

Australia's Experience Balancing Fiscal Policy and Addressing Inequality

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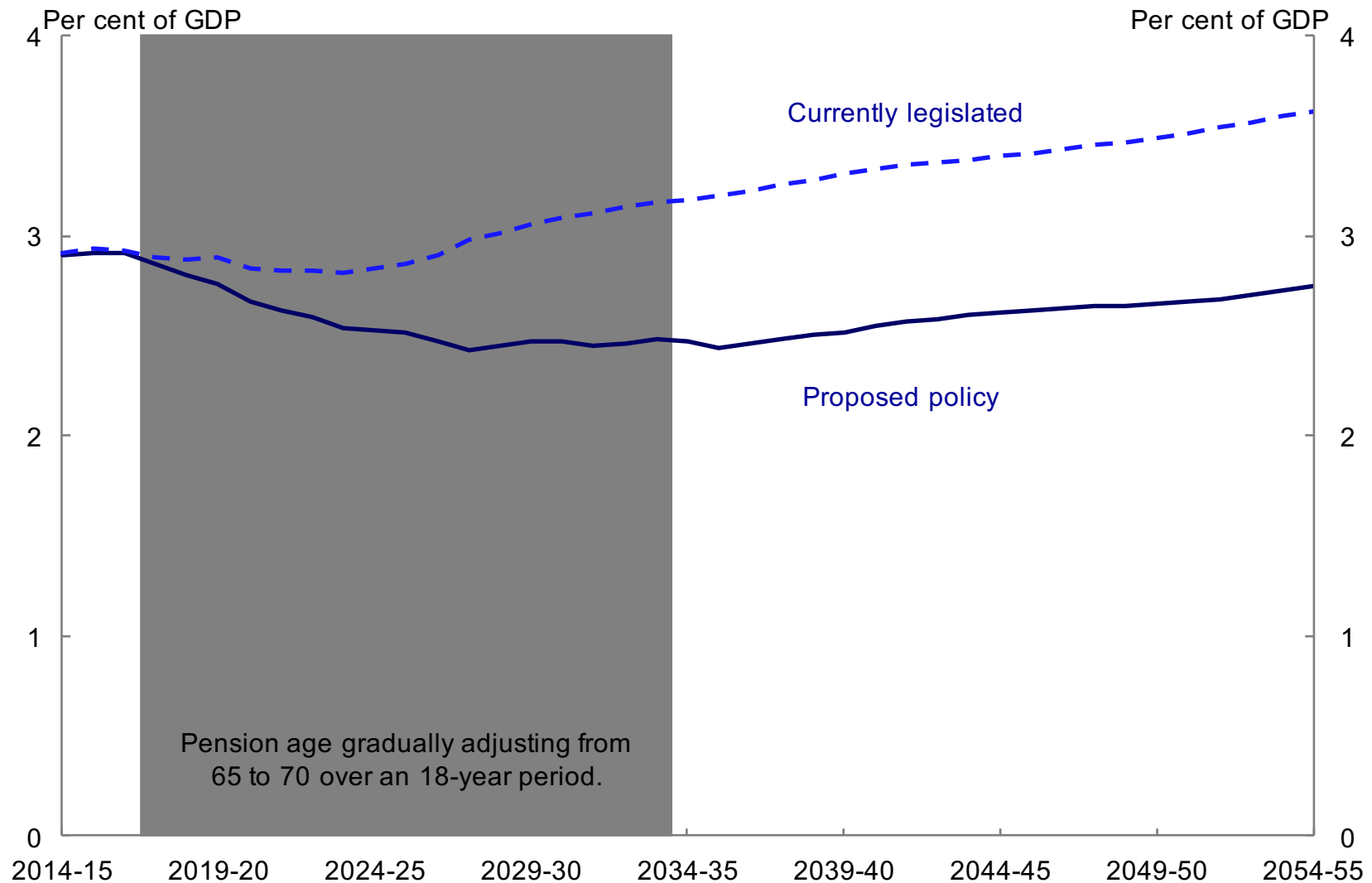
Links between fiscal policy and addressing inequality

