ACTU SUBMISSION

Budget 2015 - 16

6 February 2015

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Contents

INTRODUCTION

Few people outside the present Cabinet now doubt that the 2014-15 Budget was an economic and political disaster for Australia. Using a hastily convened and politically partisan National Commission of Audit as cover, the Government produced a budget that sought to implement measures that were manifestly unfair, socially regressive and deeply damaging to our ability to create the jobs and industries of the future.

The 2015-16 Budget is an important opportunity for the Government to learn from the mistakes of the past year and begin to repair some of the damage it has caused. It has an opportunity to offer a Budget that has broad public support, and which addresses some of the key economic challenges we face as a nation in a global environment that places a premium on the capacity of nations like Australia to compete on the basis of skills, scientific research and new technology.

In particular, this submission focuses on the quantity and quality of jobs. Finding work, remaining in work and being paid a fair wage are among the chief concerns of millions of Australian families. They will welcome the Budget to the extent it helps them address these concerns.

We highlight the deepening jobs crisis facing too many workers and their families. According to MYEFO forecasts Australia will have the 17th highest unemployment rate in the OECD by 2016 – higher than New Zealand, Canada and the United States. In 2013 our unemployment rate was lower than these all these countries and most other OECD nations.

Government must take clear and decisive action to reduce unemployment and invest in our economic future. The policy measures we call for include making no further cuts to Commonwealth employment, reversing cuts to our national innovation system, and increasing investment in skills and vocational education. In addition, it must abandon its approach to reducing Government debt by imposing unfair and disproportionate costs on those who can afford it least.

The Government faces enormous political problems, in large part because it sought to implement a Budget in 2014 that millions of Australians understood to be bad for them, bad for jobs and bad for our community. The forthcoming Budget provides the Government with the chance to start again. We hope it will take that chance.

THE DEEPENING JOBS CRISIS

The first question Australian workers will have on Budget night is: what does this document mean for jobs? With unemployment over 6% and projected to rise, arresting and reversing the rise in unemployment must be the first priority for the 2015-16 Budget.

Unemployment is at its highest level in over a decade

Over 750 000 Australians are ready and able to start work, but can't find a job. The unemployment rate has been higher than 6% since mid-2014, the first time it has reached that level in over a decade. In November 2014, there were just 149 900 job vacancies in Australia, meaning that there were more than five unemployed people for every vacancy.

Figure 1: Unemployment is at a decade-long high

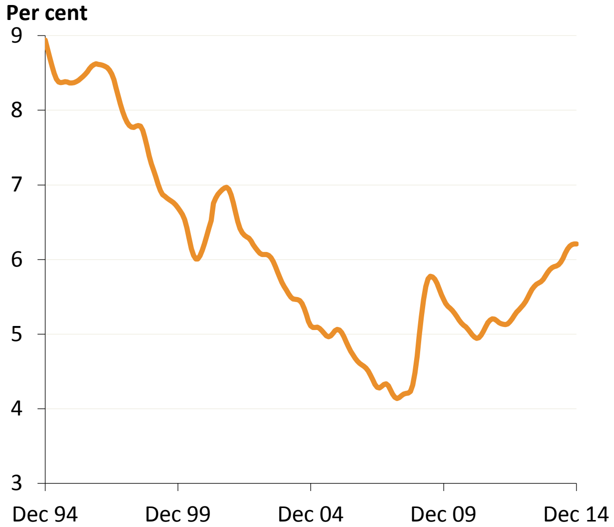
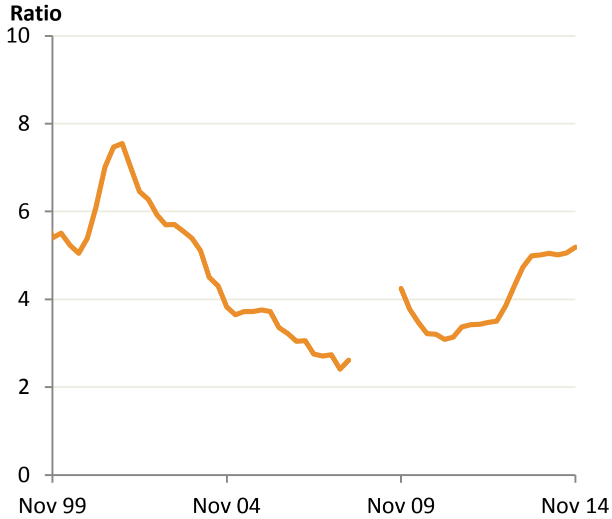


Figure 2: Over 5 unemployed people per vacancy



Source: ABS 6202, ABS 6354, and ACTU calculations.

The jobs situation deteriorated significantly over the course of 2014. The unemployment rate rose by 0.2 percentage points; the youth unemployment rate rose by 0.7 points.

The labour market will deteriorate further according to current forecasts

The Mid-Year Fiscal and Economic Outlook (MYEFO) forecast that the unemployment rate would reach 6.5% in June of this year and remain at that level until mid-2016. The unemployment rate, according to MYEFO, is not expected to fall below 6% until the second half of 2017, three years after it first crossed that threshold.

Employment is expected to grow by just 1% this financial year. That won't be enough to keep up with population growth, which is forecast to be 1.85% this year.[1] As a result, the employment-to-population ratio is expected to fall to 60.3%, down from 60.8% in June this year, the lowest fraction of the adult population in work since mid-2004.

