

# Comments on Current Australian Policy

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Chair in Public Policy

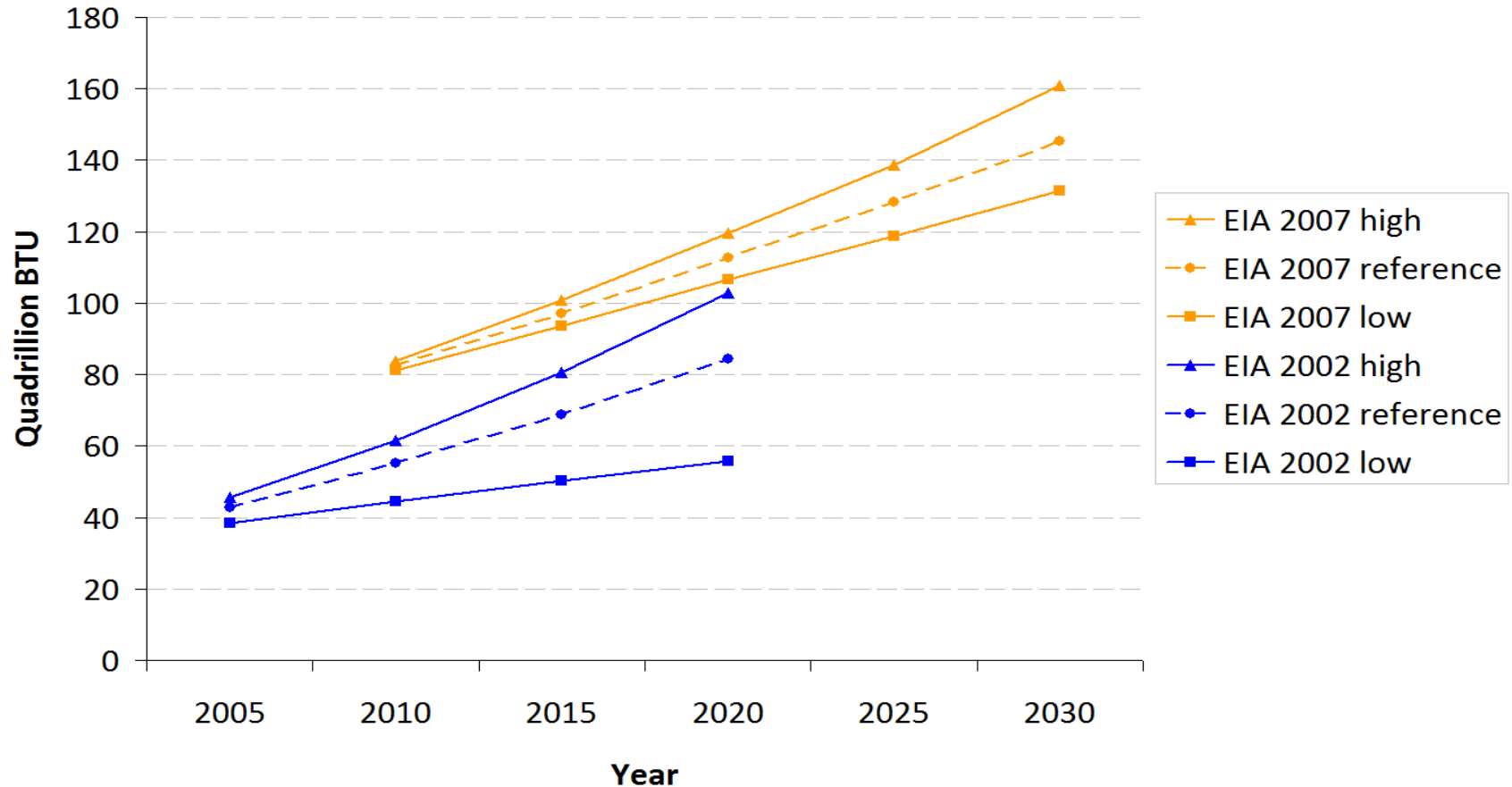
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# Overview

- Projecting the future is highly uncertain
- What shocks does Australia face?
  - It is not all about China commodity demand
  - It is not all about macroeconomic policy
- What should be the policy response?

