Staying the Course?

Inter-generational Implications of Budget ‘Repair’

Friday - 26 August 2016

[Image: Tracy Nearmy / AAP]

“On current settings, more Australians today are likely to go through their entire lives without ever paying tax than for generations. More Australians are also likely today to be net beneficiaries of the Government than contributors – never paying more tax than they receive in government payments.”

“There is a new divide – the taxed and the taxed nots…”

The Honourable Scott Morrison MP
Treasurer of Australia [25 August 2016]

Background Summary

The Honourable Scott Morrison, Treasurer, gave a speech on Thursday 25th of August 2016 to Bloomberg in Sydney. The speech was titled:

Staying the course – strengthening our resilience in uncertain economic times. [Link to speech][1]

The speech noted that Australia has just concluded its **25th** year of consecutive economic growth and that Australia has one the highest rates of economic growth in the advanced world.

The speech also highlighted significant ***generational challenges***. The Treasurer pointed out that:

A generation has grown up not ever having known a recession, of seeing unemployment rates at more than ten percent, with one million Australians out of work or mortgage rates at 18 per cent or where inflation is actually a problem, rather than an aspiration.

In addition, a generation has grown up in an environment where receiving payments from the Government is not seen as the reserve of those who unfortunately will be forever dependent on support or in need of a hand up, but a common and expected component of their income over their entire life cycle.

On current settings, more Australians today are likely to go through their entire lives without ever paying tax than for generations. More Australians are also likely today to be net beneficiaries of the Government than contributors - never paying more tax than they receive in government payments.

There is a new divide – the taxed and the taxed nots.

What does HILDA Think?

Much public, as well as political debate, centres around the implication of Australians being too dependent upon welfare.[2] The recent Hilda survey by the Melbourne Institute of Applied Economic and Social Research[3] shows that Australia's welfare dependency remains **well below** what it was 15 years ago.

The implications for future Youth and Welfare policy is significant.

Welfare - The Facts

Intergenerational Policy - Coffins vs Prams

The members of the Victorian LLEN Network Data Project will recall a number of presentations and briefings that address the "inter-generational policy challenges" that will [and are] directly impacting on the LLEN's major stakeholders, Young People.

I less than euphemistically referred to this as the "Coffins versus Prams" scenario.

These challenges remain and with the new Federal Parliament about to sit, coherent, evidence-based and factual policy positions will be critical for your contribution to policy debate.

This briefing is provided as an executive summary of Key HILDA findings in the context of the Treasurer's most recent "Staying the Course" speech.

Chapter 3 - Household Economic Wellbeing[4]

The HILDA Survey is the only nationally representative data source in Australia that has the capacity to provide information on both the distribution of income at a point in time and how incomes of individuals *change over time*.

Chapter 3 in HILDA contains three sections that focus on the income data, respectively examining the distribution and dynamics of **household income**, the prevalence and dynamics of **income poverty**, and the extent of **welfare reliance**.

Household Incomes

Mean and **median** household disposable incomes have grown quite strongly for the in-scope population over the HILDA Survey period.

Expressed at December 2014 prices, the mean increased by $21,434 between 2001 and 2014, or $1,649 per year; the median increased by $18,027 over the period.

However, growth was very much concentrated on the **2003 to 2009** period, when the mean increased by $18,088, or 26.8%, and the median increased by $17,935, or 30.7%.

Indeed, between **2009 and 2014**, the median **household income fell slightly**, while the mean grew by only $2,928.

Welfare Reliance - Up or Down?

Dependence on welfare remains a significant concern for policy- makers in Australia.

It is associated with significant demands on government budgets and reduced economy-wide market output. Moreover, reliance on welfare is often associated with long-term poverty, social exclusion and other adverse outcomes for recipients and their children.

