

Poverty in the age of coronavirus

The impact of the JobSeeker coronavirus supplement on poverty

Removing the coronavirus supplement in September will push over 600,000 people into poverty including 120,000 children and half a million people who rent or have a mortgage. This will have a profound impact on the lives of many children for the rest of their lives and significantly impact housing and banking in Australia.

Discussion paper

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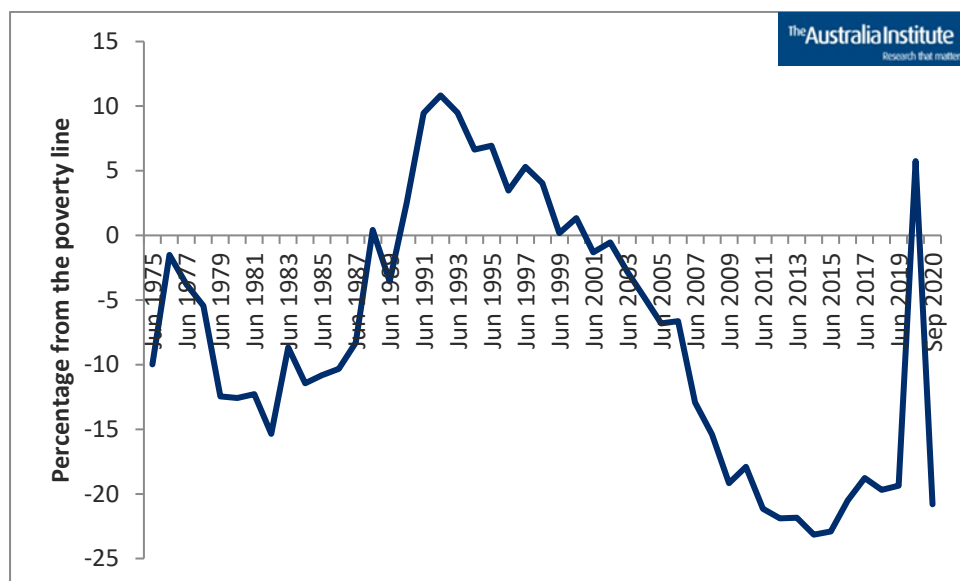
Summary

Modelling commissioned by The Australia Institute shows the impact on poverty that the coronavirus supplement has had and what will happen if it is removed completely at the end of September. It will also look at the impact on poverty if the supplement of \$275 per week is replaced by an increase in the base rate of \$75 per week.

The introduction of the coronavirus supplement did an enormous amount to reduce poverty in Australia. With that single change 425,000 people were lifted out of poverty. However, the supplement has a legislated end date on the 24th of September 2020.

The recession brought on by the pandemic has already increased unemployment by two per cent and it is expected to increase further before the end of September. If the supplement is removed in September, as legislated, this would result in more than 650,000 people will be pushed into poverty.

Figure 1 – Relative gap between family of four living off unemployment payments and the Henderson poverty line if the coronavirus supplement is removed in September

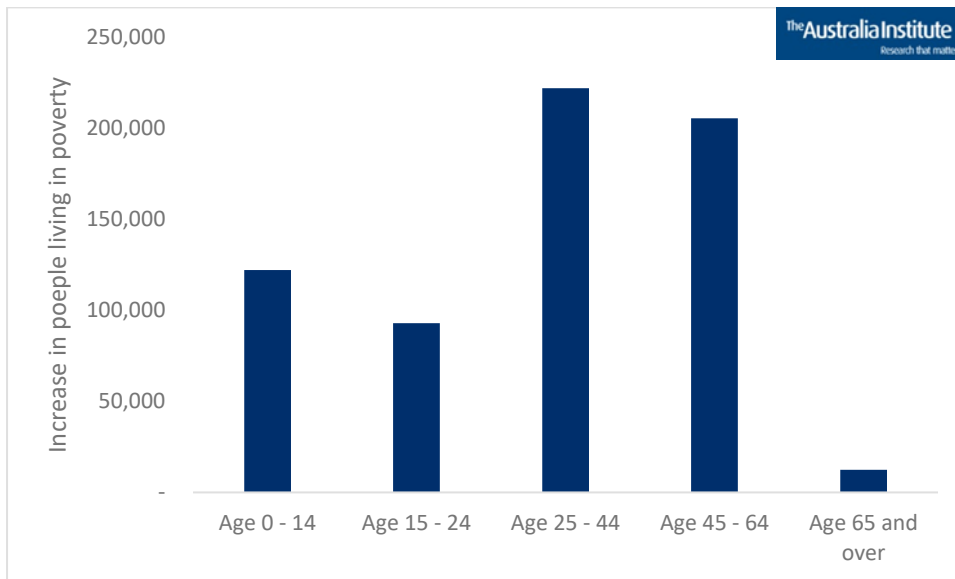


If the supplement is instead replaced by an increase in the base rate of \$75 per week, 505,000 people will be pushed into poverty. Increasing the base rate by \$75 does improve the situation slightly but not enough to stop half a million people from entering poverty.

