

30 September 2008

## BETWEEN THE LINES

**If you are sick of a 24 hour news cycle dominated by commentary on fluctuations in the stock exchange and concern about consumer sentiment then The Australia Institute's *Between the Lines* is for you. Our new electronic bulletin provides selective analysis of the policy and politics affecting the wellbeing of Australians.**

**This first edition considers:**

- Why we measure stock market performance daily, but don't measure what really counts.
- The record profits of Australia's big banks despite the 'crisis'.
- The real reasons behind Australia's doctor shortage.
- The Governments review of Australia's tax system: are we paying enough?

### **Measuring wellbeing**

Have you ever wondered why we are told so much about the daily movements in the Dow Jones and the ASX stock market indexes, but we know so little about the state of our education system, the rate of land clearing or how much water is being taken from the Murray River each day?

The sad reality is that we only know about things that our policy makers care about, and what they care most about is the state of the economy, and what they care least about is the state of our society and the state of the environment. Of course governments, state and federal, would deny that, but a quick look at the data they collect the most of should settle the argument.

These days it seems that everyone wants to protect the environment and work towards maximising 'wellbeing'. The Commonwealth Treasury, for example, states that its mission is to 'improve the wellbeing of the Australian people'. But without access to data on all the things that matter to people, how can such advice be provided?

The Rudd Government is in the process of formulating the targets for its carbon Pollution Reduction Scheme, and in doing so it will need to 'balance' the 'needs' of the economy and the 'needs' of the environment, but the information available doesn't really allow for such balancing to occur. For example, while there are elaborate models that can predict the impact of higher petrol prices on investment in new cars, we have no real understanding of the impact of a slight rise in temperature on the rate of extinction of Australia's unique flora and fauna. Similarly, economic models can predict the impact of the price of carbon dioxide emissions on employment in the coal industry, but no-one can forecast the impact of climate change on the Great Barrier Reef, including the number of species and tourism jobs that might be lost.

When it comes to the goal of wellbeing actions speak louder than words. It is time that the Government spent a lot more money collecting a lot more information about

the things that really matter. Until they do so we have concrete evidence that they are not interested in evidence based policy.

The Institute is working on the development of new indicators of wellbeing. Let us know what you think we should be measuring at [mail@tai.org.au](mailto:mail@tai.org.au)

### **Australia's banking crisis – what to do with all those profits?**

In the 12 months leading up to March 2008 Australia's banks made \$23.5 billion. That's a lot of money. In fact, \$23.5 billion is equivalent to around 2 per cent of GDP – put another way, of every \$100 earned in Australia, \$2 goes to the owners of Australia's banks.

How do they do it? Banks make most of their money from two main sources. First, they pay a lower rate of interest to their depositors than they charge on their loans – and this differential has been growing in recent times. And second, they make a lot from all those fees and charges that their customers incur for that same lending and borrowing. In fact, according to the banking regulator ([www.apra.gov.au](http://www.apra.gov.au)) the major banks are making around 30 cents in profit for every dollar they charge us in fees or interest rate differential.

While the major banks have access to all the money that their customers deposit with them (and in many cases can charge them for the privilege) non-bank lenders have to borrow money from investors before they can lend it out to potential home-buyers. With all the shenanigans in the US these non-bank lenders have been finding it harder to find investors willing to lend them money and they have to pay them more to do so. This is delivering a tidy windfall to the big banks in Australia.

Over the past decade the non-bank lenders have been putting downward pressure on the interest rate differentials the big banks have been able to charge. Now that the costs of funds are increasing for the non-bank lenders (thanks to the US credit crisis), the big banks have opportunistically increased the differential between what they pay their depositors and what they charge for their loans.

While there is not too much that the Federal Government can do about the costs of funds that the non-bank lenders have to pay there is plenty they can do about bank fees. Most experts who have looked at the penalty fees charged by banks have concluded that they are probably illegal, but no one has been game enough to take all the banks all the way to the High Court. If the Rudd Government wanted to really help the customers of Australia's banks maybe it should fund a test case?

### **So we can take their doctors but they can't take our footballers?**

The decision by the Bulldogs rugby league player, Sonny Bill Williams, to abandon his Australian contract and move to France to play Rugby Union sparked immense media interest. The latest rumour is that money doesn't buy happiness after all and he is thinking about returning to play in Australia again.

But in all of the 'analysis' of the globalization of sport, and all the consternation about how 'unfair' it was that money could be more important than loyalty, there was no

mention of the impact of globalisation of a range of other professions – like doctors.

Australia began under-investing in the training of medical doctors in the mid 1990s. The result of this short sightedness is the current shortage of general practitioners, particularly in regional Australia. The solution to this problem has been to rely on immigration of trained doctors from developing countries.

While it is important that Australia's migration program provides opportunities for people from all backgrounds, including overseas trained doctors, to relocate to Australia, it is also important to consider the consequences of deliberating relying on the education system of a developing country to overcome our own failure to invest in skilled occupations.

One way to overcome the tension between the preferences of individual overseas trained doctors and the inequity of a rich country relying on a developing country to train our doctors would be for the Australian government to provide the cost of training an Australian doctor to any developing country that trains a doctor who is granted residency in Australia. While imperfect, such a solution would at least allow developing countries to train more doctors than they are losing.

**The Australia Institute's tax submission: please send your contributions**

The Australia Institute is working on a series of submissions to the Henry Tax Review. If anything is sure it is that the views of the corporate sector and those of wealthy individuals will be well canvassed. It is important, therefore, that the Review hears many alternative views. We are therefore keen to get as many contributions into our submissions from our members and other interested parties.

The terms of reference for the Henry Tax Review are very wide and include, the balance of taxes on work, investment and consumption; the role for environmental taxes; the interaction of the tax and social security system on affected people and families; simplifying the total tax system at all levels of government; and the interrelations between the various taxes and with the proposed emissions trading system.

The Australia Institute's submission will cover these topics and more with emphasis on equity issues.

Contributions can be sent to [mail@tai.org.au](mailto:mail@tai.org.au) The Australia Institute will either publish your contribution as part of the submissions or include your views as part of the narrative.

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**We hope you've enjoyed the first edition of *Between the Lines*. We've instigated this new update to provide more regular and topical analysis to complement our newsletter and research papers. If you have any comments or contributions regarding *Between the Lines*, send them to [mail@tai.org.au](mailto:mail@tai.org.au).**

**If you know someone else who needs to read *Between the Lines*, please forward this email. They can sign up receive it at [www.tai.org.au](http://www.tai.org.au).**