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which has been published in final form at

<http://dx.doi.org/10.1111/spol.12039>

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# **The Global Financial Crisis and Child Poverty: the Case of Australia 2006-2010**

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## **Abstract**

While events associated with the Global Financial Crisis (GFC) had a profound impact on real family incomes and wellbeing in many rich countries, impacts in Australia were relatively minor. One reason for this was the massive policy response by the Australian government at the outset of the GFC, which pumped billions of dollars into the pockets of low and middle income families. This paper examines the impact of this stimulus on child poverty in Australia in the context of longer term policies on income support for families with children. We show that the emphasis of longer term policy has been to moderate support for families with children and that since the mid 1990s, rates of relative child poverty have not fallen. We find that while the impact of the stimulus was to reduce child poverty, the underlying trajectory of policies towards family assistance and child poverty in Australia have not changed, and therefore there is no expectation that child poverty will continue to fall in the future.

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## **Keywords**

Child poverty; Global Financial Crisis; income support; Australia; lump-sum payments.

# **The Global Financial Crisis and Child Poverty: the Case of Australia 2006-2010**

## **1 Introduction**

Events associated with the Global Financial Crisis (GFC) had a profound impact on real family incomes and wellbeing in many rich countries, including the US and the UK, and an almost catastrophic impact on other countries such as Greece, Ireland, Portugal and Spain (Jenkins et al., 2012). In contrast, Australia appeared to merely pause for breath. Economic growth slowed, but hardly stopped. Unemployment rose, but remained at a level well below that of most comparable nations. In part this can be associated with the continued strength of the Chinese economy, the main destination for Australian coal, iron ore, and other raw metals. As the Chinese economy grew through the GFC, the Australian economy appeared to be swept along in its coat-tails. A relatively high degree of labour market flexibility and strong regulation of the banking system helped too (Saunders and Deeming, 2011).

In part, however, the continued growth in GDP, and the very modest growth in unemployment through 2008 and 2009 can also be associated with the Australian Government's powerful response to the GFC at its very outset, which aimed (among other things) to boost the incomes and spending of low and middle income families. OECD figures show that the total Australian fiscal stimulus package was the third highest in the developed world over the period 2008 to 2010, with only the United States and Korea spending more on discretionary stimulus. The OECD figures also show that the spending component (compared to tax cuts) of the fiscal stimulus was higher in Australia than any other OECD country. But when you add in the effects of the GFC on tax revenues and public spending, the total impact on the Australian budget was estimated to be the 11<sup>th</sup> lowest in the OECD between 2007 and 2010. Nonetheless, as Vu and Tanton (2010, p.129) argue, the Australian stimulus package, unlike that in most other countries "was designed to both stimulate the economy, and assist certain families in the community." Indeed, the stimulus boost to low income families was almost unique among rich countries, where responses tended to focus on macroeconomic stimuli, often combined with later spending cutbacks to reduce public deficits.

We show in this paper that not only did relative child poverty not rise in Australia over the period 2006 to 2010, but indeed, government action appears to have played a role in reducing child poverty. We also aim to show that concerted government action at the outset of the GFC to boost the incomes of low and middle income families was on the one hand uncharacteristic of governments that, after a long period of expansion, had already started to restrain the growth of cash payments to families. On the other hand, the provision of these stimulus payments was made easier by the administrative structure of the tax-transfer system, which could easily and efficiently administer cash transfers to the poorest three quarters of families, and by a little researched feature of Australian transfer policy – the disbursement of cash to targeted groups through lump-sum payments. In this context, it is also worth noting that Australia has a highly centralised system of cash transfers from the Federal Government, and is also unusual among OECD countries in having the capacity to

directly provide assistance to low income groups within a short time frame (Saunders and Deeming, 2011).

In the following sections, we assess the effects of the Australian Government's response to the GFC as it impacted on family incomes, and place this effort in the context of longer term policy trends with respect to income support for families with children. We argue that the Australian Government's response to the GFC, with generous lump-sum cash handouts, especially to families, had a real impact on people's lives. However, we also suggest that while the response to the GFC was impressive, especially when compared with policy responses in other countries, it also implicitly shined a light on policies to wind back support for low income families with children in previous years, and the difficulties faced by Australian governments in reducing child poverty during a period of sustained economic growth from the mid-1990s onwards. In other words, the response to the GFC should not be seen as one of a series of ongoing initiatives to reduce child poverty, or poverty more generally. It was just that – a one-off response that appears to have achieved its short term aim of keeping Australia out of recession while many other rich countries were falling into it.

This paper is organised as follows. Section 2 discusses long term trends in support for families with children in Australia. Section 3 examines the macro-economic impact of the GFC in Australia and in OECD countries more generally. In Section 4, the Australian Government's response to the GFC is considered in international comparison, with a particular focus on payments to families with children. Survey microdata used in this paper are discussed in Section 5, and analysed in Section 6. Section 7 discusses and contextualises the findings, and Section 8 concludes.

## **2 Longer term trends in income support for families with children**

In common with most other rich countries, provision of cash assistance to Australian families has developed considerably since the early 20th century, reflecting changes in attitudes, labour market structures, family formation, and national income (Whiteford et al., 2001). Over time, the objectives of cash support for families have also changed, and have included contributing to the cost of raising children, redistribution of resources across the lifecycle, alleviating child poverty, improving the living standards of low income families, and relieving unemployment. Overall, the Australian system has gone further than most other countries in its emphasis on redistribution. This is seen in the extensive use of means testing, not necessarily to target on families with the lowest incomes, but in many cases to ensure non-eligibility of families with the highest incomes (Eardley et al., 1996, [Whiteford et al., 2011](#)).

