

Opportunity lost

Half a million Australians in poverty without the coronavirus supplement

Discussion paper

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Summary

In March 2020, the Government lifted almost half a million Australians (470,000) out of poverty, including 75,000 children, by introducing the coronavirus supplement worth \$550 per fortnight.

All these gains were lost as the Government incrementally cut the coronavirus supplement through 2020. Between March and December 2020, an additional 900,000 Australians fell into poverty, including 200,000 children.

The Government plans one last cut, scrapping the remaining coronavirus supplement (worth \$150 per fortnight) at the end of March 2021 and replacing it with an increase in the base rate of \$50 per fortnight. This represents a net cut of \$100 per fortnight from the current rate, or a net cut of \$500 from the original coronavirus supplement.

This final cut will put an additional 155,000 Australians into poverty, including 18,000 children.

Over the course of a year, from the introduction of the coronavirus supplement at the end of March 2020 to its removal at the end of March 2021, over one million Australians (1,055,000) will enter poverty, including almost 220,000 children.

This represents a lost opportunity to make significant improvements to the rates of poverty in Australia, including the number of children in poverty.

The Government has proved that it is possible to significantly reduce poverty in Australia. If the Government increased Jobseeker by \$550 a fortnight, the original coronavirus supplement rate, poverty rates would fall rather than increase. Rather than putting an additional 155,000 people in poverty at the end of March 2021, the number of people in poverty would fall by half a million (500,000) – including 90,000 children.

Introduction

In March 2020, as part of the Federal Government’s response to the coronavirus pandemic, unemployment payments were increased by \$275 per week (\$550 per fortnight). This was done by introducing 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).

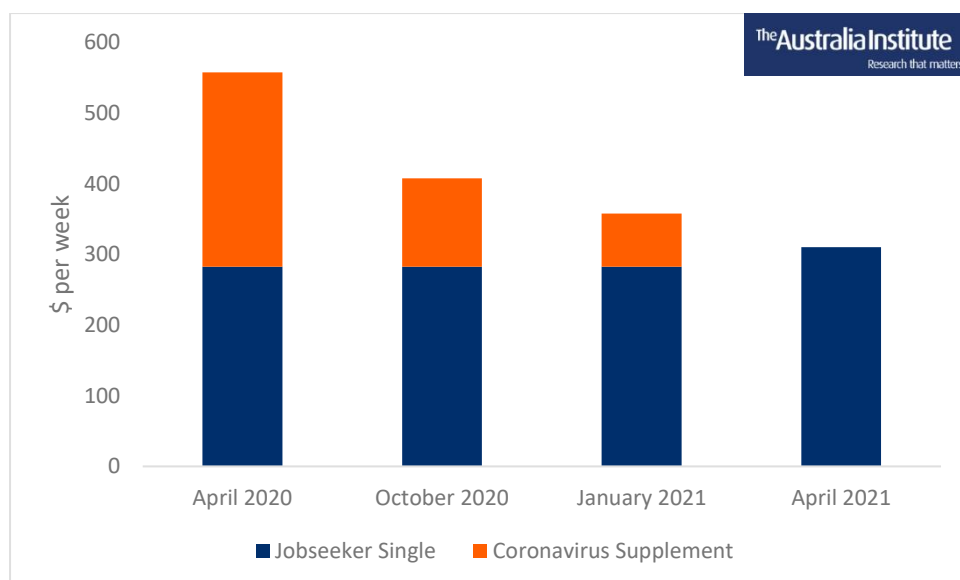
This one change lifted 470,000 Australians out of poverty.

At the end of September 2020, the coronavirus supplement was reduced to from \$275 per week to \$125 per week (\$250 per fortnight). It was further reduced at the end of December 2020 to \$75 per week (\$150 per fortnight).¹

The Government now plans to eliminate the coronavirus supplement at the end of March 2021 and replace the \$75 per week payment with a \$25 per week increase in the base rate. This is a net reduction of \$50 per week.

