

Professor Peter Whiteford

Crawford School of Public Policy at The Australian National University

The Age of Disentitlement: Household Impacts of the Federal Budget

Panel Guests:

Ross Womersley, SACOSS

Alice Clark, Shelter SA

Simon Schrapel, Uniting Communities



DON DUNSTAN FOUNDATION
REMEMBER THE FUTURE



AUSTRALIAN WORKPLACE
INNOVATION AND SOCIAL
RESEARCH CENTRE



THE UNIVERSITY
of ADELAIDE

The Age of Disentitlement: Household Impacts of the Federal Budget

Presentation to the Australian Workplace Innovation and Social Research
Centre (WISeR), University of Adelaide, 10 October 2014

Peter Whiteford, Crawford School of Public Policy
peter.whiteford@anu.edu.au

Outline

- The Age of Entitlement
- Measuring Budget Impacts
- Why cutting social security in Australia increases inequality more than any other OECD country
- Defences of the Budget
- Can a balanced Budget be achieved more fairly?

The Age of Entitlement

- “We have moved beyond the days of big government and big welfare, to opportunity through education and inclusion through participation”, **Julia Gillard, April 2011**
- “The Age of Entitlement is over. ... The entitlements bestowed on tens of millions of people by successive governments, fuelled by short-term electoral cycles and the politics of outbidding your opponents is, in essence, undermining our ability to ensure democracy, fair representation and economic sustainability for future generations. ... The age of unlimited and unfunded entitlement to government services and income support is over. It’s as over in Greece as it is in Italy, in Spain, and in the USA.” **Joe Hockey, April 2012.**
- “We must reward the lifters and discourage the leaners.” **Joe Hockey**
Speech to the Sydney Institute, 11 June 2014

Measuring Budget impacts

- Common sense
- Spending cuts and revenue measures and where they fall
- Cameos
- Micro-simulation

Achieving Budget Balance – spending cuts and revenue measures and where they fall

- 35% of total Federal Budget to be spent on Social Security and Welfare (i.e. \$146b) in 2014/15
 - 52% (\$15.4b) of total projected expenditure cuts (\$29.4b) to come from DSS programmes between 2014-15 & 2017-18 (see [Budget Paper No. 2](#))
 - Revenue measures will raise only an extra \$8.7b over the period, excluding fiscal drag (money saved by not indexing tax thresholds).
- Family payments are 5% (\$20b) of the Federal Budget.
 - Family payments' changes contribute 34% of Budget savings (\$7.3b) between 2014-15 & 2017-18
- Newstart and Youth Allowance (Other) for the unemployed cost under 2.5% (\$10b) pa of the Federal Budget – for under 30s (conservatively) they cost 0.9% of the Federal Budget annually.
 - Newstart and Youth Allowance (Other) changes contribute about 9.5% ([\\$2.8b](#)) of total Budget spending cuts between 2014-15 & 2017-18
- So unemployed people under 30 receive less than 1% of total Budget spending, but are the source of close to 10% of total spending cuts.

Cameos

- Two pieces of quantitative analysis attempted to identify winners and losers from the policy changes proposed. One was [a fairly simple analysis](#) of the impact of selected Budget changes undertaken by myself and Daniel Nethery, a colleague at the [Crawford School of Public Policy](#) at the ANU.
- Our analysis involved calculating the impact of changes in income taxes and social security benefits on the disposable incomes of a small range of family types at different income levels – an approach usually described as the “cameo” or “hypothetical family” method.
- Since 2005, [the Budget Overview](#) has each year contained an Appendix showing calculations of this sort of how much different types of households have gained from policy changes announced in the Budget or over the course of the period of government. This year, the table was absent from the Budget papers..
- Using the projections set out in the Budget, we essentially replicated the methodology used in earlier Budget papers, comparing the impact on disposable incomes in 2016–17, when all of the measures we assessed would have come into effect.

Cameos

- Most people are negatively effected to differing extents.
- Working-age people on social security payments would be affected most by Budget changes.
 - An unemployed 23-year-old loses \$47 per week or 18% of their disposable income.
 - An unemployed lone parent with one 8-year-old child loses \$54 per week or 12%.
 - Lone parents earning around two-thirds of the average wage lose between 5.6 to 7% of their disposable income.
 - A single-income couple with two school-age children and average earnings loses \$82 per week or 6% of their disposable income.
 - An individual on three times the average wage – close to \$250,000 by 2016–17 – would lose \$24 pw, or less than 1% of disposable income paid through the Deficit Levy.
- These calculations were conservative. They did not take into account the proposed abolition of the Schoolkids Bonus as this was not a new Budget initiative. Nor did they include increased costs of health care and fuel or changes to higher education.

Micro-simulation modelling

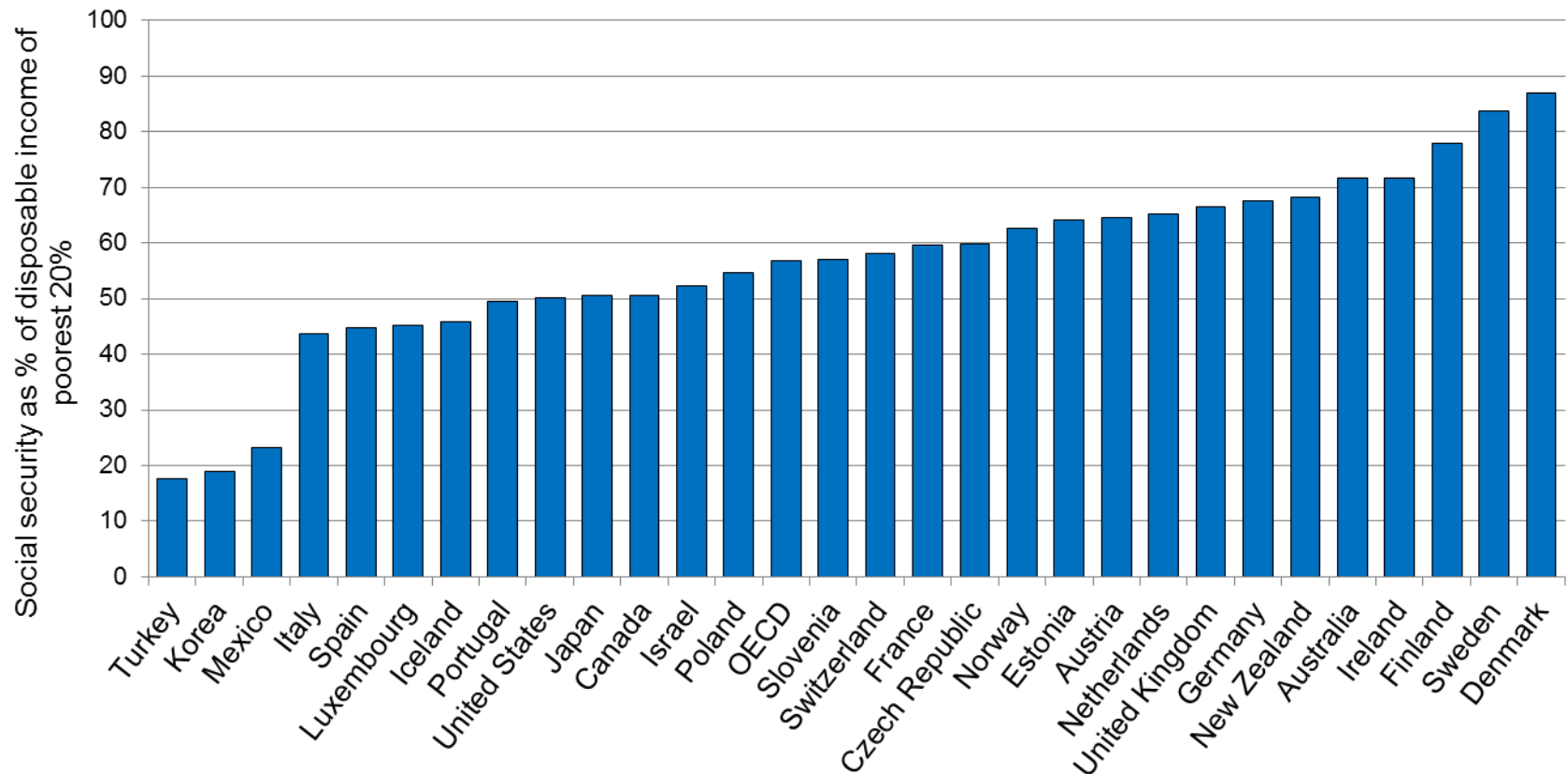
- The most comprehensive analysis of the distributional effects of the Budget was undertaken by the [National Centre for Social and Economic Modelling \(NATSEM\)](#) at the University of Canberra.
- The [NATSEM analysis](#) is more comprehensive in that it involves taking the same sort of calculations but applying them to Australian Bureau of Statistics (ABS) data on the distribution of household incomes, so that the results are generalised up to the whole Australian population.
- NATSEM found the poorest 20% - those with \$35,000 or less in disposable annual income - would forgo \$2.9 billion over four years due to changes to family benefits, pensions and other payments. By contrast, the wealthiest 20% of households - earning \$88,000 or more after tax and benefits - would suffer a \$1.78 billion hit, some 40% less than the lowest income families.
- The most recent [official ABS figures](#) show that the poorest 20% of households receive about 7.5% of disposable income, while the richest 20% receive 39.5%. **This means that the poorest households have less than 8% of total income but are the source of at least 16% of the expenditure savings.**

Why cutting social security in Australia increases inequality more than any other OECD country

Why cutting social security hurts the poor

Social security benefits as % of household disposable income of poorest quintile, 2010 or nearest year

