The Global Financial Crisis and Child Poverty: the Case of Australia 2006-2010

Peter Whiteford\textsuperscript{1}, Gerry Redmond \textsuperscript{2} and Roger Patulny \textsuperscript{3}

1. Crawford School of Public Policy, the Australian National University
2. School of Social and Policy Studies, Flinders University,
3. Sociology Department, University of Wollongong
Background and motivation

• Based on work as part of a project, "Supporting families: Horizontal and vertical equity in the Australian tax-benefit system in historical and comparative perspectives" funded by Australian Research Council (LP 100100596). FaHCSIA is a linkage partner.

• While the impact of the Global Financial Crisis (GFC) of 2008-09 on Australia was comparatively mild, economic growth suffered and unemployment increased. However, the impact of the GFC on families with children, and policy measures to reduce its impact, have not been fully explored.

• This paper uses data from the most recent four waves of the Household, Income and Labour Dynamics Australia (HILDA) survey to examine how disadvantage among families with children changed in three dimensions: in terms of income poverty, satisfaction with finances and overall life satisfaction.

• The impact of policy measures is potentially important in this analysis. Particular measures are significant one-off lump-sum payments made in late 2008 and early 2009 to low-medium range income tax payers and to recipients of the Family Tax Benefit, as well as pensions and some allowances.

• The paper takes advantage of the longitudinal nature of HILDA to examine how these payments affected the objective and subjective living standards and wellbeing of families with children who were already experiencing disadvantage before the GFC, as well as those whose market incomes fell and those whose incomes continued to rise during the GFC.
Outline

• Data sources and methods
• Long-run trends in child poverty in Australia
• The impact of the GFC in Australia
• The 2008 and 2009 household stimulus payments
• Impacts of the household payments
• Conclusions
Data sources and methods
Data sources and methods

• Background and contextual information drawn from ABS data sources, including Household income and Income Distribution Surveys
• Main analysis based on HILDA surveys from 2006-07 to 2009-10.
• Household incomes adjusted by CPI to 2009-10 values and equivalised using “square root” equivalence scales.
• Based on balanced panel with the same number of time observations (4) for each individual.
Long-run trends in child poverty in Australia
Ending child poverty by 1990: Hyperbole or solid achievement?

- Bob Hawke’s famous 1987 pledge that by 1990 no Australian child would need to live in poverty is now seen as either a broken political promise or an example of unacceptable hyperbole, including by Hawke himself:
  - “Twenty years after pledging no Australian child would live in poverty, former Prime Minister Bob Hawke has said the comment was one of the biggest regrets of his career...” John Masanauskas and Martin Philip, “Bob Hawke’s biggest regret”, Herald Sun, June 16 2007. http://www.heraldsun.com.au/news/national/bob-hawkes-biggest-regret/story-e6frf7l6-1111113759999

- Early assessment of the Family Package (Brownlee and King, 1989) estimated that the initial impact of these reforms in 1987 was to reduce the number of children in poverty by between 43% and 47%, with the poverty gap being reduced by 50% to 55%.

- Whiteford and Adema (2007) found that by 2005, benefit levels for Australian families receiving income support payments were the second highest in the OECD for lone parents and the highest for couples with children, both in absolute terms and relative to median incomes. Benefits paid to low income working families (at the minimum wage) were the highest in the OECD. By 2005 Australia was the second most effective country in the OECD in reducing child poverty (Whiteford, 2009).

- Between 1985 and 2005, child poverty fell by more than any other OECD country, and Australia moved from having the 6th highest rate of child poverty to the 16th.
As a result of policy changes, benefits for families have increased significantly in different periods.

Value of assistance for one child family, 2010 $ pa, 1975 to 2010

- Family allowances
- Additional family payment
- FTBB
- Child payments
- Total
Trends in child poverty in Australia, 1982 to 2009-10
Is this “as good as it gets?”

• Overall, Australia has been extremely effective at reducing child poverty and also has a system in which work pays for lower income families for children.

• However, limited progress has been made in reducing relative poverty since the mid-1990s, despite the continuing increase in benefits and a very favourable labour market up to 2008.

• Failure to reduce relative poverty largely reflects the very large increase in real median income since 2000.

• Poverty measured with a line held constant in real terms has shown very large and continuing declines.

