

# Additional Comments by Senator Xenophon

## Introduction

- 1.1 This inquiry was established to examine the economic stimulus initiatives announced by the Government since October 2008, including the efficacy of the spending measures and their environmental impact, the costs and benefits of continuing the measures, whether changed economic circumstances warrant changes to the initiatives and their impact on interest rates and taxpayer liabilities.
- 1.2 Following the shock collapse of international investment bank, Lehman Brothers, in September 2008, the global economic outlook deteriorated sharply, with many nations, including Australia, implementing various form of fiscal initiatives to stimulate their economies.
- 1.3 On 14 October 2008, the Australian government announced the Economic Security Strategy, which included combined expenditure of \$10.4 billion through various cash payments, a boost to the First Home Owners grant and further investment through the National Building Funds.

This was further supplemented in November, when the Council of Australian Governments announced a \$15.2 billion COAG funding package to address housing, hospitals and education.

A further \$4.7 billion in stimulus expenditure – the National Building Plan - was announced in December 2008, followed by the \$42 billion stimulus package, the National Building and Jobs Plan, announced in February 2009.

In total, Treasury calculates that around \$79 billion in fiscal stimulus measures are "expected to impact on the economy over three years from 2008-09 through to 2010-11"<sup>1</sup>.

- 1.4 The package also included measures targeted at the Murray-Darling Basin in respect of accelerated water buybacks, funding for stormwater harvesting, funds for communities to cope with drought and climate change, as well as improved irrigation exit packages.

Given the importance of the Murray-Darling Basin to Australia's economy as a key food producing area, these measures were essential to assist and provide stimulus to that region.

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<sup>1</sup> Dr Ken Henry, *Proof Committee Hansard*, 09 October 2009, Pg 2

- 1.5 In comparison, the United States of America injected US\$789 billion into its economy, including \$507 billion in spending programs, with more than \$150 billion on public works projects for transportation, energy, and technology, and \$282 billion in tax relief.

Meanwhile, China and Germany proposed economic stimulus plans of US\$586 billion and \$40 billion, respectively; Canada proposed a plan worth about US\$24 billion; France unveiled a \$34 billion plan; and Singapore, a \$15 billion plan.

- 1.6 According to the OECD, Australia's fiscal package over the period 2008 to 2010 amounted to 4.6 percent of its 2008 GDP. Of the 30 OECD members, only the United States and Korea initiated larger fiscal stimulus packages.<sup>2</sup>

- 1.7 During the Committee hearings, it became apparent that there were two fields of thought regarding the need for and effectiveness of the economic stimulus.

Similarly, the key questions are whether the stimulus was necessary, or whether the markets would have rebounded naturally; and whether the stimulus was effective, or was it just a short-lived exercise which will have long-term consequences. And, finally, what should occur now that Australia's economy is improving?

### **Distribution of the economic stimulus**

- 1.8 One of the key queries around the effectiveness of the economic stimulus was whether, particularly, the \$900 voucher to individuals was spent, saved, or used to pay off debt.

In the quarter in which the payments were delivered, forty percent of respondents said that they spent the money they received from the household stimulus package.<sup>3</sup>

39.8 percent of respondents said they spent it on things other than bills or debts; 30.2 percent of respondents said they used it to pay bills such as utilities, medical and other services, and 18.7 percent said they saved it.<sup>4</sup>

The remainder used their stimulus to pay their credit cards, mortgage, invested it or didn't know where they spent it.<sup>5</sup>

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<sup>2</sup> OECD 2009, Pg 109-110

<sup>3</sup> Professor Andrew Leigh, *Submission 1*, Pg 4

<sup>4</sup> Professor Andrew Leigh, *Submission 1*, Pg 8

<sup>5</sup> Professor Andrew Leigh, *Submission 1*, Pg 8

- 1.9 While admittedly the economic situation in Taiwan was significantly different to Australia's in terms of the amount of their stimulus package, the government used a voucher redemption scheme whereby consumers were given shopping vouchers to encourage people to boost spending.

\$88.73 billion (Taiwan dollars) in vouchers were issued to the public between 18 January and 31 March 2009, for spending in the wholesale, retail and food and beverage services, and as of 20 April, more than 78.26 percent (\$65.53 billion) had been used by consumers and cashed by the businesses which received them.