Of those being placed into poverty as a result of the removal of the coronavirus supplement at the end of September, 120,000 will be children aged 0 to 14. Poverty in childhood can have crippling lifelong effects on the child's cognitive development, social, emotional and behavioural development as well as a range of adverse health outcomes. If the supplement

is instead replaced by an increase in the base rate of \$75 per week, about 90,000 children will be moved into poverty.

Figure 2 – Increase in people in poverty if coronavirus supplement is removed



The vast majority of those moved into poverty either rent or have a mortgage. Comparing the number of people who will be in poverty if the supplement is removed in September with the number of people who were in poverty before the pandemic, about half a million either have a mortgage (242,000) or rent (246,000). Most of the remaining own their home outright or are in public housing.

Table 1 – Additional people falling into poverty if the supplement is removed, by tenure

Housing tenure	Additional people in poverty
Buying	242,000
Private Rental	246,000

If the supplement is removed, there is little doubt that for many Australians it will become increasingly difficult for people to pay a mortgage or pay for rent. This will not only mean a likely increase in homelessness but also increasing pressure on the banking system. Additionally, if hundreds of thousands of additional people fall into poverty all at the same time, there will be a potential increase in people being unable to pay rent. This would have a knock-on effect to those who own residential investment properties. Investment property owners also face consequences as a result of the ending of the coronavirus supplement.

Replacing the coronavirus supplement with a \$75 increase in the base rate will not significantly decrease the number of renters and mortgagees going into poverty. 211,000 mortgagees and 165,000 renters will still face poverty. A smaller fall compared to no increase, but still a significant impact on the lives of hundreds of thousands of Australians.

Introduction

As part of the Federal Government's response to the coronavirus pandemic, unemployment payments were increased by \$275 per week (\$550 per fortnight) with the introduction of the coronavirus supplement. This almost doubled the base rate of JobSeeker (formerly Newstart) from \$282.85 per week (\$565.70 per fortnight) for singles to \$557.85 per week (\$1,115.70 per fortnight).

This single change lifted 425,000 Australians out of poverty. The supplement is due to end on the 24th of September.¹ If the amount paid in JobSeeker returns to the original rate at the end of September, those people who have been lifted out of poverty will go back into poverty.

The impact of this will be magnified by the fact that the coronavirus recession has increased the number of unemployed. Unemployment has increased by 2.3 percent from 5.1 per cent in February 2020 to 7.4 per cent in June 2020.² It is expected that the unemployment rate will continue to rise to around 10 per cent in the coming months.³

The Australia Institute commissioned Communities in Numbers to look at the impact that the coronavirus supplement has had on the number of people in poverty. And to estimate the number of people that would be living below the poverty line if the supplement is removed in September. The modelling will also look at the impacts of poverty by age and housing tenure.

During recessions, businesses shut down permanently. Many others cut back production as demand for their products and services falls. This means that many people lose their job and the number of unemployed increases. Because all these people lose their jobs at the same

¹ Santoreneos A (2020) *'They miss out': JobSeeker boost lasts five months, not six*, Yahoo! Finance, 1 May, available at <<https://au.finance.yahoo.com/news/jobseeker-boost-lasts-five-months-not-six-231913289.html>>

² ABS (2020) *6202 – Labour Force, Australia, June 2020*, Australian Bureau of Statistics 16 July, available at <<https://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/6050C537617B613BCA25836800102753?OpenDocument>>

³ RBA (2020) *Statement on Monetary Policy – May 2020: Economic Outlook*, Reserve Bank of Australia, available at <[Poverty in the age of coronavirus](https://www.rba.gov.au/publications/smp/2020/may/economic-outlook.html#:~:text=The%20Australian%20economy%20is%20expected,cent%20in%20the%20June%20quarter.>></p></div><div data-bbox=)

time, the unfortunate outcome is that many people will not be able to find employment. There are currently 13 unemployed people for every job vacancy.⁴

Removing the supplement in the middle of a recession is likely to see many more people forced below the poverty line than was the case before the coronavirus supplement was introduced.

