

Friday, 6 February 2009

The Committee Secretary
Senate Finance and Public Administration Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary

The Australia Institute is Australia's leading progressive think tank, based in Canberra. The Institute was founded in 1994, and has established a reputation for leading the public debate on socio-economic issues.

Please find attached our submission to *Inquiry into Nation Building and Jobs Plan*.

I commend our research to you and wish the Committee well in their deliberations on this important matter.

Kind regards



Dr Richard Denniss
Executive Director

Submission to the Senate Inquiry into the National Building and Jobs Plan

Fiscal stimulus package

The \$42 billion stimulus package proposed by the Rudd Government is a timely and appropriate plank in the strategy to minimise the impact of the slowing world economy on Australia.

However, while the injection of a significant fiscal stimulus will undoubtedly have a positive impact on the level of output and employment in Australia, the composition of the stimulus package could be improved in a number of ways. This submission begins with an overview of the weaknesses in the current package and goes on to present a number of costed additions to the package.

While in absolute terms the \$42 billion package (over 2.3 years) is very large, it is less than two per cent of GDP in 2009 and 2010. It is important to view projected government deficits in relation to both the size of the Australian economy (the total deficit is 2.8 per cent of Australia's \$1.2 trillion GDP in 2009–10) and the size of the fiscal deficits in the US (eight per cent) and the UK (8.5 per cent). Most EU member countries will also have deficits well in excess of three per cent of GDP due to the adoption of stimulus packages and the average for advanced economies in 2009 is seven per cent.

There is no absolute measure of the appropriate size of a country's fiscal stimulus; it depends on the size of the problem each country faces. We know a stimulus is on the right track if inflation continues to be constrained (it is estimated at two per cent in each of the next two years) and forecast growth is acceptable (if anything it is on the low side at three-quarters of one per cent in 2009–10).

Weaknesses in the proposed package

- The heavy reliance on the provision of one-off payments of \$950 to a wide range of groups is likely to stimulate increased retail expenditure but it is important to note that jobs created by such an approach do not flow strongly beyond the retail sector, given Australia's high propensity to import. Such an expansion will provide limited opportunities to the 300,000 people expected to join the dole queues in the next 16 months.
- The significant expenditure on building new public housing and refurbishing schools is likely to create important opportunities for building and construction workers who would otherwise lose their jobs because of the continuing decline in private construction investment. However, as with the stimulus to the retail sector, this measure has limited flow-on to other sectors.
- The decision to exclude the unemployed from the \$950 one-off payment unless they participate in a training program suggests that the cause of their unemployment is a lack of skills rather than a lack of job opportunities. As the premise of the package is that there will be a significant increase in involuntary unemployment as a result of events beyond Australia's control, such an approach seems punitive. No other category of recipients is required

to do anything to receive their one-off payment. Nor is it likely that there will be sufficient education and training opportunities for 750,000 unemployed.

- The decision to spend \$3.9 billion on household insulation and solar hot water, will help to stimulate employment and reduce household electricity use, but will do nothing to reduce Australia's greenhouse gas emissions if the proposed CPRS is introduced in 2010. The CPRS relies on the issuance of a fixed number of permits to pollute. If the household sector uses less energy it will simply result in an increase in the number of permits available for other polluters to expand their output. While this expenditure is desirable, the claim that it will result in a reduction in Australia's emissions of 49 million tonnes by 2020 is simply wrong. The CPRS needs to be amended accordingly.
- The Government's willingness to conduct stimulatory fiscal policy has the capacity to be undermined by the desire of state and territory governments to maintain budget surpluses. The federal government needs to provide political support for state premiers experiencing reductions in revenues to allow their budgets to run into deficit.

Recommendations

The major deficiencies in the stimulus package are that it does not provide assistance to those who are most adversely affected by rising unemployment, that is the unemployed, and it does not provide for any direct job creation likely to be of benefit to those outside the retail and building industries. In May 2008, the federal Budget allocated \$2.2 billion to labour market programs for 2008–09. By comparison, in 1995–96, Labor's last full year before the Howard Government, \$3.7 billion was spent on labour market programs (using today's prices). The following proposals are costed at a total of \$3 billion over 12 months. It is proposed that they be introduced in addition to the Rudd Government's package or incorporated into the May budget.

