

Parliamentary Library Pre-Budget Seminar

Professor Beth Webster

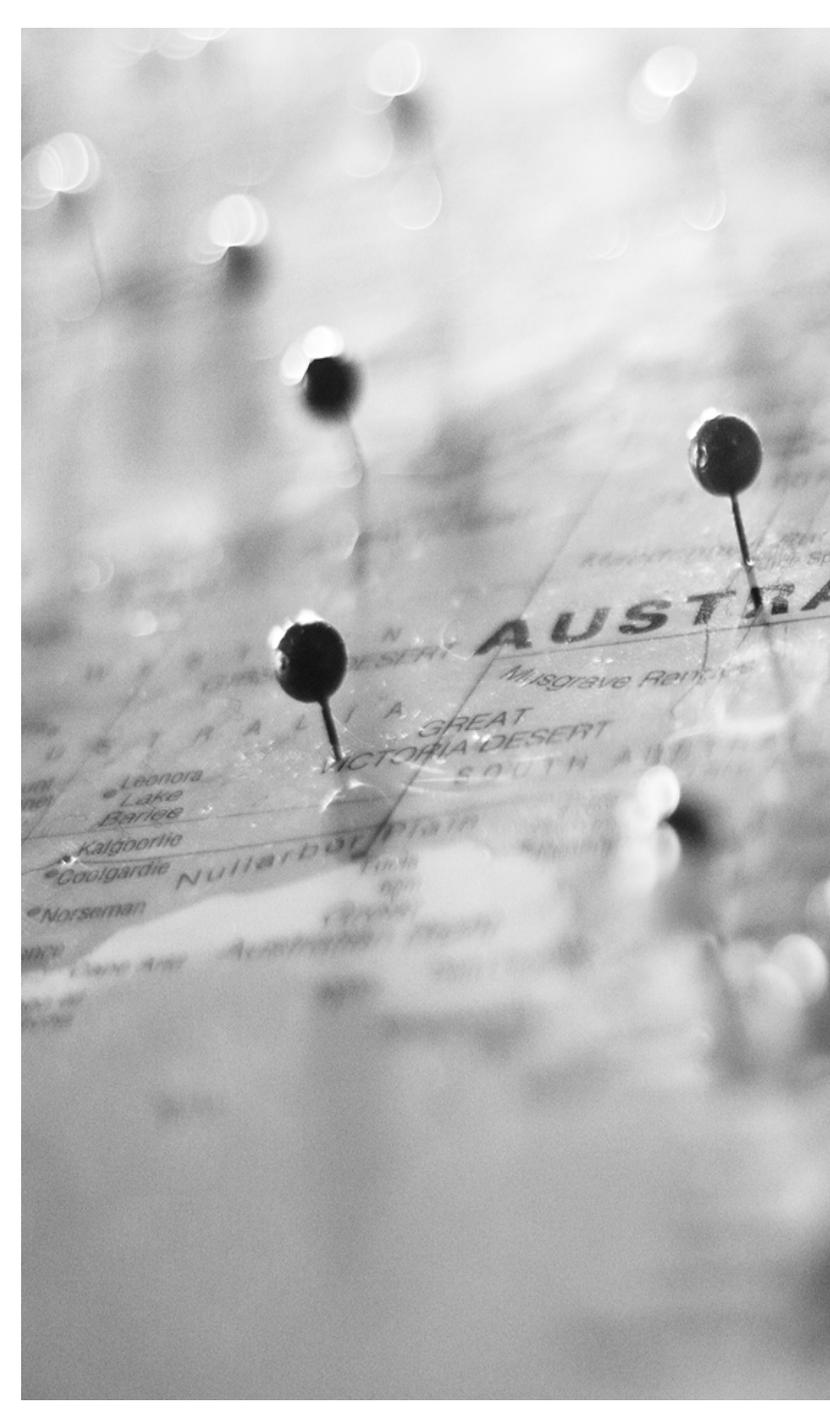
Professor James Morley



Parliament of Australia

Department of Parliamentary Services

PARLIAMENTARY
LIBRARY
INFORMATION ANALYSIS ADVICE

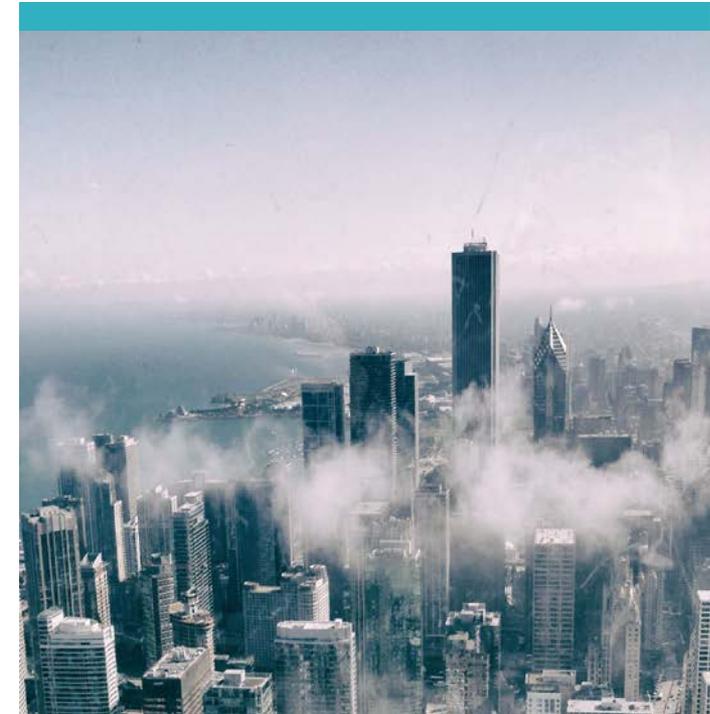


WILL BE IGNORED IN OUR ELECTION BUDGET

Beth Webster,
Swinburne
University of
Technology

Parliamentary Library Budget
Seminar

Canberra, April 1, 2019



Talk about productivity Growth

Not just dull figures or
greedy materialism



Childhood
cancers,
chronic
disease in
the young



Mental
health
conditions



Intractable
disadvantage



Global
poverty and
more

- Both demand and supply side factors – key link investment
- Investment = outlay made in expectation of future benefits
- Investment = physical capital + Intangible capital