UNEMPLOYMENT PAYMENTS AND THE POVERTY LINE

The reality is that Australia's unemployment payments have been inadequate for many years. The Australia Institute has been tracking unemployment payments in relation to the Henderson poverty line for some time.⁵

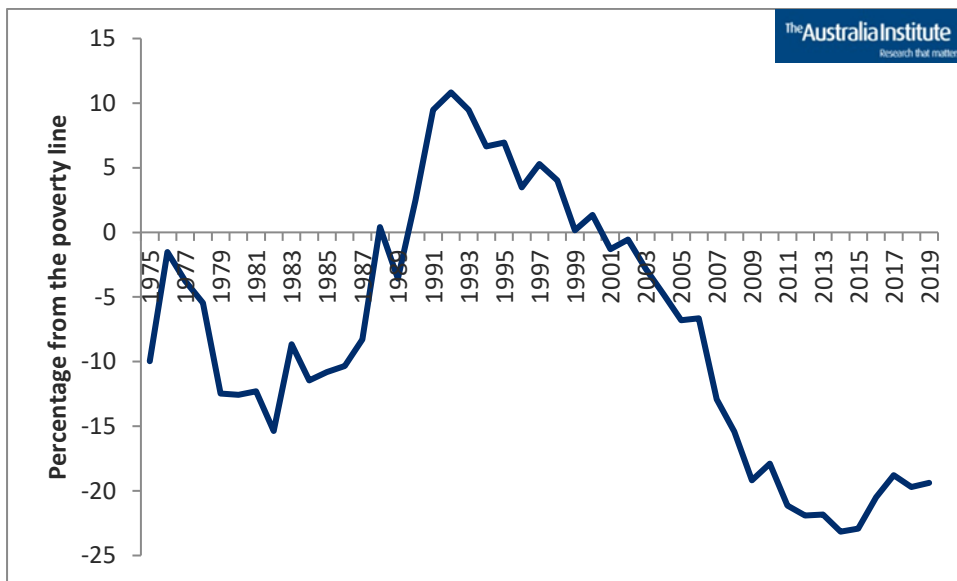
Before the introduction of the coronavirus supplement there had been no increase in the real value of unemployment payments for approximately 26 years. Over this period, the adequacy of these payments has steadily dropped from just above the Henderson poverty line to well below the poverty line.⁶ Before the coronavirus pandemic a household of two adults and two children living on unemployment payments was about 20 per cent below the poverty line. Figure 3 shows the relative gap between unemployment payments and the poverty line over time up to June 2019, before the coronavirus supplement was introduced.

⁴ ACOSS (2020) *1 job for every 13 looking*, Australian Council of Social Services, 13 July, available at <https://www.acoss.org.au/media-releases/?media_release=1-job-for-every-13-looking-acoss-calls-on-government-to-have-peoples-backs-through-tough-times>

⁵ Richardson D (2019) *Adequacy of Newstart: Submission to the Standing committee on Community Affairs*, The Australia Institute, September, available at <<https://www.tai.org.au/sites/default/files/P791%20submission%20adequacy%20of%20Newstart.pdf>>

⁶ The Henderson poverty line is used throughout this paper. An explanation of the Henderson poverty line can be found in Appendix A.

Figure 3 – Relative gap between family of four living off unemployment payments and the Henderson poverty line up to June 2019

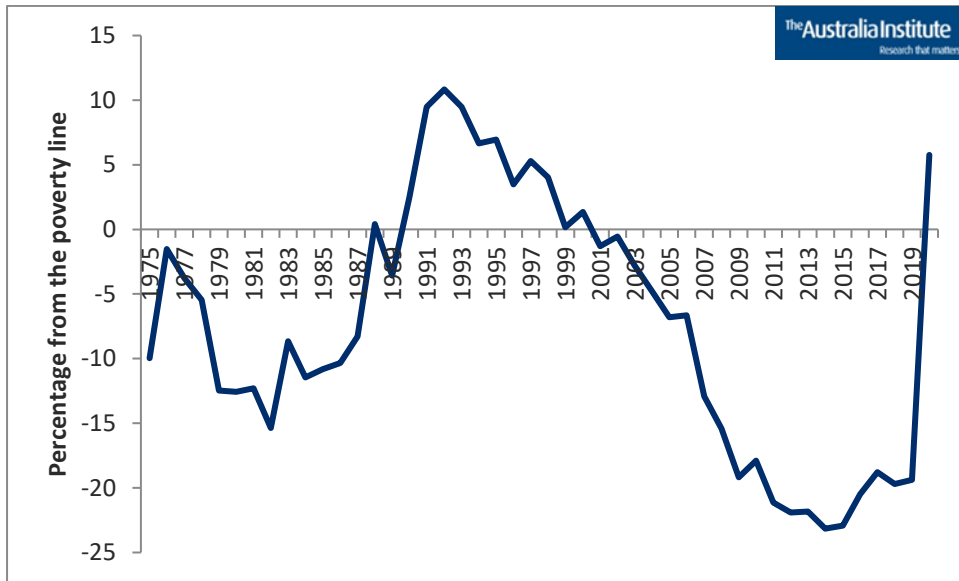


Source: Updated by David Richardson from Richardson D (2019) *Adequacy of Newstart: Submission to the Standing committee on Community Affairs*, The Australia Institute, September

We can see that from a high in the early 1990s, when Bob Hawke famously said that no child would live in poverty, the adequacy of unemployment payments when measured against the poverty line has steadily decreased. There has been pressure from many groups for the rate of unemployment payments to be increased.