\$30.4 billion (Taiwan dollars) in vouchers, or 46 percent of the stimulus initiative, were spent at general merchandise retail outlets.<sup>6</sup>

- 1.10 A voucher system was also called for by the Australian Retailers Association "to ensure any stimulus funds are injected back into the economy"<sup>7</sup>.

"Cash bonuses from the Federal Government will put economic recovery in the hands of Australian workers who are failing to respond to positive economic conditions at the moment. We are seeing a trend towards saving and paying off debt which is not a bad thing – but for any economic stimulus package to do its job funds must flow through the supply channels."<sup>8</sup>

- 1.11 Given the lack of certainty around how Australians used or spent their stimulus payment, it is difficult to assess its efficacy to boost spending.
- 1.12 According to Roy Morgan Research, consumer confidence in September 2008 was 101.2 and has continually fluctuated between then and current day, but with a steady rise since February 2009<sup>9</sup>, possibly as a result of the low interest rates and economic stimulus measures.

As at 22 October 2009, consumer confidence was 127.1.<sup>10</sup>

## Effects of the economic stimulus

- 1.13 From the second quarter of 2008 to the second quarter of 2009, the Australian economy grew by 0.6 percent. This is compared to an average contraction across OECD economies of 4.6 percent.<sup>11</sup>

<sup>6</sup> China Daily *Govt scheme helps ease drop of consumption*, 24 April 2009

<sup>7</sup> Australian Retailers Association, *Media Release: Retailers call for debit card stimulus to ensure funds flow*, 11 February 2009

<sup>8</sup> Australian Retailers Association, *Media Release: Retailers call for debit card stimulus to ensure funds flow*, 11 February 2009

<sup>9</sup> Roy Morgan research <http://www.roymorgan.com/news/polls/consumer-confidence.cfm>

<sup>10</sup> Roy Morgan Research, <http://www.roymorgan.com/news/polls/consumer-confidence.cfm>

Further, according to the International Monetary Fund, Australia will record modest growth of 0.7 per cent in 2009 and 2.0 per cent in 2010, making Australia will be the only advanced economy to record positive growth in 2009.

- 1.14 A private survey of consumer confidence in July 2009 recorded an increase of 9.3 percent on the previous this month, to reach a total a 109.4, meaning that those optimistic about the economy decisively outweighed the pessimists for the first time since December 2007.<sup>12</sup>
- 1.15 Unemployment was forecast to hit 8.5 percent as a result of the global economic crisis and, as at September 2009, it increased to 5.8 percent, up from 4.1 percent in August 2008, before the financial crisis.

It's been estimated that the economic stimulus 'saved' 150,000 to 200,000 people from losing their jobs.<sup>13</sup>

- 1.16 Professor Steven Kates from RMIT University stated during the Committee hearing that:

"I think in the short term the unemployment rate might have gone to 6.1 percent instead of 5.8 percent had there not been a stimulus. I think it has saved jobs. But I think that the cost of saving those jobs has been so disproportionate to any of the good that it will do that it is a tremendous policy mistake to have done this.

We can see now that everything has calmed down and we are moving towards a platform from which growth can occur. But within that we not have this unbelievably large debt that we are going to have to repay and we have higher interest rates than we otherwise would have had."<sup>14</sup>

- 1.17 Indeed, Australia's net foreign debt now stands at approximately \$200 billion dollars in 2013/14, with a gross debt of approximately \$300 billion, 13.8 per cent of GDP as a result of the economic stimulus packages implemented between October 2008 and February 2009.

## Looking ahead

- 1.18 The government has announced that a coordinated wind-back of stimulus measures by G20 nations will take place once Australia's economic growth returned to a trend level of 3 percent.
- 1.19 However, economist, Professor Ross Garnaut argues:

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<sup>11</sup> ACOSS, *Submission 2*, pg 1

<sup>12</sup> Westpac-Melbourne Institute Consumer Sentiment Index 2009

<sup>13</sup> OECD 2009, *Employment Outlook*

<sup>14</sup> Professor Steven Kates, *Proof Committee Hansard*, 21 September, Pg 9

"It was appropriate to have a big fiscal stimulus, so I don't fault the scale of the stimulus that was given. But once there are signs that the economy is recovering faster than had been anticipated, then it's appropriate to pull back that stimulus at a faster rate."<sup>15</sup>

