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# **Australia: Incrementalism in Action?**

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## **LIST OF ABBREVIATIONS**

ABS	Australian Bureau of Statistics
AUD	Australian Dollar
CPI	Consumer Price Index
FTB	Family Tax Benefit
MYEFO	Mid-Year Economic and Fiscal Outlook
NSA	Newstart Allowance
SA	Sickness Allowance

## 1. THE CURRENT ECONOMIC, POLITICAL AND SOCIAL SITUATION

### 1.1. Overview

The 2017 calendar year was a quiet one politically, as the narrowly re-elected Turnbull Government came to terms with the realities of its one seat lower House majority and its less favourable minority position in the upper chamber (the Senate), where the mid-2016 Election had strengthened the hand of cross-bench parties. While a more pragmatic flexibility characterised Senate negotiations on legislation, the Government's social policy agenda provided slim pickings.

By year's end the controversial proposals to trial drug-test working age social security participants announced in the May 2017 Budget had no chance of being enacted, though the Government delayed abandoning the measure for political reasons. Extension of the number of regions subject to the 'cash-less' welfare card trial precluding expenditure on gambling, alcohol, or tobacco etc continued, and small-scale consolidation of social security payment categories was announced.

A major child care reform package from 2015-2016 finally passed in amended form, however no significant policy new reforms were introduced, despite growing public traction around issues of inequality, especially intergenerational and housing inequality. Controversial changes to parental leave, much modified in late 2016 (Carney 2017) were quietly dropped altogether in the May 2017 Budget.

### 1.2. Statistical Measures

Economic conditions in Australia during 2017 showed signs of further growth from a baseline economy already robust by international standards despite the disruption of transitioning from a major resources boom (Megalogenis 2015). However wages growth remained far slower than expected, dampening consumer spending and fuelling concern about inequality.

The national accounts continued to run a deficit. The December 2017 mid-point of fiscal year Budget update (MYEFO) did however reveal a small improvement of AUD 9.3 billion in the cash balances over the four year forward estimates to 2020/2021 (MYEFO 2017: 26), and previously introduced savings measures blocked in the upper house contributed just AUD 3 billion to the deficit in December 2017 (MYEFO 2017: 10), well down from the AUD 13.2 billion of the previous year (MYEFO 2016: 4). Due to more optimistic revenue and savings measures the projected date for a return to a budget surplus remained unchanged at 2020/2021 (MYEFO 2017: 23).

Economic growth was running at an annual figure of 2.4 per cent seasonally adjusted as at the end of the September 2017 quarter, despite that quarter disappointing slightly by coming in at 0.6 rather than the expected 0.7 percentage point contribution. This seasonally adjusted result was below the adjusted growth of 2.75 per cent forecast for 2017/2018 as made in the December 2016 MYEFO (2016: 2, 7, 10-11) and still being maintained as late as the May 2017 Budget. The 2017 MYEFO unsurprisingly shaved 2017/2018 growth expectations to 2.5 per cent and reduced 2018/2019 from 3.0 to 2.75 per cent (MYEFO 2017: 11).

Overall employment levels in Australia have remained strong over recent decades, recovering from dips due to recessions; but there are adverse distributional outcomes for certain groups (such as the unskilled and the young) along with greater casualisation and reduction in the conditions of

employment (AIHW 2017: 161ff). Unemployment dropped slightly during 2017. Seasonally adjusted unemployment in October 2017 was 5.4 per cent (ABS 2017c) down from the 5.6 per cent for the same time in 2016 (ABS 2016b). Employment growth is forecast to be 1.75 per cent in 2017/2018 and 1.5 per cent in 2018/2019, and unemployment is anticipated to be 5.5 per cent for 2017/2018 and 5.25 per cent in 2018/2019, a slight decline from the May Budget expectations (MYEFO 2017: 18).

