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Crisis country case study

Australia

This country case study is one of the studies produced under the *ISSA Crisis Monitor* Project

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The International Social Security Association (ISSA) is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

The Crisis Country Case Studies are an integral part of the ISSA project to monitor and analyse the impact of the global financial and economic crisis on social security. These studies are based on data and research carried out between June 2009 and the first part of 2010. While every effort has been taken to ensure that the case studies are accurate, the situation in each country is constantly evolving.

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ISSA crisis case study: Australia

Summary

Unlike many developed countries, Australia escaped a recession in 2009 and only registered one quarterly decline in Gross Domestic Product (GDP) (a 0.9 per cent drop in Q4 2008). On the back of robust commodity prices and timely policy action, GDP grew by 3.7 per cent in the 2007-08 financial year – higher than most commentators expected. On the back of a swift income-led response to the crisis, unemployment stood at 4.2 per cent – lower than had been expected.

Responses combined the stabilization of the financial sector, the extension of safety nets and implementation of active labour market programmes. The "Nation Building – Economic Stimulus Plan" totalling US-dollars (USD)52.1 billion (5.3 per cent of GDP) will support up to 90,000 jobs in 2009-10 and reach over half the population. Initiatives include one-off cash payments, support for homebuyers, "shovel ready" infrastructure investments and skills training.

For the time being labour market resilience is likely to shore up demand and improve the fiscal outlook, yet the outcome of stimulus packages from Australia's major trading partners (especially China) could heavily influence Australia's ability to avoid future recessions and to guarantee social security going forward.

Social security institutions covered

The Department of Families, Community Services, and Indigenous Affairs and the Department of Education, Employment and Workplace Relations provide general supervision. Centrelink administers programmes through 401 customer service centres and 16 area support offices.

Overview of the social security system

From as early as 1908, general taxation has funded old-age benefits, non-contributory pensions and universal healthcare in Australia. The current social security system was shaped by the Social Security Act 1991, Superannuation Guarantee 1991, Family Assistance Act 1999 and the Student Assistance Act 1973.

Centrelink's responsibilities have grown to include:

1. Bereavement
2. Carers
3. Concessions or concession cards
4. Crisis or disaster
5. Farmers or small business
6. Jobseekers
7. Parents or guardians
8. Partners or widows

9. Regional or remote
10. Renting
11. Seniors or retired
12. Students or trainees
13. Sick, injured or people with a disability
14. Payment advances

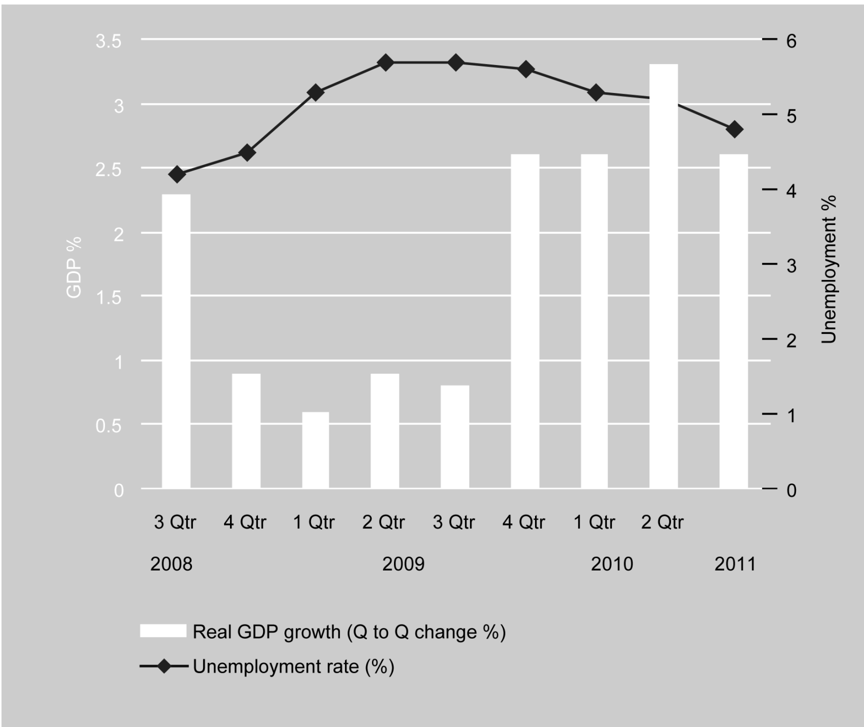
Example income support payments include the Disability Support Pension and Age Pension (universal state pension for those aged 65+ with flat rate benefits, supplemented by private contributory pensions known as superannuation funds) (Australia Bureau of Statistics, 2010; Centrelink 2010). However, the numerous allowances on offer for widows or partners, trainees, indigenous students, carers for minors and disabled adults etc. reflect the fact that social security in Australia is a safety net designed more for poverty alleviation than income replacement.

