Submission from Catholic Social Justice Commission, Archdiocese of Canberra and Goulburn, in Response to the Interim Report of the McClure Reference Group Reviewing Australia's Welfare System

The Catholic Social Justice Commission of the Archdiocese of Canberra and Goulburn is an official body of the Catholic Archdiocese of Canberra and Goulburn whose members are appointed by the Archbishop. We operate with a degree of independence in developing positions within the framework of Catholic social teaching but our expressed views do not claim to represent the views of the Catholic Church.

The Commission has a long-standing interest in the issues covered by the Reference Group's Interim Report. We have been particularly concerned about what we see as problems with the Welfare to Work initiatives implemented in July 2006. We welcome the opportunity to comment on the Interim Report.

Underlying values

This is not the place for a long dissertation on Catholic social teaching. Instead we simply wish to restate in plain language four guiding principles. We believe they are shared with the community as a whole.

First, every person's dignity should be respected. In practical terms this means all people should have access to income and services that enable them to live at a minimum level of decency in their community.

Second, work not only has economic value but enhances human dignity. As far as possible, everyone able and willing to work should have a job that enables them to flourish and provides a just wage.

Third, people in like circumstances should be treated alike. To do otherwise is inequitable.

Fourth, the family is the basic unit of society. Governments should be supportive of family cohesion and stability.

In policy terms it can be difficult to achieve outcomes that address all these principles at once while also being economically realistic. The economy may well be just a means to an end, but its healthy functioning is vital to attaining that end (which in essence is human wellbeing).

The central issues

The Interim Report rests on the assumption that "long-term reliance on income support *increases* (our emphasis) the risks of poor health, low self-esteem and social isolation". We believe that the risks of poor health, low self-esteem and social isolation arise more from the poverty and joblessness that create the need for income support. We recognise that long-term reliance on income support can aggravate the situation, not least by undermining self-esteem and work incentives, but adequate income support is a crucial element in reducing poverty for those who cannot work or are unable to find it.

We welcome the Reference Group's focus on building better pathways to employment for those excluded without good reason from the world of work. We also acknowledge that the relationship between income support and incentives to work can have major implications for individuals, families, the wider community, the economy and the Budget 'bottom line".

In our view the biggest problem with the Welfare to Work initiatives of July 2006 concerned the inadequacy of the income-support levels on which many disadvantaged Australians rely are in fact inadequate. The situation for many people has worsened since then. The focus of this submission is therefore on income support.

A new structure

Quite rightly in our view, the Reference Group argues for simplification. Complexity creates confusion for people who are the most vulnerable in the community. It creates inequity and hardship insofar as many do not access payments intended for them. Some complexity is, of course, unavoidable given the range of situations that income support has to cover, but every effort should be made to minimise it.

The Interim Report proposes that there be four primary payments:

- A tiered working-age payment
- A disability support pension (DSP)
- An age pension (AP)
- A child payment.

We wish to consider the first two of these together, as the issues surrounding them are closely linked and their present relationship is highly problematic.

A tiered working-age payment and a DSP

The Reference Group rightly says that the gap between rates of pension and allowances for people of working age is too wide, especially for those who have limited work capacity or are significantly disadvantaged in the labour market. In principle we see a case for increasing allowances to *more than the pension rate* because of, among other things, the costs that unemployed people face in looking for work. No doubt such a rise is impractical in the current climate, but the equity case for it highlights the urgency of at least a substantial increase.

How might such an increase be structured? For unemployed people with a disability or other labour-market disadvantages we propose setting maximum rates as proportions of the DSP:

- 85 per cent for those who can work 30 or more hours a week
- 90 per cent for those who can work between 20 and less than 30 hours a week
- 95 per cent for those who can work between 10 and less than 20 hours a week.

For those whose unemployment is long-term, we envisage paying the "next highest" rate where duration exceeds six of the last 12 months. This would help people in meeting the "one-off" costs of replacing such items as clothing and consumer durables.

The "hours" test of work capacity is a better measure than "impairment". It is not perfect, however, and would need to be supplemented on the basis of a person's actual experience.

For sole parents we propose a similar structure. The number of hours that a person can work would be assessed on the basis of the extent and intensity of her/his family responsibilities, with the proviso that anyone with a child under eight years of age would be paid the rate of pension. Carer Payment provisions would remain unchanged.