The October 2017 seasonally adjusted workforce participation rate of 65.1 per cent (ABS 2017c) represents a significant rise from the October 2016 rate of 64.4 per cent (ABS 2016b), coming in similarly to the 65.0 per cent of 2015 (ABS 2015). The 2017 MYEFO predicts a participation rate of 65 per cent for 2017/2018, declining to 64.75 in the following year (2018-19: MYEFO 2017: 18).

Inflation in the major capital cities, as measured by the consumer price index (CPI), came in as 1.8 per cent over the period September 2016 to September 2017 (ABS 2017b). This is 0.5 points higher than for the equivalent period in 2015/2016 (ABS 2016a), maintaining the flat line experienced since the 3.5 and 3.6 per cent rates experienced in 2009 and 2010 at the height of the resources boom (ABS 2011).

The central bank's official cash rate of interest remained unchanged at 1.5 per cent over the course of 2016, due to factors such as low wage growth of 2.1 per cent in full-time total earnings and 1.6 per cent for all earnings (ABS 2017a), offsetting any impact of a more buoyant international environment.

## 2. POLICY AND PROGRAM CHANGES

The year under review saw few major policy initiatives beyond passage of the long-stalled Child Care reforms from 2015, once Government uncoupled the reform from unpopular savings measures opposed by the Senate (further, Carney 2017); along with passage of stripped-back company tax cuts originally announced in 2016 (for details, see B4 below; Carney 2017). Introduction of a small tranche of measures based on the McClure Review on Welfare Reform (Australia 2015), designed to take effect from 2020, was essentially the only fresh measure of significance announced in 2017, but one which is yet to pass into law.

### 2.1. Welfare Simplification Reform

The Government's proposed simplification of a number of working age payments to create a Jobseeker payment from 20 March 2020 proved to be a pale shadow of the recommendation of the February 2015 *Final Report of the Reference Group on Welfare Reform* for a consolidated 'working age' payment with three rate tiers of varying generosity responsibilities (Australia 2015: 84-86). The simplification contained in the *Social Services Legislation Amendment (Welfare Reform) Bill 2017* essentially extends the existing conditions of Newstart Allowance (currently for unemployed people aged 25 years and over) to cover other circumstances (such as incapacity due to temporary sickness) and incorporates into the payment previously separate payments, such as for bereavement of a partner. While welcome enough, the change is less extensive than it seems. For instance repealing Sickness Allowance (SA) and its absorption into the newly renamed Jobseeker payment only affects the small number of people falling ill while studying or while in work with that job to return to and thus not *already* in receipt of Newstart Allowance under current arrangements (people falling ill

while receiving NSA already have their conditions 'switched' to SA conditions, reverting to activity testing on recovery).

Otherwise the changes are cosmetic, ending the Widow B pension closed to new entrants in March 1997 (with Age pension picking up all recipients); and likewise ending the anachronistic Wife pension (paid for male economic dependency alone and already closed in July 1995 to new entrants), with around 3,000 of the estimated 7,750 recipients by March 2020 switching to Jobseeker payment (at the higher frozen rate of their former pension) and 2,250 qualifying for Age pension and 2,400 qualifying for Carer payment. Partner allowance, covering older partners lacking workforce experience, which was closed to new entrants from September 2003 will be terminated from 1 January 2022, by which time every recipient will have reached Age pension age.

This bears almost no relationship at all to the reform model outlined in the Final Report, proposing rationalising the current 20 or so benefit categories and associated means tests, supplements and other rules (Australia 2015), into five main payments: (i) a 'working age payment' with three tiers of generosity (a 'foundational' rate of payment for disabled people able to work 30 hours or more, or being without care of a dependant child or young person; a 'middle' rate for those with a work capacity of 15 – 29 hours; an 'upper tier' rate for those able to work only for 8 – 14 hours a week); (ii) a disability payment called a 'supported living pension' for people able to work *less* than 8 hours a week over the next 5 years; (iii) an age pension; (iv) a child and youth payment for guardians of people under 22; and (v) a 'carer payment' for people aged over 22 with carer responsibilities (Australia 2015: 82-92).