Impact of the crisis

Avoiding recession

Unlike most developed countries, Australia escaped a recession in 2009 and only registered one quarterly decline in GDP (a 0.9 per cent drop in Q4 2008). In fact GDP grew by 3.7 per cent in the 2007-08 financial year (ending 30 June), and 1.8 per cent in 2009-10. As of Q2 2010, unemployment stood at just over 3 per cent as depicted in Figure 1.

Figure 1. ***Unemployment and real GDP growth, 2008-2011***



Note: Seasonally adjusted. 2011 is forecasted.
Source: EIU, 2010.

Recession among many of Australia's trading partners undoubtedly affected the economy yet strong demand for commodity exports helped the economy rebound quickly. Export competitiveness was aided by a dramatic swing in the Australian dollar when it dropped in value by 30 per cent against the US dollar in October and November 2008 (Economist Intelligence Unit (EIU), 2010).

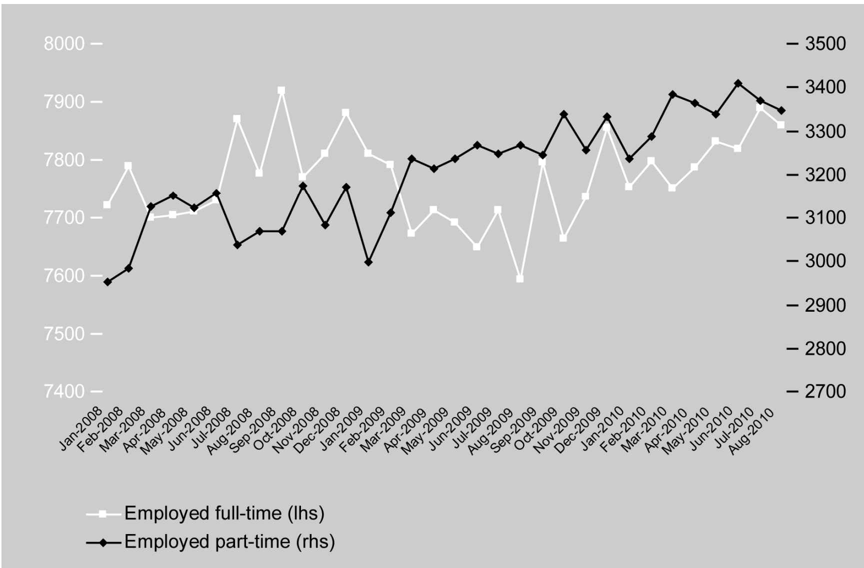
Reaching the peak of unemployment

Buoyed by economic growth, unemployment has faired better than most commentators expected. Despite employment falling by 77,400 (or 0.7 per cent) from a peak of 10,824,800 in October 2008 to a trough of 10,747,400 in June 2009, unemployment has stayed below 6 per cent in 2009 (International Labour Office (ILO), 2009b).

An important element in Australia's employment picture is that it has been driven mainly by part-time job creation; full-time employment fell by 1.7 per cent in October 2009 (year-on-year) while part-time employment increased by nearly 5 per cent during the same period (see Figure 2). Thus, adjustment in the labour market came about mainly through a reduction in working hours rather than increases in open unemployment as firms wound back overtime in favour of job creation (EIU, 2010). According to the Australian Bureau of Statistics, monthly seasonally adjusted aggregate hours worked fell by 2.5 per cent from July 2008 to September 2009.

