



Australian Government  
The Treasury

TSY/AU

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

Commonwealth Treasury  
Presentation to Year 12 WA students  
28 June 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?

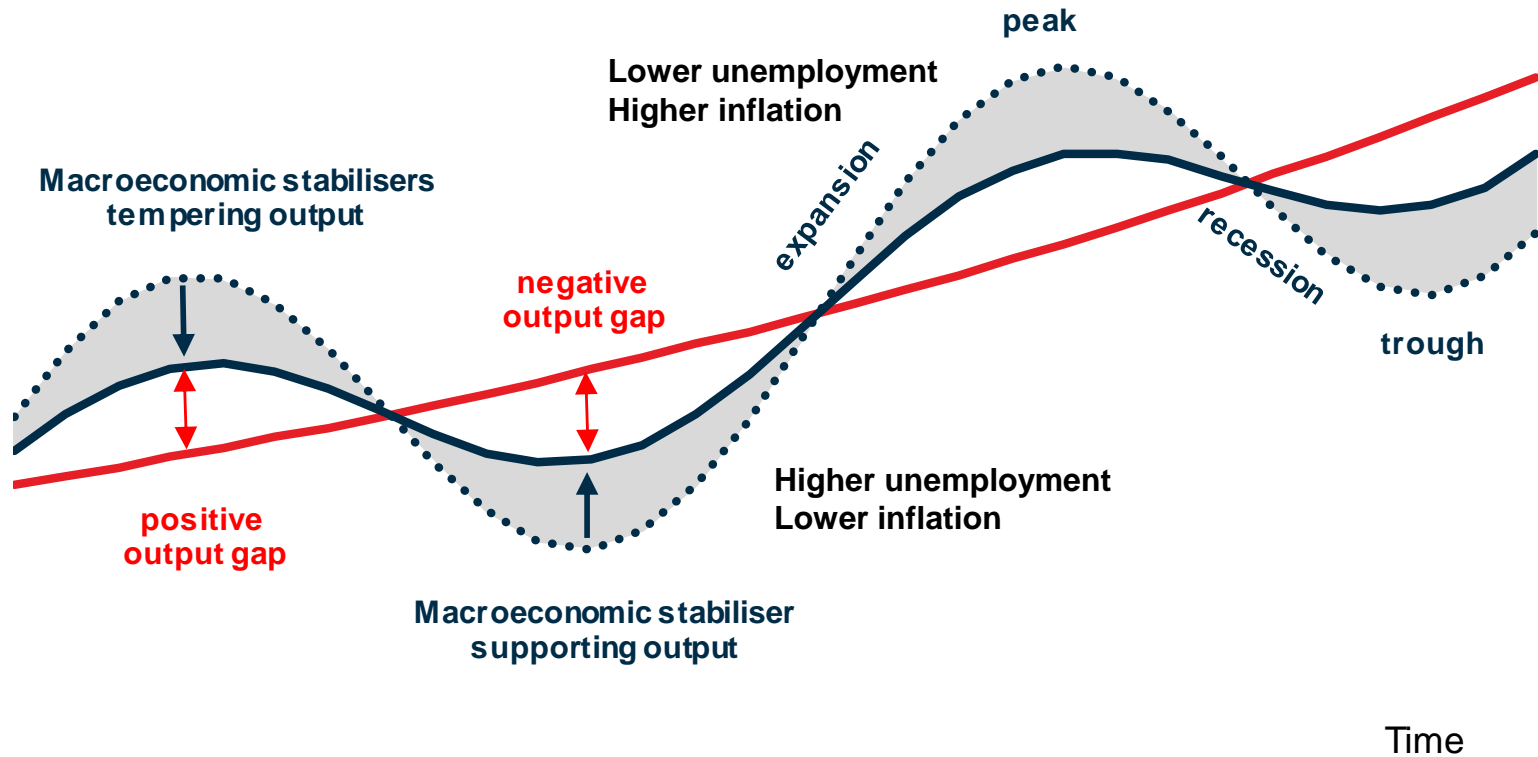
- Why is fiscal policy important?
- Fiscal policy involves setting government taxes and expenditure.
- The aim of fiscal policy is to provide stable and sustainable economic growth. This can be broken down into:
  - a) Stabilisation – managing economic shocks (business cycles)*
  - b) Economic growth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

