



Australian Government

The Treasury

TSY/AU

The role of fiscal policy in Australia, including during the COVID-19 pandemic

Commonwealth Treasury

Presentation to Year 11 WA students

13 September 2022

This presentation is based on publically available data unless otherwise stated

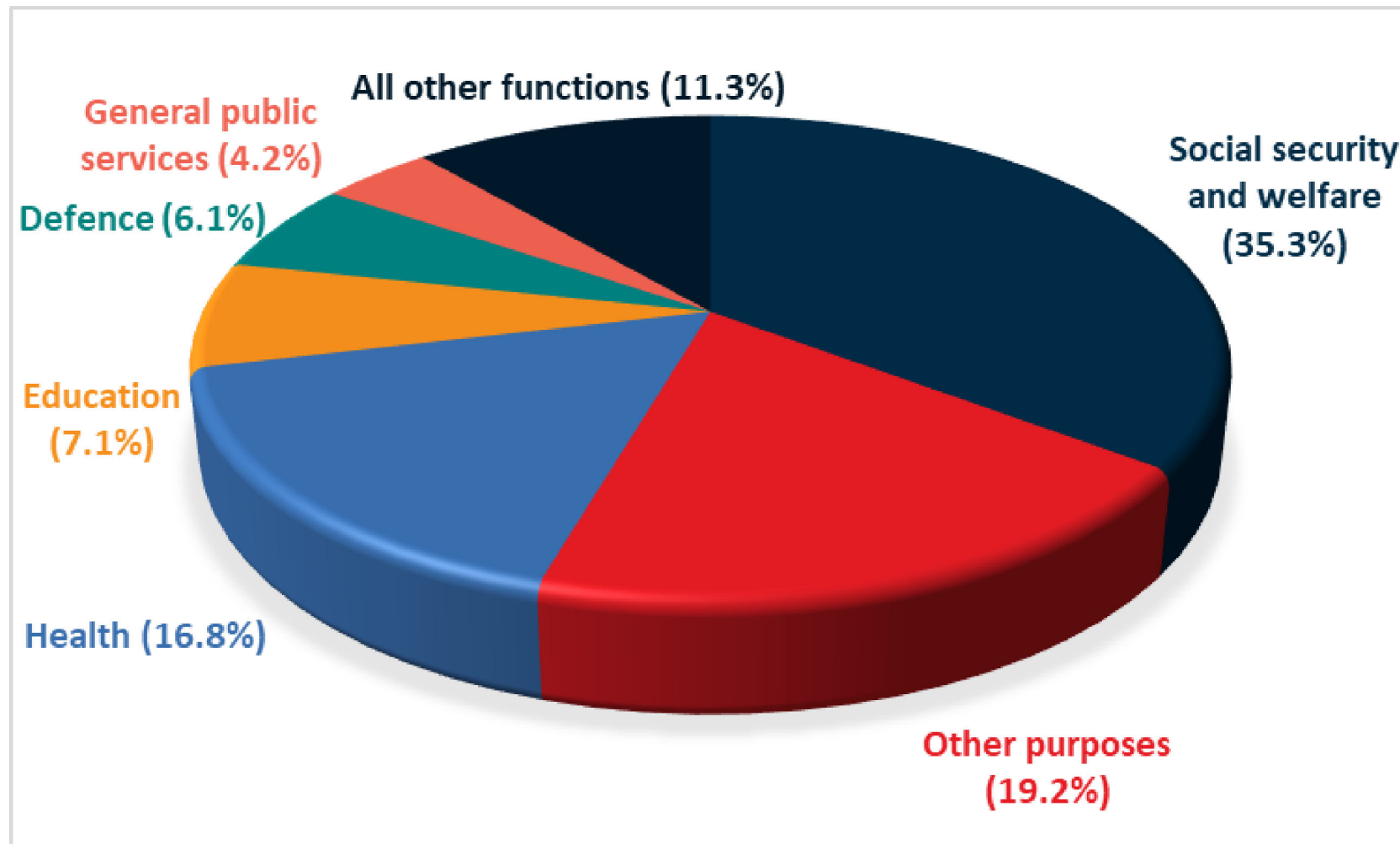
Treasury's role in Government

- What is the role of the public service?
- Where does the Treasury sit within the broader government?
 - ***Treasury is the Government's lead economic adviser.***
- Treasury's purpose is to provide advice to the Government and implement policies and programs to achieve strong and sustainable economic and fiscal outcomes for Australians.
- Treasury does this through one of the key arms of macroeconomic policy - fiscal policy (others are monetary policy and macroprudential policy).

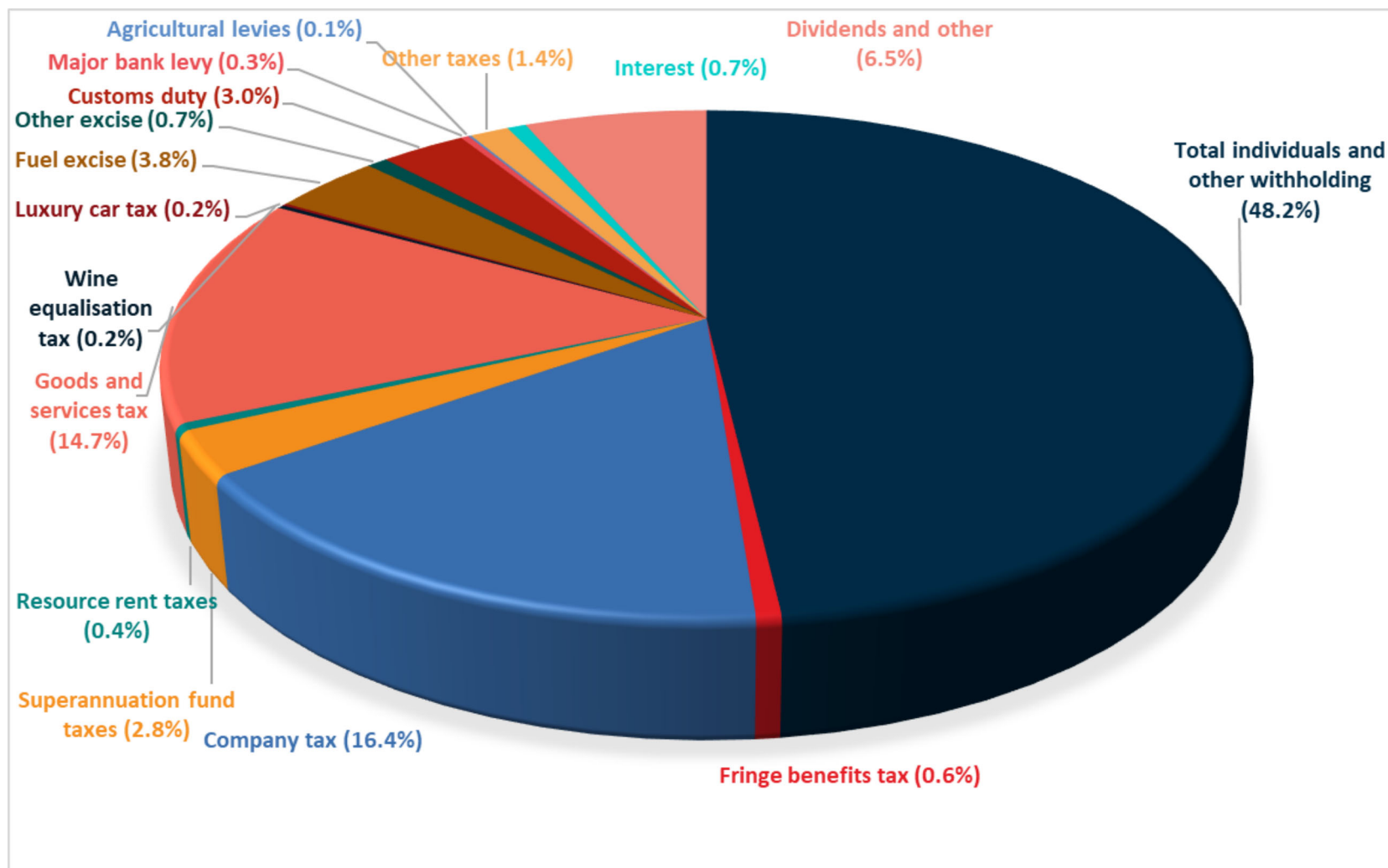
What is fiscal policy?

- Why is fiscal policy important?
- Fiscal policy involves setting government taxes and expenditure.
- The aim of fiscal policy is to provide stable and sustainable economic growth. This can be broken down into:
 - a) Stabilisation – managing economic shocks (business cycles)*
 - b) Economic growth – long run drivers of prosperity*
 - c) Fairness and equity.*
- The focus of fiscal policy depends on the context.