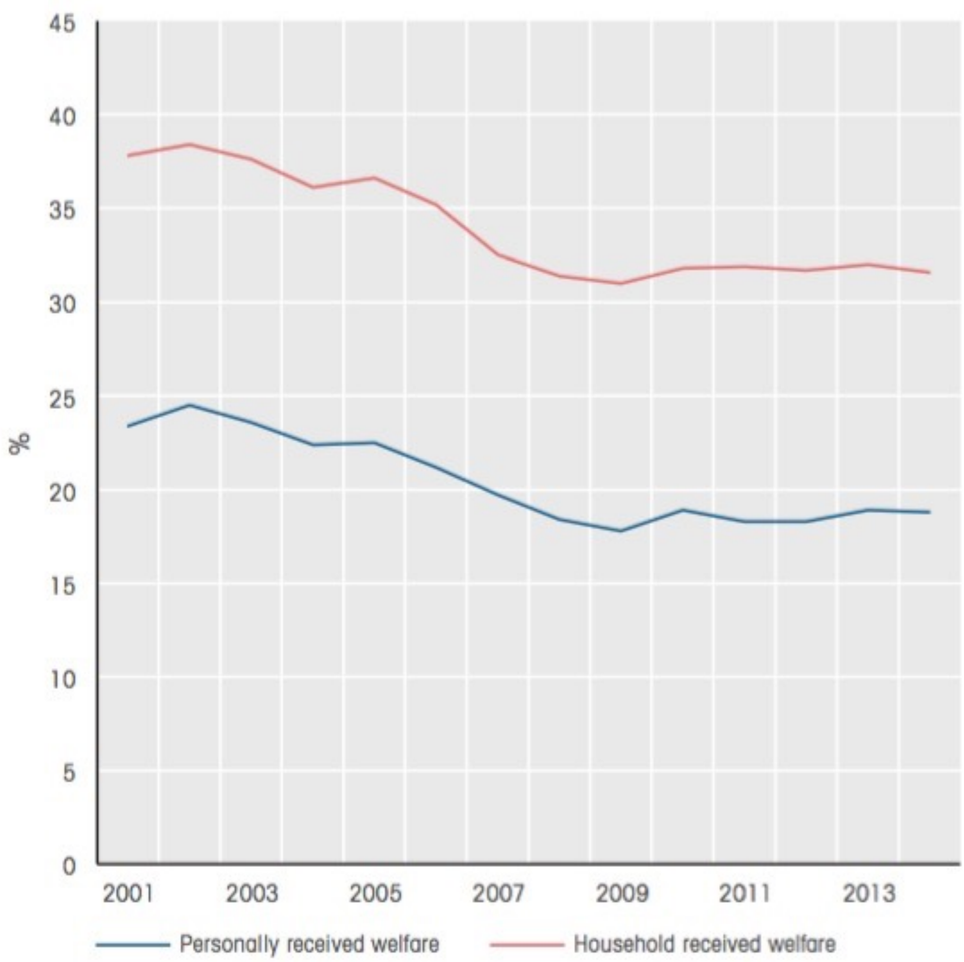
That said, the welfare system provides an important social 'safety net'. Indeed, it may be important in assisting people to 'bounce back' from adverse shocks, and could conceivably be beneficial to both economic output and the government budget over the longer term. In any case, it is clear that policy concern should be greatest for long-term or entrenched welfare reliance.[5]

Receipt of Welfare by People 18-64

In 2014, **31.6%** of individuals aged 18–64 were living in a household that received income support at some stage of the financial year ending 30 June 2014[6].

This is **substantially lower** than at the beginning of the HILDA Survey in 2001, when the corresponding figure was **37.8%.**

However, all of the decline in household welfare receipt was in the period to 2009, and in fact welfare receipt was slightly higher in 2014 than in 2009, when **31**% of working-age individuals lived in a household which received income support at some stage of the financial year.