# 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*

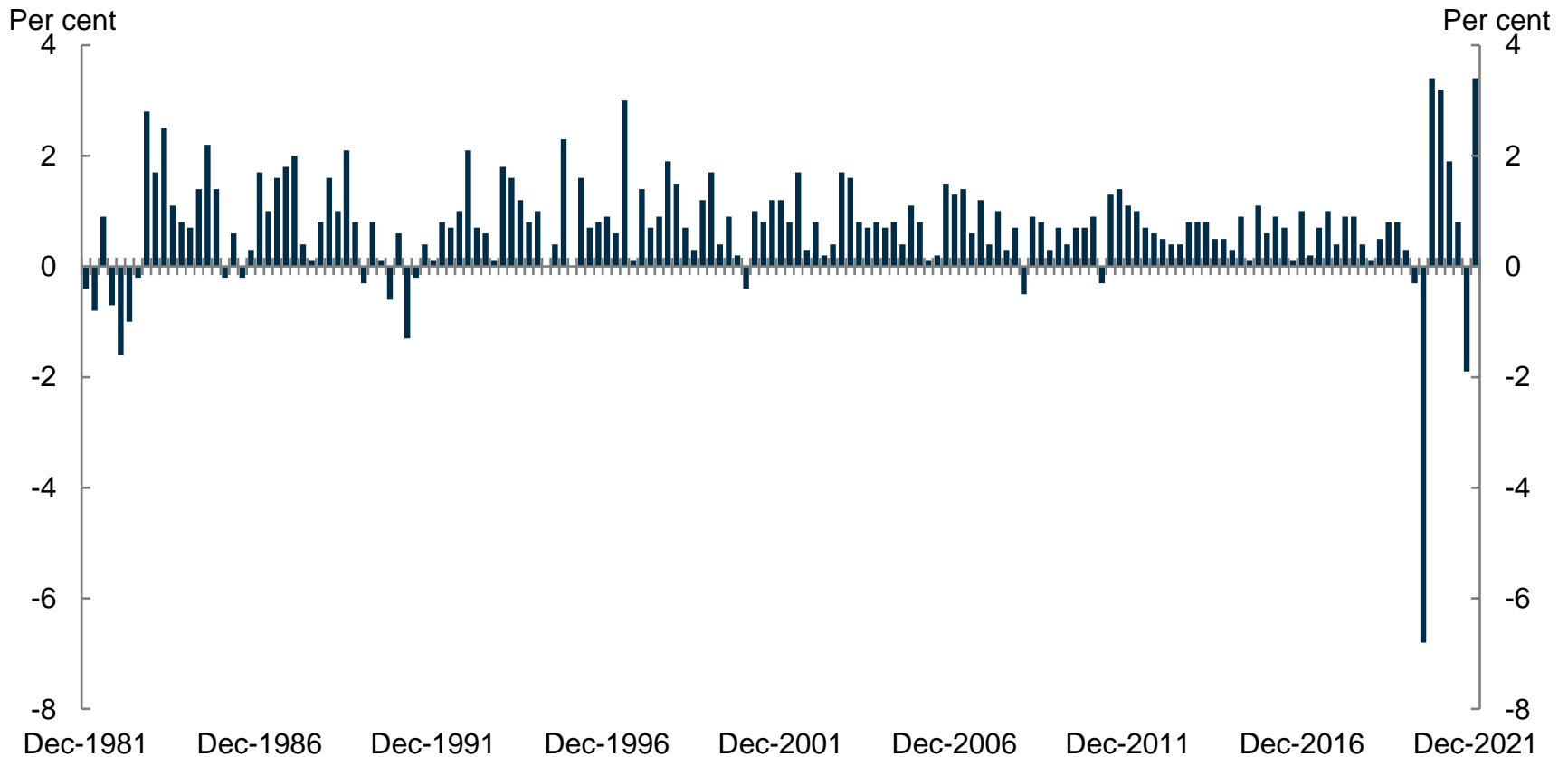
# Stabilising the business cycle

Real GDP



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

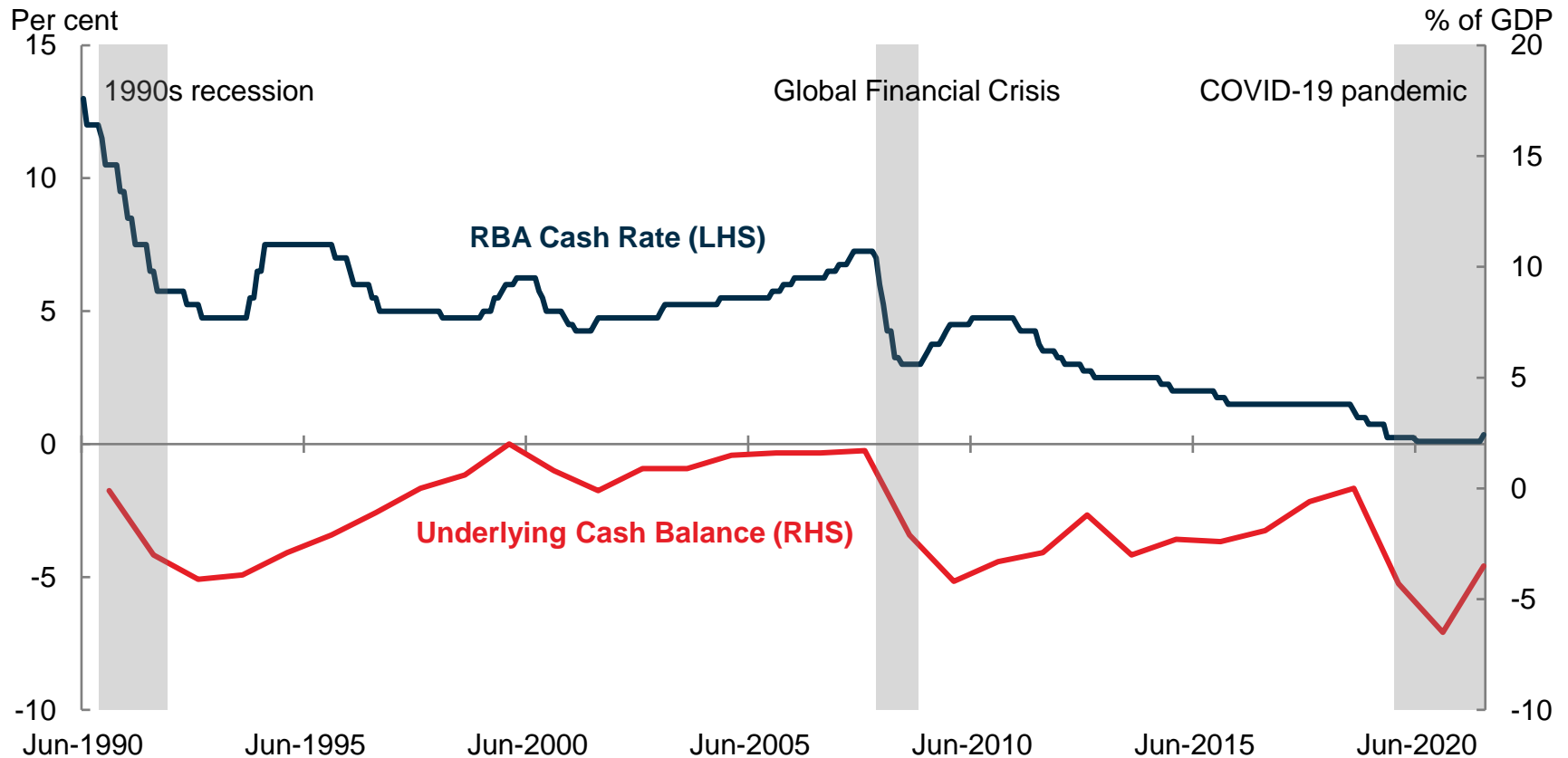