Figure 3: Unemployment rate expected to remain high

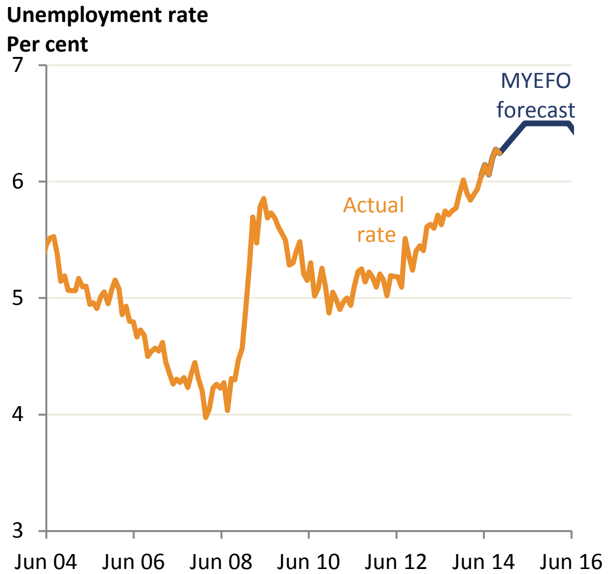
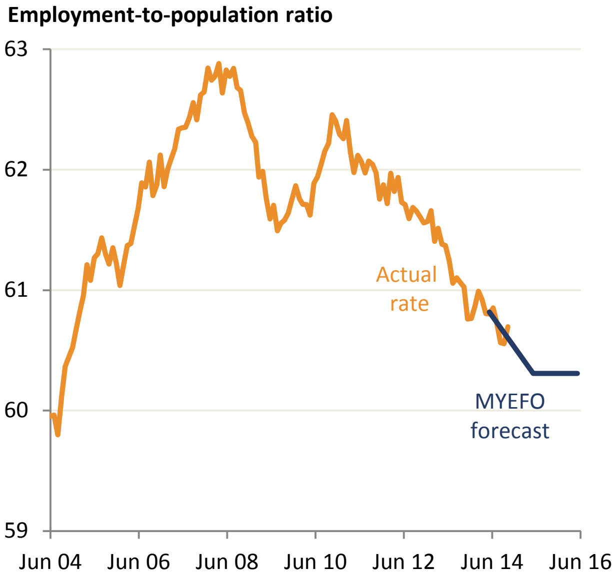


Figure 4: Share of the population in work forecast to fall to a decade low



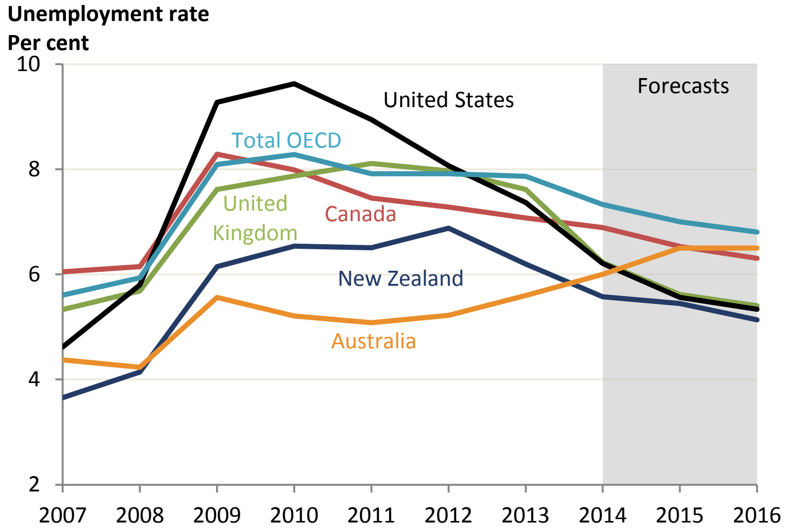
Source: ABS 6202 and MYEFO 2014-15. The implicit forecast for the employment-to-population ratio is calculated based on the MYEFO 2014-15 forecast for the participation rate, unemployment rate, and employment growth.

In 2013, Australia had the ninth lowest unemployment rate out of 35 OECD countries, lower than New Zealand, Canada, the UK, and the US.2 If the MYEFO forecasts come to pass, Australia's unemployment rate in 2016 will be the 17th highest out of the 35 OECD countries, higher than those of the other English-speaking countries with which we usually compare ourselves.

[1] Calculated based on the MYEFO 2014-15 forecast for the participation rate, unemployment rate, and employment growth.

[2] OECD 2014, *Economic Outlook,* Annex Table 13.

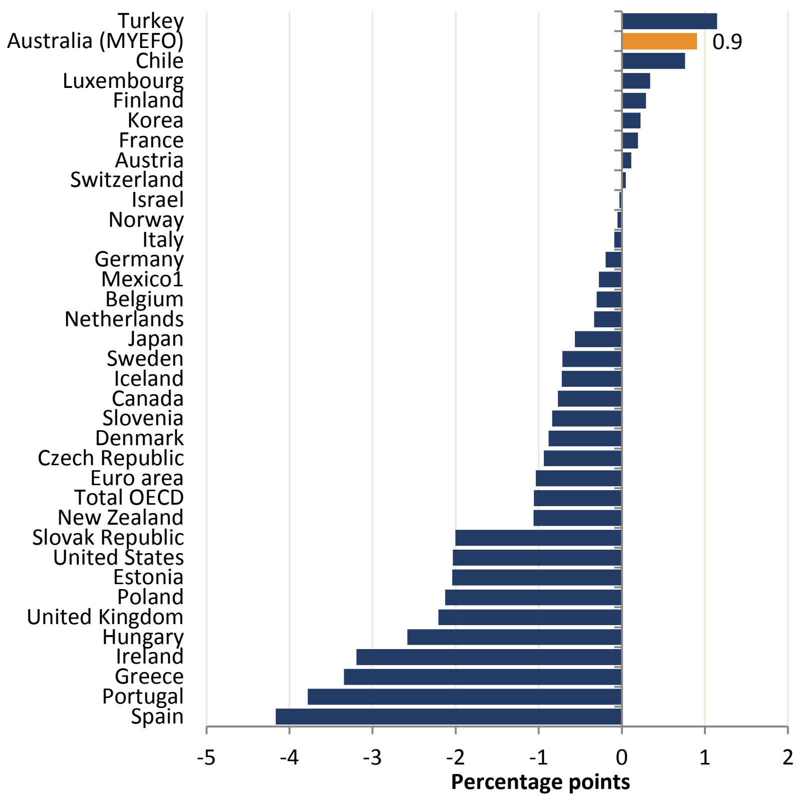
Figure 5: Unemployment rates in key OECD countries



Source: OECD 2014 *Economic Outlook,* Annex Table 13. Australia's forecast is from MYEFO and pertains to the June quarter of each year. Other forecasts are from the OECD and pertain to an annual average.