After the introduction of the coronavirus supplement, those living on unemployment payments moved back above the poverty line. Many people were lifted out of poverty. This is shown in Figure 4.

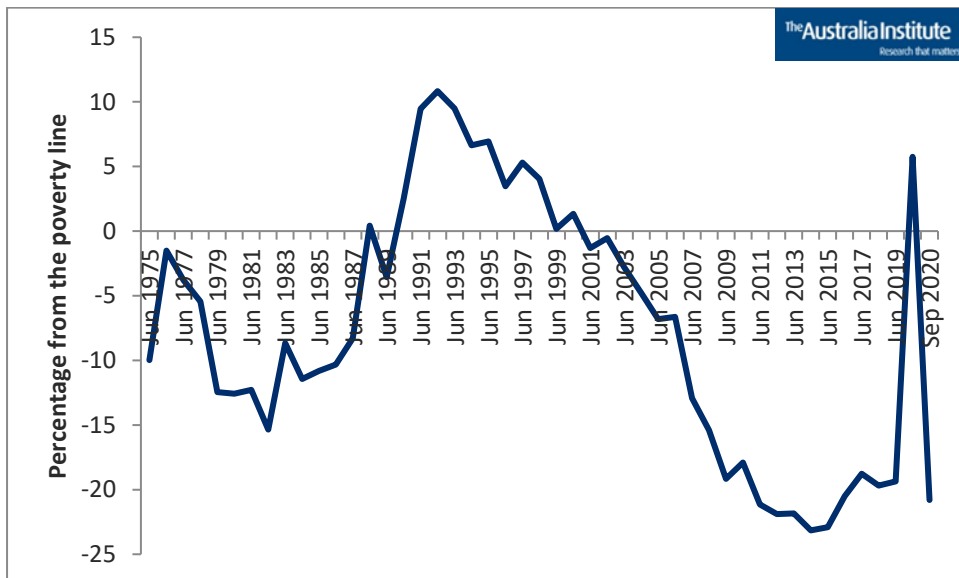
Figure 4 – Relative gap between family of four living off unemployment payments and the Henderson poverty line up to the introduction of the coronavirus supplement



Source: Updated by David Richardson from Richardson D (2019) *Adequacy of Newstart: Submission to the Standing committee on Community Affairs*, The Australia Institute, September

If the coronavirus supplement is removed, then those living on unemployment payments will again fall below the poverty line. This is shown in Figure 5.

Figure 5 – Relative gap between family of four living off unemployment payments and the Henderson poverty line if the coronavirus supplement is removed in September



Source: Updated by David Richardson from Richardson D (2019) *Adequacy of Newstart: Submission to the Standing committee on Community Affairs*, The Australia Institute, September

MODELLING THE NUMBER OF PEOPLE IN POVERTY

Modelling commissioned by The Australia Institute from Communities in Numbers estimates the number of people in poverty at five important points in time. These five points in time are known as scenarios and they are:

- December 2019
- March 2020
- September 2020
- Remove supplement scenario (end of September 2020)
- Remove supplement and increase base rate by \$75 (end of September 2020)

December 2019 gives the rates of poverty in December 2019, before the coronavirus hit. Unemployment payments did not include the coronavirus supplement and there was no recession to affect unemployment.

March 2020 gives the rates of poverty after the coronavirus supplement has been introduced, but before the recession's impact on unemployment. Comparing December 2019 with March 2020 shows us the impact the coronavirus supplement had on the number of people living in poverty.

September 2020 gives the rates of poverty with the coronavirus supplement still in place and including the impact the recession has had on unemployment.

Remove the supplement scenario (end of September 2020) shows what the level of poverty would be if the coronavirus supplement is removed in September 2020. This means that unemployment payments would fall to their pre-COVID level. But these rates of payments now apply to a larger number of people because of the increase in unemployment caused by the recession.

Remove supplement and increase base rate by \$75 (end of September 2020) is what the level of poverty would be if the coronavirus supplement was cut but the base rate of unemployment payments was increased by \$75 per week. It has been reported that the government is considering this as an option.⁷ This scenario does represent a fall in payments to the unemployed because the coronavirus supplement of \$275 per week is being replaced by an increase in the base rate of \$75 per week. But it does represent an increase in unemployment payments compared to the amount paid before the coronavirus supplement was introduced.