1. (Direct) Transfers of tax revenues
2. (Indirect) Part of macroeconomic policy
3. (Indirect) Sustainable public finances

Transfers of tax revenue – individuals – safety net

1. Unemployment benefits, other social spending
2. Non-discretionary
 - Automatically changes with economic conditions
3. Has countercyclical impact on macroeconomy

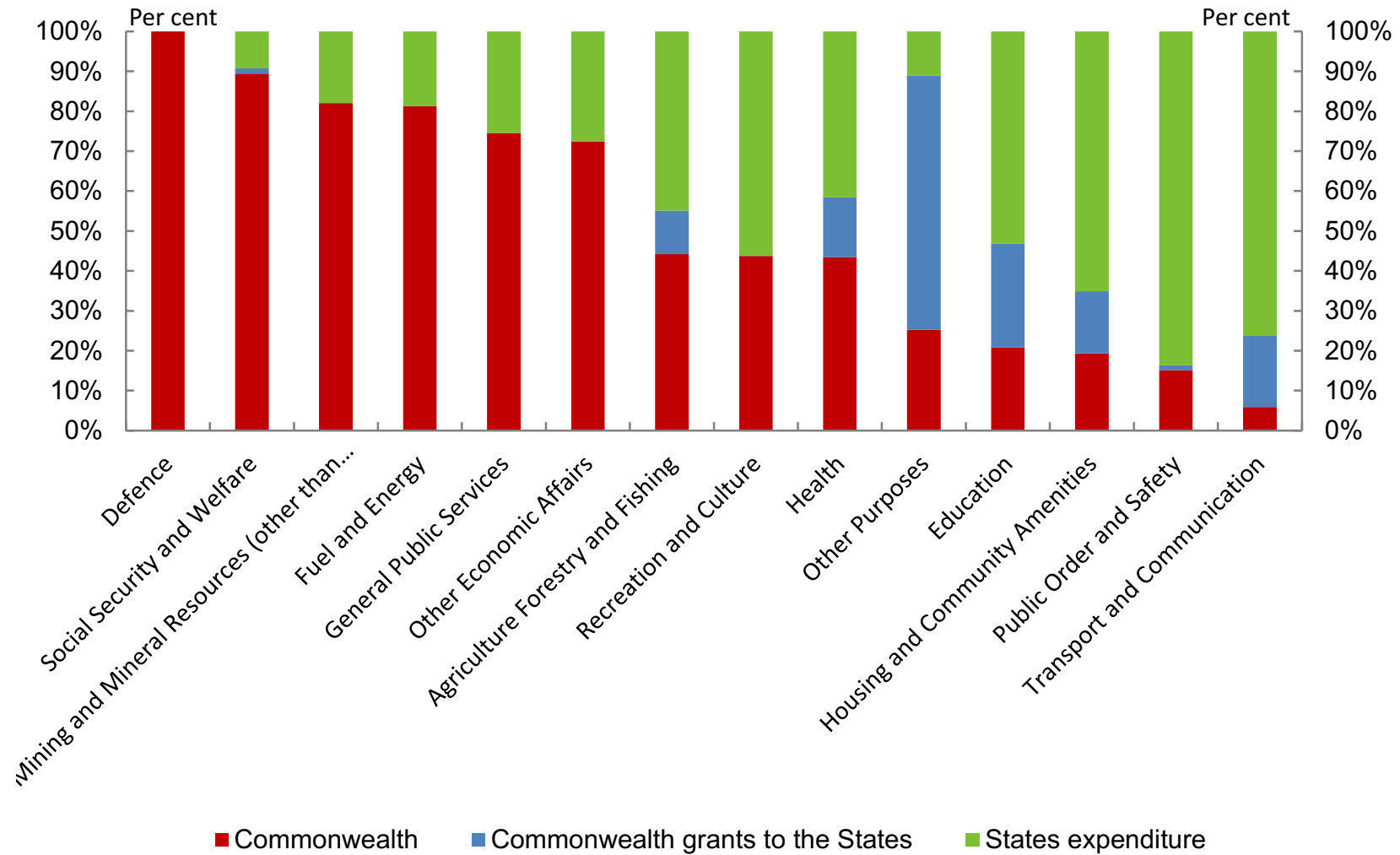
Transfers of tax revenue – individuals – pension reforms



