

Officials warn global recession like the 1930s depression

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AUSTRALIANS have been given a grim warning for the coming year with Treasury officials tonight revealing the global recession is far worse and will last longer than originally thought.

Appearing at a Senate inquiry, top Treasury bureaucrats explained why the Rudd Government needed to implement its \$42billion stimulus package to give Australia a chance of avoiding recession.

They said conditions overseas in many countries were the worst they have been since the 1930s depression.

The blunt assessment of economic forecasts came after a turbulent day in Federal Parliament during which:

THE Senate forced the Government to accept a Senate inquiry into the detail of the six Bills which make up its stimulus package.

THE House of Representatives had earlier sat for 15 hours before voting just before dawn today to pass the legislation in the lower house.

OPPOSITION Leader Malcolm Turnbull taunted Prime Minister Kevin Rudd for missing the early morning vote.

LEADERS of the states and territories met Mr Rudd in Canberra to reach agreement on how they would implement infrastructure spending allocated from his stimulus package. The timetable of spending is outlined at the bottom of this article with schools the first to benefit.

[Read full report on the states' deal with Mr Rudd on infrastructure projects](#)

At tonight's Senate hearings, Treasury official David Gruen said the global recession was worse than previously forecast, and as a result the package was developed to support demand over the next couple of years.

"Australia is suffering from insufficient aggregate demand for the whole economy," he said.

"The package has been framed with the thought in the back of our mind that it is important to come up with spending plans that will deliver stimulus to the economy quickly ... perhaps, let's say, over 2009 and perhaps into 2010.

"That's based on a current assessment of what we think is the nature of the global recession, namely, we think it's deeper and longer than we thought several months ago.

"We are focused on spending which will have a material effect on demand in the economy over that sort of timeframe."

Treasury Secretary Ken Henry said the slowing economy justified very substantial interest rate cuts.

"The weakness in aggregate demand that we are confronting in the Australian economy calls both for very substantial reductions in interest rates and very substantial fiscal stimulus," Dr Henry said.

Dr Henry said the global economic circumstances were unprecedented.

"If one looks at the forecast growth for our major trading partners they are as weak as we've seen possibly since the 1930s," he said.

"Virtually all of the countries that we regard as our major trading partners ... virtually all of them are growing at below trend rates of growth.

"Most of them are projected by the IMF to be in recession in 2009, many of them indeed are in recession and have been for some period of time now."

As the Parliament debated the stimulus package, Mr Turnbull outlined that while the Coalition is opposed to the package but it hasn't ruled out a package that substitutes tax cuts for cash handouts and has less money for school upgrades and a smaller deficit.

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The government package was twice as big as the coalition proposed, Mr Turnbull said, adding it was "too much money, too much debt at this time".

"We would support a smaller stimulus today," he told ABC Radio.

Fury at Malcolm Turnbull stance on stimulus package

The government wanted its six bills rushed through parliament this week, but opposition and crossbench senators have forced a short inquiry, delaying its passage until next week.

The package, which includes cash handouts to nearly nine million people, will be examined by the Senate's finance and public administration committee.

One of the bills - the Household Stimulus Bill 2009 - will also be scrutinised by the Senate's community affairs committee.

The committees will hold meetings tonight, tomorrow and on Monday, before reporting back to the Senate on Tuesday.

The committees will seek evidence from government officials, non-government organisations, community groups and other interested parties.

The Senate will then debate the legislation next week, instead of holding planned estimates hearings, aiming for a final vote by late Thursday night.

But government leader in the Senate Chris Evans urged the Senate to immediately debate and pass at least some of the most urgent bills in the package.

Reader reaction: What you're saying today about the stimulus package

Senator Evans accused the opposition of "arguing while Rome burns".

"There is, in this government's view, an urgent need for action to stimulate the Australian economy," he said.

"The bills that relate to the payments for families, we need ASAP.

"And what we want you to do is deal with those bills."

The legislation includes a bill allowing the government to increase the limit it can borrow - from \$75 billion to \$200 billion - to service debt.

Mr Turnbull acknowledged the coalition's stance would be unpopular with the electorate.

"I know we'll take a hit in the polls, but it's the right and responsible thing to do."

Vote in our poll: Do you agree with Malcolm Turnbull's position on the stimulus package

As the Senate debate began, Senator Evans singled out Family First senator Steve Fielding for pushing an inquiry.

"Don't be a patsy for the Liberal party," he said.

"If you claim to represent families, what you are doing is stopping us making those payments."

But Senator Fielding said the bills needed scrutiny, calling the government's position "an absolute joke".

"What's wrong with including other experts to have a look at it?" he said.

"The Senate is doing what it was elected to do."

Independent senator Nick Xenophon concurred, saying the Senate should do its job.

