



**Submission to the Community Affairs References Committee on  
the extent of income inequality in Australia**

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**Combined Pensioners & Superannuants Association of NSW Inc (CPSA)**

**Address:** Level 9, 28 Foveaux Street, Surry Hills NSW 2010 **ABN:** 11 244 559 772

**Phone:** (02) 9281 3588 **Country Callers:** 1800 451 488 **Facsimile:** (02) 9281 9716

**Email:** cpsa@cpsa.org.au **Website:** www.cpsa.org.au **Donations:** 1800 451 488

*CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA has 130 branches and affiliated organisations with a combined membership of over 30,000 people living throughout NSW. CPSA's aim is to improve the standard of living and well-being of its members and constituents.*

Inequality has been rising in most developed countries since the 1970s, with the gap between the haves and the have nots widening. The wealthiest hold increasing shares of income, which has wide-reaching implications for society, not least because of the influence of the wealthy over governments and policy. As Thomas Piketty makes clear in his 'Capital in the Twenty-First Century', concentration of wealth (namely capital) undermines social justice and has serious implications for economic growth.<sup>1</sup>

Whilst incomes in Australia have increased for all households in the past two decades, high-income households have prospered far more than low-income households. Peter Whiteford calculates that between 1994/95 and 2009/10, the richest 20 per cent of households gained 44 per cent of income growth, while the poorest 20 per cent of households gained just 6.4 per cent.<sup>2</sup> Ostry calculates that the richest ten percent of Australians have acquired almost 50 per cent of income growth over the past ten years, with the richest one per cent gaining 22 per cent of that growth.<sup>3</sup> On the other hand, government payments comprise three quarters of the income received by the bottom 20 per cent of households in Australia.<sup>4</sup>

One of the most widely used measures of income inequality, the Gini coefficient, suggests that income inequality in Australia has increased since the 1980s.<sup>5</sup> In 1981/1982, the Gini coefficient was 0.27. In 2008, just before the Global Financial Crisis hit, it was 0.34, but it fell back slightly in 2011/12 to 0.32.

According to OECD data, in 2011 Australia was one of the most unequal countries in the OECD, ranking 24 out of 33 for income inequality, sitting above the OECD average of 0.315.<sup>6</sup> Slovenia was the most equal, with a Gini coefficient of 0.245, followed by Norway, at 0.250.

Australia appears to mitigate income inequality as measured by the Gini coefficient if social transfers and imputed rent are taken into account. Factoring in those measures reduces the Gini coefficient for 2011/12 to 0.226.<sup>7</sup>

Despite social security transfers, Whiteford argues that Australia's social safety net has become less effective in reducing inequality. Because of this decline, Whiteford argues that the best way to avoid poverty in Australia is to have a job.<sup>8</sup> This becomes quite

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<sup>1</sup> Piketty, T., (2014) 'Capital in the Twenty-First Century' Harvard University Press

<sup>2</sup> Whiteford, P. (2013) 'Australia: Inequality and prosperity and their impacts in a radical welfare state' March, HC Coombs Policy Forum, Crawford School of Public Policy, Australian National University College of Asia & the Pacific, p. 70.

<sup>3</sup> Ostry, J., in Douglas, B., Friel, S., Denniss, R., and Morawetz, D. (2014) 'Advance Australia Fair? What to do about growing inequality in Australia' Australia 21, Australian National University, The Australia Institute, p.13

<sup>4</sup> Ibid.

<sup>5</sup> ABS (2013) '6523.0 - Household Income and Income Distribution, Australia, 2011-12'

<http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6523.0Main%20Features22011-12?opendocument&tabname=Summary&prodno=6523.0&issue=2011-12&num=&view=>

<sup>6</sup> OECD (2014) 'Income inequality update (June 2014)' Source: OECD Income Distribution Database [www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm)

<sup>7</sup> Ibid.

<sup>8</sup> Whiteford, Ibid.

obvious when looking at the diminishing value of Australia's unemployment benefit, Newstart. Newstart is only indexed to the Consumer Price Index (CPI) unlike pension payments, which have largely risen in line with Male Total Average Weekly Earnings (MTAWE) since 1997.<sup>9</sup> Newstart has consequently lost its value dramatically over time, and now sits well below the poverty line. Its recipients are forced to adopt a lower standard of living compared with the rest of the community by virtue of the payment failing to keep up with wages. Australia's social security system, therefore, is not preventing poverty, particularly for the unemployed.

