

Inflation, incomes and inequality

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RBA Conference
Sydney, Monday 25 September 2023

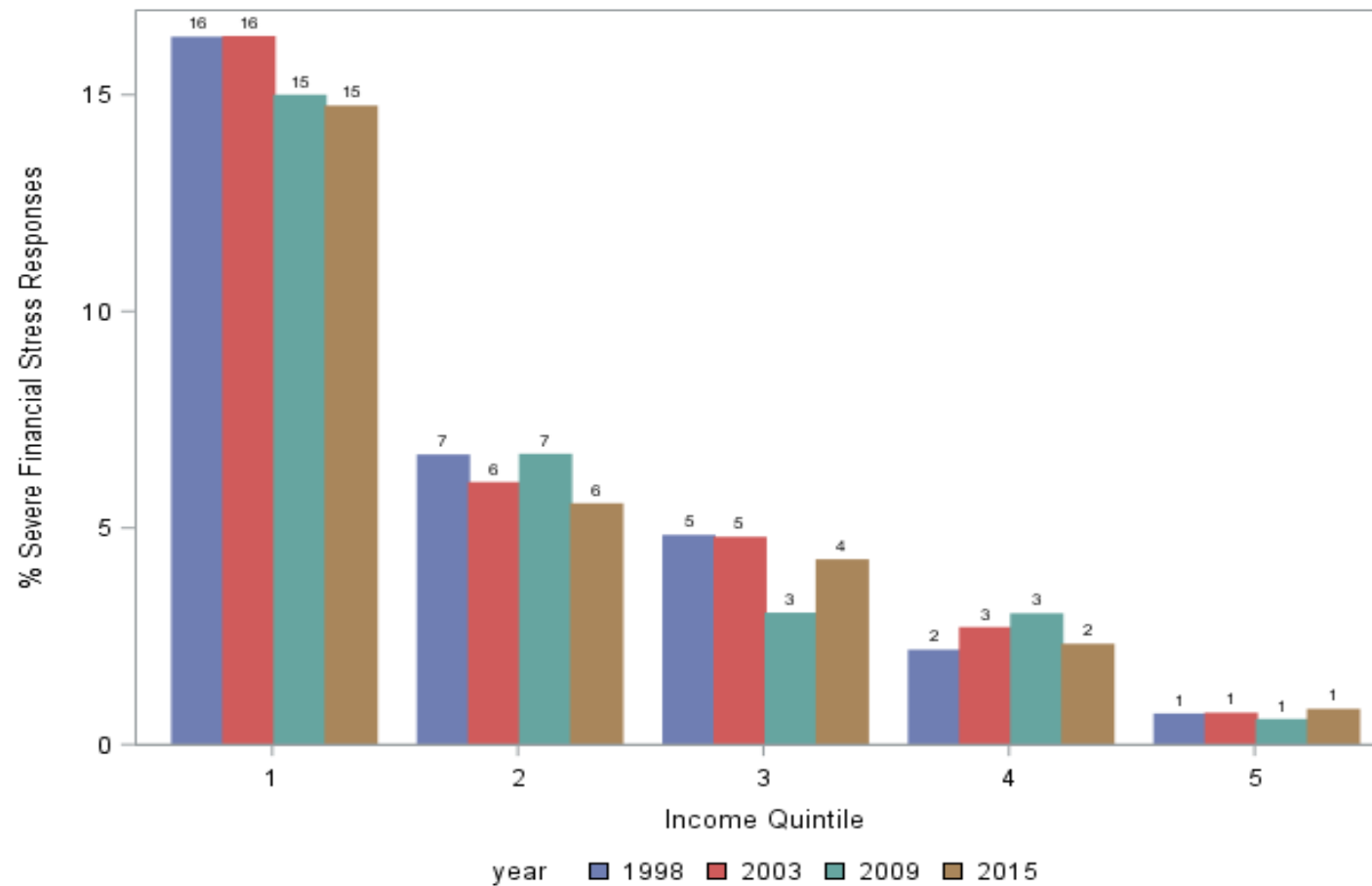


Key points: incomes, inflation & financial stress

- Inflation matters, but for people with low incomes and assets, financial hardship is first and foremost an income story.
- Jobseeker Payment is \$54 a day:
 - people were already struggling on the lowest income support payments
 - the higher cost of living adds an extra sting, despite CPI indexation.