The change in the Jobseeker payment, for singles with no dependent children, and the Coronavirus Supplement over time can be shown in Figure 1.

Figure 1 – Change in Jobseeker for singles without dependents and the Coronavirus Supplement



¹ Australian Government (2021) *Coronavirus Supplement*, Department of Social Services, available at <<https://www.dss.gov.au/about-the-department/coronavirus-covid-19-information-and-support#:~:text=The%20Coronavirus%20Supplement%20was%20previously,2020%20until%2024%20September%202020.>>>

Source: Australian Government (2021) *Historical versions of A guide to Australian Government payments*, Services Australia, various months, available at <https://www.servicesaustralia.gov.au/organisations/about-us/corporate-publications-and-resources/guide-australian-government-payments/historical-versions-guide-australian-government-payments#a1>

The Australia Institute commissioned Communities in Numbers to look at the impact that the coronavirus supplement and the increase in the base rate, will have on the number of people living in poverty. The modelling included estimates for five scenarios:

- Before the pandemic (December 2019)
- After the introduction of the initial \$550 coronavirus supplement in March 2020
- Cutting the supplement to \$150 per fortnight at the end of December 2020
- Removing the coronavirus supplement and replacing it with an increase in the base rate of \$50 per fortnight in March 2021
- Restoring the full \$550 per fortnight coronavirus supplement in March 2021

The modelling looked at the number of people in poverty, including figures specifically for the number of children (those aged 0 to 14) in poverty.

RELATIONSHIP TO PREVIOUS AUSTRALIA INSTITUTE REPORTS ON POVERTY

The Australia Institute has previously released reports that modelled the change in poverty because of changes in the coronavirus supplement.² This modelling has included the income test and the asset test. These were not included in previous modelling exercises.

This has slightly increased the number of people in poverty, mainly because of the inclusion of the asset test. This means that figures from previous reports are not directly comparable. We consider these latest numbers to be more accurate.

As with previous modelling exercise we have used the Henderson Poverty Line as the measure of poverty. For more information on the Henderson Poverty Line see Appendix A.

For a more complete explanation of the modelling see Appendix B.

² Grudnoff M (2020) *Poverty in the age of coronavirus: The impact of the JobSeeker coronavirus supplement on poverty*, The Australia Institute, July 20, available at <https://australiainstitute.org.au/report/poverty-in-the-age-of-coronavirus-the-impact-of-the-jobseeker-coronavirus-supplement-on-poverty/>

NATIONAL IMPACT

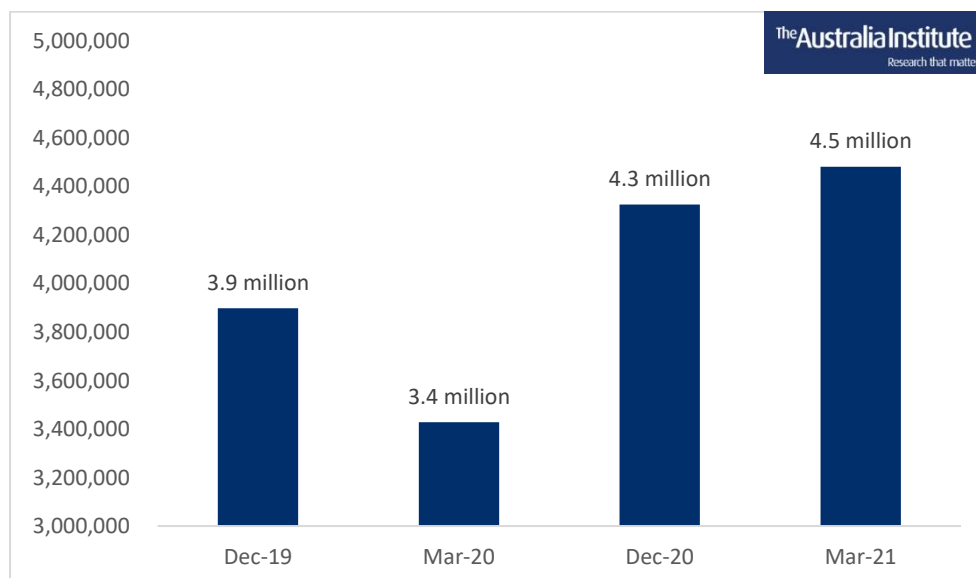
The modelling results show that the initial introduction of the \$550 per fortnight coronavirus supplement in March 2020 reduced the number of people in poverty at the national level by 470,000.

