The Senate

Standing Committee on Finance and Public Administration

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

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CHAPTER 1

Introduction

1.1 On 5 February 2009, the Senate referred the provisions of the following bills to the Finance and Public Administration Committee for inquiry and report by 10 February 2009:

- Appropriation (Nation Building and Jobs) Bill (No.1) 2008–2009
- Appropriation (Nation Building and Jobs) Bill (No.2) 2008–2009
- Household Stimulus Package Bill 2009
- Commonwealth Inscribed Stock Amendment Bill 2009
- Tax Bonus for Working Australians Bill 2009
- Tax Bonus for Working Australians (Consequential Amendments) Bill 2009.

1.2 On the same day, the Senate also referred the provisions of the Appropriation (Nation Building and Jobs) Bill (No.2) 2008–2009 relating to the social housing program to the Community Affairs Committee.

Conduct of the Inquiry

1.3 Details of the inquiry, the bills, and associated documents were placed on the Committee's website. As of Monday, 9 February 2009, the Committee had received 29 submissions which are listed in Appendix 1. Appendix 1 also lists additional information received by the Committee. Submissions were placed on the Committee's website for ease of access by the public.

1.4 In referring the provisions of the bills to the Committee, the Senate directed the Committee to hold hearings on 5 February, 6 February and 9 February 2009 respectively. A list of witnesses who appeared at the hearings is at Appendix 2.

1.5 The Committee thanks those departments, organisations and individuals who gave evidence at the hearings at very short notice for their cooperation and willingness to do so. The Committee is also grateful to those organisations and individuals who made submissions within the tight timeframe.

1.6 The Committee would also like to thank the Department of Parliamentary Services for producing the proof Hansard Transcripts in a very short time.

Context of the Inquiry

1.7 Australia faces an unprecedented global financial crisis as the majority of countries go into recession. The massive collapse of the United States subprime mortgage market has plunged the global economy into crisis. There is a major downturn in world trade which has led to a slump in consumer and business confidence. Australia is not immune to the crisis. The Government must act decisively to protect the national interest by strengthening the economy in order to protect the financial security of Australian families and businesses.

1.8 The International Monetary Fund's (IMF) October 2008 *World Economic Outlook* described the world economy thus:

> The world economy is entering a major downturn in the face of the most dangerous financial shock in mature financial markets since the 1930s…The situation is exceptionally uncertain and subject to considerable downside risks. The immediate policy challenge is to stabilize financial conditions, while nursing economies through a period of slow activity and keeping inflation under control.[1]

1.9 Dr Ken Henry, Secretary of the Treasury gave his assessment:

> My assessment is that the weakness in aggregate demand that we are confronting in Australian economy calls for both very substantial reductions in interest rates and very substantial fiscal stimulus. I think it is the case that—well, it is certainly the case—that these two arms of policy are working in the same direction and complementing one another. If your question was whether these measures were complements or substitutes, my answer is that they are complements.[2]

1.10 Mr Klaus Schmitt-Hebbel, Chief Economist of the Organisation for Economic Coordination and Development, stated that 'in normal times, monetary rather than fiscal policy would be the instrument of choice for macroeconomic stabilisation. But these are not normal times' and that central banks should also cut rates further.[3]

1.11 Mr Greg Evans, Australian Chamber of Commerce and Industry (ACCI), also commented:

> ACCI strongly supports the government's stimulus package and its attempt to lift aggregate demand across the economy. Such is the scope of our current economic difficulties that this package, combined with monetary easing, is absolutely essential. The size of the package at two per cent of GDP in 2009 is appropriate and in line with our own estimate of what is required.[4]

1.12 Anglicare Australia, Catholic Social Services Australia, The Salvation Army and UnitingCare Australia, in an issues paper on the impact of the global financial crisis on social services in Australia, noted that:

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1 International Monetary Fund, *World Economic Outlook*, October 2008, p.xv, http://www.imf.org/external/pubs/ft/weo/2008/02/pdf/text.pdf (Accessed 7.02.09).

2 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.13.

3 Mr Klaus Schmitt-Hebbel, Chief Economist of the Organisation for Economic Coordination and Development, 'A Long Recession: Managing the global financial crisis and economic downturn', *OECD* Observer, no 270-271, Dec 2008-Jan2009.

4 Mr Greg Evans, ACCI, *Committee Hansard*, 9.2.09, p.4.

> Some sectors in the financial markets have shut down altogether and others are simply dysfunctional. The capital markets, where financial intermediaries and companies borrow money to fund their investments and, increasingly, their day-to-day running costs, are most notably affected. Risk premiums demanded by lenders have jumped and even creditworthy borrowers are having trouble obtaining sufficient funds. All companies and households are affected.[5]

1.13 The Mid Year Economic and Fiscal Outlook 2008-09 (MYEFO) released by the Treasurer and the Minister for Finance and Deregulation on 5 November 2008 commented that the global financial crisis had 'entered a new and dangerous phase'. While Australia was better placed than most other countries to withstand the fallout, it 'was not immune from the effects of the global financial crisis and the global downturn'.[6]

1.14 In response, the Australian Government took action to strengthen the economy and support Australians including the $10.4 billion Economic Security Strategy (ESS), a $300 million program to build local community infrastructure, a $15.2 billion Council of Australian Governments (COAG) funding package and the Nation Building Package announced in December 2008.[7]

1.15 On 3 February 2009, the Updated Economic and Fiscal Outlook (UEFO) was released. The UEFO noted that the outlook for the global economy had deteriorated sharply since the MYEFO, with the IMF cutting its forecast for global growth and now forecasting a deep global recession.[8]

1.16 In relation to the Australian economy, it was stated that 'the weight of the global recession is now bearing down on the Australian economy. Growth is expected to be significantly weaker than previously anticipated and unemployment will be higher.'[9] In addition, the sharp fall in global commodity prices is compounding the impact on Australia.[10]

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5 Anglicare Australia, Catholic Social Services Australia, The Salvation Army and UnitingCare Australia, *Submission 5*, p.6.

6 The Hon. Wayne Swan, MP, Treasurer and the Hon Lindsay Tanner, MP, Minister for Finance and Deregulation, *Mid Year Economic and Fiscal Outlook 2008-09*, 2008, p.1. http://www.budget.gov.au/2008-09/content/myefo/html/index.htm (Accesed 7.02.09)

7 The Hon. Kevin Rudd, Prime Minister of Australia, *$42 billion nation building and jobs plan*, Media release, 3 February 2009, p.2.

8 The Hon. Wayne Swan, MP, Treasurer and the Hon Lindsay Tanner, MP, Minister for Finance and Deregulation, *Updated Economic and Fiscal Outlook 2008-09*, 2009, p.1. http://www.budget.gov.au/2008-09/content/uefo/html/index.htm

9 UEFO, p.1.

10 UEFO, p.12.

1.17 On 3 February 2009, the Australian Government announced a $42 billion Nation Building and Jobs Plan (the plan) over 4 years to provide immediate support for jobs and growth. In the UEFO it was stated that:

> Without this significant and timely policy stimulus, Australia would face a more severe slowdown than forecast. With the Nation Building and Jobs Plan, economic growth is only expected to slow to 1 per cent in 2008-09 and ¾ of a per cent in 2009-10. With slower growth, the unemployment rate is forecast to rise to 7 per cent by June 2010.
>
> The Nation Building and Jobs Plan has been crafted to strike the right balance between supporting growth and jobs now, and delivering the lasting investments needed to strengthen the economy for the future.[11]

And:

> Doing nothing is not an option. It is becoming increasingly apparent that, while still important, monetary policy action alone will not be sufficient to restore growth in demand within a reasonable time period. The Government's swift action ensures that fiscal policy, along with monetary policy, is clearly targeted at supporting economic growth and jobs.[12]

1.18 Key measures of the plan highlighted by the Government include:

- free ceiling insulation for around 2.7 million Australian homes;
- build or upgrade a building in every one of Australia's 9,540 schools;
- build more than 20,000 new social and defence homes;
- $950 one-off cash payments to eligible families, single workers, students, drought affected farmers and others;
- a temporary business investment tax break for small and general businesses buying eligible assets; and
- significant increase in funding for local community infrastructure and local road projects.[13]

1.19 The following day, the six bills were introduced in the House of Representatives to implement the plan, the objective of which is to 'support jobs and invest in future long term economic growth':

> By investing in jobs and long term economic growth the Plan strikes the right balance between immediate support for jobs now, and delivering the long term investments needed to strengthen future economic growth.[14]

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11 UEFO, p.1.

12 UEFO, p.9.

13 The Hon. Kevin Rudd, Prime Minister of Australia, *$42 billion nation building and jobs plan*, Media release, 3 February 2009, p.1.

Key Issues

1.20 A number of concerns and questions were raised during the course of the inquiry in relation to the Nation Building and Jobs Plan bills including:

- Australia's position in the current financial crisis;
- the size of the plan and the choice of measures;
- the multiplier effect of the plan's measures;
- the implementation lag;
- the employment effects;
- the proposed increase in the borrowing limit governing the issue of Commonwealth Government Securities; and
- the effectiveness of cash payments as opposed to tax cuts.

1.21 The proposed increase in the borrowing limit governing the issue of Commonwealth Government Securities and the effectiveness of cash payments as opposed to tax cuts are discussed in Chapters 4 and 5 respectively.

Australia's position in the current financial crisis

1.22 Dr Ken Henry provided the Committee with an overview of the prospects for the global economy:

> At the time that the 2008-09 budget was released the International Monetary Fund was forecasting world growth for 2009 of four per cent. Less than nine months later the IMF is now forecasting world growth of about one half of one percentage point. That is a very substantial deterioration in forecast growth. It is the largest downward revision to forecast growth by the IMF that I can recall. Certainly it would be the largest since the Second World War…so in that sense the global circumstances confronting Australia are simply unprecedented.
>
> There are other respects in which circumstances confronting Australia are unprecedented. The forecast growth for our major trading partners is as weak as we have seen quite possibly since the 1930s. Virtually all of the countries that we regard as our major trading partners, when we talk about our major trading partners in an economic sense, are growing at well below trend rates of growth. Most of them are projected by the IMF to be in recession in 2009. Many of them, indeed, are already in recession and have been for some period of time.[15]

1.23 Dr Henry also commented on the Australian economy:

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14 The Hon. Kevin Rudd, Prime Minister of Australia, *$42 billion nation building and jobs plan*, Media release, 3 February 2009, p.1. http://www.pm.gov.au/media/Release/2009/media_release_0784.cfm, (Accessed 7.2.09)

15 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.7.

> It remains the case that, on our assessment and on the assessments of the International Monetary Fund and the OECD, Australia's macroeconomic performance is relatively strong both in respect of actual performance and forecast performance.[16]

1.24 Dr Henry went on to comment that Australia's performance is due to very careful management of the Australian economy over a long period of time with respect to both macroeconomic policy and microeconomic reform; effective regulation of the financial system; and the benefits which have flowed from the run-up in commodity prices that accelerated at the end of 2003. Dr Henry concluded:

> So there are a whole range of reasons why Australia's relative economic performance is still quite good, but in an absolute sense the economic prospects confronting the Australian economy have obviously deteriorated very substantially.[17]

1.25 UEFO provided a forecast of gross domestic product (GDP) of one percentage point in 2008-9 as compared to real GDP growth in 2007-08 of 3¾ percentage points. The forecast for 2008-09 takes into account 'the very considerable loosening in monetary policy that has occurred, the significant depreciation in the Australian dollar that has occurred, the October macroeconomic stimulus package and, of course, this macroeconomic stimulus package' and 'is well below trend growth for the Australian economy and which explains fully why, in our forecasts, we have the unemployment rate increasing'. Dr Henry noted that in 2009-10, the forecast is for 'even weaker gross domestic product growth of only three-quarters of one percentage point'.[18]

1.26 Dr Henry continued:

> If one compares the outlook for Australia with the outlook for the rest of the industrialised world, ours is in some respects a pleasing outlook. The rest of the industrialised world taken together is forecast by the International Monetary Fund to go backwards in 2009. But in other respects, and certainly relative to Australia's trend rate of growth, the figures in the UEFO have to be regarded as very weak.[19]

1.27 Dr Henry concluded that 'these are highly unusual circumstances and we have advised government…that there is a need for fiscal policy action and that it is quite urgent'.[20]

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16 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.7.

17 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.7.

18 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.7.

19 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.8.

20 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.15.

Size of the Nation Building and Jobs Plan

1.28 Given the size of the package, concerns were raised during the inquiry that the plan was too substantial or should have been staggered over a longer period of time.[21]

1.29 The UEFO stated that:

> The Nation Building and Jobs Plan is intentionally large — it reflects the seriousness of the challenges being faced and the need to build a strong economy for the future. By avoiding measures that lock in long-term spending, the Government is well-positioned to take action to begin to return the budget to surplus as soon as the economy starts to recover.[22]

1.30 The Australia Institute put the plan's size into the international context:

> While in absolute terms the $42 billion package (over 2.3 years) is very large, it is less than two per cent of GDP in 2009 and 2010. It is important to view projected government deficits in relation to both the size of the Australian economy (the total deficit is 2.8 per cent of Australia's $1.2 trillion GDP in 2009–10) and the size of the fiscal deficits in the US (eight per cent) and the UK (8.5 per cent). Most EU member countries will also have deficits well in excess of three per cent of GDP due to the adoption of stimulus packages and the average for advanced economies in 2009 is seven per cent.[23]

1.31 Similarly, Mr Greg Evans of the Australian Chamber of Commerce and Industry noted:

> In looking at this issue, we reviewed what was happening internationally and the size of various fiscal packages. We looked at the UK and the USA, which are partly analogous, although the depth of their economic decline has certainly been a lot greater than ours. Indeed, their fiscal stimuli has been greater than ours. So we thought, on balance, around two per cent of GDP was appropriate and, in 2009, that is basically what this package delivers.[24]

1.32 The Committee heard evidence from a number of economists who provided a range of views to the Committee.

1.33 In response to questions as to why the package was substantial when Australia is in a much better financial position in comparison to other countries Mr David Tune, Department of the Prime Minister and Cabinet, stated that:

> I guess it is a matter of trying to think forward. The objective of the package is to get in ahead of the game, in a sense. Looking at the

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21 See for example D. Tones, *Submission 7*, p.1.

22 UEFO, p.17.

23 The Australia Institute, *Submission 6*, p.1.

24 Mr G Evans, Australian Chamber of Commerce and Industry, *Committee Hansard*, 9.2.09, p.8.

> projections that the Treasury had produced on where they thought the Australian economy was going, the view was taken that it would be sensible to get in ahead rather than wait and see what actually happens. Those forecasts may or may not turn out to be correct; we will see. But, based on the best information that was available to us in the department, that was the basis of the advice that we were giving to the government around that time in conjunction with the other central agencies. Really, it is a question of whether you wait and see or whether you get in ahead of the game. On this occasion, the government obviously decided to get in ahead of the game.
>
> The size of the fiscal stimulus and the period of time over which it occurs are also very important here. If you take into account what the government did in December last year in the ESS, the economic stimulus package, and what is being done in the current package, you are probably looking at up around three per cent of GDP. It is in line with the sorts of averages there in other countries that you have been talking about. I think it is really a matter of trying to act in advance of need. It is preventative to a large extent.[25]

1.34 Mr Tune also noted that most advanced countries are doing 'fairly substantial fiscal stimulus programs at the moment'. The IMF recommendation or view is that fiscal stimulus should be at least two per cent in calendar year 2009, which is around the figure of Australia's package.[26]

1.35 Officials were questioned as to whether a smaller package, $12 billion or $21 billion, would not have achieved the same outcome. In response, Treasury Secretary, Dr Ken Henry stated that the proposed $42 billion plan would result in GDP growth whereas a smaller plan may well leave GDP contracting in 2009–10:

> … we estimate that as a result of this package…GDP growth will be around half a per cent higher in 2008-09 and around ¾ to one per cent higher in 2009-10. It follows, I think, that a smaller package, even a smaller package with the same profile, would contribute smaller amounts to GDP growth in 2008-09, and with a package that had the same profile and the same composition as this package—I know those are two big qualifications—but that had a lower level, a lower aggregate amount, there would be some point at which GDP growth in 2009-10 in particular might well have been negative.[27]

1.36 On the other hand, doubling the package amount would not necessarily result in a doubling of the impact on GDP. Dr Henry also commented that 'one would have to start worrying about the capacity issues':

> As I indicated, this particular package takes account of judgements that we and Finance have made about the capacity of the economy to, if you like,

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25 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.26.

26 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09.

27 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.090, p.28.

> digest these programs. If these programs, for example, were to be doubled, maybe we would make different judgements about the capacity of the economy to digest those programs in that same time profile. I suspect we would and for that reason we should not expect the multipliers to be constant. Therefore, you should not expect a linear impact.[28]

Government's Balance Sheet

1.37 A number of senators raised questions about the impact of borrowing on the Government’s balance sheet. The Government will need to borrow to fund the Nation Building and Jobs Plan to support the economy and jobs. However, the Government's balance sheet remains in sound shape, particularly when compared to other comparable economies.

1.38 As economist Mr Saul Eslake, stated 'the levels of public debt projected in the Updated Economic and Fiscal Outlook are not excessive or alarming by either Australian historical or international standard'.[29]

1.39 The UEFO forecasts that general government net debt will rise to 5.2 per cent of GDP in 2011-12. This is around the average net debt levels that have prevailed over the past three decades and compares to an average net debt across OECD member countries of more than 45 per cent of GDP.

Composition of the package

1.40 The UEFO provided a chart showing the projected impact of the package on aggregate demand as well as the relative contributions of earlier stimulus measures.[30]

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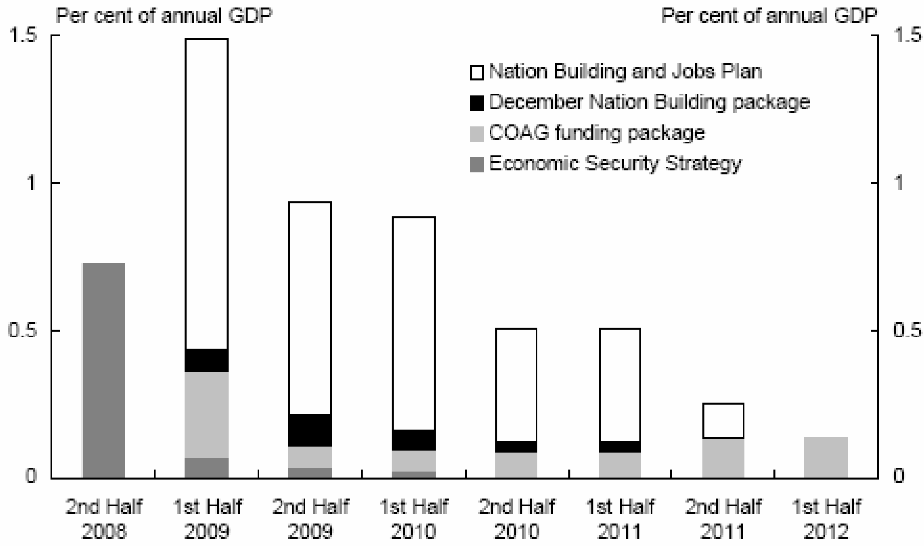
28 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.29.

29 Mr Saul Eslake, *Committee Hansard*, 9.2.09, p.37.

30 UEFO, p.11.

Chart 2.1 shows the fiscal stimulus package provided by the Australian Government.

Chart 2.1: Fiscal stimulus packages delivered by the Australian Government[(a)]



(a) Impact on underlying cash balance as a per cent of annual nominal GDP.
Source: Treasury.

1.41 The UEFO stated that as a result of the plan, GDP growth will be around half per cent higher in 2008-9 and around three-quarters to one per cent higher in 2009-10.[31]

1.42 There was considerable discussion during the inquiry concerning the composition of the package. This went to the use of a tax bonus instead of tax cuts (this is discussed in chapter 5) and the balance between the various elements of the plan, including the timing of the impact.

