

Chapter 5

2014–15 Budget impact on income inequality

In the same town were two men, one rich, the other poor. The rich man had flocks and herds in great abundance; the poor man had nothing but a ewe lamb, only a single little one which he had bought. He fostered it and it grew up with him and his children, eating his bread, drinking from his cup, sleeping in his arms...When a traveller came to stay, the rich man would not take anything from his own flock or herd to provide for the wayfarer who had come to him. Instead, he stole the poor man's lamb and prepared that for his guest.¹

5.1 Government policies affect income inequality. The 2014–15 Budget (Budget) proposed multiple policy changes, which many submitters and witnesses argued will increase the level and extent of income inequality in Australia, by widening the gap between low income and other Australian households.

5.2 In this chapter, the committee examines certain Budget measures and their anticipated effect on low income households. The chapter focuses particularly on Budget measures in the Social Services portfolio, as the committee received considerable information in relation to these changes.

Analyses of the 2014–15 Budget

5.3 On 13 May 2014, the Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, presented the Budget, noting that Australia (then) had '\$123 billion of deficits and \$667 billion of debt'.² To return to surplus and reduce the debt, the Budget presented a number of measures that affect tax offsets and income support payments in the Treasury and the Social Services portfolios.

Analyses conducted in May 2014

5.4 In the fortnight following its presentation, the Budget's impact on household disposable income was analysed by Professor Peter Whiteford and Mr Daniel Nethery from the Crawford School of Public Policy at the Australian National University (ANU), and by Mr Ben Phillips, Principal Research Fellow for the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra.

National Centre for Social and Economic Modelling

5.5 NATSEM analysed the impact of tax and benefit changes under the Coalition Government, by estimating the distributional impact on family incomes of the major

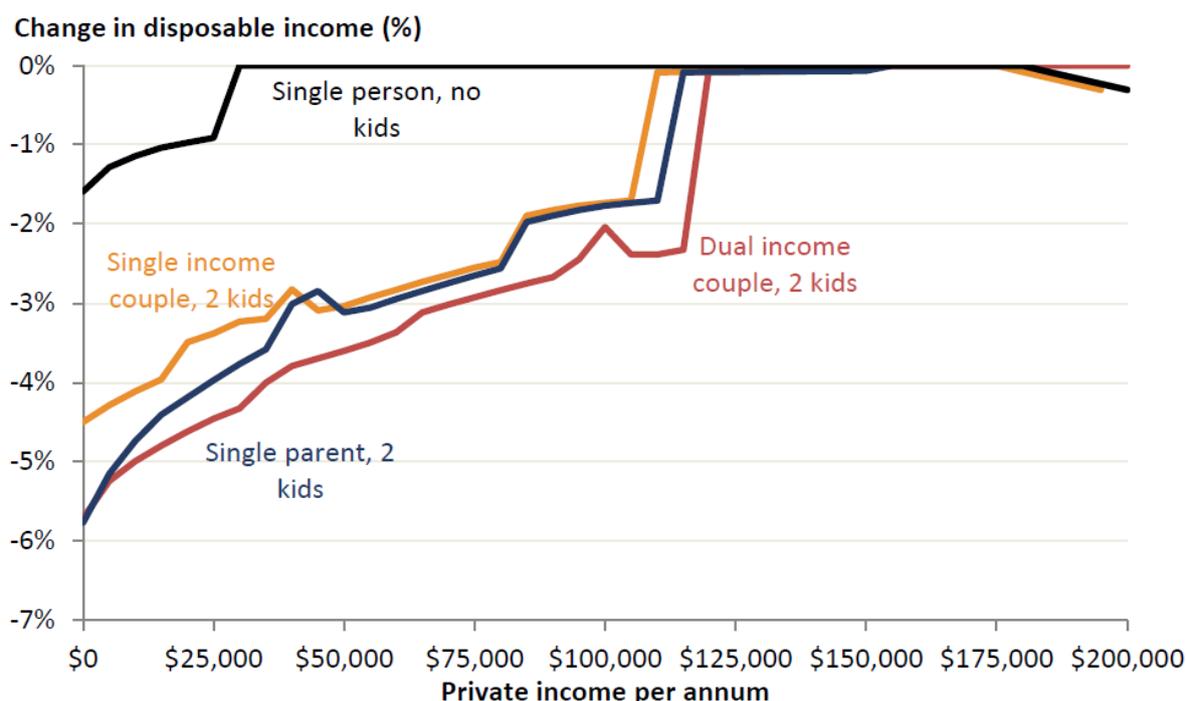
1 2 Samuel 12:1–4.

2 Budget Speech, *House Hansard*, 13 May 2014, p. 3591.

changes effected following the 2013 Federal Election (including those contained in the Budget).³ The results of the analysis show that low income families with children will be disproportionately affected by the Budget.

Figure 5.1: Measures proposed in the Budget will disproportionately hurt low income people

(Modelled change in disposable income in 2014–15 by private income for various household types)



Source: Australian Council of Trade Unions, *Submission 46*, p. 30, citing Phillips, B., *NATSEM Budget 2014–15 Analysis*, NATSEM, University of Canberra, 26 May 2014.

5.6 NATSEM's findings in relation to the immediate impact of the Budget on households were summarised as follows:

The burden on families for 2014–15 falls most heavily on low and middle income families with children. The impact on high income families with children is smaller in dollar terms and [percentage] terms. Across all families (including singles and couples without children) the dollar impact varies by income level without a clear pattern. In percentage terms,

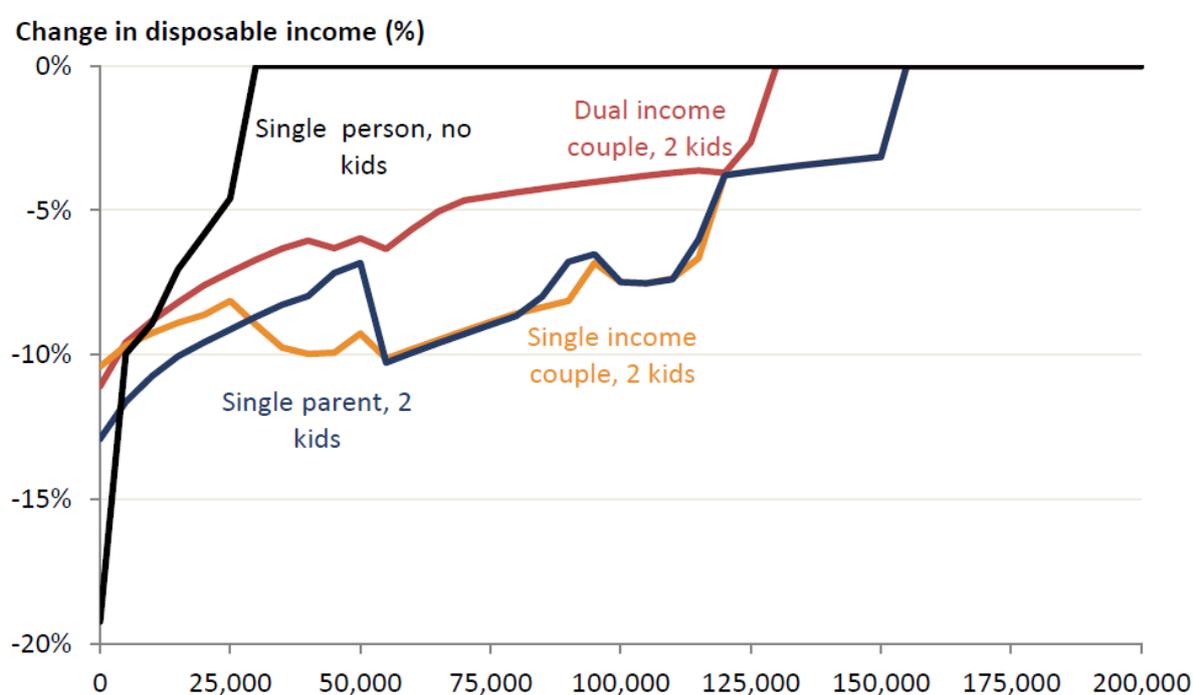
3 Phillips, B., *NATSEM Budget 2014-15 Analysis*, National Centre for Social and Economic Modelling (NATSEM), University of Canberra, 26 May 2014, p. 1, <http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf> (accessed 18 November 2014). The modelling focussed on 18 budget measures and three additional measures (Schoolkids Bonus, The Income Support Bonus, and the repeal of the Carbon Price) but did not include the Stronger Participation Incentives for Job Seekers under 30 measure, which would 'add significantly to the impact on low income families, mostly single persons': p. 3.

the impact is clearly felt by the low income families more than high income families.⁴

5.7 NATSEM's analysis also revealed that, within three financial years, the Budget will not negatively impact high income earners. In contrast, measures in the Budget which are not temporary (for example: indexation, payment rates, eligibility thresholds) will continue to affect low income earners.⁵

Figure 5.2: The effect on low income earners grows: the effect on high income earners disappears

(Modelled change in disposable income in 2017-18 by private income for various household types)



Source: Australian Council of Trade Unions, *Submission 46*, p. 31, citing Phillips, B., *NATSEM Budget 2014–15 Analysis*, NATSEM, University of Canberra, 26 May 2014.

5.8 NATSEM reported:

The burden on families of the 2014–15 budget is quite clear by 2017–18 once all grandfathering arrangements are removed and the deficit levy is removed. Low income couples with children (bottom 20 per cent) are worse off by around 6.6 per cent while single parents are worse off by around 10.8

4 *NATSEM Budget 2014–15 Analysis*, 26 May 2014, p. 4.