### **Impact of income inequality on health and housing**

There is a host of evidence suggesting that people with low incomes have poorer health outcomes. Low-income households report higher rates of heart disease, diabetes, cancer and depression than high-income people.<sup>10</sup> Low-income people are less likely to consult a specialist or other health professional than high-income people (30.1% & 16.7% versus 35.7% & 24.3% respectively). While low-income people are slightly more likely to consult a GP compared with other groups (84% versus 83.8%), low-income people are more likely to be admitted to hospital than high income groups (14.1% versus 11.1%). Low-income people are less likely to have consulted a dentist (35.9% versus 59.2%).<sup>11</sup>

These data are not broken down by age. Older people tend to be on lower-incomes than younger people and also have a higher use of the healthcare system than younger people, so it is likely that older, low-income people are overrepresented in these health statistics. But that does not negate the point that low-income people are less likely to access health professionals because of cost and it stands to reason that this may negatively impact their health.

The Commonwealth Fund's study comparing the US health system internationally shows that while Australia is not a poor performer overall, its health system falls short in the areas of access and equity. The study found that Australia scored the second worst in cost-related access issues (with the US the worst performer), with 36% of patients experiencing problems when they had a medical issue because of cost.<sup>12</sup>

Added to poor health care access are higher rates of unhealthy behaviours among low-income people. Low-income people are more likely to be regular smokers than higher-income people. In 2010, 25 per cent of people in the lowest socioeconomic quintile smoked compared with about 12 per cent in the highest socioeconomic quintile.<sup>13</sup> People

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<sup>9</sup> Ibid. p. 68.

<sup>10</sup> Korda, R. (2012) 'Social determinants of health: what the data tell us' *Our health, our community: Health consumer and community leader's workshop* Presentation, Sydney 7 March, Australian National University

<sup>11</sup> ABS (2013) 'Australian Health Survey: Health Service Usage and Health Related Actions, 2011-12 - Australia

<sup>12</sup> Davis, K., Schoen, C., Stremikis, K. (2010) 'Mirror, Mirror on the Wall: How the Performance of the US Health Care System Compares Internationally' 2010 Update, p. 11

<sup>13</sup> Australian Institute of Health and Welfare (2012) 'Australia's health 2012' *Australia's health series* no.13, Cat. no. AUS 156. Canberra, p. 7.

living in low-socioeconomic areas are more likely to be obese compared with high socioeconomic areas (33% versus 19%).<sup>14</sup> On the other hand, drinking alcohol at harmful levels was more common in wealthier areas (13% versus 10% in low-socioeconomic areas).

There is a relationship between income inequality and health inequality. Income should not determine health status but the evidence suggests that it has a strong influence in Australia. While the factors contributing to poorer health outcomes among low-income people are complex, governments cannot ignore the contributions income inequality has to the health of the nation.

## Housing

Housing stress has increased for all income groups, but is mostly concentrated at the lower end, with two in five of the housing stressed being low-income households.<sup>15</sup> Lack of affordable housing is seeing low-income Australians, particularly those who don't own their own home, pushed further and further to the margins.

The chronic undersupply of social housing has meant that it has become a tightly rationed resource, with around 225,000 households nation-wide waiting for social housing. Consequently most people in public housing are on very low incomes, placing financial pressure on public housing systems because of the deep subsidies needed for public housing tenants. State housing authorities often respond to this problem by selling off stock to raise money for maintenance, which reduces supply even further. It is a vicious spiral. Community housing, on the other hand, benefits from access to Commonwealth Rent Assistance (CRA) and the ability to borrow money from the banks. This has allowed community housing providers to build more housing. However, public housing forms the lion's share of social housing in Australia and its demise has contributed greatly to the sector's supply woes.