**Chart: Quarterly real GDP growth**



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

# Fiscal policy played a large stabilisation role

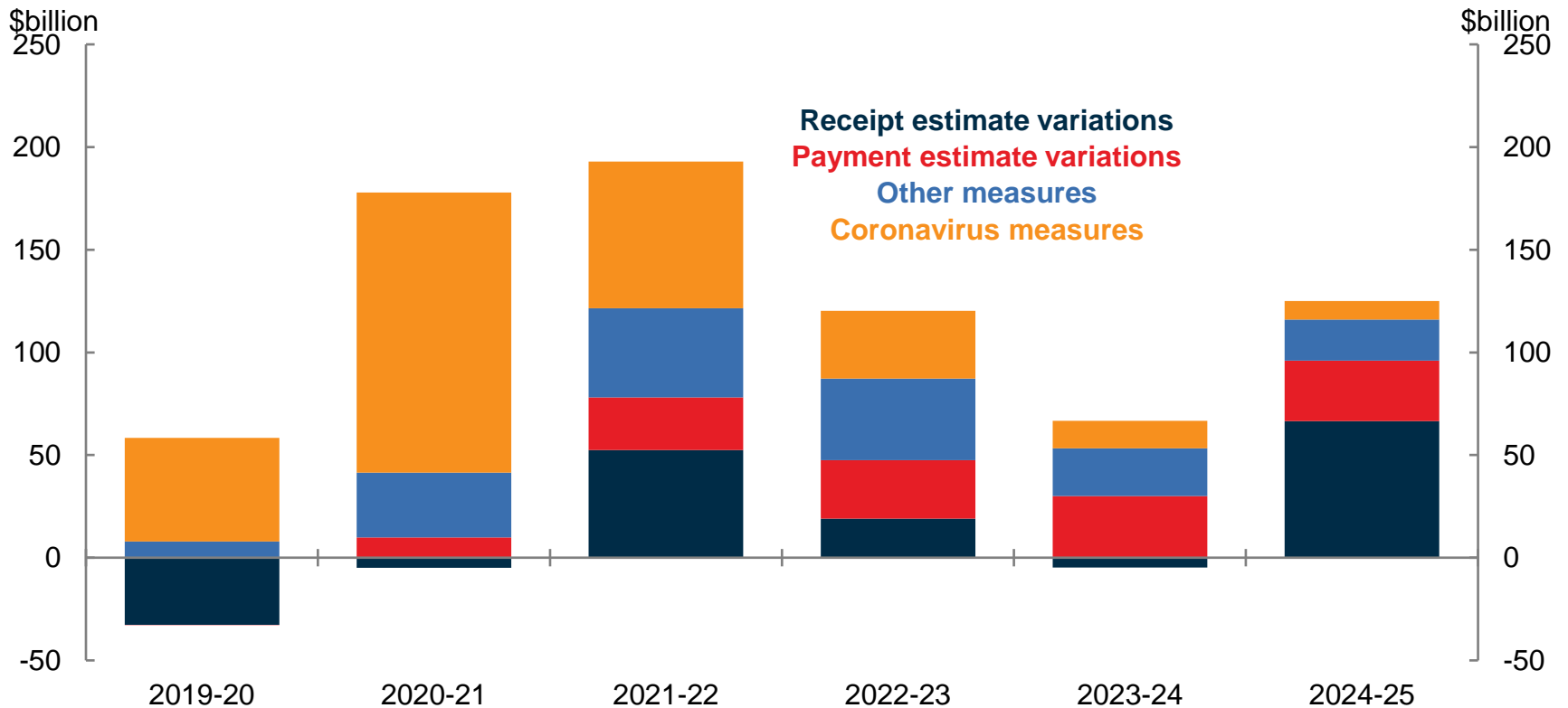
**Chart: Underlying cash balance as a share of GDP and RBA cash rate target**



