Poverty and Inequality in Australia

Edited by Justin Healey

ISSUES IN SOCIETY
INTRODUCTION

Poverty and Inequality in Australia is Volume 446 in the ‘Issues in Society’ series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC

Australia has experienced its longest ever period of economic growth over the last quarter century. Yet, there are growing concerns and debate about the distribution of benefits from this growth, and the extent to which inequality is increasing.

One in eight adults and more than one in six children are living in poverty, while the share of income going to the top is growing at the expense of low- and middle-income earners. The disparity between rich and poor Australians extends beyond income to educational, postcode, intergenerational and technological inequality – all of which are at the core of opportunity.

How are poverty and inequality measured; what are the features of deprivation experienced by people living with entrenched economic disadvantage, struggling with rising costs of living and housing pressures, and reliant on social security and charity?

Is Australia – long seen as the egalitarian land of the ‘fair go’ – now a divided nation of haves and have-nots? How do we tackle economic disadvantage and poverty, and facilitate fairness and opportunity for all?

SOURCES OF INFORMATION

Titles in the ‘Issues in Society’ series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the ‘Issues in Society’ series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:

- Newspaper reports and opinion pieces
- Website fact sheets
- Magazine and journal articles
- Statistics and surveys
- Government reports
- Literature from special interest groups

CRITICAL EVALUATION

As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda.

It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

EXPLORING ISSUES

The ‘Exploring issues’ section at the back of this book features a range of ready-to-use worksheets relating to the articles and issues raised in this book. The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.

FURTHER RESEARCH

This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The ‘Web links’ section at the back of this book contains a list of useful websites which you can access for more reading on the topic.
POVERTY IN AUSTRALIA

Executive summary from a report by the Australian Council of Social Service and UNSW Sydney which shows national poverty rates remain high despite Australia experiencing decades of uninterrupted economic growth

POVERTY IN 2015-16

The analysis of poverty in this report begins with the poverty line used in most international poverty research: 50% of median household disposable income. Before taking account of housing costs, this is a very frugal $433 a week for a single adult living alone in 2015-16. For a couple with two children it is $909 a week.

After taking account of housing costs, more than one in eight people (13.2%) live below the poverty line in Australia. Disturbingly, the poverty rate among children is much higher, at more than one in six (17.3%). All told, there are 3.05 million people in poverty, including 739,000 children.

Another measure of poverty used in this report is the ‘poverty gap’. This measures the average depth of poverty for those below the poverty line (the average gap between their incomes and the poverty line). This averages $135 per week, indicating that many people in poverty are living well below the poverty line.

From an international perspective, we remain in the top half of the Organisation for Economic Co-operation and Development (OECD) countries with our poverty rate 14th highest out of 36 OECD countries.

Most people below the poverty line (53%) rely on social security as their main source of income.

Social security policies clearly have an impact on poverty, for better or for worse. Most major income support payments are below the poverty line, so to escape poverty, people need to supplement their social security payments with private income or move out of the social security system altogether (if able to do so).

Escaping poverty is easier if the payment sits close to the poverty line (e.g. the pension for homeowners without children). For example, while one in eight people (12%) in households whose reference person receives the Age Pension are below the poverty line, the remainder have sufficient superannuation or other income in addition to the pension to avoid poverty.

A majority of those living in households whose reference person receives Youth Allowance (64%), Newstart Allowance (55%), or Parenting Payment (52%) fall below the poverty line. The lowest income support payments are Youth Allowance (for single people up to 24 years old living away from the parental home) at $285 per week (including Rent Assistance) and Newstart Allowance, at $328. The low level of Youth Allowance reflects a policy view that young people can rely on financial support from their parents, though many paid at this rate have been assessed as financially independent.

Housing tenure has a major impact on poverty. The majority (52%) of people below the poverty line is renting, while only 15% of people in poverty are homeowners without a mortgage. The critical factor that determines whether older people are poor is their housing status: 43% of tenants aged 65 years and over are in poverty, compared with 12% of all older people.

Among different family types, sole-parent families have the highest poverty rates at 32%. Children in sole-parent families, with a poverty rate of 39%, are more...
than three times as likely to live in poverty as their counterparts in couple families (13% of whom are in poverty).

While the full-time minimum wage sits above the poverty line for a single adult without children, this does not prevent wage-earning families with children, those with only part-time earnings, and those with high housing costs, from falling into poverty. Among people in households whose main income is wages, 7% are in poverty. Since most people live in wage-earning households, this group forms a substantial proportion (38%) of all people in poverty.

TRENDS IN POVERTY (1999-2015)

The overall poverty rate fluctuated within a band between 11.5% and 14.4% between 1999-00 and 2015-16. Poverty declined substantially from 13.1% in 1999 to 11.5% in 2003, rose sharply during the boom years to 14.4%, just before the Global Financial Crisis (GFC) in 2007, declined to 12.6% in 2009, and has since plateaued, reaching 12.8% in 2015-16. Economic conditions and social security changes, including a large increase in the single pension rate in 2009, were key influences.

Child poverty moved within a higher band, fluctuating between 14.3% and 18.6% from 1999 to 2015. It followed a similar trajectory prior to the GFC, declining substantially from 18.6% in 1999 to 14.3% in 2003, and rising sharply during the boom years to 18.1% in 2007. After the GFC, child poverty took a different path to overall poverty. It fell only slightly to 17.8% in 2009, declined to 16.5% in 2013, then rose to 17.2% in 2015-16.

Trends in child poverty were also influenced by economic conditions, but social security changes since the GFC increased child poverty instead of reducing it, especially in sole-parent families. Parenting Payment was excluded from the 2009 pension increase, Family Tax Benefits (FTB) were frozen (after accounting for inflation) and in 2013, 80,000 sole parents were transferred from Parenting Payment to the lower Newstart Allowance.

One reason for the decline in the overall poverty rate between 2007 and 2009 was a $32 a week increase in the single rate of pension in 2009. Buttressed by the ongoing indexation of pensions to wage movements, this reduced poverty among pension recipients (other than sole parents on Parenting Payment), though we are unable to measure its impact precisely because other factors (such as economic conditions and rent levels) were also influential, but changing.

The poverty rate among people in households relying mainly on the Age Pension was 15% after the pension increase in 2009, well below its rate in 2005 (19%) and in 2007 (27%). In contrast, following the transfer of many sole parents to Newstart Allowance, the rate of poverty among unemployed sole parents rose from 35% in 2013 to 50% two years later (compared with a rise in poverty from 35% to 38% for all unemployed people).

The freezing of Newstart Allowance (after inflation) since 1994 is contributing to a progressive deepening of poverty for people in households relying mainly on that payment. Their poverty rate rose from 61% in 1999 to 78% in 2015, while the average poverty gap (for those below the poverty line) rose from $81 per week to $136 per week over the same period (compared with a rise from $70 to $96 for all income support households).

All told, there are 3.05 million people in poverty, including 739,000 children.

Poverty levels are affected by factors other than the incomes of those most at risk. Since the poverty line is a relative measure (half of median household disposable income for a single person), poverty is also affected by changes in median incomes. This is consistent with the convention in poverty measurement that people are in poverty if they cannot attain a living standard that is acceptable in a given country at a given point in time.

Median household incomes grew very strongly – a 22% increase after accounting for inflation – in the boom years from 2003 to 2007, and poverty rose over that period as the incomes of many people out of paid work or on low wages failed to keep up.

After the GFC, median household incomes grew by a sluggish 3% (after inflation) in total from 2007 to 2015, reducing growth in poverty as measured in this report (by narrowing the gap between the lowest incomes and the median). In contrast to the recession in 1990 (after which the unemployment rate rose by five percentage points), the rise in unemployment after the GFC was more modest (at two percentage points), limiting its contribution to poverty.

The impact of the business cycle on poverty underscores a challenge for public policy. Slowing income growth for everyone is not the way to stop people being left behind. We need policies for inclusive growth, so that the incomes of the poorest grow at least as quickly, or more so, than the rest of the community when the economy is growing strongly.

Since the GFC, a surge in housing costs for many low-income households pushed back against the dampening effect on poverty rates of slow growth in median household incomes. From 2007 to 2015, average (equivalised) housing costs for recipients of the Age Pension rose by 45% (after adjusting for inflation), along with a 32% increase in average housing costs for recipients of the Parenting Payment. Both these increases were significantly higher than the 27% rise in overall median housing costs over the same period.

Since the 2009 pension increase, due in part to the offsetting effects of sluggish growth in median incomes and strong growth in housing costs for low-income households, the overall poverty rate has been stable.

The numbers in this report demonstrate the role played by public policy – especially social security, but also housing, and employment policies – in increasing or reducing poverty. The evidence shows that through social security, housing, and employment policies, as a nation we choose the level of poverty we are prepared to accept.
SNAPSHOT OF POVERTY IN AUSTRALIA

In 2015-16:

- The poverty line (50% of median income, before housing costs) for a single adult is $433 a week. For a couple with two children, it is $909 a week.
- 3.05 million people (13.2% of the population – more than one in eight – are estimated to live below the poverty line, after taking account of their housing costs.
- 739,000 children under the age of 15 (17.3% of all children – more than one in six) and 410,000 youth between the ages of 15 and 24 (13.9%) live below the poverty line.
- The average ‘poverty gap’ (the difference between the incomes of people in poverty and the poverty line) is $135 per week.
- 53% of people below the poverty line are in households that rely on social security as their main source of income, while 38% rely on wages as their main income.
- 26% of people in households whose reference person receives an income support payment are living below the poverty line, including 64% of those on Youth Allowance, 55% of those receiving Newstart Allowance, 52% of those on a Parenting Payment, 36% of those on the Disability Support Pension, 17% of those on a Carer Payment, and 12% of those on the Age Pension.
- A major source of child poverty is the high poverty rate (32%) among sole-parent families, who must generally rely on a single income.
- The majority (52%) of people below the poverty line were in rental housing, while 15% of people in poverty were homeowners without a mortgage.
- Australia has the 14th highest poverty rate among 34 OECD countries, and is part of a group of English-speaking wealthy nations with above-average poverty levels.

From 1999-00 to 2015-16:

- The proportion of people in poverty fluctuated within a band between 11.5% and 14.1% from 1999 to 2015. Poverty declined substantially from 13.1% in 1999 to 11.5% in 2003, then rose sharply during the boom years to 14.4% in 2007. After a large pension increase in 2009 it fell to 12.6%, and then stabilised, reaching 12.8% in 2015.
- Child poverty moved within a higher band between 14.3% and 18.6%. It also declined substantially from 18.6% in 1999 to 14.3% in 2003, and rose sharply to 18.1% in 2007. It fell more gradually after the GFC to 16.5% in 2013-14, then rose to 17.2% in 2015-16 (after 80,000 sole parents were shifted from a pension payment to Newstart Allowance in 2013).
- Poverty among people in households relying mainly on the Age Pension was 15% after the $32 a week pension increase in 2009, well below its 19% rate in 2005.
- The freezing of the Newstart Allowance (which has not increased above inflation since 1994) has increased poverty among those receiving that payment. Poverty among people in households relying mainly on Newstart Allowance rose from 61% in 1999 to 78% in 2015, while the average poverty gap (for households reliant on Newstart Allowance below the poverty line) rose from $81 per week to $136 per week over the same period.
- The transfer of 80,000 sole parents to Newstart Allowance in 2013 was associated with an increase in the rate of poverty among unemployed sole parents from 35% in 2013 to 59% two years later.

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ENDNOTES
1. To estimate the level of poverty after accounting for housing costs, we estimate the median value of income after subtracting the cost of housing and set the ‘after-housing’ poverty line at 50% of that median. This results in new poverty lines equal to $353 for singles and $742 for couples with two children. We then estimate after-housing poverty by subtracting housing costs from the incomes of each household in the ABS income survey sample and comparing the resulting incomes with the after-housing poverty lines.
2. Note that the OECD analysis does not account for housing costs.
3. The reference person for each household is chosen by the ABS, by applying its selection criteria to all household members aged 15 years and over. The selection criteria are applied in the order listed, below, until a single appropriate reference person is identified:
   - The person with the highest income.
   - The person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure.
   - One of the partners in a registered or de facto marriage, with dependent children.
   - One of the partners in a registered or de facto marriage, without dependent children.
   - A lone parent with dependent children.
   - The person with the highest income.
   - The eldest person.
4. The 13.2% rate reported above for 2015-16 is based on the latest ABS income definition, so is not directly comparable with earlier years. We use the 2005-06 ABS income definition for trend analysis.
5. Estimating the size of the impact of specific policy changes is beyond the scope of this study.
6. Poverty among Age Pensioners and many other groups peaked in 2007-08, so part of the 12 percentage point decline in poverty for Age Pensioners from 2007 to 2009 was likely due to changed economic conditions.

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The concept of disadvantage is hard to measure, with no universally preferred definition (McLachlan et al, 2013). Many well-established examples highlight the difficulties in measuring persistent disadvantage, and more detailed discussions on the different concepts and measures can be found in McLachlan et al. 2013; and Saunders, 2011. Consequently, poverty is often used as a proxy for the measurement of disadvantage.

Most Australian studies of social disadvantage have used income as the basis for identifying whether or not disadvantage exists at the household level. Income-based approaches to exploring disadvantage have many limitations. Disadvantage is not a synonym for poverty, which is explored in greater detail below in the section on social exclusion. While income-based measures cannot capture the range of non-financial factors that may contribute to disadvantage, such as poor health, low education or limited community participation (Förster and d’Ercole, 2009; McLachlan et al, 2013), the range of approaches to measurement can help inform the picture of poverty and disadvantage in Australia.

### INCOME-BASED MEASURES OF POVERTY

In Australia, poverty has been measured in absolute or relative terms (McLachlan et al, 2013). Absolute poverty is defined as not having enough income to cover the basic cost of living. Based on absolute poverty rates in the Household Income and Labour Dynamics in Australia (HILDA) survey, the proportion of people in absolute income poverty in Australia has been estimated to have dropped from 13 per cent in 2001 to 3.9 per cent in 2014 (Wilkins, 2016).

The picture is different when considering relative poverty. This measure usually looks at the proportion of households earning less than 50 per cent of the national median household income (McLachlan et al, 2013). Looking at the Australian rates of relative income poverty from 2003-04 to 2013-14, ‘the overall picture on a ten-year trend basis is one of a persistent and entrenched poverty rate around 12 per cent’ (ACOSS, 2016, p.17). A similar analysis by the Melbourne Institute showed that from 2001 to 2014 relative poverty has remained between 10.3 per cent and 13.0 per cent (Wilkins, 2016). Further, there has been an increase in the proportion of children living in relative poverty (2004 to 2014), with an estimated 17 per cent of children aged under 15 living in households below the poverty line (ACOSS, 2016).

The distinction between relative and absolute poverty gave rise to the poverty wars of the early 2000s, which arose following the release of a report prepared by National Centre For Social And Economic Modelling for The Smith Family in 2001. The Centre for Independent Studies, a think tank, argued that the report exaggerated the level of poverty in Australia. The debate that followed centred on whether poverty should be measured in relative or absolute terms (Harrigan, 2005, pp. 120-21).

In spite of attempts to discredit this approach, measures of relative income poverty have been used for international comparisons (Förster and d’Ercole, 2009; McLachlan et al, 2013). The Organisation for Economic Co-operation and Development (OECD) estimates that the proportion of people in relative income poverty in Australia in 2014 was 12.8 per cent (ACOSS, 2016). This placed Australia among the middle third of countries, despite its prosperity compared with other nations. While the characteristics of the compared nations differ, the fact that six countries had relative income poverty proportions of eight per cent or less suggests that reductions in relative income poverty are possible.

The above measures of income poverty, whether absolute or relative, are cross-sectional snapshots. They do not show how many people are embedded in poverty since individuals can, and do, move in and out of poverty. An alternative is to measure the duration of poverty. The Melbourne Institute analysed Household, Income and Labour Dynamics in Australia (HILDA) data from 2002 to 2013 for persons aged over 18 who entered poverty, reporting the number of years before they exited it (Wilkins, 2016).

While the majority of people entering poverty (61 per cent) had exited poverty within a year, others remained in poverty for two years (17 per cent), three years (7.4 per cent), four years (4.4 per cent), five years (2.5 per cent) or six or more years (8.2 per cent). Wilkins (2016) also provides a second, similar analysis, looking at the amount of time people receive income support payments. This suggests there is a cohort shifting in and out of poverty, and another that is embedded in poverty. These issues are explored in the emerging research on social exclusion.

### SOCIAL EXCLUSION

To move beyond the limitations of income based poverty measures and gain a deeper understanding of disadvantage, a growing body of research has been exploring the concept of social exclusion. The goal of much of the social exclusion literature has been to develop a broader framework which explores the role of non-economic factors, focusing more attention on the underlying barriers that prevent people from participating in the opportunities available in society.
A group of British researchers has proposed the following definition of social exclusion based on a range of definitions found in the literature:

‘... a complex and multi-dimensional process [that] involves the lack or denial of resources, rights, goods and services, and the inability to participate in the normal relationships and activities, available to the majority of people in society, whether in economic, social, cultural, or political arenas. It affects both the quality of life of individuals and the equity and cohesion of society as a whole’ (Levitas et al., 2007, p.9).

This not only defines social exclusion, but also touches on its consequences for individuals and for society. The emphasis on process reflects both embeddedness in poverty and the precarious movement in and out of disadvantage suggested by the HILDA data. This broadens the focus beyond income measures.

The Productivity Commission, for example, reported on yearly shifts between levels of social exclusion from 2001 to 2009. They found that the largest proportion of people facing deep or very deep social exclusion in any given year experienced less exclusion the year after (McLachlan et al., 2013). These findings were consistent with the Melbourne Institute’s analysis of durations of poverty (Wilkins, 2016) and analyses of the Panel Study of Income Dynamics in the United States (for example, Duncan and Vanden, 2012; Gottschalk et al, 1994).

However, the Productivity Commission also found that, of people who were ‘very deeply socially excluded’ in any given year, 31 per cent remained so the following year. Of people who were ‘deeply socially excluded’, 37 per cent remained so the following year and 8 per cent moved on to being ‘very deeply socially excluded’ (see McLachlan et al., 2013, Table 3.7).

Although promoting social inclusion has become a policy priority in many countries, concern has been expressed in the academic literature about the ambiguities that surround the concept. Saraceno (2002, p.49) argues that:

‘... social exclusion has been more developed as a discourse than as a concept: that is, the idea has been most used and articulated in the service of the language of politics ... it constitutes a relatively loose set of ideas that represent particular settings, rather than a concept with theoretical substance and coherence that transcends national and political contexts.’

These concerns have been highlighted by critics from across the political spectrum to argue that social exclusion as a concept serves little purpose other than to divert attention away from more fundamental issues like inequality. Others believe that it allows groups to be categorised as disadvantaged and thus become eligible to receive state support (Saunders and Wong, 2014, p.136). In spite of the criticisms, it remains a useful concept in exploring the factors that underlie poverty and deepen causes of disadvantage.

CHANGING DEMOGRAPHICS OF POVERTY
The above discussion of social exclusion raises issues related to employment, earnings, and demographic factors. The focus on income poverty has intensified as Australia continues to see a decline in wage growth, meaning that more and more Australians in poverty are working (Rajadurai, 2018, p.16). Of these, a growing proportion are working full-time (ACOSS, 2016, p.25). Income inequality between higher and lower income earners has also increased (Whiteford, 2015).

The most important source of income inequality is linked to wages (Whiteford, 2017). Labour force data released by the Australian Bureau of Statistics (ABS) in 2017 showed that the unemployment rate for people aged 15-24 was 12.4 per cent which was double the national average for unemployment. It also showed that over 18 per cent of young people who are not in school are unemployed (ABS, 2017, p.21).

Other factors such as changes in family structure, shifting demographics, and economic changes have played a role in income inequality. The income share of Australia’s highest income earners began to rise in the late 1970s and has followed a pattern similar to other English-speaking advanced economies (Whiteford, 2013, p.19). For around 61 per cent of the population, the largest proportion of household income comes from wages and salaries. Government pensions and allowances come in second, forming the largest income source for close to 25 per cent of Australian households (Whiteford, 2013, p.19).

These trends are coupled with rising living costs. Compared with 1997, today’s average hourly wage affords two per cent less food, eight per cent less housing, 26 per cent less water, electricity and gas, eighteen per cent less petrol, five per cent less healthcare and 21 per cent less education (ABS, 2011).

Over the last few decades, household incomes have risen in terms of the overall consumer price index (38.1 per cent for the median household), but food and other essential costs (including housing, energy, transport, health, education and childcare) take up the same proportion of the average household budget as they did in...
1985, almost three-fifths (Rafferty and Yu, 2010, pp. 56-7). This underscores the need to factor living costs into analyses of incomes. It also highlights the limitations of income-based measures of inequality.