Low-income households are more likely to rent than their higher-income counterparts. The proportion of low-income households renting increased between 2007/08 and 2011/12 from 32% to 34%.<sup>16</sup> In 2011/12, more than half of the low-income households renting in the private market were experiencing housing stress.<sup>17</sup> Another concern is that although older people have traditionally had high rates of home ownership, this trend is plateauing.<sup>18</sup> Increasing numbers of older people entering their retirement renting raises concerns over the adequacy of retirement income policy now that its fourth pillar – home

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<sup>14</sup> ABS (2010) '4102.0 - Australian Social Trends' March, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features30Mar+2010>

<sup>15</sup> AIHW (2013) 'Housing assistance in Australia 2013', Cat. no. HOU 271. Canberra, p.43

<sup>16</sup> Ibid.

<sup>17</sup> Ibid., pp. 43-44

<sup>18</sup> CPSA (2014) 'Affordable housing for older people and people with a disability in NSW'

ownership – is no longer a given. Renting in retirement also means a lack of security of tenure, which causes anxiety, particularly among older people.<sup>19</sup>

There has been an increase in homelessness among older people. Between 2001 and 2006, the rate of homelessness among the general population rose by 5%. However, homelessness among those aged 65 and over rose by 23% during that time. The homelessness rate among those aged between 50 and 64 rose by 36%.<sup>20</sup>

More than 105,200 people were homeless on Census night in 2011.<sup>21</sup> Low-income people in insecure housing (which includes private rentals) are more susceptible to homelessness. The lack of social housing and other affordable housing options increases the risk of low-income Australians becoming homeless.

## Indigenous Australians

In 2011, the mean equivalised income for Indigenous Australians was 59% of that of non-Indigenous Australians at \$475 per week.<sup>22</sup> This dramatic difference in income is likely to be related to high unemployment rates among Indigenous people aged between 15 and 64, which are four times that of non-Indigenous Australians.<sup>23</sup> There is also inequality geographically when it comes to participation in the labour force, with Indigenous Australians living in remote areas more likely to be unemployed compared with those living in non-remote areas.<sup>24</sup>

As discussed above, the best way to avoid poverty in Australia is to have a job. However, Indigenous Australians are hugely overrepresented in the unemployment figures. High rates of unemployment can be attributed to, in part, poor health and disability experienced by a large proportion of Indigenous Australians.<sup>25</sup>

The gap in life expectancy between Indigenous and non-Indigenous Australians is perhaps the strongest indicator of inequality. Indigenous men have a life expectancy of 69.1 years, which is estimated to be 10.6 years lower than non-Indigenous men. For women, the gap is 9.5 years, with Indigenous women's life expectancy sitting at 73.7 years, compared with non-Indigenous women at 83.2 years.<sup>26</sup> Indigenous Australians are

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<sup>19</sup> AHURI (2010) 'The health impacts of housing: towards a policy-relevant agenda', p. 21

<sup>20</sup> Stubbs, J., (2014)

<sup>21</sup> Ibid. p.41

<sup>22</sup> ABS (2012) 'Census of population and housing: characteristics of Aboriginal and Torres Strait Islander Australians, 2011' Canberra

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.,

<http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4727.0.55.006~2012%E2%80%93Main%20Features~Labour%20force%20characteristics-17>

<sup>25</sup> Australian Human Rights Commission (2008) 'A statistical overview of Aboriginal and Torres Strait Islander peoples in Australia: Social Justice Report 2008' <https://www.humanrights.gov.au/publications/statistical-overview-aboriginal-and-torres-strait-islander-peoples-australia-social#Heading342>

<sup>26</sup> ABS (2013) '3302.0.55.003 - Life Tables for Aboriginal and Torres Strait Islander Australians, 2010-2012' <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/3302.0.55.003Media%20Release12010-2012?opendocument&tabname=Summary&prodno=3302.0.55.003&issue=2010-2012&num=&view=>

half as likely as non-Indigenous Australians to report 'excellent' or 'very good' health. They are more likely to be obese and have diabetes, kidney disease, heart disease, vascular disease, high blood pressure and experience strokes.<sup>27</sup> Considering the strong relationship between health and income, much more needs to be done to improve health outcomes for Indigenous Australians if Australia is going to reduce income inequality.

