Don't Get Trapped by the Poverty Trap

SENATOR THE HON. AMANDA VANSTONE

FORTY years ago the United States welcomed its first Catholic President. The President and his First Lady were young, rich and beautiful. To many it seemed that Camelot had come to Washington. He made inspiring speeches. There were many that moved the hearts and minds of Americans. A few moved hearts and minds around the globe.

Perhaps the most commonly quoted statement comes from his inaugural address: 'Ask not what your country can do for you, ask what you can do for your country'. It was and remains an ennobling thought. It says to each and every citizen: you have something to contribute, we need you, you are a valuable part of this nation. The recognition that we all have something to give is important. It's inclusive. When we realize that we have something to contribute, that we are valued, we feel enriched.

Australians are great contributors. Some have more than others to give, but we can all give something: it might be a skill; it might be a sympathetic ear, perhaps just a smile. It may be money or it could be time. Often that can be a precious thing, involving sacrifice by the one giving or providing a helping hand when it is needed most.

We have some very generous people in Australia. Over 4 million people over the age of 18 do some voluntary work: they plant trees, deliver magazines in hospitals, cook breakfasts at homeless shelters and read newspapers to the blind. We have many in the private sector who do very good things for the community and seek little if any reward for doing so.

In my home state of South Australia, the Burns for Blinds company partnered with the Youth Opportunities Association to run highly successful personal leadership programmes. These give disadvantaged youths the skills, confidence and motivation to break free from their downward cycle.

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This resulted in retention rates between Year 10–12 increasing from 50 per cent to an inspiring 88 per cent between 2000 and 2002. For their efforts, they were awarded with a Prime Minister's Community Business Partnership Award.

We want to revive the spirit embodied in the Kennedy statement, the spirit of giving and doing what you can. That's why we are so supportive of the Prime Minister's Employer of the Year awards and also why we established the Prime Minister's Business Community Partnership and have increased support for volunteers.

We all admire the sentiment behind Kennedy's exhortation. Our parents and grandparents put it into practice, but today however, many seem to believe that it applies only to a part of our lives; that part where we volunteer, or where through our business, we engage in some philanthropic activity. We believe we can do all that and separately have expectations of what government will do for us.

ENTITLEMENT AND WELFARE

In Australia, we have built extensive expectations of entitlement. Entitlement certainly doesn't mean just welfare. It's an expectation of what you are entitled to have. It comes with the view that if you don't have it, government should be providing it.

We seem to have forgotten that when we expect something tangible from government we are expecting other Australians to pay for it. While we seem happy to keep the profits private, we are keener and keener to socialize risk and loss. Everywhere you turn, it seems we expect other taxpayers to foot the bill. In Australia, we have a generous welfare system. It is not a system whereby what you put in, or how long you've worked, makes a difference to your entitlement. It is based on need.

People in the same circumstances are entitled to the same assistance. Each of the benefits has a maximum rate, which tapers off as your income increases. As you start to earn more, the support from the Government is reduced. It's this aspect of our system that makes it so fair. It's also this aspect of the system that makes it distinctively Australian. And yet it's this aspect that causes some consternation.

If you earn more, you get less. You are becoming independent. You are supporting yourself and relying less on support from others. As your income moves into the taxable area, in addition to paying tax, you continue to substitute dollars you have earned for dollars of support the community provided you with as welfare. So when you hit the taxable area, you are paying tax and replacing the welfare support from the community with dollars you have earned yourself.

Let's be clear about this, however. There are two things happening here. Like everyone else, people moving from the dole to work, pay tax. At the same time, they are replacing welfare dollars with dollars they earn themselves. They are building independence. These are two different things. For example, in the Newstart payment, the old Dole, once you start earning over $62 per fortnight, 50 cents of welfare is taken away for every extra dollar you earn. You keep 50 cents of the welfare even though you've earned an extra dollar. Then when you're earning $142 a fortnight, 70 cents is withdrawn for every extra dollar you earn. At $230 per fortnight, you will start to pay 17 cents in the dollar tax.

TAX RATES AND INCENTIVES

Note, you are better off working. The amount of tax you pay in the dollar, plus the withdrawal rate in the dollar from any benefit you lose is called your Effective Marginal Tax Rate (EMTR). It's a term that suits economists. It indicates that you keep fewer cents in the dollar than someone who isn't getting welfare. It misleads in that it suggests you are giving more of your hard-earned money to the tax man than anyone else is required to do.

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But, you are giving exactly the same amount of your hard-earned money to the taxman as anyone else. You are also saying to the community that supported you when you needed it, 'Here, I can support myself now.' You're not returning your hard-earned money, you're taking less of the hard-earned taxpayer dollars and you are doing it because you have some hard-earned dollars of your own.

Only part of your EMTR is tax. The rest is simply your replacing some of the money the community has been giving you as support with dollars you earn yourself. This is a vital distinction.