Just as the poverty wars of the early 2000s centred on the distinction between relative and absolute poverty, a new debate is emerging that focuses on the difference between income inequality and wealth inequality. While most Australian research has focused on income inequality, the focus on wealth inequality has been growing.

Some researchers argue that income (an economic flow) is a simplistic measure, while wealth (an economic stock of assets) is a more fundamental indicator of people’s social position and opportunities (Sheil and Stilwell, 2010). This is because measures based solely on income do not account for financial resources other than income, such as savings or home equity (Hayes and Hacker, 2017, p.3). Interest in wealth inequality is likely to grow because Australia’s social security and retirement system is designed around the assumption that most people will own their own home (Agnew, 2013, p.8), but record-high house prices are now driving home ownership out of reach for more and more people (Wang et al, 2018, p.34).

The centrality of home ownership to Australia’s social security system, coupled with rising living costs and more insecure work patterns, mean that work is becoming less important financially than owning a home or inheriting wealth. This is an important trend that could have a major impact on social attitudes towards welfare, work and poverty.

**AUSTRALIAN ATTITUDES TO INCOME, POVERTY AND THE WELFARE STATE**

There is a perception within Australian civil society that people experiencing poverty are poorly regarded by the community, that the welfare state is unpopular, and that the succession of welfare crackdowns is a response to Australian public opinion (Whiteford, 2017). This section attempts to interrogate those assumptions by exploring the literature on social attitudes and the values that underlie them, noting that research in this area is scarce.

**ATTITUDES TO THE WELFARE SYSTEM**

People can have disparate, or even contradictory, attitudes toward the welfare system and the people who depend on it. For example, people can be supportive of the safety net but are often unhappy with how policies are implemented (Roosma et al, 2013). There is some cross-national variation in both attitudes toward welfare systems (Roosma et al, 2013) and the people who access these systems (McKay, 2014).

As these perceptions may change over time (Petersen et al, 2011; Petersen et al, 2012), data on changes in attitudes to welfare form an important part of the empirical backdrop. In Britain, where public attitudes to welfare have been monitored over decades, data show a substantial decline in support for increased spending on welfare benefits for the poor; that an increasing majority consider benefits for the unemployed are too generous; and that there are growing levels of distrust and concern about the integrity of the welfare system (McKay, 2014; Baumberg, 2012; Pearce and Taylor, 2013). Recent European data shows Britain to have the most negative attitudes toward people receiving benefits, as evident from strong endorsement of the view that they are ‘lazy and dependent’ (McKay, 2014).

In spite of media assertions, little is known about the attitudes of Australians to welfare. The work that has been done has focussed on the structure of the welfare system, demonstrating broad support for the safety net (Saunders, 2002). While there is little research on the attitudes of Australians toward people receiving welfare, Schofield and Butterworth (2015) attempted to study Australian attitudes through a weighted survey. They found that support for the safety net is high, but the people who use that safety net were often viewed as lazy and not doing enough to find work.

The Australian findings are consistent with findings in other English-speaking countries (Schofield and Butterworth, 2015). Over 60 per cent of those in the UK view welfare as making people lazy and dependent (McKay, 2014), and a similar proportion of those surveyed in the Australian population also endorsed this negative attitude (Schofield and Butterworth, 2015). This view was accompanied by the belief that recipients of welfare payments should be under more obligation to find work and were not genuinely trying to find a job. The study also found a perception that it’s too easy to qualify for welfare payments in Australia (Schofield and Butterworth, 2015). In other words Australians support the safety net, but can still hold negative attitudes to those who use it.

Anglicare Australia commissioned its own survey on welfare levels in 2013. In a weighted survey of 1,377 respondents, 61 per cent favoured setting welfare payments through an independent body rather than through a political process. This included a majority of Coalition, Labor, Greens, and One Nation voters. A strong majority of respondents (67 per cent) believed that welfare payments should be designed to meet the cost of living. A small minority (12 per cent) believed that welfare payments should reflect a bare minimum. This reinforced the notion that Australians support the existence of a strong safety net, although unlike the Schofield and Butterworth study, the survey did not explore attitudes towards the people who use that safety net.

**POLITICAL IMPACTS OF ATTITUDES TO WELFARE**

Australia has one of the most targeted and compliance-heavy social security systems in the world (Whiteford, 2016, p.12). The value of income support payments has eroded over time, as they have failed to keep up with wage growth and cost-of-living increases. The base rates of several income support payments, including the Newstart Allowance, have not been increased in almost
25 years (Education, Employment and Workplace Relations References Committee, 2012, p.38). Australia is one of the lowest spending countries on income support in the OECD (Whiteford, 2016, p.9), and the OECD itself has reported that Australia’s income support payments are far too low (OECD, 2008, p.2).

While the conditions attached to social payments are justified as providing incentives to work, or challenging a culture of poverty, the evidence is often lacking. Past research suggests Work for the Dole reduces the chances that recipients will find work (Bordland and Tseng, 2011). There is little evidence that quarantining payments helps either. But both measures also increase administrative costs. Despite this, governments have continued to move in this direction, shifting more people onto lower and highly conditional payments (Whiteford, 2016).

These trends reflect the politics of a very targeted welfare payment system. As the group of people reliant on payments reduces to those at the margins, the recipient group becomes less politically influential and more vulnerable to cuts (Jacques and Noël, 2018). It is already well-established that targeting benefits reduces redistributive impact by shrinking the overall size of the state (Korpi and Palme, 1998). But there is an emerging view that universalism is also a tool to build support for the welfare state, reducing poverty and inequality by generating political support (Jacques and Noël, 2018).

The support for universalism is demonstrated by the widespread popularity of Medicare subsidies and payments, family payments, and the age pension (Deeming, 2013; Spies-Butcher and Stebbing, 2010). In each of these cases most of the potential population – those with children, those over 65, those accessing healthcare – receive a benefit. Payments that are not too targeted are less likely to create poverty traps caused by taking away benefits at the same time that people pay more income tax. Universalism also guards against stigmatising recipients. Because most people receive a benefit it is seen as normal, and the larger constituency is more politically powerful. Notably, family payments increased throughout the 2000s (Spies-Butcher and Stebbing, 2010, p.588), and the age pension was raised in 2009. This is in contrast to more targeted payments, which continue to stagnate.

It is also important to note that the negative attitudes towards people receiving welfare payments, such as those identified by Schofield and Butterworth, may not be fixed. Some popular commentary posits that welfare crackdowns are a response to community sentiment, but emerging research from the United Kingdom suggests that the political discourse shapes public attitudes, not the other way around (see, for example, Curtice, 2010).

A recent study analysing longitudinal data on British social attitudes from 1983-2011 contradicts popular perceptions that welfare crackdowns beginning in the eighties and nineties were a response to community sentiments (Taylor-Gooby and Taylor, 2014). Instead, it suggests that the move toward mutual obligation and punitive approaches to welfare in the eighties began long before the hardening of attitudes towards people receiving benefits. The critical period in shaping these attitudes seems to have happened in the late nineties (Taylor-Gooby and Taylor, 2014, p.20). As the political consensus on benefits cemented, it has influenced attitudes.

These findings are reinforced by O’Grady’s (2017) analysis of House of Commons speeches on welfare from the late 1980s to 2015. O’Grady compared political rhetoric to data from the British Social Attitudes Survey and found that declining support for the benefits system was a top-down phenomenon. He concludes that shifts in political rhetoric, especially from Labour, occurred before public opinion changed, not after:

‘In the 1980s and early 1990s, benefits recipients were depicted [by Labour] mostly as deserving, and the system itself was talked about as a highly legitimate means of poverty alleviation. That began to change from the mid-1990s. Users of the system became stigmatised, and benefits were depicted as ineffectual or even wasteful … from the late 1990s to the mid-2000s – in a very sharp break from the 1980s – Labour devoted substantially less time to talking about the benefits system and its users in positive terms than it did to problems with the system and the need for reforms. Positive mentions of welfare plummeted, and were drowned out by more negative discourse.’

Comparable studies have not been conducted in Australia, but it is worth noting that the expansion of Australia’s mutual obligation framework since the late nineties has coincided with that of the United Kingdom, and both populations appear to hold similar attitudes to people receiving welfare payments (see, for example, Schofield and Butterworth, 2015).

These findings are significant, and there are many ways to interpret what they mean. It could imply that labour parties and other ‘progressive’ actors are more influential in debates on income and welfare. It could also suggest that governments and parties cannot shape attitudes on their own without the existence of a political consensus. More research is needed, but these findings show that negative attitudes towards people receiving welfare payments are not fixed and are influenced by public debate.

RELATIONSHIP BETWEEN ATTITUDES AND VALUES

In exploring attitudes towards poverty and income, it is important to consider how these attitudes are shaped by the values that underlie them. For much of the past century, the application of the values construct in the social sciences suffered from the absence of agreement about what basic values are, of the content and structure of relations among these values, and of reliable empirical methods to measure them (Hittin and Piliavin, 2004; Rohan, 2000). Theoretical and methodological developments pioneered by Schwartz (Schwartz, 1992; Smith and Schwartz, 1997) have brought about a resurgence of research on values.
The Schwartz theory concerns the basic values that people in all cultures recognise. It identifies ten distinct types of values and specifies the dynamic relations among them. It posits that some values conflict with one another (for example, benevolence and power) whereas others are compatible (for example, conformity and security) (Smith and Schwartz, 1997). Under this theory, the structure of values refers to these relations of conflict and congruence. Values are structured in similar ways across culturally diverse groups. The Schwartz research suggests that there is a universal organisation of human motivations (Schwartz, 2006). Although the nature of values and their structure may be universal, individuals and groups differ in the relative importance they attribute to the values. That is, individuals and groups have different value priorities or hierarchies. This theory has been well researched and tested over many years, leading it to become widely accepted as a foundation for values-based communication.

Building on Schwartz’ work, Kasser and Ryan (1996) used this framework to define intrinsic and extrinsic values. Intrinsic values include values of social justice, equality, unity with nature, and self-acceptance. Engaging these values – any of them, it seems – leads to increased support for social and environmental causes (Crompton et al, 2015, p.9). Intrinsic values stand in opposition to extrinsic values. These include concern about wealth, social status, or public image. These values have been shown to be associated with lower levels of concern about environmental problems, and lower motivation to address them (Crompton et al, 2015, p.9).

More recent research building on this work suggests that drawing a person’s attention, even subtly, to an extrinsic value leaves them less likely to offer help to another person (Maio et al, 2009; Vohs et al, 2006) and less likely to express positive attitudes towards people experiencing poverty or the environment (Crompton et al, 2015, p.9). While further research is necessary to explain the processes involved, it seems likely when extrinsic values are activated people become more concerned about aims consistent with those values (such as power, status, money, and competition) and less concerned about aims that are inconsistent with extrinsic values, namely the intrinsic values that promote greater care, empathy, and environmental concern (Crompton et al, 2015, p.9).

The implementation of the biennial European Social Survey in 2002, conducted every two years, further developed the Schwartz values framework by providing data for assessing this model. The survey included responses from 71 representative national samples from 32 countries to a 21-item version of the Portrait Values Questionnaire, based on the Schwartz framework (Bilsky et al, 2011). The results of an analysis from three rounds of the survey supported the finding that intrinsic values are widely held among respondents (Bilsky et al, 2011, p.764). It also found that intrinsic values are closely associated with one another – for example, people who value universalism are also likely to value benevolence, another intrinsic value (Bilsky et al, 2011, p.773). This further bolsters the evidence base for the Schwartz framework.

Building on this work, Crompton et al (2016) for the Common Cause Foundation conducted a survey of values in the United Kingdom to explore intrinsic values like helpfulness and equality and extrinsic values such as wealth, public image and success. The survey found that 74 per cent of respondents place greater importance on intrinsic values than extrinsic values (Crompton et al, 2016, p.17). However, 77 per cent believed that their fellow citizens held extrinsic values to be more important. The study also found that people who hold this inaccurate belief about other people’s values are much less likely to express or act on their own intrinsic values (Crompton et al, 2016, pp. 21-22).

In exploring the research, it seems that the gulf between people’s own values, and their perceptions of other people’s attitudes, could explain some of the inconsistencies in social attitudes towards poverty and welfare.

For example, strong cross-cultural support for a safety net and the concept of welfare could be informed by values of universalism and benevolence. On the other hand, perceptions of people who rely on the safety net could be shaped by the perceptions that people hold about the values of others. In light of O’Grady’s findings on the importance of public discourse and political consensus, this is an area in need of more research.

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FACES OF UNEMPLOYMENT

Following is a summary from a report by ACOSS and Jobs Australia which looks behind the headline unemployment statistics to reveal who is affected, why it's no easy matter for most unemployed people to secure a job, and the disturbing growth in long-term unemployment. The report also looks at the chances people on unemployment payments have of getting a job, and the help they receive from jobactive employment services.

People receiving unemployment payments are not who many people think

The main unemployment payments are Newstart (NSA) and Youth Allowance (YA). In July 2018 there were 827,794 recipients of these payments. They are largely, but not entirely, the same people as the 713,000 the Australian Bureau of Statistics classified in that month as unemployed. The media presents a stereotypical image of unemployed people (for example, young surfers).

The real story is that NSA and YA recipients come from diverse backgrounds and age groups (Figure 1):

- 17% were under 25 years, 38% were aged 25-44, and 43% were over 45 (a growing share of unemployed people are older);
- 13% are principle carers of children (mainly sole parents), many of whom were diverted from Parenting Payment to the lower NSA under ‘Welfare to Work’ policies;
- 24% have disabilities (as more people are diverted from Disability Support Pension to NSA);
- 13% identify with Aboriginal and Torres Strait Islander background;
- 19% had culturally and linguistically diverse backgrounds.

Most of these groups face significant barriers to employment, including disabilities, caring roles, and employer discrimination.

Almost two-thirds of people receiving unemployment payments are long-term recipients

In March 2018, 547,066 people (64% of recipients) were unemployed long-term – that is, had received unemployment payments for more than a year. This represents a slight increase on the 62% in 2016 and 60% a decade ago (just before the GFC). Of great concern is the 44% who have received unemployment payments for over two years and 15% for more than five years.

This is a serious, and longstanding, policy failure. A majority of unemployed people are systematically excluded from paid employment. As people become unemployed for longer periods, their job prospects sharply diminish. Among recipients of Newstart and Youth Allowances in 2015, the average probability of being off benefits 12 months later (in 2016) was 55% for those unemployed for less than three months, compared with 30% for people unemployed for 12 to 24 months, and 22% for those unemployed over 5 years.

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Poverty and Inequality in Australia

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In Figure 2, we also publish for the first time a breakdown of those who receive Newstart and Youth Allowances long-term. They belong to groups who struggle to secure paid work.

Among all long-term recipients in September 2017:
- 49% were aged over 45 years;
- 29% had disabilities;
- 16% were principal carers of children, including sole parents;
- 11% identified as being of Aboriginal and Torres Strait Islander background;
- 21% were from culturally and linguistically diverse backgrounds;
- 29% lived outside metropolitan areas.

It isn’t easy for people to find employment

Growth in jobs was almost stagnant from the Global Financial Crisis (GFC) in 2008 to 2017, and most of the new jobs created over that period were part-time. Jobs growth picked up during 2017, with an extra 360,000 jobs created over the year, but from the end of last year to May 2018, employment declined by 11,000 jobs.

In May 2018 there were 723,700 people unemployed (5.4% of the labour force). While this is close to the Reserve Bank’s estimate of ‘full employment’, this does not mean it is easy for unemployed people to secure paid work. For instance, another 1,102,700 (8.3% of the labour force) were under-employed (employed part-time and seeking more paid hours).

Altogether, in May 2018, there were eight unemployed or under-employed people for every job vacancy, down from ten a year earlier. When employed people changing jobs are added in, the number applying for each vacancy almost doubles (for example, to 16 in 2016).

Further, the share of the low-skilled jobs which many unemployed people seek is gradually shrinking, and those jobs are increasingly offered on a part-time or casual basis so that more people are cycling between unemployment payments and jobs. In 2017, among low-paid workers (those receiving...
Income support and tax concessions in Australia

A brief overview from the Australian Institute of Health and Welfare

Australia’s income support payments are financed from government revenue, with no separate social security contributions. This differs from what occurs in many other OECD countries, where employers and employees partly finance the system, and some benefits are tied to past earnings; for example, in parts of Europe, the United States and Japan, people who have earned relatively higher incomes receive more if they need to access benefits (Whiteford 2015).

The income support system redistributes income via the tax system (from people who are well-off to people who are most disadvantaged), and acts as a ‘safety net’ for people not able to support themselves (DSS 2017b). In Australia, income support payments are subject to means testing, a process used to determine eligibility for benefits. Means testing helps to ensure that resources are focused on supporting people with relatively lower incomes and fewer assets. It plays a more prominent role in Australia than in other countries, particularly in continental Europe. In fact, Australia is the highest means testing country in the OECD, with around 80% of spending on cash benefits (for example, age pensions and veterans’ payments) determined by means testing (OECD 2014).

Australia’s transfer payment system also differs from those in the majority of other OECD countries. Australian Government transfer payments are financed solely from general revenue, rather than relying on contributions via a social security system financed by employers and/or employees. Australia’s compulsory superannuation contributions also work to reduce the reliance on the Age Pension over time (Productivity Commission (Australia) 2015). Because cash benefit payments in Australia are at a flat rate (not based on prior earnings) and generally means tested, Australia’s spending on these benefits is comparatively low compared with spending in other OECD countries. (Australia was the 6th lowest spender in 2014, at 8.6% of Gross Domestic Product, or GDP (Whiteford 2015)).

As well, in 2011, around 42% of social benefits in Australia went to the lowest (or most disadvantaged) quintile of households. This compares with slightly more than 20% of benefits, on average, going to the lowest quintile of households across all OECD countries. Further, only 3.8% went to the highest 20% of households in Australia – the lowest figure of all OECD countries and well below the OECD average of 20% (CEDA 2014; OECD 2014).


less than two-thirds of the median hourly wage), 55% were part-time and 63% were casuals.

People out of paid work don’t get enough help

The fact that almost two-thirds of people on unemployment payments have received them for over a year underscores the importance of an adequate income for unemployed people, and employment services that help them prepare for a job and support them in paid employment. Yet, as well as having the lowest unemployment benefit in the OECD at $277 per week, Australia spends less than half the OECD average level on employment assistance.

Australia has among the toughest work requirements for unemployed people in the OECD, with most having to search for 20 jobs a month and participate in compulsory ‘annual activities’ like Work for the Dole for up to six months of each year, in order to receive unemployment payments.

The main employment service program, jobactive, focuses mainly on supervised jobs search, which on its own won’t get many people out of paid work for prolonged periods ‘over the line’. Of the help offered to people unemployed long-term, wage subsidies are relatively effective and Work for the Dole is relatively ineffective. Work experience in regular paid employment, together with career advice and training to update skills, are important stepping stones to secure jobs.

In 2016-17, of those engaged in the six months of compulsory ‘annual activity’, 26% were in part-time employment, 17% were in training, and 48% were in Work for the Dole. A smaller share received a wage subsidy for employers to trial them for 3-6 months.

Employment outcomes (the share of participants in paid employment three months later) varied among these programs, from:

- 36% after vocational training;
- 32% after voluntary work; and
- 27% after Work for the Dole.

During 2016-17, among people unemployed for 12-24 months, 45% were in employment 3 months after participating in jobactive. This was an improvement on the 43% a year earlier. However, consistent with the changes in low-skilled jobs discussed above, 62% of the jobs they obtained in 2016-17 were part-time and 38% were casual.

How to reduce poverty and prolonged unemployment

ACOSS has welcomed the government’s major review of employment services, as an opportunity to undertake the fundamental reform in this area that’s needed, once jobactive contracts end in July 2020. It’s time to raise the single rate of Newstart and Youth Allowances so that people can meet basic living costs and search for employment, and refocus employment services towards intensive help that makes a difference, and away from Work for the Dole and other forms of benefit compliance.

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Issues in Society | Volume 446
**THE CYCLE OF DISADVANTAGE**

**THE SMITH FAMILY EXPLAINS THE EFFECTS OF GROWING UP IN POVERTY**

**Not all children get an equal start in life**

Today, one in six Australian children and young people are living in poverty, where even life’s basics are hard to come by.

When families are experiencing financial disadvantage children can fall behind with their learning, leaving them more vulnerable to experiencing hardship themselves later in life.

Research shows children and young people living in disadvantage have access to fewer books and learning materials in the home. Access to support and resources forms the foundation for learning. In many cases, the parents of disadvantaged children may not have the skills or experience to support their child’s education. As these children get older, they have fewer role models, and access to mentors and networks that are critical for creating educational opportunities to help them build their aspirations and be motivated to learn.