(knowledge,
social,





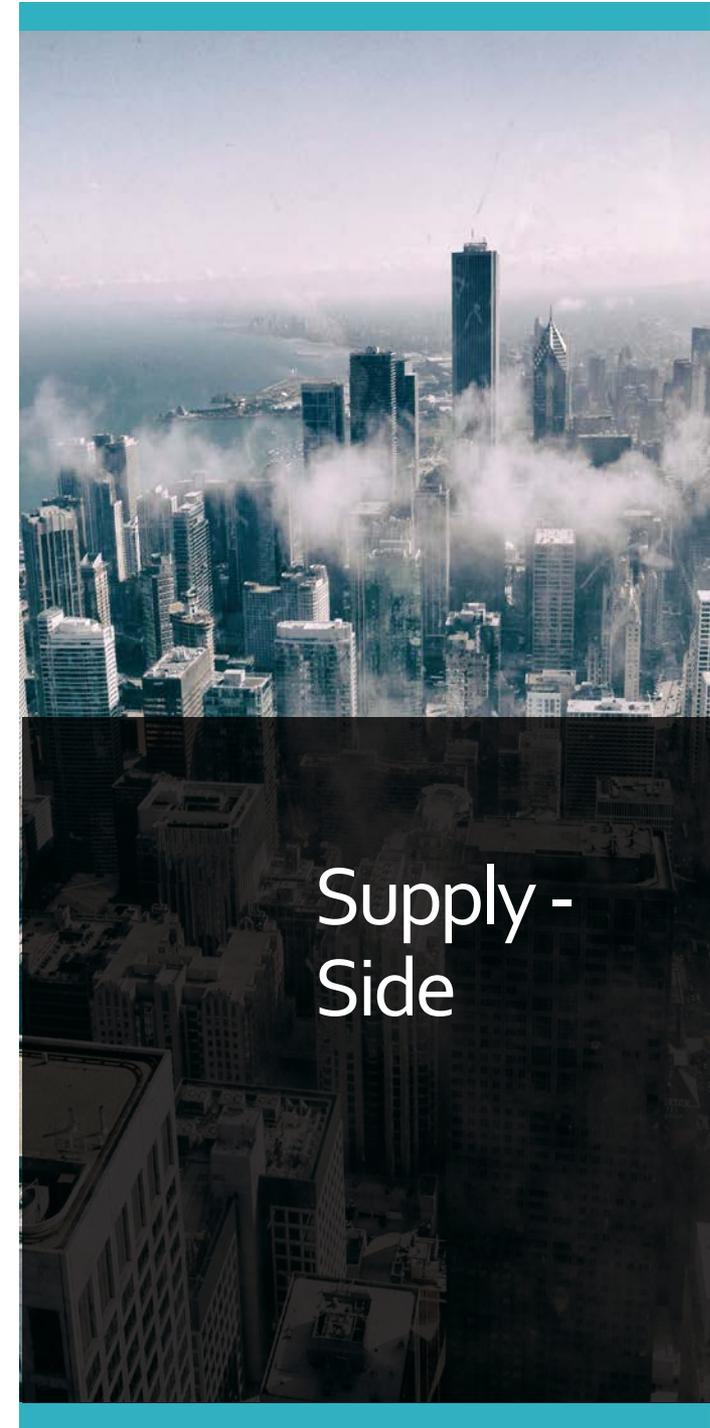
PEOPLE DO NOT CREATE MATERIAL THINGS, ONLY IDEAS

Francis Bacon
cited in Marshall 1920:
63

‘Ad opera nil aliud potest
homo quam ut corpora
naturalia admoveat et
amoveat, reliqua natura intus
agit’
Novum Organum IV



Key is
Achieving the
correct balance
– Demand and
Supply



Supply - Side



Competiti
on
(market
forces)



Direct
Interventi
on
(programs
)

Problems with our Current Policies



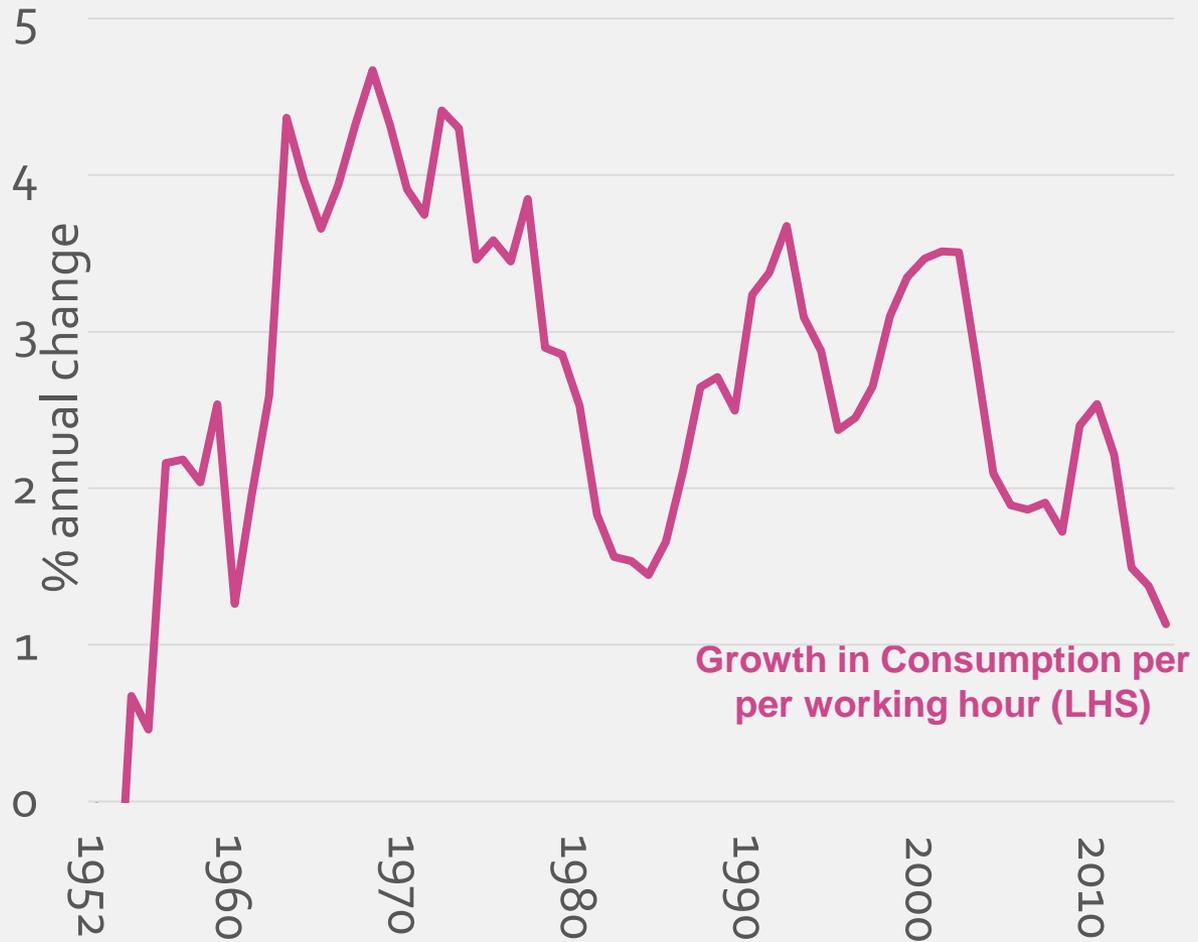
Limited View of Competition (tariffs, M&A)

