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WORKING LIFE

SPECIAL REPORT: Budget 2014

Hockey takes axe to the social wage

by **MARK PHILLIPS**

DECLARING that Australia must become a nation of “lifters, not leaners”, Joe Hockey has handed down harsh new measures for young job seekers, cuts to pensions, new fees for visiting the doctor, and a temporary tax rise for high-income earners in his debut Budget as Federal Treasurer.

The Abbott Government’s first Budget has lived up to the advance publicity as one of the toughest in living memory, with savage across-the-board cuts in pursuit of long-term savings.

Taking its cue from the Commission of Audit, the Budget begins dismantling the key planks of the social wage with the introduction of a $7 fee for visits to a GP, or out-of-hospital pathology and imaging services, alongside higher co-payments for prescribed medicines, to claw back $4.7 billion over four years.

Of this, $5 will go towards a new $20 billion medical research fund and $2 to the doctor or provider.

The age of retirement will be lifted to 70 by 2053, while pensions will be cut over time through new indexation measures which would see the age and disability support pension $200 a fortnight less in today’s money by 2030.

Young job seekers under 30 will be denied any income support for the first six months and forced onto work-for-the-dole to be eligible for Newstart or the youth allowance after six months. And if they do not find a job within that time, the merry-go-round begins again.

Landmark reforms to public hospital and schools funding (the Gonski reforms) to the states will be scrapped in the pursuit of $80 billion of savings.

And in a surprise measure that will take thousands of dollars out of the retirement

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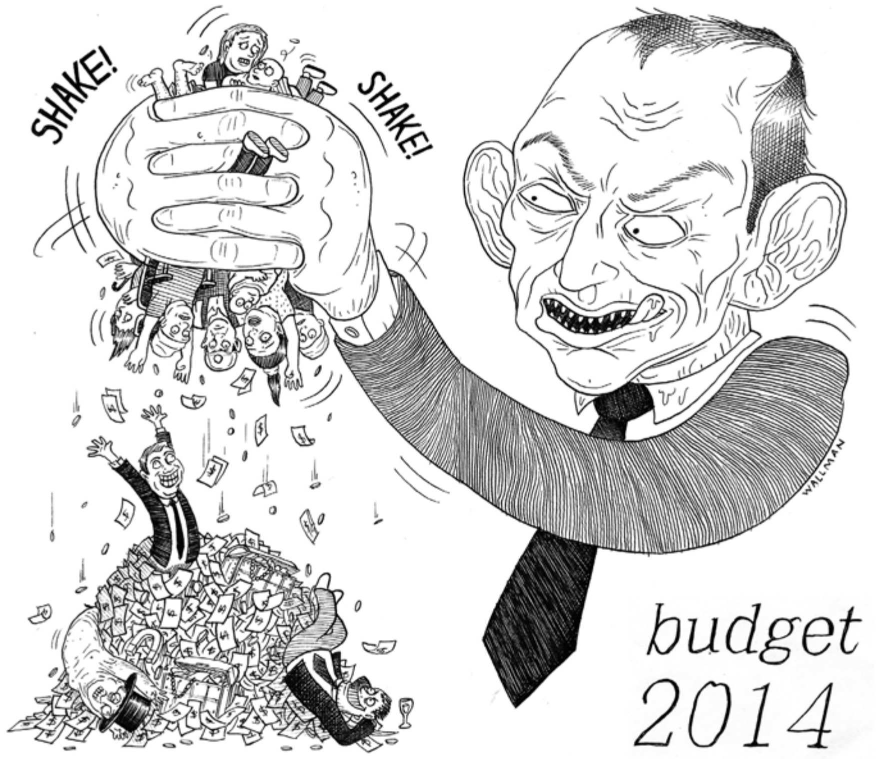