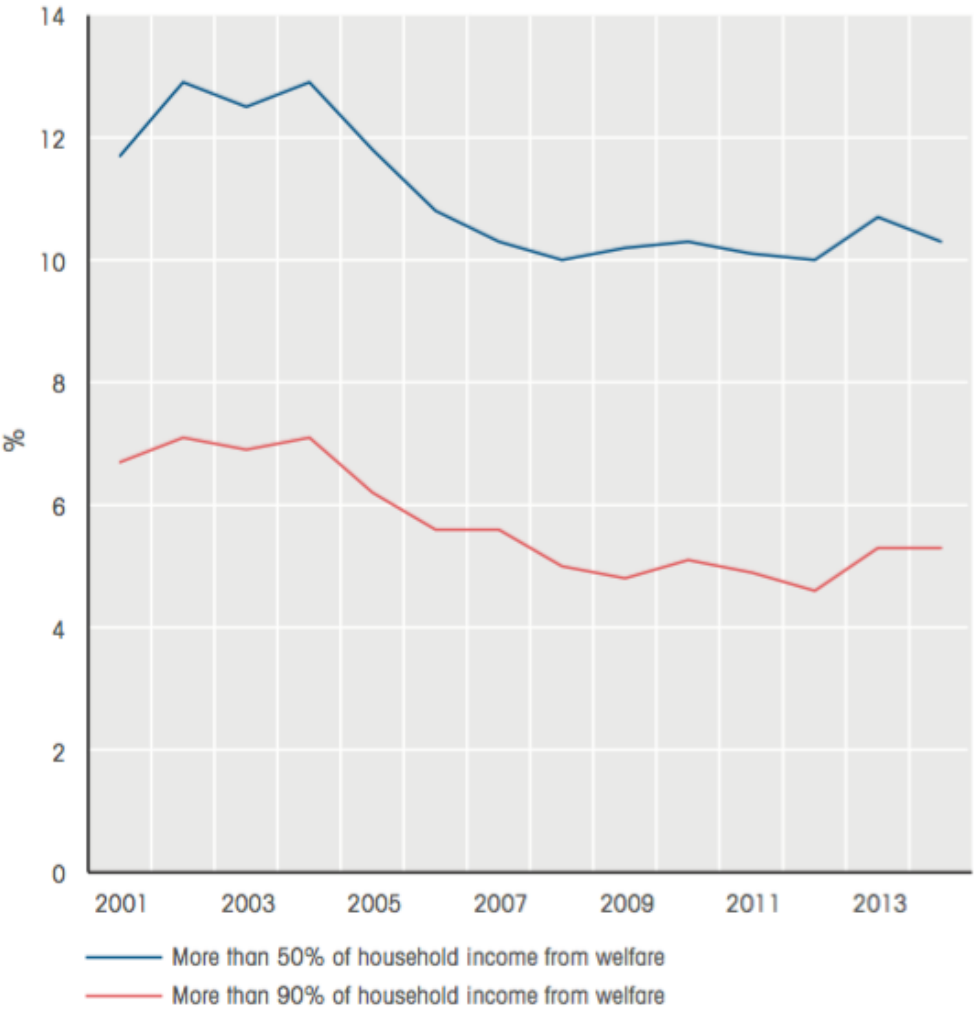


Reliance on Welfare by People 18-64

You can apply two definitions of welfare reliance.

a. more than 50% of annual household income comes from welfare; and

b. more than 90% of annual household income comes from welfare.



As would be expected, the proportion of the population classified as welfare reliant depends on whether the 50% or 90% threshold is employed.

However, the two measures show similar trends, **both declining between 2004 and 2008**, and both remaining relatively constant until 2012, at approximately **10%** for the **50%** threshold, and at approximately **5%** for the **90%** threshold.

Between 2012 and 2013, increases in welfare dependence are evident for both measures, but between 2013 and 2014 these increases were partially reversed.

