

# The GFC: an alternative view

Timely, temporary and targeted – is our policy response good enough?

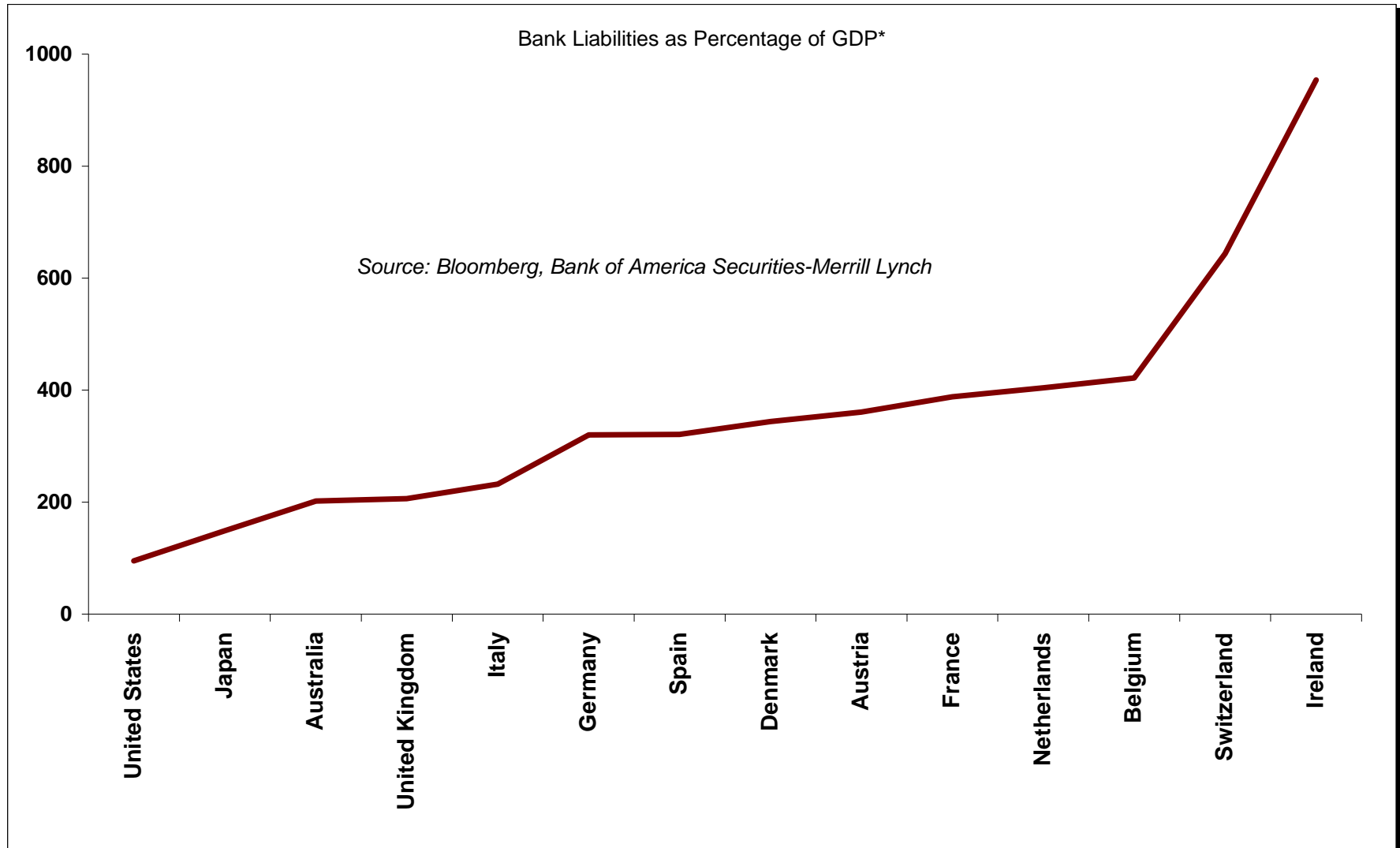
**ACCESS ECONOMICS**

**31 July 2009**

# Green shoots and ham

- **Green shoots are real, and growing:** Credit markets show improving health, suggesting credit is now rather less constrained than it has been.
- Yet the 'green shoots' need to be assessed relative to a weak starting point and, outside of **China (which is growing genuinely but perhaps unsustainably faster)**, are perhaps best seen as an end to rapid falls in output rather than notable recovery.

