THE HON PAUL FLETCHER MP

Minister for Families and Social Services

ACOSS National Conference

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Introduction

I am pleased to have the opportunity to deliver my first significant speech as Minister for Families and Social Services to this ACOSS national conference.

ACOSS has a respected place as a peak body in the social services sector.

Today I want to speak about poverty and inequality – and our plan to address it.

I want to discuss three priorities. The first is to have a clear understanding of the scope of the problem.

The next is to build a strong economy – so we maximise employment and we maximise our capacity to fund support for vulnerable Australians.

The third priority is working to make our social services system more effective – so we target our spending better and get better outcomes for what we spend.

A clear understanding of the scope of the problem

Let me turn firstly then to the scope of the problem. What do we know about inequality and poverty in Australia?

There are several recent reports that provide a wealth of data. In addition to the ACOSS and UNSW reports on Poverty and Inequality, there is the UnitingCare and University of Canberra report on Child Social Exclusion, Poverty and Disadvantage, the Melbourne Institute's annual report on findings from HILDA, and the Productivity Commission's stocktake of evidence on inequality.

Broadly, these show that inequality and poverty has been relatively stable in recent years and income growth has occurred across the income distribution.

At the same time there is a group of Australians experiencing entrenched disadvantage – around 3 per cent or 700,000 according to the Productivity Commission.[1]

It is worth taking a closer look at the trends on income inequality. Australia's level of inequality is close to the OECD average. But most OECD countries have seen rising income inequality in recent decades – compared to our relatively stable position.

The latest 2018 Household, Income, Labour Dynamics in Australia (HILDA) Report shows there has been little net change in income inequality between 2001 and 2016.[2]

This is based on the most commonly used measure of inequality, the Gini coefficient - in which "zero" indicates perfectly evenly divided incomes and "one" indicates all income held by a single household.

Since 2007–08, the Gini coefficient has varied between 0.32 and 0.34. It was 0.32 in 2015–16.[3]

[1] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper, August 2018.
[2] The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 16, Melbourne Institute Applied Economic and Social Research, 2018.
[3] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper, August 2018.

Respected Melbourne Institute economist, Professor Roger Wilkins, recently commented that

> not only is income inequality not rising, our best guess is that it is actually falling.[4]

Of course, as the latest Inequality Report from ACOSS points out, there is a clear difference between high income and low income groups. Household income in the highest 20 per cent group was $3,978 per week on average in 2016; in the lowest 20 per cent it was $735 per week.[5]

But importantly, in the main people do not stay in these groups for their lifetime. Economic mobility is high in Australia, with almost everyone moving across the income distribution over the course of a lifetime.[6]

Such moves are often linked to life events, such as moving from education to work, getting ahead in a job, having children and retiring.

In thinking about inequality, we need to keep a clear focus on the overriding public policy goal: to increase the real incomes and hence living standards of Australians.

We have made solid progress against that goal. Over the decade to June 2018 wages have risen by 31%, compared to price levels rising 22%, and hence real incomes have risen. [7]

This is a key finding from the recent Productivity Commission research paper on inequality. Australia has enjoyed a 27 year period of uninterrupted economic

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[4] Professor Roger Wilkins quoted by Rick Morton in The Weekend Australian, 13 October 2018, Wealth gap surprise: it’s shrunk. The quote was taken from a panel session that Roger Wilkins participated in at the 11-12 October Outlook Conference.

[5] Inequality in Australia 2018, ACOSS and UNSW Sydney.

[6] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper August 2018.

[7] Melbourne Institute Mark Wooden discussing report in the Australian on radio 3AW.

growth – and that in turn has delivered income growth for the average Australian household in every income decile.[8]

In other words, the fact that we have seen little increase in income inequality is important. But just as important is that the increases in real income have been experienced across all income groups.

Over the period 1988-89 to 2015-16, those at the bottom of the distribution saw their incomes grow by an average of 2.0 per cent a year – a little higher than those in the middle who saw growth of less than 2.0 per cent.[9]

Productivity Commissioner, Jonathan Coppel, in summarising the findings, said this major piece of work would hopefully

> …dispel the popular perception that the benefits of growth are not being shared.[10]

One point emphasised by the Productivity Commission is the way that Australia's tax and transfer system has substantially reduced income inequality over the past three decades. Importantly this has been a bi-partisan achievement.