The effects of growing up in poverty go beyond the home environment. For over 1.1 million Australian children and young people this can negatively affect their school life and mean they are less likely to achieve the educational outcomes (and in turn employment outcomes) that then limit their overall life outcomes, passing on disadvantage to the next generation.

**The impact of disadvantage**

Disadvantaged students are on average 2-3 years behind in reading and maths by the time they are 15 years old. The reading gap between the lowest socio-economic status (SES) students and the highest SES students is equivalent to almost three years of schooling.

Year 12 completion rates are significantly lower (60%) for students from low SES backgrounds than for students from high SES backgrounds (90%). University students from high SES backgrounds are three times more likely to attend, than students from low SES backgrounds.

**Why is education so important?**

Research shows that completing Year 12 (or equivalent) increases a young person’s likelihood of continuing with further study, as well as entering the workforce. It also leads to higher annual earnings for individuals, greater community involvement and economic benefits for the country as a whole.

Not completing Year 12 can lead to:

- Increased crime and poorer health outcomes among early school leavers
- Nationally lower levels of productivity
- Reduced quality of the labour force
- Increased unemployment
- Lower growth in income tax collections.

**Education attainment is an important predictor of future employment, welfare and health prospects – and it improves [a person’s] ability to contribute socially and economically in the community.**

Victorian Auditor-General’s Report, November 2012

**HOW WE HELP**

Our Learning for Life programs support children and young people to participate more fully in their education by providing innovative, evidence-based programs and emotional, practical and financial support throughout their schooling and tertiary education. Our programs give disadvantaged students the skills, motivation and essentials to stay in school and get the most from their education so they can create a better future for themselves.

**ENDNOTES**

A FUTURE FOR ALL CHILDREN: ADDRESSING CHILD POVERTY IN AUSTRALIA

A BRIEFING PAPER FROM THE AUSTRALIAN COUNCIL OF SOCIAL SERVICE

No child need live in poverty

Australia has experienced 20 years of sustained economic growth and is one of the wealthiest countries in the world. Despite our wealth, the last ACOSS Poverty in Australia report (2016) found of the three million people living in poverty in Australia, 731,000 are children, representing one in six (17%) of children under the age of 15. This figure has increased by 2 percentage points over the past ten years.

Single-parent families locked out of paid work are at particularly high risk of poverty. Forty per cent of all children in poverty in Australia live in single-parent households.

We can and must do better.

Alleviating poverty has a positive impact on everybody

Children and young people deprived of food, clothes and other materials may reduce their engagement with school due to hunger, shame or being excluded or marginalised, impacting children’s development, educational, and eventually employment opportunities.

Evidence shows that reducing poverty leads to better health, education and employment outcomes for children, even if they have equal access to health and education.

We call on government to take swift and determined action to reduce child poverty

Australia’s child poverty trend is heading in the wrong direction. We can, and must, reverse the tide.

The Federal government can do this by:

1. Committing to reducing poverty by at least 50 per cent by 2030, in line with the Sustainable Development Goals.
2. Increasing Newstart Allowance, including for single parents.
3. Establishing a single parent supplement that increases as children grow older and they cost more to support.
4. Indexing working age and family payments to wage movements as well as prices.
5. Improving employment and training programs for single parents, including career counselling and vocational training.
6. Guaranteeing secure affordable housing, including working with state and territory governments to abolish no-cause evictions.
7. Restoring two days of weekly subsidised child care available to parents not in paid employment.

The evidence is there. It can be done.

30 years ago, child poverty was reduced by 30%

This year marks 30 years since former Prime Minister Bob Hawke made the commitment that “no child will be living in poverty”.

This statement was criticised as too ambitious, but the reforms his government introduced reduced child poverty by 30 per cent.

The key reforms of the Hawke government included:

- A new supplement for low-income families to help meet the cost of living.
- Increasing existing family payments to reflect the cost of children.
- Linking family payments to wage growth, to maintain pace with the cost of living and community living standards.
- Rent assistance to help families and others on low incomes to cover the cost of rent.

From 1987, spending on family payments grew because payment rates were increased and steps were taken to ensure families accessed entitlements. The core principle was that family payments should at least cover the basic costs of children in a family in a low-paid job, or lacking paid employment altogether.

Broader policies targeting parents and children were implemented, including fostering carer-friendly workplaces, expanding childcare and improving fee relief, and a new program offering career counselling, education and training for sole parents.

Since then, governments have lacked the ambition to reduce child poverty

Thirty years since these bold reforms, child poverty is on the rise. Today, many children experience severe hardship. Parents and children skip meals, children miss sporting and school activities, heaters, fridges and phones for those who have accommodation are being turned off, and families are being evicted.

Social security payments for families, and particularly single parent families, have been slashed in recent years, with cuts included in almost every federal budget since the 2008 Global Financial Crisis. The reduction in social security spending combined with low and stagnant wages, insecure work, and the high cost of living has pushed parents and their children into poverty.

There is deep concern for the increasing number of children living in poverty

Child poverty in Australia increased by 2 percentage points over the decade 2003-04 to 2013-14. The share of children living below the poverty line (set at 50% of median household income) fell from 14 per cent in 2003-04 to 16 per cent in 2013-14.
Poverty and Inequality in Australia

Poverty is not just about numbers. Poverty has real impacts on children’s lives.

The Salvation Army’s (2017) survey of children in families states:

Our survey included a total of 1,495 children across 638 households; of these more than half (54%) experienced severe deprivation and went without five or more essential day-to-day items. The top 10 items that respondents could not afford for their related to connectedness, education, social participation and basic nutrition. For households with children aged 17 or younger:

- Approximately one in five could not afford medical treatment or medicine prescribed by the doctor and nearly one in three could not afford a yearly dental check-up for their child
- Half could not afford up to date school items and 56% did not have the money to participate in school activities
- More than half (55%) could not afford a hobby or outside activities for their child
- Almost three in five respondents could not afford an internet connection for their child
- Nearly two in five could not afford fresh fruit or vegetables every day and nearly one in four could not afford three meals a day for their child.

Respondents reported that they experienced shame and guilt that their children had to go without and miss out, although there was little that they could do to change the situation.

The vast majority of families seeking emergency assistance (87%) received social security payments, including 38 per cent relying on Newstart Allowance and 19 per cent on Parenting Payment. There were a number of items children did not have because their families could not afford them, including:

- An internet connection
- Money to participate in school activities, trips and events
- A hobby or regular leisure activity
- Up-to-date school books and new school clothes
- Some new clothes (i.e. not second-hand)
- Outdoor leisure equipment (bicycle, roller-skates, etc)
- Two pairs of properly fitting shoes
- The opportunity, from time to time, to invite friends home to place and eat
- Fresh fruit and vegetables every day
- Books suitable for the child’s age and knowledge level, including school books

Children and young people deprived of food, clothes and other materials may reduce their engagement with school due to hunger, shame or being excluded or marginalised, impacting children’s development, educational, and eventually employment opportunities.

Children of single parents are doing it tougher

In 2009, indexation of family payments to wage growth was removed, which reduced the value of these payments by an estimated $20 per fortnight. This would be hardest felt by very low-income families, particularly single parents.

Children and young people deprived of food, clothes and other materials may reduce their engagement with school due to hunger, shame or being excluded or marginalised, impacting children’s development, educational, and eventually employment opportunities.

The latest research from the Social Policy Research Centre at the University of NSW finds that single parents receiving Newstart Allowance are unable to afford a minimum and healthy standard of living. At $544 per week (including Newstart Allowance, Family Tax Benefits and Rent Assistance), their social security payments fall short of a minimum budget by $132 per week.

Absurdly, social security payments for single parents fall as their children grow older and become more expensive.

- When their youngest child turns five, Family Tax Benefits drop by $23 per week.
- When the child reaches eight years, the parent is moved from Parenting Payment to the lower Newstart Allowance, cutting the family’s income by another $85 a week.

In 2016, 600,000 children under 16 years (one in eight or 13 per cent) were in families without paid work, including 6 per cent of children in couple families and 45 per cent in single parent families.

Again in 2016, the unemployment rate among single parents was 14 per cent, more than twice the national unemployment rate (6%). This reflects the challenges faced by single parents to find child care, retrain, and then find a job that is family-friendly.

Unemployment is too high and social security payments are too low

Australia is not providing enough jobs for those who need them. There is only one job available for every 10 people who are out of paid employment, or want more paid work.
More than 500,000 people are looking for full-time work, and more than 225,000 are looking for part-time work. Overall, 5.6% of the workforce is unemployed and another 8.7% is under-employed; that is, unable to get the extra working hours they need.

Unemployed parents receive too little help from ‘job-active’ employment services. Many parents returning to the paid workforce need career advice and training to update their skills to give them a chance of finding a job. Most do not receive this.

Many parents lacking paid employment will find that child care is less affordable due to a government decision to restrict their child care subsidies to a maximum of 12 hours a week, down from 24 hours.

Figure 1 – Estimated average weekly costs of one child as a proportion of total family income, by age of child and gross family income quintile

In 2014, 52 per cent of people in families receiving Parenting Payment lived below the poverty line, along with 60 per cent of people in households relying on Newstart Allowance.

If families with children have to rely fully on social security payments, especially the meagre Newstart Allowance, they are very likely to be living below the poverty line. Unsurprisingly, low-income families spend a far greater proportion of their income on children, which increases to almost 45 per cent as children reach 18.

When we look at the key components of financial assistance currently going to low-income families, we can identify a number of problems:

- The base rate of the primary working age payment, Newstart Allowance, is too low for both people with and without children to provide an adequate standard of living.
- Indexation of working age and family payments to price movements alone means that payment rates are falling faster behind community living standards.
- Family payments trend downwards as children get older, failing to reflect the cost of children.

**Anti-poverty payments continue to be cut**

Since 2006, social security payments that play a crucial role in preventing child poverty have been repeatedly cut.

- In 2006, single parents were denied Parenting Payment Single (PPS) if their youngest child was eight years or more, and they had to apply for Newstart Allowance which was $29 per week less. People already receiving Parenting Payment Single were allowed to continue to receive it until their youngest child reached 16 years.
- From 2009, the higher rate of Family Tax Benefit for families at risk of poverty has been frozen in real terms (increasing in line with the CPI but not wages, as was the case before that).
- In 2013 this rule was changed, and 80,000 single parents receiving Parenting Payment Single were moved onto Newstart Allowance, cutting their income by $85 per week.
- In 2017, Family Tax Benefit rates were frozen in absolute terms (not even indexed to inflation) for two years.

Current legislation before the parliament would cut benefits further, including:

- Cutting payments to single parents undertaking study or training;
- Extending the waiting period for people with modest assets when they claim income support payments, including families;
- Reducing the amount of the first payment income support claimants receive, including people experiencing a separation, poor health or a housing crisis.

We call on government to take swift and determined action to reduce child poverty in Australia. Australia’s child poverty trend is heading in the wrong direction. We can, and must, reverse the tide. Thirty years ago the federal government reduced child poverty by 30 per cent. The evidence is there. It can be done.

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A pioneering study exploring poverty and disadvantage through the lens of young Australians has found a significant number are missing out on items and experiences deemed essential for living a normal life, such as fresh fruits and vegetables every day, internet access at home, school excursions, family holidays and some money of their own.

Researchers from UNSW Sydney say the study sheds important new light on the nature of child poverty, including its impact on wellbeing and attitudes to schooling.

The Material Deprivation and Social Exclusion Among Young Australians: A Child-Focused Approach report was produced by a collaboration between the Social Policy Research Centre (SPRC) at UNSW, the NSW Office of the Advocate for Children and Young People, The Smith Family and the NSW Department of Education.

Professor Peter Saunders, the study’s lead researcher from SPRC, said while the approach had been used successfully with adults both in Australia and internationally, the report marked the first time it had been used to measure child poverty in Australia.

“This study represents the first attempt to measure deprivation and exclusion through the eyes of young Australians who are typically treated as passive and invisible in poverty research,” said Professor Saunders.

“It is normally assumed they make no contributions to household income or spending, and that their views mirror those of their parents or carers. This report is grounded in, and builds on, children’s own views and experiences, giving a multidimensional perspective on poverty that has not previously been available.”

While the traditional approach looks at the incomes of young people’s parents or carers to determine whether a young person is in poverty, this new approach gives voice and agency to young people themselves.

The study identified 18 essential items grouped into two broad categories: one that captures material deprivation (lack of ‘things’ like a computer or mobile device); and social exclusion (lack of doing ‘activities’ like a meal out with family or an annual holiday away).

The findings reflect responses to a survey completed by almost 2,700 NSW government high school students (GHS) in Years 7 to 10 and about 340 financially disadvantaged students in The Smith Family’s Learning for Life program (LFL).

"Deprivation in young people is an obstacle that prevents many of them from realising their full potential.”

Anne Hampshire, Head of Research and Advocacy, The Smith Family
Key findings from the research include:

- There is strong consensus among young people who participated in the research about which items are essential: having three meals a day (96.1 per cent GHS; 96.4 per cent LFL); fruit or vegetables at least once per day (96 per cent GHS; 94.6 per cent LFL); clothes needed for school (94.7 per cent GHS; 96.7 per cent LFL); access to public transportation (92.1 per cent GHS; 93.4 per cent LFL).

- Significant proportions of both groups experience severe deprivation, that is, they are deprived of at least three essential items. About one in five (18.7 per cent) of the government high schools sample and two in five (40.4 per cent) of The Smith Family Learning for Life sample experience severe deprivation.

- Those experiencing higher levels of deprivation (identified using a new Child Deprivation Index derived by the researchers) are shown to have lower levels of wellbeing in many dimensions, such as overall life satisfaction, positivity about the future and connectedness to family, friends and community. Those experiencing higher levels of deprivation are also generally less satisfied with their schooling, less likely to be doing well at school and to regard getting good school marks as important.

- While a majority of both groups feel safe at school, significant proportions indicate that they don’t enjoy school, nor do they feel part of their school community. This is important given the relationship between young people’s sense of belonging at school and their likely longer-term engagement in education.

Anne Hampshire, Head of Research and Advocacy at The Smith Family, said the research should inform discussions about child poverty in Australia and provide an evidence base for policy development aimed at reducing the very large number of young Australians living in poverty.

“We must be able to identify where poverty and other forms of disadvantage exist, to measure and better understand it, and through that, to more effectively address it.”

Peter Saunders, Social Policy Research Centre

“Deprivation in young people is an obstacle that prevents many of them from realising their full potential,” Hampshire said.

“There are important policy implications from this research. Addressing the deprivation of young people who are most severely affected could positively impact on a range of important life outcomes. For example, reducing young people’s deprivation may improve negative attitudes to schooling and in turn improve their school performance.”

Australia is among the 193 governments that have adopted the United Nations’ Sustainable Development Goal (SDG) of reducing, by at least half, the proportion of children living in poverty by 2030. Hampshire said the report, albeit concentrated on one jurisdiction, underscores the urgent need for Australia to be vigilant about tackling child poverty to achieve its SDG targets.

“We must be able to identify where poverty and other forms of disadvantage exist, to measure and better understand it, and through that, to more effectively address it,” said Professor Saunders.

“The child-focused approach provides a credible framework for achieving this by building on perceptions, attitudes, experiences and aspirations of young people themselves. It can contribute to helping shape a better Australia.”

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Anglicare Australia believes that a fair society is one where everyone can live a dignified life and nobody lives in poverty. People are entitled to support while they study for the future, get help while they look for work, or get a pension to support themselves if they have a disability, and be paid fairly for the work they do. We must have adequate incomes to become a fair society.

OUR EXPERIENCE

Each year, the Anglicare Australia Network supports thousands of people who simply don’t have enough to survive. Our Network offers financial support services to over 30,000 people and emergency relief to over 60,000 people across every state and territory.

It is our experience that amongst those living with the lowest incomes, there is overrepresentation of single parents, people experiencing homelessness, people who have been without work for a long time, young people, families living with disability or mental illness, care leavers, Aboriginal and Torres Strait Islander communities, and those on bridging visas (particularly those without work rights) living in our communities.

KEY ISSUES

A decent, secure income is crucial to our wellbeing. Income guarantees stability and helps people plan their lives. It’s the anchor that allows people to look after themselves, care for their families, and to make decisions for their future like starting a business, pursuing a passion, or starting a family. Without a good income, people can lose control over their own lives.

Those who don’t have a decent income find it harder to get work, stay in education, and build connections with their communities. Many people find it difficult to eat well, with food being one of the easiest essential costs to cut when juggling bills, rent, and transport.1

And people who live in poverty are much more likely to retire into poverty – a time of life when security and comfort is more important than ever. In older age poverty severely impacts health and wellbeing, often leading to earlier transition to residential care.

Many people hope to get an income by finding work. But Anglicare Australia’s Jobs Availability Snapshot shows that there simply aren’t enough jobs for those who need them.2 This is because entry-level jobs are disappearing, and people who face barriers to work are left out of employment strategies. Work is also becoming more insecure and casual, with around one in four people thought to be working casually.3

Inequality is now the worst it has been in seventy-five-years, in spite of two decades of uninterrupted economic growth.4 But instead of strengthening the safety net and improving support to those who need it the most, recent Budgets have focused on measures that drive increasing inequality and disadvantage in Australia, in turn creating further poverty.

What we know from the experiences of people who need support and our work is that government payments – Newstart, Austudy, the Disability Support, and Aged Pensions – are no longer a safety net. They are poverty traps that are leaving pockets so bare that people can’t afford to fill a prescription, buy decent food, or even cover the cost of rent.5

The minimum wage is also failing to meet the needs of many people. 2.5 million Australians are paid at the national minimum wage6 and many are experiencing hardship. A third of people living below the poverty line are in work.7 And the vast majority of rentals are unaffordable for people living on the minimum wage.8

Our research shows that Australians do not believe it should be this way. The vast majority of people surveyed by Anglicare Australia want to live in a country that takes care of those in need, and do not want people on income support to live in poverty.9

To become the society that Australians expect, we need to take real action on poverty by making sure everyone has a fair and decent income.

RECOMMENDED ACTIONS

Anglicare Australia calls for:

- An increase in Newstart and other government payments to make sure people who need help are not living in poverty
- An independent commission that sets the rates of government payments independently of government
- Legislated minimum wage increases to make sure that wages can keep up with the rising cost of living
- A tax and transfer system that encourages people to move into work instead of penalising them
- A fairer tax system that supports people in need and encourages work – rather than a system that rewards people simply for being wealthy.

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Australians support universal health care, so why not a universal basic income?

In Australia, the idea of a universal basic income has floated in and out of our political arena for years, but remains only that – an idea, observes Brian Howe.

The concept of a universal basic income has always been controversial. This notion – that the government should pay everyone a regular payment to meet their basic needs, despite their income – has been touted as a solution to inequality.

In the 1970s, the idea of a universal basic income looked as though it could become more. In 1972, the inaugural Director of the Melbourne Institute, Applied Economic and Social Research, Professor Ronald Henderson, chaired the Australian government’s poverty inquiry. It was tasked by then Prime Minister Gough Whitlam, to investigate all aspects of poverty affecting Australians, including race, education, health and law.

Henderson’s work led to what is now widely referred to as the Henderson Poverty Line, which measures the extent of poverty in Australia in terms of the income of families and individuals relative to their essential living costs; and he advocated a guaranteed minimum income scheme for Australia, similar to a universal basic income.

More than 40 years have passed since Henderson began his report of the Commonwealth Commission of Inquiry into Poverty with the line:

“Poverty is not just a personal attribute: it arises out of the organisation of society.”

Is his call for welfare reform still relevant today?

The suggestion of a guaranteed minimum income scheme

At the heart of the Henderson inquiry’s final recommendations was a guaranteed minimum income scheme, in which payments to pensioners (at a high rate) and payments to all other income units (at a lower rate) would be balanced by a proportional tax on all private income.

Despite the example of universality in the key public institution of Medicare, to which all are entitled, the social security system has become more conditional, and arbitrary, with benefits now well below the poverty line.

The report states:

We believe that these reforms are the best way of reconciling the conflicting ends of policy on income support ... They recognise that disabilities which hinder the earning of a private income warrant favoured treatment, but also provide support for people without disabilities in this sense, and who may still easily become poor – particularly the large family. Again, support is provided in a way which does not discredit those who claim it ... so that income support may be seen as a right rather than a favour.
Professor Henderson was strongly in favour of universality in social policy – as exists in Medicare today in Australia. And that’s tangible in his idea of a universal minimum payment which would have ensured that incomes for individuals and families were in excess of the poverty line.

Instead of means testing – which he opposed as it creates a separate system for the disadvantaged that can be stigmatising – he wanted to use the tax system to withdraw income from higher earners, rather than means testing pensions and benefits.

But this didn’t happen.

Instead, the Whitlam government was dismissed in 1975 – around six months after the inquiry delivered its final report, and the new government, headed up by Malcolm Fraser, hardly considered its recommendations.

