quickest way to strengthen economic growth. It will work best if low- and middle-income earners are targeted, and it will have less impact on public finances in the long run if it is temporary. Second, governments should develop, plan and implement quality public infrastructure projects. This takes longer to roll out than cash payments to households, but well-designed projects provide a stronger boost to the economy and have more lasting economic and social benefits. Third, they should improve income support, employment assistance and social support services for those most affected by a major downturn—especially jobless Australians.

Within this, programs to stem the rise in long-term unemployment should be given high priority. ACOSS has advocated a paid work experience program for long-term unemployed people to keep them in touch with

regular employment at a time when jobs are scarce. We have also called for a boost to programs such as emergency relief, homelessness programs and financial counselling. This stimulus package is consistent with the strategy just outlined, and we welcome it. The package sensibly shifts the focus towards infrastructure investment, including a very welcome and long overdue boost to social housing investment. The 20,000 housing units over the next two or three years are most welcome. The payments and tax bonuses mainly target low- and middle-income earners.

ACOSS has raised one concerned about the targeting of assistance to households so far. There has been limited direct support for unemployed people. We will continue to raise this issue because the social security system requires structural reform. The \$60 gap between allowances and pensions is not sustainable, and no-one can live decently on an unemployment benefit of \$225 a week. We have called for a \$30 a week increase in single allowance payments as a first step towards necessary structural reform of the social security system and will continue to advocate this. However, this package deserves support for what it aims to achieve: to prevent unemployment from rising even more rapidly. Improvements in unemployment payments, pensions and employment programs are structural reforms. They will also boost economic growth in the short term, but they should be pursued as part of an integrated package of social security reforms. If one payment is increased, for example, while the others remain the same, the whole payment structure is skewed and people understandably raise concerns about the fairness and equity of the changes.

In regard to community services, the package includes a very welcome and substantial increase in funding for emergency relief services. We will continue to pursue our call for a \$300 million temporary boost to other programs such as assistance for homeless people, financial counselling, family relationship services, mental health, drug and alcohol and domestic violence services.

**CHAIR**—Mr Quinlan, would you like to make some brief opening comments?

**Mr Quinlan**—Yes, if I may. We have prepared a longer opening statement. Could I table that?

**CHAIR**—Yes, table that. That would be great—it will enable valuable time to put some questions.

**Mr Quinlan**—I really wanted to highlight a number of issues that I think come out of that. The first is that the major church providers, foreseeing the gravity of this crisis, convened a meeting in November last year, and the reports that we have submitted to you as part of this inquiry arise out of that. There was an Access Economics report that we commissioned on the likely impacts of the global financial crisis on the social services sector and a second document that details a range of recommendations that we think would serve well if we are to assist the community and social services sector to ride out this crisis in the years to come.

We think that, as for the basic principles that are applied in this package, there is obviously room for discussion about the details. The fundamental principle is that we ought to be making investments in infrastructure which support local employment and lasting change at a local level and build community infrastructure. This ought to be done in a way that supports a new kind of partnership between government and the community sector. There are a number of issues outlined in our submission that go to that. We welcome this particular package because it is targeted. To the extent that it is targeted, it is a massive, major, long-overdue and welcome investment in community housing and social housing. That is a very important part of the package and it has obvious flow-ons. It also promotes the development of social infrastructure and local jobs by investing in small-scale projects at a community level in the schools package, including measures such as the energy efficiency measures. We also welcome, although they were not one of the headline issues, the measures that double the Commonwealth budget on emergency relief. Many of our agencies will certainly welcome those measures.

We note that it is not a rescue package for the community sector nor was it designed to be so. It is not a rescue package for the unemployed nor was it designed to be so. But in the submission that we have made to you we have expressed a number of concerns about the future of the community sector and its capacity to manage this crisis and also about, to build on the ACOSS submission, the gross inadequacy of the Newstart allowance for people who are going to be living on unemployment benefits. Whilst we have supported the ACOSS call for a \$30 increase in benefits, we would also like to suggest—as Lin has just outlined—that we ought to be separating out what are the responses to the crisis here and to the global financial crisis and what are the measures that are about major structural reform and lasting structural reform of both the social security system and the community services sector. Against that backdrop I will ask Susan to top up with any comments that she would be happy to make.

**Ms Helyar**—Another critical issue in implementing the stimulus package measures is using them to value-add to what is existing, so making sure that any additional funds that go in are used to enhance existing services and address some of the problems that exist in those services. A good example is what is happening with the discussions that are being held around building the capacity of the emergency relief program to provide more substantial help to people in the early stages of their experience of crisis so that it prevents them from falling into further crisis. Also, there is value-adding to the intervention around material aid, providing support as to the longer term issues that are driving the financial insecurity of those families. Another issue is around minimising the red tape that goes with delivering these kinds of services. There is a lot of information about that in the submission that has been made by the four church providers. I think that this provides a critical opportunity to test some new ways of delivering money and accounting for money and testing flexibility to make sure that services can provide locally responsive and relevant measures for people.

**Ms Hatfield Dodds**—Madam Chair, if I may I will jump in and offer my apologies. We are going to have to leave at six o'clock. I am chairing a board meeting early tomorrow in Sydney. The latest flight I could get was at 7 pm. I offer my enormous apologies about that.

**CHAIR**—I do appreciate that, particularly in light of the fact that we have had to reschedule. I am sure that my committee colleagues will adhere to the time frame. We will go to Senator Siewert.

**Senator SIEWERT**—Thank you, Madam Chair. Witnesses, you have raised a number of issues in both your comments and your written submissions. I have a series of questions—and we will see how far I get through them—

**CHAIR**—Senator Siewert, I am sorry but I need to ask Senator Xenophon and Senator Fielding whether they have any particular questions for Ms Hatfield Dodds so I can allocate some time before six o'clock.

**Senator FIELDING**—They can probably be handled by the others.

**Senator XENOPHON**—I do. They relate to the best method of delivering a payment, whether it is through a voucher or cash or a debit card.

**CHAIR**—Do you have ones directed at ACOSS, Senator Siewert?

**Senator SIEWERT**—I have a series of questions that will be for both ACOSS and the church providers.

**CHAIR**—Can we allow Senator Xenophon to put his question and then allow you to continue?

**Senator SIEWERT**—Okay.

**Senator XENOPHON**—I will be very quick. There is a concern, for instance amongst the Retailers Association, that if the handout is simply cash some of it could be saved or deferred, whereas in order to maximise the stimulatory effect of any handout a voucher system of Medicare type receipts and refunds would be more effective in ensuring that that money, within a limited time period, would be spent and would circulate through the economy to maximise its impact. Or, for instance, a debit card system where you know it will be spent on goods and services.

**Ms Hatfield Dodds**—I guess our response to that is that first of all, as I understand from the government, this is a stimulus package, so its primary goal is to stimulate the economy. That being the case, we probably need to get cash payments out as quickly as possible. Secondly, certainly from an ACOSS perspective we do not have any evidence that cash payments are not spent primarily on those things you would expect and hope them to be spent on, like the basic goods and essentials to live a decent life. Do you need to add anything to that, Peter? The third thing that I would say is that the experience of our members who provide these services is that if part of what we are trying to do is build the capacity of low-income and disadvantaged people to take more control of their lives and to manage their finances, then a really good way of doing that is to enable them to actually have finances to manage.

**Senator FIELDING**—To follow up on that if I can, would the voucher system get around the concerns from the community and the fact of some of the money being spent in areas like pokies?

**Ms Hatfield Dodds**—I do not know from any kind of comprehensive, national, evidence base that that is happening at all. Certainly what our frontline members delivering frontline services are telling us is that the vast majority of cash payments are going to the basic building blocks.

**CHAIR**—Thank you. Senator Xenophon, do you have any further questions?

**Senator XENOPHON**—Well, I guess that there is a concern that some people are either saving it or paying off debt rather than actually spending it. Has any research been done by ACOSS in relation to that?

**Mr Davidson**—I think there is a general consensus amongst economists that if the money is delivered to people on lower incomes who are credit constrained then they are more likely to spend it. So that is one way to ensure that that occurs. A voucher system, if one was already in place and could be rolled out very quickly, might work for the purposes of a one-off payment, as distinct from replacing income support payments regularly. However, to our knowledge that system does not exist and could not be rolled out quickly enough to deal with the problems we now face.

**Mr Quinlan**—I think a rebate based system would be fundamentally flawed, in that for many low-income earners would simply not have the upfront cash to support the expenditure required to subsequently get a rebate on something.

**Senator XENOPHON**—A debit card would not have that problem though, would it?

**Senator FIELDING**—Or a voucher system.

**Mr Quinlan**—No.

**Senator SIEWERT**—Are your organisations able to pick up a trend of increasing unemployment across the board or are there particular areas where you are starting to see it? If so, how is it starting to manifest itself? In other words, how are you picking it up.

**Ms Hatfield Dodds**—All the evidence is anecdotal at this stage because the rise in unemployment is so new. We are seeing it in different ways across the board. I guess it is not surprising that those areas of Australia that are already known to be locationally disadvantaged are generally those areas where we are seeing more people come to our frontline services. They are things like the emergency relief service, financial counselling, crisis counselling and family support services. There is a growing trend not just in terms of unemployment but for individuals and household that are kind of teetering on the brink of viability, if you like. We are seeing a big increase in the need for family and crisis counselling.

**Senator SIEWERT**—When you talk about the areas that you have already identified, are you talking about the poverty postcode areas, those sorts of areas? Is it expanding out of those areas and, if not, do you expect it to?

**Ms Hatfield Dodds**—It is a hard question to answer, because the data we have is pretty much anecdotal at this stage. Yes, we are seeing it in those areas that have already been identified in things, such as the Vincent report, as poverty postcodes and where we are already delivering services. It may be we are seeing it there because that is where a lot of our service provision is. If unemployment goes the way it looks like going, and if we are looking at seven per cent in the near future then I expect it will spread beyond that. I guess it is a case of wait and see, except that we cannot just sit passively to wait and see, which is why we have supported the kinds of measures that the government are proposing with regard to local, modest infrastructure.

**Ms Helyar**—The experience of the last few years is that the areas where there has been growth in hardship are the areas where there is high non-affordability of housing, so it would be reasonable to anticipate those are the areas where people were most vulnerable in the good times and so housing affordability measures would be good measures for growing areas of demand.

**Mr Quinlan**—We are also at pains to point out that, as the Access Economics report that we have tabled for you cites an ACOSS report, which I think is the most recent evidence, that in 2006-07 about 80,000 Australians who were eligible for social services of one kind or another were refused service because of inadequate funding. So essentially that means we have two layers: we have an existing backlog of demand and people who did not enjoy the boom, who will still be with us through this crisis, and we have a new layer. Certainly, we are getting anecdotal evidence that that new layer comprises mortgage holders, professionals and others who our agencies have not seen before.

**Senator SIEWERT**—I have a number of questions, but I have two immediate questions. Firstly, in those areas where we are, increasingly, starting to see people get into financial crisis, what do you anticipate the impact will be of the current asset level on those people able to access Newstart?

**Mr Davidson**—You are referring, I assume, to the liquid assets test?

**Senator SIEWERT**—Liquid and also other assets—there are two assets tests.

**Mr Davidson**—The one that particularly affects the most vulnerable is the liquid assets test, because you only have to have a few thousand dollars and you are required to draw it down before you claim payments, so people are literally left without savings. The assets test proper also has an impact because, although the family

home is excluded, if you are on unemployment payments and the value of non-housing assets is even a dollar above the threshold then you are not entitled to payments. You have to dispose of those assets.

**Senator SIEWERT**—As you understand it, is there additional funding for financial counselling, as opposed to emergency relief?

**Ms Hatfield Dodds**—The government put additional funding into financial counselling, I think, last year. It has come through. In this stimulus package the government announced a doubling of the emergency relief budget. As Frank said, the issue we are looking at is a backlog of underinvestment in social services and an awful lot of unmet demand. In some areas of Australia, I think a doubling of the budget for some agencies and some services will be sufficient. In other areas, I think it will be woefully inadequate. The service here in Canberra, over the past three or four months, I know has seen a quadrupling in demand for emergency relief. So it is a case of swings and roundabouts. It is a fact in downturns that those who experience the impacts first are low-income people.

**Senator SIEWERT**—That leads me to my next question. With the tax bonus approach for those earning between \$80,000 and \$90,000 and between \$90,000 and \$100,000—and I know the bonus tapers off, from \$650 to \$300—would we as a community be better off investing that money there or would you rather see it re-invested in helping both the unemployed, whom you have also touched on, and the disadvantaged more? Will it have more effect on those people?

**CHAIR**—Before you answer that: Senator Cameron has one question before you go as well. We should just bear that in mind.

**Ms Hatfield Dodds**—From ACOSS's perspective, understanding that this is a stimulus package, the government needs to get cash payments out quickly. That is hitting the economic stimulus target. In an ideal world, I think we would see absolutely adequately funded social services with capacity built in them with regulatory reform so that we were not strangled with red tape anymore. In terms of this package, we welcome those payments because we recognise that we need to get cash flowing quickly. They are largely well targeted. It is largely, as I said before, to low- and middle-income earners. Certainly, ACOSS's constituency is low-income and disadvantaged Australians, so they are the ones we would always like to see get the most of any largesse flowing.

**Mr Quinlan**—I would like to just reinforce the comments I made in my opening remarks about separating out the stimulus measures from the repair measures, if you like, for the social security system, because I think what you are coming to, Senator, is that the social security system has got woefully out of step with the needs of those entering it. That is one problem, and I consider that in part separately to the problem of the economic stimulus measures. I am not qualified to advise the government about how it promotes its economic stimulus measures, but we are certainly engaged and will continue to engage in a conversation about how we might fix the social security system.

Really, the level of unemployment benefit for an individual ought to be the same whether there is a global financial crisis or not. If you are unemployed, you are unemployed. The quantum of the bill for government will swell and contract according to the economic times as more people come onto unemployment benefits and move off unemployment benefits, but the fundamental problem, I think, is that we ought to be paying people who are unemployed because of a failure in the market enough to live a decent and dignified life, and it ought not to be structured through one-off payments.

**Senator CAMERON**—Ms Hatfield Dodds, there has been an argument put forward that we should sit back and wait and just have a look and see where we go before any economic stimulation package is implemented. What is your view about that, and, if we did, what are the implications for the poor in this country?

**Ms Hatfield Dodds**—ACOSS's view, as expressed in my opening statement, is that we believe that as a country we need to act and act quickly, and preferably act in a proactive way. As Frank and others have said, out there across Australian communities where our members are delivering social services, we are already seeing a huge unmet demand, and, more and more, those are midstream wage earners, people who are struggling as hours are dropped. So I think we are already seeing the impacts of the global financial crisis across our communities, and I guess the issue is: if we can move fast enough, can we hold more people in their jobs? Can we hold more people in their homes? None of us wants to see more people falling through into welfare. The system is already very stretched.

**Mr Davidson**—The danger is that, if action is not taken promptly, we could fall into a downward spiral with higher unemployment, lower confidence, higher unemployment, lack of access to credit and so on. Investment now will probably be more effective than investment six or 12 months down the track.

