news

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Debt is not the villain

With Australia's public debt less than 10 per cent of our GDP, there are good economic arguments as to why we should be carrying more, explains The Australia Institute's Executive Director Richard Denniss.

The idea that the Coalition would oppose an increase in the Commonwealth's debt ceiling makes about as much economic sense as its hostility to a market-based mechanism to address climate change. But, as with most of Tony Abbott's big calls, it clearly makes good short-term political sense.

> A quick look out the window in Sydney most mornings would suggest that successive governments are happy to spread the historic stock of infrastructure more thinly across a growing population but it is less clear if that is what the population, old and new, would prefer.

In an age of slogans it is much easier to argue that government debt is bad than to argue it is good. But macro-economic variables are neither superheroes nor villains, and making good policy decisions is a bit harder than picking who to barrack for.

Australia's level of public debt is among the lowest in the world. In fact, at less than 10 per cent of GDP, the Commonwealth's Net Debt is so low that the financial sector has urged the Gillard Government to issue more government bonds than is actually necessary to ensure the 'liquidity' of the government bond market. In other words, investors are keen to lend more money to the Commonwealth than the Commonwealth actually needs and, in order to keep the finance markets happy, the Gillard Government is obliging.

The idea that government debt is 'bad' is as flawed as it is popular. Leaving aside the fact that Australia currently has very little public debt, has always had very little public debt, and that the finance sector supports an increase in the debt ceiling, there are a number of good economic reasons that Australia should be carrying a greater level of debt rather than a lower one.

First, Australia has the fastest rate of population growth in the developed world. In the past 20 years our population has grown by around 5 million (31 per cent) and while new migrants may bring skills, ideas and business networks with them it is unusual for them to bring roads, public transport, hospital beds or other infrastructure.

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Put simply, a high rate of migration requires a high level of public funding for new infrastructure unless we are happy to experience a steady decline in the quality and availability of that infrastructure. A quick look out the window in Sydney most mornings would suggest that successive governments are happy to spread the historic stock of infrastructure more thinly across a growing population but it is less clear if that is what the population, old and new, would prefer.

This is not to suggest that immigration cannot make a positive contribution to our society or even to government budgets. But the timing of that contribution is important, and there is little doubt that we will need to invest more in infrastructure in future than the taxes paid by new migrants. And when short-term spending needs exceed long run revenue expectations the obvious solution is to borrow now and repay later, unless of course you are happy to use population growth as a way to steadily erode the quality of government services.

Second, just as households and businesses borrow money today to create greater wealth in the future the same possibility exists for governments. Many people now take for granted the roads, phone wires, electricity, water and sewerage infrastructure previous generations of politicians borrowed to build, but would we do the same today? Was Whitlam really a spendthrift socialist for wanting to replace the back yard dunnies and pump out trucks with a modern sewerage system?

> Public debt is not 'good' or 'bad', but the decisions about what to spend money on and how to raise tax revenue clearly can be.

The logic of good household management, we are told, means that you don't spend more than you earn. In turn we now have a political class that tells us that all infrastructure should be funded out of the current year's tax collections. Such logic is as inefficient as it is illogical.

Public debt is not 'good' or 'bad', but the decisions about what to spend money on and how to raise tax revenue clearly can be. The problem is that the phoney political debate about the merits, or otherwise, of debt have crowded out the opportunity to have important debates about where governments could invest more and where they could invest less.

For example, is spending up to $50 billion to build 12 new submarines in Adelaide the best way to protect manufacturing jobs in Australia? Is the taxpayers' $30 billion annual contribution to so called 'self-funded retirement' the best way to reduce the pressures of population ageing on the Commonwealth budget? Both major parties seem to think that the answer to both questions is yes. It's time we put as much effort into debating the quality of the assets we are investing in as we do into the way they are funded. §

Childcare's market model in dire need of reform

Just who carries the costs of childcare services has become a visible political issue recently, as the Federal Government confronts its own ideological mess, writes Eva Cox.

Concerns over the decreasing affordability of childcare have prompted Prime Minister Julia Gillard to convene a childcare summit with providers and unions, which was held recently in Sydney.

At present, the government puts around $4 billion a year into supporting access to services, but has no control over where the services are or how they spend their income.

The sector's largest union, United Voice, has launched a campaign to increase subsidies for the appallingly inadequate wages paid in the sector.

But this won't work as the government does not fund the services, only the parents.

The official assumption has been that a market model of funding daycare-type services would work, as parents are well informed and active consumers and will therefore make good, market-based choices amongst the suppliers. This process, together with some external standard setting, was supposed to ensure the quality of services and restrain their prices.

However, this is a naïve market model, as the supply of child care is often inadequate and mis-distributed. As a result, there is little serious 'competition' for parental choices. Desperate parents put babies on long waiting lists in the hope of finding places before their parental leave ends. The model also ignores the difficulties of moving children to follow prices, as quality of care is often built into relationships. Location is also important. Add to the picture a very underpaid workforce and serious shortages of services in many areas, and the messiness becomes more apparent.

> The current system has problems of mal-distribution, underpaid staff and high costs that affect the quality of care.

Childcare funding, unlike most aged care funding and other government-paid subsidies, does not involve any formal contract between the services and the funding body. The massive $4 billion per annum goes not to the services, but to the parents.

The government subsidy is a standardised rate of payment to the parents and has no formal relationship to the fee levels charged. Therefore, the government has no control over fees charged by the services. This allows the providers of care to charge whatever most think their market will bear and ignore the need for higher wage levels to stem staff turnover.

About two thirds of services are commercial services, which run to make a profit for owners. Some of these are small businesses, but many are chains. The largest chain is ABC Learning, which was wound up by receivers in 2008 and later purchased by Goodstart, a not-for-profit consortium.

The government website 'My Child' shows fees per day that range from $70 to more than $140. Some of the lower fees come from the remaining not-for-profit services, but many of these are now managed by not-for-profit chains that operate according to commercial costings.

The current system of funding has been there since the big shift of policy direction in the 1990s, from subsidising childcare as non-profit community services to subsidising children in mainly commercial services.

