

4

The 53-billion-dollar question: Was Australia's 2009–2010 fiscal stimulus a good thing?

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Mum: Ken, should I take my money out of the bank?

Ken: There's no need for that, Mum. Australia's banks are among the best of the best in the world. They are firmly regulated and have not taken any inappropriate risks.

Mum: Well, that is as may be, but all my neighbours and friends are taking their money out all the same.

When Ken Henry, the secretary of Australia's federal Department of the Treasury, had this phone conversation with his mother shortly after the collapse of US financial giant Lehman Brothers in September 2008, it quaintly confirmed what he and his colleagues had begun to fear for some time.¹ Despite the solidity of its own economic fundamentals, Australia was going to be significantly affected by the meltdown of the US financial system. When Lehman came to the brink in late 2008, US authorities

1 Portions of this chapter and the quotations from the Treasury officials stem from Paul 't Hart and John Wanna, *The Treasury and the financial crisis. Parts A and B* (2011-119.1, ANZSOG Case Library, Canberra, available from www.anzsog.edu.au/resource-library/case-library/treasury-and-the-global-financial-crisis-the-a-2011-119-1). A few paragraphs were adapted from Fenna (2010).

could not find a buyer and were forced to let it go under, sending major shock waves through global financial markets that quickly produced a global credit squeeze and subsequent bank failures and recession.

Around the world, alarms were being sounded about the financial system. Ordinary citizens like Ken's mother were becoming increasingly concerned and beginning to act—as data on ATM withdrawals and other major money movements were indicating—even in Australia. And yet, during the Global Financial Crisis (GFC) that followed, Australia would become one of a handful of OECD economies that did not experience a major breakdown in its financial institutions and the only one to avoid an economic recession during the crisis.

Here, we focus on the Australian Government's macroeconomic policy response to the turbulence in world financial markets, which took the form of two stimulus packages of unprecedented size. They were framed by prime minister Kevin Rudd (2009) as the right response to a 'seismic event' that was heralding a 'turning point between one epoch and the next where one orthodoxy is overthrown and another takes its place'. Rudd presented the measures as a repudiation of neoliberalism and a (re)embracing of a social-democratic policy philosophy.

Although avoidance of an economic recession was the primary objective of the crisis response measures that were taken between October 2008 and April 2009, it was not the only one. The specific Keynesian economic stimulus spending programs put in place had substantive objectives of their own in areas such as education, energy efficiency, housing and infrastructure.

The 'euphoria moment' (Kelly 2014: 173) for Rudd, treasurer Wayne Swan and the other key policymakers came on 3 June 2009, when the March quarter figure of 0.4 per cent growth was revealed. To their immense relief and pride, it confirmed that they had pulled off the improbable: avoiding two consecutive quarters of negative growth (the technical definition of recession) in the midst of global economic mayhem. The government's vigorous action was looking like a policymaking triumph. But the euphoria would not last, and the question of how the fiscal policy response of the Rudd Government should be assessed became ever more vexed. Had the A\$53 billion spend been worth it? Or did it contribute less than thought or realised at the time to solving the problem and more to creating subsequent problems and thus be more aptly characterised as a 'policy overreaction' (Maor 2012)?

This question was hotly debated, first and foremost in the media and political arenas, but also among economists and within key policy institutions such as the Department of the Treasury. In this chapter, we shall not attempt to settle this debate; instead, we use the controversy surrounding assessment of the fiscal stimulus policy to illustrate the challenges of evaluating public policy (and, in particular, major one-off public policy interventions).

Preparing for the looming crisis

Australia had ‘form’ when it came to major economic downturns. The stock market crash of 1929 and ensuing depression hit Australia hard and destroyed the newly elected Scullin Labor Government. The depth and duration of the Great Depression left deep scars. The 1970s crisis of stagflation (high inflation plus recession) also saw an initially muddled macroeconomic policy response with a pattern of stop/go economic growth and two recessions—one in the mid-1970s and another in the early 1980s (Bell and Keating 2018). Financial deregulation during the 1980s and the entry of foreign banks encouraged Australian banks to defend their market share through aggressive credit practices that led to a credit-fuelled asset price boom. That eventually ended with high interest rates as a control mechanism and a ‘hard landing’ in the form of a deep recession in the early 1990s. Economic policymakers assumed at the time that the automatic stabilisers (government expenditure, which increases automatically in a recession) would kick in, but that proved overly optimistic and a deep and costly recession in the early 1990s resulted (Kelly 1992; Pitchford 1993).

While recovery from that infamous ‘recession we had to have’ was initially slow, uninterrupted growth followed. By the mid-2000s, only a few veteran policymakers had experienced an economic recession and it was a very different concern that preoccupied them in the later years of the Howard Government. The Treasury and the Reserve Bank of Australia (RBA) were worried about the threat of inflation in the boom period given the procyclical effect of increased government spending and tax cuts. The RBA responded by raising interest rates to put a brake on economic activity.

