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Summary

In its first of year in office, the Government has embarked upon a restructuring of Commonwealth programs and institutional frameworks which it believes will lead to a more prosperous and socially cohesive Australia.

Particularly relevant to lower-income Australians have been:

- efforts to reduce the budget deficit, in particular by cutting expenditure;
- a further shift to enterprise and individual bargaining;
- the creation of an integrated Service Delivery Agency;
- reconfiguration of employment assistance;
- the replacement of payments to young people by a single Youth Allowance; and
- new arrangements for housing assistance.

As a consequence of its work with disadvantaged members of the community, the Brotherhood of St Laurence perceives major risks as well as opportunities in these changes. The Government should be aware of these, and in this submission the Brotherhood sets out its priorities for the way in which the 1997 budget and associated restructuring should be pursued.

The context of this budget is one of modest economic growth; it demands continuing attention to unemployment in ways beyond current policy. Action on unemployment and improved equity in government taxing and spending are higher budget priorities than moving the budget into surplus. Further, regressive, expenditure cuts are not necessary and, indeed, some of those undertaken in the last budget, often running counter to the spirit of election promises, have left gaps requiring repair.

This submission particularly highlights the need to:

- restore the maximum rate of Rent Assistance for single people sharing accommodation;
- suspend the implementation of harsher penalties for breaching activity tests;
- suspend further implementation of the increased social security waiting period for immigrants;
- restore the Earnings Credit Scheme and increase its value;
- re-establish access to dental services for low-income Australians;
- restore Hospital Funding Grants to the states;
- avoid damaging cuts to legal aid funding; and
- reverse the decision to vary grants to the states for public schools in proportion to non-government school enrolments.

The submission urges attention be given to revenue rather than expenditure cuts as a way of improving the overall budget outcome.

Although this is not an area of reform currently being addressed by the Government, it is one strongly advocated by the Brotherhood, for reasons of economic efficiency as well as equity and to restore an adequate revenue base.

The submission sets out key concerns regarding various restructuring and reform processes underway which are likely to be addressed in the budget and where the outcomes will be most significant for people who are living on low incomes or who are otherwise disadvantaged.

In all these areas, the Brotherhood is emphatic that this restructuring should not be an excuse for cutting spending.

There are a large number of other Commonwealth programs which cry out for more, rather than less, funding. These include some striking inadequacies in income support, and a short list is appended to this submission. Attention is also drawn to the detailed submission from the Australian Council of Social Service, which includes costings of recommendations.

Recommendations

The following recommendations are included in this submission.

To make employment the first priority of budget strategy:

1. The Government's Cabinet Committee on Employment should set out its framework for maximising employment growth over this term in government.

To make a more equitable outcome the second priority of budget strategy:

2. The maximum rate of Rent Assistance for single people sharing accommodation should be restored to the rate applying to other single people.
3. The Government should suspend the implementation of the harsher penalties for people who breach activity tests until the effect of the 'debt recovery' approach for administrative breaches has been assessed.
4. The Government should suspend further implementation of the increased social security waiting period for immigrants.
5. The Government should restore the Earnings Credit Scheme for both pensioners and allowances and increase its value by \$500 to \$1,500 for pensioners and \$1,000 for Newstart recipients.
6. The Government, for reasons of social justice and well as for reasons of efficiency and effectiveness, should re-establish a safety net for low-income and disadvantaged Australians who are unable to afford private dental treatment.
7. The Government should restore past levels of Hospital Funding Grants as part of a negotiated solution to cost-shifting within the health system.
8. The Government should reconsider the implementation of the cut in funding to legal aid in 1997-98.
9. The Government should reverse its decision to vary grants to the states for public schools in proportion to non-government school enrolments.

To make balancing revenue and current spending a third priority for budget strategy:

10. The Government should pay attention to options to increase revenue rather than relying principally on expenditure reduction to meet its fiscal targets.

In the creation of a Service Delivery Agency (SDA):

11. The Government should not seek to achieve inflated savings through the implementation of the SDA. In particular, specialist services from both the Department of Social Security (DSS) and Department of Employment, Education, Training and Youth Affairs (DEETYA) should be continued within the SDA.

12. The SDA should be set up as a budget sector agency with a close relationship to DSS and DEETYA and without loss of entitlements of users to complaints and review processes.
13. The Government should ensure that the terms under which the SDA operates emphasise quality of service to users rather than efficiency alone.

In the reconfiguration of employment assistance:

14. The Government should be increasing, not reducing, spending on programs to assist long-term unemployed people to improve their job chances.
15. The Government should establish comprehensive and independent monitoring and evaluation mechanisms to determine the impact and outcomes of the reforms to employment assistance.
16. The Government should establish an independent regulatory agency, especially prior to moving to price-based tendering arrangements, in order to ensure that providers offer quality services to jobseekers; that appeal processes are available to jobseekers unhappy with assessment by the Service Delivery Agency or the quality of service provided; and that jobseekers' choices are free and informed.
17. Any community support program for very disadvantaged jobseekers should be adequately funded with allowance made for extended periods of support.

In the establishment of a Youth Allowance:

18. The creation of a Youth Allowance should not be used as a way of reducing spending.
19. Improvement of the living standards of unsupported teenagers is the most pressing priority for additional expenditure under this reform. Recognising the inadequacy of the lowest current rates of payment available to young people, there should be an increase in rates of payment for 16 and 17 year olds to the same rate as applies to 18 to 20 year olds.
20. The Youth Allowance should provide uniform payments and delivery arrangements for both students and young people seeking work, particularly for unsupported recipients. Rent Assistance should be available to both students and non-students.
21. The Youth Allowance should be legislated as part of the social security system with means-testing and rates reflecting this, and connected to other parts of the system, in particular Family Payments, Rent Assistance and adult allowances.
22. A Youth Allowance should be paid from 16 years on with a provision for payment to younger unsupported people, whether students or not. The base rate for students living at home should be no lower than the relevant Family Payment (including Family Tax Initiative).
23. The Youth Allowance should have common personal income tests with a withdrawal rate of 50 per cent above a 'free area'. The value of this

'free area' might be lower than that currently applying under Austudy, provided this is offset by availability of Rent Assistance. The ability to average earnings over the year, as is now present within Austudy, should be available to all recipients, as should the low-income earners tax rebate.

In changing the ways in which housing assistance is delivered:

24. The Government should not reduce its contribution to public housing under the Commonwealth/State Housing Agreement (CSHA) and indeed should seek to increase the level of public housing supply through the state housing authorities by an additional 25,000 units per annum.
25. The Government should not reduce subsidies to public housing tenants under the CSHA.