Nonetheless, this should be seen against a long-standing preference of many Australian workers to work part-time; Australia has long had the second highest rate of part-time work in the Organisation for Economic Co-operation and Development (OECD). As the labour market has recovered in 2010, this has been unwound somewhat – full-time work has grown faster than part-time work (ILO, 2009b).

Figure 2. ***Full- and part-time employment, monthly (000s), 2008–2010***



Source: Australia Bureau of Statistics (2010); Centrelink (2010).

The overall unemployment picture also masks the fact that the crisis hit Australia's youth harder than other groups (Zapone, 2010). Older workers whose retirement savings were adversely affected stopped exiting the workforce and, in the conditions of constrained labour demand, this resulted in fewer jobs being created for younger workers. As a rough proxy to labour market conditions, the Commonwealth Bank's Economic vitality report showed that from December 2008 to December 2009 the percentage of 18-24-year-olds receiving Centrelink jobless benefits rose 13.6 per cent, while increasing only 4.1 per cent for 45-54 year-olds (Commonwealth Bank of Australia, 2010).

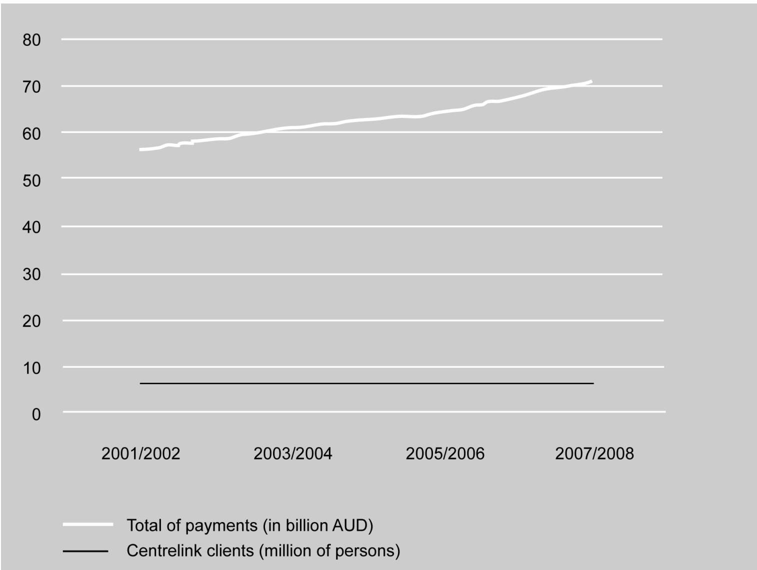
Investment performance

According to the OECD, after Ireland, Australia experienced the greatest loss in private pension fund value (real return of -27 per cent in 2008). Given over 45 per cent of retirement income in Australia (more than double the OECD average) comes from private financial sources, this erosion of value created an environment of instability for the majority of defined contribution members of superannuation funds as such schemes make the member rather than the employer bear investment risk (ILO, 2009a).

Administrative capacity

The number of persons receiving transfer payments from Centrelink increased slightly as a consequence of the crisis (e.g. around 6.1 million beneficiaries between December 2008 and December 2009). Yet total payments out of pension funds have increased steadily since 2001, implying that average payments to beneficiaries have increased even after factoring in aged population growth, as seen by Figure 3.

Figure 3. ***Centrelink payments Australian Dollar (AUD) billion and total beneficiaries (millions)***



Source: Australian Government (2010a).

Despite registering the first budget deficit shortfall in eight years (2.9 per cent of GDP in 2010) Australia's resilient economy has boosted the government's capacity to provide social security (EIU, 2010). Should further fiscal action be required, the very strong public finances created over several decades mean that Australia is unlikely to face serious public debt constraints.

Responses to the crisis

Australia's responses to the crisis were multi-faceted, combining the stabilization of the financial sector, extension of safety nets to support the most vulnerable and the introduction of labour market measures to stimulate job creation and prevent long-term dependency. Though often referred to as sheer "luck", the country's ability to avoid recession is credited to the underlying strength of the economy, the continuing demand for commodities and swift and decisive mobilization of resources to address the crisis.

