Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Budget Estimates 2014
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Department/ Agency: Treasury
Question: BET 43
Topic: Impact of spending cuts on economic growth
Reference: Hansard – page 121, 4 June 2014
Senator: Bushby

Question:

CHAIR: Since the GFC, there have been a number of approaches taken by other countries to their fiscal situation. Have spending cuts been damaging to long-term economic growth and prospects like in countries such as Canada and Sweden in the 1990s, and now Britain and US this decade, following the GFC?

Mr Ray: In the 1990s, Sweden was forced into it because of the financial crisis in Scandinavia. To give you a considered response, I think we need to take it on notice. But my recollection was that that was quite damaging for some time.

CHAIR: I did say long-term economic growth and prospects.

Answer:

43. The IMF has conducted a wide-ranging study (IMF World Economic Outlook, October 2010) of fiscal policy actions in 15 advanced economies (including Australia, Sweden, Canada, the UK and the US) over the period from 1980 to 2009. In the long term, fiscal consolidation results in lower debt, which reduces real interest rates, stimulating private investment. Moreover, the lower interest payment burden creates fiscal room to cut distortionary taxes. The IMF suggests that both of these latter effects typically raise output in the long term.