# Projections of China's energy consumption



# Long term Projections of the World Economy – A Review

Alison Stegman

Warwick McKibbin

CAMA Working Paper 14/2013

March 2013

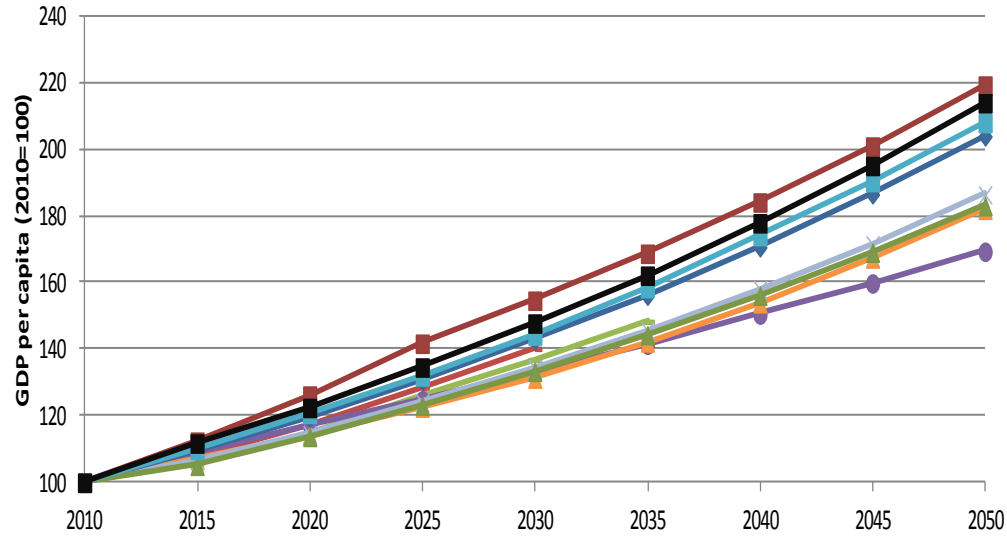
<http://cama.crawford.anu.edu.au/pdf/working-papers/2013/142013.pdf>

Table A1 Projection summary

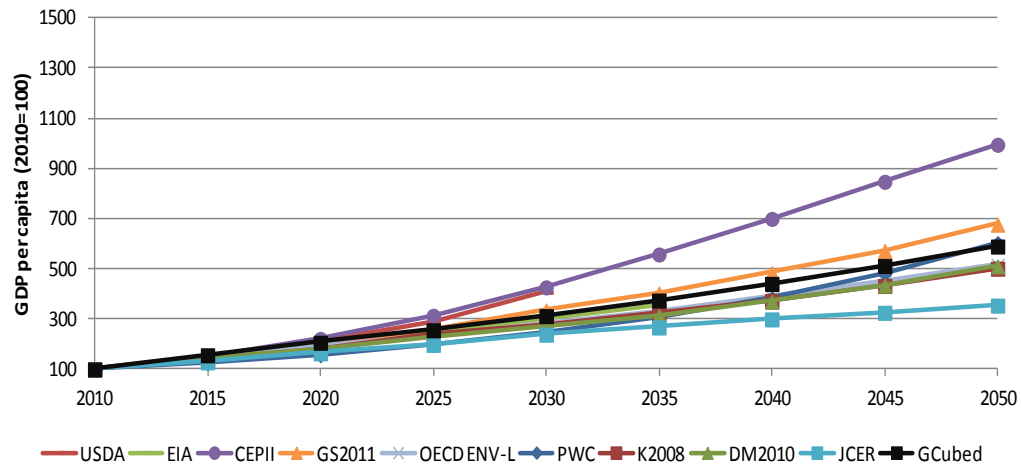
Projections	Reference
SRES-MESSAGE	IPCC (2000)
USDA	U.S. Department of Agriculture Economic Research Service projection, updated in 2011.
EIA	U.S. Energy Information Administration, International Energy Outlook 2011, released in September 2011, Table A3, A4, A11.
CEPII	Fouré, J. Bénassy-Quéré, A. and Fontagné, L. (2010)
GS2011	GS2011: Wilson, D., Trivedi, K., Carlson, S. and Ursúa, J. (2011) GS2003: Wilson, D. and Purushothaman, R. (2003)
OECD ENV-L	Chateau, J., C. Rebolledo and R. Dellink (2011),
PWC*	PWC2006: Hawksworth, J. (2006) PWC2008: PricewaterhouseCoopers (PWC) (2008) PWC2011: Hawksworth, J. and Tiwari, A. (2011)
K2008	Klinov, V.G. (2008)
DM2010	Duval, R. and de la Maisonnette, C. (2010)
JCER	Long term forecast team, Economic Research Department, Japan Center for Economic Research (2007)
G-CUBED	McKibbin W. Morris, A. And Wilcoxon, P (2011)