1) Raising the Newstart Allowance as part of fiscal stimulus (\$1.5 billion in 2009–10)

The unemployed are the forgotten people of the government's recent fiscal stimulus packages. They missed out in December 2008 when pensioners received a bonus and it is proposed that they miss out again in this package when taxpayers and parents of school children receive a bonus. Yet spending on unemployment benefits is one of the most effective forms of anti-cyclical spending. It acts as an automatic stabiliser, rising as unemployment increases, and flows directly to the worst-affected regions.

The other reason to increase the Newstart Allowance (NSA) is that its rates have been falling further and further behind pension rates because they are indexed to prices whereas pensions are indexed to wages. This is causing serious problems of equity and a strong incentive for allowees, where they can, to swap to pensions. The argument that unemployment benefits cannot be raised as a proportion of the minimum wage completely ignores the reality that the proportion of other pensions is already significantly higher.

Increasing the NSA to pension equivalence (an increase of \$56 per week for singles and \$64 for married couple) will cost just over \$1 billion currently, rising to \$1.7

billion in 2010. Other recommended changes to the NSA asset test would cost \$.5 to \$.8 billion, bringing the total extra spend to \$2.5 billion in 2010. These increases are explained in greater detail in the attached paper titled *Increasing the Newstart Allowance: a necessary part of equitable fiscal stimulus*.

2) *An employment bonus of \$5000 (\$0.25–0.5 billion)*

It is proposed that employers who take on unemployed people on a full-time basis, when they have been on the NSA for over six months, be paid a bonus of \$5000, provided the person remains employed for 13 weeks. The objective of this initiative is to encourage firms considering hiring workers to bring that decision forward. It will also help firms with some of the initial costs of hiring, reduce the effective wage cost (thus helping firms remain viable) and, at the same time, bias the hiring decision in favour of the long-term unemployed. It is estimated that some 50,000 to 100,000 hires a year would be eligible and the total cost therefore \$.25 to \$.5 billion.

(Note: an existing Wage Assist subsidy of \$4600 is available in limited numbers for the very long-term unemployed.)

3. *Other labour market programs (\$1 billion)*

We propose that community groups, local governments, environmental and other non-profit groups be invited to apply for funding to employ people who are presently unemployed. The federal government would provide salary assistance of up to \$50,000 per annum per job, with organisations required to meet all other non-salary costs. The purpose of placing this cost on organisations is to ensure that they have a strong incentive to create meaningful jobs.

The criteria for inclusion in the scheme would be that jobs:

- must meet genuine community needs, either services or small-scale capital works
- are not to displace existing jobs or positions
- are to be filled by unemployed workers
- are to be paid at full award wages.

The community sector is currently struggling to provide a wide range of services to an ageing population with greater needs and, in the near future, communities with significantly higher levels of unemployment and financial stress. While all community sector organisations would be eligible to apply for funding, it is likely that areas of unmet need that could be rapidly filled would include:

- assisting frail people in their own homes
- organising appropriate care in hospitals, nursing homes etc
- assistance for aged and disabled people with shopping and personal care
- providing respite care
- participation in Landcare and Coastcare programs.

We propose a funding of 20,000 new positions through community service organisations. These would be unskilled positions in the first instance but participants

would be encouraged to undertake relevant training. The cost would be \$1 billion per annum.

Further suggestions

1 Long-term planning

The Rudd Government has shown a willingness to act decisively in response to the short-term impacts of the worldwide economic slow down. However, it is important that Australia begin now to plan for the likely structural shifts ahead, particularly the impact of the probable reduction in Australia's terms of trade and the slow down in mining investment and employment growth. To that end, we call on the government to conduct a comprehensive and integrated inquiry into:

- long-term future needs for continued competitiveness
- future education, skills and scientific inputs
- infrastructure requirements
- international competitive pressures, opportunities and threats.

In part, such inquiries have been held in the past but if the rhetoric of a fundamental shift in both the world and Australian economies is to be believed, it is essential that fresh analysis, based on a new understanding of the world economic climate and a new belief in the positive role of government, be undertaken as a matter of urgency.