The problems now emerging arise from tensions between the commercial services and Federal Government on how to meet the costs of lifting quality via staff qualifications and ratios to children. Another factor is the successful Australian Services Union equal pay decisions, which suggests other feminised industries, such as childcare, are entitled to substantial rises. In anticipation, the commercial centres' lobby is pushing their need for higher fees.

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Even though most of these changes are not yet functioning, the fees for many services are already increasing and this is sending out alarm signals to parents and staff. Parents already need to meet the gap fee between subsidies and centre bills.

The likely amount to be paid will vary as subsidies are both income tested and capped. The childcare benefit starts at $38 per day, on a very low joint income, with maximum childcare rebate (50 per cent of extra costs) at around $32 per day. So the government pays a maximum $70 per day but average fees are high and centres can — and sometimes do — charge twice as much.

Now, it seems the government has finally realised they need a basis for negotiating fees with the providers.

Over recent weeks, there have been some rumblings about forms of fee control. Adding to the pressure is the United Voice campaign about raised fees but not wages, signalling they want action on pay. What can the government do?

For a long time, I have advocated a move to a similar system as the original form of childcare funding. Centres who want subsidies, must negotiate with the Commonwealth for funding via an approved budget. This involves their receiving grants of between 30 and 40 per cent of expected costs minus approved fee levels. This budget could also be calculated to increase flexibility to include more funding to cover extra costs of places for babies, or the costs of more experienced staff where needed.

This approval process would also improve the distribution and supply of services by ensuring the numbers and age mix of centre, or care places, relate to local needs.

Desperate parents put babies on long waiting lists in the hope of finding places before their parental leave ends.

Owners of multiple centres would mix local fees and locations approval with the shared costs. Such an approach would allow the Commonwealth to negotiate reasonable fees that offer a return on capital invested and also ensure it funds services that have the capacity to meet local needs, such as for the under twos.

A more flexible funding system could also recognise the extra capital costs of some locations and particular needs in low income areas for additional skills. The initial change over would require some hard work but such a system would essentially ensure that services are where they are needed at appropriate costs.

The balance of services income would come from fees paid and fee subsidies much as the present system works. Some extra flexibility could be built into the systems to allow for attached in home workers to deal with children who need this type of care, or have other needs not able to be met in formal centre hours. This would solve some of the problems raised by those wanting nanny subsidies.

The alternative is the current inelegant battle between services threatening to raise fees and oppose quality changes, perpetuated by a relatively powerless funding system. The current system has problems of mal-distribution, underpaid staff and high costs that do affect the quality of care. The move from community to commercial services has saved capital funding, but not necessarily improved quality or accessibility. It is time for a major change.

The current model is essentially a voucher system: it assumes there is a clear market when there is not. The care of children is not like doing your dry cleaning — the latter can simply be moved to a cheaper or more convenient location.

Continuity is a crucial need in childcare, so quality ratings are not enough to sell a service. The constant emphasis on the needs of children in their early years means the power of the government must ensure that children have access to quality affordable care, and cannot leave their futures to the vagaries of presumed markets.

Eva Cox is a Research Fellow Jumbunna IHL at the University of Technology, Sydney. This article first appeared on The Conversation. §

It’s hard to escape the big four banks

Ever since the Labor Government deregulated the banks in the 1980s, the big four have been growing more and more powerful. A new paper by David Richardson examines how the lack of competition in the banking industry is made worse when the concentration of ownership is also taken into account.

The big four banks often pretend that they fiercely compete with one another to get our business and occasionally genuine competition does seem possible, such as when the National Australia Bank (NAB) announced it was ‘breaking-up’ with its big four colleagues by offering lower mortgage rates. However, soon after NAB’s high profile advertising campaign was launched there were news reports suggesting the bank had been pressured by shareholders to desist from such actions.

So who are these shareholders that can exert such pressure?

An examination of the banks’ annual reports provides the answer. As it happens, the top 20 shareholders in each of the big four banks — the NAB, Commonwealth, Westpac and ANZ — are much the same. For example, HSBC Custody Nominees owns 17.8 per cent of the ANZ, 12.8 per cent of the Commonwealth Bank, 16.9 per cent of the NAB and 15.1 per cent of Westpac.

On average, more than 50 per cent of each big bank is owned by shareholders that are among the top 20 shareholders in ***all*** the big banks.

> In the context of cost of living ‘pressures’ home buyers have the potential to save more than the expected cost of the carbon tax each week if they shop around.

Which raises the question: if each company is a vehicle for the same owners then how can it truly be independent? Or, why wouldn’t they act like a monopoly and stomp on any CEO who attempts to break ranks?

Of course, many Australians try to avoid the big banks by opting to bank with smaller institutions such as St George. However, what many don’t realise is that the smaller institutions have been consumed by their larger competitors. Despite being purchased by Westpac in 2008, St George has maintained its separate identity. The CEO of Westpac Gail Kelly explained this strategy very well when giving evidence to a Senate committee on bank competition:

“[W]e find that customers who choose St George are not the customers who would choose Westpac. There is very little overlap there …. The customers who have chosen St George do not want to bank with a major bank.”

On another occasion Mr Kelly described it in this way:

“There are a range of customers, as we know, that choose St George over Westpac. If we didn’t have a St George, they wouldn’t choose to bank with us… It gives us an opportunity to win more customers.”

Westpac also owns the Bank of Melbourne and BankSA. Another example is the Commonwealth Bank owning but maintaining a separate identity for BankWest. NAB gives us the UBank for those who want an online bank.

Between them the ANZ, Commonwealth Bank, Westpac and National Australia Bank spend more than a billion dollars on advertising each year. Is it any wonder that they have a monopoly on banking services?

From 1 July, the Federal Government’s bank switching legislation will come into effect which will require customers to fill in just one form and lodge it with their new institution rather than the one they are leaving. But is there an alternative to simply switching between the big four or one of their subsidiaries?

In Australia, credit unions, building societies and member-owned banks still make up a significant share of the lending market. On average these institutions offer better deals than the big four but without their advertising budget the better value alternatives are too often overlooked.

> If each company is a vehicle for the same owners then how can they be independent? And why wouldn’t they act like a monopoly and stomp on a CEO who tries to break ranks?