Transfers of tax revenue – regions – equalisation of regions' capacity to deliver services

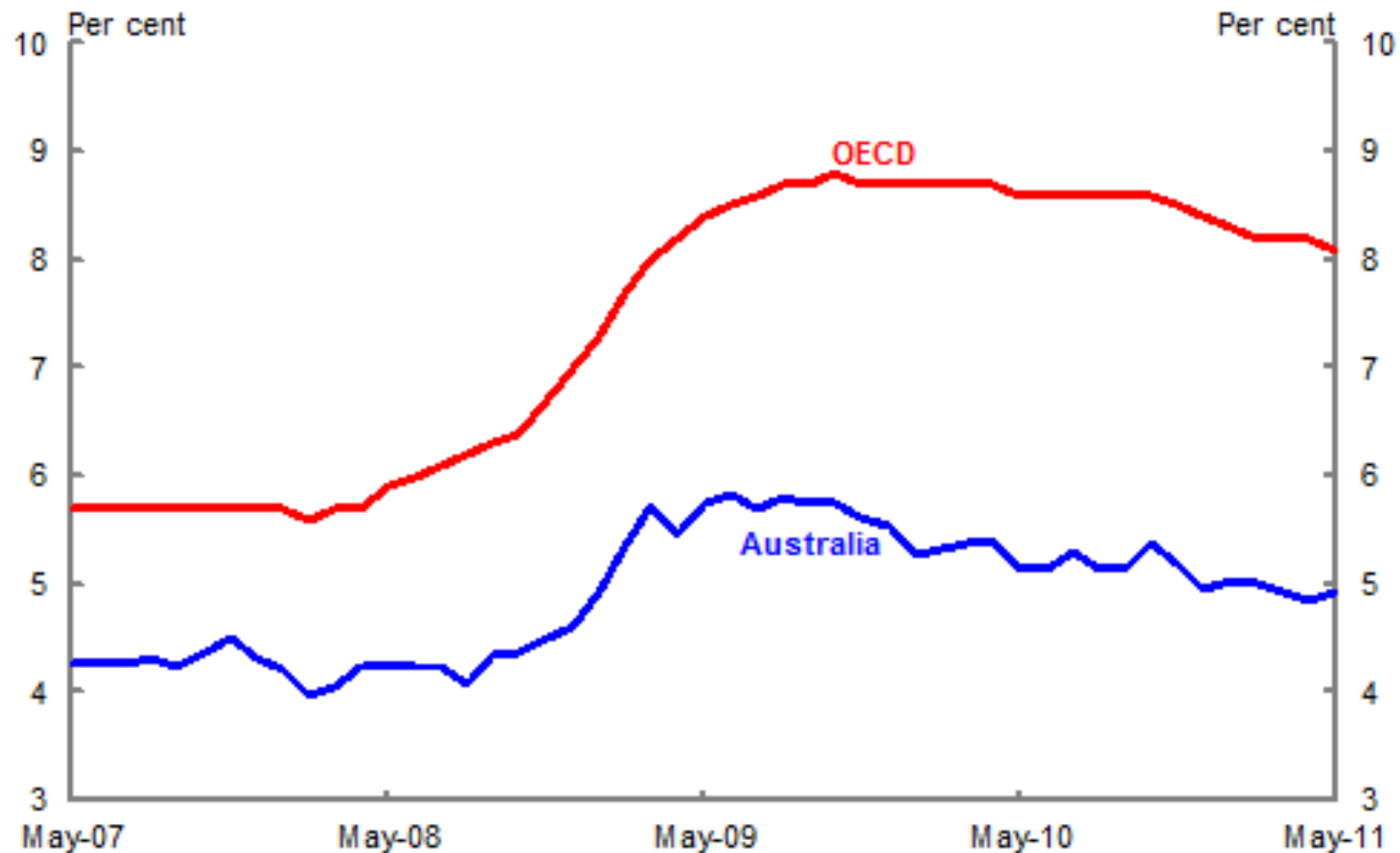
- Distribution of Goods & Services Tax - on basis that:
 - If States make the same effort to raise revenue from own sources
 - And operate at same level of efficiency
 - Then each State should have the capacity to provide services of equal standard.
- Services are not equalised – just the capacity to provide services.
- Promotes economic convergence between states, equitable services between them and so equality across regions
- Also non-discretionary