# Sharemarkets are recovering, but banking market risks remain



# Australia is better off than most

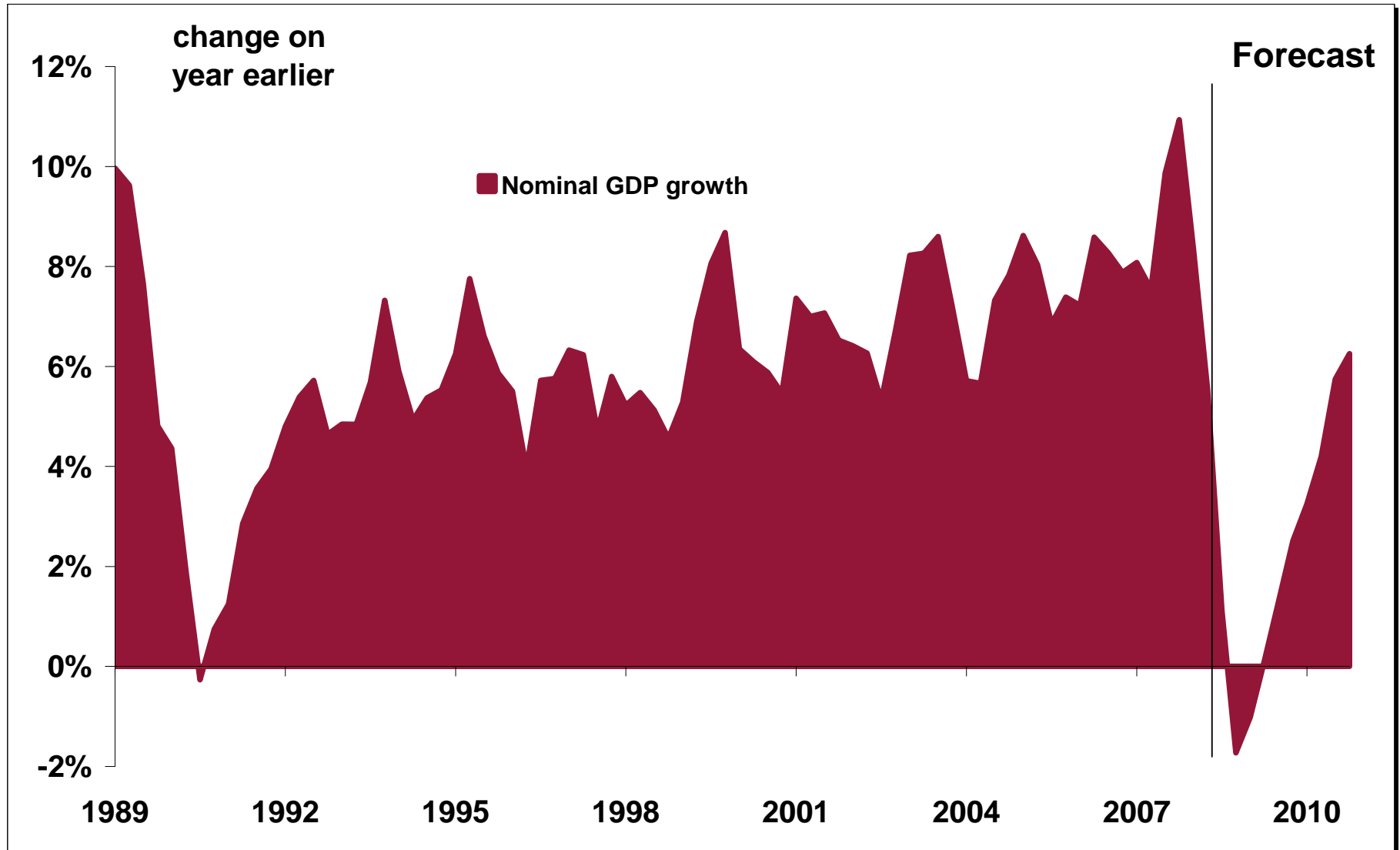
There are key reasons to be optimistic, including:

- the good health of **our banks**,
- the big stomp on the accelerator from Australian policymakers (**large and fast stimulus packages and big cuts to interest rates**),
- **the sharp fall in the \$A** in the second half of 2008,
- **our rapid population growth**,
- **the lack of vacancies in housing markets and the large pipeline of engineering and commercial construction yet to be done.**