## **2.2. Machine Learning Online Compliance Initiative (OCI) Debt Recovery**

Anticipated to recover AUD 2.1 billion over four years from its commencement in July 2016 (MYEFO 2016: 5, 44, 189) by using automated data-matching algorithms in place of exercise of statutory powers of enquiry and information gathering by public servants, Australia's new debt recovery initiative for working age social security overpayments has proved very controversial. This is because, unless the alleged debtor can 'disprove' the alleged debt by producing every relevant fortnightly pay slip (from debt periods as far back as 2010), their debt is raised on the basis of a 'fortnightly average' calculated from global earnings reported by employers to the Australian Tax Office covering periods of many months if not the whole year. This average is applied even though rate entitlement at law must be calculated for earnings in each *particular* fortnight and that average is (mis)applied irrespective of breaks in employment, fluctuation in casual or part-time earnings, or that there may be up to a dozen or so different employers across the debt period (Galloway 2017: 93-95).

A report by the Commonwealth Ombudsman found that debt amounts dropped to a fraction of the alleged original, or disappeared altogether, once precise fortnightly earnings information was obtained (Commonwealth Ombudsman 2017: 8 [n 15]). But under the new system Centrelink ceased using its statutory powers to compel production of such information from employers (some of whom would have ceased trading, or paid 'cash-in-hand'), or from bank deposits (which in any event covered take-home rather than the required 'pre-tax', gross earnings figures). A Parliamentary Committee report found that many social security recipients simply assumed (wrongly) that Centrelink had acted correctly, on accurate information, or were so disempowered or embarrassed by an allegation of debt as to simply repay whatever was claimed, irrespective of whether there was a debt or its true amount (Senate Community Affairs References Committee 2017).

The deficiencies of the new debt recovery scheme were compounded because its design overlooked a fatal weakness: raising a debt in the way outlined did not meet the standard of proof required lawfully to raise a social security debt (Hanks 2017; Carney 2018; Carney & Bigby 2018). These moral and administrative deficiencies of the scheme have yet to be rectified.

### 2.3. Child Care Reforms

The Child Care reform, in its revised form as the Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016 and allied legislation, was not debated until early 2017. The passage of the legislation (as Act No. 22 of 2017) honoured commitments agreed as far back as 2015 to address concerns about adverse impacts on vulnerable groups (further, Carney 2016). Apart from the previously discussed changes to subsidies and rebates – namely replacing, from July 2018, the existing Child Care Benefit and the Child Care Rebate with a single and means tested Child Care Subsidy providing greater assistance to low and middle income families but subject to an 'activity test' to encourage work or preparation for work – the package also provides a safety net (costed at AUD 1.2 billion) by way of an 'additional child care subsidy' (ACCS) for vulnerable families such as where children are at risk of abuse or neglect; families experiencing temporary financial hardship; social security recipients being transitioned to work; and grandparent carers receiving income support.

### 2.4. Other Measures

Few other measures in 2017 proved to be significant in policy terms (for details see E1 below). The corporate tax cuts proposed in September 2016 were narrowed by the Senate cross-bench before passage into law in May 2017 as the *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017*. The original plan had been for a phased reduction from a 30% to a 25% tax rate for all companies, starting with yearly reductions for companies with small turn-overs and progressively extending the benefits to companies with larger turn-overs until all were taxed at 25% by 2026/2027 (ATO 2016). The narrowed scheme applied a new rate of 27.5% to companies with turn-overs of under AUD25 million in 2017/2018 and extended that rate to companies with turn-overs of less than AUD 50 million for the 2018/2019 tax year. That rate is then maintained through to financial year 2023/2024, after which it will reduce by 0.5% a year until the 25% rate applies to those companies in financial years 2026/2027 and beyond. Government Bills to further widen the scheme, such as the *Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017*, are unlikely to receive majority support in the Senate.