Government Expenses – 2022-23



Government Revenue – 2022-23

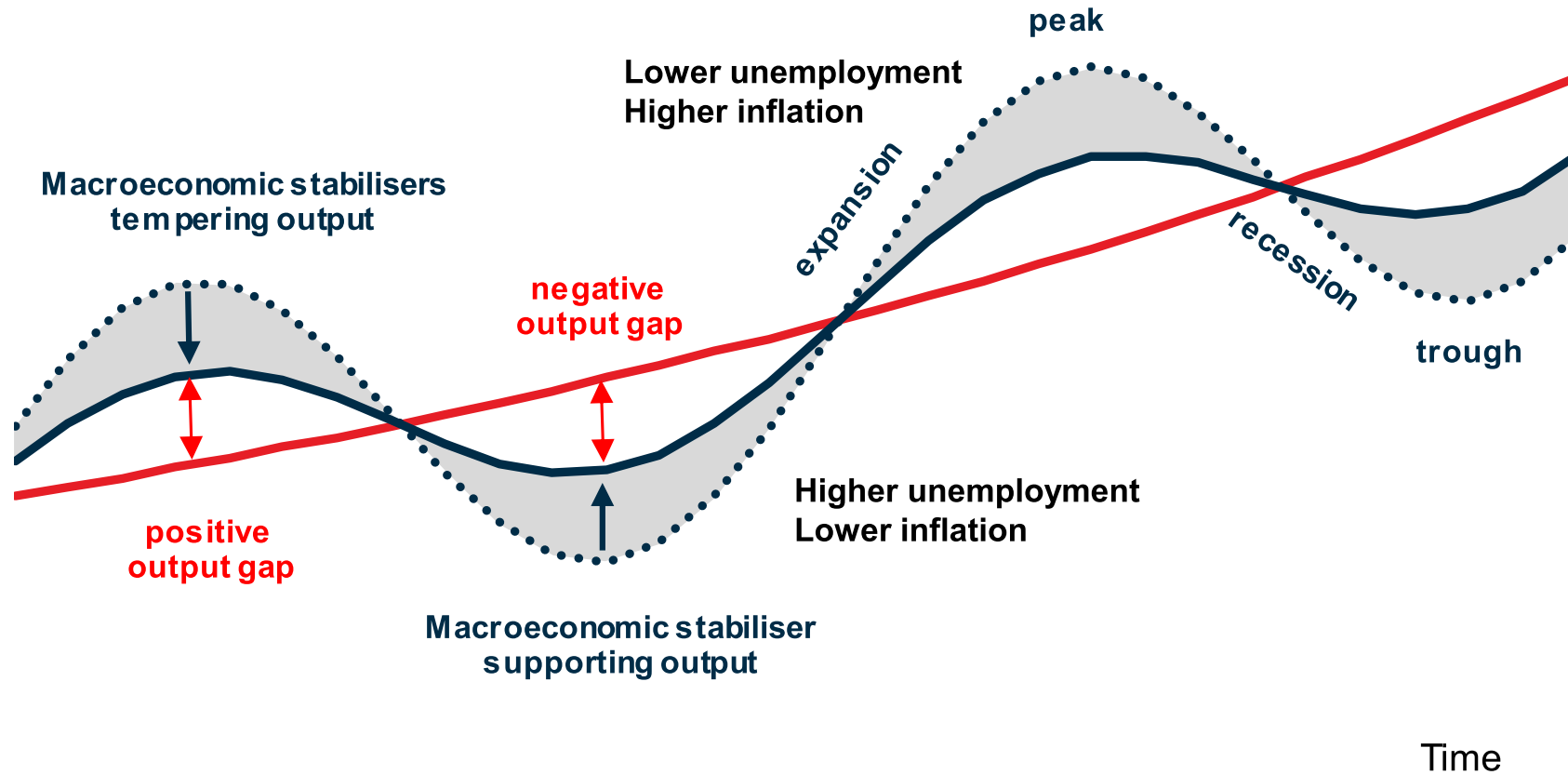


The stabilisation role of fiscal policy

- Smooth short-term economic fluctuations
- Intersects with monetary policy, and more recently macro-prudential policy
- Australian counter-cyclical fiscal policy takes a couple of forms:
 - Automatic stabilisers
 - *E.g. welfare payments (unemployment), progressive taxes*
 - Discretionary policy
 - *E.g. tax holidays, tax cuts, transfers (cash payments) or other spending*