- Type of immigrants
- Limit rent-seeking
- Re-focus industry from tax to global competition

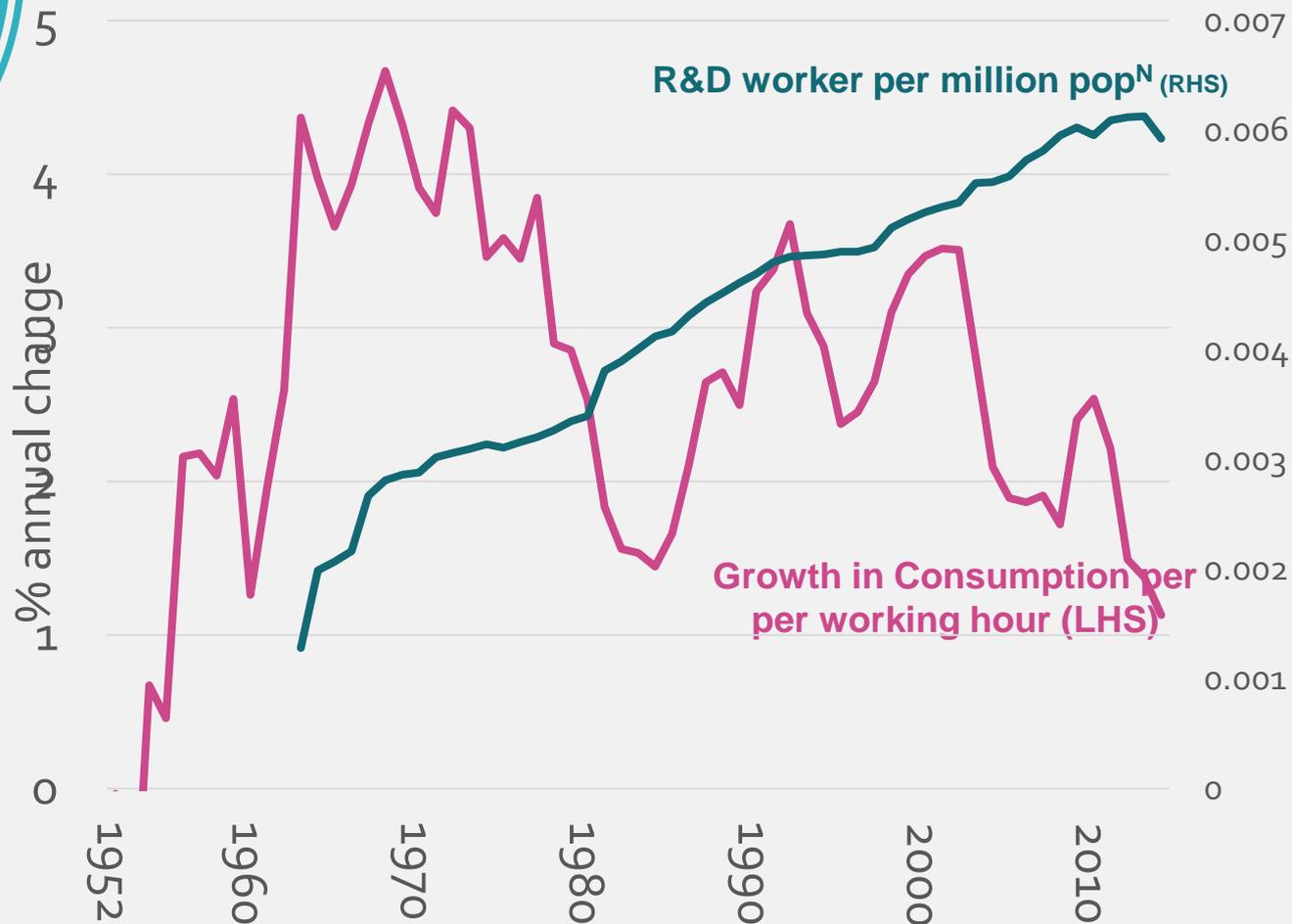
Limited View of Direct Intervention

- Programs small cf. other OECD
- Unstable, unevaluated programs
- Good programs not scaled up, poor programs not exposed

OECD 1952 - 2014



OECD 1952 - 2014



Consider a steady-state economy

100 workers  paid
\$0.7 each time period

Value of output = \$100

Profits = value output -
wages

 spend all income on
consumption

Capital owners spend
all profits on
investment

Income=\$

100

Profits=
\$30

Wages
=\$70

t = 0



Activity

sector=\$100

Investme
nt = \$30

Consumpti
on = \$70

t = 1

Spending and income in each sector...

	Spend	Wages	Profits (residual)
Consumption	\$70	$70 \times \$0.7 =$ $\$49$	\$21
Investment	\$30	$30 \times \$0.7 =$ $\$21$	\$9
	\$100	\$70	\$30

Capital owners spent \$30 + got back \$30 – why would they do this?

