

Economic impacts of government policy on family wellbeing

What do we mean by economic impacts on family wellbeing?

Families may be affected economically in a variety of ways by a wide range of factors. Some are obvious, such as changes to a family's income or to the value of assets; others may be less obvious, such as changes to the distribution of income within a family; changing patterns of consumption or need within the family; changed perceptions about financial security; and incentives or disincentives for certain types of economic behaviour (such as incentives to save money or spend money).

- *This information sheet is intended to supplement the Family Impact Statement (FIS) Guidelines. It provides further guidance for determining how the wellbeing of different family types may be affected by a particular policy or program that has an economic impact. You can use this information sheet to identify some of the key issues that may be relevant to determining the family impact for your policy issue. You can then use the links to a range of additional resources on the FIS page of the PM&C website to assist with more detailed analysis.*

Points to consider:

- Family wellbeing is not easy to define precisely but is usually viewed as going beyond economic prosperity to include physical and emotional health and safety, social connectedness and the quality of relationships.
- Economic resources have a significant direct impact on family wellbeing, as family members depend on each other to meet basic needs and attain a certain standard of living.
- Changes to economic circumstances (such as reduced income or wealth, or increased expenditure needs) may prevent a family from being able afford necessary or desirable items or services. Changes to economic circumstances may also lead to problems such as stress, depression, and increased risk of relationship breakdown. These factors may all affect family wellbeing.
- The effect of a change in economic circumstances upon family wellbeing will depend in part upon the level of income and in part upon the relative economic position of the family.
- Families may face economic hardship due to a range of socioeconomic factors that are often interrelated, such as low educational attainment, unemployment, or social or geographical isolation.
- Families may be vulnerable to economic hardship when a shift in their circumstances occurs, such as a change in employment, health or family relationships (such as the birth of a child, acquiring a disability; parental separation or divorce; or death of a family member).
- The need for economic resources, and the ability to accumulate them, varies according to family type and lifecycle stage.

Policy areas

Proposals having economic impacts on family wellbeing may relate to policy concerning:

Government benefits and assistance * Taxation * Employment * Transport * Trade *
Infrastructure * Health * Education * Employment * Social Inclusion *
Industry * Family Law * Housing *

Income and wealth

Income and wealth are closely linked and together are sometimes referred to as the 'means of living'.

- The major source of income for most households with members of working age is paid employment.
- In 2005-06, 78% of middle income households had wages and salaries as their main source of income, compared with 27% of low income households.
- In the same period, low income households were more likely to have government pensions and allowances as their primary source of income, than middle or high income households.
- Some types of families, such as sole-parent, and older couple-only families, are particularly reliant on government pensions and allowances.

Tip: *There may be a connection between a family's economic resources and their ability to strike the right work/family balance - see Information Sheet 3.*

Income and wealth across the life cycle

Income and wealth vary across the life cycle. Although each family is unique, there are some general patterns that emerge.

- A person's **income** generally rises in their 20s, as they complete study and progress at work, levels out in the late 20s and early 30s, as they reduce workforce participation to have and care for young children and climbs again before finally declining at retirement.
- Certain events typically trigger an increase in family expenditure, at the same time as a decrease in income. These include:
 - the arrival of children into a household (a first child tends to be more expensive than subsequent children); and
 - the onset of illness or disability of a family member.
- **Wealth** follows a different pattern, gradually accumulating as people age then declining in retirement. Factors that have an effect on wealth accumulation include employment status (including occupation); gender; family structure (for example, whether a couple is married or de facto; the number of children in a family, and the number of parents in a family); culture; socio-economic background; type of school attended; and education attainment.

Low income and vulnerable families

Families with low levels of financial resources are more vulnerable to hardship and adverse life events such as job loss and relationship breakdown and are less likely than other families to have opportunities to participate in society.

Compared to children in higher income families, children in low income families have been consistently found to have poorer cognitive, behavioural and health outcomes, including into adulthood. Low income is also associated with poorer health outcomes for adults.

- In 2005-06, one-parent family households with dependent children were over-represented among lowest income and lowest wealth household groups.
- In 2007, 14% of all families with children under 15 were jobless.
- In 2006, almost half of Indigenous households (45%) were low income households.

Tip: *Economic wellbeing is not only determined by the level of income a family receives, but also by how the family spends their money, what their needs are, and their level of financial knowledge/skills.*

Financial Literacy Skills

Financial literacy skills enable people to make informed decisions about the immediate use and management of their money (for example, spending, budgeting, savings and debt), and also about planning for the future and retirement. Most Australians have basic financial literacy skills; however, some groups may be more vulnerable when making decisions about their money and experience poor economic wellbeing. These groups include:

- unskilled workers and non-workers, including those looking for work;
- adults with low educational attainment; and
- people with lower savings and lower income.

Financial stress

Income, wealth and expenditure are indirect measures of financial stress or hardship. While they tell us about the cash and assets families have, and the costs they face, financial needs differ from family to family. A more direct measure of how families are coping can be to identify those that report having difficulties or who report experiencing financial stress – this can be seen by the extent to which families have access to resources, and by behaviour such as going without key goods and services, drawing on savings, or asking friends, family or welfare organisations for help.