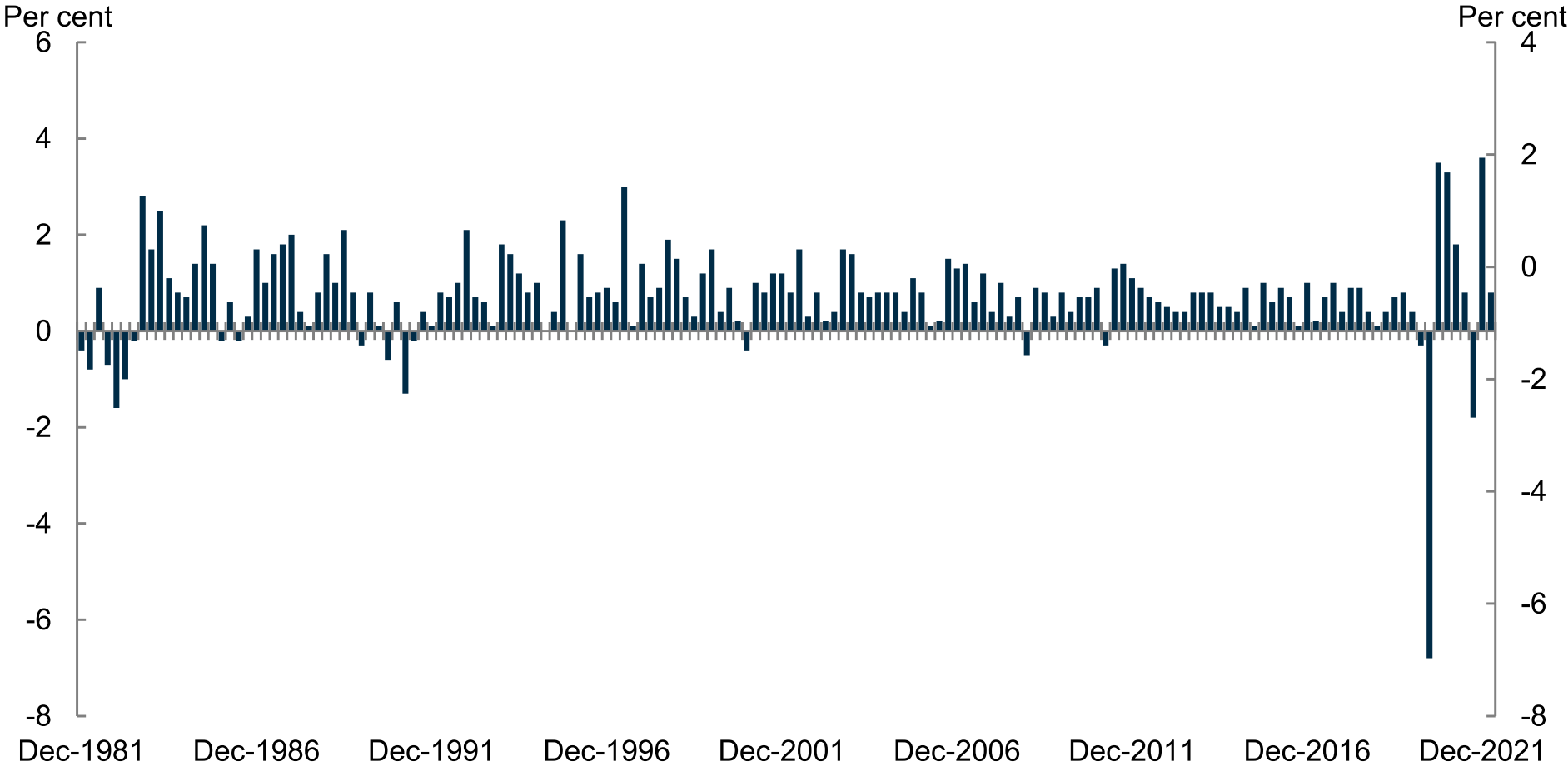
Stabilising the business cycle

Real GDP



The COVID-19 pandemic was a once in a generation economic shock

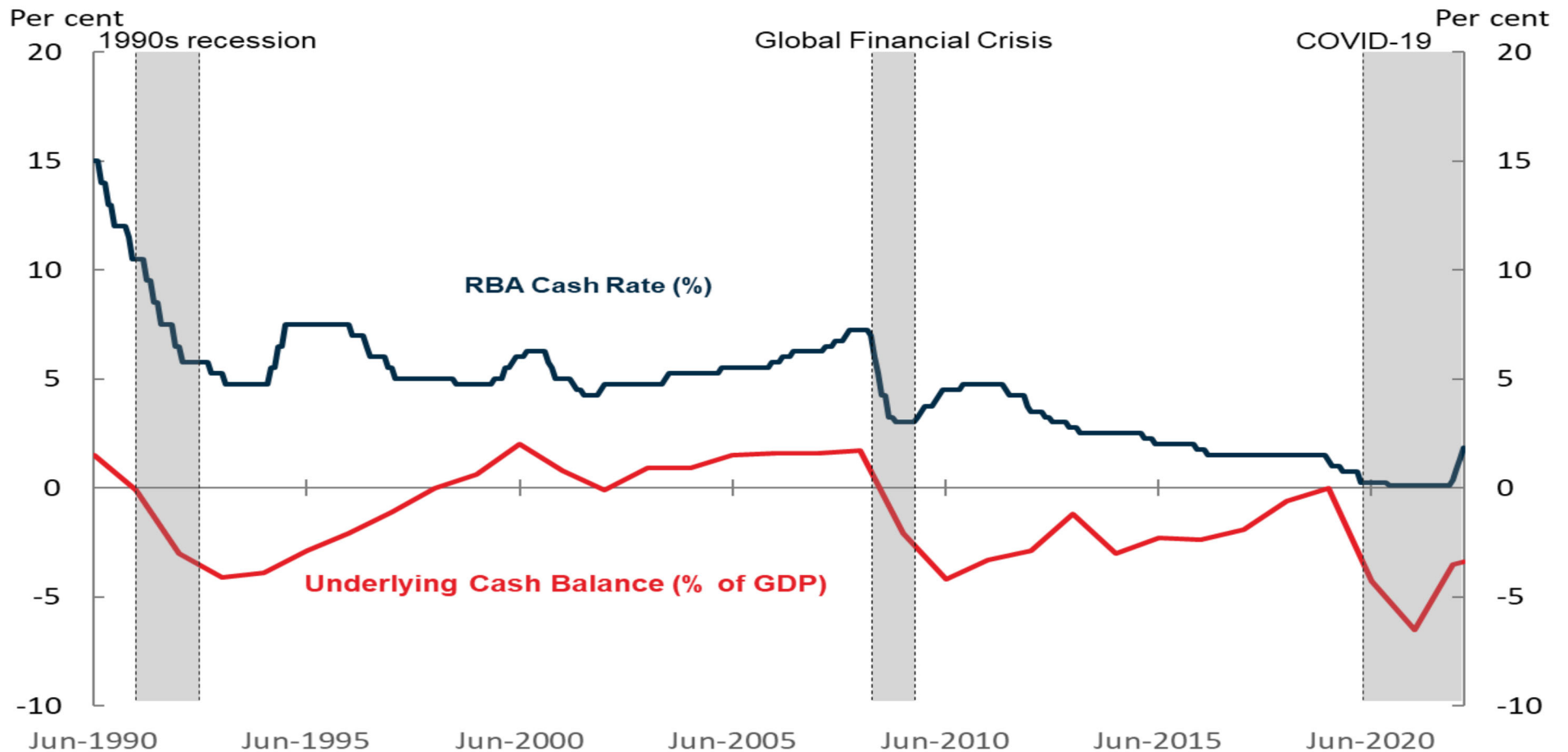
Chart: Quarterly real GDP growth



Source: ABS National Accounts: National Income, Expenditure and Product and Treasury.

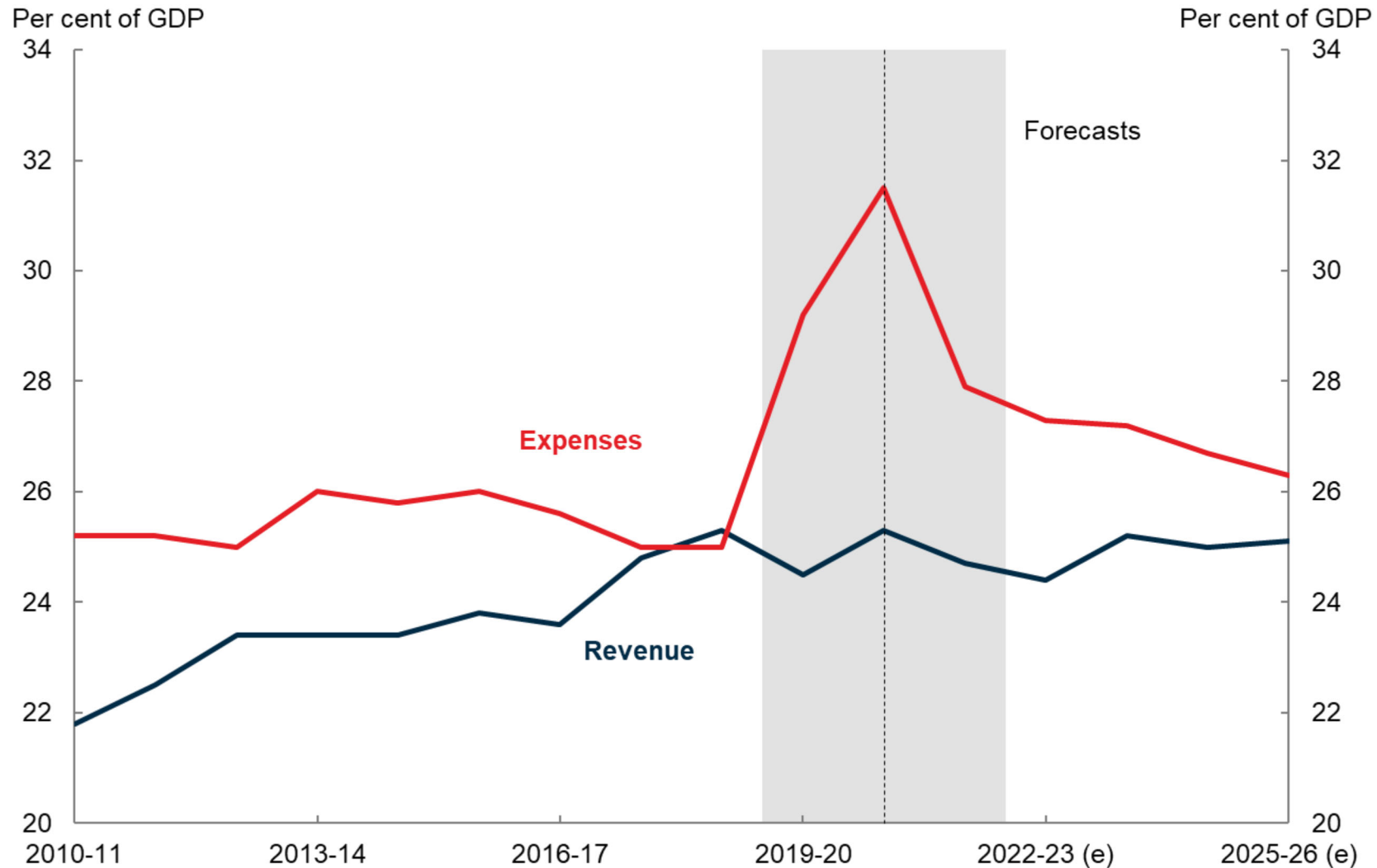
Fiscal policy played a large stabilisation role