The Government forecasts that the unemployment rate will be 0.9 percentage points higher in 2016 than it was in 2013. That's the second highest expected rise in the unemployment rate of any OECD country over that three year period, behind only Turkey. Australia's unemployment rate is rising off a relatively low base, but unemployment is expected to fall in most other advanced economies.

Figure 6: Change in unemployment rate: 2013 to 2016 (forecast)



Source: OECD 2014 *Economic Outlook,* Annex Table 13. Australia's forecast is from MYEFO and pertains to the June quarter of each year. Other forecasts are from the OECD and pertain to an annual average.

Extended period of high unemployment risks structural damage

The ACTU is firmly of the view that the increase in the unemployment rate represents an increase in slack in the labour market – it is a cyclical, not a structural rise in joblessness. However, the outgoing Treasury Secretary, Martin Parkinson, recently warned of the danger of allowing cyclical unemployment to harden into structural unemployment.[3] The longer the unemployment rate remains elevated, the greater this risk.

Australia was nearly alone among OECD countries in avoiding long-term damage from the global financial crisis in the form of reduced potential output and higher structural unemployment.[4] Policy, including fiscal policy, played a key role in avoiding such an outcome. Having avoided a rise in structural unemployment through the 'great recession', policymakers should not be complacent in the face of high and rising unemployment in 2015.

[3] Parkinson, M. 2014, 'Looking Ahead: Challenges and Opportunities for Australia', Address to the Committee for Economic Development of Australia, 27 November 2014. Available from: http://www.treasury.gov.au/PublicationsAndMedia/Speeches/2014/CEDA-27112014

[4] Ball, L.M. 2014, 'Long-Term Damage from the Great Recession in OECD Countries', NBER Working Paper 20185, National Bureau for Economic Research, Cambridge, MA.

A BUDGET TO REDUCE UNEMPLOYMENT

Government can and must act to reduce unemployment in the coming Budget. An unemployment rate with a 6 in front of it is not a situation that should be accepted.

The Budget should act to reduce unemployment by:

- Refraining from cuts in expenditure;
- Allowing the 'automatic stabilisers' to work;
- Supporting Australian jobs directly through industry policy;
- Building the skills of Australian workers; and
- Abandoning the government's push to slash public sector jobs.

The role of industry policy

The 2014 Budget slashed spending from government support for science, research and innovation, activities that are vital to the long-term growth of a relatively high-cost economy like Australia. Some key outcomes in the 2014-15 Budget were:

a) According to the government's Science, Research and Innovation Budget Tables for 2014/15, total spending on science, research and innovation will fall by nearly $400 million in one year.[5]

b) Of these $400 million in cuts, $340 million will be cut from programs that are specifically designed to encourage business investment in research and development.

c) In addition to the above cuts, the value of the Research & Development Tax Incentive (which provides offsets against tax corporate tax liabilities for companies that invest in R&D) has been reduced by $620 million.[6] This will increase the costs of R&D for many companies, weakening incentives to invest in new technologies and processes at a time when Australian exporters are already struggling to maintain their share of global high-value added product markets.

d) Over four years, funding to CSIRO will be cut by $111 million. This will result in 500 science support staff being made redundant. Around 200 companies directly collaborate with CSIRO in conducting complex and long-term scientific research. The budget cuts and loss of experienced staff will significantly weaken the ability of CSIRO to support such research in the years ahead.[7]

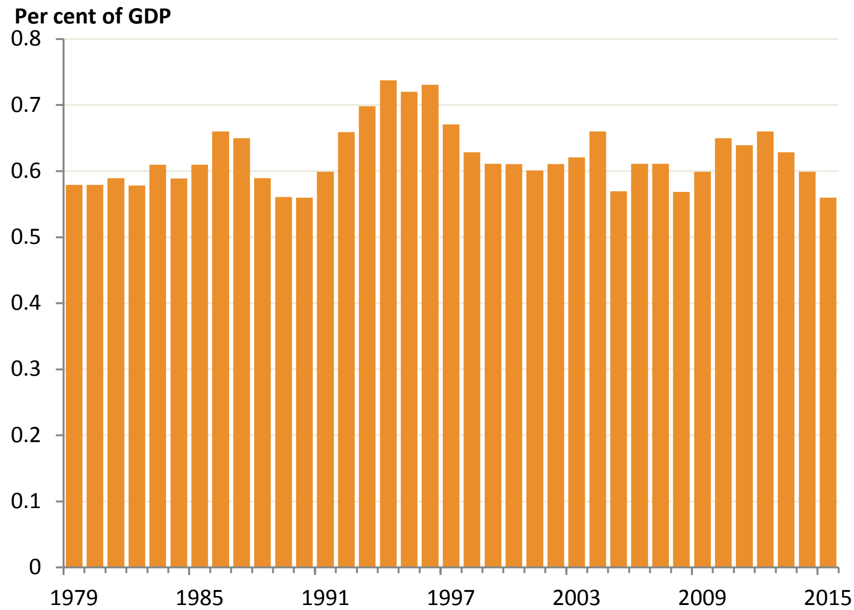
[5] http://www.industry.gov.au/aboutus/budget/documents/sribudgettables2014-15.pdf
[6]http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/BudgetReview201415/RandD
[7] http://www.theage.com.au/technology/sci-tech/sunday-explainer-longterm-effect-of-csiro-budget-cuts-20141220-12arim.html

e) Other organisations that play an important role in conducting and supporting scientific research have also had their budgets cut. Over the next 4 years funding to the Co-operative Research Centre will fall by $80 million, the Australian Research Council by $75 million, and Geoscience Australia by $36 million.[8] These cuts will reduce private sector investment in research because much private expenditure in high-risk long-term research depends on the availability of public funds to absorb some of the costs and risks.

f) Overall, the budget measures will mean that Federal government spending on science, innovation and innovation as a proportion of GDP will fall to a level below that in 1979 and not seen since the late 1980s. Parliamentary Library data showing levels of expenditure since 1979 is presented in Figure 7 (below). The blue bar for 2014/15 shows spending will fall to 0.56 per cent, lower than 0.58 per cent in 1979, and the same as the levels for 1988/89 and 1989/1990.

