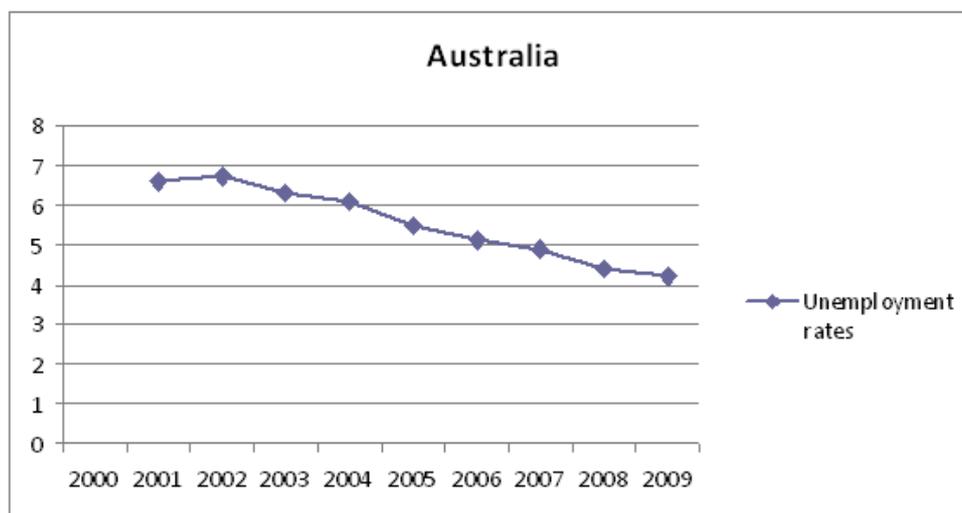


Australia

Impact of the Crisis

The global financial crisis has had a severe impact on Australia for several reasons mainly linked to the country's economic model. Australia's financial system has fared better than that of many other countries, because there was less investment in "toxic" assets (e.g., "subprime" loans) there. The financial sector must, however, like most of the world's economies, contend with the interbank credit crisis, which affects the ability of Australian banks to borrow and lend money. This has a negative impact on production and exports of raw materials to emerging economies in Asia. According to 2007 estimates, the service sector represented 70.7 per cent of Australia's total GDP, while agriculture only accounted for 3.7 per cent. In terms of trade balance, the mining industry generates the second largest export revenue (after manufacturing). Despite a decline in exports, Australia still has positive growth, because national consumption has stayed high. Figure 1 shows the changes in unemployment rates. For the period in question, it may be noted that the rate did not go above 7.6 per cent in 2000-2001, and was as low as 4.3 per cent in 2008-2009. This relatively low unemployment rate shows that Australia is in a less catastrophic situation than other many countries to counter the 2009 crisis.

Figure 1¹

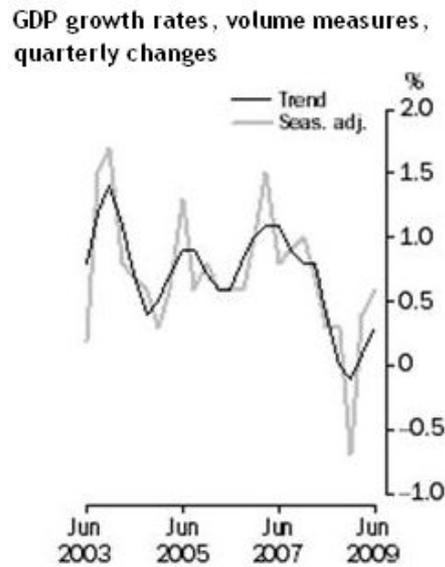


Source: ILO

Figure 2 illustrates the strength of Australia's economy. Despite the crisis, growth figures have remained positive, except in the second quarter of 2009, followed by an upwards trend that suggests further growth. In addition, Australia's public debt was less than 14 per cent of GDP in 2008. All in all, this evaluation of the impact of the economic crisis on Australia's economy illustrates the advantages that Australia could fall back on to attenuate its effects.