1.43 Dr David Gruen, The Treasury, commented on the way in which the plan has been framed:

> We are in a very unusual situation, which is that Australia is suffering from insufficient aggregate demand for the whole economy. So the package has been framed with the thought in the backs of our minds that it is important to come up with spending plans that will deliver stimulus to the economy quickly—let us say over 2009 and perhaps into 2010. That is based on a current assessment of what we think is the nature of the global recession; namely, we think it is deeper, and will be longer, than we thought several months ago. So we are focused on spending that will have a material effect on demand within the economy over that sort of time frame. In assessing the spending in this package, an important criterion is spending that will actually have an impact on the economy relatively quickly, because that is the nature of the problem that we are facing.[32]

31 UEFO, p.17.

32 Dr D Gruen, The Treasury, *Committee Hansard,* 5.2.09, p.11.

1.44 Dr Henry reinforced the need for the plan to address immediate problems:

> The problem we are dealing with at the moment…is that we are in very unusual circumstances, quite unlike the circumstances we have been in the last 10 years, in which the aggregate demand in the Australian economy is about to fall dramatically below potential gross domestic product. This package is about trying to minimise the extent to which aggregate demand falls below potential gross domestic product. The reason for that is that… if aggregate demand falls markedly below the potential level of gross domestic product, then so too will the actual output in the Australian economy fall markedly below its potential, and many people will end up unemployed.[33]

And:

> The thinking that informed the development of this package was that the current calendar year, 2009, is likely to be in the absence of any fiscal stimulus a particularly weak year and to some extent also 2010. These are the key years. That is true globally. You can see that in the IMF's forecasts for world growth. Particularly 2009 is anticipated to be the weak year but with some risk on 2010. So the advice that we provided to government was that it would be appropriate to have a fiscal stimulus which in calendar year 2009 was at least, at a bare minimum, one percentage point of GDP and considerably more than that if it were feasible to develop a package that would have that impact on government spending in calendar year 2009 with some amount being spent in 2010. I guess it was that thinking about the shape of the package which ultimately determined the size of its budgetary cost in each year and its profile.[34]

1.45 This point was also noted by Mr David Tune, Department of the Prime Minister and Cabinet:

> The key focus was to try and get immediate stimulus. That is what it is about, and that is why there was a mix there of cash payments, including a tax offset, and infrastructure—mainly community infrastructure because it is very fast to get going. The whole intent of this package is to try and get stimulus during the course of 2009.[35]

1.46 Table 2.1 of the UEFO provides the key components of the plan and impact for the years 2008-09 to 2011-12. The impact of the capital projects lifts after 2009-10 while direct payments to families have an immediate impact. The implementation lag is shorter for direct transfer payments to households and longer for direct government spending.

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33 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, pp 18–19.

34 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.25.

35 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.31.

Table 2.1: Key components of the Nation Building and Jobs Plan

	Underlying cash balance impact				
	2008-09	2009-10	2010-11	2011-12	Total
Building prosperity for the future					
Building the Education Revolution	-987	-8,624	-5,109	0	**-14,720**
20,000 Social and Defence Homes	-260	-4,274	-1,794	-312	**-6,640**
Energy Efficient Homes	-39	-1,540	-1,544	-736	**-3,859**
Small Business and General Business Tax Break	0	-840	-1,350	-515	**-2,705**
Black Spots, Boom Gates and Community Infrastructure	-480	-410	0	0	**-890**
Sub-total	**-1,766**	**-15,687**	**-9,797**	**-1,563**	**-28,813**
Supporting jobs now					
Tax Bonus for Working Australians	-6,950	-1,201	0	0	**-8,151**
Single-income Family Bonus	-1,273	-147	0	0	**-1,420**
Farmer's Hardship Bonus	-20	0	0	0	**-20**
Back to School Bonus	-2,347	-271	0	0	**-2,618**
Training and Learning Bonus	-413	-98	0	0	**-511**
Sub-total	**-11,004**	**-1,717**	**0**	**0**	**-12,721**
Total Stimulus Package	**-12,770**	**-17,404**	**-9,797**	**-1,563**	**-41,534**

1.47 Dr Ian Watt, Secretary of the Department of Finance and Deregulation, commented on the table and stated that:

> The top group is the direct government spending. As you can see, very little direct government spending occurs in 2008-09. With the best will in the world, with the fastest-acting infrastructure, capital or repair and maintenance programs that we could find, it was still extremely difficult to spend much money in the next five months.
>
> …
>
> As you can see in the bottom panel on that table, the direct payments to families and individuals impact on 2008-09 disproportionately by comparison. So they give you the relatively rapid stimulus in 2008-09. The capital projects, the repairs and maintenance projects, pick up steam through 2009-10.[36]

1.48 Dr Henry also explained:

> The implementation lag is somewhat shorter for direct transfer payments to households and somewhat longer for direct government spending. So if one were to decide that on this occasion one was going to reserve for a future period any decisions about measures impacting in, let us say, 2009-10, for example, then when one came to make those decisions, one would be confronting precisely this problem again. The problem with sequential decision making is that it will never prove efficacious to deciding to undertake activities that have an implementation lag longer than the period of time between the two decision making points.[37]

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36 Dr I Watt, Department of Finance and Deregulation, *Committee Hansard*, 5.2.09, p.12; see also Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, p.19.

37 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p. 25.

1.49 In answer to questions on why there was a need to implement the plan in one stage, rather than some parts at a later time if required, Dr Henry commented:

> Were decisions not taken now, very little of the impact that you see in 2009-10 would be there. So if you want to have a fiscal impact in 2009-10 and you want that fiscal impact to be through direct government spending—the measures which are in the top part of this table—then you have to take the decisions now. If you leave it for another 12 months, for example, you will not be able to have an impact in 2009-10 in respect of those measures. Well, you will not be able to have much of an impact. The earliest you will be able to have much of an impact will be 2010-11 and so on. You will be continually pushing out for about a year the time at which those measures would have an impact on the economy. There is an inevitable implementation lag. Is that sufficiently clear—an inevitable implementation lag. You have to take the decision and you have to be prepared to live with the implementation lag.[38]

1.50 A number of Senators raised the question of whether cash vouchers would be a more effective means of ensuring immediate cash flow into the economy as opposed to one-off cash bonuses.

1.51 In response, Dr Henry stated:

> I am just trying to illustrate why there is a difficulty with the voucher proposal—then surely a household that could only access the $950 through a voucher arrangement would simply spend that $950 and reduce spending by an equivalent amount elsewhere in their income. That is, if you thought that the whole $950 was going to be saved unless you had a voucher mechanism then surely what the household would do is take the voucher, spend all the money and save another $950 part of their income. To put it another way, money is fungible.[39]

1.52 Treasury officials were questioned on the choice of measures in the plan, particularly in relation to infrastructure projects including why infrastructure projects that would overcome bottlenecks for the export industry and spending on the Murray-Darling Basin were not included while spending has been directed to assembly halls and sports centres. In response, Dr Henry highlighted that such projects would not enable prompt infrastructure expenditure required to address the deficiency of aggregate demand which the plan was specifically designed to address.[40] He further noted that:

> I think rather the issue is: in dealing with the very rapid decline in aggregate demand that we have in our forecasts, can that form of infrastructure spending be brought online in a sufficiently timely fashion that it can impact on aggregate demand now? Those infrastructure bottlenecks are

38 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.25.

39 Dr K Henry, The Treasury, *Committee Hansard*, 9.2.09, p.53.

40 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.14.

> worth addressing, no matter what the macroeconomic circumstances are that Australia is confronting. They should be judged on their merits as supply enhancement initiatives. The government's consideration of those things, in my view—and this is advice I would tender to any government—should not be affected by the state of the macroeconomy. But those projects do not tend to be the sorts of projects that can be brought on stream very, very quickly in order to address a very rapid decline in aggregate demand. They tend not to be of that nature.[41]

1.53 Dr Henry made similar comments in relation to other infrastructure projects raised in the evidence.[42] Dr Henry also addressed the notion that there is 'a very large volume of supply enhancing infrastructure projects out there on which government expenditure could be undertaken tomorrow'. He commented that that is not the case: 'It is obviously the case that there is a lot of infrastructure spending that is being undertaken, but could that be doubled, tripled or quadrupled overnight? No, I do not think it could be'.[43]

The multiplier effect of the plan's measures

1.54 Questions were raised during the inquiry as to the rationale of the combination of measures proposed under the plan and the strength of the multiplier effect of such measures.[44] The Treasury indicated that the multiplier would be a half to one, but there was uncertainty about the magnitude.[45] Dr Gruen stated:

> …our estimate of the fiscal multiplier is something like a half to one, as in spending to GDP. We would like to be more precise than that, but if you look at the literature, including papers produced by the IMF, that is exactly the sort of range that people quote. We do not have these numbers to the degree of precision that we or anyone else would like. We have estimates with a range of the order of half to one for the multiplier.[46]

1.55 Dr Gruen continued:

> We can make a broad comment on that which is that…we think it is reasonable to expect that the multiplier on infrastructure spending is likely to be higher than the multiplier on one-off payments to individuals. The reason is that, if you spend a dollar, you have already put a dollar into the economy whereas, if you hand a dollar over to someone, they may save part

41 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.13.

42 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.18.

43 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.19.

44 For a discussion of multiplier effects see, *Nation Building and Jobs Plan – Interim Bills Digest*, Parliamentary Library, 6 February 2009, no 92, 2008-09.

45 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.11.

46 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.16.

> of that dollar. You probably get a larger multiplier for infrastructure spending.[47]

1.56 Dr Henry noted that leakages, such as to savings and spending on imports, occur and detract from the direct impact of the measure:

> The bit that goes overseas is an income leakage. But the bit that goes to Australian households, like the wages and salaries that go to Australian households, some of it will be saved and some of it they will bring back into the retail sector and you get that multiplier process.[48]

Employment effects

1.57 Treasury officials noted that when economic growth is forecast to be below trend, the unemployment rate is forecast to rise. The UEFO states that the plan will help 'support and sustain' up to 90,000 jobs over the next two years but 'notwithstanding the solid boost provided by the fiscal stimulus, the unemployment rate is forecast to reach 7 per cent by June 2010'.[49]

1.58 Treasury indicated that the figure of 90,000 was based on 'an estimate of how much we think the package will raise GDP and then from there we use an employment equation to give us an estimate of what increase in employment that will lead to, relative to not doing it'.[50] Dr Henry commented:

> …to the extent that one can minimise the number of people losing a job, the better the prospects are of those people going forward being able to find a job—that is, the greater the extent to which one can minimise the number of people who lose a job, the smaller the period of time for which those people might find themselves out of work.[51]

1.59 Dr Henry concluded that the 'biggest risk to unemployment in Australia is the deficiency of aggregate demand emerging'.[52] The plan is aimed at increasing aggregate demand which will impact positively on employment. Mr Tune also commented that:

> This package does protect jobs; there are no two ways about it—it supports jobs. There are issues there about other people who will lose jobs. Yes, that is what happens in these sorts of situations. The existing income support system is there to assist those people. The Job Network is there to assist those people. Both those programs are demand driven, so there is no dollar constraints on whether people can gain access to those payments or gain

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47 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.41.

48 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p. 24.

49 UEFO, p.6; see also Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.22.

50 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.16.

51 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.22.

52 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.23.

> access to the services of the Job Network. So all of those things are there. The Prime Minister said yesterday that in conjunction with the states he would like to work through what more can be done in those particular areas. So that is an issue under active consideration at the moment.[53]

1.60 In response to concerns raised about a rise in unemployment, Mr Grant Belchamber of the Australian Council of Trade Unions (ACTU) stated:

> The package as a whole is directed at supporting economic activity and avoiding the increase in unemployment that would otherwise occur. The cash payments are at the front end of the package, with the infrastructure spending to follow on from them. We think both parts are absolutely critical in assisting currently unemployed Australians to find work and in preventing job losses amongst currently employed Australians. On the whole, the package delivers substantially in the interests of unemployed Australians and those employed in firms that find the going tough over the coming year.[54]

1.61 Mr Frank Quinlan representing major Church providers noted of the plan:

> The Rudd Government's Nation Building and Jobs Plan is not designed as a rescue package for the community sector or for unemployed people. It is a rescue package for the nation as a whole which focuses on creating and maintaining jobs.[55]

1.62 Whilst Ms Hatfield Dodds of the Australian Council of Social Service (ACOSS) raised concerns about assistance to the unemployed, she stated that ACOSS supports the plan for seeking to 'prevent unemployment from rising even more rapidly'.[56]

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53 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 5.2.09, p.38.

54 Mr G Belchamber, ACTU, *Committee Hansard*, 9.2.09, p.15.

55 Mr F Quinlan, Major Church Providers of Social Services in Australia, *Opening Statement*, pp2–3, Tabled 9.2.09.

56 Ms L Hatfield Dodds, ACOSS, *Committee Hansard*, 9.2.09, p.21.

CHAPTER 2

Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009 and Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009

Purpose of the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009

2.1 The primary purpose of the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009 is to propose appropriations from the Consolidated Revenue Fund for the ordinary annual services of the Government in relation to the Government's Nation Building and Jobs Plan.

2.2 The bill appropriates a total of $89 million, comprising $39 million to the Department of Environment, Water, Heritage and the Arts for energy efficiency measures and $50 million to the Australian Taxation Office to administer the Tax Bonus for Working Australians component of the Government's economic stimulus package.

2.3 The bill gives effect to the Energy Efficient Homes program component of the Nation Building and Jobs Plan. Under this program, which will run from 1 July 2009 until 31 December 2011, the Government will offer to install ceiling insulation of up to $1600 in value in all uninsulated owner-occupied homes. According to the Minister's second reading speech, this will invest $2.7 billion in housing modernisation by the end of 2011 and result in the insulation of almost all Australian homes.

2.4 As a further part of the Energy Efficient Homes program, the bill also enhances two existing energy efficiency programs:

- under the Low Emissions Plan for Renters, there will be an increase in the maximum rebate (from $500 to $1000) until 30 June 2011 for landlords installing insulation in an uncapped number of rental homes. The Government will provide additional funding of $612.5 million under this new arrangement; and
- it is proposed to increase—from $1000 to $1600—the Solar Hot Water Rebate for those households that do not access the insulation program and that replace existing electric hot water systems with a solar and heat pump hot water system before 30 June 2012. There will no longer be a means test limiting access to this rebate. Additional funding for this program is $507 million.

2.5 In his second reading speech, the Minister highlighted a dual policy purpose to these programs of targeting climate change and supporting jobs:

> The Energy Efficient Homes program will see an additional $3.9 billion invested in the fight against climate change and delivers on the Government's household energy efficiency commitments in the Carbon Pollution Reduction Scheme White Paper.
>
> …
>
> This investment in energy efficiency will modernise Australia's existing housing stock and contribute to meeting Australia's 2020 target for emissions reductions.
>
> In addition to long-term environmental benefits, this package supports the jobs of tradespeople and other workers employed in the manufacturing, distribution and installation of ceiling insulation and solar and heat pump hot water systems.[1]

2.6 The bill also contains enabling funding to ensure timely delivery of one-off tax bonus payments to working Australians.

Outline of the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009 Bill

Part 1—Preliminary

2.7 Part 1 of the Bill (Clauses 1 to 5) sets out definitions, the role of portfolio statements in interpretation of the bill, and the treatment of notional payments.

Part 2—Appropriation items

2.8 Clause 6 summarises the total of the appropriations in Schedule 1 of the bill and also identifies that these amounts may be altered under provisions in Part 3 of the bill or in accordance with sections 30 to 32 of the Financial Management and Accountability (FMA Act).

2.9 Clause 7 proposes appropriations for departmental items in the amounts set out in Schedule 1, while clause 8 proposes appropriations for administered items.

2.10 Clause 9 provides for appropriations for Commonwealth Authorities and Companies Act (CAC Act) bodies to be paid from the Consolidated Revenue Fund by the relevant department.

Part 3—Adjusting appropriation items

2.11 Clause 10 sets out the conditions under which departmental items may be reduced. Similarly, clause 11 specifies the circumstances in which administered items may be reduced, and clause 12 addresses adjustments in payments to CAC Act bodies.

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1 The Hon Peter Garrett, Minister for the Environment, Heritage and the Arts, *House of Representatives Hansard*, 4.2.09, p.9.

Part 4—Miscellaneous

2.12 Clause 13 of the bill deals with credits to special accounts (as defined in the FMA Act). Clause 14 of the bill notes that, in addition to the adjustment provisions found in Part 3, appropriations in the bill may be adjusted in accordance with the FMA Act.

Schedule 1

2.13 Finally, Schedule 1 sets out the total appropriations in the bill ($89 million).

Purpose of the Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009

2.14 The primary purpose of the Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009 is to propose appropriations from the Consolidated Revenue Fund for services in relation to the Government's Nation Building and Jobs Plan that are not ordinary annual services of the Government.

2.15 The Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009 appropriates a total of about $1727 million, as follows:

- $987.2 million for the Department of Education, Employment and Workplace Relations under the Building the Education Revolution program;
- $260 million for the Department of Families, Housing, Community Services and Indigenous Affairs for social housing; and
- $480 million to the Department of Infrastructure, Transport, Regional Development and Local Government for repairs to national highways, installation of boom gates at rail crossings, the Black Spot program, and the Regional and Local Community Infrastructure Program: Strategic Projects program.

2.16 These monies are to be paid to the States, Territories and local governments as specific purpose payments.

Funding for schools

2.17 The Building the Education Revolution program is a $14.7 billion initiative with three key programs:

- Primary Schools for the 21st Century provides $12.4 billion over three years for upgrading or building major infrastructure such as multipurpose hall and libraries. Both government and non-government primary schools are eligible to compete for the available funds, with priority being given to those schools building new facilities;
- Science and Language Centres for 21st Century Secondary Schools provides $1 billion over three years for the construction of up to 500 science laboratories or language learning centres. Both government and

non-government schools are eligible to apply for this funding, which will be allocated on the basis of demonstrated need and capacity to complete the project by 30 June 2010; and

- Renewing Australian Schools will allocate $1.3 billion for all Australian schools to undertake maintenance and minor building works. Funding caps will be determined by school size.[2]

2.18 In his second reading speech the Treasurer described this component of the Government's economic stimulus package as 'the largest and most ambitious school modernisation program in Australian history…the centrepiece of our Nation Building and Jobs Plan.'[3] He emphasised that the program would be wide-reaching, with the potential to benefit each of Australia's 9540 schools.

Funding for social housing

2.19 Under the Commonwealth Social Housing Initiative, up to $6 billion will be provided for the construction of approximately 20 000 dwellings by December 2010. Around $400 million will also be allocated for the repair of currently uninhabitable public houses. As noted by the Treasurer:

> Improving the supply of affordable housing is a key part of achieving the government's goal of halving the level of homelessness by 2020.
>
> Across Australia, individuals and families in the bottom 40 per cent of earners are struggling to find affordable housing.
>
> For these people the social housing system is a key element of Australia's social safety net.[4]

Community infrastructure

2.20 An additional $500 million is to be provided over two years to support large local government strategic projects. Examples include community infrastructure such as halls, community centres and sport and recreation facilities. This is in addition to funding announced at the Australian Council of Local Governments in November 2008.[5]

2.21 There is also funding in the bill to improve land transport infrastructure. It appropriates $150 million to repair regional links on the national highway, and it

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2 Department of Education, Employment and Workplace Relations, *Building the education revolution*, http://www.deewr.gov.au/Schooling/BuildingTheEducationRevolution/Pages/default.aspx, accessed on 6 February 2009.

3 The Hon Wayne Swan, Treasurer, *House of Representatives Hansard*, 4.2.09, p.6.

4 The Hon. Wayne Swan, Treasurer, *House of Representatives Hansard*, 4.2.09, p.7.

5 Updated Economic and Fiscal Outlook, February 2009, p. 69, at http://www.budget.gov.au/2008-09/content/uefo/download/Combined_UEFO.pdf

appropriates $150 million over two years to improve road and rail safety through the installation of boom gates at rail crossings (prioritised on the basis of a safety risk assessment).

2.22 In addition, the bill appropriates a further $90 million over two years for the existing road safety Black Spot program which aims to identify and remedy dangerous Australian road locations. This is on top of increased funding for this program announced under the Government's 12 December 2008 Nation Building Package.[6]

2.23 According to the Treasurer's second reading speech, these components of the bill help to meet a 'desperate need' for upgraded infrastructure in Australian communities and will enhance the safety of both motorists and passengers.

Outline of the Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009

Part 1—Preliminary

2.24 Part 1 of the bill (Clauses 1 to 5) sets out definitions, the role of portfolio statements in interpretation of the bill, and the treatment of notional payments.

Part 2—Appropriation items

2.25 Clause 6 summarises the total of the appropriations in Schedule 1 of the bill and also identifies that these amounts may be altered under provisions in Part 3 of the bill or in accordance with sections 30 to 32 of the FMA Act.

2.26 The remainder of this part proposes appropriations for amounts listed in schedule 2 to make payments to State, Territory and local government items (clause 7), administered items (clause 8), administered assets and liabilities items (clause 9), other departmental items (clause 10) and CAC Act body payment items (clause 11).

Part 3—Adjusting appropriation items

2.27 This part sets out ways in which Schedule 2 amounts may be adjusted. Specially, Clause 12 relates to reductions in state, territory and local government items and administered items; Clause 13 relates to reductions in administered assets and liabilities items and other departmental items; and Clause 14 relates to reductions in CAC Act body payment items.