**Mr Quinlan**—I will just add to that by way of example. In our opening comments, we talked about a new kind of partnership with the community sector and social services sector. This is precisely the point that we are trying to make. I think the employment services programs are a good example of where we are in a fundamental bind about the way in which programs are funded, right at a time when we know we are facing a wave of unemployment and we know that chronically disadvantaged people are going to be at the end of a longer and longer queue. There is massive uncertainty because of the government funding cycle about the future of those programs. Agencies on the ground now do not know if they will have services on the ground beyond 1 July next year, and that clearly, to me, points to a failure of our funding model. Surely, at a time when we are in agreement that there is going to be massive demand, we ought to be in a position to be ramping up our services rather than, in some cases, actually winding them back ahead of a decision that is yet to be made by government.

**Senator JACINTA COLLINS**—Mr Quinlan, just on that point: are you engaged in the discussion processes around what I suppose you would coin the unemployment rescue package?

**Mr Quinlan**—Yes, certainly. I think it is on the record that the Deputy Prime Minister recently called together what I think she calls the Community Response Task Force. I know ACOSS is represented there, and the Major Church Providers Group have been represented there. The recommendations document that we have tabled as part of our submission to you contains the initial recommendations that we made to that forum. I would expect as part of those discussions that we would come to more concrete proposals to address both of those issues—certainly the plight of the unemployed, those who are likely to be coming on to the unemployment queues and those who are also likely to be spending more time there. Also, the issues around how we equip the social services sector to meet the demand that is going to be placed on—

**Senator JACINTA COLLINS**—But you see the stimulus package as distinct from those other issues?

**Mr Quinlan**—Yes. They are certainly related, and I think the principle of stimulus measures that promote some of those other social goals is important, but I also see that we have some structural issues around the community sector and around unemployment that really need to be solved in their own right.

**CHAIR**—I know Ms Hatfield Dodds and Mr Davidson have to leave now. I thank you both for your indulgence regarding rescheduling.

**Senator SIEWERT**—I would like to pick up from where we were leaving off on a couple of points.

**CHAIR**—You can have a couple more minutes.

**Senator SIEWERT**—Included in the package is an additional \$950 for training for various people. From your experience, with the growing numbers of unemployed we are going to face, for those people who are recently coming out of employment is that going to be training they need or assistance to actually gain another job? We are moving now from those most vulnerable job seekers to people who are directly coming out of employment. Is that training money going to help there?

**Mr Quinlan**—Yes, I think so. As always, the devil is in the details with a lot of these packages, but I think there has been improved flexibility in recent years to structure particular training packages. One of the options that has been on the table in relation to the emerging demands is that Job Network and other providers may well need to fashion some sort of group programs and group training opportunities for some of those target groups that you are talking about in order to get some practical assistance on the ground. It might be one-on-one support.

**Ms Helyar**—The other issue is that the jobs that the newly unemployed will need will be different to what people who have been long-term unemployed will need. The needs of the newly unemployed are around resume reorientation and building their capacity to work in different industries to where they have been. So there will need to be fee structures within the existing and the new employment services programs that enable that. Yes, the long-term unemployed have different training needs and different support needs, and the new system has been designed to address those. We have yet to see how that will pan out. It is important that they are quite different roles that an employment service provider provides to those people. The existing system is not really geared up to help the people who are newly unemployed out of industries that have previously been experiencing skills shortages.

**Senator SIEWERT**—I have another question that relates to training and CDEP. As we know, CDEP is changing. Is this new stimulus package and training going to help it or is it going to further exacerbate the current situation?

**Mr Quinlan**—Sorry, Senator. Is it going to help the situation with the CDEP?

**Senator SIEWERT**—Yes, the CDEP. You mentioned earlier in your evidence that some of the service providers do not know, come 1 July, if they have a future. Are the changes to CDEP rolled in with that or do we not need to worry about it? I am particularly concerned about Aboriginal job seekers.

**Mr Quinlan**—As I understand it, the measures are developed separately. Again, as I said, I think the fundamental test will be in the flexibility in the system. Obviously the packages are newly announced and I am certainly yet to see written guidelines about some of the initiatives. In the briefings that have been made available to us so far, representatives of the government have indicated sympathy towards flexible arrangements and arrangements that are inclusive of job seekers rather than exclusive of particular job seekers. As I said, the devil is always in the detail, but we have some confidence that those discussions are at least heading in the right direction.

**Senator SIEWERT**—This is my last question.

**CHAIR**—Senator Cameron has a couple of questions, but at the moment you still have the floor.

**Senator SIEWERT**—I noticed in the media today that there is trouble in the UK with some of the private and public service providers. They are starting to fall in a heap given the current financial crisis. You just mentioned that some of our Job Network providers do not know if they have a future from June. Are we facing a similar situation as is evolving in the UK with our job service providers or is it a very different situation?

**Mr Quinlan**—Bluntly, I believe we are. I believe that the mixture of payments in the system is likely to require a radical rethink if the industry is to survive in close to its current form. The fundamental problem is that agencies are paid on the basis of outcomes that have been achieved and in some cases six months after the outcome has been achieved—that is, a longer term outcome. What that means for community agencies is that all the investment is up front and all the payments are at least a long way down the track and are somewhat speculative, frankly. We have certainly been arguing—and we have been on the public record about this—for some time that, as the economic circumstances shift, the system will need to be adjusted if agencies are to be the support on the ground. The net result is that now, as outcomes are achieved less and less frequently because the labour market has fewer opportunities available to it, the funding to agencies is drying up at the same time as they ought to be expanding their capacity because the need will be greater in the future, even if it is likely that, for some years to come, fewer outcomes would be achieved.

**Senator SIEWERT**—As the chair said I have a few more minutes, I will use the time.

**CHAIR**—I am a very generous senator today; it is my birthday, after all.

**Senator SIEWERT**—You were discussing earlier, I think with Senator Collins, the difference between what is part of the stimulus package and what is reform of our social security system. You were advocating an increase in payments for Newstart. We have had submissions from the Australia Institute advocating that there should in fact be a \$56 increase. Would you say that any increase in the base payment that a person on Newstart receives would be spent straightaway—that is, not saved but used to stimulate the economy by actually being spent?

**Ms Helyar**—The evidence from the household expenditure survey data that the ABS collects is that people on less than \$25,000 a year spend 70 per cent of their income on housing, food, transport and energy. All of those are increasing in cost. Those people are already unable to generally meet the demand for those. Emergency relief services are being used to top up the inadequacy of the weekly payments for people. So I think the evidence is very strong that it would be absolutely used because people are living with energy poverty and with food insecurity now.

**Senator SIEWERT**—The other issue you touched on was capacity—that is, not an increase in the number of people being turned away but the capacity of the sector. Does your \$300 million bid address issues around capacity in the sector?

**Mr Davidson**—I might say that estimate was a starting point, we thought, for at least some emergency measures that might help us to build that capacity. I would also have to say that not all of the increased capacity would necessarily be achieved through increased funding, though we think it would require increased funding. What is clear is that in many of our programs there is a massive wastage on unnecessary

administration and compliance. Some estimates on the job network put the cost at something like 50 per cent of the funds that government gives the agencies is spent on compliance and administration.

**Senator SIEWERT**—Fifty per cent.

**Mr Davidson**—Yes, 50 per cent. That is not taking into account the money that is also spent on the government side to actually administer those programs. The example I have used a couple of times recently is that in the lead-up to another Senate inquiry we surveyed our members ahead of the Senate inquiry and 19 of our agencies, who are small to medium-sized agencies delivering a broad range of community services, were in 620 different contracts with state and federal government in order to deliver these services. Just to repeat, that is 19 agencies in 620 different contracts. The burden on our workers of managing those contracts is hideous and in our view unnecessary. Certainly we do not shy away at all from accountability, but what that means is that on average one of our agencies is talking to 30 or 40 different state and federal government departments with different reporting timeframes, different data sets and a whole range of different planning imperatives. We think that, if we could achieve some of those efficiencies, there is enormous scope to spend the money government is already investing in the sector much more efficiently and effectively.

**Ms Helyar**—It would also address one of the critical issues in our sector, which is workforce. A great frustration of the workforce is around diversion of their effort from service delivery to regulatory compliance. Addressing that would go a long way to dealing with abandoning of the service system by a number of highly skilled and valued workers.

**Senator CAMERON**—Mr Quinlan, I am not quite clear on one aspect of your submission. There is the issue of that initial broader long-term reform agenda you would like government to implement and the government's Nation Building and Jobs package. You are not arguing that the Nation Building and Jobs package should be delayed at all because of your longer-term reform agenda, are you?

**Mr Quinlan**—No, certainly not, nor are we arguing for a substitution of one to the other. We are simply arguing that on our best evidence and without claiming some of the economic expertise that would be required to make a full assessment, on the best evidence the government's economic stimulus package supports some of the social goals that we have been encouraging the government to pursue. Parallel with that there are a number of processes now in train with government to pursue the reform agenda. So I think both need to proceed with some urgency, but we are certainly not arguing that the economic stimulus package ought to be held up. Further, in some areas in particular that are perhaps closest to our programs, as I hope I conveyed in my opening statement, the investment in housing, for instance, and social housing is enormously welcome, simply unequivocally welcomed. I went fishing for criticisms amongst our members today before I gave evidence, and any of our members with expertise in the housing and social housing area said, 'Let this not be delayed for a moment, because it is a wonderful injection of much-needed resources into a much overlooked space.'

**Ms Helyar**—And not only not to delay it but to use the opportunity to test building some efficiencies into delivering this kind of money in the way that makes it available to the people who need it as quickly as possible and in as sensible a way as possible and using the least amount of the resources to actually administer the programs.

**Senator CAMERON**—I am sure there is some corporate memory in your organisation in relation to previous recessions even if you were not there. I am thinking about the highly leveraged households we have at the moment, households in quite a lot of debt that was probably unthinkable 20 years ago. Does that present special problems in terms of the social and interpersonal issues that families are facing? Does that then reflect another level—that is, economic costs to the community?

**Mr Quinlan**—Certainly. As I have tried to convey, I think that is reflected in what appears to be the trend in terms of new clients that are attending our services, particularly our financial counselling services. There seems to be a trend emerging—predictably, really, on the basis of what you have just said—of families who are mortgage holders appearing at our services and who we might otherwise never see. On the back of that trend, we have suggested to government—and I notice that both the Prime Minister and the Deputy Prime Minister have made some comment on this—that we think it is incumbent on banks to find ways of assisting those families who are highly leveraged to either manage the current crisis or manage what I might call a graceful exit from their indebtedness. It is certainly clear that some of the indebtedness comes down to lending practices. In the wake of the sorts of supports that banks have been offered by government in the hope of providing economic stability, I would certainly join those voices that say there is a requirement on the banks to also pass on some of that assistance to their customers.

This is also important for keeping a new wave of banking customers out of our services. Against the backdrop of oversubscribed services that I pointed to before, we are particularly eager not to see a new raft of people entering our services if they can be prevented from doing so. Our services are best established and most effective with people who are chronically disadvantaged and face multiple barriers. We are hoping to build systems, programs and responses that keep people from entering those systems if at all possible. Again, this is one of the principles that go to the issue of unemployment benefit. We know that if people are required to come into our services, if they are required to run down their assets before they get an inadequate payment, then the level of complexity of their problems is simply going to spiral, and we will pay the price for that down the track. We think it is better to pay the price for prevention upfront than to try to solve those problems once they have become chronic.

**CHAIR**—Thank you very much not only for appearing before us and indulging our rescheduling but also for your submission. No doubt your organisations will be particularly busy over the coming months in Victoria, and we wish you well.

**Mr Quinlan**—Thank you very much.

**Proceedings suspended from 6.18 pm to 6.22 pm**

**DAVIDSON, Professor Sinclair Richard, Professor of Institutional Economics, School of Economics, Finance and Marketing, RMIT University**

*Evidence was taken via teleconference—*

**CHAIR**—Welcome. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. The committee has before it your submission. Do you have any comments to make on the capacity in which you appear?

**Prof. Davidson**—I am a Professor of Institutional Economics at RMIT University and also a Senior Fellow at the Institute of Public Affairs in Melbourne.

**CHAIR**—I now invite you to share your views on the Nation Building and Jobs Plan bills. I remind all senators that the committee has agreed that no questions will be put to witnesses. Professor Davidson, you have 10 minutes in which to make your statement.

**Prof. Davidson**—Thank you for this opportunity to address you on the stimulus package. Given the short time, I will jump straight to the recommendations that I have come to. Having had a look at it, I recommend that the stimulus package in its current format be rejected by the Senate. In my opinion, the package does not contain enough stimulus relative to the spending that it contains, and the spending that it does contain is of poor quality. This kind of stimulus package has a very poor track record of success, and economically we cannot really expect it to succeed.

The other thing that I want to emphasise is that the government is not doing nothing, if you will forgive the double negative. The Reserve Bank has lowered interest rates quite substantially over the last while and the automatic stabilisers will kick in as unemployment starts rising, tax receipts start falling and welfare payments are being made. So there is no urgent need to rush a package of this magnitude through the parliament at this time. That does not mean that the government should not be doing anything at all; but, in my opinion, it should not be doing this.

In terms of some principles as to what should be done, I think fiscal policy should always be prudent and conservative. That means that, on average, governments should balance budgets and have lower taxes and that public finance should be used sparingly, if at all. I think that Ken Henry's three principles of participation, productivity and population are very important when considering public policy issues and so should be borne in mind. Also, at a Melbourne dinner a couple of months ago Glenn Stevens said, 'A good project last year is probably still a good project, and a bad project last year is still a bad project.' So the economic conditions should not determine the desirability of projects, and certainly 'shovel ready' has never been an appropriate criterion for spending.

To the extent that the government wishes to pursue an activist fiscal policy, I recommend that it should be targeting tax cuts. There are a number of different tax cut proposals which could be considered. For example, the government could consider reinstating the aspirational tax cuts that were promised at the last election; a GST holiday; and/or a payroll tax relief package, which is my first choice. Both the payroll tax relief package and a GST holiday would result in the Commonwealth government having to compensate states and territories for lost income. This actually has a couple of advantages, which I will run through, especially in terms of the payroll tax liability.

Payroll tax constitutes a tax on employment. Everybody is speaking at the moment about maintaining high levels of employment—which I think is probably quite important—so taxing employment in the current environment certainly seems counterproductive. It reduces incentives to re-employ workers when the economy recovers. Payroll tax is a regressive tax which impacts more highly on low-income earners than it does on high-income earners, so reducing it would actually have good equity outcomes as well. Also, reducing payroll tax would not be as expensive as it sounds. For example, when somebody loses their job they stop paying income tax and they start receiving unemployment benefits. But if they kept their job as a result of the payroll tax being abolished they would continue to pay income tax and would not be receiving unemployment benefits, so the expense would probably be somewhat less than the \$15 billion or \$16 billion which it sounds like costing upfront. My proposal would also temporarily stabilise the finance of state and territory governments during the crisis, because they are highly reliant on payroll tax receipts. As people lose their jobs, so those governments' revenues would decline quite substantially.

Part of the problem is that not all Australian firms are liable for payroll tax relief. If you think of something we can do for those types of firms, that is where the notion of, say, a GST holiday would become quite

important. My idea is, rather than reducing the GST rate and then raising it again at some point in the future, to have a payment holiday whereby firms do not have to pay over revenue that they have received as GST to the tax office. They could either keep the revenue if they wished or they could lower their prices by 10 per cent if they wished. Either way, this would give an effective injection of cash into those types of firms. This type of policy could be used in addition to a payroll tax holiday or, conversely, could be used for only those firms who are not eligible for payroll tax relief. This is the sort of thing that would pump money into firms, maintaining their profitability and maintaining employment.