There is growing evidence that social security payments for unemployed people, like Newstart, now barely meet the necessities of life – let alone cover expenses involved when people are looking for work.

Far from universality
At the time of Henderson’s pivotal work, post-war Australia had pursued the creation of an industrial economy where male workers played the dominant role. For the most part, employment then meant permanent full-time jobs in industry regulated and protected against foreign competition.

But, since that time, the country has pursued a very different course.

The key challenge is how Australia can maintain its commitment to fair and equitable wealth generation and distribution, in a modern world.
UNIVERSAL BASIC INCOME EXPLAINED

What is a basic income?

A universal basic income (UBI) is a payment made to all adult individuals that allows people to meet their basic needs – without any means test or activity test. Proposals for UBI schemes go by a variety of names including citizens’ income and basic income guarantee (BIG). UBI schemes are closely related to guaranteed income and negative income tax (NIT) schemes. The major difference between a UBI and these schemes is means testing. This may be a less clear-cut distinction than it seems because it is possible to design UBI and NIT schemes that have the same impact on disposable income.

There are a number of different UBI models ranging from more modest schemes designed to simplify the existing social security system all the way to utopian plans to transform society. UBI pilot projects are being undertaken in Kenya, Scotland, Uganda, the Netherlands and the USA.

Most UBI proposals share three features. They are:
- Universal – paid automatically to all individuals (or all adult individuals) without a means test
- Unconditional – paid without conditions (for example, job search requirements) and
- Adequate – set at a high enough level to protect citizens against poverty.

PROS

The idea of a universal basic income (UBI) has been around for a long time, existing on the fringes of economic and social policy debate. However, UBI has returned to the policy agenda out of concerns relating to increasing automation and technological change which are likely to reduce the demand for labour, leading to further job losses, stagnant incomes and worsening inequality.

It is argued that a UBI could assist in overcoming structural social inequalities, countering poverty and reducing the loss of dignity associated with unemployment.

CONS

There are a number of common objections to UBI proposals, including scepticism about the idea technological change will lead to widespread job destruction, concern about the high cost of a UBI, concern about the likely impact of a UBI on the economy, and concern that a UBI will undermine social solidarity and support for the social contract.

The most common argument is that receiving money for nothing undermines work ethic and encourages laziness. There are also concerns that many will use their basic income to support drug and alcohol addiction.

Even if there is little prospect of a UBI being introduced in the near future, debating UBI proposals helps draw out and clarify the differences in values and vision that shape social and economic policy.

While many of the debates about UBI take place between economists, it is possible that the greatest obstacle to its implementation is existential. A basic payment might provide us with the material conditions to live comfortably, but with this comes the confounding task of re-thinking what it is that gives our lives meaning.

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INEQUALITY ISN’T AUSTRALIA’S ISSUE – POVERTY SHOULD BE OUR FOCUS

BY SIMON COWAN FROM THE CENTRE FOR INDEPENDENT STUDIES

P

urveyors of doom were dealt a blow this week when the Productivity Commission neatly punctured the inequality debate with some long-needed facts. It found that, while overall income inequality has risen slightly over the past three-plus decades, social mobility remains high and real incomes have grown right across the income spectrum.

Far from the grand unifying crisis of our times – as it is portrayed by some on the left – it’s tempting to make the non-politically correct observation that this means inequality doesn’t matter.

While that statement would be going too far, at a bare minimum it’s worth asking why some are so worked up about the rich getting richer, since the poor are getting richer, too.

However, instead of examining the Australian evidence, many on the left have merely imported the inequality debates from the United States and Britain, where decades of stagnant wage growth have pushed voters towards the extremes of the left and right. The Productivity Commission makes clear that this simply doesn’t apply in the same way in Australia.

In fact, the evidence in its report suggests inequality should be a second-order issue here. Given Australia is in the top-10 most-equal societies in the OECD, inequality should be less important than poverty and disadvantage.

Too often, the ideas of poverty and inequality are intertwined. In part, this is inevitable, as those who are disadvantaged are always going to have unequal outcomes compared to those who are not disadvantaged.

However, it is also a function of the (flawed) definition of poverty. But defining poverty relative to income effectively makes it a measure of inequality – not poverty. Given that the commission found broad-based income growth, it’s hardly surprising that ‘relative poverty’ hasn’t substantially declined in 30 years. Yet when measured against more objective measures, as in a recent HILDA survey, one finds that poverty has fallen by 70 per cent.

The difference is substantial and important: if ‘poverty’ has not improved despite 27 years of uninterrupted economic growth, you could argue policy settings need to change. Instead, we see even more evidence that the free-market economic reforms of the 1980s and 1990s have delivered for almost everyone.

That might lead you to instead conclude that, far from adopting high-taxing, high-spending, European-style socialism, we need more of what has been working right here in Australia.

The reality is in a resource-constrained environment; the government can only focus on so many things. This is particularly true in the welfare space, where policies targeting poverty and inequality can actually clash.

Policies that seek to reduce inequality invariably have a far broader cohort than those that focus primarily on poverty. At the more extreme end, the policy that is arguably most focused on inequality would be a universal basic income (or UBI) funded by a progressive personal income tax. My research on a UBI shows that, because of the steeply progressive tax rates needed to raise the hundreds of billions of dollars to pay for it, those in the top half of the income-tax distribution would pay many times more in new taxes than they would receive in UBI payments.

Often, policies targeting inequality aren’t effective in combating poverty because they merely transfer income from middle-income earners to lower-middle-income earners (essentially, a lot of this is just welfare churn).

Yet those at the bottom of the income distribution, because they are already receiving income-support payments, would see little extra cash. The primary benefit would flow to those who were working and earning just enough not to receive welfare.

Often, policies targeting inequality aren’t effective in combating poverty because they merely transfer income from middle-income earners to lower-middle-income earners (essentially, a lot of this is just welfare churn).

There is no doubt that broad-based services and payments are more expensive than targeted policies. But there is no guarantee that universal services like health and education, or quasi-universal welfare payments like the age pension, will actually deliver for those in real need.

Indeed, despite sustained real growth in pension rates – and an annual pension spend approaching $50 billion a year – single pensioners with no home and no assets continue to struggle. As do kids from disadvantaged backgrounds, despite record spending in education.

While there are legitimate concerns over punitive effective marginal tax rates, there are good reasons to think the only way to maintain a strong safety net for those truly in need is to support stringent means testing.

At a minimum, this week should cause those promoting a high-taxing, broad-based spending agenda to rethink their goals.

The poor will be better off if we focus on spending what we raise now more effectively and efficiently.

Simon Cowan is research director at The Centre for Independent Studies.

THE INEQUALITY THAT DIVIDES US
A FACT SHEET ABOUT INEQUALITY IN AUSTRALIA FROM OXFAM AUSTRALIA

Inequality continues to climb in Australia and around the world. While billionaire wealth booms, this fact sheet examines the state of the growing gap between the rich and the rest in Australia. We find that women are particularly disadvantaged by the broken economic system that is concentrating ever more wealth into the hands of the rich and powerful – mostly men. Wealth at the top continues to grow while a yawning gender gap persists, and many Aboriginal and Torres Strait Islander Australians, especially women, are being left behind.

Unrelenting inequality

In Australia and globally, inequality continues to grow. Last year we saw yet another record increase in the number of (mostly male) Australian billionaires, increasing from 33 to 43. Their collective billionaire wealth increased by a massive $36 billion to $160 billion in total. This is equivalent to an increase of $100 million a day (Figure 1). The Australian billionaire wealth increase of $36 billion last year is enough to fund about half of the Australian Government’s total health budget for the 2018-19 financial year.1

As an organisation committed to fighting poverty around the world, Oxfam is concerned that there is no end in sight to this harmful trend. Countries that don’t make sufficient investments into public programs and services that work to reduce inequality and poverty risk falling into a downward spiral towards a further extreme between the haves and have-nots.

The latest Credit Suisse data shows that the share of wealth concentrated in the hands of the top 1% of Australians was 22% last year (Figure 2). As was the case in previous years, the top 1% of Australians owns more wealth than the bottom 70% of all other Australians combined. This is while worker wage growth remains sluggish1 and the wealth share of the bottom half of Australians remains stuck at just 9% in 2018.

Many Aboriginal and Torres Strait Islander Australians fall into the wealth group that is being left behind: the latest Australian Government report on Indigenous health performance shows that 36% of Indigenous households have weekly incomes in the bottom 25% of income groups (compared to 17% for non-Indigenous groups);4 and the 2016 Census shows that about 80% of Indigenous adults have weekly incomes below the national average earnings ($1,160 per week).5

Meanwhile, the richest corporations are avoiding their social responsibilities by not paying their fair share of taxes that should be used to fund government spending on public services we all rely on. For four consecutive years since 2013-14, more than one in three of Australia’s largest corporations have not paid any taxes in Australia – and 281 companies have not paid a cent in tax for all four years.6 The official corporate tax gap amount of almost $2 billion7 – the shortfall on tax that would have been collected if all taxpayers were compliant – is more than double the Australian Government funding to Aboriginal and Torres Strait Islander health programs.8

Figure 1: Number of Australian billionaires and their collective wealth over time

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One giant leap needed for womankind

Gender inequality remains an issue around the world, including in Australia where women still get paid less than men, and so accumulate less wealth. Full-time working women earn on average 85 cents for every dollar earned by men, and in every single industry a gender pay gap that favours men exists. During maternity leave, women are not paid superannuation, and at retirement would on average accumulate about half the amount of superannuation as men.

Employed women also have more unpaid care responsibilities, which takes time away from work: 65% of Australian women do more than 5 hours of unpaid work a week, while 60% of men do less than 5 hours. By one estimate, unpaid work in Australia is valued at 41% of GDP – most of which is the contribution of women.

An even greater leap for Indigenous Australian women

Amongst women in Australia, there is also enduring inequality in socio-economic outcomes between Indigenous and non-Indigenous women. Aboriginal and Torres Strait Islander Australians are one of the overrepresented socio-economic groups facing disadvantage that has persisted over time and generations. Oxfam is a founding member of the Close the Gap campaign, launched 12 years ago and focused on the yawning gap between Indigenous and non-Indigenous health outcomes in Australia. One area where persistent disadvantage and inequality is clear is in maternity care and access available for Indigenous women.

Figure 2: Australian wealth distribution in 2018


The infant mortality rate for Indigenous women, despite improvements, has been about double that of non-Indigenous women in Australia since 2011 – and in remote areas the rate is triple that of non-Indigenous women. Even more concerning is that this infant mortality rate gap between Indigenous and non-Indigenous women began widening from 2012 in cities and from 2015 in remote locations (Figure 3). In other words, whether in the city or remote and regional areas – Indigenous women are not getting the same access and care as other Australian women, and in recent years it has gotten worse.

A recent Australian Government report also found the rate of stillbirths is 60% higher for Indigenous Australian women compared to non-Indigenous Australian women, and there has been little reduction in the gap between Indigenous and non-Indigenous women in relation to stillbirth rates to date.

Taken together, this suggests that there are significant differences in the accessibility of maternity care services between Indigenous and non-Indigenous women. It seems that for Indigenous women, whether they live in the city or a remote area makes a significant difference to infant mortality rates, whereas for non-Indigenous women there is no difference in outcomes wherever they live (Figure 3).

Australia is among the wealthiest nations in the world. Unlike many other wealthy nations, we have enjoyed almost three decades of sustained and uninterrupted economic growth. Yet today, the persistent gap between the haves and have-nots, and in socio-economic outcomes for Indigenous Australians, is cause for concern. The gap is clear when considering that, while non-Indigenous women in rural and remote areas appear to receive similar access and maternal care to their city counterparts, this is not the same for Indigenous women. This is an inequality that cannot continue. Ensuring appropriately resourced Indigenous health services – ensuring the full participation of Aboriginal and Torres Strait Islander peoples in addressing their health needs – and in particular boosting funding for the network of Aboriginal community-controlled health services, would go a long way to address this shameful record.

This would be a good place for a government to spend some of the missing millions in Australian corporate tax avoidance.

Recommendations

Governments and corporations must take action and close the inequality divide between the haves and have-nots, men and women, and Indigenous and non-Indigenous Australians. This includes addressing the key drivers of inequality – in the taxation systems, public services provision, and business supply chains.

Oxfam calls on the Australian Government to:

• Implement an updated Women’s Budget Statement. The Women’s Budget Statement should be reinstated to better analyse and inform the impact of budgetary decisions on gender equality, such as the inclusion of more family-friendly policies that promote better work-family life balance for both parents. The Statement should disaggregate groups of Australian women to create a more informed picture of specific budget impacts, such as for Aboriginal and Torres Strait Islander women, women from different socio-economic groups, migrant women and women from rural and remote areas. The Government should also commit to funding regular Time Use Surveys, which have not been funded since the last Australian Bureau of Statistics (ABS) survey in 2006.

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Poverty and Inequality in Australia

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• Take immediate steps to ensure the tax system is fair for all. Fair tax systems can fight poverty and inequality by ensuring there is enough funding for the schools, hospitals, infrastructure and other public services people need. The Australian Government should take further steps to prevent the wealthiest multinational firms from operating in a shroud of secrecy which enables them to hide their profits in tax havens and avoid paying their fair share of tax in countries where they operate. This includes promoting global tax reforms that fundamentally redesign the tax system so it is fairer and more transparent, and introducing public country by country reporting of profits, revenues, and taxes paid by all large corporations operating in Australia.
• Properly resource public health and monitoring services that meet Indigenous Australians’ needs. Addressing persistent and intergenerational disadvantage requires investing in public services that will break the cycle of poverty at the source. Ensuring Aboriginal and Torres Strait Islander women can access maternity care services that meet their needs would go a long way towards improving living standards and closing the gap on Indigenous disadvantage. The Australian Government should unfreeze funding for, and boost the capacity of, the network of community-controlled Aboriginal Medical Services, and create an Indigenous-led Aboriginal Health Authority to monitor service delivery to Aboriginal and Torres Strait Islander peoples.

Oxfam calls on corporations to:
• Pay their fair share of taxes and be transparent. Responsible tax behaviour returns long-term dividends to companies because the tax they pay contributes to a country’s economic development and therefore creates future business opportunities. Firms should be transparent about their business structures and operations, tax affairs and tax decision making. By subjecting themselves to public scrutiny, businesses will ensure the robustness of their business structures over the long term.
• Get the basics right on human rights and women’s rights. This includes fairly dealing with human rights abuses throughout Australian business supply chains, such as establishing effective grievance mechanisms that workers can access to report abuse and mistreatment. It also means making a real commitment to paying living wages that allow workers to live a decent life, and empowering women workers by adopting a proactive gender policy and ensuring pay equity. This should include gender sensitive policies that ensure safe and accessible workplaces for women, including with care, leave and a range of other workplace policies.

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RISING INEQUALITY? A STOCKTAKE OF THE EVIDENCE

Executive summary from a research paper by the Productivity Commission

Over nearly three decades, inequality has risen slightly in Australia

In all societies some inequality occurs due to differences in ability, opportunity, effort and luck. Institutional and policy constructs can add to this, or detract from it. Moreover, excessive inequality and entrenched disadvantage can erode social cohesion and hinder growth. It can also sap investment in education and skills and slow productivity growth. Yet there is no precise causative relationship, let alone a consensus on how much inequality matters. It is a topic that continues to draw diverse and competing views.

This study does not directly enter these debates. Rather, its purpose is to contribute a foundation to an informed discussion on inequality and its social impacts, bringing together and taking stock of the latest and most complete evidence measuring the level of and trends in inequality, poverty and disadvantage in Australia via multiple means. While comprehensive, this study is not exhaustive; other studies examine geographic, racial or gender inequality.

Even this modest level of ambition is not without its challenges. No single metric is sufficient to give a definitive answer to the seemingly straightforward question: have inequality, poverty and disadvantage in Australia risen, fallen or remained steady in recent years?

Our focus, therefore, eschews the specific and often self-serving use of any one measure of inequality. Instead we use an array of indicators that examine the distributions of household incomes, consumption and wealth, their composition and importantly, movement within the distributions over time, and in response to life events, such as transitions to work, divorce and retirement. For poverty and disadvantage our approach goes beyond the standard metrics, giving weight to measures that capture the experience of those households in the bottom part of the distribution.

The broader context for this study has been an evident reduction in global income inequality and poverty since the late 1980s, the timeframe we most often apply. At the same time, however, there has been rising inequality within many developed countries. We review the Australian experience, which is less dire than some would have it, but not exemplary.

Sustained growth has delivered significantly improved living standards for the average Australian in every income decile

What also distinguishes Australia from most other developed countries has been its unprecedented 27-year period of uninterrupted economic growth, prompting many to ask how the economic gains from growth have been shared. While growth is no guarantee against a widening disparity between rich and poor, we show that it has delivered for the average Australian household in every income decile, significantly improved living standards. This is in contrast with the United States (which had a similar rate of increase in income inequality as Australia) where the distribution is much more uneven, with income growth in the lower deciles about a quarter of that for Australian households.

What matters more than economic growth for understanding trends in inequality are the sources of income growth (labour, capital and transfers). These fluctuate in ways that sometimes favour those on high incomes and sometimes favour those on low incomes. For example, the mining boom was a period that favoured high income earners and capital income, lifting measures of inequality. In contrast, the post Global Financial Crisis period has benefited lower income groups, despite weak overall growth in labour income. Among the various forces acting on inequality and poverty, the one constant that matters is having a job.

Over recent decades income growth rates by age group have also varied substantially, but for the most part, the variation reflects overall trends in the strength of income growth. That is, when the economy is strong, all age groups tend to benefit from higher income growth and when the economy is weak, all age groups tend to experience lower income growth. But at different times, some age groups have benefited more or less than others. Most recently, young people’s incomes have grown relatively slowly. On average, however, each new generation has earned more income than the last at a given age, and reaches the same level of income earlier in life.

Examining more closely the demographics of the income distribution provides additional insights. We know for example that Australians in their prime working years are more likely to be in the middle and upper income deciles, whereas over-65 year olds are over-represented in lower income deciles, reflecting retirement and reliance on the Age Pension. We also know that individuals living in households where no person is in paid work are strongly concentrated in the lower deciles, especially if there are dependent children in the household. Similarly, households with dependent children and two or more income earners are over-represented in middle and upper income deciles, and working households without dependent children tend to be over-represented at the top of the distribution.

Australia’s progressive tax and highly targeted transfer systems substantially reduce inequality

Another clear message from the data is that Australia’s progressive tax system and highly targeted transfer system substantially reduce income inequality. Income
tax and government transfers have typically lowered the measure of overall income inequality (the Gini coefficient) by 30 per cent, an equalising effect that far outweighs the overall increase in the measure since the late 1980s. This equalising effect has fluctuated over time, but overall there has been no material change in the past thirty years. Redistributive tax policies can, however, also have unintended negative consequences on economic efficiency, for example, inciting a reduction in labour supply.

While income is usually given prominence in debates about inequality, how evenly consumption is distributed is often a better measure, as consumption contributes most directly to wellbeing. Moreover, income patterns alone do not capture the importance of in-kind transfers from government, such as health, education, childcare subsidies and government housing. These in-kind transfers have an additional equalising effect, because people with low incomes (and households with children) receive the largest amount of in-kind transfers. When the more expansive measure of final consumption is used, overall inequality (the Gini coefficient) is about 30 per cent lower again than that for disposable household income. In-kind transfers can also bear on future inequality by opening doors to greater opportunities and lifting incomes later on.

The distribution of wealth is relevant too. Household welfare depends not just on resources at a point in time, but over time as well, and wealth provides a sense of financial security. Wealth can also provide an important safety net for older Australians, many of whom have relatively low incomes but high wealth, in terms of managing aged care costs and longevity risk. Similar to income, growth in wealth has been spread widely across the population. On average, households in all but the bottom decile experienced real increases in wealth, predominantly in housing assets and superannuation balances over the past fifteen years. However, with the growth in wealth strongest in the upper deciles, some measures of wealth inequality have risen. While wealth distribution in Australia somewhat predictably is more unequal than income or consumption, Australia's wealth distribution remains less skewed than in other countries. Among 28 OECD countries, Australia ranks eighth most equal, as measured by the Gini coefficient of wealth.

The fact that inequality levels are so different among developed countries hints strongly at the scope for policies, institutions and political environments to shape inequality.

**Economic mobility is high in Australia, with almost everyone moving across the income distribution over the course of their lives ...**

The standard inequality measures considered thus far...
give a snapshot of the distribution at a point in time. While they show some widening of the gap between households, that does not mean that the rich and the poor households at the beginning and the end of the period are the same households.

The distinction is important because a society with a given level of inequality, and where household incomes are static over time, faces different and more serious policy challenges than a society with the same level of inequality but where household incomes are mobile.