Part 4—Miscellaneous

2.28 Clause 15 of the bill deals with credits to special accounts (as defined in the FMA Act). Clause 16 sets out the conditions that apply to State, Territory and local government payment items. Clause 17 of the bill notes that, in addition to the

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6 Updated Economic and Fiscal Outlook, February 2009, p. 70, at http://www.budget.gov.au/2008-09/content/uefo/download/Combined_UEFO.pdf

adjustment provisions found in Part 3, appropriations in the bill may be adjusted in accordance with the FMA Act.

Schedule 1—Payments to or for the States, ACT, NT and local government

Schedule 2—Services for which money is appropriated

2.29 Schedule 1 to the bill identifies the entities, outcomes and responsible ministers involved in payments to or for the States, Territories and local government. The amounts that this bill will appropriate are set out in Schedule 2, to a total amount of $1727 million.

Issues

Energy Efficiency Measures

2.30 The energy efficiency measures included in the Nation Building and Jobs Plan serve more than one purpose. In addition to the benefit to households in the form of lower power bills and the benefit to the environment in the form of reduced carbon emissions, the initiatives also serve to create employment and pump extra government spending into the economy. Adj. Prof. Alan Pears summarised some of the benefits in the following statement:

> The purchases of energy efficient products, the labour involved in installing them, in doing renovations and things like that, create jobs in the services and light manufacturing sectors, which are the most employment intensive sectors of the economy. Energy efficiency offers ongoing economic, environmental and social benefits—in particular through reduced energy bills, which effectively is the equivalent to an ongoing tax cut. It also improves business productivity and the health of our community and reduces pressure on our seriously stretched energy supply systems.[7]

2.31 The questioning surrounding the Energy Efficient Homes program focussed on two main areas. Firstly, there were many questions about other initiatives that could have been considered under the mantle of environmental measures. Secondly, there were several questions that sought to analyse problems with the proposed package.

2.32 The Department of Environment, Water, Heritage and Arts (DEWHA) was asked by several senators whether other environmental measures had been considered for inclusion in the plan. Mr Malcolm Forbes, Secretary of DEWHA, commented that:

> We provided advice with regard to energy efficiency for housing in this particular package. Governments, in the end, have to make trade-offs about what is going to be the best for the certain objects they are achieving. In this

7 Adjunct Professor A Pears, *Committee Hansard*, 9.2.09, p.14

> particular case they made the choice that insulation was the most effective for what they were attempting to achieve.[8]

2.33 The proposed Energy Efficient Homes program will provide up to $1600 for ceiling insulation in all uninsulated owner-occupied homes. DEHWA was asked about the carbon footprint of the production of the insulation required for the program. Mr Ross Carter responded that:

> We have not done calculations around the carbon footprint or emissions. The Department of Climate Change is the department responsible for looking at carbon emissions and doing abatement and other calculations around that.[9]

2.34 Mr Carter also added that 'in our advice, we focused on the energy efficiency aspects, not on the life cycle issues that might surround some of those insulation products'.[10]

2.35 In relation to the production of the insulation, the Committee examined whether it was produced domestically or internationally. When asked whether the installers who were consulted on the average cost of installing insulation in Australian homes were suggesting domestically produced or imported insulation, Mr Carter responded that it was predominantly domestically produced insulation, including wool, and that:

> This is an averaging across a range of installation products that include fibreglass, rock wool, natural wool, polyester, polystyrene boards, loose fill—there is quite a range of materials.[11]

2.36 Another issue raised in regard to the program was whether the rebate would cover the full cost of installation of insulation. DEWHA responded that the average cost of installation estimated by the Department was $1200, although it was not specified what size of house this was for.[12]

2.37 A further issue involved the suitability of the solar hot-water initiative for all climates. It was suggested that an evacuated tube system, currently not included in the rebate was more effective for the Tasmanian climate. The response from Mr Carter was as follows:

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8 Mr M Forbes, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.02.09, p.57.

9 Mr R Carter, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.02.09, p.54.

10 Mr R Carter, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.02.09, p.58.

11 Mr R Carter, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.02.09, p.55.

12 Mr R Carter, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.02.09, p.53.

> The current proposal is to increase the rebate that is available and remove the means test from the existing program, and the guidelines for that do not allow for evacuated tubes. We have indicated that we will be reviewing that program and, as I discussed with you at estimates previously, there are some technical issues around the verification of the performance of evacuated tubes because of the combination often with electric storage and the difficulty in demonstrating the renewable energy certificate generation of that. But it is an issue that we are bringing into the review of those guidelines.[13]

2.38 One final issue covered in the hearing was concern over the omission of aged-care facilities from the program. Mrs Wiley-Smith, DEWHA, when asked whether these facilities were considered in the context of the package, responded to this saying:

> No. In the Low Emission Plan for Renters, we are considering as part of that making sure that those types of sectors are eligible. That is something that will be determined when we go through some of the consultation processes we have planned with industry in the next few weeks.[14]

Appropriation of $50 million for the Australian Tax Office

2.39 The Australian Tax Office (ATO) was questioned about the $50 million provided to it by the bill. The ATO responded in a written answer that the $50 million was to fund:

- the designing, developing, building and testing of modifications to existing IT and business systems
- expenditure associated with printing and distributing cheques and notices of payment
- establishing a dedicated call centre to provide information about the initiative
- giving taxpayers the opportunity to update payment preferences for the bonus via a number of electronic and call centre channels
- expenditure associated with marketing and communications – this includes reminders to lodge and to update details, and
- working with tax agents to develop practical steps to manage any impacts from the payment of the tax bonus.[15]

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13 Mr R Carter, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.02.09, p.53

14 Mrs M Wiley-Smith, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.02.09, p.58.

15 Australian Taxation Office, *Answer to Question on Notice*, 6.2.09.

Building the Education Revolution

2.40 The Building the Education Revolution program seeks to achieve twin goals. On the one hand, it was designed as a social infrastructure project that could get construction underway in a relatively short period of time, acting as a stimulus to the economy. On the other hand, it aims to provide an education benefit to schools, and social benefit to communities around the nation. A variety of issues were canvassed during the hearing, with some related the design of the scheme itself, and others related to the economic benefits it could potentially bring in the context of the overall Nation Building and Jobs Plan.

2.41 In terms of the benefit to the schools themselves, several issues were raised.

2.42 Firstly, it was asked whether there was actually a need for the building and maintenance programs, and whether schools had been consulted on this matter. Dr Nicoll replied that:

> The contact that I had with states and territories identified that there was clearly a need for investment in capital that they at this point could not meet and that that ranged from minor infrastructure, such as that which is going to be addressed under the national school pride program, and major builds which are going to be addressed by the primary school element of the program.[16]

2.43 Similarly, there was a concern raised that funding would not take into account financial need, and thus fund projects at schools which were already relatively wealthy. In response to this, Dr Nicoll stated:

> It was a government decision that the two elements of the program would be available to every primary school or special school or, in K to 12, primary school program in every school in the country under the School Pride program. There are elements about need within that. The community access point is one where the sorts of schools you might be describing that might be considered to be well endowed will have to make any new buildings or refurbished buildings in their primary schools accessible by the community. The element of need is addressed in the science and languages centres program. Up to 500 schools that will receive new buildings will be looked at on the basis of disadvantage and need.[17]

2.44 There was also concern that though the program would be able to fund large infrastructure projects on the one hand, and small projects through the maintenance

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16 Dr Ca Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.42.

17 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.51.

fund, but would not cover middle-size projects such as shade cloths. However the Committee heard that such projects could indeed be considered under the program.[18]

2.45 Finally, it was asked whether schools that did not have any remaining land upon which to build would miss out under the initiative. It was pointed out that these schools could always refurbish existing buildings. Dr Nicoll said:

> In those cases, there is an opportunity for those schools to refurbish an existing assembly hall, an existing library or other buildings. Based on the sort of information that we have collected and that you would know from your own experience in Tasmania, every school has a capacity to refurbish some building, to improve the learning environment for students. So that is absolutely an option for schools. We do not want the schools missing out. The government does not want that to occur. There are common sense options for schools to consider.[19]

2.46 In addition to the benefit to schools, the Committee heard that it was a condition of the funding of the construction of new school buildings that they be made available to the community at low cost. Dr Nicoll elaborated:

> There is a significant community element that I have not had an opportunity to mention but would like to. Under the Primary Schools for the 21st Century, every new school, new building or refurbished building funded under this program must be accessible by the community at no or low cost and that includes in the non-government sector. This is going to open up school facilities to local communities in a way that has not occurred before as well. So it is a very significant linking.[20]

2.47 In terms of the economic benefit of the scheme, the Committee heard that one aim was to increase employment, and that this would be monitored through an online portal. Dr Carol Nicoll, Department of Environment, Water, Heritage and Arts, stated that:

> Clearly there are two intents from Building the Education Revolution. One is to provide stimulus to economies and local economies and generate jobs. As part of that, every school that receives money under this program, which is every school in the country, will report on an online portal about the projects they have got and how many people were employed on those jobs,

18 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.48.

19 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.49.

20 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.49.

> including apprentices, so that there is a correlation between the actual project and the number of people who were employed on that project.[21]

2.48 However, the point was raised that if the Commonwealth initiative merely supplanted existing State and Territory initiatives, the overall economic effect would be reduced. In response to the problem of a potential substitution of efforts, Dr Nicoll said:

> Building the Education Revolution is additional funding. As part of the national partnership agreement that the premiers signed yesterday, it is very clearly articulated how heads of Treasury will monitor and prevent cost shifting. There are consequences for states and territories if cost shifting occurs. In the areas of schools funding, I have been holding briefings with every state and territory and every block grant authority over the last few days and I have made it very clear that their existing capital plans and expenditure into the forward estimates will be monitored and that it is intended that that be maintained over the next four years. It will be a matter of this money being additional to that.[22]

2.49 Similar evidence was heard from the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) in regards to social housing construction, which though not in the scope of this Committee's report is included here for comparison:

> I am advised that it is the Commonwealth's intention that heads of treasury, which is the meeting of treasury officials, will be attempting to baseline expenditure by the states so that the money on maintenance and the additional money for construction of social housing dwellings is clearly over and above the states' existing efforts.[23]

2.50 In addition to issues directly related to the Building the Education Revolution Program design, the Committee raised several issues related to the construction measures themselves. Some of these issues were also raised in discussion of the social housing program. Testimony from questions over social housing has been included where it serves to further the analysis of general construction issues.

2.51 Two issues related to the construction initiatives were the capacity of the Australian construction industry and what standard of environmental sustainability standards the construction would adopt.

2.52 There was some concern that with all the construction measures announced under the Nation Building and Jobs Plan, specifically the education and social housing

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21 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.45.

22 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.43.

23 Mr G Leeper, Department of Families, Housing, Community Services and Indigenous Affairs, *Committee Hansard*, 6.2.09, p.4.

initiatives, there would not be sufficient capacity in the industry to undertake all the projects in the given timeframe. Dr Carol Nicoll outlined some of the measures that would be undertaken to avoid this problem:

> There will be introduced a governance structure that I think has been outlined here where there is a coordinator-general in Prime Minister and Cabinet and national coordinators in each area. Part of their job is to identify where potential bottlenecks are occurring and to look at the challenges that will be there in terms of ensuring there is appropriate skilled labour to fulfil the very challenging time frames that we have got to roll these programs out. Yes, it is quite likely there will be bottlenecks, but everything will be done to address those, to anticipate them and to see what we can do both at the Commonwealth and at the state and the local levels.[24]

2.53 Mr Leeper, FaHCSIA, was also asked to address the issue of capacity in the discussion of social housing, and responded:

> I point out that about 140,000 to 150,000 dwellings are completed in Australia each year. Dwelling approvals are off by 20 per cent in the year to December, so 20,000 dwellings over two years is not a big stretch I suggest.[25]

2.54 Later in the hearing, Mr Leeper added to this statement when responding to a question about his discussions with the Housing Institute of Australia:

> ..The reduction in the number of dwelling unit approvals in the 12 months to November—I think I said it was 20 per cent—is 34.7 per cent. That comes from the ABS catalogue Building Approvals, Australia, November 2008. That is against an annual construction program across Australia of 140,000 to 150,000 units of housing. A 34 per cent reduction in units approved for construction says to me that there was easily capacity, and I sought merely to confirm that we had estimated that correctly.[26]

2.55 Another issue that was brought up during the hearing was whether the new school buildings would use environmentally sustainable design and construction principles. Dr Carol Nicoll had the following to say on environmentally sustainable designs and measures:

> It is a condition of the national partnership agreement between the states and territories and the Commonwealth and will be a condition of the bilateral agreements that all projects that are funded under this will be done to observe sustainable building and design principles. I have been speaking with states and territories and block grant authorities over the past few days

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24 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.550.

25 Mr G Leeper, Department of Families, Housing, Community Services and Indigenous Affairs, *Committee Hansard*, 6.2.09, p.9.

26 Mr G Leeper, Department of Families, Housing, Community Services and Indigenous Affairs, *Committee Hansard*, 6.2.09, p.11.

> as well, and I will continue to brief them in the next couple of days. I am pointing out that that will be a condition of their funding, that they are to take that into consideration. One of the areas of possibility for the minor infrastructure fund, the school pride program, is insulation on that premise—that is, it is going to be more sound for the sorts of issues that you are concerned about if we try to insulate schools appropriately so that we can reduce their impact on the environment.[27]

2.56 Similar questions were asked concerning the social housing initiative. Mr Leeper replied:

> Into the $400 million—we have not made any conditions there. In the schedule to the national partnership agreements, we have indicated that proposals under the components of the capital funding will have regard to a number of factors, including their adherence to universal design principles that facilitate access for people with disabilities and that the constructed dwellings are environmentally sustainable. That is on page 17, schedule C, paragraph (c)18 of the national partnership agreement that was signed yesterday.[28]

2.57 There remained some concern as to what the definition of 'environmentally sustainable' was in this context. FaHCSIA replied that they would endeavour to discuss the matter with states in subsequent discussions.[29] The Defence Housing Australia was also asked about the energy efficiency standards it adopted for new construction, and Mr Del Gigante answered:

> We do a lot of it now. Solar heating we already do and also water tanks, with greywater in some situations particularly when there is a community of houses where they all participate in a greywater recycling system, insulation—obviously roofs and walls and we have standards for wall insulation—energy efficient lighting, landscaping—we just do not put down grass anymore—water resistant plants et cetera. Also there are the materials we choose, the chemicals and the sorts of carpets we use and recycling. We do look at childcare requirements and schools when we develop land ourselves.[30]

Land Transport Initiatives

2.58 The land transport initiatives proposed include additional funding for highway linkages, the installation of boom-gates at rail crossings and additional funding for the Black Spot road safety program.

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27 Dr C Nicoll, Department of Environment, Water, Heritage and Arts, *Committee Hansard*, 6.2.09, p.47.

28 Mr G Leeper, Department of Families, Housing, Community Services and Indigenous Affairs *Committee Hansard*, 6.2.09, p.13.

29 Mr G Leeper, Department of Families, Housing, Community Services and Indigenous Affairs *Committee Hansard*, 6.2.09, p.14-15.

30 Mr M Del Gigante, Defence Housing Australia, *Committee Hansard*, 6.2.09, p.19.

2.59 The Committee heard that in addition to the safety benefits inherent in the spending, there was also an economic benefit from the construction, and much of this would be delivered directly to rural and regional Australia. For instance, the Department of Infrastructure, Transport, Regional Development and Local Government identified that the bulk of the boom-gate funding would be spent in rural Australia [31]

2.60 The Department was also asked to specify what percentage of the Black Spot projects occurred in rural Australia. The Department responded that 50 per cent of the project funding in each mainland state was reserved for non-metropolitan projects, but the actual split changed year by year.[32]

2.61 As in discussion of the education and housing construction initiatives, it was asked what would be done to ensure that there was no cost-shifting from the States to the Commonwealth, so that all projects undertaken under the new funding was in addition to the State's existing programs. The Department specified during the hearing that mechanisms were in place to prevent this occurring.[33] More information was provided in an answer to a question on notice:

> In relation to the Boom Gates for Rail Crossing Program, the Australian Government will provide a capped level of funding $150 million over 2008-09 and 2009-10. A condition of the funding will be that the states and the Northern Territory will be that they have to continue their existing programs and report to the Australian Government on costs and projects associated with programs funded from their own revenues.[34]

31 Department of Infrastructure, Transport, Regional Development and Local Government *Committee Hansard*, 6.2.09, p.64.

32 Department of Infrastructure, Transport, Regional Development and Local Government, answer to question on notice, 6.2.09 (answer received 9 February 2009).

33 Department of Infrastructure, Transport, Regional Development and Local Government *Committee Hansard*, 6.2.09, p.65.

34 Department of Infrastructure, Transport, Regional Development and Local Government, answer to question on notice, 6.2.09 (answer received 9 February 2009).

CHAPTER 3

Household Stimulus Package Bill 2009

Purpose of the Household Stimulus Package Bill 2009

3.1 The Household Stimulus Package Bill 2009 (the bill) provides for a series of one-off cash payments to people who are receiving a range of payments under the *Social Security Act 1991* and the *A New Tax System (Family Assistance) Act 1999* (Family Assistance Act) on 3 February 2009. Generally the payments are a one-off amount of $950 and will be paid in most cases in March 2009 at a cost of $4.584 billion.

3.2 The payments are described below:[1]

- Training and Learning Bonus - This bonus is for senior secondary or tertiary students receiving a range of education assistance payments or Family Tax Benefit Part A (aged 21 to 24 years) plus recipients of Sickness Allowance and Special Benefit.
- Farmers Hardship Bonus - This bonus is for people receiving Exceptional Circumstances Relief Payment, Farm Help Income Support, Transitional Income Support or Interim Income Support. It will be paid in the fortnight commencing 24 March 2009.
- Education Entry Supplement - This payment will go to people receiving Education Entry Payment between 1 January 2009 and 30 June 2010. The qualification period for receipt of Education Entry Payment will be reduced from 12 months to 4 weeks of continuous receipt of an income support payment during the period 1 January 2009 until 30 June 2010. Eligibility for the Education Entry Payment will also be extended during this period to Youth Allowance recipients who are not full–time students. The second reading speech states that the 'Training and Learning Bonus will assist Australia's recovery by providing for a more equipped workforce into the future'.[2]
- Back to School Bonus - This bonus is for each child aged 4 to 18 years who qualifies for Family Tax Benefit Part A on 3 February 2009. It will also be paid to recipients of Disability Support Pension and Carer Payment who are aged under 19 years on 3 February 2009. It will be paid in March.

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1 Scott Kompo-Harms, Les Nielson, Richard Webb and others, *Nation Building and Jobs Plan Bills – Interim Bills Digest*, 6 February 2009, no. 92, 2008–09 at http://www.aph.gov.au/library/pubs/bd/2008-09/09bd092.pdf, accessed 8 February 2009.

2 The Hon Julia Gillard, Minister for Education, Minister for Employment and Workplace Relations and Minister for Social Inclusion, *House of Representatives Hansard*, 4.2.09, p. 10.

- Single Income Family Bonus - This Bonus will be paid in the fortnight commencing 11 March to families qualifying for Family Tax Benefit part B on 3 February 2009.

3.3 The estimated numbers of people who will receive assistance through the measures contained in the Bill are shown in the table below.

Payment	**Numbers assisted**
Training and Learning Bonus and the Education Entry Supplement	440,000 students
Farmers Hardship Bonus	21,500 people
Back to School Bonus	2.76 million children
Single Income Family Bonus	1.5 million families

Provisions of the bill

3.4 The following provides an overview of the main provisions of the bill.

Schedule 1 – Social Security Act 1991

Training and learning bonus

3.5 Items 1 and 2 insert definitions into the Social Security Act in order for the bonus to be paid to people who are in receipt of an education allowance for primary, secondary, tertiary and homeless students and double orphan students under the Veterans' Children Education Scheme, or an education allowance for primary, secondary, tertiary and homeless students under the Military Rehabilitation and Compensation Act Education and Training Scheme.

3.6 Item 3 inserts a new Part 2.18 into the Social Security Act. This Part sets out eligibility for the training and learning bonus and the farmers hardship bonus.

3.7 Under proposed new subsection 910(2) a person will qualify for a training and learning bonus if, on 3 February 2009, they were being paid:

- Youth Allowance;
- Austudy;
- special benefit;
- sickness allowance;
- a payment under the ABSTUDY Scheme that included an amount for living allowance; or
- an education allowance for primary, secondary, tertiary and homeless students and double orphan students under the Veterans' Children Education Scheme, or an education allowance for primary, secondary, tertiary and homeless

students under the Military Rehabilitation and Compensation Act Education and Training Scheme.

3.8 A person receiving Youth Allowance must be undertaking full time study as at 3 February 2009 or qualify for Youth Allowance as a new apprentice in order to receive the bonus. A person receiving special benefit will only receive the training and learning bonus if, on 14 October 2008, they were not of pension age.