War-gaming

Yet even a decade and a half after it had missed the onset of the previous recession, the Treasury was still concerned about the fear of another 'hard landing'. To avoid being caught out when a downturn did come along, Treasury officials decided in the early 2000s to undertake some 'war-gaming' of economic shocks. These anticipatory and preparatory exercises were undertaken discreetly. For the most part, they involved the senior echelons of the Treasury and, in some cases, their counterparts in the financial regulators and at the International Monetary Fund (IMF). Several mock economic crisis scenarios were run, challenging officials to spot and react to a sudden economic deterioration and the massive uncertainty it would generate in and beyond the markets.

It is interesting to note the range of scenarios considered in these exercises. Most modelled a sudden severe recession that increased unemployment dramatically. Other tests were then run on the effects on various sectors and the profitability of the banks and on the medium-term fiscal position of the Commonwealth Budget. The main worries emerging from the exercises were sudden layoffs, a surge in unemployment, the cost to the Budget and the long-term effects of getting (or not getting) those thrown out of work back into the workforce. However, a banking crisis, let alone a global financial system shock, was not among the contingencies considered.

And yet that was the scenario beginning to unfold when the Rudd Government took office in November 2007. There had been early signs that all was not well in the world's financial systems and, notwithstanding it publicly talking up the underlying strength of the Australian economy and its banking system, behind the scenes, the government and the new prime minister in particular were anxious to gauge the depth and magnitude of the risks Australia faced.

On 29 February 2008, Rudd invited Ken Henry at short notice to accompany him on a flight to Gladstone, Queensland, specifically to discuss 'what might go wrong'. He wanted to know how a global financial crisis might affect Australia. At the time, Henry said he was not entirely sure since the dimensions of any looming crisis were unknown. There was a chance a serious financial meltdown might occur but that seemed unlikely. The Treasury would need to undertake specific research and modelling to investigate the strength of the financial markets.

He nevertheless took Rudd through a range of possible responses to a number of bad weather scenarios. The options included using the current strong fiscal balance sheet to provide economic stimulus, ways to ensure wholesale lending in financial markets and the use of a planned financial claims scheme that could help mop up after the collapse of particular financial institutions.

Eve of the crisis

As the financial crisis loomed, Australia's four financial regulators coordinated their actions and utterances. The Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the RBA and the Treasury were already talking to each other regularly through the Council of Financial Regulators platform and elsewhere. Nevertheless, during 2007 and early 2008, monetary and fiscal policy were still working against each other, reflecting the 'countervailing forces'—as the government described the events that were increasingly affecting the Australian economy.

In its later years, the Howard Government had been making almost annual tax cuts, while also running regular budgetary surpluses (Fenna 2007). Then treasurer Peter Costello had announced at the outset of the hard-fought 2007 election campaign that, if reelected, the Coalition would deliver \$43 billion in tax cuts over the next three years. In keeping with his 'small target' strategy during the election campaign, Rudd had pledged to adopt the bulk of these cuts once elected. A substantial tranche of these commitments was to be implemented in the 2008–09 Budget. The RBA was still raising interest rates in March 2008 to counter these inflationary fiscal policies.

The federal Budget, brought down in May 2008, was mildly contractionary. Then, in early September, the RBA brought to an end its long series of interest rate rises, with a cut of 25 basis points (0.25 per cent). Later that month, the four regulators signed a memorandum of understanding on financial distress management. It established the principles for decision-making, the various responsibilities for each of the four regulators, strategies for detection of financial stress and a commitment to a 'coordination of responses' including communication. Was the system ready for the shock that was about to hit?

Post-Lehman: Australian responses

The ripple effect of the Lehman crash was instant and global. Neither the Australian share market nor the value of the Australian dollar was spared. Broadly speaking, there were three sets of instruments available for responding to the crisis: monetary, fiscal and regulatory. With the RBA independently setting interest rates and regulatory policy concerned primarily with the integrity of the financial system, the government's sole discretionary tool for staving off recession was fiscal.

Monetary responses

The Treasury knew the RBA was going to make a substantial cut as the crisis deepened but thought it would be of the order of 50 basis points (0.5 per cent). However, given the rapidly deteriorating global situation, the bank's board adopted a cut twice this size to underscore the point. The dramatic rate cut indicated that the RBA, too, had now shifted its frame towards managing a prospective economic downturn and sent a clear message to local and global markets. It had the scope to do so, with domestic interest rates sitting at nearly 7 per cent—high by world standards at the time. Central banks in other countries followed suit in cutting interest rates—a concerted effort to provide a circuit-breaker—although they had considerably less room to manoeuvre.

During the long weekend in October that followed the rate cut, Australia's economic policymakers had to face a stark reality. Panic was a real possibility unless the government, the banks, businesses, consumers and depositors held their nerve and reaffirmed confidence in the system. Henry's mother asking her son for advice on whether she also should withdraw her savings helped him realise the fragile psychology of community confidence in the market system. Cash withdrawals were at unprecedented levels: \$5 billion was withdrawn in a few weeks.