### **Older people and people with a disability**

Older people and people with a disability are generally on lower incomes than the rest of the community, largely because they are reliant on government transfers as their main source of income.

A key concern for CPSA is the large number of people aged between 50 and 64 who are unemployed. As at June 2012, there were 102,634 long-term unemployed people aged 50 or over receiving Newstart.<sup>28</sup> This is alarming not only because Newstart is set at a rate well below the poverty line, but also because many in this group may be drawing on superannuation balances to get by. Long-term unemployment for the over 50s greatly hampers preparation for retirement, increasing the risk of poverty in retirement.

For people with a disability, the situation is grimmer. According to the ABS, Australia has one of the highest unemployment rates of people with a disability in the OECD, falling behind the US, the UK and Mexico. Only 54% of people with a disability aged between 15 and 64 are in the workforce.<sup>29</sup> People with a disability are more likely to be working part time. Women are overrepresented among those unemployed with a disability, comprising 67% of this cohort.<sup>30</sup>

Women are also disadvantaged when it comes to retirement incomes. As at 2011/12, only 10.5% of women reported superannuation as their main source of retirement income, compared with 18.8% of men. Of women aged between 15 and 69, 26.5% reported no superannuation, whereas for men that figure was 19.4% (as at 2007).<sup>31</sup>

Average superannuation balances as at 2011/12 were almost double for men what they were for women at \$82,615 and \$44,866 respectively.<sup>32</sup>

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<sup>27</sup> Ibid., <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4727.0.55.006main+features12012-13>

<sup>28</sup> FaHCSIA (2012) 'Income Support Customers: A Statistical Overview 2012' Statistical Paper 11

<sup>29</sup> ABS (2012) 'Disability and work'

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4102.0Main+Features40March+Quarter+2012#unemp>

<sup>30</sup> Ibid.

<sup>31</sup> ABS (2013) 'Gender indicators - superannuation'

<http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4125.0main+features1230Jan%202013>

<sup>32</sup> Clare, R., (2014) 'An update on the level and distribution of retirement savings' Association of Superannuation Funds Australia, March p. 3

Lower rates of pay as well as longer periods of time taken out of the workforce to undertake caring roles are taking their toll on women's retirement incomes. Considering that women spend longer periods of time in retirement than men, it is incumbent on governments to close this gap to prevent women from living in poverty in retirement.

## **Budget proposals**

It has been broadly recognised that the 2014/15 Federal Budget will extend inequality in Australia, particularly the social security and Medicare proposals. The OECD's report on fiscal consolidation suggests that because Australia tightly targets its social security system to the poorest households, reducing social security spending would increase inequality.<sup>33</sup> Nobel-Prize winning economist Professor Joseph Stiglitz criticised the Budget for increasing inequality stating that the \$7 GP co-payment will 'price poor people out of the healthcare system'.<sup>34</sup>

## **GP co-payment & PBS changes**

As discussed above, low-income people tend to visit a GP at slightly higher rates than average and evidence suggests that most bulk billing for GP visits takes place in low socioeconomic areas. Medicare data from 2010/11 shows that electorates with low-income profiles record higher rates of bulk billing compared with electorates with high-income profiles. The poorest ten electorates have an average bulk billing rate of 96.05%, while the richest ten have a bulk billing rate of 74.8%.<sup>35</sup>

This suggests that the GP co-payment will have a disproportionate effect on low-income households, not only because they would spend a larger proportion of their income on the co-payment than wealthier households, but also because they are more dependent on access to free GPs.

This is important because it means that the price signal itself is inequitable. For high-income groups, \$7 would barely register a blip on their radar. But for low-income groups, \$7 may well see them reaching for the emergency button.