In a comparison of home loan rates, the cheapest of the big four banks is still a good deal more expensive than many individual mutual banks, credit unions and building societies and is more expensive than the average of those institutions by 34 basis points. If the present interest rate differential persists over time then the average mutual bank, credit union or building society customer would save around $6,500 over the life of a loan for every $100,000 they borrow. That is the equivalent of around $21.50 per month.

While they might like to argue there is ‘effective competition’ in the Australian banking sector, the big four banks are looming larger and larger in the Australian economy to the extent that 2.3 cents in every dollar spent in Australia becomes their pre-tax profit, compared with 0.7 cents in 1986. In the context of cost of living ‘pressures’ home buyers have the potential to save more than the expected cost of the carbon tax each week if they choose to shop around.

The rise and rise of the big banks: Bank ownership concentration, monstrous balance sheets and profit by David Richardson can be downloaded from www.tai.org.au §

Illicit drugs: Changing the current prohibitionist paradigm

In the presence of continuing community demand for psychoactive drugs, Bob Douglas argues that a policy of prohibition hands the production, distribution, regulation and quality control of drugs such as heroin, cocaine, amphetamines, ecstasy and cannabis to criminal drug cartels.

In June 2011, a Global Commission on Drug Policy declared that the War on Drugs, prosecuted vigorously by the USA and international agencies since Richard Nixon used it as an election winner in 1971, has comprehensively failed and is leaving in its wake, huge social and geopolitical harms. The Commission, which included Kofi Annan, several former Presidents and Prime Ministers and George Schultz, Ronald Reagan's former Secretary of State, urged that a new approach to national and international management of these substances is needed that must be built on community understanding and sound evidence.

In April this year, Australia21 published its report of a roundtable of eminent Australians with expertise in drug law enforcement, politics, public health, alcohol and drug policy. The Australia21 report echoed the Global Commission report and urged the re-opening of a national debate to consider more effective community responses to widespread illicit drug use. The group included Michael Wooldridge, former Health Minister in the Howard Government, which had reinforced the prohibitionist approach and Mick Palmer who, as the former Federal Police Commissioner, had responsibility for enforcing that policy. Michael Wooldridge said in the report:

"The key message is we have 40 years of experience of a law and order approach to drugs and it has failed." Palmer and former NSW Crown Prosecutor Nick Cowdery firmly agreed with him."

> Fifteen years on our youth drug culture is flourishing, apparently unaffected by expensive supply reduction efforts, with 400 young Australians dying each year from illicit drug use.

A robust community debate is now under way. Most of the current Federal and state political leaders have ducked the issue, saying that they are opposed to de-criminalising drugs, but nearly all have shied away from active engagement in the substance of the debate. One exception is the Shadow Federal Minister for Health, former policeman, Peter Dutton who expressed his view in the *Sydney Morning Herald* opinion pages that prohibition can still be made to work.

Australian drug policy since 1985 has been built around three unequal 'pillars': 'supply reduction' (which now commands a very large proportion of the resources) aims to reduce the availability of drugs through criminalisation and law enforcement. The second and third pillars, which are chronically under-funded, are 'demand reduction', through education, prevention and treatment services and 'harm reduction' through programs like safe injecting rooms and needle exchange programs.

In 1997 the Howard Government drew back from growing efforts at harm reduction and put renewed emphasis on 'zero tolerance' and supply reduction. The government was under heavy pressure from international agencies and the Prime Minister considered that the most recent proposal in harm reduction, namely, making medically supervised heroin available to selected heroin dependent people 'sent the wrong message'.

Fifteen years on our youth drug culture is flourishing, apparently unaffected by expensive supply reduction efforts. Four hundred young Australians continue to die annually from illicit drug use. Our jails are full of drug users whose lives have been ruined and for whom supplies of drugs are easily obtained both inside and outside prison.

There is no magic bullet for policymakers. Any change will produce winners and losers. The biggest losers from relaxation of prohibition are likely to be the drug barons. Several European countries have evaluated utterly new approaches to this problem.

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A promise delayed is a promise denied

The Federal Government's decision to delay an increase to foreign aid in order to pursue a surplus undermines the global fight against poverty. Bridget Griffiths reflects on her time spent in Africa working with Australian NGOs, where effective aid can make a difference.

With an economy which has earned Australia a AAA-rating from all three major ratings agencies for the first time in our history, a GDP of 1.5 trillion dollars, low unemployment, low inflation and low interest rates, the failure of the 2012-13 budget to deliver a promised increase of 0.03 per cent (from 0.35 to 0.38) for Australia's overseas aid and development program was a huge disappointment.

The government's decision to delay this increase to 2016-17 means $447.2 million has been lost for aid in 2012-13, which blows out to $2.9 billion over four years. Australia will only reach 0.5 per cent Gross National Income in 2016-17 if we're optimistic. We live in a country where it is apparently okay to break a promise to the world's poor, for the sake of meeting alternative budget requirements. Compare this to the UK Government which will continue to honour its commitment to increase foreign aid to 0.7 per cent by 2015, despite the country being in a double-dip recession.

According to World Vision's CEO Reverend Tim Costello the delay "could cost the lives of an extra 250,000 people, and have a huge impact on many more".

Prior to working at The Australia Institute I was fortunate to spend time working with NGOs and schools in the Democratic Republic of Congo, Kenya and Mozambique, to contribute to, and improve sustainable, culturally appropriate development projects and practices.

I was reunited with friends and children that I had lived with in Mozambique four years prior. One of my most precious reunions was with a pre-schooler, Lucia. Lucia was brought into the orphanage I lived in when she was a baby after both her parent had passed away. She was so lethargic and malnourished that she had trouble keeping her milk down and could barely lift a hand to bat away the flies. Her frame was so delicate that when we bathed her it was difficult for us to keep her upright.

Lucia stole my heart from the moment I saw her. As an idealistic 21-year-old I was sure there must be something I could do for her: I'd learn Portuguese and Makua; I'd give up my studies; I'd move to Mozambique indefinitely. Yet, as my trip came to an end I was assured that it was important for me to continue on with my studies because I could trust the system. My life was profoundly changed by meeting Lucia. I went on to study my Masters in International Relations, and hoped to meet her again one day. Friends who lived in Mozambique kept me up to date with significant milestones in Lucia's life. One of the most exciting days was to hear that she was walking!