These signals underscored to policymakers the turbulence of the times. Suddenly, not a single bank or other financial institution could be allowed to collapse because of the knock-on effect to systemic confidence. In effect, each institution had now become 'too important to fail'. Like the RBA, the government had to act to ease growing market nervousness. As one official observed when interviewed by one of the authors:

Any financial system works on confidence. And confidence is fragile. It all works on confidence. So, this place [the Treasury] is a place where you give confidence back to the minister.

In the more prosaic words of another Treasury executive: ‘Everyone knew time was of the essence. You had to whack before the market would open on the Monday.’

Key decisions were made quickly. First, the government curbed speculative behaviour by announcing that ‘short-selling’ (selling stocks you do not own until the price drops and then buying them back at the lower price) would not be permitted on local money markets as this was exacerbating the crisis. Second, the government issued a guarantee on savings deposits up to a total of \$1 million. Third, the government applied a similar guarantee to wholesale funds for the banking and nonbanking sectors.

The first stimulus

Boosting confidence in the financial system was only part of the equation. The other big part of the October long weekend discussions was to do what had been unthinkable just three months before: boost aggregate demand in an economy that was at severe risk of sliding straight from potential inflation into recession. The Treasury’s executive board was interested in getting the biggest bang for the buck—or, more technically, ‘assessing the efficacy of the various fiscal multipliers to keep domestic demand buoyant’. The Treasury had been quietly assessing various domestic fiscal stimulus options, comparing the economic benefits of tax cuts, direct payments and infrastructure spending—estimating which would work best and quickest.

There had been much discussion in academic and policy circles about the relative merits of tax cuts versus cash injections. The United States had long favoured tax breaks, but the Treasury—primed as it was to prevent the fiasco of its 1990–92 recession experience—was coming to the view that a cash stimulus would maximise consumer spending in the short term. Less importance was attached to the substance on which the money was spent, so long as dollars got into people’s pockets quickly:

We knew we would be distributing funds to dead people and people living overseas. But we also know that their number was negligible, and that cash transfers could be delivered so much quicker than any tax cut could. We were happy to make that trade-off.

The first stimulus package—titled the Economic Security Strategy by a prime minister who saw the meltdown as the economic equivalent of a national security crisis—entailed government spending of some \$10.4 billion (0.9 per cent of GDP). It was hastily put together over a weekend of intense deliberation, for implementation in November 2008, in a couple of days of fluctuating proposals and counterproposals, during which the Cabinet’s Strategic Priorities and Budget Committee—comprising the prime minister, deputy prime minister, treasurer and finance minister—bunkered down with their key advisors and closest senior officials.

In Henry’s much-cited phrase, the Treasury’s advice to the government was to ‘go hard, go early, go households’. The idea was to get money into the hands of consumers with a high propensity to spend who might be facing a household liquidity problem if credit dried up or banks threatened to foreclose on their mortgages. As early as November, the Treasury started advising that more needed to be done. This led to another set of measures being announced just before Christmas 2008. The government committed \$4.7 billion (or 0.4 per cent of GDP) to ‘shovel-ready’ state government infrastructure projects that could start immediately and help to maintain employment levels in the construction and supply industries. Long gone was any concern about inflationary pressures the stimulus measures might fuel. The common assumption was that recession was unavoidable; the stimulus would hopefully soften the landing the national economy was likely to experience. The approach was one of trial and error: provide some stimulus, step back to see how it worked and then decide if another dose was needed.

The second stimulus

Around Christmas, the prime minister became concerned that the government was not doing enough to avert increased unemployment. The Treasury’s estimates that unemployment might jump to 10 per cent became a real driver of decisive action. The aim was straightforward, as one official stated: ‘Keep people out of Centrelink ... We did not want to lose yet another generation to long-term unemployment as we had done in the early 1990s.’

The \$43 billion Nation Building and Jobs Plan (3.5 per cent of GDP), which emerged from these discussions and was announced on 3 February 2009, included another \$12 billion wave of cash injections to households:

cheques of up to \$950 per person for the unemployed, employees earning less than \$100,000, students, self-funded superannuants and farmers meeting certain criteria. In addition, \$23 billion in major capital works programs were launched, targeting school buildings (situated on Crown land, which enabled quick movement from plans to shovels), social and defence housing and road and rail infrastructure. In addition, there were ‘green’ programs subsidising the uptake of renewable energy technology and the installation of household roof insulation (\$4 billion). In other words, a wide range of government programs was now going to be used to pump money into the domestic economy. Rudd wanted things that were not a transient part of the landscape—as cash splashes and tax credits by their very nature are—but would be signature achievements of his Labor Government.

During the drafting of the second stimulus package, Rudd and Swan were acutely aware of the risks to the country’s fiscal position and reputation this entailed. This led to an ironic situation, as one Treasury official recalled when interviewed by the authors:

The impact on the surplus was a major concern of Rudd’s during the stimulus II discussions. Now it was us at Treasury having to push the politicians to spend rather than the reverse. Rudd was concerned about his reputation for fiscal prudence. We took him through various components of aggregate demand and showed him what would happen if we did not intervene in a big way. Essentially, we had to turn him into a Keynesian over the summer of 2009.