Transfers of tax revenue – regions – national and provincial shared responsibilities

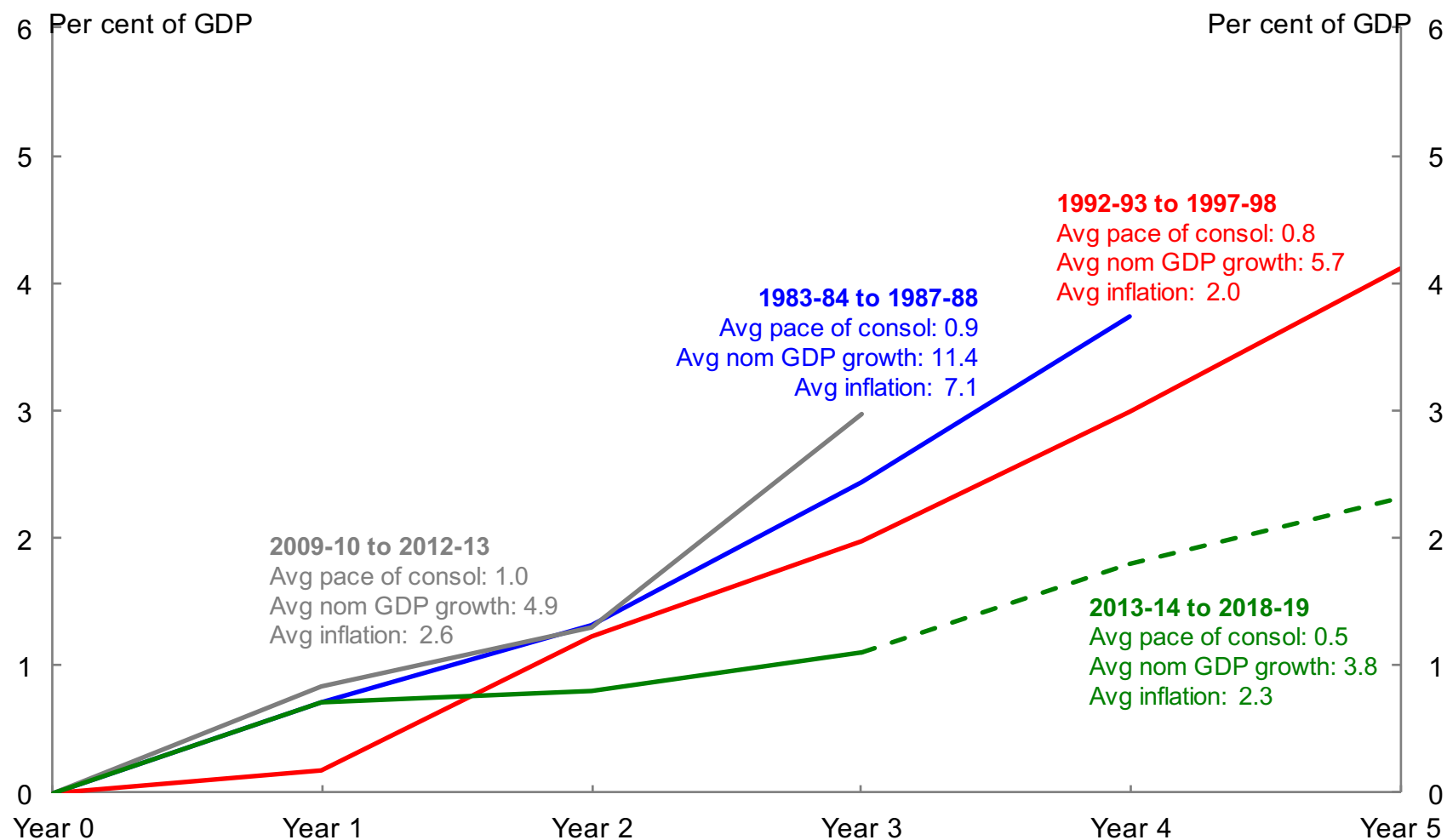


Macroeconomic policy – economic conditions – fiscal policy lever