# Figure 1: Survey Projections of Real GDP per Capita Growth for the US and China

## United States

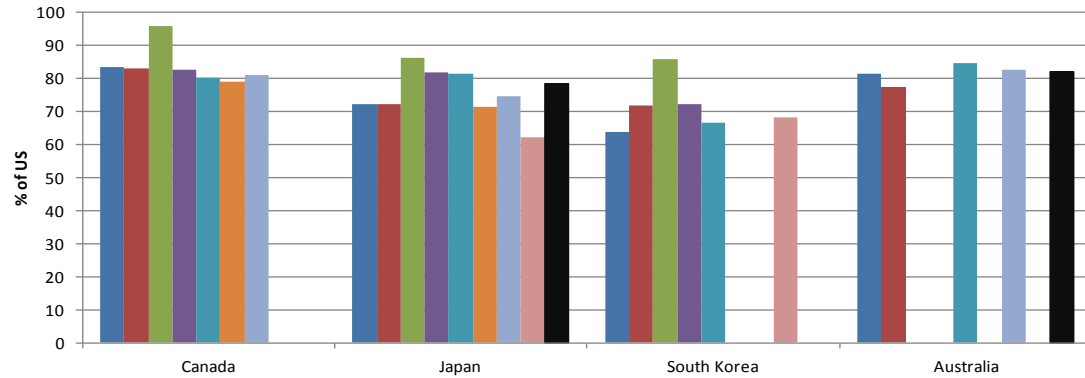


## China

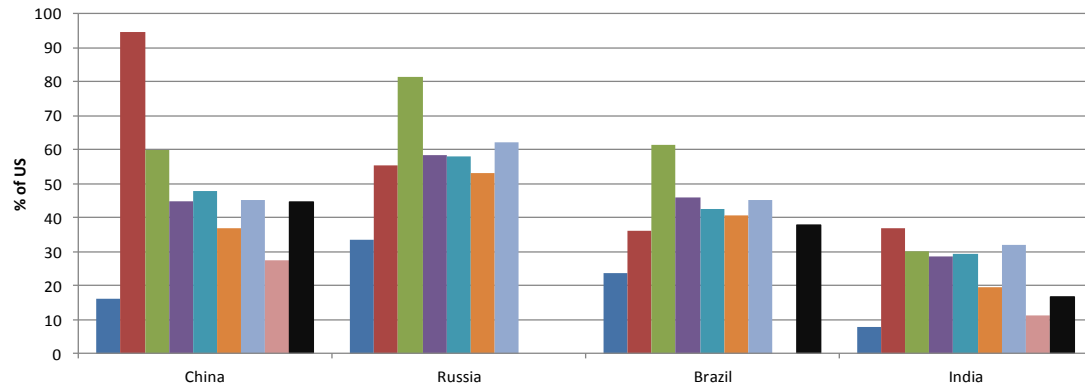


— USDA — EIA — CEPII — GS2011 — OECD ENV-L — PWC — K2008 — DM2010 — JCER — GCubed

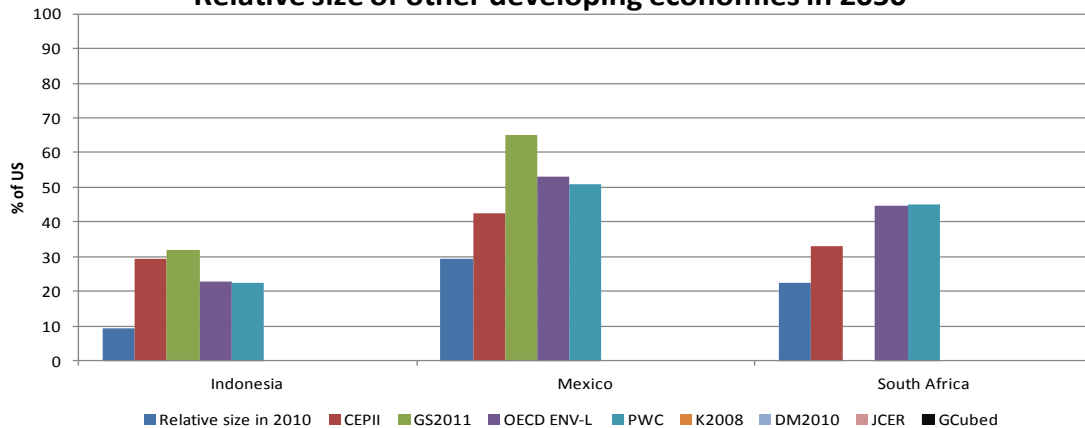
### Relative size of advanced economies in 2050



### Relative size of BRICs in 2050



### Relative size of other developing economies in 2050



- The future is highly uncertain
- Demand for inputs in China will most likely continue to rise but at a slower rate
- The problem for Australia is not the end of the China boom – it is that the income boost masked other problems