The government’s concern for its economic reputation had already been on public display following the announcement of the first stimulus package. It was clear to informed observers of economic policy that the combination of unprecedented public stimulus spending, higher levels of unemployment and decreased tax revenues would push the Budget into deficit. However, the prime minister and the treasurer were initially most reluctant to be caught saying so in public. They first tried to avoid speaking the ‘D-word’ at all. When that became clearly untenable, they used softening language (‘temporary deficit’) to counter opposition claims that the government was throwing all caution to the wind and was using the economic conditions to embark on a spending spree.

At the same time, Rudd did not hesitate to use his new convictions as a political weapon against the Liberal opposition (Taylor and Uren 2010). He found time in his summer schedule to write an essay in which he

denounced the neoliberalism that had failed to civilise global capital and extolled the ‘social democracy’ the world now required to clean up the mess (Rudd 2009). In sharp contrast with the great crisis of the 1930s, when responses were tragically hamstrung by the then prevailing ideology of sound money and balanced budgets (Eichengreen and Temin 2000), responses to the crisis of 2008–09 were going to be informed by an ideology of social-democratic Keynesianism—at least in Australia.

Auspicious conditions

The government delivered an upfront stimulus that was designed to minimise lags and maximise impact. The Treasury saw the need for a timely response as the lesson of the 1990–92 recession. When the full seriousness of the recession became evident, this was followed by the deficit budget and infrastructure spending program of May 2009. From a projected surplus of 1.8 per cent of GDP, the government’s first budget moved into a 2.7 per cent deficit by the end of the year—a \$53 billion reversal. A yet larger deficit, of 5.7 per cent of GDP, was projected for 2009–10, with substantial deficits continuing into the forward years. Reinforcing this countercyclical fiscal policy was aggressive interest rate-cutting by the RBA. Such a willing embrace of traditional Keynesianism was made possible by a highly unusual confluence of conducive conditions at the level of theory, in the economy and the fiscal position of the government, the nature of the crisis and the international response.

It was the first time since the postwar boom that there was consensus support for deficit spending. Domestically, this was most evident in the unusual degree of business support. Both the Business Council of Australia (BCA 2009) and the Australian Industry Group (Ridout 2009) endorsed a Keynesian approach. It was also consistent with the urgent recommendations of authoritative bodies such as the OECD and the IMF (Spilimbergo et al. 2008). Contributing to this consensus was the rehabilitation of Keynesianism within mainstream economics. For a number of leading macroeconomists, greater specification of Keynesianism’s microeconomic logic had given the approach a firmer theoretical basis (Blinder 1988; Chari and Kehoe 2006; Mankiw 2006; Akerlof 2007a, 2007b).

Economic and financial circumstances

The 2008 downturn was the first of its kind since a low-inflation environment was restored in the early 1990s. For the first time in decades, it became possible to reflate without reigniting inflation. In addition, having inflation under control allowed fiscal policy to function in concert with monetary policy, with very low interest rates around the world supporting expansionary fiscal policy (OECD 2009: 44). The economy also was maximally obliging as far as timing was concerned—with advance signals coming from the growing crisis in the financial sector overseas, the IMF (2008) announcing as early as April an impending global downturn, the collapse of Lehman Brothers in mid-September confirming the seriousness of events and the low risk of an immediate recovery and with the IMF (2009: xv) warning over a year later against ‘premature exit from accommodative monetary and fiscal policies’. Fiscal conditions were equally auspicious, as the greatly improved budgetary position of governments across the OECD had helped reinstate Keynesian fiscal policy—not least in Australia (Fenna 2007, 2010).

Calls to reverse the trend towards procyclical rather than countercyclical public works spending by reviving the notion of an ongoing ‘ready shelf’ of capital works proposals (see, for example, Hughes 2001) reflected a broad sense that Australia’s capital stock had been neglected through years of fiscal tightening. The incoming Rudd Government had already made large-scale infrastructure investment a priority; funds had been set aside, the government was working through its revived model of cooperative federalism to inject substantial investment through the states into major transportation projects and an infrastructure advisory body had been established (Albanese 2008).

The external economy

Finally, the stimulus packages were launched amid the most benign external environment ever faced by the Australian economy in a recession. The coordinated and comprehensive response of the world’s major economies meant that Australia stood to benefit from a ‘global Keynesianism’. The contrast between that coordinated international response and the beggar-thy-neighbour policies of the 1930s could not be starker. And it was not just the advanced economies. China responded to decline in demand for its manufactured exports by implementing an enormous Keynesian program of basic infrastructure investment that

ensured continued demand for Australia's two leading exports, coal and iron ore. Australia benefited thus not just from the global Keynesianism, but also, most particularly, from the fact that the usual collapse in demand for its resource exports did not occur. Although the advanced economies in general experienced an 11.7 per cent fall in exports in 2009, Australia's exports actually grew by 0.6 per cent (Department of the Treasury 2010). The extraordinary rise in Australia's terms of trade of the previous few years was arrested, but only briefly; within months, the minerals boom was back on and the talk was again of skill shortages. The much-feared and much-used analogy with the 1930s simply did not apply.