Unemployment rate outcomes

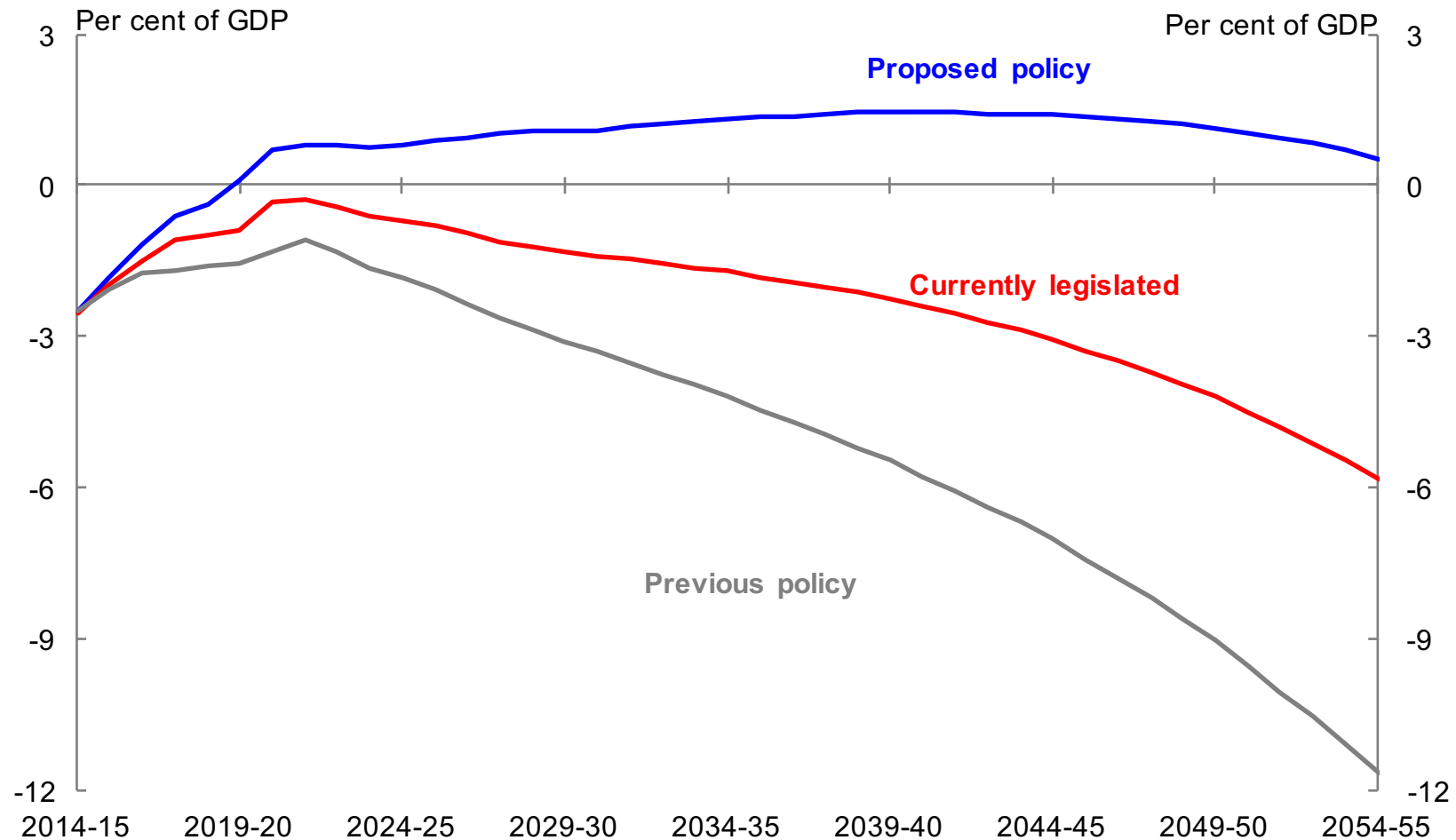


Sustainable public finances – burden and security of public goods and services – fiscal strategy and consolidation