In responding to the need for reform of the tax and superannuation systems:

26. The Government should not proceed with the tax deduction on interest earnings in the absence of a more comprehensive review of the tax treatment of savings.
27. The Government should examine ways to reduce artificial income splitting.
28. The Government should introduce restrictions on the deductibility of losses associated with negative gearing for the purchase of passive investment assets.
29. The Government should immediately remove the outstanding gaps in the Capital Gains Tax.
30. The Government should immediately move to reduce its planned contribution to the Superannuation Guarantee Scheme.

Introduction

The Brotherhood of St Laurence works with Australians who, for a host of reasons, have little money and little ability to change their situation.

Their living standards are strongly determined by decisions made by the Commonwealth Government. The pressures which they feel, and the attitudes which they face in their lives, are often fed by Government action or inaction.

But unlike so many low-income households, the Commonwealth Government has real and substantial flexibility about how and why it raises and spends money.

It can do so in ways that offer more opportunities, particularly through expanding employment, for our most disadvantaged citizens. Or it can tax and spend in ways which increase the choices of those who already have both purchasing and personal power.

It can offer security for the vulnerable. Or it can seek to reallocate risks onto households, some of whom will suffer when the inevitable risks are realised.

This submission is about the bottom-line outcomes for the forthcoming budget. It provides our advice to Treasury and the Government about what is, and is not, in the interests of a prosperous, fair and inclusive Australia.

The importance of this budget

In its first of year in office, the Government has embarked upon a restructuring of Commonwealth programs and institutional frameworks which it believes will lead to a more prosperous and socially cohesive Australia.

Key initiatives include:

- efforts to reduce the budget deficit, in particular by cutting expenditure;
- a further shift to enterprise and individual bargaining for wages and employment conditions;
- reconfiguration of employment assistance;
- the creation of an integrated Service Delivery Agency;
- the replacement of other payments to young people by a single Youth Allowance;
- new arrangements for housing assistance; and
- negotiation with states over the provision and financing of human services more generally.

In this budget, the likely outcomes of these processes will become clearer.

Structure of this submission

This submission starts by outlining the context of this budget and its contribution to employment, to improving the fairness of Commonwealth revenue-raising and spending and to balancing overall revenue with spending.

It then discusses outcomes from the various restructuring and reform initiatives under way which could have major effects on the lives of Australians living on low incomes.

Appended to this submission is a short list of other areas which remain of great importance to low-income people and should also be considered in this budget as a matter of urgency.

The Brotherhood also draws the attention of the Government to the detailed budget submission of the Australian Council of Social Service, which provides costings of some recommendations.

Budget context and priorities

This section discusses the context in which the 1997 Commonwealth budget is being formulated. It outlines the three overarching priorities for this process and recommends some specific actions.

In the Brotherhood's view, the first priority of this budget should be to assist employment growth. The second should be to strike a fairer balance than in 1996; in particular to redress some very poor budget decisions of last year. A third priority is to better match revenue and current spending.

The context

The 1997 budget is being developed in a period of very patchy economic growth (Access Economics 1996a); a pattern which is likely to continue over coming months as some of the spending cuts in the last budget take effect.

Investment could well be quite strong in some areas such as resources and construction (Access Economics 1996b, pp7,21), however, this strength may not be reflected elsewhere, and while it is possible that employment could 'bounce back' (Commonwealth Bank 1996), it seems clear that unemployment will persist at around current levels—levels which guarantee great waste of human potential and represent an enormous economic loss.

The social effects of such high and persistent unemployment are compounded by the higher levels of income inequality now well-established in Australia. There is considerable uncertainty, particularly among households who work hard for modest returns. The erosion of elements of social protection within the wages system and the commercialisation of government businesses will contribute further to this uncertainty (Siemon 1996a), with consequent costs to social cohesion and competitiveness.

Priority 1: employment strategy

The most pressing social and economic concern remains unemployment. Employment growth over the past year has been very modest. Of the 130,000 increase in jobs from October 1995 to October 1996, half were part-time. Around 800,000 people remain unable to find even an hour's work in a week. Unemployment has drifted up slightly (Brotherhood of St Laurence 1996a).

There is little likelihood that the industrial relations reforms or the business assistance measures of the last budget will discernibly increase employment growth.

The Brotherhood endorses the Government's commitment to full employment. The Government's desire to increase the chances of all Australians to gain the job opportunities they require can be realised if it is determined:

- to ensure that jobs' growth can be increased to wind back unemployment;

- to this end, to ensure that investment in productive enterprises increases;
- to ease any constraints on employment growth caused by skills shortages by ensuring that unemployed people are competitive in the job market; and
- to ensure that employment offers reasonable and secure incomes.

While the Government has stressed the flow-on effects of its industrial relations policies and efforts to stimulate small business, several recent sources of economic advice to the Brotherhood (Manning et al forthcoming) point to industry development policy and employment programs designed to reduce skill shortages as being far more important in achieving good employment outcomes.

These studies suggest that Australia need not accept the destructive trade-off offered by those who advocate that unemployed and underemployed Australians price themselves back into the job market through the further lowering of real wage rates. For this reason the Brotherhood welcomes the Government's support for safety net wage rises but believes that there is a case for better protection of the living standards of lower-paid adult workers and that this concern should be built into the setting of core standards through the Australian Industrial Relations' Commission (Brotherhood of St Laurence 1996b).

The Brotherhood welcomes the establishment of the Cabinet Employment Committee. To date the Committee has apparently concentrated its attention on micro-economic issues that might bear on levels of employment as well as on the reconceptualisation of employment assistance (Howard 1996). The Brotherhood recommends that the Committee expand its thinking to include a range of alternative approaches to employment generation, since there is now a strong body of economic opinion that micro-economic reform has been of little value in terms of employment generation, and that other approaches to easing the balance of payments constraint are needed (Manning et al forthcoming). The Brotherhood's own Future of Work project has produced interesting thinking on job generation and this will be shared with the Committee.

Since the Government has effectively abandoned much of the *Working Nation* strategy laid down by its predecessor, it is important that this Committee sets out the Government's framework for employment growth so that all policy measures can be directed to the end of maximising employment opportunities.

The Government's Cabinet Committee on Employment should set out its framework for the maximising of employment growth over this term in government.

Priority 2: a fairer balance

When in Opposition, the Coalition was critical of the failure of successive governments to deliver higher living standards for many Australians. It pointed not only to evidence of inequality but to widespread pressures on many families.

In the Coalition's election policies, a number of commitments were made to support the living standards of low-income Australians. Particular initiatives were proposed to improve the situation of disadvantaged young jobseekers and lower-income families.

In the last budget, however, efforts to reduce spending fell heavily on these same groups. While the budget spread the pain, and was commendable for raising additional revenue from higher-income individuals, it was nevertheless quite unfair. At least one dollar in four of those saved were at the expense of people living on low incomes (Siemon 1996a) and there is now no doubt that the overall effects of the budget were very regressive (Johnson and Hellwig 1997).

