

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 20-21 February 2008

Question: aet 33

Topic: Possible Use of Surplus

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Senator COONAN asked:

Senator COONAN—The notion of deferring indefinitely any kind of budget surpluses by way of tax cuts after these current ones intrigues me a little. Is it intended that this will happen indefinitely and, if so, what are you going to do with the surplus?

Dr Gruen—You are asking me to comment on a statement made by the Treasurer?

Senator COONAN—Yes.

Dr Gruen—I think you would have to ask the Treasurer what he had in mind.

Senator Sherry—Is this a banking issue?

Senator COONAN—No. He just said that he would not be distributing any more of the surplus. He said that very clearly. Does Treasury have a view about the best use of the surplus?

Senator Sherry—If Treasury has a view they will give advice to the Treasurer.

Senator COONAN—Yes, I am sure they would. It is a perfectly legitimate question. I am not talking so much about this particular budget. This is a general question.

Senator Sherry—But it must obviously go to this budget.

Senator COONAN—It goes to the future management of budget surpluses, which I would have thought is a legitimate line of inquiry.

Dr Gruen—I think you read a statement that the government was committed to not allowing the tax to GDP ratio to rise.

Senator COONAN—Yes, that is true.

Dr Gruen—That is part of the fiscal strategy. If you do not ever change the tax scales, the share of tax in the economy will rise over time.

Senator COONAN—That is right.

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Dr Gruen—I think you would have to ask the Treasurer what he meant by that comment, because I am not in a position to comment on what he had in mind. But I think you could certainly ask him.

Senator COONAN—Minister, could you take that on notice, please? I am not expecting you to interpret that now.

Senator Sherry—I will take that on notice.

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Senator COONAN—That was the broader thrust of my question. I am grateful that the minister will take on notice what Mr Swan meant when he said that there would not be any further tax cuts and all of the surplus would be quarantined.

Answer:

The Government is committed to allowing the automatic stabilisers to do their job. It is appropriate that the budget position is allowed to vary with economic conditions, which will among other things help alleviate inflationary pressures. In the current environment, allowing the automatic stabilisers to operate implies banking upward revisions to revenue, should they occur.