1 International Labour Office statistics database

Figure 2²



Source: Australian Bureau of Statistics

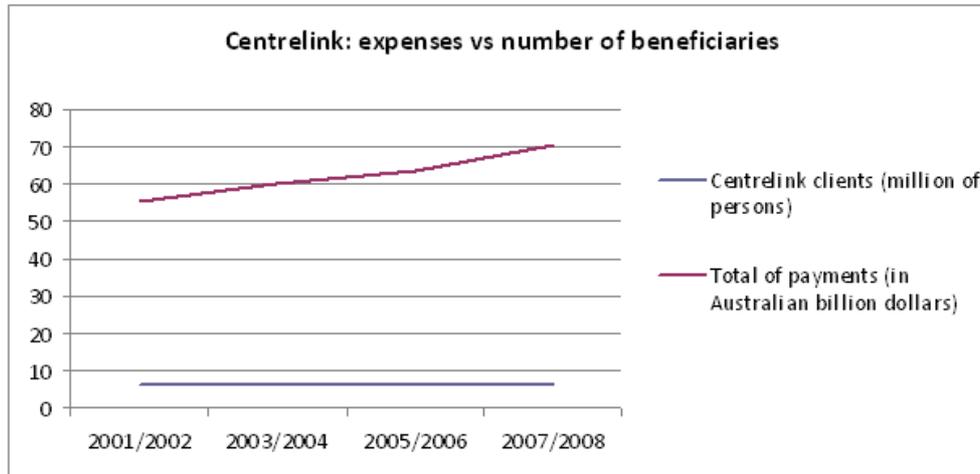
Impacts on and Challenges for Social Security Systems

Australia has a well-developed social protection scheme that provides extensive protection to its citizens. This protection includes universal access to health care under the Medicare system. Medicare Australia attends to the health of Australians by way of efficient services such as Medicare, the Pharmaceutical Benefits Scheme, the Australian Childhood Immunisation Register and the Australian Organ Donor Register. Australians may also take out supplemental private insurance. Since 1999, the public health scheme has been supplemented by reimbursements from private health insurance, where the Government finances at least 30 per cent of all private health insurance premiums covering persons who are eligible for public health insurance. Despite free access to health care, 43 per cent of Australians take out private insurance.

The second major part of the social protection system is run by the agency Centrelink, and includes health and disability insurance as well as survivors' and unemployment benefits and old-age and family allowances. Centrelink helps all of Australia's population to become self-sufficient and provides support to those who need it. The scheme's benefits includes a range of state payments and services available to all Australians, whether they are pensioners, caregivers, parents, disabled persons, aboriginals or persons from a variety of cultural and linguistic backgrounds. Centrelink is the government body that supports the population in difficult situations, i.e., particularly during the current crisis. The funding for the whole social protection system relies on income from taxes. For instance, the Medicare programme is financed through an income tax surcharge known as the Medicare levy, currently set at 1.5 per cent. Persons with low income do not pay this levy, while persons with high income pay an additional levy of 1 per cent of taxable income.