The Government should seek to repair the damage caused by the most damaging of the budgetary savings measures. Perhaps the most destructive of all were the massive cuts to employment assistance programs. These are discussed in the next section of this submission, since they coincided with a restructuring of their delivery. However, the most direct imposts on the living standards of people with low incomes come from a series of ill-thought changes to social security.

Rent Assistance for single people sharing accommodation

The 1996 budget announced that the maximum amount of Rent Assistance paid to single people sharing accommodation would be cut to two-thirds the current level. The effect of this would appear to be to reduce the effective incomes of some 60,000 people by an average of around \$500 a year. This is equivalent to a 5 per cent reduction in their social security incomes.

These changes were predicated upon the belief that single people who share accommodation receive too much in the way of Rent Assistance because they gain 'economies of scale' and therefore require less public support. It has also been suggested by the Minister for Social Security that the single people who shared got twice as much support as couples, and that this was unfair.

Although this has not been stated, it may be that there is a belief that single people who are sharing accommodation may be improperly claiming, for purposes of Rent Assistance assessment, that they pay a higher share of the rent than they actually do.

An examination of the changes in the light of the service experience of the Brotherhood (Siemon 1996b) suggests that this change is bad policy for several reasons:

1. It runs counter to the thrust of housing policy: the current Government and its predecessor have tended to the view that low-income private tenants need more assistance with their housing costs, not less. There is little doubt that low-income private tenants as a group are more vulnerable to poverty than are people in public housing or home owners, largely because these two groups gain higher levels of assistance, although less directly than do private tenants.
2. Some people have no choice but to share: younger people, who receive much lower base payments, have little practical alternative to sharing, even with Rent

Assistance, since a flat would require the bulk of their total unemployment allowance or pension.

3. Rent Assistance already 'claws back' most of the economies of scale in that very low rental payments mean no or lower levels of assistance: new arrangements will exacerbate this and restrict further one of the few avenues which people have available to survive on very low incomes.
4. Single sharers are not better off than couples: two single people who share need the additional Rent Assistance because they need an extra bedroom. In many cases, two single people sharing a flat will be worse off than a couple.

The proposal does not seem to be grounded in an adequate understanding of the real choices facing people living on low-incomes. It fails to acknowledge that single unemployment allowances, particularly for younger people, are significantly below relevant poverty lines.

Sharing accommodation is one of the ways in which single people who have to live for some time on a low income can get by. Taxing the small benefits which they thereby achieve was therefore one of the mean-spirited measures of the last budget.

The measure will be particularly felt by younger people, who are more inclined to be sharing residences and more driven to it by inadequate base allowances. It will tend to force people into very low quality accommodation and will require an additional degree of intrusion in the lives of recipients and further complicate the social security system.

The maximum rate of Rent Assistance for single people sharing accommodation should be restored to the rate applying to other single people.

Unemployment activity tests and penalties

The Government has argued that the public confidence in the social security system requires that fraud be demonstrably eliminated, that overpayments be recovered and that entitlement be restricted to those who need assistance.

While the Brotherhood understands these concerns, they must be balanced by the demands now placed upon unemployed people in the context of extremely limited job opportunities and persistent unemployment; there still being 13 people unemployed for every job advertised (Brotherhood of St Laurence 1996a). The lives of those without work are already difficult; they should not be made even more so by unreasonable demands for evidence of job-seeking activity or by the threat of disproportionate penalties.

The administrative costs of more stringent testing of the job search activities of unemployed people may be underestimated and the savings thus overstated.

For these reasons the Brotherhood does not support the use of changes to the administration of activity tests as a method of saving money.

The Brotherhood has been particularly concerned over the drift during recent years to more punitive penalties for those unemployed people who breach activity tests. Some of the penalties are clearly inhumane and disproportionate to the nature of the 'offence', as the National Welfare Rights Network (1996) has demonstrated.

The withdrawal of payment as a penalty for 'breaching' appears to be based on the presumption that unemployment allowances are provided only to those who are genuinely seeking work. However, accepting this principle does not imply that the current penalties are appropriate.

Jobseekers report fortnightly on their activity in seeking work or otherwise improving their job prospects, so logically the failure to meet this obligation should lead only to a withdrawal of entitlement for the two weeks.

The loss of entitlement in a particular fortnight implies that a debt exists because the person was overpaid, and this should be recovered in the usual way—by a reduced payment for some months rather than the outright withdrawal of payment for a penalty period.

In the last budget, the Government went some way to accepting the above principles for administrative breaches—although the recovery rate proposed appears too high—and this change should be carefully monitored so that the responses of staff, Newstart recipients and the public can be assessed.

Unfortunately, the last budget tended to move in the opposite direction for activity test breaches, with some proposed penalties higher than existing ones.

The rationale for this is unclear.

Penalty payment periods have been justified in the past as providing greater public confidence in the unemployment allowance system, presumably because they manifestly punish 'freeloading'. However, the Brotherhood is not aware of substantial documentation of the extent to which penalties really achieve either the immediate objective (of stopping 'freeloading') or the longer-term objective (of enhancing community support for the payment system). Other mechanisms (activity testing itself, fraud investigations) may be quite sufficient.

We are equally unaware of any new explanation as to why harsher penalties are now appropriate. For this reason, the Brotherhood suggests that these penalties not be implemented while the Government assesses the impact of the changed penalties for administrative breaches.

The Government should suspend the implementation of the harsher penalties for people who breach activity tests until the effect of the 'debt recovery' approach for administrative breaches has been assessed.

Eligibility for recent immigrants

The Brotherhood has also been concerned over recent years at the drift to limit entitlements to social security payments for recent immigrants. The extended waiting periods for most new immigrants and the withdrawal of support to many asylum seekers, both introduced with the last budget, are a very disturbing extension of this trend.

Underlying this trend are two concerns which are both widespread in the community and have received significant attention from academic specialists.

The first is that immigration is responsible for higher unemployment. Analysis of Australia's past history of immigration (for example, Norman et al 1983) does not support this. It suggests that past immigration has clearly aided economic growth, although per capita incomes have not been very much higher as a result. More recently, however, arguments have been made (Mitchell 1996) that high immigration may not be compatible with efforts to reduce unemployment, since growth rates are constrained by the size of the current account deficit.

A sensible response to this concern is to examine the overall rate of immigration and to invest in labour market programs to ensure that Australia does not build up a large pool of discouraged people who have been without work for a long period and who may feel that newcomers are gaining at their expense.

The second concern is that recent immigrants may be particularly inclined to take advantage of Australia's (non-contributory) social security system. Whiteford (1992) has shown that incorrect interpretation of statistics—failing to allow for differing age distributions, the attribution of overseas birthplace to all family members and an inadequate understanding of the details of qualification for particular social security benefits—can lead to these differences being strongly overstated.