• However, family assistance at risk of becoming less effective in reducing child poverty due to changes in indexation.
The impact of the GFC
Unemployment rate, Australia, 1978 to 2011
Trends in joblessness among parents, 1982 to 2009-10
Change in working age income support recipients, 2007-08 to 2009-10
% of households by age group

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2007-08</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-24</td>
<td>9.5</td>
<td>15.5</td>
</tr>
<tr>
<td>25-34</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>35-44</td>
<td>9.4</td>
<td>13.6</td>
</tr>
<tr>
<td>45-54</td>
<td>10</td>
<td>10.8</td>
</tr>
<tr>
<td>55-64</td>
<td>17.4</td>
<td>22.7</td>
</tr>
<tr>
<td>Working age</td>
<td>11.8</td>
<td>14.4</td>
</tr>
</tbody>
</table>
Change in unemployment rate, percentage points, 2008 to June 2010
The 2008 and 2009 household stimulus payments
Fiscal stimulus

• The Australian stimulus package was the third highest in the OECD over the period 2008 to 2010; only the USA and Korea spent more on discretionary stimulus (OECD, 2011). The spending component (compared to tax cuts) was higher in Australia than any other OECD country.

• Australia, along with Poland and Korea, were the only OECD countries to escape negative real GDP growth in the 2008-09 year with respective GDP growth of 1.4 per cent, 1.8 per cent and 0.2 per cent.
Household payments in 2008 and 2009 stimulus packages

• **The 2008 Economic Security Strategy** - The two largest household payments were paid in December 2008, and focused on pensioners (single pensioners received $1400; pensioner couples $2100), and families eligible for Family Tax Benefit A received $1,000 per child. The total cost of these payments totalled around $8.8 billion.

• **The 2009 ”Nation Building and Jobs Plan”** included a range of measures, but the three key household payments – totalling around $12 billion – were:
  - **Tax Bonus for Working Australians:** The payment was $900 for individuals with taxable incomes of $80,000 or less in the 2007-08 tax year, $600 for individuals with taxable incomes of $80,001-$90,000, and $250 for taxpayers with incomes of $90,000-$100,000. This payment covered 8.7 million taxpayers (about 3/4 of all taxpayers) and was paid in April and May 2009.
  - **Back to School Bonus:** $950 per child for low-income and middle-income families receiving Family Tax Benefit A who have school-aged children (ages 4-18). This payment was estimated to cover 2.8 million children.
  - **Single-Income Family Bonus:** $900 per family to those families entitled to Family Tax Benefit B (around 1½ million families). FTB-B eligible families are single parents or couples where the primary earner has an income of less than about $150,000, and the secondary earner has an income below about $20,000 (both thresholds vary according to the number of children).

• The Back to Schools Bonus and the Single-Income Family Bonus were delivered by Centrelink in March 2009.
Impact of stimulus payments in 2008 and 2009

• Payments were not taxable, and were ignored for the purposes of calculating other income support payments.

• Also possible for households to receive multiple payments. A couple who each earned $40,000 and had two school-aged children would each have received a Tax Bonus of $900, plus $1,900 in Back to School Bonus, resulting in an overall non-taxable bonus of $3,700 for the household, or about 4.6% of that household’s annual market income. Adding on the 2008 FTB-A payments would increase this to $5,700 or 7.1% of market income in the previous year.

• A single pensioner would have received a stimulus payment of 9.6% of the pension in 2008 and a couple 8.6% of the couple rate.

• Family stimulus payments per child in 2008 and 2009 each around 20% of existing FTBA and 25% of FTBB in 2009.
Impacts of the household payments
Trends in child poverty and overall poverty, 2006-07 to 2009-10, including and excluding stimulus payments

- % in Poverty
- % in Poverty, Families (at least 1 child <18)
- % in Poverty - less stimulus
- % in Poverty, Families (at least 1 child <18) - less stimulus
## Poverty transitions

<table>
<thead>
<tr>
<th>Category</th>
<th>All Persons %</th>
<th>Families (at least 1 child &lt;18) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stayed in poverty (every year 07 to 10)</td>
<td>5.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Fell into poverty (not in poverty 07 &amp; 08, in poverty in either 09 or 10)</td>
<td>7.3</td>
<td>5.0</td>
</tr>
<tr>
<td>Rose out of poverty 07/08 to 09/10</td>
<td>6.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Never in poverty (every year 07 to 10)</td>
<td>72.9</td>
<td>80.8</td>
</tr>
<tr>
<td>Other (in and out 07 to 10)</td>
<td>7.9</td>
<td>5.5</td>
</tr>
</tbody>
</table>
Families with children, average equivalised incomes by transition status
Average stimulus payments by poverty transition status

<table>
<thead>
<tr>
<th>Status</th>
<th>Average Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never in poverty</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>Always in poverty</td>
<td>$2,500.00</td>
</tr>
<tr>
<td>Fell into poverty</td>
<td>$3,000.00</td>
</tr>
<tr>
<td>Rose out of poverty</td>
<td>$3,500.00</td>
</tr>
</tbody>
</table>

