

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

4 – 6 June 2013

**Question: BET 74**

**Topic: Living Standards**

**Hansard Page: Thursday 6 June 2013, Page 13-14**

**Senator SINODINOS asked:**

**Senator SINODINOS:** I want to ask the Secretary first: going back to your comments about living standards and the impact of the interaction between the terms of trade and productivity growth, if we are to maintain average living standards that we have had over a previous period, as you look at the period over the forward estimates, given the assumptions you have in there of the terms of trade and, implicitly, in your assumptions about productivity—I think you are referring to labour productivity—where do you see living standards going over that short-to-medium term period?

**Dr Parkinson:** Do you want to take that, David?

**Dr Gruen:** Sure. We could give you a rough estimate of what the forecasts have in them. In the projection period we have an assumption of 1½ per cent as the productivity growth rate.

**Senator SINODINOS:** That is labour productivity?

**Dr Gruen:** Yes, certainly. We do not do multiproductivity in the projection period because we do not have a measure of capital stock. Let us assume, which is reasonable over this period, that nothing happens to the aggregate participation rate in this period, then you would have living standards growing at about 1.3 per cent as a consequence of the combination of a productivity assumption of 1½ per cent and a decline in the terms of trade of a bit over one per cent. That would deliver you a rise in living standards at a rate of 1.3 per cent per annum over that period.

**Senator SINODINOS:** When we talk about a rise in living standards in that context we are talking essentially about income. This is abstracting from any population effects or participation effects, is it?

**Dr Gruen:** The participation effect is sufficiently gradual at the moment that it would not make a material difference. It is certainly true that in the longer run we have the participation rate coming off but not by much in the forward estimates period.

**Senator SINODINOS:** Maybe you could take that on notice in terms of the forward estimates period because it would be good to have that. It goes back to what the Secretary was talking about earlier, which is the comparison of that period with the average we have had over previous periods. I forget what he mentioned was the average in terms of the growth in living standards, or GNI, or whatever it was.

**Dr Parkinson:** I do not think I talked about the average over the long period but over the last two decades it is in the region of 2½.

**Dr Gruen:** That is right. So the growth in living standards over the past two decades would be 2½ and that is simply allowing for the terms-of-trade effect and the labour-productivity effect, so it is not taking any account of the fact of what that participation rate is over that period. So, 2½ is the annual rate of growth of living standards from the terms-of-trade rise and the labour-productivity growth.

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**Answer:**

The participation rate is forecast to be 65 per cent in the June quarters of 2013, 2014 and 2015 and projected to be 64½ per cent over the remainder of the forward estimates period, to June 2017.