

1972

# BROTHERHOOD OF ST LAURENCE

67 BRUNSWICK STREET, FITZROY, VICTORIA 3065 TELEPHONE 414151

29th May, 1972.

## COMMENTS ON PROPOSAL TO CAPITALISE CHILD ENDOWMENT

These comments are based on newspaper reports that the Commonwealth Government is proposing to allow the capitalisation of Child Endowment. The details of the proposal are not known.

Capitalisation of Child Endowment should be judged on its consequences for low-income families, and not on the benefits that might accrue to middle-income families already better able to buy their homes and meet the costs of bringing up their children.

### A. LOW-INCOME FAMILIES NEED AN INCOME SUPPLEMENT

1. Child Endowment was introduced in recognition of the fact that wages did not take into account the costs of maintaining children in excess of the two included in early basic wage considerations.
2. There is special significance in the fact that Child Endowment can be paid only to mothers. It is usually a mother's only source of independent income. In situations of marital conflict or separation, mothers would be deprived of this income if Child Endowment had been capitalised.
3. Child Endowment is still an important supplement to weekly income for low-income families, despite the fact that its real value has not kept pace with inflation. Low-income families, even those who have been able to begin purchase of a house, require a continuing source of income supplement while their children are not earning, in order to be able to meet costs of education, food, clothing, health and housing.

4. Since Child Endowment is important to the continuing maintenance of the family, we reject the capitalisation of Child Endowment as a means of assisting low-income families to become home owners. It is unreasonable to ask low-income families to choose between the benefits of home ownership and the continuing income assistance necessary for the successful raising of a family.
5. If Child Endowment is still accepted as an effective instrument in redressing wage inequality and providing assistance to low-income households with children, it is desirable to substantially increase endowment payments and to make them taxable, so that the maximum subsidy goes to those families most in need of it.

#### B. HOME OWNERSHIP AND RENTAL OCCUPANCY

1. It is agreed that substantial financial benefits will accrue to low-income families if they are able to become home owners. Comparison over a long period of families buying with families renting shows that purchase repayments become a smaller proportion of income while rents tend to rise in step with prices and incomes. House purchasers also gain an increasing equity in an appreciating asset while renters do not. This is particularly important in periods of high inflation. However, the advantages are reduced when rates, repairs and insurance as well as interest and principal repayment are taken into account.
2. The economic and social pressures towards home ownership are to some extent artificial and do not always represent benefits to the community. If home owners are less mobile than renters, home ownership to some extent conflicts with the community's need for a work force which can respond to regional changes in employment demand. Also, many male wage and salary earners find it to their advantage to move early in their careers to take advantage of opportunities for advancement. For reasons of this kind the decline in the stock of rental accommodation which has occurred in the last decade is a cause for alarm and the reasons for such a decline should be examined.

C. CAPITALISATION OF CHILD ENDOWMENT IS AN INEFFICIENT  
METHOD OF MATCHING NEEDS AND INCOME.

1. The proposal to capitalise Child Endowment would enable families who felt they could better use their Child Endowment now, to collect it in a lump sum for purchase of a house. However, capitalisation of Child Endowment would take income when children are still dependent and need is still high, instead of redistributing the income of the period of relative affluence when children have left school and gone to work. Capitalisation of Child Endowment would redistribute income from the wrong stage of the family cycle.
2. In addition, capitalisation of Child Endowment is ineffective in that it is advance payment of only a small part of family income. It represents only advance payment of 50 cents a week for a single child. It would be better to assess the probable total stream of future family income as a basis for a loan of an effective amount.
3. The capitalisation proposal would not provide families with a significant sum unless they have 3 or 4 children. A more effective system should provide the assistance well before this, perhaps even before the first child is born.

A further danger of having access to a small amount of capital for home ownership, is that families will be exposed to advertising and sales pressures and be tempted to enter into home purchase arrangements that will be beyond their financial or management capacity to maintain.

4. While agreeing that it is desirable to assist more low-income families to exercise choice about home ownership, we reject capitalisation of Child Endowment as a means of enabling more low-income families to purchase accommodation. Any Government assistance should benefit renters as well as purchasers, so that economic incentives do not distort the home ownership/rental decision.

#### D. SOME ALTERNATIVES TO THE CAPITALISATION OF CHILD ENDOWMENT

1. In addition to increasing Child Endowment and making it taxable, the Commonwealth Government should increase its housing assistance to low-income households and gear this assistance to variations in family needs. Assistance with housing should be provided to low-income families for both rental and purchase.
2. The Government should abolish the Home Savings Grant Scheme in favour of a scheme involving substantial loans or Government guarantee of loans, which could be repaid at rates which increase with the diminishing needs of families, as children leave school and with increases in family income.
3. The Government should increase the rental assistance it now provides for single age pensioners renting private accommodation and make it available, subject to a means test, to people other than single pensioners living alone and wholly dependent on the pension.
4. The Commonwealth should investigate the reasons for the growing numbers of applicants for Housing Commission assistance, examine the current programmes and possible alternatives and adjust its loans and grants to the Housing Commissions so that they can effectively handle the tasks they are set.
5. The Commonwealth should initiate a scheme which would provide special assistance to renters and home buyers to assist with house costs in times of sickness, unemployment, death or desertion of the main income earner. This would be similar to the rent rebate provisions of the Housing Commissions.

#### E. INFLATIONARY EFFECTS

Reports from New Zealand of the operation of capitalisation of Child Endowment suggest that it has had inflationary effects on land, house and building costs. If a considerable number of people opted for capitalisation in Australia, the consequences would be similar. As usually happens, inflation would bear more heavily on the lowest income sections of the community least able to bear rising costs.