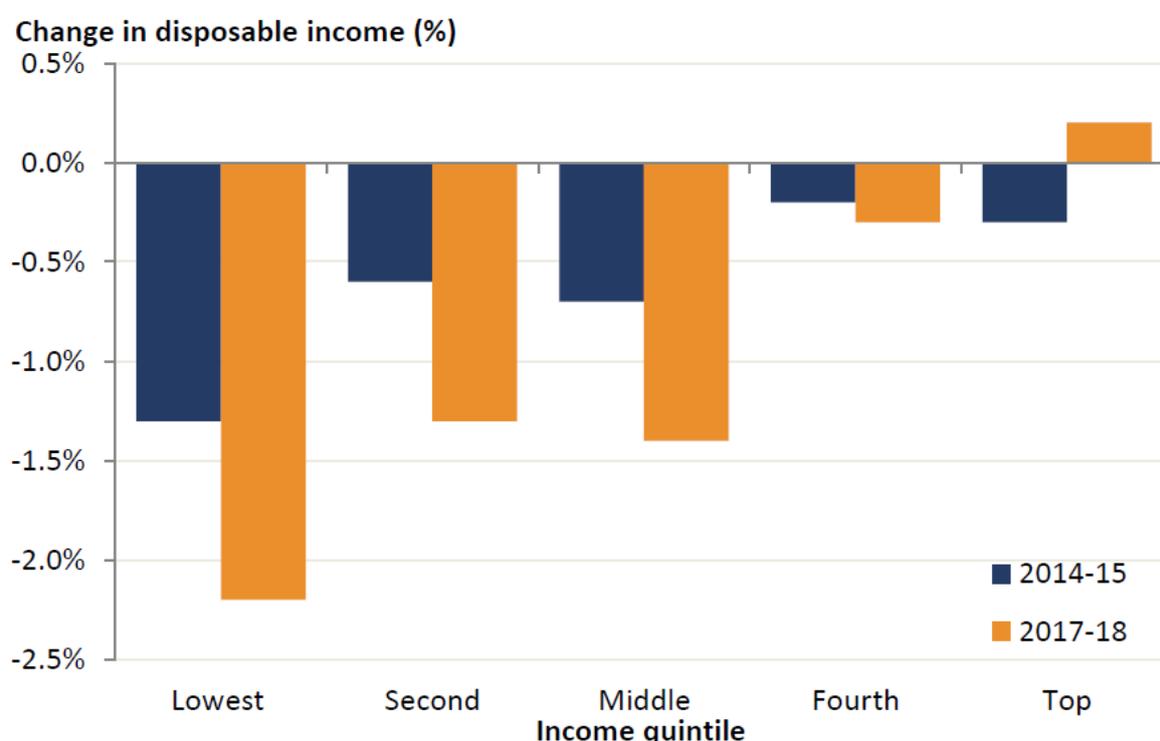
5 Australian Council of Trade Unions (ACTU), *Submission 46*, p. 30; Ms Emma King, Chief Executive Officer, Victorian Council of Social Service, *Committee Hansard*, Melbourne, 18 September 2014, p. 10.

per cent on average. High income families are marginally better off thanks to the carbon price removal.⁶

5.9 The Australian Council of Trade Unions (ACTU) submitted that the inequitable effect of the Budget can be seen most clearly in Figure 5.3,⁷ which shows the greatest mean change in disposable income for the lowest income quintile in both 2014–15 and 2017–18.

Figure 5.3: The Budget affects low income earners the most

Mean change in disposable income by quintile as a result of the 2014 Budget in 2014–15 and 2017–18



Source: ACTU, *Submission 46*, p. 32, citing Phillips, B., *NATSEM Budget 2014-15 Analysis*, NATSEM, University of Canberra, 26 May 2014.

Australian National University

5.10 The ANU replicated the methodologies used in previous editions of the Budget Overview, to calculate the disposable income of households in different family situations and at different income levels, contrasting this income with its 2016-17

6 *NATSEM Budget 2014–15 Analysis*, 26 May 2014, p. 4.

7 *Submission 46*, p. 31.

value, with and without the proposed Budget changes.⁸ Professor Whiteford and Mr Nethery found that 'people on benefits do the heaviest lifting':

An unemployed 23-year-old loses \$47 per week or 18 per cent of their disposable income. An unemployed lone parent with one 8-year-old child loses \$54 per week or 12 per cent.

Lone parents earning around two-thirds of the average wage lose between 5.6 to 7 per cent of their disposable income. A single-income couple with two school-age children and average earnings loses \$82 per week or 6 per cent of their disposable income.

Compare this to the \$24, or less than 1 per cent of disposable income paid through the Deficit Levy by an individual on three times the average wage—close to \$250,000 by 2016–17. High-income couples could together bring in up to \$360,000 per year and not contribute an extra cent.⁹

Treasury analysis released in August 2014

5.11 On 1 August 2014, Treasury released its 'Final Distributional Analysis for 2014–15 Budget'. This analysis revealed findings similar to those of the ANU and NATSEM:¹⁰ the Budget will reduce the average cash transfer for lower income groups by a greater amount than for higher income groups.¹¹

5.12 Associate Professor Roger Wilkins from the Melbourne Institute of Applied Economic and Social Research commented on Treasury analysis having been discovered under Freedom of Information processes. Professor Wilkins considered that such analysis should be routinely conducted and made available by Treasury:

[A]s a matter of course much more detailed analysis of the implications for the income distribution of policy measures should be produced. It is in the interests of transparent government that that be done. Obviously, there are

8 Whiteford, P. and Nethery, D. (2014), 'Sharing the Budget Pain', Crawford School of Public Policy, Australian National University, Canberra, p. 2, <https://crawford.anu.edu.au/news/4081/budget-pain-being-shared-fairly> (accessed 18 November 2014).

9 Whiteford, P. and Nethery, D. (2014), 'Sharing the Budget Pain', Crawford School of Public Policy, Australian National University, Canberra, p. 2. The paper notes that all calculations are conservative and do not take into account non-Budget measures and general policies.

10 Mr Ben Phillips advised that NATSEM's analysis 'should reflect accurately what is in the budget papers [within two per cent]': Principal Research Fellow, NATSEM, *Committee Hansard*, Canberra, 16 October 2014, p. 22. Also see p. 30.

11 *Final Distributional Analysis For 2014-15 Budget, Document 3—Data underlying the chart 'Working age families and singles in 2016-17' in the 2014-15 Budget Overview glossy [p. 5]*, <http://www.treasury.gov.au/Access-to-Information/DisclosureLog/2014/1510> (accessed 18 November 2014). The estimated cash transfers are: lower income groups—\$842; middle income groups—\$477; and higher income groups—\$71.

some resource issues with doing that additional analysis. I think the importance warrants it.¹²

5.13 Professor Whiteford and Mr Nethery directly attributed the conduct of the ANU analysis to the omission of this information from the Budget papers, noting:

The absence of estimates of distributional impacts is striking, given that since 2004–05, the Budget Overview has each year contained an Appendix showing how much different types of households have gained from policy changes announced in the Budget or over the course of the period of government. Showing losses is not as politically attractive as showing increases in disposable income, however.¹³

5.14 In response to Professor Wilkins' suggestion, Treasury advised that the Australian Bureau of Statistics (ABS) comprehensively measures the impact of budget measures on distribution every five years:

What that does is what we call fiscal incidence analysis. So it actually takes a look at: what is the distributional impact of the budget, as far as possible, in total? So it takes account of not only the tax transfer system but also the provision of direct services by governments...when you look at the distributional impact of the budget it is redistributing from the top two quintiles to the bottom two quintiles in the broad. That is comprehensive work. It takes a number of years afterwards for it to be published. The next dataset which they use for this, the household expenditure survey, is going to be conducted in 2015–16. It will take until 2018, we expect, to actually publish it.¹⁴

5.15 The Treasury representative concluded that it would not be feasible for the department to publish a comprehensive view of the impact of a single budget. Further, Treasury could not improve on the ABS's work:

...were we to do it each year it would not change very much, because, except very exceptionally, the changes that are in a budget are quite marginal compared with the base.¹⁵

12 Principal Research Fellow and HILDA Survey Deputy Director (Research), Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, *Committee Hansard*, Canberra, 16 October 2014, p. 31. Also see: Associate Professor Roger Wilkins, *Submission 7*, p. 4.

13 Whiteford, P. and Nethery, D. (2014), 'Sharing the Budget Pain', Crawford School of Public Policy, Australian National University, Canberra, p. 2.

14 Mr Nigel Ray, Executive Director, Fiscal Group, *Committee Hansard*, Canberra, 17 November 2014, p. 8.

15 Mr Nigel Ray, *Committee Hansard*, Canberra, 17 November 2014, p. 8.

National Centre for Social and Economic Modelling September 2014 analysis

5.16 In October 2014, NATSEM released further research into the distributional and regional household effects of the main 'hip-pocket' Budget measures. The regional results found that, although 'relatively modest and evenly spread for 2014–15', from 2015–16 the regional impacts become 'more substantial and more unequal' as social security measures take effect:

By 2017–18 with the budget repair levy no longer applying the impacts are felt almost entirely by low income regions of Australia. The 'Coalition impacts', on average, across all income unit types, range from a small positive impact in high income inner city suburbs to around \$1,600 per annum in low income suburbs in Western Sydney and Northern Melbourne. These impacts are magnified when the analysis is only for families with children where the impacts are, on average, up to \$3,371 per annum in some Northern Melbourne suburbs.¹⁶

5.17 Table 5.1 below shows that families with children in Campbellfield-Coolaroo, Broadmeadows and Thomastown (outer northern Melbourne) are the most affected by the Budget measures. The annual impact in these low income suburbs varies from \$3 098.30 to \$3 371.20 (4.1 to 4.4 per cent of their disposable income). The least affected suburbs are high income mining towns and high income city suburbs. For example, Forrest in Canberra has a positive impact of \$48.30 per annum. Each of the least affected suburbs has an impact that is negligible relative to its income level.

16 Phillips, B., *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, September 2014, p. 22, <http://www.natsem.canberra.edu.au/publications/?publication=national-and-regional-analysis-of-the-2014-15-federal-budget> (accessed 18 November 2014). Also see Table 4 at p. 16.