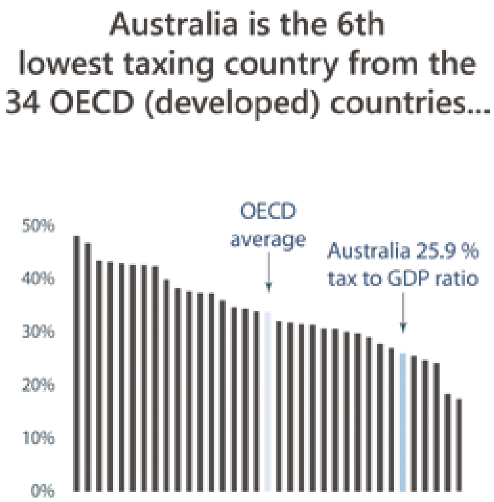
> According to World Vision CEO Rev Tim Costello delaying an increase in foreign aid could cost the lives of an extra 250,000 people.

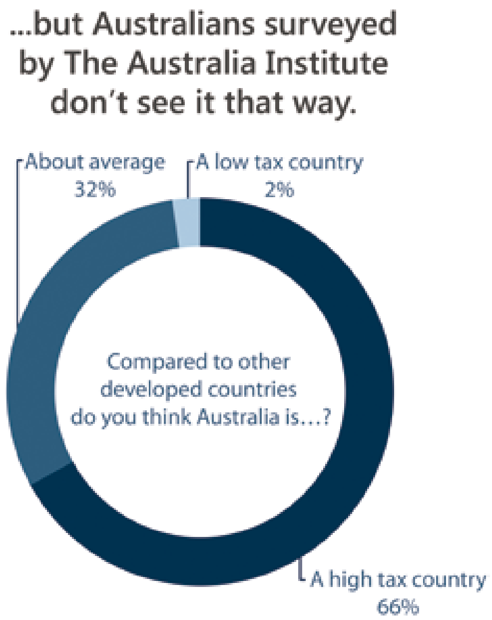
When I returned to Mozambique I could hardly contain my excitement. I couldn't believe my eyes when I saw Lucia for the first time. She was a beautiful, cheeky, healthy, happy pre-schooler, who never went far without a crowd of adoring peers. Lucia loves pretty dresses and keeping the younger children in line.

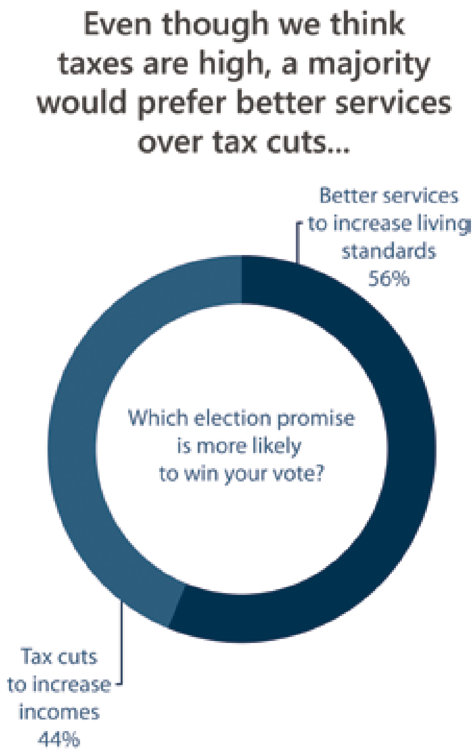
Lucia is one of the success stories we don't hear about as often as we should to remind us of the difference that effective aid can make in the lives of individuals and communities. A small budgetary increase and an honoured commitment by Australia to the Millennium Development Goals is the right thing to do in making significant progress in poverty reduction. Australia is one of the wealthiest countries in the world and in the middle of a mining boom. We can afford to respond to those in need, both within and beyond our borders, especially when the eyes of the United Nations are on us, as we continue to pursue a greater international role through our campaign to gain a seat on the Security Council. §

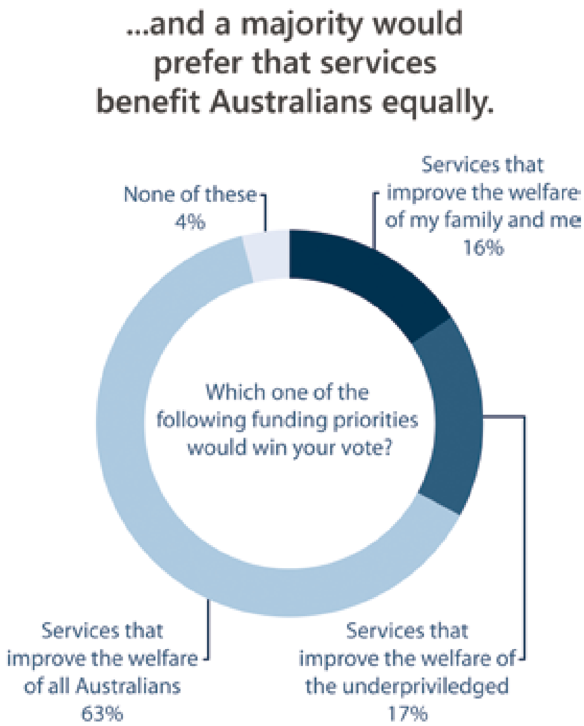
Photo taken by Bridget of local Kalembe woman during her time in the Democratic Republic of Congo

IS AUSTRALIA A HIGH TAX COUNTRY?