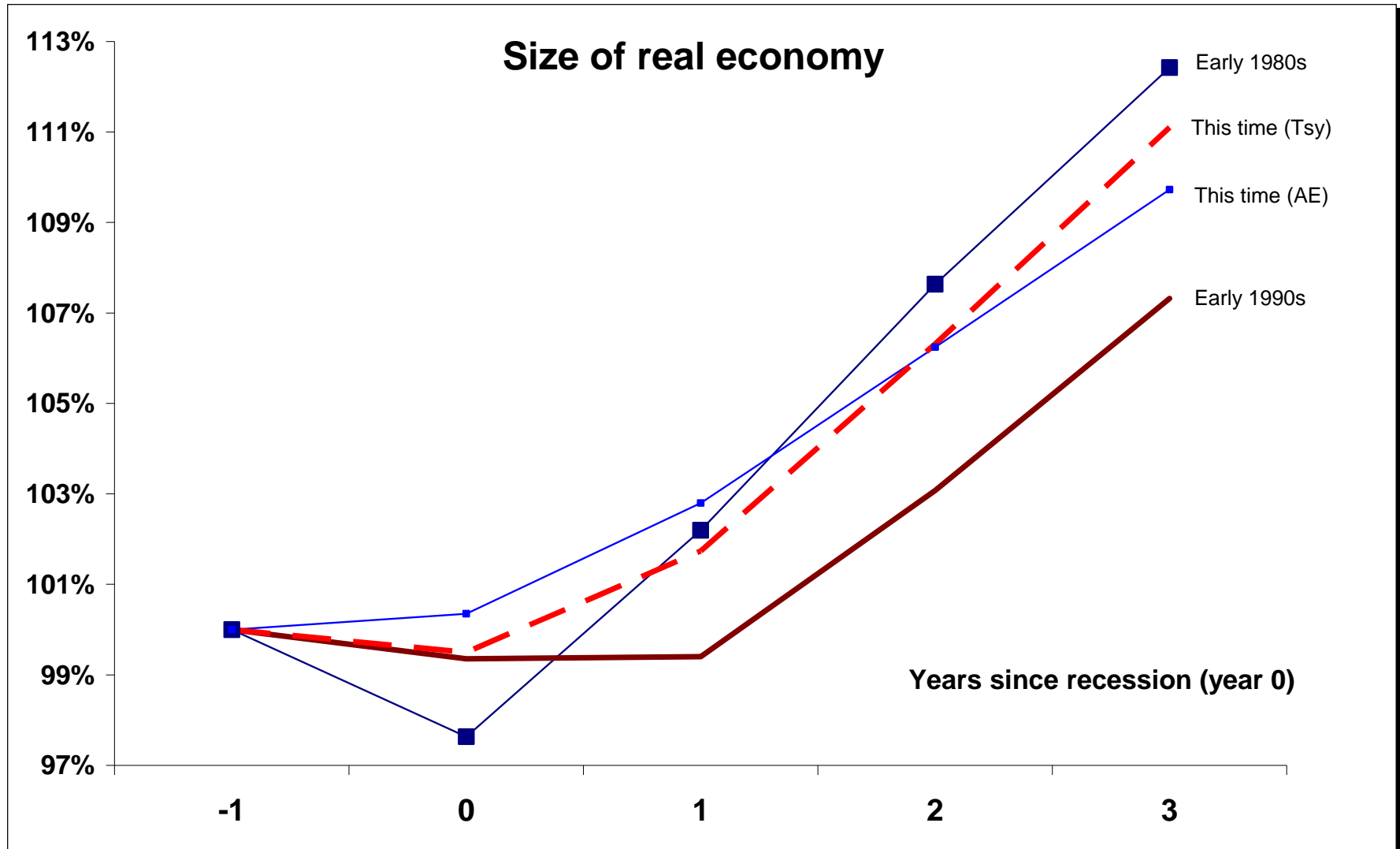
# But the GFC means recession nonetheless

- **Australia had a bigger boom and a bigger bubble than much of the world:** the lift in profits here was rather bigger as a share of our economy than elsewhere.
- And industrial commodity prices have tanked: some \$50 billion a year is being stripped from national income.
- Australian house prices are a larger multiple of income than in comparable nations.
- On balance, Access forecasts a 'small' recession relative to our peers, but it is still going to hurt lots.

# So Australian incomes will fall ...



# Federal Treasury's forecasts for Australia



# The Federal Budget policy task

The Federal Government had a very difficult task.

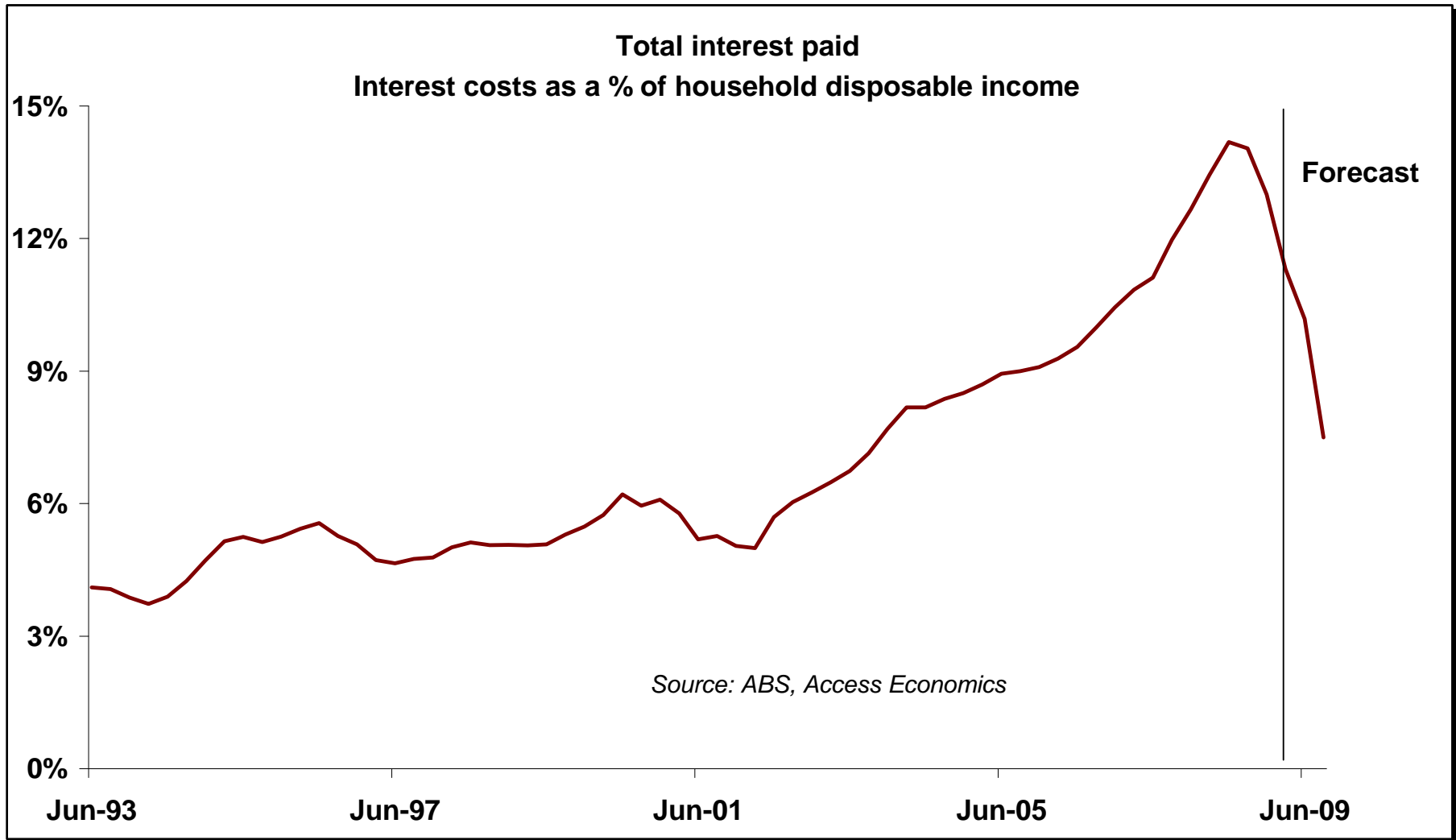
On Budget night the Government had to:

- (1) spend more in the short term (to protect the economy) yet**
- (2) spend less thereafter (to return the Budget to balance).**

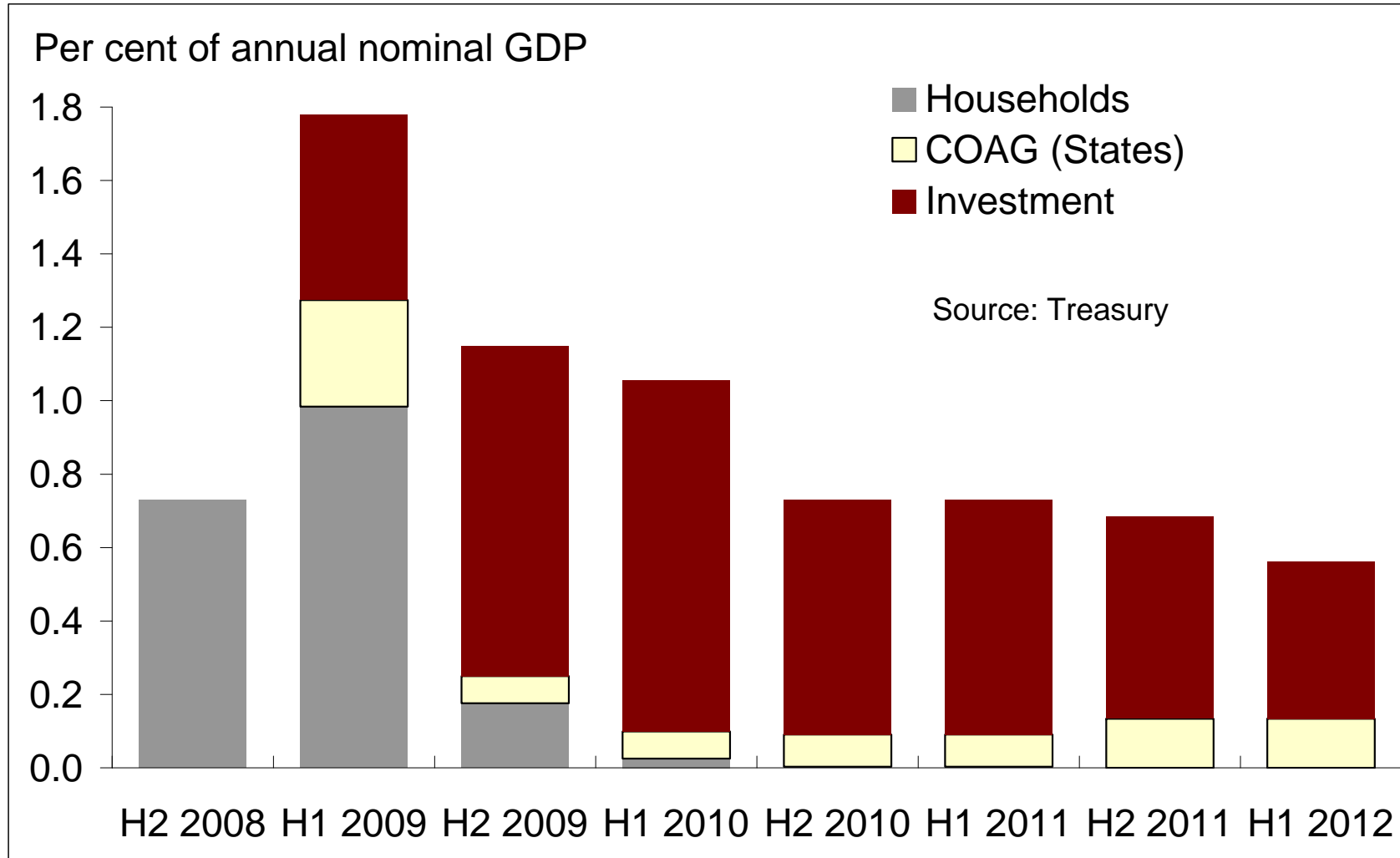
# We need the 3Ts for now – here and around the world

- Policy reactions need to be **timely**, because unless we act fast, then the Government action will merely beef up the recovery rather than help avoid the slowdown.
- **Temporary**, because there is a risk of overdoing it, because we now can't afford big bucks, and because demand management lies better with the Reserve Bank and interest rates.
- **Targeted**, because unless the policy action results in increased spending – a boost to demand at a time when the latter is flagging – then it won't help the economy.