My objection to the proposed policies is, first of all, that spending multipliers tend to be low. The government is relying upon the fact that spending would actually generate activity in the economy. This, however, is not consistent with empirical economic research into the size of multipliers, as opposed to theoretical research which seems to suggest that the multipliers are quite high. I think it is very important to recognise this dichotomy between the theoretical expectations and the empirical results.

Professor Gregory Mankiw of Harvard University, who is the author of one of the world's leading economic textbooks, a former chairman of the economic advisers to the American President George W Bush and a New Keynesian economist, compared the size of the multipliers in an article in the *New York Times* last month, where he reports on research by Professor Valerie Ramey of San Diego university and Christina and David Romer of Berkeley university, looking at the size of these multipliers. Christina is currently the Chairman of the Council of Economic Advisers to President Obama.

In that research, Christina Romer and her husband find that tax cut multipliers are a size of about three, and Professor Ramey finds that spending multipliers are about 1.4, which means that the tax multipliers are actually almost twice the size of the spending multipliers. So, if you wanted to have a fiscal impact on the economy, you would be considering tax cuts and not spending increases. Professor Mankiw, who, as I say, is a New Keynesian economist, has actually written on his blog that we should not be intellectually bound by the textbook Keynesian model.

The federal government is planning on a substantial amount of spending in its stimulus package, and it does not do very much, if anything at all, on tax cuts. In an article published in Thursday's *Financial Review*, Michael Knox makes the argument that, because of the nature of the government's social expenditure as opposed to economic expenditure, multipliers for this stimulus package are going to be even lower than normally would be the case. So I think it is quite important to realise that this particular package has got a very low 'bang for buck'—and there are certainly a substantial amount of bucks involved in the project.

Professor John Cochrane of the University of Chicago has made an argument about stimulus packages, simply saying: 'Do we honestly believe that people are not spending enough money and do we honestly believe that the government should then force people to spend more money?'

**CHAIR**—You have one minute remaining.

**Prof. Davidson**—Thank you. If you look at the bottom of page 4, I make the argument: do we believe that Australians have not been borrowing and spending enough on alcohol, pokies and tobacco and that there are not enough plasma televisions around? Rather than wasting money on those sorts of things, we should be looking at things which add to employment, which will stimulate the economy over a substantial period of time. Overall, all the economic analysis does seem to suggest that tax multipliers are far greater than spending multipliers and that tax cuts are going to have a far greater 'bang for buck' in the economy than is the spending proposed in the stimulus package.

The other thing I would like to say is that economists seem to overestimate the benefits of fiscal policy by and large.

**CHAIR**—Could you wrap it up please, Professor.

**Prof. Davidson**—Thank you very much.

**CHAIR**—That is the first time anyone has listened to me all day! Thank you very much, Professor, for being a witness and for your submission.

**Prof. Davidson**—Thank you very much for your time.

[6.34 pm]

**McKIBBIN, Professor Warwick, Private capacity**

*Evidence was taken via teleconference—*

**CHAIR**—Welcome, and thank you for being a witness via teleconference tonight. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. The committee has before it your submission. I invite you to share your views on the Nation Building and Jobs Plan bills. I remind senators that the committee has agreed that no questions will be put to the witnesses. I will advise you when you have one minute remaining.

**Prof. McKibbin**—I am a professor of economics at the Australian National University. I am appearing in my personal capacity. The comments I wish to make today about the Nation Building and Jobs Plan bills I make in my capacity as professor of economics at the ANU and as an expert on the global economy and macroeconomic policy. Although I am a member of the board of the Reserve Bank of Australia, nothing I say should be attributed to the other members of the board or the management of the Reserve Bank of Australia. These are my own personal views.

I am going to divide my comments into several parts. Firstly, in commenting on the bills being considered, we need to have a view on the nature of the shock facing the Australian economy. This is important because the policy response should be determined by the nature of the shock. Secondly, given we have some view on the nature of the shock, the question is, ‘Is this package of measures of the appropriate size?’ Thirdly, since different types of fiscal spending and tax changes can have very different consequences, is the composition of the package of policies appropriate for the problem that is being addressed?

Firstly, on the nature of the shock facing Australia. The world economy is currently faced with a severe economic contraction. The source of the contraction is a financial crisis in the United States and the United Kingdom triggered by problems in housing markets, particularly the nature of housing mortgages, but spread by regulatory failures in the financial systems of these countries. These financial problems have occurred in the context of and have been compounded by persistent global macroeconomic imbalances between countries. In addition to the national fiscal crises which spread to the global financial system, there has been a significant loss of financial wealth through share market decline and housing market weakness, as well as a loss of confidence by corporations and households globally, the result of which has been a substantial reduction in global demand. Due to the strength of the Australian financial system, Australia does not yet have a domestic financial crisis, but it does face a substantial reduction in the demand for Australian exports and a substantial decline in the wealth of Australian citizens. The external demand shock is similar to the problem we faced in the 1997-1998 Asian financial crisis, but the current shock is of a larger magnitude. In recent months, there has also been a substantial decline in both producer and consumer confidence in Australia. This loss of confidence has been partly caused by a continuous stream of bad news from overseas and falling share markets at home, as well as unhelpful domestic commentary on the crisis.

The policy responses for Australia have to be carefully considered and are likely to be different in detail to the responses undertaken in the United States and the United Kingdom, where domestic financial crises are also impacting on these economies. As was the case during the Asian crisis, the decline in external demand has partly been addressed by substantial depreciation of the Australian currency. This depreciation, although reducing domestic income, does enable domestic production to continue and hence assists in maintaining employment in traded industries. There has also been a substantial relaxation of monetary policy, on which I do not intend to comment further. Together with a substantial decline in oil prices, there has yet to be a substantial decline in the after-tax income of many Australian workers, although self-funded retirees are bearing the brunt of the income consequences from the reduction in wealth. The decline in spending and investment is mostly related to the loss of confidence. The response of fiscal policy should be to (1) assist in restoring confidence in the economy, (2) maintain demand to the extent possible and (3) if possible, put in place the long-run capacity required for when the global economic slowdown has passed.

Although the short-term decline in demand from the global crisis is a cloud rapidly approaching, the opportunity to put in place additional long-term capacity is at least a silver lining—an opportunity that should not be squandered. It must be stressed that, although fiscal policy can offset to some extent a loss in domestic and foreign demand, it is unlikely that it can completely eliminate the impacts of the global financial crisis on the Australian economy, because the wealth effects are real. However, it has an important role to play in

dampening the effects. Therefore, the first requirement of the Nation Building and Jobs Plan bills should be to help restore confidence. Ideally this would imply that all sides of politics would reach a consensus on the way forward and would quickly pass legislation through the parliament. It is unfortunate that this consensus was not reached early through a bipartisan approach. Up until this point, the Australian economy has proven to be a good model for economic reform, combined with very careful regulation and an appropriate role for government. This reality should be reinforced wherever possible.

On the size of the package, it is difficult to know exactly how large a fiscal stimulus package should be, given the unusual nature of the external shock facing the Australian economy. The IMF suggests a fiscal stimulus of two per cent of GDP on average for the world economy. As the Deputy Prime Minister has pointed out in a speech to the World Economic Forum in Davos, Australia is very well placed to withstand the shock which is currently emanating from the world economy. This is the result of a combination of the reforms of the Hawke-Keating governments as well as the regulatory reforms of the Howard government. In addition, a long period of prudent fiscal policy has put Australia in a very advantageous fiscal position to respond to external shocks. This suggests that the scale of the Australian response should be less than the world average. Secondly, it is likely that, if this is a sustained global economic slowdown, as many commentators have suggested, Australia will need to have the capacity to implement additional fiscal stimulus over the coming year. My view, therefore, is that the current package is too large at this stage of the global economic slowdown. Given the circumstances in Australia, the package should be less than the two per cent of GDP average stimulus recommended by the IMF.

On the composition of the package, it is critical to note that the composition of fiscal policy is very important. For example, a dollar of government spending has more stimulus in the short run than direct cash payments to individuals or tax reductions, because a dollar of spending impacts directly on the economy whereas a dollar of tax cut or cash payment will be partly spent and partly saved by households. To the extent that the payment is saved, this will reduce the short-run demand impact. A dollar spent on infrastructure is a short-run demand stimulus and also provides capacity in the economy to respond to the supply side once the economic slowdown has passed. A dollar of investment in education and health also gives a much larger return in terms of raising economic potential and sustaining improvements in the quality of life in Australia. A tax reduction for households stimulates demand in the short run to the extent that the tax reduction is spent, and income tax change not only provides this short-run demand stimulus but can also change the incentives to work, which can produce a positive long-run supply response because it changes incentives. A cash payment, to the extent that it is not saved, only has the potential to temporarily stimulate demand and has no long-run benefits to the economy.

It is important to stress that the problem with the current shock to confidence is that, the more people are worried about the state of the economy, the more they are likely to save rather than spend any additional income. It is therefore problematic to have such a large part of the stimulus package made up of cash payments to people rather than direct spending and rather than investing that money in future capacity building for the overall economy. Much of the stimulus package as outlined in the proposed legislation is well targeted. The main problem I see is in the cash payments. I would replace the intent of these payments by bringing forward the tax cuts that are already legislated for future years. An additional policy response that should be considered is to temporarily reduce the GST by perhaps 50 per cent, to return to its original level at a date in the future. This would give a powerful incentive to bring consumption spending from the future to the present year. The GST could then be increased just as the bulk of the infrastructure spending is having its largest impact, early in 2010. In addition, further income tax cuts should be adjusted to coincide with the increase in the GST to minimise the demand effects of raising the GST in the future.

My personal view is that this package would be better focused and of more suitable size if the transfer payments to individuals were eliminated from the bills. This additional funding could then be used for further fiscal stimulus, if required, over the next six to 12 months. The remainder of the package could stay in place and still be a substantial stimulus of the order recommended by the IMF, adjusted by where Australia sits relative to the average economy in the world.

**CHAIR**—You have one minute remaining.

**Prof. McKibbin**—Thank you. I would encourage Australian politicians to continually reinforce the fact, well argued by the Deputy Prime Minister in Davos, that the Australian economy is well positioned to respond to the global economic crisis. As far as the data for Australia is concerned, we do not face the severity of the problems being experienced in the United States and United Kingdom. It is true that there are some parts of

the Australian economy where people are hurting. Policy intervention should be well targeted to assist these people over time.

In conclusion, I support much of the policy changes contained in the bills but I strongly feel the cash transfer should be eliminated and that tax changes legislated for future years should be brought forward into the current year for further stimulus at low cost. In order to get from these deals the maximum effectiveness in confidence building, all sides of politics should be united in finding the solutions to the policy challenges that Australia faces over coming years. Thank you for your attention.

**CHAIR**—Thank you very much for your evidence and for your submission before us this evening.

**Prof. McKibbin**—It was my pleasure.

[6.44 pm]

**DIXON, Professor Peter Bishop, Private capacity**

*Evidence was taken via teleconference—*

**CHAIR**—Welcome, Professor Dixon.

**Prof. Dixon**—Hello. Yes, I am here.

**CHAIR**—Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. The committee has before it your submission. I invite you to share your views on the Nation Building and Jobs Plan bills. I remind senators that the committee has agreed that no questions will be put to the witnesses. I will advise you when you have one minute remaining.

**Prof. Dixon**—I am Peter Bishop Dixon and I am appearing as a private individual. I have sent you a prepared speech. I had intended reading it but it is getting late and that would probably be pretty boring so I will just talk to it. Australia faces three big negative forces. First, we have a reduction in consumer confidence which is likely to lead to a cut in consumer demand. Second, we have a reduction in world demand for Australia's products which will lead to a contraction in export prices and quantities. Third, we have an increase in required rates of return on capital. That means that projects that were going to earn 20 per cent last year will not now be financed. They will not go ahead unless they are expected to earn 30 per cent. This means that there is going to be a really quite sharp reduction in investment.

In the context of an economic model it is reasonably easy to make up scenarios for those three big negative forces that are quite consistent with what respected commentators think, which would lead to a loss of half a million jobs for Australia in the year 2009-10. Naturally in these circumstances the government recognises the need for very strong action and the strategy that it proposes, which you are currently considering, has two parts. First, it is proposed to give the household sector about \$13 billion as an immediate stimulation to consumer demand. To put that in context that is about a two per cent increase in household disposable income. Second, it is proposed to spend something like \$14 billion a year for the next two years on infrastructure projects. To put that in context that is like a stimulation of about 10 per cent in construction demand.

Is this likely to save Australia from a disastrous loss of jobs? If we go back to the simulation in which the loss of jobs was say, 500,000, my modelling suggests that the package would reduce that loss to about 350,000. In other words the package would generate about 150,000 jobs, which of course is a very valuable contribution. That might seem a little disappointing on the surface of it. After all in 2009-10 the package involves about a \$27 billion stimulation of demand. I think that most of the \$13 billion for the consumers will get spent in 2009-10 and then you have the \$14 billion or something like that for construction infrastructure. So there is \$27 billion and you might ask, 'Why doesn't that buy something more like 450,000 jobs?' If each full-time job is worth about \$60,000, you are going to stimulate demand by \$27 billion and when you put those two numbers together, it looks as though you should get something like 450,000 jobs.

The main problem is, I think, leakage to the trade accounts. When you spend money you make Australia less competitive. You make wages higher than they otherwise would have been. Even if all the money is spent on construction, a non-traded good, you will spread higher costs to the export industries and the import competing industries. Although it will be a very valuable stimulus to employment, it does not go quite as far as you might hope.

So what should we do? Going back to the beginning, we have those three forces. The reduction in the terms of trade—the reduction in the prices of the things that Australia produces and exports—means that the value of the products that Australian workers can produce has been reduced. So if they are going to stay in employment, somehow or other the cost of employing them must be reduced. Similarly, if required rates of return on capital go up, then to maintain investment and maintain growth in productive capital, investors need to see higher returns. The way they can see higher returns is if the cost of employing labour goes down. So both of those negative forces—the second and third negative forces—are for maintenance of employment. When we are faced with those sorts of forces we somehow need to reduce the cost of employing labour. Now, the package really just addresses the demand side. The package addresses force one—that is, the reduction in consumer demand—and it addresses the demand aspects of the reduction in investment, and as such is useful. But it will not go the whole way.

If we really are to be faced with this economic storm, then we will need to do something more, which is: reduce the cost of employing labour. So, how do we do that? Well, that gets us to wages policy, and ideas that were successfully implemented in the lower employment era of the 1980s should be revisited. In particular, the government should be looking for opportunities to convince the public that wage increases should be forgone. Rather than wage increases, the government can offer tax cuts or improved social capital. This is, I suppose, my main point: rather than, as in the present package, simply giving the public extra money or extra social capital, the government should be looking for a return in the form of wage moderation. Bargains of this sort will help restrain the costs of employing labour, and remember that restraining the cost of employing labour is absolutely critical when you are faced with those negative forces—that is, a reduction in the prices of the things that we can sell overseas and an increase in required rates of return on capital. Reductions in the cost of labour then become critical. Wage tax bargains, if you like, or wage social capital bargains of this sort restrain the costs of employing labour while at the same time adding to demand and thereby help to counteract the demand side implications of forces one and two—that is, the reduction in consumer demand and the reduction in investment demand.

