Australian
Council of
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Submission to the Senate Economics Committee

Inquiry into the Government's economic stimulus initiatives

ACOSS, September 2009

Introduction

ACOSS strongly supported the two economic stimulus packages, the first of which was introduced a year ago. This inquiry is timely as it provides an opportunity to review these initiatives, and to make adjustments where necessary.

The evidence indicates that the package prevented a steeper and more prolonged slowdown in growth and saved jobs. For example, a recent OECD report estimates that 150,000 to 200,000 jobs were 'saved' as a result of the stimulus measures.[1]

Given the severity of the financial crisis and the slowdown in international growth levels, this is a remarkable achievement. It is also a considerable improvement on the efforts of policy makers to ease the impact of previous recessions in Australia.

This appears to be due to the timing and structure of the stimulus packages, together with Australia's relatively robust system of financial regulation and our closer economic ties with the growing East Asian region. The first stimulus package was implemented quickly, before official data came in to confirm a high risk of recession. To reinforce this, there was an early emphasis on transfers to households (especially lower-income households), so that the benefits would quickly flow through the economy. Subsequently the baton was passed to infrastructure investment. Although this takes longer to plan and roll out, it is more effective in stimulating growth per dollar spent and meets longer term policy goals as well, such as better access to social housing for low income Australians. Since most of the expenditure in the stimulus packages is of a one-off nature, the implications for future budgets are limited mainly to the interest expense of additional public borrowings.

Economic growth has held up better than most people expected. From the second quarter of 2008 to the second quarter of 2009, the Australian economy grew by 0.6% compared to an average *contraction* across OECD economies of 4.6%. Understandably, many people are relieved by this result. However, this achievement should be viewed from the following perspective:

- This is still a big reversal for an economy that has grown at over 3% per year for many years.
- There is considerable uncertainty attached to forecasts of economic recovery, especially given the impact of the shake-out in financial sectors, and high levels of household and public debt, in major OECD economies.
- The most important economic and social effect of the downturn - the rise in unemployment – has not yet fully played out. Unemployment has already risen by more than 40% from the lowest level achieved during the boom. It is likely to keep rising for at least another six months unless the recovery is very rapid and steep, which is unlikely. If it rises above 7%, this would wipe out 7 years of progress in reducing unemployment.
- Although unemployment rises quickly after recessions, it usually takes many years to fall back to its previous level, if it does so at all before the next downturn. The economy may begin to recover soon from this downturn, but employment is likely to take much longer to recover, given high household debt levels and the likelihood of slow growth in job-intensive industries.
- Around 12 months after a severe downturn, long term unemployment (being out of work for over 12 months) rises sharply as those people with limited skills or barriers to work experience increased difficulty in the labour market. Many who live in the worst affected

[1] OECD 2009, Employment Outlook.

regions are also left behind. A year after the 1991 recession, the number of long term recipients of unemployment benefits doubled from 180,000 to 350,000, peaking at 430,000 a year later. The number of long term Newstart Allowance recipients still stood at over 300,000 people at the peak of the boom last year.

- Within three years from the start of the last downturn, the number of recipients of 'longer term' payments (long term New Start Allowance plus Disability Support Pension, Parenting Payment Single and Partner Allowance) rose by half a million people.

Long term joblessness leads to poverty (for example, Newstart Allowance is just $228 per week for a single adult), poor health, a loss of confidence and skills, tensions within families, and often the need to move to areas where housing is cheaper, which concentrates these social problems in the same areas. This means that many Australians will not 'bounce back' as the economy recovers. For example, over one on five Newstart Allowance recipients lack a decent and secure home, over one in four could not pay a utility bill (within the last 12 months) and over four in ten are unable to afford necessary dental treatment.[2]

If we can prevent high levels of long term joblessness from becoming entrenched, many of these social problems, and their high costs to Governments in future years, can be avoided. This should be a major objective for economic and social policy over the next two years. It is vital that the Government apply the same foresight and energy to this problem as it did to avoiding a more severe downturn in the first place.