3.9 People who qualify for the bonus on the basis of the criteria set out above will be eligible for a payment of $950, and there are provisions which prevent a person from being paid the bonus more than once regardless of the fact that they may qualify under one or more criteria.

3.10 The new Part contains provisions that provide that a person is qualified for the training and learning bonus if, on 3 February 2009, the person was entitled to FTB which included a Part A rate on 3 February 2009 that was greater than nil (worked out taking into account at least one FTB child who was aged 21 or more and less than 25) and the person would have been entitled to the back to school bonus if that child had been aged four or more and less than 19 on 3 February 2009.

3.11 If a person qualifies for the training and learning bonus because they receive a payment identified in subsection 910(2), they receive a training and learning bonus equal to the sum $950 (to offset their personal education expenses) and $950 for each qualifying FTB child (to offset their children's education expenses).

Farmers hardship bonus

3.12 Proposed Division 2 of Part 2.18 of the Social Security Act will allow individuals who receive payments under the Exceptional Circumstances Relief Payment, Farm Help Income Support, Transitional Income Support and Interim Income Support payments to also receive the one-off farmers hardship bonus of $950.

3.13 Items 4 and 5 of the Schedule amend paragraph 1231(1AA)(b) to include the training and learning bonus and farmers hardship bonus so that the Secretary cannot make a determination to reduce the bonus to nil, if for example, such a decision would cause an individual financial hardship.

Schedule 2 – Education entry payment

3.14 This Schedule contains amendments designed to reduce the current qualification period for the education entry payment from 12 months to four weeks of continuous income support payments and provides for the payment of $950 to people who are eligible for the education entry payment under the Social Security Act or the *Veterans' Entitlements Act 1986* (Veterans' Entitlement Act).

Education entry payment for recipients of youth allowance (other)

3.15 Youth allowance (other) is payable to a person who is not undertaking full-time study and who is not a new apprentice. Under the proposal, a person receiving youth allowance (other) will be able either to undertake full-time study or to include short-term vocational-related courses in their activity agreements and then receive an education entry payment to contribute to the up-front costs of the study. This proposal is contained in Item 8.

Education entry payment supplement

3.16 Item 9 inserts a new Division 14 at the end of Part 2.13A of the Social Security Act. If a person is qualified for an education entry payment under Part 2.13A or under Part VIIAA of the Veterans' Entitlements Act, they are then eligible for an education entry payment supplement. The education entry supplement is $950.

Schedule 3 – Back to school bonus and single income family bonus

3.17 This Schedule provides for two new lump sum payments for families:

- a back to school bonus of $950 will be available for each FTB child in a family aged 4 to 18 who attracts FTB Part A on 3 February 2009. This bonus will also be available to people who receive disability support pension or carer payments for 3 February 2009 where the recipient is aged less than 19 on that date; and
- a single income family bonus of $950 will be available for a family that is entitled to FTB Part B on 3 February 2009, regardless of the age of the children. Proposed section 101 sets out the circumstances in which an individual is entitled to a single income family bonus.

3.18 If FTB on 3 February 2009 is shared between two people under the usual rules for that payment, the relevant new lump sum payment will be similarly shared.

3.19 The new bonus payments to families will be exempt from tax and will not be taken as income for the purposes of the social security law or the Veterans' Entitlements Act.

Schedule 4 – Administrative scheme for household stimulus payments

3.20 This Schedule contains provisions which allow for the establishment of administrative schemes in circumstances where the statutory regime does not deliver the intended result. They are common features of Acts which provide for welfare related or one-off payments to enable payments to be provided to people who would otherwise be eligible but for the operational limits of the statute.

Schedule 5 – Other amendments

3.21 This Schedule is designed to provide further consequential amendments required for the household stimulus payments to be made and ensure that the payments will not count as income for social security, family assistance and farm household assistance purposes, and will be income tax-free.

3.22 The amendments also provide that where an individual is subject to income management, any household stimulus package payment they receive will be income managed at 100 per cent.

3.23 Briefly the amendments are as follows:

- Amendments to the *Farm Household Support Act 1992* - The amendments provide for the payment of benefits in a manner similar to other welfare support payments delivered under the Social Security Act;
- Amendments to the *Income Tax Assessment Act 1936* - A taxpayer's dependants' separate net income (SNI) is used to determine the taxpayer's eligibility to certain dependant offsets. Payments such as carer allowance, child care benefit and FTB are not included as part of SNI. It is not intended that the household stimulus package payments (or any payment under an administrative scheme determined under Schedule 4 to the bill) form part of SNI;
- Amendments to the *Income Tax Assessment Act 1997*– A range of amendments are made to the Act inserting references to the various household stimulus payments payable under this bill; to exempt the training and learning bonus, farmers hardship bonus and education entry payment supplement from income tax under section 52-10 of the 1997 Tax Act; to make the back to school bonus and the single income family bonus exempt from income tax; and to exempt the payments made under an administrative scheme, as set out in Schedule 4 to this bill from income tax;
- Amendments to the Social Security Act – The amendments ensure that the back to school bonus and single income family bonus payments will not be counted as income for social security purposes;
- Amendments to the *Social Security (Administration) Act 1999* - The amendments provide for deductions to be made from household stimulus payments, in certain circumstances, for the purposes of the income management regime established under Part 3B of the Social Security Administration Act.

Issues

Eligibility

3.24 In evidence, concerns were raised about the possibility of 'double dipping', that is, an individual could receive a payment through more than one program. FaHCSIA commented that payments under the back to school bonus, the single income family bonus and the tax bonuses 'is by each one individually'.[3] For example, if a student worked part-time, they could potentially receive two payments, one through the training and education bonus and one through the tax bonus. Ms Robyn Shannon, FaHCSIA, commented that this was the intention if the person met the eligibility requirements:

> If they pay tax in the relevant tax year, they would receive the taxpayer bonus as well as the training and learning bonus if they are also receiving some qualifying student income support payment.[4]

Back to school bonus

3.25 The back to school bonus will be based on age only. There will be no eligibility of proof. This is to 'ensure it minimises red tape so that the money can flow to families'.[5] It was also noted that as the back to school bonus is based on eligibility of children, it will be spread across Australia including people in rural, regional or remote areas.[6]

Training and learning bonus

3.26 The Department of Education, Employment and Workplace Relations (DEEWR) was questioned on the need for students who are receiving either youth allowance or Austudy to have enrolled for study by 3 February 2009 in order to qualify for the bonus. This presented an issue as some universities allowed enrolment past that date, hence potentially disqualifying students from the payment.

3.27 The following answer was provided by DEEWR:

> The Training and Learning Bonus consists of two categories:
>
> <u>Category 1</u>
>
> A one-off $950 bonus for recipients at 3 February 2009 of:
>
> - Youth Allowance (student and apprentices);
> - Austudy;
> - ABSTUDY (student and apprentices);
> - Family Tax Benefit Part A (19 to 24 year old students);
> - payments under the Veterans' Children Education Scheme (VCES);
> - payments under the Military Rehabilitation and Compensation Act Education and Training Scheme (MRCAETS).
> - Sickness Allowance; and

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3 Mr B Sandison, FaHCSIA, *Committee Hansard*, 6.2.09, p.19.

4 Ms R Shannon, FaHCSIA, *Committee Hansard*, 6.2.09, p.19.

5 Mr B Sandison, FaHCSIA, *Committee Hansard*, 6.2.09, p.24.

6 Mr B Sandison, FaHCSIA, *Committee Hansard*, 6.2.09, p.18.

- Special Benefit (under age pension age).

Most people eligible for the Category 1 bonus will be continuing students. This is because students who:

- are moving from one course to another (including from high school to a qualifying TAFE or university course); or
- who are on vacation from the course they are undertaking continued to receive one of the student income support payments listed above over the period covering 3 February 2009. The rules for payments such as Youth Allowance (student) treat continuing students as full-time students over study breaks if they were enrolled in a course or intend to enrol in the same or another course at the first opportunity. This also applies to students who were studying on a part-time basis in the previous study period and who intend to re-enrol on a full-time basis in the next study period.

Some people intending to study this year will not have been receiving one of the above payments as at 3 February 2009 and will therefore not qualify for the Category 1 bonus. This may be because they had not enrolled or commenced full-time study (because their course had not yet started) as at 3 February 2009.

In such cases, the person will qualify for the Category 2 (Training bonus) of $950 under this measure if they meet the requirements.[7]

Payments to those not eligible for the tax bonus

3.28 During the inquiry, comments were made that unemployed people, pensioners, carers and other groups that do not have an adjusted tax liability for 2007-08 would not be eligible for the tax bonus and would therefore 'miss out' on any payments.

3.29 FaHCSIA provided evidence that some people in these groups would receive a bonus through other programs, for example a training and learning bonus or back to school bonus.[8] FAHCSIA noted that under the training and learning bonus, a temporary supplement of $950 will be provided to those who receive the Education Entry Payment. Some unemployed people may receive this bonus if they are undertaking qualifying study. Ms Shannon, FaHCSIA, commented:

> There is a measure in the bill to provide a $950 supplement to the education entry payment, which may be received by some unemployed people undertaking qualifying study. So, in that sense there is an incentive for people who are unemployed to do approved short courses to retrain or

7 Department of Education, Employment and Workplace, Relations Answer to Question on Notice, 6.2.09.

8 Ms R Shannon, FaHCSIA, *Committee Hansard*, 6.2.09, p.24.

> maintain their skills in employability. To that extent, that is a measure that will be of particular assistance to unemployed people.[9]

3.30 Ms Shannon also provided evidence on the receipt of bonuses by other groups:

> …some people who currently receive the education entry payment receive pension payments. As a matter of fact, more than half of the recipients of the Education Entry Payment are sole parents receiving parenting payment single, which is a pension payment. A further proportion, around one-third, are disability support pensioners and a smaller proportion, around four per cent, are carer payment recipients. So they are studying and they are getting the Education Entry Payment. They will also get this $950.[10]

9 Ms R Shannon, FaHCSIA, *Committee Hansard*, 6.2.09, p.17.

10 Ms R Shannon, FaHCSIA, *Committee Hansard*, 6.2.09, p.19.

CHAPTER 4

Commonwealth Inscribed Stock Amendment Bill 2009

Purpose of the Bill

4.1 The Commonwealth Inscribed Stock Amendment Bill (CIS Bill) amends the *Commonwealth Inscribed Stock Act 1911* (the CIS Act) by inserting a new section 5A which allows the Treasurer to declare that a special circumstance exists which justifies an increase in the cap of Commonwealth Government Securities on issue.

4.2 Currently, the maximum face value of Commonwealth Government Securities (CGS) on issue is $75 billion. The CIS Bill proposes to allow the Treasurer to declare that special circumstances exist which justify an increase in the limit on the face value of securities on issue by $125 billion. A special circumstance could include, but is not limited to, a deterioration in global or domestic economic conditions or a deterioration in revenues.[1]

4.3 Other provisions of the CIS Bill provide that:

- at any one point in time, there can only be one declaration that there are special circumstances, that is the Treasurer can not make another declaration until the previous declaration is revoked;
- the declaration is not reviewable under the *Administrative Decisions (Judicial Review) Act 1977*; and
- the Treasurer will still be required to issue a direction under the CSI Act specifying the total amount of CGS that can be on issue within the cap.

Issues

4.4 A number of issues were raised in relation to the proposed increase in the cap of the CGS including: the cost of the debt; the attractiveness of CGS to investors; and the potential impact on exchange rates.

4.5 The Treasury indicated that the gross debt on issuance is currently $58.5 billion, which is 5.5 per cent of gross domestic product.[2] The additional $125 billion would be required to fund the proposed package and other funding needs of the Government including refinancing of existing borrowing lines.[3] The Treasury commented that the Government's borrowing requirement is 'largely due to the reduction in estimated tax receipts resulting from the deteriorating economic outlook

1 Explanatory Memorandum, Commonwealth Inscribed Stock Amendment Bill 2009, p.3.

2 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.21.

3 Mr N Ray, The Treasury, *Committee Hansard*, 5.2.09, p.32.

and the unwinding of the commodities boom'. It was noted that since the Mid Year Economic and Fiscal Outlook, taxation receipts have been revised down by around $75 billion over the forward estimates. These falls in tax receipts, along with higher payments associated with the weaker economic outlook, account for around two-thirds of the overall borrowing requirement.[4]

4.6 Dr Ken Henry, Secretary of the Treasury, noted that:

> …we are making interest payments on that gross debt. We make interest payments in the form of coupons for people who hold Commonwealth government securities on that debt. But at the same time, we hold financial assets on the balance sheet; obviously in the Future Fund and other financial assets that we hold that more than offset that gross debt on issuance.[5]

4.7 In addition, the costs of the funds was explained thus:

> The cost of funds is going to depend on the maturity structure of the debt that gets issued, and we have not yet determined that because it would depend on market conditions. But at the moment I think our average cost of funds for new issuance is around about four per cent.[6]

4.8 Mr David Tune, Department of the Prime Minister and Cabinet, also commented in responding to a question on whether the increase imposed an unsustainable cost to the economy:

> It depends where your starting point is. If you are looking at reasonably low debt levels to start with, you trade off the costs around these things in the future against the benefits you get in the current period. As long as you do not move the country into huge, unsustainable debt levels—which this will not do; net debt will remain at a reasonable level and low by international standards—there is probably not a problem. But yes, there is a cost.[7]

4.9 Mr Greg Evans of the Australian Chamber of Commerce and Industry (ACCI) also recognised the necessity of a temporary deficit:

> We agree with the concept that there needs to be a temporary deficit to deal with the current economic circumstances. We are on record as an organisation as being fiscally conservative in these matters, so we believe that this is not the time to relax any sort of government discipline with respect to wasteful government spending or inefficiencies. They should also be dealt with. [8]

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4 The Treasury, *Answer to Question on Notice*, 5.2.09.

5 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.21.

6 Mr N Ray, The Treasury, *Committee Hansard*, 5.2.09, p.21.

7 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.36.

8 Mr G Evans, ACCI, *Committee Hansard*, 9.2.09, p.9.

4.10 Dr Henry went on to comment that in the UEFO it is stated that:

> As the economy recovers, and grows above trend, the Government will take action to return the budget to surplus by:
>
> • allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average—
>
> taken together with the second dot point—
>
> • holding real growth in spending to 2 per cent a year until the budget returns to surplus—

4.11 Dr Henry concluded:

> I consider that there is good reason to expect that, with those two conditions satisfied when the economy is growing strongly, any increase in net debt due to the implementation of this package would be unwound over time. The reason I draw your attention to the first dot point is that that implies that the increase in net debt would be unwound over time without taxation increasing as a share of GDP above the 2007-08 level, on average.[9]
>
> …
>
> As I indicated the last time we met, obviously net debt will be reduced over time by future budget surpluses—that is the intention—and that would be true no matter how the budget surpluses were achieved, obviously. It could also be achieved by asset sales. That has certainly been a way in which debt has been reduced in the past. But, provided the budget achieves a headline surplus, and certainly if it achieves an underlying cash surplus in the way we measure these things these days, the net debt will be reduced. That is a tautology.[10]

4.12 A further issue raised during the inquiry was the attractiveness of CGS to investors when many other governments are also borrowing money to address problems in their economies. Dr David Gruen, Treasury, commented that for private investors 'there has been a huge reduction in appetite for risk, so investors are crying out for government assets, which they deem to be safe, so yields on government bonds all around the developed world are falling because demand is extremely strong for those sorts of assets'.[11]

4.13 In evidence, the Treasury responded to concerns that raising money in the bond market could lead to an increase in the exchange rate as foreign investors will purchase Australian dollars to buy bonds. A higher Australian dollar could impact adversely on export-oriented industries. Dr Henry responded:

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9 Dr K Henry, The Treasury, *Committee Hansard*, 9.2.09, p.39

10 Dr K Henry, The Treasury, *Committee Hansard*, 9.2.09, p.40.

11 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.17.

A general view among macroeconomists would be that, if one country acting in isolation were to undertake an expansionary fiscal policy and that country had a freely floating exchange rate, then one of the consequences of that unilateral fiscal expansion would be that its exchange rate would appreciate. Obviously we are not in those circumstances. It is the case that governments around the world are undertaking expansionary fiscal policy. It may well be the case that, were Australia not to undertake an expansionary fiscal policy, our dollar would depreciate even further than it already has. Maybe that would provide some measure of support for some sectors of the economy that would benefit from a depreciating exchange rate, but it would also reduce forecast growth in the Australian economy in 2008-09 by ½ a percentage point and in 2009-10 by ¾ to one percentage point. Even taking into account the impact on the exchange rate of the fiscal stimulus, that would be the effect.

To put it another way: in making these forecasts, our modelling would have taken into account, at least to some extent, impacts on the exchange rate of the economic stimulus package that is here. Any economic stimulus package is going to directly benefit some sectors of the economy more than it does others; I suspect that is unavoidable. The same is true of monetary policy, as you know. Not everybody likes to see interest rates fall. Yet I think we all accept that, when the economy weakens, it is desirable that interest rates fall.[12]

12 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, p.9.

CHAPTER 5

Tax Bonus for Working Australians Bill 2009 and Tax Bonus for Working Australians (Consequential Amendments) Bill 2009

Purpose of Tax Bonus for Working Australians Bill 2009

5.1 The Tax Bonus for Working Australians Bill (the bill) is intended to implement the Government's Tax Bonus for Working Australians announced by the Prime Minister and Treasurer on 3 February 2009.[1] It is part of the Government's Nation Building and Jobs Plan. The tax bonus consists of a one-off cash bonus to taxpayers who had a taxable income of up to $100,000, after taking account of tax offsets and credits, during the 2007-08 financial year. The Bill authorises the Commissioner of Taxation to pay the tax bonus to eligible taxpayers.

5.2 The cost of the measure is $8.2 billion and it is anticipated to provide support to approximately 8.7 million taxpayers.[2]

5.3 The second reading speech states that the cash payments are being provided by the Government in order to 'immediately support jobs and strengthen the Australian economy during a severe global recession'.[3]

Summary of the bill

5.4 The Commissioner of Taxation will pay the bonus to eligible taxpayers, if the taxpayer is an Australian resident who has an adjusted tax liability.[4] The amount of the payment will be based upon the eligible taxpayer's income for the 2007–08 financial year as shown in the table below:

2007-08 income	Tax bonus payable
Up to and including $80,000	$950
$80,000 - $90,000	$650
$90,000 - $100,000	$300

1 The Hon Kevin Rudd, MP, Prime Minister of Australia, ' $950 One-off Cash Bonus to Support Jobs', 3 February 2009,http://www.pm.gov.au/media/release/2009/media_release_0778.cfm, accessed 6 February 2009.

2 Explanatory Memorandum, p. 5.

3 Second reading speech.

4 An adjusted tax liability occurs where the taxpayer’s basic income tax liability plus their Medicare levy for the year and their Medicare levy surcharge for the year (if any), less any tax offsets and franking credits for the year (if any), is greater than zero.

5.5 In order to be eligible for the payment, taxpayers must lodge their 2007–08 tax return by 30 June 2009. Taxpayers who already have an approved arrangement to lodge a late tax return before the provisions contained in the bill commence, will be eligible for the tax bonus.

5.6 Special rules will apply to limit the entitlement of children to the bonus. Only minors who are an excepted person or who have excepted assessable income will be eligible for the payment. These rules are consistent with the tax treatment of the income of minors found in the *Income Tax Assessment Act 1936* (ITAA 1936).

Provisions of the bill

5.7 Item 3 provides for the Commissioner of Taxation to administer the tax bonus. Item 4 provides for definitions used in the Bill. Most of these are references to definitions that appear in other Acts administered by the Commissioner of Taxation. Item 4 also establishes the method for determining a taxpayer's adjusted tax liability. 'Adjusted tax liability' is defined at footnote 4. Item 4 is required in order to determine whether a taxpayer will be eligible for the payment.

5.8 Item 5 sets out criteria to be used by the Commissioner of Taxation for determining eligibility for the payment. To receive this payment, taxpayers must be Australian residents with a taxable income for the 2007-08 year not exceeding $100,000. An individual must lodge their income tax return before 30 June 2009 or have an approval to lodge later before the provisions in the bill commence.

5.9 A person who is less than 18 years of age, meets the payment criteria and who has 'excepted assessable income' or who is an 'excepted person' will be eligible for the payment.

5.10 Item 6 sets out the amount of the bonus that will be paid to eligible taxpayers depending on their income. Eligibility based on income is set out in the table at paragraph 5.4 above.

5.11 Item 7 sets out that the Commissioner of Taxation must pay the bonus as soon as practicable after such time as the Commissioner is satisfied that a person is eligible for the bonus. This can be done by cheque or electronic funds transfer.

5.12 A person who has received a payment which they are not entitled to will have to pay the amount of overpayment back (Item 8). Item 9 provides that any debts arising in this way will be subject to a general interest charge. This is consistent with other taxation administration legislation and arrangements.