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

# There was a large discretionary policy response

Chart: Discretionary and automatic fiscal response



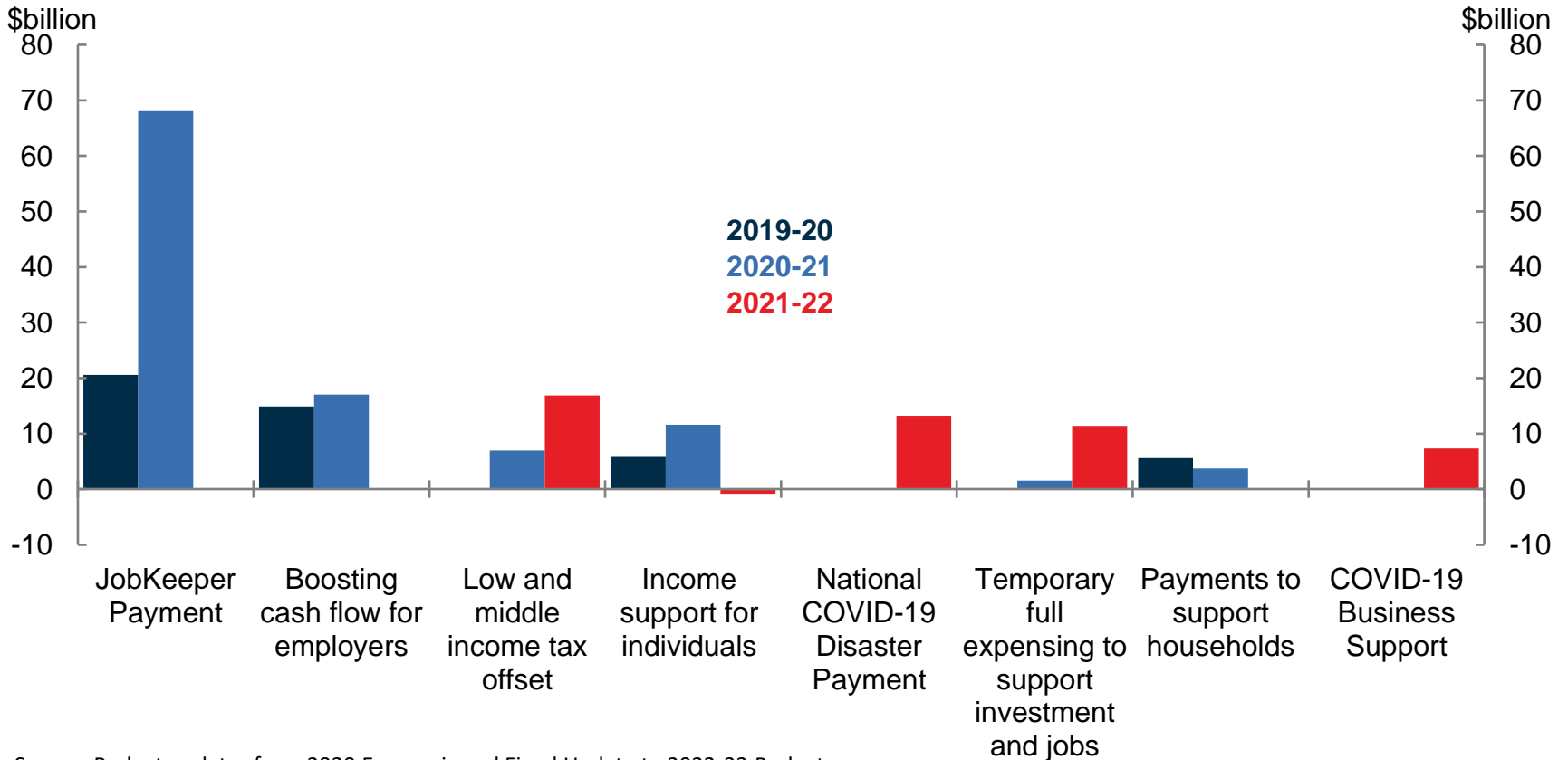
Source: Budget updates from 2020 Economic and Fiscal Update to 2022-23 Budget.