In terms of unemployment, neither a non-English speaking background (NESB) nor overseas birth as such are particularly striking predictors of high unemployment. Extremely high rates of unemployment and unemployment allowance recipiency are confined to a few particular ethnicities (Brotherhood of St Laurence 1996a, Healey 1994). Indeed amongst parents with children, high unemployment in these communities account for the over-representation of NESB as a whole (Taylor 1995), and this probably reflects the particular circumstances of these groups, particularly their entry as refugees or in similar circumstances.

Responding to this concern requires a solid understanding of the reasons for high unemployment in particular communities and mechanisms to address these.

Unfortunately, the recent restrictions on social security entitlements for immigrants pander to popular misconceptions, rather than address the substance of these concerns. In so doing, they recapitulate the mistake of the previous government when it restricted HECS and Austudy entitlements to citizens—a quite unnecessary response to the problem originally identified and one setting a disturbing precedent of excluding residents (Birrell et al 1995).

The restriction will not only be costly to Australian social cohesion, but remains likely, at least for particular communities, to cause additional hardship and impede economic independence. The measure assumes that solid guarantees of employment for such long periods are actually more possible than at present; the view of many immigrant groups is that this is not so. In this case, the measure will simply reduce the living standards of some of the newcomers and their families and leave them open to exploitative working conditions, especially outwork.

The Government should suspend further implementation of the increased social security waiting period for immigrants and restore access to Asylum Seeker Assistance.

Credit for earnings

The abolition of the Earnings Credit Scheme was one of the most peculiar elements of the last budget, since its results must surely be to discourage unemployed people from taking up work or reporting earnings to the DSS.

The scheme's abolition means that unemployed people who take up short periods of work at a substantial time fraction are treated very differently than those who have a small number of hours of work every week. Given the increasing propensity for work to be offered on a casual or irregular basis (MacNeill 1995), this does not appear a sound differentiation to make.

The abolition also widens the gap between the treatment afforded taxpayers—who pay tax on their annual income—and that accorded social security recipients, who now will be unable to smooth their earnings beyond a fortnight.

The Government should restore the Earnings Credit Scheme for both pensioners and allowances and increase its value by \$500 to \$1,500 for pensioners and \$1,000 for Newstart recipients.

Dental health

The demise of the Commonwealth Dental Health Program (CDHP) as a result of the last budget has left large numbers of concession card holders throughout Australia without access to timely dental treatment.

The evaluation of the CDHP undertaken by the Australian Institute of Health and Welfare (AIHW) (1995) found that there were significant inequalities between card (i.e. low-income people) and non-card holders in terms of dental health. Some 48 per cent of card holders aged over 65 years were found to possess no natural teeth compared to only 27 per cent of non-card holders. This difference in the rate of edentulism, according to the AIHW, was a result of past disease experience and treatment practices. (AIHW 1995:1). In other words, people with low incomes have much poorer dental health.

The demise of the CDHP will have a number of consequences for low-income and disadvantaged people. Waiting lists will revert to the length that they were—and will possibly be even longer than those operating prior to the introduction of the program. In some States co-payments have been introduced in order to maintain the variety of services offered. Such co-payments may well be within the reach of some card holders; however, many disadvantaged people will not be able to afford them.

The Minister for Health has quite rightly stressed the important role public health has to play in improving the overall well-being of the community. Dental health is a public health issue. Access to timely treatment now results in considerable savings to the community later on.

The Minister has also stressed that he wishes to reduce inefficiencies in the health system. Low-income people who cannot afford dental treatment are known to seek dental pain relief from their doctors. This is both an inefficient and ineffective use of expensive medical resources.

The Government has repeatedly stressed its commitment to a safety net for disadvantaged members of our community, and explicitly promised in its 1996 election policy statements that it would maintain all current Commonwealth concessions. It has nevertheless dismantled the safety net with regard to dental health.

The Government, for reasons of social justice and well as for reasons of efficiency and effectiveness, should re-establish a safety net for low-income and disadvantaged Australians who are unable to afford private dental treatment.

Hospitals

The reductions in the last budget to Hospital Funding Grants was justified as a response to the cost shifting undertaken by state governments as a way of minimising state spending on health. Costs have been shifted onto the Commonwealth by a transfer from salaries (in state hospitals) to fee-for-service (funded by Medicare), sometimes resulting in higher total costs. While the Brotherhood understands the concerns regarding cost-shifting, it is unclear to us why it cannot be dealt with through negotiation and service rationalisation rather than through unilateral budget decisions.

The effect of these reductions may well be to further constrain state government spending on hospitals at a time when quality of care is already being seen as compromised by fiscal imperatives. Recent discussions held with service providers and low-income users of hospitals has suggested that early discharge policies in particular are simply transferring costs onto the patient and, short-sightedly, leading in some cases to higher overall health spending (Brotherhood of St Laurence forthcoming).

The Government should restore past levels of Hospital Funding Grants as part of a negotiated solution to cost-shifting within the health system.

Legal aid funding

The 1996 budget announced a reduction in the funds made available to the states to assist with legal aid to apply in the coming budget year.

This reduction has been justified in terms of linking the allocation to spending on Commonwealth matters, although according to Victoria Legal Aid (1996 pers. comm., 22 November), the reduced allocation will be far below a realistic share of its costs on Commonwealth matters.

The Brotherhood is very concerned that the effect of these cuts will be the imposition of low ceilings on individual cases. Such ceilings could be very damaging, particularly in family law matters where there is a dispute involving children. Since legal aid is already tightly targetted, those who miss out as a result of these ceilings will almost all be on very low incomes and usually under considerable pressure.

The Government should reconsider the implementation of the cut in funding to legal aid in 1997-98.

Schools funding

The changes announced in the last budget will make it easier for new private schools to open and will create a demand for additional scarce Commonwealth resources. To support more students in private schools, the Commonwealth proposes to reduce funds to the public system through adjustments in the payment to State and Territory Governments on the basis of enrolments.

The Brotherhood has two substantial concerns with this approach.

The first is that the Commonwealth seems to be accepting that the current level of funding to public schools is adequate to meet the needs of all young people. This is not the case; as the Minister for Schools and Training has pointed out, nearly one-third of young people do not complete Year 12.

The second concern is that the trade-off in funding the public and private sectors may be poorly informed, in that absolute numbers in the public sector may not fall when the private sector grows. Some projections indicate that the overall student population is increasing, which means the numbers in both private and public systems may rise concurrently. The trade-off may simply disguise a real per capita funding cut to public schools.

Such cuts in Victoria have meant not only declining conditions within schools but the transfer of costs onto households who in many cases find schooling costs very hard to accommodate, as recent interviews with parents living on low incomes have revealed (Brotherhood of St Laurence 1996c, Taylor forthcoming).

While there is a need to develop a national approach to Commonwealth and State and Territory government funding to the various public, Catholic and independent systems, what is being proposed falls far short of a comprehensive policy designed to benefit all children, including children from families with low incomes.