International evidence shows that good healthcare systems have good primary healthcare access.<sup>36</sup> Even though concession card holders will have their GP co-payments capped at ten per year, that impost will still make basic healthcare more unaffordable. The \$7 co-payment is in addition to increases in the PBS co-payment (from

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<sup>33</sup> OECD (2013) 'The equity implications of fiscal consolidation' [http://www.oecd-ilibrary.org/economics/the-equity-implications-of-fiscal-consolidation\\_5k4dlvx2wjq0-en](http://www.oecd-ilibrary.org/economics/the-equity-implications-of-fiscal-consolidation_5k4dlvx2wjq0-en), p.7

<sup>34</sup> Martin., P. 'Nobel prize-winning economist Joseph Stiglitz says Abbott government budget changes are 'a crime' *Sydney Morning Herald* 3 July 2014, <http://www.smh.com.au/federal-politics/political-news/nobel-prizewinning-economist-joseph-stiglitz-says-abbott-government-budget-changes-are-a-crime-20140702-3b8vb.html#ixzz3ALJWd200>

<sup>35</sup> <http://www.smh.com.au/federal-politics/6-bulkbilling-fee-hits-poor-spare-rich-20140425-zqzmy.html>

<sup>36</sup> *Ibid.* pp. 14-15



\$6.10 per script to \$6.90, and the safety-net threshold rising from 60 scripts per year to 68). Researchers from the University of Sydney found that people aged 65 and over (and who hold a concession card) would be, on average, \$122 per year worse off because of the Budget changes to Medicare and the PBS.<sup>37</sup>

The researchers argue that these increased costs would deter more people from seeing a doctor. Already 13% of Australians delay seeing a GP because of cost and 15% delay getting prescriptions filled for the same reason.<sup>38</sup> The GP co-payment and increases in PBS costs will likely worsen these statistics. The GP co-payment will also have a greater impact in rural and regional areas because of the larger cost worn by country GPs who waive the fee.<sup>39</sup> Co-payments have also been found to not necessarily save governments money; to the contrary, healthcare spending may rise because of an increase in preventable hospitalisations of patients who deferred seeing a GP.<sup>40</sup>

The GP co-payment will funnel money into a medical research fund which will no doubt be tasked with trying to help future populations with health conditions that may have been prevented with a test, screen, or earlier diagnosis.

There is little doubt that the GP co-payment and increases in PBS costs will worsen health inequalities experienced by low-income people. The Australian Government should encourage low-income groups to visit their GP regularly and get medications, pathology tests, scans and x-rays in a timely fashion. These Budget proposals will do the reverse.

## **Social security changes**

There are several Budget changes to the social security system that will worsen inequality in Australia. CPSA will focus on two in this submission: the changes to the Newstart Allowance for young people and restricting indexation of pensions to CPI.

### **Newstart**

Imposing a 6-month waiting period for Newstart on young unemployed people not engaged in study is arguably the most draconian reform to Australia's social security system since its commencement more than 100 years ago. 113,000 young people are expected to be affected by this measure in its first year from 1 January 2015. Obviously, this group will experience severe financial hardship because they have no income. They will likely lose their housing, be unable to feed and clothe themselves, travel anywhere,

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<sup>37</sup> Bayram, C. & Harrison, C., Miller, G., Britt, H. (2014) 'Estimated impact of proposed GP, pathology and imaging co-payments for Medicare services, and the increased PBS threshold' *Byte from BEACH*. no 2014;3, Family Medicine Research Centre, Sydney School of Public Health, University of Sydney.

<sup>38</sup> *Ibid.* p. 14

<sup>39</sup> *Ibid.* p.14

<sup>40</sup> *Ibid.* p.15

purchase medications, visit a health professional – the list goes on. How can someone look and apply for work when they do not have a roof over their head, food to eat or money to travel to a job interview?

The point of a social security system is to provide assistance when it is needed. A young unemployed person has just as much need of a basic level of income as an older unemployed person. This proposal destroys the social safety net for young people. It is difficult to think of a single more effective measure in increasing inequality in Australia than this Dickensian policy.

## **Pension indexation**

Indexing pension payments to CPI alone will increase inequality over time. This proposal will further concentrate income inequality amongst older people, people with a disability and carers, who tend to rely on pensions as their sole source of income. Sole parents will also be hard hit.

CPSA estimates that indexing the pension to CPI alone will result in a \$100 per week drop in the single pension's relative value over a ten year period.<sup>41</sup> The historic \$30 per week pension increase delivered in 2009 in recognition of the inadequacy of the single pension will effectively be removed in just three or four years. The pension will fall below community living standards just as Newstart has. Even the Australian Government's own Commission of Audit recommended that pension payments be indexed in line with wages, recognising that "pensions should have regard to community standards through benchmarking to wages."<sup>42</sup> More worryingly, the pension will once again join Newstart sitting below the poverty line.