⁷ Smethurst A & Armstrong C (2020) *Anne Rushton rejects \$75 a week permanent Jobseeker boost*, The Daily Telegraph, 28 June, available at < <https://www.dailytelegraph.com.au/news/nsw/welfare-boost-will-put-thousands-in-pockets-of-outofwork-aussies/news-story/f4254c861d9437acb42f76e8e6305fb8>>

Table 2 shows each scenario in relation to the unemployment payment and the impact of the recession.

Table 2 – Five scenarios in relation to payment and recession

	COVID recession	No recession
Coronavirus supplement	September 2020	March 2020
No supplement	Remove supplement	December 2019
\$75/week increase	Remove supplement, increase base rate	

The estimates are for all people living in poverty relative to the Henderson poverty line and not just those living off unemployment payments. Further information on the modelling and its assumptions can be found in Appendix B.

NATIONAL IMPACT

The modelling results show that almost doubling unemployment payments had a large impact on the number of people living in poverty. Comparing the December 2019 scenario with the March 2020 scenario, a massive 425,000 people were lifted out of poverty. The number of Australians in poverty before the coronavirus hit was about 3.7 million. This decreased to about 3.3 million by increasing one payment. No other government has ever lifted so many people out of poverty so quickly.

This occurred because the unemployment payments were inadequate. It forced many households into poverty, even when accounting for other government payments like family tax benefit. The coronavirus supplement increased the incomes of unemployed households and lifted many of them out of poverty.

If the coronavirus supplement is removed at the end of September as planned, the number of people in poverty will increase by more than 650,000, from 3.58 million to 4.24 million.

The coronavirus recession means more people are reliant on unemployment payments, many for the first time in their lives. Their incomes will fall to \$282.85 per week, for singles, or about \$40 per day, plus other government payments such as Family Tax Benefit and rent assistance if they apply. This will push many households into poverty as they struggle to make ends meet on low incomes.

If instead of removing the coronavirus supplement altogether the government increases the rate of unemployment payments by \$75 per week, then the impact on the number of people living in poverty will be smaller. However, there will still be a large increase the number of people in poverty. Instead of those in poverty increasing by 650,000, the increase

will be 505,000. The number of Australians in poverty will increase from about 3.6 million to 4.1 million.

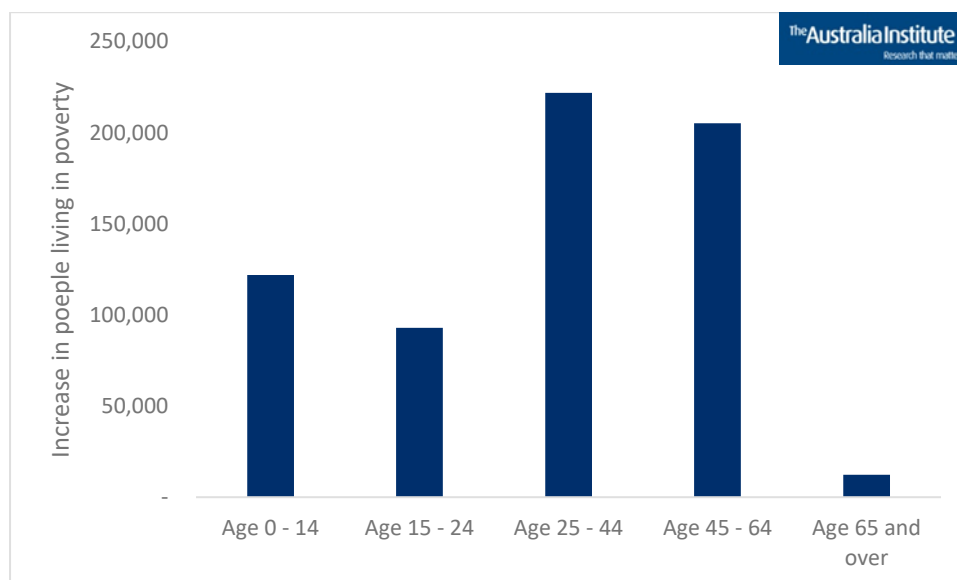
IMPACT ON CHILDREN

Poverty in childhood can have lifelong effects. Children living in poverty are more likely to have impairment in cognitive development which leads to them falling behind in school.⁸ They are also more likely to have impairment in their social, emotional and behavioural development. It has also been linked to a range of adverse health outcomes. All of this means that children who grow up in poverty are more likely, when they are adults, to have lower incomes and to be unemployed or marginally attached to the labour market.

The introduction of the coronavirus supplement in March made an enormous difference to children living in poverty. It lifted 65,000 children aged 0 to 14 out of poverty. If the increase was permanent this would have a significant impact on tens of thousands of children throughout their lives.

The removal of the coronavirus supplement will push over 120,000 children, aged 0 to 14, into poverty. 90,000 young adults (aged 15 to 24) will also be pushed into poverty. Figure 6 shows the increase in the number of people living in poverty by age.