Table 5.1: SA2 Impact on family disposable income, Families with children, Australia*Largest Impact*

Rank	SA2 (Suburb)	Annual \$ Impact	% Disposable Income
1	Campbellfield–Coolaroo	-3371.2	-4.1
2	Broadmeadows	-3120.7	-4.4
3	Thomastown	-3098.3	-4.1
4	Ashcroft–Busby–Miller	-3065.7	-3.7
5	Mount Druitt–Whalan	-2886.4	-3.9
6	Meadow Heights	-2862.3	-3.1
7	Clayton South	-2857.3	-3.5
8	Springvale South	-2852	-3.3
9	Parramatta–Rosehill	-2813.8	-3.6
10	Guildford–South Granville	-2812.7	-3.8

Smallest Impact

2050	Wahroonga–Warrawee	-394.2	-0.33
2051	Aranda	-353.9	-0.2
2052	Paddington–Moore Park	-337.6	-0.3
2053	Rose Bay–Vaucluse–Watsons Bay	-336.2	-0.2
2054	Cottesloe	-328.2	-0.2
2055	City Beach	-327.6	-0.2
2056	Chapman	-315	-0.2
2057	Nhulunbuy	-219.8	-0.2
2058	Newman	-199.9	-0.2
2059	Forrest	48.3	0

Source: Ben Phillips, *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, September 2014, p. 19.

5.18 In its analysis, NATSEM specifically reported that the regional affects for South Australia mirror those of the rest of country. Table 5.2 shows the budget affects for South Australian suburbs for families with children. The most affected suburbs are The Parks (\$2,760.90 per year, 3.5 per cent of disposable income) and Elizabeth, North Adelaide (\$2,561.60 per year, 3.6 per cent of disposable income). The least affected suburbs are Walkerville (\$768.30 per annum) and Aldgate-Stirling (\$806.60 per annum). NATSEM stated that the smallest impact suburbs have relatively high incomes.¹⁷

17 Phillips, B., *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, p. 19.

Table 5.2: SA2 Impact on family disposable income, Families with children, South Australia

<i>Largest Impact</i> Rank	SA2 (Suburb)	Annual \$ Impact	% Disposable Income
1	The Parks	-2760.9	-3.5
2	Elizabeth	-2561.6	-3.6
3	Smithfield–Elizabeth North	-2399	-3
4	The Coorong	-2276.7	-3.2
5	Yorke Peninsula–South	-2205.1	-3.2
6	Salisbury	-2169.5	-2.4
7	Salisbury North	-2163.6	-2.4
8	Goolwa–Port Elliot	-2158.4	-2.6
9	Enfield–Blair Athol	-2143.8	-2.4
10	Davoren Park	-2117.2	-2.2
<i>Smallest Impact</i>			
152	Belair	-940.4	-0.7
153	Clarendon	-925.6	-0.7
154	Goodwood–Millswood	-904.4	-0.7
155	Roxby Downs	-904.2	-0.7
156	Hahndorf–Echunga	-901.8	-0.7
157	Coromandel Valley	-900.6	-0.7
158	Toorak Gardens	-880.9	-0.7
159	Glenside–Beaumont	-812	-0.6
160	Aldgate–Stirling	-806.6	-0.6
161	Walkerville	-768.3	-0.6

Source: Phillips, B., *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, September 2014, p. 20.

Submitters' and witnesses' views on analyses of the Budget

5.19 Submitters and witnesses referred to the independent and government analyses of the Budget, and agreed that the Budget will negatively affect people on low incomes, with consequent impacts on inequality in Australia.¹⁸

5.20 Associate Professor Gerard Redmond, Leader of the Australian Child Wellbeing Project, School of Social and Policy Studies at Flinders University, said:

Lots of factors can influence children's and young people's wellbeing in the present and their opportunities in the future. One such factor is money. Money can make a difference in young people's lives. Policies that reduce

¹⁸ See, for example: Ms Meg Webb, Deputy Chief Executive, Tasmanian Council of Social Service, *Committee Hansard*, Hobart, 19 September 2014, pp 3 and 8–9; Ms Donna Siejka, Chief Executive Officer, Youth Network of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 4; Ms Sarah Walbank, Policy and Research Officer, Carers Queensland Inc., *Committee Hansard*, Logan, 8 October 2014, p. 13; Mr Ross Walmersley, Chief Executive Officer, South Australia Council of Social Service, *Committee Hansard*, Elizabeth, 10 November 2014, pp 22–23; Mr Craig Comrie, Chief Executive Officer, Youth Affairs Council of Western Australia, *Committee Hansard*, Rockingham, 11 November 2014, p. 18.

financial support to low-income families will...exacerbate inequalities in income now and inequalities in young people's opportunities in the future.¹⁹

5.21 Dr John Falzon, Chief Executive Officer from St. Vincent de Paul Society National Council, described the 'battle against inequality at the beginning of the 21st Century' as follows:

We are still coming to grips in Australia with the federal budget, including measures that would rip the guts out of what remains of a fair and egalitarian Australia like forcing young people to live on fresh air and sunshine for six months of every year, forcing them to rely on charity or to survive through crime—as if this was going to address the structural causes of unemployment. It is not charity that young people, or older people for that matter, or people with a disability or single mums should have to count on. It is justice they should be able to count on...

We have only one enemy—and it is called inequality. It is that meanness of spirit entailed in taking the little that people who are living in poverty have in order, supposedly, to reduce the deficit. It is taking the lamb away from the poor man instead of drawing on the flocks and herds in abundance by sustainably and fairly taxing those who can afford it, including the corporates. As even the [Organisation for Economic Co-operation (OECD)] points out: you do not build a strong economy by increasing the level of inequality; you do not create a strong country on the backs of the already poor.²⁰

5.22 The ACTU commented that Australia's level of pre-tax, pre-transfer inequality is lower than in many OECD countries (Gini 0.46). However, the post-tax, post-transfer inequality (Gini 0.32) is higher than in other developed countries. Further, the extent of Australia's redistribution (Gini 0.14) is lower than most OECD countries.²¹

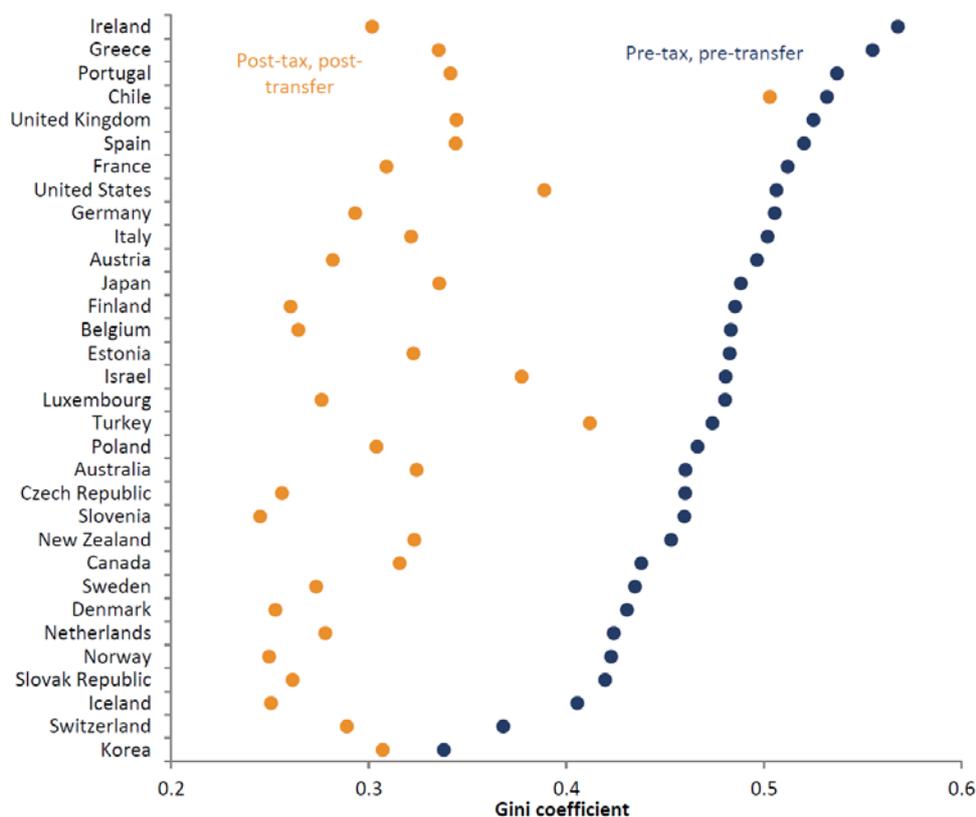
19 *Committee Hansard*, Elizabeth, 10 November 2014, p. 33.

20 *Committee Hansard*, Canberra, 16 October 2014, p. 44.

21 *Submission 46*, p. 27.

Figure 5.4: Countries with similar levels of pre-tax inequality can have very different post-tax inequality

(Gini coefficient before and after direct taxes and cash transfers in OECD countries)



Note: The data are the latest available for each country; for most countries this is 2011.

Source: ACTU, *Submission 46*, p. 27, citing OECD.StatExtracts, 'Income Distribution and Poverty', <http://stats.oecd.org/Index.aspx?DataSetCode=IDD> (accessed 11 November 2014).