Illustration: Sam Wallman

AT A GLANCE: Hockey’s little box of horrors

- Young unemployed without income support for six months a year
- 16,500 public sector jobs to go, with more through privatisation
- Super Guarantee increase delayed four years; frozen at 9.5%
- Redundancy entitlements less protected when employers go bust
- Cuts to indexation for many welfare payments
- Temporary 2% income tax levy for highest income earners
- Family payments cut
- PPL scheme survives, capped at $50,000 over six months
- New $7 GP payment & higher co-payment for prescription drugs
- Big cuts to funding to states for health and education
- Uni fees to rise, student loan debt to attract real interest rate
- A range of industry assistance programs will be cut or axed
- Tools for Your Trade program for apprentices abolished, new loan scheme created in its place
- Twice yearly fuel excise indexation will be reintroduced
- Company tax to be cut, MRRT and carbon price abolished
- Union royal commission to cost $53.3 million

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savings of workers, the increase to the Superannuation Guarantee will be frozen at 9.5% until 2018. It had been due to rise to 12% by 2019.

Motorists will face higher prices at petrol pumps with the reintroduction of twice-yearly indexation of the fuel excise, while 16,500 jobs will be axed from the Australian Public Service.

In his Budget speech, Mr Hockey defended the spending cuts as essential to ensure the long-term strength of the government finances.

"We know that for some in the community, this Budget will not be easy," he said. "The age of entitlement is over. It has to be replaced, not with an age of austerity, but with an age of opportunity."

The government says this year's Budget will set it on the path to a surplus of more than 1% of GDP by 2024-25. It is forecasting a deficit $49.9 billion this year, falling to $29.8 billion next year and $2.8 billion in 2017-18.

Government revenue will rise by 4.5% to $391.3 billion next year, while expenditure is expected to fall by 0.2% to $414.8 billlion.

Economic forecasts are for GDP growth of 3% in 2014-15 and an optimistic 4.75% in 2015-16, while unemployment will grow to 6.25% next year from 6% this year.

Key Budget features include:

- A wage subsidy of up to $10,000 over two years to encourage employers to give jobs to long-term unemployed workers over 50.
- Capping the maximum redundancy payment under the Fair Entitlements Guarantee at 16 weeks, with long-serving workers forced to stand in the line of creditors to seek their full entitlement.
- A 'temporary budget repair levy' of 2% for people earning over $180,000 a year to raise $3.1 billion over three years.
- The removal of a cap on university fees, along with increased interest payments on student loans.
- The slashing of more than $800 million in industry programs, including in the automotive assistance and for renewable energy projects.
- The removal of a financial incentive for apprentices, to be based with a loan scheme similar to that for university.
- Twice yearly fuel excise indexation will be reintroduced, in line with inflation. The fuel excise has been frozen at 38.1 cents a litre since 2001.
- The axing of 16,500 public service jobs, and a higher efficiency dividend of 2.5% a year.
- The allocation of $53.3 million to the royal commission into trade unions.

Mr Hockey and Tony Abbott have begun the hard sell tonight in the face of criticism about broken promises and that the Budget has come down too heavily on those who can least afford it.

ACTU President Ged Kearney said the Budget signalled the end of the fair go.

"This is a savage attack on the standard of living that Australians have worked hard for," Ms Kearney said.

"The Liberal Government vision is of a harsher, less equal Australia."

Abbott and Hockey's lost generation

ELINOR SUMMERS
Job seeker, 24

"I've been looking for work for two months and I have multiple ongoing health problems that require a lot of medical visits and if I'm not eligible for Newstart and incapable of working what that means for my healthcare, rent and food is unthinkable. It's a very scary time for young job seekers in Australia."

LUKE FARACI
Apprentice electrician, 24

"Tony Abbott has decided to scrap the tools for trades program so instead of getting yearly payments of $1200 it's going to be replaced with a loan scheme. The whole point of an apprenticeship is to earn while you learn and suddenly at the end of your apprenticeship you'll have a big debt."

JENNY STRAMILOS
University student, 19

"I grew up in a low socio-economic status area and I came to university straight from high school. Only five to six people from my entire year level came from high school to university. With the deregulation of fees at Australian universities those students would no longer have that option and I would not be where I am today."

