The Australia Institute
Research that matters.

Welcome to the seventh edition of The Australia Institute's e-bulletin, *Between the Lines*, a selective analysis of the policies and politics affecting the wellbeing of Australians. This edition looks at:

- Does the market have all the answers?
- Index of wellbeing
- K Rudd bank
- Newstart and the fiscal stimulus package

Playing the market
Much has been written about Kevin Rudd's timely piece in *The Monthly* (http://www.themonthly.com.au/tm/) about the limitations of markets and capitalism. He seems to have enraged many by simply asking the question: 'Do markets have all the answers?' But when did people start thinking that they did? The short answer seems to be in the 1990s.

While the debate about 'state versus market' raged throughout the 20th century, it is important to remember that the vast majority of those in favour of the markets were not, except in the 1990s, of the view that markets were the be all and end all. Consider the following quotations and see if you can guess who they are from:

> Individual enterprise must drive us forward. That does not mean that we are to return to the old and selfish notions of laissez-faire. The functions of the state will be much more than merely keeping the ring within which the competitors will fight. Our social and industrial obligations will be increased. There will be more law, not less; more control, not less.

And:

> [W]e have no doctrinaire political philosophy. Where government action on control has seemed to us to be the best answer to a practical problem, we have adopted that answer at the risk of being called socialists.

That's right, it was Robert Menzies. Menzies was neither a supporter of laissez-faire (free market) economics nor afraid of being called a socialist if it meant good outcomes for his 'forgotten people'.

Markets play an important role in all developed economies but the idea that they should play the dominant role and that societies should place their ambitions for equity and sustainability behind the 'needs' of the market is a relatively new one. Kevin Rudd is right to question this faith but it is wrong to assume it has ever been thus.

If the majority of the Australian population wanted to increase unemployment benefits, set ambitious greenhouse gas targets or provide 14 weeks paid maternity leave, we could. No doubt, there will be some representatives of ‘the market’ who suggest otherwise but a quick look around the world provides all the necessary proof. Australia is one of the richest counties in the world. While we can’t afford to do everything we want, we can afford to do anything we want as the recent discovery of $42 billion demonstrates.

Index of wellbeing

Last month, researchers at the Australian Centre on Quality of Life at Deakin University published the latest results in their study of personal wellbeing. Known as the Australian Unity Wellbeing Index, the project has been tracking the self-reported wellbeing of Australians since April 2001 across various aspects of ‘personal wellbeing’ (such as standard of living and personal relationships) and ‘national wellbeing’ (such as the economic situation and how Australia is governed).

The latest round focused on which areas of the country enjoy higher and lower levels of wellbeing. The five areas with the highest levels of wellbeing were all relatively remote:

- Glenelg (VIC)
- Upper South East (SA)
- Kangaroo Island/Yorke (SA)
- Litchfield Shire (NT)
- Barkly/Lower Top End NT (NT)

By contrast, those areas with the lowest levels of self-reported wellbeing were all in cities:

- Fairfield-Liverpool (NSW)
- South Canberra (ACT)
- Inner Sydney (NSW)
- Greater Dandenong City (VIC)
- Campbelltown (NSW)

One particularly strong predictor of higher wellbeing is ‘community connectedness’, and the researchers speculate that new Australians (who tend to settle in metropolitan areas) may find it more difficult to make worthwhile connections in their local neighbourhoods. They also suggest that the reduced sense of safety in large cities affects people’s sense of wellbeing.

Of course, there are a great many factors which contribute to wellbeing. Some of these, like changes in life situation or the circumstances of loved ones, are quite individual. Other factors, like educational background or access to well-funded public services, are socio-economic or even cultural. Because of the multifaceted nature of wellbeing, it is actually a much better indicator of national progress than standard economic measures.