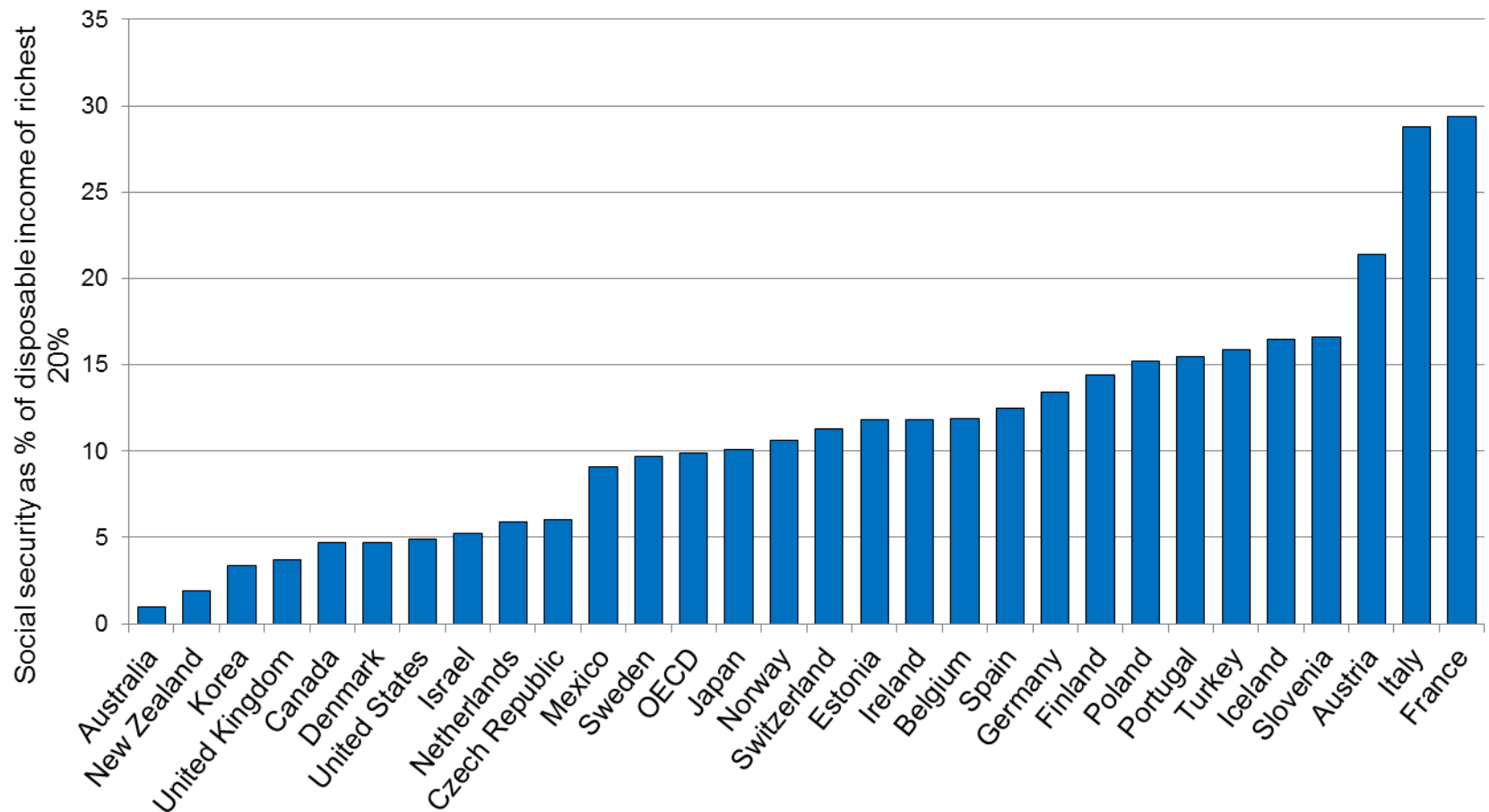
Source: Calculated from Table 5, OECD , 2014, http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en



Why cutting social security in Australia doesn't hurt the rich

Social security benefits as % of household disposable income of richest quintile, 2010 or nearest year

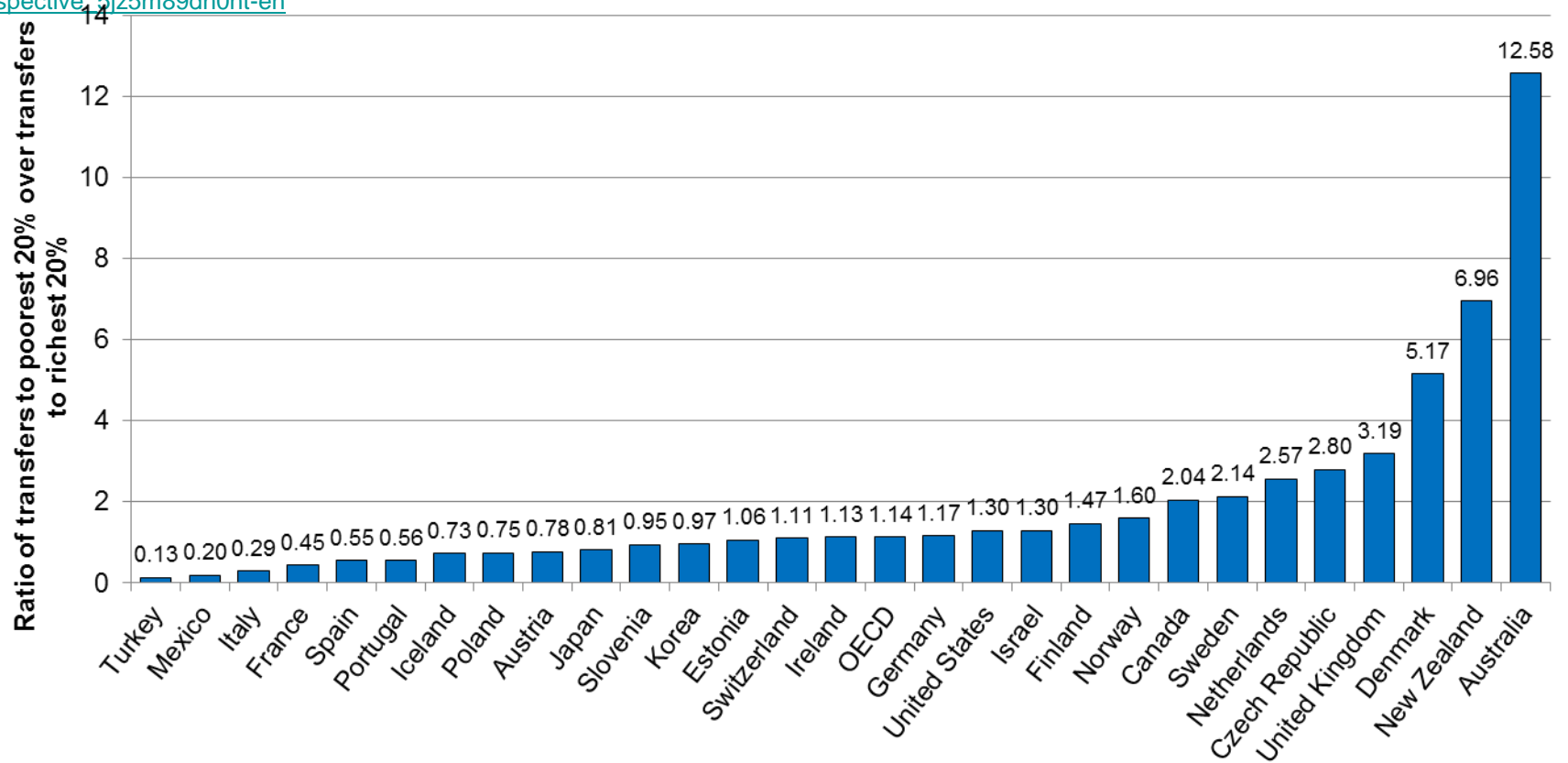
Source: Calculated from Table 5, OECD , 2014, http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en



Australia's social security system is more targeted to the poor than any other OECD country

Ratio of transfers received by poorest 20% to those received by richest 20%

Source: Calculated from Table s 3 and 5, OECD , 2014, http://www.oecd-ilibrary.org/economics/economic-growth-from-the-household-perspective_5jz5m89dh0nt-en





Defences of the Budget

‘A Budget For Opportunity’, Treasurer’s Address To The Sydney Institute, 11 June 2014

- “Criticism of our strategy has been political in nature and has drifted to 1970s class warfare lines, claiming the Budget is “unfair’ or that the “rich don’t contribute enough”.”
- “Payments are too broadly available to too many people. As a result, less is available for those most in need.”
- “According to the OECD Household Income Survey, Australians in the lowest 20% of income had the highest reliance on Government for income of any country in the world.”
- “This OECD survey illustrates that our income redistribution from taxpayers to tax receivers is more comprehensive and broader than any other country in the world.”
- “In other words the average working Australian, be they a cleaner, a plumber or a teacher, is working over one month full time each year just to pay for the welfare of another Australian. Is this fair? Whilst income tax is by far our largest form of revenue, just ten per cent of the population pays nearly two thirds of all income tax. In fact, just two per cent of taxpayers pay more than a quarter of all income tax. Maybe **these** taxpayers would argue that the tax system is already unfair.”
- “In striving to achieve equality, it is not the role of government to use the taxation and welfare system as a tool to “level the playing field”.”

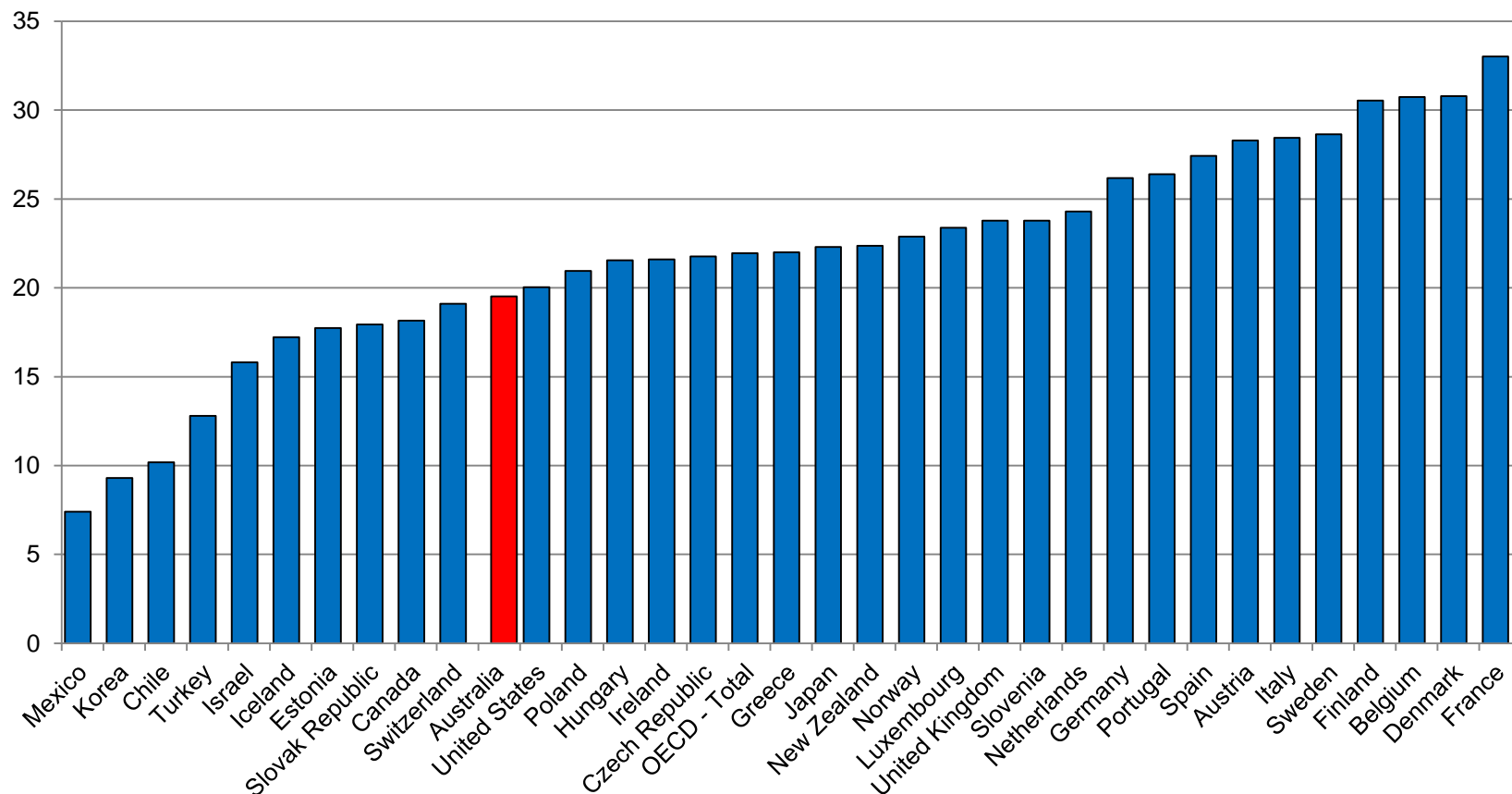
Defences of the Budget

- Welfare is unsustainable.
- Welfare should be better targeted.
- All income groups including the poor have done extremely well in the last 20 years.
- It's not their income.
- Actually, we are unfair to the rich (who are the only people who pay net taxes).
- There is no alternative (TINA)