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)

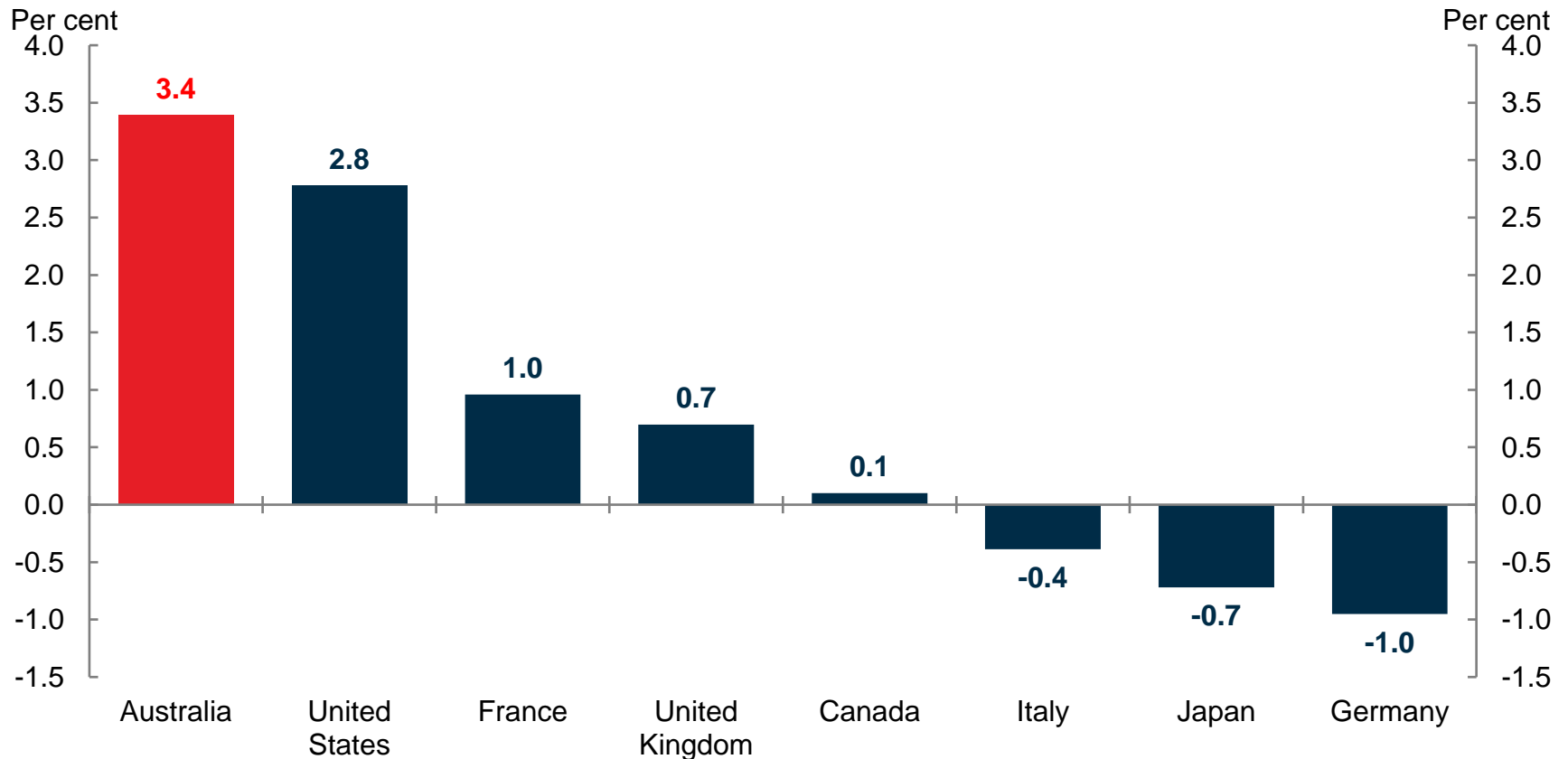


Source: Budget updates from 2020 Economic and Fiscal Update to 2022-23 Budget.

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

# Australia fared relatively well compared to other advanced economies

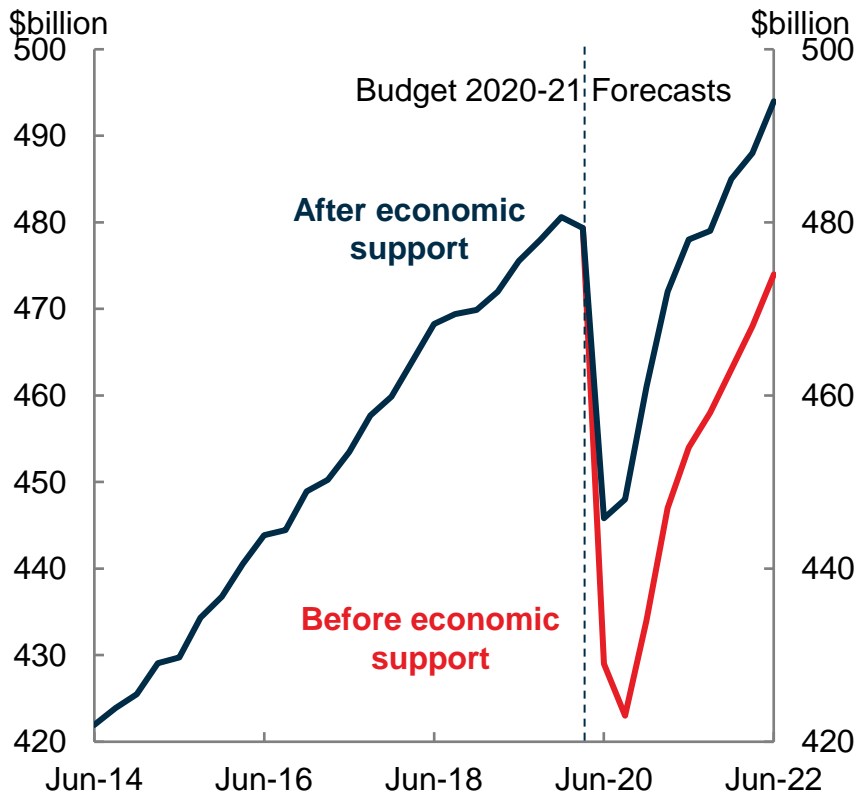
Chart: Real GDP relative to pre-pandemic levels, Australia and G7