Assessing the stimulus: Challenges of evaluation

Regardless of how uniquely conducive the circumstances were, Australia's response to the global financial turbulence was a remarkable episode in economic policy history. The sheer scale of the crisis response cannot fail to impress: the RBA's dramatic series of interest rate cuts in the early months of the crisis (adding up to 4.75 per cent overall), the government's sweeping deposit guarantee, two stimulus programs comprising dozens of billions of dollars and a total stimulus of 4.5 per cent of GDP in about 18 months. These were audacious moves under conditions of radical uncertainty.

The key question is, however, was it all worth it? This is where the story becomes complex and contested, and where more generally applicable insights might be gained about the intricacies of evaluation that determine the reputation of public policies—'success', 'failure' or 'somewhere in between' (see McConnell 2011)—and thus how they will end up being framed in the political process, in popular and institutional memory and in public policy textbooks. Let us demonstrate these complexities by discussing what happens when we apply the 'three-P' approach of this volume to the case of the stimulus packages.

Programmatic assessment

Did the fiscal stimulus achieve its stated goals; was it good economic policy that averted recession? This ought to be a reasonably easy question to answer. However, it is complicated by two things. One is the difficulty

of determining cause and effect. The other is the fact that ideological presuppositions play a powerful role in any such analysis, with those who favour Keynesian interventionism persuaded of one view and those who oppose it persuaded of another. In Eichengreen's (2015: 9) words, 'George Bernard Shaw's aphorism that you can lay all the economists end to end and they still can't reach a conclusion' is entirely apposite when it comes to these questions.

The success of active Keynesianism?

Fiscal stimulus must obviously be assessed, in the first instance, in terms of its impact on the three main economic indicators: GDP, unemployment and inflation. At first blush, Australia's born-again Keynesianism was a great success by these criteria. Australia's macroeconomic performance was outstanding, looking at key macroeconomic indicators such as rates of GDP growth (−0.5 per cent in Q4/2008, 1.1 per cent in Q1/2009 and 0.6 per cent in Q2/2009); household consumption (−0.2 per cent in Q4/2008, 0.5 per cent and 0.8 per cent in Q1 and Q2/2009, respectively); and unemployment levels (which peaked at 5.9 per cent in Q2/2009 and were back to 4.9 per cent in Q4/2010). Most importantly, there was only one quarter of economic contraction. In the government's view, this was the result of its stimulus spending, which had been 'contributing around 2 percentage points to annual GDP growth' (Department of the Treasury 2010).

Taking even a slightly closer look, however, things soon become more complex and ambiguous. Concerning the size and effect of the stimulus, for example, the budget papers from the previous year—when the emphasis was on justifying the budget blowout rather than celebrating its success—noted that a good part of the stimulatory deficit was entirely involuntary. It followed automatically from the downturn's widening scissors effect of a declining tax take and rising transfer payments. Indeed, the 2009 budget papers estimated that fully two-thirds to three-quarters of the 'deterioration in the budget position' was to be accounted for this way (Department of the Treasury 2009). Thanks to the 'automatic stabilisers', any modern budget has Keynesian qualities under these circumstances unless governments take deliberate action to neutralise or moderate their effects (Van den Noord 2000; Darby and Melitz 2008). The key question is therefore not whether in an economic downturn government spending proportionately increases, stimulating the economy, but how much, when, where and for how long there should be additional discretionary

stimulatory spending. Do the automatic stabilisers ‘need help’ or not, when providing such help in a big way entails substantial expense and is likely to leave a long tail of indebtedness?

This leads to the vexed question of the counterfactual: What if no stimulus had been provided? Would a combination of the automatic stabilisers, permissive monetary policy and robust Chinese demand have been able to save the Australian economy from recession? And what if they had not? What would have been the impact on GDP and the fiscal position? More importantly, what would have been the human and societal impacts of, say, a two-year recession taking hold in early 2009? Even relatively shallow recessions come at considerable social costs—in terms of unemployment, homelessness, anxiety and depression, ill health and domestic violence—and leave long shadows on other parts of government policy, notably, the welfare system.

The different components

Even if we focus on the stimulus in its own right, it is not self-evident what specific criteria should be applied and how they should be weighted. Clearly, we have to set separate criteria for the income support and capital works components of the stimulus packages but there are no set criteria for each that meet with a broad consensus among economists.

We might propose that the income support components of the stimulus can be said to have been fully successful to the extent that: 1) the money reached people’s pockets as quickly as intended; 2) the proportion of money lost or distributed to people not entitled to it was (very) low; 3) a significant proportion of the money was actually spent, and spent quickly, by consumers so as to give a clear boost to domestic demand to make up for anticipated and actual reductions in foreign demand; and 4) the experience of this rapid and massive handout and the spending it elicited contributed significantly to business and consumer confidence in the economy so as to preserve the psychological foundation underpinning future business and consumer behaviour necessary for continued economic growth.