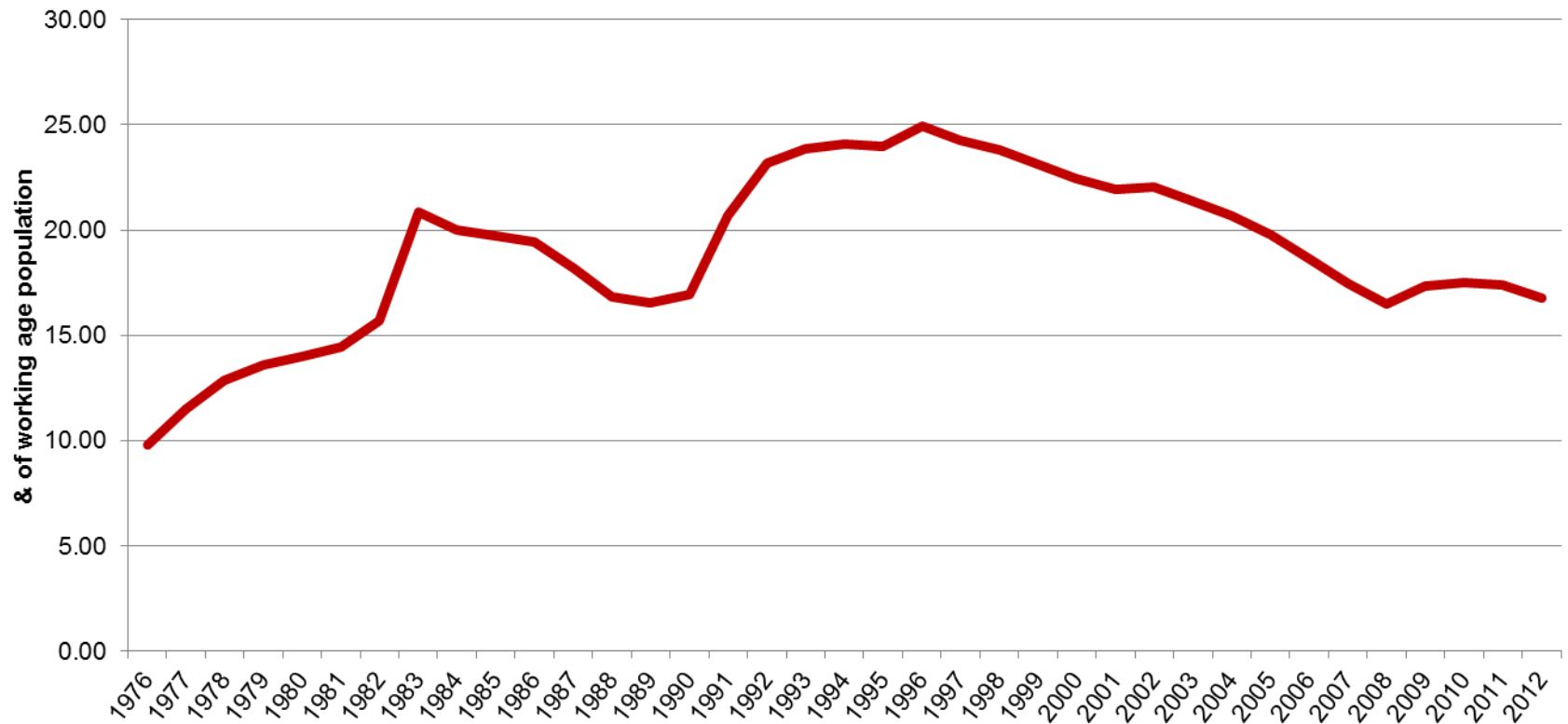
Is welfare sustainable?

Public social expenditure, OECD countries 2013

% of GDP

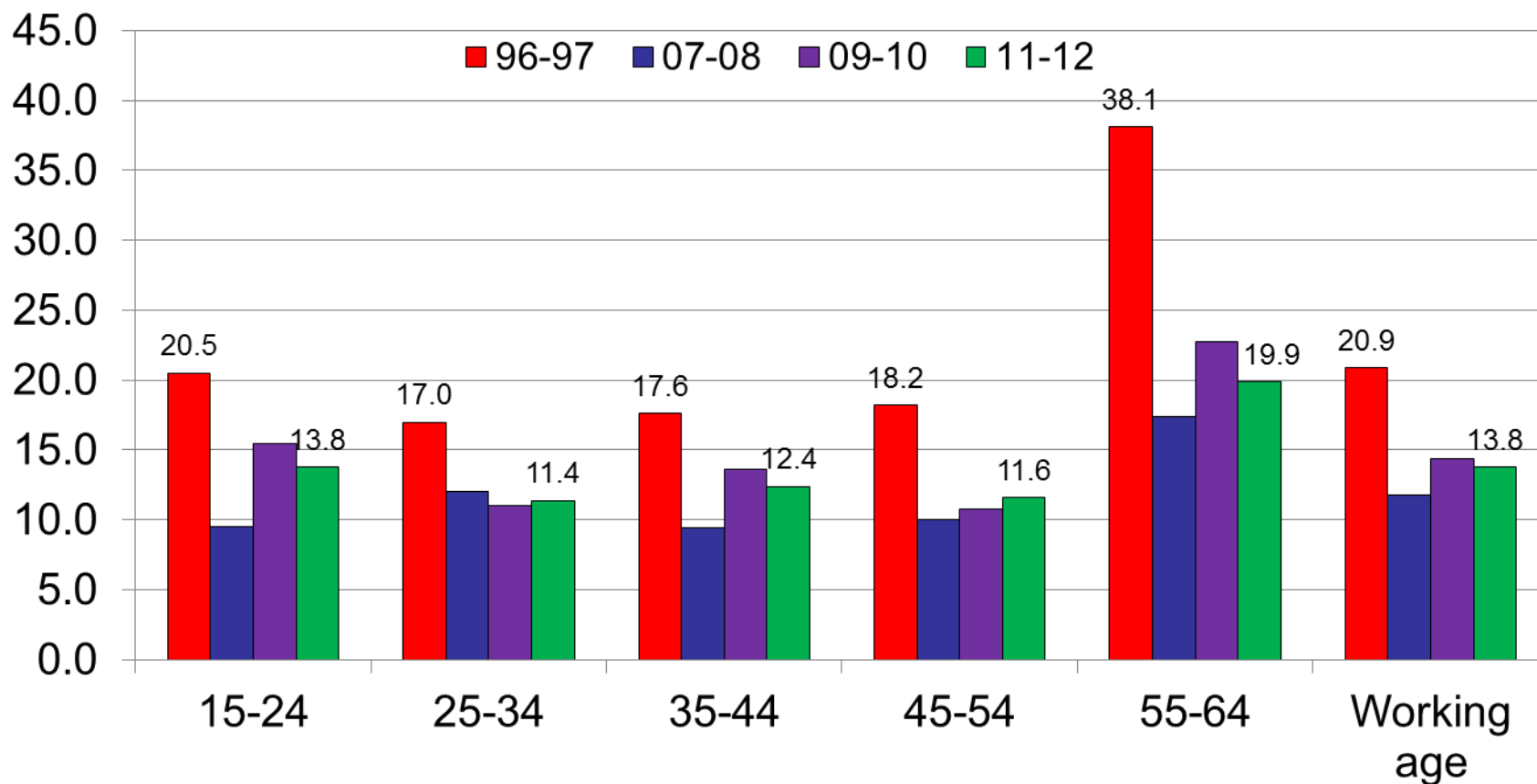


Per cent of working age population receiving social security benefits, 1976 to 2012



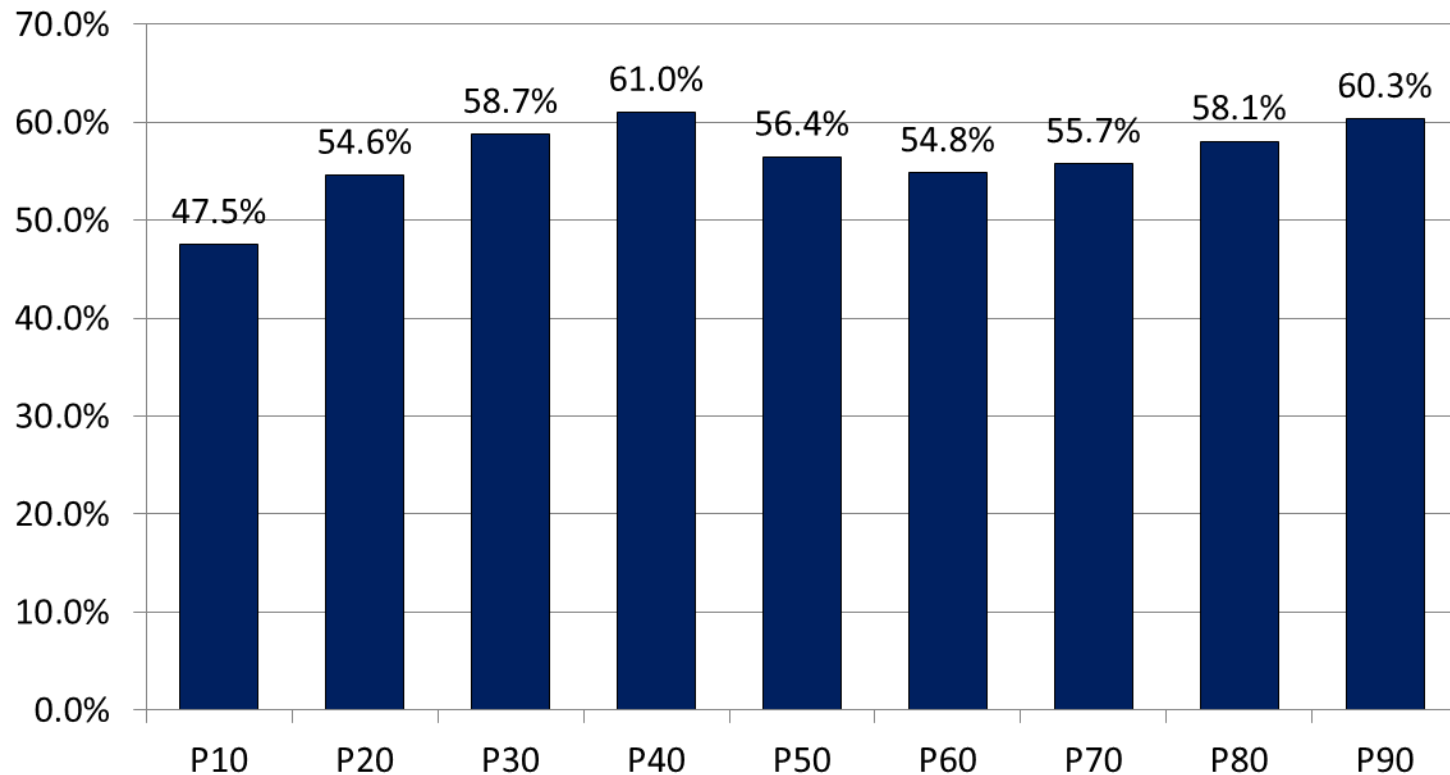
Change in working age income support recipients, 1996-97 to 2011-12