There are two types of mobility: intergenerational mobility and life course mobility. Intergenerational mobility refers to the relationship between a person’s economic position and that of their parents, and life course mobility refers to changes in a person’s economic position throughout their life. The limited timeframe of Australian longitudinal data limits our capacity to assess intergenerational mobility. Instead, we present original analysis on the degree of life course mobility in Australia using the HILDA dataset. In other words, how much people move across the distribution for income or wealth from year to year.

It turns out that almost everyone moves across the income distribution over the course of their lives. Over a 16-year period, the average Australian was classified in five different income deciles; and for less than one per cent of people, the decile to which they belonged remained unchanged over the whole period. And nine per cent spent time in both the top and the bottom income decile. A lower, but still significant level of mobility was also apparent across the wealth distribution. This highlights the fluid nature of income and wealth: over time, any given decile consists of a different group of people – most of the people in the top decile today were not there fifteen years ago.

Life events – such as transitioning from education into work, career advancement, household formation, having children, divorce and retirement – underpin some of the observed trends in economic mobility. Typically, income rises during the working years, though this can be interrupted by childbearing and other life events, such as ill health. Similarly, Australians accumulate wealth in their middle years, and draw on this wealth in retirement when their earnings drop. These changes in income and wealth allow people to ‘smooth’ their consumption.

... but some Australians experience entrenched economic disadvantage

While life course mobility affects households across the entire distribution, the ends of the distribution are ‘stickier’ than the middle. Households in the top and bottom two income deciles at the beginning of the period were the most likely to be in the same decile fifteen years later. About three per cent of households were stuck in one of the bottom two deciles throughout the period. Stickiness at the ends of the distribution is indicative of some entrenched inequality.

Accordingly, the last chapter of this study updates earlier Commission research on the nature and extent of deep and persistent disadvantage in Australia. Disadvantage is a multidimensional concept that can take the form of low economic resources (poverty), inability to afford the basic essentials of life (material deprivation) or being unable to participate economically and socially (social exclusion). Because the elements of disadvantage encompass a diverse range of indicators, it is difficult to reach a single conclusion about the overall trend in disadvantage.

Many Australians experience economic disadvantage at some stage in their lives, but for most, it is temporary. About nine per cent of Australians (2.2 million people) experienced relative income poverty (income below 50 per cent of the median) in 2015-16, with children and older people having the highest rates of relative income poverty. This aggregate figure has fluctuated since 1988-89 but, despite 27 years of uninterrupted growth, has not declined.

Persistent and recurrent poverty affects a small, but significant proportion of the population. About three per cent of Australians (roughly 700,000 people) have been in income poverty continuously for at least the last four years. People living in single-parent families, unemployed people, people with disabilities and Indigenous Australians are particularly likely to experience income poverty, deprivation and social exclusion. For people in these circumstances, there is an elevated risk of economic disadvantage becoming entrenched, limiting their potential to seize economic opportunities or develop the skills with which to overcome these conditions.

These risks are particularly elevated for children living in jobless households, which is a group that has stood out among the multiple measures of inequality and disadvantage.

How the future of inequality in Australia evolves will depend on the opportunities that citizens have to improve their living standards today. For by far the largest number of us, sustained economic growth and reliable access to employment – complemented by skills and education improvements as specified in our 2017 report, Shifting the Dial – will offer these opportunities and the ability to embrace them.

But for a significant albeit much smaller group, the challenges are much more complex. Growth and complementary improvements in skills and education policies will not be enough. In some previous research, we found that needs in housing or health policies could better be fashioned to address more directly than today quite specific needs – what might be termed ‘hand-made’ policy – as we look out towards a fourth decade of uninterrupted economic growth.

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DON’T BELIEVE WHAT THEY SAY ABOUT INEQUALITY. SOME OF US ARE WORSE OFF

WITHOUT MEASURES TO STOP INEQUALITY, MANY OF US WILL FALL FURTHER BEHIND, CAUTIONS ACADEMIC PETER WHITEFORD

If you were going to reduce a 150-page Productivity Commission examination of trends in Australian inequality to a few words, it would be nice if they weren’t “ALP inequality claims sunk”, or “Progressive article of faith blown up” or “Labor inequality myths busted by commission”.

The editorial in the Australian Financial Review of August 30 says questions about whether inequality is increasing are “abstract”, taught in universities as “an article of faith”, and a “political truncheon”.

Here I should disclose that I teach courses covering inequality as well as undertaking research on the topic. Also, I was one of the external referees for this week’s Productivity Commission report.

It adds to a growing pile of high quality research on trends in income distribution in Australia, including a recent Australian Council of Social Service (ACOSS) and University of New South Wales study using data from the Australian Bureau of Statistics (ABS) that provides an in-depth analysis of income and wealth inequality in 2015-16 and an analysis of trends since 2000.

Also released at the end of July was the latest HILDA Statistical Report that analyses how things have changed over time for individuals between 2001 and 2016.

The Productivity Commission survey takes the deliberately ambitious approach of assessing a wider range of outcomes than income, including indicators of household consumption and wealth, their components, and changes over time and in response to events such as transitions to work, divorce and retirement.

Much of the reporting seems to have misread the messages the survey and the Chairman’s speech to the National Press Club were trying to emphasise. For example, the editorial in the Financial Review argues the Commission’s report shows “economic growth has made everyone in Australia in every income group better off”.

Well, no, it doesn’t.

Put simply, not everyone – in fact very few (about 1%) – stays in exactly the same place ... more than 40% of the Australian population were in a lower income group in 2016 than they had been in 2001, for reasons ranging from retirement to disability to unemployment to family breakdown.

The finding that every income group has benefited from income growth should not be interpreted as meaning every person in Australia is better off. The discussion of mobility in the report makes the point that the incomes of households and individuals fall as well as rise.

Put simply, not everyone – in fact very few (about 1%) – stays in exactly the same place ...

People move up and down the income ladder with life events

The finding that every income group has benefited from income growth should not be interpreted as meaning every person in Australia is better off. The discussion of mobility in the report makes the point that the incomes of households and individuals fall as well as rise.

Put simply, not everyone – in fact very few (about 1%) – stays in exactly the same place ...

Almost 90 per cent of people spent time in income deciles that were at least three deciles apart


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and then got a job as a sales assistant would be better paid than a sales assistant used to be but most certainly not better paid than they used to be. They would have little reason to believe the Financial Review.

And as the Commission was at pains to point out, the stabilisation and slight decline in overall inequality over the past decade is to a large extent the result of specific government decisions.

One of the most important was the one-off increase in age pensions by the Rudd government in 2009. The 2016 ACROSS report on poverty found the relative poverty rate (before housing costs) for people aged 65 and over fell from around 30% in 2007-08 to 11% in 2013-14, due to the “historic increase” in pension rates.

ABS income surveys show the average incomes of households headed by people aged 65 and over climbed by 16% in real terms between 2007-08 and 2015-16, while for the population as a whole the increase was about 3%. As a result, the average incomes of older households jumped from 69% to 78% of those of households generally.

While economic prosperity was needed to fund that increase, it didn’t automatically fund it. That needed deliberate government intervention.

In his speech releasing the report, Commission chairman Peter Harris specifically noted “growth alone is no guarantee against widening disparity between rich and poor”.

Some forms of poverty for children “have actually risen”.

The slide in inequality resulting from the increase in the age pension is likely to have disguised increases in inequality elsewhere.

According to the Bureau since the Global Financial Crisis the number of workers who are underemployed – working part-time and wanting more hours – has climbed from about 680,000 to 1.1 million; from 6.3% to 8.9% of the workforce.

And the ABS finds wage disparities have increased. The ratio of the earnings of a worker at the tenth percentile (earning more than 90% of workers) to the earnings of a worker at the tenth percentile grew from 7.75 times in 2008 to 8.24 times in 2016. This was due to widening wage differentials for both full-time and part-time workers and an increase in the proportion of part-time workers.

The Commission’s main message is that in the decades ahead we will need both policies that generate economic growth and policies that ensure it’s well spread. One without the other could leave many of us worse off.

We often hear about Australia as a ‘miracle economy’ enjoying 27 years of economic growth. In fact, the Commission report (Figure 1.2) shows real net national disposable income per person – a better measure of individual economic wellbeing than GDP – actually fell in six out of the last 27 years.

The income survey data show an even more mixed record. The Our World in Data database shows that by 2003 the real income of the median Australian household was only about 5% higher in real terms than in 1989, while the second and third decile households – mainly headed by those on low wages and some on social security – were actually no better-off than in 1989, largely due to the effects of the early 1990s recession.

Virtually all of the increase in real disposable household incomes enjoyed since 1989 (or 1981 for that matter) came in one five-year period, between 2003 and 2008 during the first mining boom.

What is striking about Australia compared to other countries is that since the Global Financial Crisis we have largely maintained the income lift from the boom.

Will we be blessed by another boom to pump up the figures? Or might we be less lucky?

Despite the way it’s been spun, the Commission’s main message is that in the decades ahead we will need both policies that generate economic growth and policies that ensure it’s well spread. One without the other could leave many of us worse off.

**DISCLOSURE STATEMENT**

Peter Whiteford was an external referee for the Productivity Commission report on income inequality. He has received funding from the Australian Research Council and the Department of Social Services. He is a Fellow of the Centre for Policy Development.

Peter Whiteford is Professor, Crawford School of Public Policy, Australian National University.

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**Figure 1.2: Australia has had sustained growth in real incomes**

![Figure 1.2](image_url)

(a) Chain volume measures of real net national disposable income per capita for year ended June (reference year 2015-16). (b) Unemployment rate is trend data, as at June.

The Productivity Commission has issued a new report called Rising inequality? A stocktake of the evidence. However, when looking at the distribution of wealth in Australia, it turns out not to be a 'stocktake of the evidence' at all. Rather, it creates some new evidence that is inconsistent with the established sources of inequality data.

The section of the report that deals with wealth inequality is the fourth of the report's six chapters. This is of particular importance because wealth inequality is the most consequential structural feature of the rise in economic inequality. Growing wealth inequalities would almost inevitably lead to growing income inequalities in the decades ahead. Understanding the nature and size of wealth inequalities is of special interest to the Evatt Foundation because of the social and political implications and has been a major theme in the Foundation’s research and publications.

It is our considered opinion that the new evidence on wealth inequality that the PC presents is of less reliable quality than the established data in showing what has actually been happening. It purports to show that wealth inequality has recently been falling, not rising, in Australia. This paper presents reasons to doubt the veracity of this claim.

THE PC'S NEW EVIDENCE COMPARED WITH THE ESTABLISHED EVIDENCE

The PC’s central claim about declining wealth inequality rests on a decile-level series that draws on the 'confidential unit record files' (CURF) data that is available to approved users from the Australian Bureau of Statistics (ABS). This data is presented in its raw form in the figure below, where it is compared with the trends shown by four pre-existing series. The PC’s so-called ‘stocktake of the evidence’ took no stock of these other four well-established and widely published measures.

The figure below is closer to a genuine stocktake of the evidence on rising wealth inequality, although it remains less than comprehensive. Mentioned neither in the PC’s report nor here are the wealth data published in the Australian National Accounts (a source that surprisingly eluded the PC). We have also left aside the HILDA longitudinal study, and data compiled from taxation records has not been included either. Nor have we used the rich-lists compiled by business magazines to show who’s who among the major wealth holders.

It is also pertinent to note that the wealth data from all such sources typically ignores the massive wealth that now resides in tax havens. The total amount of this concealed wealth remains unknown, notwithstanding the evidence coming to light through the disclosures of the so-called Panama Papers and the Paradise Papers. The best estimates indicate that, worldwide, it is likely to be about the same as the total official value of Australia’s recorded household wealth.

While not comprehensive, the statistics shown below might be characterised as a stocktake of the most basic and readily available evidence on the rising inequality in the distribution of the nation’s wealth. Helpfully for comparative purposes, each of the five sources, including the PC’s series, is based on the Survey of Income and Housing (SIH), which is conducted by the ABS every two years.

The striking feature of the comparison is that all except the PC’s series show steadily increasing inequality over the period since 2011. The data produced by both Credit Suisse (on which Oxfam bases its research) and the Evatt Foundation suggest that the Top 10% now own more than half of the national household wealth. The OECD’s estimate of 47.2 per cent is just below that 50 per cent level. The PC’s series is a clear outlier in suggesting the asset share of the Top 10% is closer to 40 per cent. Its depiction of a decreasing inequality trend makes it even more clearly an outlier.

PROBING THE DIFFERENCES

How, then, can Credit Suisse find the Top 10% of wealth-holders having 52 per cent of the nation’s total wealth...
Poverty and Inequality in Australia

TOWARDS A REAL STOCKTAKE

The trends shown by the OECD, Credit Suisse and the Evatt Foundation reveal a more consistent pattern. The OECD series is drawn directly from the SIH and supplied to the OECD by the ABS, only differing from the official ABS series by the exclusion of superannuation (to allow international comparisons). Note that this exclusion tends to reduce the level of inequality, given the disproportionately large superannuation owned by the Top 10%. The Evatt series goes a step further by also excluding household durables, categorising them as consumption goods, consistent with the national accounts, the World Inequality Report, and the SIH’s non-market valuation of durables.

It is hard to avoid the conclusion that the PC’s report, whether by design or oversight, only serves to deny the scale and severity of the growing inequality problem in Australia.

The remaining series by Credit Suisse, the Swiss-based financial institution with global coverage, is the boldest attempt to reconcile the findings of the SIH with other evidence, taking into account the national accounts, rich lists and income correlations. It also exhibits best international practice by using individual adults rather than households as the unit of observation. The effect of splitting wealth equally across married couples lowers the level of inequality but neutralises demographic trends (due to the decline of marriage and the rise of single-headed households), implies gender equality, and recognises that children typically only access wealth through their parents. Superannuation wealth is included, but not entitlements to pensions, which dilutes the robustness of Credit-Suisse’s international comparisons. Considered in relation to this most realistic of the measures, the PC’s results look beyond belief.

WHAT HAS GONE WRONG?

Other criticisms could be made of the PC’s report. For example, it utilises OECD and Credit Suisse data to make international comparisons of household wealth and show Gini coefficients without acknowledging their different compositions or recognising their contrary distributions. It utilises HILDA data without acknowledging that the longitudinal survey does not represent the results in simplified graphic forms, an opacity that severely limits cross comparisons and scrutiny.

It remains that the most obvious logical explanation for the PC’s contrary CURF-based series is that it reflects the higher margin for error (both sampling and non-sampling error) in utilising a smaller sample than the Top 20% (1,005 observations compared with an ABS Top 20% of 3554). A similar but smaller anomaly in the

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The Greater Wealth of the Nation: Current Data on the Distribution of Wealth in Australia

A forthcoming Evatt report on The Greater Wealth of the Nation: Current Data on the Distribution of Wealth in Australia will present a fuller analysis of the evidence on wealth inequality. In the meantime, some of the more obvious distinctions between the sources will be sufficient to show that the PC’s data is the least reliable of the five measures.

For a start, the PC’s results are incompatible with the full ABS series, of which the CURF data is a subset. The ABS does not report on the Top 10%, only the Top 20% (in a quintile-level series), which is supplemented by inter-decile ratios. According to the ABS, the Top 20% share has increased over the period since 2011, and in the latest survey, it has risen from 62.1 to 62.5 per cent (of all Australian household wealth). The difficulty in this for the PC is that the corollary of its claim that the wealth share of the Top 10% has fallen from 45.2 to 43.2 per cent is that the next decile must have risen from 16.9 to 19.3 per cent: otherwise it would not square with the ABS’s Top 20% wealth share figure.

In other words, the PC’s series not only implies a 2 per cent decrease in the wealth of the Top 10%; implicitly, this was in concert with a 2.4 per cent increase in the share owned by the next 10%. This lacks plausibility. There are no apparent advantages in accumulating wealth that apply to the second decile that do not apply with at least equal force to the Top 10%, which enjoys other advantages in scale, risk, time and intermediaries. In the absence of an exogenous explanation (such as an increased tax on the Top 10% that does not affect the 10% of households below it), the PC’s result is so improbable that it can be regarded as virtually impossible.

The veracity of the PC’s result looks yet more questionable in the light of the ABS’s inter-decile ratios. These show that the P90/P10 ratio has jumped from 52.25 to 59.17. The P90/P10 refers to the wealth of the households at the 10th percentile (measured from the bottom of the range) divided into the wealth of the 90th percentile (i.e. the 10th percentile measured from the top). The (almost) 60 times ratio found in 2015-16 represents a rise of 13.2 per cent since 2013-14, the biggest jump since the ABS began surveying wealth (in a quintile-level series), which is supplemented by the ABS’s inter-decile ratios. According to the ABS, the Top 20% wealth share figure.

The remaining series by Credit Suisse, the Swiss-based financial institution with global coverage, is the boldest attempt to reconcile the findings of the SIH with other evidence, taking into account the national accounts, rich lists and income correlations. It also exhibits best international practice by using individual adults rather than households as the unit of observation. The effect of splitting wealth equally across married couples lowers the level of inequality but neutralises demographic trends (due to the decline of marriage and the rise of single-headed households), implies gender equality, and recognises that children typically only access wealth through their parents. Superannuation wealth is included, but not entitlements to pensions, which dilutes the robustness of Credit-Suisse’s international comparisons. Considered in relation to this most realistic of the measures, the PC’s results look beyond belief.

WHAT HAS GONE WRONG?

Other criticisms could be made of the PC’s report. For example, it utilises OECD and Credit Suisse data to make international comparisons of household wealth and show Gini coefficients without acknowledging their different compositions or recognising their contrary distributions. It utilises HILDA data without acknowledging that the longitudinal survey does not include any of Australia’s richest households (and which shows rising inequality in any event). There are several other minor faults, but the most disappointing feature of a supposed ‘stocktake of the evidence’ is that it does not publish the actual data it employs, preferring instead to present the results in simplified graphic forms, an opacity that severely limits cross comparisons and scrutiny.

It remains that the most obvious logical explanation for the PC’s contrary CURF-based series is that it reflects the higher margin for error (both sampling and non-sampling error) in utilising a smaller sample than the Top 20% (1,005 observations compared with an ABS Top 20% of 3554). A similar but smaller anomaly in the
CURF data, contradicting the direction of the full sample, occurred in the 2007-08 series. This is not to suggest that the accuracy of the ABS’s official data is beyond question. Australia, for example, is among a minority of OECD countries that does not over-sample the top end of the wealth distribution to counter the well-known problems of understatement associated with surveying rich households.

There are also substantial discrepancies between the SIH data and the wealth data found in the national accounts that undoubtedly tend to compress the top end of the scale. In our view, it is past time for the national statistician to join best international practice by reporting domestically on the Top 10%, Top 5% and Top 1%, as it already does for the OECD, with full distributional accounts. Yet the important point is that there are no weaknesses in the current ABS series not shared by the PC’s CURF data, which has the additional weakness identified here.

WHY DOES IT MATTER?

If the PC’s report were purely an exploratory statistical exercise, these problems would make it merely an irritating diversion from the task of trying to understand what is actually happening to wealth inequality in Australia. Drawing a long bow, we might interpret the PC’s numbers as a target, signalling an officially sanctioned acceptable level of inequality. Interestingly, in his landmark book *Capital in the Twenty-First Century*, Thomas Piketty posited that, in an ideal society, the Top 10% might own 30 per cent of the wealth, just three times its population share. If the share of wealth owned by Australia’s Top 10% were actually falling from its current 50-55 per cent to the PC’s 40 per cent, we might therefore think that a decent start along the road to the ‘land of the fair go’.

But this is not the case. The PC is not talking about targets; it claims to be identifying trends. A more thorough stocktake of the evidence indicates that Australia is moving further away from Piketty’s ideal, not towards it. It is hard to avoid the conclusion that the PC’s report, whether by design or oversight, only serves to deny the scale and severity of the growing inequality problem in Australia.

NOTES

1. ABS: Top 20%: Household Income and Wealth, Australia, 2015-16, ABS 6523.0 (and predecessors).
2. Credit Suisse: Top 10%: Credit Suisse, *Global Wealth Databook* 2017, Zurich: Research Institute Credit Suisse, November 2017 (and predecessors). Note that the research is updated annually. Here we have used the relevant two-yearly averages. *
4. OECD: Top 10%: *Wealth Distribution Database* <stats.oecd.org/Index.aspx?DataSetCode=WEALTH>. Note that the observation for 2015-16 is from the *Household Income and Wealth, Australia, 2015-16, ABS 6523.0*, after deducting superannuation and applying consistent (i.e. conservative) ratios from 2013-14.*

The data used in this paper are independently drawn from the ABS’s CURF facility. The PC has not published its raw data, only the figure representing the data after applying an ‘equivalisation’ formula. Treated as an extension of the raw data, ‘equivalisation’ is a common and useful practice in analysing the welfare implications of income distribution but adds little to wealth distribution. ‘Equivalizing’ means dividing household wealth according to household size (with smaller apportionments for any second or more adults, and smaller again for children). The utility of equivalization is based on the argument that ‘economies of scale’ operate in households, which is often valid for income consumption but does not generally apply to wealth, especially financial wealth, and it is rather absurd to allocate the command over resources that comes with income-earning wealth to children under 15-years old. Equivalising reduces wealth inequality, and in the absence of the raw data, reveals less than it hides about the inequality of distribution.