The 2015-16 Budget provides an opportunity for the Government to reverse these damaging and short-sighted cuts.

Figure 7: Australian Government spending on research and development



Source: Parliamentary Library

The Government's National Industry Investment and Competitiveness Agenda, released in October 2014, does little to compensate for large cuts to industry assistance in the budget. The policy includes support for a number of 'industry growth centres' and extra spending to encourage school pupil engagement with STEM (science, technology, engineering and maths) subjects.

The government has prioritised five industries for support: oil and gas; mining technology; medical technology; medical technology and pharmaceuticals; food and agriculture. A 'growth centre' will be established for each industry which will attempt to promote greater research and collaboration between participants. The government is currently consulting with business about how the centres should be designed and operated.

[8] Evans, T., 'Economic vandalism', *Evatt Journal*, Vol. 13, No. 7, October 2014

Each centre will receive up to $3.5 million a year for four years. After four years the centres must become self-sustaining. That funding will cease after 4 years means business participants will be reluctant to commit to projects that are long-term in nature – the kind of projects that most need public support and which are more likely to yield innovations in basic technologies.

The Government's commitment to STEM teaching is also inadequate. The Government has committed $12 million over four years for all primary and secondary schools to increase resources for teaching mathematics and computing, partly by funding Summer Schools. The amount of money is tiny relative to the resources needed to make a significant improvement to the resources available for STEM subjects in all Australian schools. Further, the most important barrier to more and better teaching of science is lack of teacher knowledge and pedagogy. Attracting good quality science graduates into teaching and supporting their professional development is the most effective single measure that could be taken. However, this would cost much more than the $12 million made available by the government.[9]

The role of skills policy

Investment in training and skills development is critical to improving Australia's economic performance, meeting the skills needs of Australian businesses, and providing Australians with access to quality jobs.

This investment is more important than ever at a time when unemployment, and youth unemployment, are at their highest levels in a decade. Yet, the Government cut around $2 billion from skills in the 2014-15 Budget (a net cut of around $1 billion), including:

- Axing the Tools for your Trade Program; a cut in the budget of almost $1 billion over four years in direct financial support for apprentices. In its place, the Government has shifted costs onto the apprentices themselves with a new Apprentice Trade Loans program that will leave apprentices with a future debt to pay off.

- A further cut of $1 billion by abolishing a range of skills programs that included vital support for basic literacy and numeracy skills in the workplace, upskilling for existing workers, and mentoring, advice and assistance for apprentices.

- Abolishing the Australian Workforce and Productivity Agency (AWPA). As the national skills agency, AWPA had been a valuable source of independent tripartite advice and advocacy in relation to the national skills agenda.

- The introduction of an 'earn or learn' requirement for individuals under 30 years of age to either be in work or study, or face losing access to income support for periods of up to 6 months at a time. At the same time, it took away the very programs that help support the capacity of people to 'earn or learn'. These are punitive policy measures that would only force the unemployed further into poverty and not help them find work or develop real skills. The Government has thus far failed to win support for this particular measure in the Senate.

[9] http://theconversation.com/competitiveness-agenda-lays-path-for-industry-led-innovation-experts-react-32955

The Government continued in the same vein in the recent MYEFO, with further cuts to skills of more than $100 million. This included a cut of $66 million by removing support for adult apprentices and a $43 million cut by removing 10 000 training places available under a program aimed at providing jobseekers with basic skills to help get and retain a job.

The savage cuts to skills by this government exacerbate a long period of funding neglect of the VET sector. A 2014 Productivity Commission report on government service provision found Government expenditure on VET per student contact hour had fallen 25% since 2003.[10] Furthermore, the rate of Commonwealth and state funding for VET per full time student has fallen dramatically since 1999 compared to the primary, secondary and higher education sectors. [11]

The funding model for VET needs to reflect the true cost of providing quality training and support services to students, including support for disadvantaged learners and training delivery in rural and remote areas.

AWPA has calculated that to meet COAG targets to deepen the national skills base there will need to be a 3% increase in the number of VET enrolments annually each year to 2020, effectively a one-third expansion of the VET system. This will require additional funding of 3% per annum or an average of $310million each year from 2012/13.

This is the funding benchmark for VET that governments should be meeting. Instead, what we see is ongoing cuts to VET, at the very time when a well-funded quality VET system is so important in providing affordable and accessible training that delivers the skills and qualifications required for quality jobs. The Government must take steps to address this funding shortfall in the 2015-16 budget.

Matters requiring priority attention in the upcoming budget and beyond include:

- Ensuring the ongoing viability of TAFE as the public provider of quality VET, with a commitment by all governments to maintain TAFE funding in real terms, as a minimum.

- Support for a strong apprenticeship system that includes greater emphasis on up-front support services for apprentices and employers, to help with more informed apprenticeship choices, and the establishment of a National Custodian for the Apprenticeship system.

- Providing jobseekers with access to training within the VET system up to Certificate III level, while ensuring the training matches the jobseeker's interests and skills, and aligns with current labour market needs

- Expanding the use of Recognition of Prior Learning (RPL) to capture the existing skills profiles of the unemployed and workers about to be made redundant, combined with upskilling to address potential skill gaps and training linked to identified jobs.

- Establishing a network of Workplace Learning Representatives or Workplace Champions to advocate for the training needs of workers and promote improved workplace literacy and numeracy.

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[10] Report on Government Service Provision 2014, Volume B, Chapter 5, Vocational Education and Training, Productivity Commission, 2014, p.5.3, 5.31-5.33, and table 5.A.20, table 5.A.2.. See http://www.pc.gov.au/__data/assets/pdf_file/0018/132309/rogs-2014-volumeb-chapter5.pdf

[11] *Future Focus: 2013 National Workforce Development Strategy*, Australian Workforce and Productivity Agency, Canberra, p. 130.

- Ensuring that public funding support for VET is directed at full, nationally recognised qualifications that give workers mobile and transferable skills. Firm-specific training should be funded by the employers who benefit directly from those skills. The ACTU strongly opposes any measures to further shift the cost burden of training onto the individual.