% of households with benefits as main income source by age group



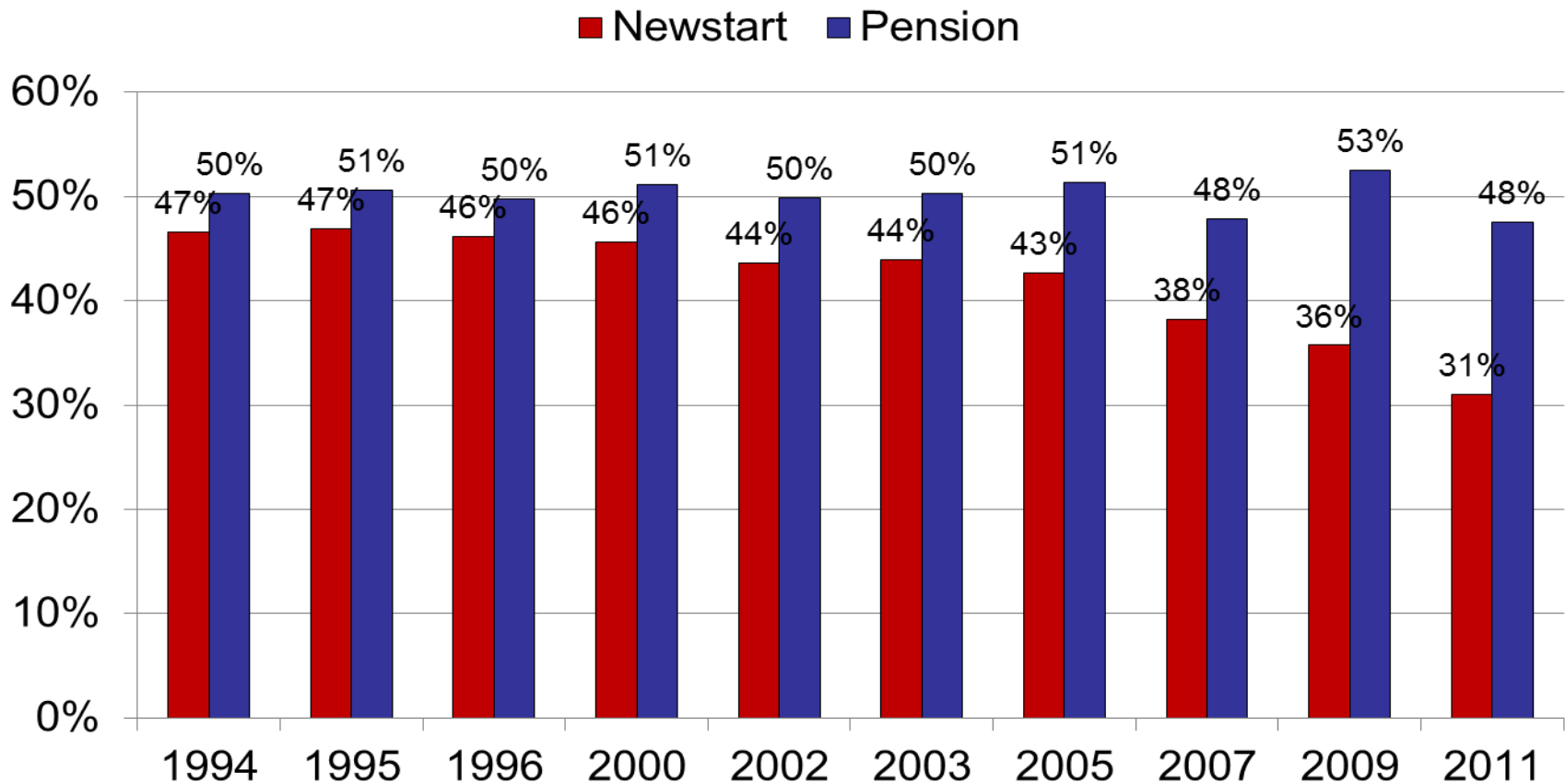
Have all income groups done well?

Change in real equivalised household disposable income, Australia, 1994-95 to 2011-12



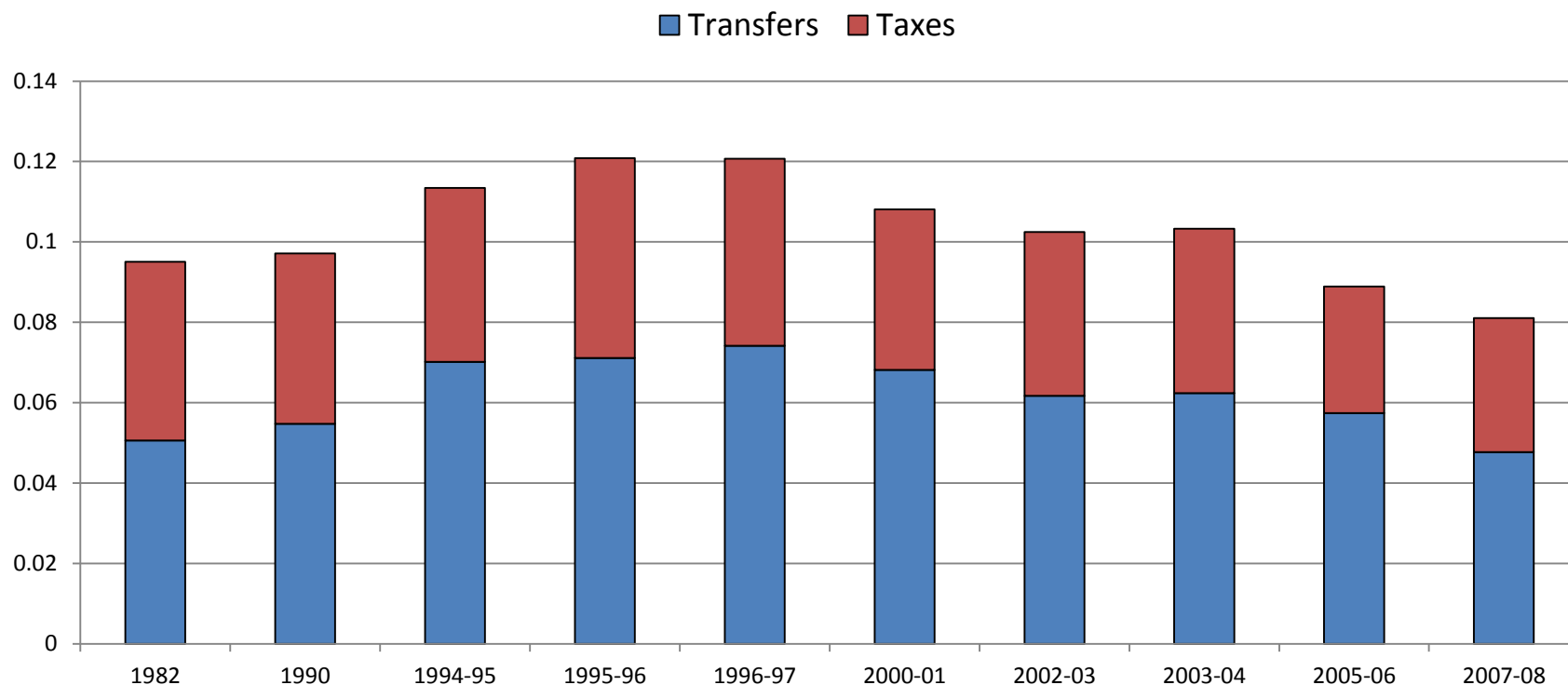
Poverty in a time of prosperity

Payments for single person as % of median equivalent income



Reduction in inequality among income units of working age, Australia, 1982 to 2007-08

Point difference in Gini coefficient



“Its not their income”

