

Analysis of the impact of raising the rates of Newstart and other allowances

Key Points

- Deloitte Access Economics was commissioned by the Australian Council of Social Service (ACOSS) to produce a report which outlines the impact of raising the rate of Newstart and other allowances by \$75 per week.
- The analysis finds that by 2020-21, the policy change would result in \$3.3 billion worth of extra spending by consumers, with 12,000 new jobs added.
- The benefits of the policy change overwhelmingly flow to low income households. The lowest income quintile would receive twenty-eight times the relative boost to its disposable incomes than the highest income quintile, with the biggest relative benefit felt in regional Australia.
- The full report is available at https://www.acoss.org.au/media-releases/?media_release=raising-newstart-and-youth-allowance-would-boost-jobs-wages-and-inject-millions-into-local-communities.

Background

- The gap between the living standards of average Australians and those who are on Newstart, Youth allowance and other payments has widened sharply over the past quarter of a century.
- This is a result of current policy settings. A key driver of average living standards is wages, but the allowances examined in this analysis are indexed to prices rather than wages. And that's a problem because, over time, wages grow faster than prices. Accordingly, the nation's policy settings ensure that those Australians who are on allowances have seen their living standards squeezed relative to average living standards.

Policy change

- Deloitte Access Economics examined both the prosperity and fairness impacts of boosting a range of allowance payments by \$75 a week – an extra \$10.71 a day for more than 770,000 people: the least well off in Australian society.
- Deloitte Access Economics estimated that the direct cost to the Federal budget of the policy change is about \$3.3 billion a year.

The impact on Australia's economy

- Deloitte Access Economics used our Horizon macroeconomic model of the Australian economy to model a lift in allowances that is effective immediately. By 2020-21:
 - In nominal dollars, the size of the Australian economy ("the prosperity dividend") would lift by some \$4.0 billion.
 - Some \$3.3 billion a year show up as extra spending by consumers. That is not surprising as most of that extra income goes to the poorest of the poor in Australia, who are more likely to consume.
 - That extra spending would create some 12,000 extra jobs. And the accompanying strength in the market for workers would lift wages, with some of that showing up as higher real wages.
 - The stronger economy (more jobs, higher wages, stronger profits) would mean that the Federal Government would raise an extra \$1.0 billion in taxes, while State and Territory Government revenues would increase by some \$0.25 billion.
 - This boost to the economy fades over time. That's because interest rates and the Australian dollar would gradually rise over time. More importantly still, this policy change comes at a cost to the Federal Budget, and the modelling assumes that – over time – taxes lift so that the debt levels of the Australian government return to where they'd otherwise be.

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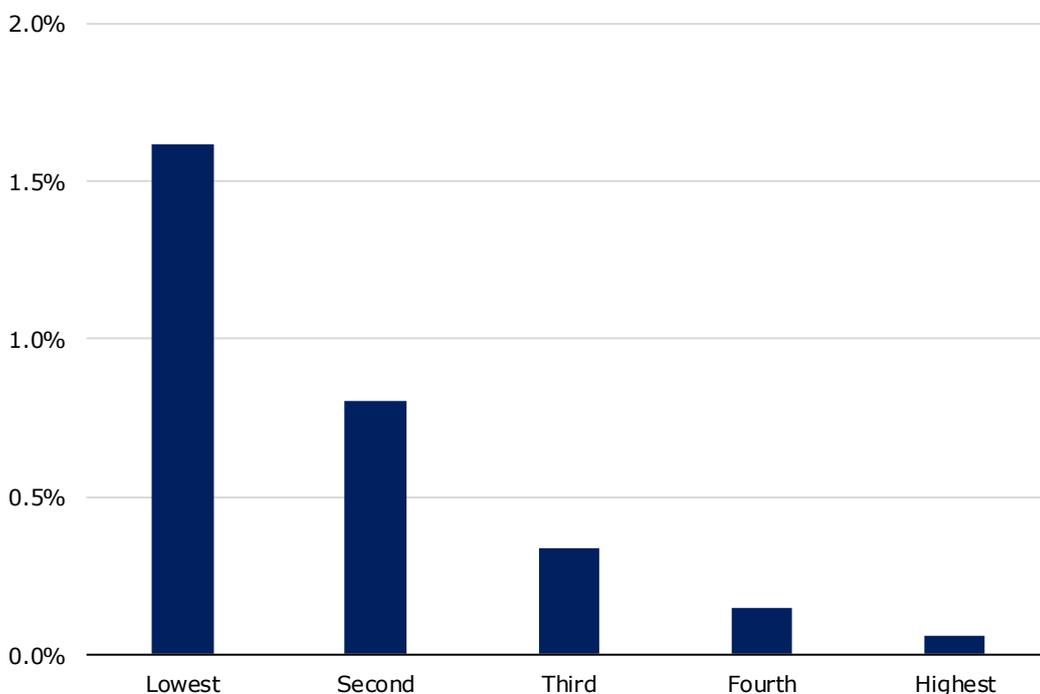
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The impact on fairness

- Our analysis shows that the bulk of the dollars go to the lowest income quintile of households. Measured in dollar terms, the lowest quintile receives six times the dollars going to the highest income quintile.
- In proportionate terms, the fairness impact of this policy changes becomes fully evident. As the chart below shows, the lowest quintile would receive twenty-eight times the relative boost to its disposable incomes than does the highest income quintile – an increase in income of 1.6% for the lowest quintile, versus 0.06% for the highest quintile.
- Accordingly, any given dollar spent on this policy proposal would have a very tightly targeted fairness impact, with the overwhelming bulk of relative improvements in disposable incomes going to Australia’s lowest income families.

Chart: Increase in household disposable incomes, equivalised quintiles, %



Source: Deloitte Access Economics, ABS Cat No. 6523.0

Regional impacts

- The different types of allowances that would be raised have different regional profiles. That said, the bulk of the impact would be through increased Newstart allowance, and the regional distribution of those allowances would boost both the prosperity and fairness impacts discussed above.
- From a prosperity viewpoint, unemployment in Australia is relatively higher outside our largest cities and towns. Other things equal, this means that relatively more of the increased spending flowing from higher allowances would tend to stay in Australia, being spent on locally produced products and local labour.
- From a fairness viewpoint, there is a tight correlation between the least well-off districts across Australia (measured using the Socio-Economic Indexes for Areas (SEIFA) index) and the boost to regional income from this proposal, meaning that the regional communities most in need of help would receive it were this proposal to be enacted.