

Inequality & poverty in Australia: Still no case for the removal of the clean energy supplement

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Introduction

In the 2016 budget the government announced that it would close carbon tax compensation to new recipients of welfare payments. This would save the government \$1.4 billion over the forward estimates, by reducing the income of some of the poorest Australians by around \$10 per fortnight.

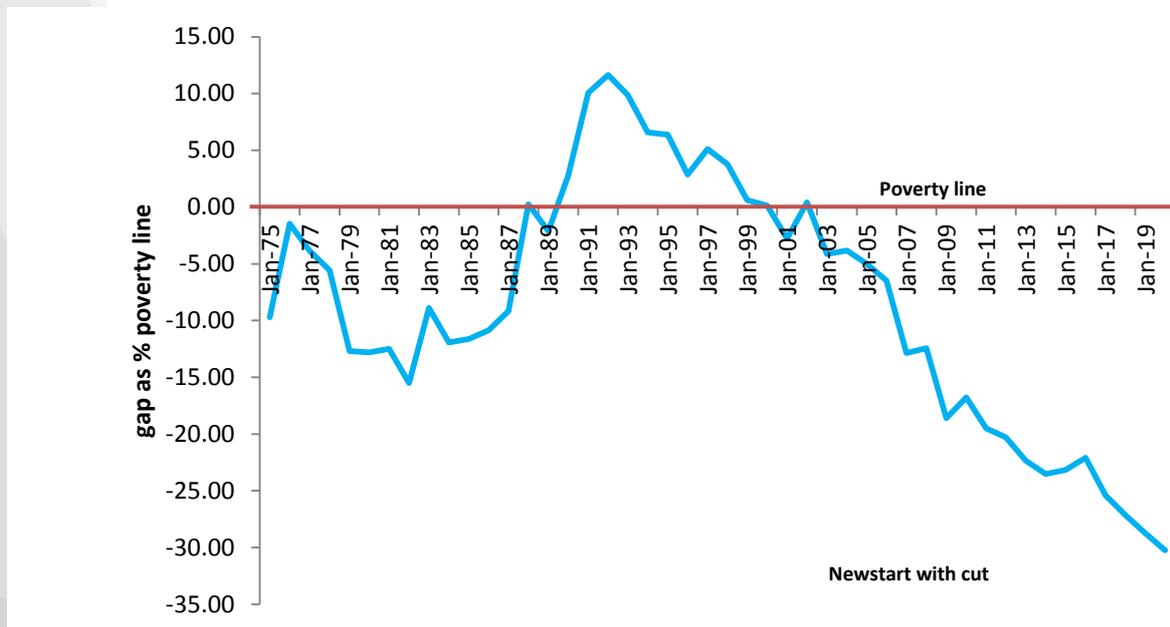
This cut was introduced to the Parliament in September 2016 in the *Budget Savings (Omnibus) Bill 2016*, but was scrapped when it did not gain Senate support. The *Omnibus Savings and Child Care Reform Bill 2017* again seeks to remove the clean energy supplement from Centrelink payments.

In this briefing note we restate the case against reducing these payments.

Poverty

The Australia Institute maintains a graph of the difference between the Henderson poverty line and the amount of government assistance going to an unemployed family of four, two adults and two children.¹ Figure 1 shows how such a family has fared relative to the poverty line in the decades since 1975 and that the proposed cut would increase the poverty gap from 29 to 30 per cent by June 2020.

Figure 1: Government benefits versus poverty line



Source: TAI calculations based on data from the Melbourne Institute of Applied Economic and Social Research (various years) *Poverty Lines: Australia*, June Quarters.

¹ The Henderson Poverty Line is a standard reference in Australia on the level of income required to avoid a situation of poverty for various family types. It was defined in the 1973 Commonwealth Commission of Inquiry into Poverty. See: <https://melbourneinstitute.com/miaesr/publications/indicators/poverty-lines-australia.html>

In June 1975 the family of four was almost 10 per cent below the poverty line. That family increased relative to the poverty line until June 1992 when it was 12 per cent above but has then consistently fallen to the present. The data beyond 2016 are our projections based on the CPI forecasts in the Budget Papers (which is used to index unemployment benefits) and the assumption that the poverty line will follow recent trends (at the average increase over the last 20 years). The graph also assumes the government implements its policy of reducing indexation by 1.7 per cent and so remove the carbon tax compensation. It is assumed that is introduced with effect from June 2017.

Welfare payments affected

While the above analysis focuses on unemployment benefits, the proposed cut would reduce payments to new recipients of a range of welfare payments. Table 1 shows a list of welfare payments that currently receive the clean energy supplement.

Table 1: List of welfare payments receiving the clean energy supplement

Welfare payment	
ABSTUDY Living Allowance	Newstart Allowance
Age Pension	Parenting Payment
Austudy	Partner Allowance
Bereavement Allowance	Sickness Allowance
Carer Payment	Special Benefit
Commonwealth Seniors Health Card	Widow B Pension
Disability Support Pension	Widow Allowance
Family Tax Benefit	Wife Pension
Farm Household Allowance	Youth Allowance

Table 2 shows the amount of the clean energy supplement received for selected welfare payments.

