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28 September 2009

Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Hawkins,

Submission to the Inquiry into the Government's Stimulus Package

Whether or not the Australian government's package was appropriate requires a metric with which to compare. If one starts from the premises that the crisis represents a breakdown of our understanding of the global economy then policy responses cannot easily be evaluated because the standard model we have of the world is no longer valid. Any case can be argued without a coherent counterfactual of what otherwise would have happened. I prefer a more constructive assessment which is based on measuring whether our existing economic models can explain the key aspects of the crisis. If so, then we can use the models to explore the impacts of various policy responses.

I have attached a paper that I co-authored with Dr Andrew Stoeckel for the Asian Economic Panel meeting in Tokyo this month, on the causes of the global financial crisis. Based on this research (which was being undertaken at the time), I testified against the SCALE and composition of the government's stimulus package in a Senate Enquiry in March 2009. Our modelling suggested that Australia would be least affected of all the OECD economies, even without a fiscal package but that a fiscal stimulus, less than the global average, was warranted. I argued that the fiscal package should be half as large as that proposed by the government. In that testimony I argued that the understanding the nature of the shocks was critical and that most of the shocks were through trade and financial flows overseas which need not cause a recession in Australia. The key to avoiding a severe crisis within Australia was to avoid a loss of confidence in Australia. Confidence was being undermined by data from the major economies as well as a series of speeches by politicians. There is a danger in using the overall G20 policy requirements (which I agree with) to justify the policy settings in Australia where the situation is very different to other G20 economies, particularly the United States and United Kingdom.

We find in the attached paper that the fiscal stimulus announced in conjunction with a global fiscal package would contribute 1 percent to Australian GDP in 2009 over the full year relative to what otherwise would be the case. This package would detract from GDP over the following 5 years.

Yours Sincerely



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