2. Develop regional skills planning schemes

The proposal here is to develop skills profiles for the various regions of Australia so as to better plan the vocational education and training needs into the future. For example, the needs of the Riverina differ from those in the shipbuilding areas of Tasmania. Planning needs to be undertaken in conjunction with local tertiary education, local businesses, communities and labour councils.

3. Develop a New Opportunities program for particularly depressed areas.

This program would address community infrastructure and service needs.

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The Australia Institute
5 February 2009

Increasing the Newstart Allowance

A necessary part of equitable fiscal stimulus

Research Paper No. 60

February 2009

David Ingles and Richard Denniss

Introduction and overview

Australia is experiencing a negative terms of trade shock with the price of exports falling relative to the price of imports. This shock is estimated to be minus 13 per cent in 2009–10 (Treasury 2009), which means that real incomes will either need to fall or, at best, rise less quickly than they otherwise might. The more evenly the shock is spread across the economy, the less painful will be the adjustment; in particular, we should not be designing policies aimed solely at assisting those who already have good jobs and secure incomes.

Instead, we should be doing more to help the unemployed who are discriminated against compared to pensioners, thus creating an escalating problem of financial hardship. This is especially important in the light of the expected addition of 300,000 people to the dole queues over the next 16 months. The unemployed are the missing people in the fiscal stimulus equation.

Treasury estimates imply that GDP per head will fall by 0.5 per cent in 2008–09 and by a further 0.75 per cent in 2009–2010. But with inflation down to an estimated two per cent per annum and hourly wages rising an estimated 3.75 per cent this year and 3.25 per cent next year, ‘those in work will be better off than ever’ (Colebatch 2009). This is especially so after taking into account the benefits contained in the latest package. By contrast, those who lose their jobs not only missed out in the December 2008 package, which assisted pensioners and carers, but will gain very little from the current fiscal stimulus package.

The new \$950 a year tax bonus for working Australians will accrue to those who paid tax in the 2007–08 financial year. Some of the newly unemployed will benefit from this but their net transfer benefits will remain well below those of pensioners. The long-term unemployed, in particular, are rarely liable for tax and these are the most disadvantaged section of the unemployed population. Some unemployed will gain

from additional payments in respect of school-age children¹ but, as a general observation, the unemployed are the forgotten people in the two fiscal stimulus packages.

In an earlier paper, The Australia Institute pressed for a higher pension to stimulate the economy (Denniss and Fear 2008). Arguments advanced for raising the age pension included the fact that age pensioners have a low propensity to import and to save and are geographically distributed across the country. The 2008 stimulus package did in fact include this approach, which also extended to disability pensioners.

The arguments for a higher Newstart Allowance (NSA) or unemployment benefit are precisely similar and have the added virtue of helping to address an increasing problem of horizontal equity, the notion that those in a similar financial position should be treated equally. The different indexation regimes applying to pensions (indexed to wages) and allowances (indexed to prices) increasingly create distortions in the welfare safety net. The single rate of the NSA is now \$11,682 per annum compared with the pension rate of \$14,615, and the couple rate is \$21,070 compared with \$24,414. In addition, the means tests on the NSA are much tighter.

To bring the NSA to pension parity requires an increase of \$56 a week for singles and \$64 a week for couples. The more severe the recession ultimately realised, the greater the increase in extra funds for the NSA that will flow automatically to the most economically depressed parts of the country. They act, in other words, as a very effective automatic stabilizer.

Currently, government spending on allowances is around \$5 billion per annum covering some 450,000 recipients.² By July 2010, this will increase by two-thirds according to Treasury projections. An average 22 per cent increase in allowances to bring them to parity with pension rates, together with some easing of asset test conditions, could therefore create an eventual fiscal stimulus of over \$2 billion. This is a comparatively modest amount that would be a sensible component in the 2009 Budget. If such spending is deemed unaffordable, proposed income tax cuts should be deferred to pay for it.

The paper begins by asking who benefits from the income tax cuts foreshadowed for July 2009 and July 2010. The answer is that it is predominantly the well-off, with modest cuts going to those on incomes higher than \$34,000 per annum and greater cuts going to those on incomes over \$80,000 per annum. Why such cuts should be a priority during a recession is not clear. The only cuts that should be a priority are those flowing from increases in the low-income tax offset (LITO), which raise the effective income tax threshold to \$15,000 in July 2009 and \$16,000 in July 2010.