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Hockey's horrorshow will hurt battlers most

by **GED KEARNEY**
ACTU President

Boulevard of broken promises: Treasurer Joe Hockey and Finance Minister Mathias Cormann on Budget day. Photo: Stefan Postles/Getty Images

> *A real friend doesn't hit struggling families with higher medical, fuel and education costs.*

ONE of the true tests of a government – of its priorities, its values and even its ideology – is the Budget.

A Budget is where a government gets to make its stamp on the nation, and its decisions about how to spend tens of billions of dollars tell us much about its agenda and the type of Australia it wishes to have.

That is why Budgets are so important, and why the media devote so much space and energy to covering them. This is even more so when a government is new, and relatively unknown.

On 13 May, Joe Hockey delivered the first Budget of the Abbott Government, and the document he released has confirmed what we already suspected: that Tony Abbott and the Coalition are no friends of working people.

Before last year's election, Tony Abbott promised to be the best friend Australian workers had ever had. He paraded around in a high-viz vest day after day to prove his credentials.

But a real friend doesn't cut hundreds of millions of dollars from industry and apprentice programs that support hundreds of thousands of decent jobs.

A real friend doesn't hit struggling families with higher medical, fuel and education costs. And a real friend doesn't turn their back on the aged, disabled and unemployed when they need a hand to get up off their knees.

Tony Abbott has had eight months to come up with an economic plan to deliver on his election promise to create a million new jobs in five years.

Instead he has flagged cutting 16,500 public servants and has ripped hundreds of millions out of skills and innovation.

The Abbott Government's prescription for Australian workers is now crystal clear: it's a future for this nation built on insecure work, with people shunted through inappropriate training to unsustainable jobs until their bodies are broken at the age of 70, while hitting them with extra costs at every turn for healthcare and medicine, for education, and for petrol.

Low and middle-income earners – hard working people who ask nothing more than dignity, respect and a fair go – are asked to bear the brunt of the Budget, while big business avoids its load.

Everyone is being told to tighten their belts. Families will be slugged with extra costs of living, new holes are being punched in the welfare safety net, and thousands of jobs are being cut to fund Joe Hockey's self-created "Budget emergency".

The age and disability support pensions will be cut over time. Access to family benefits will be tightened.

Young job seekers will be punished by having financial support with-held for six months, and then forced onto work-for-the-dole schemes to earn an already inadequate Newstart allowance. University students and apprentices will be saddled with heavy debts for their studies and training which will take years to pay off.

But when Joe Hockey said "the age of entitlement is over", he certainly wasn't talking about his mates from the big end of town. The Government still went ahead with a $4 billion company tax cut. It did nothing to change the diesel fuel rebate that benefits the mining billionaires by millions of dollars a year.

It left untouched the generous superannuation tax concessions for the wealthy, while removing the Low Income Super Contribution scheme, and freezing the increase in the Super Guarantee at 9.5% until 2018.

It is not the role of government to hand big business a blank cheque in the form of a company tax cut.

This Budget is a recipe for the Americanisation of Australian society, with wide disparities of inequality and

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How the Budget will aff

FROM young job seekers to pensioners, with students, apprentices and mature age workers in between, few Australians will not feel the effects of the Budget. Here's a snapshot of some of the main changes and how they will affect you.

Pensions

From 2035, the retirement age will be raised to 70.

Pensions currently rise in line with wages growth but this Budget announces an end to this arrangement. Instead, from 2017, all pensions will rise only in line with the Consumer Price Index, and no longer keep pace with wage growth. 'Pensions' include the Age Pension, Disability Support Pension, Carer Payment and Veterans' Affairs pensions.

The ACTU projects this will mean that, in inflation-adjusted 2014 dollars, pensions will be around $200 per fortnight lower in 2030 than they would have been if the existing indexation arrangements had been retained.

The number of people living in relative poverty is sure to rise as a result.

Older workers

A wage subsidy to encourage employers to give jobs to long-term unemployed workers over 50, called Restart, will be introduced. It will be worth $10,000 over 24 months for a full-time hire, or pro rata for part-time workers.

Young jobseekers on their own

Unemployed people under 30 will be completely on their own for the first six months of unemployment, with no income support from government.