A levy on the major banks, estimated to raise AUD 6.2 billion by 2021/2022, was legislated following the May 2017 Budget (*Major Bank Levy Act 2017 (Act No 63 of 2017)*), but the Budget proposal to increase the Medicare levy on personal income to meet shortfalls in funding of the National Disability Insurance Scheme, did not pass during 2017 (the NDIS had been funded in part by an earlier 0.5 percentage point increase in 2013). The *Income Tax Rates Amendment (National Disability Insurance Scheme Funding) Bill 2017*, estimated to raise AUD 8.2 billion by 2021/2022 through increasing the levy by 0.5 percentage points – from 2.0% to 2.5%; with effect from July 2019 – was still before Parliament at the time of writing.



### 3. MAJOR POLICY CHANGES IN PROSPECT.

The social security policy future remains as uncertain as it has been over at least the last couple of years. Government appears to have lost much of its appetite for substantive reform in the current political and economic climate.

The December 2017 mid-year fiscal and economic update did however foreshadow further punitive 'savings' measures over the four years of the forward estimates from 2018/2019, including: AUD 1.2 billion to be achieved by adding a further year to the current two years before recently arrived immigrants qualify for social security; and another AUD 400 million by making social security debt repayments a first call on any family tax benefit lump sum reconciliation entitlements (MYEFO 2017: 9). However neither of these so-called reforms can be expected to have an easy passage through the Senate.

### 4. THE LEGISLATIVE FRAMEWORK

No change has been made in the basic architecture of the legislation governing social security payments (for details of all payments, see: Carney 2013). The legislation continues to be administered by the Department of Human Services through a statutory agency called Centrelink. Decisions made by officers of Centrelink are reviewable on their merits, with two levels of merits review. The first tier (since July 2015 the Social Services and Child Support Division of the Administrative Appeals Tribunal) now schedules single member hearings for the vast majority of appeals (98% in 2017: Carney & Bigby 2018 forthcoming), with a further level of merits review to the General Division of the Administrative Appeals Tribunal (further, Pearce 2015). Social security law is currently found in five enactments, each of which is frequently amended:

- *Social Security Act 1991 (Cth)*
- *Social Security (Administration) Act 1999 (Cth)*
- *Social Security (International Agreements) Act 1999 (Cth)*
- *Family Assistance Act 1999 (Cth)*
- *Family Assistance (Administration) Act 1999 (Cth)*

#### 4.1. Recent Amending Acts

- *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017 (Act No 22 of 2017)*

The Act – originating as the *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016* which in its turn was a revised form of *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015* – replaces, from July 2018, the existing Child Care Benefit and the Child Care Rebate by a single and means tested Child Care Subsidy designed to provide more assistance to low and middle income families. As part of the concessions leading to its passage, some designated groups of vulnerable or

disadvantaged children qualify for an Additional Child Care Subsidy. Qualification for the payment (subject to limited dispensations) is subject to an 'activity' test for the first time.

- *Social Services Legislation Amendment (Simplifying Student Payments) Act 2017 (Act No 27 of 2017)*

This Act – originating as the *Social Services Legislation Amendment (Simplifying Student Payments) Bill 2016* – implemented a 'simplification' measure announced in the 2016 Budget, essentially by aligning youth payments more closely to the conditions for other payments. Changes included removing anomalous advantages allowing payment to someone where their *partner* receives a social security payment which allows for ownership of assets of a value which would cut-out entitlement to a youth payment; and extending the application of the provisions which 'pierce the veil' of trusts and companies to bring underlying assets or income under the means tests. The Act exempts from consideration as income all gifts from a family member, and applies the FTB test of family income (for which data is likely already to exist and be verified) when applying the parental means test to young people who are not independent.

- *Social Services Legislation Amendment Act 2017 (Act No 33 of 2017)*

This Act embodies the limited savings measures acceptable to the Senate as a basis for passage of the Child Care reforms. It freezes, for three years from July 2017, the level of 'income free areas' for all working age allowances (other than student payments) and for parenting payment single; and freezes, for three years from 1 January 2018 'income free area' and means test thresholds for student payments (including 'income bank' limits); and freezes for two years from July 2017 the maximum rate of Family Tax Benefit (FTB) Part B payments and the maximum standard and base rates of FTB Part A payments. The legislation also empowers Centrelink to obtain data sets from administrators of retirement income stream products, so that 'income stream' information can be matched more quickly and accurately in determining rates of pension payable under income tests. It also extends a 7 day 'ordinary' waiting period to some working age payments previously exempt from it and tightens the circumstances where a waiting period need not be served due to severe financial hardship.