Before 1987, when Labor (centre-left) Prime Minister Bob Hawke made his famous pledge to eliminate child poverty in Australia by 1990, cash payments to families consisted of a universal but modest family allowance, child additions to income support payments, including those for unemployed and lone parents, and a small in-work payment, Family Income Supplement, that had very low take-up. In December 1987, following Hawke's pledge, the system of payments for families was made more generous for low income families, but also means tested to reduce receipt among higher income families. In addition, payments were indexed to prices for the first time (later they were effectively indexed to wages). Further changes occurred in 1993,

when all payments for low income families were rolled into a single payment. From the early 1990s, therefore, Australia was one of the few OECD countries to have an integrated system of family allowances that provided support to families whether the parents were in or out of paid employment. In other countries, such as the US and the UK for example, parents who moved between employment and non-employment also in effect often moved between different systems of support.

The election of a centre-right government led by John Howard in 1996 did not halt the reform of family allowances. He further expanded payments to low income families, and in 2000 provided generous compensation for the introduction of the Goods and Services Tax (a VAT) with the introduction of Family Tax Benefit (FTB) – Part A, a means tested payment for all families with dependent children, and Part B, a payment that was only means tested on the income of the second earner in a household (usually the mother), and therefore available to all lone parents as well as partnered parents where one member of the couple did not work, or earned very little income. FTB was thus called because the intention was to integrate it into the income tax system – payments could be made fortnightly in cash, or at the end of the financial year in the form of a tax rebate (or indeed an overpayment notice). It was also made progressively more generous between 2000 and 2004, by which time Australia was spending well over 2 per cent of GDP on family allowances and other cash payments to families – one of the highest levels of expenditure in any OECD country (OECD, 2010). Spending on family allowances increased from around half the OECD average in 1980 to more than twice the OECD average in 2004. Over four in five families, moreover, received a payment, and substantial proportions in the middle income ranges (that is, in the fourth and fifth deciles of family income) paid less in income taxes than they received in cash payments ([Whiteford et al., 2011](#)).

The extensive use of means testing in the Australian social security system is well covered in the international literature (Eardley et al., 1996, [Whiteford et al., 2011](#), Esping-Andersen, 1990). Perhaps less well understood is the extensive use of lump-sum payments, either on a once-off basis or annually, but often paid under different conditions to the regular fortnightly income support payments. Recent examples include the Baby Bonus, introduced in 2002 as a once-off payment to new mothers (from 2009, it was paid as a fortnightly payment); annual additions to non-means-tested carer's allowance; end-of-tax-year lump-sum payments attached to FTB Part A and Part B, introduced in 2004 to reduce the likelihood of overpayments liabilities; and fairly regularly disbursed lump sum payments to individuals and families affected by significant natural disasters (for example, floods in Queensland in 2011 triggered such payments). Most recently in 2012, the Australian Government introduced a Schoolkids Bonus, paid as a fixed lump sum twice a year with respect to every child in primary or secondary school where the family is entitled to FTB-A.

As Saunders and Deeming (2011) point out, lump-sum payments have proved to be both expedient and popular. They can make a notable contribution to family incomes (albeit for a short time). But they can also be uprated or not, or abolished altogether, more easily than the regular fortnightly payments. Therefore, as Saunders and Deeming (2011) also argue, lump-sum payments can be “divorced from longer-run issues surrounding payment adequacy and eligibility conditions, and how economic policy can proceed independently of social security (and other social policy) reform.”

This for example can be seen with respect to the end-of-tax-year lump-sum payments attached to FTB. While FTB itself is indexed, the lump-sum payments have maintained the same nominal value since 2008. As we discuss below, lump sum payments were a key means through which the Australian Government sought to minimise the effects of the GFC.

Figure 1 shows trends in absolute and relative poverty among families with children throughout this period. A threshold of half median income, adjusted for household size and composition, is used, as is now the standard approach in Australian poverty analysis (for a fuller discussion, see Saunders et al., 2008). Between 1982 and about 1995, relative child poverty gradually declined, albeit from very high levels. This fall in child poverty was driven primarily by the increased generosity of cash payments to families ([Harding and Szukalska, 1999](#)), during a period when real median family incomes increased only modestly. By the mid 1990s, Australia was about halfway down in the 'league table' of rich countries in terms of its rate of relative child poverty, a considerable improvement in its position in the late 1980s (Bradbury and Jantti, 1999, UNICEF, 2000). After the mid 1990s, however, relative rates of child poverty either rose or flatlined, increased generosity of family payments notwithstanding – but during this period, real median family incomes (and hence the relative poverty line) increased by around 50% - the highest increase in the OECD apart from Ireland.

[Figure 1 here]

By 2009, in the middle of the GFC, relative child poverty rates were similar to what they had been in the mid-1990s. Note, however, the slight decline in relative poverty rates between 2007-08 and 2009-10 – though not statistically significant, this decline is consistent with the a similar decline in family poverty rates reported below from the HILDA data. [Rodgers et al. \(2009\)](#) who find a similar overall trend in child poverty rates between 1995-6 and 2005-6, attribute the general stability (or slight increase) in poverty rates to rising median incomes over the period. Consistent with their analysis, Figure 1 shows that poverty rates using poverty lines adjusted only for inflation, on the other hand, continued to decline up to the late 2000s, although there is some evidence of a slight increase in rates between 2007-08 and 2009-10.

