

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
BUDGET ESTIMATES 2014-15

Finance Portfolio

Department/Agency: Finance

Outcome/Program: 1/1.1

Topic: Fiscal Strategy

Senator: Ludwig

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Type of question: Written

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Number of pages: 2

Question:

- a) With regard to the first policy element that underpins the fiscal strategy: “Investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation” – what are the metrics for this?
- b) How can you measure whether this is being achieved, both in a qualitative and quantitative sense?
- c) What does the phrase “so long as economic growth prospects are sound” mean? Over what time duration do economic growth prospects need to be sound? What does “sound” mean? Is there a figure for GDP growth that means “sound”?
- d) What is your definition of “low unemployment” for the purposes of this budget repair strategy?

Answer:

a) & b) All relevant details on “investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation”, are outlined in Budget papers.

The 2014-15 Budget included a number of significant packages consistent with the objective to increase quality spending to boost productivity and workforce participation.

The \$11.6 billion Infrastructure Growth Package, in particular, has been specifically designed to support the economy’s transition to non-resource sector growth while improving the long-term productive capacity of the economy. This package will take the Government’s total investment in transports infrastructure to \$50 billion by 2019-20. Additional infrastructure investment from all levels of government and the private sector will build to over \$125 billion. When this investment is completed it will add around 1 percentage point to annual GDP.

Other significant reforms include the deregulation and broadened accessibility of the higher education sector and a new approach to industry policy including the Entrepreneurs’ Infrastructure Programme and the Industry Skills Fund.

c) & d) 2014-15 Budget Paper No. 1 Statement 3: Fiscal Strategy states that “The Budget repair strategy will remain in place until a strong surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.”

The flexibility of the medium-term fiscal strategies pursued by successive Australian Governments has been recognised by organisations such as the IMF and OECD as a strength of our macroeconomic policy frameworks. It allows the operation of fiscal policy to vary in line with changes in economic circumstances. The experience internationally of efforts to establish hard rules in advance for how fiscal policy will respond under different economic scenarios has been that this can lead to policy responses that exacerbate economic cycles.