- 1.20 Indeed, Secretary for the Department of the Treasury, Dr Ken Henry, admitted during the Senate Committee hearing that:

"We are beyond the period of peak impact of the fiscal stimulus. From that point, as stimulus is to be gradually withdrawn, the contribution to economic growth will subside and it will soon turn negative. Indeed, on our estimates, the fiscal stimulus package will make a negative contribution to GDP growth in every quarter in 2010..."<sup>16</sup>

- 1.21 Reserve Bank of Australia Governor, Mr Glenn Stevens agreed that the stimulus should be wound back, but said:

"I think it is a bit hard to claim that as of this moment there is too much growth in the economy. I have not had a serious problem with what has occurred on the fiscal front thus far. The presumption we are making is that things will be delivered and then wound back more or less on the schedule that is set out in the budget... I am not sure that I would say that that outlook is a terribly worrying outlook really. This has been a good episode for Australia. We have come through this well. We are in recovery now, I think. It is important that these measures be wound back over time, but they are on track to be so."<sup>17</sup>

- 1.22 However, Mr Stevens said he would not support further fiscal stimulus.

**Senator XENOPHON** — Going to your evidence before the House of Representatives Economics Committee on 14 August, you said, 'I am not terribly worried that there was too much fiscal stimulus.' You went on to say:

"If someone wanted to make the argument that there is a need for more fiscal stimulus from here, I do not think I would agree with that, based on the outlook as we see it, anyway."

That was 44 days ago. There are newspaper headlines today saying that there is going to be a \$10 billion turnaround in terms of the budget deficit. There have been a number of economic indicators since that time. Has your level of worry or otherwise changed since you made that statement before the House of Representatives committee?

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<sup>15</sup> ABC, *The 7:30 Report: Professor Ross Garnaut*, 12 October 2009

<sup>16</sup> Dr Ken Henry, *Proof Committee Hansard*, 9 October 2009, Pg 3

<sup>17</sup> Mr Glenn Stevens, *Proof Committee Hansard*, 28 September 2009, Pg 7

**Mr Stevens**—What I was saying then was that the measures that have been implemented and that were in prospect on the plan that was set out earlier by the government is built into the outlook. I was not troubled by that outlook. In fact, I think that it is a rather pleasing one, because it is an economy that has had a pretty shallow downturn and has reasonable prospects for recovery. What I was saying was that if someone came up with a whole lot of new plans now to do more, I do not think that I would agree with that. I still would not. That is what I was saying.<sup>18</sup>

- 1.23 Indeed, Professor Garnaut warns that once people come to expect the government to intervene in the economy, it becomes hard to stop doing so.

"...entrenching rationalisations for much more widespread state intervention in markets. This would impose persistent high costs on the integrity of our democracy as well as on our market economy."

"Such attitudes are creating a generalised justification for increased government intervention in the economy."<sup>19</sup>

## Conclusion

- 1.24 In many ways, the full extent of the effectiveness of the government's stimulus measures, in particular the \$900 cash handouts to households, will be difficult to precisely quantify, as it occurred simultaneously with low interest rates.

Further how the money was spent is not clear – whether the actual \$900 was used in retail or whether it provided families with a buffer to have extra spending money at a later stage. However, it was clearly a factor in bolstering consumer confidence.

- 1.25 More importantly, and given Australia's current positive economic outlook, focus needs to be given to an exit strategy to reduce inflationary pressures and ensure interest rates do not rise unnecessarily.

## Recommendations

### Recommendation 1

**That the government advise the Committee its plans and timeline for a scale back of economic stimulus measures, with and/or without a coordinated approach by G20 nations. Further, that the Government advise what consultation will occur to prepare a clear and effective exit strategy.**

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<sup>18</sup> Mr Glenn Stevens, *Proof Committee Hansard*, 28 September 2009, Pg 19

<sup>19</sup> Weekend Australian, *Garnaut cool on stimulus*, 10 October 2009

**Recommendation 2**

**Further to the Committee's majority report, that an urgent independent report is conducted, it is recommended that this report include review of the method in which household stimulus incentives are distributed, with a view to assess future options to distribute funds, if needed, via a debit card or voucher system.**

A handwritten signature in black ink, appearing to read 'Nick Xenophon', with a long horizontal flourish extending to the right.

**NICK XENOPHON**  
**Independent Senator for South Australia**