We discuss child poverty through the GFC in more detail below. The point we wish to make here is that in spite of the increased generosity of payments to families through the 1990s and to the mid 2000s, relative child poverty did not fall, overall. Moreover, there is no sense from government statements of a policy focus on poverty reduction after the mid 1990s. Since the mid 2000s, after a Labor government was returned to power, first under Kevin Rudd and then under Julia Gillard, a policy of winding back payments to families with children was gradually introduced, through the freezing the nominal levels of some elements of payments and through changes in the indexation of FTB from an earnings to a prices index. Indeed, government documents show a clear intention to significantly reduce public expenditure on FTB between 2010 and 2020 (Treasury, 2007, 2010). It was in this somewhat complacent environment of neglect that the GFC struck.

### **3 Macroeconomic impact of the GFC**

The impact of the GFC on national indicators of economic wellbeing, especially in rich countries, is now well documented (Jenkins et al., 2012, Fitoussi and Saraceno, 2010, Thompson and Smeeding, 2012). In summary, as Table 1 shows, OECD countries on average experienced the beginnings of recession in 2008, a sharp economic downturn in 2009, and anaemic growth in GDP in the three following years. The Table shows that Australia on the other hand experienced continuous economic growth. Momentum was lost somewhat in 2009, but the country never slipped into recession according to the commonly agreed ‘technical’ definition – two successive quarters of negative GDP growth. Similarly, the unemployment rate in Australia, already significantly lower than the OECD average in 2006 and 2007, increased from 4.3 per cent in 2008 to 5.7 per cent in 2009, before falling to 5.2 per cent in 2011. This compares with an average rate in the OECD of above 8 per cent in the years 2009 to 2011.

Table 1 also shows that household spending, an important indicator of people’s confidence in the economy as well as the resources at their disposal, grew by 15 per cent in Australia between 2006 and 2011, in comparison with 5 per cent growth across all OECD countries. Moreover, the fiscal balance – the total amount of tax revenues minus the total amount of government spending as a proportion of GDP – while negative in Australia as in most other OECD countries after 2008, remained much smaller than the OECD average. Finally, Table 1 also shows another set of statistics that contextualises discussion of the policy response to the GFC below: social spending in Australia –public expenditure on cash benefits and welfare services as a percentage of GDP – increased significantly in 2008 and still further between 2010 and 2012; in this case however, the increase was roughly in line with the increase in the OECD average. Indeed, it lagged behind both the increases in many other countries, including the US and the UK (OECD, 2012), although this was in the context of much lower increases in unemployment and higher GDP growth than in most other OECD countries.

[Table 1 here]

### **4 Response to the GFC**

As the International Labour Organization and World Bank (2012) show in their comprehensive review of national responses to the GFC, most rich countries responded to the GFC with adjustments to monetary policy – lowering interest rates and increasing money supply. These responses were especially notable in the US, the Eurozone and the UK. Most countries also adopted regulatory measures, such as banning certain types of financial transactions, and guaranteeing bank deposits. Nineteen out of 22 rich countries that the ILO and World Bank (2012) surveyed undertook fiscal stimulus measures in response to the GFC, mostly in the form of tax cuts. Six countries adopted fiscal austerity measures, involving either tax increases or expenditure cuts. Only about a third of countries increased public expenditure overall

in response to the crisis, and as noted above, the direct outlay component of the Australian package was the highest in the OECD.

Australia fell into this latter minority of rich countries. Within three months of the collapse of Lehman Brothers, the Australian government had unveiled an A\$42 billion 'Nation Building and Jobs' plan. Included in this total was almost \$15 billion for building school halls, libraries and other educational facilities; almost \$4 billion to provide subsidies for improving energy efficiency in homes; nearly A\$7 billion for housing subsidies and public and community housing; somewhat less than A\$3 billion in small business tax breaks; and the most visible aspect of the package for most Australian families: A\$12.7 billion – paid in cash lump sums over the course of a few months – for the Household Stimulus Package. These payments alone amounted to almost 1.5 per cent of GDP in the financial year 2008-9.

The value of the Stimulus Package payments is best seen in the context of adult weekly earnings at the time. ABS (2012) reports average full time (male and female) adult earnings as A\$1,222.50 in February 2009. Under the first tranche of the Package, age and disability pensioners, and people in receipt of carer payments received A\$1,400 for singles, and A\$2,100 for couples. Two million families in receipt of FTB-A, including 3.9 million children, received A\$1,000 in respect of each child. These payments were all made in the lead-up to Christmas 2008. Further payments were made in February-May 2009, including A\$900 for working Australians with taxable incomes of less than \$80,000 (well above average earnings), and smaller amounts for people with taxable incomes of up to A\$100,000; a 'Back to School Bonus' of A\$950 with respect to every child in a family receiving FTB-A – about 2.8 million children in total (this is not to be confused with the 'SchoolKids Bonus' introduced in 2012); and a Single Income Family Bonus of A\$900 for families in receipt of FTB-B (about 1.5 million families). Note, however, that no payments were made with respect to people in receipt of Newstart Allowance, the main payment for the unemployed.

Therefore, a non-working lone parent with two school-going dependent children received A\$2,000 in extra payments before Christmas 2008, and a further A\$2,800 in early 2009. A couple with two schoolgoing children where one adult was on average earnings and the other on half average earnings received a total of \$5,700. This payment equalled more than four average weekly wages in early 2009. Vu and [Tanton \(2010\)](#) show that more than nine in ten families with children gained directly from the stimulus, and that lone parent families – the family group most vulnerable to poverty – gained the most.

This generosity can be contrasted with the response to the GFC in Europe, where, at first, comprehensive social insurance and cash transfer systems acted as stabilisers, for example through maintaining living standards of people who had lost jobs. Nonetheless, as [Callan et al. \(2011\)](#) show using microsimulation techniques, families with children generally lost out, whether they were targeted (for example, more than age pensioners were targeted), or not. Joyce (2012) shows that in the case of the UK, welfare reforms being implemented in 2012-13 will have a considerably greater negative impact on families with children than on the elderly.