So long as policy-makers use blunt instruments like GDP to gauge national welfare, their assessments of our progress will necessarily be narrow-minded. That is why we need to give wellbeing greater prominence in discussions about where this country is heading and what policies will bring us a better future.

http://www.australianunity.com.au/wellbeingindex/

K Rudd Bank

A week ago the Rudd Government announced its plan to establish a fund to support the commercial property sector. The government will contribute $2 billion and the four big banks $500,000 each, making a total of $4 billion. There will also be a facility to raise a further $26 billion by issuing commonwealth bonds, should more funds become necessary.

Rudd's stated objective is to save jobs. Foreign banks are responsible for more than $48 billion of the loans advanced to the commercial property sector and should these not be extended when they come up for renewal, the sector could face potential disaster. Confidence, already tenuous, would plummet and the government fears that up to 50,000 people of the 150,000 employed in the industry could lose their jobs.

This sounds warm and caring but, in fact, these funds will not support the financing of new construction but rather the re-financing of existing assets. Which tends to provide a rather obvious clue as to the real agenda behind the initiative, an agenda that places the snouts of the four big banks firmly in the proverbial trough.

In 2006, when the commercial property boom came to an end, Australian banks were left holding loans against property assets that were over-valued. If the foreign banks decline to extend their loans, the commercial property sector will throw itself on the mercy of the Australian banks to take up the slack. The banks will be faced with Hobson's choice: either provide the credit withdrawn by the foreign banks or watch property prices dive as organisations fail and are forced to liquidate assets.

The last thing the big banks want at a time of financial crisis is to pump more credit into an industry already in hock to them to the tune of some $135 billion. Bank balance sheets are looking a little ragged anyway and this sort of thing doesn't help. It won't help banks' balance sheets either if they fail to come to the party and commercial property prices end up declining even further.

If the foreign banks do pull out, the likelihood is that the Australian banks will take over the good loans but the government will be left to pick up all the risky loans. Extreme capitalism is alive and well and coming to a neighbourhood near you.

Newstart and the fiscal stimulus package
Last week the Rudd Government announced its second fiscal stimulus package in four months. The first one scattered $10.4 billion of largesse amongst the pensioners and carers and the second one, a whopping $42 billion, will distribute $950 to quite a large proportion of the populace amongst more useful initiatives such as infrastructure development. Neither package has been kind to some of the most disadvantaged of all, the unemployed, who are apparently to be punished for having the temerity to be jobless and whose ranks are soon to swell to alarming numbers. It is estimated that around 300,000 people will join the dole queues over the next 16 months, a rise of 65 per cent.

A simple of way to make life a little easier for these forgotten people would be to raise the Newstart Allowance (NSA) to parity with the pension as part of the second fiscal stimulus package. It would not even cost a great—around $1.1 to $1.7 billion, which is chicken feed in the overall scheme of things.

The unemployed are discriminated against compared to pensioners, creating an escalating problem of financial hardship. Aligning the NSA with the aged pension requires an increase of $56 a week for singles from the current $224.65, and $64 a week for couples from the current $405.20.

The government says that its package will support (not create) 90,000 jobs but the $950 cash handout to more than 13 million Australians will probably, in the majority, be saved or go towards decreasing debt. Some of this money will find its way to the newly unemployed but not the long-term unemployed. The infrastructure expenditure will take some time to provide an economic stimulus, even if some current projects are ‘shovel-ready’ and can begin imminently. However, making life easier for the unemployed will result in an immediate stimulus and the money will flow to the most distressed parts of the country.

In addition to showering the unemployed with some of the fiscal stimulus, the government could also look at reforming the NSA asset test, which is much more stringent than the pension asset test. The combined effect of these differences in rates and income tests is that disposable incomes for pensioners are much higher than those for allowees at all levels of private income up to about $40,000 per annum. This is creating serious structural problems in the welfare safety net.

Many of the people who become unemployed during the next year of so will be there through no fault of their own. They will have families to support, mortgages to pay and pets to feed. It is surely not beyond the capacity of Australia to give them a bit more help.

*****

If you have any comments regarding *Between the Lines*, please send them to mail@tai.org.au. If you know someone else who needs to read

***Between the Lines*, please forward this email. They can sign up to receive it at www.tai.org.au.**