A higher order question could be asked about the inclusion of housing stock as wealth. As a certain level of housing must necessarily be consumed by the population, a large portion of owner-occupied stock is not wealth in the sense of being available for discretionary use. A stricter economic analysis could find that only the housing of the Top 10% should be counted as wealth, with the balance included only to the extent that the return on the imputed rent is less than the average return on the wealth of the Top 10%. Reform along such lines would require recasting the SIH and the national accounts, not to mention much economic thinking.

Christopher Sheil is a Senior Research Fellow in history at UNSW and Frank Stilwell is Emeritus Professor in political economy at the University of Sydney. They are co-authors of *The Wealth of the Nation: Current Data on the Distribution of Wealth in Australia*, Sydney: Evatt Foundation (2016), and gratefully acknowledge CURF research assistance on behalf of the Evatt Foundation from Hao Zhai, PhD candidate, UNSW.

The idea that economic inequality is a problem – and an increasing one – demanding public policy remedies has taken root in Australian political and policy debates. But there is a sense in which these debates have leapfrogged the relevant facts.

The Productivity Commission has done a great service by applying its analytical skills to an elucidation of these facts. Among the Commission’s findings are that:

• Income inequality has increased slightly since the late 1980s, but the extent of the increase is contested, and since the Global Financial Crisis the trend indicates a slight decline.
• Australia’s inequality is close to the OECD country average and if there has been any increase it has been at a slower pace than in most other developed countries.
• Regardless of inequality, the benefits of income growth have been fairly evenly shared across all income deciles.
• The tax/transfer system has a powerful equalising effect on household incomes.
• Wealth is much less evenly distributed than income and consumption – and wealth inequality increased up to 2010 – but is more evenly distributed in Australia than in most other developed countries.
• Australia stands out for its high degree of household income and wealth mobility. Thus, income inequality based on multi-year averages is lower than that based on annual income.

All up, the facts do not support the salience of inequality in Australia’s contemporary political debate. So why has inequality taken hold as a political issue? The Commission does not venture onto this ground, but I would suggest three reasons:

• Inequality is a hot issue in certain major countries (particularly the US) and has been transplanted here – not least by touring rock-star economists such as Piketty and Stiglitz – notwithstanding the different context.
• Those on the left and centre-left have chosen to highlight inequality for political advantage because it fits neatly into the contemporary narrative of victimhood politics.
• Inequality has become a lightning rod for all manner of people’s economic grievances (stagnant real wages, low housing affordability, etc) whether or not they are germane to inequality per se.

Debate is one thing; actual policy is another. The danger is that a misguided emphasis on correcting inequality will lead to policies that damage economic wellbeing across the board. As the outgoing Commission chairman said, “Inequality is not a sound basis for the determination of public policy”.

THE FAIR GO IS A FADING DREAM, BUT DON’T WRITE IT OFF

Beneath the veneer of a record run of economic growth in Australia, it is clear not all have shared in the prosperity. We have seen an enduring rise in economic inequality over the past four decades, observe Garry Barrett and Stephen Whelan.

In June 2017, Australia achieved a world record of sorts – 26 years of uninterrupted economic growth. This was achieved with a mix of good luck and good management. The resources boom, prudent fiscal management and some difficult economic decisions guided Australia through the Global Financial Crisis with an economy that continued to grow.

Throughout much of this period, Australia has experienced declining unemployment and growing wages. On the surface this might suggest Australia is a ‘Goldilocks economy’, avoiding the boom and bust cycle.

However, beneath the veneer it is clear not all have shared in the prosperity generated over the past 27 years. We have seen an enduring rise in economic inequality over the past four decades.

Since the late 1970s, there has been a clear and persistent increase in individual earnings and family income inequality. Since the late 1980s, much of the gain in real income has been concentrated at the very top of the distribution.

From an international perspective, Australia now ranks among the more unequal of the OECD economies.

**What has happened to pay packets?**

A good place to begin to understand how inequality has increased is by examining the labour market. Studies based on Australian Bureau of Statistics and other data sources show a significant increase in wage inequality across workers since the late 1970s.

A range of forces have driven this increase. These include technological change such as computerisation and developments in IT that have fundamentally altered business practices and organisational forms. This has delivered substantial wage gains for some high-skilled workers, while minimal wage growth for low-skilled workers has led to increasing polarisation.

Of course, one of the defining features of the Australian economy over the past three decades has been its internationalisation. Globalisation has exposed more jobs and workers to international competition. This has left some workers, especially the low-skilled, with relatively smaller pay packets.

Many institutions are no longer recognisable from those that shaped Australia from the beginning of the century. The share of income of the highest earning 20% vs the lowest earning 20%, 1994-95 to 2015-16.

People in the highest income quintile (i.e. the top 20%) earn more than five times the income of those in the lowest 20%.

**PERCENTAGE OF WORKERS IN A TRADE UNION (PUBLIC AND PRIVATE SECTORS), 1990 TO 2016**

Data includes only employees and owner-managers of incorporated enterprises (OMIES) in main job.
20th century. Unions and centralised wage bargaining traditionally played a pivotal role in protecting the lowest-paid workers' wages.

**Falling trade union membership**

Together these forces have contributed to greater wage volatility. The result is that much of the recent gains in real wages have been concentrated toward the very top of the wage distribution.

**Families matter**

Families can help limit the impacts of the market forces generating inequality. By coordinating work, caring, spending and saving decisions, families can dampen the effects of market-generated volatility and inequality on economic wellbeing.

Indeed, the rise in earnings and income inequality across families is less pronounced than the inequality across individuals. Nonetheless, ‘ assortative matching’, whereby individuals tend to partner with a similarly educated and skilled individual, has led to a growing gap between the resources of the ‘haves’ and ‘have-nots’.

**The state’s helping hand**

As in other countries, there has been a general trend of the Australian state providing less social protection and so acting less as an ‘equaliser’. For the unemployed, the safety net offered by the Newstart program has been progressively diminished. Access to the Disability Support Pension is increasingly restrictive, and delayed access to the Age Pension means these programs have become less generous over time.

Beyond the labour market, changes to the tax codes have reduced the progressivity of the system. In total, the broad direction of changes to the tax-transfer system in recent decades has been to reduce the equalising influence of the state.

**Intergenerational mobility**

The high level of economic inequality at a point in time cannot be readily dismissed as an artefact of a dynamic and mobile economy. Research has shown that Australia’s high level of economic inequality is also associated with lower intergenerational mobility.

Recent evidence based on longitudinal data indicates children’s earnings are strongly related to their parents’. From an international perspective, Australia is relatively immobile. This means the economic advantages and disadvantages we see today may persist over future generations.

One may well ask: is Australia witnessing the end of the ‘fair go’?

**Is it all doom and gloom?**

Despite these developments, there is cause for some optimism. Sustained community pressure has led to policy reforms that improved equality. A recent study showed that the one-off 19.5% increase in the Age Pension for singles (7.9% for couples) recommended by the Harmer Review significantly reduced poverty and inequality among the elderly.

The introduction of the National Disability Insurance Scheme in 2012 represents an important expansion of social protection, which may substantially reduce economic inequality.

Community reaction to the evidence presented at the ongoing Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has led to a commitment to increase the funding and powers of corporate regulators.

Similarly, the *Gonski Report* of 2012 refocused policy debate on school funding toward needs-based models.

These developments have been driven in part by strong community concerns and a recognition that those most in need have missed out on the prosperity generated by over a quarter of a century of uninterrupted economic growth. Together, they provide hope the fair go has not gone forever.

**DISCLOSURE STATEMENT**

Garry Barrett receives funding from the Australian Research Council and the Australian Housing and Urban Research Institute. Stephen Whelan has received funding from the Australian Research Council and the Australian Housing and Urban Research Institute.

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AUSTRALIAN INCOMES STALLED SINCE 2009, LATEST HILDA DATA SHOWS

If you feel like you’re treading water with your household finances don’t worry, you’re not alone. By Michael Janda, business reporter for ABC News

The latest instalment from the Melbourne Institute’s study of Household Income and Labour Dynamics, or HILDA as it is affectionately known, shows the typical Australian household hasn’t seen their post-tax real income rise noticeably since 2009. That year, the median household had a disposable income of $79,160, at 2016 price levels.

In 2016, the latest year of HILDA data available, the median income was barely higher at $79,244. One piece of good news is that real incomes, adjusted for inflation, did rise 1.8 per cent between 2015 and 2016. Another is that Australians previously enjoyed massive real income growth of 29 per cent between 2003 and 2009, thanks to the flow-on effects of mining boom mark one. A third was that income inequality, as measured by the Gini coefficient, has remained relatively steady throughout the entire period since HILDA started in 2001.

However, the Gini coefficient failed to capture one notable increase in income inequality, between the top 1 per cent and everyone else.

The report’s co-author Professor Roger Wilkins said the very highest income earners had done better.

“We do see some growth in income captured by the very top, but among the bottom 99 per cent we’re seeing very little change in the overall distribution of income,” he told AM.

HILDA data is closely watched by the Reserve Bank and other policymakers as it provides a detailed snapshot on the social and financial details of more than 17,000 Australians each year, allowing researchers to track changes in the community.

Underemployment jumps as men lose full-time work

One of the contributors to stagnating household incomes has been the rising prevalence of part-time work and underemployment.

The report’s authors observe that, while Australia escaped the worst immediate effects of the Global Financial Crisis, it marked a turning point for the labour market from which workers have never fully recovered.

“From 2001 until 2008, employment participation had been rising and unemployment had been falling,” they wrote.

The typical Australian household hasn’t seen their post-tax real income rise noticeably since 2009.

“Since then, the labour market has been relatively flat, with the proportions of men and women employed remaining below their 2008 peaks and the proportions unemployed remaining above the 2008 trough.”

The change has been particularly stark for men aged between 18-64, for whom the part-time employment rate rose from just over 10 to approximately 14 per cent, while full-time employment slumped from 73.3 per cent in 2008 to 67 per cent in 2016, although full-time employment for women aged 18-64 was also slightly down on its pre-GFC peak of almost 40 per cent.

Coinciding with the increase in part-time work has been a steep rise in underemployment, which has jumped to well over 8 per cent according to Bureau of Statistics data, after spending most of the 1980s below 4 per cent and the bulk of the 1990s and early 2000s below 7 per cent.

The HILDA study shows more than a third of part-time workers are working fewer hours than they would like to, with underemployment most prevalent amongst...
those aged under 24, full-time students, immigrants from non-English speaking nations, those without post-high school qualifications, single people and those with moderate or severe disabilities. Notably, almost 50 per cent of people aged 20-24 and immigrants from non-English speaking countries of any age who worked part-time wanted more hours.

**No one going to the gig**

However, according to HILDA, they are not working in the so-called ‘gig’ economy. At least to 2016, rates of self-employment had actually declined significantly since the turn of the century.

“We do see some growth in income captured by the very top, but among the bottom 99 per cent we’re seeing very little change in the overall distribution of income.”

In 2001, close to 10 per cent of employed persons were solo self-employed, while more than 7.5 per cent of employed people not only worked for themselves but also employed others. By 2016 this had fallen to 8.5 and just over 5 per cent respectively. The report’s authors say this debunks two common beliefs – that there has been a rise in the use of independent workers and that small business is not driving employment growth.

“The HILDA survey evidence indicates that, if the gig economy is growing as rapidly as is commonly believed, then either it involves the substitution of one type of self-employed worker for another (as might be happening in the taxi industry) or it is largely consigned to second jobs,” they wrote.

“This coincidence of declining employer numbers with high employment rates suggests that self-employment is not the engine of employment growth that it is so often claimed to be.

“Less clear is the source of this decline. The most likely explanations, however, lie in factors such as globalisation and technological change that have worked in favour of larger firms.”

**HILDA FINDINGS ON INEQUALITY**

**Income inequality persists**

- The HILDA Survey indicates there has been little net change in income inequality between 2001 and 2016.
- The Gini coefficient has remained between 0.29 and 0.31 over the entire 16 years of the HILDA Survey.
- Recently there has been a slight reduction in inequality using the Gini coefficient measure, from 0.30 in 2013 to 0.29 in 2016.

**Relative income poverty is declining**

- Relative income poverty measures how many people live in households below the threshold of 50% of median household equalised income.
- The proportion of the population experiencing relative income poverty fell from 12.6% in 2001 to 9.4% in 2016, in part due to the slight fall in the relative poverty line between 2009-2016 and the clustering of many welfare recipients close to this line. Small movements in government allowances can move recipients above the line.
- Poverty rates are much higher for single elderly persons (65 years and over) but have been declining since 2009.
- In 2016 the child poverty rate was 7.6%, the lowest rate recorded since the survey began.
- The 16% poverty rate for children in single-parent households was over three times the poverty rate for children in couple-parent families (5%) in 2016.
- 3% of women aged between 18-55 years and 2.5% of men in the same age group experienced poverty for seven or more years between 2007-2016.

**SOURCE**

Key research findings from current release of the HILDA Survey (31 July 2018). The Household, Income and Labour Dynamics in Australia Survey is funded by the Australian Government through the Department of Social Services and managed by the Melbourne Institute.

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**FIGURE 6.1: PROPORTION OF EMPLOYED PERSONS WHO ARE SELF-EMPLOYED**

Indexed to December 2016 prices. Source: Melbourne Institute.

Inequality in Australia: how equal are we?

There are two main ways we can measure inequality: income and wealth, according to this fact sheet from the Australian Council of Social Service.

Australians like to think of ourselves as the land of the ‘fair go’, without extremes of poverty or affluence. But this perception is quite different from the reality. Many people would be surprised to learn how unequal Australia actually is today.

**WHO ARE THE FACES OF INEQUALITY?**

Some people are more likely to be in the lowest 20% of incomes due to their circumstances.

These include:
- People who are unemployed (77% are in the lowest 20% of incomes),
- Single parents (36%),
- Older people (over 65s, 39%),
- People born overseas in non-English speaking countries (24%), and
- People living in rural, regional or remote parts of South Australia, Tasmania, Victoria or New South Wales (more than 25% in each case).

Sixty-three per cent of households where the reference person receives the Newstart Allowance are in the lowest 5% of incomes.

**WHAT ARE THE TRENDS IN WEALTH?**

- Household wealth shifted from younger to older age groups between 2004 and 2016.
- The average wealth of households aged over 64 years grew by 57% to $1.3 million. For people 35-44 years old wealth grew 28% to $700,000. For those under 35, wealth grew by 22% to $300,000.
- The average value of owner-occupied housing wealth declined for those under 35 – from $90,000 to $85,000. For households over 65, housing wealth grew 37% to $509,000.

Wealth inequality increased most strongly between people under 35 years. That is, the divide between wealthier and less wealthy younger people grew in the period.
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Where does your household sit?

Average Annual Gross (pre-tax) Income $200,000

Australia's level of income is more unequal than the OECD average, but more equal than other major English-speaking countries including the United States and United Kingdom, which have very high levels of inequality. Australia’s Gini coefficient (an inequality measure where zero means complete equality and one means complete inequality) is 0.34, compared with an OECD average value of 0.32. While Australian households are wealthy by world standards and wealth is more equally shared here than in most other OECD countries, wealth inequality in Australia is increasing.

Wealth inequality in Australia continues to increase. The average wealth of the highest 20% rose by 53% (to $2.9 million) from 2003 to 2016, while that of the middle 20% rose by 32% and that of the lowest 20% declined by 9%.

Excessive inequality in any society is harmful. When people with low incomes and wealth are left behind, they struggle to reach a socially acceptable living standard and to participate in society. This causes divisions in our society. Too much inequality is also bad for the economy. When resources and power are concentrated in fewer hands, or people are too impoverished to participate effectively in the paid workforce, or acquire the skills to do so, economic growth is diminished.

A FAIR GO FOR ALL AUSTRALIANS:
URGENT ACTION REQUIRED

Inequality in Australia has worsened. In light of this, Australia21 and The Australia Institute have produced a landmark report. Following is the executive summary

This report results from an all-day roundtable discussion by 32 experts from diverse backgrounds in Australia. The participants met in Parliament House Canberra on Monday 18 June 2018, to consider the nature, causes, consequences and possible solutions to growing Australian inequality. The meeting was jointly sponsored by two independent think tanks, Australia21 and the Australia Institute, and hosted by the former Treasurer and Deputy Prime Minister, Hon Wayne Swan MP.

Participants included two senior Labor Party politicians and the leader of the Greens, but no one from the Coalition parties despite a number being invited. In preparation for the meeting, invitees provided brief summaries of their views on the questions to be considered that were distributed to all participants, and the five hours of ensuing discussion were recorded and transcribed.

The roundtable concluded that, like several other English-speaking democracies, Australia is at a watershed and that the current level of inequality demands a new, vigorous and uncompromising campaign to engage all Australians in a reconception of the kind of country we want and the values that should drive future public policy. There was consensus that current policies are profoundly unfair to Australians on the lower rungs of the economic ladder and threaten the future of humans and the planet.

Some inequality in wealth, income and opportunity will always be with us, but the gap in current levels will go on increasing unless there is a significant change in policy direction. Australia’s social security system is no longer adequate and imposes unacceptable constraints on the growing numbers of people battling the consequences of poverty, unemployment, homelessness and general social disadvantage.

Several international agencies, including the IMF and the World Bank, as well as The Economist, have warned that levels of inequality of the kind now experienced in Australia are antithetical to economic growth. Corporations and rich individuals are promoting an outmoded ‘trickle down’ approach to the economy, fuelled by uncritical application of the notion of ‘selfish economic man’.

Most Australians underestimate the size of the differential of wealth and income between those in the top 10% and those in the bottom 90%. In one survey, the average Australian thought the richest 20% had four times more wealth than the poorest, when the most recent ABS data show that the actual differential is 60 times. When people are made aware of the differential, evidence suggests they are firmly supportive of early remedial action.

Australia is no longer a classless society. Global inequality is now growing, and global sustainability is decreasing.

It was argued that the problem is one of justice and human rights, and that our inevitable move towards becoming a republic should be accompanied by development of a Charter of Rights developed around shared national values. There was firm consensus that in a changing world, every person must have basic entitlements to food, clothing, shelter, health and education from birth, and that the vast majority of Australians would support a return to the notion of a ‘living wage’.

The roundtable agreed on another disturbing defect in Australian democracy. Armies of lobbyists and poli-
tactical donations are heavily influencing the activities of our governments. As a democratic nation, all people, not only the rich and powerful, must determine the kind of country we live in. We must confront the fiction that the combination of unregulated markets, low taxes and small government will deliver the kind of future we want for our children.

We must also challenge the notion that growth in the Gross Domestic Product is an adequate or appropriate measure of progress. We must commit to rapidly reducing the nation’s carbon emissions and halt the destruction of the ecosystems that support all life.

The community of all Australians must retake control of our nation and its policies and re-write the story now driving it. The challenge is to engage large numbers of ordinary Australians in this task. The A24 Alliance, which had two representatives at the roundtable, is facilitating a national discussion of the kind of country Australians want to live in.

There was consensus that these concerns can be addressed, and that we can return to being an egalitarian and compassionate nation, if the prevailing narrative promoting selfishness, greed, competition and consumption is rejected and replaced with a narrative that places altruism and compassion at the heart of vibrant, inclusive communities.

The economy must serve society and not the other way around. Specifically, processes must be developed to assist those who cannot find a place in a rapidly changing workforce, where technological advances are changing the number and nature of available jobs.

Australia must develop an industrial relations system that gives workers an active role in the operation of the workplace and in the remuneration they receive. The system must recognise that every person has worth and dignity and is entitled to food, shelter, education and health care. The problem cannot be fixed by tinkering at the edges of an economic system no longer fit for purpose. Nor can political parties be left to manage these problems without input from an actively participating community.

The recent political debate over cutting taxes has taken place in denial of the fact that Australia is already one of the lowest taxing countries in the OECD and that continuing reduction in government revenue reduces the capacity of future governments to deliver essential services and exacerbates the already serious level of inequality.

Accordingly, the roundtable identified a number of firm proposals for action that the two sponsoring organisations believe must be addressed by federal and state and territory governments, aided by systematic inputs from the Australian people.


