

# Chapter 6

## Conclusion and Recommendations

6.1 The Report shows that there is a range of opinions from credible economists on the need for and the appropriate size, timing and duration of economic fiscal stimulus in Australia.

6.2 The Report also shows there is a range of views as to the appropriateness of reconfiguring the package given the improvement in underlying economic conditions.

6.3 At one extreme was a view that a more rapid winding back of the fiscal stimulus would reduce economic growth and increase unemployment from what it would otherwise be. An alternate view was that continuing an inappropriate degree of poorly targeted fiscal stimulus would also have costs. These would include higher inflation, higher interest rates, a crowding out of more productive private sector investment and therefore higher unemployment.

6.4 This shows that continuing with an inappropriate degree of fiscal stimulus is not a cost-less option.

6.5 In this regard the Committee notes that the RBA has recently stated that its expansionary monetary policy settings are no longer appropriate and indeed may be imprudent.

In particular, underlying inflation was still, on the latest data, above the target and, while current forecasts suggested it would fall in the coming year, the expected trough in inflation was significantly higher than earlier thought. Keeping interest rates at very low levels for an extended period could therefore threaten the achievement of the inflation target over the medium term. More generally, very expansionary policy could result in the build-up of other imbalances in the economy, which would ultimately be detrimental to economic growth.

Overall, members concluded that, while downside risks to the domestic economy could not be ruled out, they had diminished significantly over recent months. This meant that the balance of risks was now such that the current very expansionary setting of policy was no longer necessary, and possibly imprudent. The Board therefore decided in favour of raising the cash rate.<sup>1</sup>

6.6 This opinion lends weight to the view that an expansionary fiscal policy is also no longer necessary and possibly imprudent, leading to the Committee's view that the fiscal stimulus package should also be recalibrated with a view to maximising value for money from all remaining projects.

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1 Reserve Bank Board Minutes, 6 October 2009, <http://www.rba.gov.au/MonetaryPolicy/RBABoardMinutes/2009/rba-board-min-06102009.html>, accessed 20 October 2009

6.7 There was no evidence taken as to which unspent fiscal stimulus elements could be reduced, postponed or offset and will otherwise lead to imbalances.

6.8 The overall stimulus imparted to the economy from fiscal policy could be reduced in a number of ways.

6.9 One way would be to focus only on the components of spending that are classed as part of the fiscal stimulus package and to reduce or reschedule these expenditures over a longer period of time. It would appear that there is approximately \$31 billion of discretionary stimulatory spending out of the remaining \$45 billion over the forward estimates unspent.

6.10 An alternative approach would be to reduce the total stimulus injected into the economy by identifying offsetting cuts to other areas of government spending.

6.11 There was a consensus view that a range of factors have contributed to Australia's exemplary economic performance. These include the continuing strong growth of China and demand for Australia's exports; the legacy of rapid growth, strong budget position and sound prudential regulation of the financial system that was left by the previous Coalition government; the rapid move to strongly accommodative monetary policy; the fall in the A\$ in the second half of 2008; and the fiscal stimulus.

6.12 There was a range of opinions as to the relative contributions of each of these factors to the exemplary performance of the Australian economy. What was clear though was that fiscal policy alone was not the only significant factor.

6.13 No evidence was submitted on one of the terms of reference, specifically an evaluation of the environmental impacts of the spending to date. Consequently, no comments have been made on this issue.

6.14 The committee notes that the economy has strengthened and that the rationale for maintaining the proposed spending levels by the Rudd Government are no longer valid and is of the firm opinion that the levels of spending need to be reduced, postponed or offset to prevent the economy from overheating, in line with the Reserve Bank's Board view as expressed in their latest Board minutes of 6 October 2009.

## **Recommendation 1**

### **6.15 The Committee recommends:**

**That the Government commission an urgent independent report to be prepared on the fiscal stimulus packages listed in Appendix 3 to include**

- (a) A cost benefit analysis of all the remaining projects, including the timing implementation for spending on those projects**

- (b) Recommendations on the feasibility of reducing, postponing or recalibrating the remaining discretionary funding, on a project by project basis.**

**That the Report be published on the Department of Treasury's website within 14 days of its receipt.**

**Senator Alan Eggleston  
Chair**