5.23 Professor Keith Jacobs from the University of Tasmania described Australia's position among the OECD countries as:

...not at the top end and...not at the very, very bottom. There are other countries like the United States [Gini 0.39] which actually have a far worse redistribution than we do. But...we are slipping back, and the politics that are now being pursued I think are actually regressive and will take us back into a darker period rather than one that is going to be a progressive one.²²

22 Deputy Associate Dean, Research, School of Social Sciences, *Committee Hansard*, Hobart, 19 September 2014, p. 24.

5.24 The ACTU submitted that Australia is 'a low-tax, low-spending country' and consequently, 'a low redistribution, somewhat high inequality country'.²³ The ACTU contended that the Budget will increase the inequality as it further reduces the amount of redistribution:

The impact of the Budget cuts on households is clear. Most households will suffer a reduction in disposable income as a result of the Budget. Lower income households will generally suffer the largest cuts in income. The inequity of the impact on households will grow over time.²⁴

5.25 In evidence, Mr Phillips advised that budgets do not normally affect income inequality to a significant extent. However, separate to its Budget analyses, NATSEM examined the Gini coefficient in Australia, finding that it has increased as a result of the Budget:

From this budget it has moved from 0.3277 in our STINMOD model to 0.335. That may not mean a lot to a lot of people, but to put that into perspective...According to the ABS stats it has increased from about 0.3 to 0.32 over the last couple of decades. Roughly, in this budget alone there is an impact of about 40 per cent of that entire increase in the change in income inequality.²⁵

2014–15 Budget measures in the Social Services portfolio

5.26 Submitters and witnesses commented on specific Budget measures in the Social Services portfolio (for example: changes to Family Tax Benefit,²⁶ the annual indexation applied to HELP debts,²⁷ and CPI indexation for various benefits²⁸).

23 *Submission 46*, p. 28. Also see: Dr David Morawetz, Board Member, Australia21, *Committee Hansard*, Melbourne, 18 September 2014, p. 36. For alternative views on the efficiency of the tax and transfer system, see, for example: Mr Llewellyn Reynders, Policy and Programs Manager, Victorian Council of Social Service, *Committee Hansard*, Melbourne, 18 September 2014, p. 15; Mr Brendan Markey-Towler, Research higher degree candidate, School of Economics, University of Queensland, *Committee Hansard*, Logan, 8 October 2014, p. 46; Dr Richard Denniss, The Australia Institute, *Committee Hansard*, Canberra, 16 October 2014, p. 13.

24 *Submission 46*, p. 33. Also see pp 29 and 31.

25 *Committee Hansard*, Canberra, 16 October 2014, p. 23. STINMOD (Static Incomes Model) is a model of the Australian tax and benefits system that is used to analyse the effect of policy change. It has been developed over the past 20 years for use by the Treasury, the Social Services, Education and Employment departments.

26 See, for example: Ms Emma King, Victorian Council of Social Service, *Committee Hansard*, Melbourne, 18 September 2014, pp 10 and 14; Mr Mark Henley, Chief Executive Officer, Queensland Council of Social Service, *Committee Hansard*, Logan, 8 October 2014, p. 14.

27 See, for example: Ms Deanna Taylor, National President, National Union of Students, *Committee Hansard*, Melbourne, 18 September 2014, p. 30.

28 See, for example: Ms Meg Webb, Tasmanian Council of Social Service, *Committee Hansard*, Hobart, 19 September 2014, p. 2; Ms Mary D'Elia, State Operations Manager, Tasmania, Bapcare, *Committee Hansard*, Hobart, 19 September 2014, p. 3.

This section of the report examines only a selection of the Budget measures, commencing with the primary concern underpinning submitters' and witnesses' opposition to the measures: that is, the measures will exacerbate income inequality and further impoverish individuals and families on low incomes.

Henderson Poverty Lines

5.27 In Australia, poverty is commonly measured using the Henderson Poverty Lines (HPLs),²⁹ which are designated income levels for various types of income units (such as employed or unemployed couples, with or without children). The HPLs are updated every three months using an index of per capita household disposable income, based on estimated data provided by the ABS. Table 5.3 below shows the HPLs for income units in the June Quarter 2014.

Table 5.3: Poverty Lines: Australia, June Quarter, 2014^{a, b}

Income Unit	Including Housing (\$pw)	Other than Housing (\$pw)
Head in workforce		
Couple	681.61	498.53
Couple plus 1	819.33	619.69
Couple plus 2	957.05	740.85
Couple plus 3	1094.77	862.02
Couple plus 4	1,232.49	981.84
Single person	509.53	342.91
Single parent plus 1	654.14	470.96
Single parent plus 2	791.77	592.13
Single parent plus 3	929.49	713.29
Single parent plus 4	1,067.21	834.45
Head not in workforce		
Couple	585.24	402.06
Couple plus 1	722.96	523.32
Couple plus 2	860.68	644.48
Couple plus 3	998.40	765.64
Couple plus 4	1,136.12	885.46
Single person	413.16	246.54
Single parent plus 1	557.67	374.59
Single parent plus 2	695.39	495.75
Single parent plus 3	833.11	616.92
Single parent plus 4	970.83	738.08

Note: (a) Based on seasonally adjusted household disposable income per head per week for the June quarter 2014 of \$810.18. (b) All figures refer to income after tax. Source: Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, *Poverty Lines: Australia*, June Quarter 2014, p. 1.

29 Another relative poverty line is 50 per cent of the median income, which is the measure used by the Organisation for Economic Co-operation and Development.

5.28 *Poverty Lines: Australia*, the newsletter that updates the HPLs, also compares the poverty lines with maximum welfare payments for income units.³⁰ Table 5.4 shows the comparison for the June Quarter 2014.

Table 5.4: Comparison of Henderson Poverty Lines with the income of adults who receive maximum welfare payments and have no other income, June Quarter 2014

(Per capita household disposable income = \$810.18 per week)							
	<i>Basic Payment of Person 1^g</i>	<i>Basic Payment of Person 2 (Partner)^g</i>	<i>Family Tax Benefit Part A</i>	<i>Family Tax Benefit Part B</i>	<i>Rent Assistance</i>	<i>Total Income^h</i>	<i>Poverty Lineⁱ</i>
<i>Married couple</i>							
Allowee ^a	230.45	230.45	0.00	0.00	59.40	520.30	681.61
Pensioner ^b	312.40	312.40	0.00	0.00	59.40	684.20	585.24
Couple with 1 child ^c	230.45	230.45	86.10	24.89	73.99	645.88	819.33
2 children	230.45	230.45	172.20	24.89	73.99	731.98	957.05
3 children	230.45	230.45	264.32	47.02	83.65	855.89	1094.77
4 children	230.45	230.45	382.34	47.02	83.65	973.91	1232.49
<i>Single adult</i>							
Allowee ^d	255.25	-	0.00	0.00	63.20	318.45	509.53
Pensioner ^e	414.45	-	0.00	0.00	63.20	477.65	413.16
Single with 1 child ^f	356.60	-	86.10	51.10	73.99	567.79	557.67
2 children	356.60	-	172.20	51.10	73.99	653.89	695.39
3 children	356.60	-	264.32	73.22	83.65	777.79	833.11
4 children	356.60	-	382.34	73.22	83.65	895.81	970.83

Source: Information booklets on benefits and allowances are published quarterly by Centrelink. The booklets provide details of eligibility criteria and rates of payment for all income support and non-income support payments made by Centrelink on behalf of the Australian Government Departments of Families, Housing, Community Services and Indigenous Affairs and Education, Employment and Workplace Relations.

Notes:

^a A married couple without children receiving Allowances is assumed to be receiving Newstart Allowance.

^b A married couple without children receiving Pensions is assumed to be receiving the Age Pension or Disability Support Pension.

^c A married couple with children receiving Allowances is assumed to be receiving Newstart Allowance or Parenting Payment Partnered.

^d A single person receiving an Allowance is assumed to be receiving Newstart Allowance.

^e A single person receiving a Pension is assumed to be receiving the Age Pension or the Disability Support Pension.

^f A sole parent is assumed to be receiving Parenting Payment Single.

^g All basic payments for Pensioners include the maximum applicable Pension Supplement.

^h Total income is the sum of allowances, pensions and benefits for persons who have no other income. Income figures do not include Clean Energy Advance payments. To be comparable with the poverty lines, total income reported should be net of personal income tax. However, allowing for offsets/rebates, no income tax would be payable for welfare recipients who received no other income. Hence, direct comparisons of total income with the poverty lines are valid.

ⁱ Poverty lines for single persons and married couples with up to four children are shown here, inclusive of housing costs. For recipients of allowances, the income unit head is assumed to be in the workforce, since recipients of the most common allowance, Newstart Allowance, are usually required to search for employment to be eligible for payment. For pensioners and sole parent families, costs are

Source: Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, *Poverty Lines: Australia*, June Quarter 2014, p. 3.

5.29 According to the current HPLs, many Australians who receive income support payments are living in poverty. Couples with children fare the worst, receiving up to \$258.58 per week below the poverty line. Childless couples and singles are, respectively, living on \$161.31 and \$191.08 per week below the poverty line. Single parents with two or more children are receiving up to \$75.02 below the poverty

30 The payment levels considered in *Poverty Lines: Australia* reflects direct payments and do not take into account indirect benefits (e.g. health, education et cetera).

line on a weekly basis. Singles and couples on pensions, as well as single parents with one child, are the only welfare recipients to rise above the poverty line.

The Budget and its effect on employment

5.30 Submitters and witnesses argued that Newstart Allowance and Youth Allowance are currently below the poverty line. A key concern throughout the inquiry was the changes associated with these two allowances, as well as the new Work for the Dole programme and new policy Stronger Participation Incentives for Job Seekers under 30, all of which, it was contended, will further negatively impact students and unemployed people.