While I have no special objections to the first part of the package—the immediate stimulation of consumer demand seems to me to be quite sensible—I would like the second part of the package, which I do not think is quite so urgent, to be thought through a bit more. I do not see why it is necessary at this stage to commit to all that expenditure up to two years ahead. But the first part of the package seems good. The main point is that all this stimulation has to be supplemented by wage policy. The sorts of things that could be considered are reductions in payroll taxes or reductions to the GST—anything that combines the stimulation of demand, like a tax cut, with something that will moderate wage demands. Those things are critical to get us through the really very horrible macro-economic situation that we are likely to face. Thank you.

**CHAIR**—Thank you very much. Thank you for giving evidence and for your submission.

[6.58 pm]

**ESLAKE, Mr Saul, Private capacity**

**CHAIR**—Good evening, Mr Eslake. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. The committee has before it your submission. I invite you to share your views on the Nation Building and Jobs Plan bills. I remind all senators that the committee has agreed that no questions will be put to the witness. You have 10 minutes. I will let you know when you have one minute remaining. I appreciate the fact that you were able to accommodate our rescheduling.

**Mr Eslake**—Thank you, Madam Chair. I appreciate the very profound reasons for why the meeting has been rescheduled. I should emphasise that I, Saul Eslake, am chief economist of the Australian and New Zealand Banking Group but am participating in this inquiry in a personal capacity. The views that I am expressing should not be interpreted as those of my employer or of any of its other executives.

In the last few months, it has become increasingly apparent that, although the Australian economy has been remarkably resilient during the first year of the global financial crisis and may well have been one of very few around the world not to have experienced a quarter of negative growth during 2008, the outlook for 2009 is much bleaker. The sharp downturn in the world economy, including in particular China and the other Asian economies, in the second half of last year and the continuing grim outlook for the major economies in 2009 have greatly increased the risk that we too will experience a recession this year.

The current downturn has a number of features which are unusual in the post-war era—in particular, the role played in bringing it on by the large and protracted decline in asset prices and the ensuing increase in households' propensity to save; the impaired condition of much of the world's banking system, which is severely interrupting the normal process of intermediating between borrowers and lenders; and the increasing risk of deflation—that is, a persistent widespread fall in consumer prices. Those features make it far less likely that the current downturn can be addressed by the conventional means of monetary policy responses—that is, in particular, lower interest rates. In other countries, reductions in official interest rates have not been fully passed on to borrowers. Borrowers have been and will be less inclined to respond to lower rates by borrowing and spending more, as they ordinarily do. Banks and other lenders have become more cautious about lending, even at lower interest rates, and households and businesses are more inclined to save the cash-flow benefit of lower interest rates that does actually reach them.

In those circumstances, it is almost inevitable that fiscal policy will be called upon to play a larger role in dealing with the current economic downturn than the conventional economic wisdom over the last few decades has generally allowed, and the advice of organisations such as the OECD and the IMF, which have traditionally been opponents of active fiscal policy, has been quite unambiguous in this regard recently.

The distinctive features of the current downturn also, in my view, shape the form which fiscal policy responses should take. In the environment that is likely to prevail for some time, income-tax cuts are, as with low interest rates, more likely to be saved, especially by those upper-income earners who typically derive the greatest benefit from tax cuts. Although there is a strand in the professional economic literature which asserts that people are more likely to spend out of tax cuts that they believe to be permanent, there is no compelling reason to believe that people will actually regard any tax cuts offered in the current environment of deteriorating budget deficits as being a permanent, no matter how they are described—and, in the Australian context at least, there are some precedents for the public disbelieving any such assertions by those who bring in the tax cuts. Hence the most effective fiscal policy response in this current, very unusual climate is likely to take the form of increased government spending.

Ideally, as has been emphasised by others, including to this inquiry, any such increases in government spending should be timely—that is, having their impact at the point when the economy is most vulnerable; targeted—that is, designed so as to derive the greatest amount of benefit in terms of supporting activity and employment for the amount spent; and temporary, so as not to be still providing stimulus any longer than stimulus is required.

The measures proposed by the government at the beginning of this month amount to about 3½ per cent of one year's GDP, albeit spread out over more than one year, and are thus broadly commensurate with those envisaged on average in other countries. The government's proposals in my view broadly meet the 'timely' criterion—their impact is likely to be felt in the quarter in which the money is initially disbursed and the following one or two quarters—and they have been calibrated to be pre-emptive rather than reactive, as fiscal

measures in previous downturns have tended to be. The government's proposals are also, by deliberate construction, temporary. There are no permanent subtractions from revenues or additions to expenditures other than the interest associated with the borrowings required to finance the resulting deficits, and that is probably the most attractive design feature of the government's proposals: it avoids the problem of the stimulus continuing after it has ceased to be necessary and thus adding to upward pressure on interest rates once a recovery eventually gets under way.

Ideally, any suggested changes to the government's proposals which would entail permanent reductions in revenue or increases in spending, such as an increase in Newstart allowances or other payments to the unemployed—for which I for one concede there is an arguable case—should be funded, at least after the present downturn has passed, by reductions in other areas of government spending or by an increase in taxes.

The government's proposals do not, in my view, stack up quite so well against the 'targeted' criterion. The government does seem to be unduly focused on timing major cash handouts so as to minimise the likelihood of consecutive quarters of negative real GDP growth and hence what media commentators, much more so than economists, refer to as a 'technical recession'. I have described this elsewhere as the 'technical recession avoidance program', or TRAP. The current set of proposals may well succeed in that aim, but to me the objective itself seems rather spurious.

The \$12 billion or so of cash grants in the government's proposals are less tightly targeted to those most likely to spend it than the previous package was. Some of it will go to quite affluent households, including second-income earners in such households, who are more likely to save it.

While I do not doubt that the \$28 billion of infrastructure spending in the package will directly boost demand and employment in a timely manner, a different emphasis within this component could perhaps have produced greater long-term gains for an equivalent amount of spending. It is not clear to me, for example, that giving every school in the country the opportunity to upgrade or acquire halls, laboratories and libraries—although there are undoubtedly many which are sorely needed—provides the best means of boosting productivity over the longer term or of addressing other longer term challenges, such as climate change or altering patterns of water use. Perhaps the argument in favour of these small-scale proposals such as make up the bulk of the infrastructure component of the program is that they can be done quickly—that is, there is perhaps a trade-off between targeting and timeliness—and that the economic infrastructure objectives will be dealt with in a separate package. But to the extent that that is true, that may have some bearing on judgements which you reach about the appropriate size of this particular package.

Let me conclude with some observations on the impact of the government's proposals on the conditions of Australia's public finances. The budget deficits envisaged in the Updated Economic and Fiscal Outlook are, in my view, not excessive by historical or international standards. The government forecast the deficit to peak at 2.9 per cent of GDP in 2009-10. That is below peaks during previous recessions of 4.1 per cent in 1992-93 and 3.3 per cent of GDP in 1984-85. They are a lot lower than the OECD's most recent forecast of OECD area budget deficits peaking at 4.1 per cent of GDP in 2010, which is almost certainly an underestimate. The budget deficit may well end up being larger than currently projected if there are additional fiscal measures brought forward or if the economy fares worse than currently forecast, but there is room for that without exceeding previous peaks, and history strongly suggests that the ultimate fiscal cost of episodes like the present one ends up being considerably greater if appropriate ameliorative action is delayed. Likewise, the levels of public debt projected in the Updated Economic and Fiscal Outlook are not excessive or alarming by either Australian historical or international standards. The UEFO forecasts that net public debt will reach 5.2 per cent of GDP by the end of 2012. Again, it could easily be more than that, especially if the \$200 billion borrowing limit envisaged in the legislation before you is fully utilised. But that projection compares with a previous peak of 18.5 per cent of GDP in 1995-96 and with OECD forecasts of net government debt of 48 per cent of GDP for the OECD area as a whole, a forecast which is also likely to be an underestimate.

It is, of course, true that the debt envisaged in the government's new forecasts will need to be serviced and perhaps eventually paid off. The scope for doing that through asset sales is considerably less than at the time of the last peak in the level of public debt in the mid-1990s. It may well ultimately be true that servicing or repaying the debt incurred now will ultimately require higher taxes down the track. That would be in many ways regrettable, in my view, but it may also reflect the fact that the tax cuts implemented in the middle years of this decade were only sustainable to the extent that the commodities boom, which largely paid for them, continued, which it inevitably has not. I would also argue that a modest increase in debt now and, if necessary, taxes later is preferable to much larger increases in debt and taxes, to say nothing of other policies that could

be characterised as frankly, 'bad' and which might eventually prove unavoidable if the economic downturn were to become much worse as a result of policy inertia at this time.

**CHAIR**—Thank you, Mr Eslake, for your submission and for the teleconference. We do appreciate the fact that you obliged us by having to reschedule. Thank you and goodnight.

**Mr Eslake**—Good evening, Madam Chair.

**Proceedings suspended from 7.09 pm to 7.15 pm**

[7.15 pm]

**GRUEN, Dr David, Executive Director, Macroeconomic Group, Treasury**

**HENRY, Dr Ken, Secretary, Treasury**

**MURRAY, Mr Richard, Executive Director, Macroeconomic Group, Treasury**

**PARKER, Mr David, Executive Director, Revenue Group, Treasury**

**RAY, Mr Nigel, Executive Director, Fiscal Group, Treasury**

**IGNATIUS, Mr John, Division Manager, Social Welfare Division, Department of Finance and Deregulation**

**WATT, Dr Ian, Secretary, Department of Finance and Deregulation**

**CHAIR**—I welcome back Dr Henry and representatives from Treasury. I also welcome back Dr Watt and representatives from the Department of Finance and Deregulation. Information on parliamentary privilege and the protection of witnesses and evidence has been provided to you. As departmental officers, you will not be asked to give opinions on matters of policy, though this does not preclude questions asking for explanations of policy or factual questions about when and how policies were adopted.

Before I invite members of the committee to put questions to you, can I thank you for your indulgence in the rescheduling we had to do today. I am sure you join with the committee once again with passing on our condolences to the Victorian families who lost the lives of family members and friends.

**Senator FIFIELD**—Thank you, Chair, and, through you to the witnesses, I encourage those at the table to keep their answers as short as possible because we are short of time. The good news is that, because the time for tabling our report has been put back a little bit, that provides Treasury and the Department of Finance and Deregulation with a greater opportunity to respond to some questions which we may place on notice. I am sure you will be very pleased about that.

**CHAIR**—In light of the fact that we have to table the report tomorrow evening, I am not sure that it does give anybody a great deal of time.

**Senator FIFIELD**—There is tomorrow morning, which is useful for all of us. Dr Henry, Mr Eslake gave some evidence by teleconference just before you arrived, and a part of his evidence I found particularly alarming and I hope you do too. In Mr Eslake's evidence in reference to the size of the stimulus package he said:

It may well ... be true that servicing or repaying the debt incurred now will ultimately require higher taxes ... That would be in many ways regrettable—

It is good that Mr Eslake is of the view that that would be regrettable—

... but it may also reflect the fact that the tax cuts implemented in the middle years of this decade were only sustainable to the extent that the commodities boom, which largely paid for them, continued, which it ... has not. I would also argue that a modest increase in debt now and, if necessary, taxes later is preferable to much larger increases in debt and taxes.

Dr Henry, is that a very real concern, as expressed by Dr Eslake, that it may be necessary for government to increase taxes in light of the debt that the Commonwealth is looking at incurring?

**Dr Henry**—I refer you to page 5 of the document *Updated Economic and Fiscal Outlook February 2009* which, at the middle of the page, sets out the government's forward fiscal strategy to be employed as the economy recovers. It notes at the first dot point:

As the economy recovers, and grows above trend, the Government will take action to return the budget to surplus by:

- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average—

taken together with the second dot point—

- holding real growth in spending to 2 per cent a year until the budget returns to surplus—

I consider that there is good reason to expect that, with those two conditions satisfied when the economy is growing strongly, any increase in net debt due to the implementation of this package would be unwound over time. The reason I draw your attention to the first dot point is that that implies that the increase in net debt would be unwound over time without taxation increasing as a share of GDP above the 2007-08 level, on average.

**Senator JOYCE**—You would have to plan how we are going to pay back the money—those two dot points.

**Dr Henry**—As I indicated the last time we met, obviously net debt will be reduced over time by future budget surpluses—that is the intention—and that would be true no matter how the budget surpluses were achieved, obviously. It could also be achieved by asset sales. That has certainly been a way in which debt has been reduced in the past. But, provided the budget achieves a headline surplus, and certainly if it achieves an underlying cash surplus in the way we measure these things these days, the net debt will be reduced. That is a tautology.

**Senator FIFIELD**—Would it be unfair to characterise those two points at page 5 as aspirational statements?

**Dr Henry**—I think they are more than aspirational in the way they are stated; that is just a matter of language. They are stated as commitments.

**Senator FIFIELD**—It is not possible to outline in any greater detail how those commitments might be achieved, other than the aspiration that those commitments be met?

**Dr Henry**—Or the commitment that they be met—are we getting into semantics here? I think the points really speak for themselves.

**Senator JOYCE**—I can see what Senator Fifield is saying. I spent five years in banking, and we used to spend hours, days—the bigger the facility, the more detail there was; there were a whole range of parameters which we expected the credit paper to fall within. I cannot believe for one minute that we are about to lend \$42 billion and that is it. We hope one day we may be able to repay you is basically what it says.

**Dr Henry**—There is a little more to it than that. As we indicated in evidence to you on the last occasion we met, and as this document reveals, the net debt-to-GDP ratio is expected to go to 5.2 per cent by June 2012. In banking similar ratios are of course employed—debt-to-income ratios are employed—and I suspect most people lending money would take comfort from such a rather modest debt-to-income ratio.

**Senator FIFIELD**—I guess that what causes me concern, Dr Henry, is that Mr Eslake, who is not unsympathetic to this package, flags that in his opinion there is a real possibility that taxes would have to be increased in the wake of the stimulus package.

**Dr Henry**—I have not spoken to Mr Eslake about this matter. I am not aware of what modelling he may have done to arrive at that conclusion. I can only repeat that, on the basis of our analysis, we would expect that the net debt would be repaid over time with these two commitments—

**Senator FIFIELD**—So Treasury has done modelling which would evidence that?

**Dr Henry**—Not explicit modelling.

**Senator FIFIELD**—The same sort of modelling as Mr Eslake's?

**Dr Henry**—As I indicated, I am not in a position to know what modelling or otherwise Mr Eslake may have done, so I cannot answer that question. But we have done sufficient in this area to be satisfied that, with this fiscal strategy being adopted as the economy recovers, net debt would be reduced over time.

**Senator FIFIELD**—Okay. I will move on—

**Senator COONAN**—Can I just ask one question. If you have a strategy to have future reductions through cutting spending, or curtailing spending growth, are you able to tell us at all—I cannot see it from the document—how great the cuts in future spending will be, or where the cuts would be made?

