

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Additional Estimates
2014 - 2015

Department/Agency: Treasury

Question: AET 219-228

Topic: The Budget and macroeconomic management

Reference: written - 06 March 2015

Senator: Dastyari, Sam

Question:

- 219. In a broad fiscal sense, what is the role of the Budget in stimulating economic growth?
- 220. What impact will any future Budget cuts have on economic growth over the short and medium term? What impact would a cut of 1%, 2%, or 3% have?
- 221. What are the significant long term costs or benefits of running a Budget deficit through an economic downturn?
- 222. How should government spending and taxation change at various stages of economic growth?
- 223. PWC recently released a report forecasting deficits across state, territory and federal Governments at 138% of GDP in 2049-50: does Treasury have any concerns with this modelling?
- 224. What has been the longest period in Australian political history of no policy change?
- 225. What is Treasury's view on modelling that assumes no policy change?
- 226. Given the predictions of weak economic growth, should the government consider increasing the short term deficit?
- 227. Should the government consider removing the concessions and loopholes enjoyed by higher-income earners as part of a long term strategy to return the Budget to surplus?
- 228. In the view of Treasury, which concessions and loopholes should the government prioritise?

Answer:

219, 221, 222 and 226.

Treasury has previously released information on the effect of fiscal policy through the economic cycle through:

Treasury, Briefing paper for the Senate inquiry into the economic stimulus package.

Gruen, D, 2009, 'The Return of Fiscal Policy', Australian Business Economists Annual Forecasting Conference 2009, 8 December 2009.

Gruen, D, 2011, 'Lessons about Fiscal Policy from the 2000s', 2011 RBA Annual Conference, 14 December 2011.

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220 – What impact will any future Budget cuts have on economic growth over the short and medium term? What impact would a cut of 1%, 2%, or 3% have?

Quantifying the impact of fiscal consolidation would require detailed knowledge of their composition. The OECD and IMF have published estimates of the short-run economic impact of changes to tax and expenditure policies in the following documents:

IMF, 2009, IMF Country Report No. 09/249, Washington DC.

OECD, 2009, Chapter 3: The Effectiveness of Fiscal Stimulus, OECD Economic Outlook Interim Report, Paris.

223 – PWC recently released a report forecasting deficits across state, territory and federal Governments at 138% of GDP in 2049-50: does Treasury have any concerns with this modelling?

The PWC projection of net debt reaching 138 per cent of GDP by 2049-50 refers to net debt of the Commonwealth, States and Territories combined. The methodological approach taken by PWC, including assumptions, is not set out in detail in the report, but we note that all projections are sensitive to modelling assumptions.

The projections prepared by PWC are a matter for PWC. The recently released Intergenerational Report contained projections of Commonwealth Government net debt to 2054-55.

224 – What has been the longest period in Australian political history of no policy change?

Treasury has no information on this topic.

225 – What is Treasury's view on modelling that assumes no policy change?

Modelling that assumes no policy change is necessary in a number of situations. For example, in order to quantify the effect a policy change may have, it is necessary to first quantify the effect of not changing policy.

227 and 228– Should the government consider removing the concessions and loopholes enjoyed by higher-income earners as part of a long term strategy to return the Budget to surplus? - In the view of Treasury, which concessions and loopholes should the government prioritise?

There are specific anti-avoidance rules directed at preventing taxpayers from re-arranging their affairs to gain a tax benefit, such as rules in relation to the alienation of personal services income, pre-paid outgoings and advance expenditure. The Government works

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closely with the Australian Taxation Office to ensure they have the resources to investigate tax avoidance.

In addition, the Government has committed to a new era of reform in Australia aimed at lifting productivity and making the most of the underlying potential of our economy.

As part of this broader reform agenda, the Government will produce a comprehensive Tax White Paper. As a first step it has released a discussion paper, available at www.bettertax.gov.au, and has called for submissions.

All aspects of Australia's tax system, including concessions, will be considered in the white paper process.