Purpose of Tax Bonus for Working Australians (Consequential Amendments) Bill 2009

5.13 The Tax Bonus for Working Australians (Consequential Amendments) Bill 2009 (Consequential Bill) makes consequential amendments to a number of Acts. These amendments are to be made as a consequence of the Tax Bonus for Working

Australians Bill's provisions to ensure that the proposed tax bonus payments are not themselves taxable income and are not income for either social security or veteran's affairs purposes.

Provisions of the consequential bill

5.14 Item 1 amends the *Income Tax Assessment Act 1936* to ensure the bonus is not included for the purpose of calculating separate net income. Separate net income includes income and other specified amounts that an individual's dependant earned or received while being maintained by the individual.[5]

5.15 Item 2 amends a list of non-assessable, non-exempt income provisions of the *Income Tax Assessment Act 1997* to include the bonus. Item 3 amends this Act to ensure that the bonus is not assessable and not exempt income.

5.16 Items 4 and 8 amend the *Social Security Act 1991* and the *Veterans' Entitlement Act 1986* to exempt the payment of the bonus from being included in the income of a person who is in receipt of payments under these Acts.

5.17 Item 5 amends the *Taxation Administration Act 1953* to provide that the payment is subject to the general interest charge. This Act is also amended to provide that the payment is not considered a credit that can be used to offset other tax debts or liabilities (Item 6). Item 7 amends the index of tax-related liability under other Acts administered by the Commissioner of Taxation.

Issues

Effectiveness of the tax bonus

5.18 Through the provision of the tax bonus, the Government aims to provide a means for an immediate stimulus to spending and therefore support jobs and strengthen the economy.

5.19 Throughout the inquiry, there was considerable discussion of the benefits of the proposed tax bonus versus the benefits of tax cuts and whether the bonus will be saved, used to paydown debt or spent.

5.20 The Australia Institute, for example, commented that while the package 'is a timely and appropriate plank in the strategy to minimise the impact of the slowing world economy on Australia', it saw the tax bonus as a weakness.[6] The Australia Institute stated that:

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5 Australian Taxation Office website: http://www.ato.gov.au/individuals/content.asp?doc=/content/19187.htm&page=3&H3 accessed 6 February 2009.

6 The Australia Institute, *Submission* 6, p.1.

> The heavy reliance on the provision of one-off payments of $950 to a wide range of groups is likely to stimulate increased retail expenditure but it is important to note that jobs created by such an approach do not flow strongly beyond the retail sector, given Australia's high propensity to import. Such an expansion will provide limited opportunities to the 300,000 people expected to join the dole queues in the next 16 months.[7]

5.21 The Australian Chamber of Commerce and Industry (ACCI) commented that it would have liked to have seen the personal income tax cuts that are to apply from July 2009 and July 2010 brought forward as these could 'substantially boost household income and also deliver benefits to small business'. However, the ACCI also stated 'nevertheless, the $12.7 billion cash bonuses will provide support to consumer spending and domestic demand'.[8]

5.22 Dr Henry commented on proposals to cut the GST:

> …we have not considered changing the GST arrangements in order to provide a macroeconomic stimulus. As you know and as you mentioned in your question the GST revenue goes to the states. In the time that the GST has been legislated in this country it has been the position of the Commonwealth government that the GST arrangements are a matter of agreement between the Commonwealth and the states.
>
> So we have not considered an option such as that. I would note that, depending upon how large the cut in the GST rate was and the time period for which the cut in the GST rate applied, it could be quite an expensive option given how much revenue the GST raises—and I am not at all sure, in terms of its budget impact, that that would be a cheaper way of stimulating household consumption activity.[9]

5.23 There has been a range of support for one-off payments rather than tax cuts. The IMF's chief economist, Mr Olivier Blanchard, recently commented on tax cuts and packages which include a stimulus for spending and stated:

> The key here is to design packages which provide maximum boost to demand very soon. That tends to argue in the current context for measures focused on spending rather than taxes. Measures focused on taxes tend to have less effect in the short run than measures which increase spending.[10]

5.24 Mr Graham White, Faculty of Economics and Business, University of Sydney, also commented that:

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7 The Australia Institute, *Submission* 6, p.1.

8 ACCI, *Media Release,* 'Policy Levers Working to Avoid Recession', 3.2.09.

9 *Committee Hansard*, 9.2.09, p.47.

10 Mr O Blanchard, Interview with Mr Michael Rowland, ABC Radio, AM – *IMF warns world economy is slowing*, 29.1.09.

> …not all of the tax cut – in contrast to the government expenditure increase – will be spent, and hence not all of the extra dollar's income will go to extra demand for goods and services.
>
> It is true that cash handouts, which form part of the package, have a similar effect to a tax cut, in that they stimulate spending indirectly via increased household income. But their impact is greater if they are targeted at households at the lower end, who have a higher propensity to spend out of income. Tax cuts could also be beneficial, if they were similarly targeted at those on lower incomes, but direct payments can reach those who pay little or no tax.[11]

5.25 Mr Richard Evans of the Australian Retailers' Association stated:

> Cash is king. Cash in the hand makes a difference, and that is why is takes four to six months for an interest rate reduction, for instance, to take effect. It is because it takes that long for someone to psychologically realise that they have increased spending capacity. In our view what is needed is for some money to be given to someone who is told, 'Look you have to spend this money before the end of the year.' It needs that cash spike to flow through the system. In the longer-term, with the economy, tax cuts will add more cash into the system.[12]

5.26 Treasury and the Department of the Prime Minister and Cabinet officials provided the Committee with evidence to explain the choice of the tax bonus to achieve the Government's aim of a quick, direct stimulus to the economy. Dr Ken Henry, Treasury Secretary, commented that:

> If you want to have a speedier, timely impact on aggregate demand it is quicker to provide additional purchasing power to households.[13]

And:

> …a permanent income tax cut has implications for the budget both in the short-term and, obviously enough, in the medium to longer term, and this particular package has been designed to have a temporary fiscal stimulus and not to build into the budget long-term reductions in the fiscal balance. The purpose of the package is that the stimulus be temporary and, as the economy enters a growth phase, the budget return to surplus as quickly as is prudent.[14]

5.27 Dr Henry also commented on the multiplier effects of tax cuts and one-off payments:

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11 Mr G White, Faculty of Economics and Business, University of Sydney, SMH, 'Cash in hand worth more than Coalition's tax cut push', 6 February 2009.

12 Mr G Evans, ARA, *Committee Hansard*, 9.2.09, p. 10.

13 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, p.12.

14 Dr K Henry, The Treasury, *Committee Hansard*, 9.2.06, p.53.

> …that is, I am not sure that it is the case that the multiplier effect associated with a permanent cut in income taxes is larger than the multiplier associated with a one-off cash payment, for example, or a short-term fiscal stimulus. I know there has been a lot of commentary in the press both in Australia and internationally that indicates that that might be the case, but I do not believe that the evidence supports that conclusion at all.[15]

5.28 Mr David Tune, Department of the Prime Minister and Cabinet, also noted that one-off payments 'have some quite strong stimulatory impacts' and that:

> Tax cuts might have their place over a longish period of time. It depends a bit on the way you see the course of the economy going. But, in terms of short-term stimulus, my view would be that one-off payments are probably going to give you the biggest bang for your buck.[16]

5.29 Comments were made concerning the tax bonus and whether it will stimulate the economy or go into savings. It was stated that retailers had not seen spending of the full amount of the Economic Security Strategy (ESS). Dr Henry stated that over some quarters the ESS will contribute about half to one percentage point to gross domestic product.[17] Dr Henry also commented on the data currently available:

> I guess the first thing to say is that, for retail spending, thus far we have data for one month: December. It has certainly never been our expectation that all of the fiscal stimulus provided as a consequence of the October package would occur in the month of December. That was certainly never our expectation; it is not what we were saying at the time. But the first point to make is that retail sales is the minor proportion of household consumption. If you think of the national accounts aggregates of household consumption, investment, the government, of course, and net exports, household consumption is, I think, about 60 or 70 per cent of the demand components of gross domestic product—gross domestic product (E), as the statistician refers to it. Of household consumption expenditure, I think retail sales make up about 40 per cent, or something like that, of consumption. So the retail spending figures relate to about 28 per cent of GDP, I suppose—something like that—which is to say that one should expect the fiscal impact of the October package to come through not only in retail sales. That is the first point.
>
> The second point is that some of the stimulatory impact of the October package would be expected to come through in the present quarter and, indeed, subsequent quarters. Why might this be the case? Well, what is saving? Saving is merely deferred consumption.[18]

15 Dr K Henry, Treasury, *Committee Hansard*, 9.2.09, p.52.

16 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.06, p.30.

17 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, pp19-20.

18 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.09, pp8-9; see also Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, p.19.

5.30 Dr Henry went on to comment that additional government spending on items such as maintenance of school buildings or the acquisition of new items of capital equipment, contributes to aggregate demand equal to the increase in government spending. In relation to government programs to increase household disposable income, Dr Henry noted:

> ….if governments provide additional disposable income to households through whatever means then…for some period of time some proportion of those increases in disposable income per household will be saved so that something less than a full dollar of the addition to household disposable income will show up in aggregate demand in that year. Of course, it will show up in aggregate demand in some subsequent year because…saving is nothing more than deferred consumption, so by definition it is going to show up at some point. But less than a dollar will show up in the year in which the budget balance is impacted.[19]

5.31 In regard to concerns that the tax bonus would be saved or used to pay down debt, it was acknowledged that, while household expenditure surveys give an idea of household consumption patterns, there is no exact way of knowing what people will do with the money. However, the package is directed at those who have higher capacity to consume, that is mainly low- to middle-income groups, and there is evidence to suggest that one-off payments are more likely to be spent.

5.32 Dr Gruen of the Treasury commented:

> Qualitatively, I think it is reasonably well established that people on lower incomes tend to spend a higher share of these transfers to them. There is quite a lot of evidence of that. So to the extent that the package gave a higher proportion of the transfers to low-income people, you will get a larger effect on aggregate demand than if you gave a higher proportion of it to high-income people.[20]

5.33 Ms Lin Hatfield Dodds of the Australian Council of Social Service (ACOSS) also noted of the payments:

> In terms of this package, we welcome those payments because we recognise that we need to get cash flowing quickly. They are largely well targeted. It is largely, as I said before, to low- and middle-income earners.[21]

5.34 In relation to one-off payments, Dr Gruen commented:

> On one-off payments to people, there is evidence where they actually followed people who got one-off payments and other people who did not so that they have actually got detailed evidence on individuals rather than the

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19 Dr K Henry, The Treasury, *Committee Hansard*, 5.2.06, p.12; see also Dr KHenry, The Treasury, *Committee Hansard*, 5.2.06, p.24.

20 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.33.

21 Ms L Hatfield Dodds, ACOSS, *Committee Hansard*, 9.2.09, p.24.

> total effect on the economy. The evidence is quite strong that something like two-thirds of a one-off payment gets spent within the first six months.[22]

5.35 Mr Tune also commented:

> …if you provide a large lump sum in one hit that can have strong consumption effects. That very much depends, of course, on where you direct it to. You would try to direct it if you could to people who have a high propensity to consume—that is, they are going to spend most of it rather than save it—so you would want to target it in some way. Obviously if you give a tax cut, that is spread over a period of time. Let us say it was a $1,000 lump sum, just for the sake of argument, and $1,000 of tax cuts spread over 52 weeks. I would have thought you would get a better stimulus impact from the $1,000 lump sum than from the $1,000 spread over 52 weeks.[23]

5.36 Mr Tune concluded:

> The view taken on this package was that an immediate lump sum is going to boost consumption more in the short term than something that is done over a period of time. That is the judgement that has been made.[24]

5.37 Dr Gruen also commented that some stimulus packages being discussed around the world have some tax measures or some measures that are payments to individuals, 'but it is also the case that plenty of them are not tax cuts'. Dr Gruen stated that:

> For instance, the US package does not include income tax cuts; it includes tax credits in 2009-10 and access to per child tax credits. It has a series of temporary payments to individuals which are by their nature rather similar to the payments in the package under consideration.[25]

5.38 Additional information was provided to the Committee on those countries who have provided tax cuts including Canada and those who have not such as Spain and is available at Appendix 3.

Eligibility

5.39 Comments were received concerning the eligibility requirements which require a person to have an adjusted tax liability for the 2007-08 income year in order to receive the bonus. It was argued that the majority of age pensioners and persons on unemployment benefits for a significant proportion of the 2007-08 income year did not have such a liability.

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22 Dr D Gruen, The Treasury, *Committee Hansard*, 5.2.09, p.43.

23 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.30.

24 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.40.

25 Dr D Gruen, The Treasury, *Committee Hansard*, 9.2.09, p.47.

5.40 Mr Tune noted that some unemployed people will receive a payment through the training and learning bonus.[26] (The training and learning bonus is discussed in Chapter 3.) In addition, those people who are newly unemployed will receive the tax bonus as they will have an adjusted tax liability for 2007-08.

Impact of delay and amendments

5.41 The Committee heard evidence from the Australian Taxation Office and Centrelink that any delays to the package would make it difficult to implement in a timely fashion. Mr Michael D'Ascenzo, Commissioner of Taxation, made the statement that:

> The period between now and April is a relatively short one when you are thinking of the size of the payments that we have to roll out to taxpayers. I think 75 per cent of our individuals market is affected, so that involves redeveloping our systems, working with Australia Post, working with the Reserve Bank, working with the tax profession. All that can be done prior to tax time, but once we get into June-July, I do not think I could do both at the same time. So one would have to be deferred. So any sort of further delay moves the feasibility of being able to do that into a critical period where I do not think both can occur.[27]

5.42 Mr Finn Pratt of Centrelink commented that systems are in place to fast-track payments:

> Our advice was that we could do it from the week of the 11th because we had a major systems release on at that time, and it enabled us to engage all of the infrastructure which is in place to do a major release. We have many, many testers in place, so that was one of the reasons why we could fast-track it. [28]

5.43 When asked about the impact of changes to the package, Mr D'Ascenzo, Commissioner of Taxation replied:

> Basically I need to redevelop part of my system to allow for this. So if there is any change you are really back to square one in terms of that redevelopment of the system.[29]

5.44 In response to the same question, Mr Pratt noted:

> If the parliament passes this legislation next week, as currently presented, we will be able to implement it for 11 March. If there are changes made

26 Mr D Tune, Department of the Prime Minister and Cabinet, *Committee Hansard*, 6.2.09, p.38.

27 Mr Michael D'Ascenzo, Australian Tax Office, *Committee Hansard*, 6.2.09, p.37.

28 Mr F Pratt, Centrelink, *Committee Hansard*, 6.2.09, p.7.

29 Mr Michael D'Ascenzo, Australian Tax Office, *Committee Hansard*, 6.2.09, p.37.

next week, it is quite likely that this will result in a deferral of our implementation date.[30]

30 Mr F Pratt, Centrelink, *Committee Hansard*, 6.2.09, p.8.

CHAPTER 6

Concluding Comments

6.1 The world is facing the worst global economic crisis since the Great Depression. Every major advanced economy is now in recession and key emerging economies are slowing sharply. While Australia is better placed than most other countries, it is not immune from these global economic forces. The deepening global recession is threatening growth and jobs in our economy and the financial security of families and businesses.

6.2 In normal times, monetary policy would be the primary instrument for supporting demand, but these are not normal times. The overwhelming view of international institutions, industry groups and respected economists is that significant fiscal stimulus is needed to limit the fallout from the collapse in global demand. The IMF has recommended a fiscal stimulus of 2 per cent of global GDP for calendar year 2009. The Nation Building and Jobs Plan is consistent with this recommendation and is broadly in line with the size of stimulus packages being implemented in other countries.

6.3 The Nation Building and Jobs Plan will provide an immediate stimulus to the Australian economy and help mitigate the effects of the global recession on growth and employment. This action is critical to restoring stability, underpinning confidence, and supporting growth and jobs in the economy. Evidence provided to the Committee indicated that without timely implementation of this Plan, the Australian economy could stall and many more Australians could face unemployment.

6.4 The six bills before the Senate contain the key components of the Government's Nation Building and Jobs Plan. The plan combines an immediate stimulus to the economy, through the payment of five cash bonuses, with direct investment in national infrastructure, including schools, community housing, energy efficiency and roads and support to small businesses. It delivers an appropriate balance between providing immediate support for growth and jobs, and making the investments needed to strengthen the future economic growth.

6.5 The Plan has been designed to provide a timely, temporary and targeted stimulus to the economy. It does not lock in permanent increases in government spending. Evidence presented to the Committee shows that the Governments balance sheet will remain in a strong position, particularly when compared with almost all other comparable economies.

6.6 To limit the fallout of the global recession on Australian families and businesses, the committee supports the timely implementation of the Government's Nation Building and Jobs Plan.

Recommendation 1

6.7 The Committee recommends that the Senate pass the bills as a matter of urgency.

Senator Helen Polley

Chair

Coalition Senators' Dissenting Report

SPENDING SPREE NOT STIMULUS

SUMMARY

Having carefully considered the Government's package, and the evidence presented to the Committee, Coalition Senators believe the package:

- will not achieve the objectives the Government claims;
- is too big at this time, leaving little scope for further measures if needed later;
- is poorly thought through and a poor quality use of $42 billion of taxpayers' money;
- lacks ingredients that should be part of packages of this kind – measures to increase employment, productivity, efficiency and competitiveness; and
- commits Australia to record amounts of debt (the Government seeks authority to borrow $200 billion), endangering the nation's long-term economic security.

Coalition Senators are not opposed to a responsible stimulus package.

But nothing Coalition Senators have heard at the Committee's hearings gives them confidence that the package has been subject to the full intellectual rigour and detailed examination that should be required when committing to spending $42 billion of taxpayers' money.

Rather, it appears that the development of the package and its contents have been politically driven not economically driven.

INTRODUCTION

On Tuesday 3 February 2009, the Government announced a new package of measures totalling $42 billion and including an Updated Economic and Fiscal Outlook (UEFO). The new measures bring the total Government stimulus packages announced to date to $74 billion or 6.4 per cent of GDP (see Table 2).

The legislation effecting the package was introduced on Wednesday 4 February 2009, with the Government insisting that both the House of Representatives and the Senate should pass the legislation unamended by Thursday 5 February 2009. That is, the Government insisted that Parliament approve the expenditure of $42 billion of public money in 48 hours.

Because such a large amount of taxpayers' money is involved, Coalition and minority Senators voted that an Inquiry be held into the package of legislation, so it could be subject to detailed scrutiny.

Despite the need for careful examination, the Government forced a hurried inquiry, with the Report due by Tuesday 10 February 2009. The Government has been unable to articulate a strong reason for the unnecessary haste. It originally claimed that the Centrelink cash bonuses could not be delivered on time unless the package was rammed through the Parliament in 48 hours. Yet in evidence to the Committee, the CEO of Centrelink Mr Finn Pratt said "If the parliament passes this legislation next week, as currently presented, we will be able to implement it for 11 March". (Proof Hansard Friday 6 February 2009, p8). Further, Coalition Senators expressed their concern that the timetable for consideration of this huge financial package has been so hasty that Treasury has been unable to provide answers to many of the Committee's questions on notice.

Coalition Senators note that the unprecedented demand for the passage of a series of large measures without due scrutiny poses a significant risk to the Public Account. Not only is there a risk that the size of the package is too great, but the components of the package might be of poor quality and therefore achieve less impact than some alternative package. The spending of taxpayers' money is not costless; there is an opportunity cost in providing public spending and that includes alternative options foregone such as returning taxes to the people who paid them.

Coalition Senators have reached the conclusion that this package does not conform with best economic theory and evidence, has been insufficiently analysed by the Departments of Treasury and Finance, is too large, and leaves insufficient capacity to respond to future needs.

Coalition Senators are deeply concerned that the Government has failed to consider or model alternative policies and has committed significant public money to a range of programmes that will not achieve the Government's stated objectives.

To summarise, the package:

- ***is too large;***
- ***has been introduced too early;***
- ***imposes too much debt on Australian taxpayers; and***
- ***is poorly targetted to achieve its stated objective "to support economic growth and jobs in Australia"*** *(UEFO, page 17).*

Coalition Senators therefore recommend that the Senate vote against the package as a whole. The Government should then present to the Parliament an appropriate stimulus package that is more modest, better targeted and which contains components that would genuinely improve productivity, assist in genuine job creation, and raise the living standards of the Australian people.