Part 2 describes the different indexation regimes applying to the NSA and the age pension, which have resulted in a steady widening in the rate differential over the past

¹ Some unemployed will also benefit from the \$950 temporary supplement to the Education Entry Payment, which is extended to those who have been receiving eligible benefit payments for one month or longer.

² We do not include Youth Allowance here, although this is also a form of unemployment payment.

decade. On average, the NSA rate is now a fifth lower than the pension rate and even less if pension bonuses are taken into account.

Part 3 describes differences in income tests, which are much tighter for the NSA than for the pension. 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 as sole parents are losing income when their youngest child turns eight and disabled individuals assessed as having a modest capacity to work (and thus placed on the NSA) are much worse off than those who are more disabled and therefore able to claim the disability pension.

Part 4 examines the possibility of reforming the NSA asset test, which is particularly harsh. If a recipient's assets exceed the threshold, there is a 'sudden-death' loss of the allowance. This is in contrast to the pension asset test which phases in gradually. Moreover, there is an additional waiting period of up to 13 weeks for allowees who hold liquid assets above risibly low levels (Part 5). Both these facets of the NSA asset test should be reformed.

These Australian practices stand in sharp contrast to the overseas convention of providing unemployment benefits as a form of insurance readily available in the event of job loss. That is, if individuals lose their jobs, they are eligible for benefits and their assets are not a barrier, a situation that prevails unless they are unemployed for so long that they fall back on to means-tested social assistance.

In conclusion, the paper argues that the 2009 Budget should have as one of its foremost aims the easing of financial hardship experienced by the unemployed, both those currently on the books and those likely to join them as the economy weakens.

Who benefits from income tax cuts?

Prospective income tax cuts, the result of the pre-election commitment of the Rudd Government to match the income tax cuts proposed by the Howard Government, are described in Table 1 below.

Table 1: Current and projected personal tax rate scale for resident individuals

From 1 July 2008		From 1 July 2009		From 1 July 2010	
Taxable income	Rate	Taxable income	Rate	Taxable income	Rate
\$	%	\$	%	\$	%
0–6,000	0	0–6,000	0	0–6,000	0
6,001–34,000	15	6,001–35,000	15	6,001–37,000	15
34,001–80,000	30	35,001–80,000	30	37,001–80,000	30
80,001–180,000	40	80,001–180,000	38	80,001–180,000	37
180,001	45	180,001	45	180,001	45

Source: Treasury 2000a, Table 2.2.

Apart from a small adjustment to the 30 per cent income tax threshold, which confers \$150 per annum on all those earning above \$35,000 per annum, most of the benefit from the July 2009 tax cuts (costing \$2.5 billion) goes to those earning over \$80,000.

The July 2010 cuts, which will cost about \$4 billion, are slightly more progressive (\$300 per annum will go to those earning above \$37,000) but again, the greatest benefits go to high-income earners on more than \$80,000. It is possible in the current conditions that a good part of these tax cuts will be saved, not spent.

Several commentators have suggested that the tax cuts should have been brought forward as part of fiscal stimulus. This paper argues that, far from bringing the tax cuts forward, consideration should be given to deferring them until the economic crisis is past. They should be a lower priority than increases in unemployment benefits and other job-creating spending. The aim should be an equitable spread of the burden of economic slowdown.

However, there is one component of the foreshadowed tax cuts that should go ahead. This is the increase in the LITO, which is currently \$1200, will rise to \$1350 in July 2009 and to \$1500 in July 2010. The LITO acts to raise the tax threshold from \$14,000 currently to \$15,000 in July 2009 and \$16,000 in July 2010. Increases in the threshold help low-income earners and are therefore likely to be quickly spent. They also ameliorate some of the high effective marginal tax rates (EMTRs) arising from interaction between income tax and the social security means tests.³

Effect of different indexation—the NSA and the pension

The NSA was allowed to wither away during the long boom of the last 15 years. It has been frozen in real terms (that is, indexed to prices) while the pension has been indexed to wages and thus increased with rising real wages. Less generous indexation of the NSA may have had some justification during an era of virtually full employment but this is no longer the situation with unemployment forecast to worsen dramatically. Spending more on the unemployed not only makes sense from a counter-cyclical fiscal policy perspective, it also helps to ameliorate the burden of the economic crisis on those most affected by it.