Lone Parent Households

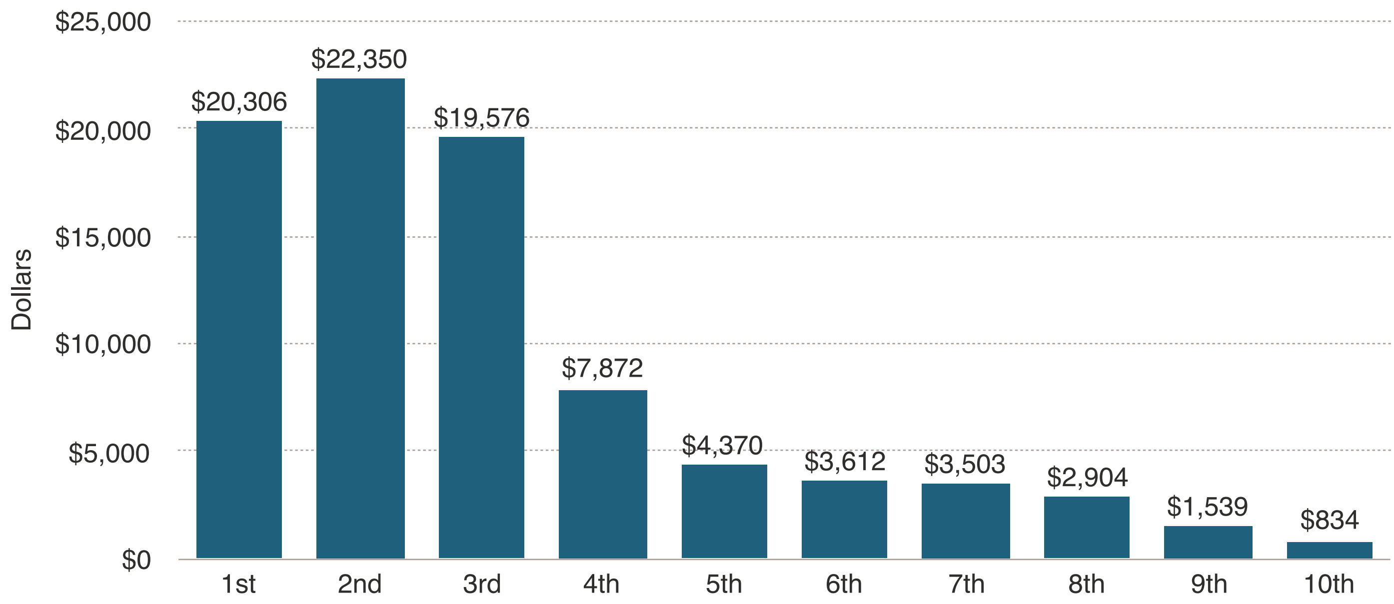
Lone-parent families commencing a welfare spell are the **least likely** of the family types examined in the table to have spells lasting only one year, and are the most likely to have spells lasting two, three, four or five years.

Who gets what and how much?