Table 2: Rates of the clean energy supplement for selected government payments

Living Situation	Clean energy supplement payment (per fortnight)
Newstart single, no children	\$8.80
Newstart Single, with a dependent child or children	\$9.50
Newstart Partnered	\$7.90 (each)
Age pension single	\$14.10
Age pension partnered	\$10.60 (each)
Parenting payment single	\$12.00
Parenting payment partner	\$7.90

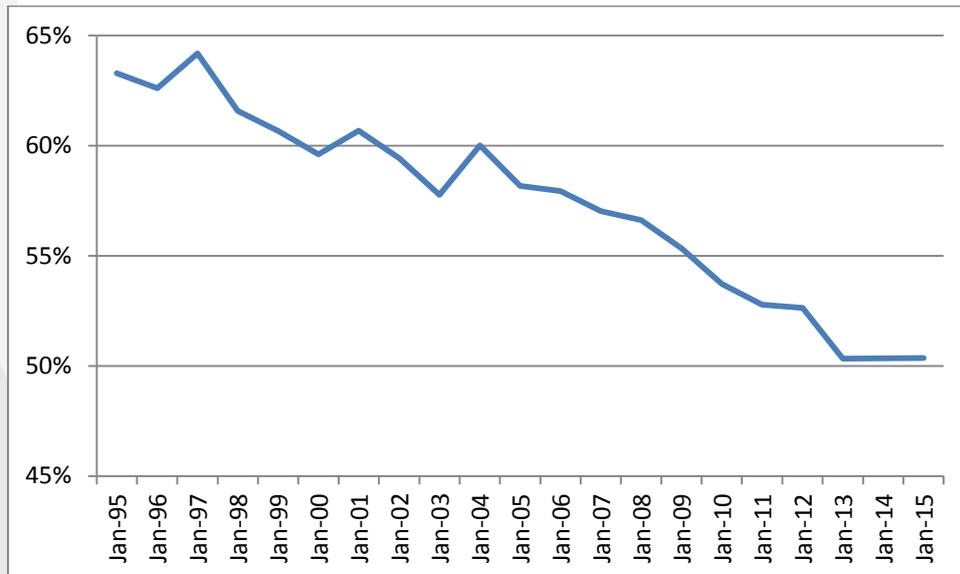
Table 3 presents the dollar amount that individuals and couples receive on Newstart.

Table 3: Rate of Newstart Allowance for individuals and couples

Living Situation	Maximum fortnightly Newstart payment
Single, no children	\$527.60
Single, with a dependent child or children	\$570.80
Partnered	\$476.40 (each)

Newstart is indexed to the Consumer Price Index (CPI) which tends to rise more slowly than wages. This can be seen in Figure 2 which shows the ratio of unemployment benefits to Adult weekly ordinary time earnings (AWOTE). Unemployment benefits used to be 63 per cent of AWOTE in the mid-1990s. It has fallen to 50 per cent today and would be worsened by the proposed cuts.

Figure 2: Ratio of unemployment benefits to AWOTE



Source: TAI calculations based on Australian Bureau of Statistics (2016) 6302.0 - Average Weekly Earnings, Australia, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>

Highlighting inequality – cuts for some

The proposed cuts to welfare payments would worsen Australia's inequality. The argument for cutting this compensation is that the carbon price no longer exists, so the compensation is no longer needed. However, compensation for the carbon price also came in the form of reduced personal income tax. Someone earning \$60,000 a year pays \$19.30 per fortnight less in tax as compensation for the carbon price. While the government is proposing to cut welfare payments it has not proposed removing the carbon price tax cut.

Australian welfare recipients are slipping ever further below the poverty line. Even the business community points out that unemployment benefits are inadequate. KPMG said

Due to political rhetoric, payments for those who are unemployed have fallen behind other payments, to the point that it is commonly recognised that Newstart is inadequate, and significantly so²

The Business Council of Australia (BCA) have also argued for Newstart to be increased claiming that its inadequate rate was acting as a barrier to employment and that lowering payments does not encourage people to seek employment.

A disproportionately low rate for the Newstart allowance will not, in and of itself, act as an incentive for people to return to work³

Australia's top wealth holders would be unaffected by this cut, worsening inequality in Australia. Already Australia's top twenty per cent of wealth owners own 62 per cent of the wealth while the bottom twenty per cent own 0.9 per cent.⁴ The top 10 wealthiest people own as much in financial assets as the bottom 20 per cent of the population, whose wealth is mainly dwelling contents and vehicles offset by various debts. Table 4 presents a list of the top wealth holders in Australia.

Table 4: BRW top 10 of the rich list

Rank	Name	millions
1	Harry Triguboff	\$10,620
2	Anthony Pratt & family	\$10,350
3	Frank Lowy	\$8,260
4	Gina Rinehart	\$6,060
5	John Gandel	\$5,400
6	Hui Wing Mau	\$5,390
7	James Packer	\$5,000
8	Andrew Forrest	\$3,330
9	Ivan Glasenberg	\$3,330
10 & 11	David & Vicky Teoh	\$3,080

Source: Financial Review Magazine, BRW Rich List 2016.

The average wealth of the bottom 20 per cent of the population, or 1.7 million households and 3,972,000 people, is \$35,547 but of that \$25,400 is the value of vehicles and dwelling contents (ABS Cat no 6554.0).

In light of these figures and calls from even the business community to increase welfare payments, it is clear that now is not the time to be removing carbon tax compensation from payments without some other corresponding increase.

² Aston (2016) Raise the dole, spend less on the dying, says multinational accountancy firm KPMG, *SMH*, April 29, available at <<http://www.smh.com.au/federal-politics/political-news/raise-the-dole-spend-less-on-the-dying-says-multinational-accountancy-firm-kpmg-20160428-gogzmf.html>>

³ Karvelas (2012) Business Council of Australia calls for lift in dole payments, *The Australian*, August 13, available at <<http://www.theaustralian.com.au/national-affairs/business-council-of-australia-calls-for-lift-in-dole-payments/story-fn59niix-1226449033615>>

⁴ ABS (2015) *Household income and wealth, Australia, 2013-14*, Cat no 6523.0, 16 December.