The establishment of new private schools has the potential to threaten the viability of some public schools through attracting students whose parents have the capacity to pay fees. There is a divergence in the approaches taken by the Commonwealth Government, which has set no limits regarding either maximum or minimum enrolment numbers for the private schools it funds, and State governments—such as that in Victoria—which is actively promoting the closure or merger of schools with low enrolments. This divergence increases the risk that the establishment of a new private school may contribute to the closure of a public one. It also means that the opening of a new private school is a broader community issue. Thus there needs to be some mechanism, similar to that provided through town planning processes, where people who might be adversely affected by a decision have the opportunity to comment on a proposal prior to final approval and then appeal if there is argument that the decision has not weighed all factors adequately.

The Brotherhood of St Laurence believes that the developments announced in the last budget run counter to the interests of children from families with low incomes. They have the potential to undermine a viable and inclusive public system. Such a system is not only in the interest of these children but is also vital to the economic and democratic future of Australia.

The Government should reverse its decision to vary grants to the states for public schools in proportion to non-government school enrolments.

Conclusions

The cost of reversing the very damaging aspects of last year's budget, as discussed above, is around \$630 million in a full year.

It may be that, rather than reversing some of the bad decisions of the last budget, the Government may have in mind better ways of addressing the issues outlined above. Certainly the Brotherhood is not advocating for any particular set of institutional arrangements; we are insistent, however, that the balance in government spending must be improved in favour of people living on low incomes.

Priority 3: matching revenue and current spending

The 1996 budget set out principally to reduce the budget deficit. It did this primarily through spending reductions. While there were some revenue measures there were only enough to allow for the new spending announced by the Government.

In 1997, further action to balance the budget is less urgent than action to improve Australia's employment prospects and to improve the balance of fairness in Government spending.

Budgetary action must not be confined to the expenditure side of the Commonwealth accounts. The Brotherhood accepts that deferral or reduction of low-priority (or ineffective) government expenditure may be a useful tool in further improving the budget outcome. But massive and rapid spending cuts, in ways which will have adverse consequences for low-income groups, are quite inappropriate as well as unnecessary. For this reason the Brotherhood believes that government attention will need to focus on increasing revenue.

Australia has the capacity to provide higher levels of revenue; restoring it to 1980s levels—an appropriate medium-term goal—would generate sufficient funds not only remove the underlying deficit but also to allow for major and significant improvements to social infrastructure.

Revenue options to achieve an appropriate budget outcome are discussed in the third section of this submission.

The Government should pay attention to options to increase revenue rather than relying principally on expenditure reduction to meet its fiscal targets.

Implications for budget outcomes

The 1997 budget should be marked by a more positive focus on employment and the establishment of a more just balance in government spending. This will require restoration of some of the more damaging changes in the last budget and, to this end alone, some additional spending.

These are more urgent priorities than further action to improve the budget balance. The Government should seek to accommodate this and other urgent spending primarily by seeking increased revenue.

Restructuring and reform

This section of the submission discusses a number of restructuring and reform proposals announced by the Government over recent months or which are of significant community interest. These include:

- the creation of an integrated Service Delivery Agency;
- reconfiguration of employment assistance;
- the replacement of other payments to young people by a single Youth Allowance;
- new arrangements for housing assistance; and
- negotiation with states over the provision and financing of human services more generally.

The purpose of this discussion is to make explicit the risks which the Brotherhood can foresee for people on low incomes if the restructuring is not appropriately handled. For this reason recommendations often focus on the outcomes which should guide restructuring as well as budgetary implications.

The creation of the Service Delivery Agency

The merger of the DSS and CES networks of offices into a statutory corporation to administer social security and education payments, coupled with the creation of a Youth Allowance and changes to employment assistance (see below), offers the Government the opportunity to remove the inconsistencies between the two major agencies with responsibilities for assisting households to maintain or improve their material standard of living.

Whether the creation of a Service Delivery Agency (SDA) produces better outcomes for people living on low incomes depends heavily on two factors: the extent to which the Government seeks to recover savings through economies of scale; and the nature of the restructuring.

Administrative savings

The 1996 budget forecast some savings as a result of the creation of the SDA, but our understanding is that the restructuring is not driven by these, which are very small compared with the volume of funds to be handled by the new Agency (about 4 per cent of running costs).

In the 1997 budget, the Government should not be tempted to inflate these savings forecasts as a way of cutting spending.

Pursuit of spending targets will encourage the DSS to explore downgrading of professional services or particular operational units in the creation of the SDA. It is easy for savings to be over-estimated and downstream operational difficulties, as well as hardship among clients, to be under-estimated.

In particular, transferring or cutting back social work, migrant and Aboriginal liaison functions is likely to be counter-productive. Liaison officers, for example, were introduced to provide an entree to administration for groups whose members were not able to gain the consideration they required and to which they were entitled.

The Government should not seek to achieve inflated savings through the implementation of the SDA. In particular, specialist services from both DSS and DEETYA should be continued within the SDA.

Implementation

Information made available to us from the DSS suggests that the SDA will be set up as a statutory corporation with clear and strong accountability mechanisms to the Minister and to DSS and DEETYA. Such accountability is essential given the high public expectations of agency performance and the very high cost of failure to individuals.

While the relationship between the SDA and DSS and DEETYA will formally be that of contractor-purchaser, the transactions costs associated with this could be very large. For this reason, the Brotherhood believes that a close, rather than distant, working relationship is to be preferred, and the SDA should be seen as a public agency similar to the Australian Tax Office, within the budget sector. In this way problems associated with the split of policy from service delivery may be minimised.

As far as possible the functioning of the SDA should be continuous with DSS practice and law. For example, all users of the SDA should have access to both a clear internal complaints, review and disputes resolution process. The SDA's decisions should be challengeable at the Social Security Appeals Tribunal.

The SDA should be set up as a budget sector agency with a close relationship to DSS and DEETYA and without loss of entitlements of users to complaints and review processes.

Part of the rationale for the SDA may be to gain staffing flexibility beyond that available within usual Public Service arrangements. However, the introduction of more casual staff has the potential to downgrade the quality of service as well as the working conditions of staff. This will particularly be the case if budgetary pressures are strong. For this reason, the terms under which the SDA operates for DSS and DEETYA should include very strong commitments to service quality targets.

The Government should ensure that the terms under which the SDA operates emphasise quality of service to users rather than cost alone.

Reconfigured employment programs

Employment assistance programs offer a way of improving the chances in the labour market of people who otherwise have poor job prospects. They offer important economic benefits as well as social benefits; without them there is little doubt that long-term unemployment would be far higher.

A major restructuring of employment assistance was announced in the last budget (DEETYA 1996a), together with large cuts to expenditure; effectively reversing the funding increase to employment programs provided through the previous Government's *Working Nation* package.

