

PSBUDGETCUTSNEWS

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LARA IGNORES LEADING ECONOMISTS AT OUR PERIL

On May 17 the Secretary to the Federal Treasury Dr Martin Parkinson addressed Australia's leading economists but despite the relevance of many of his observations to Tasmania's economic situation Premier Giddings isn't listening to such independent and authoritative advice.

Dr Parkinson's delivery of the traditional Annual post-Budget Address to the Australian Business Economists was upbeat about the national recovery and cited many examples of positive indicators.

He discussed the difficulty Governments face in assessing the structural balance of a budget at various stages of the economic cycle but warned against the impact of making cuts before the economy had begun a quantifiable recovery.

His message has even greater relevance in Tasmania as we're not experiencing a similar economic resurgence and many indicators are negative.

With reference to the National economy and the Federal budget Dr Parkinson said:

"My own sense is that doing significantly more to tighten fiscal policy in the short-run would inject another risk – that of slowing the economy excessively – and could undermine the prospects for achieving the promised fiscal consolidation"

This observation is consistent with those of Prof Mitchell and Dr Cook who said in reference to the Tasmanian situation:

"Decisions to impose austerity through large cuts to government expenditure or increases in taxation will influence spending decisions in the private sector and can prove counter-productive by causing Gross State Product to contract and thereby reduce State revenues and worsen the budget balance"

The message from the experts is clear: excessively cut spending now and you compromise the economy's ability to rebound.

Unfortunately, our Premier prefers political advice over economic advice,

but in ignoring the experienced and recognised professional economists she's likely to damage the Tasmanian economy in the long-run for short-term objectives.

Dr Parkinson had some heartening and optimistic comments about the national economy and suggests the time is right for the Federal Government to seek to improve its fiscal situation.

By implication it's clear that if those positive indicators are not present, such as in Tasmania's case, a focus on fiscal consolidation (surplus building) isn't appropriate or in the interests of economic recovery.

The approach advocated by the Federal Treasury is considered and appropriate in the national context of recovery but when there's an absence of that confidence such as in Tasmania, fiscal tightening is a premature and weakening strategy.

The Premier is creating a double-whammy by withdrawing significant levels of state expenditure as the Federal Government is withdrawing stimulus and consolidating its fiscal position at record rates across the forward projections.

It's widely accepted Tasmania is subject to lag in economic cycles - we're slower to enter a downturn but slower to enjoy a recovery - so the Premier's route is likely to preclude or at least delay recovery as economic and business cycles look up.

Dr Parkinson makes the case for stimulus not contraction even stronger when he says:

"Let me be clear, as one who chased the economy down in the early 1990s with repeatedly inadequate policy responses, I do not believe we can be precise about the extent of stimulus required in the midst of a crisis. And if the response is inadequate, we consign more Australians to sustained unemployment and lower living standards"

The question inferred by Dr Parkinson is how much stimulus is required, not whether there's a choice between stimulus and cuts in an economic crisis.

By the Premier's own account we're in a crisis but, rather than maintaining spending to encourage economic resurgence and employment, she's moving to cut deep - a response that is, to borrow Dr Parkinson's terms, manifestly inadequate and will consign more Tasmanians to sustained unemployment and lower living standards.

The Premier is embarking on slash-and-burn economics in the guise of genuine structural reform.

She would be well advised to heed more advice from the Secretary to the Treasury who says:

"...decisions to pursue significant structural changes to the budget position need to be mindful of the state of the business cycle, and the attendant risks"

Premier Giddings has ignored the business cycle as it relates to Tasmania and is ignoring the very obvious risks of long term damage to our economic recovery and Tasmanian families and businesses.

We hope that, instead of the knee-jerk derision and attack that greeted the release of the very detailed report by Professor Mitchell and Dr Cook, the statements of the Secretary to the Federal Treasury Dr Parkinson are genuinely heard and used to find a better way.

Source Material

Prof Mitchell and Dr Cook's Report
http://www.abettertasmania.com/downloads/CofFEE_report_Final_Tasmania.pdf

Dr Parkinson's Speech to the Australian Business Economists
http://www.treasury.gov.au/documents/2036/PDF/martin_parkinson_20110517.pdf



BUDGET DAY RALLY

**Parliament House Lawns 2:30-3:30pm Thursday June 16
Contact your union to pledge your attendance**

authorised by Tom Lynch CPSU 157 Collins St Hobart 6234 1708 and Chris Brown HACSU 11 Clare St Newtown 1300 88 00 32