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

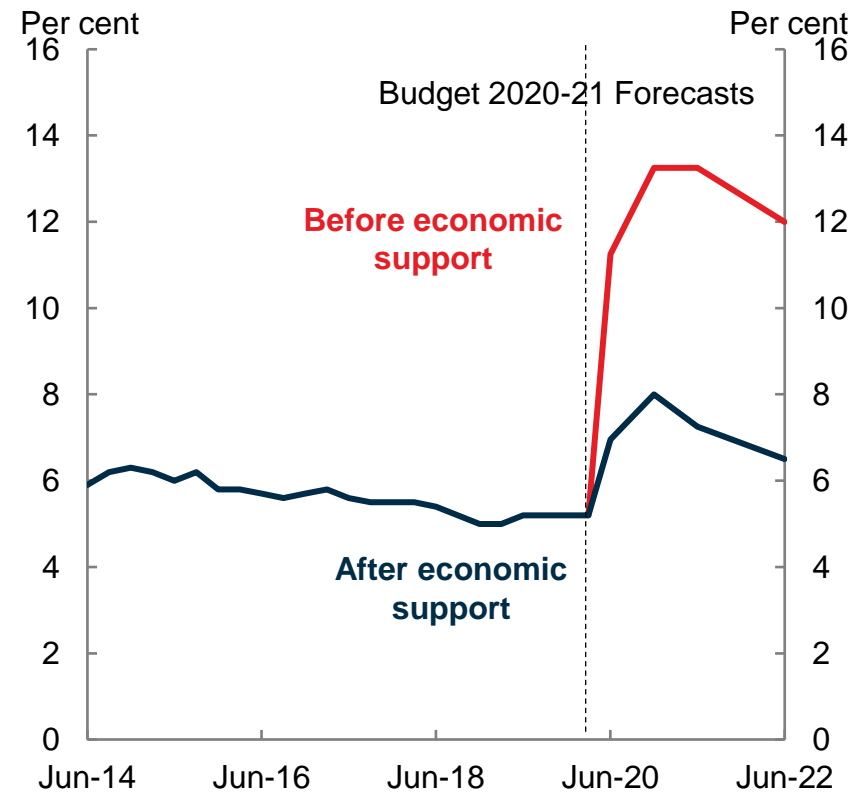
# The impact of the Government's economic support