- *Consumption buffers*: people on low incomes carefully navigate a hierarchy of basic needs every week - prioritising housing, health and their children, and sacrificing other needs, including food.
- All inflation is not equal: housing rent increases are the most severe shock for people with low incomes right now.
- *Liquid asset buffers*: people on working-age payments are typically chronically indebted and must run down liquid assets to claim benefits.

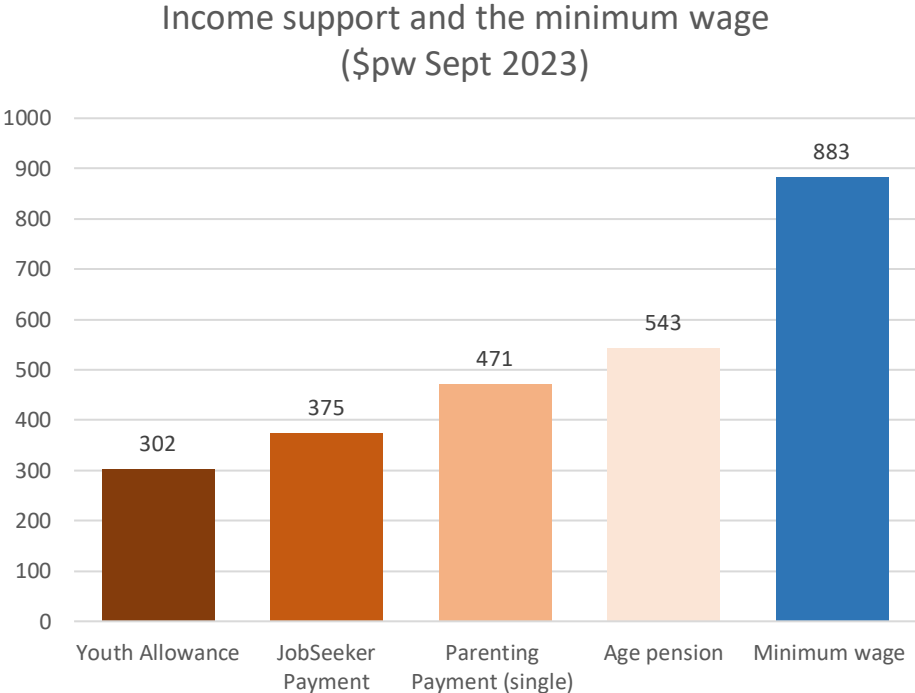
Severe financial stress is a by-product of low income

Rates of severe financial stress by equivalent disposable income quintile (%)