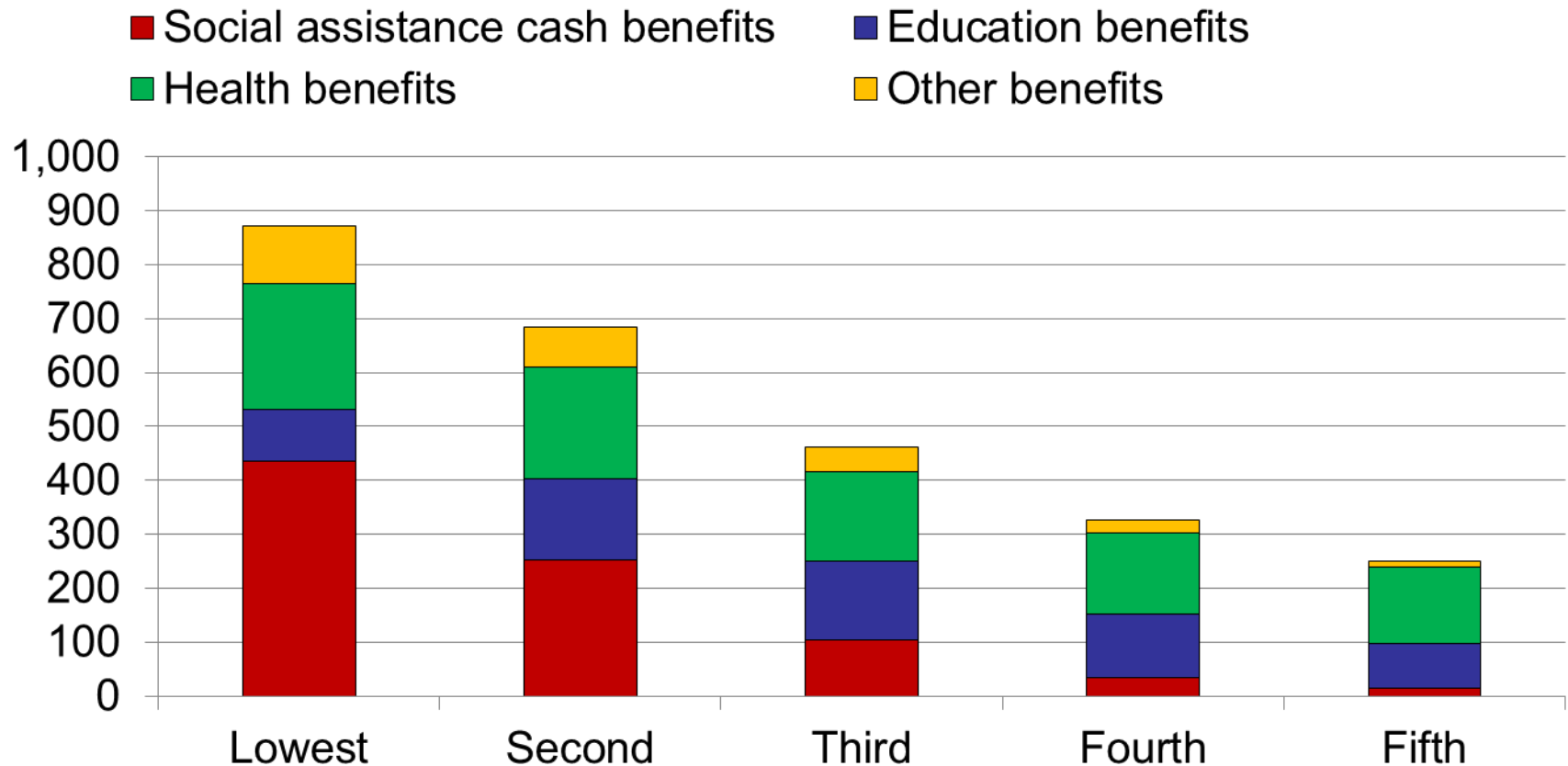
- [The Institute of Public Affairs \(IPA\)](#): “NATSEM’s figures might be right, but it's quite wrong to, therefore, claim they prove the budget is inequitable. There's a world of difference between the government giving you less of something that isn't yours to begin with, and the government taking something from you that is yours in the first place.”
- [Daily Telegraph columnist, Miranda Devine](#): “You can’t equate money someone earns by going to work every day with money someone receives in government benefits. Benefits are not the same as income.”
- [The Treasurer’s Budget Speech](#) : “We must always remember that when one person receives an entitlement from the government, it comes out of the pocket of another Australian.”
- Treasurer’s speech to the Sydney Institute: Is it fair that “the average working Australian, be they a cleaner, a plumber or a teacher, is working over one month full-time each year just to pay for the welfare of another Australian”.

Are we unfair to the rich?

- “The middle class and the professions are staging a revolt as they find their growing share of the tax burden too hard to bear, after over a million people were made exempt from the tax system over the past 10 years”. ([Fleur Anderson](#) *Financial Review*) - ATO [tax statistics for the 2010-11 financial year](#) show that the top five per cent of income earners pay 34.1 per cent of net income tax, while the top 25 per cent of income earners pay just over two-thirds of net income tax.
- [About 45% of Australians pay no income tax at all](#), a figure very close to that used by [Mitt Romney in the 2012 US Presidential election campaign](#) when he argued that 47% of Americans pay no income tax and were therefore “moochers”.
- [“No, the rich don’t pay a ‘fair share’ of tax. They pay all of it”](#). *The Australian*, Adam Creighton.
- Nicholas Eberstadt of AEI has argued that the United States is now “on the verge of a symbolic threshold: the point at which more than half of all American households receive, and accept, transfer benefits from the government” and suggesting that there was now a divide between [the "takers" and the "makers"](#).
- Treasurer Sydney Institute speech: “... in striving to achieve equality, it is not the role of government to use the taxation and welfare system as a tool to ‘level the playing field’ ”.

Who gets what?

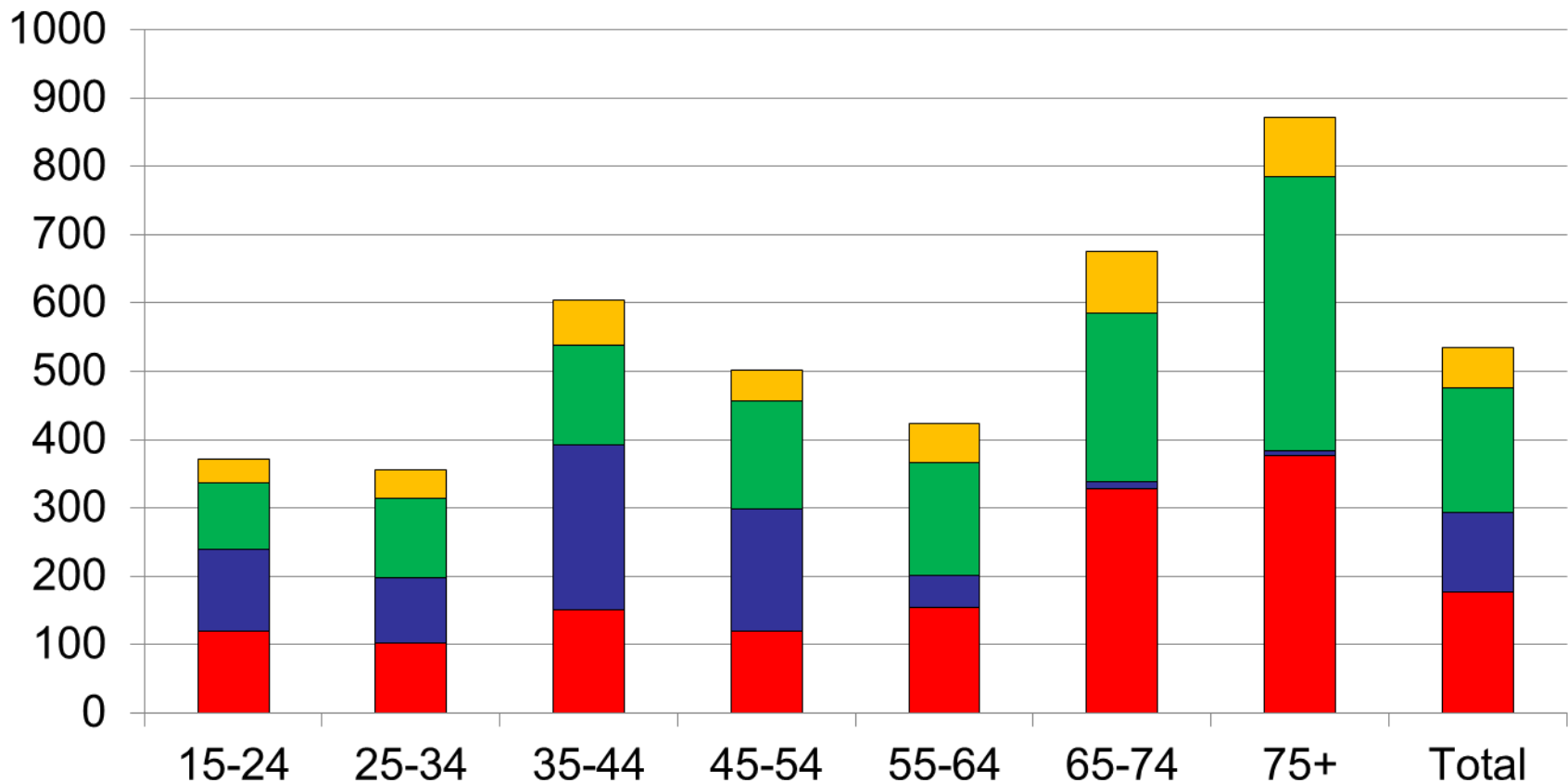
All benefits (\$pw) received by quintiles of equivalised private income, Australia, 2009-10



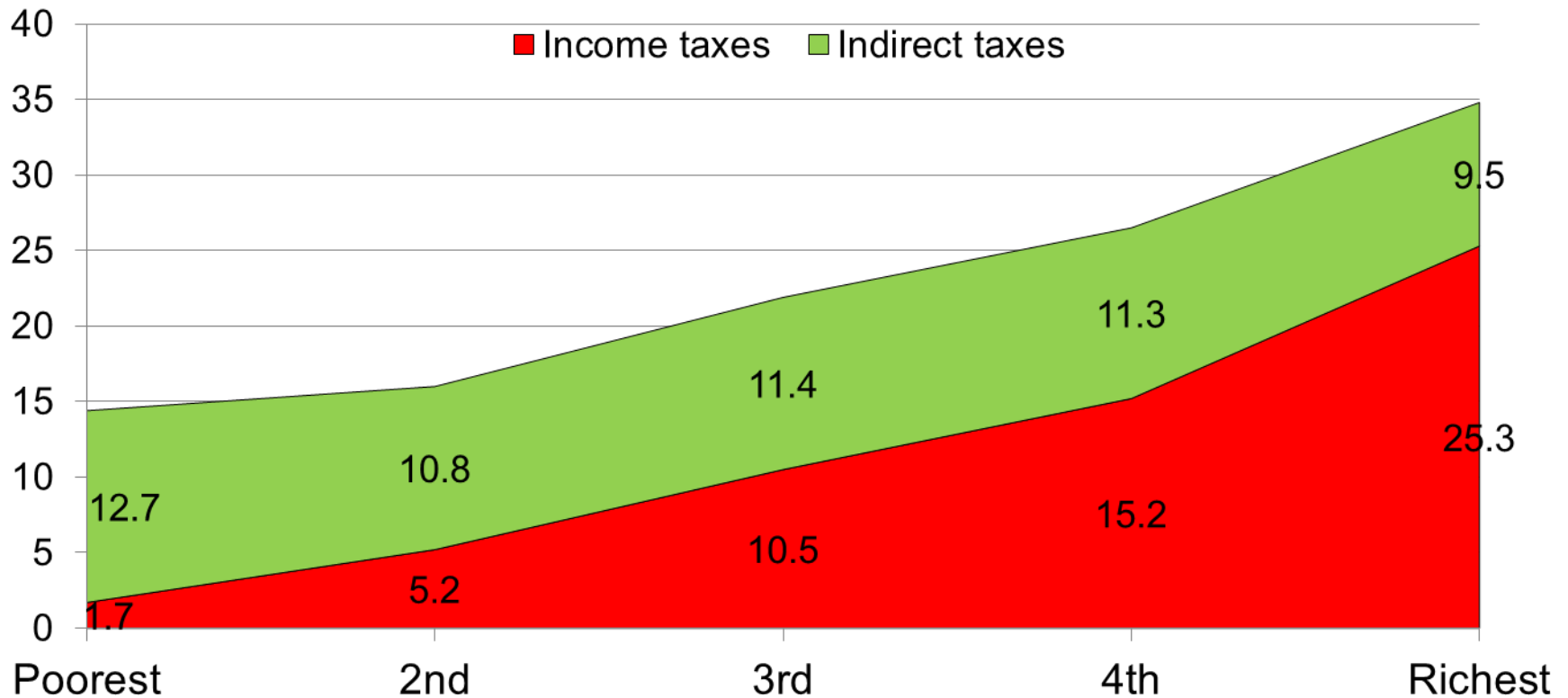
Who gets what?