Newstart Allowance

5.31 Newstart Allowance provides income support to persons who are looking for paid work.³¹ At present, the basic rate ranges from \$465.50 per fortnight (partnered, each) to \$720.30 per fortnight (single principal carer granted an activity test exemption). The basic rate for a single person with no children is \$515.60 per fortnight.³²

5.32 The ACTU submitted that the income of a single adult Newstart Allowance recipient is more than \$100 per week below the HPL. Newstart Allowance is also less than one-half of median income, which was \$1,453.90 per week as at May 2014.³³ The ACTU noted that the allowance was relatively higher 20 years ago:

In the mid-1990s, Newstart was equal to 50% of median income poverty line; now a single adult reliant on Newstart has an income that is barely two-thirds the level of the poverty line. The decline relative to the Henderson line has been of a similar magnitude.³⁴

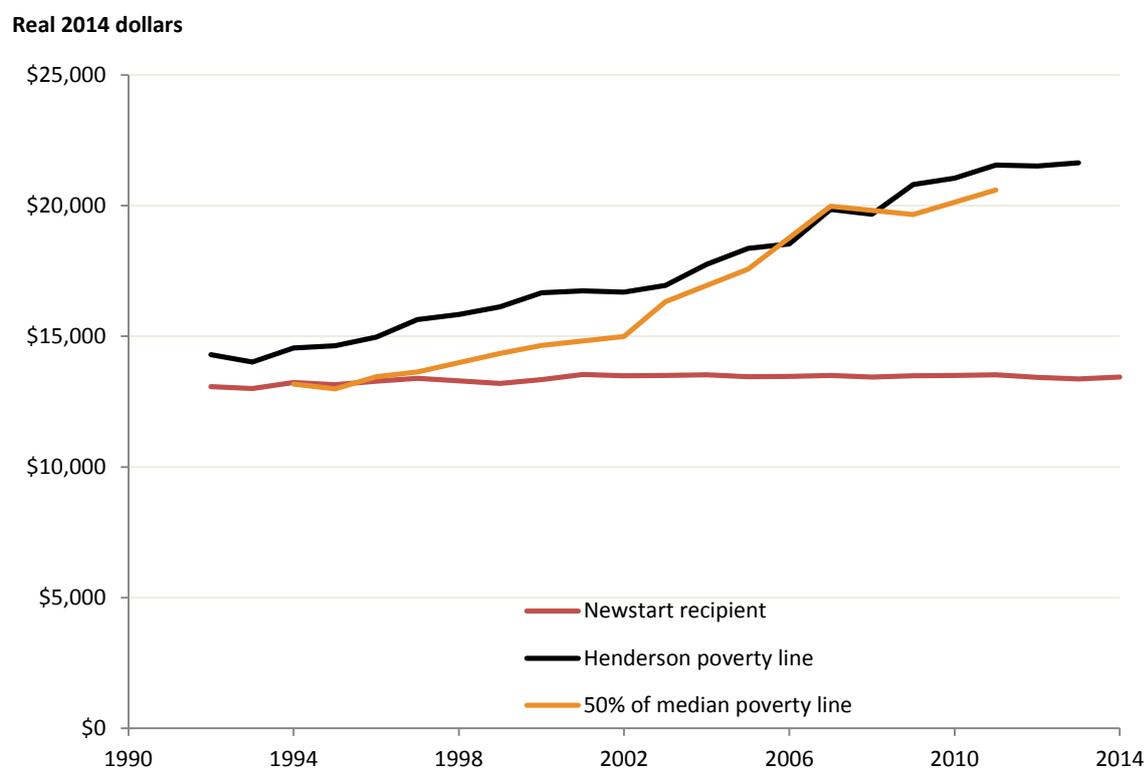
31 Department of Human Services, 'Eligibility for Newstart Allowance', <http://www.humanservices.gov.au/customer/enablers/centrelink/newstart-allowance/eligibility-for-newstart-allowance> (accessed 18 November 2014). Newstart Allowance recipients must be younger than the Age Pension qualifying age.

32 Department of Human Services, 'A guide to Australian Government payments, 20 September-31 December 2014', p. 27, <http://www.humanservices.gov.au/corporate/publications-and-resources/a-guide-to-australian-government-payments> (accessed 18 November 2014).

33 Australian Bureau of Statistics, '6302.0—Average Weekly Earnings, Australia, May 2014', <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0> (accessed 18 November 2014).

34 *Submission 46*, p. 41.

Figure 5.5: Newstart, the Henderson Poverty Line, and the 50 per cent of median income poverty line



Source: ACTU, *Submission 46*, p. 42.

5.33 The ACTU submitted that the gap between Newstart Allowance and the poverty line is large and growing: 'This is a strong indication that the payment rate is inadequate'.³⁵ In support of this conclusion, the ACTU referred also to the findings of the Low Cost Budget Standard (an alternative measure of standards of living that guides decisions regarding the adequacy of income support payments), and the incidence of financial stress and deprivation among payment recipients, compared with that experienced by other groups.³⁶

5.34 A recent study undertaken by Dr Alan Morris and Dr Shaun Wilson documented the circumstances of Newstart Allowance recipients in inner Sydney. The study found that the payment rates adversely affected recipients' physical and mental health, housing and social life, as well as their re-entry into the workforce.³⁷ One survey respondent stated:

35 *Submission 46*, p. 43.

36 *Submission 46*, pp 42–44.

37 Morris, A. and Wilson, S. (2014), 'Struggling on the Newstart unemployment benefit in Australia: The experience of a neoliberal form of employment assistance', *The Economic and Labour Relations Review*, Vol. 25, No. 2, p. 217, <http://elr.sagepub.com/content/25/2/202> (accessed 18 November 2014).

...\$260 a week...is completely insufficient financially to live a normal healthy existence and look for work. By that I mean maintain interview clothes...appearance and health that is going to be acceptable at an interview situation; pay for transport, rent, electricity, phone, food for example. There's simply not enough money...Putting someone on a drip feed of \$20 a week is not going to do anything for them. Whereas if I could have continued on [a decent income] I would have found another job within months. Really fast. With the same levels of support that I was used to and could cope with...Sometimes I've had to walk to interviews, like kilometres, without a cent in my pocket, and hungry. This is a system that is unfortunately, so self-perpetuating[.]³⁸

5.35 UnitingCare Australia, which was among stakeholders consulted by the Reference Group currently reviewing Australia's welfare system,³⁹ suggested that the adequacy of income support payments is not a focus of the review.⁴⁰ However, a representative from St. Vincent de Paul Society National Council said:

...there was virtual unanimity amongst the people...at that consultation in saying that [the inadequacy of Newstart payments] is the most essential place to start—that people are not being forced to live below the poverty line while needing to rely on the social security system.⁴¹

Youth Allowance

5.36 Submitters and witnesses also questioned the adequacy of the lower Youth Allowance, which will be the applicable benefit for unemployed people under 25 years, from 1 January 2015 if the Government's legislation is passed.⁴² The basic rate of Youth Allowance currently varies from \$226.80 to \$720.30 per fortnight (exclusive of Rent Assistance), dependent upon the recipient's personal circumstances.⁴³

38 Morris, A. and Wilson, S. (2014), 'Struggling on the Newstart unemployment benefit in Australia: The experience of a neoliberal form of employment assistance', *The Economic and Labour Relations Review*, Vol. 25, No. 2, p. 216 quoting Gary (a pseudonym).

39 In December 2013, the Hon. Kevin Andrews MP, Minister for Social Services, commissioned a review of Australia's welfare system to identify improvements aimed at ensuring that the social support system is sustainable, effective and coherent, and encourages people to work. This review is commonly known as the McClure Review for the Chair of the Reference Group, Mr Patrick McClure AO.

40 Ms Lin Hatfield Dodds, *Committee Hansard*, Canberra, 16 October 2014, p. 45.

41 Dr John Falzon, *Committee Hansard*, Canberra, 16 October 2014, p. 45.

42 Australian Government, 'Budget Measures 2014-15, Budget Paper No. 2', p. 203; The Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, Budget Speech, *House Hansard*, 13 May 2014, p. 3594.

43 Department of Human Services, 'A guide to Australian Government payments, 20 September-31 December 2014', p. 25.

5.37 Submitters and witnesses argued that these payment levels will increase poverty.⁴⁴ For example, the ACTU submitted that 'pushing more young people onto this allowance will do nothing for the effectiveness of their job search and will merely increase their poverty'.⁴⁵

5.38 Similar to the ACTU's comments in respect of Newstart Allowance, the National Union of Students (NUS) stated that the Tertiary Assistance Education Scheme (the forerunner of Youth Allowance and Austudy) was 'more generous than current programs', submitting that, when introduced in 1974:

The full payment for a single person living away from home in a share house was 75% of the Henderson Poverty Line (the equivalent figure for current Youth Allowance including rent assistance is 48.8% of the poverty line).⁴⁶

5.39 Each year, the NUS publishes a table of maximum student benefits, compared with the relevant HPL. The 2014 calculations show that benefits are below the poverty line (ranging from 27 per cent to 77.8 per cent) and that, in some cases, the percentage decline of those benefits is from 4.3 per cent to 8.4 per cent from its 2008 value.⁴⁷ Based on these findings, the NUS suggested that the basic rate and Rent Assistance should be increased to at least 100% of the HPL for Youth Allowance, Austudy and Abstudy.⁴⁸

Stronger Participation Incentives for Job Seekers under 30

5.40 If the Government's legislation is passed, from 1 January 2015 people under the age of 30 years making a new claim for Newstart Allowance and Youth Allowance (Other) will be required to demonstrate job search and participation in employment services support for six months before receiving payments. After six months, new payment recipients will also be required to participate in 25 hours per week Work for the Dole, and possibly a further six months in employment services. The new arrangements will apply to existing payment recipients from 1 July 2015.⁴⁹

5.41 NATSEM estimated that the measure 'would increase the household impact on families in its [May analysis of the Budget] by a further 13 per cent'.⁵⁰ Throughout

44 See, for example: Ms Mary D'Elia, Baptcare, *Committee Hansard*, Hobart, 19 September 2014, p. 3.

45 *Submission 46*, p. 35.

46 *Submission 21*, p. 2.

47 *Submission 21*, Appendix 1. For example, Youth Allowance, single at home, decreased from 31.3 per cent to 27 per cent; Youth Allowance, single away from home, decreased from 61.8 per cent to 53.4 per cent (living alone or with a partner) and 57.1 per cent to 48.8 per cent (living in share accommodation).

48 *Submission 21*, p. 8.

49 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', p. 210.