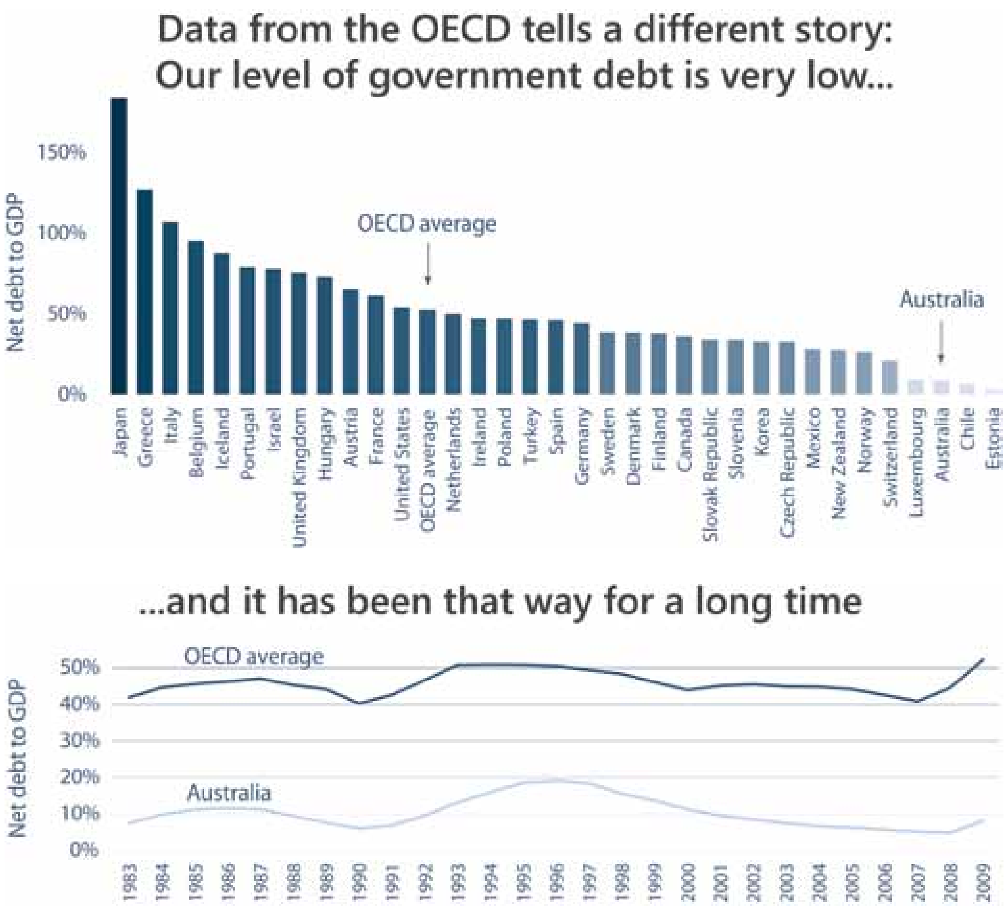




The Australia Institute has gone viral! We have recently produced two infographics which illustrate how Australia compares with other OECD countries in relation to tax and government debt. The Institute hopes infographics will play a key role in disseminating our research further through social media.

The tax infographic, which posed the question '*Is Australia a high tax country*', titled was shared by more than 1,800 Facebook users and viewed by more than 29,000 users. It started an interesting debate amongst 200 people who chose to comment on the information.

IS AUSTRALIA A HIGH DEBT COUNTRY?



The debt infographic, which posed the question '*Is Australia a high debt country?*', highlighted some of the mischievous comments made by Coalition members about government debt. This infographic generated more than 1,000 comments from Facebook users who seemed to enjoy the opportunity to discuss different perceptions around what constitutes an acceptable debt level.

The increased exposure from these infographics has led to a 20 per cent increase in the number of people who interact with the Institute via Facebook and they were also popular on Twitter. As they say, a picture is worth a thousand words and hopefully these pictures will make a whole new audience aware of our work. You can help us share our infographics by following 'The Australia Institute' on Facebook and 'TheAusInstitute' on Twitter. §

Business to blame for corporate tax backflip?

Is the business sector itself to blame for the government's decision not to proceed with its promised corporate tax cut, asks Matt Grudnoff.

The Australian Chamber of Commerce and Industry (ACCI) were outraged after the Federal Government announced in May it had abandoned plans for a one per cent cut in the corporate tax rate. ACCI chief executive Peter Anderson described it as "a low blow to the business sector".

Mr Anderson went on to say:

"the government is seen by the business community to have severely let it down by failing to continue with its promise to reduce the company tax rate."

However, those who looked at the issue more closely might have noticed that the government had already tried to pass legislation for the tax cut but was blocked by the Greens and Coalition in the Senate. If either of these parties had supported that legislation then the tax cut would have been delivered.

Put simply, in order to receive the tax cut the business community needed only to convince the Liberal Party, historically the party of business, to support it.

ACCI describes itself as "the nation's peak council of business organisations and the authentic voice of Australian enterprise and industry". Despite this, there is no evidence that they attempted to put any pressure on the Coalition to pass the tax cut legislation.

In fact, if you go through all the ACCI press releases available on their website there is not one calling on the Coalition to pass the tax cut, nor are any media interviews where Peter Anderson calls on them to do so prominently displayed. There are certainly press releases pressuring the ALP and the Greens on all sorts of issues. Yet, on an issue where political pressure could have delivered real benefits for the people that ACCI claims to represent, there appears to have been no public pressure applied at all.

If the business community's peak body was serious about delivering benefits to its constituents surely this was an opportunity to lobby the Coalition to stop playing political games and put business first by passing the tax cut legislation? §

Illicit drugs: Changing the current prohibitionist paradigm from page 6

Portugal, Switzerland, Sweden and Holland have implemented changes, which provide different lessons for Australia. A vigorous debate about drug policy has developed in the USA in recent years and the impact of drug cartels on South American countries, which supply America's insatiable demand for drugs, is disrupting whole economies.

Many Australians fear that any softening of prohibition would result in increased drug use but the evidence from international experience of decriminalisation indicates that this need not happen. There is no doubt that under prohibition, the drug barons have a vested interest in recruiting more users into drug dependence, which so often ruins lives and families and increases household crime.

A shift in policy from prohibition to decriminalisation of possession and personal use of all drugs has been successful in reducing, rather than increasing drug use in Portugal.

A shift in policy from prohibition to decriminalisation of possession and personal use of all drugs has been successful in reducing, rather than increasing drug use in Portugal. Switzerland, which did what Australia was prevented from doing in 1997 in management of heroin dependence, has reported spectacular results from heroin assisted treatment of heroin addiction.