Given these economic uncertainties and social risks, it would be a mistake to wind back the economic stimulus earlier than planned. Investment in public infrastructure takes time to plan, coordinate, and implement. Once this process is truncated it would be difficult to re-activate it if the economy deteriorates later on. This is especially so when more than one level of Government, and a wide range of not for profit and business sector stakeholders are involved.

At the same time, it is sensible to pause at this stage to consider whether those elements of the stimulus that have not been fully implemented could be fine tuned and adapted in light of experience and changing circumstances.

We propose two specific changes:

- that 25% of additional funds allocated through the Jobs Fund be earmarked for long term unemployed people in the 'work experience phase' of Job Services Australia (JSA) assistance. These long term unemployed people could be referred and supported through their job placement by JSA providers;

- that the Government meet its original funding commitment to social housing, either by reinstating the $750 million to social housing stimulus, or committing this funding to a future affordable housing growth fund.

[2] ACOSS 2008, Who is missing out?

Jobs Fund

From the 'Jobs Fund' $650 million will be invested over three years to July 2011 in community projects such as environmental improvement, local infrastructure and enhancement of community services. We understand that roughly one quarter of this amount is already committed.

This grants-based program is targeted towards regions with the highest unemployment. However, it is not specifically targeted towards unemployed people. Many who obtain jobs as a result of this investment would already be employed, especially on projects requiring highly skilled workers.

There is a balance to be struck in programs of this kind between maximising community benefit at the least cost (which suggests employment of skilled workers who already have jobs or at least have strong job prospects) and assisting those most affected by the downturn – long term jobless people on income support payments who often require training, mentoring and support to perform the work. Temporary paid employment can significantly improve the future job prospects of long term jobless people by updating on their job skills, widening their job search networks, providing references from an employer, and raising confidence and self esteem.

We suggest that a better balance could be struck by earmarking at least one quarter of further Jobs Fund allocations to long term unemployed people referred by Job Services Australia providers, within a special stream of the program established for this purpose. To avoid confusion with other objectives of the Jobs Fund, the main objective of this stream of the program would be to improve the future employment prospects by engaging them in paid temporary employment in projects of local community benefit. These jobs would typically last for 6 to 12 months, would be paid at the going rates for the job, and would be fully subsidised through the Jobs Fund.

A further option would be to require all new Jobs Fund projects allocated funding above a certain minimum level to employ at least one quarter of their workers from the ranks of long term unemployed people.

If such a stream is established within the Jobs Fund, it is important that long term unemployed people are appropriately targeted for assistance. They should be unemployed long-term and in receipt of a relevant social security payment (such as Newstart Allowance or Parenting Payment). The stream should focus on people who are disadvantaged in the labour market, yet likely to benefit (in terms of future job prospects) from a temporary job of this kind. The best way to ensure this is to restrict access to these positions to long term unemployed job seekers referred by Job Services Australia providers from among their 'work experience' jobseekers.[3] The placement would meet their activity requirements, and the Job Services Australia provider would be available to support them to complete their work placement and to find ongoing employment afterwards.

ACOSS recommends that a special stream be established within the Jobs Fund whose purpose is to improve the future job prospects of long term unemployed people by engaging them in paid temporary employment in projects of local community benefit. At least one quarter of future funding would be allocated for this purpose.

These jobs would typically last for 6 to 12 months, would be paid at the going rates for the work, and would be fully subsidised through the Jobs Fund. Unemployed people would be referred to projects for this purpose by Job Services Australia providers from among their 'work experience' job seekers.

[3] This is the phase of assistance job seekers typically enter after 12 months of unemployment.

Social housing funds

ACOSS strongly supports the social housing element of the stimulus package. We believe that the initial level of funding committed was both appropriate and necessary to achieve the economic and social objectives.

ACOSS welcomed the initial commitment of $6.2 billion for social and community housing in the stimulus plan for the construction of approximately 20,000 new dwellings and major repairs to 2,500 existing dwellings. Investment in public and community housing provides a direct stimulus to the housing and construction industry while also responding to the acute need for more affordable housing in Australia.