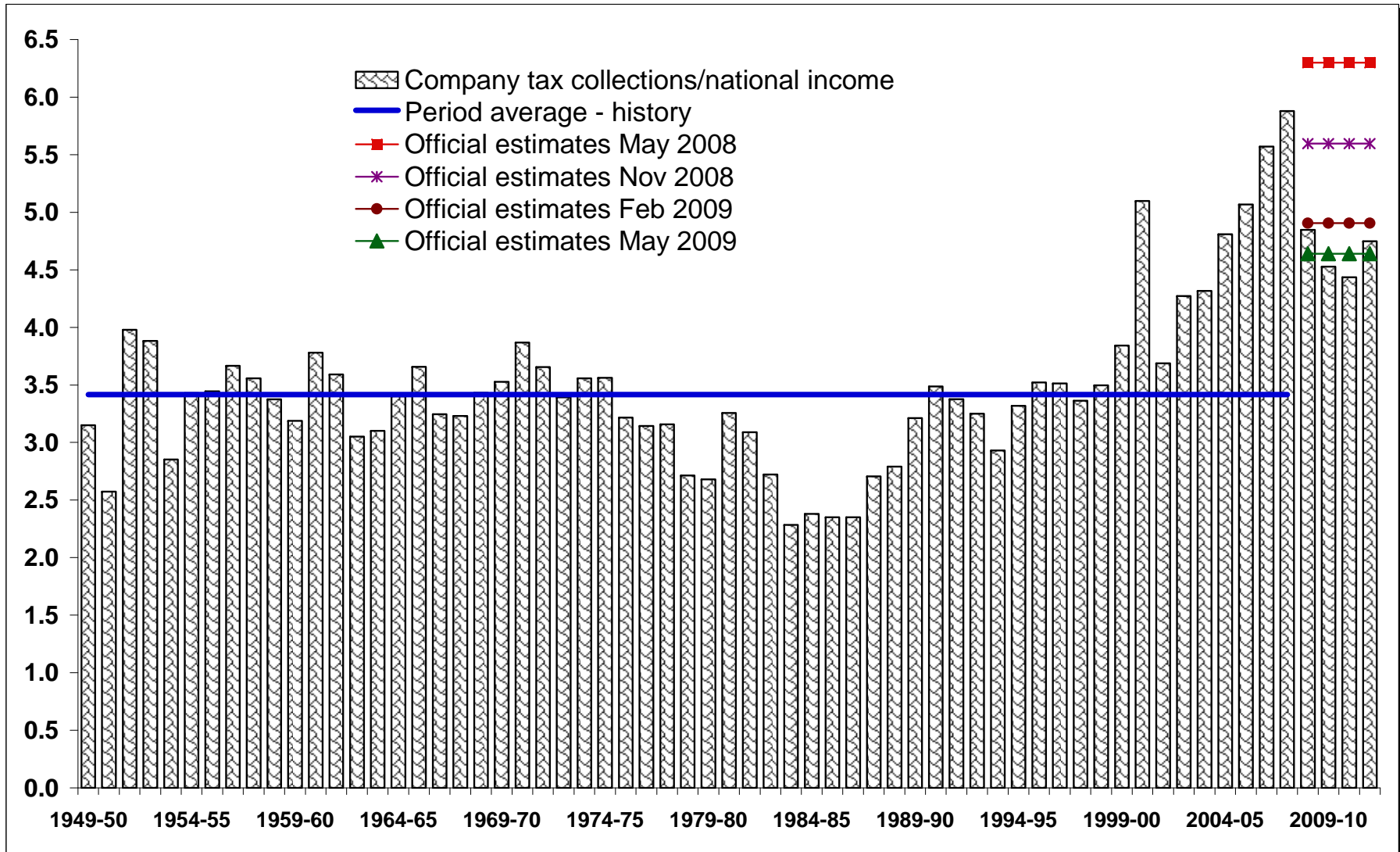
# The big stomp from the Reserve Bank ...