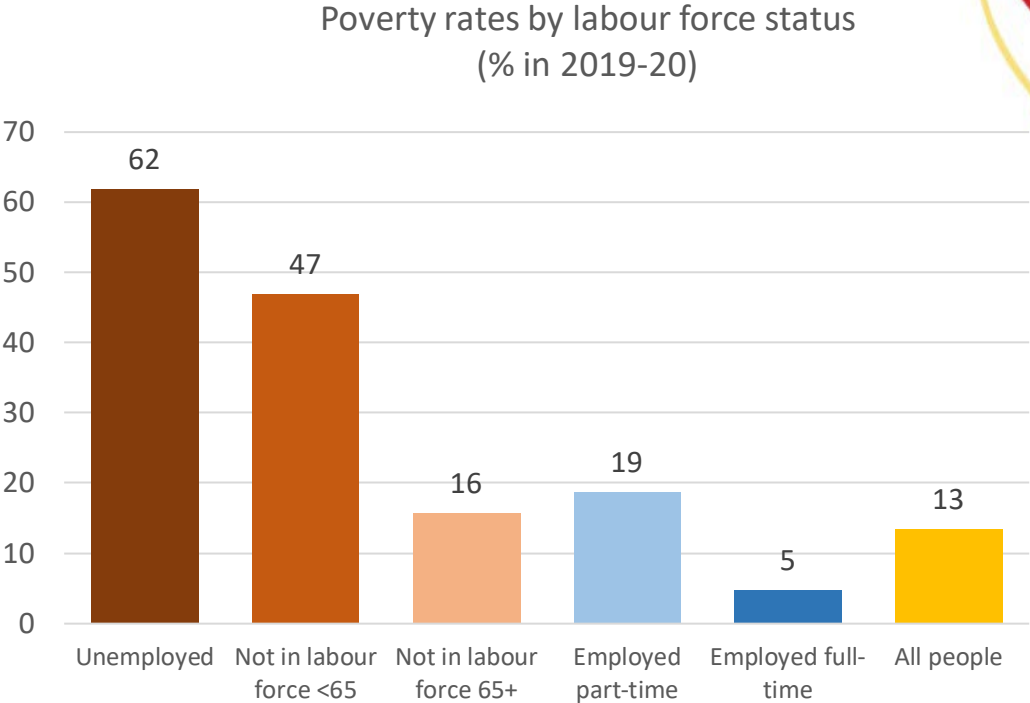


Source: Phillips B & Narayanan V (2021), Financial Stress and Social Security Settings in Australia. ANU Centre for Social Research and Methods. Canberra
Note: Share of respondents reporting severe stress, e.g. financial assistance sought from welfare/community organisations, unable to heat home or went without a meal.

The *risk of poverty* is greatest for people on working-age income support payments



Sources: Centrelink, Fair Work Commission
Note: Not including supplements such as Family Tax Benefit and Rent Assistance



Source: Davidson P, Bradbury B & Naidoo Y (2022), Poverty in Australia: Who is affected? ACOSS and UNSW Sydney.
Poverty line = 50% equivalent disposable household income after housing costs. Labour force status of household reference person.

Experiences of financial hardship

“My half share of the rent is currently \$275. Taken out of my \$321 a week JobSeeker payment means \$46 a week left over for food, petrol, and medication that keeps me out of heart failure.” Pam, Queensland (2023)

“I’m a 51-year-old widow, staring down the road of homelessness with each lease renewal and rent hike.” Ann, Queensland (2023)

“At present I try and only eat one meal a day to save on money and drink water, tea, and coffee to try and eliminate any hunger throughout the day.” Bonnie, South Australia (2023)

“I can’t afford to keep my rental warm enough, so I suffer an increase in asthma episodes. I make sure I have my asthma medication rather than buying fresh food at times but I have at times reduced my diabetic medication to half to make the medication last.” Kerry, New South Wales (2023)

What made a difference?