Chart: Underlying cash balance as a share of GDP and RBA cash rate target



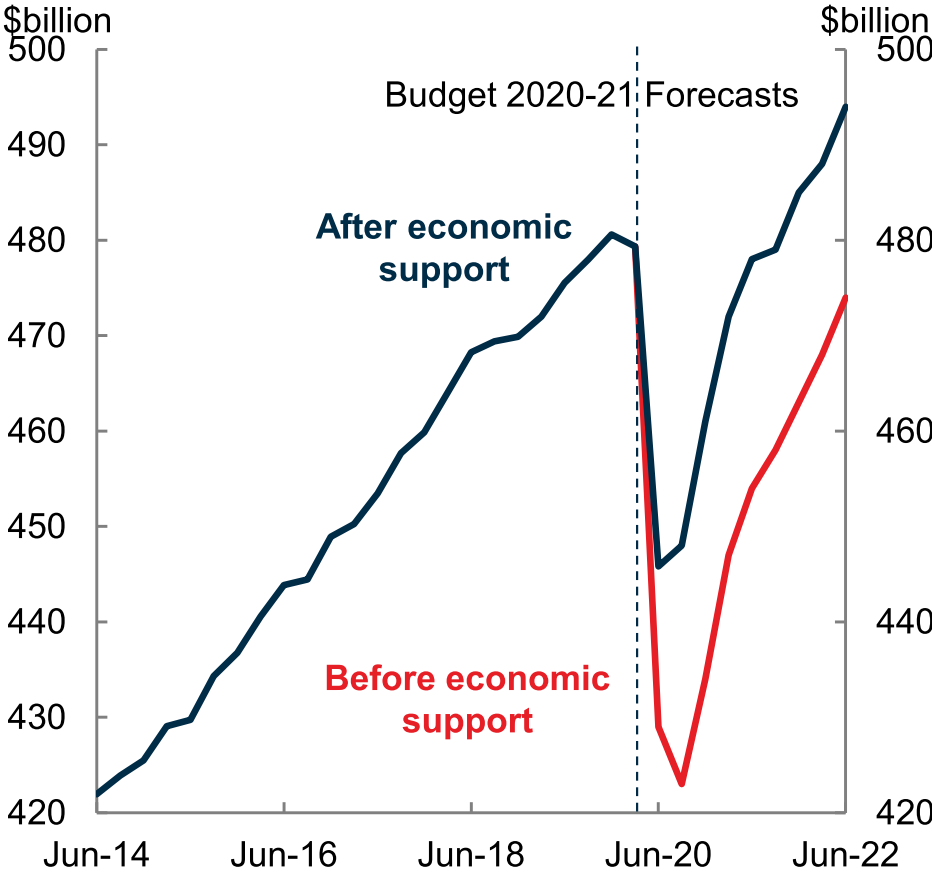
Note: Underlying cash balance is shown as a share of GDP. Source: RBA and Treasury.

Expenses and Revenue – Forecasts and COVID impact



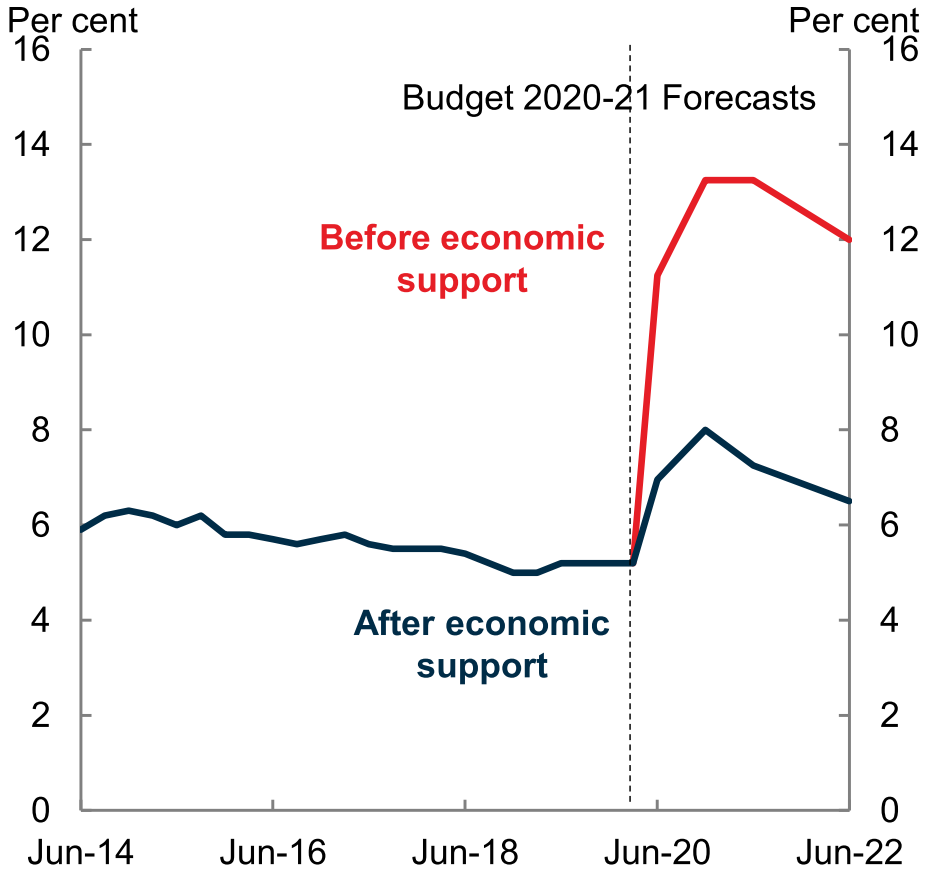
The impact of the Government's economic support

Chart: Real GDP before and after economic support (Budget 2020-21 forecasts)



Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

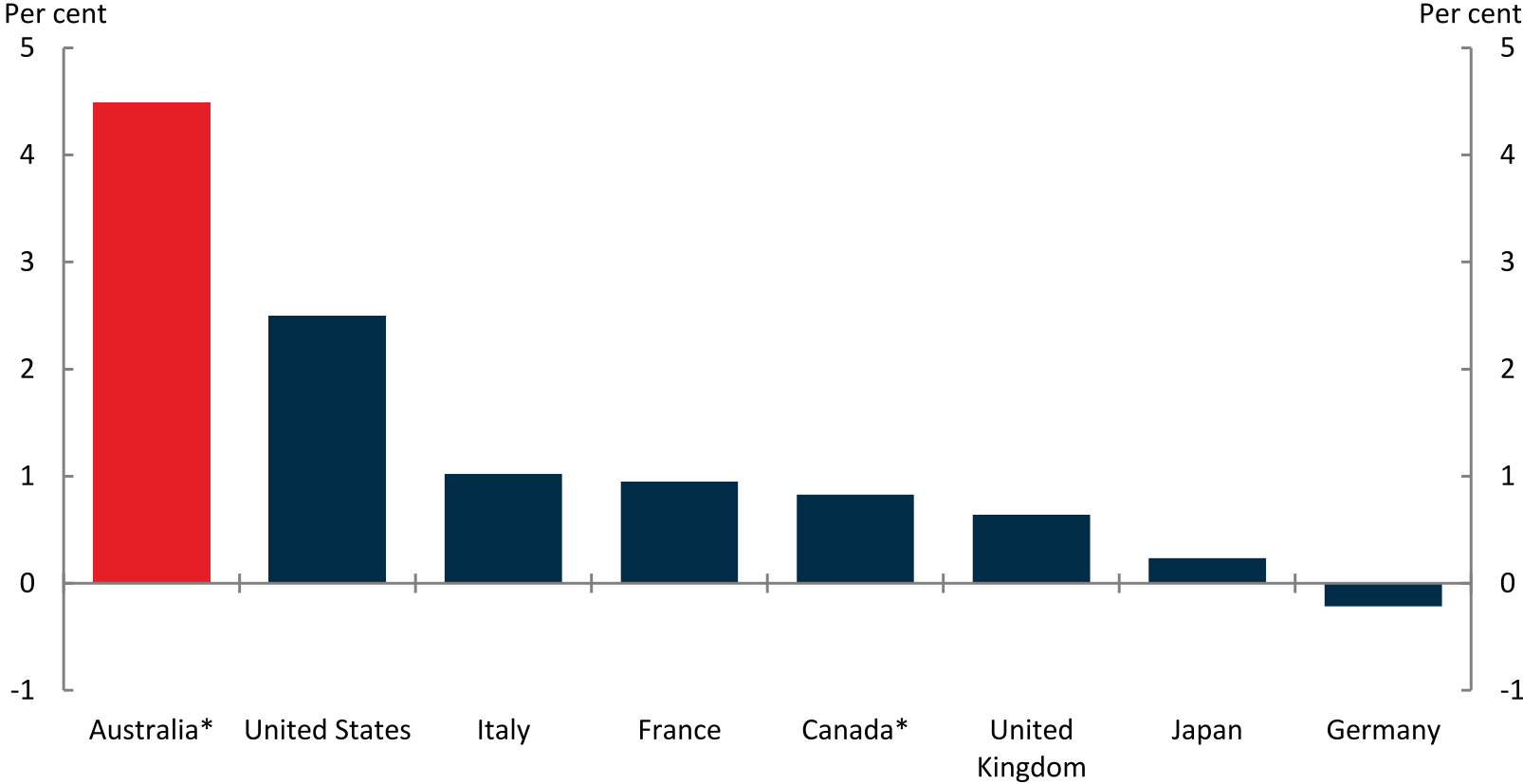
Chart: Unemployment rate before and after economic support (Budget 2020-21 forecasts)



Source: ABS Labour Force, Australia and Treasury.