Income tax and government transfers have lowered the measure of income inequality on average by about one third.[11]

Australians in the lowest twenty per cent of incomes receive the highest amount of social assistance benefits – an average of $517 per week.[12] This is more than 18 times the amount received by those on the highest twenty per cent on incomes — at an average of $28 per week.

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[8] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper August 2018.
[9] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper August 2018.
[10] Jonathan Coppel quoted by Rick Morton in The Weekend Australian, 13 October 2018, Wealth gap surprise: it's shrunk. The quote was taken during the 11-12 October Outlook Conference.
[11] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper August 2018.
[12] Fiscal Incidence Study, 6503.0 - Household Expenditure Survey and Survey of Income and Housing, Australia, 2015-16.

Australia stands out internationally for having a well targeted social security system. The system is doing its intended work if inequality after including transfer payments is markedly lower than inequality based on pre-tax income.

The Productivity Commission also point out that if we assess inequality based on the value of what households consume, inequality is reduced still further. This is because many services that households consume – such as school education or medical care – are provided at little or no charge to low and middle income households in Australia.

If inequality is not rising, what is happening to poverty?

The recent ACOSS and UNSW report, Poverty in Australia 2018, shows that the overall rate of relative income poverty was 13.2 per cent (around 3.05 million people) in 2015–16, down by more than one percentage point from 2007-08 when it was 14.4 per cent.[13]

This report does not measure absolute poverty but rather relative income poverty – by tracking the share of individuals whose income is less than 50 per cent of the median disposable household income.

While it is an important measure it has its limitations. An increase in relative poverty could indicate that real incomes at the bottom of the distribution are falling – but it could equally mean they are holding up but there is strong growth in median or upper incomes.

One of the key issues emphasised in these various reports is having a clear understanding of who is affected by poverty – and how it impacts on them.

[13] Inequality in Australia 2018, ACOSS and UNSW Sydney.

The ACOSS report finds those most likely to have incomes below 50 per cent of the median are people living in single-parent families, unemployed people, people with disabilities and Indigenous Australians.

The relative poverty rate for children is higher than for adults, with both the ACOSS and UnitingCare reports finding it to be just over 17 per cent (around 739,000 children). This has changed little since 2011-12, when the rate was 17.7 per cent.[14]

The Productivity Commission's report noted that children living in jobless households face a higher risk of economic disadvantage becoming entrenched.

I have argued that as we work to tackle poverty and inequality, we need to look carefully at the evidence. That evidence shows that recent claims from some about rising inequality are simply wrong.

ACTU Secretary Sally McManus has claimed that inequality is at a "70-year high."[15]

Labor Leader Bill Shorten recently said:

> we will not stand by as inequality grows in this country and the fair go all round becomes less certain…[16]

The problem with this kind of factually inaccurate rhetoric is that it can drive our policies in the wrong direction – trying to fix problems that don't exist and losing focus on very real problems that do exist.

The data suggests that the core of the problem is a relatively small group of Australians experiencing persistent poverty.

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[14] Ibid.
[15] The Australian, 18 September 2018.
[16] The Hon Bill Shorten MP, NSW State Labor Conference, 1 July 2018.

The Productivity Commission reported that about three per cent of Australians (roughly 700,000 people) have been in income poverty continuously for at least the last four years.[17]

I will have a bit more to say about our focus on these Australians – and our work to better target our welfare system to help them change their circumstances.

The Importance of a Strong Economy for Vulnerable Australians

But before turning to that issue I want to speak about the importance of a strong and growing economy –particularly for vulnerable Australians.

One thing stands out from the data on poverty and inequality. There is a very strong link between unemployment and poverty – and an equally strong link between employment and not being in poverty.

Put another way - the best form of welfare is a job.

And the best way to get as many people into work as possible is to build a strong and growing economy which is generating jobs.

Of course as a nation we have shared values about helping those who need a hand. Prime Minister Morrison calls it the modern Australian Compact, of

> …a fair go for those who have a go, looking after your mates and leaving no-one behind.[18]

In his recent speech to the 2018 Melbourne Institute Outlook Conference, the Prime Minister pointed out that this Compact is underpinned by a strong economy that supports jobs, fairness and communities.

[17] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper August 2018.
[18] Prime Minister's Address to the Melbourne Institute 2018 Outlook Conference, 11 October 2018.

