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Department of Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: economics.sen@aph.gov.au

Dear Sir/Madam

Submission to the Senate Economic References Committee – Inquiry into the Government's economic stimulus initiatives

CPA Australia represents the diverse interests of more than 122,000 members in over 100 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We welcome this opportunity to provide input into this review of the Federal Government's economic stimulus measures.

As we advised in the earlier Senate Review in February this year in relation to the Government's proposed fiscal stimulus package, a key factor in analysing different investment options is the likely return on investment (ROI). The is equally applicable to the government's investment by way of the economic stimulus measures undertaken to date, and should be considered both in the current environment as well as in the post-stimulus environment.

We generally concur with the following core components of the Government's fiscal stimulus measures and note that these are also broadly aligned with those put forward by the International Monetary Fund (IMF) earlier this year, viz:

- fiscal stimulus,
- accommodative monetary policy,
- measures to deal with financial sector issues, and
- subsequent wind-back of such measures once the threat of recession has been removed.

The main difference between the IMF's prescription and the measures introduced by the Government is the absence of any income tax cuts. However, this needs to be considered against the background of the significant personal income tax cuts introduced by the former Government over the past few years as well as the proposed aspirational personal income tax scale that is expected to be introduced at a later stage subject to budgetary considerations.

While the fiscal stimulus measures currently form a key component of the Government's fiscal policy, there is a need to ensure that action is taken at an appropriate stage to ensure that there is a return to balanced or surplus budget outcomes in an appropriate time-frame. We note in this regard that the second stage of the government's fiscal strategy as outlined in its 2009/10 Budget provides that, as the economy grows above trend as a result of the impact of the stimulus measures, then action will be taken to return the budget to surplus, including maintenance of an agreed tax/GDP ratio and holding real growth in spending to 2% a year until the budget returns to surplus.

It is important also for the government to take appropriate action within the above timeframe to reduce government debt in order to avoid undue increases in interest rates that could have adverse effects on economic activity and thus possibly impede the economy's anticipated return to a normal growth path.

Our comments on the specific queries raised by the Committee are set out below.

(i) the efficacy of the spending measures to date

As noted in a recent report by the OECD, the fiscal stimulus measures have clearly been effective to date as it believes that Australia would have experienced job losses of the order of 150,000 to 200,000 in the absence of such measures. The upshot of this is that the measures appear to have minimised job losses and thus have gone a long way towards cushioning the decline in employment arising from the global economic downturn.

The OECD also expects employment in Australia to fall by 1.4 to 1.9 per cent in 2009 and less by the end of 2010 which is likely to be a much better outcome than if the fiscal stimulus measures had not been introduced.

Further evidence to support this position is reflected in Australia's current unemployment rate of 5.8% which is well below the OECD average of 8.5% and consistent with the likelihood that Australia may now avoid a technical recession.

(ii) the anticipated costs and benefits of continuing the spending measures

This query touches on the issue of the appropriate timing and exit strategy that should be adopted by the Government to wind-back the fiscal stimulus as the Australian economy returns to its normal growth path.

We note here that the IMF has argued that a key pre-requisite for a successful fiscal stimulus is that it does not undermine the medium-term sustainability of fiscal policy. A significant inference arising here is the need to ensure that the short-term fiscal deficit arising from the Government's stimulus package should be wound-back over time to prevent undue increases in interest rates further out that could have an adverse impact on overall demand and employment in the economy. It is relevant in this regard that the Federal Treasurer appears to be aware of the need for timely action in this area as he has recently indicated that the Government will continue to monitor the stimulus package with a view to ensuring that it continues to provide support to the economy when and where it is needed.

Responsibility for monetary policy rests, of course, with the Reserve Bank and we can presumably expect the bank to move interest rates up from their current low level at an appropriate stage to ensure that the economy continues to grow at a sustainable rate. It is important, of course, that this process occurs as seamlessly as possible but it is too early to judge the precise outcome in this regard.

(iii) consequent change in the stimulus 'roll' out that ought to be entertained given the changed economic circumstances

We note here that the Treasurer recently indicated that the government was recalibrating its stimulus package to focus on those programs that have been most successful but without changing the overall size of the program. This appears to involve a continuation of the primary schools building package accompanied by some winding back of other elements of the package such as the social housing and home energy efficiency programs.

At the same time, the Government has confirmed that it plans to continue with its longer-term infrastructure projects (such as rail, roads and port infrastructure) that it regards as necessary for the ongoing growth of the Australian economy going forward.

(iv) anticipated impact of the stimulus spending on future interest rate movements and taxpayer liabilities.

As noted above, it is important that Australia pursues a sustainable fiscal policy during the period ahead to avoid any undue pressure on interest rates although some increase in rates can be expected as Australia returns to a more normal growth path. We understand that the Government is aiming to achieve such an outcome.

(v) an evaluation of the environmental impacts of the spending to date

We are not in a position to make a full assessment of this issue but we note that spending on home energy efficiency programs formed a part of phase two of the stimulus package. It is also relevant that the Government's main response to environmental concerns will be via its proposed carbon pollution reduction scheme (CPRS).

(vi) other related matters

Another important matter is the timing of the withdrawal of the existing Federal Government's bank guarantees including particularly the guarantee in relation to the banks' wholesale borrowings in overseas markets. We note that the IMF has recently urged that some caution should be exercised in relation to the timing of the removal of such guarantees and suggested that governments of the various countries concerned should act in concert on this matter. We support this approach including that the guarantees should only be removed when market conditions are appropriate and in accordance with an international agreement between the relevant jurisdictions.

Should you have any questions on either the above or the attached submission, please do not hesitate to contact Paul Drum, General Manager, Policy and Research on (03) 9606 9701 or via email on paul.drum@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

cc: P. Drum