- *Social Security Legislation Amendment (Youth Jobs Path: Prepare, Trial, Hire) Act 2017 (Act No 42 of 2017)*

This Act, originating as the *Social Security Legislation Amendment (Youth Jobs Path: Prepare, Trial, Hire) Bill 2016*, implemented a 2016 Budget measure in the form of a 'staged' progression from unemployment into work. The pathway starts with basic skilling and preparation, proceeds to voluntary unpaid internships (with a small income test exempt incentive payment of AUD 200 a fortnight for participants in addition to youth payments), and can culminate in a subsidised employment position (attracting a 'youth bonus wage subsidy' for employers after 6 months of employment). Should the person lose this position through no fault of their own within 6 months of ceasing to draw Youth Allowance they are automatically entitled to return to that payment without the need for an application.

- *Social Services Legislation Amendment (Energy Assistance Payment and Pensioner Concession Card) Act 2017* (Act No 46 of 2017)  
This Act provides a one-off energy assistance payment in June 2017 of AUD 75 single or AUD 62.50 per member of a couple, and restores concession card eligibility to some pensioners adversely affected by tightening of the assets test in 2016.
- *Social Services Legislation Amendment (Seasonal Worker Incentives for Jobseekers) Act 2017* (Act No 54 of 2017)  
This Act introduces a two year trial (from July 2017) of incentives to encourage jobseekers to undertake seasonal work, including creation of an AUD 5,000 seasonal worker 'earnings bank' amount, the drawdown of which against employment earnings preserves social security entitlements until it is depleted. An amount of AUD 300 is payable for travel costs where the work is more than 120 km from home, and providers qualify for AUD 100 a week for up to six weeks for any referral.
- *Social Services Legislation Amendment (Queensland Commission Income Management Regime) Act 2017* (Act No 74 of 2017)  
This Act extends by two years (to end June 2019) the income management regime in Cape York, designed to foster change in school attendance and parental responsibility.
- *Australian Immunisation Register and Related Legislation Act 2017* (Act No 81 of 2017)  
This Act makes minor amendments to procedures for obtaining a medical exemption from immunisation (a pre-condition to payment of FTB) by expanding the categories of authorised medical practitioners from certified general practitioners to include paediatricians, public health physicians, infectious diseases physicians and clinical immunologists.

#### **4.2. Significant Bills Defeated in the Senate or Awaiting Passage**

- *Social Services Legislation Amendment (Ending Carbon Tax Compensation) Bill 2017*  
This Bill would have removed from new grants after September 2017 the additional payment made as compensation for the since repealed carbon tax, despite unfavourable indexation of rates of working age payments.
- *Social Services Legislation Amendment (Better Targeting Student Payments) Bill 2017*  
This Bill would remove eligibility for Youth allowance relocation scholarships for students of parents whose usual home or residence was not in Australia or for any course or part of a course undertaken outside Australia; it would also provide for four rate tiers of education entry payments, geared to study loads, and remove qualification for pensioner education supplement during semester breaks or holidays.
- *Social Services Legislation Amendment (Payment Integrity) Bill 2017*  
This Bill would terminate pension supplement payments after six weeks of temporary absence overseas; double the liquid asset non-payment 'waiting' period from 13 to 26 weeks; require that half of the required residence period for qualification for age or disability support pension satisfy a 'self-sufficiency' test; and tighten an aspect of the income test for FTB Part A.