It is prosperity that pays for our social safety net, not sentiment.

There are two powerful linkages between a strong economy and supporting vulnerable Australians.

The first is that a strong economy generates jobs.

Every Australian who moves from welfare to work is better off.

If you have a job, you are much less likely to experience poverty. This is clear from the data in the recent ACOSS report. Only 7 per cent of households whose main source of income is wages are in poverty, compared to 35 per cent who rely mostly on social security payments.[19]

But you also enjoy the dignity and sense of achievement and contribution which work can bring.

I am sure everybody in this room can remember that feeling of opening your first pay packet. Mine was from a year 11 Christmas job at a long gone Department store called Dinkum Fair in Bondi Junction in 1981.

I am sure we all can think of the sense of accomplishment from taking on a new task, finding it daunting at first, and then mastering it. And of course there is no more satisfying feeling than being able to buy your child a bike or something else they desperately want.

So the personal meaning for every Australian who moves from welfare to work is profound. But there is a much wider benefit as well.

For every Australian who moves from welfare to work, our nation is better off. Our economy is boosted and our community is strengthened by people contributing and building prosperity.

[19] Poverty in Australia 2018, ACOSS and UNSW Sydney.

That is why our Liberal National Government has had a relentless focus on a strong economy which generates jobs.

We have lowered taxes on small and medium businesses – to generate jobs.

We have entered into free trade agreements with China, Japan, Korea and the TPP 11 – to generate jobs.[20]

We have invested in infrastructure around Australia – to generate jobs.

And our plan is working.

Since we came to office in 2013, the strengthening economy has generated more than 1.1 million jobs.[21] Unemployment has recently fallen to 5.0 per cent.[22]

Just in the last financial year, more than 95,000 Australians aged 15 to 24 have got jobs.[23]

As more people get jobs – we are seeing a fall in the number of working age Australians on welfare.

In June 2017, there were 2.4 million working age Australians on income support, down 140,000 from at June 2014.[24]

It dropped by a further 90,000 as at June this year.[25]

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[20] Trans-Pacific Partnership (TPP-11) is the new free trade agreement between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam.
[21] Australian Bureau of Statistics, 6202.0 - Labour Force, Australia, September 2018. New jobs created are estimated from Sep 2013 to Sep 2018.
[22] Australian Bureau of Statistics, 6202.0 - Labour Force, Australia, September 2018.
[23] Former Prime Minister Malcolm Turnbull and Treasurer Scott Morrison Press Conference, 19 July 2018, http://pmtranscripts.pmc.gov.au/release/transcript-41702.
[24] Department of Social Services, DSS Payment Demographic Data.
[25] Ibid.

The share of working age Australians on welfare has fallen to 15.1%. This is the lowest rate of welfare dependency in over twenty-five years.[26]

These are outcomes to celebrate – and to build on.

And again I make the point that these outcomes are vital for vulnerable Australians. As we get more people into work, that has particular benefits for those at the lowest end of the income distribution.

Between 1988-89 and 2015-16, that group has experienced much stronger growth in labour income than elsewhere in the distribution. This reflects a substantial increase in the proportion of those at the lower end engaging in paid work, rising from 29 per cent to 44 per cent over this period.[27]

But of course not everybody is able to work – and that is why we have a strong social security safety net.

Of Australia's 25 million people, around 5 million receive either an age pension or working age income support payment.[28]

On top of that, close to one and a half million families and almost three million children receive a family payment of some sort.[29]

So the second important linkage between a strong economy and vulnerable Australians is that a strong economy lets us fund that social security safety net.

[26] Department of Social Services, Income support and related statistics: a 10 year compendium, 1989-1999; Department of Social Services, Income support customers, a statistical overview (Statistical Paper Series); Department of Social Services, DSS Payment Demographic Data.
[27] Rising inequality? A stocktake of the evidence. Productivity Commission Research Paper August 2018.
[28] From data.gov June 2018: 4,926,678 – sum of Abstudy, Age Pension, Carer Payment, DSP, NSA, PPS, PPP, Partner Allowance, Sickness Allowance, Special Benefit, Widow Allowance, Widow B Pension, Wife Pension, YA (other), YA (student).
[29] In June 18: 1,440,108 families and 2,819,285 children received FTBA and/or FTBB (DHS administrative figures.