This is not a steady state

Investment goods ↑ productivity (5%) in C^m Goods sector

		Spended	Wages	Profits	Unemp.	Rate profit
t = 1	Consumption	\$70	67  × \$0.7 = \$47	\$23	3	8%
	Investment	\$30	30  × \$0.7 = \$21	\$9		
				\$68		
t = 2	Consumption	\$68	61  × \$0.7 = \$43	\$25	7	7%
	Investment	\$32	32  × \$0.7 = \$23	\$10		
				\$66		

Continues until: profit share = 100%; U = 100%; OR investor confidence crisis

Investment ↑ productivity (5%) in C^m Goods sector + Govt spending

		Spent	Wages	Profits	Unemp.	Rate profit
t = 1					0	8%
	Consumption	\$70	67  × \$0.7 = \$47	\$23		
	Investment	\$30	30  × \$0.7 = \$21	\$9		
	Government	\$3	3  = \$3			
t = 2					0	9%
	Consumption	\$71	64  × \$0.7 = \$45	\$26		
	Investment	\$32	32  × \$0.7 = \$23	\$10		
	Government	\$4	4  = \$4			

Continues until: profit share = 100%; U = 0; OR investor confidence crisis

Investment ↑ productivity (5%) in C^m Goods sector + Govt spending + wage increase (2%)

		Spended	Wages		Profits	Unemp.	Rate profit
t = 1	Consumption	\$70	66 \$48	× \$0.71 =	\$22	0	4%
	Investment	\$30	30 \$21	× \$0.7 =	\$9		
	Government	\$4	4 \$1	=			
t = 2	Consumption	\$72	67 \$49	× \$0.71 =	\$22	0	7%
	Investment	\$31	31 \$22	× \$0.7 =	\$9		
	Government	\$2	2 \$2				

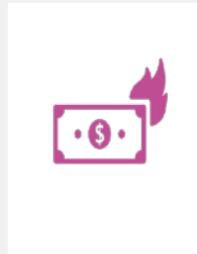
Continues as: profit share steady; U = 0; rate of profit steady; growth in C and I

Economy cannot Stay Buoyant without Exogenous Injection of Demand

National government do not, and should not, behave like a private household



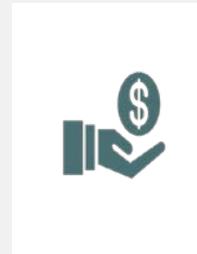
No need to
balance
budget



Balancing
budget is
not a goal
(instead full
emp,
inflation)



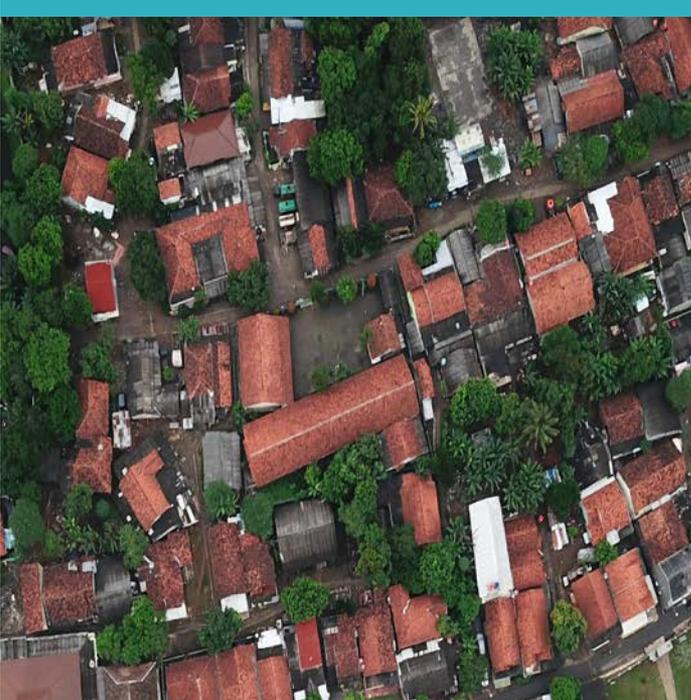
Irresponsible
if depresses
growth



Government
debt can be
monetised



No need for
future
generations
to repay



Limit to Further Interest Rate Cuts

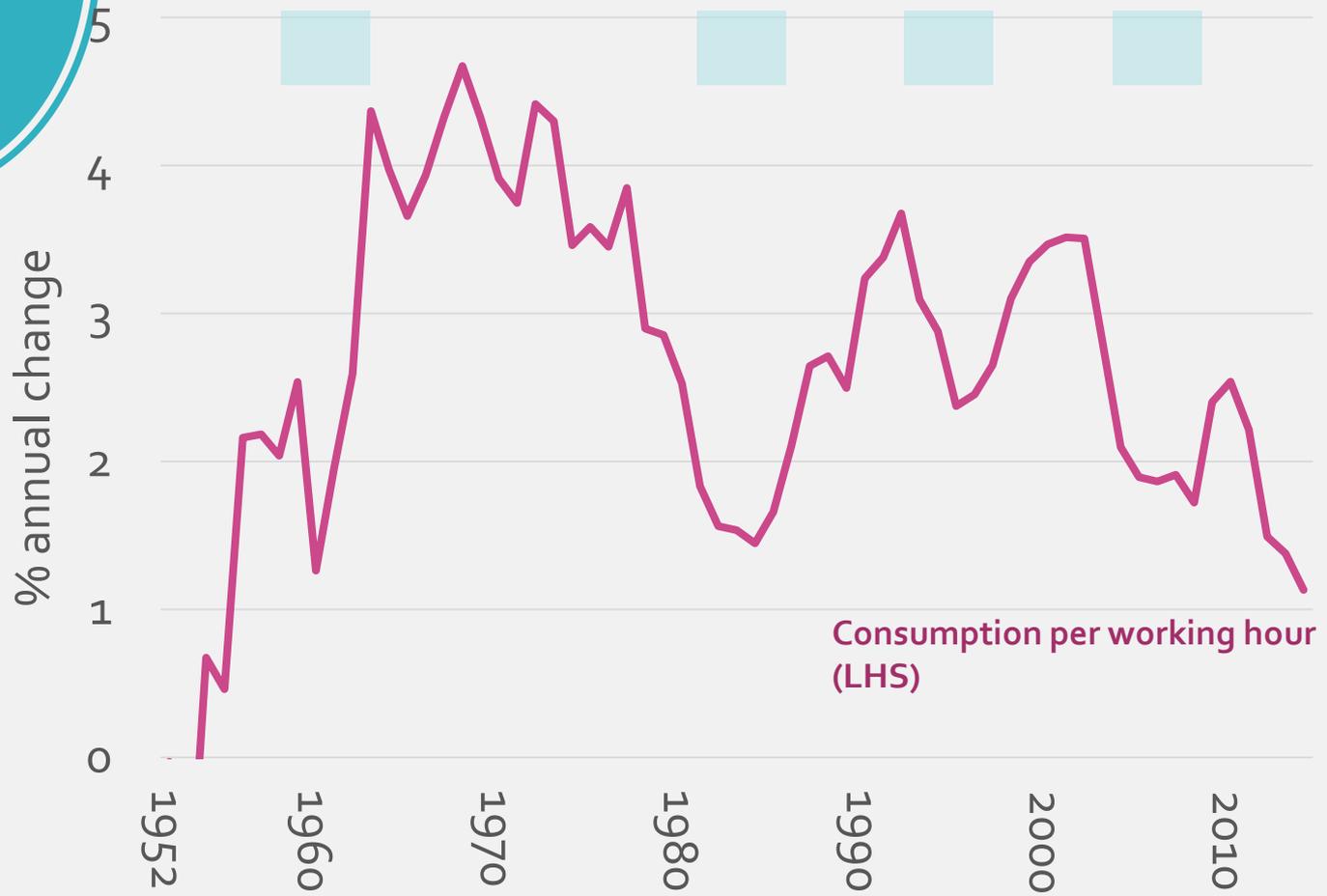


Business
will not
borrow
unless
they are
confident
about
future
demand



Will not
borrow
(no matter
the cost) if
consumer
do not buy

OECD 1952 - 2014





Both demand and supply side factors important. Australia is deficient in both respects