- In 2006, sole-parent families with dependent children were the most likely to report having multiple cash-flow problems and that they were unable to raise \$2,000 within a week for something important.
- Of the types of cash-flow problems sole-parent families experienced, the most prevalent was being unable to pay electricity, gas, or telephone bills on time.
- The presence of children increases the likelihood that a family will experience financial stress. Couple households are better at avoiding financial stress than one-parent households, associated with their ability to complement and support each other in the labour market and at home, and potentially linked to their better social support networks.
- Financial stress is greater amongst couples who are separated, divorced or single (at about 30%); and de facto couples (at about 25%), and lower amongst married couples (at about 10%).

Debt

Most Australian families have some level of debt. The main factors that impact upon families' abilities to meet their financial obligations associated with debt are their level of disposable income; other family expenses (such as cost of transport and food etc.), and interest rates.

- The majority of family debt relates to property loans (86%) with a small amount related to investment loans (5.5%); vehicle purchases (3%), credit cards (2.4%) and for study loans (1.6%).
- Household debt has increased faster than income.
- Debt can be a greater issue for families with dependent children.

Access to in-kind goods and services

The provision of goods and services in-kind by government is an important contribution to the financial living standards of many families, in particular low income families. Examples of goods and services provided in-kind include health services, social housing, child care, education, food vouchers, crisis accommodation and accommodation for the homeless.

Tip: *Do not fall into the trap of assuming that because a service is theoretically available to everyone who is eligible, everyone will have equal access in practice.*

Access to these goods and services may be limited by a range of factors such as:

- language – the level of access to a service where only English is spoken depends on the potential user's command of English or ability to find an interpreter;
- culture – the level of access to services, in particular those that deal with 'private' issues such as relationship counselling; mental and physical health; and financial matters, will depend on the cultural sensitivity and relatively of the services offered;
- distance between the service and home or workplace;
- hours of operation;
- need for appointments or waiting times;
- competing time pressures on family members;
- access to child or respite care; and
- availability of transport.

Family expenditure

Income and wealth provide the means by which families can fund the purchase of essential and non-essential goods and services. Changes to income or wealth will affect the ability of families to cover these costs, and may result in changes to spending habits relating to both essential and non-essential items. Changes to the price of goods and services may have a similar effect.

- Housing costs may take up a larger share of income for some families than others, for example, one-parent family households with dependent children, and young couple-only households.

- Similarly, expenditure on medical care and health expenses make up a larger proportion of some families' income than others.
- Couple families with dependent children and couple only families spend proportionately more on food and non-alcoholic beverages each week than on other items; for one-parent families with dependent children the greatest expenditure each week is housing costs.

Investing in human capital

Human capital refers to the skills and knowledge that people accumulate throughout their lives that equip them to undertake employment and that increase their worth in the marketplace. While some of these skills are acquired during formal schooling, many people continue education after secondary school, in the form of tertiary or further education, or on-the-job training.

People may invest in human capital to improve their employment potential or to improve their skills and competencies. Although not all returns from this investment can be measured economically, there is a clear link between human capital and earning potential, with flow-on effects to family economic wellbeing.

- In 2006, 4.6 million people (of all ages) reported attending an educational institution: of this group, 6.7% were at pre-school; 37% were at primary school; 27.8% were at secondary school; 9.3% were at TAFE; 16.3% were at university or another tertiary institution, and 2.8% attended other types of institutions.
- In 2008, nearly one-third (31%) of people aged 15–64 years reported their level of highest educational attainment as Year 11 or below; 20% reported Year 12; 22% reported Bachelor Degree or above; and 16% reported Certificate III or IV.
- ABS research indicates that in 2006-07, 12% of Australians between the ages of 25 and 64 participated in formal learning (structured and leading to a qualification); 30% in non-formal learning (structured); and a 74% in informal learning (unstructured).
- The primary reason for participation in formal learning was cited as 'to get a better job or promotion' (28%) or 'wanted extra skills for job' (21%), while the primary reason for participation in non-formal learning was because it was a job requirement (36%), or 'wanted extra skills for job' (25%).

Factors that may impact on a person's ability to invest in their own, or a family members' human capital might include:

- cost of course/training and cost of supplies and resources (including computers and internet);
- access to an appropriate learning environment;
- employer support and workplace flexibility;
- loss of earning potential while studying;
- long-term economic returns associated with the education or training;
- family support;
- respite care for carers; and
- transport, location and accessibility of educational institutes.

Distribution of income and resources

There is evidence to suggest that policies and the design of programs can impact upon how money is spent within families, and thus the family's level of economic wellbeing.

Expenditure can be influenced by:

- The way government assistance is provided to families. For example, the provision of public housing ensures that the family has access to housing and the assistance cannot be used for another purpose.
- The ability of families to make decisions about spending patterns. For example, rebate systems allow for families to make their own choices about consumption.

There is also evidence that *who* in the family receives income can affect expenditure – for example, when mothers have greater control over resources, more resources are allocated to food and children's health and education.

Tip: *It's not just a question of how much income a family receives, but also how and to whom it is paid.*