Figure 6 – Increase in people in poverty if coronavirus supplement is removed in September, by age



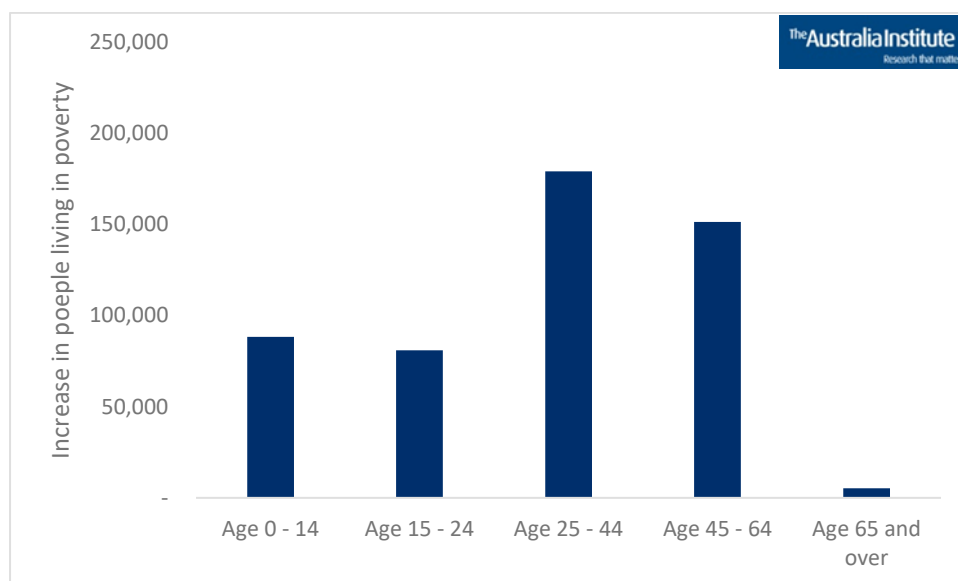
Source: Communities in Numbers commissioned modelling. See Appendix B.

⁸ Redmond et al (2016) *Are the kids alright?*, The Australian Child Wellbeing Project, February, available at <http://australianchildwellbeing.com.au/sites/default/files/uploads/ACWP_Final_Report_2016_Full.pdf>

The age groups that will see the most enter poverty are ages 25–44 and ages 45–64, however there are a significant number of vulnerable children who will enter poverty as a result of the decision to remove the supplement.

If the coronavirus supplement is removed but the base rate is increased by \$75 per week, then fewer people will fall into poverty than if the supplement is removed. But about 90,000 additional children (aged 0 to 14) will still be pushed into poverty, along with 80,000 additional young adults (aged 15 to 24). This is shown in Figure 7.

Figure 7 – The increase in people living in poverty if unemployment payments are set at \$75 per week above the previous amount, by age



Source: Communities in Numbers commissioned modelling. See Appendix B.

IMPACT ON HOUSING

As has been widely reported, living off \$40 a day is very hard. It almost always makes paying rent or a mortgage very difficult. If the coronavirus supplement is removed at the end of September, many people who have become newly unemployed because of the pandemic will face extreme difficulties paying their mortgage or rent.

This paper has looked at the increase in the number of people pushed into poverty by comparing the number of people in poverty in September with and without the coronavirus supplement. This increase captures both the existing people in poverty who were lifted out of poverty by the supplement as well as people who have recently become unemployed because of the recession. When looking at the impact that removing the supplement might have on housing, including those who might now struggle to make rent and mortgage payments, it is necessary to exclude those who were previously in poverty before the supplement was introduced.

This is done because those who were previously in poverty are more likely to have made arrangements for housing that take account of the old rates of unemployment payments. Those who have become unemployed since the introduction of the coronavirus supplement are less likely to have housing arrangements that can cope with the lower rate of unemployment payments when the supplement is removed in September.

When looking at housing we will compare the December 2019 scenario with the Remove the supplement scenario. This means we are comparing numbers in poverty before the impact of the pandemic including the increase in unemployment with poverty numbers if the supplement is removed in September. Doing this will show us how many additional people might be faced with paying a mortgage or rent for the first time on the old, low rate of unemployment payments. Table 3 shows this, split into those in a household buying their home (paying a mortgage) and those who are renting privately.

Table 3 – Additional people falling into poverty if the supplement is removed, by tenure

Housing tenure	Additional people in poverty
Buying	242,000
Private Rental	246,000

Source: Communities in Numbers commissioned modelling. See Appendix B.

Both groups have increased by about a quarter of a million people. It is important to note that this is the number of people who will now be in poverty, not the number of households. But this is a very significant number. If the coronavirus supplement is removed in September this could have a large impact on people’s ability to find housing. Hundreds of thousands of people might be unable to make mortgage or rent payments, forcing them to look for alternative accommodation. This would all happen at the same time.