Benefits received (\$pw) by age of reference person, Australia, 2009-10

■ Cash benefits ■ Education ■ Health ■ Other in kind



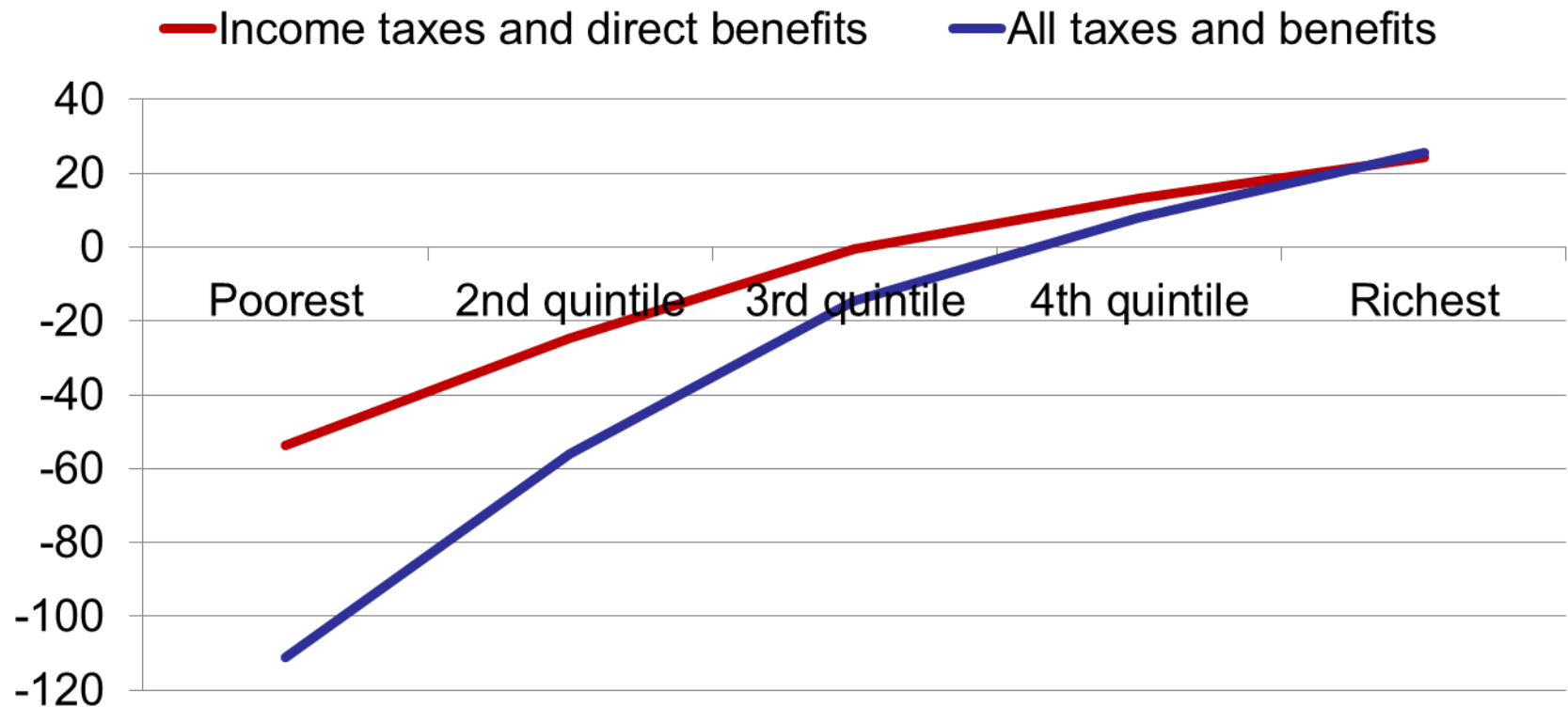
Direct and indirect taxes as per cent of income by quintiles of equivalised disposable income, Australia, 2009-10



When do you become a net taxpayer?

Average tax rates by quintile, 2009-10

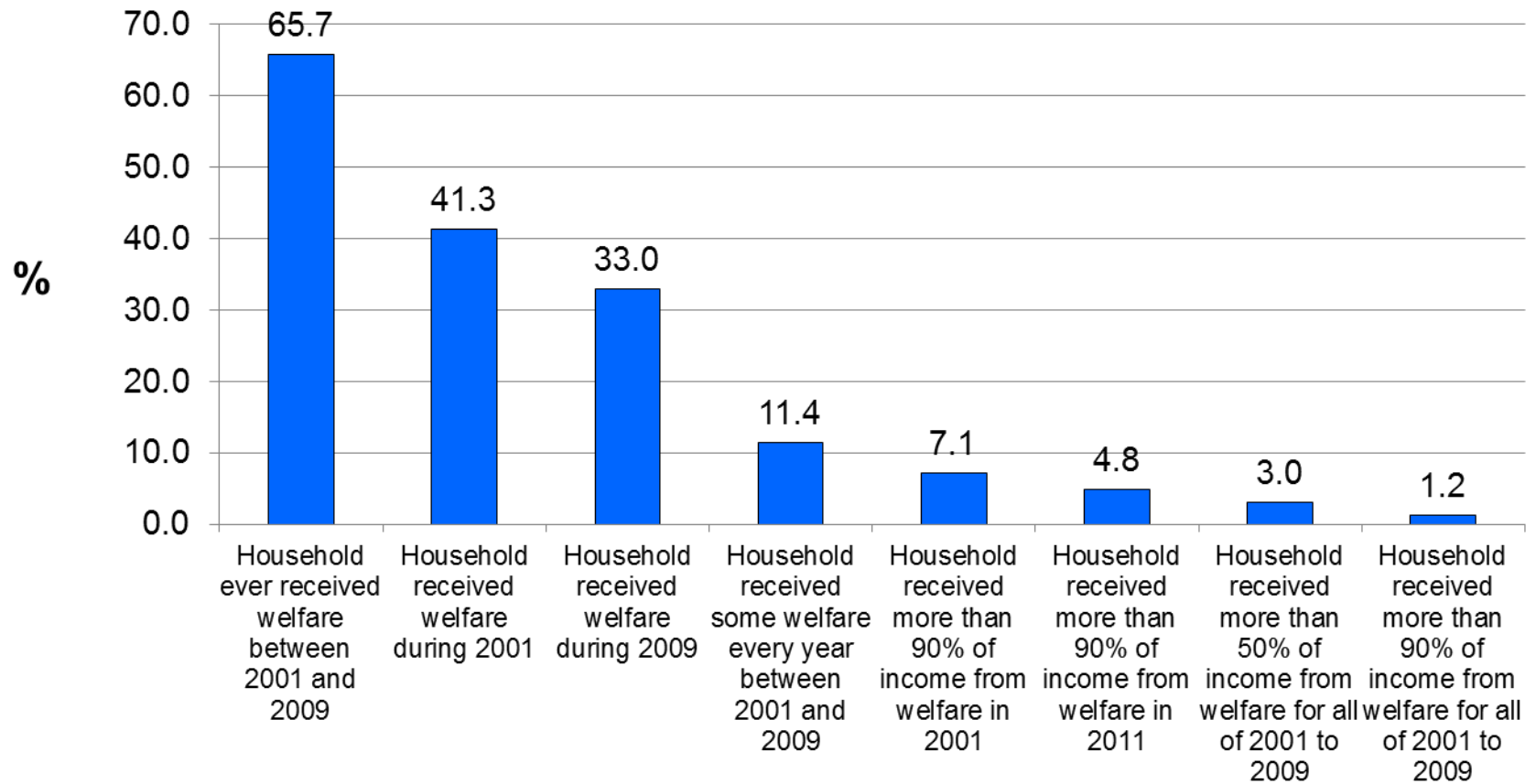
Taxes as % of equivalised disposable income; cash and non-cash benefits treated as negative taxes



Most of us are lifters and leaners

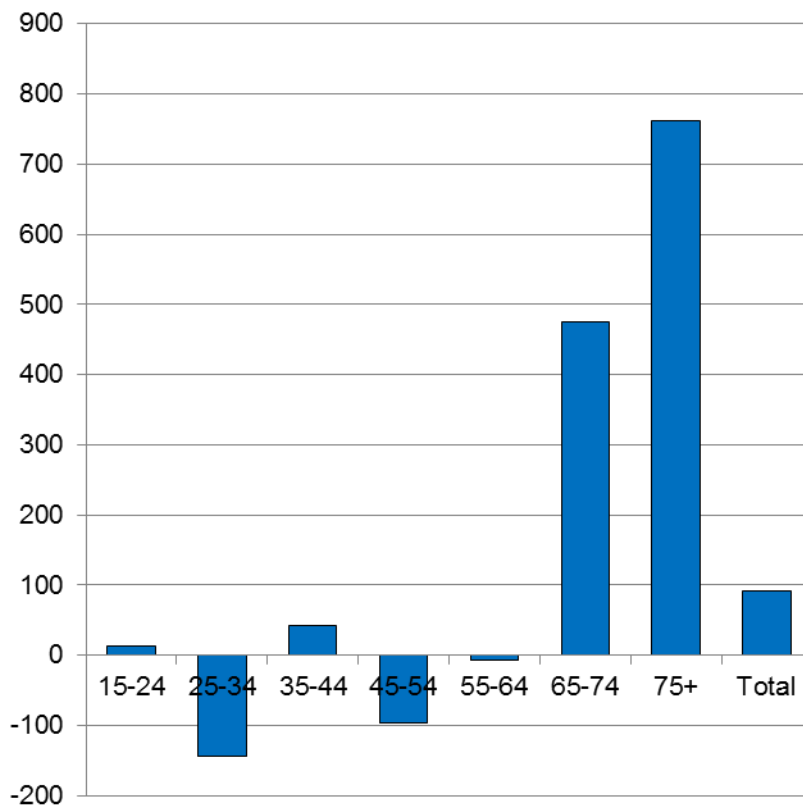
Welfare receipt over time

% of working age households receiving income support payments by period

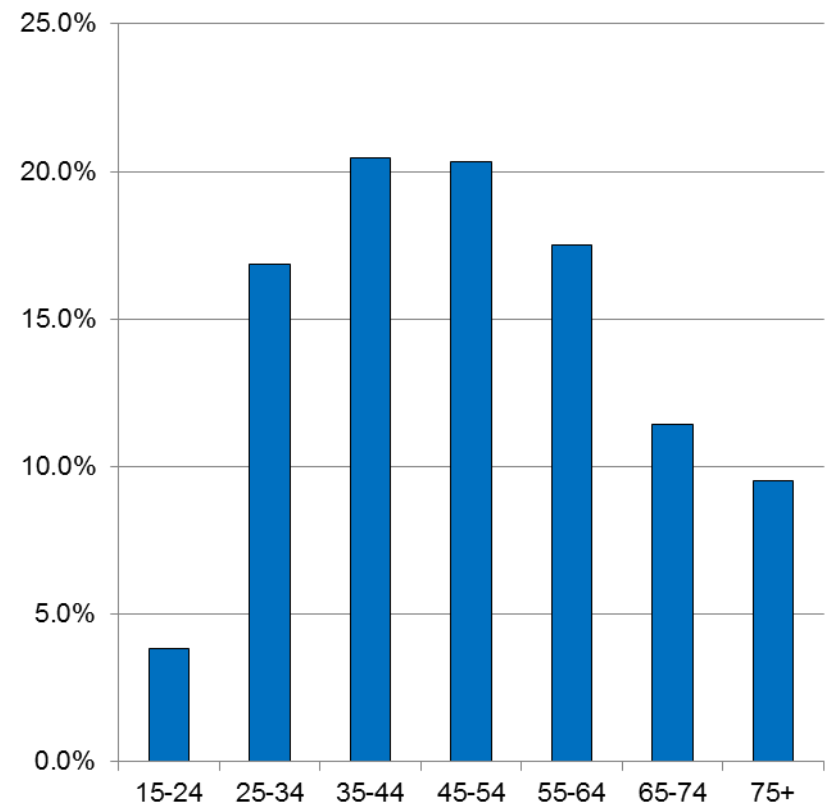


Net transfers (\$pw) by age of household reference person and share of households by age, Australia 2009-10