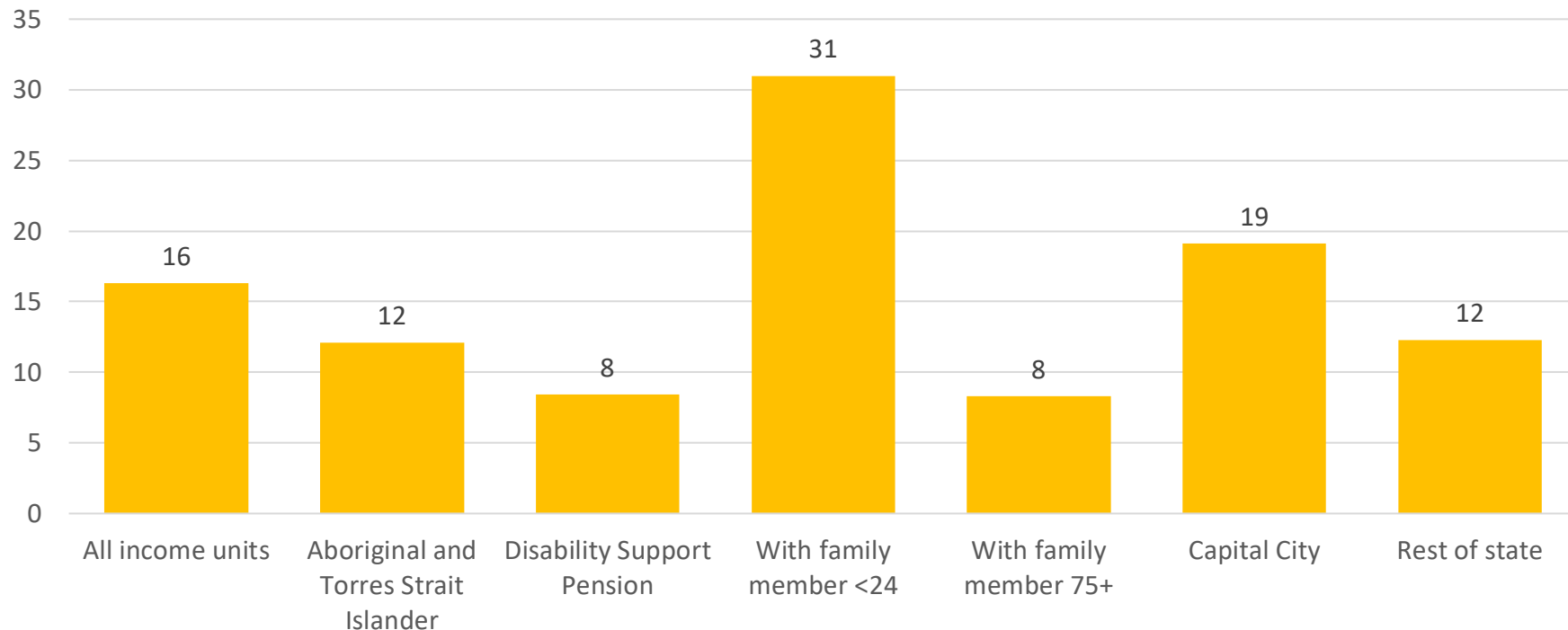
Well, when we had the [temporary \$275pw Coronavirus Supplement], I think that that was keeping me. I could afford the cost of living. I can focus on my emotional wellbeing. I think that was very important, the supplement. I don’t know what I would have done if I was in a struggle since the beginning. (Jackie, 2021)

It takes the stress out of life when you’re getting a decent salary, and you can see that, oh, I’ve paid the rent, I’ve paid this and that, and everything I have to. And then you look at it and you think, oh, I still got some money for myself. (Daisy, 2021)

Sources: ACOSS (2023), “It’s not enough: why more is needed to lift people out of poverty.’ Findings of a survey of people receiving income support in July 2023; ACOSS & UNSW Sydney (2021), Australian experiences of poverty: risk precarity and uncertainty during COVID-19.

Before the recent rent hikes, one in six low-income households on Rent Assistance paid over half their income in rent

Households receiving Rent Assistance spending more than 50% of income on rent (% in 2022)



Source: Productivity Commission (2023) Report on Government Services, Housing and homelessness services sector.
Commonwealth Rent Assistance was paid to 1.4 million low-income households receiving income support or Family Tax Benefit.

People on low incomes have low *liquid asset buffers*, and must run them down before they receive income support

- In 2018, 38% of low-income individuals (lowest 40%) in Australia lacked sufficient liquid financial buffers to cover three weeks' loss of income.

(OECD Wise Centre 2021, Inequalities in Household Wealth and Financial Insecurity of Households)

- If a person has liquid assets of:
 - \$5,500 (single) or
 - \$11,000 (partnered or with children)they must wait an extra week for Jobseeker Payment.
- If they have 11,500/\$23,000, they must wait 13 weeks.