Likewise, the programmatic success of the capital works components might be assessed in terms of: 1) the scale and timing of actual expenditure; 2) their primary effects on business continuity and employment in the various construction industries involved and the broader flow-on effect in

associated sectors; 3) their secondary effects—for example, the extent to which the construction works undertaken contributed to the government’s non-economic goals for the various programs, such as enhancing the performance of the education system, reducing Australia’s carbon emissions and bringing down household energy bills, to name a few; 4) the absence or minimal size of unintended consequences, including robbing and misappropriation of funds, price hikes in the construction sector and other implementation mishaps; and 5) the extent to which the government’s strategy for recouping the significant additional outlays and bringing the Budget back into the black in the medium term worked as planned.

Debating the response’s success

Not surprisingly, key members of the Rudd Government, but also senior Treasury officials, have argued that the stimulus did what it was supposed to do, that many of its secondary objectives (in education and energy efficiency) were also achieved and that some spillage was to be expected but it was relatively minimal. In their reading of the evidence, the all-important Keynesian multiplier effect of government expenditure was robust. Henry’s successor as treasury secretary, Martin Parkinson, asserted that Australia’s fiscal multiplier was about 0.7 for the cash handouts (such as the \$950 cheques; but see the more cautious assessment of Leigh 2012) and up to 1.3 for public investment (such as the building of school halls). Deputy secretary David Gruen hailed the speed of the operation, describing it as ‘an extraordinarily rapid fiscal policy response’—an assessment later echoed by the OECD (Gruen and Clark 2010). Treasurer Swan’s chief of staff put forward figures vindicating the initiative (Barrett 2011).

Influential contemporary observers George Megalogenis (2012: 330–44), John Quiggin (2013) and Paul Kelly (2014) supported that view, with the last claiming:

Australia survived the financial crisis without a recession because of two factors—the pre-crisis strength of its financial position and soundness of its banks; and the speed with which monetary and fiscal action was taken when the crisis hit. (p. 160)

International commentary such as that from economist Joseph Stiglitz (2010) roundly claimed that ‘Rudd’s stimulus worked: Australia had the shortest and shallowest of recessions of the advanced industrial countries’ (see also Ahlens 2009). These interpretations have been supported

by more systematic evaluation through economic modelling (Li and Spencer 2016). They are also consistent with the lessons that mainstream economics drew from the crisis (Romer 2012): that countercyclical fiscal policy is a key tool in short-run stabilisation, particularly when monetary policy has reached the ‘zero lower bound’ (which was not the case in Australia, however).

In contrast, economist Tony Makin (2016: 12), who conducted an evaluation of the episode in a 2016 report for the Treasury, after the Coalition had been returned to office, concluded:

[F]iscal stimulus was not primarily responsible for saving the Australian economy from a narrowly defined recession in the March quarter of 2009, but a combination of lower interest rates, a major exchange rate depreciation, strong foreign demand for mining exports, especially from China, and a then more flexible labour market.

Other, earlier research suggested that, without the increased Chinese demand for resources, ‘Australia distinguished itself from other advanced economies by escaping a technical recession, defined as two quarters of negative growth in real GDP’ (Day 2011: 23). Moreover, Makin (2016: 13) argued:

[T]he nature of Australia’s fiscal stimulus was misconceived because it emphasised transfers, unproductive expenditure such as school halls and pink batts [insulation], rather than tax relief and/or supply side reform, as occurred for instance in New Zealand where marginal income tax rates were reduced, infrastructure was improved and the regulatory burden on business was lowered. The scale of spending was unnecessarily large and subsequently proved counterproductive by working against keeping interest rates and the exchange rate lower for considerably longer, as occurred during the Asian crisis.

Li and Spencer (2016: 109) likewise note:

[T]he macroeconomic effects of such a large-scale fiscal stimulus are far-reaching; the short-run benefits may be ultimately undone as a result of a necessary budgetary contraction in the medium to long run. Indeed, the fiscal stimulus package has largely contributed to the rapidly rising public debt of the Australian Federal government since 2008.

The assessment put forward by Makin echoed what the opposition and the Murdoch press had asserted at the time. In addition to emphasising the alleged ineffectiveness of spending and the many errors of process in

its delivery (see further below), many of these disparaging assessments of the stimulus policy reflect their authors' commitment to balanced budgets and scepticism about active fiscal policy (e.g. Makin 2018). If deficit and debt are taken to be overriding considerations, one cannot avoid concluding that Australia's GFC response was anything other than a policy overreaction.