In September and December 2020, the Government reduced the coronavirus supplement. The reductions in the supplement, as well as increases in unemployment caused by the pandemic recession, meant that by the end of 2020 the number of people in poverty had increased by 900,000 – over 400,000 more in poverty than before the coronavirus supplement was introduced.

The Government plans to remove the coronavirus supplement, which is currently \$150 per fortnight, and replace it with an increase in the base rate of \$50 per fortnight at the end of March 2021. This represents a net drop in Jobseeker payments of \$100 per fortnight. This will further increase the number of people in poverty by 155,000.

This means the collective increase in the number of people in poverty since the low at the end of March 2020 when the \$550 per fortnight coronavirus supplement was first introduced, to the number of people in poverty at the end of March 2021, will be 1,055,000 people. The changes in the number of people in poverty over time are shown in Figure 2.

Figure 2 – People in poverty in Australia over time



Source: Communities in Numbers commissioned modelling. See Appendix B

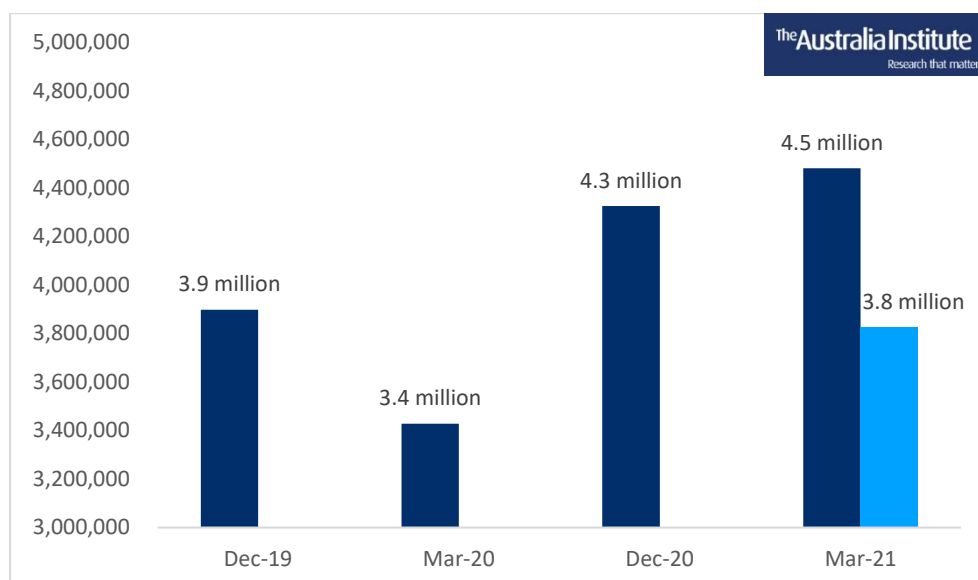
While the most recent increase in poverty is relatively small (155,000 Australians), this is because the cut in Jobseeker is not as large as previous cuts. The March 2021 cut is proposed to be \$100 per fortnight, compared to the \$300 per fortnight that was cut between March 2020 to December 2020. The number of people in poverty is much higher

than before the pandemic because of the increase in the number of people who are unemployed and the slow rate of wages growth.

The Government does not have to further cut the amount paid to the unemployed and exacerbate poverty in Australia. If the Government restored the full \$550 coronavirus supplement (or increased the base rate by the same amount) at the end of March, then 500,000 people would be lifted out of poverty instead of an additional 155,000 people being pushed into poverty. That is a net difference in poverty of 655,000.