To conclude: Some implications for macroeconomic policy



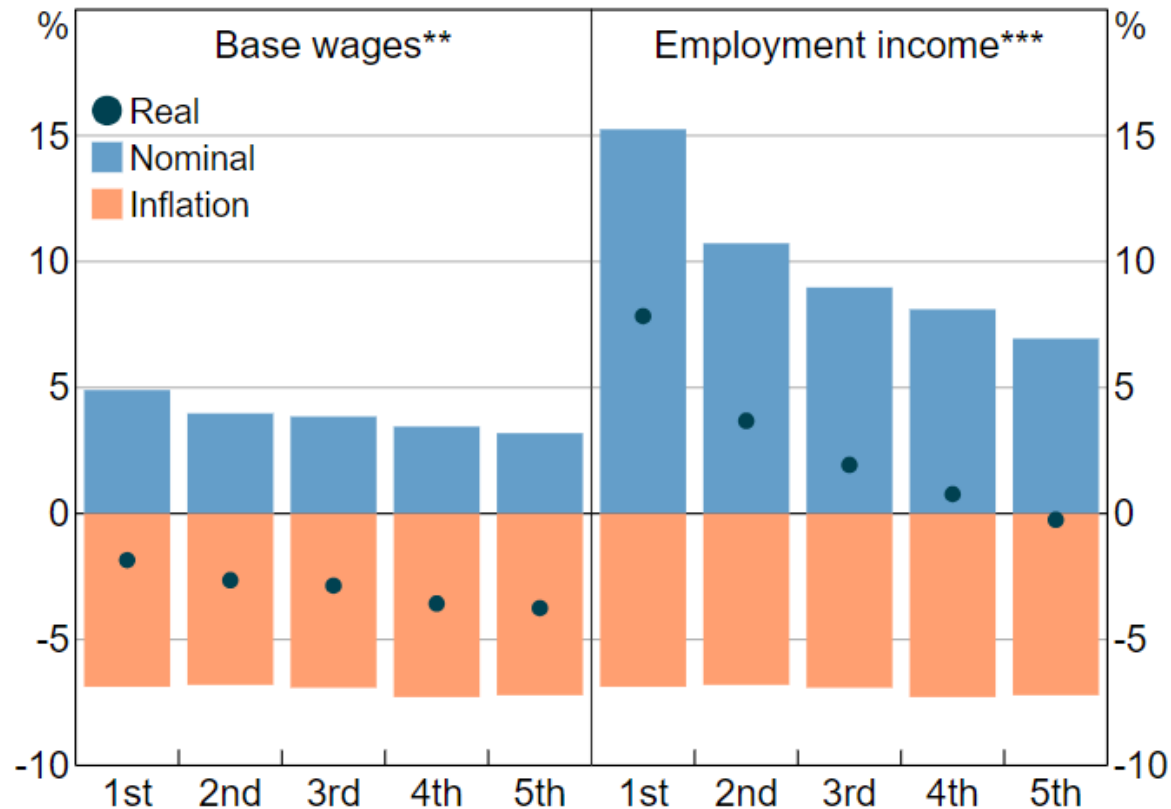
Macroeconomic policy trade-offs profoundly impact people relying on income support, or low paid/insecure employment:

- 1) Price stability vs full employment during booms
 - Research question: which has the greater impact on inequality of consumption possibilities and financial hardship:
high inflation or high unemployment/ underutilisation?

- 2) Should Govt. *increase the lowest income support payments* (an overdue structural reform) or delay to avoid fuelling inflation?

The impact of (almost) full employment on earnings inequality

Growth in earnings by income quintile, year-ended March 2023



Source: RBA (2023), Statement on Monetary Policy, August
Note: Quintiles of hourly employee wages in 2022

Sources on the impact of full employment on income inequality:

Australia:

Garnaut R (2021) [Reset](#). Black Inc Books. Melbourne.