Process assessment

When it comes to process evaluation, critics attacked the mismanagement that allegedly beset the capital works programs funded by the second stimulus. Media stories started to appear about misuse of funds and outright roting of the school building program in some places. Subsequent investigations came up with mixed conclusions (ANAO 2010; Lewis et al. 2014). Although proportionately small in dollar terms, the Energy Efficient Homes Package—and particularly the component of it concerned with ceiling insulation (then named the Homeowners Insulation Program, or HIP)—generated a disproportionate amount of critical comment and publicity, both during the 12 months or so it ran and subsequently (RCHIP 2014: 1).

The HIP turned into a political nightmare for environment minister Peter Garrett after the deaths of four apprentices in unrelated incidents in quick succession, followed by a spate of fires and other incidents in houses that had recently been insulated. Industry stakeholders came forward saying they had warned the department that the program would distort the market, outstrip the production capacity of bona fide suppliers and installers, and had insufficient quality controls and financial checks and balances in place, but their views had been ignored. The so-called 'pink batts fiasco' was born, triggering inquiries, Garrett's apologies and subsequent demotion, early suspension and then termination of the program and a hugely costly remedial home inspection and repair effort to be paid for from the program budget (Hinterleitner and Sager 2015). The investigations that ensued left no doubt that the pressure to put money out the door fast had become the driving force in the design and management of the program. A royal commission found the program management capacity of the administering department was not up to the task of meeting the politically imposed commencement deadline of 1 July 2009 and that the implementation of the HIP was 'unduly rushed' (RCHIP 2014: 25; Lewis 2012).

In sum, the implementation of key programs within the second stimulus package was compromised by the urgency imposed on those administering it, exposing a woeful lack of administrative capacity, resulting in a plethora of deviations from standards of good process (cf. Althaus 2011). From a macroeconomic perspective, the great sense of urgency was understandable, as the perennial problem of countercyclical stimulus has been mistiming. Rudd, Swan and the other policymakers were well aware of that. The prime minister himself, his office and his department cracked the whip accordingly, exposing the limits of the Commonwealth Government's implementation capacity and generating significant unintended consequences in its capstone programs, such as Building the Education Revolution (BER), the HIP and green loans (e.g. Dollery and Hovey 2010; Kortt and Dollery 2012a, 2012b).

Moreover, despite the Herculean efforts of Commonwealth and state bureaucrats, who were hamstrung by institutional arrangements that were never geared to deliver with due diligence at the extreme speed required, the greatest part of the BER construction projects simply failed to get under way until the threat of recession had already blown over (ANAO 2010: 15–16). In other words, the sheer size and complexity of programs making up the second stimulus package elicited implementation processes that put the bulk of the fiscal injection into the national economy at a time when monetary policy had already started to tighten.

Political assessment

At the time of their announcement, the stimulus packages were broadly supported by the policy community and business. The packages initially boosted the government's popularity and in particular that of its irrepressible and highly visible prime minister. Rudd's strategy to reframe the terms of the economic policy debate—exploiting the GFC to push neoliberalism to the political margins, thus discrediting the Liberal Party's ongoing commitment to it—was much less successful, and he quickly abandoned the effort.

But this popularity was fleeting. As the Australian economy's buoyancy returned, it soon became apparent that the Australian public had barely noticed the economic 'non-event' of the recession that did not happen. It is unlikely the public knew or cared about the praise heaped on Australian policymakers in international powerhouses of economic policy analysis such as the OECD and the IMF. Moreover, the Labor Government's subsequent policy woes in unrelated areas (its painful U-turn on carbon

pricing) and leadership struggles eclipsed any attempts to remind the public of its economic competence. The Liberal Opposition successfully played the deficit card as the government, now led by Julia Gillard, failed to make good on its promise of a speedy return to surplus. It also kept up its allegations about politically induced bureaucratic failures that had marred the implementation of flagship stimulus programs such as the HIP and BER. Ongoing media reports and review findings provided it with plenty of ammunition, which it used with aplomb in the 2010 and 2013 federal elections.

And so, the political assessment of the fiscal stimulus depends strongly on whose perspective is being adopted. Internationally, Australia gained reputational capital from its GFC response. International economic experts and forums lauded Australian policymakers, looking as they did only at the short-term and macroeconomic indicators such as GDP and employment. Some pointed to the G20 mechanism's crucial role—heavily lobbied for by Rudd—in providing the platform through which the leading economies adopted a more concerted and forceful approach than had been the case during the Great Depression of the 1930s (Ikenberry and Mo 2013; Drezner 2014).

There was less universal support among domestic economic policy observers. Had Australia really saved itself from recession through the stimulus effort or had it simply been 'the lucky country' all over again by experiencing this crisis under the most favourable set of circumstances imaginable (see, for example, Fenna 2010)? Domestic critics of the stimulus also made much more of its adverse impact on the government's fiscal position than foreign observers, who were more open to acknowledging how modest were Australian post-GFC debt levels compared with those of most other Western governments. Gradually, the domestic political momentum of the policy dissipated. Once the focus of assessment shifted from the stimulus and its immediate impact in the early quarters of 2009 towards the implementation and effects of its constituent programs, what had been a fleeting political asset initially turned into a political liability of major proportions (Walter 2017). Although the verdict on the BER is mixed and contested, the HIP in particular will go down in history as a textbook case of how not to roll out a (stimulus) program. Ministerial as well as Senior Executive Service heads rolled as a result of it, and the Energy Efficiency Group within the Department of the Environment was conspicuously transferred out of its home department into the new Department of Climate Change.