Net transfers (\$pw)



Share of households (%)



Future challenges

- While reduced, a significant proportion of the working age population continue to rely mainly on benefits for their incomes – it is desirable for equity reasons and sustainability to reduce this, but we should also be concerned that further reforms really do improve equity in outcomes.
- Australia – so far – seems to have escaped a major economic downturn from the “Great Recession”. This is a very major advantage in facing future challenges.
- Population ageing will soon start to have a much more significant impact on the costs of the system.
- The Grattan Institute (2013) estimates that on current trends there would be a deficit of 4% of GDP by 2023 (2.5% at the Federal level).
- There are significant needs – with reforms to introduce greater support for disability services, for aged care and nursing homes, for dental care and to improve equity in the education system. These reforms need to be properly funded.
- Indexation provisions for unemployment payments are inadequate as are benefit levels. Similar risks to future family payments.
- We are residualising the poor – are we introducing the concept of “deserving” and “undeserving”?

Summing-up

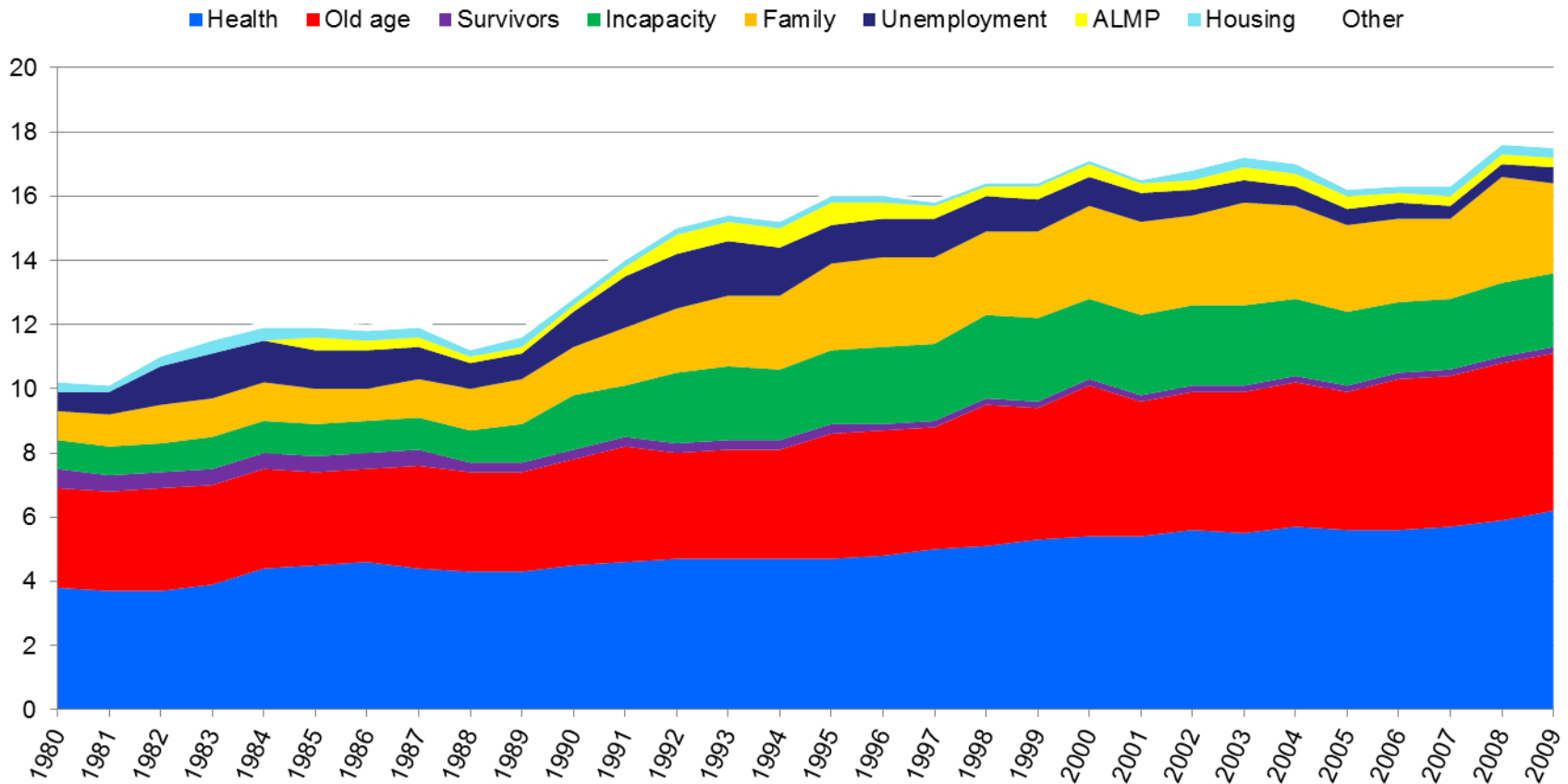
- Is welfare sustainable?
 - Yes, but there are challenges.
- Could welfare be better targeted?
 - Yes, but the Budgetary gains are not significant unless very difficult decisions are taken.
- All income groups including the poor have done extremely well in the last 20 years.
 - Perhaps, but need to look at dynamics; unemployed and some lone parents fell down the income ladder
- It's not their income, is it?
 - Define your values.
- Are we unfair to the rich?
 - Define your values and look at the dynamics.
- There is no alternative surely?
 - There are plenty of alternatives, but they still involve difficult decisions.



Additional material

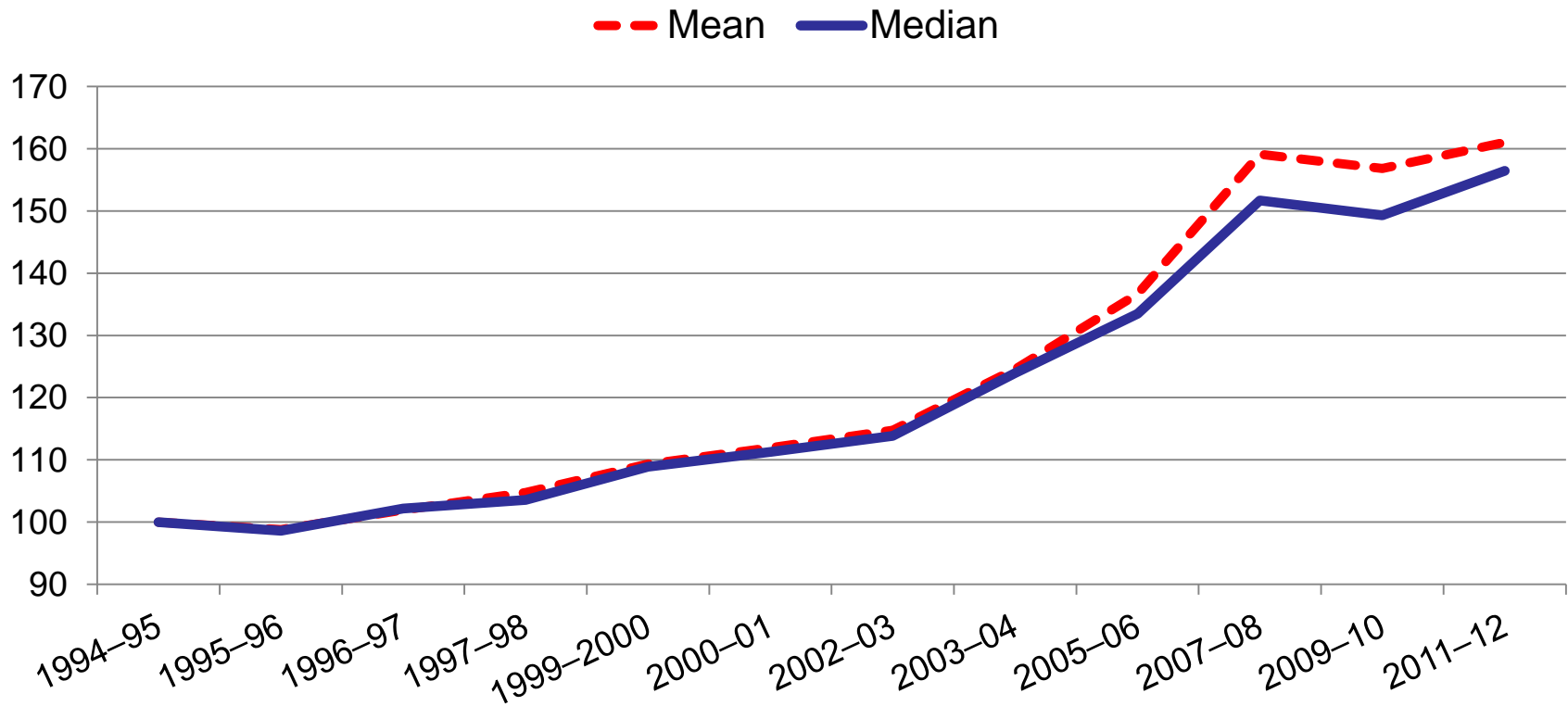
Trends in social spending, Australia, 1980 to 2009