Coates B & Ballantyne A (2022), [No one left behind: Why Australia should lock in full employment](#). Grattan Institute. Melbourne

United States:

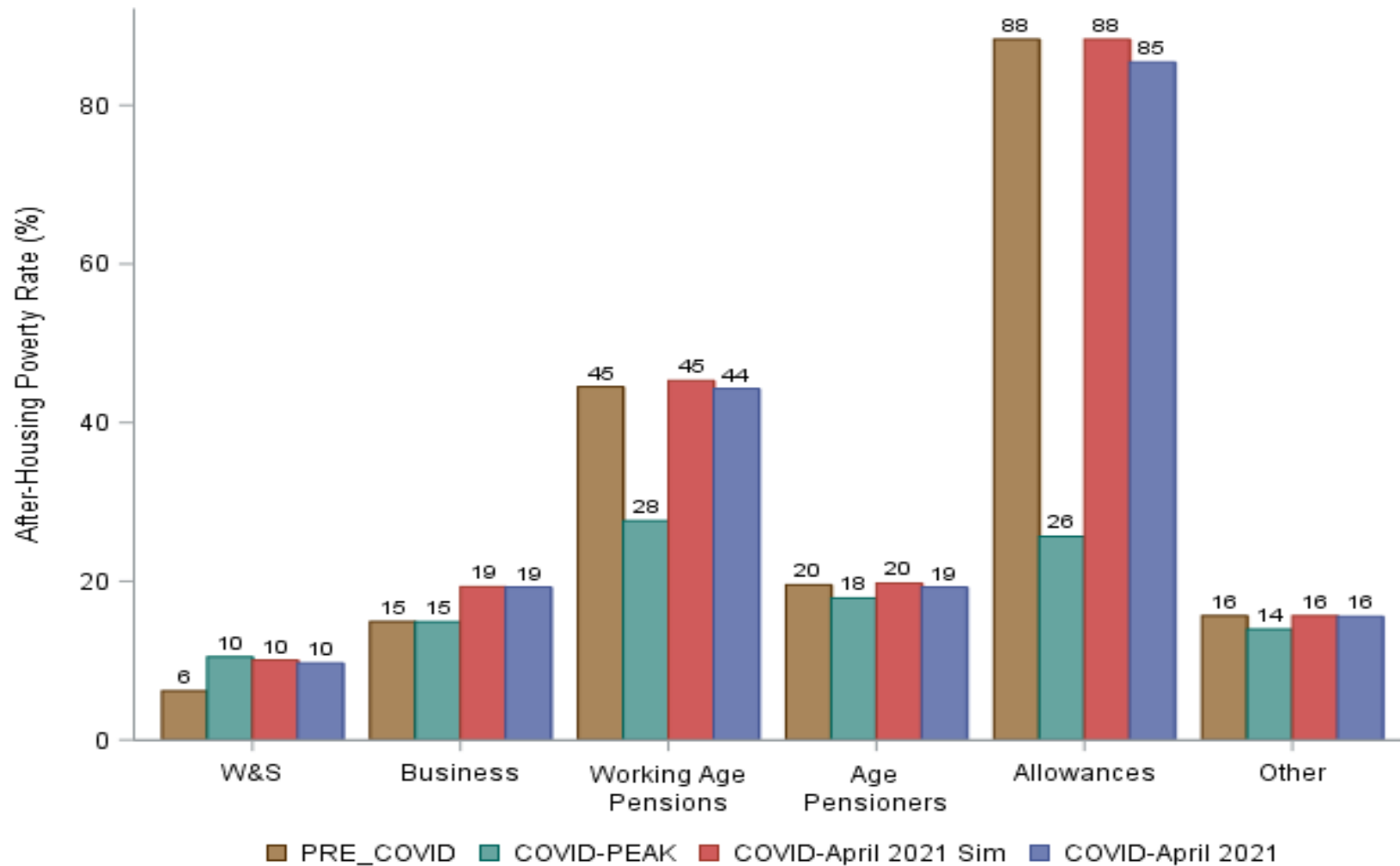
Bernstein J & Bentele K (2019), [The Increasing Benefits and Diminished Costs of Running a High-Pressure Labor Market](#).

Center on Budget and Policy Priorities. Washington.