1. Promote a national conversation about the nature, causes and effects of growing inequality in Australia and create an Office of The Evaluator General to develop and institute measures to monitor progress towards a fair Australia. Require that all Cabinet Submissions and legislation include a statement of Inequality Impact.
2. As part of that national conversation, communicate clearly to the Australian public that a single-minded focus on growing the economy cannot resolve distributional issues, and that there is ample evidence from the IMF, World Bank, and OECD that excessive inequality actually reduces economic growth.
3. Agree to the development of a new Australian Charter of Human Rights and undertake nation-wide consultation to clarify the values that will be central to the new charter.
4. Engage the Australian people in discussion about ways to raise more revenue fairly, to enable governments to reduce inequality, deliver essential services, and promote the kind of future to which Australians aspire. Consider the use of citizen juries or citizen assemblies in these matters.
5. Revisit the concept of the living wage, in recognition that an absolute minimum income is required for people to retain their dignity and to feed, clothe and shelter themselves. Establish this living wage as the benchmark for all social security activity and consider innovative ways of making it available to those unable to be part of the workforce, for whatever reason.
6. Recognise that all Australians are entitled to receive food, shelter, clothing, education and access to health services, regardless of their employment status.
7. Review the industrial relations system with a view to establishing new ways of empowering workers to engage with employers about their conditions of work and remuneration. Establish more job creation programs in priority areas and consider new models of employee management and cooperative ownership of businesses.
8. Invest in early childhood development through a national system of childcare for every child from the age of three years, in association with schools.
9. Commit nationally to the principle of equal pay for equal work by men and women, and equal access for men and women to different jobs and positions of power.
10. Review the Uluru Declaration by Aboriginal People and submit its proposals to the Australian people in a referendum.
11. Develop a national citizens’ jury or citizens’ assembly to consider the funding of the federal parliamentary system, including the permissible role of lobbyists and financial contributions from private interests.
12. Commit on a non-partisan basis to a democratic and compassionate Australia with commitment to ‘A Fair Go for All’, and tackle the problem of excessive corporate influences on public policy.
The economic data shows that inequality is getting worse in Australia. This includes data from the Australian Taxation Office, the Australian Bureau of Statistics and the OECD. The share of income going to the top is growing at the expense of low- and middle-income earners.

Data from 1996, when the Howard government was first elected, until 2016, the latest period for taxation statistics, show that total incomes for the top 10 per cent have grown far more than those of any other decile. They have grown so fast that the top 10 per cent is the only decile to see their share of total income increase.

Figure 1 shows the growth in total income of middle-income earners (5th decile) and the top 10 per cent of income earners. It shows that the incomes of very high-income earners are growing much faster than those of middle-income earners.

Australian Bureau of Statistics data also shows that the Gini coefficient of income, the most common measure of inequality, has worsened. Figure 2 shows income inequality for gross income as measured by the Gini coefficient in Australia. There is some short-term volatility over time but the clear long-term trend has been towards worsening inequality.

OECD data shows that Australia is more unequal than the OECD average and that over the last 10 years it has become more unequal compared to other developed countries.

Inequality is not just a political problem. Research from the International Monetary Fund, as well as other prominent economists, has shown that high rates of inequality can lead to slower economic growth.

The economic data is clear: inequality is getting worse in Australia and governments and policymakers need to prioritise policies that will reduce inequality.

Despite this the government’s policy priorities are taking Australia in the opposite direction. The government’s proposed tax cuts in the 2018 budget are likely to make this inequality worse. If the tax cuts are implemented in full then it will reduce the tax burden on high-income earners and increase the tax burden on low- and middle-income earners.
How to Promote Social Mobility: How Does Australia Compare?

It could take four generations for children born into a low-income family to reach the average income, according to this report from the OECD.

In many countries, people at the bottom of the income ladder have little chances of moving upward, and those at the top remain at the top – the social elevator is broken. This has harmful economic, social and political consequences. Lack of upward mobility implies that many talents are missed out, which undermines potential economic growth. It also reduces life satisfaction, wellbeing, and social cohesion. Social mobility is low at the bottom: ‘sticky floors’ prevent people from moving up. It is even lower at the top: ceilings are ‘sticky’. Moreover, there is a substantial risk for middle-income households to slide into low income and poverty over their life course.

Social Mobility in Australia

In Australia, there is a widespread perception that parents’ fortunes and advantages play a major factor in people’s lives. 39% of people agreed that parents’ education is important to get ahead in life. This perception is close to the OECD average (37% of people agreed with the same statement in the OECD on average).

And indeed people’s economic status is significantly correlated to that of their parents in Australia: taking into account earnings mobility from one generation to the next as well as the level of income inequality in Australia, it could take 4 generations for children born in a family at the bottom of the income distribution to reach the mean income, similar to the OECD on average (Figure 1).

Dimensions of Social Mobility – Sticky Floors and Sticky Ceilings

Social mobility is multi-faceted. Its inter-generational dimension stems from comparing people’s status with that of their parents in terms of earnings, but also occupation, health or education. Its lifecycle dimension assesses the chances of individuals’ income positions to change over the life course.

Social mobility across generations is not evenly distributed

- **Type of occupation:** There is very limited mobility at the lower end of the scale of occupations: almost half of children of manual workers remain manual workers themselves, and only 12% become managers. This compares to 37% and 24% respectively, in the OECD.

- **Education:** Australia performs rather well in terms of educational mobility compared to other countries: an additional year of parental education is associated with higher offspring education by just 0.2 years, compared to 0.5 years on average in the OECD.

Overall, Australia exhibits high levels of educational mobility, very close to the top performer, Korea (Figure 3). In particular, educational mobility is higher than in Denmark, Norway, Sweden, Finland, and Portugal.

Note: These estimates are based on earnings persistence (elasticities) between fathers and sons. Low-income family is defined as the first income decile, i.e. the bottom 10% of the population. Source: A Broken Social Elevator? Chapter 1 StatLink http://dx.doi.org/10.1787/888933761910.
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most non-Nordic European countries, such as France and Germany. By contrast, Australia performs less well in terms of occupational mobility, with lower levels of mobility than in many European countries but also the United States.

The low completion rate for VET certificates in Australia certainly plays a role in low occupational mobility. Students from lower socio-economic backgrounds may indeed find it difficult to navigate the complex system of degrees and skill certification, and the multitude of providers.

Income mobility over the course of a lifetime:

- Individuals' income mobility over the lifetime is limited in Australia, particularly at the bottom and at the top.
- Those in the bottom income quintile (the 20% of individuals with the lowest incomes) have little chance of moving up over a four-year period, with 55% remaining stuck there.
- At the top, persistence is even stronger – 64% of persons in the top 20% of incomes remain there over a four-year period.

Low income support and lack of opportunities to move in areas play a role in the lack of mobility at the bottom in Australia, and may lead disadvantaged households to live in poverty for their entire lifetimes, particularly concerning the young NEETs (Not in Education, Employment or Training), notably those belonging to the indigenous communities.

WHAT CAN BE DONE TO FOSTER SOCIAL MOBILITY?

There is nothing inevitable about socio-economic advantage being passed from one generation to another. Large differences in mobility across countries suggest that there is room for policies to make societies more mobile and protect households from adverse consequences of income shocks. Policies that strengthen key dimensions of welfare are needed, as well as individual empowerment and capacity-building to alleviate the burden of unfavorable starting conditions in life.

Objective #1

Ensure equitable opportunities for engaging in the labour market by facilitating skills acquisition in Education, Employment, or Training, notably those belonging to the indigenous communities.

Objective #2

Reduce barriers to labour mobility by further reducing labour market frictions generated by interstate differences in education and vocational qualifications.

Objective #3

Maintain the investment approach to welfare policy that focuses on vulnerable groups, including income support and access to social services.


Figure 2: Australia exhibits sticky floors in occupation mobility


Figure 3: Inequality and mobility along different dimensions

Minimum

Maximum

Australia

OECD

Portugal

Australia

OECD

Hungary

Australia

OECD

Korea

Australia

OECD

Source: A Broken Social Elevator?, Chapter 1.
Peter Whiteford explains how government spending and taxes affect household economic wellbeing and reduce inequality

The Australian Bureau of Statistics has just released its latest analysis of the effects of government benefits and taxes on household income. Overall, it shows government spending and taxes reduce income inequality by more than 40% in Australia. Disparities between the richest and poorest states are also greatly reduced.

The ABS analysis provides the most up-to-date (to 2015-16) and comprehensive figures on the impacts of government spending and taxes on income distribution. As well as direct taxes and social security benefits, it estimates the impact of ‘social transfers in kind’ – goods and services that the government provides free or subsidises. These include government spending on education, health, housing, welfare services, and electricity concessions and rebates.

The figures also include a wide range of indirect taxes. Among these are GST, stamp duties and excises on alcohol, tobacco, fuel and gambling.

The 2015-16 results are the seventh in a series published every five to six years since 1984. The methodology is based on similar studies by the UK Office of National Statistics since the 1960s.

How do the calculations work?
The ABS analyses income distribution in a number of stages. First, it calculates the distribution of ‘private income’. This includes wages and salaries, self-employment, superannuation, interest, dividends and income from rental properties, among other items. It also includes net imputed rent from owner-occupied dwellings and subsidised private rentals.

The social security system reduces income inequality (and poverty) because Australia targets benefits to the poor more than in any other high-income country.

Next the ABS adds social security benefits, such as the Age Pension, unemployment and family payments, to give ‘gross income’. Then it deducts direct taxes – primarily income tax – to give ‘disposable income’.

The next stage is to add the estimated value households derive from government services. This is mainly the value of public health care and education spending.

The final stage is to deduct the estimated value of indirect taxes.

So what are the impacts on income inequality?
It is possible to calculate measures of economic inequality at different stages in this process. By implication, the difference between inequality measures is the result of the different government policies taken into account.

Figure 1 shows the Gini coefficient, which ranges between zero – where all households have exactly the same income – and 100% – where one household has all of the income. The Gini coefficient for private income in 2015-16 was 44.2. The addition of social security benefits, which mainly increase the incomes of low-income groups, reduces the coefficient by 8.1 percentage points.

Deducting income taxes – which are progressive – further reduces inequality by 4.5 points. Government non-cash benefits reduce the Gini coefficient by nearly as much as the social security system. However, indirect taxes slightly increase income inequality.

The Gini coefficient for final income is 24.9. So, compared to a coefficient of 44.2 for private income, government spending and taxes reduce overall income inequality by more than 40%. While most of the reduction in inequality is due to government spending, taxes are obviously important to pay for this spending.

The social security system reduces income inequality (and poverty) because Australia targets benefits to the poor more than in any other high-income country.

Figure 2 shows the distribution of social security benefits and government services across income groups.

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from the poorest 20% to the richest 20% of households. The poorest 20% receive about seven times as much in benefits as the richest 20%. The average for OECD countries is close to one, with rich and poor receiving about the same amount.

Government spending on social services is also progressively distributed. This spending is considerably greater than social security spending and includes both Commonwealth and state spending on education and health.

The poorest 20% receive about 70% more in non-cash benefits than do the richest. This is not due to income-testing. Instead, it’s largely a result of the greater value of public health spending on hospitals and Medicare for older people, who tend to be in the bottom half of the income distribution.

Taxes, of course, work to reduce income inequality, as high-income groups pay a higher share than low-income groups. Figure 3 shows that the poorest 20% pay about 5% of their disposable income in direct taxes, while the richest 20% pay about 30% of their disposable income.

In contrast, indirect taxes – particularly those on tobacco and gambling – are regressive. Low-income groups pay more than high-income groups as a share of their disposable income. However, the undesirable effects of smoking and gambling on the wellbeing of low-income households need to be borne in mind.

When direct and indirect taxes are added together the overall tax system is less progressive, but the richest 20% still pay nearly twice as much of their disposable income as do the poorest 20%.

Redistribution also happens between age groups and states

In addition to reducing inequalities between income groups, government spending and taxes redistribute across age groups. Government spending is much higher for households of Age Pension age than for younger households. This is because of both the Age Pension and older households’ use of the healthcare system.

For example, households where the reference person is 75 or older receive on average just over $1,000 a week in government spending but pay about $180 a week in direct and indirect taxes. Households with a person aged 45 to 54 pay the highest taxes on average – about $800 per week – and on average receive about $620 a week in social spending.

There is also redistribution across states and territories. For example, average private income is about 65% higher in Western Australia than in Tasmania. However, on average, Western Australian households receive about two-thirds of the social security benefits that Tasmanian households get. This reduces the disparity in gross income to about 45%.

### Taxes, of course, work to reduce income inequality, as high-income groups pay a higher share than low-income groups.

Western Australian households pay about twice as much in income taxes as Tasmanians, reducing the disparity to 35%. Households in the West receive only about 3% more in spending on social services than in Tasmania, which reduces the disparity in average incomes to 28%. West Australian households also pay about 20% more in indirect taxes than Tasmanian households (although as a percentage of disposable income, this is a higher share in Tasmania).

These figures suggest that while the financing of fairly equal social services across most parts of Australia reduces inequality between states, the income tax and social security systems also significantly reduce disparities. This is because income tax and social security are national systems and because Tasmania is the poorest state largely due to the higher share of age pensioners in its population.

Overall, this publication provides an invaluable picture of how government spending and taxes affect household economic wellbeing. Its results are relevant not only to the political debate about tax cuts, but also to long-term policy development to prepare Australia for an ageing population.

**Peter Whiteford** is Professor, Crawford School of Public Policy, Australian National University.

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Poverty and Inequality in Australia

Inequality levels largely unchanged since 2007 but new risks emerging: report

Stagnant incomes, widening gaps in opportunity based on where people live and go to school and anxiety about the impact of rapidly emerging technologies are contributing to concern about inequality, according to a report by CEDA

Releasing How unequal? Insights on inequality, CEDA Chief Executive, Melinda Cilento said the report shows that despite increasing community concern, measures of income inequality in Australia have not risen since the Global Financial Crisis.

“But there is no room for complacency. Given our economic growth in this period, there are areas where we should have made more progress,” she said.

“These include education inequality, postcode inequality and preparing for emerging risks from new technology.

“For this reason, CEDA supports calls for a regular, robust, independent evaluation of inequality by the Productivity Commission.

“After several decades of economic growth, we haven’t made inroads on entrenched disadvantage or the number of people living below the poverty line, which sits at around 13 per cent.

“At the same time we are not preparing fast enough to manage emerging risks around technology, which could compound these issues further.

“For example, gig economy workers do not have superannuation deducted by their employer, potentially exposing them to future retirement income gaps.

“The Government should explore the adequacy of superannuation, pension and savings products for contingent workers to ensure this does not become an issue in the future.”

The potential for AI and data mining to impact the most vulnerable was also an area that needed to be tackled now, Ms Cilento said.

“AI offers huge opportunities but the community must have confidence that it will be deployed ethically and with appropriate checks and balances,” she said.

“CEDA’s report finds that government and business need to work together to adopt ethical guidelines for the use of AI, data mining and autonomous systems before larger issues emerge.

“Technology can also increase education inequality, with those with better access to technology more likely to develop the skills for the jobs of the future.

“Australia also needs to ensure our workforce has the skills to transition to new opportunities and that business can access the skills needed to make the most of new technologies and opportunities.

“World Economic Forum research suggests that low-skilled workers are on average going to require two years of additional education and two years of additional work experience to transition to jobs where they can maintain or grow their existing wages.

“We need to also examine our VET sector and its capacity to meet future training needs. The other key issue our report highlights is the persistence of postcode inequality across Australia.

“There are entrenched geographical pockets of disadvantage across all states and territories. For example, in NSW 37, or just six per cent of postcodes, account for almost 50 per cent of the greatest disadvantage in the state, and the other states and territories have similar findings.

“There are areas where we should have made more progress. These include education inequality, postcode inequality and preparing for emerging risks from new technology.”

“After 26 years of continuous economic growth, the persistence of this kind of geographical disadvantage is deeply concerning.

“We need to recognise that location plays a role in equality and look at far more targeted place-based initiatives.

“In addition, ensuring the adequacy of Newstart, so that it is not an entry point to deep disadvantage, is an important step.”

Recommendations in CEDA’s report include:

• That the Commonwealth Government request the Productivity Commission undertake periodic independent reviews of inequality in Australia.
• Adjusting the level of Newstart payments to a more appropriate benchmark and indexation arrangement to ensure adequacy over time.
• Implementation of place-based initiatives and more targeted assistance for areas of entrenched disadvantage.
• A comprehensive review of Vocational Education and Training in Australia to underpin future funding arrangements and ensure it can meet the training and reskilling needs of the Australian workforce.
• The government should explore the adequacy of superannuation, pension and savings products for contingent workers and whether action is necessary to ensure sufficient retirement income for those workers.
• Measures to address housing affordability, including a larger component of capital gains taxed, moving to annual land tax instead of transactional taxes such as stamp duty and relaxing planning restrictions to allow increased housing density.

Four facts about inequality in Australia

This parliamentary research brief was reproduced courtesy of conservative public policy think tank, the Institute of Public Affairs

INCOME INEQUALITY IS LOW AND DECREASING IN AUSTRALIA

Some have argued that income inequality in Australia is increasing. The measure typically used to support this claim is the income earned by the top 1% of income earners. It is true that the share of income earned by the top 1% has been trending up since 1981. However, this is a deficient measure of inequality because:

- It is a pre-tax measure of income and doesn’t account for Australia’s highly redistributive tax and transfer system. According to KPMG, 60% of Australian households pay no net income tax.
- It doesn’t include non-cash transfers from government, such as subsidised education, or charitable donations.
- It doesn’t account for individual or household choices about work, leisure, or consumption.

A more widely used measure of income inequality is the Gini coefficient, which does take into account tax and transfers. The income Gini coefficient is measured on a scale from zero to one. A value closer to zero indicates a more equal distribution of income.

Figure 1 provides two measures, one from the Australian Bureau of Statistics (ABS), the other from the Melbourne Institute’s Household Income and Labour Dynamics in Australia (HILDA) Survey.

**FIGURE 1: THE GINI COEFFICIENT IN AUSTRALIA**

Source: ABS, HILDA Survey.

Based on these figures:

- Income inequality is largely unchanged over the past two decades in Australia.
- The HILDA Survey shows income inequality has decreased slightly, with the Gini coefficient decreasing from 0.31 in 2001 to 0.30 in 2015.
- Additionally, the Gini coefficient on income in Australia is close to the OECD average.

HILDA’s measure is preferable to the ABS’ because the ABS introduced methodological changes to its survey series, making comparisons through time less reliable.

WEALTH INEQUALITY HAS INCREASED SLIGHTLY IN AUSTRALIA

Wealth is distributed less equally than income in Australia, and that inequality has increased slightly over recent years. According to the ABS, the wealth Gini coefficient has increased from 0.57 in 2004 to 0.6 in 2014. A key driver has been asset price inflation, such as of housing.

The Reserve Bank Governor said “wealth inequality has become more pronounced particularly in the last five or six years because there’s been big gains in asset prices ...”.

The best available evidence suggests income inequality is low and declining in Australia.

Public policy has put upward pressure on asset prices, and on housing in particular:

- Record low interest rates since 2013 have encouraged investment in housing and in other assets such as company shares.
- Red tape – such as planning and zoning laws – has restricted housing supply.
- Immigration has increased demand for housing.

AUSTRALIA’S WEALTH IS THE THIRD MOST EVENLY DISTRIBUTED IN THE DEVELOPED WORLD

Wealth inequality has increased in recent years. Yet Australia has the third most equal distribution of wealth in the developed world behind Japan and Belgium, according to a recent Credit Suisse report. Further, Australia’s wealth Gini coefficient of 0.68 is below both the average of 0.75 of similar nations and the global average of 0.93.

**FIGURE 2: GLOBAL COMPARISON OF WEALTH INEQUALITY**

Source: Credit Suisse.
INEQUALITY OF OPPORTUNITY MATTERS MORE THAN INEQUALITY OF INCOME

Public policy which focusses only on equality of outcomes will make all Australians worse off. A highly distributive welfare system with high taxes and transfers discourages upward economic mobility and wealth creation. Instead, public policy should be focussed on reducing inequalities of opportunity. There are three key inequalities involving employment, education, and public sector work.

Employment

There is inequality in Australia between those who are employed and those who are not.
• 730,000 Australians are unemployed.10
• The underemployment rate is 9.3%, which is the second highest on record.11
• One in five prime-age males are not in work.16

Public policy to encourage employment includes:
• Decentralisation of wage and award bargaining.
• Lowering or eliminating the minimum wage (to be replaced by a wage subsidy if needed).
• Lowering and flattening income taxes and reducing transfers to lower effective marginal tax rates.

Education

Inequality exists between those who have a high quality education and those who do not. More money is being spent on school education, yet results are getting worse.
• According to the Productivity Commission, real government expenditure on schools increased by 24 per cent between 2004-05 and 2013-14.13
• Yet results for Australian students in mathematics have declined by 6%, science by 3%, and reading by 5% over the relevant assessment periods.14

While economic inequality is low in Australia, there are inequalities of opportunity, for example, between those who have work, a good education, and work in the public sector, and those who do not.