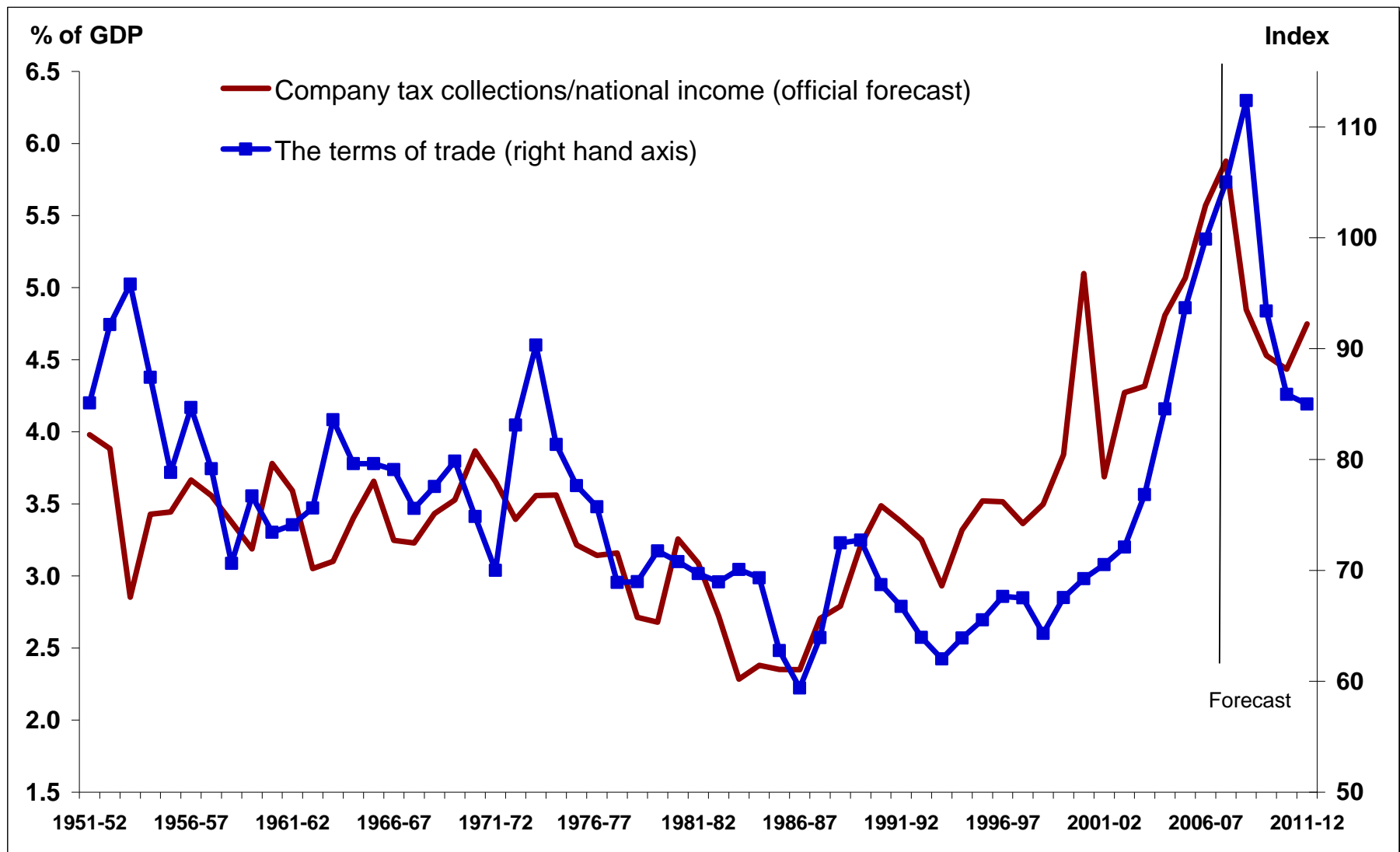
# ... and from the Feds, as they change gear from cash splash to construction