50 *NATSEM Budget 2014–15 Analysis*, 26 May 2014, p. 3.

the inquiry, submitters and witnesses agreed that the new policy will increase inequality, by causing and entrenching poverty among unemployed youth.⁵¹

5.42 Mr Mark Henley, Chief Executive Officer of Queensland Council of Social Service (QCOSS), said that the measure will further marginalise unemployed youth:

If you look at those communities which have high levels of unemployment and experience lower levels of income, you see that this will affect not only those youth but also those families and those communities and you will see a further driving of inequality in Australia.⁵²

5.43 A representative from the Victorian Council of Social Service said:

I am not sure where [people] are meant to live during that time when they have no income and if they do not have close family or people to support them... They have no hope. Not only is it morally wrong and socially wrong but it will cost us more in the long run as well, because we are going to have this whole cohort of young people, whom we should give every chance to step up, and whom we are going to lose because they are not going to have a way to eat, a way to live and, instead, they will make a significant call on community agencies for basic emergency relief.⁵³

5.44 At Senate Budget Estimates 2014–15, the Department of Social Services estimated that 550 000 job seekers over four years would need to access emergency relief as a result of the measure.⁵⁴ Using the Department's estimate, the Tasmanian Council for Social Service calculated that approximately 16 500 requests for assistance will be made in that state alone. Further:

Since the bulk of money received by low income earners is spent in the local economy on essential goods and services, the loss of income to jobseekers translates into a loss of income to the Tasmanian economy. We estimate that the total loss of income experienced by Tasmanians affected by Newstart suspensions over the next four year period to be around \$85 million.⁵⁵

5.45 The ACTU described the Strong Participation Incentives for Job Seekers under 30 as 'arguably the most punitive and objectionable measure in the Budget':

51 See, for example: Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia, *Submission 28*, pp 5–6; ACTU, *Submission 46*, p. 35; Mr Brendan Churchill, Lecturer in Sociology, School of Social Sciences, University of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 13.

52 *Committee Hansard*, Logan, 8 October 2014, p. 14.

53 Ms Emma King, *Committee Hansard*, Melbourne, 18 September 2014, p. 16. Also see: National Union of Students, *Submission 21*, p. 7.

54 Ms Serena Wilson, Deputy Secretary, *Proof Hansard*, Community Affairs Budget Estimates 2014–15, 4 June 2014, p. 124. Ms Wilson advised that \$229.6 million has been budgeted for emergency relief over the forward estimates.

55 Ms Meg Webb, *Committee Hansard*, Hobart, 19 September 2014, p. 2.

There is no case for such a policy at any time. However, it is especially troubling that the measure has been introduced at a time when unemployment, and youth unemployment, are at their highest levels in over a decade. The latest ABS labour force data for July 2014 has unemployment now at 6.4%. Youth unemployment is more than double that at 14.1%. There are now 789,000 unemployed Australians.

At the same time, there are now only 146,100 job vacancies. The Government's own research shows the number of skill shortages is at an 'historical low'. There are generally large and growing fields of applicants vying for skilled jobs[.]⁵⁶

5.46 The NUS' representative advised:

The unemployment rate for students graduating is about 3.4 per cent. That is a significant proportion of the population and a significant proportion of unemployed Australians. Another problem many graduates face is underemployment. Earlier this year Graduate Careers Australia...released a report that said that only 71 per cent of graduates were finding full-time work within four months of graduating...The concern that we have with regard to the Newstart payment is that once these often highly skilled graduates enter the workforce and cannot find employment immediately they are effectively being locked out of income support. Many of them do not have particularly good relationships with their parents or cannot rely on their parents for financial reasons...It would be very concerning for us to see graduates like that plunge into poverty for no good reason aside from the fact that the job market is very unstable.⁵⁷

5.47 The ACTU stated that the new policy 'panders to prejudices about the unemployed, suggesting that those not fortunate enough to be in work are to blame for their predicament'. Further, it is predicated on the belief that the unemployment benefit acts as a disincentive to finding paid work (rather than acting as an essential support).⁵⁸ Several witnesses disputed this belief, stating that the social security system does not cause unemployment, with most people on benefits preferring to be in paid work.⁵⁹

56 *Submission 46*, pp 34–35. Also see: Ms Donna Siejka, Youth Network of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 4.

57 Mr Jack Gracie, Welfare Officer, *Committee Hansard*, Melbourne, 18 September 2014, pp 31–32.

58 *Submission 46*, p. 35.

59 See, for example: Dr John Falzon, St. Vincent de Paul Society National Council, *Committee Hansard*, Canberra, 16 October 2014, p. 50; Mr Chris Twomey, Director of Policy, Western Australian Council of Social Service, *Committee Hansard*, Rockingham, 11 November 2014, p. 12.

Work for the Dole

5.48 The Budget proposes to expand the Work for the Dole programme. From 1 July 2014 to 30 June 2015, Work for the Dole will be mandatory in 18 of the 21 Priority Employment Areas for 'all job seekers aged between 18 and 30 years old who are in the Work Experience Phase or the Compulsory Activity Phase of Job Services Australia (JSA), unless they are working part-time'.⁶⁰

5.49 The Youth Network of Tasmania argued that this measure will have an unintended and negative impact:

The Work for the Dole program can cause or encourage participants to reduce their efforts in seeking employment, as many view their work placements as employment, which discourages them from searching for jobs. Participants also have less available time to complete job search activities. Research also indicates that Work for the Dole programs do not match the participant's career interests with their work placement.⁶¹

5.50 Ms Catherine Bartolo, Chief Executive Office of YFS Limited, said that Work for the Dole needs to be meaningful and more than simply 'sweeping up streets [or picking up rubbish]. It needs to be something that leads to a certificate that is accredited or something'.⁶²

5.51 Submitters and witnesses expressed concern about the arbitrary movement of unemployed people, who will be required to relocate to accept jobs in regional areas. For example, Mr Craig Comrie, Chief Executive Officer of Youth Affairs Council of Western Australia, outlined the importance of vulnerable young people not being removed from their support network of 'family, friends, peers, youth workers [and] social workers', as such removal will not lead to sustainable employment outcomes.⁶³

5.52 Dr Goodwin-Smith gave evidence, describing the long-term negative effects of a bad employment or job placement experience:

Our research also speaks to the fact that quality of employment is also important and that a job is not a job—focus on quality does matter. If you have people who are inter-generationally unemployed or severely unemployed...a negative employment experience is going to be pretty effective in ensuring that their attachment to the workforce is not sustainable and that their negative views of workforce attachment are reinforced. Bad workforce experiences in jobs that do not have a quality element to them are really problematic and can entrench workforce

60 Australian Government, 'Budget Measures 2014-15, Budget Paper No. 2', p. 98.

61 *Submission 20*, p. 10.

62 *Committee Hansard*, Logan, 8 October 2014, p. 36.

63 *Committee Hansard*, Rockingham, 11 November 2014, p. 25.

exclusion. That is a really powerful argument against a blunt work-first approach.⁶⁴

5.53 Dr Falzon contended that governments must transition policy away from punitive measures, such as the Work for the Dole programme, and drive real economic development that creates jobs:

[T]his is the kind of bold vision that we need as a nation if we are to seriously address the underlying structural problems in the labour market. That means a regional economic development approach. And it means government working with the private sector, but it means government taking the ultimate responsibility to make sure that, where it is at all possible for people to work, they are given the opportunity to work. I do not mean work for the dole; I mean work for the wage. That is a really important distinction.⁶⁵

The Budget and its effect on the retirement age

5.54 The Australian Government's plan to increase the qualifying age for the Age Pension (from 67 years in 2023 to 70 years in 2036) provoked criticism from several quarters, most notably on behalf of blue collar workers in physically demanding jobs. For example, Bapcare questioned whether it is practical to expect manual workers in industries such as forestry, fishing and mining to keep working until the age of 70.⁶⁶

5.55 In 2010, the ABS' Labour Force Survey found that 18.3 per cent of male workers over the age of 55 were 'technicians and trades workers', 12.2 per cent were 'machinery operators and drivers' and 10.9 per cent were 'labourers'.⁶⁷ In other words, over 40 per cent of male workers over the age of 55 were blue collar workers.

5.56 COTA Australia acknowledged that the Age Pension should be linked to life expectancy, but submitted that the average age of retirement is 61 years. Further, many people retire for reasons beyond their control:

In 2011, 12.2% of male and 8.6% of female workers retired involuntarily due to dismissal, pressure from employers or others at work to retire, inability to find another job or reaching compulsory retirement age. An additional 35.3% of men and 35.8% of women retired involuntarily due to their own ill health or to care for a partner or family member.

64 Dr Ian Goodwin-Smith, Director, Australian Centre for Community Services Research, Flinders University, *Committee Hansard*, 10 November 2014, p. 41

65 Dr John Falzon, CEO, St Vincent de Paul Society, *Committee Hansard*, 16 October 2014, p. 50.

66 Ms Mary D'Elia, *Committee Hansard*, Hobart, 19 September 2014, p. 4.

67 Australian Bureau of Statistics, *Australian Social Trends September 2010: Older people and the labour market*, Cat. 4102.0, p. 3, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication29.09.104/\\$File/41020_OlderWorkers.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication29.09.104/$File/41020_OlderWorkers.pdf) (accessed 1 November 2014).

This means that many people end up spending a number of years on Newstart or the Disability Support Pension before becoming eligible for the age pension—and this situation will only worsen if the eligibility age increases. Indeed, over 80 per cent of people who go onto the full age pension at age 65 move across from another income support payment.