Supply side: need more stable policies, need to evaluate and monitor policies



Demand Side: need regular injection of exogenous demand into the system

In
Sum

Thank You

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Centre for
Transformative
Innovation

Global Outlook for the Australian Economy

Parliamentary Library Budget Seminar

Professor James Morley
School of Economics



Global drivers of the Australian Economy

Three key categories:

- Trade flows
- Capital flows and financial spillovers
- Net migration

Outlook

Mixed signals for Australia:

- Slower growth for major trading partners
- Relatively good position to weather next global financial crisis
- Slowdown in net migration would reveal lower trend growth and hasten future demographic challenges

Slow growth is real

World economic growth positive, but not particularly strong over the past few years

- Better than in past global recessions, but generally lower than in past global expansions

☆ Constant GDP per capita for the World (NYGDPPCAPKDWLD)

DOWNLOAD 

Observation:
: (+ more)
Updated: Oct 26, 2018

Units:
2010 U.S. Dollars,
Not Seasonally Adjusted

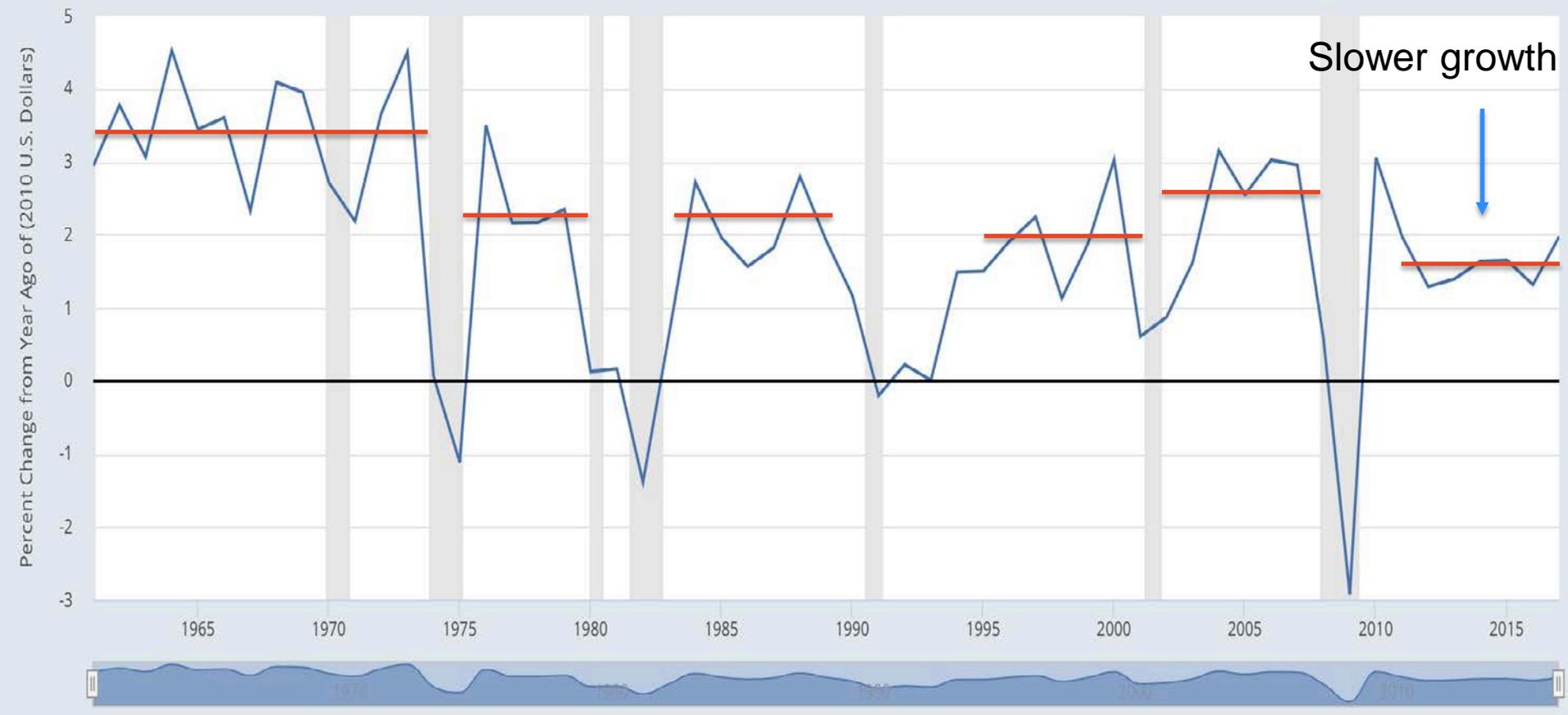
Frequency:
Annual

1Y | 5Y | 10Y | Max

1961-01-01 to 2017-01-01

EDIT GRAPH 

FRED — Constant GDP per capita for the World



Shaded areas indicate U.S. recessions

Source: World Bank

fred.stlouisfed.org

Recession Risks?

After 27 years of expansion, will Australia's luck run out?