- Ongoing support for a co-contribution funding mechanism between government and industry that supports the upskilling of new and existing workers across all industry sectors, including those sections of the workforce such as casual workers who currently miss out on such training opportunities.

- A well-resourced and effective national VET regulator. It is vital that ASQA has the resources it needs to vigorously regulate and audit the performance of training providers and ensure they are held accountable for the training they deliver, as well as enforcing rigorous standards for entry into the 'market' at the front end;

- Well-resourced Industry Skills Councils to provide the voice of industry in the VET system.

- The development of a national workforce development strategy for the VET workforce that addresses the level and quality of teaching qualifications in the sector, opportunities for professional development and stronger links with industry, and measures to address the unacceptably high levels of casual employment.

Public sector jobs

Unfortunately the Government has been directly contributing to the rise in unemployment in Australia by cutting public sector jobs. This short-sighted, damaging approach must stop. Public sector job cuts are not only damaging to the workers who lose their jobs, and their families and communities, but also undermine the quality and quantity of public services that Australians rely upon.

The impression is sometimes created by Government ministers and media commentators that Australia is burdened by a public sector that has become too large, inefficient and expensive. Job cuts are therefore argued to be a necessary part of reducing this 'burden' and creating more efficient services. However, there is no evidence to support this view.

The reality is that Australia has one of most efficient and effective set of public services of all leading OECD nations. Analysis by the Centre for Policy Development has shown that Australia is one of the few OECD countries that combine a relatively low tax-take with a high level of government effectiveness.[12] The World Bank agrees. In 2012 it ranked Australia in the 94th percentile for government effectiveness and 97th for regulatory quality.[13]

[12] Centre for Policy Development (2013*) False Economies: Band for Our Buck*, CPD, Sydney.
[13] World Bank (2013) *The Worldwide Governance Indicators, 2013 Update*.

While the numbers of Commonwealth public sector employees has grown slightly in recent years, from 175,531 in 2007-08 to 178,691 in 2013-14, this small growth is less than the growth in the population they serve and is proportional to Australia's overall increase in GDP. Moreover, the Commonwealth workforce consumes only 7 per cent of all Commonwealth expenditure.[14] The notion that the size and cost of the Commonwealth government has escalated out of control and is imposing an unacceptable and unsustainable burden on the Australian taxpayer is simply incorrect.

Cutting jobs in the public sector is an easy and high profile way for the Government to demonstrate its determination to make 'tough decisions' on spending. However, in a context where we already have a relatively low cost and high quality set of government operations, such cuts will serve only to place the quality and quantity of such operations at risk.

[14] CPSU (2013) *Submission to the National Commission of Audit*, Sydney.

A BUDGET TO REDUCE INEQUALITY

The 2014-15 Budget was blatantly unfair. If its measures had been implemented as proposed, it would have hit low-income Australians the hardest, and its regressive impact would have grown over time. The 2015-16 Budget is an opportunity to abandon this failed approach and deliver a budget that delivers for people on low- and middle-incomes.

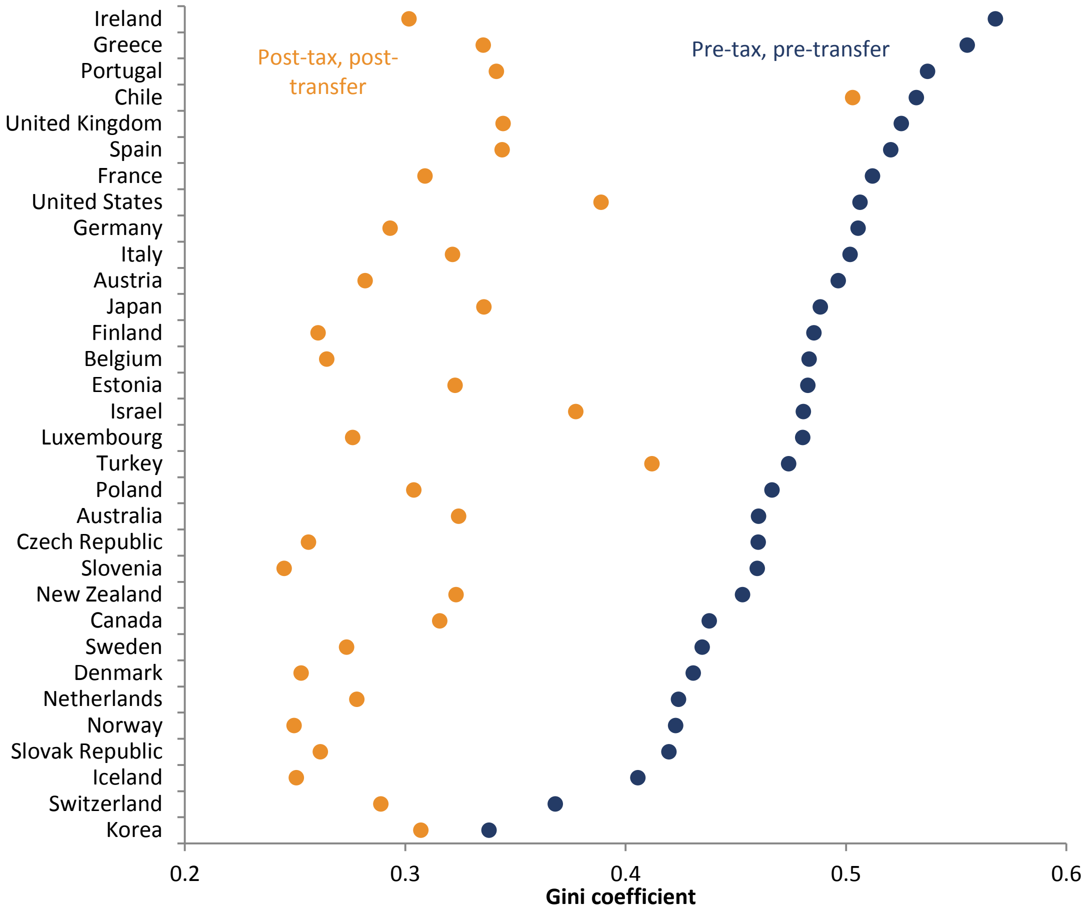
Australia does relatively little redistribution

There are a lot of factors that affect the level of inequality in a country. Perhaps the biggest factor is the amount that the country chooses to redistribute through taxes and cash transfers (like age and disability pensions, family payments, and unemployment allowances). Countries with similar levels of inequality in market incomes make different choices about the amount of redistribution to undertake, and the result is very different levels of inequality in disposable incomes.

