

Chapter 1

Introduction

The referral

1.1 Disruptions to the financial system have resulted in the global economy contracting in 2009, for the first time since the Second World War.¹ The Australian economy is less vulnerable to external shocks than many other advanced economies given its stronger and better regulated financial system and its mining industry's links to the strong Chinese economy, but nonetheless was expected to suffer a serious contraction as a result of the global downturn.

1.2 When the global outlook deteriorated sharply in late 2008, most advanced economies moved to implement some form of fiscal stimulus. A record of prudent fiscal policy going back more than a decade allowed Australia to introduce a larger stimulus than most countries, which further moderated the recession in Australia.²

1.3 The economic outlook has improved over recent months.³ This has led to calls to scale back the economic stimulus initiatives announced by the Government in October 2008 that will be progressively wound down over the forward estimates to 2011-12. The Senate referred this issue to the Economics References Committee on 8 September 2009. It initially asked the Committee to report by 2 October 2009. The Committee presented an *Interim Report* on 30 September 2009, requesting an extension of the reporting date to 27 October 2009.

1.4 The Senate's reference requested the Committee to invite the Secretary of the Treasury and the Reserve Bank Governor and other pre-eminent economists to appear with the goal of a full update on the economic stimulus initiatives, which addresses:

- (i) the efficacy of the spending measures to date,
- (ii) the anticipated costs and benefits of continuing the spending measures,
- (iii) consequent change in the stimulus 'roll out' that ought to be entertained given the changed economic circumstances,
- (iv) anticipated impact of the stimulus spending on future interest rate movements and taxpayer liabilities,
- (v) an evaluation of the environmental impacts of the spending to date, and
- (vi) other related matters.

1 IMF, *World Economic Outlook*, October 2009; Angus Maddison, *The World Economy: Historical Statistics*, OECD, 2003; Secretariat estimates.

2 See Chart 5.1 in Chapter 5.

3 See Table 5.1 in Chapter 5.

1.5 In a sense, this inquiry is a sequel to that by the Senate Finance and Public Administration Committee in February 2009.⁴

Conduct of the inquiry

1.6 The 18 submissions received by the committee are listed in Appendix 1.

1.7 The Committee held public hearings in Canberra on 21 September and 9 October and in Sydney on 28 September. As instructed by the Senate, the witnesses included the Secretary of the Treasury (on 9 October) and the Governor of the Reserve Bank of Australia (on 28 September). The Committee also heard from a number of academic economists and business representatives. A list of witnesses appearing before the Committee at the hearings is provided at Appendix 2.

1.8 The Committee thanks all those who participated in this inquiry, especially those witnesses who made themselves available at short notice.

Structure of the report

1.9 The composition of the stimulus packages is outlined in Chapter 2, with further details in Appendix 3. The arguments presented to the Committee about the merits of Keynesian discretionary fiscal policy are the subject of Chapter 3. Estimates of the impact of the fiscal stimulus packages are discussed in Chapter 4. Chapter 5 evaluates the arguments for scaling back (faster or further) the fiscal stimulus in light of the stronger economic outlook. Chapter 6 presents conclusions and a recommendation.

4 *Nation Building and Jobs Plan - Inquiry into the provisions of the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009 and 5 related bills*, 10 February 2009. (hereafter 'Nation Building Report'.)