2 Australian Bureau of Statistics, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/5206.0/>

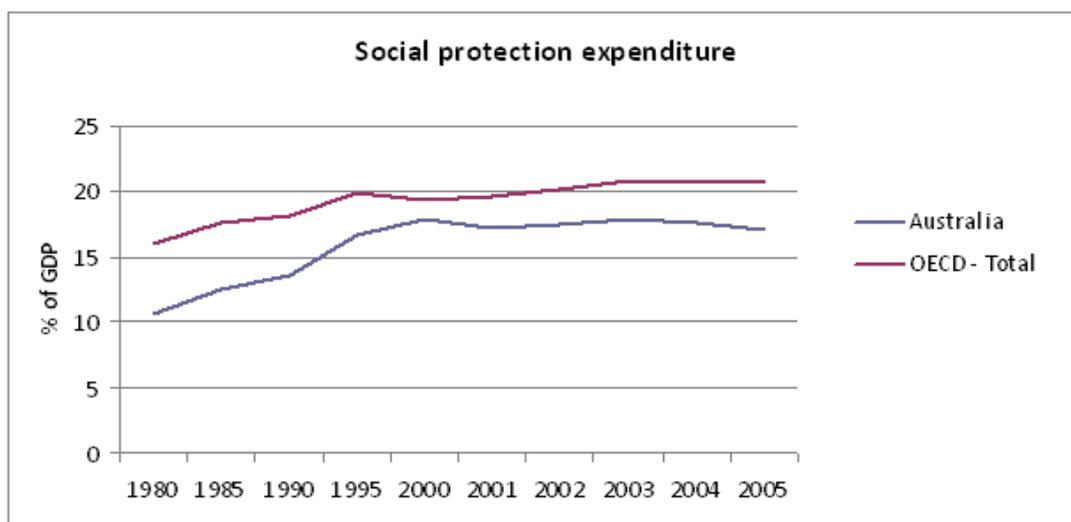
Figure 3³



Source: Centrelink annual reports 2001-2008

Because of the way the social protection system is financed and the large number of persons it covers, the current economic crisis creates a lot of pressure on the whole system. Figure 3 shows that the number of persons receiving benefits from Centrelink was stable over the period in question, at around 6.5 million, but that the amounts paid out do not stop climbing. This suggests that the average amount paid out to each individual has increased over the years. There is a risk that the crisis might amplify this tendency, as a slowdown in economic activity means less revenue through taxes, which is the main source of funding of the Australian social protection system, while the total amount of payments will be even greater. If the number of beneficiaries goes up (e.g., unemployed persons and early retirees), the current crisis represents a challenge for Australia's social protection model. As Figure 4 shows, Australia's expenditure on social protection is close to the OECD average, albeit 1-3% lower. It could therefore be that the Government of Australia has some wiggle room should it be necessary to spend more on social protection to counter the crisis.

Figure 4⁴



Source: OECD.stat

Australia's pension system has two parts: "Age pension", which corresponds to a minimum pension, is paid according to criteria that make it possible to target persons who need support; and "superannuation" or retirement funds, of which there are around 300,000 in Australia. Of these, 362

3 Centerlink: Annual reports, 2001-2008

4 OECD Statistics

have assets with a total value of more than 50 million dollars. Employers are required under law to pay a fixed sum determined as a percentage of employees' salaries (currently 9 per cent) to a retirement fund of their choice. Contributions are invested throughout the individuals' working lives, and the sum of obligatory and voluntary contributions, plus the returns, minus taxes, is then paid out when they choose to retire.

Australian pension funds have been severely hit by the crisis, something that raises some fundamental questions. The Australian super funds lost 26.7 per cent of their assets in 2008, just behind Ireland, which had the biggest problems in this respect. Investment loss in Australia was particularly great because of the high proportion of shares in pension fund portfolios: The funds invested around 57 per cent of their assets in shares before the crisis started, compared to an average of 36 per cent for pension funds in most other OECD countries. This is a major problem, as private pensions account for 45 per cent of retirement income in Australia, more than double the OECD average of 20 per cent. More than 27 per cent of persons over 65 in Australia have an income below the OECD poverty line.

General Response to the Crisis

This is a list of the main recovery measures announced since September 2008, when the crisis began to affect Australia, arranged by magnitude. Along with lesser measures this represents total expenses of 78bn dollars.⁵