The effect of the stimulus on living standards was impressive. Leigh (2012) estimates that at least half of it was spent, as intended, very soon after it had been paid. Australian consumer spending continued to grow at the end of 2008 and into 2009, in contrast to trends in the USA and the United Kingdom. In other words, people used the stimulus payments to maintain and boost their living standards, and thus to keep the economy moving.

## 5 Data

In the following section we use the Household, Income and Labour Dynamics Australia (HILDA) survey to examine the impact of the GFC and stimulus payments on the incomes of Australian families with children. The HILDA is a household-based panel study that follows almost 20,000 individuals spread across about 7,600 households, who have been interviewed each year since 2001. Ten waves of data (covering the years 2001 to 2010) are currently available. In each of these waves, the survey collects information about adult respondents' (aged 15 and over) demographic characteristics, family arrangements, education, employment, income and assets, and financial and subjective well-being. (Summerfield et al., 2011). Data were collected on persons in 6,872 households in the Wave 1 data. By Wave 5, there were 6,495 households in the dataset, including new households formed by original sample members, and by Wave 10 there were 6,727 fully responding households. Summerfield et al. (2011) report that by Wave 10, 7,460 individuals had participated in all ten waves of the survey.

Our analysis focuses on the most recent four waves of data 2007 to 2010, containing annual income data for the tax years (July to June) 2006-7, 2007-8, 2008-9 and 2009-10. Therefore, two of the years we focus on have information on family incomes and other characteristics before the GFC, the year 2008-9 encompasses the entire period when cash stimulus payments were made to families, and the following year contains information on family circumstances one year into the GFC. Our analysis includes both cross-sectional and balanced panel analysis, the latter including only those families for which we have income and other information for all four waves of interest.

For the purposes of this analysis, we define income as the total cash income reported by all family members aged over 15, including all income support payments, with income taxes deducted from the total. Stimulus payments discussed above are recorded in Wave 9 of the HILDA, and these are counted together with family income, or separately, as appropriate. Again, where appropriate, income is deflated using the Consumer Price Index to December 2009 values. For the purpose of comparing the living standards of families of different size, family incomes are equivalised with the OECD 'modified' equivalence scale. Poverty, overall, and among families with children, is measured using a threshold of 50 per cent of median income for the entire population. It should be noted that in comparison with the cross sectional data (which includes all available observations for each wave), the balanced panel (which only includes observations in the last four waves) appears to slightly increase poverty estimates overall, but reduce them among families with children. However, this difference does not affect the main results presented in this paper,

which focus trends among families with children, rather than comparisons between families with and without children.

Finally, two wellbeing scales are used in the analysis. Respondents complete the emotional and physical wellbeing questionnaire (SF-36), which is commonly used as a screening tool for general health, as part of a self-completion questionnaire. The SF-36 captures aspects of both physical and mental health, and has been extensively used and tested for robustness, including in the HILDA (Butterworth and Crosier, 2004). Respondents are also asked to agree or disagree with seven questions on their financial situation: ‘since [the start of the year] did any of the following happen to you because of a shortage of money? (items include ‘could not pay electricity, gas or phone bills’, ‘could not pay the mortgage or rent on time’, ‘pawned or sold something’, ‘went without meals’ ‘was unable to heat home’, ‘asked for financial help from friends or family’, and ‘asked for help from welfare/community organisations’). These items are aggregated into a financial wellbeing scale ranging from 0 (high self-assessed financial well-being) to 7 (low financial well-being) (this method of aggregation is commonly used for these indicators; see Mullan and Redmond, 2012, Australian Bureau of Statistics, 2004). Both scales are then aggregated (with equal weights, for simplicity) into a composite wellbeing scale.

## **6 Poverty among families with children through the GFC**

In this Section, we use the four annual 2007 to 2010 waves of HILDA to examine the impact of the GFC and the Australian Government’s Economic Security Strategy in response to it, overall and on families with children. We examine impacts on five groups within each of these two major categories: (1) the *always poor* - those who stayed in poverty in every year (2007 to 2010); (2) the *fallers* – those who fell into poverty. That is, they were not in poverty in 2007 and 2008, but they were in poverty in 2009 or 2010; (3) the *risers* – those who rose out of poverty. They were in poverty in 2007 or 2008, but not in 2009 or 2010; (4) the *never poor* – those who were not in poverty in any year; and (5) the *in-and-out-of poverty* – those who fell into and rose out of poverty in different ways between 2007 and 2010.

Table 2 shows the weighted percentages and unweighted numbers of observations in each category. Not surprisingly, perhaps, the majority overall and among families with children (73 and 81 per cent, respectively) were never in poverty between 2007 and 2010. Similar proportions of all persons and families with children (5 per cent and 8 per cent) were fallers, risers, or in-and-out of poverty. Among both groups, those who stayed in poverty made up the smallest proportions, six per cent in the case of all persons, and just 2 per cent in the case of families with children.

[Table 2 here]

Figure 2 shows trends in overall poverty rates between 2006-7 and 2009-10 among all persons, and among families with children. There is a clear divergence between the two groups. For the population as a whole, poverty remained stable at around the 15 per cent mark. Over the same period, poverty among families with children declined substantially, from over 10 per cent in 2006-7 to just over 7 per cent in 2009-10. The higher rate of overall poverty in these data is consistent with findings from other studies which show particularly high poverty rates among single people (aged and

non-aged), balanced by somewhat lower poverty rates among couples without children (Saunders and Bradbury, 2006, Saunders and Abe, 2010, Wilkins et al., 2011).