Look, for example, at the United States, Germany, France and Chile. These four countries have a roughly similar level of pre-tax, pre-transfer inequality (with Ginis ranging from 0.5 to 0.53), but they have dramatically different levels of inequality after taxes and transfers are taken into account. France and Germany do a lot of redistribution, and reduce inequality by about .20 points from .50 to .30. The US doesn't do nearly as much redistribution, so its Gini coefficient after taxes and transfers is about 0.39 – America only reduces inequality by about half as much as France or Germany. Chile does virtually no redistribution at all, so it has a post-tax, post-transfer Gini of 0.50. The level of pre- and post-tax/transfer inequality is shown in Figure 8.

Figure 8: Countries with similar levels of pre-tax inequality can have very different post-tax inequality

Gini coefficient before and after direct taxes and cash transfers in OECD countries

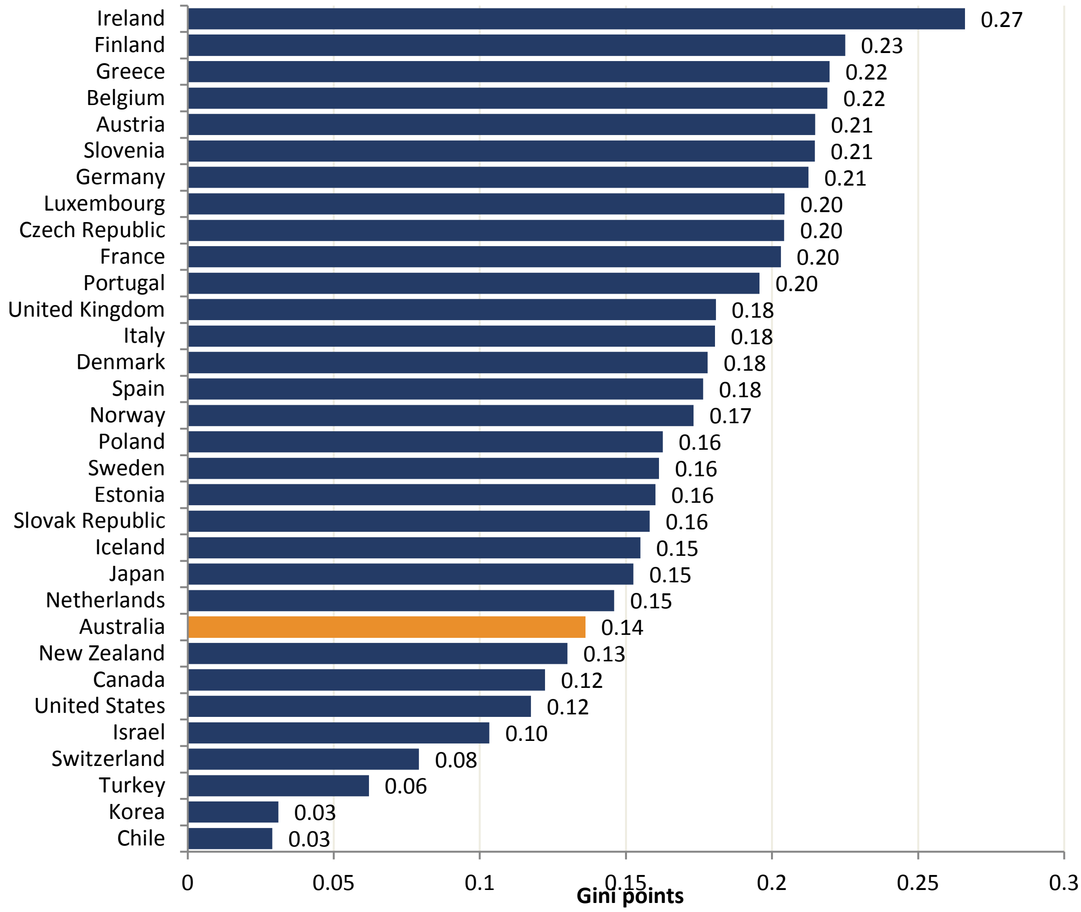


Source: [OECD Income Distribution Database](). The data are the latest available for each country; for most countries this is 2011.

Australia's level of pre-tax, pre-transfer inequality is lower than in many other OECD countries (Gini 0.46), but our post-tax, post-transfer inequality is somewhat higher than the typical developed country (Gini 0.32). The difference between those two figures – 0.14 Gini points – is a measure of the extent of redistribution that Australia does through direct taxes and cash transfers. Figure 9 shows that Australia redistributes income to a lesser extent than most OECD countries, and only a little bit more than the US.

Figure 9: Australia reduces inequality through redistribution less than most OECD countries

Difference between Gini coefficients before and after taxes and transfers



Source: ACTU calculations based on OECD Income Distribution Database. Data are the latest available for each country; for most this is 2011.