Poverty is not simply having an inadequate income to purchase basic goods and services. It is also the inability to maintain a standard of living that is in line with the broader community.

It should be noted that the indexation changes will have a devastating impact on pensioners renting in the private rental market. Commonwealth Rent Assistance is only indexed to CPI and its value has declined substantially over time in the face of market rent increases. As at June 2011, 442,000 Age and Disability Support Pensioners received CRA, paying average rents of \$175 per week.<sup>43</sup> If pensions are also to be tied to CPI alone, pensioners renting privately will find it even more difficult to cover rent increases and risk losing their homes.

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<sup>41</sup> CPSA modelling available upon request.

<sup>42</sup> National Commission of Audit (2014) '7.1, Age Pension' Department of Finance, <http://www.ncoa.gov.au/report/phase-one/part-b/7-1-age-pension.html>

<sup>43</sup> ABS (2012) '1301.0 Year Book Australia, 2012' <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/1301.0Main+Features1332012>

## Principles of a fair social security system

All members of a society should be able to access social security if they need it. Australia has the most targeted welfare system in the OECD, with the lowest-income Australians being by far the greatest beneficiaries of social assistance.<sup>44</sup> Targeting assistance at those most in need is a principle Australians generally accept. However, such a system can produce an 'underclass' who, despite being greatly exposed to any policy change in the social security system, often lack the political voice to influence or campaign against such change.

Social security should be provided to those who require it, when they require it. Social security payments should be adequate to live on. CPSA does not subscribe to the view that inadequate payments encourage self-reliance. Rather, CPSA shares the view of many stakeholders across social welfare and business communities alike that inadequate social security payments entrench disadvantage. The use of discretion in the administration of social security should be avoided; the rules about access should be clear and independent of the opinion of the individual administering the system on the day. Social security should be easy to access and information should be provided to recipients in a clear and straightforward manner.

In light of these views, CPSA calls for the independent setting of income support payment amounts. This would remove the political element that has influenced the setting of payment rates for some time now, notably the unspoken distinction between the 'deserving and undeserving poor'. It is incomprehensible that a Newstart payment some \$166 per week less than a pension payment is still considered 'adequate'<sup>45</sup> when the single pension was increased in 2009 because of its inadequacy. Although Newstart is meant to be a temporary payment, there are 330,477 long-term recipients of Newstart, having received the payment for more than 12 months. 106,491 people have received Newstart for more than five years.<sup>46</sup> Most long-term Newstart recipients are aged between 18 and 24 (23.2%) and 50-59 (16.6%). 8.2% are aged over 60.<sup>47</sup> Newstart is no longer a temporary payment to tide people over between jobs. A sizeable cohort is trying to etch out a living on it for many years and it needs to be increased. If Australia had an independent body setting payment amounts, Newstart would have been lifted long ago.

CPSA believes that this independent body should also be responsible for deciding on conditions attached to payments so that they too reflect evidence-based policy, rather than the politics of the day.

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<sup>44</sup> OECD, *ibid.*

<sup>45</sup> Andrews, K. (2014) 'Address to the Melbourne Institute 2014 Economic and Social Outlook Conference' 3 July, Grand Hyatt, Melbourne

<sup>46</sup> Families, Housing, Community Services & Indigenous Affairs (2012) 'Income support customers: a statistical overview 2011' Statistical Paper No. 12, p. 45

<sup>47</sup> *Ibid.*

## Measures to address inequality

There is obviously no silver bullet to addressing income inequality in Australia as it is the result of myriad economic and social factors. However there are several policy reforms that could make a start.

One of the most important steps to be taken to address inequality in Australia is to increase allowance payments by at least \$50 per week. Base social security payments should be indexed to wages, as opposed to CPI alone. Equally, CRA should be indexed in accordance with market rents so that CRA maintains its value over time and reduce the likelihood of low-income households being (further) priced out of their rental housing. The Australian Government should investigate setting CRA according to geographic area, recognising the varying market rents in different regions.