[Figure 2 here]

Figure 2 also shows that among both groups, the stimulus payments had an impact on poverty rates in 2008-9 – the year that they were paid. Without them, poverty would have increased slightly overall in that crucial year (although the difference with the actual poverty rate is not statistically significant). Among families with children, poverty would not have increased, but the change in the poverty rate in comparison with that from the previous year would have been unremarkable (here the difference between the rates with and without the stimulus payments is statistically significant).

For the remainder of the analysis, we focus on the impact of the stimulus payments on families with children. Figure 3 shows the distribution of stimulus payments (the median and the 75<sup>th</sup> percentile level in each decile) among families with children. The Figure shows that while some payments reached even families in the top deciles (this would have happened in particular with the Tax Bonus for Working Australians, paid to earners whose taxable incomes were less than \$100,000 in 2007-08, as well as with some non means tested carer payments), they were nonetheless quite well targeted on lower income (but not the lowest income) families. The median payment in the bottom second to fifth deciles was in the region of \$2,750, with payments gradually dropping away in the 6<sup>th</sup> to 10<sup>th</sup> deciles. The notably lower level of payments in the lowest decile is a factor of the characteristics of people in this group – low income families where parents who were not working missed out on stimulus payments directed towards low wage workers. And as noted above, unemployed people were (quite deliberately) overlooked when stimulus payments were being handed out, except if they had children.

[Figure 3 here]

Table 3 shows average amounts of annual income for the different groups of families in each of the four years. Most interesting here is the size of the stimulus payments as a proportion of income in 2008-9. It ranged from 15 per cent among the always poor, to 3 per cent among the never poor. Families who reported being in and out of poverty received the highest stimulus payments, on average, while never poor families received the lowest, followed by the always poor. This again shows how the stimulus payments, while aimed at those with low incomes, reached a substantial majority of families with children.

[Table 3 here]

Table 4 shows the measures of health and wellbeing, and financial wellbeing. Literature shows that self-assessed health and wellbeing tends to vary with income and material circumstances ([Pheley et al., 2002](#), [Klebanov et al., 1994](#), [Murali and Oyeboode, 2004](#)) and this is evident too in this study. The never poor have the highest measures of self-assessed financial well-being and physical and emotional well-being. Moreover, their levels of well-being do not appear to have changed much through the GFC. Financial well-being declined among fallers, and increased among risers, but physical and emotional well-being changed relatively little over the four years examined. Financial well-being and physical and emotional well-being declined somewhat among the in-and-out-of poverty. The biggest change was among the always poor: although they had the lowest levels of financial well-being and physical and emotional well-being in most years, their well-being increased notably during 2008-9 – the year that the stimulus payments were made. As Table 2 shows, the number of observations in this group is small. Their increase in financial well-being is statistically significant. However, their increase in overall well-being, while substantively large, is not.

[Table 4 here]

Nonetheless, evidence from in-depth interviews with economically disadvantaged young people would tend to corroborate this increase in well-being among the always poor. While Skattebol et al. (2012) were interviewing young people about their circumstances in late 2008 and early 2009, the stimulus payments were positively mentioned (without prompting) a number of times:

*No she gets a lot. She gets paid a lot, now I've heard about the government giving us a thousand bucks (Aasim, male, 14 years, NSW)*

*Yeah, she had heaps. 'Cos she got it for my little brothers... 'cos she gave it to me. I didn't even know I had it. She just gave it to me (Johnny, male, 17 years, NSW)*

## **7 Discussion**

Historically, policy responses to child poverty in Australia have varied in scope and ambition. The period of greatest explicit commitment to reducing child poverty was between 1987 and 1996 – particularly in the years immediately following Bob Hawke's 1987 pledge that no child need live in poverty by 1990. In this period, cash benefits to families were increased significantly. In addition, payments were rationalised, and means testing was extended. Rather uniquely among developed

countries, the same means-tested family payments were targeted at both in-work and out-of-work families, and means testing was applied, not to target the poorest, but to exclude families with the highest incomes. This distinct feature of targeting reasonably generous means-tested cash benefits to all except the highest income families through a unified system of family payments was retained by subsequent governments after 1995, and is still largely in place today. However, implicit policies to engage in more intensive targeting towards the bottom of the income distribution have emerged in recent years.

While the welfare architecture that was developed in the wake of Bob Hawke's pledge has remained substantially in place ever since, the explicit focus on child poverty has not. As Figure 1 shows, absolute child poverty declined as Australia enjoyed a sustained period of economic growth that has continued more-or-less uninterrupted ever since. Relative poverty on the other hand fell steeply up to 1995, but remained stable and even increased after. Child poverty, moreover, was something of a non-issue in Australia politically during the late 1990s and early 2000s, despite high profile international comparisons which showed Australia's performance to be average rather than stellar (UNICEF, 2000, UNICEF, 2005) Over this time, the focus of Australian government policy started to shift from a policy of improving benefits to one of emphasising parental employment as the solution to child poverty ([Whiteford and Adema, 2007](#)).

This shift in regard to the appropriate way of dealing with child poverty occurred through both (centre-right) Liberal-National Party governments (1996-2007) and (centre-left) Labor Party governments (2007 to the present). The Australian government's response to the GFC was in some senses visionary in that, like the GFC itself, it appeared to come out of the blue, and was larger, more immediate and more innovative than responses in most other countries. The immediacy of the response is worth underlining. Although the sub-prime mortgage crisis, which presaged the GFC, became apparent in the US the mid-2000s, the US financial crisis in effect became a global one with the collapse of Lehman Brothers in September 2008. By December 2008, Australian families had received the bulk of their stimulus payments (some followed in early 2009). As discussed above, the Australian benefits system had a history of disbursing lump sums to large numbers of people. The architecture of the Australian tax-benefit system allowed for the rapid disbursement of these payments to a large number of low and middle income families. They did what was explicitly expected of them, and spent it.