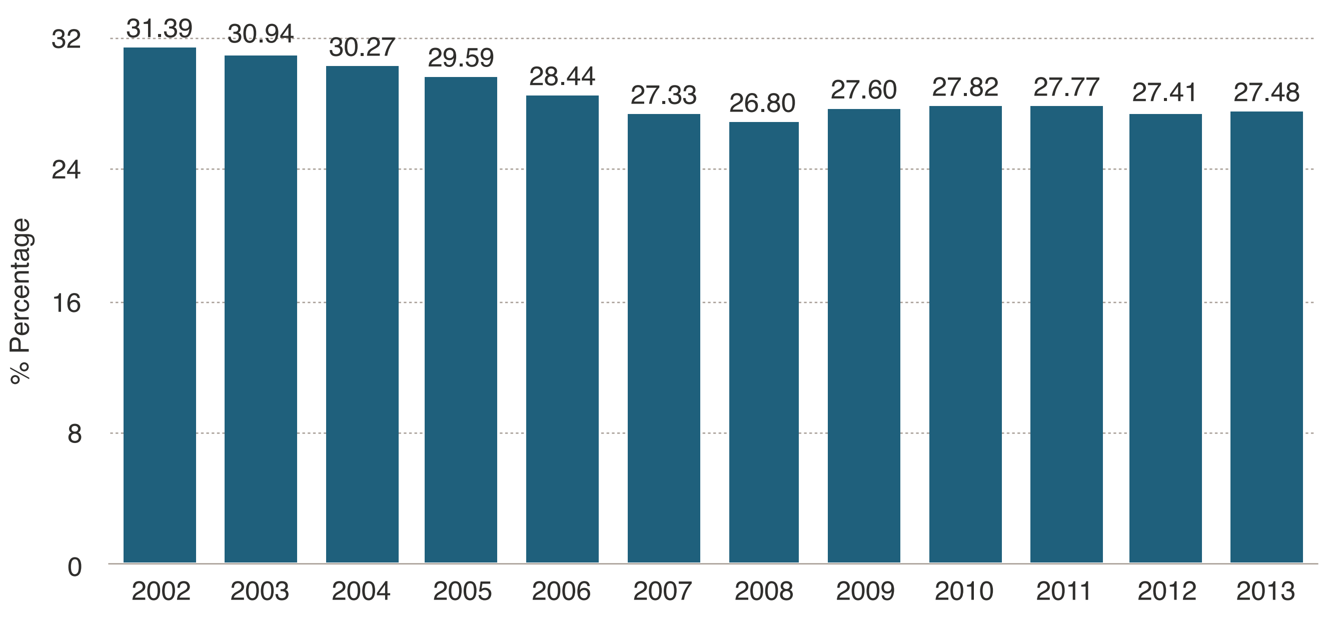
In late 2015, the Australian Productivity Commission produced a report[7] in to the tax and transfer system and confirmed [thankfully] our welfare is very much targeted to the poorest.

The charts below [from the Guardian] shows the bottom three income deciles receive the bulk of welfare transfers [as the system is intended] and the percentage of the working-age population on welfare is **almost 4% lower** than 2002.

Average Wealth Transfers 2014-15[8]



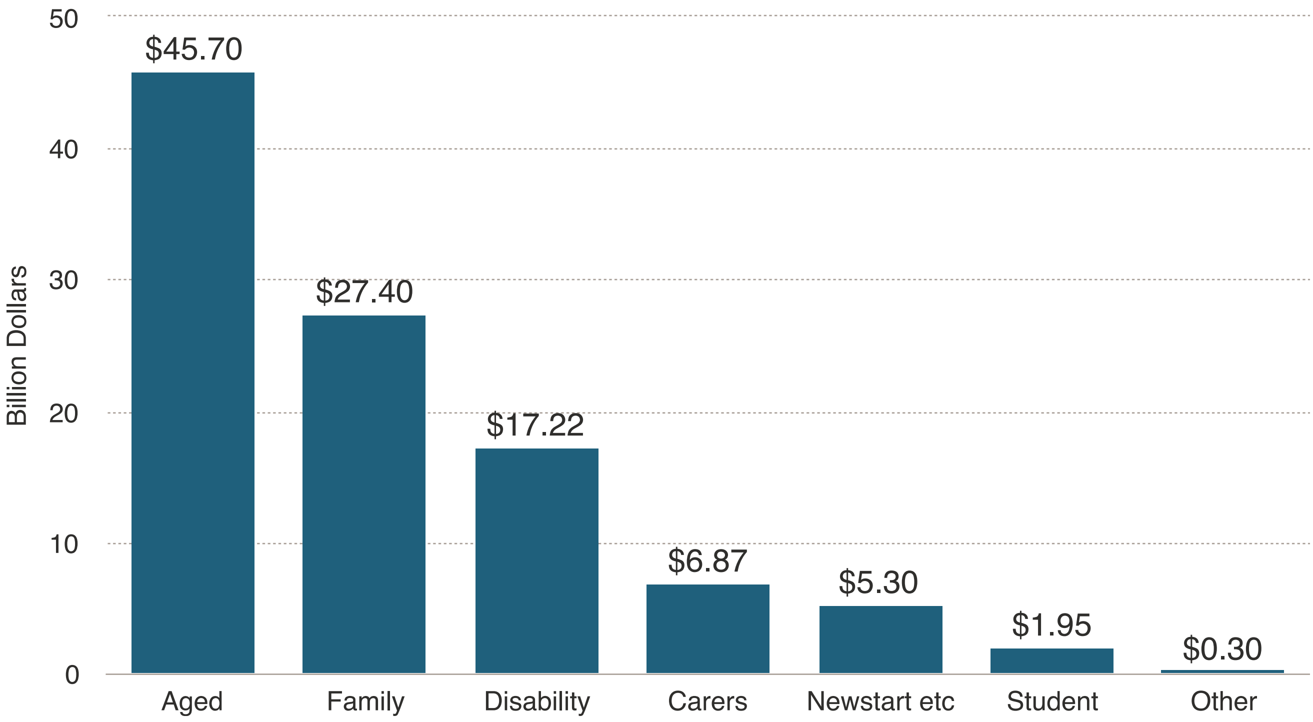
Percentage of Working Age Population on Welfare[9]