- **All persons**
- **Families**
Average stimulus payments (%) by poverty transition status

- Stayed in poverty (every year 2007 to 2010)
- Fell into poverty (not in poverty 2007 & 2008, in poverty in either 2009 or 2010)
- Rose out of poverty 2007/08 to 2009/10
- Never in poverty (every year 2007 to 2010)
- Other (in and out 2007 to 2010)

- All persons - % of equiv disp income made up by stimulus income
- Families - % of equiv disp income made up by stimulus income
Stimulus payments by decile

- $500.00
- $1,000.00
- $1,500.00
- $2,000.00
- $2,500.00
- $3,000.00
- $3,500.00
- $4,000.00

p50
p75
Satisfaction with finances, 2006-07 to 2009-10

**All persons**

- Stayed in poverty
- Fell into poverty
- Rose out of poverty
- Never in poverty
- Other

**Families with children**

- Stayed in poverty
- Fell into poverty
- Rose out of poverty
- Never in poverty
- Other
Satisfaction with life, 2006-07 to 2009-10

**All persons**

**Families with children**

<table>
<thead>
<tr>
<th>Year</th>
<th>Stayed in poverty</th>
<th>Fell into poverty</th>
<th>Rose out of poverty</th>
<th>Never in poverty</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>7.5</td>
<td>7.1</td>
<td>7.7</td>
<td>6.9</td>
<td>6.5</td>
</tr>
<tr>
<td>2007-08</td>
<td>7.7</td>
<td>7.3</td>
<td>7.9</td>
<td>7.1</td>
<td>7.0</td>
</tr>
<tr>
<td>2008-09</td>
<td>7.9</td>
<td>7.5</td>
<td>8.1</td>
<td>7.3</td>
<td>7.2</td>
</tr>
<tr>
<td>2009-10</td>
<td>8.1</td>
<td>8.1</td>
<td>8.1</td>
<td>8.1</td>
<td>8.1</td>
</tr>
</tbody>
</table>
Conclusions
Conclusions

- The stimulus payments were well-targeted to low income families; the bottom 60% of households with children received payments averaging $2,400 to $2,800 - about 3 times as much as the 8th and 9th deciles ($900) and roughly five times as much as the richest 10% of the population (who received payments averaging $575).
- Poverty among families with children did not change much during the GFC and even slightly declined - even though median income in HILDA increased and unemployment increased among families with children.
- About as many families with children climbed out of poverty as fell into poverty during the period of the GFC.
- Stimulus payments had an impact in terms of reducing family poverty, but even without the stimulus, family poverty appeared to be falling.
- Families who rose out of poverty experienced much larger income growth than is explained by the stimulus payments, suggesting that other changes (labour force status, wages, family composition) are much more important.
Conclusions

• Not surprisingly, subjective wellbeing (life satisfaction) is linked to poverty, with trends in subjective financial and non-financial wellbeing following trends in poverty.

• Disparities in financial and overall wellbeing are much wider for families with children than for the population as a whole.

• Among the 'always in poverty' group of families subjective wellbeing appears to have increased significantly in 2008-09, the year of the stimulus lump-sum payments (and fell subsequently).

• It could be that among this group, even if they did not climb out of poverty, the felt better off as a result of the stimulus – and proportionately these families received the largest stimulus payments.

• Further research could look at:
  – Impacts in terms of poverty gaps
  – Disaggregation by family type (lone parents, couples)
  – Whether poverty transitions differ from earlier periods.
Additional material
Major family policy developments

- 1976: child endowment and tax rebates replaced by family allowances
- 1976 to 1982: family payments not indexed to inflation
- 1983: increase in family allowances and introduction of FIS
- 1987: income-testing of family allowances; introduction of Family Allowance Supplement with higher rates and more relaxed income test
- 1989: further rate increases and formal indexation
- 1993: integration of payments for those in paid work and those receiving income support benefits
- 1995: partial individualisation of income support system
- 1996-97: introduction of family tax payments
- 2000: introduction of GST and Family Tax Benefit Parts A and B; higher rates, higher threshold and withdrawal rate reduced from 50% to 30%
- 2002: introduction of “baby bonus”
- 2004: introduction of lump sum payments of $600 per year per child (to deal with overpayments), increase in threshold and reduction in first withdrawal rate to 20%
- 2008: Income-testing of FTB Part B
- 2011: freezing of income thresholds for family payments
Trends in spending on family allowances, 1980 to 2007

Australian spending as ratio of OECD-22 average
Trends in child poverty rates in Australia, lone parent families, 1982 to 2009-10
Trends in child poverty rates in Australia, couple families, 1982 to 2009-10