

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: SBT 142-147

Topic: Budget Expenditure

Written: Received from Committee – 26 October 2012

Senator JOYCE asked:

Regarding the automatic fiscal stabilisers on the Budget's expenditure side:

142. What are the key items in expenditures that act counter-cyclically (or at least partly so) to economic activity over the modern business cycle? (For example, certain welfare payments.)
143. Of those items listed, which ones tend to have the greatest impact in terms of smoothing the cycle?
144. Of those items listed, which ones have impediments that prevent them from working as counter-cyclically as they could? What are those impediments – that is, what would the benchmark policy or treatment look like and what would be required to remove those impediments?
145. Have any such impediments been reduced or removed in recent times?
146. What more could be done to improve such counter-cyclicity?
147. If the effects of such impediments are reduced or eliminated, and the counter-cyclicity of the Budget expenditure system is improved, would that help to reduce the need for certain discretionary demand management policies that will be otherwise typically activated over future downturns and cycles?
 - a. For example, discretionary fiscal spending, with the practical problems of timing (when) and targeting (who) that inevitably result?

Answer:

142. Unemployment benefits (Newstart Allowance).
143. See answer to 142.
144. Newstart allowance is means-tested, with a person's eligibility and payment rate determined by their level of income and assets, including liquid assets. Individuals who have assets above the asset test threshold do not qualify for payment, while the income test reduces the payment rate as recipients earn income from work. The liquid assets test is based on the principle that individuals who have a certain level of liquid assets available to them should draw upon these before accessing Government payments. If a recipient has more than \$2,500 (single with no dependent children) or \$5,000 (all others) in liquid assets the recipient serves a waiting period of up to 13 weeks before accessing payment. Means-testing is required to ensure that the Newstart allowance is directed to those who need them most and should not be viewed as an impediment per se.

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145. From 1 July 2013 the maximum amount of liquid assets that an applicant can have and access Newstart Allowance payments immediately will be increased to \$5,000 for a recipient who is single with no dependent children, and \$10,000 for all others.
146. Newstart Allowance is designed to provide unemployed persons who meet certain criterion with income support for basic living costs. This is the overriding aim of the payment and counter-cyclicality is of secondary importance.
147. In normal circumstances, monetary policy should be used as the primary tool for demand management. Outside of the automatic stabilisers, discretionary fiscal policy should be used for supporting demand during extreme circumstances, such as when:
- the effectiveness of monetary policy is impeded; and/or
 - a shock is sufficiently large and sufficiently sudden that monetary and fiscal policy should work together effectively to support activity, such as during the GFC.