This could also have significant knock on effects for those who own investment properties. In Australia investing in residential property is popular, in part because of favourable tax incentives. Many of these people rely on tenants to pay part or all their investment mortgages. If many tenants are unable to pay their rent this could impact investors’ ability to service their mortgages.

Even before the end of the coronavirus supplement, rents have been impacted. The recent Domain Rental Report for June 2020 shows rents have fallen by 1.2 per cent for the quarter.⁹ Those who are renting out residential property should be concerned about the government’s plan to end the supplement.

⁹ Domain (2020) *June 2020 Rent Report*, 13 July, available at <<https://www.domain.com.au/research/rental-report/june-2020/>>

If the government, at the same time as removing the supplement also increased the base rate by \$75 per week, this would have a relatively small impact on the number of people going into poverty. This is shown in Table 4.

Table 4 – Additional people falling into poverty if the supplement is replaced by an increase of \$75 pw, by tenure

Housing tenure	Additional people in poverty
Buying	211,000
Private Rental	165,000

Source: Communities in Numbers commissioned modelling. See Appendix B.

Conclusion

Recessions push many people into unemployment and make it very difficult to find a new job. Lots of people are facing unemployment, many for the first time. A recession is the perfect time to look at the adequacy of unemployment payments. Indeed, the government by introducing the coronavirus supplement has effectively done just that. In Australia they are largely inadequate.

The government has gone some way to fixing this problem by almost doubling the amount paid to the unemployed, via the coronavirus supplement. But if the supplement is removed at the end of September, 650,000 Australians will be pushed into poverty including 120,000 vulnerable children. This could well scar many of them for the rest of their lives.

Removing the supplement will create housing issues for many people and could increase homelessness. It will likely have flow on effects for banks and property investors. Those with investment properties face likely knock-on effects as a result of the government's plan to end the supplement.

An increase to the base rate of \$75 a week, as the media reports that the government is considering, will ameliorate the impacts of the removal of the coronavirus supplement but will not stop hundreds of thousands of Australians being pushed into poverty.

Appendix A

Unlike many other countries the Australian government does not produce an official poverty line. A poverty line is the measure of income which is adequate for a person to live on. If a person has an income below that threshold they're considered to be living in poverty. In many countries the official poverty line is also the criteria for government assistance programs. Eligibility for many state and federal programs in the US depends on a family's circumstances relative to the poverty line.

In August 1972 the McMahon Government commissioned Professor Ronald Henderson to report on poverty, and the Whitlam Government later expanded the terms of reference 'to focus on the extent of poverty in Australia together with the groups most at risk of experiencing poverty, the income needs of those living in poverty, and issues relating to housing and welfare services'. An enduring legacy of the report is the Henderson Poverty Line, the closest thing to an official poverty line in Australia.

The Henderson Poverty Line was calculated for a family of four in 1973 and updated since then by increasing the figure in line with national accounts data and specifically the per capita household disposable income. These days, the Henderson Poverty Line is updated by the Melbourne Institute, and it consists of multiple "poverty lines" depending on household makeup, how housing is treated and whether the "head" of the household is in employment.

Appendix B

The method used for this project was microsimulation modelling. This type of modelling uses unit record data from a survey (i.e. household by household), allowing incomes to be recalculated; welfare payments and tax to be calculated; and changes to be made at the individual level. The method also allows different scenarios to be tested, and the impact of each scenario on different sub-groups of the population can be calculated.

For this analysis, we were calculating poverty rates for a number of scenarios. The poverty rate used is the set of Henderson poverty line prepared by the Melbourne Institute.

As a starting point for any analysis of poverty rates, any households with incomes that are less than or equal to 0 are removed from the analysis at the start. There is extensive research to suggest that these households have expenditure beyond that suggested by their incomes, so the incomes are either mis-reported; or not representative of the household's regular income.

The Henderson poverty lines are calculated for a number of income units (families) and are therefore applied at an income unit level. The latest numbers are for December 2019, and they are shown in Table 5. For this analysis, we used the poverty line which excludes housing cost, and have removed housing costs from the total family income. This reflects that a household with a relatively higher income, but high housing costs experiences the same kind of financial stresses as a household with lower income and lower housing costs. The result of this methodological decision is that capital cities experience higher poverty rates than using the poverty line including housing costs and income spent on housing, as housing costs are a significant cost in cities.

For Henderson poverty lines, there is no need to equivalise incomes (take into account the number of people in the household) as separate lines are given for different family sizes. Equivalising adjusts income to take into account the fact that larger families need to spend more, so need higher incomes to maintain a set standard of living.

The poverty rates are calculated by assessing whether a household is below the poverty line; and then counting the number of people in the household/income unit to get the number of people living in households/income units in poverty. All the estimates are weighted by the household/income unit weight on the survey.