**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.

# 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**

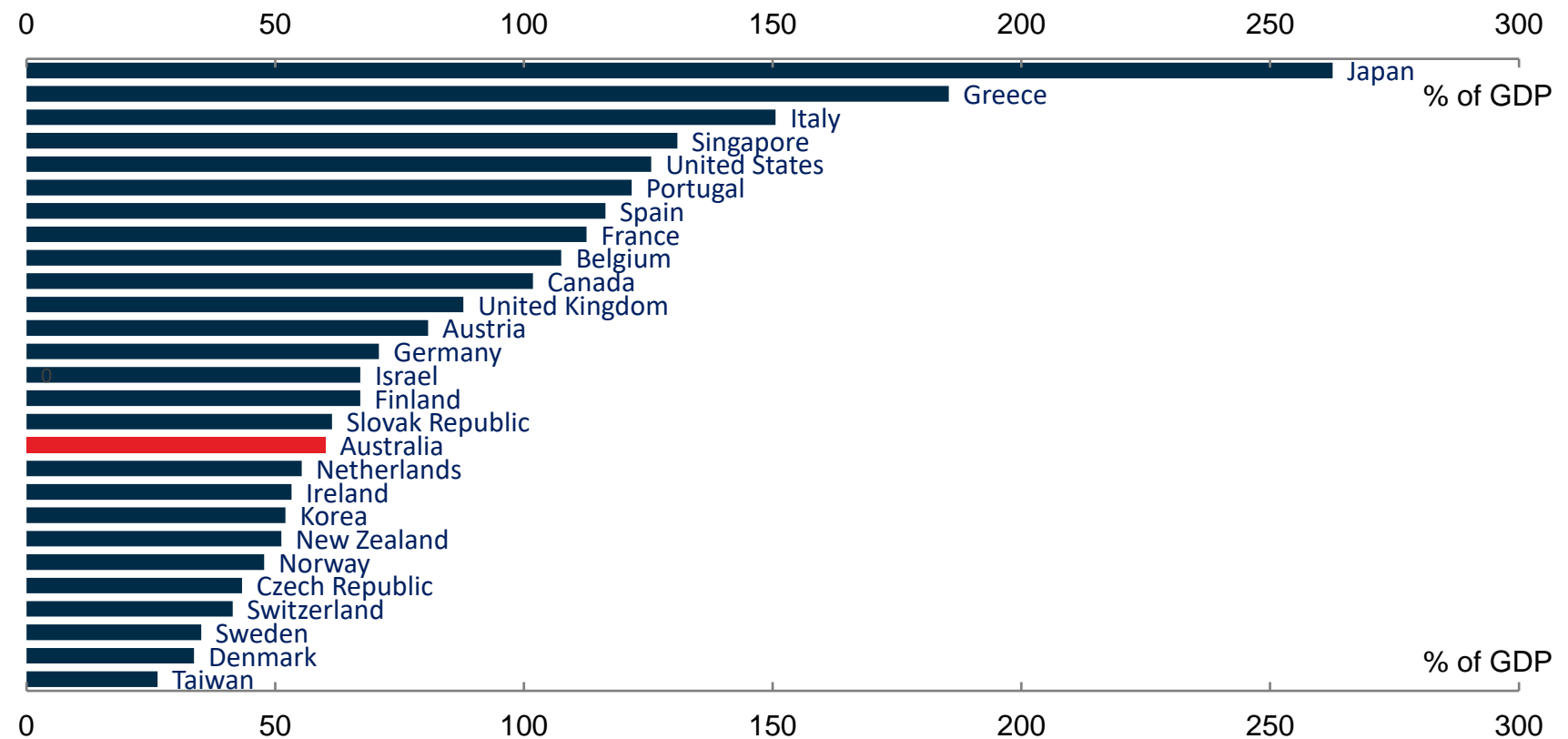


Note: Dotted lines show when the announcement of JobKeeper occurred. Consumer confidence is a weekly series and therefore the announcement of JobKeeper was captured in the last week of March 2020.

Source: ANZ-Roy Morgan

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

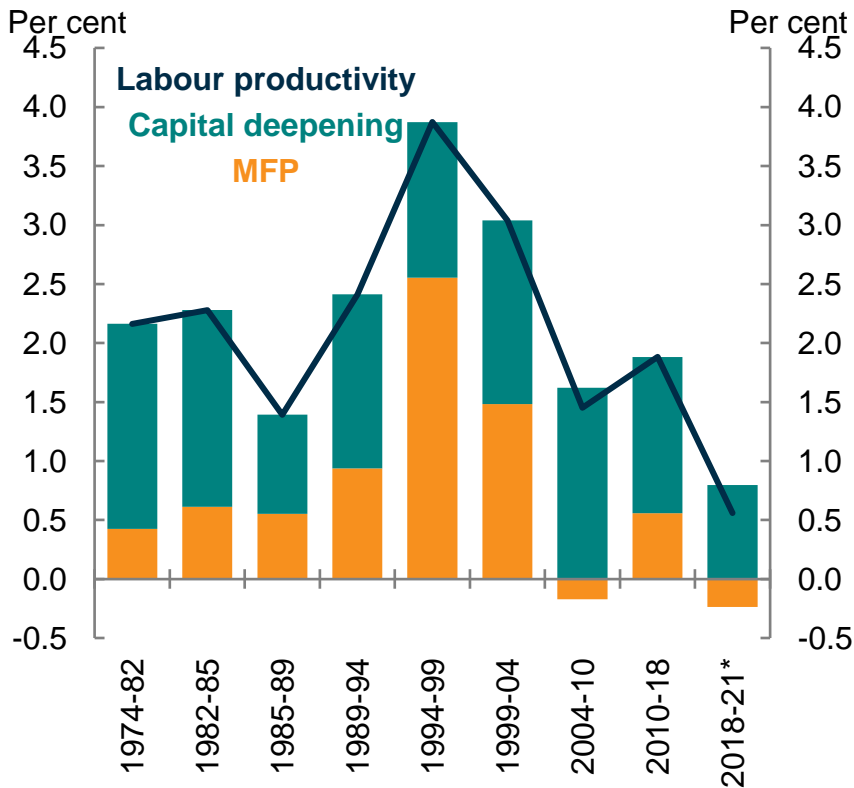
Chart: International General Government Gross Debt



Source: IMF WEO estimates for 2022 general government gross debt

# Long run drivers of economic growth

**Chart: Market Sector Labour Productivity Growth Decomposition**



Source: Treasury.