To put this in a Budget perspective, spending on social security and welfare, at $176 billion, is more than one third of the entire Commonwealth budget.[30]

It is 36 per cent of total Commonwealth revenue.[31]

Now when social welfare spending is such a large part of the Commonwealth's entire budget, it is critically important to ensure that our spending is sustainable.

We make a promise to Australians that if they have particular needs, they will be supported with a particular benefit – be it the Age Pension for those over sixty five and a half who meet the income and asset test; be it Newstart for those of working age who are unemployed; be it Disability Support Pension for those suffering from permanent disability that stops you from working.

If we make that promise, it is so important that we can keep it. We never want to run the risk that we do not have the money to pay the benefit we promise.

Yet this was the risk the previous Labor Government was running.

Under that government, social security and welfare spending grew at around twice the rate of revenue growth – 6.2 per cent per year compared with total tax receipt growth of 3.3 per cent per year.[32] This was clearly unsustainable.

Since our Liberal National Government came to power in 2013, we have been able to reverse this trajectory. Social security and welfare has been growing at an average rate of 2.9 per cent per year, lower than growth in total tax receipts at 5.3 per cent per year.[33]

[30] Budget Paper No.1, 2018-19, p.33.
[31] Ibid.
[32] The Social Security and Welfare figures are published on page 6 of the 2007-08 Final Budget Outcome and pages 12 of the 2013-14 Final Budget Outcome. The taxation figures are published on page 11-9 to 11-10 of Budget Paper Number 1 2018-19.
[33] Percentages are based on numbers from the 2013-14 and 2017-18 Final Budget Outcome papers.

This has been achieved even as we ramp up spending on the National Disability Insurance Scheme. This year the Commonwealth will spend around $8 billion on the NDIS. By 2020-21, the annual spend will be over $22 billion a year.[34]

This demonstrates an important social dividend as the number of people in work increases and the number relying on income support payments reduces. It has allowed us to direct spending to other priority areas such as the NDIS.

The NDIS is a new way of supporting Australians with disability – the largest social reform since Medicare. It aligns with the Coalition's values of choice and individual freedom - and our Government has fully funded the NDIS.

Working to make our social services system more effective

I have argued today that the most powerful tool we have to address poverty and inequality is to build a strong and growing economy which is generating jobs.

But I have also pointed to the evidence that particular groups of Australians are experiencing persistent disadvantage.

In the final part of my remarks this morning I want to speak about our work to make our social services system more effective – with a particular focus on the areas of need.

Here, as in the other areas of my portfolio, I am very much continuing with the priorities established by my predecessor Ministers since 2013 – Kevin Andrews, Scott Morrison, Christian Porter and Dan Tehan.

I want to touch on four areas: our priority investment approach; our interest in trialling new approaches; expanding the cashless debit card trials; and simplifying our welfare system.

[34] Data from Departmental NDIS modelling as at the 2018-19 Budget - agreed to with the Department of Finance.

Priority investment approach

The Priority Investment Approach uses actuarial analysis to estimate Australia's overall future lifetime welfare costs, and the cost of future payments to various groups within the population.

The most recent report from this work estimates the future lifetime cost of welfare payments for all Australians to be $4.7 trillion as at 30 June 2017.

Thanks to the changes I mentioned earlier, that cost has come down somewhat. Having 230,000 fewer working age welfare recipients at June 2018 than at June 2014 represents an estimated total future lifetime cost of $41 billion avoided.[35]

This work also shines a light on the issue of intergenerational welfare dependency. The most recent report found that there were 374,006 children, aged 10 to 16 years, with parents or guardians who received income support payments for 50% or more of their childhood.

For a 15 year old with a very high level of parental welfare dependence, the model indicates an average lifetime cost to the welfare system of $240,000 – to be paid in support for that 15 year old as he or she moves through life.

This is $69,000 more, according to the model, than the average lifetime cost to the welfare system of a 15 year old whose parents did not receive significant welfare payments.

The relationship continues to hold for somewhat older young people. Those aged 22 to 24 are treated by our welfare system as independent of their parents.

[35] Department of Social Services analysis using the 2017 Priority Investment Approach actuarial model.

But if you are in this age bracket and your parents or guardians received income support payments for over 80% of your childhood, you are 2.9 times more likely to receive income support payments today, than those with no parental income support history.

With facts like these, we can begin to target our efforts towards supporting the children of welfare-dependent parents – with a view to getting them to stay in education and into the workforce, and to breaking the cycle of welfare dependency.