One associated result, as we show in Figure 2, was that child poverty fell during the years 2008-9 to 2009-10. However, the extent to which this decline in child poverty was associated with the stimulus payments is debatable. In our analysis, relatively few families appear to have changed their status from 'poor' to 'non-poor' solely as a result of the stimulus payments. Other factors appear to have been at play too, including slow growth in median incomes, which in turn meant slower growth in the median poverty threshold. In particular, as shown in Table 3, those who rose out of poverty between 2007-08 and 2008-09 received stimulus payments averaging \$2,500, but enjoyed increases in income (adjusted for family size) of \$13,000 to \$14,000. Thus while the stimulus payments contributed to this rise in income, the bulk of the improvement in incomes came from other sources, presumably increasing

employment or hours of work, and lower income taxes (and to a limited extent, falling family size - the average size of families in this group declined slightly between 2007-8 and 2009-10). This suggests that the more important effect of the stimulus was to maintain the long-term labour market growth dynamic.

Moreover, three important points are worth making about the impact of the stimulus payments. First, they distributed money to where it was arguably most needed, whether it lifted families out of poverty or not. Second, they were (unsurprisingly) well regarded by families who received them. In terms of feelings about financial, emotional and physical well-being, the effects appear to have been strongest among those families who were in poverty before the GFC, and remained in poverty through the GFC. This finding should be regarded as tentative, due to small size of this group. However, reports among 'always poor' HILDA respondents of increased well-being are corroborated by findings from qualitative research (Skattebol et al., 2012). It could be argued that in an era when purely economic measures of well-being are increasingly being called into question (see for example the report of Stiglitz et al., 2009, on alternative measures of progress), improvements in other dimensions of health and well-being among a group of families who are patently disadvantaged should be seen as *intrinsically* important.

The third point is however probably the most important from the perspective of policies to reduce child poverty: the purpose of the stimulus package was not to reduce poverty (among children or anyone else), but to keep the economy overall out of recession. This did not signal a change in government policy on child poverty. The overall policy direction continued through to 2012, when the government used expected revenue from a new carbon tax (levied on large high-polluting companies) to introduce the Schoolkids Bonus, and to increase FTB. However, it is not clear at this point whether these policies will be sustained, or whether these too are, in their own ways, once-offs.

## 8 Conclusion

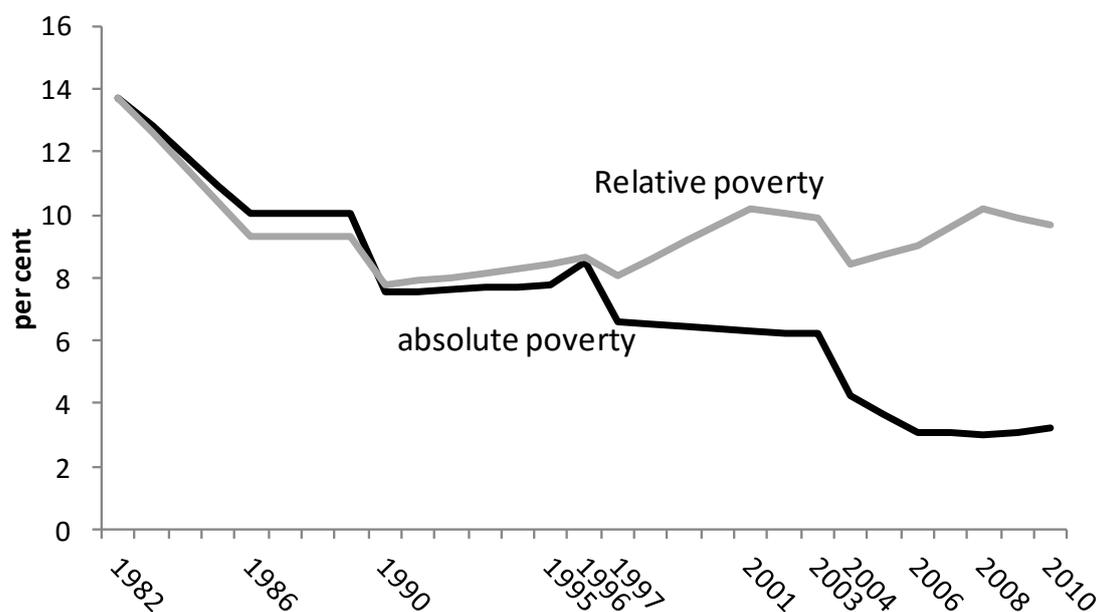
In a recent contribution to this journal on the response of (mostly) European welfare states to the GFC, [Greve \(2011\)](#) argues that "we do not know if the recent change [welfare state retrenchment] is only a short-term change, but as is argued later this, presumably, is not the case, and by this a new era of welfare states emerges where targeting and emphasis on work are more substantial than earlier." As Saunders and Deeming (2011) argue however, there is little sense that in the Australian case major welfare reform in terms of generosity of payments for families is being undertaken – (although there were very large increases in age and disability pensions and carers' payments in 2009-10, and some of these groups do have dependent children). Yet some of the most important declarations made by government on welfare reform have been in the areas of targeting and conditionality – the addition of new conditions which need to be fulfilled if payments are to continue, and potentially, the part conversion of some payments into in-kind support for some people. The few available big-picture statements on welfare, such as the intergenerational reports which attempt to forecast public expenditure on a range of commitments, including FTB, suggest continued retrenchment in terms of payments for families (Treasury, 2007, Treasury, 2010). This primarily reflects the assumption that from 2009, payments for children

are being indexed to prices rather than wages, an assumption now incorporated into legislation.

