

# Senate Standing Committee on Economics

## ANSWERS TO QUESTIONS ON NOTICE

### Treasury Portfolio

### Additional Estimates

23 – 24 February 2011

Question: AET 171

Topic: World Economic Outlook

Hansard Page: E 86 – E 87

Senator Bushby asked:

**Senator BUSHBY**—I am not upset that Senator Cormann is adding at times, and I think he has some very good questions, but I do have some things to ask. Dr Gruen, I have asked you a couple of times about the chart on page 2-23 of Budget Paper No. 1. We were talking about what happened in the United States. You had that graph showing the impact on various countries that had stimulus packages.

**Dr Gruen**—Yes.

**Senator BUSHBY**—You made the point, I think this estimates and the estimates before, that it is not overly useful—that it was just an interesting thing to graph and show. Nonetheless it created an impression at the time that was quite politically useful for the government. Last estimates I asked you whether you were going to continue mapping the impact on those countries as their stimulus packages became contractionary and as they started having to address their government debt. Just as it was interesting as a snapshot at that time to see that those nations that employed a stimulus package did quite well, according to your graph—which did have some issues that were pointed out in terms of some countries that were missed off, but you have addressed that since—it would be interesting to see how that plays out over time in terms of how each of those countries deals with the contractionary phase as that winds down and also then how they deal with how they funded their stimulus packages.

**Dr Gruen**—We have not done this but the IMF has done some very careful work on what the implications are for economic growth of fiscal contractions. I can refer you to that work but—

**Senator BUSHBY**—Does it also look at how those countries have had to deal with how they financed the stimulus packages?

**Dr Gruen**—It looks at whether you get a different effect depending on the stock of debt as a share of GDP that you start with. So for highly indebted countries it gives somewhat different results than for countries that are not highly indebted.

**Senator BUSHBY**—And that is obviously very important for future planning in terms of how you would advise governments to deal with future shocks.

**Dr Gruen**—It is very important for a range of countries; that is right. But it does come to the conclusion that cutting the fiscal deficit is in almost all circumstances contractionary for growth.

**Senator BUSHBY**—Could you provide that on notice?

**Dr Gruen**—That paper?

**Senator BUSHBY**—Yes, or any analysis of that that you might have done.

**Dr Gruen**—That paper is actually a chapter from the *World economic outlook*.

**Senator BUSHBY**—If you could provide a reference to it on notice, then, that would be good.

**Dr Gruen**—We can.

Answer: Dr Gruen is referring to Chapter 3 of the October 2010 IMF World Economic Outlook accessible via the following link: <http://www.imf.org/external/pubs/ft/weo/2010/02/pdf/c3.pdf>