Australia fared relatively well compared to advanced economies

Chart: Real GDP relative to pre-pandemic levels, Australia and G7 at June 2022

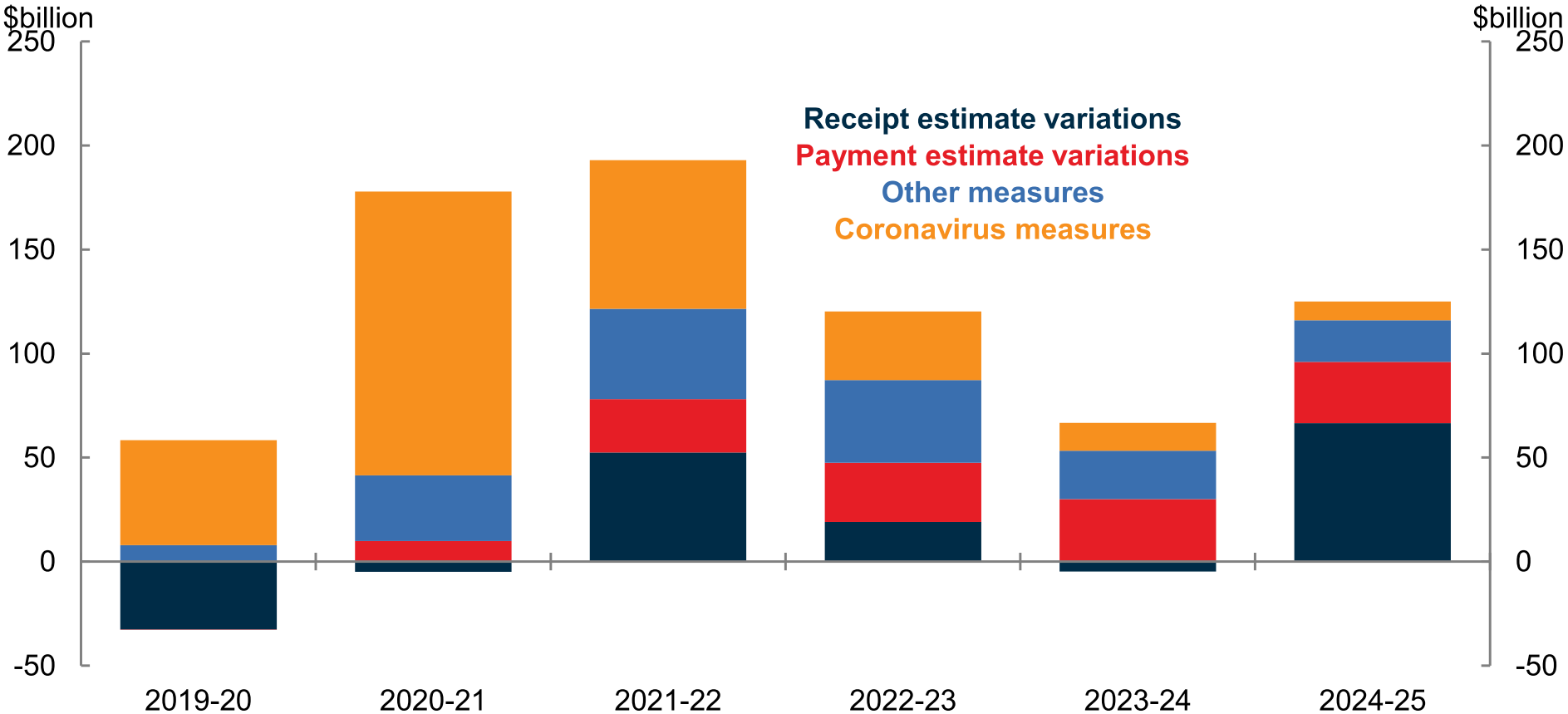


Note: June quarter 2022 levels relative to December quarter 2019. Source: Refinitiv, National statistical agencies

*March quarter 2022 is latest available data for Australia and Canada

There was a large discretionary policy response

Chart: Discretionary and automatic fiscal response

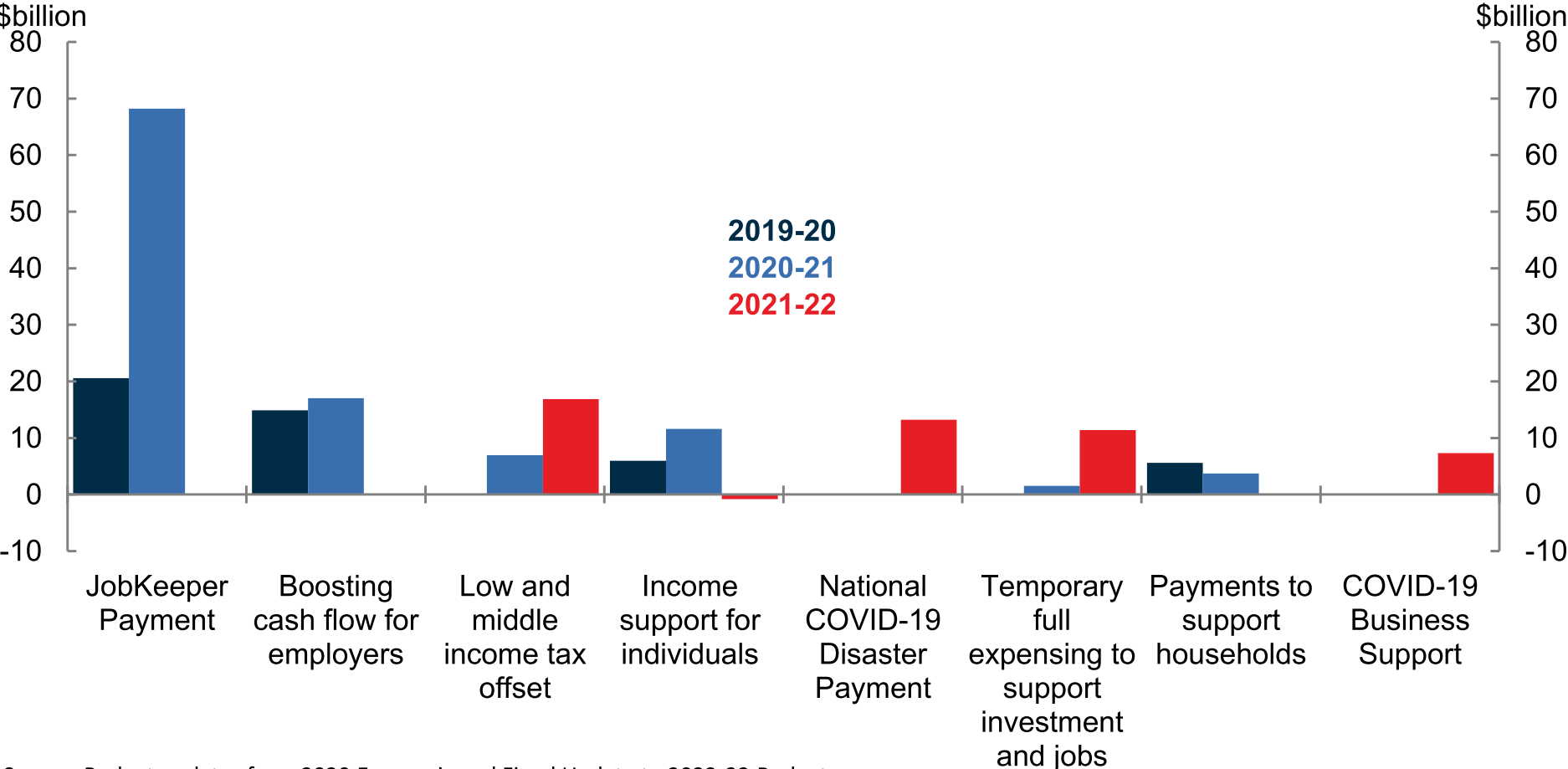


Source: Budget updates from 2020 Economic and Fiscal Update to 2022-23 Budget.

Notes on signage: Negative receipts variations indicative less receipts (positive indicates more receipts). Positive payments and measures indicate an increase in Government spending or decision to reduce revenue.

JobKeeper was the largest COVID-19 response measure

Chart: Fiscal measures by category over time (impact on underlying cash balance)



Source: Budget updates from 2020 Economic and Fiscal Update to 2022-23 Budget.