As noted earlier, since the mid-1990s the Australian approach to child poverty – to the extent that such a policy is implicit but not explicit – has moved in its emphasis away from the strategy of redistribution through increased transfer spending towards a policy of activation and requiring parents to look for work when their youngest child turns six or seven. While this appears to be associated with a significant reduction in the prevalence of jobless families and increasing employment rates among lone parents in particular, there is little evidence of a direct impact on child poverty – although the counterfactual might have been rising poverty in the absence of improvements in employment outcomes. Moreover, the Labor government has introduced changes to move more lone parents from the more generous Parenting Payment Single to the substantially less generous Newstart Allowance for the unemployed from January 2013. In the absence of a significant increase in employment among this group, this is likely to increase child poverty in coming years.

Overall, while Australia's experience in the GFC appears to show the value of proactive government policy response it seems that these lessons have not changed the underlying trajectory of policies towards family assistance and child poverty. Australia has moved away from an explicitly redistributive policy towards poor families as epitomised by the Labor government policies in the period 1987 to 1996 towards a “work first” approach started from around 2000, but continued after 2007 under the Labor government. However, international evidence suggests that all countries with very low rates of child poverty combine high employment among parents with effective policies of redistribution ([Whiteford and Adema, 2007](#)). To the extent that current policy settings are likely to reduce the redistributive effectiveness of family assistance provisions then child poverty will remain an ongoing challenge for the Australian welfare state.

**Figure 1: Trends in Child Poverty in Australia, 1982 to 2008-9**



Source: Survey of Incomes and Housing, authors' calculations. For details of data used, see Austen and Redmond (2013). Note: The relative poverty threshold is defined as half median family income, adjusted for family size and composition using the OECD equivalence scale. The absolute poverty threshold is defined as half median family income in 1982, adjusted for family size and composition, and uprated to later years using the Australian consumer price index.

**Table 1: Macroeconomic trends 2006-2012, English-speaking OECD countries**

	2006	2007	2008	2009	2010	2011	2012
<i>GDP (change on previous year)</i>							
Australia	2.6	4.9	2.3	1.5	2.4	2.2	3.1
OECD area	3.2	2.8	0.1	-3.8	3.2	1.8	1.6
<i>Unemployment rate (per cent)</i>							
Australia	4.9	4.5	4.3	5.7	5.3	5.2	
OECD area	6.2	5.8	6.1	8.3	8.5	8.2	
<i>Household spending (2006=100)</i>							
Australia	100.0	104.7	104.8	107.4	111.1	114.8 e	
OECD area	100.0	102.5	102.5	100.9	103.1 e	104.9 e	
<i>General government fiscal balance (per cent GDP)</i>							
Australia	2.3	1.8	-0.8	-4.5	-4.7	-3.9	-2.2
OECD area	-1.2	-1.3	-3.4	-8.1	-7.5	-6.3	-5.3
<i>Government social (per cent GDP)</i>							
Australia	16.5	16.4	17.8	17.8	17.9	18.1	18.7
OECD area	19.5	19.2	19.9	22.1	22.0	21.7	21.7

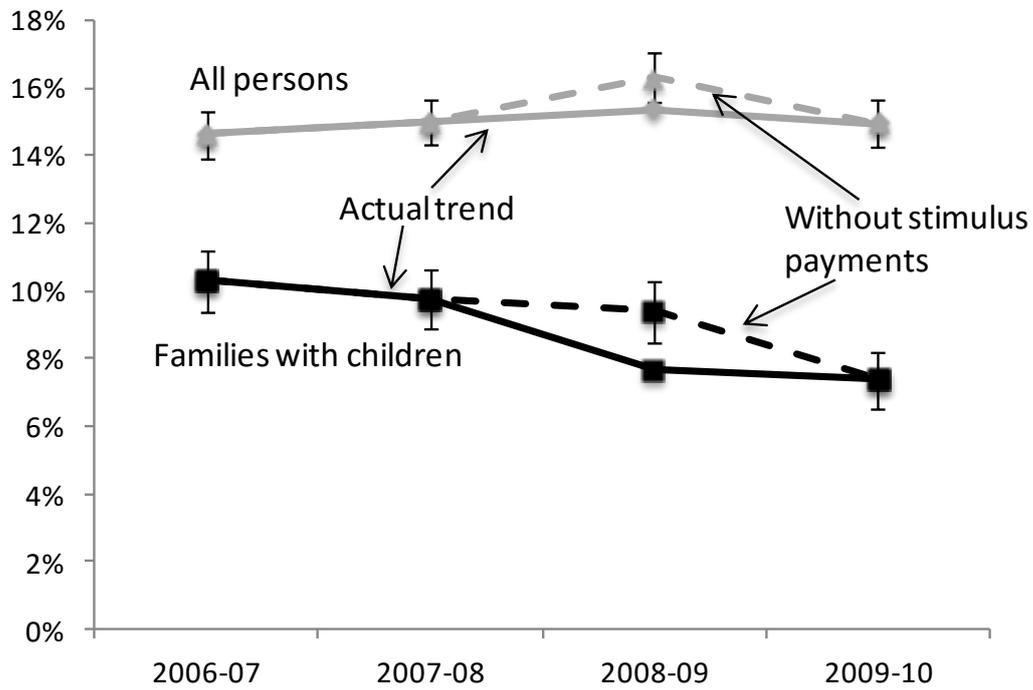
Source: OECD statistical databases ([www.oecd-ilibrary.org](http://www.oecd-ilibrary.org)). Note: e = estimate