- Expansions do not die of old age and seem to be living longer
- Recessions usually triggered by policy, financial crisis, collapse of confidence, oil price spikes, fall in global demand

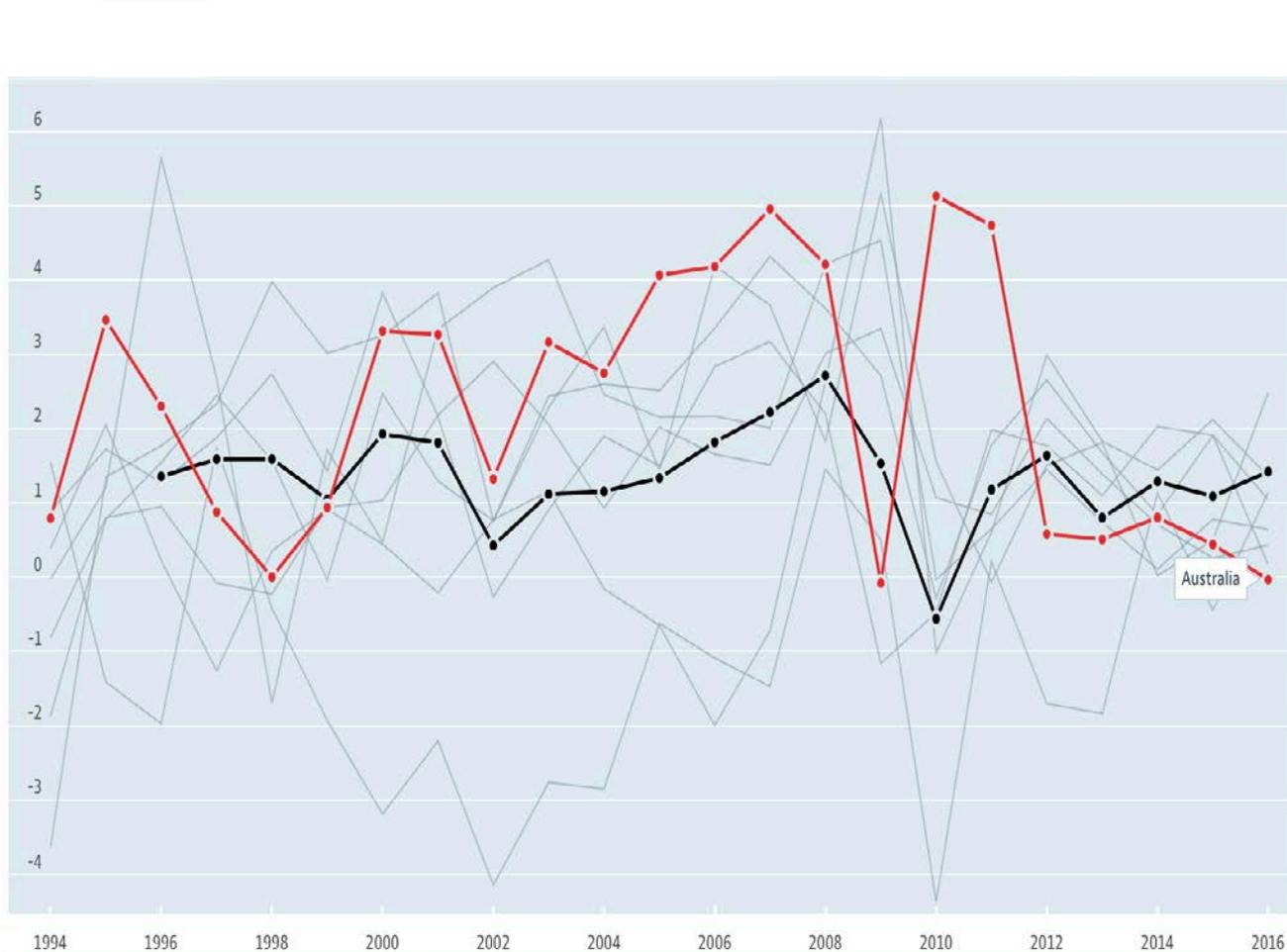
Trade Outlook

Gravity and competitiveness

- Shifts in centre of trade gravity should help offset effects of slow growth for current trading partners on exports
- US now accounts for less than 6% of Australian exports, while Korea, India, Hong Kong, Singapore, Taiwan, Malaysia, and Indonesia account for 25% (China is 30%)
- Also, low Australian dollar and unit labour costs should make exports relatively competitive

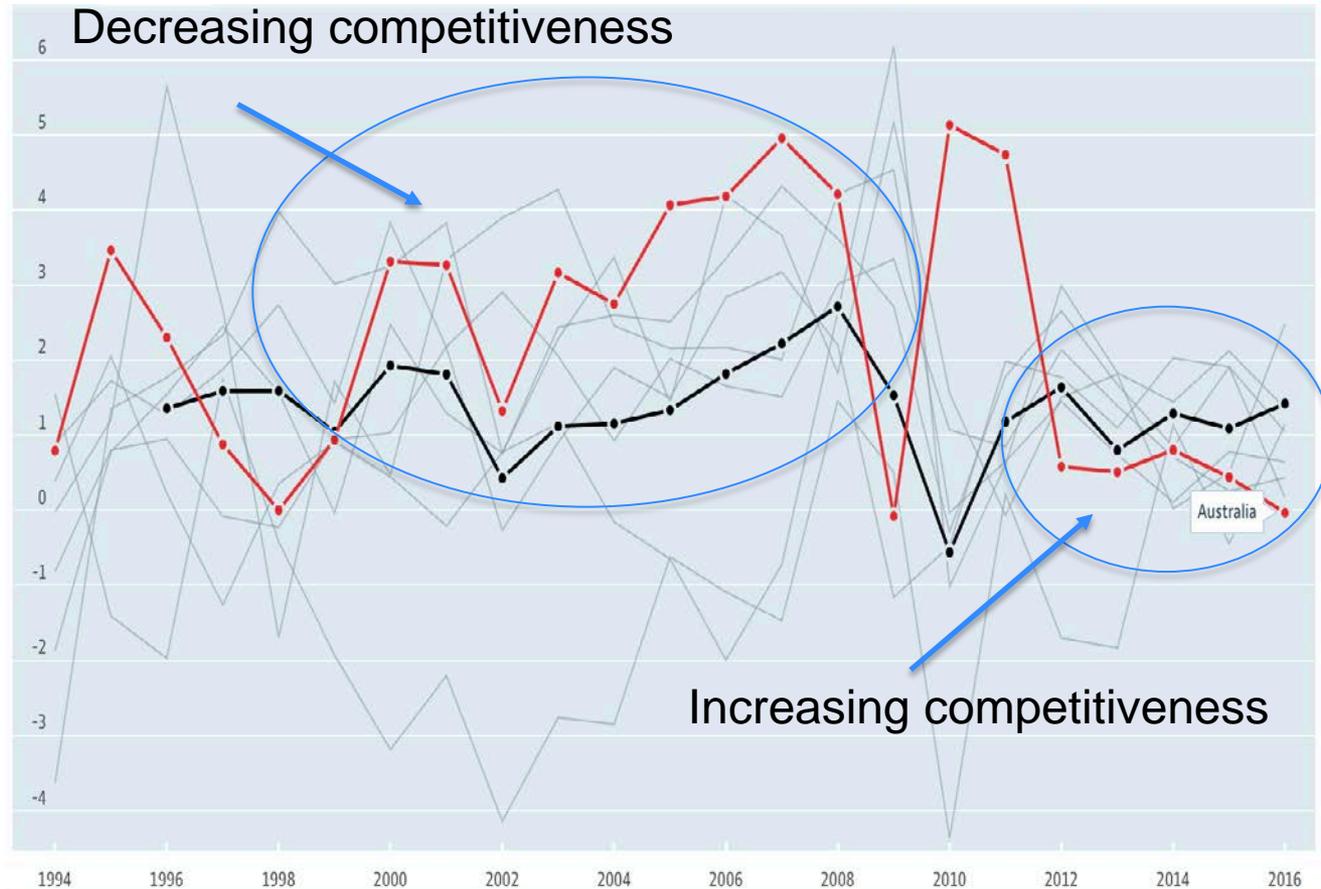
Slow wage growth relative to productivity (vs. G7) implies increased competitiveness