At its next roundtable in July, Australia21 will explore what we can learn from the collective European and US experience. We hope this will be a genuine dialogue about a better way forward for Australia and we have invited representation from several serving political leaders.

Emeritus Professor Bob Douglas AO was a co-author of the Australia21 report "The prohibition of illicit drugs is killing and criminalising our children and we are all letting it happen" www.australia21.org.au §

The struggle with feeling isolated

In an age where social media is increasingly being used as the preferred communication tool it has never been easier to reach out and contact someone. Yet, with loneliness affecting one in every ten Australians each year, David Baker explores the relationship between social networking and feeling lonely.

If you felt lonely sometime in the past decade you were not alone. Loneliness — the disconnect we feel when our desire for interpersonal relationships is not met by those we perceive we currently have — was experienced by three out of ten Australians between 2001 and 2009. Although the subjective nature of this experience makes measuring loneliness difficult, understanding it is important for the development of a range of social policies.

> Although household type is a key determinant of loneliness, where people live plays much less of a role.

A recent paper by The Australia Institute found that an episode of loneliness was most likely to last for less than a year; however, for those whose experience extended beyond 12 months, it was more likely to last for three or more years, with 13 per cent of respondents also identifying repeat episodes. The proportion of Australians experiencing loneliness in any given year was fairly consistent at around one in ten people (9 per cent).

The paper also considered risk indicators associated with loneliness and the use of online social networking sites. Research into the relationship between using sites such as Facebook and loneliness is a relatively new field of study. The Institute conducted an online poll into this relationship.

Facebook users who were identified as experiencing loneliness tended to have fewer online "friends" and were also less likely to consider these friends as real friends. However, users of social networking sites who are lonely were more likely to report increased communication with family and friends. This finding suggests that some people experiencing loneliness may be endeavouring to access social support through online social networking sites. In contrast, users of social networking sites who were not experiencing loneliness were more likely to be utilising social media to further expand what is already a solid foundation of social support.

If you lived on your own or were a single parent you were, on average, almost twice as likely to experience loneliness, as people living in couple households. The risk of experiencing loneliness was greater for adults living with children. Couples with children were lonelier than couples without children. Although household type was found to be a key determinant of loneliness, there was no real difference between the levels of loneliness recorded in urban, regional or rural areas of a state.

Men and women also experience loneliness differently. In the period studied, more men (36 per cent) recorded episodes of loneliness compared with women (29 per cent). The intensity of loneliness increases for men up to the age of 60 years before reducing again. Whereas for women the level of loneliness experienced was greater in their younger years and decreased in later life. Amongst younger people (aged 25–44), men were four times as likely to live alone and were more than twice as likely to be lonely.

> People feeling disconnected from their community and experiencing loneliness are less likely to volunteer.

Having children also influences the level of loneliness experienced by men and women differently. Women are more likely to be lonely if they are living in a couple household with children, but in couple households without children men are proportionally more likely to be lonely.

The gender difference is also affected by the amount of income earned. Low income earners accounted for two thirds (65 per cent) of people who became more dissatisfied with their financial situation in the same year as they became lonely. Young women on low incomes are most likely to experience loneliness. It is not surprising, then, that an increased dissatisfaction with one's financial situation is a risk factor for experiencing loneliness. People feeling disconnected from their community and experiencing

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Broadening the tax base

In an article for online news provider Crikey Richard Denniss offered his alternative to the Federal Government's May budget.

It would be very easy in a 'fantasy budget' to outline a raft of spending initiatives to 'make Australia a better place'. But I want to talk about collecting more tax. Because until those campaigning for a fairer society that treads more lightly on the natural environment put as much effort into tax policy as they do to communications strategy, they are doomed to fail.

Wayne Swan told us in his 2012 budget that had the government collected the same percentage of GDP in tax this year as it did in 2007-08, it would have collected an additional $24 billion. That's enough to fund the Gonski education reforms, the National Disability Scheme, Denticare, and still have more than $10 billion per year left to fund higher welfare payments, better wages for community sector workers, and a fair bit more money for public transport and other infrastructure.

> If you think we need to protect manufacturing jobs then we should start saying no to the giant mining projects that are cannibalising the workers the manufacturers spent decades training.

Despite all the hoopla, budgets in Australia are rarely transformative or reforming. Indeed, it's only the theatre and spectacle of budget night that means most people even notice it. If we started each budget with a blank sheet of paper it is inconceivable that year after year we would fund portfolio areas in virtually identical proportions. Either our priorities don't really change over time or our budgets do a terrible job of reflecting our priorities.

My fantasy budget would massively simplify the tax system and in the process collect a lot more tax revenue. It would be transformative because in one fell swoop tens of thousands of our best and brightest would be 'freed up' from the stultifying, but very well paid, task of helping wealthy people engineer their finances to avoid tax.

So how to do it?

Step one is to abolish John Howard's arbitrary decision to tax capital gains at half the rate of other income. Before that decision we had spent 20 years moving towards a simplified, harmonised system that reduced incentives to 'financially engineer' ordinary income into more tax effective forms of income. The argument that such an incentive would stimulate investment is spurious, was mounted after the decision was made and is not borne out by the empirical evidence. That said, it's very popular among the wealthy.

Step two is to abolish the bizarre notion that income from superannuation should be tax free. This was another of John Howard's crimes against tax efficiency and equity. Those lucky enough to have accumulated millions, and in some cases tens of millions of dollars, in their superannuation accounts before the annual contribution limits kicked in can literally withdraw millions of dollars in income from their super, completely tax-free.

All up, tax concessions for superannuation cost the budget about $30 billion per year and anyone who says that these contributions are saving the budget more than $30 billion in reduced aged pension payments is either kidding themselves or kidding you. It's demonstrably untrue, and Treasury's own figures show that about $10 billion of that $30 billion goes to the highest 5% of income earners, the vast majority of whom were never going to be eligible for the pension.

> Budgets in Australia are rarely transformative or reforming.