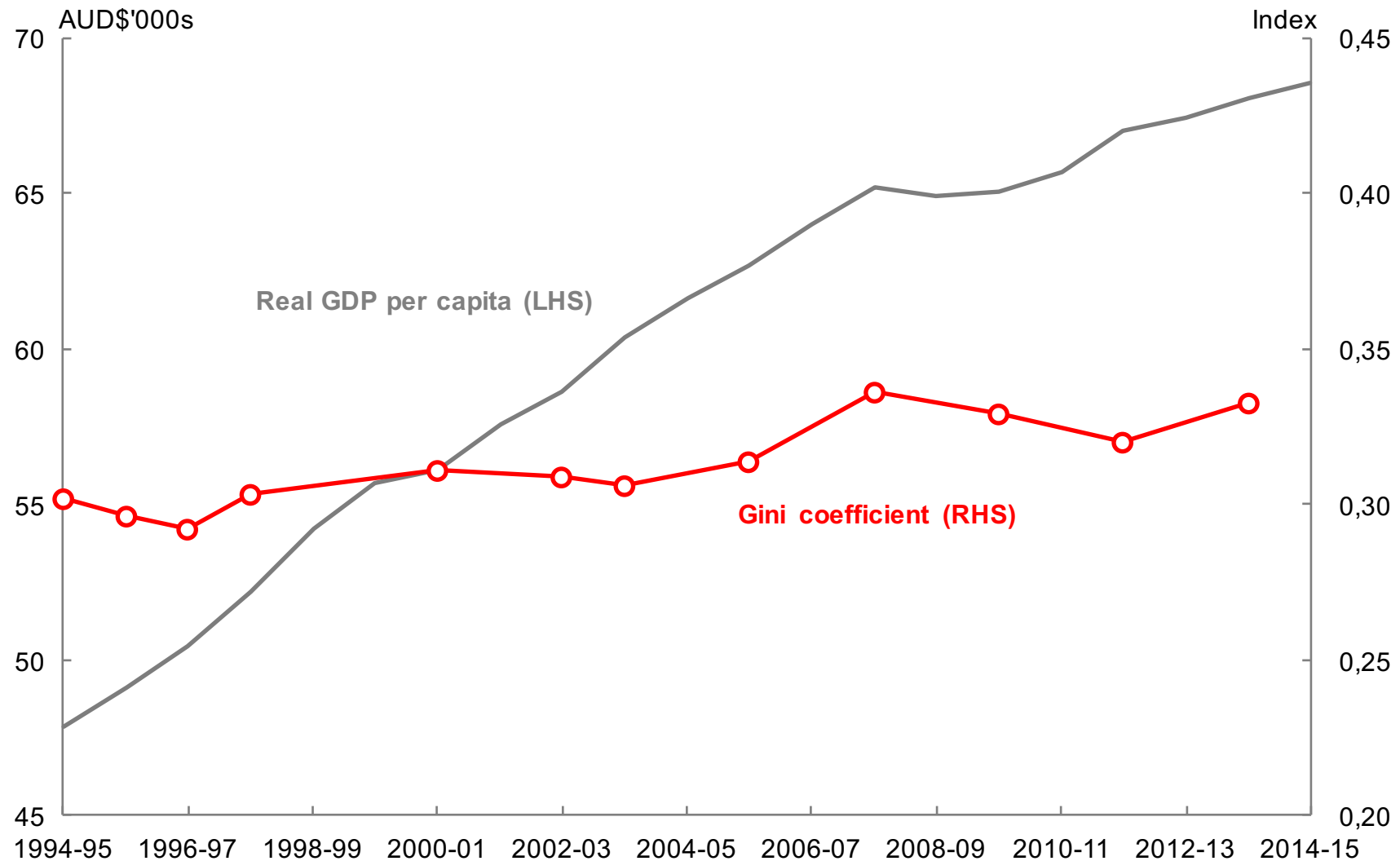


Sustainable public finances – burden and security of public goods and services – Intergenerational Report (IGR)

Projections of the Underlying Cash Balance (2015 IGR)



