

WHAT'S NEW ON THE TREASURY WEBSITE

The Treasury's website, www.treasury.gov.au, includes past issues of the *Economic Roundup*. Some of the other items posted on the website since the previous issue of Roundup that may be of interest to readers are listed below.

SPEECHES

‘Achieving and maintaining full employment’ (August 2007). 2007 Sir Roland Wilson Foundation lecture, by Dr Ken Henry, Secretary.

<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1296>

Sir Roland Wilson had a distinguished career, including serving as Treasury secretary between 1951 and 1966. His tenure coincided with a period of ‘full employment’, a condition to which the economy has — arguably — recently returned. Despite today’s higher rate of unemployment, there are as many people in employment as a proportion of the working age population as there were in Sir Roland’s time. There are also stark differences in the structure and operation of the labour market, and greater flexibility.

Sir Roland faced a sharp rise in the terms of trade in 1951. Without the benefit of a floating exchange rate to buffer some of the shock, the economy experienced a short but sharp surge in the inflation rate.

In Sir Roland’s time, fiscal policy was the principal instrument of short term macroeconomic management. It is a credit to Sir Roland’s judgement and courage that fiscal policy was so effective in promoting stability. The current monetary policy regime, with an operationally independent central bank, provides a more robust framework by which the sails of economic growth can be trimmed.

‘The Importance of Open World Markets for Australia’s Development and Prosperity’ (July 2007). Address to the Lowy Institute Conference on Enhancing Transparency in the Multilateral Trading System, by David Parker, Executive Director, Macroeconomic Group.

<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1280>

The progressive dismantling of Australia’s protectionist economic model from the early 1970s has led to profound structural change. These reforms fed into the broader reform programme which has opened domestic capital, product and labour markets. The Australian economy is now far more integrated with global markets.

The net result of the reforms is that the economy is more flexible and resilient, and compared with earlier periods, macroeconomic performance has been exceptionally strong. This has been illustrated in recent years by the economy’s ability to weather a number of internal and external shocks such as major

drought, a housing boom, the Asian financial and economic crises and — more recently — the commodities boom. Transparency institutions, such as the Productivity Commission, were significant actors in the reform process.

‘Creating the Right Incentives for Indigenous Development’ (June 2007). Address to the Cape York Institute Conference ‘Strong Foundations — Rebuilding Social Norms In Indigenous Communities’, by Dr Ken Henry, Secretary to the Treasury.

<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1275>

Three key foundations of Indigenous disadvantage are: poor economic and social incentives; the underdevelopment of human capital and of capability in general; and an absence of the effective engagement of Indigenous Australians in the design of policy frameworks that might improve social and economic incentives and build capabilities.

An important policy goal should be to create a system of welfare incentives — in tandem with services that build capability and foster employment — that encourages engagement and rewards active participation. In addition, education can help transform social and economic opportunities, with particularly strong gains for those from disadvantaged backgrounds, and health is also a key strategic factor in breaking cycles of poverty. To achieve progress in Indigenous development, there is a need for increased ownership, by Indigenous people, of both the problems and policy solutions.

‘The Economic Impact of Australia’s Ageing Population’ (June 2007). Address to the Committee for Economic Development of Australia State of the Nation Conference, by David Parker, Executive Director, Macroeconomic Group.

<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1273>

The second Intergenerational Report (IGR2) examines how Australia’s ageing population and other factors affect the economic and fiscal outlook over the coming 40 years. Australia’s population will age markedly over this time, due to both increased longevity and lower fertility, which will cause per capita GDP to slow.

Population ageing is a global challenge which will have wide-ranging implications; saving behaviour, asset returns, international capital flows, and the supply of labour are all likely to be affected. In terms of fiscal impacts, the

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main spending pressures are likely to continue to be in health, age pensions and aged care.

Lifting productivity growth from its historic averages and further reducing barriers to participation would limit the projected slowdown in real GDP per person over the coming 40 years. The results of IGR2 also underline the need to be vigilant about pressures to increase real spending per capita and the overall share of government in the economy.

WORKING PAPERS

2007-03: Governance of the IFIs: The Case for Merit-Based Selection of Agency Heads (May 2007).

<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1264>

Michael Kooymans

The Managing Director of the International Monetary Fund (IMF) and the President of the World Bank are appointed under a 60-year-old unwritten convention that the Managing Director is nominated by the countries of Western Europe while the President is nominated by the United States. All ten Bank Presidents since 1946 have been US citizens and all nine IMF Managing Directors have been citizens of one of six Western European countries.

This paper argues that these arrangements are anachronistic, contrary to modern corporate governance best practice and inconsistent with the multilateral character of the IMF and World Bank. Removing nationality restrictions on candidates for senior leadership positions would be an important complement to other initiatives to modernise the governance arrangements, strategies and operations of the IMF and World Bank. In particular, it would be consistent with measures being taken to enhance the voice and participation of developing member countries, particularly emerging market economies whose voice has not increased with their growing economic importance. Australia has been a strong advocate for these governance reforms.

Alternative selection models are also discussed to illustrate how the issue might be taken forward in a practical way.