

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.

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Speeches

'Revisiting the Policy Implications of Population Ageing' (May 2007). Address to the Australian Business Economists, by Dr Ken Henry, Secretary to the Treasury.

<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1260>

Looking ahead, Australia will face demographic challenges with workforce participation set to fall as a consequence of population ageing. While labour productivity growth is projected to grow by an annual average rate of 1.8 per cent over the next 40 years (*Intergenerational Report 2007*), the same rate as over the past 40 years, growth in real GDP per person is expected to be somewhat slower than its historical average due to population ageing.

With the labour market now at as close to full employment as it has been any time in the past 30 years, this presents some implications for economic policy. Not only is there an ongoing need to conduct fiscal and monetary policies in a way that satisfies the requirements of their medium-term frameworks, there is also a need to avoid policy interventions that don't add to supply capacity since these can be expected to be detrimental to productivity and GDP per person growth.

'Connecting Consumers and the Economy: The Big Picture' (March 2007). Address to the 2007 National Consumer Congress, by Dr Ken Henry, Secretary to the Treasury.

<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1242>

This year the Productivity Commission will produce the first substantial review of Australia's consumer policy framework since 1984. Consumers have reaped substantial dividends from extensive economic reforms over many years, including widespread deregulation and trade liberalisation. National Competition Policy has facilitated more competitive markets in areas like infrastructure and public monopolies. The challenges of consumer policy will be met best by bearing in mind four key principles: (1) competitive markets drive consumer welfare and consumers drive competitive markets; (2) government intervention in the market should utilise the regulatory or non-regulatory tool best suited to each situation; (3) government policy should not impede, but should rather support, the expansion of national markets; and (4) government policy should empower consumers, protecting them when appropriate.

'China, manufacturing and the resources boom' (March 2007) Address to Australian Industry Group forum on 'Global priorities for Australia' by Dr Steven Kennedy (General Manager, Domestic Economy Division) and Phil Garton.

<http://www.treasury.gov.au/contentitem.asp?NavId=008&ContentID=1238>

China's rapid expansion is putting downward pressure on world manufactures prices while underpinning the surge in commodities prices. China's impact on world manufactures supply has not so far been exceptional compared to past growth phases in Japan and other Asian economies, and China has also become an increasingly significant importer of manufactures. High commodity prices have led to expansion of the mining and construction sectors, particularly in Western Australia and Queensland. In a fully-employed economy, this could only occur by drawing resources out of manufacturing and other sectors. So far, however, increased employment growth in the mining states has come from attracting additional workers into the labour market from within these states. This suggests that an induced increase in labour supply has moderated the effects of the resources boom on manufacturing.

Budget Papers

Budget Strategy and Outlook 2007-08

<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1256>

The Australian economy is expected to grow strongly in 2007-08, after being affected by severe drought in 2006-07. The economy is expected to grow by 3¾ per cent in 2007-08, assuming a return to average seasonal conditions and a partial recovery from the drought. Productivity is expected to increase in 2007-08, and the participation rate is expected to remain high. An underlying cash surplus of \$10.6 billion is forecast for 2007-08.

Annual Report

Australia and the International Financial Institutions 2005-2006

<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1240>

This publication reports on Australia's interaction with the International Monetary Fund, Asian Development Bank and the World Bank during the 2005-2006 financial year. It combines three publications previously titled Australia and the IMF, Australia and the World Bank and Australian and the Asian Development Bank.

What's new on the Treasury website

Working papers

2007-02: HECS for TAFE: The case for extending income contingent loans (April 2007)

<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1252>

Bruce Chapman, Mark Rodrigues and Chris Ryan

The public vocational education and training (VET) system is now one of the few areas in Australia's tertiary education system where students are required to pay up-front fees without access to loan assistance. These arrangements may lead to sub-optimal educational outcomes to the extent that prospective students reject a VET education on the basis of short-term financial constraints. This paper presents a case for introducing an income contingent loan to the VET sector. Data is used from the first three waves of the Household Income and Labour Dynamics in Australia (HILDA) survey to establish that there are indeed significant private returns to VET qualifications. An income contingent loan is argued to enhance access to these benefits, and the form that such a loan might take for VET is considered, as are the implications for the Commonwealth Government with respect to potential subsidies associated with the design parameters.

2007-01: Asymmetric Investment Returns and the Sustainability of US External Imbalances (February 2007)

<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1233>

Phil Garton

The widening of United States current account deficits since the late 1990s has had only a limited effect on net income, as the US has enjoyed both higher yields and larger valuation gains on its foreign assets than it incurred on foreign liabilities. This is mostly explained by structural factors, such as the relative safety of the US and its foreign liabilities being mainly debt while its assets are mainly equities, which tend to yield higher returns (including valuation gains). If these factors persist then the need for future external adjustment might be less than conventional analysis suggests.

Other Publications

Intergenerational Report 2007

<http://www.treasury.gov.au/contentitem.asp?NavId=035&ContentID=1239>

The Australian Government's second intergenerational report provides a basis for considering the fiscal outlook over the long term and the sustainability of economic growth in light of Australia's ageing population and other factors.

It finds that the Australian Government's long-term fiscal sustainability has improved since the first intergenerational report in 2002, although demographic and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