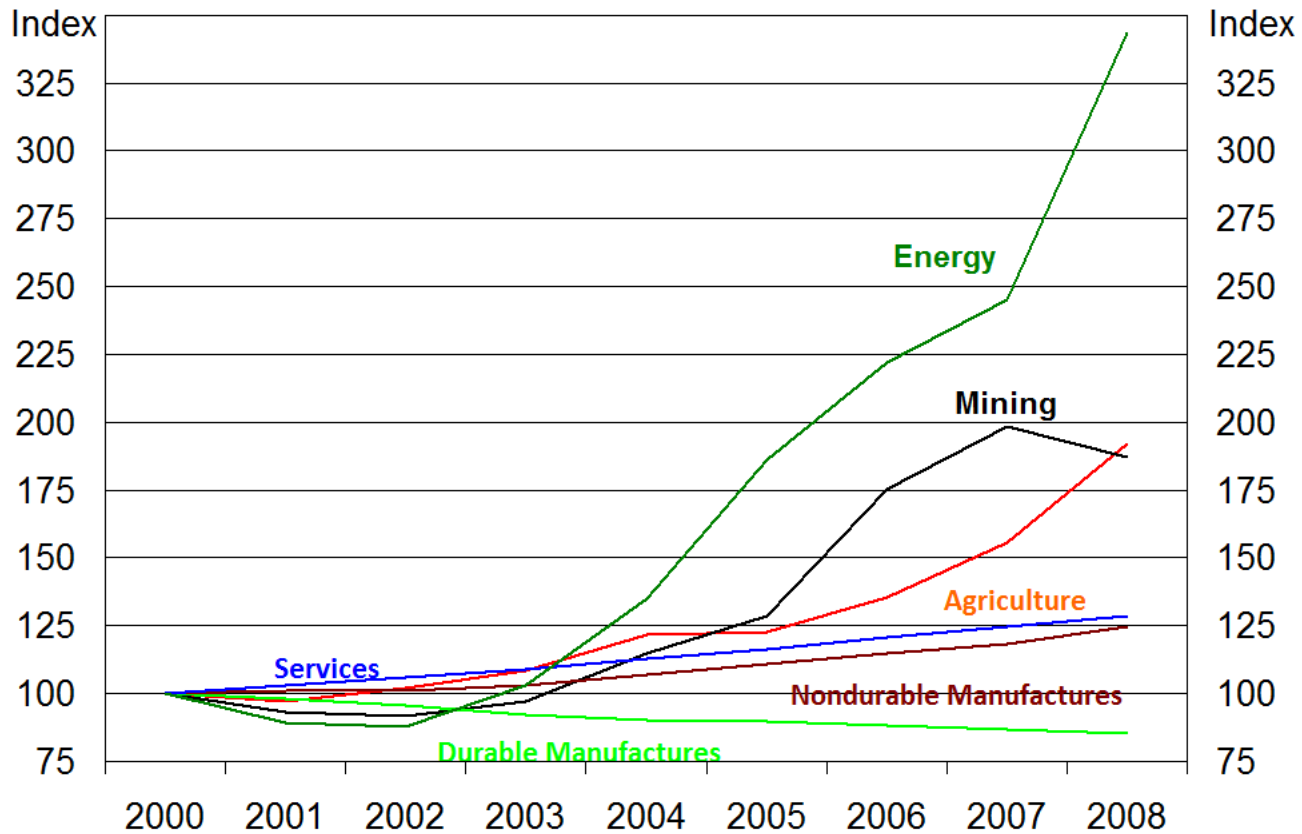


# Shocks

- Relative price shocks from global structural change
- Productivity decline
- Foreign trade and terms of trade
  - Chinese demand shift
  - Global Commodity supply shift
- Portfolio shift into \$A assets

# Commodity, Manufacturing and Services Prices

US\$, 2000=100



Source: IMF, BEA

Source: McKibbin W. and A. Cagliarini (2009) "Relative Price Shocks and Macroeconomic Adjustment" in Fry, R., Jones C. and C. Kent (eds) *Inflation in a Era of Relative Price Shocks*, RBA

- Policy response needs to take all these factors into account
- Cutting interest rates to bring down the exchange rate is not a good idea if rates are already low
  - It leads to a misallocation of capital domestically

# Policies

- Focus on reforms to raise productivity in particular by adjusting to relative price shocks
- Focus on real exchange rate depreciation through cutting input costs
  - Labor (direct and indirect)
  - Regulation (level and volatility)
  - Energy costs (level and volatility)
- Focus on demand expansion by massive infrastructure build coordinated by a Productivity Commission like independent agency funded off the back of the portfolio shift
- Focus on getting climate change policy right