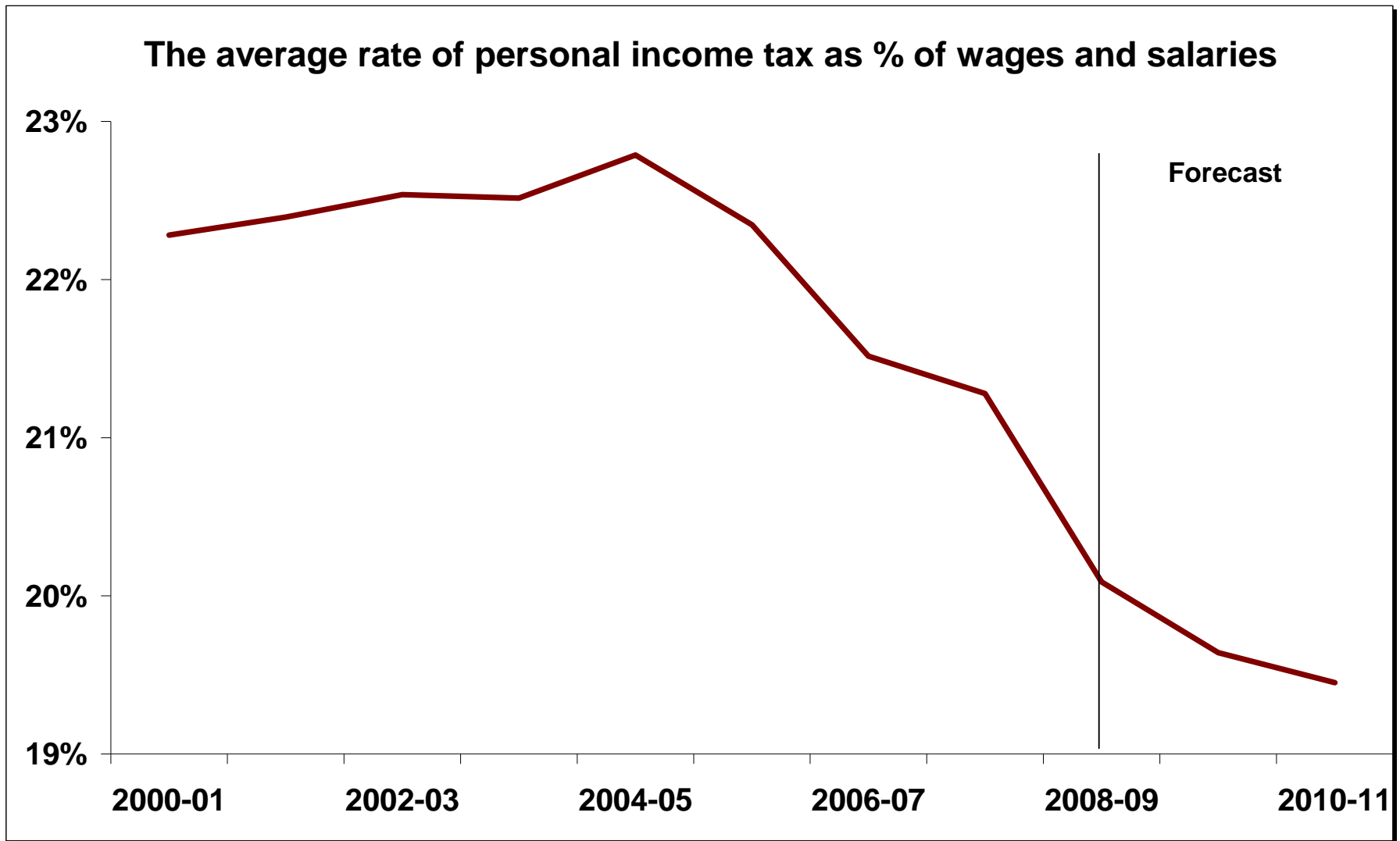
# But some of the Budget boom was temporary



# The Federal Budget relies on profits, which depend on the world



# And we overshot on tax cuts

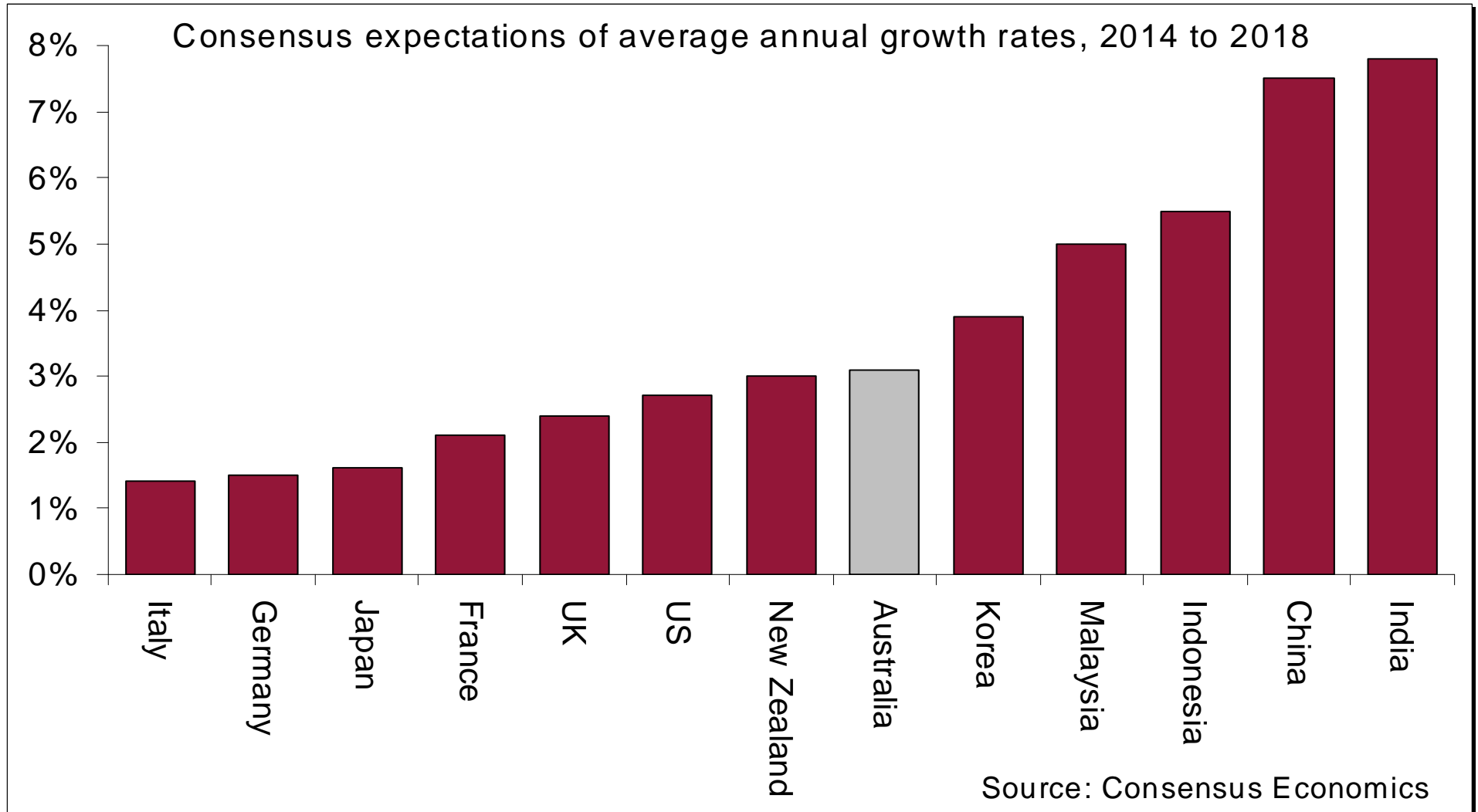


# How painful to raise an extra \$25 billion a year?

Pick one of these ...