- *Social Services Legislation Amendment (Welfare Reform) Bill 2017*

This Omnibus Bill embodied 18 significant measures announced in the May 2017 Budget. The main measure was to collapse, from 20 March 2020, two existing working age payments – Newstart Allowance and Sickness Allowance – together with supplementary bereavement allowances, into a single Jobseeker payment. It also permanently ends payments already closed to new entrants – Wife pension, Widow B pension and Partner allowance – with recipients transitioning to Jobseeker payment, age pension or carer payment (the abolition of Widow allowance and Partner allowance operating from January 2022): see further 'Policy and Program Changes' (2.1., above).

The Bill also proposes to tighten the activity test for people aged 55 – 59 by removing the ability to satisfy the test through 30 hours a fortnight of voluntary work, replacing it by a requirement that at least 15 of those hours be paid work; delay commencement of working age payments until a person has met with their employment services provider (unless an appointment cannot be offered within two business days); remove the ability to be paid from the date of contact foreshadowing a claim provided the claim is lodged within 14 days of the contact (now to date from the claim itself); establish drug testing trials (and require participation in treatment for people with addictions and remove addiction as an excuse for not meeting obligations); require from January 2018 provision of tax file numbers at the date of claim; allow Centrelink information to be used in criminal prosecutions for social security; and exempt social security law from the disability discrimination provisions.

A new compliance regime is also proposed from July 2018, with greater reliance on suspension of payment until requirements are met (and back pay released) and graded sanctions for the more serious intentional breaches (of halving entitlements in breach fortnights for first offences, eliminating entitlement on a second, and then up to 4 weeks of non-payment for subsequent breaches): see Schedule 15.

- *Social Services Legislation Amendment (Cashless Debit Card) Bill 2017*

This Bill allows extension of the debit card scheme to more geographic locations by repealing provisions limiting it to three sites and no more than 10,000 people, and repealing the provision otherwise ending it on 30 June 2018.

- *Family Assistance and Child Support Legislation Amendment (Protecting Children) Bill 2017*

This Bill amends child support legislation including by encouraging mediation of departures from court orders about shared care and making recovery of overpayments to payees similar to the basis for recovery of overpayments by a payer. However its main measure is to change (from July 2018) a system of simply 'withholding' Part A Family Tax Benefit assistance payment supplements for failure to immunise the child (an end of financial year penalty for most), replacing this with one delivering an 'immediate' penalty in the form of reduction of fortnightly FTB payments (by loss of an amount of about AUD 28 a fortnight).

- *Social Services Legislation Amendment (Housing Affordability) Bill 2017*

This Bill alters arrangements for payment of public housing rent or associated outgoings to provide that landlords may request direct deduction and payment of such amounts from social security entitlements of householders who have agreed with the landlord that automatic deductions be made.

## 5. CONCLUSION

The persistence of relative poverty despite sustained periods of economic growth (estimated at 10 – 13%, see AIHW 2017: 41), worrying pockets of ongoing disadvantage persisting beyond shorter-term exposure to poverty (over a third of people with 'deep social exclusion' continuing into the following year: AIHW 2017: 43), and confirmation of inter-generational risk of social security reliance (Cobb-Clark & Dahmann et al. 2017) – all saw renewed interest in research suggesting that widening inequality exacerbates persistence of disadvantage, and in the complex of factors contributing to its transmission (AIHW 2017: 46-49).

However the Australian government during 2017 displayed little evidence of engagement with the challenges of inequality and sluggish wages, and no apparent interest in more radical alternatives such as a basic income entitlement (for a scholarly treatment for Australia: Mays & Marston et al. 2016). Instead the government record in 2017 was one of incrementalism, with further tiny steps to test a 'cost-saving' form of investment welfare (Australia 2015: 26, further 121-131) and an apparent reprising of the electoral mileage thought to accrue from pursuing 'moral' agendas such as imposing drug testing on welfare recipients, and expansion of income management of recipients through 'cashless welfare' and 'healthy welfare' cards (Billings 2011; Bielefeld 2014; Marston & Cowling et al. 2016).

In short, Australia's intensification of welfare conditionality measures (Taylor & Gray et al. 2016) remained undiminished in 2017.

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