In the Brotherhood's view, this cut in spending is repeating the mistake made a decade ago by the previous Government when it wound down spending on employment assistance prematurely, leaving Australia with a high level of long-term unemployment to carry into the next downturn.

The restructuring of employment assistance has therefore raised two questions of concern to the Brotherhood. Will it mean an even lower level of funding in the future? And will the restructuring bring about better or worse outcomes, particularly for disadvantaged jobseekers?

The Brotherhood has provided detailed comments to DEETYA and the Minister, Senator Amanda Vanstone, on the proposals for restructuring. Our submission to DEETYA (Brotherhood of St Laurence 1996d) outlines our position on a number of the changes to employment assistance proposed by the Government, some of which we reiterate here as priorities for expenditure in the forthcoming budget.

The need for increased spending

At this stage, there is little sign that unemployment is likely to fall significantly during 1997-98. Even if employment 'bounces back' strongly in early 1997, the starting point for the year will probably still be a rate of over 8 per cent (Commonwealth Bank 1996). Estimates of the rate of growth needed to reduce unemployment (Manning et al forthcoming) suggest that unemployment will rise if the economy grows by less than 2.5 to 3 per cent a year.

For this reason, the Government must sustain, and indeed increase, the forecast levels of spending on an appropriate mix of labour market programs to avoid the further entrenchment of long-term unemployment.

The restructuring of employment assistance will provide the Government with an opportunity to further trim spending in this area. It should not do so.

The Government should be increasing, not reducing, spending on programs to assist long-term unemployed people improve their job chances.

Ensuring good outcomes

Given that the restructuring takes the contracting out of employment assistance even further than under the previous Government, one of the keys to good outcomes for jobseekers will be the ability of DEETYA to monitor the effectiveness of the new arrangements and to ensure that proper regulatory supervision exists for a market between a government purchaser and Employment Placement Enterprises (EPEs) where the human objects of attention not only lack market power but are actually under an obligation to accept this attention.

DEETYA notes in its report on the public consultations regarding the reforms to employment assistance that:

there was agreement also that the new system would need close monitoring and evaluation to ensure that job seekers were receiving the quality of service required to maximise outcomes. Submissions raised the need for evaluation and monitoring from the point of view of feeding into best practice models for EPEs, as well as to protect against possible malpractice or abuse. (DEETYA 1996b, p.77)

The Government should establish comprehensive and independent monitoring and evaluation mechanisms to determine the impact and outcomes of the reforms to employment assistance.

The Government should establish an independent regulatory agency, especially prior to moving to price-based tendering arrangements, in order to ensure that providers offer quality services to jobseekers, that appeal processes are available to jobseekers unhappy with assessment by the Service Delivery Agency or the quality of service provided, and that jobseekers' choices are free and informed.

The Brotherhood is very concerned about the impact on the extent of assistance to jobseekers of the Government's proposed 'capacity to benefit' test and the limiting of intensive employment assistance to 12 months. Our concerns were shared by others who participated in the public consultations. Regarding the 'capacity to benefit test', DEETYA acknowledges the extent of concerns:

some respondents opposed the concept outright, and few supported it unreservedly. Many acknowledged that there were people for whom intensive employment assistance was likely to be of little practical benefit, but they too were concerned at the risk of stigmatisation of clients and that the test would be conducted objectively and fairly. A key concern was that those judged not able to benefit should have access to alternative forms of assistance which would address the barriers which they faced. (DEETYA 1996b, p.59)

In respect of disadvantaged jobseekers, there were two important actions announced recently by the Minister, Senator Amanda Vanstone. While there is little detail as this time, the Brotherhood welcomes two initiatives in particular:

- the time frame for participation in intensive employment assistance for jobseekers classified level 3 has been extended from 12 months to 18 months; and
- a Community Support Program will be implemented to provide coordinated assistance from other government and community agencies to very disadvantaged jobseekers.

To ensure that sufficient levels and types of assistance are provided to disadvantaged job seekers who face multiple barriers to employment, it will be essential that the Community Support Program is adequately resourced. It appears that the extension of assistance to 18 months will not mean additional funding for the providers.

Any community support program for very disadvantaged jobseekers should be adequately funded with allowance made for extended periods of support.

A Youth Allowance

Merging a number of income security and education payments into a single payment for young people could well be one of the most important reforms undertaken by the current Commonwealth Government.

While it is motivated particularly by a desire for simplification, the Youth Allowance proposal provides an opportunity for the Government to address wider and more profound challenges facing the current social security system. These challenges are posed by changing patterns of paid and caring work, smaller and more mobile families, a diversity in living arrangements, an aging population and past poor decisions regarding government finances. Such challenges demand new resolutions of the perennial issues of social security: the nexus between earnings and transfer incomes; the extent to which care should be financed and provided by relatives rather than the state; and the balance between breadth of entitlement and adequacy for the least well-off.

For this reason the Youth Allowance proposal has to be contiguous with more general directions of change in the tax-transfer system.

The Brotherhood has spelt out in detail how such an Allowance could work (Brotherhood of St Laurence 1996e). It should be constructed so as to:

1. address gaps and inadequacies in the youth income system;
2. respond positively to considerable diversity in the situations of young people and their families and greater expectations now held of and by these Australians;

3. respond positively to changes in the labour market (which go beyond those affecting young people);
4. link the design of the payment structure with its service delivery (through the Service Delivery Agency); and
5. simplify the payments system (but not at any cost).

Comments in this submission focus on the fiscal aspects of reform.

The Brotherhood understands that planning for the Youth Allowance is being carried on within the confines of approximate cost neutrality. Its creation should not be seen as an opportunity to reduce spending, even if some degree of redistribution takes place between categories of young people.

The creation of a Youth Allowance should not be used as a way of reducing spending.

There are striking inadequacies within the current youth incomes' mix, particularly with unsupported teenagers receiving incomes markedly below their living expenses, as Brotherhood research has repeatedly found (Morris and Blaskett 1992, Thomson 1993, Tasker 1995).

Improvement of the living standards of unsupported teenagers is the most pressing priority for additional expenditure under this reform. Recognising the inadequacy of the lowest current rates of payment available to young people, there should be an increase in rates of payment for 16 and 17 year olds to the same rate as applies to 18 to 20 year olds.

While there were logical reasons for the development of two separate streams of income support for young people, it is quite possible for these to be merged with common rates and integrated bases for entitlement.

The Youth Allowance should provide uniform payments and delivery arrangements for both students and young people seeking work, particularly for unsupported recipients. Rent Assistance should be available to both students and non-students.

In keeping with the way in which the Service Delivery Agency is set up (discussed above), the Youth Allowance should be part of the social security system and rates should be seen as linked to other elements of this system. For example, families who continue to support a child through study or unemployment should have their costs recognised as they do for younger children through the Family Payments system.