ECONOMIC CIRCUMSTANCES

International

International economic conditions have weakened, and it is widely accepted that the world is in recession, with the G7 countries in particular suffering significant recessions. According to the forecasts in UEFO, Chinese growth has also dropped significantly, to an estimated 6 ½ per cent in 2009. Forecasts for growth in the euro area are around minus 2 per cent in 2009. It is noteworthy that the majority of countries – including the G7 countries and Brazil, Russian, India and China – have included tax cuts in their stimulus packages. According to *The Economist (*31 January 2009, p71*)*, the average stimulus is estimated at 2.8 per cent. Governments have also taken on substantial public liabilities, in many cases taking equity in private banks.

National

Australia's economic conditions have weakened, but remain significantly stronger than the rest of the world. The UEFO forecasts growth in Australia to be 1 per cent in 2008-09 and ¾ of a per cent in 2009-10. It also forecasts that unemployment will rise to 7 per cent by the June quarter 2010, compared with the present unemployment rate of 4.5 per cent for the month of December 2008.

There are a number of reasons for the relative strength of Australia's economy compared with overseas. A major reason is a long series of economic reforms, commencing with the Hawke/Keating Government's floating of the dollar in 1983 with bipartisan support from the Coalition which then accelerated under the Howard/Costello Government. These macroeconomic and microeconomic reforms included: liberalising trade, opening capital markets, improving the regulation of the corporate and financial sector, enhancing competition, freeing up the labour market and a myriad of other measures to make Australia's economy stronger, more resilient and more dynamic adding to the living standards of Australians.

Australia's financial sector is the envy of the world – the four major Australian banks now being in the top 20 of the highest credit ratings of banks in the world. Our regulation is, as the Deputy Prime Minister said at Davos, "better than world class". According to the Australian Prudential Regulation Authority, Australian banks continue to be in a relatively strong state, a testimony to the success of the prudential regulation regime established by the former Coalition Government.

The legacy inherited by the Rudd Government in November 2007 was one of a very strong economy, with a dynamic and flexible labour market, sound financial regulation, and strong economic growth. The unemployment rate was at a 30 year low, with record high participation rates; public net debt had fallen to minus $41 billion; inflation was in the target range of 2 to 3 per cent; consistent budget surpluses had been achieved and were forecast over the forward estimates; a number of significant investment funds were established to address long-term challenges such as the ageing of Australia's population (including the Future Fund and the Higher Education Endowment Fund); and a long series of sustainable tax cuts have returned the benefits of sound economic management to the Australian taxpayer.

Professor McKibbin in evidence to the Committee (Submission) lent his support to the view that the Australian economy was very strong compared with other countries and said:

> "Up until this point the Australian economy has proven to be a good model for economic reform combined with careful regulation and an appropriate role for Government. This reality should be reinforced whenever possible".

Government policy to date

Many of the Government's policies to date have been misguided, ad hoc, and hasty. For example, the Government's decision to provide an unlimited guarantee for bank deposits created a substantial distortion which negatively affected – and continues to affect – the savings of hundreds of thousands of Australians. Similarly, through much of 2008 the Government overstated the inflation threat and increased inflation expectations leading to higher interest rates. The effects of those increases are still feeding through into economic activity. The Government talked down the economy for political gain, undermining business and consumer confidence. The Government took decisions to increase taxes and other revenue in the May Budget after talking of "painful" budget cuts in the months and weeks beforehand.

Coalition Senators consider that this pattern of policy mistakes and rushed decision making in the attempt to appear "decisive" has weakened the Australian economy, lowered business and consumer confidence, and exposed Australia needlessly to additional risk from the global financial crisis. Coalition Senators consider that the present package continues this pattern of rushed decision making and urge the Government to be more cautious, competent and strategic in its management of the economy.

The importance of business and household confidence was emphasised by Professor McKibbin in evidence to the Committee. He said:

> "Therefore, the first requirement of the Nation Building and Jobs Plan Bills should be to help restore confidence. Ideally this would imply that all sides of politics would reach a consensus on the way forward and would quickly pass legislation through the Parliament. It is unfortunate that this consensus was not reached early through a bipartisan approach" (Submission).

Coalition Senators agree with this statement and regret that the Coalition's repeated offer to work with the Government in a bipartisan manner has been consistently rejected by the Prime Minister.

THE PACKAGE

The stimulus package comprises 10 components structured into two key themes: building prosperity for the future and supporting jobs now, as shown in the table below.

TABLE 1: Key components of the $42 billion package

	Underlying cash balance impact				
	2008-09	2009-10	2010-11	2011-12	Total
Building prosperity for the future					
Building the Education Revolution	-987	-8,624	-5,109	0	**-14,720**
20,000 Social and Defence Homes	-260	-4,274	-1,794	-312	**-6,640**
Energy Efficient Homes	-39	-1,540	-1,544	-736	**-3,859**
Small Business and General Business Tax Break	0	-840	-1,350	-515	**-2,705**
Black Spots, Boom Gates and Community Infrastructure	-480	-410	0	0	**-890**
Sub-total	**-1,766**	**-15,687**	**-9,797**	**-1,563**	**-28,813**
Supporting jobs now					
Tax Bonus for Working Australians	-6,950	-1,201	0	0	**-8,151**
Single-income Family Bonus	-1,273	-147	0	0	**-1,420**
Farmer's Hardship Bonus	-20	0	0	0	**-20**
Back to School Bonus	-2,347	-271	0	0	**-2,618**
Training and Learning Bonus	-413	-98	0	0	**-511**
Sub-total	**-11,004**	**-1,717**	**0**	**0**	**-12,721**
Total Stimulus Package	**-12,770**	**-17,404**	**-9,797**	**-1,563**	**-41,534**

Source: Updated Economic and Fiscal Outlook, page 17

The Government argues that the components in the *Building prosperity for the future* are aimed at improving productivity, but Coalition Senators consider that spending taxpayers' money on these projects is unlikely to enhance productivity. Programmes that simply spend taxpayers' money on social housing or subsidise activities that are self financing are highly unlikely to improve productivity.

The various grants under *Supporting jobs now* are clearly attractive to recipients. But by focussing on grants rather than tax cuts, the Government has rejected a more effective measure. And by making the grants so large, the Government has reduced the scope for future stimulus measures.

Deficits and Debt

The UEFO shows that the accumulated deficits between 2008-09 and 2011-12 are projected to be $118 billion. Of that, policy decisions taken since the May Budget make up the majority: $67 billion over the forward estimates, including $29 billion in 2008-09. The Government's own figures show that in the absence of its policy decisions, the budget would still be in surplus in 2008-09. The Government has simply run up Commonwealth debt – its amendments to the Commonwealth Inscribed Stock Act seek authority for borrowing up to $200 billion – an unprecedented amount for Australia. This amount – $9500 per man, woman and child – is a burden on Australian taxpayers that will reduce Australia's growth. Treasury was unable in the timeframe to provide an estimate of the interest cost of the debt. However, David Crowe in the *Australian Financial Review* (10 February 2009) estimates that the interest cost on the proposed debt will rise to $7 billion a year.

The net deterioration in the Commonwealth's Budget position between 2007-08 and 2008-09 is projected to be 3.6 per cent of GDP. This is similar to the deterioration under the Whitlam Government, which went from a surplus of 1.9 per cent of GDP in 1973-74 to a deficit of 1.8 per cent of GDP in 1975-76. However, Coalition Senators note that although the current deterioration is roughly similar to that previous episode in terms of percentage of GDP, under the current Government the deterioration is projected to occur over the course of a single year – twice as fast as the deterioration under the Whitlam Government.

Coalition Senators further note that the latest stimulus package follows earlier measures which together now total almost $75 billion. Again, the Government has been unable to articulate the need for a further stimulus package of such a size and composition following these earlier packages which have not been assessed for their efficacy. At 6.4 per cent of GDP (see Table 2), the stimulus measures in Australia are larger than those in the United Kingdom and United States among others – countries that are in considerably worse economic health and therefore require commensurately larger fiscal stimuli.

In evidence tabled by Treasury to the Committee on 5 February 2009, a comparison of fiscal stimulus packages around the world in 2008 and 2009 was provided. This supports the Coalition Senators' view about the relative size of the Australian stimulus. Using only the $10.4 billion and $42 billion packages, Treasury calculates that Australia's stimulus is 4.9 per cent of GDP. This is four times the size of the US stimulus as a proportion of GDP (1.2 per cent) as shown in the Treasury evidence. It also showed that the UK's stimulus was 1.4 per cent of GDP, Germany was 2.6 per cent of GDP, Japan was 2.6 per cent of GDP and France at 1.4 per cent of GDP.

Excessive debt has been a major cause of the global financial crisis. Coalition Senators therefore are bemused that the Government is unconcerned about the prospect of a significant increase in public debt. The lessons of the mid-1990s show that the burden of public debt significantly impaired the economic performance of Australia.

Coalition Senators are concerned by the lack of a clear strategy to return the budget to surplus. The UEFO provides no detail other than allowing tax receipts to increase and holding growth in real spending to 2%. Worryingly, despite numerous queries, officials from the Treasury and the Department of Finance and Deregulation were unable to provide further detail about how these commitments would be met over the period.

Furthermore, Coalition Senators are concerned by the UEFO projections outlining $50 billion in deficits over 2010-2012 despite a projected economic recovery and 3% growth in real GDP. Treasury officials were unable to project when the community might expect the budget to return to surplus.

TABLE 2: GOVERNMENT STIMULUS PACKAGES ANNOUNCED TO DATE

Package	$ million
Economic Security Strategy (October 2008)	10,400
COAG Package	15,200
Nation Building and Jobs Plan (February 2008)	41,534
Ruddbank (Government contribution)	2,000
Local Community Infrastructure	300
Infrastructure package	4,700

TOTAL	74,134

[1]

Coalition Senators are concerned that the Government is unable to provide evidence on the success or otherwise of the $10.4 billion package announced on 14 October 2008, yet it is now asking the Senate to approve a further package of four times the size. In evidence to the Committee, Dr Henry said "so we are only going to get by the first week of March a very partial reading of the impact on both household consumption and household saving of the October package" (Proof Hansard 5 February 2009, page 9). Further, in evidence given on Monday 9 February, Richard Evans of the Australian Retailers Association stated "it is too early to determine whether or not the cash has entered the market in any significant way. Indeed it may take six months before we actually the results …". (page 2-3).

When questioned about the small increase in retail sales in December, Mr Evans noted "retailers have been discounting since November to stimulate customers. It was very soft in December" (page 2).

Even more concerning, when asked about how Australians could judge the success of the proposed $42 billion package, Dr Henry conceded that we may never know. He said "… it is going to be difficult for us to be able to provide the Parliament with precise estimates of the actual fiscal impact of the package". (Proof Hansard, Monday 9 February 2009, page 56).

ECONOMIC PRINCIPLES, THEORY AND EVIDENCE

Many leading academic economists have spoken publicly of their concerns that fiscal stimulus of the sort proposed by the Government is ineffective or, worse, counterproductive. This view reflects a large body of theoretical and empirical work over the last thirty years (the Appendix contains more detailed discussion).

In the United States, three Nobel laureates in economics (James Buchanan, Edward Prescott and Vernon Smith) and a number of other economists including Deepak Lal, John Cochrane and Michael Bordo have signed an open letter to the American President stating that:

> "*… it is a triumph of hope over experience to believe that more government spending will help the U.S. today. To improve the economy, policymakers should focus on reforms that remove impediments to work, saving, investment and production. Lower tax rates and a reduction in the burden of government are the best ways of using fiscal policy to boost growth*" (Open letter from 200 economists *New York Times/ Washington Post/Wall Street Journal*, January 2009).

Harvard University economics professors, Robert Barro and Greg Mankiw have provided clear statements of their concerns.

Barro has cautioned against "programs that throw money at people" and "massive public-works programs that do not pass muster" and emphasised the value of income and corporate tax reductions (*Wall Street Journal*, 22 January 2009).

[1] Note the above packages have been expressly identified by the Government. Other policies have been claimed by the Government as being designed to respond to the Global Financial Crisis, for example the "New Car Plan For A Greener Future" ($6.2 billion) which add further to size of the Australia stimulus package

Mankiw has pointed out three home truths as his government rushes to introduce a huge increase in government spending (*New York Times*, 11 January 2009). First, the effect of government spending on the economy is not very large. Second, public spending on poorly chosen projects will not improve economic well-being. Third, evidence suggests that the effects of tax cuts are greater than spending increases, perhaps twice as large.

A number of leading Australian economists have raised similar concerns about fiscal policy in general and the Australian government's approach in particular. Professor Tony Makin of Griffith University has written:

> "*The textbook consensus is that for open economies, fiscal policy is ineffective in stabilising aggregate demand in the short run under floating exchange rates – especially if it means lifting unproductive government spending and running up public debt to fund it*" (*Australian Financial Review*, 15 December 2008).

Australia is an open economy with floating exchange rates and a high degree of international capital mobility. Further, "if the extra government spending fails to generate an economic return sufficient to cover the servicing costs of the foreign borrowing required to fund it, the seeds are sown for a future currency crisis" (*Australian Financial Review*, 4 February 2009). The proposed expenditure on education and social housing, as well as the transfer payments will not generate a return to cover debt servicing costs.

In evidence to this committee, Professor Sinclair Davidson, of RMIT, has argued that spending multipliers are often overstated. He has advised that the government should consider tax cuts such as a GST or pay roll tax holiday and bringing forward the "aspirational" income tax cuts suggested by the Labor Party prior to the election.

Reserve bank board member and professor at the Australian National University, Warwick McKibbin, has stated that the December 2008 stimulus payments did not have much impact and has called for a halving of the GST for a year (reported in *The Age*, 30 January 2009).

The chairman of Concept Economics, Professor Henry Ergas (*Australian*, 9 February 2009) has a number of concerns about the effectiveness of fiscal policy, noting also that the latest stimulus appears to be "too much, too soon", a view shared by the Coalition and discussed further below.

There is no evidence that the government has requested or considered a detailed examination of the theoretical and empirical work on this subject before reaching its policy conclusions. In public it has relied on selective use of opinions expressed by certain individuals at international bodies such as the IMF while eschewing the views of the organisation.

Whilst much of the evidence suggests that tax cuts have a relatively large fiscal multiplier, Coalition Senators note that the Government effectively raised taxes when the planned "aspirational" tax cuts were abandoned in the Mid-Year Fiscal and Economic Outlook. Page 52 of that document states that:

> "In the 2008-09 Budget, the Government made a provision for its aspirational tax goals in 2011-12. The Government said that achieving its aspirational tax goals 'will depend on economic conditions and the need to maintain fiscal responsibility'. Given

> the dramatic deterioration in the global economic outlook and associated increased uncertainty, the provision will no longer be maintained. The Government will reconsider the policy parameters following an improvement in overall economic conditions."

Coalition Senators are puzzled as to why the Government believed back in November 2008 that it was not fiscally responsible to carry out its election commitment of planned tax cuts and quietly abandoned them, but that less than three months later it has now decided that it is fiscally responsible to spend $42 billion and seek authority for borrowing up to $200 billion. No explanation of this has been provided.

THE GOVERNMENT'S ANALYSIS

Treasury's modelling of the stimulus package is a black box. We have no idea of the structure of the model, the data used or the results for GDP or employment for each of the ten policies in the plan. The figures that have been floated are unsupported by detailed analysis, appear fanciful and are inconsistent. The Government claimed that the $10.4 billion package will create about 75,000 jobs at an average cost of $139,000 per job; infrastructure package of $4.7 billion will create 32,000 jobs at a cost of $147,000 per job; COAG package of $15.1 billion will create 133,000 jobs at a cost of $114,000 per job. Yet, the $41.5 billion package will "support" up to 90,000 jobs over the next two years at an average cost of $461,000 per job or $230,500 per job per year. Coalition Senators note the change in language and Treasury's inability to account for this.

The $41.5 billion package has much lower job "support" than the $10.4 billion package. The result is curious as the second package has large infrastructure spending which Treasury tells us (Dr Gruen's evidence, 5 February 2009, p. 11) has a higher GDP multiplier (closer to 1) than transfer payments (closer to 0.5). No details have been supplied about exactly what are the estimated GDP and employment multipliers for each sector of the economy in the model of the ten components of the package.

It appears that the Nation Building and Jobs Plan was provided by the government to Treasury for modelling, rather than prepared by Treasury. And it appears that Treasury was not asked to model any alternative policies.

The Government has consistently stated that it wanted open, transparent and accountable government with evidence based policy. Yet in the case of the present package, the Government has failed to provide any accountability measures and has not provided any regulation impact statements to establish that the Bills will provide a net benefit to Australians and that the proposed measures are superior to any alternatives. The Government has also failed to provide any key performance indicators to assess the effectiveness and efficiency of the package.

SIZE OF STIMULUS

The Government has not made available analysis of the size of the stimulus. This appears not to be readily available despite the Prime Minister's statement on the importance of co-ordination across countries.

According to page 71 of *the Economist* (31 January 2009), the weighted average stimulus of the G7 countries plus Brazil, Russian, India and China, was 3.6 per cent of GDP spread over several years. See table for the individual country details.

Australia has a bigger stimulus than these other countries which are in a significantly worse financial and economic state than Australia. (Australia's stimulus is about 6.4 per cent of GDP (and around 4 per cent for the $42 billion package) taking into account the $10.4 billion package, the $15 billion COAG package, the $4.7 billion infrastructure package and this $42 billion second stimulus package). 2

A smaller stimulus today would leave greater room for the future should a further stimulus be required.

Saul Eslake said that a large fiscal stimulus leading to high debt would mean higher taxes in the future. "It may well be that servicing or repaying the debt incurred now will ultimately require higher taxes" (Proof Hansard Monday 9 February 2009, page 37).

Dr Henry said in evidence to the Committee when asked about repaying the debt "it could also be achieved by asset sales" (Proof Hansard Monday 9 February 2009, page 40).

Professor McKibbin in evidence to the Committee argued that Australia's relative economic strength and the likelihood that the global economic slowdown may be sustained suggested that:

> "The current package is too large at this stage of the global economic slowdown. Given the circumstances in Australia, the package should be less than the 2 per cent of GDP average stimulus recommended by the IMF". (Submission)

TIMING OF STIMULUS

In his address to Treasury staff on 14 March 2007, Dr Henry stated that "for macroeconomic purposes, it is probably reasonably safe to assume that we are already at full employment – or, at least, very close to the NAIRU, the non-accelerating inflation rate of unemployment". When Dr Henry made this statement, the unemployment rate was 4.6 per cent (February 2007, seasonally adjusted).

In evidence to this Committee, Dr Henry has said "we are not in a position of full employment… this is not a situation in which we are having a fiscal expansion with an economy already at full employment" (5 February 2009, p. 30). While Coalition Senators note that unemployment is a lagging indicator, no explanation was provided for the

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[2] The Aggregate of stimulus packages announced by Kevin Rudd this financial year is $74.1 billion or 6.4 per cent of GDP when calculated the same way as the Economist table. That is, it is the total amount announced even though spread over several years divided by this year's GDP. Note also, that a larger stimulus by Australia cannot possibly increase world economic growth.

contradiction in his views nor was evidence provided that the unemployment rate is significantly higher than the Australian Bureau of Statistics' figure of 4.5 per cent.

In evidence to this committee, Dr Gruen said that in the Treasury's modelling, "the unemployment rate will return to the model's rate at which inflation is neither rising nor falling sometimes called the NAIRU" (5 February 2009, p. 42).

This is not an abstract point. If NAIRU is between 4.5 and 5 per cent, then there is a practical question of why we are undertaking such a massive fiscal policy intervention now. While the government wishes to pre-empt an increase in unemployment, on Treasury's analysis, it would seem prudent to wait. There are costs of acting precipitately. It will be a large diversion of productive resources into less productive uses for limited immediate benefit should conditions not deteriorate as much as some fear. Alternatively, it will leave the government less able to respond in the future should conditions dramatically worsen.

Professor McKibbon, in evidence to this committee noted that an economic downturn may persist for some time and that the economic and regulatory strengths of the Australian economy allow Australia to have a smaller response than other countries. The Coalition considers that there is, therefore, a very real concern that this stimulus package may be, as Henry Ergas puts it "too much, too early".

COMPOSITION OF STIMULUS

As discussed above little consideration has been given to alternative policies and no justification has been provided for why the elements of the package have been chosen above alternatives.

Tax cuts

Many leading economists conclude that tax cuts are preferable to spending increases.

The Economist (31 January 2009, page 71) table referred to above shows that all of the G7 and BRIC countries have tax cuts in their stimulus packages. The IMF's *World Economic Outlook* (October 2008, page 178) concludes that "revenue-based stimulus measures seem to be more effective in boosting real GDP than expenditure-based measures", especially in advanced economies like Australia's. The six-monthly Outlook is the most important regular statement of IMF policy and this conclusion is contained in a chapter examining in detail the evidence on fiscal policy as a countercyclical tool.

The Government has rejected the possibility of tax cuts which so many other countries consider superior to a handout only package. It has also rejected the considered advice of the IMF in favour of tax cuts over transfer payments (IMF, *World Economic Outlook,* October 2008).