Unit labour costs By persons employed, Percentage change, previous period, 1994 – 2016 Source: Labour: Unit labour cost - quarterly indicators - early estimates



Slow wage growth relative to productivity (vs. G7) implies increased competitiveness

Unit labour costs By persons employed, Percentage change, previous period, 1994 – 2016 Source: Labour: Unit labour cost - quarterly indicators - early estimates



Financial Outlook

Capital flows depend on *relative* risks and returns

- Where else? Europe? US? China? Japan? Latin America?
- Canada probably main competitor, but similar mixed signals for outlook
- Australian net foreign holdings of debt/equity almost \$1 trillion
- But foreign held debt largely denominated in Australian dollars (RBA, 2018)

Net foreign holdings high, but have stabilized a bit

Position at beginning of period; NET INTERNATIONAL INVESTMENT POSITION

international investment position: by net foreign equity and net foreign debt - quarter

balance of payments and international investment position, australia

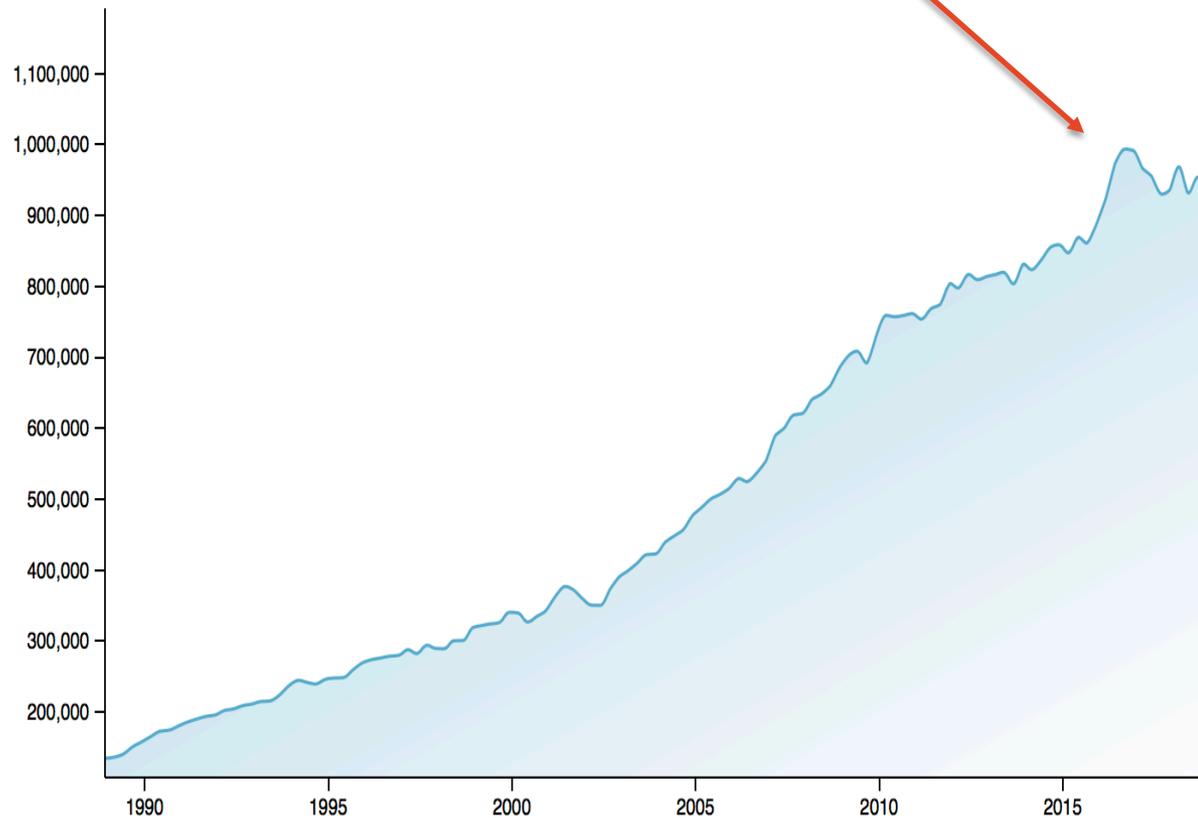
UPDATED

29-Mar-2019

DESCRIPTION

Source: ABS
Initial Date: 12/1988
Unit: \$ Millions
Series Type: Original

Frequency: Quarter
Latest Date: 12/2018
Dataset: 5302.0
Prices: -



Financial Crisis?

What would happen if another financial crisis?

- Monetary policy has little room to maneuver
- But considerable fiscal space
- Government debt-to-GDP ratio one of the lowest in the world (net debt-to-GDP < 20%)
- My research (Fazzari, Morley, Panovska) suggests fiscal policy more stimulative when there is considerable economic slack

Migration Outlook

Australia is a desirable destination for skilled migrants

- Past migration flows have helped keep Australia's dependency ratio (over/under 65 years) comparatively low
- Through increased labour force participation, migration flows kept GDP growth robust despite declines in trend growth
- Total GDP growth matters for debt-to-GDP ratios (cf. Japan, Europe)