**Dr Henry**—No. The second of the two dot points that I referred to earlier indicates that, as the economy recovers and grows above trend, the government will hold real growth in spending to two per cent a year until the budget returns to surplus. That is quite a significant commitment, judged against historical performance in Australia.

**Senator COONAN**—But at the moment we do not know how on earth you would do that or where you would make the cuts—

**Dr Henry**—No, clearly that is not set out in this document.

**Senator FIFIELD**—I guess one of Senator Coonan's concerns might be that, as psychologists will tell you, one of the best predictors of future behaviour is past behaviour. I would not expect you to comment on that, Dr

Henry, but looking at the past behaviour of Labor when they have been in office, there is reason for some scepticism.

**Senator CAMERON**—Point of order, Madam Chair. I am new to this game, but I am pretty sure that you cannot put forward propositions such as has just been put forward to the witnesses and ask them to make some comment on the propositions.

**Senator FIFIELD**—Chair, I picked myself up. Senator Cameron is quite right—that was an unfair proposition to put to the witness, so I picked myself up and did not ask Dr Henry to answer it. But I think Senator Ryan wanted to follow up on a point.

**CHAIR**—I think we are all very much aware from the meeting we had this morning of the way we are going to conduct ourselves.

**Senator RYAN**—I note that you refer to the bullet points on page 5. I suppose one of the issues that concerns some of us is that your projections of growth in 2010-11 and 2011-12 are three per cent, which would be a fairly strong recovery from the previous two years of one per cent and  $\frac{3}{4}$  of one per cent for this year and next year. But in those two later years we still see projections of deficits in the order of \$30-plus billion and \$20-plus billion. So I was wondering two things. Firstly, what would be the impact of a slower rate of growth? Have you modelled or projected that? Would that actually lead to a larger deficit? And, secondly, what would the rate of growth need to be in order for those bullet points you referred to, particularly the first one—as the economy improves and tax receipts improve—to bring the budget back into surplus, using the automatic stabilisers, I presume?

**Dr Henry**—The projection years to which you have referred do indeed project real GDP growth of three per cent. Assuming the economy is indeed in a growth phase in those years, three per cent growth would not be strong growth; three per cent growth would be less than what we would be projecting, if we were indeed in a growth phase. The three per cent is a historical trend rate in growth. When economies recover from a period of weakness, the general experience is that they grow above trend. That is how the unemployment rate is reduced and that is how economies get back closer to their supply potential—because they grow at faster than trend growth. So, if in 2010-11 and 2011-12 the economy is in a growth phase, as our projections would indicate, then we would be experiencing a real GDP growth of more than three per cent. If we are experiencing GDP growth of more than three per cent then of course the budget outcomes in 2010-11 and 2011-12 would be stronger—that is, the deficits would be smaller than has been projected in this document.

**Senator RYAN**—I appreciate that stronger growth would lead to a stronger fiscal position and that these are projections. What about weaker growth? If, for example, the growth of those two years represented the growth you are forecasting for this year and next, have you modelled the potential impact of what slower than three per cent growth would be on those fiscal outcomes?

**Dr Henry**—Sorry, that was the second part of your question and I answered only the first part. No, we have not. With respect to the forward estimates years—and, in this document, that is 2010-11 and 2011-12—our usual practice is to project real GDP growth at trend, and those are the projections that we publish. We do not publish alternative scenarios. We do not model alternative scenarios.

**Senator RYAN**—So that three per cent growth is merely a trend based on historical average—

**Dr Henry**—That is correct.

**Senator RYAN**—whereas the fiscal numbers and the fiscal outcome are based on—I assume—the complex model we spoke about last week, which had so many outputs and which we saw at the back of the budget papers or MYEFO, and would mean that your number on the fiscal balance is based on something more than just a historical trend.

**Dr Henry**—No, the fiscal balance numbers for 2008-09 and 2009-10 are based on detailed forecasts for the macroeconomy. The fiscal balances for 2010-11 and 2011-12 are based on the projections for the macroeconomy, including and in particular a projected rate of growth of real GDP of three per cent per annum.

**Senator JOYCE**—Does your technical modelling and the detail include the CPRS?

**Dr Henry**—No, clearly not—

**Senator JOYCE**—So it is not too technical then, is it?

**Dr Henry**—Well, obviously not. As I just indicated, in the period 2010-11 and 2011-12, we were using long-run growth projections based on our history. Given that the CPRS will commence in 2010, it is outside of the period in which we undertake explicit forecasts.

**Senator JOYCE**—So the CPRS is not in it?

**Dr Henry**—It cannot be.

**Senator JOYCE**—Thank you.

**Senator RYAN**—I have just one last question before I pass back to Senator Fifield on this topic. In your experience, what rate of growth, above the historic trend, would be necessary to bring the automatic stabilisers in and actually achieve that first bullet point you mentioned on page five of bringing the fiscal balance back into actual balance, for lack of a better way of putting it?

**Dr Henry**—Over what time frame?

**Senator RYAN**—I was actually looking at the years that are projected here—2011 and 2012. I am assuming that a higher rate of growth in those years would lead to higher tax receipts and lower transfer payments for those suffering from unemployment. So what rate of growth would we be looking at to actually reduce these deficit numbers?

**Dr Henry**—To reduce the deficit numbers, obviously all you need is a higher rate of growth than three per cent. To get the budget back into balance within that time frame is a rather different proposition. I do not believe we have undertaken the work that would allow us to answer that question.

**Senator RYAN**—Thank you.

**Senator ABETZ**—I would like to clarify a few issues. In the UEFO, on page 71, we are told that Treasury gets \$260 million in 2008-09 for investment in social housing. I thought FaHCSIA was getting it. Is it because Treasury is transferring the money to the states that it has somehow fallen into the Treasury?

**Dr Henry**—I will commence an answer to that question, but I suspect that Mr Ray is going to have to help me. As I understand it, the reason that the \$260 million figure appears against the Department of the Treasury rather than FaHCSIA is that the numbers in this appendix are based on what would happen were the parliament to pass the legislation that supports the COAG reforms which changed the financial arrangements between the Commonwealth and the states such that payments to the states will be made by the Department of the Treasury rather than by the line department. I accept that that legislation has not yet been presented to the parliament—although it is intended that it be introduced in February—

**Senator ABETZ**—Is this document from the most recently held COAG meeting?

**Dr Henry**—No.

**Senator ABETZ**—So when was the COAG meeting to which you refer?

**Dr Henry**—That was in December.

**Senator ABETZ**—Thank you for that. I am being asked to vote on Appropriation Bill (No. 2) by the end of this week. On page 16 we have a summary of the appropriations, and that tells me that the Department of Families, Housing, Community Services and Indigenous Affairs is going to have the \$260 million appropriated to it.

**Dr Henry**—That is correct.

**Senator ABETZ**—Do you see an inconsistency between the two documents, for those of us who are trying to get through this?

**Dr Henry**—I do, and I am really trying to be helpful in explaining the reason for the inconsistency. Given that the parliament has not yet passed the COAG legislation to which I early referred, and given that the Senate will be considering the appropriation bill before it considers that COAG legislation, the Senate, if it agrees to the appropriation bill, will be appropriating these funds to the Department of Families, Housing, Community Services and Indigenous Affairs. But the numbers presented here, against the Department of the Treasury, show the effect of that appropriation if and when the Senate subsequently approves the COAG—

**Senator ABETZ**—So, really, this document, as the current legislation stands, is incorrect, and ‘the Department of the Treasury’ should in fact be ‘FaHCSIA’? That is the current state of play with the legislative framework under which we are operating today.

**Dr Henry**—Yes, I agree—as the appropriation bill makes clear.

**Senator ABETZ**—The appropriation bill makes that clear but unfortunately the UEFO, on page 71, did not. And given that we are supposed to look into a crystal ball as to what the parliament might pass in the future, it was a matter of some concern to me. Can I move on to another issue. Page 17 of the UEFO refers to the small business and general business tax break. In general terms this is a tax break which will apply to all businesses. Is that correct?

**Dr Henry**—Yes. In general terms that is correct.

**Senator ABETZ**—And therefore the vast bulk of that money will be going out to businesses other than small businesses—or not? Has any modelling or analysis been done to determine who is going to get the lion's share of this?

**Mr Parker**—The way the general business and small business tax break operates is to provide eligible businesses with an additional tax deduction—

**Senator ABETZ**—I am sorry to interrupt, Mr Parker, but time is very short. I think I know how it operates. All I want to know is: have we done any modelling which would suggest that small businesses would be the major beneficiary, or larger businesses? If we do not have the figures, that is fine; tell us.

**Mr Parker**—I do not have the figures in front of me. We could endeavour to find that out for you.

**Senator ABETZ**—That would be most helpful. Do you agree with me that motor vehicles or cars would be considered to be assets for the purposes of this measure?

**Mr Parker**—Yes, I do.

**Senator ABETZ**—Have you done any modelling as to how many cars were sold to the private business sector last month, for example?

**Mr Parker**—When we put the estimates of this together we did so from the perspective of an aggregate estimate of business investment expenditure which would be eligible for the tax break. We did not build it up from the perspective of cars, computers and all of the various other components. However, as I understand it, you did raise this matter with the ATO—

**Senator ABETZ**—Yes.

**Mr Parker**—and, consequently, we have had a look at those numbers.

**Senator ABETZ**—You have had a look at them?

**Mr Parker**—Yes.

**Senator ABETZ**—What can you tell us about looking at those numbers? You stand by them, or you think an adjustment might need to be made, or we are not going to sell 26,000 cars per month—what is the analysis?

**Mr Parker**—I understand that, as you put it to the ATO, you suggested that if 26,000 cars were sold per month that would absorb all of or the greater part—I am not precisely sure—of the estimate. We have done those numbers and we have come up with a substantially lower figure than you suggested.

**Senator ABETZ**—All right. What figure? I am willing to be corrected.

**Mr Parker**—Fine. Let me just refer to some notes that I have here and I will take you through it.

**Senator ABETZ**—Just the end figure is all that I am interested in at this stage, thanks.

**Mr Parker**—Okay. I will just refresh my memory of it. With some relatively simple analysis, if 26,000 cars per month—

**Senator ABETZ**—What is the end figure, please, because time is very short. I am sorry to rush you.

**Mr Parker**—The number that I have written down here for the 30 per cent tax rebate is approximately \$600 million.

**Senator ABETZ**—So that would be, in rough terms, about a quarter just swallowed up by motor vehicles.

**Mr Parker**—A little less than a quarter.

**Senator ABETZ**—So can I suggest to you that the analysis would suggest you will be spending a lot more than \$2.7 billion on that measure.

**Mr Parker**—No. As I said, the way that this estimate was done was to look at the estimates for aggregate investment, as estimated in the forecasts, including the bring-forward estimates—

**Senator ABETZ**—All right. I look forward to estimates in about two years time and we might see what happens there. In relation to payments to taxpayers, are temporary residents considered to be taxpayers for the purposes of this package and thus beneficiaries of the \$950?

**Mr Parker**—I would have to take that precise question on notice. Certainly, nonresidents are not picked up in the measure. As I said, I will take it on notice.

**Senator ABETZ**—But what if people were temporary residents whilst earning the income and have since shifted out of Australia? A number of accountants have emailed me suggesting that we might be talking of literally tens of thousands of temporary workers, especially during the huge demand for labour that has occurred over recent years, who have now gone back overseas who will have this money repatriated to them and so are hardly likely to spend it in Australia. If you could take that on notice for me, Mr Parker, I would be much obliged.

Can I move to the size of the stimulus package. According to page 71 of the *Economist* of 31 January, the weighted average stimulus of the G7 countries plus the BRIC countries was 3.6 per cent of GDP spread over several years, so the question is: why should Australia have a bigger stimulus than these other countries which are in a worse financial and economic state than Australia?

**Dr Henry**—I will try my hand at that, Senator. I am not actually sure what figure for Australia would compare with that 3.6 per cent; that is, I am not sure how that 3.6 per cent has been calculated. Therefore I am not sure the premise of the question is correct.

**Senator ABETZ**—But you are aware that that figure has been put out there into the marketplace?

**Dr Henry**—Yes, I am aware that there is a figure of 3.6 per cent sourced to the *Economist*.

**Senator ABETZ**—It is not one that I have plucked out of the air. But you are aware of it? It has been in discussion.

**Dr Henry**—I was not suggesting that. I just do not understand how that figure has been arrived at.

**Senator ABETZ**—All right. I had a follow-up question, but in the event that you are not able to comment on the 3.6 per cent I will yield to Senator Ryan.

**Senator RYAN**—On that point, Dr Henry, say we calculate the spending in the announcements on an annual basis and divide it into GDP. I understand—this goes to the 6.4 per cent comparison that Senator Abetz was talking about—that if we add up all the government announcements since 1 July that are taking effect over the current financial year that would actually come to, on a like-for-like basis, 6.4 per cent of GDP. And therefore the comparison with the *Economist* would be valid.

**Dr Henry**—That is news to me. I am not aware of any 6.4 per cent and what that would mean or whether that would have any meaning at all with respect to the fiscal stimulus measures that have been taken in Australia. I do not know whether such a figure would be comparable with the 3.6 per cent figure that has appeared in the *Economist* since. As I indicated, I am not sure how that figure was calculated either.

**CHAIR**—Now to Senator Abetz.

**Senator ABETZ**—I will move on to the fiscal multiplier and ask: what was Treasury's estimate of the multiplier of the Keating government's One Nation package? Can we dig back that far?

**Dr Henry**—Not here tonight.

**Senator ABETZ**—Not here tonight?

**Dr Henry**—We've certainly can't.

**Senator ABETZ**—All right, but if you could have a look at that for us that would be helpful. Can I ask what the estimated GDP and employment multipliers for each of the 10 components of the package are. Has that been disaggregated and considered?

**Dr Gruen**—I think we may be traversing some ground that we traversed last week. We have given an aggregate number, as you are aware, of up to 90,000 jobs. That was based on a range of estimates which suggest to us that the fiscal multiplier is somewhere between a half and one.

**Senator ABETZ**—But, if I may interrupt, you say it is an aggregate figure. That sort of suggests to me that a few things have been 'aggregated', so I am wondering this: what have you aggregated? What specific items have you considered to get the aggregate figure? Just to say it is one big aggregate—well, I accept that. But I want to drill down into the 10 specifics if that was in fact done.

**Dr Gruen**—What was done was to look at the profile through time of the spending and work out what effect we estimated that would have on GDP. So the thing was done at an aggregate level but taking into account the timing of the package.

**Senator ABETZ**—So the 10 separate items, if I can refer to them as such, were not separately considered and then added together in your total aggregate?

**Dr Gruen**—No.

**Senator ABETZ**—Without being rude, could I suggest it was a broadbrush approach rather than adding 10 specifics together to bring you to that conclusion?

**Dr Gruen**—We made the point last week that we think that the multiplier for infrastructure spending is probably higher than the multiplier for one-off payments. The reason we made that point is that it has a direct one-off first-round impact on GDP, whereas one-off payments have to be spent. Some of them get saved.

So we have made the general point that we think that infrastructure spending—and this is broadly consistent with what the IMF, the OECD and others say—is likely to have a higher multiplier. But we would not want to overstate the level of precision with which we, or anyone else for that matter, know these multipliers. They are quoted usually with ranges. There was a document that you may have seen that the IMF put out for the G20 a couple of days ago, and they have ranges for tax cuts and infrastructure spending. All of us, with the best will in the world, only know these things with a reasonable margin of error. The point of that is to say that the more disaggregation that one wanted to do, the less confident one should be about the answers.