The single rate of the NSA at \$449.30 per fortnight (\$11,682 per annum) compares with the pension rate of \$562.10 per fortnight (\$14,615 per annum), a difference of \$112.80. The couple rate at \$810.40 per fortnight (\$21,070 per annum) compares with the pension of \$939.00 per fortnight (\$24,414 per annum), a difference of \$128.60. The NSA rate is 80 per cent of the single and 86 per cent of the couple pension rate; to achieve parity therefore requires increases of 25 per cent in the single rate and 16 per cent in the couple rate. Increases in the NSA would necessarily flow through to Sickness Allowance (SA), but this is a relatively small population and the cost negligible.

Under current arrangements, a single pensioner receives 60 per cent of the couple rate and there are pressures to increase this. Estimates of equivalent living standards put the required single rate at between 60 and 70 per cent of the couple rate. By contrast, a single Newstart allowee receives only 55 per cent of a couple's entitlement.⁴

³ EMTRs are, however, increased slightly over the range in which the LITO is withdrawn, starting at \$30,000 per annum.

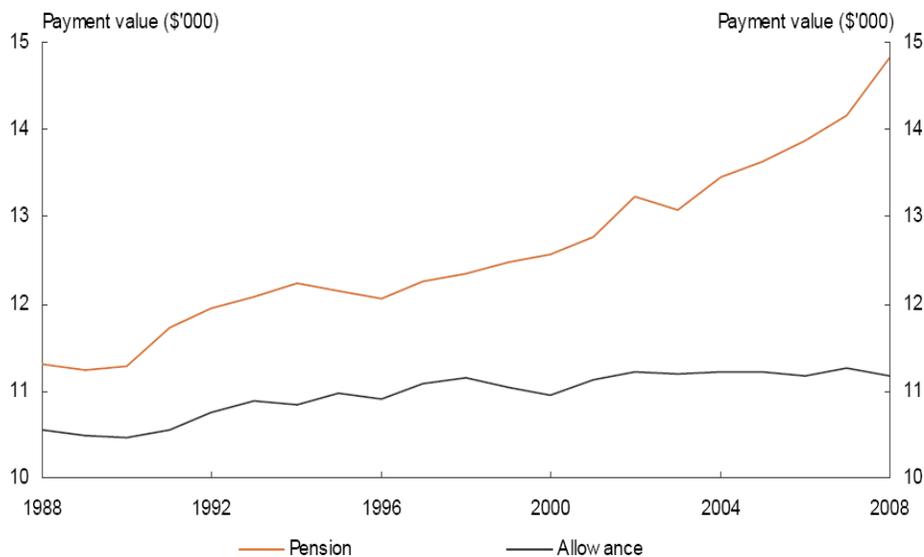
⁴ A point also made by ACOSS (2008b, p.8). If a single allowee has a child or is aged over 60 and has been in receipt of an allowance for over nine months, they receive 60 per cent of the couple rate.

These disparities between the NSA and the pension are understated because of supplements paid to pensioners, including the utilities allowance and telephone and pharmaceutical allowances, which increase the gap for singles to \$79 per week (ACOSS 2008a, p.20). The ACOSS paper provides a comparison of living standards between NSA recipients, age pensioners and others, confirming research findings that the NSA and other payments like Austudy and Youth Allowance are inadequate.

This difference is even greater when account is taken of one-off pension bonuses paid in some recent years and pensioner concessions. A pension bonus of \$1400 (single) and \$2100 (married) was paid in December 2008 in addition to bonuses of \$500 per pensioner in the 2008–09 and 2007–08 Budgets (FaHCSIA 2008). Taking these into account exacerbates the rate differences shown in Figure 1.

The gap between the two rates has been widening since 1997 when pension rates were benchmarked to 25 per cent of *male total average weekly earnings* (MTAWE) while NSA rates were indexed to prices. Wages have grown strongly in recent years and the gap has widened as a consequence (Figure 1).