Seven months have passed since the announcement of the Nation Building – Economic Stimulus Plan. While other major economies have experienced housing market collapses, house prices and rents remain extremely high in Australia due to the shortage of affordable housing. The need for affordable housing remains critical. ABS figures suggest that Australia is experiencing a shortage of an estimated 251,000 affordable dwellings for low income Australians. [4] Over the decade from 1995 to 2006, Australia experienced a decline in public housing stock of approximately 25,000 dwellings, offset only in part by some increase in community housing.[5] This has led to lengthy, though tightly targeted, public housing waiting lists (at approximately 180,000 people). [6] Housing affordability is also the primary structural cause of homelessness. The 2006 Census figures recorded 105,000 Australians homeless on any given night.[7]

The Government has made some ambitious commitments to reduce homelessness and offer accommodation to all 'rough sleepers' by 2020 in its Homelessness White Paper, The Road Home. Continued investment in housing stock, as well as ongoing operational funding to provide support to tenants, will be a crucial factor in achieving the Commonwealth's goals around reducing homelessness, its efforts to alleviate the housing stress that affects more than a million low-income Australians and its reform agenda to develop a more diverse social housing sector in which there is greater transparency and contestability. The Government has noted itself that the anticipated increase in public and community housing from the stimulus package is about half of what is needed in order to meet the 2020 homelessness targets.[8]

Investment in affordable housing has clear economic, as well as social, benefits. The multiplier effects of investment in housing construction are significant due to the use Australian materials the very large labour component. Further, assets built as a result of this investment remain in the hands of State Housing Authorities and community housing association. Investment is therefore not a direct bail-out payment to the construction and building industries, but generates work to develop secure assets to meet a critical social need now and in the future.

In August 2009, following the Commonwealth Coordinator-General's Progress Report, $750 million from the social housing component of the Stimulus Plan was reallocated.

The reallocation of funding was justified by reference to efficiencies and lower than expected costs arising from land contributions from States and Territories and leveraging by community housing organisations. As a result of these factors, the Coordinator General reported that costs of construction had been lower than expected.

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[4] National Housing Supply Council (2009) 'State of Supply' report, p vxii and 98.

[5] Australian Institute of Health and Welfare, *Australia's Welfare 2007,* at 237.

[6] AIHW, *Public Rental Housing 2006-07: Commonwealth State Housing Agreement national data report,* at x.

[7] ABS, 'Counting the Homeless 2006'.

[8] Mr Rudd, House of Representatives Hansard, Tuesday 3 February, pg 11-12.

In addition, the success of the repairs and maintenance program was highlighted in the Coordinator General's report with the allocated $400 million achieving major repairs to 10,000 dwellings, far above the estimated 2,500 uninhabitable dwellings to be returned to stock as a result of major repairs.

ACOSS was pleased by the efficiencies achieved through the cooperation of state and territory governments and the community housing sector. However, we are concerned that this is being used as a justification for reducing funding to social housing, rather than maximizing the opportunity provided by the stimulus funding. Based on the revised lower costs of housing construction, the $750 million to be reallocated could have generated an additional 2600 affordable housing dwellings (far exceeding the 800 shortfall in new dwellings). As such, the reduction in funding represents a missed opportunity to make further inroads into the housing affordability crisis.

The reduction in funding will also be a significant and unforeseen setback for state governments and the community housing sector, both of whom have displayed a strong commitment to expediency and efficiency in the delivery of the stimulus plan. Until the recent announcement, both housing sectors had been proceeding on the assumption that the social housing stimulus would be implemented as planned. Relying on this plan, state and community housing providers have engaged in extensive consultation and planning with other sectors, including builders, developers, and the finance industry. Many of these plans will no longer come to fruition. The community housing sector, which was set to play a greater role in the final phase of the roll out than the initial phase, will be adversely affected by the recent changes, in some cases being forced to withdraw from deals or potential partnerships. This will have a negative impact on partnerships between community housing organisations and the private sector which are essential to increase the supply of social housing and to the realisation of the Federal Government's social housing reform agenda.

ACOSS recommends that the Government meet its original funding commitment to social housing, either by reinstating the $750 million to social housing stimulus, or committing this funding to a future affordable housing growth fund. A long term commitment to the growth of affordable housing stock is needed to meet the high level of housing need in Australia.

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