The Australia Institute

Research that matters.

Reading *Between the lines* this week:

The Equity Edition

1. Does the Rudd Government deserve a tick for its stimulus package?
2. Could you live on $228 a week? How Australia compares with the rest of the world
3. What about when businesses go belly-up? Guaranteeing workers' entitlements
4. Fat cat payouts

1. DOES THE RUDD GOVERNMENT DESERVE A TICK FOR ITS STIMULUS PACKAGE?

Australia has so far avoided a technical recession, suggesting that the government's stimulus package has worked rather than, as the Coalition appears to think, that it wasn't needed. Most economic indicators remain subdued, with unemployment up by 180,000 over the past 12 months, hours worked continuing to fall, and hidden unemployment rising. All of this indicates that the stimulus continues to be needed and that talk of winding it back is premature, a sentiment echoed by Treasury boss Ken Henry.

Of course, we can argue the finer points about whether all the money was strategically targeted. The point is, for the stimulus to work money needed to be spent quickly, not perfectly.

KRudd—Tick!

However, there certainly is scope to learn lessons from the cash splash so as to better plan for the next time (and there will be a next time) that Australia is confronted by an economic downturn.

For example, the stimulus could have been more effective at creating jobs. While shovel-ready projects seem like the obvious choice, jobs in the construction industry actually have very high add-on costs in the form of materials and equipment, and are expensive to create. The Treasury costings suggested that the package would support jobs at a cost of around $230,000 per job per year. At the time, the Institute put forward proposals for creating jobs in the community and green sectors at a cost of $50,000 per job per year.

The package was unfairly distributed. While most Australians received almost $1,000 between the 2008 and 2009 packages, the unemployed missed out both times. They continue to be disadvantaged by the huge gap between the Newstart Allowance (NSA) and the base rate of the pension, which equates to $80 a week for singles and $74 a week for couples. This gap is creating incentives to move off NSA and on to more generous payments such as the Disability Support Pension. We challenge politicians in both parties to tell us how they could live on $228 a week.

Our submission also considered how Australia chooses to provide assistance to the car industry: direct industry assistance, concessional rates of fringe benefits tax, and additional help for business capital purchases under the stimulus measures. Overseas, by contrast, a lot of assistance has been directed to the industry via scrappage schemes for old cars, known in the US as 'cash for clunkers'. By getting old cars off the road, such schemes improve the average fuel economy, reduce pollution, and make the fleet safer. The government might consider giving assistance in a similar manner to less well-off car buyers in Australia, in place of schemes that mainly assist business.

KRudd—Could do better!

Note: Richard Denniss gave evidence to the Senate Economics References Committee on Monday 21 September.

See our press release Stimulus needed to prevent underclass.

2. COULD YOU LIVE ON $228 A WEEK? HOW AUSTRALIA COMPARES WITH THE REST OF THE WORLD

The Australia Institute has recommended that the unemployment benefit be increased in line with community standards, which basically means providing for the unemployed as we do our pensioners and disabled. Another way of approaching this issue is to consider arrangements in other countries and how their unemployment benefits compare with their wages.

In Australia, when individuals on average weekly earnings lose their jobs and wind up on the dole, they will find that they replace only 24 per cent of their after-tax income. A worker on an average wage moves from an income of $1,196 a week to an NSA of $228 a week. A couple will receive $412 a week, but only if neither partner is working.

An international study (using a different definition of the average wage) suggests that single people in Australia who go on unemployment benefits replace 31 per cent of their income.

Of the 29 OECD countries in the study, none had a lower replacement rate for singles. The next lowest was Greece with a replacement rate of 36 per cent. In the UK, the replacement rate was 40 per cent, in the US 56 per cent, in Germany 59 per cent, while in France it was 66 per cent. However, if you become unemployed in Luxembourg, 87 per cent of your income is replaced. Just to keep pace with the average of the other 28 countries, Australia would require an increase in the dole of more than 80 per cent.