Extra slides

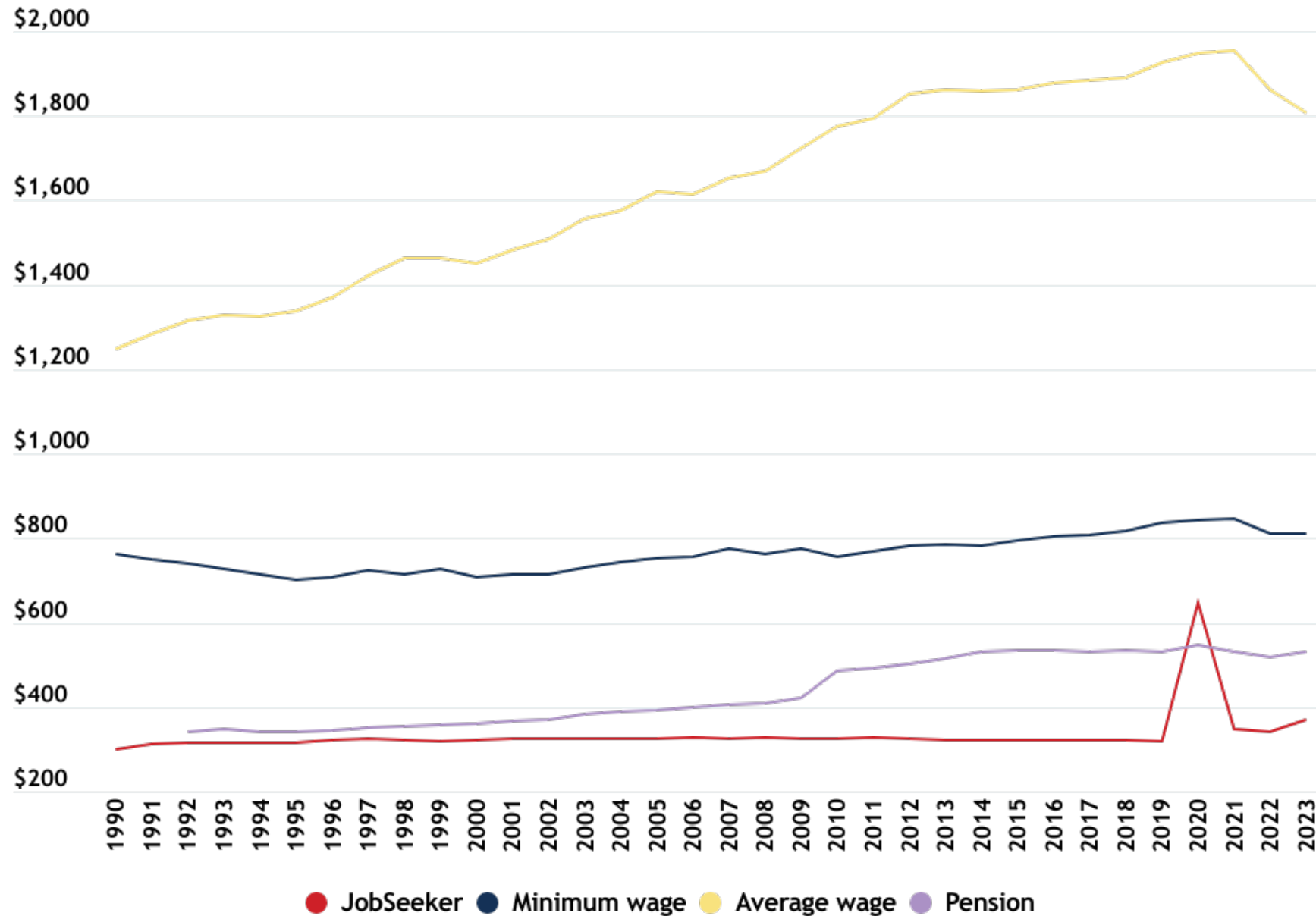


Poverty rates by main income during the pandemic (%)



Source: Phillips B & Narayanan V (2021), Financial Stress and Social Security Settings in Australia. ANU Centre for Social Research and Methods. Canberra

JobSeeker Payment pensions and wages (in \$2023)



SOURCE: ACOSS calculations