After those first six months, people will have to work for the dole, a scheme that does not work to help people find real jobs. After the six months of work for the dole, people will be on their own again, with no income support.

There are a few exceptions from the rule, including people who have a partial work capacity due to disability, single parents, and principal carers of children.

This is a breathtakingly harsh, punitive measure that will not help people find work.

Superannuation increase delayed

The increase to the Superannuation Guarantee will be frozen for four years at 9.5% from July this year. The previous Labor Government had planned to increase employer superannuation contributions to 12% by 2019, but this will now be pushed back to 2023, reducing current workers' retirement savings by thousands of dollars.

Entitlements less protected

The previous government legislated a scheme called the Fair Entitlements Guarantee, which ensures that workers will be paid their redundancy entitlements if their employer goes out of business. This Budget puts a cap on the entitlements that workers will receive. Rather than getting the redundancy pay set out in a collective agreement, workers will receive only the minimum legal redundancy entitlements in the National Employment Standards.

Redundancy payouts will be capped at 16 weeks' pay, with long-serving workers forced to stand in the line of creditors to seek their full entitlement. The Government says this will save $87.7 million over four years.

With the manufacturing industry in particular facing difficulties, many workers will be worried about receiving their entitlements if their employer goes bust. These changes announced in the Budget will mean their entitlements are less secure.

Deficit levy

There will be a small increase in the top marginal tax rate. Effectively the top tax rate will rise by 2 percentage points. This rate affects income over $180,000, or approximately the top 3% of income earners.

This 'Temporary Budget Repair Levy', as it's known, will apply only from 1 July 2014 until 30 June 2017, raising $600million in the coming financial year.

The levy is temporary, unlike many of the measures that will affect low- and middle-income earners, which will have compounding effects over time.

Family payments

Family Tax Benefit Part B (FTB-B), which is paid to single-income families, will be significantly tightened. It will now only be paid to families with incomes below $100,000 per year (down from $150,000). The more serious change

ect you and your family

is that FTB-B will now only be paid to parents of children younger than 6.

A small payment ($750 per year) for low-income single parents with children aged between 6 and 12 will partly offset the loss of FTB-B for some families.

Paid parental leave

The Abbott Government will go ahead with its unpopular paid parental leave scheme. The payment will be capped at $50,000 over six months, although eligibility is not means tested.

Healthcare

Standard GP consultations and out-of-hospital pathology and imaging services will be subject to a new $7 co-payment. The revenue from this payment will go to a new medical research fund.

People will also pay more for medicine, with the co-payment under the Pharmaceutical Benefits Scheme to rise from $36.90 to $41.90 from July 2015, on top of the normal CPI indexation in January.

There will be large reductions in funding to the states for public hospitals. There will be a reduction of $1.8 billion over the next four years, but much bigger cuts after that.

The cuts beyond 2017-18 will come from the Commonwealth cutting indexation on hospital funding.

The change will mean around $15 billion less federal funding per year for hospitals by 2024-25.

Motorists

Twice yearly fuel excise indexation will be reintroduced, in line with inflation. The fuel excise has been frozen at 38.1 cents a litre since 2001.

Education

Federal funding to the states for school education will also be cut. Similar to the cut for hospital funding, the cut for school funding comes through a reduction in indexation beyond 2017.

The change will see school funding reduced by over $5 billion per year by 2024.

The Budget includes big changes to fees for higher education. The caps on university fees will be removed from 2016, which will mean that fees will rise.

Students' HELP (formerly known as HECS) debts will no longer just be indexed at the CPI – instead, they'll rise in line with the interest rate on government debt, which is typically around 6%. This means that the real burden of student debt will rise over time.

Industry assistance

A range of industry assistance programs will be cut or axed, including more than $800 million in funding to the automotive industry, and the axing of the Australian Renewable Energy Agency and Carbon Capture and Storage Programme.

Apprentices

The Tools for Your Trade program of financial incentives to apprentices to buy their tools will be abolished, cutting $914 million from support for apprentices. It will be replaced with a loans program for apprentices, similar to higher education loans, which must be repaid.