Table 5 – Henderson poverty line

Table 1: Poverty Lines: Australia, December Quarter, 2019 a, b

Income Unit	<i>Including Housing \$ per week</i>	<i>Other than Housing \$ per week</i>
Head in workforce		
Couple	726.27	531.19
Couple plus 1	873.01	660.29
Couple plus 2	1019.75	789.39
Couple plus 3	1166.49	918.49
Couple plus 4	1313.24	1046.16
Single person	542.92	365.38
Single parent plus 1	697.00	501.82
Single parent plus 2	843.64	630.92
Single parent plus 3	990.38	760.02
Single parent plus 4	1137.13	889.12
Head not in workforce		
Couple	623.58	428.40
Couple plus 1	770.32	557.60
Couple plus 2	917.06	686.70
Couple plus 3	1063.81	815.80
Couple plus 4	1210.55	943.47
Single person	440.23	262.69
Single parent plus 1	594.21	399.13
Single parent plus 2	740.95	528.23
Single parent plus 3	887.69	657.33
Single parent plus 4	1034.44	786.43

Notes: (a) Based on seasonally adjusted household disposable income per head per week for the December quarter 2019 of \$866.76.

(b) All figures refer to income after tax.

Source: Melbourne Institute (2020) *Poverty Lines: Australia*, December Quarter 2019, available at <<https://melbourneinstitute.unimelb.edu.au/publications/poverty-lines>>

For this analysis, five scenarios were calculated. The five scenarios were:

- December 2019 – the pre-COVID baseline for the analysis;
- March 2020 – the COVID baseline with no job losses;
- September 2020 – COVID with job losses;
- Removing the coronavirus supplement; and
- Adding \$75 per week to JobSeeker.

December 2019

This is the base scenario for our analysis. This scenario updated all worker salaries in the 2017-18 Survey dataset using the ABS Wage Price Index by Industry; other income by the ABS Average Weekly Earnings (AWE) increase from June 2018 to December 2019; pensions by AWE; allowances by the ABS Consumer Price Index (CPI) increase from June 2018 to December 2019; and housing costs by the ABS housing CPI increase from June 2018 to December 2019.

Annual income was then calculated by aggregating all these income sources; and tax rates from 2019-20 were applied to the annual income to get disposable income. Poverty rates for December 2019 were calculated based on this updated dataset.

March 2020

This scenario was straight after the JobSeeker package was announced. No incomes are inflated, but anyone who was on Newstart has \$275 per week added to their allowance. Tax is recalculated using the 2019-20 tax rates, and poverty rates are recalculated.

September 2020

By September 2020, people have lost jobs, and many will be on JobSeeker payments. This scenario used the latest available ABS estimates of job losses by industry and State. These figures use the ATO One Touch payroll system and were published on the 30 June 2020. They relate to job losses from 14 March (the beginning of the shutdown) to 13 June.

The percent of job losses was applied to the total number of people in the industry in each State, so the total number of jobs lost by Industry by State was estimated. This number of employed people on the survey were then moved into JobSeeker. This was done via a random assignment.

This assignment was complicated by the survey weights used by the ABS, which means one observation represents thousands of people. This meant we allocated people from the survey into JobSeeker until the sum of the survey weights for those moved was above the estimate of people who have lost their job from the ABS One Touch data.

We then set the selected persons' employee earnings to 0 (as they are out of a job) and calculated how much JobSeeker payment they should be receiving, based on their assessable income. Note that assessable income also includes investment income; business income; etc. So, while they may not have a job, we don't allocate them maximum JobSeeker, as many of them had assessable income from other sources.

Those originally on Newstart are given their original Newstart allowance, plus the supplement (so they are given the amount they received in the March 2020 scenario).

Removing the coronavirus supplement

The Government has insisted that the coronavirus supplement is a short-term supplement that will be removed at some point. This scenario models this situation by setting payments back to the original pre-COVID amount for those who were on Newstart; and removing the supplement from those new JobSeeker recipients in the September 2020 scenario.

Adding \$75 per week to JobSeeker

This scenario takes the last scenario and adds \$75 per week to everyone on JobSeeker (whether because they were newly assessed in the September 2020 scenario, or they were already on Newstart in the March 2020 scenario).

DATA

The base dataset used for this modelling was the 2017-18 ABS Survey of Income and Housing. This dataset includes income by source of income; age; sex; housing tenure; etc.

The SIH is a survey of those aged 15 and over, so it does not include children. The only information for children aged 0–14 on the dataset is the number in the income unit or household. This is enough information to calculate poverty rates for children aged 0–14. For all other sub-groups, the total number of people in the household/income unit is used for the poverty rate.

All other inflators (Wage Price Index, Average Weekly Earnings, CPI and Housing CPI) came from the ABS.