Figure 3 shows the change in poverty over time. The light blue column shows what the number of people in poverty would be if the Government restored the coronavirus supplement instead of eliminating it and replacing it with a \$50 per fortnight increase in the base rate.

Figure 3 – People in poverty in Australia over time if coronavirus supplement restored



Source: Communities in Numbers commissioned modelling. See Appendix B

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.³ They are also more likely to have impairment in their social, emotional and behavioural development. Poverty 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.

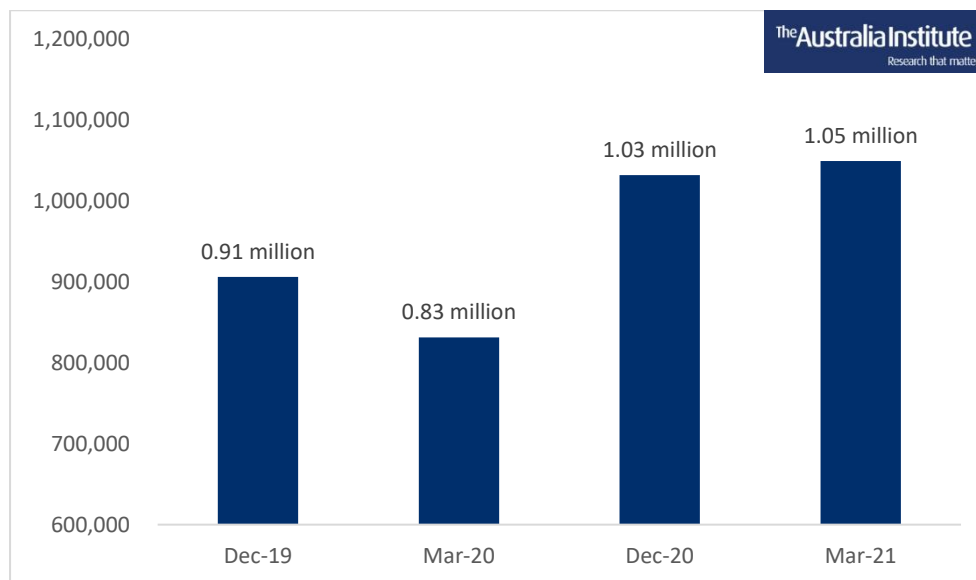
³ Redmond et al (2016) *Are the kids alright?*, The Australian Child Wellbeing Project, February, available at <http://australianchildwellbeing.com.au/sites/default/files/uploads/ACWP_Final_Report_2016_Full.pdf>

The introduction of the coronavirus supplement in March made an enormous difference to children living in poverty. It lifted 75,000 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.

Unfortunately, it has not been permanent. The Government has proceeded to cut the coronavirus supplement three times. By the end of 2020 the number of children in poverty had increased by 200,000, completely erasing the reductions in poverty achieved with the introduction of the original \$550 coronavirus supplement.

If the Government follows through on its plan to eliminate the coronavirus supplement and replace it with an increase of \$50 a fortnight in the base rate, then a further 18,000 children will be pushed into poverty. The change in the number of children in poverty over time can be seen in Figure 4.

Figure 4 – Number of children (aged 0 – 14) in poverty over time including March 2021 when the Government eliminates the coronavirus supplement and replaces it with an increase in the base rate