Figure 1: Real rates of the single pension and allowances, 1988 to 2008



(a) Rates for all years are expressed in 2008 dollar values.
 Source: FaHCSIA estimates.
 Source: Treasury 2008b, Chart 4.3, p. 92.

Differences in income tests

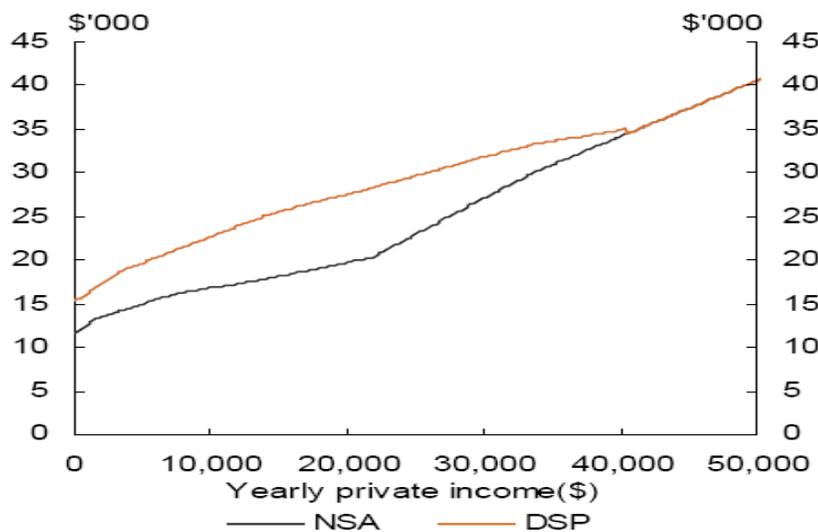
The differences in indexation between the NSA and pensions are exacerbated by the differences in the applicable means-test regimes. An NSA recipient can earn up to \$62 per fortnight (before tax) before payment is affected. Income between \$62 and \$250 reduces the fortnightly payment by 50 cents in the dollar while income above \$250 reduces the payment by 60 cents in the dollar. Partner income, which exceeds the cut-out point, also reduces the payment by 60 cents in the dollar.

The income test for the pension is more generous with a free area of \$138 per fortnight or \$240 per fortnight for a couple. The pension taper at 40 per cent is lower

than the NSA taper of 50 per cent and 60 per cent. Together with the discrepancies in rates, this has created a situation where there is a very strong incentive for Centrelink clients to try and get themselves on to the more generous pension conditions (Figure 2), a situation which concerned the Treasury in its tax consultation paper (2008b, Chapter 4).

For example, an individual with even a moderate disability will naturally seek a Disability Support Pension (DSP) rather than NSA. Not only are the conditions more favourable, but there is limited work testing. By contrast, if an NSA recipient has a disability but is deemed able to work more than 15 hours a week, they may be reliant on Newstart for many years. With a third of NSA clients being long-term unemployed, it is not possible to justify the low NSA rate on the basis that it is only a short-term payment.

Figure 2: The NSA and DSP compared: disposable incomes by yearly private income



Source: Treasury 2008b, Chart 4.11, p. 108.

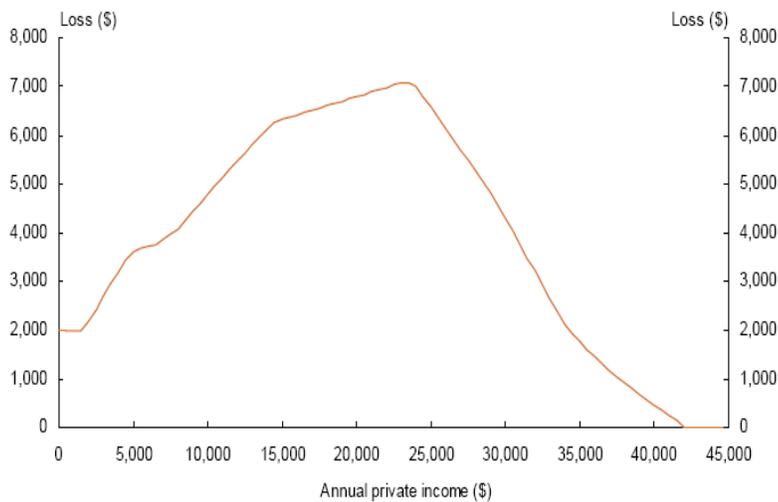
Figure 2 shows the disposable income for given levels of private income accruing to those receiving DSP compared to those receiving the NSA. The maximum difference in disposable income is about \$7000 per annum at a private income of \$20,000 per annum. These anomalies will continue to widen with time given the differences in the indexation regimes.