Public sector jobs slashed

In his Budget speech, Joe Hockey announced that "16 500 staff will leave over the next three years without compromising frontline services".

The absurd proposition that 16,500 workers could lose their jobs without affecting services is not substantiated by any evidence. To the contrary, vital agencies and programs will cease to operate, or have their funding cut.

The Budget shows that 7 336 jobs will be cut in the coming financial year, 2014-15. The job losses – including in major agencies like the ATO – will be spread right across the country. $35.5 million will be cut from the ABC, the Australia Network will be closed, $8 million go from SBS, and CSIRO will lose a large number of workers, contrary to the Coalition's promises in opposition.

The Royal Australian Mint, Defence Housing Australia, and several other agencies will be privatised. The 16,500 job loss figure does not include these jobs.

Company tax

The government will go ahead cutting the company tax rate by 1.5% to 28.5% from July next year, and will proceed with the repeal of the Minerals Resource Rent Tax and the price on carbon.

Royal commission into trade unions

The Royal Commission into trade unions will cost $53.3 million over two financial years. The report is due by the end of 2014.

How Joe Hockey concocted a Budget 'emergency'

*The ACTU's economic policy officer, **Matt Cowgill**, explores the numbers that make up this year's fiscal and economic forecasts.*

THIS wasn't supposed to happen anymore.

Joe Hockey has followed a classic playbook since coming to office – find a Budget black hole, blame it on your predecessors, then use this revelation to justify implementing an agenda more aggressive than you'd let on before the election. But this strategy wasn't supposed to be possible after the Howard Government passed the Charter of Budget Honesty into law.

Under the Charter, we no longer have to compare the new government's numbers to the old government's numbers and work out for ourselves why they don't line up. Instead, the heads of the Treasury and the Finance Department are required to put out their own set of numbers, the Pre-Election Fiscal Outlook (PEFO), during the election campaign. This gives a neutral baseline against which we can assess the new government's figures. PEFO is the only set of Budget forecasts that truly belong to the bureaucrats – all other documents (like the Budget) are issued by ministers.

The PEFO last year didn't contain a Budget black hole. It didn't depict a Budget emergency. In fact, the outlook in PEFO was remarkably close to the figures in the Economic Statement issued by Chris Bowen and Penny Wong just before the election was called. The public servants in PEFO projected the Budget balance out for a decade. They found that the Budget was on track, before the election, to return to surplus in 2016-17 and keep improving from there, eventually hitting a surplus of about 1% of GDP by 2023 with net debt approaching zero.

Some commentators have quibbled with these projections, suggesting they're implausible because they adopt the previous government's policy of restricting real spending growth to 2% per year. This policy may well have been implausible, but PEFO didn't hinge on it. Instead, the public servants also showed what would happen to the Budget if spending grew at its expected pace (instead of being restricted to 2% real growth) and revenue was allowed to grow. The result for the bottom line is much the same as under Labor.

Both of the scenarios – the first with the previous government's 2% spending growth cap and the second that reflects the underlying trend in spending and taxing – factor in big ticket items including DisabilityCare Australia (aka the NDIS) and the National Plan for School Improvement (aka Gonski).

Despite the Charter and the neutral numbers in PEFO, Joe Hockey still

Hockey's horrorshow will hurt battlers most

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huge pockets of poverty and working poor. It is the biggest attack on the social wage this country has ever seen.

Tony Abbott wants to take us backwards, to force ordinary people to accept that they can no longer have the Australian way of life.

Ordinary people who go to work every day in pain because they can't afford the medical bills to see a doctor or have an operation.

Ordinary people who pass like ships in the night, handing the kids over from one parent to another as mum or dad heads off to their next shift in their second – or sometimes third – casual job to make ends meet.

Ordinary people who want to spend their later years enjoying the rewards of their hard working life, but now face the prospect of working until they are 70.

It's young people entering the workforce who I worry about the most. By removing the safety net for young job seekers, the Abbott Government has effectively given the next generation a 'sink or swim' ultimatum with no room for failure, while simultaneously making it harder for them to gain employment or earn enough.