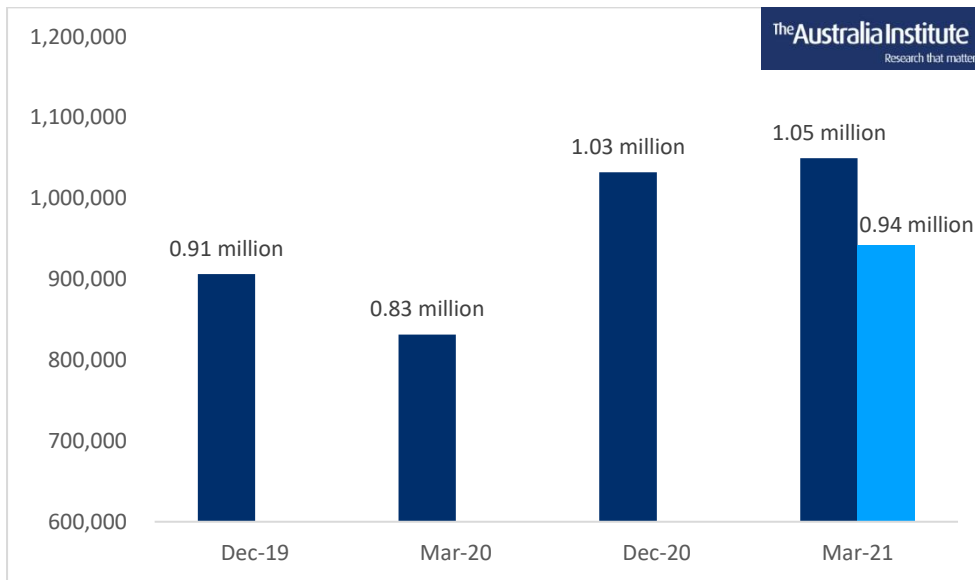
Source: Communities in Numbers commissioned modelling. See Appendix B

The number of children in poverty does not have to increase. Instead of cutting the amount going to the unemployed the Government could instead restore the full amount of the coronavirus supplement (\$550 per fortnight) or increase the base rate by an equivalent amount. If they did this then the number of children in poverty would fall by 90,000 from the current amount.

Restoring the coronavirus supplement to its full \$550 per fortnight amount, rather than cutting Jobseeker by \$100 a fortnight would represent a turnaround in the number of children in poverty of 108,000. If made permanent, this would make a lifelong difference to over 100,000 children.

Figure 5 shows the change in children in poverty over time but includes the number in poverty at the end of March if the Government restored the coronavirus supplement instead of eliminating it and replacing it with a \$50 per fortnight increase in the base rate.

Figure 5 – The number of children aged 0 to 14 in poverty over time with the restoration of the full coronavirus supplement in March 2021



Source: Communities in Numbers commissioned modelling. See Appendix B

Conclusion

The coronavirus supplement was very successful in reducing poverty in Australia, including among Australian children. But the Government's subsequent cutting of the supplement has wiped out those gains. By the end of March, the rate of Jobseeker will fall to \$44 per day, little changed from before the pandemic.

With the contraction in the economy and the rise in unemployment, more people are in poverty now than before the pandemic recession. This not only represents increased suffering, but also a wasted opportunity. The Government showed how easy it was to substantially reduce poverty in Australia when it lifted almost half a million people out of poverty with a single policy change. By the time the coronavirus supplement ends, and Jobseeker base rate is increased by \$25 per week, a million more Australians will be in poverty, than were a year ago, including over 200,000 children.

Australia has the means to ensure that those who find themselves unemployed are not forced into poverty. The rate of Jobseeker should be set at a rate that guarantees that no Australian, and especially no child, lives in poverty.

Appendix A

Unlike many other countries the Australian government does not produce an official poverty line calculation. 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 are 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 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

This project uses microsimulation modelling. This type of modelling uses unit record data from a survey, 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.

This analysis uses Henderson poverty lines when calculating poverty rates. The Henderson poverty line is maintained and updated 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 households' regular incomes.

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 June 2020, and they are shown in Table 1. We used the December 2019 Henderson poverty lines for the first two scenarios, as these were estimated for December 2019.

