



Australian Social Policy in the Economic Downturn

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Impact, Challenges and Responses
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Economic conditions

Australia is better placed than most other nations to face the global recession. Its financial sector is well regulated and remains strong.

The domestic slowdown is expected to be milder than in most of Australia's major trading partners, who are facing sharp contractions in GDP.

The economy has been strong over a sustained period – but Australia is now being affected and conditions are deteriorating.

GDP decreased by 0.5 per cent in the December quarter 2008, following a rise of 0.1 per cent in the September quarter. GDP was 0.3 per cent higher through the year.

The unemployment rate in March 2009 stands at 5.7 per cent, from a low of 3.9 per cent in February 2008.

In February, the Government's Updated Economic and Fiscal Outlook (UEFO) forecast unemployment to rise to 7% by June 2010. However, the Government has acknowledged that UEFO forecasts are likely to be outdated – and revised figures will be released in the context of the Federal Budget in May.

Previous recessions have resulted in a long period of high unemployment. Australia has done, and is doing, much to reduce the likelihood of a similar outcome this time around.

Social policy considerations

Previous recessions have shown us that there is a risk of a cohort being created that is left behind when economic conditions begin to improve. Traditionally, it has been older males falling into this category.

The rise in unemployment is likely to be followed by increases in the number of people on disability, carer and sole-parent pensions – long term welfare dependency becomes a reality for some. People either transfer from unemployment benefits to pensions, or move directly on to pensions following job loss. Pensions are paid at a higher rate, without mutual obligations and tend to be long-term.

A longer term concern for government will be the intergenerational effects of potentially large-scale unemployment, and associated impacts. Australian research shows that the children of welfare dependent parents have significantly poorer outcomes than children from working families. A key challenge for Australia is preventing long term welfare dependency to the extent possible – in the interests of individual *and* intergenerational outcomes.

Compounding the effects of the downturn this time in Australia is the historically high level of household debt. In the early 1990s, household gross debt in Australia was equal to about 50 per cent of average annual household disposable income. In 2008, it was about 160 per cent. The ratio of non-housing related debt has also changed, from 12.5% in 1991, to about 22% in 2008. The social policy implications of this debt, and people's capacity to service it in the current climate, are something the Government will be monitoring closely.

Retirement incomes are also being affected by the downturn.

Australia's response

Australia strategy in response to the downturn has been multi-faceted, combining stabilising and stimulating measures. The central elements of the strategy are: stabilising the financial sector; ensuring the effectiveness of the safety net; avoiding job losses; and avoiding long term dependency.

Australia is focused on managing the challenges of the downturn, and responding appropriately, in the context of an already broad reform agenda.