Australia's experience – growth and inequality



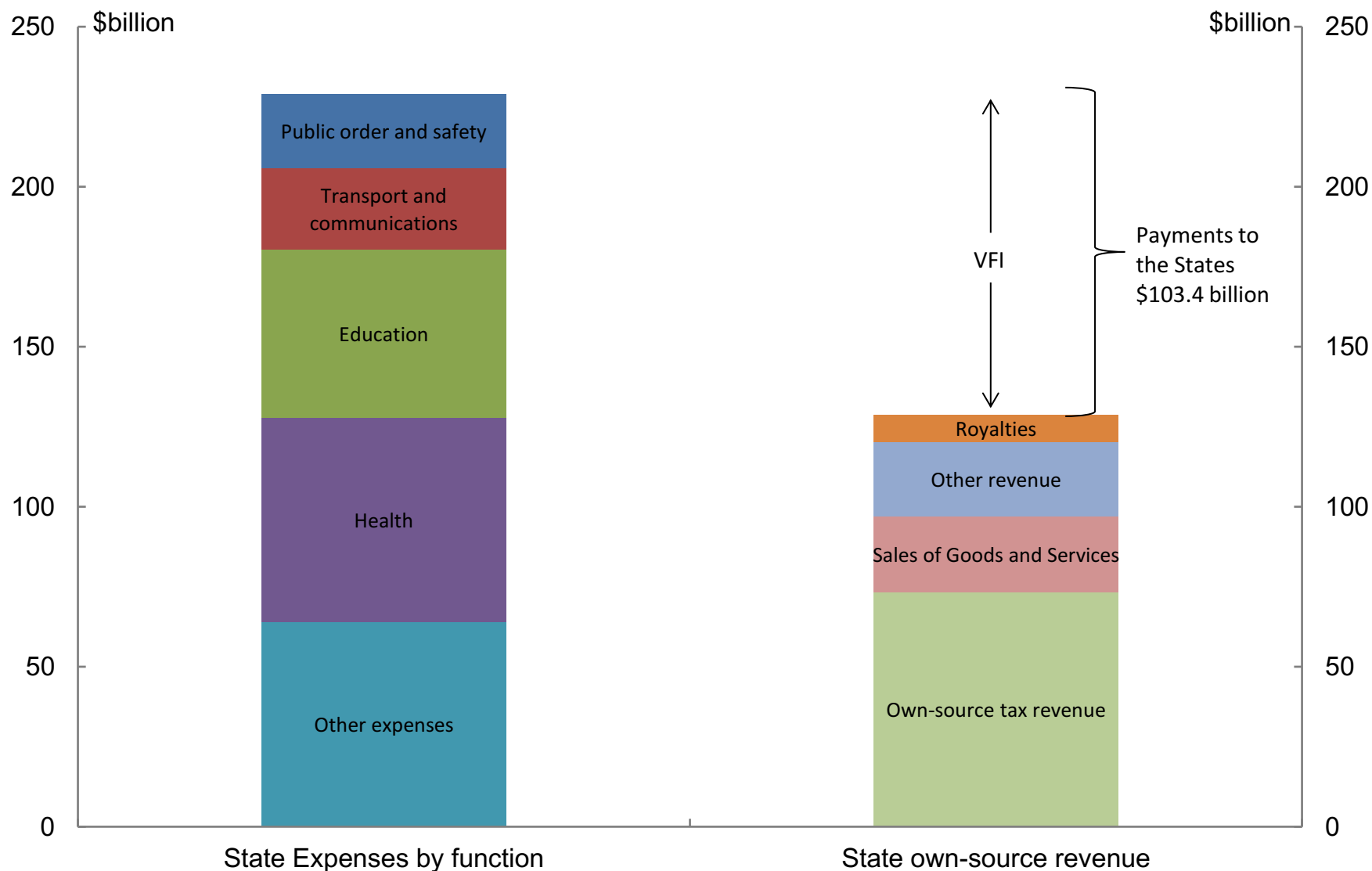
Note: Gini coefficient data are not available for all years. Years with data are circled. GDP per capita is in 2013-14 Australian dollars