For this analysis, we used the poverty line which excludes housing cost, and have removed housing costs from the total family income. This means relatively more people living in capital cities are identified as living in poverty and relatively fewer in other areas, as housing costs are a more 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 (half median)/income unit (Henderson) 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 1: Henderson poverty lines**Table 1: Poverty Lines: Australia, June Quarter, 2020 a, b**

Income Unit	<i>Including Housing \$ per week</i>	<i>Other than Housing \$ per week</i>
Head in workforce		
Couple	750.75	549.09
Couple plus 1	902.44	682.55
Couple plus 2	1054.12	816.00
Couple plus 3	1205.81	949.45
Couple plus 4	1357.50	1081.43
Single person	561.22	377.69
Single parent plus 1	720.49	518.73
Single parent plus 2	872.08	652.19
Single parent plus 3	1023.77	785.64
Single parent plus 4	1175.45	919.09
Head not in workforce		
Couple	644.60	442.84
Couple plus 1	796.29	576.40
Couple plus 2	947.97	709.85
Couple plus 3	1099.66	843.30
Couple plus 4	1251.35	975.28
Single person	455.07	271.54
Single parent plus 1	614.24	412.58
Single parent plus 2	765.93	546.04
Single parent plus 3	917.62	679.49
Single parent plus 4	1069.30	812.94

Notes: (a) Based on seasonally adjusted household disposable income per head per week for the June quarter 2020 of \$895.98.

(b) All figures refer to income after tax.

Source: The University of Melbourne (2020) *Henderson Poverty line, June 2020*, Melbourne Institute, available at <<https://melbourneinstitute.unimelb.edu.au/publications/poverty-lines>>

For this analysis five were reported. The five scenarios were:

- 1) December 2019 – the pre-COVID baseline for the analysis;
- 2) March 2020 – the full COVID supplement with no job losses;
- 3) Restoring the full COVID supplement – the full COVID supplement with job losses as measured in January 2021;
- 4) March 2021 – job losses as at end Jan 2021 and a \$25 per week supplement;
- 5) December 2021 cut – job losses as at end Jan 2021 and adding \$75 per week to Jobseeker.

SCENARIOS

This section describes the five scenarios modelled.

Scenario 1: 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 for December 2020; other income by the ABS Average Weekly Earnings (AWE) increase from June 2018 to December 2020; pensions by AWE to December 2020; allowances by the ABS Consumer Price Index (CPI) increase from June 2018 to December 2020; and housing costs by the ABS CPI increase from June 2018 to December 2020.

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. This was then equivalised using the ABS equivalising factor supplied on the survey, and poverty rates for December 2019 were calculated based on this updated dataset.

The December 2019 Henderson Poverty Lines were used for this scenario.

Scenario 2: Full Jobseeker

This scenario is incomes as at December 2020, no job losses, and the full supplement of \$275 per week. Tax is recalculated using the 2019-20 tax rates, and poverty rates are recalculated.

The December 2019 Henderson Poverty Line was used for this scenario, to make it comparable with previous versions.