- What drives economic growth:

- Capital deepening
- Human capital
- Productivity

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

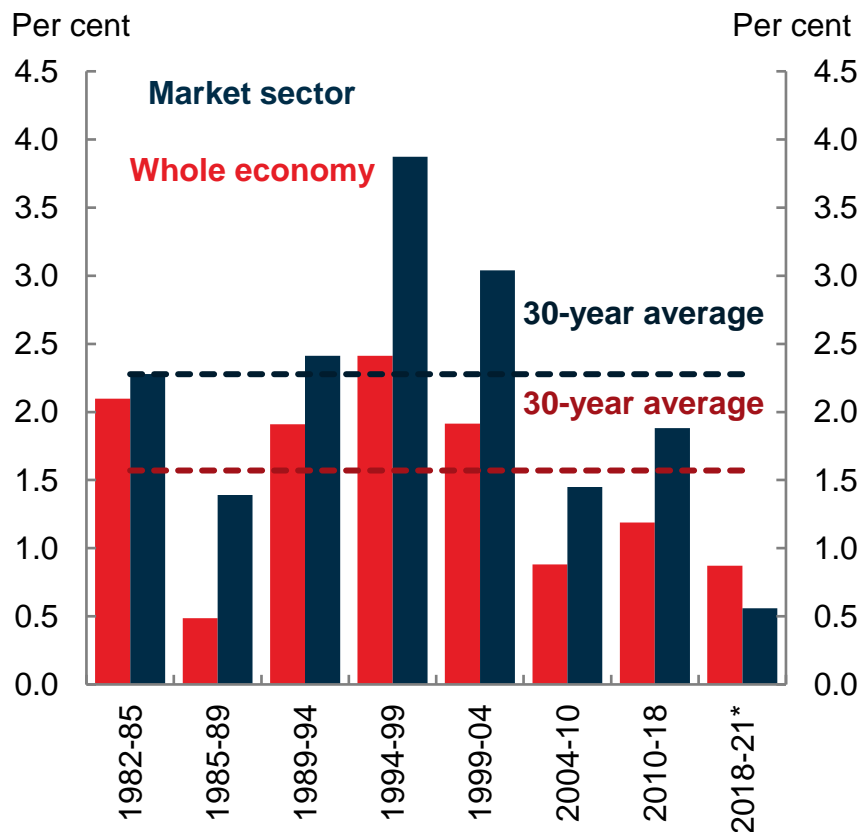
$$P(\text{innovation}) = \bar{\mu} L_A = \theta \frac{L_A^\lambda}{A_i^{1-\theta}} = \theta \frac{L_A^\lambda A_i^\theta}{A_i}$$

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



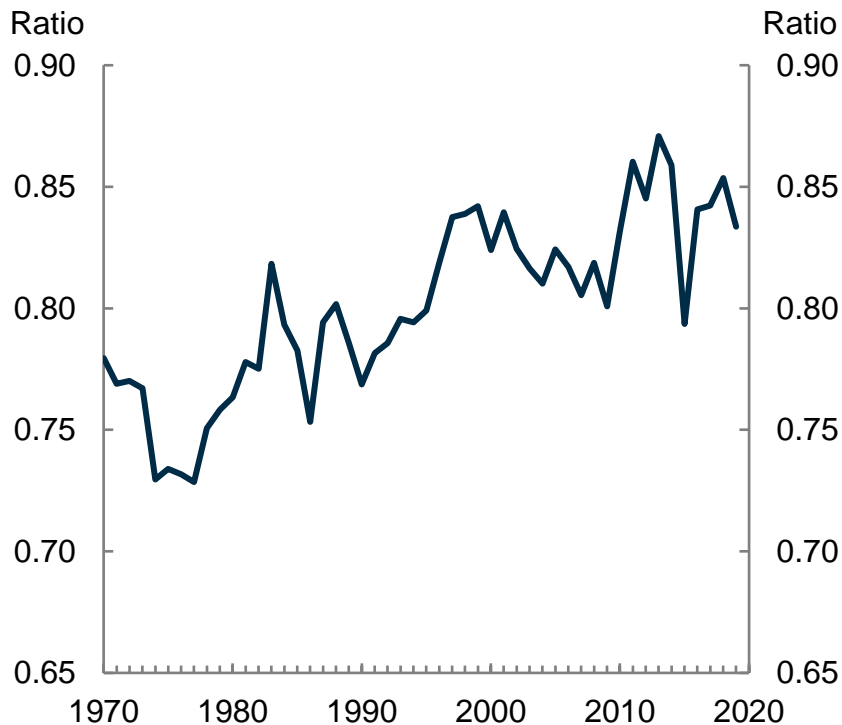
Source: Treasury.

- 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.*
  - *If Australia's productivity growth remains around 1.2 per cent instead of rising to 1.5 per cent as assumed in the [Intergenerational Report 2021](#), then gross national income is estimated to be \$13,000 lower in real terms by 2060 (\$32,000 in nominal).*



# Policy can support productivity 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 and the PC review

- What is the role of the Productivity Commission's five-yearly productivity review?
- We work with the Productivity Commission to help implement its recommendations on the five-yearly productivity review.
- This five-year productivity review provides our Government with an opportunity to make reforms to improve Australia's productivity.

# Exploring a career in economics

Challenging, rewarding  
and diverse work

A framework for  
understanding the  
economy around us



Opportunity to  
influence major  
economic policy and  
make a difference

Highly valued skills  
across a range of  
sectors

A diverse and  
inclusive profession

Working on everyday issues (e.g., closing the  
gap on indigenous and gender outcomes)