Step three is to introduce the principle of 'polluter pays' to accompany our soon-to-start carbon price. With a white sheet of paper surely we wouldn't repeat the decision to give the biggest polluters 94.5 per cent of their pollution permits for free? For all of the bleating about the fact that the $23 starting price is well above the current European price there is surprisingly little reference to the fact that Australia's so-called 'Emission Intensive Trade Exposed' industries only have to buy 5.5 per cent of their permits, which means their actual carbon price will be more like $1.30 per tonne.

Continued on page 15

Institute in the media

We don't want our research to sit on a shelf collecting dust — our aim is to influence the debate, whether that's via *Lateline, Today Tonight, Crikey, The Global Mail, Sky, The Project, Triple J or Radio National Breakfast*.

And sometimes we're lucky enough to land two spots on the ABC in one night, like on 6 June when David Richardson was interviewed for **The Business on the failure of the big banks to pass on interest rate cuts**, and Matt Grudnoff gave his take on the latest GDP figures and **the impact of the mining boom on other sectors of the economy for 7.30 with Chris Uhlmann**.

Richard is now writing a fortnightly column on a Tuesday for the *Australian Financial Review*, in addition to his fortnightly Saturday column in *The Canberra Times*, and monthly spot on *Sky Lunchtime Agenda*. He will also be writing more regularly for *Crikey*. If you're in the Riverina area, you can also hear him with the **ABC's Anne Delaney** every second Monday morning.

And remember, not only can you keep up to date by following us on **Facebook, YouTube** and **Twitter**, but you can help us to promote our research by sharing links, forwarding or retweeting. **We can generate a lot of content but we need you to help us distribute it!**

Facebook — TheAustraliaInstitute

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Politics in the Pub

The Institute has hosted six Politics in the Pub evenings in Canberra this year:

1. Richard Denniss kicked off the first for the year with the topic 'Why do our broadsheets have such narrow debates?'
2. Ian Fry, the International Environmental Officer for the Government of Tuvalu, made his second appearance at Politics in the Pub with the topic 'After Durban, is climate change on the backburner?'
3. Senator Bob Brown and Dr David McKnight led a discussion on 'media diversity and the power of media moguls'.
4. Former Deputy PM, Brian Howe AO joined the Institute to discuss the independent Inquiry he is chairing, commissioned by the ACTU, into insecure work and the impact on workers, their families and the community.
5. Lyn White, from Animals Australia, discussed the public and political reaction in Australia to the 2011 Four Corners investigation she led into the live export trade to Indonesia, and the work she believes still needs to be done to prevent animal cruelty.
6. With 2012 marking the 20th anniversary of mandatory detention in Australia, Fr Frank Brennan explored 'Australia's 20 year search for a coherent, workable and moral asylum policy' for June's Politics in the Pub.

Coming up will be:

7. A joint event between the Institute and the Young Economists Network to discuss the topic 'Are baby boomers stealing Gen Y's future? With Richard Denniss and NATSEM's Marcia Keegan
8. ACT Shelter, ACTCOSS and a University of Canberra academic will join the Institute for a panel discussion on housing availability, affordability, homelessness and design in August
9. And in October we have the ACTU's President Ged Kearney as our guest speaker.

For those members who live outside the ACT we make all our Politics in the Pub talks available on our YouTube channel — TheAusInstitute.

People continue to miss out on government payments

Earlier this year we pointed out shortcomings in the Education Tax Refund which the government went on to axe in its May budget. The aim of the initiative which took its place — the Schoolkids Bonus — is to ensure parents do not miss out on assistance they are entitled to. David Baker argues this approach should be extended to other government payments.

Using documents obtained under Freedom of Information the Institute discovered that the Treasurer Wayne Swan had been aware of the potential failings of the Education Tax Refund (ETR) from the program's outset. Shortly after we received the documents it was reported that the government was reviewing the ETR and considering replacing it.

Cut to the 2012–13 budget and the Treasurer announced that the ETR would be replaced by a new 'Schoolkids Bonus', stating:

"By making it automatic, we ensure families get the full assistance they deserve, and we reach out to the parents of half a million children currently missing out."

The ETR had struggled to deliver allocated assistance to many of the families which had been identified as eligible. While it was designed to help families with the cost of sending kids to school, the ETR relied on people keeping receipts and lodging them with their tax return. It was further complicated for low income families that did not have to lodge a tax return, yet were required to obtain and fill out a form to claim the refund. The Schoolkids Bonus will go straight into parents' bank accounts.

Putting aside the merits of this type of government assistance, what it does show is a willingness on the part of the Gillard Government to take steps to ensure that people do not miss out on the payments they are eligible for. This is in stark contrast to other government initiatives such as the Carer Allowance and the Disability Support Pension.

> The ETR had, since its introduction, struggled to deliver allocated assistance to many of the families which had been identified as eligible.

In 2004, it was estimated that as many as 1.3 million people may be missing out on government assistance they are eligible for. A more recent estimate from The Australia Institute found that more than 168,000 people are missing out on support across just four Centrelink payments — the Carer Allowance, Disability Support Pension, Bereavement Allowance and the Parenting Payment.

Departments such as the Australian Taxation Office and agencies providing assistance already use data-matching to find people being over or under paid. Extending the use of this technology to find people missing out would be in line with changes recently made by the government to improve its delivery of education assistance.

The government has demonstrated the will, and responsible departments have proven that they are able to identify people who are not receiving assistance they are eligible for. While not all government initiatives might receive positive headlines in the tabloid media, the fact remains that someone at some stage has decided that all such initiatives are necessary and they have been enshrined in legislation. It should therefore be the case that the same approach to allocating assistance is applied across all government initiatives. §

The struggle with feeling isolated from page 11

loneliness are less likely to volunteer, and are also more likely to feel dissatisfied with the neighbourhood in which they live.

> There is a risk that social networking sites may be over promoted, especially to younger people.

Community disconnection and the associated drop in volunteerism amongst lonely people have implications for the Federal Government's Social Inclusion Agenda. It is not hard to imagine that people who are experiencing loneliness are less likely to feel a part of the community in which they live. The new findings about loneliness and social networking sites pose some interesting questions about the benefits and shortcomings of utilising such sites to increase access to social support, especially amongst younger people. There is a risk that social networking sites may be over promoted at the expense of other forms of engagement. All levels of government need to recognise the risk that online social connections may in fact mask real social disconnection.