Our interest in trialling new approaches

Which sounds easy to say – but how are we going to do it?

That is where our interest in trialling new approaches comes in.

Our social services system is delivering for most people but it is clear that for a minority it is not producing particularly good results. It provides a financial safety net but does not do much to help them improve their situation.

That is why we are systematically testing a range of different approaches – including through the Try, Test and Learn Fund – or TTL.

This $96.1 million program is designed to find new and effective ways of helping people live independently of welfare.

We are trialling projects to assist identified groups of people onto pathways to work.

Amongst the first tranche of projects the priorities include young people who are unemployed following a period of study; young parents; and young carers. These projects include the Carer Achievement Pathway project being delivered by Carers NSW, the Build and Grow project for young students delivered by

Productivity Bootcamp, and the In-school Parent Employment Service delivered by the Minderoo Foundation.

Tranche two will focus on the older unemployed, working age migrants and refugees, working age carers and at-risk young people.

The projects are being co-designed with community groups, including service providers, business and academia – because as we all know, not all wisdom resides in Canberra.

Expanding the cashless debit card trials

A third area where we are trying a new approach is the cashless debit card.

This sees 80 per cent of a person's welfare payment placed on the card, which is used in the same way as a regular EFTPOS card but cannot be used for drugs, alcohol and gambling.

We want to see if this can reduce the harm caused by welfare funded alcohol, gambling and drug abuse in particular communities.

Three trials are already underway, in Ceduna in South Australia, and in the East Kimberley and the Goldfields regions in Western Australia. Community leaders in these regions have been strong supporters.

We also want to see if the cashless debit card assists people vulnerable to intergenerational welfare dependence.

This is why we have chosen the Bundaberg-Hervey Bay region in Queensland for the fourth trial of the cashless debit card, commencing early next year. In this area, 90 per cent of people aged 25 and under and receiving unemployment benefits in June 2016, had a parent who was on income support at some point during the previous 15 years.[36]

But let me be clear. Communities have asked us to intervene – we don't impose. We are partnering with leaders who are taking responsibility for outcomes in their own communities.

The Cashless Debit Card is a world first and we are subjecting its impact to rigorous evaluation. It is an example of trying out new approaches - when the alternative is continuing a failed path which helps no-one.

Simplifying our welfare system.

Finally let me mention the work we have underway to simplify our welfare system – and make it easier for vulnerable Australians to navigate.

The Welfare Reform Act, which passed the Senate in March, will make Australia's welfare system simpler and provide greater encouragement for people to move from welfare to work.

Seven working age payments will be consolidated into one single Jobseeker payment. Too often today people are forced to navigate a confusing and complex welfare system with multiple categories of payments that have treated people differently even when they are in similar circumstances.

In future, there will be a single set of rules and a single set of rates for people of working age with capacity to work.

The new Act also introduced a new approach to welfare compliance, starting 1 July this year. The new approach uses a demerit system similar to the way a

[36] Cashless Debit Card Fact Sheet, Bundaberg/Hervey Bay, Department of Social Services. Analysis using the June 2016 Priority Investment Approach actuarial model.

driver's licence operates. If a job seeker has no valid reason for not meeting a requirement such as attending a job interview they accrue a demerit point.

After five demerit points in six months a person enters the penalty zone, where the next demerit results in the loss of one week's payment. There is also a four-week payment cancellation that can occur at any time for refusing work outright.

We want the system to be clear, simple and understandable – so people know what they need to do to succeed.

Conclusion

Let me conclude then by saying that you will see from me as Minister a continuation of the themes and priorities which our Liberal National Government has been following since 2013.

We have a clear plan to address poverty. The centrepiece of that plan is building a strong economy and generating jobs – so we can move as many people as possible from welfare to work.

The evidence shows that inequality is not increasing, real incomes are rising, and that is being experienced at all levels of the income distribution.

At the same time, there is a group of Australians experiencing persistent disadvantage. In response we are working to redesign our welfare system, to make it more targeted and effective in getting support to those who most need it.

Yes, it is true – some of this talk about data and actuarial approaches can sound pretty dry.

But at the end of the day this is about how we best help vulnerable Australians. We owe it to them to be compassionate – and to back up our compassion with a methodical effort to get our welfare system working better to serve and support them.