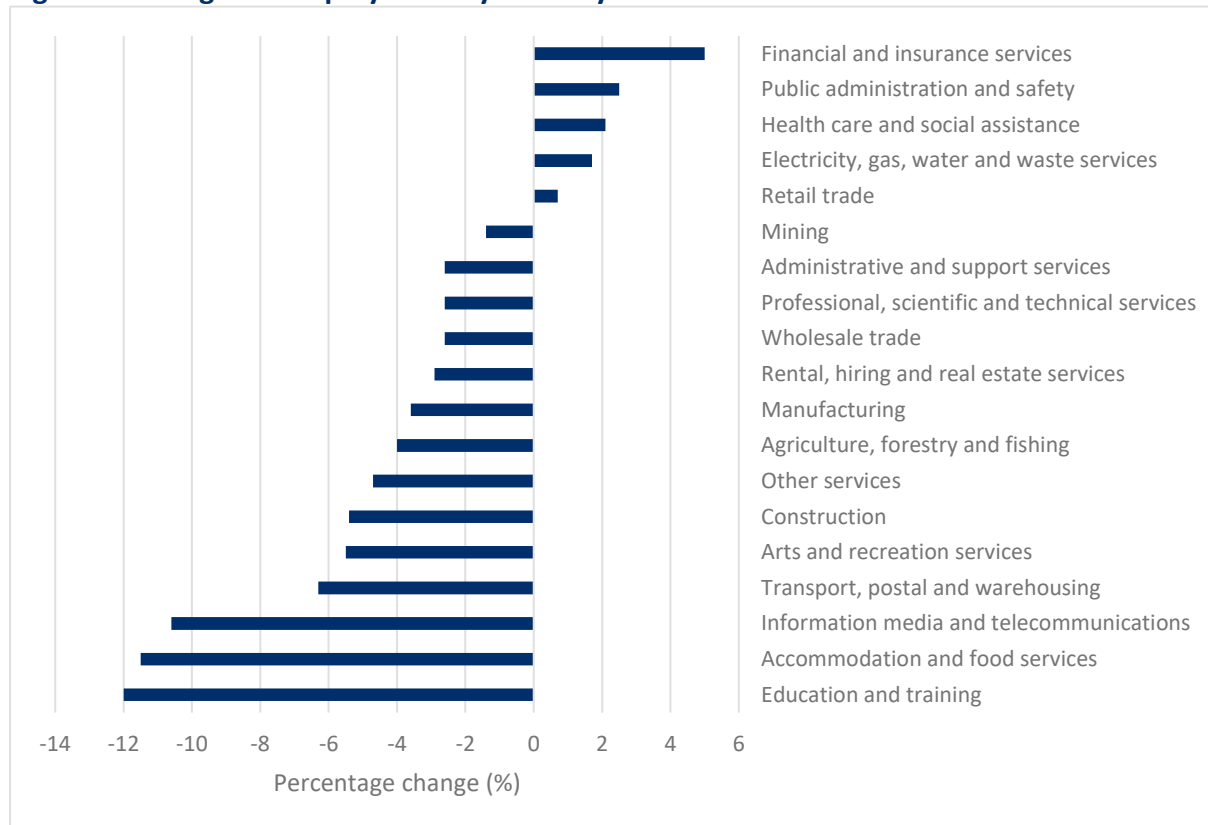
Scenario 3: Full Jobseeker with job losses to Jan 2021

By January 2021, 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, with the total Industry estimates shown in Figure 6. These figures use the ATO One Touch payroll system, and were published on the 16 February 2021. They relate to job losses from 14 March (the beginning of the shut down) to 30 Jan 2021.

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, with two assumptions made: the first was that those working the fewest hours moved into Jobseeker first; and the second was a random assignment. These two assumptions are discussed in the section on assumptions below.

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.

Figure 6: Changes in employment by industry as a result of COVID



Source: Australian Bureau of Statistics (2021) *Weekly Payroll Jobs and Wages in Australia: Week ending 30 January 2021*, ABS, available at <<https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/weekly-payroll-jobs-and-wages-australia/week-ending-30-january-2021>>

Note: The change in employment is from 14 March 2020 to 30 January 2021

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 do not 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).

The June 2020 Henderson Poverty Line was used for this scenario, as the September lines were not available in time for this modelling.

Poverty rates were then calculated based on these incomes.

Scenario 4: Removing the COVID Supplement and increasing Jobseeker by \$25 per week

In February 2021, the Government announced that the COVID supplement would be removed from Jobseeker, and a permanent increase of \$25 per week would be added. This scenario models this situation by setting benefits to the stated amounts available from the Department of Social Services website, but adding a \$50 per fortnight supplement rather than the current \$150 coronavirus supplement. New taper rates and assets tests were also used.

The June 2020 Henderson Poverty Line was used for this scenario, as the September lines were not available in time for this modelling.

Scenario 5: December 2020 cut

This scenario takes the last scenario, and adds \$50 per week to everyone on Jobseeker. This takes the payment up to the \$75 per week which was the rate at the end of December 2020.

The June 2020 Henderson Poverty Line was used for this scenario, as the September lines were not available in time for this modelling.

DATA

The base dataset used for this modelling was the 2017-18 ABS Survey of Income and Housing (SIH). 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 to 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.