The Youth Allowance should be legislated as part of the social security system with means testing and rates reflecting this and connected to other parts of this system, in particular Family Payments, Rent Assistance and adult Allowances.

A Youth Allowance should be paid from 16 years on with a provision for payment to younger unsupported people whether students or not. The base rate for students living at home should be no lower than the relevant Family Payment (including Family Tax Initiative).

Finally, it is important that young people continue to have—as they do in the case of Austudy—incentives towards supporting themselves. This means that the withdrawal rate of Allowance with private earnings should be lower than that applying under unemployment allowances.

The Youth Allowance should have common personal income tests with a withdrawal rate of 50 per cent above a ‘free area’. The value of this ‘free area’ might be lower than that currently applying under Austudy, provided this is offset by availability of Rent Assistance. The ability to average earnings over the year as is now present within Austudy should be available to all recipients, as should the low-income earners tax rebate.

New directions in housing assistance

In a submission to the Commonwealth Government prior to the 1996 budget, the Brotherhood (1996f) drew attention to the consequences which would follow if the Government contracted its role in housing provision to income support payments through Rent Assistance and ignored the building of public housing stock.

The risks of limiting housing assistance to supporting demand

Such a demand-side approach represents a short-term solution to the longer-term problem of housing affordability for low-income and disadvantaged people. The long-term disadvantages of reliance only on this short-term solution are:

- *discrimination*—ability to pay rent is not the sole criterion by which landlords assess potential tenants. Factors such as age, gender, ethnicity, disability and number and age of children influence the gatekeeping role of private landlords. Rent Assistance cannot overcome these barriers.
- *quality*—condition of housing is as much a factor in causing housing stress as affordability. The provision of Rent Assistance will do nothing to affect the quality of housing available in the private sector. Indeed, by effectively

subsidising the lower end of the rental market, Government policy may act as a disincentive to landlords to improve the quality of their properties.

- *cost-effectiveness*—the provision of higher levels of Rent Assistance may act as an additional subsidy to private landlords via an increase in rents charged. Without effective ceilings on rents—beyond the mechanism of the market—Rent Assistance may thus be diverted with lower benefits to tenants and a potentially open-ended cost to Government.

The evidence from overseas where such demand-side initiatives have been implemented (without sufficient attention to housing supply) is not encouraging. In New Zealand, for example, whilst some private tenants may have benefited from the new arrangements, the introduction of market rents in the public housing sector has meant that some tenants are now paying over 50 per cent of their income in rent, leading to greatly increased demand for welfare services such as foodbanks. The 1994 annual report of Housing New Zealand showed that its tenants paid 54 per cent more in rent in 1994 than in 1993. Moreover, with the introduction of full market rents in 1995, an estimated 7,000 tenants were expected to leave their state houses because of affordability problems (Kelsey 1995, p226).

In assessing the reforms to public housing in New Zealand, the Department of Social Security stated in 1993:

The full impact of the New Zealand reforms to housing assistance will not be gauged for some time. Nevertheless, discussions with community agencies suggested that there may be dangers for social justice objectives of government in under-valuing the social service role of public housing. There may also be dangers in assuming that the social welfare, income support and commercial aspects of that role can be comfortably separated without adverse effects on some groups of clients.” (DSS 1993, cited in Barrett 1996, p23)

The proposed Council of Australian Governments (COAG) housing reforms are predicated upon enabling tenants from both the public and the private sectors to have greater choice. However, the example of New Zealand suggests that appeals to individual consumers through market choice is illusory when that choice cannot be exercised either because market rents are driving tenants out of public housing or because housing subsidies are pushing up the costs of private rental beyond the reach of low-income people except in areas which are undesirable precisely because they lack the employment opportunities and access to services that people need and desire.

The continuing relevance of public housing supply

Both the Industry Commission and National Housing Strategy Inquiries demonstrated that public housing represents the most efficient and effective means of alleviating housing-related poverty. Moreover, the extremely long waiting lists across the country for this form of housing tenure indicate that, given the choice, people prefer this form of housing—whether for reasons of affordability, security of tenure and/or location.

It has been frequently argued in recent times that the direct provision of services by governments blunts choice and induces a culture of dependency. The Government's belief that unemployed public housing tenants choose not to relocate to areas of employment growth because of the high subsidies they receive is framed by this argument. Such an argument, however, rests upon a number of fallacies. These fallacies are:

- that most public housing is located in areas where there is little or no prospect of employment. There are only two significant public housing developments that can be said to fall into this category—Elizabeth in South Australia and the LaTrobe Valley in Victoria—most public housing estates are located in the major capital cities and therefore cannot be said to provide a barrier to employment opportunities;
- that there is a good fit between the profile of public housing tenants and the employment opportunities available. In recent years, public housing has become increasingly targeted towards those groups in society deemed most in need. These groups include people with disabilities and older persons. Such people are less likely to be in the labour force than other groups;
- that public housing, because of the higher subsidies available, produces little or no incentives for people to better their situation. This argument may well be true for a small number of tenants. However, the contrary argument may also be true, namely that public housing provides the necessary period of stability both financially and in terms of location to act as a stepping stone for families who would not otherwise gain such an opportunity through the private rental market—such as sole parent families.

The above points suggest that housing cannot be reduced solely to the question of affordability and nor can demand-side initiatives address the key role public housing plays in the overall social well-being of citizens and in the reduction of inter-generational inequality. It is crucial that the Government acknowledge the social role of public housing and, in these times when unemployment levels are predicted to remain high, expand public housing provision as part of the safety net for disadvantaged people.

The Government should not reduce its contribution to public housing under the Commonwealth/State Housing Agreement and, indeed, should seek to increase the level of public housing supply through the state housing authorities by an additional 25,000 units per annum.

The Government should not reduce subsidies to public housing tenants under the CSHA.

Tax and superannuation reform

The 1996 Commonwealth budget introduced a number of changes to revenue, including a reduction in the tax benefits flowing through superannuation to higher-income earners.

Although the Government has not sought to introduce any tax reform process, the non-government welfare sector has for some time seen the value of a number of reforms to improve the adequacy, equity and efficiency of our tax system. The Brotherhood once more spelt out the importance of this at the recent ACOSS-ACCI National Tax Summit (Challen 1996). We draw the attention of the Government to the ACOSS agenda emerging from that Summit (ACOSS 1996a).

Levels of revenue

All Australians benefit from taxation applied to social spending. Provided the community is convinced that the spending is effective and contributes to overall prosperity and social well-being, there is clear community support for additional taxation.

In the Brotherhood's view, revenue should be rebuilt steadily from the current low level (25 per cent of GDP). This is forecast to be virtually unchanged in coming years and is more than a percentage point lower than the average over the 1980s. The Government's commitment not to levy new taxes or raise rates of tax should not preclude it from focusing further in this budget on tax expenditures and on broadening the income and sales tax bases, thereby restoring some revenue efficiently and equitably.