Spending as % of GDP



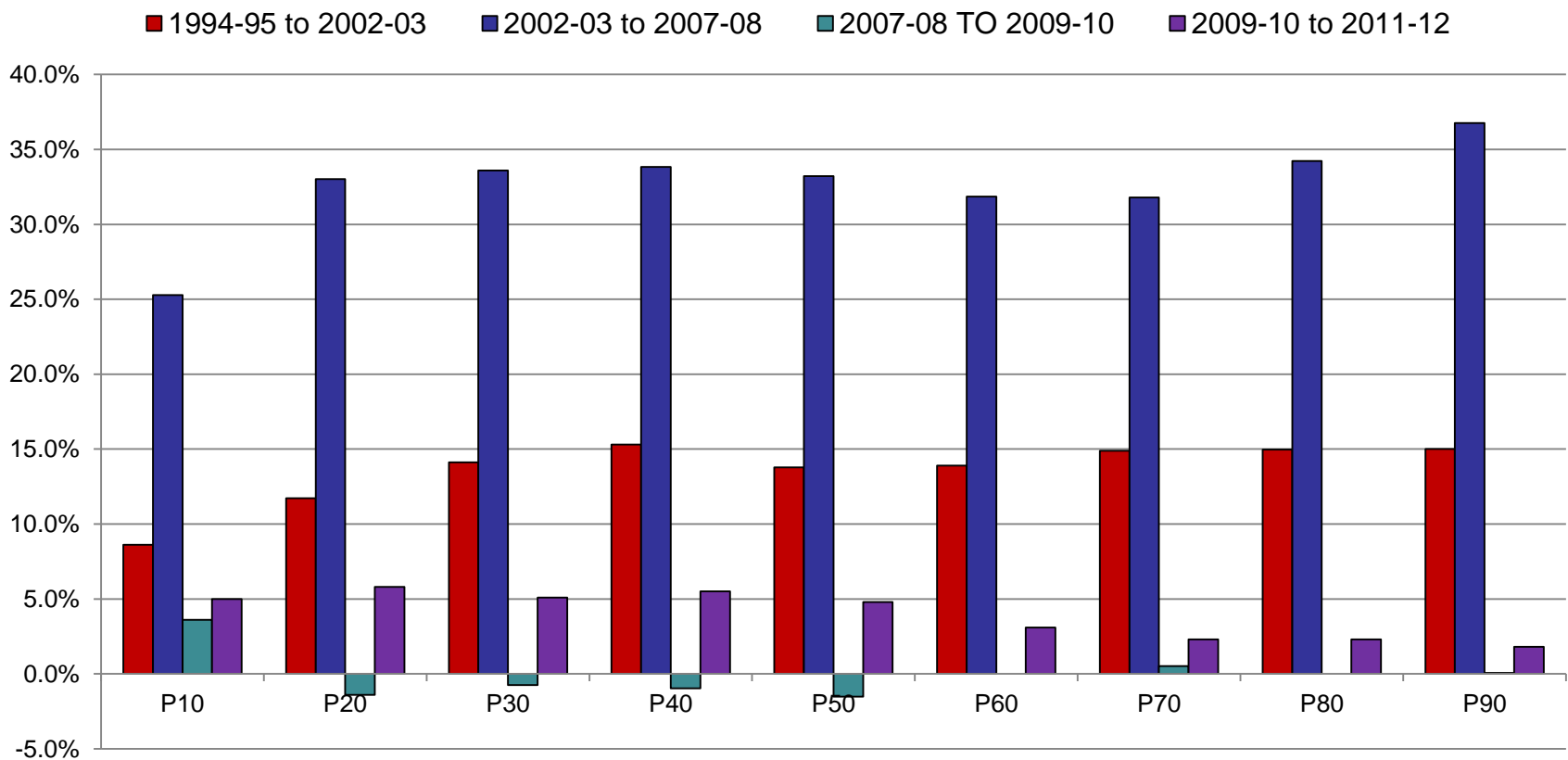
Trends in real mean and median equivalised disposable household income, Australia 1994-95 to 2011-12

1994-95 = 100



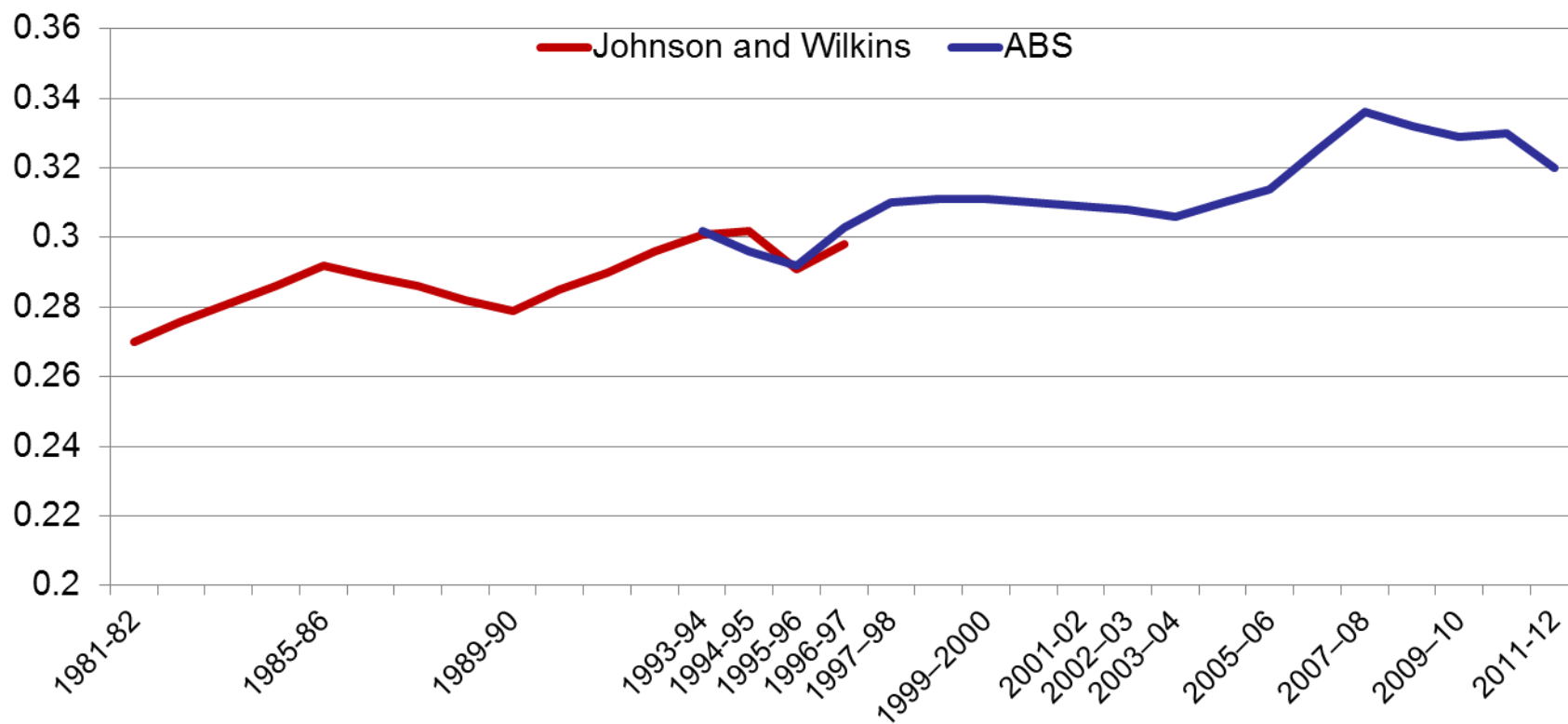
Trends in real incomes at different decile points, Australia, 1994-95 to 2011-12

Percentage change in real equivalised income unit income

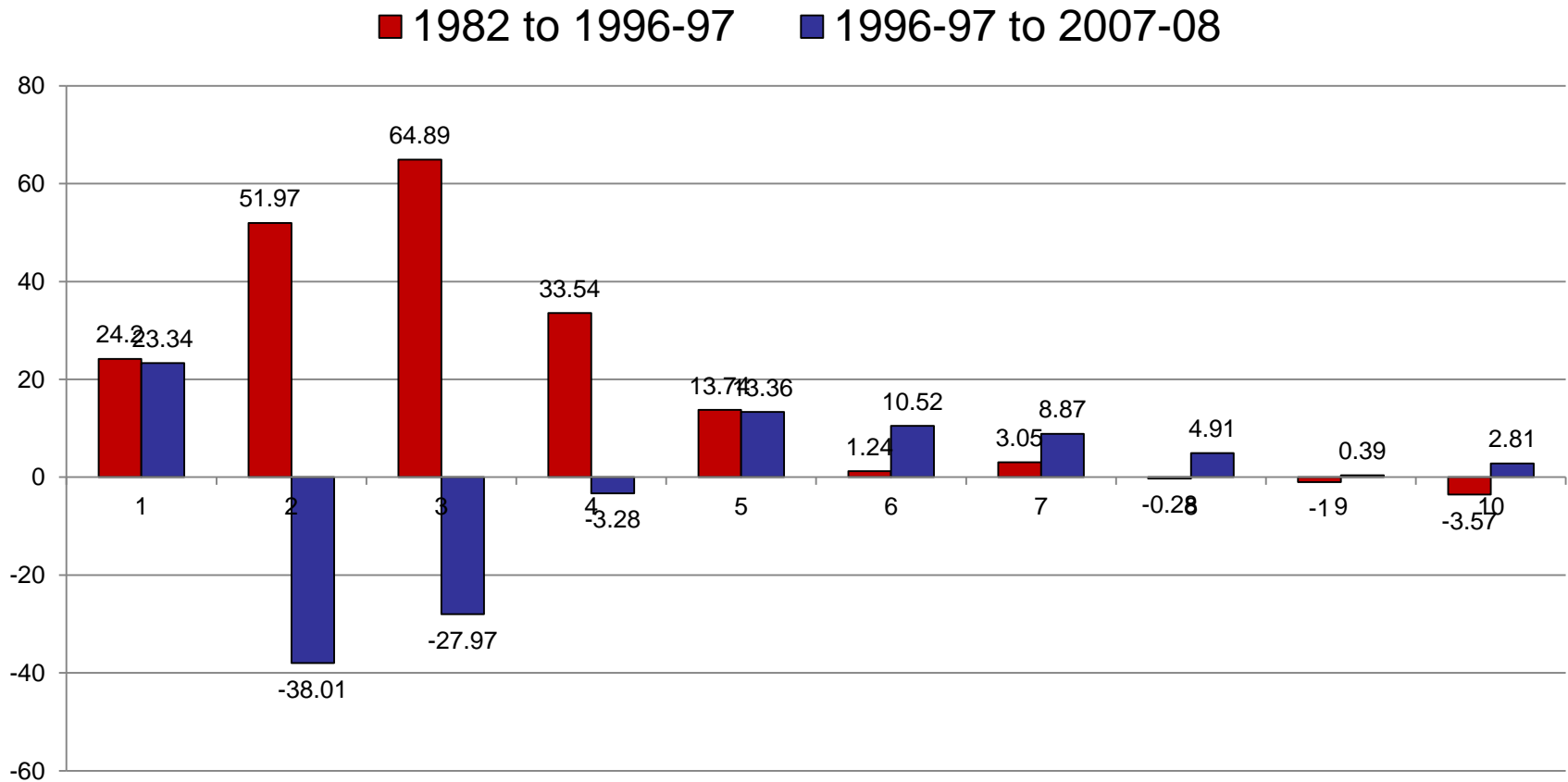


Trends in income inequality in Australia, 1981-82 to 2011-12

Gini coefficient



Change in real value of transfers (2008 \$pw) received by deciles of working age income units



Direct and indirect taxes as per cent of income by age of household reference person, Australia, 2009-10