Labour force participation rate is at record levels

Participation rate; Persons

labour force status by sex, australia - trend, seasonally adjusted and original

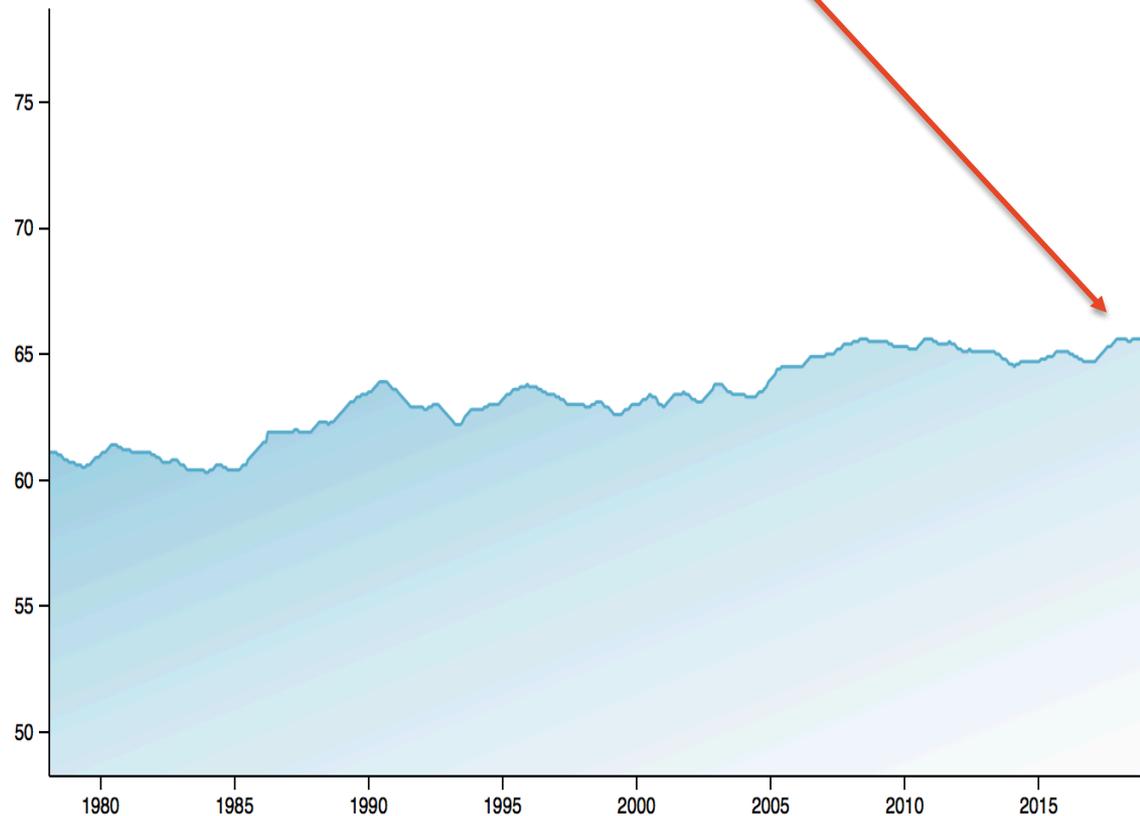
labour force, australia

UPDATED

29-Mar-2019

DESCRIPTION

Source: ABS	Frequency: Month
Initial Date: 02/1978	Latest Date: 02/2019
Unit: Percent	Dataset: 6202.0
Series Type: Trend	Prices: -



Output growth has been stable

Gross domestic product: - Percentage changes

key national accounts aggregates

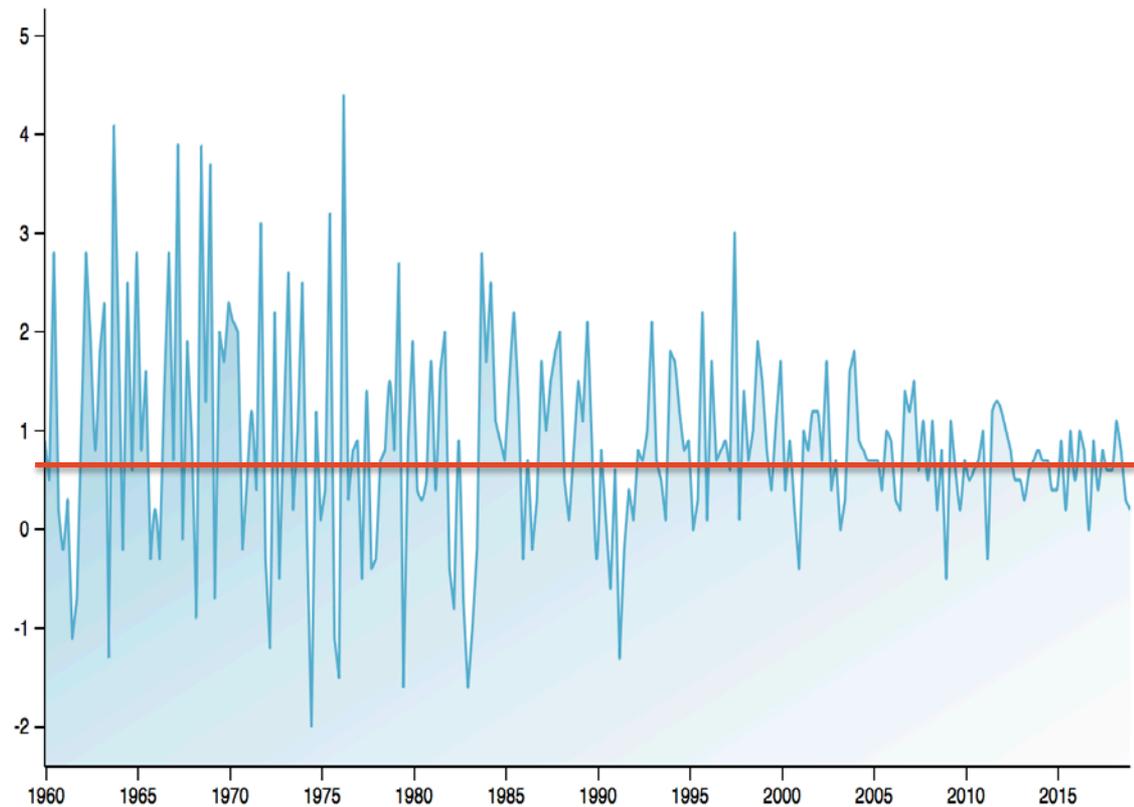
australian national accounts: national income, expenditure and product

UPDATED

29-Mar-2019

DESCRIPTION

Source: ABS	Frequency: Quarter
Initial Date: 12/1959	Latest Date: 12/2018
Unit: Percent	Dataset: 5206.0
Series Type: Seasonally Adjusted	Prices: Chain volume measures



Summary

- Slow world growth, but no immediate trigger for recession
- Trade bolstered by low dollar and increased competitiveness
- Capital flows should continue, fiscal space to respond to crisis
- Net migration source of growth and delays demographic time bombs, but could slow and reveal weak trend growth