**Senator ABETZ**—See, I am being asked, along with fellow senators, to vote for a package that includes 10, if you like, separate measures. We would like to know the quality of the spend and the multiplier effect of each one of those specific measures to determine whether it is, in fact, value for money. It is all very good to say ‘in aggregate’, but there might be an absolute dud in amongst that which pulls the total aggregate benefit right down. If we are not told what the value is of each of the 10—if they are just given as a broad brush or in aggregate, to use that term again—it is very difficult to undertake a proper analysis of the 10 measures. Do you understand the difficulty?

**Dr Gruen**—I do understand the situation you are in. These multiplier estimates come from a wide range of places and, as I say, they are usually provided as a band. I think it is fair to say that the nature of the evidence we have is not sufficiently precise to be able to do any better than that.

**Senator ABETZ**—So none of them are sufficiently good to detail them separately, but if you aggregate them all together we get this magic figure at the end on which we should have total reliance and vote for a \$42 billion package. I am sorry, but it does not fill me with confidence if you cannot disaggregate. You tell us, ‘Trust us on the totality.’ Can you not tell us the band on each one of the 10 stimuli?

**Dr Gruen**—If one were to disaggregate and apply the same elasticity to each of the subcomponents, one would get the answer we have got. The point I am making is—

**Senator ABETZ**—Right, so why do we not?

**Dr Gruen**—One could do that, but the point I am making is that the quality of our evidence is not sufficient to be able to say that the multiplier for one of those things is a particular number, for another one of those measures is a slightly different number and for another one of those measures is a slightly different number. What we have done is said that, overall, this is the amount of spending that is being envisaged and that the range of estimates that we have available to suggests that the multiplier is somewhere between half and one, and that gives you an overall number. In principle, you could pro rata it for each of those items. You could do that.

**Senator COONAN**—You could do it by sectors, couldn’t you?

**Dr Gruen**—Absolutely. If you were willing to make the assumption that the multiplier was the same for each of them then you could do that.

**Senator ABETZ**—But you would not do that, would you? You would not assume that the multiplier would be exactly the same for each one of the 10 stimuli. That is why we want to drill down and find out what the multiplier effect is for each one of them, because in amongst the aggregate figure there might be a real dud which is pulling the aggregate down. If we were to excise that particular part of the stimulus package, we might be getting a lot better value—in fact, not for taxpayers’ dollars but for the money that we are going to borrow for the stimulus package. But, look, we do not have the disaggregated figures and I do not think you are minded to give them to us, so I will hand over to Senator Joyce.

**Senator CAMERON**—On that point—this issue of a dud in the package—the package was the subject of lots of Treasury analysis, surely.

**Dr Gruen**—Yes.

**Senator CAMERON**—Did you find any duds in the package?

**Dr Gruen**—I took that as a rhetorical flourish and I did not respond to it, and I think that is probably how we should leave it.

**Senator FIFIELD**—Do you expect Treasury to characterise decisions of government as duds, regardless of what they thought?

**Dr Gruen**—Which is why I did not comment on it.

**Senator COONAN**—Before we leave the multipliers: I was curious about how these multipliers compare with the analysis of the \$10.4 billion package, which I do not think was formally modelled. Was it?

**Dr Gruen**—In MYEFO you will find a statement which says that at the time we estimated that the multiplier was between one-half and one.

**Senator COONAN**—It is the same.

**Dr Gruen**—Yes. We have been consistent.

**Senator JOYCE**—We know that the Carbon Pollution Reduction Scheme, which is the biggest effect on the economy that is coming down the track, is not in the modelling for this. I am now going to try to look back in the past. On page 36, the second dot point, you say you are going to pay this back by holding real growth in spending to two per cent. The only way we can judge that is by how you are going on other things. Is there any information as to whether we are meeting any of the targets in the efficiency dividends that were in the last budget papers? Are they turning into reality or are they remaining amorphous concepts?

**Dr Watt**—They are turning into reality. The efficiency dividends are automatically deducted from the relevant agency appropriations, so the agencies have to live within a reduced budget.

**Senator JOYCE**—So we basically say, ‘You don’t get any more money, and you just have to cut wages wherever.’

**Dr Watt**—We actually say, ‘You get less money.’

**Senator JOYCE**—I have been thinking about an answer Senator Conroy gave on Thursday about the interest expense of this being \$2.66 billion. We know that we have a facility that will in the near future be fully drawn to \$200 billion. I was listening to Mr Tanner on *Lateline* the other night, and he said it was netting out because of HECS, the Future Fund and some other concept. Obviously someone has done the work; I am curious about whether you have the calculations showing how you came up with the number \$2.66 billion.

**Mr Ray**—I think that calculation is done by applying a weighted average cost of funds to the net debt.

**Senator JOYCE**—And the weighted average cost of funds is around 4½ per cent?

**Mr Ray**—Around four—a bit under at the moment, probably.

**Senator JOYCE**—You are saying, in that case, that the net debt position takes into account that you give precedence to the HECS debt, but that does not have a reliable income stream. That is completely amorphous; it relies on people earning a certain amount of money, which in the middle of a recession, you would have to say, is less likely.

**Mr Ray**—The net debt position is our projection of gross debt less the debt-like assets.

**Senator JOYCE**—But Mr Tanner himself says it takes into account HECS debt and Future Fund receipts. These are all dependent on the strength of the economy and the capacity for those people to repay or deliver a dividend. I would suspect that that is not there; therefore, we have way understated our interest expense.

**Mr Ray**—Our projections of net debt are our best projections of net debt.

**Senator JOYCE**—Do you have some calculations showing how you came up with that number that you can table for us?

**Mr Ray**—I can take that on notice to see what I can provide.

**Senator JOYCE**—With the greatest respect, I have seen some of your other replies to questions on notice. They are pretty brief. I really want to drill down on these numbers, find out exactly what our total interest

expense is without netting it off and then find out where you perceive your interest income coming from. You can provide those to us?

**Mr Ray**—As I said, I will take it on notice to see what we can provide.

**Senator JOYCE**—With your current stimulus package, one thing that has come through is that, everywhere else we look at stimulus packages over the last couple of days, we have seen that there is a reduction in both tax and infrastructure expenditure. This seems to be confirmed through every major stimulus package we have looked at around the world.

**CHAIR**—This is your final question for the time being, Senator Joyce.

**Senator JOYCE**—Okay, that is fair enough. What was the philosophy that stood behind the idea that, in the process of devising this package, we would not have a reduction in income tax or any infrastructure expenditure?

**Dr Henry**—Sorry, Senator, can I just clarify that you are asking: why does the package not contain income tax cuts or why does the package not—

**Senator JOYCE**—Wouldn't the logic that is pervasive throughout the world in these fiscal stimulus packages suggest that a package that had a reduction in income tax and infrastructure expenditure be a more likely acceptable instrument to stimulate the economy? If not, can you please direct me to another package somewhere else in the world that is of a similar nature to the one Australia has put forward?

**Dr Gruen**—Senator, it is certainly the case that plenty of the stimulus packages being discussed around the world have some tax measures or some measures that are payments to individuals, but it is also the case that plenty of them are not tax cuts. For instance, the US package does not include income tax cuts; it includes tax credits in 2009-10 and access to per child tax credits. It has a series of temporary payments to individuals which are by their nature rather similar to the payments in the package under consideration. Long-term tax cuts have by their nature long-term fiscal implications, and most countries around the world who are considering these things do not regard those long-term fiscal implications as a reason for not giving long-term tax cuts.

**CHAIR**—I have to move onto Senator Milne.

**Senator MILNE**—My question goes to the fairly consistent criticism from the economists who have looked at this package in relation to the cash payments and whether or not they are sufficiently well-targeted to guarantee an immediate spend and therefore the immediate stimulus that the package is designed to achieve. Professor McKibbin had suggested that you could have a temporary reduction in the GST by 50 per cent, say, for a three-month period or something like that, which would give a powerful incentive to bring consumption spending from the future to that period of time, therefore, more likely guaranteeing you a spend than the cash payments, and recognising of course that you would have to compensate the states.

At the same time, the other issue in relation to this are the cash payments to people who had a taxable income of \$80,000 to \$90,000 and \$90,000 to \$100,000. It has been suggested that they are the people least likely to spend the bonus. Many of them will have salary sacrificed to get to that income level and they are not likely to spend this money. I just wonder if you have actually considered bringing consumer spending forward by a temporary cut to the GST, and why you think those income groups are likely to spend the bonus they get?

**Dr Henry**—Senator, we have not considered changing the GST arrangements in order to provide a macroeconomic stimulus. As you know and as you mentioned in your question the GST revenue goes to the states. In the time that the GST has been legislated in this country it has been the position of the Commonwealth government that the GST arrangements are a matter of agreement between the Commonwealth and the states.

So we have not considered an option such as that. I would note that, depending upon how large the cut in the GST rate was and the time period for which the cut in the GST rate applied, it could be quite an expensive option given how much revenue the GST raises—and I am not at all sure, in terms of its budget impact, that that would be a cheaper way of stimulating household consumption activity.

**Senator MILNE**—I was not suggesting it might be cheaper. I was suggesting it might be a more effective response in terms of getting people to spend the cash payment in the time frame. Can you respond to the question about the two higher income bracket areas and why you think they will spend it.

**Dr Henry**—In the document that is before you the amounts of one-off cash payments provided to those two higher income brackets are quite a lot smaller than the \$950, and so the package has been structured so as to

deliver the greater amount of payment to those who because of their income are considered more likely to spend, with relatively smaller amounts provided to people in those higher income ranges. But I do not know that I can add to that.

**Senator MILNE**—I would just like to know the rationale that makes you think people with a taxable income between \$80,000 and \$100,000 are likely to spend that bonus.

**Dr Henry**—Maybe Mr Parker could add to that.

**Mr Parker**—I can provide you with some further information on the relative split between the two groups. This is based on the 2006-07 tax statistics. There are around 450,000 people who have a taxable income between \$80,000 and \$100,000. That is against the 8.7 million people estimated to be eligible for the bonus. People on incomes between \$80,000 and \$100,000 do not receive the full \$950. In round terms we estimate that the cost of that would be in the order of \$230 million.

**Senator SIEWERT**—That is the \$80,000 to \$100,000 income bracket?

**Mr Parker**—That is right.

**Senator MILNE**—That is \$230 million.

**Mr Parker**—That compares with the \$8.1 billion for the total, so it is a fairly small amount.

**Senator MILNE**—I understand it is fairly small but it looks to me like it is a case of every player wins a prize. I cannot see that this \$230 million is actually going to be spent.

**Mr Parker**—I can give you some information about some of the rationale.

**Senator MILNE**—Yes; what is the rationale for those two groups in particular?

**Mr Parker**—Apart from the fact that you would expect some spending from those groups—we could debate how much it would be—when you introduce these types of payments, if you have a sudden-death cut-off at a particular point then it raises equity issues as between someone who earned one dollar less than the threshold or one dollar more than the threshold, so it was effectively to smooth that out. That was one of the rationales which went to that.

If you like, I could also add some additional points on the GST. As Dr Henry indicated, we have not specifically modelled that. The reason that we did not is that, having thought about the potential to use that—that was in the early stages of thinking about that—we quickly came to the conclusion that it was something that was relatively infeasible in the Australian context because the GST has in effect been designed not to change. I can give you some figures about the impact of this.

**Senator MILNE**—Excuse me, Mr Parker. The Greens have only 20 minutes and my colleague has a lot to say, so could we get your further comments on the GST on notice so that my colleague can ask her questions?

**Mr Parker**—Sure. I am happy to do that.

**Senator JACINTA COLLINS**—On that point can I ask you also to address the following question. Utilising the GST, what sort of impact would you be expecting on the various exemptions in terms of consumption? For instance, people are not going to get any particular savings in food and other areas where the exemptions apply—and was that a factor?

**Mr Parker**—That was one of the thoughts that we had during the early consideration. Suppose you were to reduce the GST by 20 per cent for three months; that would be a reduction of two cents in the dollar in the GST rate, which is 10 per cent.

**Senator JACINTA COLLINS**—I just meant when you deal with it on notice.

**Mr Parker**—Sure, I am happy to do that.

**Senator SIEWERT**—Did you do any modelling of what the cost and impact would be of increasing the base rate for those on Newstart?

**Dr Henry**—No, I am sorry.

**Senator SIEWERT**—You did not do any modelling of the situation if the government were to lift the base rate of Newstart instead of doing a bonus for those on \$80,000 to \$100,000? Did you look at what impact that would have in terms of boosting the economy?

**Dr Henry**—I have difficulty answering that question because it goes to policy advice that may or may not have been provided to government. Since it does not form part of this package I do not see how I can comment on it.

**Senator SIEWERT**—So the answer is that you cannot answer the question, or is it that you have not done any—

**Dr Henry**—That is right; I do not think I can answer the question without revealing the nature of policy advice that might have been provided to government.

**Senator SIEWERT**—Could you tell us what data set Treasury were using to assess the number of people who are in receipt of various income support payments?

**Dr Grimes**—The data sets that we would use would be data sets provided by departments such as the Department of Families, Housing, Community Services and Indigenous Affairs, and maintained by Centrelink.

**Senator SIEWERT**—What years was that data from?

**Dr Grimes**—I would not have the specifics, but we may have someone here who will be able to help you out with that. Alternatively we could take it on notice.

**Senator SIEWERT**—If you could take it on notice.

**Dr Grimes**—We will be able to do that.

**Dr Watt**—I would assume that we would be using the most recent data available, which is pretty up-to-date.

**Senator SIEWERT**—The data available on the website is not ‘pretty up-to-date’.

**Dr Watt**—I would hope we would do better than the website data.

**Senator SIEWERT**—It makes it difficult for some of us who are trying to work out the impacts of this when the data on the website is not necessarily up-to-date. Could you also provide us with the cost—and I would appreciate this now if possible—of the specific component of the Education Entry Payment—that is, what estimate you have made in terms of that particular component of the training bonus?

**Dr Grimes**—I do not personally have that detail. I will see if another officer here has the information; otherwise we will take that on notice.

**Senator SIEWERT**—While we wait for the other officer, could I ask if you in your modelling have projected the fact that the changes that will be made under the stimulus package are likely to increase the number of people who are currently applying for and eligible for the Education Entry Payment?

**Mr Ignatius**—That is correct. Our estimates for the take-up and the likely payments under that supplement did take account of an increase in the number of people who will be likely to claim.

**Senator SIEWERT**—Could you tell me what percentage you were using for those who are already claiming and what estimate you are using now for those you think are likely to take it up?

**Mr Ignatius**—I do not have that data here but I can take that on notice and get it to you tomorrow.

**Senator SIEWERT**—That would be appreciated. I am aware that you may not be the right department to ask, but have you done any modelling or do you have any information on the impact this will have on the capacity of the sector to provide the increase in training requirements?

**Mr Ignatius**—Not in a direct sense, but there have been measures taken by the government recently that have increased the number of training places. We would anticipate that those would be used in responding to the increased take-up.