Furthermore, if people cannot access any income support from the Government, [the Association of Superannuation Funds of Australia] estimates a person will need almost \$60,000 more in superannuation or retirement savings to fund their retirement between 67 and 70.⁶⁸

The Budget and reform of higher education

5.57 As foreshadowed in the Budget,⁶⁹ the Higher Education and Research Reform Amendment Bill 2014 was introduced into the Parliament on 28 August 2014,⁷⁰ and seeks to reform the higher education system:

...by deregulating fees and extending demand driven funding to higher education qualifications below the level of bachelor degree, including higher education diplomas, advanced diplomas, and associate degrees, and also to private universities and non-university higher education providers. The Bill will enable providers to determine the amount that students contribute to the cost of their courses...The Bill also restructures Commonwealth subsidies for Commonwealth supported places[.]⁷¹

5.58 The NUS highlighted students' concern that the bill will increase fees and the interest charged on student debt, deterring 'students from low [socio-economic status (SES)], mature age and rural backgrounds from participating in higher education and missing out on opportunities for higher life-time earnings'.⁷²

5.59 Ms Meg Webb, Deputy Chief Executive of Tasmanian Council of Social Service, expressed particular concern about the proposed higher education measures on women:

...they will be particularly penalised through interest accrued on HECS debts and that time out of the workforce will increase the length of time for paying off a HECS debt and increase the level of interest paid. So for women, in particular, that is a real disincentive for higher education.⁷³

68 *Submission 38*, p. 5.

69 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', pp 77–79 and 83–85.

70 House of Representatives, *Votes and Proceedings*, No.61, 28 August 2014, p. 765.

71 Explanatory Memorandum, p. 1.

72 *Submission 21*, p. [5]. Also see: Youth Affairs Council of Western Australia, *Submission 25*, p. 10. Also see: Ms Meg Webb, National Union of Students, *Committee Hansard*, Hobart, 19 September 2014, p. 34.

73 *Committee Hansard*, Hobart, 19 September 2014, p. 11.

5.60 Ms Deanna Taylor, National President of the NUS, advised:

...the evidence we have seen time and time again, both in Australia and when doing comparisons with countries overseas, is that [study debt diversion] is a very real phenomenon, particularly for people from low-SES backgrounds and rural and regional areas and mature-age students, who obviously are unwilling to take on extra debt if they feel that it is not going to be worth it...we simply cannot afford to go down the road of deregulation of fees and the changes to interest rates on HELP loans. It is something that should be unequivocally rejected.⁷⁴

5.61 Submitters and witnesses noted that the budget measures will have long-term impacts on students. Ms Taylor summarised that the measures 'are going to leave students plunged irretrievably into a lifetime of debt'.⁷⁵ Her colleague, Mr Jack Gracie, also rejected the notion that the debt is temporary:

You do not get any bank account when you graduate. You are still carrying debt into your mid- to late-twenties or maybe early thirties. If you take into consideration the proposed changes in higher education—particularly the real interest—you are not talking about a temporary situation. You are talking about a situation where your debt continues to accumulate over years, and it takes you maybe 18 to 25 years to pay off your HECS debt, when originally it might have taken you 10 years. Those particular effects will continue to affect graduates into their forties, possibly.⁷⁶

5.62 Ms Taylor added:

...there is some evidence to suggest that the changes to higher education in the legislation that the government is proposing, and its impact on graduate debt, will have an economic impact broader than what we currently suspect. So there will be things such as fewer young people willing to take on mortgages, which will have an impact on the housing market and car loans. There will be all those kinds of things that will have a broader economic impact than what I think is currently understood.⁷⁷

5.63 In this context, Ms Webb highlighted:

...it is not just necessarily the university sector but introducing HECS-type repayment fees for apprenticeships and that side of things. It also means that people following those pathways into training and employment will come through that training with a debt to repay. That is a difficult thing to face at the very beginning of your career. So extending that down to those forms of training as well is unfortunate.⁷⁸

74 *Committee Hansard*, Hobart, 19 September 2014, pp 32-33.

75 *Committee Hansard*, Hobart, 19 September 2014, p. 30.

76 Welfare Officer, *Committee Hansard*, Melbourne, 18 September 2014, p. 34.

77 *Committee Hansard*, Melbourne, 18 September 2014, p. 34.

78 *Committee Hansard*, Hobart, 19 September 2014, p. 11.

5.64 Professor Thomas Piketty has written that, in the United States of America:

...the proportion of college degrees earned by children whose parents belong to the bottom two quartiles of the income hierarchy stagnated at 10–20 per cent in 1970–2010, while it rose from 40 to 80 per cent for children with parents in the top quartile. In other words, parents' income has become an almost perfect predictor of university access.⁷⁹

5.65 Nobel laureate Professor Joseph Stiglitz recently wrote in the *Sydney Morning Herald*:

There are several areas where Australia should be particularly cautious about imitating the US model. One of the reasons that the US has gone to the bottom of the league tables in economic opportunity is our education system, and especially the way higher education is financed. It is one of the reasons that only about 8 per cent of those in the bottom half get a college education. Australia's income contingent loan program [the HECS-HELP study assist scheme], is the envy of the rest of the world. It works. The best US universities are superb—the best in the world—but they are all either state financed or non-profits, supported by generous philanthropy. They compete vigorously in quality—but it is not conventional market competition, where price plays a pivotal role. The under-regulated for-profit universities excel—in exploiting children from poor families and in lobbying to make sure that they can continue to do so.⁸⁰

5.66 Mr Brendan Markey-Towler, a research higher degree candidate from the School of Economics at the University of Queensland, said:

If you were to ask me what is the single most important policy for mitigating the negative effects of inequality in Australia, it would be the HECS system in so far as it allows for public education on a mass scale...In Australia the defining feature of the HECS system is not just that it subsidises the students significantly. The most important feature in my opinion would be that the government provides the loan at a fairly low interest rate and also does not demand regular payments. You pay the loan back when you get the income, and it is taken out as tax from your taxable income. That is extremely important in providing access to university for students.⁸¹

79 *Capital in the Twenty-First Century*, Harvard University Press, Cambridge, United States, 2014, p. 485.

80 Professor Joseph Stiglitz, 'Inequality: why Australia must not follow the US', *Sydney Morning Herald*, 6 July 2014, <http://www.smh.com.au/comment/inequality-why-australia-must-not-follow-the-us-20140706-zsxtk.html> (accessed 17 November 2014).

81 *Committee Hansard*, Logan, 8 October 2014, pp 47 and 51.

The Budget and the GP co-payment

5.67 The Budget proposed to achieve savings of \$3.5 billion over five years:

...by reducing Medicare Benefits Schedule (MBS) rebates from 1 July 2015 by \$5 for standard general practitioner [GP] consultations and out-of-hospital pathology and diagnostic imaging services and allowing the providers of these services to collect a patient contribution of \$7 per service.⁸²

5.68 The Budget also proposed to achieve savings (\$1.3 billion over four years), by increasing the Pharmaceutical Benefits Scheme (PBS) co-payments and safety net thresholds, from 1 January 2015. This measure will increase:

- co-payments for general patients by \$5.00 (from \$37.70 to \$42.70) and for concessional patients by \$0.80 (from \$6.10 to \$6.90); and
- thresholds each year for four years, with general safety net thresholds to increase by 10 per cent each year and concessional safety nets to increase by the cost of two prescriptions each year.⁸³

5.69 Some witnesses commented on the MBS and PBS measures, saying that the patient contribution will reduce access to medical services and prescription medications for low income and disadvantaged Australians.⁸⁴ Dr Yvonne Luxford, Member of the Public Health Association of Australia, indicated that consideration could have been given to the many people who will be affected by the measures:

Look at the different groups who will be directly affected by a GP co-payment and who have come out and claimed that they will be directly affected—such as Aboriginal and Torres Strait Islander Australians. All of the groups associated with advocacy around the health of Aboriginal and Torres Strait Islander Australians have spoken about the damage that a GP co-payment will cause in terms of their continuing access to health care. There has also been a strong voice from the rural sector, such as the National Rural Health Alliance, which has been arguing on the same levels. We see the same...also in terms of access to care for those who are dying, or anybody with a chronic disease, when you are looking at both sides of that, in terms of being able to visit a GP and the changing levels of the PBS safety net et cetera. If you are needing ongoing medication and ongoing medical treatment, those things are obviously going to be affected by a GP co-payment and other changes there.⁸⁵

82 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', p. 133.

83 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', p. 140.

84 See, for example: Dr Yvonne Luxford, Member, Public Health Association of Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 54. Ms Catherine Bartolo, Chief Executive Office of YFS Ltd, related anecdotal evidence that this effect is already occurring in anticipation of the enabling legislation: *Committee Hansard*, Logan, 8 October 2014, p. 31.

85 *Committee Hansard*, Canberra, 16 October 2014, p. 54.

5.70 Mr Joshua Fear from Mental Health Australia said:

...it will not surprise the committee to learn that people with mental illness often face very high out-of-pocket costs. GPs are often the first port of call for someone with a mental health issue, both someone who has never experienced those symptoms before and is worrying about what they mean and also people who have an enduring mental illness that they need to cope with over time. In fact 1½ million GP services are provided every year for a mental health issue...[A] co-payment will actually discourage help-seeking.⁸⁶

5.71 TASCROSS added:

We need nothing to discourage people from attending their GP appointments regularly. A co-payment does that outright. Particularly for people in Tasmania who are on low incomes, who are on allowances and pensions, any level of co-payment required will be a deterrent and that will inevitably lead to worse health outcomes and a much more expensive health system for our state in the long run.⁸⁷

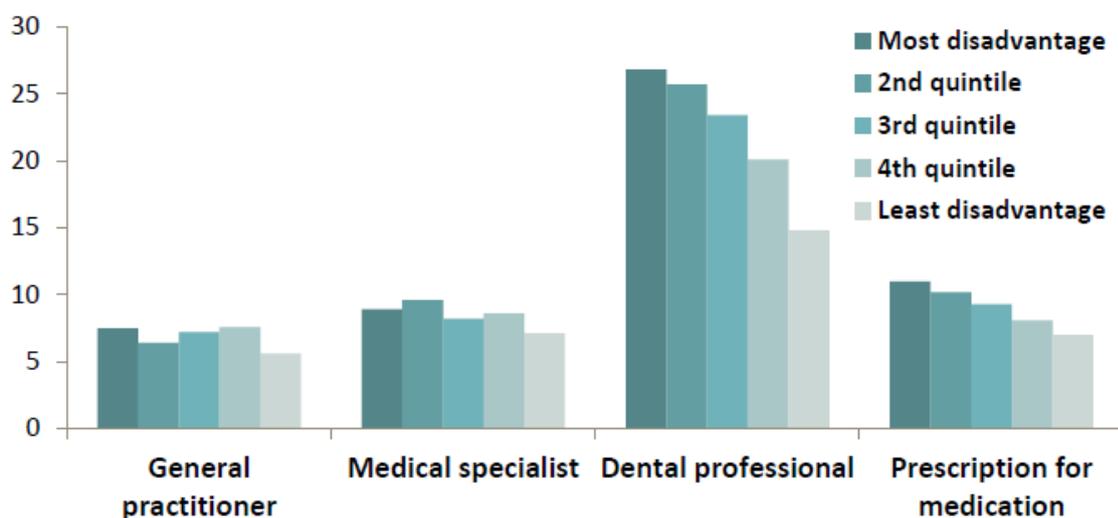
5.72 At the Logan public hearing, QCOSS tabled its 2013 report into *Indicators of Poverty and Disadvantage in Queensland*, showing that, in that state in 2011–12, 7.4 per cent of the population deferred access to a GP and 11.5 per cent of the population deferred access to medications, for costs reasons.⁸⁸ The national statistics were also reported for that financial year by the ABS (Figure 5.6).