Source: ABS Cat. No. 5206.0 and 6523.0.

Key messages

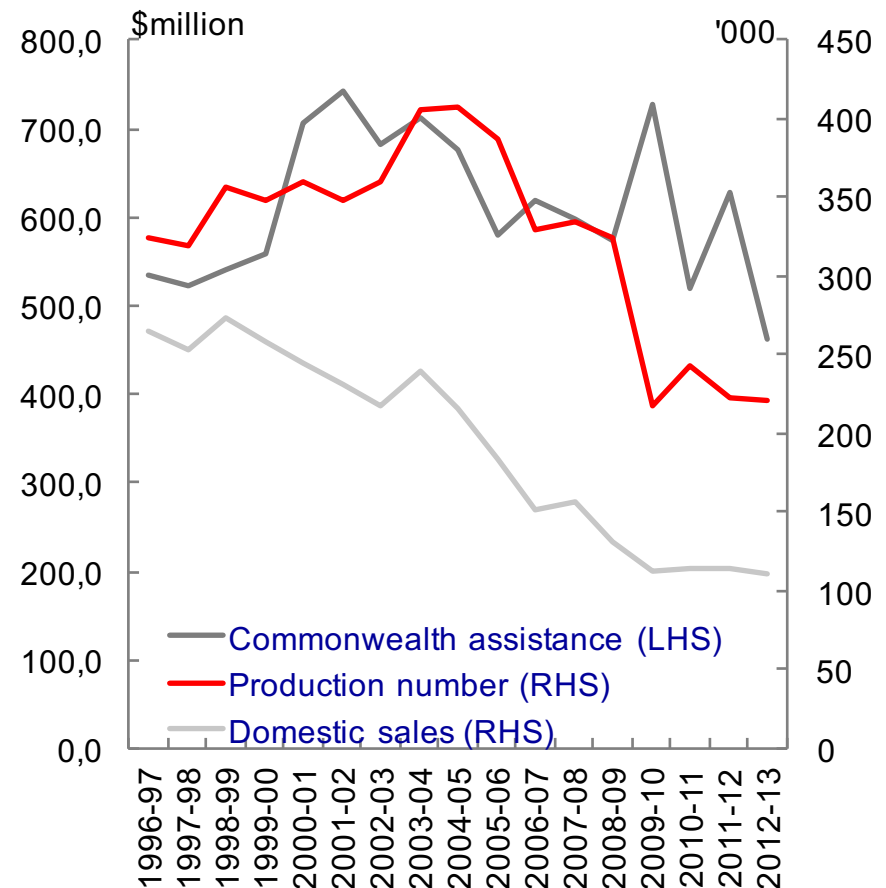
1. Fiscal policy linkages addressing inequality are complex
 - Direct through safety net and transfers to regions
 - Background economic conditions
 - Burden of government and the sustainability of assistance
2. Directly addressing inequality comes with concessions, complexity and long run consequences
 - Caution around commitments
 - Framing the public debate can help
3. Good results mean constant attention

National transfers to States



Automotive industry assistance

- 1984: five manufacturers, high tariffs, import quotas, local content rules
- Policy changes from 1985: phased tariff reduction from 1988, production subsidy, direct grants from 2008
- 2017: no manufacturers



Base growth and economic cost of taxes