**Senator SIEWERT**—At the moment the uptake from those on Newstart—or those allowed to do it—is relatively low. Under this package—and because you cannot tell me what your projection is for the increased number of people who will be taking it up—it is difficult for us to know whether this capacity is going to be there. So it would be useful if you could take on notice.

**Mr Ignatius**—Certainly.

**Senator SIEWERT**—So, what planning has been put in place for the increase in capacity? Is there actually funding available to meet that capacity? Because the \$950 available to those who are eligible for it will not necessarily totally provide for putting that capacity in place.

**Mr Ignatius**—We will take that on notice.

**Senator SIEWERT**—What I want to be clear about it is how many people on Newstart will be getting the \$950 bonus. Okay?

**Mr Ignatius**—Yes.

**Senator SIEWERT**—The package also, if I understand correctly, includes the projected increase in the number of people applying for the actual payment, which is \$208. So I want the breakdown for both, if that is possible, please.

**Mr Ignatius**—People would be eligible for both of those payments. So, provided they had undertaken an approved course, they would get—

**Senator SIEWERT**—Yes, I appreciate that. The point is that there will be an increased number of people eligible for the payment or taking it up. Does the package include projections for the increase in numbers both for the \$208 and for the \$950?

**Mr Ignatius**—Yes.

**Senator SIEWERT**—You will provide me with those figures?

**Mr Ignatius**—Glad to take that on notice, Senator.

**Senator SIEWERT**—Thank you. Will the requirement for Newstart recipients to either come off Newstart when they are getting this payment or have it as part of their activity agreement still be enforced?

**Mr Ignatius**—Sorry; can I have the question again?

**Senator SIEWERT**—The existing requirement for this payment is that either you move off Newstart to some other form of income support or it has to be included as part of your activity agreement. Will that still be a requirement?

**Mr Ignatius**—Yes. The conditions are the same as the conditions for the current employment entry payment. It is just that that rate has been increased, and also the period for which a person has to be on the payment has been reduced to a month.

**Senator SIEWERT**—Reduced to four weeks, yes. So each person who is now eligible for the \$950 will have to ensure that their activity agreement is reassessed and amended in order to get this \$950? And—sorry; it is a double-banger question—will there still be the same requirement for the eligible training courses?

**Mr Ignatius**—The conditions are the same as the current payment.

**Senator SIEWERT**—Okay. So there is no change. Thank you. Have Treasury done any modelling on where they expect the highest rates of unemployment to be? I am coming from the perspective of the poverty postcodes—you would be aware of the work around the poverty postcodes. Have you done any work that looks at where these measures might be best targeted geographically?

**Dr Henry**—No, we have not.

**Senator SIEWERT**—So you are not looking at trying to focus these resources on those most in need or those most subject to disadvantage, or looking at where we are going to see increasing rates of unemployment, people entering into financial crisis, for example?

**Senator MILNE**—The crash postcodes.

**Senator SIEWERT**—Yes.

**Dr Henry**—I would make two points in respect of that. Our modelling has not had any geographic disaggregation in it, so we have not produced forecasts of just where in Australia we expect the aggregate demand deficiencies to show up and, consequently, where in Australia the increase in unemployment might occur. Obviously enough—and it is certainly fair to raise it—there will not be a uniform reduction in aggregate demand and, obviously enough, there will be some dispersion geographically in the increase in unemployment rates. The measures in this package are designed to stimulate aggregate demand—and that is aggregate demand. The question you are raising, I think, is whether this package has been designed to target particular geographic regions. Not especially so. I think it has really been designed, as I indicated earlier, to support aggregate demand.

**Senator SIEWERT**—I might sneak one more question in—that is, what modelling, if any, was used to double the amount of money that is available in the package for emergency relief? I think it is \$60 million. Was there modelling used for that, or how was that figure arrived at?

**Mr Ignatius**—Senator, I can answer that. The current forward estimates were used for that program, and it essentially doubled the estimates, assuming that there would be a partial takeup for this year from around the beginning of March.

**Senator SIEWERT**—It doubled; I appreciate that. But on what basis was that doubling undertaken?

**Mr Ignatius**—It was on the basis of the current forward estimates for that program for the current year and future years.

**Senator FIELDING**—I have had a lot of emails come through to me about this stimulus package and I am sure others have too. I have a couple of cases here. One is an 88-year-old war veteran who makes donations to various charities each year—the Red Cross, the Salvos et cetera—and has zero tax to pay. He pays no tax because he gives to charities. He believes he is not going to get any payment because he has no taxable income.

**Mr Parker**—It might be best if you were to provide these particular cases to us and we could give you an answer. On the basis of the broad story that you have told, he has no net tax liability therefore he is not within the scope of the tax bonus.

**Senator FIELDING**—I have another case here. A man and his wife, both 22, start full-time tertiary studies this year. They start on 23 February. They will transfer on that date from the Newstart payment to youth allowance. Because they were not on youth allowance on 3 February, they will miss out. They have not been on Newstart for 12 months or more, so they are not eligible to claim the education payment. Is that your understanding of that case? They are pretty simple cases.

**Mr Ray**—I think, again, Senator, it is such a precise, individual case that it would be better if you provided it to us so that we could give you a considered answer.

**Senator FIELDING**—I will give them to you, but I have been through them and I have been through the documentation and I cannot see these people getting a particular payment. In another case, there are two sisters whose hardworking mother died of breast cancer and left her super and life insurance to her daughters. The two daughters paid the tax as a one-off payment and declared it in their 2007-08 tax returns, putting them in for the first time at above \$100,000. In the years on either side of that year's return they had taxable incomes under \$80,000. They will miss out on the money. I have another case here—

**Senator ABETZ**—Senator Fielding, for what it is worth, I put nine such scenarios to the tax office when they were before us.

**Senator FIELDING**—I think it is pretty important to look at these cases. Here is another one: a GP and his family will be receiving about \$3,000 from the package. The GP explained that he earns approximately \$300,000 a year. Because his wife earns less than \$80,000 and his adult children residing at home are students, they will qualify for the government's handout. The doctor is appalled that his family will receive this payment as a high-income family when there are so many other Australian families in need. I have another one here—

**Senator SIEWERT**—How do they qualify if they are over 18? They should not be getting Austudy.

**Senator MILNE**—If they are getting Austudy, they should not be living at home, if they are independent. What is going on? Investigate.

**Senator FIELDING**—There is another one here who says, 'Personally, I do not need the extra \$950, but there are so many Australians who do. I am considering giving my money to people who need it more than I do.' Obviously, you would say that it is great for them to do that. It goes on to ask: 'Can you find some way of urging the government to give it to those who need it most?' There is a theme happening here across the board. I do not want to go into the needs of people in Victoria, but I am being frank. There are a lot of people who are contacting me and saying that they do not actually need the money. Yes, they will take it, but they do not need it. And at this time of hardship I ask about finetuning the package even further to make sure that we look at people who do need it more than just these broad categories. I will give the cases to you. I do not expect you to respond now. I do not want to embarrass you folk, but there is something horribly wrong here.

**CHAIR**—The officers have suggested that they will take it on notice. I think that is covered in *Hansard*.

**Senator XENOPHON**—What is the long-term economic—Dr Henry, sorry; my terseness is a function of time rather than temperament—as distinct from budget, advantage of a stimulus package involving lump-sum payments up-front instead of tax cuts, particularly in light of the acknowledged advantage in terms of improved multiplier effects of long-term tax cuts and particularly as this downturn is expected to last some time?

**Dr Henry**—I am not sure I agree with the premise of that question—that is, I am not sure that it is the case that the multiplier effect associated with a permanent cut in income taxes is larger than the multiplier associated with a one-off cash payment, for example, or a short-term fiscal stimulus. I know there has been a lot of commentary in the press both in Australia and internationally that indicates that that might be the case, but I do not believe that the evidence supports that conclusion at all. We discussed the further point about the fiscal implications of a permanent tax cut the last time we met and I made the point that a permanent income tax cut has implications for the budget both in the short-term and, obviously enough, in the medium to longer term, and this particular package has been designed to have a temporary fiscal stimulus and not to build into the budget long-term reductions in the fiscal balance. The purpose of the package is that the stimulus be temporary and, as the economy enters a growth phase, the budget return to surplus as quickly as is prudent.

**Senator XENOPHON**—If I can just move to the issue of the cash payments, the intent of that is to give a stimulus to the economy as soon as possible in increasing demand in terms of consumer spending.

**Dr Henry**—That is correct.

**Senator XENOPHON**—In relation to the last cash payments, last December, you have indicated it will take a few months for ABS statistics to fully set out what exactly happened. Was any consideration given to having a household expenditure survey or research to actually find out in a qualitative sense what the recipients actually did with the last \$10.4 billion so that we can better plan or target the next lot of payments?

**Dr Henry**—No, and for two reasons. Firstly, such surveys, if done well, are expensive and take a long time to set up.

**Senator XENOPHON**—But it would not be in the billions of dollars; it would be hundreds or tens of thousands, wouldn't it? In relative terms, we are talking about a lot of money.

**Dr Henry**—There are two points there, as I said. Firstly, it would be expensive, but it would also take a long time to set up, if it is an ad hoc household expenditure survey that you are talking about. The second point, and I think it is much more important, is that—as I indicated the last time we met—we never imagined that all of the household expenditure associated with the Economic Security Strategy announced in October would show up in the month of December. Indeed, we would not expect that all of it has shown up yet. In fact, far from it. In the analysis that we did in support of the Economic Security Strategy announced in October, we took the view that it would take some quarters—that is, many months—for the full increase in household consumption activity to appear. It would in our view be much too early to conduct that empirical study, that household survey, that you are referring to.

**Senator XENOPHON**—What ballpark percentage, what proportion of the \$10.4 billion in December and of this proposed package of handouts would be spent in what period, say in the first six months? How much of that is expected to be spent rather than saved or used to pay off debt?

**Dr Gruen**—As Dr Henry said, we do not have data for that event but we do have data for similar events and in particular—

**Senator XENOPHON**—Previous cash bonuses?

**Dr Gruen**—Yes. The most careful analysis that we are aware of was done for the one-off payments in 2001 in the United States, which have been studied very carefully. In those cases what was found were two things of relevance. One was that something like 20 to 40 per cent of it was spent in the first three months and also people with credit card debts tended to pay them off to some extent. Over time, on average, the people who paid off their credit cards used their lower level of debt to fund further expenditure later—after the first three months.

**Senator XENOPHON**—Could you provide that information?

**Dr Gruen**—Yes.

**Senator XENOPHON**—And also, the Howard government's baby bonus of several years ago, about 2004, was a significant cash payment then. Have any studies been done as to how that was spent?

**Dr Gruen**—We can get back to you on that one. Let me just finish, the estimates after six months were that about two-thirds of the money that had been handed out in 2001 in the US was spent.

**Senator XENOPHON**—Surely a survey at different points in time would still be valuable in terms of targeting policy and what measures should be implemented next, given the magnitude of the payments.

**Dr Gruen**—Yes, I am not going to deny that. It is just limited resources, I suppose.

**Senator XENOPHON**—They are significant resources in the amounts we are talking about. There has been some discussion amongst one of the retailer's groups saying that a voucher system would be better and there has been discussion about using a debit card. References were made that Thailand and, I think, even Germany looked at a system whereby you get the bonus but you have to spend it on goods and services within a fixed period. Leaving aside any administrative issues there, to what extent would that be more effective in providing stimulus to the economy?

**Dr Gruen**—I think you have hit the nail on the head. It is the administrative issues that are crucial. To the extent that the logic of these payments is to get stimulus quickly into the economy, if it is the case that setting up the administrative arrangements will slow you down significantly then that is a very significant downside to this suggestion.

**Senator XENOPHON**—Has that been analysed at all by Treasury in terms of delivery systems such as vouchers, debit card or another mechanism?

**Dr Henry**—No. There is another difficulty with such proposals which is that, if you were convinced that, absent a voucher mechanism, all of the \$950 was going to be saved, if you were convinced that that is how the relevant household was going to behave—

**Senator XENOPHON**—I am not suggesting that.

**Dr Henry**—I am just trying to illustrate why there is a difficulty with the voucher proposal—then surely a household that could only access the \$950 through a voucher arrangement would simply spend that \$950 and reduce spending by an equivalent amount elsewhere in their income. That is, if you thought that the whole \$950 was going to be saved unless you had a voucher mechanism then surely what the household would do is take the voucher, spend all the money and save another \$950 part of their income. To put it another way, money is fungible.

**Senator XENOPHON**—You do not see that it might shift things in terms of encouraging expenditure?

**Dr Henry**—It should not make any difference at all. There may be some behavioural science in this that I am not aware of, but I cannot understand why a household would not act rationally in these circumstances.

**Senator XENOPHON**—Can I go back a bit. Dr Gruen has also answered this in part. We have spent billions of dollars and are proposing to spend billions of dollars in payments. Would it make sense to invest a little in relative terms in some systems to be able to give Treasury, to give the government, information as to how it is being spent and to what extent there are savings—looking at that behavioural economics, which, I think you have acknowledged, is a relatively new science.

**Dr Henry**—That may be. It is not for us to make a judgement on whether or not that should happen, but I think that, if you were going to do it, you would really need to start with the existing Household Expenditure Survey, because it is comprehensive and well established. We understand the statistical properties of it reasonably well. I think that what you are talking about is refinements to the Household Expenditure Survey. I know that the existing Household Expenditure Survey could not be made to operate as quickly as you would want it to operate. It has lengthy recall periods in it—I think up to 12 months—which is quite understandable if you are asking people how much they spend on durable items, for example. I think there is a difficulty in designing a comprehensive Household Expenditure Survey that has recall periods as short as, maybe, a couple of weeks, which I think is what you are after.

**Senator XENOPHON**—I will not take it any further. Professor McKibbin, in his submission, said that Australia has been put in a very advantageous fiscal position to respond to external shock. He says:

This suggests that the scale of the Australian response should be less than the world average.

Do you agree or disagree with that?

**Dr Henry**—I do not agree with that.

**Senator XENOPHON**—You do not think that the fact that we are in a better position than other countries should temper our response in part?

**Dr Henry**—No. In fact, I think that one may well argue to the contrary. It is true that our starting point in fiscal circumstances is much better than most industrialised countries. That gives us the capacity to move more quickly and more aggressively than other countries in dealing with the macroeconomic challenge that we confront. We would have more scope to move. I think one could argue that we should use that greater scope that we have.

**Senator XENOPHON**—Finally, in relation to the CPRS, your modelling goes only to 2010 and the CPRS will come in after that time. Should that be considered, given that we are looking at an impact on the budget, with this proposed debt for a number of years? Shouldn't the CPRS have been factored into this, given the significance of the proposed scheme?

**Dr Henry**—I do not know how we would factor it in. In order to factor it in, given that the CPRS commences outside our forecast period, we would have to obviously extend our forecast period. To give explicit economic forecasts for the present fiscal year and the subsequent fiscal year, we would obviously have to extend our macroeconomic forecasts for longer periods of time. In evidence presented to Senate estimates committees over a number of years we have made the point that, whilst we can see a case for providing longer term forecasts, the reliability of those forecasts would obviously fall, the longer the forecast period. We could provide such forecasts but they would be less reliable than the forecasts for the immediate future.