Total Welfare Payments

Overwhelmingly, [by almost a factor of two] the biggest cost to the budget is the **aged pension**: [Coffins versus Prams!]

Welfare Payment by Group 2014-15[10]



Aged Pension

The biggest and fastest growing component of Federal Expenditure is the Aged Pension ($45.7 billion currently rising by **$2 billion per year** to **$52 billion** by 2019-20)

Policy Implications

Not only is our welfare system already extremely well targeted, as a result of the increasing desire to continually "better target" it means those who *remain dependent* are almost exclusively the very needy.

Hilda - The Facts

i) Welfare **dependency** is historically low
ii) **Receipt** of welfare by people aged 18-64 is **down** from **37.8%** in 2002 to **31.6%** in 2014
iii) **Reliance** on welfare by people aged 18-64 is **down**
iv) The single largest cost to the welfare budget is the **Aged Pension**
v) Most people don't stay on welfare for long.
vi) Nearly two-thirds of those who had a spell on welfare did so for **two years or less**, and for those in families of a couple with children, **70%** were on welfare for that period

The Boomer's Echo?

Home ownership rates for Australians aged 65 and over is **75%**, and this cohort has experienced an enormous rise in wealth on the back of rising housing values.

Housing is excluded entirely from the assets test to receive the Aged Pension.

Some analysts suggest that Australia finds itself in the perverse situation whereby older Australians have experienced an unparalleled rise in wealth at the same time as their dependence on the Aged Pension has risen rapidly, and is projected to continue doing so.

Without reform, the burden of Budget cuts/tax increases will **fall entirely on the growing pool of younger (and renting) Australians**.

This situation is clearly unsustainable from a Budget perspective and inequitable from an inter-generational one.

The policy question, based on HILDA data suggests **reforms to welfare spending** should target the Aged Pension first, since it is by far the biggest and fastest growing component and the most poorly targeted?

End

Links

[1] The. Hon. Scott Morrison - Speech: “Staying the Course” - http://sjm.ministers.treasury.gov.au/speech/015-2016/ accessed 26th August 2016

[2] Canberra Times - July 2016 - http://www.canberratimes.com.au/act-news/zed-seselja-promoted-into-ministry-first-canberra-liberal-to-reach-such-seniority-20160718-gq89y8.html

[3] Melbourne Institute - https://www.melbourneinstitute.com

[4] HILDA Survey, Melbourne Institute - Chapter 3 Page 27

[5] ibid: Page 35

[6] ibid: Page 36

[7] Australian Productivity Commission - Tax and Transfer Incidence in Australia October 2015 - http://www.pc.gov.au/research/completed/tax-and-transfer-incidence

[8] Greg Jericho - The Guardian 25 July 2016 - https://www.theguardian.com/business/grogonomics/2016/jul/25/cutting-welfare-means-hitting-those-who-are-already-among-the-poorest-greg-jericho

[9] ibid

[10] ibid