Economic behaviour gurus will tell you that if people don't feel there is sufficient reward for effort, the effort will not be expended. The argument is that people will be more likely to stay on welfare.

I am not arguing that EMTRs do not have a disincentive effect. I know that economists model such things. Economists' models are not facts and we should never mistake them for reality. Those who choose not to work—because they lose welfare dollars by earning their own—have an entitlement attitude.

A person with this attitude says, 'I am entitled to support even though I am not doing everything I can for myself.' In other words, other taxpayers should support me even when I am not doing everything I can to support myself.

Whatever the numbers, I am certain that many people don't dismiss work as an option just because they lose welfare payments when they earn some money for themselves. For them this is an issue of right and wrong. They are aware that welfare is somebody else's hard-earned money, not their own. They make a conscious decision to work through the income zone where they are replacing taxpayer dollars with their own dollars because they can see what's on the other side. They can get to the point where they are doing everything they can for themselves and can be independent.

OTHER COSTS AND BENEFITS

The cost-benefit analysis of working, if it is to be fair to individuals, must take into account much more than just the dollars. There are tremendous benefits in having a job. They may not fit into a formula (such as an EMTR)—they may be intangible, but they are very real.

Think of the benefits that flow from increased social contact: job satisfaction; self-esteem; the chance of advancement; of knowing you're setting a good example to your kids; and, of course, there's the longer term tangible advantage of having some superannuation.

More pragmatically, attempts to lower EMTRs, to soften the withdrawal rate of welfare, have a real downside. They cost a lot more than most people imagine because they push up the income level at which people are still receiving welfare. This, of course, would allow people to keep more welfare dollars than they can now as their income rises. But it also makes payments to a whole new group of people.

If your welfare payment now cuts out completely at X thousand and suppose we introduced a softer taper, so that it didn't cut out until X plus 5,000—then everyone between X thousand and X plus 5,000 who are not now on welfare, would become entitled to some assistance. A new pool of welfare beneficiaries would be born.

I recognize that there are families with very high EMTRs because they are getting multiple payments. Sadly, some people are experiencing EMTRs over 100 cents for every extra dollar they earn.

PENSIONS AND WELFARE

Over the years, attitudes to the Age Pension have changed as more and more mainstream Australians have come to rely on the Age Pension for at least part of the income needed to maintain themselves in old age. Currently, 82 per cent of people of Age Pension age receive an Age or Veterans Affairs pension.

Disposal and restructuring of assets and incomes in order to meet the means test are routine business for financial planners these days. So much so, that we have had to introduce legislation to catch people hiding assets and income in trusts and companies in order to qualify for the pension. By 2050, it is estimated that 75 per cent of people of pensionable age will receive an Age Pension. Only one-third of Pensioners, however, will be on the full rate as a result of increased availability of the proceeds of superannuation.

We don't have a contributory pension scheme. Ten years' residence in Australia, regardless of employment or tax paid, entitles an Australian resident to a full Age Pension

When most people receive at least some age pension, can we still call it welfare? I'm sure that most of the recipients do not consider themselves as 'on welfare'. Rather, they say: I've paid tax all my life; this is just getting what I've paid for.

Strictly speaking this isn't true. We don't have a contributory pension scheme. Ten years' residence in Australia, regardless of employment or tax paid, entitles an Australian resident to a full Age Pension. By international standards this is very generous. To get a full UK pension you have contribute for 44 years. If you haven't contributed, you are only able to get a lower basic level of income support.

WELFARE AND NEED

We need to rethink the whole philosophy of our welfare and support system. It is needs-based, not contributory, and yet we often think of it as if it were contributory. The fog that clouds our thinking on this matter is the idea of entitlement.

The dole recipient who may not have paid a cent's tax in his life feels he is giving up something of his own when asked to give up part of his dole when accepting a part-time job. The person with some means who bends over backwards with lawyers and accountants to access some pension is doing the same. So, too, the families who use their assets, skill and planning to get their kids on Youth Allowance.

Welfare is not charity—Australians accept it as a right—but our system is based on need, not contributions and we need to recognize the significance of that. When you draw the dole, you are not drawing down on a social insurance fund into which you have made payments. You are accepting assistance from other taxpayers while you are in need.

Our system is based on targeting assistance to where it is needed. If you have the means, you are expected to use them. If you can work, you are expected to look for a job. Unless we understand this, we will end up with a social security system that is unsustainable.

We will always have a strong safety net. It's there to save you from a nasty fall. The risk for us is if we start to treat it as a comfortable couch.

Kennedy may have had his problems, he may have had his variation on the Lewinsky affair, but he was right. We should ask not what we can get, but what we can give.

Senator the Hon. Amanda Vanstone is Minister for Family and Community Services. This is an edited version of a talk she gave at the IPA on 4 June 2003.

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