**Senator JACINTA COLLINS**—I have a few questions for Dr Henry, if I might. Dr, we were taken on a few occasions to this *Economist* article about the weighted average of 3.6 per cent, but I want to take you to a different point. To quote from the article, which was by Messrs Iginla and Xian, it states:

... if countries that can stimulate safely do not do enough, and if fearful investors shy away from emerging markets, the odds of a lasting recovery of the global economy seem slim.

Is that not indeed consistent with the IMF position also?

**Dr Henry**—Yes, that is consistent with the IMF position.

**Senator JACINTA COLLINS**—And would you agree with it?

**Dr Henry**—I think that is an unexceptional statement.

**Senator JACINTA COLLINS**—Thank you. You were taken earlier to Professor McKibbin's evidence before us. He appeared as a private individual. I wonder what consultation occurred with the Reserve Bank, if you can inform the committee of that and of their view on this package.

**Dr Henry**—I think I can indicate that, during the development of this package, I kept the governor informed in a general sense of the possible shape of the package that was under development. I then briefed the Reserve Bank board in full on the detail of the package prior to the board taking its monetary policy decision last Tuesday, and obviously prior to the announcement of the package.

**Senator JACINTA COLLINS**—And were any significant concerns raised regarding the composition or scope—

**Dr Henry**—Senator, you put me in a difficult position there. It is not for me to speak on behalf of the Reserve Bank board. I think it appropriate that I leave that task to the chairman of the board, to the governor.

**Senator JACINTA COLLINS**—Let me move to another issue: credit rating agencies. What can you tell us of the reaction to a stimulus package of this size in relation to Australia's likely future standing?

**Dr Henry**—Credit rating agencies have also been briefed on the package, and credit rating agencies have not expressed any concern with the package.

**Senator JACINTA COLLINS**—Would they take a different view of a \$180 billion versus a \$200 billion debt?

**Dr Henry**—I cannot speak for credit rating agencies, but I would be surprised were they to draw a distinction.

**Senator JACINTA COLLINS**—On the discussions we have had about the scope of the individual payments, particularly with respect to the coverage of low-income earners, has any sort of estimate been done on what proportion of low-income earners was likely to attract payments, either under this stimulus package or the earlier one—putting aside the fact that, as you quite rightly pointed out earlier, utilising existing delivery mechanisms is also going to have consequences?

**Mr Parker**—You asked a question to that effect the last time we met.

**Senator JACINTA COLLINS**—Yes. I don't think the answer is back yet.

**Mr Parker**—We have tabled answers to those questions. The estimation that—

**Senator JACINTA COLLINS**—If you have tabled it, that is fine; we will see that in the tabling documents—but we have not yet seen them all.

My final question relates to the point that you were making earlier that the stimulus package was designed to be temporary and immediate. I think that would be a fair characterisation. In relation to a focus on social versus economic capital, or infrastructure, can you brief the committee on the advantages of the more immediate sense that an investment in social capital involves rather than economic capital?

*Senator Milne interjecting—*

**Senator JACINTA COLLINS**—Sorry, I think Senator Milne is asking what I meant by that question. I am asking whether you can reflect on what has been put to me—that investment in social capital is more likely to have a more immediate impact, particularly on employment, and that local projects are more likely to be, in the phrase that we have been using so far, ‘shovel ready’ in that field as opposed to in the economic infrastructure field.

**Dr Henry**—Sorry, yes, I now understand the question. I think we did traverse this ground a little—

**Senator JACINTA COLLINS**—Sort of. But the answer that came back to us was not comparing social versus economic; it was actually comparing social versus one-off payments to individuals.

**Dr Henry**—I see. I think we made the general point the last time we met that sizable economic infrastructure packages typically have quite long lags associated with them—decision-making lags, for one thing, but also quite significant implementation lags. With respect to large economic infrastructure, repairs and maintenance activity can be undertaken in a much more timely fashion. Smaller scale social infrastructure packages can, in general, also be undertaken in a more timely fashion.

**Senator JACINTA COLLINS**—Thank you.

**Senator CAMERON**—Professor Dixon made the point in his presentation today that the issue of spending \$27 billion should result in 450,000 jobs as distinct from 150,000 jobs, I think he said. Do you have any explanation for that assertion?

**Dr Henry**—No, I am sorry but I do not understand the basis for Professor Dixon’s calculation. I have not seen Professor Dixon’s evidence until now; I have just had it put in front of me. I would need some time to consider the nature of that evidence.

**Senator CAMERON**—I would appreciate that. He said that \$27 billion divided by 60,000, which is the average wage, should result in all these extra jobs. I would be interested to hear your view.

**CHAIR**—Would you take it on notice?

**Dr Henry**—That looks like back-of-the-envelope arithmetic. I should not presume that it is but, from the way you have presented it, it looks like it is. I do not think one should divide \$27 billion by an average wage number to calculate an impact on employment. I imagine the better figure to use would be GDP per worker, which is very different from average labour income per worker. For one thing, I would be dividing by a much larger number than 60,000, because GDP per worker is considerably larger than 60,000, obviously. In fact, it is about double that. I do not know whether that is the only difficulty I would have with Professor Dixon’s calculations.

**Senator FIFIELD**—I will pass straight across to a colleague but I think there is something we neglected to ask to be taken on notice. When Senator Ryan was asking what rate of growth would be required to get the budget into balance, the time frame was—

**Senator RYAN**—Over the projections.

**Senator FIFIELD**—I think we neglected to specifically ask for that to be taken on notice. Could you do that, please?

**Dr Henry**—We will see if we can provide an answer to that question.

**Senator FIFIELD**—Thank you.

**Senator ABETZ**—I want to ask one quick question, if I may, Dr Watt. I think you indicated that there was a COAG reform procedure. Was that the COAG reform bill that passed the parliament on 18 December 2008?

**Dr Watt**—I am sorry, but I am not clear in what context I indicated that.

**Senator ABETZ**—I thought it was you. I was asking my bracket of questions in relation to the UEFO, saying that the money was going to be spent by Treasury whereas the appropriation bill said it was going to be spent by FaHCSIA.

**Dr Watt**—I think it was Dr Henry who indicated that.

**Senator ABETZ**—Well, somebody has now indicated to me that a COAG reform bill was in fact passed on 4 December, received royal assent on 18 December and came into play on 1 January 2009. Is that the reform package that you were talking about?

**Dr Henry**—It is not that bill. Maybe—

**Senator ABETZ**—That is all I need to know. Thank you.

**Senator JOYCE**—Dr Henry, on 3 February 2009, in a Treasury fact sheet on energy efficiency measures, you said: ‘Overall, it is estimated that these new measures could result in the abatement of 4.7 million tonnes of carbon dioxide equivalent Mt CO<sub>2</sub>-e per year from the end of the program and the total abatement of 49.4 Mt CO<sub>2</sub>-e by 2020.’ Since you are discussing there the efficiencies in relation to carbon pollution reduction, would you agree that even with the Carbon Pollution Reduction Scheme, which has a five per cent target for CO<sub>2</sub> reduction by 2020, the insulation measure in the stimulus package will not actually reduce carbon emissions at all but merely reduce the permanent price, allowing polluting businesses to purchase emission permits at a lower price?

**Senator MILNE**—Yes, because you are not reducing the cap; it is just trading within the cap, so you will reduce the price.

**CHAIR**—Perhaps we could allow Dr Henry to respond. Or would you like to take it notice?

**Dr Henry**—I think I will have to take it on notice.

**Senator JOYCE**—Dr Henry, we have already heard the argument that because tax cuts are not targeted they are ineffective. But giving someone a voucher is also not effective. If you hold that tax cuts are not effective in how they target that expenditure, why would anything be less effective, if that is the direction you want to go in, than handing someone a voucher and saying they have to spend it by a certain date?

**Dr Henry**—I did not mean to give the impression that a voucher would be ineffective. What I was saying is that I do not think giving someone a voucher would be any different from giving them an equivalent amount of cash. I do not think the behaviour response—

**Senator JOYCE**—So it would be the equivalent of cash?

**Dr Henry**—Correct.

**Dr Gruen**—Provided that they had enough money to be able to spend the voucher and then use the other money and save it; that was the point. There will be some individuals who presumably have no money at all and would have to spend the voucher.

**Senator FIELDING**—What analysis was done by Treasury on that small business voucher for the GST? I am interested to know what Treasury does—if they do things and then do not measure them.

**Dr Henry**—We have undertaken an analysis of that, but it was some time ago and I cannot recall the details.

**Senator FIELDING**—Could you take that on notice?

**Dr Henry**—Of course.

**Senator ABETZ**—The question that everybody in Australia wants to know the answer to is this: at what time in the future can we come back into this room and discern whether or not this package has worked? Or is that time never going to arrive?

**Dr Henry**—It will always be difficult. Through the course of this year and next year, as we get the figures we will do our best to make an assessment. But it will always be difficult because, in making that assessment, we will necessarily have to make a judgement about where the economy would have been without these measures, and that is even more difficult than estimating where the economy really is at. We will try to make an assessment as the statistical evidence comes in, but it is going to be difficult for us to be able to provide the parliament with precise estimates of the actual fiscal impact of the package.

**Senator JOYCE**—There are no other economies that are similar but doing it differently—such as, to just pluck one out of the air, the Canadian economy—where you could say, ‘They’re not doing it, we are doing it, so let’s see what happens down the track’?

**Dr Henry**—No. The problem is that all economies are different. All economies are experiencing different macroeconomic circumstances. It is true that all economies around the world are experiencing unusually weak

macroeconomic circumstances, but there are sufficient differences among economies that that sort of analysis you are referring to would not be particularly useful.

**Senator JOYCE**—Thank you.

**Senator RYAN**—I have a couple of quick questions to Dr Gruen about the multiplier. I understand that you said you cannot disaggregate the individual components of the package and maintain a degree of confidence about the multiplier for each of them. Is that a fair summary of what you were saying earlier?

**Dr Gruen**—I was making the point that if you assumed that the multiplier for each of the individual packages was identical, if they had the same multiplier, then you would get the aggregate answer but—

**Senator RYAN**—You would not be confident assigning the various different multipliers to each component of the package?

**Dr Gruen**—That was the point I was making: that there is a sufficient range in these things that being more precise about this having a slightly higher multiplier than that gets you into a situation where you have less confidence.

**Senator RYAN**—Everything else in the UEFO is a number estimate, a point estimate. You have quoted a couple of times ‘0.5 to one’ as the multiplier assumed in the model for the programs announced as part of UEFO. Is there a specific number that is the multiplier, between 0.5 and one, for the sum total of packages that you can give us?

**Dr Gruen**—Let me just give you an explanation of the ‘up to 90,000’. Not only is there a range for the multiplier, but it is also the case that there is a time profile for the effect on jobs. The 90,000 is an estimate of what we think is a reasonable number for the maximum jobs impact over this period up to the middle of 2010.

**Senator RYAN**—So that is jobs over two years. If the model says that this is not possible I will understand. Through our discussion of this we have always referred to a 0.5 to one multiplier effect. Is there a single number. There is not—it is a range?

**Dr Gruen**—Yes, it is a range.

**Senator RYAN**—You do not have a higher degree of confidence about a single number? We had the discussion last Thursday about the jobs and whether it was a range of jobs, and there was not a number you could give us at a lower range of jobs because there was a degree of confidence about the ‘up to 90,000’. But with the multiplier it is a range—there is no specific number that can be given even with a high degree of confidence?

**Dr Gruen**—In the document you will find an estimate of by how much GDP has been raised. If my memory is right, it is half a per cent in 2008-09 and between three-quarters and one per cent in 2009-10. We are saying that GDP at the end of 2009-10—let me hope I get my algebra right here—is between 1¼ and 1½ per cent higher than it would otherwise be. Let me just check that; yes, that is correct. We are saying that one per cent increase in GDP creates up to 75,000 jobs. So 1¼ to 1½ will give you a number around 90, 000—possibly a bit higher, possibly a bit lower. That is the basis on which we have done these calculations.

**Senator RYAN**—And the difference between the one and the 1¼ or 1½—I understand there is a range in the document as well—is based partly on the variance in the multiplier that is assumed?

**Dr Gruen**—I think we are sensitive about giving the impression that there is more precision in this than there really is—

**Senator RYAN**—I appreciate that.

**Dr Gruen**—so sometimes we provide ranges. There is a kind of tension here between giving point estimates, which are easier to understand, and sometimes giving ranges because we think they are a more realistic—

**Senator RYAN**—But you will not give the same range for jobs.

**Dr Gruen**—Well, we said up to 90,000. In principle, you could take our previous estimate—

**Senator RYAN**—But we do not say up to one as a multiplier; we say 0.5 to one as a multiplier.

**Dr Gruen**—Yes, it sounds like up to one.

**Senator JOYCE**—Dr Gruen, since we cannot decompose that package—

**Dr Gruen**—You could if you liked. You can if you want.

**Senator JOYCE**—Well, ‘deconstruct’—whatever you want. Because we cannot deconstruct—or ‘deaggregate’—the package then as for the 10 issues that you have given us—no, not that you have given us but that have been given to you to analyse, obviously—would it make any difference if we just went out and dug \$42 billion worth of holes and then filled them in?

**Dr Gruen**—I guess the answer to that is that Keynes at some point made the point that the effect on aggregate demand would be the same if you dug holes and filled them in. It is actually a famous example. But to the extent that you can do something which has the same effect on jobs and you end up with something that is actually what society wants, that is clearly preferable to digging holes and filling them in.

**Senator JOYCE**—But society does not want Pink Batts and boom gates in the same form as they want infrastructure.

**Senator RYAN**—Dr Gruen—

**CHAIR**—This is your final question.

**Senator RYAN**—Yes, Madam Chair. Dr Gruen, I have got one final question. Firstly, I did put a question on notice—and I am wondering about the possibility of answering that, and I understand there are time restraints—which was about disaggregated revenue tables.

**Dr Gruen**—Yes, we have got that.

**Senator RYAN**—Thank you. This other question may be taken on notice. I may have missed it—I did look through the UEFO and I noted the GDP growth figures, nominal and real, and I noted the figure at the end of 3½ years there is expected to be 5.2 per cent of GDP—but I actually could not find in it nominal dollar values for GDP and for the debt expected as 5.2 per cent of GDP. I was wondering this: is it possible for those to be provided? I just have not had the time to go back and calculate it from the budget papers or the MYEFO.

**Mr Ray**—We can do the calculations for you.

**Senator RYAN**—Thank you very much.

**Senator COONAN**—What is your best example—

**CHAIR**—Can I say that was the final question. We have exceeded our time. There is one issue relating to a question that Senator Collins raised. Do you want to clarify it, Senator Collins?

**Senator JACINTA COLLINS**—Yes, it is just that we do now have on notice—I am sorry, but the secretariat had not passed this one on—what proportion of people are covered in the scope of either the first or second package. So it is if I can confirm that the 98 per cent of non-dependant adult Australians who receive a payment is for both.

**CHAIR**—I thank Dr Henry and the officers that have appeared before us. I again thank you very much for the consideration of rescheduling. I also thank my committee members for what has been a very sobering day and for their diligence in observing what we set out to achieve today. So I thank you all. I thank Hansard and the secretariat. I remind people that with questions on notice we need a response by 12 noon tomorrow, because we have to tailor the report tomorrow evening. Thank you all, and drive safely.

**Committee adjourned at 9.03 pm**