We do not favour the Reference Group's suggestion that the DSP continue but only as a payment for people with a permanent impairment and no work capacity, as very few people have absolutely 'nil' work capacity. Rather we think that the DSP should be kept for those who have an impairment that prevents them from working for at least 10 hours a week.

The new structure would reduce incentives to claim DSP by closing some of the gap between pension and allowance rates. It would be more equitable than the present system, in that the "penalty" for falling just below a given level of work capacity would be much less.

The age pension

The AP was thoroughly reviewed six years ago. A substantial increase in basic rates followed soon after. While the AP rates are still not high, the inadequacy of allowance rates is a more pressing issue to address.

That said, we consider that pension rates should not be allowed to fall relative to community standards. We will briefly discuss this issue below in the section on payment adjustment.

Superannuation

Superannuation is a complex issue on which we are unable to comment in depth. We wish, nonetheless, to make the following points:

- The system gives greatest benefit to people on high incomes
- Its impact, both short-term and long-term, in reducing reliance and expenditure on income support is far below the very heavy cost of the tax concessions that underpin it
- It therefore fails the test of directing scarce resources to those who need help most
- Any action to curb the growth in AP should take second place to reducing the tax advantages of superannuation, particularly the tax treatment of income streams paid to people aged 60 and above.

Aligning the preservation age for superannuation with the age of eligibility for the AP should also be considered.

Child payments

We do not have a particular view about how to integrate the vast array of provisions for children into a single child payment. It is a largely technical issue.

We are, however, of the view that rates of child payments should not be allowed to fall by default relative to community standards. We will discuss this issue in the next section.

Adjustment of payments

The Reference Group suggests that a common approach should apply to all payments. We agree.

We do not think, however, that automatic indexation in line with prices goes far enough. It is aimed at preserving purchasing power, but in the long run will lead to a rise by stealth in levels of inequality. The common approach should thus incorporate automatic adjustment in line with some measure of earnings. Whether that should be Male Total Average Weekly Earnings as at present or something else is a question beyond the Commission's expertise.

If a new earnings index is chosen, it should be only for future adjustments. In other words, payment rates should be the same proportion of the new index as they are at present. This does not preclude decreases in rates as a proportion of earnings if broader circumstances require such action. It simply ensures that decisions to move in this direction are explicit rather than allowed to occur by default.

The Budget "bottom line"

We are conscious of the fact that the approach we propose involves expenditure that is well above that forecast in the recent Budget. We therefore suggest some savings measures as offsets. Some are relatively small but have the added value of reducing complexity and removing long-standing anomalies. Others are larger in scope. Here is a list:

- Reduce the tax advantages of superannuation – see above
- Let the Paid Parental Leave scheme lapse or at least defer it – it has merits, but is not of high priority (especially in the current climate)

- Merge the income and assets tests on pensions and/or increase the rate of pension withdrawal under the assets test – it is a very lenient assets test that allows couples with assets in excess of $1.1 million to be eligible for a pension as at present
- Tax DSP for recipients under age pension age – it makes little sense to exempt DSP for this group when it is taxable for people on reaching age pension age
- Apply the means test to pensions for blind people – controversial as this seems, it is hard to justify the current exemption when other people with equally challenging disabilities are means-tested
- Remove "grandfathering" provisions such as the 2009 measures to limit the effects of tighter means-testing on then existing pensioners and the recent decision to quarantine some superannuation income streams from the effects of the Commonwealth Seniors Health Card reforms announced in the 2014-15 Budget – "grandfathering" adds to complexity as well as adding to expenditure.

This list could be vastly extended, but our point is not to provide a comprehensive inventory but rather to illustrate that it is possible to fund reforms that will make for a fairer and more adequate system of income support. Fundamentally it is a question of priorities.

Final thoughts

This submission is confined largely to issues of income support. We accept that, in general, work is the best form of welfare. Equally, however, we emphasise that for many people there is no choice: they simply have to rely on income support.

A fair and equitable system that provides adequate income support is an essential element of social protection. By comparison with most other developed countries Australia spends only a modest proportion of its gross domestic product on income support. The system is much more sustainable than much of the public debate sometimes suggests.