**Table 2: Poverty transitions among all persons and among families with children, 2007-2010 (per cent)**

	All Persons		Families	
	Weighted per cent	Unweighted N	Weighted per cent	Unweighted N
Always poor (every year 2006-7 to 2009-10)	5.9	2,784	2.2	325
Fallers (not in poverty 2006-7 & 2007-8, in poverty in either 2008-9 or 2009-10)	7.3	3,220	5.0	890
Risers (Rose out of poverty between 2006-7 and 2009-10)	6.1	2,812	6.6	1,132
Never poor (every year 2006-7 to 2009-10)	72.9	30,404	80.8	13,696
In and out of poverty	7.9	3,584	5.5	956

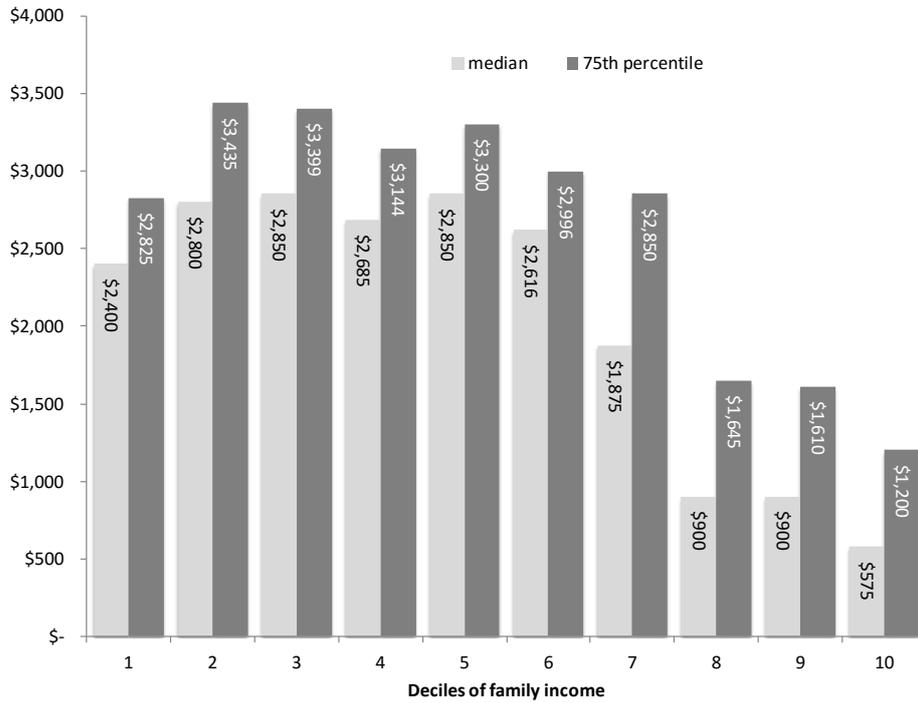
Source: HILDA Survey 2007 to 2010 waves, authors' calculations. Notes: 'Families' are defined as those that include at least one dependent child in all waves between 2006-7 and 2009-10. Poverty threshold is defined as half median family income, adjusted for household size and composition, using the OECD equivalence scale.

**Figure 2: Trends in poverty among all persons and among families with children, 2006-07 to 2009-10, including and excluding stimulus payments (per cent)**



Source: HILDA Survey 2007 to 2010 waves, authors' calculations. Note: Poverty threshold is defined as half median family income, adjusted for household size and composition, using the OECD equivalence scale. Error bars show 95 per cent confidence intervals for poverty estimates.

**Figure 3: Size of stimulus payments, by decile group of equivalised family income for families with children (\$, total)**



Source: HILDA Survey 2007 to 2010 waves, authors' calculations.

**Table 3: Average income and stimulus payments among families with children, 2007-2010 (\$ per year)**

	Always poor	Fallers	Risers	Never poor	In and out of poverty
2006-7	14,965	41,588	21,858	49,061	22,673
2007-8	15,267	41,697	22,585	50,656	19,750
2008-9	15,485	30,806	35,576	54,016	18,743
2009-10	15,905	21,922	36,667	53,999	23,116
Stimulus payments in 2008-9					
\$ value	2,174	2,297	2,502	1,978	2,589
% income in 2008-9	15.0	8.6	6.5	3.3	13.4

Source: HILDA Survey 2007 to 2010 waves, authors' calculations. Note: Income data are deflated to 2009-10 values using CPI. Income data for 2008-9 include stimulus payments.

**Table 4: Financial well-being and physical and emotional well-being among adults in families with children, 2007-2010 (per cent)**

	Always poor	Fallers	Risers	Never poor	In and out of poverty
<i>Financial</i>					
2006-7	4.5	6.0	5.7	6.5	5.1
2007-8	4.2	5.6	6.2	6.5	5.1
2008-9	4.9	5.5	6.1	6.6	4.7
2009-10	4.1	5.5	6.0	6.4	4.9
<i>Physical and emotional</i>					
2006-7	6.9	7.9	7.7	7.9	7.3
2007-8	7.0	7.7	7.8	7.9	7.6
2008-9	7.3	7.6	7.6	7.9	7.3
2009-10	6.8	7.4	7.7	7.8	7.2
<i>Composite</i>					
2006-7	55.1	64.4	64.1	66.1	61.2
2007-8	51.2	62.7	64.6	65.8	59.6
2008-9	58.3	60.7	63.3	65.6	57.8
2009-10	51.6	60.3	62.4	65.3	58.1

Source: HILDA Survey 2007 to 2010 waves, authors' calculations. Note: Income data are deflated to 2009-10 values using CPI. Income data for 2008-9 include stimulus payments.

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