For example, fiscal stimulus measures were introduced in stages in order to respond to the changing nature of the crisis, beginning with the Economic Security Strategy announced in October 2008 (USD10.3 billion), followed by a more substantive stimulus package announced in February 2009 called the "National Building and Jobs Plan" (USD41.6 billion) (ILO, 2010b).

In sum, the "Nation Building – Economic Stimulus Plan" is worth USD52.1 billion (5.3 per cent of GDP) and focuses on five key areas:

- Social assistance for targeted groups. One-off cash payments to low- and middle-income groups, particularly pensioners and cash constrained families. Social assistance reached over half the population and was supplemented by major reforms to the pension system announced in May 2009. The net impact will be to increase expenditure on pensions by USD13.2 billion over the next four years (International Social Security Association (ISSA), 2010b).

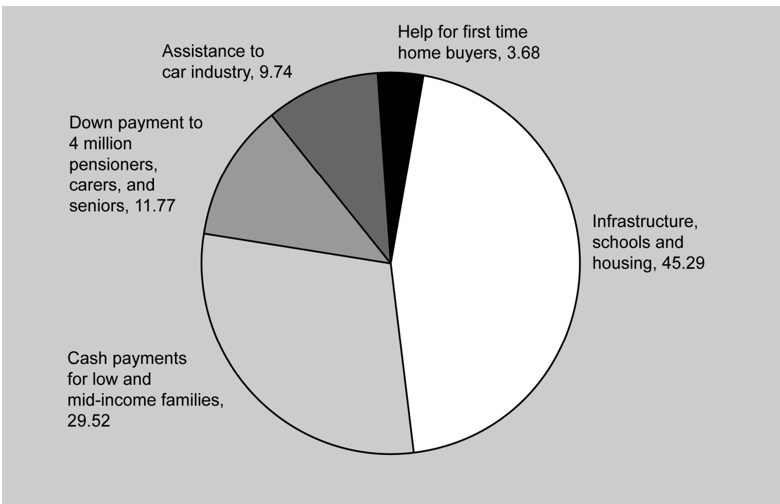
- Supporting consumption through support for homebuyers. The First Home Owners Boost stimulated housing activity and supported over 59,000 first-time homebuyers.

- Infrastructure expenditure. The Nation Building and Jobs Plan introduced in February 2009 is a proactive response to the crisis, targeting local community infrastructure, housing, schools and roads as well as a national broadband network intended to support up to 25,000 local jobs annually for eight years.

- Skills, training and job-search assistance. The Productivity Places Program (PPP) is designed to develop workforce skills. Commenced in April 2008 as part of the "Skilling Australia for the Future" initiative, the PPP will provide an additional 711,000 qualification commencements over five years to ensure existing workers and job seeking Australians can develop skills that industries need. This figure includes USD261 million that was injected into the PPP to create 76,000 new jobseeker places over 2008-09 and 2009-10. Moreover, a variety of means-tested tax bonuses were also introduced for low-income families, students, unemployed people in training and drought-affected farmers.

- Fair Work Act of 2009. Though enacted prior to the crisis (July 2009) the Act facilitated industrial relations and was the successor to a transitional bill in early 2008 giving broader access to unfair dismissal complaints and rights for unions.

Figure 4. ***Composition of the fiscal stimulus package (percentage)***



Source: ISSA, 2010a.