A copy of David's paper, *All the lonely people: Loneliness in Australia 2001–2009*, is available at www.tai.org.au §

Relax — we make a big profit but we give it back to you!

All too often the big banks and the mining industry tell us that while they make super profits, it is ordinary Australians that reap the benefits. David Richardson challenges this claim.

Australia's banks readily concede they make large profits and a recent independent report by the Bank of International Settlements found them to be the most profitable in the world for the second year in a row. However, the banks also argue that they pass their profits on to ordinary Australians as share dividends.

Indeed in the recent round of half-yearly profit announcements the ANZ's CEO Mike Smith — in announcing his own company's record half year profit — highlighted this in his comments by saying that rising bank profits would benefit everyone with superannuation.

While only about 1.5 million of Australia's 23 million population own shares in banks directly, the banks concentrate on the eight million Australians who own shares indirectly via superannuation balances.

The Australia Institute has estimated that the average Australian with a superannuation balance is likely to get a benefit of around $137 per annum in the form of a dividend from their implied holdings of bank shares. In the meantime, we estimate that the big four banks make a profit of around $1,260 for every person 15 years or more, that is, those of us who are likely to have dealings with the banks.

But that still leaves 13.5 million people without bank shares who aren't reaping the benefits that the banks' super profits allegedly bring!

The big miners try to make similar claims but given their high foreign ownership, rather than dividends they tend to highlight what their profits are achieving for local communities.

According to BHP Billiton's annual report the company contributed one per cent of its average pre-tax profit over the previous three years to community programs. For 2010-11 that amounted to $195.5 million. But this compares with a pre-tax profit of $31,255 million.

With the Minerals Resource Rent Tax coming into effect from 1 July perhaps it's time to restart the debate around a banks' super profits tax? §

Broadening the tax base from page 12

Scrapping just half of those free permits would generate about $4.6 billion over the next three years. As for claims that the big polluters would be unable to compete were it not for their virtual exemption from the carbon price, the best evidence that such claims are nothing more than self-serving nonsense is the exchange rate. When Kevin Rudd was elected in 2007 the exchange rate was 88 Australian cents in the US dollar, since then it has surged to a high of $US1.10. Any firm that can survive such an exchange-rate-induced impact on their cost competitiveness was never going to be challenged by a modest carbon price.

Finally, there is the enormous cost of using submarine manufacture to create the kind of jobs that the mining boom is destroying. Over the coming decades Australian taxpayers are going to fork out up to $50 billion to build 12 new submarines. Leaving aside simple questions such as why do we need twice as many submarines when we can't even staff the ones we have, the big question is why on earth would we build them in Australia?

Until we win the case for a more efficient tax system that collects more revenue many important initiatives will be beyond our reach.

It is estimated that we could save between 50-66 per cent of the cost of the submarines if we bought them from existing overseas manufacturers. Even if you believed we needed 12 submarines and to compete with the mining industry for skilled manufacturing workers, surely it would make sense to buy the submarines from overseas and spend the $20 or $30 billion we saved on public transport, renewable energy, or health and aged care infrastructure? And if you think we need to protect manufacturing jobs then we should start saying no to the giant mining projects that are cannibalising the workers the manufacturers spent decades training.

Australia is one of the richest countries in the world living at the richest point in world history. We have the sixth lowest tax/GDP ratio in the OECD and the third lowest ratio of government debt/GDP. Most advocacy groups in Australia have a long list of important and transformative spending initiatives. But until we win the case for a more efficient tax system that collects more revenue, those initiatives will remain a fantasy.

This article was first published by Crikey. §

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Institute News

New publications

M Grudnoff, *Arrow Energy's Gladstone LNG Plant proposal*, Submission, 29 May 2012

R Denniss and D Baker, *Are unemployment benefits adequate in Australia?*, Policy Brief 39, 23 April 2012.

M Grudnoff, *Pouring fuel on fire*, Policy Brief 38, 18 April 2012.

D Baker, *Match making: Using data-matching to find people missing out on government assistance*, Policy Brief 24, 18 April 2012.

D Baker, *Showing their helping hand: The selection promotion of government assistance*, Policy Brief 35, 18 April 2012.

R Denniss and M Grudnoff, *Too much of a good thing? The macroeconomic case for slowing down the mining boom*, Policy Brief 37, 2 April 2012.

Opinion pieces

All opinion pieces written by the Institute's staff can be downloaded from the website www.tai.org.au.

Politicians rarely know best, *Australian Financial Review*, 26 June 2012

The budget conundrum, *The Canberra Times*, 23 June 2012

Bosses flunk training 101, *Australian Financial Review*, 14 June 2012

Pharmacists' special case, *The Canberra Times*, 9 June 2012

Miners cause problems then complain about them, *ABC The Drum*, 4 June 2012

Debt is not the villain, *Australian Financial Review*, 31 May 2012

A tax of the developers, *The Canberra Times*, 26 May 2012

The green tape slugfest that is the EPBC Act, *Crikey*, 24 May 2012

Fantasy Budget: Richard Denniss on broadening the tax base, *Crikey*, 22 May 2012

Self-serving regulation, *Australian Financial Review*, 17 May 2012

How much tax is enough?, *The Canberra Times*, 12 May 2012

As the miners look tough, the governments looks weak, *Crikey*, 7 May 2012

End of the price gouging, *Australian Financial Review*, 3 May 2012

Put pressure on big banks, *The Canberra Times*, 28 April 2012

The government's clean energy bank and the Abbott-proof fence, *Crikey*, 19 April 2012

What electricity will really cost under a carbon tax, *Crikey*, 12 April 2012

Electricity industry shockers, *The Canberra Times*, 31 March 2012

Choice on tax is simple, *The Canberra Times*, 17 March 2012

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We haven't quite reached our target of 100 monthly donors but we are well on our way! Even a small donation makes a big difference so we're thrilled that so many of you are willing to help fund our research.

The feedback we've received about why you support the Institute has also been appreciated.

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Thanks again for being a part of The Australia Institute team and for caring so much about progressive ideas!