It is setting up a generation of young job seekers to be confined to poverty with all the risks this entails for social cohesion.

By scrapping apprentice tools payments and loading them with debt, making university more expensive while simultaneously dissolving universal health care and welfare safety nets we are pushing these young workers to the edge and – in some cases – over.

Increasing homelessness, poverty and stress is no recipe to improving work participation.

And this is just the start because the Abbott Government also have in their sights workers' wages and conditions.

Coalition MPs and business groups are openly campaigning to abolish penalty rates and cut the minimum wage. Reducing penalty rates and the minimum wage would hurt all workers – but especially young workers.

Proposed amendments to the Fair Work Act would see the widespread use of Individual Flexibility Agreements, which would once again allow employers to dictate pay and conditions to workers with little regard for a collective agreement or Award.

And the Productivity Commission review into the workplace system will be another Trojan horse to continue the project that began with WorkChoices.

The Commission of Audit drew up the plans, and Tony Abbott and Joe Hockey's Budget last night has laid out the wood and the nails.

Together they are building a coffin for the Australian way of life.

Only by standing together can we protect this way of life and continue to build a better one today, and for years to come.

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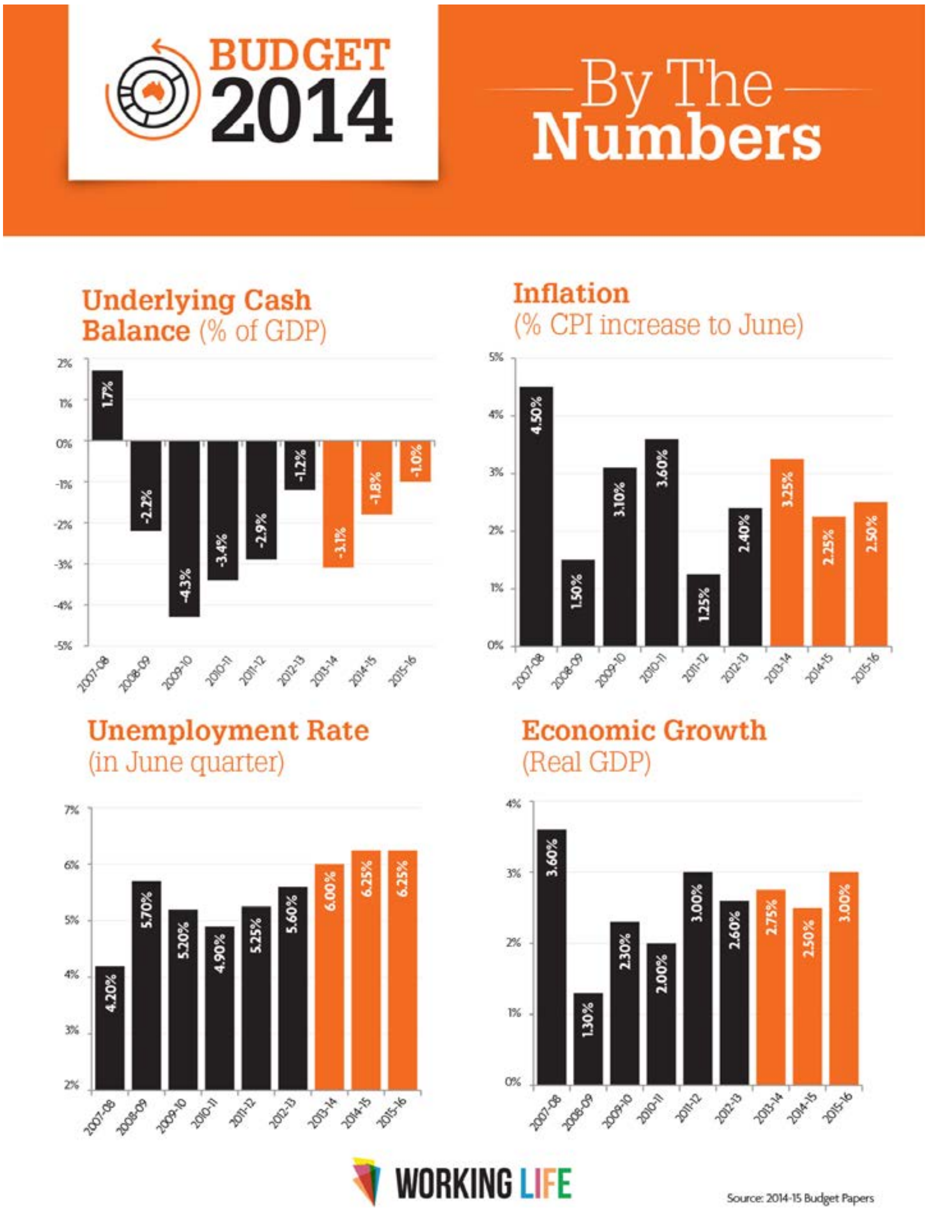