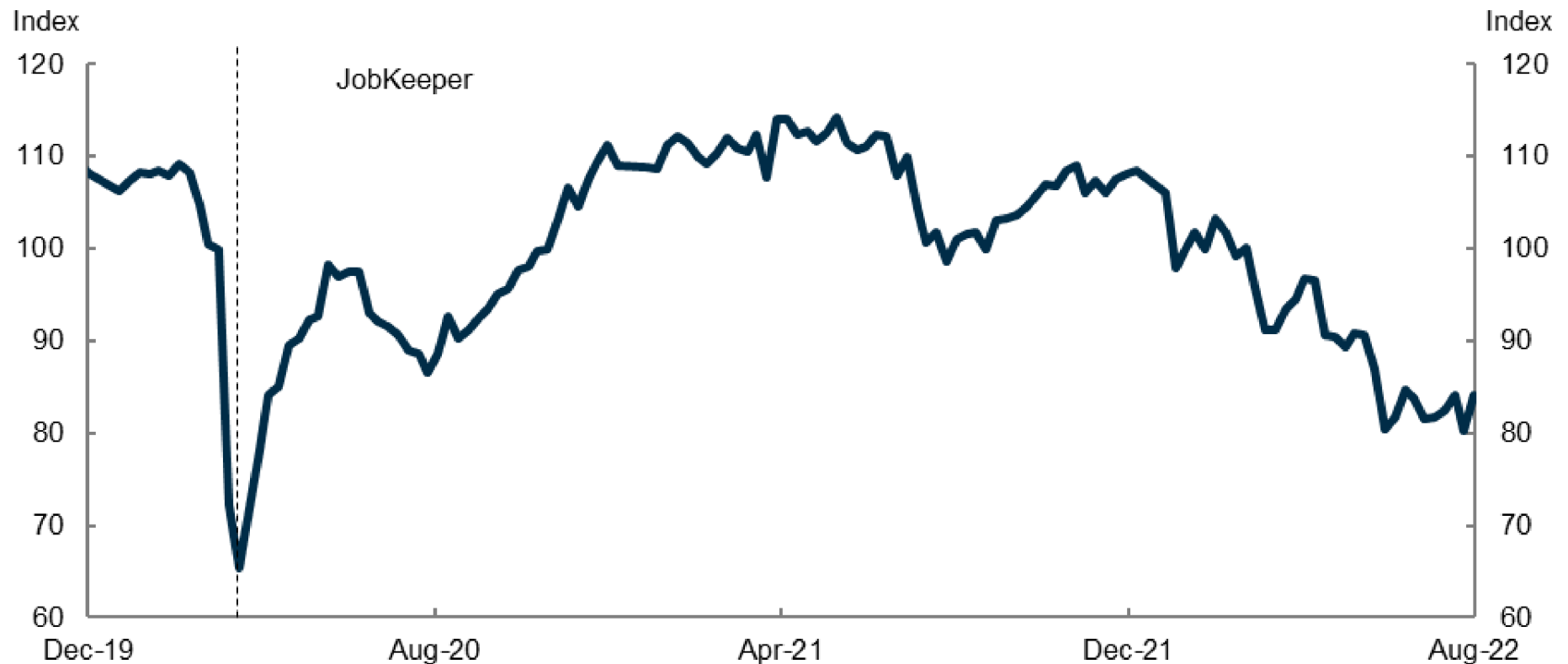
Note: The coronavirus measures in this chart only include economic measures. Health measures are not included.

The JobKeeper Payment - Context

- The \$89 billion JobKeeper Payment implemented in the early stages of the pandemic was the largest single fiscal measure in Australia's history.
- It was part of a significant macroeconomic support package that was designed to respond to the unprecedented economic uncertainty and to reduce the risk of a severe economic downturn.
- JobKeeper supported around four million unique individuals and around one million unique businesses in the first phase – around one-third of Australian businesses and jobs.

Economic support boosted confidence

Chart: Roy Morgan-ANZ Consumer Confidence

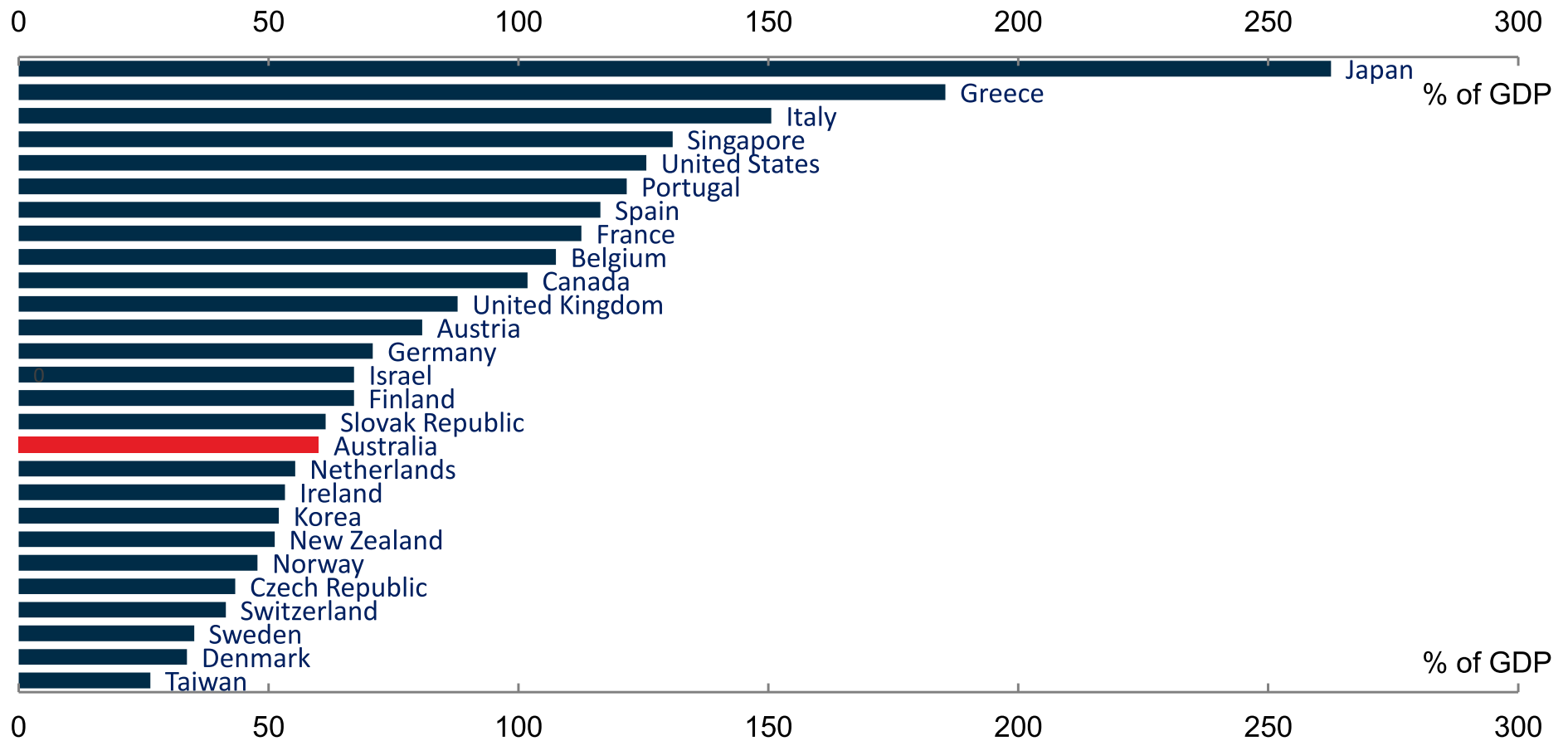


Note: Dotted lines show when the announcement of JobKeeper occurred. Consumer confidence is a weekly series and therefore the announcement of JobKeeper was captured in the last week of March 2020.