Tax options raised by leading Australian economists include permanent measures such as bringing forward the already announced tax cuts scheduled for 2010 or introducing the aspirational income tax cuts. Temporary measures include a GST rate cut or payment holiday and a payroll tax holiday.

Payroll tax and GST can be changed quickly and implemented as quickly as spending increases, as can the Coalition's suggestion of some federal assistance to partially pay for the superannuation guarantee of small businesses.

Another reason to favour tax cuts as a significant part of the package is because tax cuts can be relied upon to increase the productive capacity in the longer-term and therefore they increase GDP growth. As the Treasurer himself noted in his Second Reading speech on the Tax Laws Amendment (Personal Income Tax Reduction) Bill to the House on 14 February 2008:

> "Economic modelling undertaken by the Treasury indicates the personal income tax reforms alone will lift aggregate labour supply by around 65,000 persons in the medium term. This increase in workers, together with the increase in the effort of existing workers, will make available around 2.5 million additional hours of work to the economy each week. These tax reforms will also enhance the incentives for taxpayers to upgrade their skills and gain higher qualifications by allowing workers to keep more of the wage gains that come with being more highly skilled and productive."

Professor McKibbon also noted in his testimony:

> "The main problem I see is in the cash payments. I would replace the intent of these payments by bringing forward the tax cuts that are already legislated for future years."

Poorly selected spending programmes, by contrast, will work in the opposite direction. Experience suggests that the private allocation of resources generates higher returns on average over the long-run.

Quality of projects

Many economists have raised the concern that public spending on poorly chosen projects will not improve economic well-being.

The announcement of $21.4 billion in public expenditure on schools and public housing provides no serious explanation as to why these projects were chosen instead of the many other alternative public and private projects that could be undertaken.

Of course the Coalition believes in our schools and in housing, but are these the best investments to undertake with over $21 billion of public money and debt?

In evidence (5 February 2009, p. 18) Dr Henry states "a project which would make a substantial enhancement to the future supply capacity of the economy is a project that should be done anyway. And it should be done on top of these measures."

However, Coalition Senators endorse the view taken by many of the world's leading economists that such an approach is unnecessary and undesirable. All projects chosen as part of a stimulus package can and should be worth doing in their own right.

The Coalition finds it remarkable that the Government has been unable to identify worthwhile projects given that it says it has been thinking about Australia's infrastructure needs since it won office over a year ago.

Coalition Senators are also surprised that the Government does not appear to have estimates of the multipliers for individual components. Senator Joyce asked if this meant that spending $42 billion digging holes and filling them in again would result in the same stimulus as the 10 components actually chosen. Dr Gruen replied:

> "I guess the answer to that is that Keynes at some point made the point that the effect on aggregate demand would be the same if you dug holes and filled them in. It is actually a famous example. But to the extent that you can do something which has the same effect on jobs and you end up with something that is actually what society wants, that is clearly preferable to digging holes and filling them in." (Proof Hansard Monday 9 February 2009, page 57).

Coalition Senators are concerned about the shortcomings of the Government's analysis which is unable to distinguish the effectiveness of different programmes either in their short-term stimulus effects or their long-term effects on economic growth.

In regard to long-term effects on economic growth and employment, Treasury has confirmed that "in the long run we are not talking about saving jobs" (Proof Hansard, Thursday 5 February 2009, page 41). This is in contrast to statements from the Government which appear to suggest that the job creation effects of the package are both short and long-term. For example in UEFO (page 17), it states that the *Building prosperity for the future component* of the package will not only boost demand and increase employment over the next couple of years, but will also add "to the productive capacity of the economy in the longer-term".

Coalition Senators also noted that the component to encourage insulation in homes is inconsistent with the Government's own Carbon Pollution Reduction Scheme. The Treasurer's "Energy Efficient Homes Program" released on 3 February 2009 says:

> "Overall, it is estimated that these new measures could result in the abatement of 4.7 million tonnes of carbon dioxide equivalent (Mt CO2-e) per year from the end of the program, and total abatement of 49.4 Mt CO2-e by 2020."

However, the CPRS White Paper involves a reduction target of 5 per cent of emissions by 2020. The installation of insulation would reduce the price of permits to other emitters and not result in any additional carbon emissions reductions beyond the 5 per cent target. By reducing the permit price, the insulation scheme is an effective subsidy to high emitters.

CONCLUSION

Australia has enjoyed a long period of strong economic growth, falling unemployment due in large measure to a long series of micro and macro-economic reforms. As a result, Australia is better prepared than other countries to withstand the economic downturn.

The Government has panicked and wants to rush through an extremely large fiscal package with inadequate analysis and scrutiny and without considering alternatives. In addition the Government has failed to demonstrate the effectiveness of its previous stimulus measures, especially with regard to its claims that the October 2008 package would create 75,000 jobs – a claim that has now been widely discredited.

RECOMMENDATION

Accordingly Coalition Senators recommend that the Senate reject this package and vote against the six Bills.

Senator Mitch Fifield
Deputy Chair

Senator Scott Ryan

Senator Barnaby Joyce

Senator Eric Abetz

Senator Helen Coonan

APPENDIX

Coalition Senators firmly believe that some basic economic principles should be kept in mind when examining the efficacy of fiscal stimulus packages. A dollar of additional Government spending creates both benefits and costs. Weighing up those costs and benefits should always be done with a great amount of care, in order to obtain maximum "bang" for taxpayers' "buck". This is even more important when such large amounts of money are at stake and the size of the debt to be incurred by the public in this instance is so significant.

The basic economic principle of opportunity cost means that an additional dollar of Government spending must always draw resources away from alternative economic uses in the private sector. As Treasury Secretary Dr Ken Henry noted in his speech of 14 March 2007:

> "Expansionary fiscal policy tends to 'crowd out' private activity: it puts upward pressure on prices which, all things being equal, puts upward pressure on interest rates. Depending upon the size of the interest rate response, the nominal exchange rate might also appreciate, squeezing further resources out of the traded goods and services sectors of the economy. As a rather crude, but nevertheless instructive generalisation, there is no policy intervention available to Government, in these circumstances, that can generate higher national income without first expanding the nation's supply capacity. Policy actions that expand the nation's supply capacity target at least one of the 3Ps — population, participation or productivity – that we have been talking so much about in recent years.
>
> Now you might be thinking that that's all pretty obvious. It is, after all, a tautology. But one of my messages to you today is that if you understand what I have just been talking about, then you are a member of a rather small minority group. The political economy hasn't kept pace with the real economy."

The Department of Finance's *Handbook of Cost Benefit Analysis* makes a similar point at page 43:

> "(a) Employment multipliers
>
> The existence of unemployment sometimes leads analysts to augment the benefits from Government projects due to indirect effects of the project on employment and output. The reason given is that if labour which would otherwise be unemployed is used on a public project, the expenditures of the newly employed workers may raise employment and incomes in other sectors of the economy where labour and other factors of production would otherwise be involuntarily idle, and so on in a chain reaction.
>
> The problem with this approach is that any such multiplier effect could also be achieved by alternative uses of the project resources. Instead of undertaking the project, the Government could reduce taxation or increase expenditure, either of which could be expected to have an expansionary (though not necessarily similar)

> effect on income and employment. It should be remembered that cost-benefit analysis is always concerned with incremental costs and benefits, that is, with effects which would not have occurred in the absence of the project."

And on page 40 the handbook states that:

> "To say that a project will create 100 jobs is not to say that a project will reduce unemployment by 100 people. As a general rule, it is recommended that analysts assume that labour, as with other resources, is fully employed. Moreover, unless the project is specifically targetted towards the goal of reducing unemployment, it can be expected that many of the jobs will be filled by individuals who are currently employed but who are attracted either by the pay or by other attributes of the new positions. The research necessary to justify the use of shadow pricing of labour should include, therefore, the mix of unemployed and continuously employed persons in the additional employees."

Professor Kevin Murphy of the University of Chicago has recently developed these ideas further, proposing a simple analytical framework for assessing the proposed fiscal stimulus package in the United States.[3] He notes that a proper assessment of the benefit of an additional dollar of spending should take account of the extent to which worthwhile projects will be correctly identified and ranked by the Government, the extent to which the dollars that are spent will actually employ idle resources, the opportunity cost of those idle resources, and the efficiency cost of raising the tax revenue to fund the additional spending.

Professor Sinclair Davidson in his evidence to the Committee highlighted these concerns and the evidence from leading international economists. In particular he concludes "discretionary fiscal policy has a poor track record of success". In particular "Keynesian strategies are less likely to work in small open economies". Professor Davidson also reminded the Committee of the important role of independent monetary policy and the automatic stabilisers in fiscal policy.

Coalition Senators are not convinced that the Government has based its decisions on credible theoretical arguments or empirical evidence regarding any of these individual aspects of the fiscal stimulus package.

Coalition Senators were disappointed at the inability of the Government to precisely define what is meant by the concept of the "fiscal multiplier" and the complete lack of convincing empirical evidence regarding the sign and size of fiscal multipliers for Australia in general and for this set of measures in particular, both for the package as a whole and for individual policy proposals. In particular, there appeared to be some confusion as to whether the multiplier measured the change in aggregate demand brought about by a change in fiscal policy, or the change in GDP that is brought about (the latter is the accepted definition).

Coalition Senators were also disappointed that the Government did not consider the effect that talking down the economy would have on businesses and consumers, the reaction of the private sector to deficits and debt, and the role of business and consumer confidence would play in the economic recovery.

[3] See http://gsbmedia.chicagogsb.edu/GSBMediaSite/Viewer/?peid=439a24a984fa449a8833412955afac45

Coalition Senators were not convinced by the vague theoretical arguments putting forth the proposition that fiscal multipliers for spending were higher than for tax cuts, and were not presented with any compelling empirical evidence supporting this claim.

For their part Coalition Senators note that the fiscal policy decisions of the Coalition Government in the 1996-97 Budget – which involved policy decisions to significantly cut outlays in order to reduce the irresponsible budget deficits it had inherited, and to repay the previous Government's $96 billion debt – appear to have had exactly the opposite effect compared to these vague theoretical claims.

Table 3 below shows that in its 1996-97 Budget, the Coalition took policy decisions to reduce outlays by $12.9bn over three years, when the Australian economy was much smaller.

Table 3: Reconciliation of Underlying Budget Balance Estimates

	1995-96 $m	1996-97 $m	1997-98 $m	1998-99 $m
1995-96 Budget Underlying balance estimates(a)	**-6747**	**-590**	**2690**	**8042**
(per cent of GDP)	**-1.4**	**-0.1**	**0.5**	**1.3**
Changes between 1995-96 Budget and federal election				
Effect of policy measures(b)				
Outlays *excluding* net advances	231	552	614	616
Revenue	-180	-43	-13	50
Effect of parameter and other variations				
Outlays *excluding* net advances	415	2058	4176	4701
Revenue	-1568	-4371	-5227	-6055
Revised Underlying balance (12 March 1996)(a)(b)	**-9141**	**-7614**	**-7340**	**-3280**
(per cent of GDP)	**1.9**	**-1.5**	**-1.3**	**-0.6**
Changes between federal election and 1996-97 Budget				
Effect of parameter and other variations				
Outlays *excluding* net advances	-163	1235	749	1061
Revenue	-992	-709	-613	-1073
1996-97 Budget Underlying balance (no policy change basis)	**-9970**	**-9558**	**-8702**	**-5414**
(per cent of GDP)	**-2.1**	**-1.9**	**-1.6**	**-0.9**
Effect of policy measures	347	-3908	-7152	-6371
Outlays *excluding* net advances	347	-2929	-5197	-4847
Revenue	0	979	1955	1524
1996-97 Budget Underlying balance estimate	**-10317**	**-5649**	**-1548**	**957**
(per cent of GDP)	**-2.1**	**-1.1**	**-0.3**	**0.2**

(a) Adjusted for reclassifications.
(b) Estimates of the revised underlying balance as at 12 March 1996 vary slightly from those in the Treasurer's press release of 12 March 1996. This reflects movements in the estimates of decisions taken before the federal election as well as reclassifications.

What was the fiscal multiplier associated with this tightening? The Australian economy grew by 3.9 per cent in the year to June 1997, by 4.5 per cent in the year to June 1998, and by 5.2 per cent in the year to June 1999. Unemployment fell from 8.2 per cent in June 1997 to 6.7 per cent in June 1999.[4] The evidence from this episode seems to suggest that the fiscal multiplier for spending is negative in Australia and does not seem to be consistent with the vague theoretical claims that were presented to the committee.

This kind of empirical evidence is neither unique nor new. Thirty years ago Professors Robert Lucas (Nobel Laureate) and Thomas Sargent wrote that:

> "In the present decade, the United States has undergone its first major depression since the 1930s, to the accompaniment of inflation rates in excess of 10 per cent per annum. These events have been transmitted (by the consent of the governments involved) to other advanced countries and in many cases have been amplified. These events did not arise out of some reactionary reversion to outmoded "classical" principles of tight money and balanced budgets. On the contrary, they were accompanied by massive government budget deficits and high rates of monetary expansion, policies which, although bearing an admitted risk of inflation, promised according to modern Keynesian doctrine rapid real growth and low rates of unemployment.
>
> That these predictions were wildly incorrect and that the doctrine on which they were based is fundamentally flawed are now simple matters of fact, involving no novelties in economic theory. The task now facing contemporary students of the business cycle is to sort through the wreckage, determining which features of that remarkable event called the Keynesian Revolution can be salvaged and put to good use and which others must be discarded". [5]

More recent empirical evidence can also be found. A 2005 empirical study by Professors Andrew Mountford and Harald Uhlig entitled "What are the Effects of Fiscal Policy Shocks?" found that:

- "a surprise deficit-financed tax cut is the best fiscal policy to stimulate the economy
- a deficit-financed government spending shock weakly stimulates the economy
- Government spending shocks crowd out both residential and non-residential investment without causing interest rates to rise." [6]

Professors Christina Romer and David Romer of the University of California at Berkeley find that the fiscal multiplier for a tax cut is 3, a much larger value than most estimates of spending multipliers.[7]

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[4] GDP growth data is from Table 1, *Australian System of National Accounts, 2007-08*, ABS Cat. No. 5204.0. Unemployment data is seasonally adjusted in is taken from Table 2, *Labour Force, Australia, Spreadsheets*, ABS Cat. No. 6202.0.55.001.

[5] Lucas, R. and Sargent. T. (1979) "After Keynesian Macroeconomics," Federal Reserve Bank of Minneapolis Quarterly Review, Spring. http://www.minneapolisfed.org/research/QR/QR321.pdf

[6] http://sfb649.wiwi.hu-berlin.de/papers/pdf/SFB649DP2005-039.pdf

[7] http://www.econ.berkeley.edu/~cromer/RomerDraft307.pdf

Additional Comments by the Australian Greens

The seriousness of the economic situation in Australia, and the need for a stimulus package is widely recognised. It is also widely recognised that job creation and job preservation is a top challenge for government.

The package is significant and creates a substantial government debt which will be a burden on tax payers for a considerable time. We welcome the inclusion of community and education infrastructure projects in the package but have concerns about the expenditure on short term cash payments.

The limited timeframe and process for the introduction of the package

The time which the Senate, and the community at large, has been given to consider and agree to this package is too short.

Given the amount of money and preparation time in the stimulus package, it is reasonable to expect that preliminary information could have been provided prior to its introduction to the House of Representatives on the 4th February 2009. Parliament could have been recalled earlier to allow greater scrutiny and public participation in the process.

There are concerns that the community has not had sufficient time to adequately respond to the package. Over the last few days a range of groups and individuals have presented valuable suggestions on how the package could be more effectively structured. The Government would be well advised to give greater opportunities to tap this wisdom and creativity of the nation.

Missed opportunities for promoting transition to a green economy

The Australian Greens welcome the energy efficiency measures in the package such as the ceiling insulation or solar hot water initiative. But, overall, it is a missed opportunity to put in place the key investments for Australia to meet the urgent challenges of climate change.

Some 'green economy' investments that require much better government consideration are:

- Expanding energy efficiency measures to other cost-effective technologies (e.g. wall insulation) and to other types of buildings (e.g. commercial buildings).
- Strengthening of incentives for landlords to invest in energy efficiency on behalf of tenants.
- Investments in public transport or other sustainable forms of transport.
- Ensuring infrastructure investments in schools comply with energy efficiency standards.

- Investing in research and development and infrastructure to support the green industries of the future.
- Education and training to create the green collar workforce of the future.
- Investment in renewable energy or electricity grid infrastructure

Equity Issues

There are concerns that a number of low income groups have missed out on the Tax Bonus and may be ineligible to receive a bonus payment under the other bonuses. In particular this relates to:

- Unemployed people with no children
- Pensioners with no eligible children
- People with no net tax liability (e.g. low income earners or those earning less than $6000).

It is recognised that some of these groups may receive or have received bonuses in other ways in either the earlier Economic Security Strategy or this plan.

Better resources could be targeted to people who are expected to lose their jobs in the forthcoming economic downturn. In particular the low rates of unemployment benefits and the liquid and real assets tests will work against those temporary unemployed as they search for new jobs.

It is also noted that other countries such as the UK, US and Canada are using income support payments as part of their stimulus package . An increase in the base rate of the Newstart Allowance would provide the needed stimulatory effect on the economy and ensure that people reliant on this very low income support payment would be better able to manage in the current economic situation. As more Australians become unemployed as a result of the global financial downturn, it is important that they have access to fair and adequate income support.

Key areas not included in package

A number of areas of social policy, and investments in social infrastructure, have been excluded from this stimulus package and which will require government action. These include:

- Aged health care sector (residential and community care)
- Public health infrastructure
- The tertiary education sector, excluding individual payment to students

- Incentives for employers to maintain jobs through subsidies or grants.
- Economic development opportunities for Indigenous Australians

Alternative areas to target the Stimulus Package

The Committee has evidence that the resources in the Package could be better directed towards:

- Further investments in energy efficiency technologies, including for new buildings constructed under this Stimulus Package, and renewable energy commercialisation.
- Additional resources to the social service sector to address unmet need and cope with growing demand.
- Financial incentives for employment creation in the local government and community sector.
- Suspending the de-funding of Community Development and Employment Projects (CDEP) programs and restoring funding to de-funded CDEP programs with a proven track record.
- Extending Tax Bonus payments to those currently ineligible because of the 'net tax liability' rule.
- Suspending liquid and real asset tests for those applying for Newstart
- Using the primary school infrastructure investment to develop Community Hubs that provide wrap-around support services in areas of greatest and emerging need

Senator Bob Brown

Additional Comments by Family First

The global financial crisis is very serious and most Australians are fearful about its impact on their families and their communities. Their greatest fear is the loss of their job and the ramifications of that loss on their families, their homes and their communities.

Family First believes it is appropriate for the government to put forward a stimulus package and that a stimulus package should be passed by the Senate. The government should not have its pockets full of money or avoid going into deficit when fellow Australians – our family, friends, and neighbours – are in trouble.

But equally Family First believes this package should do more. It should be amended to help those people who have been forgotten by the government – those 100,000 people who will lose their jobs over the next year regardless of whether this package goes through or not.

The Treasury confirmed in the Committee hearings that by June 2010 there will be another 300,000 unemployed Australians. Of those 300,000 people, there will be 100,000 Australians who will lose their jobs over that period and the balance will be people who enter the labour force and cannot find a job.[1]

Family First believes those 100,000 people who will lose their jobs have been forgotten by this package.

Family First has put forward a Get Communities Working plan designed to help the forgotten 100,000 who will lose their jobs regardless of the government's stimulus package.

Family First has been discussing with the government diverting $4 billion in the package to a new Get Communities Working plan investing in local communities across Australia, which would help create jobs for these forgotten 100,000 people.

These are human beings whose worth cannot be defined by numbers on a calculator.

The government's $42 billion stimulus package ignores these people.

Family First's Get Communities Working plan would create 25,000 to 33,000 jobs.[2]

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1 Dr Henry, Senate Committee Hansard, 5 February 2009, page 22.

2 Information provided by the Treasurer's Office, 9 February 2009.

However, as Family First's plan only needs 10% of the total stimulus package (about $4 billion), then it will of course create far more jobs, per dollar spent, than the Rudd Government’s plan.

In fact for every 10% of the Rudd government’s stimulus package Treasury estimates an average of up to 9,000 jobs will be supported and sustained.

Treasury estimates the Family First plan will create 25,000 to 30,000 jobs with the same amount of money.

The Get Communities Working plan would fund local government and charities to undertake community projects that will employ people from the forgotten 100,000.

This plan would help keep families in their homes and be useful to their community.

Now more than ever people need help, particularly in Victoria given the devastating losses of lives and homes following the horrific bushfires.

Family First wants to help those Australians who, within a year, will be without a job and without government support from this package and who will desperately need a life line.

