

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

**Supplementary Budget Estimates**

20 – 21 October 2010

**Question: SBT 232**

**Topic: Effects of stimulus spending in OECD countries**

**Senator Bushby asked:**

**Senator BUSHBY**—I do. At the last estimates I asked about chart A on page 2-23 of Budget Paper No. 1 and you indicated that an error was made and pointed the committee to a new analysis of 26 OECD countries in which there was a statistically significant relationship between those countries applying more stimulus outperforming against forecasts relative to those that did not. Will you continue to provide the analysis for each of these countries showing relative performance against predictions as the stimulus payments wind down and the consequences of bringing forward spending and higher borrowings become evident?

**Dr Gruen**—Senator, I think we had a discussion about how important I thought these results were and I think at the time I made the point that I thought it was a piece of evidence but it was not conclusive either way.

**Senator BUSHBY**—Yes, that is right.

**Dr Gruen**—So I had not been planning on doing so. I think the other problem is that the way this analysis was done was to compare outcomes with forecasts and I think the crucial period of time was 2009, if my memory serves, because that was the period of the significant budget interventions. To the extent that the analysis is trying to ask the question, ‘Did countries that used more fiscal stimulus outperform what the IMF expected they would do?’ and to the extent that that question is of any interest, it is of interest at the time when these fiscal stimuluses were being implemented. I guess one could redo it for 2010.

**Senator BUSHBY**—No, I acknowledge that the further you get away, the less relevance it has. But clearly, you have to have a look at the impact of that stimulus while it is rolling out in order to get any value.

**Dr Gruen**—Yes.

**Senator Wong**—What are you seeking, Senator?

**Senator BUSHBY**—I was just wondering whether they are were going to continue that for any further than what has been done.

**Senator Wong**—I think Dr Gruen said that he was not intending to. If you are asking him to—

**Senator BUSHBY**—I would be interested to see it for at least another year.

**Senator Wong**—I would think the question will be taken on notice and the government will consider it.

**Answer:**

Treasury has not updated these estimates and given their declining relevance with the passage of time does not propose to do so.