Senate Select Committee into the Abbott Government's Budget Cuts

Public Hearing – 16 October 2014

ACTU response to questions taken on notice from Senator Lines

1. *I note what you say about the differential effects of the budget on those with high incomes versus those with low incomes, but we live in a market economy. Why wouldn't you accept, as was put by Amanda Vanstone in the press recently, that increasing the gap between rich and poor in the short term will ultimately mean everyone is better off?*

We do not accept that "increasing the gap between rich and poor… will ultimately mean everyone is better off." This 'trickle-down' prescription contends that increasing the share of national income going to high-income groups will result in higher economic growth, and that this growth will raise the absolute living standards of all groups, such that each member of society has a higher standard of living than he or she would have if society had remained more equal.

Not only does the evidence not support this contention, but the opposite seems to be true in many cases. A recent, highly influential, IMF paper found that "higher inequality seems to lower growth."[1] The IMF analysts also find that "redistribution… has a tiny and statistically insignificant (slightly positive) effect" on growth. They conclude it would "be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable." The view described in the question is outdated and discredited.

2. *Can the ACTU outline any particular regional impacts as a result of the 2014 Abbott Budget?*

NATSEM has completed an analysis of aspects of the 2014-15 Federal Budget by region.[2] The report models the impact of changes to taxation and government cash benefits on family budgets. Estimates of the effect of the budget on households within each of 2059 regions across the country are generated.

[1] Ostry, J.D, Berg, A., Charalambos, G.T. 2014, 'Redistribution, Inequality and Growth', IMF Staff Discussion Note SDN/14/02, International Monetary Fund, Washington, DC. Available from: http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf [Accessed 13 November 2014].
[2] Phillips, B. 2014, 'National and Regional Analysis of the 2014-15 Federal Budget', NATSEM, University of Canberra, September 2014.

The report finds that in 2017-18, "regions with mostly low income families [are] impacted most heavily. The regions least impacted are made up of predominantly high income families". Table 1 lists the suburbs in which NATSEM estimates the budget will have the biggest impact on household budgets. These are all relatively low income areas.

Table 1: Areas in which the budget will have the largest impact on household incomes

Rank	Suburb (SA2)	Annual $ impact	% of disposable income
1	Greenacre - Mt Lewis	-1607.5	-2.7
2	Guildford - South Granville	-1584.5	-2.8
3	Mt Druitt - Whalan	-1563.1	-2.8
4	Bankstown	-1511.8	-2.6
5	Yagoona - Birrong	-1387.6	-2.3
6	Broadmeadows	-1366.4	-2.7
7	Chester Hill - Sefton	-1364	-2.3
8	Granville - Clyde	-1332.4	-2
9	Campbellfield - Coolaroo	-1327	-2.5
10	Liverpool - Warwick Farm	-1286	-2.3

Source: Phillips 2014, Table 4.

By contrast, the areas in which the budget will have the smallest impact (and a positive one) are relatively high income areas. This is shown in Table 2.

Table 2: Areas in which the budget will have the smallest impact on household incomes

Rank	Suburb (SA2)	Annual $ impact	% of disposable income
2050	East Melbourne	17.6	0
2051	Nhulunbuy	22.7	0
2052	Civic	34	0
2053	Forrest	40.8	0
2054	Paddington - Moor Park	44.1	0
2055	Erskineville - Alexandria	45.3	0.1
2056	Newstead - Bowen Hilla	53.1	0.1
2057	Potts Point - Woolloomooloo	80.7	0.1
2058	Kingston - Barton	105	0.1
2059	Darlinghurst	110.4	0.1

Source: Phillips 2014, Table 4.

The tables above reflect NATSEM's analysis of the impact of changes to tax and cash transfer policies on household incomes. The budget will also have an impact on regional communities through measures that are not included in NATSEM's analysis of household budgets. For example, the ACTU is concerned that the proposed changes to higher education policy will impact disproportionately on regional universities, their communities and students because regional universities:

- are more dependent on government funding than their capital city counter parts,
- are more price sensitive because of the size and nature of the market in which they operate;
- need to cater for the specific needs of their students who are more likely to come from disadvantaged backgrounds and many tend to be less well academically prepared; and
- are disadvantaged by the inherent inequity built into the design of the new Commonwealth scholarships which impact s more unfairly on universities with a higher proportion of students from financially disadvantaged backgrounds.

3. *I note comments by the Treasurer in recent months that indexing payments to CPI is in fact better for those recipients because, currently, prices are growing faster than wages. Can the ACTU comment on that statement?*

The proposed changes to the indexation of social security payments in the Budget 2014-15 will not be "better for… recipients" of those payments. Under the existing arrangements, pensions are indexed twice-yearly. They rise in line with either the increase in the Consumer Price Index (CPI) or the Pensioner and Beneficiary Living Cost Index (PBLCI), whichever is greater. Pensions are also benchmarked to Male Total Average Weekly Earnings (MTAWE). Couple pensions are benchmarked to 41.76% of MTAWE, while the maximum single basic pension is benchmarked to 27.7% of MTAWE.

The current arrangements ensure that pensions increase in line with either prices (as measured by the greater of the increase in the CPI or PBLCI) or wages (as measured by MTAWE), *whichever is greater.* If real wages are increasing, the increase in pensions will exceed the CPI/PBLCI. If inflation exceeds wages growth, than pensions will rise in line with prices rather than wages.

Under CPI indexation, pensions will no longer rise in real terms when real wages increase. As a result, the gap between the living standards of pensioners and those of workers will grow over time.

4. *Can the ACTU provide the Committee with recommendations as to where the Government should look for extra revenue?*

The ACTU strongly recommends reforms to superannuation tax concessions. In our written submission to this inquiry, we stated that such reform "could improve the Budget balance while reducing, rather than increasing, inequality." We continue to believe this is an area that should be reformed.