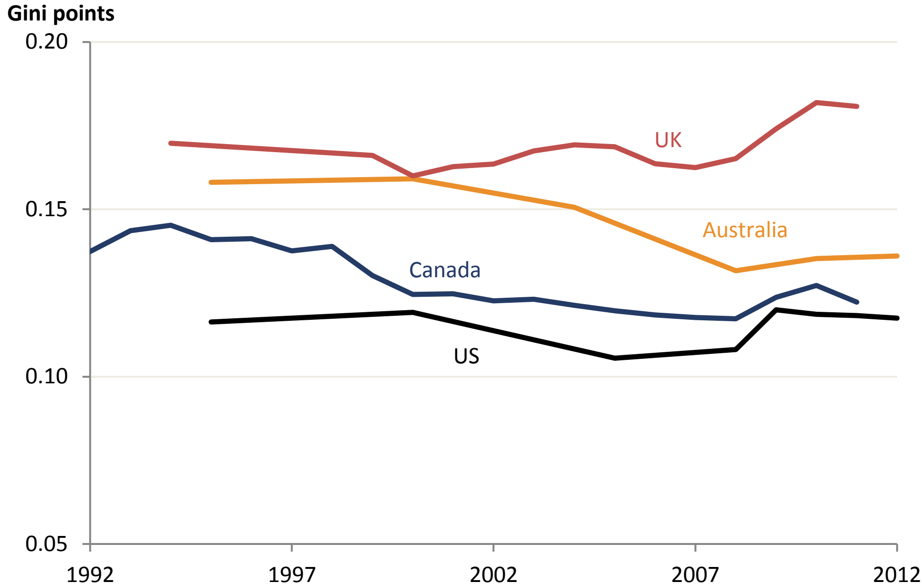
At first, this might seem counter-intuitive. Australia has a relatively progressive personal income tax system and we have by far the most targeted welfare system in the OECD. But the simple fact is that we don't raise much in taxes or spend much on transfers. What we do raise in taxes comes disproportionately from those who can afford it most, and what we spend goes overwhelmingly to those who need it most, but we're a low-tax, low-spending country. As a result, we're a low redistribution, somewhat high inequality country.

The amount of redistribution that Australia does through income taxes and cash transfers has also fallen over time. In the mid-to-late 1990s, we reduced inequality by about 0.16 Gini points through direct taxes and transfers. Now that figure is 0.14.[15]

[15] A recent paper by Herault and Azpitarte (2014) finds that the decline in income redistribution is mostly due to a change in the distribution of market incomes, but that policy change (such as a reduction in income tax progressivity) also played a role.

Figure 10: The extent to which Australia reduces income inequality through redistribution has fallen

Difference between Gini coefficients before and after taxes and transfers



Source: ACTU calculations based on OECD Income Distribution Database.

The measured proposed in the 2014-15 Budget would further reduce the amount of redistribution Australia does through income taxes and transfers. As a result, income inequality would rise if those measures were implemented.

The 2014-15 Budget's impact on households: NATSEM's analysis

NATSEM is a widely respected, independent research centre that specialises in economic and social policy modelling, particularly microsimulation. Its Static Incomes Model (STINMOD) is widely used, including by Commonwealth agencies, to analyse the distributional implications and possible cost of proposed changes to tax and transfer policies. Ben Phillips, the Principal Research Fellow at NATSEM, has used STINMOD to estimate the effect of the 2014-15 Budget on households of different types and with different income levels.[16] Phillips summarises his findings as follows:

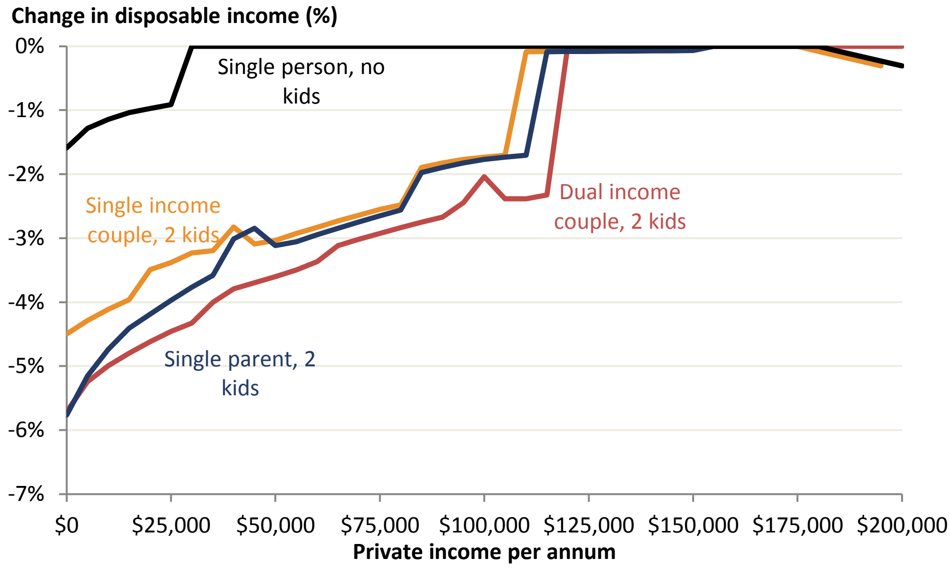
> *The burden on families for 2014-15 falls most heavily on low and middle income families with children. The impact on high income families with children is smaller in dollar terms and percent change terms… In percentage terms, the impact is clearly felt by the low income families more than high income families.*
>
> *The burden on families of the 2014-15 Budget is quite clear by 2017-18 once all grandfathering arrangements are removed and the Budget levy is removed. Low income couples with children (bottom 20 per cent) are worse off by around 6.6 per cent while single parents are worse off by around 10.8 per cent on average. High income families are marginally better off thanks to the carbon price removal.*[17]

[16] Phillips, B. 2014, 'NATSEM Budget 2014-15 Analysis', National Centre for Social and Economic Modelling, University of Canberra, May 26, Available from: http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf [Accessed 18 August 2014].

[17] Phillips 2014, p.4.

The effect of the proposed Budget measures on different household types can be seen clearly in Figure 11. For all household types, low-income households would experience the largest reduction in income as a result of the Budget. The reduction is largest for families with children. A single parent with children aged 8 and 12 would have his or her disposable income cut by 5.8% in this financial year by the Budget measures. Very high income earners will experience a much smaller income reduction – a single person earning $200000 per year would experience an income reduction of 0.3% as a result of the “temporary budget repair levy”.