While PAYE income taxes provide a slightly larger share of total revenue than a decade ago, PAYE tax as a proportion of GDP is significantly lower. The Brotherhood believes that it is both possible and desirable for more funds to be raised through taxation of personal income. The Government chose to raise revenue by this means for an urgent social need—to remove very dangerous guns—and could again, with similar public support.

However, the highest priority should be given to closing inequitable loopholes and broadening the tax base, including taxing capital gains on assets purchased before 1985 and quarantining the tax deductibility of income from negatively-gearred passive investments.

The Brotherhood believes that an expansion of the indirect taxation base can be justified on both equity and efficiency grounds. However, there is little evidence that we rely too much on income taxes and too little on indirect taxes when a comparison is made either longitudinally or geographically. There is a case for including services in the indirect tax base, although basic services including health, education, child care should continue to be exempt.

Australia has limited taxation of assets or wealth. Local government rates and land taxes exist, but there is a case for these to be replaced by a generalised non-discriminatory wealth tax or a tax on inheritance.

Interest deductibility and savings

In this budget the Government is to consider previously-announced plans to reduce tax on interest earnings (Costello 1996). The capping and income tests applied to this tax deduction means that the benefits of this measure, while small, will go to lower and middle-income households. The change would go some way towards evening out the tax treatment of various forms of savings in favour of lower-income households without their own home (whose major discretionary saving vehicle is usually interest-bearing deposits), but its equity impact would be very small, as is its likely impact on national saving.

At a time of fiscal restraint, this is not a high priority for this budget. Further, it should not pre-empt a more comprehensive consideration of taxation of investment returns, including superannuation, which is discussed further below. A range of proposals have been made including a life-cycle savings vehicle (ACOSS 1996b) and an expenditure-tax approach to savings generally (Fitzgerald 1996). Savage (1966) has in turn pointed to the efficiency benefits of taxing interest from savings. The Brotherhood believes that these proposals require more substantial discussion, and action on this proposal should therefore be delayed.

The Government should not proceed with the tax deduction on interest earnings in the absence of a more comprehensive review of the tax treatment of savings.

Trusts and tax avoidance

A systematic attack on the use of trusts to avoid income tax as announced in the 1996 budget is welcome. The Brotherhood supports broader efforts to reduce artificial income splitting and tax avoidance through use of trusts.

The Government should examine ways to reduce artificial income splitting.

Negative gearing

The tax deductibility of losses arising from the negative gearing of passive investment assets, including housing, should be restricted. Interest should only be deductible against income received from that type of investment. While the Government has accepted continued negative gearing, it would nevertheless be possible to quarantine it or cap the benefits it bestows to high-income investors.

The Government should introduce restrictions on the deductibility of losses associated with negative gearing for the purchase of passive investment assets.

Capital Gains and Fringe Benefits Taxes

Capital gains and fringe benefits taxation are not only essential in terms of the equity of the tax system but in terms of economic efficiency.

Modifications to the Capital Gains Tax in the interests of both are required and would generate significant revenue (of the order of \$500m a year):

- the exemption for investments predating the introduction of capital gains tax in 1985 should be confined to past gains, not future ones;
- the gains should be taxed at the death of the owner rather than being transferred tax-free across generations; and
- the exclusion of personal housing from capital gains taxation should be ended and replaced with a generalised exemption with a ceiling.

The Government should immediately remove the outstanding gaps in the Capital Gains Tax.

The Government should continue to examine ways of ensuring that fringe benefits are taxed. In particular, it appears that the treatment of cars is too generous, providing opportunities for the highest-salaried to achieve taxpayer-funded luxury cars.

There should also be changes to the treatment of charities under the Fringe Benefits Tax to cap the current unlimited exemption.

Superannuation

Despite changes introduced in the last budget, the Brotherhood's assessment is that the long-run costs to the public purse of the current superannuation tax concessions are assured while the consequent savings on future pensions are far less certain. Further, there is no strong case for saving via compulsory superannuation to attract this degree of subsidy, particularly for high-income earners. It is clear, moreover, that tax benefits remain inequitably distributed, although less so than before the recent changes.

A sensible approach to superannuation reform would be to phase in a single rebate to replace the existing pattern of concessions and probably also the scheduled Government contribution.

The Brotherhood believes that the Commonwealth contribution arrangements should be reviewed. Savings of up to \$4.5 billion would be available in future years to make a significant contribution to restoring revenue and improving the budget balance.

The Government should immediately move to reduce its planned contribution to the Superannuation Guarantee Scheme.

The Brotherhood would, as discussed earlier in this submission, support moves by the Government to undertake a more comprehensive examination of the taxation of savings, including superannuation.

Business taxation

The 1996 budget reduced a range of tax expenditures offered to business, in particular modifying the Tariff Concession system and reducing the research and development concession.

The Brotherhood accepts the need for industry support, particularly for strategic industry development targeted to improvement of the balance of payments. Indeed, the Government may well have gone too far in cutting industry assistance in the 1996 budget. However, the extent and need for continued accelerated depreciation allowance provisions requires reassessment.

In addition, the Brotherhood believes that the Government should examine whether some form of minimum company tax payment may be appropriate as a check on tax avoidance. This might be appropriately examined in the context of ways to relieve the compliance burden associated with company taxation.

Implications for the budget balance

The revenue measures discussed above mean that the Government could readily improve revenue by at least \$2 billion pa—far more if the projected contribution to superannuation is wound back.

This amount of revenue is sufficient to expand or restore spending on very urgent areas as outlined in this submission and to avoid a further round of damaging expenditure cuts.

In the medium term, the Brotherhood believes that the Government should be seriously examining raising a further 1 per cent of GDP—or \$6 billion—in revenue to allow it to meet other urgent needs for social spending, some of which are listed in the Appendix to this submission.

Appendix

Outstanding needs

This appendix lists a number of outstanding areas for budgetary action which, on their merits, are deserving of attention immediately. Details of these have been made available in previous budget submissions (Brotherhood of St Laurence 1995, 1996f).

Social Security

1. In recognition of the reality of long-term unemployment in Australia, the liquid assets test applying to unemployment allowances should be removed.
2. The level of payment for single unemployed people should be increased.
3. A significant increase in the Guardian Allowance is required to a level which is based on a realistic recognition of the costs of sole parenting.
4. The Government should examine ways to better link the Family Tax Rebate and the Family Payments system.

Employment

5. Because more than 25 per cent of their week is allocated to training, recipients of a training wage or other paid work experience and training programs such as Jobskills should not be considered to be in full-time work. They should retain entitlement to an allowance, Health Care Card and Rent Assistance.
6. Women in receipt of Parenting Allowance should have priority eligibility for labour market programs and consideration given to other forms of support for their labour market participation.

Health and family services

7. The Federal Government should extend designated funding for child-care to children whose parents are not in the work force.

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January 1997

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