Source: ANZ-Roy Morgan

Australia's debt-to-GDP ratio remains lower than other advanced economies

Chart: International General Government Gross Debt

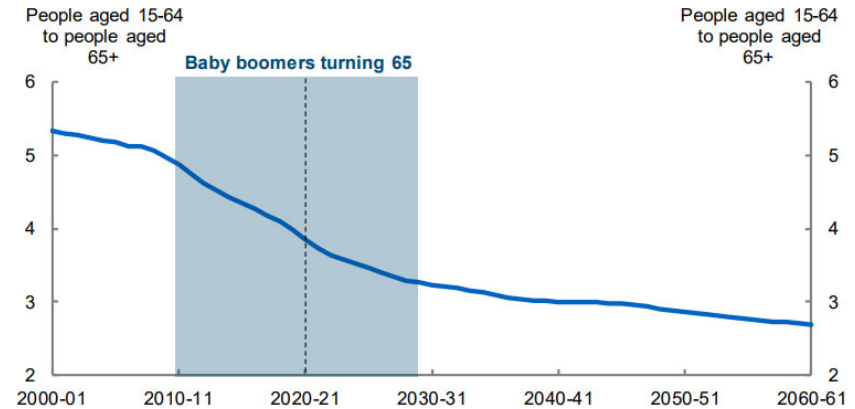


Source: IMF WEO estimates for 2022 general government gross debt

Intergenerational Report (IGR)

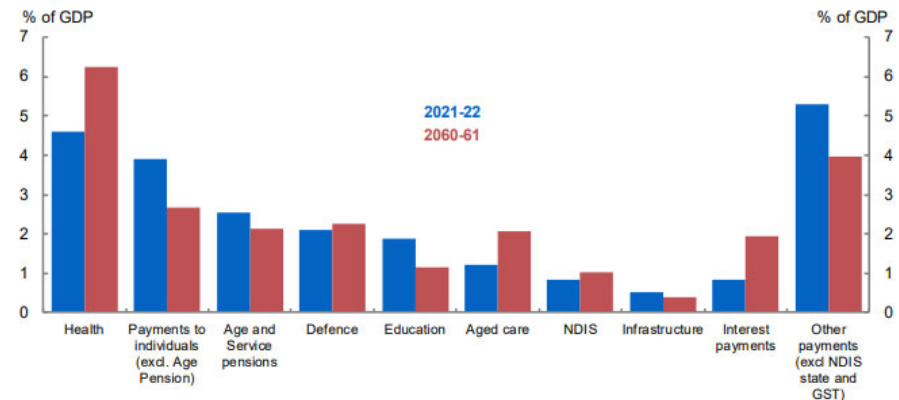
- Treasury develops the Intergenerational Report to assess the long term sustainability of current Government policies over 40 years, including by taking account of the financial implications of demographic change.
- IGRs help governments make spending and revenue decisions with an understanding of and eye to the long term fiscal consequences – it is a useful guide for future policy decisions.

Chart 2.17 Old-age dependency ratio



Note: Number of people of traditional working-age (15-64) for every person aged 65 and over.
Source: ABS National, state and territory population, September 2020, and Treasury.

Chart 7.4 Composition of government spending over time

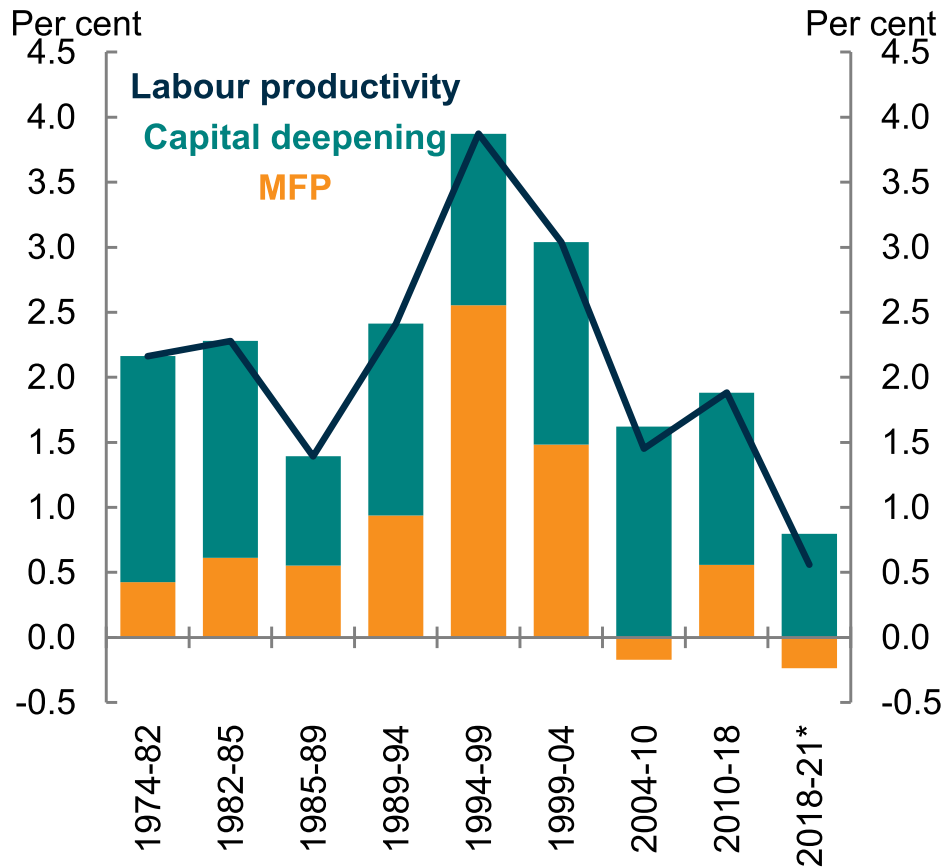


Note: Other payments in this chart includes a range of payments such as funding for the Australian Public Service, superannuation, official development assistance, law and order, the arts, community development and tourism. It excludes GST payments and state government contributions to the NDIS.

Source: Treasury.

Long run drivers of economic growth

Chart: Market Sector Labour Productivity Growth Decomposition



Source: Treasury.

- What drives economic growth:

a) Capital deepening

b) Human capital

c) Productivity

$$Y = F(A, K, L) = AK^\alpha L^{1-\alpha}$$

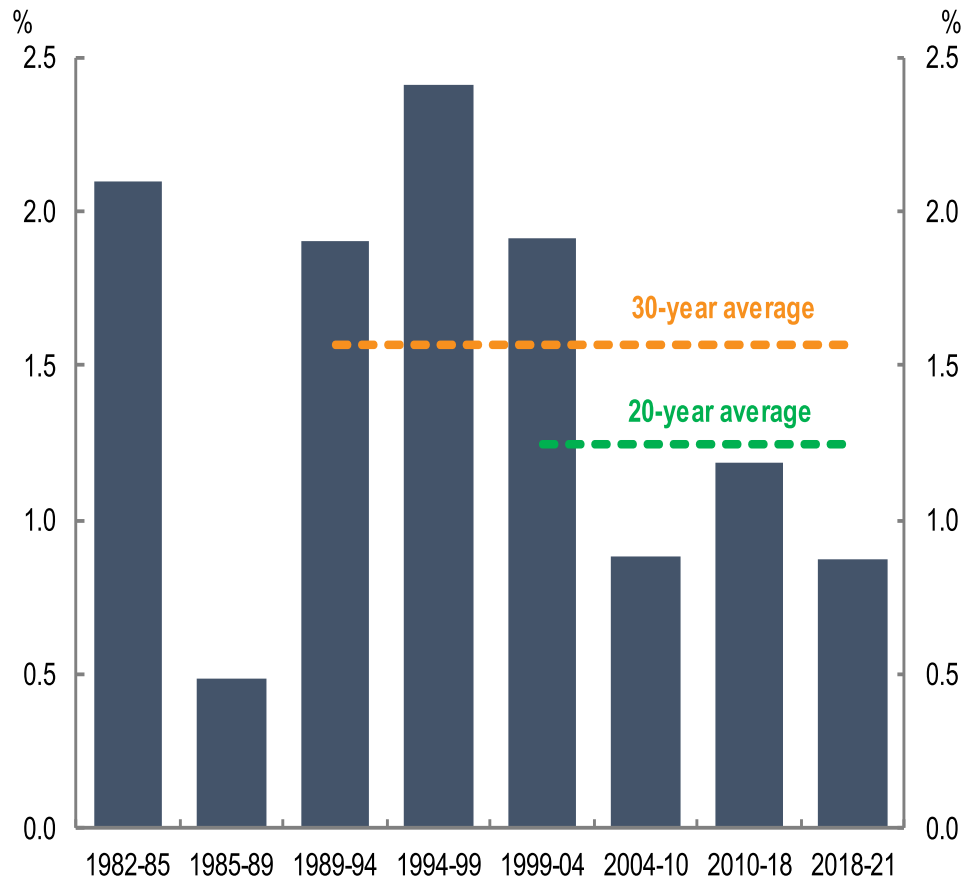
$$P(\text{innovation}) = \bar{\mu} L_A = \theta \frac{L_A^\lambda A_i^\phi}{A_i}$$

Why is productivity growth important?

- Labour productivity has been the most important source of income growth in Australia over the past 30 years, contributing over 80 per cent of growth in real gross national income (GNI) per person.