Public policy to improve education outcomes includes:
• Introducing school vouchers provided direct to families and students in lieu of block funding to state governments or schools.
• Untethering schools from the national curriculum.
• Providing schools with greater autonomy over staffing and remuneration decisions.

Public versus private sector

There is inequality in pay between those who work in the private sector and those who work in the public sector.
• Public sector wages have grown 10% faster than private sector wages over the past two decades.15
• Average weekly earnings in the ACT are 15% higher than the national average.16
• Job security is typically higher in the public sector, and so the risk-adjusted wage differential between public and private sector is even higher.

CONCLUSION

• The best available evidence suggests income inequality is low and declining in Australia.
• Wealth inequality has increased slightly in recent years due to public policies such as low interest rates, restrictions on housing supply, and immigration.
• Australia has the third most equal distribution of net wealth in the developed world.
• While economic inequality is low in Australia, there are inequalities of opportunity, for example, between those who have work, a good education, and work in the public sector, and those who do not.

The IPA has released a research paper, Understanding Inequality in Australia, which explores the issues outlined in this brief in more detail: https://ipa.org.au/publications-IPA/research-papers/understanding-inequality-australia

ENDNOTES

1. Data for these measures are available at http://wid.world/country/australia/
2. KPMG, Australia’s poor joining in negative gearing boom, media release, Australia, (17 April 2017).
3. The desirability of using the Gini coefficient over other measures of inequality has been highlighted by the Productivity Commission, the OECD, and the Rand Corporation, amongst other organisations. See, for examples, Productivity Commission, Trends in Income Distribution in Australia, Canberra, Australia, (2013); Organisation for Economic Co-operation and Development, Divided We Stand: Why Inequality Keeps Rising, (2015); Charles Wold Jr, The Inequality Debate, The Rand Corporation, (4 June 2012).
11. Ibid.
14. Results available from www.acer.org/ozpial
16. Ibid. Average Weekly Ordinary Time Earnings are used.

Institute of Public Affairs (31 August 2017).
Four Facts about Inequality in Australia.
RISING PROFITS WHILE WAGES ARE GOING BACKWARDS

A FACT SHEET FROM THE AUSTRALIAN COUNCIL OF TRADE UNIONS

The cost of living has been increasing but wages aren’t keeping up. Company profits are growing and the richest people are getting richer but working people are going backwards.

The economic growth that working people have helped build over the last 30 years is benefiting only a small group of wealthy, powerful people. They ask more and more of working people and let us have less and less of what we help create. Job security has been undermined, loopholes have been exploited to trap working people in insecure, outsourced, casualised work.

Power has been shifted to the multi-national corporations and the executives, making it harder and harder to achieve real wage increases. All while the Liberal/National Coalition government cuts penalty rates, turns a blind eye to worker exploitation and does nothing to improve the bargaining power of working people.

We need to Change The Rules so that working people can come together and collectively negotiate a better deal, fairer pay and more secure work. Australia needs a pay rise that puts people back in front of the costs of living.

BELOW ARE SOME OF THE KEY FACTS:

• Company profits are growing more than five times faster than wages.¹

• Living standards are not growing under the Liberals and have actually stayed at the same level since 2011. Real household disposable income is at the same level it was 7 years ago.²

• Real wages are going backwards for 80% of workers. Private sector wages grew 2% on the year which is less than inflation (CPI is 2.1%).

• Labour’s share of national income is close to the lowest level in around 50 years. It fell 0.3 percentage points over the last year and more than two percentage points over the last two years.

• The latest GDP figures show the continued poor return workers are getting from the economy. While company profits soar, real living standards and incomes continue to fall.

• Household savings are at a 10 and a half-year low while consumer debt is at a record high.³ This is because with such low wage growth many households have to dip into savings or go into debt just to keep food on the table.⁴

2.2 MILLION AUSTRALIANS LIVE IN POVERTY

• 9 per cent of Australians (2.2 million people) live below the relative income poverty line.⁵

• About half of Australians experienced income poverty at some point between 2001 and 2016.

• There is strong evidence of people cycling in and out of poverty. Of those who were in income poverty in 2001, 30 per cent had returned to (or were still in) income poverty in 2016.

• Material deprivation affects a little under 12 per cent of Australians (over 2.5 million people).

ENDNOTES


2. Real household disposable income is at the same level it was in 2011.

3. Household savings have fallen to only one per cent of disposable incomes in the last quarter.

4. This is completely unsustainable. The saving ratio is about to go into negative territory – this is exactly what happened just before the GFC.


As an organisation that speaks for the country’s most disadvantaged people, Anglicare Australia asked Per Capita to undertake modelling to understand how the tax and transfer system operates across different income quintiles, and to determine to what extent measures within the system support the richest versus the poorest Australians. Following is the executive summary from their research paper.

The modelling assessed the various tax concessions and other benefits available to high-income earners and contrasts them with well-understood direct income support measures for low-income earners and those reliant on our social security safety net.

This report quantifies the annual cost to the federal budget of various measures that allow Australians in our wealthiest quintile to minimise their taxable income, thereby reducing government revenue that pays for services for all citizens.

These measures include superannuation tax concessions, negative gearing, capital gains tax concessions, the use of discretionary trusts, the exemption from the Goods and Services Tax (GST) of private health insurance and education, and the exemption from Capital Gains Tax (CGT) of the principle place of residence. All of these concessions disproportionately benefit high-income and high-wealth households.

Our analysis shows that, in combination, these measures impose a cost on the federal budget that easily outstrips that of any single welfare recipient group.

According to our calculations, the cost of foregone tax revenue from the richest 20% of Australians is over AU$68 billion per annum. That’s around $37 a week from every worker in the country. In contrast, the cost of income support in the 2016-2017 financial year was, by group:

<table>
<thead>
<tr>
<th>Household Description</th>
<th>Annual Cost</th>
<th>Weekly Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Pension</td>
<td>$44.468 billion</td>
<td>($35 a week per worker)</td>
</tr>
<tr>
<td>Assistance to families with children</td>
<td>$36.404 billion</td>
<td>($20 a week per worker)</td>
</tr>
<tr>
<td>Assistance to people with disabilities</td>
<td>$31.721 billion</td>
<td>($17 a week per worker)</td>
</tr>
<tr>
<td>Newstart (unemployment benefits)</td>
<td>$10.994 billion</td>
<td>($6 a week per worker)</td>
</tr>
</tbody>
</table>

To illustrate how the tax and transfer system works at the personal level, we created four typical household scenarios, two in the highest and two in the lowest quintile. For the purposes of comparison, all the hypothetical families include two parents and two school-aged children, and live in major cities. The results are at Table 1 (below).

If the Government is serious about balancing the budget while retaining a fair and just society, the place to cut government spending is on the cost of subsidising the accumulation of wealth by rich Australians, not reducing essential support to our poorest citizens.

**ENDNOTE**


EXPLORING ISSUES

WORKSHEETS AND ACTIVITIES

The Exploring Issues section comprises a range of ready-to-use worksheets featuring activities which relate to facts and views raised in this book.

The exercises presented in these worksheets are suitable for use by students at middle secondary school level and beyond. Some of the activities may be explored either individually or as a group.

As the information in this book is compiled from a number of different sources, readers are prompted to consider the origin of the text and to critically evaluate the questions presented.

Is the information cited from a primary or secondary source? Are you being presented with facts or opinions?

Is there any evidence of a particular bias or agenda? What are your own views after having explored the issues?

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WRITTEN ACTIVITIES 55
MULTIPLE CHOICE 56
Brainstorm, individually or as a group, to find out what you know about poverty and inequality in Australia.

1. How is poverty defined and measured in Australia?

2. What is the Gini coefficient, and how does it relate to income inequality in Australia?

3. What is inequality and which economic and social outcomes does it apply to? Also, explain how income inequality differs from wealth inequality in Australia.

4. What is the tax and transfer system and how does it address inequality in Australia?
Complete the following activities on a separate sheet of paper to allow more space for your answers.

After taking account of housing costs, more than 1 in 8 people live below the poverty line in Australia. Disturbingly, the poverty rate among children is much higher, at more than 1 in 6.

ACOSS, Poverty in Australia (p.1)

1. Which groups in Australian society are most at risk of living in poverty, and why?

________________________________________________________________________

________________________________________________________________________

Often, policies targeting inequality aren’t effective in combatting poverty because they merely transfer income from middle-income earners to lower-middle-income earners (essentially, a lot of this is just welfare churn).

Simon Cowan/CIS, Inequality isn’t Australia’s issue – poverty should be our focus (p.22)

2. Discuss how the income support system redistributes income via the tax system, and acts as a ‘safety net’ for people not able to support themselves. Is the tax and transfer system doing enough to assist people living with disadvantage?

________________________________________________________________________

________________________________________________________________________

Excessive inequality in any society is harmful. When people with low incomes and wealth are left behind, they struggle to reach a socially acceptable living standard and to participate in society. This causes divisions in our society.

(ACOSS, Inequality in Australia: how equal are we? (p.40)

3. Discuss the impacts of inequality in Australia, in economic and social terms.

________________________________________________________________________

________________________________________________________________________

If the Government is serious about balancing the budget while retaining a fair and just society, the place to cut government spending is on the cost of subsidising the accumulation of wealth by rich Australians, not reducing essential support to our poorest citizens.

Anglicare Australia, The cost of privilege (p.52)

4. What measures could the federal government take to address the growing gap between the richest and poorest Australians?

________________________________________________________________________

________________________________________________________________________
Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of this page.

1. Approximately how many people currently live in poverty in Australia?
   a. 730,000
   b. 1.3 million
   c. 2.3 million
   d. 3 million
   e. 3.3 million

2. Approximately how many children currently live in poverty in Australia?
   a. 73,000
   b. 730,000
   c. 1.3 million
   d. 2.3 million
   e. 3 million

3. Which of the following are considered more at risk of living in poverty? (select any that apply)
   a. Sole parent families
   b. People living on social security as main source of income
   c. Couples in full-time employment
   d. People living in rental housing
   e. Jobless households
   f. Indigenous Australians

4. Match the following terms to their correct definitions

   a. Social mobility
   b. Gini coefficient
   c. Living wage
   d. Universal basic income
   e. Poverty line
   f. Income inequality
   g. Wealth inequality

   1. Payment made to all adult individuals that allows people to meet their basic needs – without any means test or activity test
   2. Movement between social strata in a society.
   3. Minimum income necessary for workers to meet their basic needs which include food, housing, and other essentials such as clothing.
   4. Measured on a scale from zero to one. A value closer to zero indicates a more equal distribution of income.
   5. The extent to which income is distributed in an uneven manner among a population.
   6. How much wealth is held by a person or household. Wealth inequality is higher in Australia than income inequality.
   7. Measure based on living below 50% of median income (in 2018, worked out at $433 a week for a single adult living alone; or $909 a week for a couple with two children).

MIXED MULTIPLE CHOICE ANSWERS
a = 6, b = 7, c = a, d = p, e = c, f = p, g = e, h = q, i = q, j = p, k = 1

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After taking account of housing costs, more than one in eight people (13.2%) live below the poverty line in Australia. Disturbingly, the poverty rate among children is much higher, at more than one in six (17.3%). All told, there are 3.05 million people in poverty, including 739,000 children (Poverty in Australia, ACoss/UNSW). (p.1)

Australia remains in the top half of OECD countries with our poverty rate 14th highest out of 36 OECD countries (ibid). (p.1)

Among different family types, sole-parent families have the highest poverty rates at 32%. Children in sole-parent families, with a poverty rate of 39%, are more than three times as likely to live in poverty as their counterparts in couple families (13% of whom are in poverty) (ibid). (pp. 1-2)

Among people in households whose main income is wages, 7% are in poverty. Since most people live in wage-earning households, this group forms a substantial proportion (38%) of all people in poverty (ibid). (p.2)

The poverty line (50% of median income, before housing costs) for a single adult is $433 a week. For a couple with two children, it is $909 a week (Snapshot of poverty in Australia, ACoss/UNSW). (p.3)

The average ‘poverty gap’ (the difference between the incomes of people in poverty and the poverty line) is $135 per week (ibid). (p.3)

53% of people below the poverty line are in households that rely on social security as their main source of income, while 38% rely on wages as their main income (ibid). (p.3)

26% of people in households whose reference person receives an income support payment are living below the poverty line, including 64% of those on Youth Allowance, 55% of those receiving Newstart Allowance, 52% of those on a Parenting Payment, 36% of those on the Disability Support Pension, 17% of those on a Carer Payment, and 12% of those on the Age Pension (ibid). (p.3)

A major source of child poverty is the high poverty rate (32%) among sole parent families, who must generally rely on a single income (ibid). (p.3)

The majority (52%) of people below the poverty line are in rental housing, while 15% of people in poverty are homeowners without a mortgage (ibid). (p.3)

In Australia and globally, inequality continues to grow. Last year (2018) we saw yet another record increase in the number of (mostly male) Australian billionaires, increasing from 33 to 43. Their collective billionaire wealth increased by a massive $36 billion to $160 billion in total. This is equivalent to an increase of $100 million a day. (The inequality that divides us, Oxfam Australia). (p.23)

Credit Suisse data shows that the share of wealth concentrated in the hands of the top 1% of Australians was 22% in 2018. As was the case in previous years, the top 1% of Australians owns more wealth than the bottom 70% of all other Australians combined. This is while worker wage growth remains sluggish and the wealth share of the bottom half of Australians remains stuck at just 9% in 2018 (ibid). (p.23)

In all societies some inequality occurs due to differences in ability, opportunity, effort and luck. Institutional and policy constructs can add to this, or detract from it. Moreover, excessive inequality and entrenched disadvantage can erode social cohesion and hinder growth. It can also sap investment in education and skills and slow productivity growth. Yet there is no precise causative relationship, let alone a consensus on how much inequality matters. It is a topic that continues to draw diverse and competing views (Rising inequality? A stocktake of the evidence, Productivity Commission). (p.26)

What distinguishes Australia from most other developed countries has been its unprecedented 27-year period of uninterrupted economic growth, prompting many to ask how the economic gains from growth have been shared. While growth is no guarantee against a widening disparity between rich and poor, it has delivered for the average Australian household in every income decile, significantly improved living standards (ibid). (p.26)

The HILDA Survey (2018) indicates there has been little net change in income inequality between 2001 and 2016. The Gini coefficient has remained between 0.29 and 0.31 over the entire 16 years of the HILDA Survey (HILDA findings on inequality, Melbourne Institute). (p.38)

The wealthiest 20% own nearly two thirds of all wealth, while the lowest half own just 18% (Inequality in Australia: how equal are we?, ACoss). (p.39)

Australia has a substantial group of people with ultra high wealth – the fifth highest number in the world, equal with France and Canada. In 2017 there were an estimated 3,000 Australians with wealth of more than $US50 million ($A65 million) (ibid). (p.39)

The average wealth of a household in the wealthiest 20% ($2.9 million) is five times that of the middle 20% ($570,000) and almost a hundred times that of the lowest 20% ($30,000) (ibid). (p.39)

Wealth inequality in Australia continues to increase. The average wealth of the highest 20% rose by 53% (to $2.9 million) from 2003 to 2016, while that of the middle 20% rose by 32% and that of the lowest 20% declined by 9% (ibid). (p.39)

Excessive inequality in any society is harmful. When people with low incomes and wealth are left behind, they struggle to reach a socially acceptable living standard and to participate in society. This causes divisions in our society. Too much inequality is also bad for the economy. When resources and power are concentrated in fewer hands, or people are too impoverished to participate effectively in the paid workforce, or acquire the skills to do so, economic growth is diminished (ibid). (p.40)

When direct and indirect taxes are added together the overall tax system is less progressive, but the richest 20% still pay nearly twice as much of their disposable income as do the poorest 20% (Who gets what? Who pays for it?, Peter Whiteford/The Conversation). (p.47)
Absolute poverty
Also known as ‘extreme poverty’, absolute poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services.

Disadvantage
A multi-dimensional concept – poverty, deprivation, capabilities and social exclusion are different lenses with which to view and measure disadvantage. People who are more likely to experience deep and persistent disadvantage include: lone parents; Indigenous Australians; people with a long-term health condition or disability; and people with low educational attainment. Many are public housing tenants and are marginally attached to the labour market.

Financial hardship
Inability to enjoy an adequate material standard of living (in terms of food, shelter, clothing and health) that results primarily from inadequate income.

Gini coefficient
Indicator which measures the inequality of income distribution within a country. It varies from zero (indicates perfect equality, with every household earning exactly the same), to one (implies absolute inequality, with a single household earning a country’s entire income).

Income support
Designed to provide a basic, acceptable standard of living for people unable to fully support themselves. The income support system redistributes income via the tax system (from well-off people to the most disadvantaged), acting as a ‘safety net’ for people not able to support themselves. In Australia, income support payments are subject to means testing to determine eligibility for benefits.

Inequality
A measurable phenomenon that applies to income, wealth, social status, education, health and social outcomes. There is an increasing inequality between rich and poor in Australia which continues to impact on the disadvantaged in a number of ways. Income inequality is the extent to which income is distributed in an uneven manner among a population. Wealth inequality is how much wealth is held by a person or household. Wealth inequality is higher in Australia than income inequality.

Living wage
Minimum income necessary for workers to meet their basic needs which include food, housing, and other essentials such as clothing. The goal of a living wage is to allow workers to afford a basic but decent standard of living.

Material deprivation
The inability for individuals or households to afford those consumption goods and activities that are typical in a society at a given point in time, irrespective of people’s preferences with respect to these items.

Mobility
There are two types of mobility in economic terms: intergenerational (relationship between a person’s economic position and that of their parents); and life course, or intragenerational mobility (changes in an individual’s economic position throughout their life). Social mobility is the movement of individuals, families, households, or other categories of people within or between social strata in a society; it is a change in social status relative to one’s current social location within a given society.

Poverty
State of being without the necessities of daily living, often associated with need, hardship and lack of resources across a wide range of circumstances. For some, poverty is a subjective and comparative term; for others, it is moral and evaluative; and for others, scientifically established. Internationally, people who lack food and shelter for minimal needs are said to be living in absolute poverty. Poverty in Australia, however, is generally relative poverty. People are considered to be poor if their living standards fall below an overall community standard, and they are unable to participate fully in the ordinary activities of society.

Poverty line
Poverty lines are set at minimum income levels considered necessary to achieve a decent standard of living. The two commonly used poverty lines in Australia are 50% of median income and 60% of median income.

Relative poverty
When a group in society receives significantly less than the average person in that society. Poverty can also be measured in relative terms, where the poverty line is set as a proportion of the average income or wealth of the society. There are many different ways to calculate relative poverty, resulting in different levels of poverty; researchers often argue about where the line should be drawn.

Underemployment
The rate of underemployment – which measures workers who have jobs, but are not being offered the hours they need – currently sits at 8.2%. While unemployment goes up and down over time, underemployment has been rising steadily for the past 40 years.

Unemployment rate
The unemployment rate is a figure produced monthly by the Australian Bureau of Statistics. An unemployed person is defined by the ABS as someone not in paid employment who is actively looking for work. Anyone who is doing paid work for at least one hour a week is not considered to be unemployed. People who have been unemployed for a period of 52 weeks or longer are defined as long-term unemployed. The current unemployment rate is 5.2%.

Universal basic income
A UBI is a payment made to all adult individuals that allows people to meet their basic needs – without any means test or activity test.
Websites with further information on the topic

Anglicare Australia  www.anglicare.asn.au
Anti-Poverty Week  www.antipovertyweek.org.au
Australia21  http://australia21.org.au
Australian Bureau of Statistics  www.abs.gov.au
Australian Council of Social Service (ACOSS)  www.acoss.org.au
Australian Council of Trade Unions (ACTU)  www.actu.org.au
Australian Institute of Family Studies  https://aifs.gov.au
Australian Institute of Health and Welfare  www.aihw.gov.au
Australian Productivity Commission  www.pc.gov.au
Brotherhood of St Laurence  www.bsl.org.au
Centre for Independent Studies  www.cis.org.au
Committee for Economic Development of Australia (CEDA)  www.ceda.com.au
Evatt Foundation  www.evatt.org.au
Grattan Institute  www.grattan.edu.au
Institute of Public Affairs  www.ipa.org.au
National Centre for Social and Economic Modelling  www.natsem.canberra.edu.au
Organisation for Economic Co-operation and Development (OECD)  www.oecd.org/australia
Oxfam Australia  www.oxfam.org.au
Salvation Army  www.salvos.org.au
The Australia Institute  www.tai.org.au
The Smith Family  www.thesmithfamily.com.au

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