Thankfully, Australia no longer has the worst replacement rate when children are involved. For example, an Australian lone parent on average weekly earnings would replace 52 per cent of their income if they had to rely on unemployment benefits, a replacement rate that is better than in Turkey (40 per cent), in Greece (45 per cent) and in Korea (50 per cent). But the Australian replacement rate falls behind all of the other countries.

National averages in Australia can conceal a good deal. Someone on the retail-industry-average wage who loses their job will find that the dole replaces 31 per cent of their after-tax earnings. But someone in the mining industry on average earnings will replace only 15 per cent of their wage when they go on the dole. In between there is

- manufacturing at 26 per cent
- construction at 23 per cent
- finance and insurance at 20 per cent.

These are just a few examples. But they show dramatically that Australia's dole is woefully inadequate when it comes to making up for the income that people used to earn before they lost their jobs.

3. WHAT ABOUT WHEN BUSINESSES GO BELLY-UP? GUARANTEEING WORKERS' ENTITLEMENTS

There were 8,828 insolvency appointments in the first seven months of 2009, demonstrating how common it is for businesses to fail when the economy hits hard times. As employers close the doors, workers mill around outside wondering what will happen to them, their families and their former workmates while creditors queue up to clamour for what is owed to them.

To claim their entitlements, workers have to join that queue. But they don't go to the front of it—they stand behind secured creditors such as banks, and by the time they take their stake there is no guarantee they will receive their full entitlements.

In 1988, the Law Reform Commission (The Hamer Report) proposed a wage-earner protection fund into which both employers and employees would contribute as a way of guaranteeing workers' entitlements. However, the report stopped short of recommending that such a fund be established and it wasn't.

In 1999, the government looked again at the issue and considered two options: payment of workers' entitlements by the government or a compulsory insurance scheme for businesses.

In 2000, the General Employee Entitlements and Redundancy Scheme (GEERS) was introduced and provided a limited guarantee of entitlements capped by a maximum annual income rate. GEERS acts as an agent for workers in the creditor queue but does not fully guarantee workers' entitlements.

At this year's ALP Conference, a new policy was presented to improve the 'ranking of employee entitlements relative to other creditors' and ensure that 'any burden on tax payers is reasonable'.

While this is an improvement, it still does not fully guarantee workers' entitlements.

It is time for a full guarantee to be implemented and the liability rests with employers. Existing insurance schemes for workers' compensation provide a precedent and model. Employers would pay an insurance premium to cover their entitlements liability; taxpayers would be protected by regulated insurance premiums; and workers' entitlements would finally be fully guaranteed.

4. FAT CAT PAYOUTS

The global financial crisis has shone the light on the millions of dollars paid to executives and the millions more they receive in incentives such as bonuses and share options. Regulators have questioned the merits of these incentives and the public outcry has been deafening.

In response, the government asked the Productivity Commission to investigate and its interim report is due on Wednesday.

Meanwhile, the golden (or should they now be called 'diamond-encrusted'?) handshakes continue. According to media reports, outgoing QANTAS CEO Geoff Dixon was paid $10.7 million this year for only five month's work—around $500,000 a week. Compare that to the minimum wage, which remains at $543.78 a week.

The 'base pay' component of Dixon's payout was $1.9 million, with the bulk made up of other payments including $3.2 million in share options, $3 million in long-term benefits, $1.7 million in annual leave and $657,000 in termination benefits.

The corporate addiction to excessive pay packets and bonuses is proving hard to break.

A the G20 meeting in Pittsburgh last week, draft principles were accepted to reform, but not cap, executive pay in the banking sector. The principles recommend that 40 per cent of bonuses for executives and 60 per cent for senior executives be deferred for at least three years. Cash payments will be limited to half the bonus, with the remainder linked to company performance. Furthermore, existing contracts will be reviewed to ensure that 'golden handshake' termination payments do not reward failure.

But the priority of these reforms, which are only draft principles anyway, is to prevent another global financial crisis rather than address the inequity of executive pay.

The Australian Government has indicated that its reforms will not cap the excesses of executive pay. One wonders how it can justify such a position when the disparity between the unemployed, the employed and the vulnerable is so stark.