

Reading *Between the lines* this week:

1. Insulation: the wrong kind of price signal
2. Telstra profits at the expense of low-income earners
3. Get them while they're young
4. Events

## 1. INSULTATION: THE WRONG KIND OF PRICE SIGNAL

The recent debacle with home insulation provides proof that price signals can stimulate behaviour change. After announcing its intention to spend billions of dollars subsidising the installation of household insulation, the Commonwealth Government succeeded in encouraging people to surge into the insulation installation business. In addition to the flood of new workers, Australian firms were scouring the world to track down new suppliers of insulation. The problem was, of course, that many of the workers were untrained and some of the insulation was sub-par.

Indeed, the problems didn't end there. In the rush to sign up as many homes as possible for 'free' insulation, unscrupulous operators ignored the Do Not Call Register and, in some cases, tried to con householders who already had roof insulation into believing that it can 'go off' after five years. In fact, it will last as long as a house itself.

But it wasn't just in the marketing of the scheme that some operators ignored the relevant laws. As has been widely reported, some installers relied on untrained, unsupervised and even under-age employees to do the work. The result so far has been four deaths and more than 90 house fires.

So whose fault is it? Is it the fault of 'the market' or of the minister responsible at the time, Peter Garrett? While the minister obviously cannot be held personally responsible for the conduct of every small business in Australia, is the government really arguing that it didn't understand the power of market forces? Given that its whole approach to tackling climate change relies on the power of markets to change behaviour, was it really surprised when the billions of dollars it threw on the table created a stampede?

Australians build the biggest houses in the world, drive some of the biggest cars in the world and, in turn, generate more emissions per capita than the residents of almost any other country. The government has just shown how successful some subsidies can be in driving change, if not the change actually

intended. What a pity it isn't willing to remove some of the bizarre subsidies that encourage the over-consumption of fossil fuels and spend the money instead on encouraging people to drive smaller cars, use more public transport and purchase more efficient appliances.

And what an even greater pity that the billions wasted on dodgy installation weren't used instead to install insulation in all the public housing in Australia. Not only would this have ensured that low-income earners benefited most, but the state government housing departments could have relied on their existing maintenance contractors to oversee the jobs.

## **2. TELSTRA PROFITS AT THE EXPENSE OF LOW-INCOME EARNERS**

Beginning in 1997, Telstra was privatised in successive stages during the Howard Government's time in office. When the process was complete, the organisation retained its private monopoly over fixed-line telephony but had to submit to price and other regulatory controls, imposed with the aim of preventing a privatised Telstra from abusing its monopoly position.

Every few years, the Australian Competition and Consumer Commission (ACCC) reviews the price controls on Telstra to see if they are still appropriate. The Australia Institute recently made a submission to the ACCC, arguing that the price controls should be retained and strengthened.

With sufficiently strong competition in place, price controls might not be needed because the threat of competition might be sufficient to ensure that no company was able to manipulate prices to earn excessive profits. However, the market for telephony in Australia is currently nowhere near that point.

The Australia Institute's submission went back to basics and examined the profit performance of Telstra, which was found to be earning a massive 44.6 per cent pre-tax return on equity. Nobody in a competitive market earns anything approaching that figure. Indeed, it was calculated that Telstra's pre-tax profit was \$4.4 billion higher than it would have been if the organisation were operating in a competitive environment.

As it happens, telecommunications is an area where lower-income groups spend proportionately more than higher-income groups. The bottom 20 per cent of households spend six per cent of their income on telephones; the wealthiest 20 per cent spend only 1.6 per cent of their income. Removing price controls could skew these figures even more in favour of wealthy customers.

Overall, price caps on Telstra have been too loose and, as a result, low-income households in particular have been hit harder than they should have been. Much tighter controls seem warranted and Telstra's profits should be targeted directly.

As part of this process, the ACCC needs to clear up some pricing anomalies.

The cost of sending the information content in a text message on a mobile phone is some million times more expensive than sending an email, yet they often travel over the same wires. Australia needs a regulator willing to find out how much it actually costs the providers to deliver services such as text messaging. Providers should be allowed to charge cost plus a reasonable return on capital, but no more.

### **3. GET THEM WHILE THEY'RE YOUNG**

Recently, the Commonwealth Bank has been promoting its efforts to teach young people financial skills through its School Banking Program. The TV ads feature a couple of serious-looking bank employees protecting their beloved program from the ideas of some dodgy creative types from advertising.

In fact, all the major banks in Australia are now involved in financial literacy programs in some way, and often in schools. There is a depressing explanation for why this is so.

At the moment, only three per cent of Australians switch banks each year, an astonishingly low figure for a sector that is allegedly subject to free and open competition. For this reason, a bank can be almost certain of keeping customers once it has them. And the most fertile source of new customers is the pool of people who don't yet have a bank account—children of school age.

Herein lies the real logic behind the big banks' promotion of financial literacy teaching in schools. By ever-so-subtly making its brand known to children learning how to manage money, and then associating that brand (consciously or otherwise) with smart financial decisions, a bank can increase its chances of a child opening their first account with it and not with a competitor. Once that happens, the profits will continue to flow in for decades.

While we might applaud the banks for thinking long-term, it is beholden on policymakers (and school leaders) to ensure that the branding presence of banks in schools is heavily restricted. The fact that representatives of the big banks continue to advise the government on its financial literacy policies and programs and have taken up key positions on its Financial Literacy Board should concern those of us who care for the financial welfare of the next generation.

### **4. EVENTS**

The Australia Institute will host two exciting events in Canberra this week.

Tonight – Tuesday, 9 March

Politics in the Pub

Prof George Williams will discuss 'Would a Bill of Rights change your life?'

5.30 for a 6pm start

The Lounge Bar, Level 3, The Uni Pub, 17 London Circuit, Canberra

Wednesday, 10 March

Dick Smith will discuss 'Population: the elephant in the room we have ignored for too long'

5.30 for 6pm start

Molonglo Room, Canberra Club, 45 West Row, Civic

## RECENT PUBLICATIONS

- Submission to the ACCC on Telstra's price control arrangements.  
<https://www.tai.org.au/index.php?q=node%2F19&act=display&type=1&pubid=730>
- *A licence to print money: bank profits in Australia.*  
<https://www.tai.org.au/index.php?q=node%2F19&act=display&type=1&pubid=733>

## RECENT MEDIA

- ABC PM, 'The big four's profit power', 4 March.  
<http://www.abc.net.au/pm/content/2010/s2836855.htm>
- *National Times*, 'The cap fits; Telstra should wear it', 18 February.  
<http://www.nationaltimes.com.au/opinion/editorial/the-cap-fits-telstra-should-wear-it-20100217-odta.html>