An Open Letter

We the undersigned economists are convinced by the evidence that the coordinated policies of the Australian Labor Government have prevented the Australian economy from a deep recession and prevented a massive increase in unemployment. Unlike most OECD economies we have come out of the Global Financial Crisis and the subsequent world recession with only one quarter of negative GDP growth and a smaller increase in unemployment.

We note that during a recession automatic stabilizers (increase in total unemployment benefit payments and decreased tax revenues) lead to an increased government budget deficit. In almost all the OECD countries there has been a massive increase in unemployment and in budget deficits. In Australia both have been trivial by comparison.

The Government Fiscal Stimulus package that was introduced was carefully crafted and implemented in a clever sequence. The first stage, the payment of \$900 to most households, helped to boost confidence in the retail industry.

The second stage of the stimulus package (the Building Education Revolution, and the First Home Owners Grant) boosted the construction industry and created thousands of new jobs. Besides the employment effect, it also provided a much needed increase in the stock of public capital (better and greener homes, better schools) and prevented a sudden fall in house prices.

The last stage of the fiscal stimulus package (as it takes time to prepare plans etc.) was the infrastructure program that increased employment as well as increasing the stock of public capital and helping to overcome the significant short fall in Australian public infrastructure, and hence would increase future productivity, taxable capacity and the ability to repay public debt.

Just as a major corporation goes into debt to invest in its stock of capital, so does a government. Just as many householders have a debt to a bank or mortgage company, so does a government. A government has a budget deficit and a government debt, but it also has capital assets (roads, ports, better equipped schools, Broadband, etc.).

The performance of the Australian economy has been outstanding: the International Monetary Fund (IMF) and the Organisation for the Economic Cooperation and Development (OECD) have show-cased Australia as a model economy.

We hope that the economic achievements of the Australian Labor Government will be recognized by the population.

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