86 *Committee Hansard*, Canberra, 16 October 2014, p. 57.

87 Ms Meg Webb, Deputy Chief Executive, *Committee Hansard*, Hobart, 19 September 2014, p. 9.

88 Queensland Council of Social Service, *Indicators of Poverty and Disadvantage in Queensland*, October 2013, tabled 8 October 2014, p. 33.

Figure 5.6: Percentage of individuals who delay or did not use service due to cost by level of disadvantage (ABS 4839.0, 2011–2012)



Committee view

5.73 Government policy affects income and other forms of inequality. Evidence received by the committee highlighted particularly how the 2014–15 Budget will disproportionately and negatively impact people living on low incomes. Most concerning is NATSEM's estimate that single parents will fare worst losing approximately 10.8 per cent of income on average. Also concerning is the ANU's estimate that an unemployed adult will face an 18 per cent reduction in disposable income. These independent analyses are not disputed.

5.74 Treasury explained that it would not be possible to annually measure the impact of budget measures on income distribution. It is surely possible however to model the likely impact of those changes, as has occurred with previous budgets and as undertaken by NATSEM and the ANU. The committee notes that the Treasury—among others—uses a model not only developed for that department but similar to the STINMOD model used by NATSEM.⁸⁹

5.75 In the interests of transparency and accountability, the Australian Government should be making available more detailed analysis of budget measures which significantly affect the whole, or part of the, Australian community. For the 2014–15 financial year, the negative effects on low income households is patently clear and, according to further NATSEM analysis, so significant as to atypically increase Australia's Gini co-efficient rating by a margin not achieved in the last few decades.

89 Mr Nigel Ray and Ms Marisa Purvis-Smith, Principal Advisor, Tax Analysis Division, Revenue Group, The Treasury, *Committee Hansard*, Canberra, 17 November 2014, pp 4–5.

5.76 Much of the evidence showed that the likely impact of the Budget measures will be to exacerbate income inequality and poverty in Australia. The HPLs and the 50 per cent median income poverty line indicate that far too many vulnerable Australians, individuals and families in receipt of income support, are currently living in poverty.

5.77 One solution suggested by the ACTU, in respect of Newstart Allowance but equally applicable to several income support payments (Parenting Payment, Youth Allowance, Austudy), is to review the adequacy of payments.⁹⁰ The committee considers this to be a sound proposal but notes that the Reference Group reviewing Australia's welfare system might not be actively considering this issue. If this were the case, the review would miss an opportunity to examine a fundamental aspect of the Australian welfare system and to address any inadequacies in that area.

5.78 In relation to Stronger Participation Incentives for Job Seekers under 30, Submitters and witnesses described how the new policy will adversely affect individuals and families, as well as communities. Dr Falzon described a practical outcome of this policy as 'forcing young people to live on fresh air and sunshine'.⁹¹ The committee questions the evidence base for this harsh proposal that is intended to encourage young people to earn, learn or participate in Work for the Dole.⁹²

5.79 The committee notes that the Australian Government has indicated that it is 'pragmatic' about its ability to pass legislation introducing a patient contribution, due to insufficient support for the policy proposal in the Senate.⁹³ In recent days, senior ministers have also affirmed that the Government remains committed to the policy and is currently negotiating changes which will secure the passage of the legislation.⁹⁴

5.80 The committee accepts evidence to the inquiry that a GP co-payment will frustrate access to health services for people who cannot afford the contribution. The committee considers that equitable access to health care is a fundamental feature of the Australian health system, and a policy—such as the GP co-payment—which jeopardises people's ability to access necessary health care is not supportable. Equally,

90 See chapter 6.

91 *Committee Hansard*, Canberra, 16 October 2014, p. 44.

92 The Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, Budget Speech, *House Hansard*, 13 May 2014, p. 3594.

93 The Hon. Peter Dutton MP, Minister for Health, quoted in Greg Jennett, 'GP Co-payment: Federal Government looking at 'different options'', *ABC News*, 27 November 2014, <http://www.abc.net.au/news/2014-11-27/government-looking-at-different-options-on-gp-co-payment/5920908> (accessed 27 November 2014). Also see: 'Govt reportedly abandon GP Co-payment', *Sky News*, 27 November 2014, <http://www.skynews.com.au/news/top-stories/2014/11/27/govt-reportedly-abandoned-gp-co-payment.html> (accessed 27 November 2014).

94 Stefanie Balogh and Rosie Lewis, 'We're ready to work on co-payment: Robb', *The Australian*, 1 December 2014, p. 6; Rosie Lewis, 'GP co-payment: Julie Bishop says government committed to policy', 28 November 2014, p.

the committee is not convinced that impeding individuals' access to prescription medications, by raising contributions and safety net thresholds, is justifiable.

5.81 In relation to the Budget measures aimed at achieving higher education reform, the committee highlights the erudite comments of Professor Stiglitz. The committee considers that the HECS-HELP study assist scheme must be preserved, as must access to affordable vocational training.

5.82 The committee acknowledges that low income regions across Australia—such as Elizabeth (South Australia), the location of the fifth public hearing for this inquiry—will be gravely affected also by the measures in the Budget. The closure of the Ford, Toyota and General Motors Holden factories within the Elizabeth area is an unfortunate but prime example of the way in which government policy can impact income inequality.

5.83 With the above comments in mind, the committee makes the following recommendations.

Recommendation 1

5.84 The committee recommends that there should be analysis of income inequality in Australia as a result of budget changes. The evidence provided to the committee raises issues around the best way to provide this analysis. There has been support for this work to be undertaken by the Treasury or the Australian Bureau of Statistics. The committee believes that consideration should be given to the most effective process to achieve this analysis.

Recommendation 2

5.85 The committee recommends that the Australian Government not proceed with the following 2014-15 Budget measures, to avoid further hardship for Australians in receipt of income support payments:

- in Schedules 1 to 8 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014, measures that:
 - maintain at their current levels for three years the income free areas for all working age allowances (except student payments) and the income test free area for Parenting Payment Single, from 1 July 2015;
 - index Parenting Payment Single to the Consumer Price Index only, from Royal Assent;
 - maintain at their current levels for three years several FTB free areas, from 1 July 2015;
 - maintain at their current levels for three years the income free areas and other means-tested thresholds for student payments, including the student income bank limits, from 1 January 2015;
 - maintain the standard FTB child rates for two years in the maximum and base rate of FTB Part A and the maximum rate of FTB Part B, from 1 July 2015;
 - revise the FTB end-of-year supplements to their original values and cease indexation, from 1 July 2015;
 - limit FTB Part B to families with children under six years of age, with transitional arrangements applying to current recipients with children above the new age limit for two years, from 1 July 2015;
 - introduce a new allowance for single parents on the maximum rate of FTB Part A for each child aged six to 12 years inclusive, and not receiving FTB Part B, from 1 July 2015;
 - extend and simplify the ordinary waiting period for all working age payments, from 1 January 2015;
 - provide for 26-week waiting periods and non-payment periods, from 1 January 2015;

- **cease the pensioner education supplement, from 1 January 2015;**
- **cease the education entry payment, from 1 January 2015;**
- **extend Youth Allowance (Other) to 22 to 24 year olds in lieu of Newstart Allowance and Sickness Allowance, from 1 January 2015;**
- **require young people with full capacity to learn, earn or Work for the Dole, from 1 January 2015; and**
- **remove the three months' backdating of disability pension under the *Veterans' Entitlements Act 1986*, from 1 January 2015.**
- **in Schedules 1 and 2 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 5) Bill 2014, measures that:**
 - **index all pensions to the Consumer Price Index only, from 20 September 2017;**
 - **maintain for three years the current income test free areas for all pensioners (except Parenting Payment Single), and the deeming thresholds for all income support payments, from 1 July 2017;**
 - **reset the income test deeming thresholds for single income support recipients (\$30 000), pensioner couples (\$50 000), and a member of a couple other than a pensioner couple (\$25 000), for social security and veterans' entitlements, from 20 September 2017; and**
 - **increase the age pension qualifying age and the non-veteran pension age from 67 to 70 years, by six months every two years, commencing 1 July 2025.**
- **cessation of payment of the seniors supplement for holders of the Commonwealth Seniors Health Card or the Veterans' Affairs Gold Card, from 20 September 2014 (Schedule 1 of the Social Services and Other Legislation Amendment (Seniors Supplement Cessation) Bill 2014).**

The committee recommends that the proposed changes to the HECS-HELP study assist scheme and the proposed GP co-payment do not proceed.