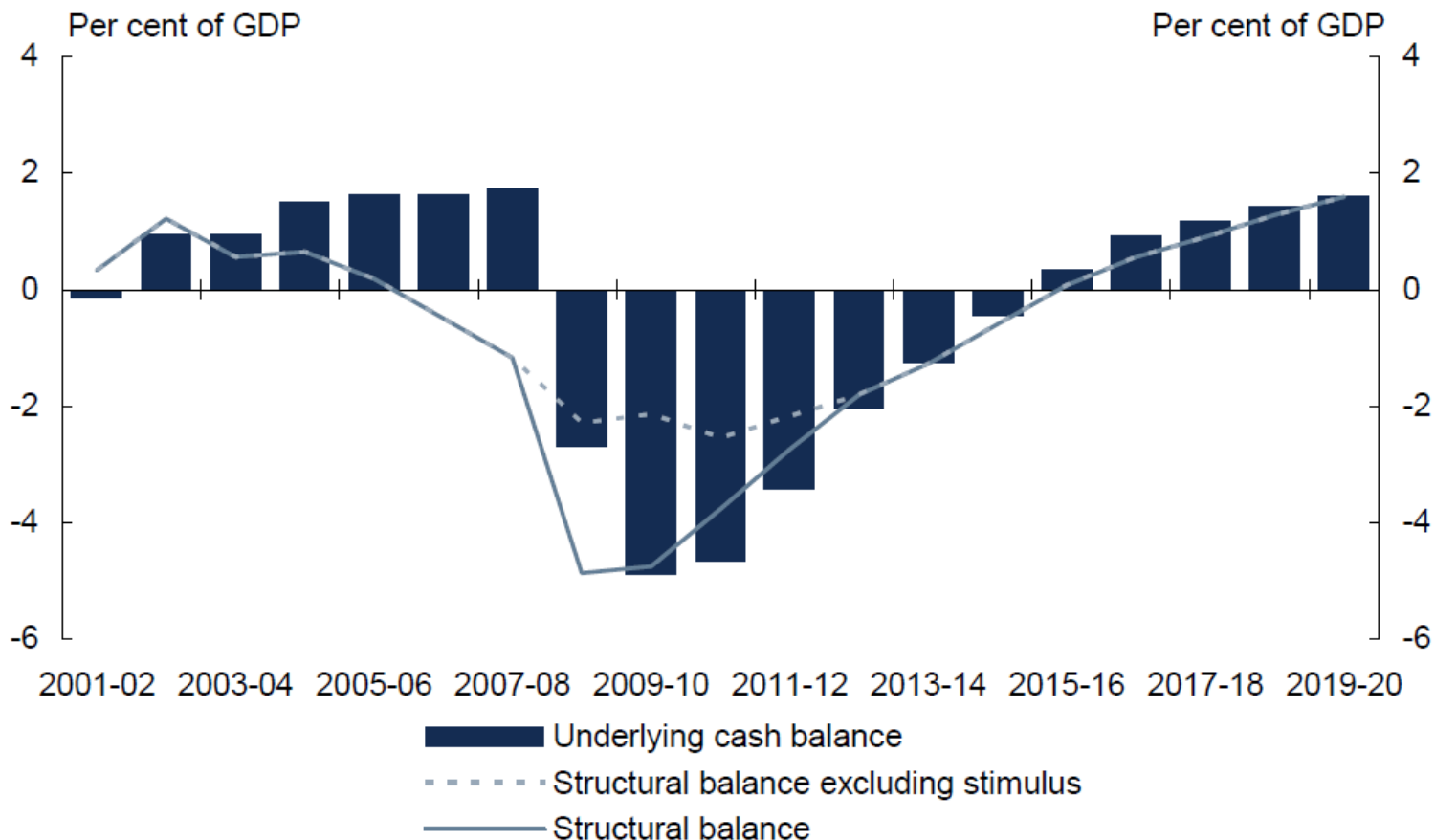
- Abolish the Defence Department and related spending.
- Or abolish the age pension rather than raise it.
- Or abolish unemployment benefits plus disability pensions.
- Or abolish Medicare and hospital funding.
- Or raise the GST to 15% and not pass a cent to States / pensioners.
- Or raise the marginal tax rate on any income earned above \$300,000 to 100%.
- Or raise the marginal tax rate on any income earned above \$40,000 to 45%.

# The economy: this too shall pass



# But not the Budget pain – not without leadership

Chart 10: Structural budget balance



Source: Treasury.

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