"This is about scrutiny, about being a watchdog, about not being a rubber stamp."

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[Join Piers Akerman's blog: Kevin Rudd is leading us deep into the red](#)

Opposition frontbencher Helen Coonan said the government was acting with extreme arrogance by expecting the Senate to "roll over" and pass the bills without scrutiny.

"It's been less than 48 hours since we first heard of this massive cash splash," she said.

The government feared the scrutiny of a committee because the package was not up the scratch, Senator Coonan said.

Family First senator Steve Fielding said he would support a stimulus package of some kind, but wanted to hear from experts expected to be called by a Senate inquiry.

"What we want to do is just stop for a couple of days, have an inquiry, allow experts to have their say to see whether they've got this right," he told reporters.

"Once we've spent this money, we can't get it back. Once it's gone, it's gone."

Back at tonight's Senate hearings, Dr Henry said it was too early to say how much of last year's stimulus had been spent as opposed to saved.

Data released by the Australian Bureau of Statistics on Wednesday showed retail spending grew by a much stronger than expected 3.8 per cent in December to a record \$19.2 billion.

However, retail sales were only a minor proportion of household consumption, the Treasury secretary said.

"One should expect the fiscal impact of the October package to come through not only in retail sales."

And it was never expected that all of the first fiscal stimulus would come through in December.

The impact would come through in subsequent quarters because savings were simply "deferred consumption", he said.

Dr Henry added that he didn't know if savings were up.

"We will get an estimate of what happened to household savings in the December quarter in the first week of March," he told the inquiry.

As for the packages' impact on the Australian dollar, Dr Henry said if Australia didn't undertake an expansionary fiscal policy it was possible "our dollar would depreciate even further than it already has".

"Maybe that would provide some measure of support for some sectors of the economy," he said.

"But it would also reduce forecast growth in the Australian economy."

Under questioning from Labor Senator Doug Cameron, the Treasury secretary said there was no reason to sit and wait before implementing another stimulus package.

"Obviously that's not the view that we've taken in providing advice to government," Dr Henry said.

"These are highly unusual circumstances and we have advised government ... that there was a need for fiscal policy action (and) that it was quite urgent."

Dr Henry was also asked by Senator Cameron how much it would cost for the government to pick up businesses' super contributions.

Labor has accused Opposition Leader Malcolm Turnbull of being a "budget vandal" for opposing its \$42 billion stimulus package, while putting forward costly alternatives, including a proposal for the government to pay the nine per cent superannuation obligations of a range of businesses.

"Preliminary advice indicates if the government were to make the full superannuation guarantee payments of all small businesses in Australia the cost to the budget would be of the order of \$10 or \$11 billion a year," Dr Henry said.

After the Prime Minister Kevin Rudd met Premiers and territory leaders today, a timetable for his \$28.8 billion infrastructure stimulus package - the Nation Building and Jobs Plan was unveiled:

SCHOOL INFRASTRUCTURE - \$14.7 BILLION

Primary School Libraries and Assembly Halls

Round one - 20 per cent of schools

June 2009 - projects commence

December 2010 - projects completed

Round two - 40 per cent of schools

July-August 2009 - projects commence

January 2011 - projects completed

Round three - 40 per cent of schools

December 2009 - projects commence

March 2011 - projects completed

Secondary School Science and Language Labs

March-June 2009 - states and BGAs submit lists for approval

July 2009 - projects commence

June 2010 - projects completed

Minor Works In All Schools

Round one - 60 per cent of schools

February-March 2009 - states and BGAs to submit lists for approval

April-May 2009 - projects commence

December 2009 - projects completed

Round two - 40 per cent of schools

April-May 2009 - states and BGAs to submit lists for approval

July 2009 - projects commence

February 2010 - projects completed

(Bilateral agreement to have been signed with each state (for public schools) and Block Grant Authority (private schools) by February 13, 2009.)

PUBLIC HOUSING - \$6.4 BILLION

Repairs To Existing Stock

February 15, 2009 - states to submit proposals

March 1, 2009 - commonwealth approval

New Public Housing

Stage one

March 15, 2009 - states to submit proposals

April 1, 2009 - commonwealth allocates funds

Stage two

June 30, 2009 - states to submit proposals

August 30, 2009 - commonwealth allocates funds

BLACK SPOTS, BOOM GATES AND REGIONAL ROADS - \$890 MILLION

Black Spots

March 31, 2009 - states nominate projects

June 30, 2009 - commonwealth allocates funds

December 31, 2009 - projects completed

Boom Gates

February 28, 2009 - states nominate projects

Road Maintenance

March 1, 2009 - states to have signed agreement with commonwealth

CEILING INSULATION - \$3.9 BILLION

Expected to benefit 2.7 million homes

No timeline