Labour Productivity Growth has slowed

Chart: Productivity Growth



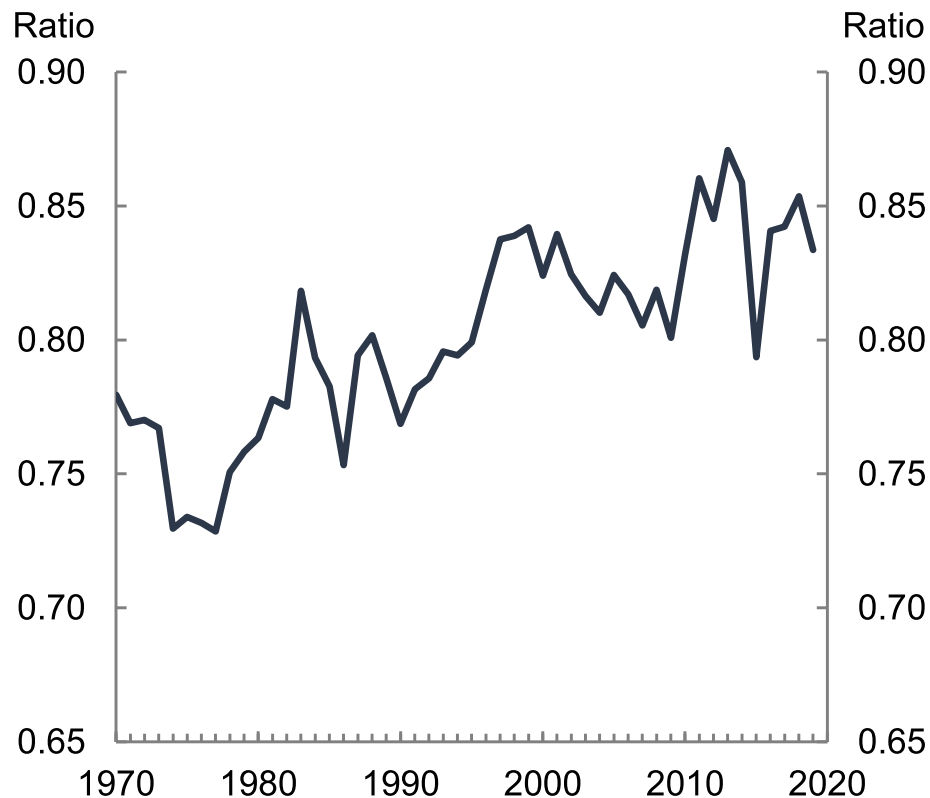
Note: The 2018-21 cycle is incomplete

Source: ABS Australian System of National Accounts

- What does this slowdown mean for the economy and our standards of living?
- Even small variations in productivity growth can have large long-run impacts on living standards.
 - Gross national income could be \$13,000 lower in real terms by 2060 if Australia's productivity growth remains around 1.2 per cent

Productivity and economic growth

Chart: Ratio of labour productivity, Australia/US



Notes: GDP per hour worked in Australia divided by GDP per hour worked in the US (output-side GDP at chained PPPs in 2017 USD).

Source: PWT 2021.

- Policy can play a crucial role in addressing the productivity slowdown.
- Are there challenges for a small open economy like Australia?
- What is the role of innovation and innovation spillovers?

Productivity assumption

Chart: GDP Growth

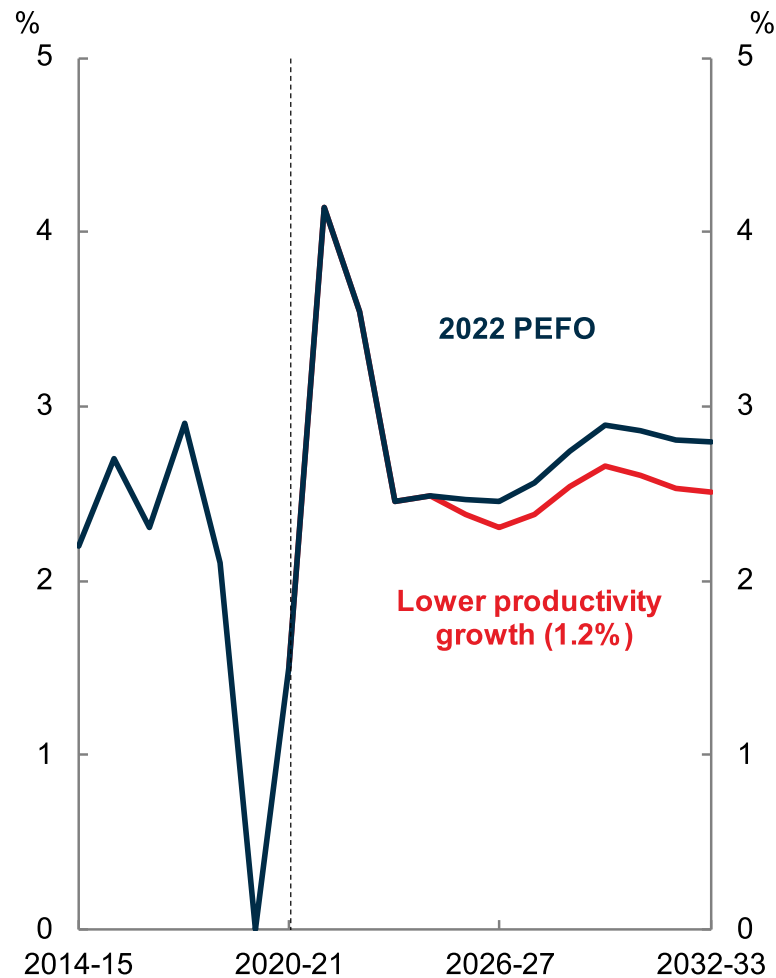
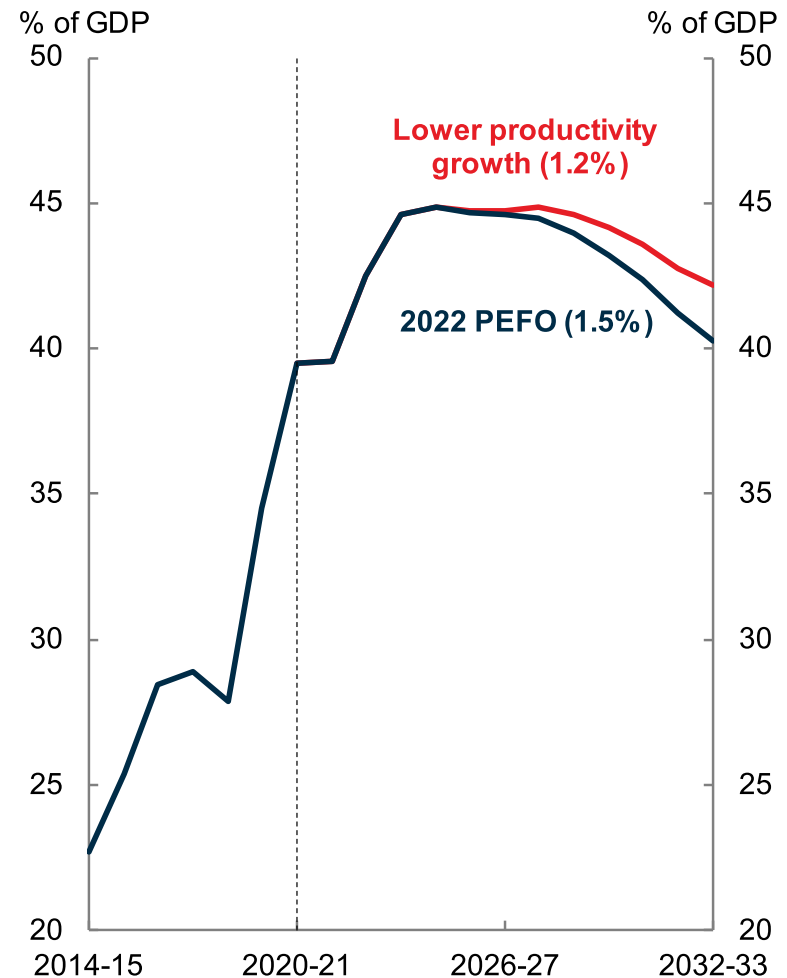


Chart: Commonwealth gross debt



Note: The impact of lower productivity growth is based on scenarios results presented in the 2021 IGR.

Sources: 2021 IGR and Treasury

Productivity Commission's five yearly review

- What is the Productivity Commission and what is its role?
- The Productivity Commission is currently conducting its five-yearly review of Australia's productivity performance.
- We work with the Productivity Commission to commission its work, provide input to reviews, and work on any implementation of recommendations.

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and diverse work

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understanding the
economy around us



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economic policy and
make a difference

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across a range of
sectors

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inclusive profession

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gap on indigenous and gender outcomes)