Senator Steve Fielding

Leader of Family First

Additional comments by Senator Xenophon

The economy is in need of a stimulus package and it needs to be introduced promptly. However, there are areas where the current proposal should be improved.

Design of the cash payments

The Nation Building and Jobs Plan envisages $11 billion being delivered to households in 2008-09 as bonus payments. Appropriately, the focus is on lower- and middle-income households. However, it is disappointing that the Government does not appear to have done much research into how to target these payments to those who will spend most of it, so that the multiplier effects are maximised. An opportunity was missed in not conducting a special household expenditure survey to assess how the payments associated with the Economic Security Strategy last year were spent. Asked about this, Treasury's answer was unconvincing:

> Firstly, such surveys, if done well, are expensive and take a long time to set up.[1]

The cost of such a survey would be trivial compared to the size of the payments and the Bureau of Statistics could draw on its experience in running the regular household expenditure surveys.

There are also equity considerations. Some households will receive multiple bonus payments and it is not clear that there is a good policy rationale for this.

Spending on schools and home insulation

The Nation Building and Jobs Plan involves $15 billion being spent on schools, mostly in 2009-10 and 2010-11. It is intended to spread this across all schools. It would be better to concentrate this money on those schools with the greatest need.

For households that already have ceiling insulation and solar hot water systems, consideration should be given to subsidising installation of alternative energy-saving equipment. For example, more funding could be directed to existing programmes in some states that install energy-efficient light bulbs and low-flow showerheads. Systems that make better use of grey water would be another example. Asked about replacing inefficient light bulbs, Professor Pears commented:

> Replacing those with more efficient lamps would be very cost-effective and have a very large impact. We could get rid of a million tonnes of CO_2 a year and take $100 million off energy bills.[2]

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1 Dr Ken Henry, Treasury, *Proof Committee Hansard*, 9 February 2009, p 52.

The Murray-Darling

> Some of the medium-term stimulus spending should be redirected so that it not only keeps national demand buoyant, but also protects the environment and the viability of rural communities. A clear need exists around the Murray Darling basin. A package of measures involving accelerated water buy-backs and structural adjustments measures to improve the efficiency of water usage would both protect jobs and preserve the biodiversity of the wetland areas.

Senator Nick Xenophon

2 Professor Alan Pears, *Proof Committee Hansard*, 9 February 2009, p 17.

APPENDIX 1

Submissions and additional information received by the Committee

Submissions

1 Billinghurst, Mr D

2 Australian Medical Association

3 Dobinson, Mr J

4 Hemolf, Mr L

5 Catholic Social Services Australia; Anglicare; Salvation Army; UnitingCare Australia

6 The Australia Institute

7 Tones, Mr D

8 Muscular Dystrophy

9 Taylor, Professor J

10 Turnber, Mr S

11 Davidson, Professor S

12 Rankin, Ms N

13 White, Mr D

14 Climate Action Brisbane

15 Technical Real Estate

16 Hutton, Mr A

17 McKibbin, Professor W

18 Boulus, Mr P

19 Pape, Mr B

20 Dixon, Professor P

21 Australian National Retailers Association

22 Australian Conservation Foundation

23 Eslake, Mr S

24 Cox, Mr K

25 Hoebee, H.P.M

26 Australian Trucking Association

27 CPA Australia

28 Melville, Ms J

29 Aged & Community Services SA & NT

Additional information

The Treasury

Document tabled at hearing, 5.2.09

- Table: Fiscal Stimulus Packages announced in 2008 and 2009

Supplementary information

- Answers to Questions on Notice taken at hearing of 5.2.09
- Answers to Questions on Notice taken at hearing of 9.2.09

Department of Finance

Supplementary information

- Answers to Questions on Notice taken at hearing of 9.2.09

Department of Families, Housing, Community Services and Indigenous Affairs

Supplementary information

- Answers to Questions on Notice taken at hearing of 6.2.09

Australian Taxation Office

Supplementary information

- Answers to Questions on Notice taken at hearing of 6.2.09

Defence Housing Australia

Supplementary information

- Answers to Questions on Notice taken at hearing of 6.2.09

Department of Education, Employment and Workplace Relations

Supplementary information

- Transcript of the joint press conference with the Treasurer, the Hon Wayne Swan MP and the Hon Lindsay Tanner MP, Minister for Finance, convened on 3 February 2009
- Answers to Questions on Notice taken at hearing of 6.2.09

Department of Infrastructure, Transport, Regional Development and Local

Government

Supplementary information

- Answers to Questions on Notice taken at hearing of 6.2.09

Department of Prime Minister & Cabinet

Supplementary information

- Answers to Questions on Notice taken at hearing of 6.2.09

Appendix 2

Public hearings

5 February 2009 – Parliament House, Canberra

Department of Finance and Deregulation

Dr Ian Watt, Secretary, Department of Finance and Deregulation
Dr Paul Grimes, General Manager, Budget Group

The Treasury

Dr Ken Henry, Secretary
Mr Nigel Ray, Executive Director, Fiscal Group
Mr David Parker, Executive Director, Revenue Group
Dr David Gruen, Executive Director, Macroeconomic Group

6 February 2009 – Paliament House, Canberra

Department of Families, Housing, Community Services and Indigenous Affairs

Mr Geoff Leeper, Deputy Secretary
Mr Barry Sandison, Group Manager, Families Group
Ms Peta Winzar, Group Manager, Housing
Mr Steven Jennaway, Acting Group Manager, Business and Financial Services

Department of Human Services

Mr Jeff Popple, Acting Deputy Secretary, Delivery Policy and Compliance

Centrelink

Mr Finn Pratt, Chief Executive Officer
Ms Eija Seittenranta, Acting Deputy Chief Information Officer
Mr Paul Cowan, Acting General Manager, Families, Seniors and Service Delivery Support

Defence Housing

Mr Michael Del Gigante, Managing Director
Mr Robert Groom, Chief Financial Officer

Department of the Prime Minister and Cabinet

Mr David Tune, Associate Secretary, Domestic Policy
Mr Dominic English, First Assistant Secretary, Economic Division

Australian Taxation Office

Mr Michael D'Ascenzo, Commissioner of Taxation
Ms Jennie Granger, Second Commissioner of Taxation
Mr Stephen Vesperman, Assistant Commissioner, Tax Bonus Project

Department of Education, Employment & Workplace Relations

Dr Carol Nicoll, Group Manager, Nation Education System Group
Ms Malisa Golightly, Deputy Secretary, Employment

Ms Robyn Shannon, Branch Manager, Participation Policy, Families, Social Inclusion & Participation Group

Department of Environment, Water, Heritage and the Arts

Mr Malcolm Forbes, Acting Deputy Secretary

Mr Ross Carter, First Assistant Secretary, Renewables and Energy Efficiency Division

Mrs Mary Wiley-Smith, Assistant Secretary, Renewables and Energy Efficiency Division

Mr Peter Young, Assistant Secretary, Renewables and Energy Efficiency Division

Department of Innovation, Industry, Science and Research

Mr Mark Paterson AO, Secretary

Department of Infrastructure, Transport, Regional Development and Local Government

Ms Lyn O'Connell, Deputy Secretary

Mr Andrew Tongue, Deputy Secretary

Ms Carolyn McNally, Executive Director, Infrastructure Investment Division

9 February 2009 – Parliament House, Canberra

Australian Chamber of Commerce and Industry

Mr Greg Evans, Director, Industry Policy and Economics

Mr Burchell Wilson, Senior Economist

CPA Australia

Mr Paul Drum, Director of Policy and Research

Australian Retailers' Association

Mr Richard Evans, Executive Director

Australian Council of Trade Unions

Mr Grant Belchamber, Economist

Mr Nixon Apple, AMWU Industry and Economic Adviser

Adjunct Professor Alan Pears, Senior Lecturer, RMIT University

Australian Council of Social Service

Ms Lin Hatfield Dodds, President

Mr Peter Davidson, Senior Policy Officer

Catholic Social Services, UnitingCare, Anglicare and the Salvation Army

Mr Frank Quinlan, Executive Director, Catholic Social Services Australia

Ms Susan Helyar, Director of Services Australia, UnitingCare Australia

Professor Sinclair Davidson

Professor Warwick McKibbin

Professor Peter Dixon

Mr Saul Eslake

The Treasury

Dr Ken Henry, Secretary

Mr Nigel Ray, Executive Director, Fiscal Group

Mr David Parker, Executive Director, Revenue Group

Dr David Gruen, Executive Director, Macroeconomic Group

Mr Richard Murray, Executive Director, Markets Group

Department of Finance and Deregulation

Dr Ian Watt, Secretary
Mr John Ignatius, Division Manager, Social Welfare Division

Appendix 3

Document tabled by the Treasury, Committee hearing 5.2.09:

- Table 1: Fiscal Stimulus Package announced in 2008 and 2009 (see overleaf)

Table1: Fiscal Stimulus Packages announced in 2008 and 2009

Country	Date	Fiscal Stimulus: National currency		Fiscal Stimulus: USD (bn)	Fiscal Stimulus (% of GDP): Own GDP	Fiscal Stimulus (% of GDP): World GDP	Description
USA	18-Jan-08	168	USD, billion	168.0	1.2%	0.26%	Includes tax rebates of at least US$300 to more than 100 million people and tax breaks to small businesses investing in plant & equipment. Impacted upon consumption from June Quarter 08.
Spain	01-Apr-08	18	EUR, billion	24.2	1.7%	0.04%	A €400 tax rebate to all workers and pensioners enacted immediately. €10 billion of outlays for 2008 and remaining €8 billion earmarked for 2009.
	27-Nov-08	11	EUR, billion	14.8	1.0%	0.02%	€11bn of which €8bn is public investment (construction, rehabilitation and maintenance of schools, sports centres, prisons, etc); €800m for the motor industry; €600m for environmental projects. In total in 2008, the Spanish government announced fiscal measures worth about €90bn.
Japan	29-Aug-08	1800	JPY, billion	19.9	0.3%	0.02%	Assistance for low-income households, incl. tax cuts – effective in FY2008, loan guarantees for small firms (convertable to grants). Passed by Parliament on 16 October 08.
	30-Oct-08	6000	JPY, billion	66.3	1.2%	0.08%	Includes: cash handout (¥2trn) - by end-March 2009, employment measures, mortgage relief for home-owners, tax cuts for SMEs, reduced highway tolls, regional funding conditional on reallocating tax revenues from road projects to general purposes (¥1trn). Finance measures: increased safety net finance by ¥22trn to ¥30trn. Passed by Parliament on 27 January 2009. However, much of the package is awaiting further legislative approval.
	12-Dec-08	4000	JPY, billion	44.2	0.8%	0.05%	Includes: measures for employment (¥1trn), increased subsidies to local govts to implement job-creating businesses etc. (¥1trn), tax cuts for homeowners & businesses (¥1trn), "reserve budget" for emergency economic responses (¥1trn). Also includes an additional ¥10trn to recapitalise banks (bringing max level to ¥12trn) and ¥3trn for govt to buy CP - both measures to encourage lending to SMEs.
	27-Jan-09	1500	JPY, billion	16.6	0.3%	0.02%	Capital injection, up to max. ¥1500trn (although METI said plausible amount would be several hundred billion yen) into non-financial corporations - likely expiration end-March 2010, to be included in FY2009 Budget. Requires amendment to Industrial Revitalization Law. FY2009 Budget unlikely to be passed by Parliament until at least end-March 2009.
Korea	01-Sep-08	11700	KRW, billion	8.7	1.3%	0.02%	Tax reform plans focusing on a wide range of tax cuts. The plans cover sixteen taxes, including tax cuts in income, coporate, inheritance, capital gains, comprehensive real estate holding taxes. The plans will take effect from 2009.
	03-Nov-08	14000	KRW, billion	10.4	1.6%	0.03%	Includes extra spending of KRW11 trillion and KRW3 trillion of investment tax credits.
	15-Dec-08	14000	KRW, billion	10.3	1.6%	0.03%	Plans to spend about 14 trillion won over the next four years on improving and redeveloping the country's four main rivers and adjacent areas.
	06-Jan-09	50000	KRW, billion	37.1	5.5%	0.10%	Plans to spend USD38 billion on environmental-friendly projects to bolster employment during 2009-2012.
Taiwan	11-Sep-08	420	NTD, billion	12.6	3.3%	0.04%	Includes: new spending on infrasturcture and support for exporters (i.e. NTD180 bn), a 5-year tax cut on new investments, financial incentives for SMEs, subsidies to low-income families and a 50% cut in stock trading tax.
	21-Nov-08	80	NTD, billion	2.4	0.6%	0.01%	Plans to increase a previously announced NTD420bn infrastructure spending to NTD500bn.
	21-Nov-08	82.9	NTD, billion	2.5	0.7%	0.01%	Issuance of consumption vouchers to citizens to boost domestic consumption. Program expected to be implemented in Jan 2009.
	03-Feb-09	320	NTD, billion	9.6	2.5%	0.03%	Plan to increase expenditures in 2009 for public projects and temporary work, including teaching positions for new college graduates. The government expects to create at least 150,000 jobs in 2009 and cut the unemployment rate by 0.5 percentage points to 4.5 percent.

Country	Date	National currency		USD (bn)	Own GDP	World GDP	Description
Australia	14-Oct-08	10.4	AUD, billion	7.0	1.0%	0.01%	Economic Security Strategy
	03-Feb-09	42	AUD, billion	28.4	3.9%	0.05%	Nation building and jobs plan
Thailand	15-Oct-08	86	THB, billion	2.5	1.0%	0.01%	Expediting government spending, 'megaprojects' and an increase in government salaries
	28-Jan-09	116.7	THB, billion	3.3	1.4%	0.01%	Cash hand-outs for low-income earners, tax cuts, expanded free education and subsisdies for transport and utilities to stimulate consumer spending.
Germany	05-Nov-08	12	EUR, billion	16.1	0.5%	0.02%	Includes tax cuts (degressive depreciation deduction, higher tax-free allowances for companies, suspension of car tax on new vehicles and a package for tax burden reduction), investment in transport infrastructure, environmental subsidies, lending to municipalities for infrastructure projects and additional credit to SMEs.
	13-Jan-09	50	EUR, billion	67.2	2.1%	0.09%	Infrastructure spending respresents € 18 billion to be spent in 2009-10 on the repair of schools, universities, roads and the development of boradband internet connections. Cuts in medical insurance contribution are to bring payroll tax relief of some€ 9 billion until the end of 2010 while subsidies for car purchases are expected to cost €1.5 billion.
China	09-Nov-08	4000	RMB, billion	584.6	15.5%	1.68%	The amount is to be spent over 2 years. Includes new spending and previously announced spending measures. Major spending areas: RMB1.8 trillion for infrastructure projects, RMB1 trillion for earthquake reconstruction and RMB350 billion for environmental projects. Real effects from mid-2009 into 2010. Authorities consider that the package should contribute around 1 percentage point to GDP per year over two years. Package not inclusive of tax cuts, reported to be RMB 300 billion.
Malaysia	04-Nov-08	7	MYR, billion	2.0	1.1%	0.01%	Increased public infrastructure spending and an increase in the building of low and medium-cost government housing.
Italy	17-Nov-08	5	EUR, billion	6.7	0.3%	0.01%	€80 billion was announced, but only€ 5 billion was new government spending. Of the €5 billion, about half was a tax break for low-income families. There was also a change to VAT payment schedules to ease the payment burden on firms.
Israel	19-Nov-08	25	Shekel, billion	6.4	3.7%	0.01%	Measures include doubling railway routes,new R&D funding, increasing export credit, cutting assorted taxes, and creating aid packages tc employers for hiring new workers
Russia	20-Nov-08	550	RUB, billion	18.2	1.7%	0.05%	Includes a cut in the profit tax rate from 24% to 20%, more than 30% hike in unemployment benefit, pensions will be increased by 50% during the course of 2009 and 2010, and an extra RUB 50bn spent on defence.
UK	24-Nov-08	20	GBP, billion	29.3	1.4%	0.05%	Key measures included: temporarily reducing the VAT rate to 15 per cent, effective 1 Dec 2008 to 31 Dec 2009 and bringing forwar£3 billion of capital spending from 2010-11. Other measures inlcude:additional tax relief for low income earners; increase in Child benefit and pension payments effective from 2009; bringing forward spending on social housing; financial assistance for mortagage payment for people who lose their jobs.
EU	25-Nov-08	30	EUR, billion	40.3	0.2%	0.05%	Co-ordinated stimulus €200 billion (1.5% GDP), with €170 billion at member states level, and €30 billion as EU level action. At European Counci 11-12 Dec for endorsement. Key measures include; funding labour market policies, funding green technology investment. European finance ministers vetoed €5 billion of this spending 2/12.
Argentina	25-Nov-08	111	ARS, billion	32.2	13.7%	0.11%	Includes an ambitious public works program starting mid Dec 2008 focusing on schools, hospitals, roads, railways and other infrastructure.
Hungary	25-Nov-08	1400	Florint, billion	6.9	5.5%	0.02%	680 billion forints to provide lending garantees to SMEs
France	04-Dec-08	26	EUR, billion	34.9	1.4%	0.04%	Measures include construction of new homes; transport projects; renovation of public buildings; a one-off EUR200 payment to low-incomes households; a EUR1,000 incentive to scrap an old car to buy an energy efficient new car; and an exemption for small firms from some social charges on new hires. €15.5bn of package to be spent in 2009.

Country	Date	National currency		USD (bn)	Own GDP	World GDP	Description
India	07-Dec-08	200	Rupees, billion	4.1	0.4%	0.02%	Includes 4% cut in valued added tax, forgoing 87 billion rupees, and increase in export credits and incentives.
Peru	08-Dec-08	10	SOLS, billion	3.2	3.0%	0.01%	The government will increase public spending worth 10 billion Sols, directed to support housing, construction, highways and key social programs to reduce poverty. On top of the outright increase in public expenditure, the government is securing US$3.0 billion in external loans and prearranging an additional US$7.0 billion in loans as an emergency plan.
Belgium	11-Dec-08	2	EUR, billion	2.7	0.6%	0.00%	Measures include tax cuts (VAT on new construction lowered to 6% from 21%), lower energy costs and energy subsidies to households, accelerated infrastructure projects and higher social security allocations.
Portugal	13-Dec-08	2.2	EUR, billion	3.0	1.3%	0.00%	Of the total package, €1.3 billion will be funded by the country's budget, with the rest coming from European funds. Portugal will spend about €800 million on 'fiscal incentives', including credit lines to support exporters, with a further €500 million set aside for schools, €250 million for energy installations and €580 million for employment programs.
New Zealand	22-May-08	3.7	NZD, billion	2.1	2.1%	0.00%	The 2008/09 budget provisioned for NZD$1.5 bn in personal tax cuts (introduced in October 2008), savings worth NZD$1bn arising from business tax reform and NZD $1.16 bn in capital expenditure.
	11-Dec-08	4.4	NZD, billion	2.4	2.5%	0.00%	Implementation of election promises by new National government. Personal income tax cuts starting on 1 April 2009 and phased in over 3 years (NZD$3.06bn over 5 years), independent earner tax credit (NZ$1.35bn over 5 years).
Brazil	15-Dec-08	8.4	BRL, Billion	3.6	0.3%	0.01%	The specific measures include reduction in the tax on financial operations (IOF) from 3.0% to 1.5% to individuals; reduction in income tax for individuals; and reduction of tax on industrialised products for cars and light pick-ups.
Vietnam	01-Jan-09	110000	VND, billion	6.4	9.6%	0.03%	As yet the specific details of the package are unknown.
Chile	06-Jan-09	2093.4	CHL, billion	4.0	2.4%	0.01%	The package includes subsidies, tax rebates and a US$1 billion capital injection for state copper producer Codelco.
Indonesia	05-Jan-09	71300	IDR, billion	6.4	1.8%	0.02%	Indonesia has announced a $6.5 billion (Rp71.3 trillion) package focusing on infrastructure and tax cuts to lift growth and create jobs.
Singapore	22-Jan-09	20.5	SGD, billion	13.9	8.4%	0.03%	$5.1 billion in employment programs, $2.6 billion in various tax concessions, $2.6 billion in support to households and $4.4 billion for infrastructure.
Canada	27-Jan-09	40	CAD, billion	32.6	2.6%	0.05%	$12 billion in new infrastructure, $20 billion in personal tax reductions, $7.8 billion in housing support, $8.3 billion for skills and transition strategy $30 billion of the stimulus is to be spent in 2009.
Norway	26-Jan-09`	20	Kroner, billion	2.9	0.9%	0.00%	Spending on infrastructure, schools, hospitals, research and tax cuts for businesses.
Total world stimulus since 2H 2008				**$1,188.2 (USD, billion)**		**2.82% (% of GDP)**	

Shaded areas are excluded in the calculations.