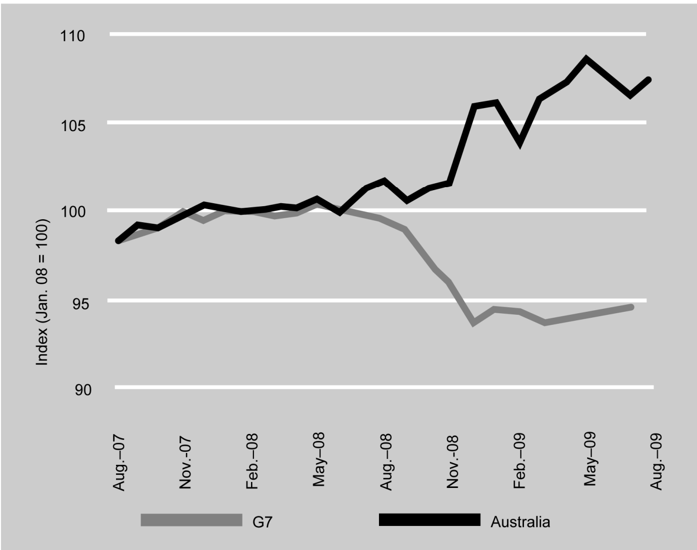
The Australian Treasury estimates that the Nation Building Plan alone supported up to 90,000 jobs in 2009-10 and boosted economic growth by roughly 1 per cent of GDP in 2009-10 (Australian Government, 2010b).

Lessons learned

First and foremost the Australian experience demonstrates the effectiveness of income-led responses to the crisis, where the pre-existing public finance position allows this. Putting greater disposable income into the hands of low- and middle-income groups has not only limited the effects of the downturn but constituted an important part of the exit strategy as it boosted consumption and aggregate demand (these groups have a high marginal propensity to consume). In turn, this has restored business and consumer confidence to levels higher than in other G7 countries (see Figure 5).

Supported by fiscal stimuli, resilient household spending and increased public consumption drove the resurgence in growth. In fact the OECD singled out Australia's fiscal stimulus package as being particularly effective in supporting employment where estimates have shown that without these measures, growth would have contracted by 1.3 per cent between 2008 and 2009 (second quarter, year-on-year) (Khatiwada, 2009).

Figure 5. ***Retail trade in Australia and the G7***



Source: ILO (2009b).

However, critical lessons have also been learned with regard to the management of private pension funds. Though unrealized, real investment returns of -27 per cent in 2008 demand better regulation of financial markets, corporate governance and transparency in pension investment going forward. Worryingly, prior to the crisis pension funds invested around 57 per cent of their assets in shares compared to an average 36 per cent in most other OECD countries (Australian Government, 2010a).

Although a recovery is underway, Australia's economy remains susceptible to historically volatile commodity prices and a fall-off in trade volumes (65 per cent of Australia's exports are commodities). Should there be a collapse in commodity prices or demand from China, domestic demand would not be strong enough to support growth. Yet this unlikely to put serious stress on social security provision due to the fact that it is non-contributory and hence paid at a flat rate (i.e. it is not earnings-related).

Conclusion

Australia's social security response was swift and, relatively speaking, significantly greater than other countries' responses, which, on average, assigned roughly 11.7 per cent of their stimulus packages to social security (ILO, 2009b). Arguably stabilization of the financial sector through bank deposit guarantees was simply precautionary given limited exposure to the US mortgage market. Nevertheless, increased social security provision was clearly warranted and effective in its reach and integration with infrastructure and labour market programmes included under the stimulus package.

As advocated by the ILO, an income growth strategy proved successful. Emphasis placed on well-timed cash-in-hand payments differentiates Australia from most other countries. Yet, not all groups benefited equally and timing the removal of the payments and package overall remains controversial. Up until now the government has used significant resources to pay employers to train workers or compensate them for reducing employee work hours to avoid job losses. However, the practice of employers hoarding labour and relying on part-time labour is not a financially viable option for a long-term or double-dipped recession. In fact, the government recently announced that withdrawal of the package is a public priority and will make way for interest rate hikes (EIU, 2010).

Most observers expect Australia's economy to grow by a moderate 3 per cent in 2010, although measures to date suggest that these projections are conservative. Despite what critics of the ruling Labor Party call an impending "pensions crisis", a major turnaround in the merchandise trade position occurred recently (a first quarter deficit of USD2.7 billion transformed into a USD7.3 billion surplus in the second quarter), consumer confidence is growing and a fiscal surplus is expected by 2012-13. Labour market resilience is likely to shore up demand as well as improve the fiscal outlook as fewer outlays will be needed in terms of unemployment benefits. Nevertheless, going forward, the global economic outlook and outcome of stimulus packages from major trading partners (especially China) will no doubt influence Australia's ability both to avoid future recessions and to guarantee social security.

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