- For infrastructure, housing and school upgrades, including new buildings and insulation of 2.7m homes: 42bn dollars. Out of this, 12.7bn dollars will go to cash transfers to persons with low or middle income;
- To help elderly persons, the poorest families and first-home buyers, chiefly through cash transfers at Christmas: 10.4bn dollars. The package announced on 14 October 2008 includes 4.8bn dollars for 4m elderly persons, 3.9bn dollars to help families and 1.5bn dollars to help first-home buyers;
- To finance mortgages: 8bn dollars;
- In aid to the auto industry to save jobs and develop environmental-friendly vehicles: 6.2bn dollars. The industry employs around 65,000 persons and accounts for 6 per cent of Australia's production;
- To finance infrastructure upgrades in 2008-2009, including railway projects aimed at boosting exports: 4.7bn dollars. In December the Government announced that these projects will increase GDP by 0.25-0.5 per cent;
- The Government announced in September that it will guarantee deposits in public banks as well as financing for Australian banks;
- To protect investment in commercial real estate if foreign lenders refuse to extend loans that expire over the two next years: 2bn dollars, which will have to be supplemented by a similar amount by large banks.

In total, the recovery programmes announced by the Government before and within the 2009-2010 budget should raise GDP by 2 per cent in 2009-2010 and by 1 per cent in 2010-2011. The Treasury has estimated that without this stimulus, more than 210,000 Australians would have lost their jobs during the next year, and the unemployment rate would peak at over 10 per cent. The recovery plan is financed through a budget deficit.

Response in Terms of Social Security

The Australian Government has announced a "Household Stimulus Package" to provide general assistance to low- and middle-income households. The package includes one-off bonus payouts to some Centrelink beneficiaries, including families, students and farmers. These bonuses are tax free and are not considered as income. The Government will pay 12.2bn to aid households and

5 Australian Government: Economic Stimulus Plan: <http://www.economicstimulusplan.gov.au>

promote economic growth in 2008-2009.

The measures include⁶:

- Tax bonus of up to 900 dollars to eligible working individuals, as a function of income level;
- Transfers of 900 dollars to single-income families;
- Aid of 950 dollars to farmers facing hardships;
- Aid of 950 dollars to students and all persons who go back to school or are following training;
- Transfers of 950 dollars per child to low- and middle-income families eligible for Family Tax Benefit Part A.

From 17 to 30 June 2009, the Social Research Centre in Melbourne conducted a telephone survey of 1201 persons about economics and the financial crisis. Respondents who declared having received money through the Household Stimulus Package were asked what they had done with the money. The replies showed that 40.5 per cent had spent it, 24 per cent had saved it and 35.5 per cent had used it to pay back debt⁷. These figures provide an idea about the impact of the fiscal stimulus measures on overall spending.

In its 2009-2010 budget, the Government also proposed several pension reforms:⁸

- Raised pension rates: From 20 September 2009 retirement income will go up with 65 dollars per two weeks. Pension for couples will go up with 20.30 dollars combined per two weeks.
- Adjusted rates concerning too high retirement income: The rate at which income above the "free area" influences pension payouts will be raised from 40 to 50 cent per dollar for singles and from 20 to 25 cent per dollar for couples.
- Progressively raised retirement age: The eligibility age for old-age pension for men and women will be increased by 6 months every two years from 2017 onwards.
- Pension supplements, which will be paid automatically to pensioners and other beneficiaries who are eligible for income support along with their regular payment every 15 days starting on 20 September 2009.
- Closure of the Pension Bonus Scheme to new entrants unless they become eligible for old-age pension before 20 September 2009.

Conclusions

Australia's reaction to the current economic crisis is rather good. Economic indicators show that the economy is solid, and gives Australia advantages in dealing with the crisis. The Government has designed a massive recovery plan, a large part of which consists of investment in infrastructure and real estate, albeit with significant measures in terms of social protection. The issue of old-age pensions appears complicated, however, the Australian pension funds having suffered enormous losses during the crisis.

6 Centrelink, Household Stimulus Package:

http://www.centrelink.gov.au/internet/internet.nsf/individuals/bonus_payments_feb2009.htm

7 How Much Did the 2009 Fiscal Stimulus Boost Spending? Evidence from a Household Survey. Andrew Leigh, Economics Program, Research School of Social Sciences, Australian National University

8 Centrelink, secure and sustainable pension:

http://www.centrelink.gov.au/internet/internet.nsf/individuals/budget_secure_pensions.htm