Conclusions

In their review of the Rudd Government's economic policy, Garnett and Lewis (2011: 196) conclude:

The evaluation of the impact of the stimulus package on jobs and growth is unlikely to be settled empirically and, as with many debates in economics, views will, to a large extent, depend on the politics and the economic doctrine adhered to.

So, can one responsibly stick highly suggestive labels such as 'success' (and 'failure') on complex public policy episodes such as the Australian Government's response to the GFC (or indeed major public construction or information technology projects)? This case study provides cause for reflection on a number of points.

First, it amply demonstrates that programmatic, process and political modes of evaluation do not necessarily simply 'add up' to a coherent summative judgement, but instead point in different directions. Different stakeholders and observers come to different summative assessments of a policy episode because they focus on different modes of assessment and accord weight to different criteria within each mode. A typical policy technocrat will be most keen to assess whether a policy 'works' programmatically and less focused on its political ramifications, while the opposite will be the case for a political analyst, for example. Even within the realm of programmatic evaluation, the design choices to be made lead to different judgements: does one operationalise programmatic success in terms of goal achievement (have governments delivered what they said they would do at the outset) or 'goal-free' evaluation, by constructing a social welfare function, utilising intersubjective indicators of user experience and satisfaction or some other composite measure of the 'public value' produced (Moore 2013; Youker et al. 2014)? Likewise, 'good process' criteria can be 'technocratic'—systematic, structured, vigilant and 'debiased' in the use of information, advice and evidence in the policymaking process (Janis 1989)—or 'democratic', combining transparency, consultation and the participation of stakeholders, or based on procedural justice and perceived fairness of treatment (Fung 2006).

Second, although for heuristic purposes programmatic, process and political evaluation have been presented as distinct modes of assessment, this case study shows that, in practice, there are all sorts of connections

between policy processes and their programmatic or political outcomes. This is clear in looking at the programmatic need for speed in the delivery of stimulus ('go early') and the way in which the prime minister, the Office of the Prime Minister and the Department of the Prime Minister and Cabinet then imposed a breakneck pace on departments and state governments in the process of designing and delivering the main stimulus programs—which, in turn, had programmatic and eventually also political consequences. Any attempt to make a holistic assessment and learn from complex policy experiences such as the stimulus program would have to be attuned to these types of interactive effects.

Third, the case study shows the difference of perspective and thus assessment associated with taking a holistic and a bird's-eye view of the policy (as international organisations tended to do) versus drilling down to its constituent programs and projects (as local media, political actors and evaluators tended to do).

Fourth, it brings out the challenges of causal attribution: to what extent was Australia's economic fate in 2009–10 shaped by the policy in question (the fiscal stimulus) and to what extent by larger structural, contextual and temporal factors? In relatively rare, one-shot policy episodes such as Keynesian stimulus packages, comparisons across time and space to find referent cases against which to benchmark the case under study are tricky. The analyst is forced to rely (implicitly or explicitly) on counterfactual judgements about what outcomes would have resulted from differently designed and administered forms of stimulus or, indeed, in the absence of any stimulus at all.

Fifth, we see how judgements about policy success and failure evolve over time. Within Australia, the programmatic assessment of the stimulus was initially very favourable but started to be painted in more guarded and critical strokes in the second half of 2009. Likewise, as time went on, the political momentum of the policy shifted from initially strong/positive to weak/indifferent (the 'non-event' that had not registered with the public) to actively critical and bruising (the HIP, BER and green loans sagas). Clearly, what one assesses also determines what will be seen, and what lenses and criteria tend to be used. The temporal progression of a policy or project's political reputation can also move from critical to favourable; in many large-scale public projects, the construction period is a political nightmare, but once the facility is open and more and more

people develop firsthand experience of its benefits and—intended or unintended—beneficial side-effects start to develop, the frame starts to improve (Schulman 1980).

Finally, we see how the assessment of high-profile and high-risk policy interventions such as the Rudd Government's GFC response becomes entangled with political processes of impression management—credit-claiming, blame avoidance and crisis exploitation—as well as institutional processes of investigation, accountability and learning. A multitude of actors and bodies weaves stories about what happened, why it happened, how it should be judged and what consequences it should have. These stories are part of the 'framing contests' in which the reputation of the policy and the political capital of those associated with its adoption and implementation are at stake, and the lessons from its purported success or failure are to be learned.

Evaluators of cases such as the stimulus packages have to come to terms with these realities. They pose methodological challenges of scoping and design, criteria choice, data collection, causality and attribution. And they pose additional political challenges of situating oneself in the inevitably political (and often politicised) process by which we collectively seek to make sense of and learn from major public policy interventions.

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