Similar disparities exist for sole parents transiting from Parenting Payment Single to the NSA. The Welfare to Work changes of July 2006 require sole parents to look for part-time work of 15 hours a week when their youngest child turns six. When the youngest child turns eight, sole parents may be moved on to the NSA and could

experience a drop of over \$200 per fortnight in their benefit income. The new rules allow prior recipients of Parenting Payment to continue on this payment.⁵

Figure 3 (an alternative way of depicting information similar to that in Figure 2) shows the loss of disposable income, depending on the amount of private income received, on moving from Parenting Payment Single to NSA rates. These losses are so great (up to \$7000 per annum) that they are beginning to strain the whole system and undermine the potential for simplifying changes such as a single workforce age payment. They also create severe inequities between those subject to the new rules and those whose Parenting Payment entitlements were ‘grandfathered’ under the 2006 changes.

Figure 3: Loss of disposable income on switching from Parenting Payment Single to NSA, by annual private income, 2008–09



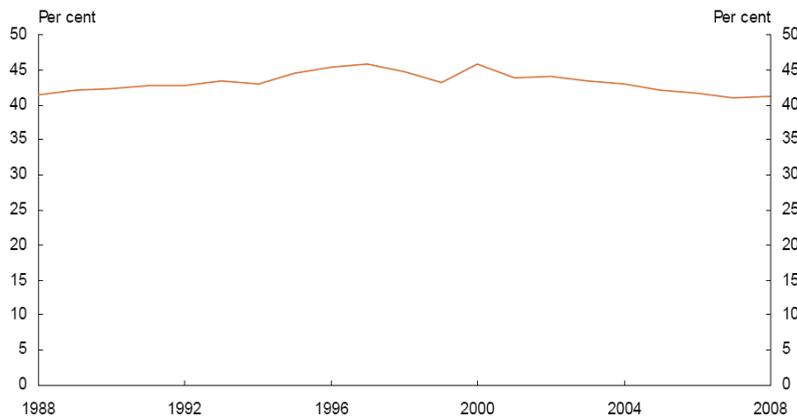
Source: DEEWR estimates.

Source: Treasury 2008b, Chart 4.4, p. 93.

Maximum NSA rates may be constrained by their relationship to the minimum wage, which has been falling as a percentage of the average wage. The result is that the allowance rate, while falling as a percentage of the average wage, has tended to be a fairly steady percentage of the federal minimum wage (FMW) since 2000 and now stands at about 42 per cent, the same proportion as in 1988. An allowee undertaking substantial part-time work can earn 80 per cent of the FMW and still receive some income support (Treasury 2008b, p. 99).

⁵ If a sole parent on Parenting Payment with a child aged eight or over ceases to need the payment for over 12 weeks (due to income, re-partnering or loss of custody of the child), they lose it and fall under the NSA regime instead.

Figure 4: Allowances as a percentage of the minimum wage, 1988 to 2008



Source: DEEWR estimates.

Source Treasury 2008b, Chart 4.6, p. 99.

How much the NSA can or should be raised relative to the minimum wage is a matter for judgement. For example, the recommended 25 per cent increase in the single NSA would take it to 52 per cent of the minimum wage, with entitlement phasing out at around 100 per cent of the minimum wage. There is no reason to suggest that this should be regarded as excessive.

Reforming the allowance asset test

The second set of issues concerns the NSA asset test. Unlike the pension test, which phases out at higher asset levels, this is a ‘sudden-death’ test that extinguishes eligibility when assets exceed the cut-outs shown below.