played the Budget black hole card, just as Peter Costello (in 1996), Paul Keating (in 1983) and Phillip Lynch (in 1975) had done before him. The new government's mini-Budget (MYEFO) contained dramatically bigger deficits than PEFO, with no surpluses in sight.

The worsened outlook was partly due to policy decisions taken by the new government (like scrapping the carbon and mining taxes and giving a large grant to the Reserve Bank), partly due to a change in the assumptions used for projections beyond the first two years of the forward estimates, and partly due to a slightly more pessimistic economic outlook. Hockey's first Budget confirms fiscal deficits for years to come.

For now, this sea of red ink is being used as the justification for deep cuts in spending and a few unpopular revenue-raising measures. But don't be surprised if, in a couple of years' time, the Budget outlook is a lot rosier. That's the final step in the Budget black hole strategy – show that you've brought home the bacon and balanced the books despite your predecessors' profligacy.

Economic forecasts may be pessimistic

THE Australian economy is going to keep growing at less than its trend pace for the next three years, with unemployment rising to 6.25% by June next year and remaining there for the following year.

Wages growth will remain sluggish, 2.75% this year and 3% for each of the next two years, and employment growth won't be strong enough to keep up with population growth. By June 2015, just 60.5% of the population aged 15 and over will be in work, the lowest employment-to-population ratio since 2004.

That's the pessimistic outlook set out in this year's Budget. For the very near term, the Budget forecasts are in line with the RBA's latest forecasts – both expect real GDP growth of 2.75% this financial year. But the Budget is a little more pessimistic than the RBA about what will happen in 2014-15, with the RBA forecasting growth of 2.75% while the Budget forecasts only 2.5%.

Recent data about the labour market has been positive. It's always noisy, but the signs have been good – the unemployment rate has fallen, employment growth has picked up, job advertisements and vacancies have started to recover. Retail trade and housing construction have finally picked up in response to low interest rates, bringing the long-anticipated 'rebalancing' in economic activity away from mining activity. Despite all this, the Budget envisages unemployment rising for the next year at around the same pace that it was growing in late 2013.

This is a fair bit more pessimistic about the outlook for jobs than some other recent forecasts, particularly from the OECD. The OECD's Economic Outlook envisages 6.1% unemployment by the end of this year, but a fall next year to 5.9% by the end of 2015.

The Budget concedes that its forecast for unemployment might be a bit pessimistic. In the coded language of these sorts of documents, it notes that "an improvement in job vacancies and advertisements in early 2014 indicates that there are upside risks," meaning that things might not turn out as bad as envisaged. If it turns out that they've been too pessimistic about the economy, then Joe Hockey will receive more tax revenue and spend less on welfare payments than they've budgeted for.

But what if it turns out the Budget is right? In that case, we'll have spent this entire decade of the 2010 operating with an economy smaller than its potential level – an 'output gap' in the language of economists. We'll have spent most of this decade with an unemployment rate well above 5%. That's an intolerable situation.

So either the economic forecasts are pessimistic, in which case the Budget balance will turn out to be much better than the Government is forecasting, or they're accurate or too optimistic, in which case we'll have an intolerable stagnation in economic activity.