Figure 11: Measures proposed in this Budget would disproportionately hurt low income people
(Modelled change in disposable income in 2014-15 by private income for various households types)



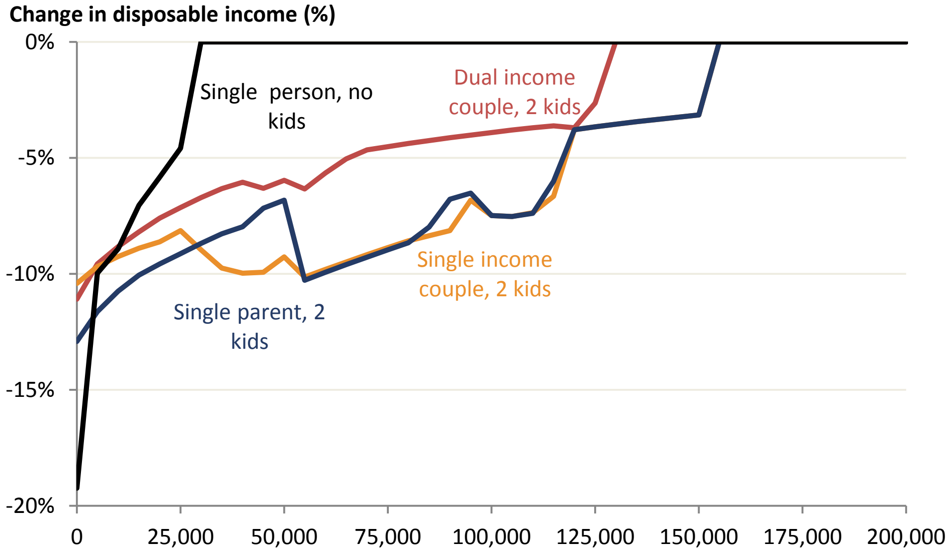
Source: Phillips 2014, ‘NATSEM Budget 2014-15 Analysis’, May 26. Available online: http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf

The temporary levy is set to apply for three years, up to and including 2016-17. This means that by 2017-18, the 2014-15 Budget measures will no longer have a negative effect on high income earners. In fact, the NATSEM modelling suggests that high income earners will be slightly better off in 2017-18 than they would have been in the absence of the recent Budget, due to the slight increase in real incomes as a result of the carbon price repeal. By contrast, the measures in the Budget that affect low-income earners are permanent and their effects generally grow over time. The pain from policy decisions such as freezing or reducing indexation or payment rates or eligibility thresholds is mostly not felt immediately – rather, its effect on the real incomes of households grows over time.

Figure 12 shows the effect of the 2014-15 Budget measures on various household types in 2017-18. Low income earners are expected to be significantly worse off in 2017-18 as a result of the recent Budget than they would otherwise have been.

Figure 12: The effect on low-income earners grows; the effect on high-income earners disappears

(Modelled change in disposable income in 2017-18 by private income for various households types)



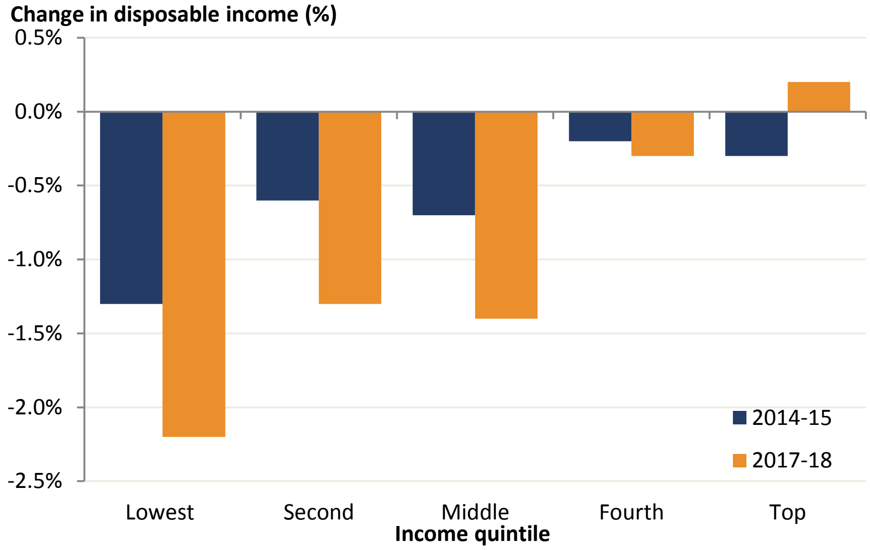
Source: Phillips 2014, 'NATSEM Budget 2014-15 Analysis', May 26. Available online: http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf

It is important to note that the NATSEM analysis does not include the proposal to deny income support for 6 months to jobseekers aged less than 30. Including this measure would make the apparent impact on households even more starkly negative.

The inequitable effect of the 2014-15 Budget can be seen most clearly in Figure 13, which shows the average change in disposable income for each income quintile for this financial year and for 2017-18. This year, the average income of low income earners is expected to be cut by 1.3% if last year's Budget were implemented in full; the average income of high income earners would fall by just 0.3% relative to where it would otherwise have been. By 2017-18, the average income of low income earners would be 2.2% lower than it would otherwise have been, while high income earners will be slightly better off (+0.2%) than they would've been if the 2014 budget measures hadn't been implemented.

Figure 13: The budget hurts low income earners the most

Mean change in disposable income by quintile as a result of the 2014 Budget in 2014-15 and 2017-18



Source: Phillips 2014, 'NATSEM Budget 2014-15 Analysis', May 26. Available online: http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf

The 2014-15 Budget increase inequality in Australia. The gap between the richest and poorest in Australia would grow, as the amount of redistribution we achieve would be reduced further. This approach should be abandoned and reversed for the 2015-16 Budget.

The Budget's impact on households: Treasury's analysis

Treasury analysis released under Freedom of Information to Fairfax Media also shows that the Budget will reduce the incomes of low income households by a greater amount than high income households.[18] The Treasury analysis, which was produced for the Budget itself, shows that working age households' incomes in 2016-17 will be lower than they would otherwise have been, by the following amounts:

- Lower income households: $844 per year;
- Middle income households: $492 per year;
- Higher income households: $517 per year.[19]

Lower income households will be hit harder than high income households even in absolute dollar terms; if these figures were expressed as a percentage of income, the inequity would be even starker. The 2015-16 Budget should include the distributional analysis Treasury undertakes, rather than attempting to hide the differential effect of policies on low-income Australians.

[18] Treasury 2014, 'Final Distributional Analysis for 2014-15 Budget', Available from: http://www.treasury.gov.au/Access-to-Information/DisclosureLog/2014/1510 [Accessed 19 August 2014].

[19] ACTU calculations based on Treasury 2014.

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