Table 2: The NSA and pension asset test cut-outs

	NSA allowees (\$)	Age and DSP pensioners (\$)
Homeowners	171,750	550,500
	243,500	873,500
Non-homeowners	296,250	675,000
	368,000	998,000

The pensioner asset test has the same thresholds as the cut-outs for allowees but exceeding these thresholds does not suddenly extinguish eligibility; instead the pension phases out at the rate of \$1.50 per fortnight (\$39 per annum) for every \$1000 of assets above the limit. This amounts to a 3.9 per cent wealth tax above the thresholds or an imputed income of 9.75 per cent from assets (given the 40 per cent pension taper).

The sudden-death NSA cut-out is arbitrary and unfair, especially to people just above the limits who may end up significantly worse-off than those with several thousand dollars fewer in assets. As a general principle, sudden-death cut-outs should be avoided wherever possible precisely because of this effect, particularly given the

difficulties in measuring asset values accurately. The NSA means test should therefore phase in gradually rather than arbitrarily cutting out people with assets that are not excessive by current community standards (mean household net worth is \$563,000 according to the latest ABS data (ABS 2007)).

One option is to reduce the allowance by, say, \$3 per fortnight⁶ for every \$1000 by which assets exceed the thresholds. It is difficult to cost this option but if it added 10 per cent to the cost of the NSA, the cost would be \$500 million per annum.

It is important to note that asset tests in overseas unemployment insurance benefit schemes are unusual. Rather, benefits are related to income in employment and are often time-limited. Asset tests only cut in when insurance benefits lapse and people fall back on social assistance.⁷ Responses to recessions often include lengthening the period over which insurance benefits are paid.

Liquid assets waiting period

One of the most penal features of the NSA asset test is the liquid assets waiting period. Liquid assets are defined as cash, bank deposits (including term deposits), shares and debentures and so on. An allowee can be required to serve a waiting period of between one and 13 weeks if their liquid assets exceed \$2500 (\$5000 for a couple).⁸ These are very small amounts and the whole point of this test appears to be highly punitive.

The test is in addition to the *income maintenance period*, which affects payment for that period of time relating to accrued leave paid out as a lump sum. While the liquid asset waiting period is partly aimed at those who have received a termination payment from their last job, the philosophy behind it is in complete contrast to the insurance philosophy of most OECD countries whereby unemployment payments are payable simply because of the contingency of job loss.

In 1997 the Coalition Government halved the allowable assets of \$5,000 (for singles) and \$10,000 (for couples) as part of their general policy of punishing the unemployed. At the very minimum, this should be undone. A fairer policy, however, would be to abolish the liquid assets waiting period altogether. We estimate that this would cost some \$50 million per annum.

Conclusion

The two fiscal stimulus packages, while probably preventing many more people from becoming unemployed, have largely overlooked those who actually are unemployed. But it is not too late. The 2009 budget should have, as one of its aims, an easing of conditions for the unemployed who are subject to sub-poverty-line payment rates and a stigmatising and onerous asset and income-test regime.

⁶ This was the rate under the pension asset test prior to the 2007 changes.

⁷ Such social assistance can be more tightly means-tested than NSA.

⁸ For each \$1000 over the limit, a person faces a one-week waiting period up to the maximum of 13 weeks; thus with \$15,500 a single person can wait three months to receive any NSA. In 2003–04, 38,460 NSA recipients were affected by the provision, with an average waiting period of 8.4 weeks (National Welfare Rights Network 2005).

Monies directed to the unemployed will be quickly spent and will thus be more stimulatory than tax cuts for the middle class and well-off. They should thus be a higher priority for a government that calls itself social-democratic. In addition, the burden of adjustment to the economic crisis will be spread more fairly across the whole of the population, with the measures directly benefiting those most adversely affected.

The total estimated cost of the changes suggested in this paper is set out in Table 3. The cost would rise with increases in unemployment, from \$1.6 billion currently to about \$2.8 billion, but that is a desirable feature of an automatic stabiliser. Overall, the cost would be a modest part of the total fiscal stimulus so far, amounting to some \$52 billion.

Table 3: Total cost of proposed NSA changes 2008–09 (\$m)

Increase rates to pension parity	Tapered asset test	Abolish liquid asset waiting period	Total
\$1100	\$500	\$50	\$1650

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