CPSA calls for a greater focus on the structural barriers to employment faced by the long-term unemployed. The Australian Government should focus on job creation strategies to address long-term unemployment, particularly for Indigenous people, people living in regional and remote areas, people with a disability, and people aged over 45. A lack of employment opportunities is the prime reason for long-term unemployment and no amount of cutting of income support payments will address that problem.

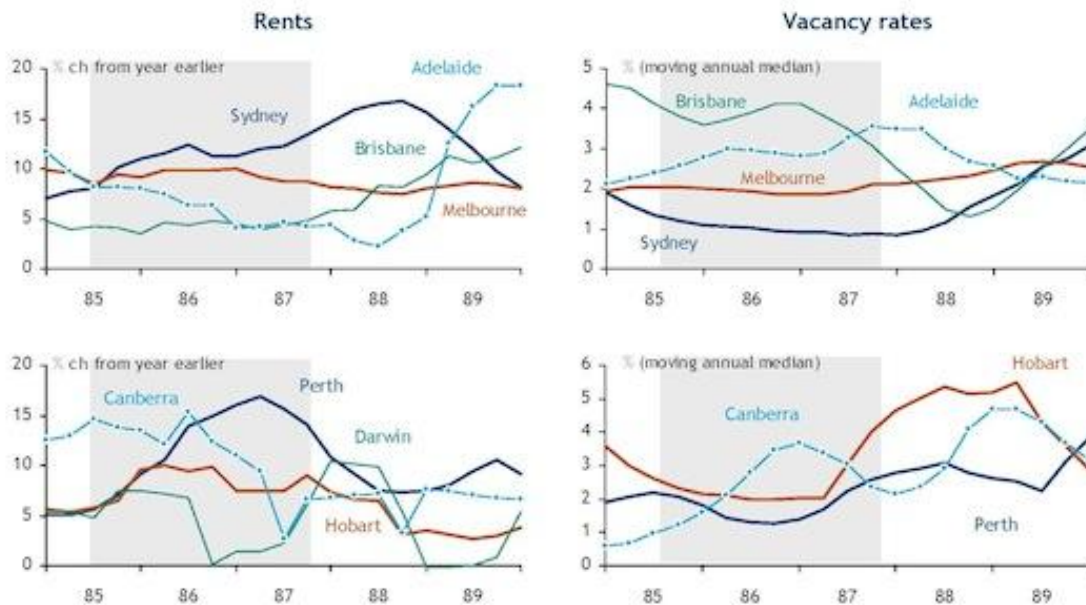
To increase income equality, policies which benefit high-income households at the expense of low-income households should be avoided. Negative gearing is a prime example of such a policy. Negative gearing mostly benefits high-wealth householders who enjoy generous tax breaks by effectively inflating house prices to the point where low- and middle-income householders are priced out of the housing market.

Supporters of negative gearing argue that it should not be touched because any tightening of negative gearing rules would trigger a rental housing shortage. Economist Saul Eslake provides evidence that this would not be the case, disputing the oft-used argument that rents rose when the Hawke Government abolished negative gearing in 1986. Eslake shows that while rents rose in Sydney and Perth at that time, this was because of uncommonly low vacancy rates. In other cities, rents stayed the same and in Melbourne, they decreased (see graph below).<sup>48</sup>

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<sup>48</sup> Saul Eslake (2013) '50 Years of Housing Failure' Address to the 122nd Annual Henry George Commemorative Dinner The Royal Society of Victoria, Melbourne, <http://www.prosper.org.au/2013/09/03/saul-eslake-50-years-of-housing-failure/>

## The assertion that the abolition of negative gearing in the mid-80s caused a “landlords’ strike” is an urban myth



Note: Shaded area denotes the period (from July 1985 until September 1987) in which negative gearing was not available for property investments. Sources: ABS; Real Estate Institute of Australia.

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Source: Saul Eslake (2013).<sup>49</sup>

This suggests that limiting negative gearing would not have the doomsday effect that is often spouted by its proponents and should be explored as a way of both boosting Government revenue and alleviating upward pressure on house prices.

Australia’s tax system should be fair so that revenue is not depleted to the point where spending must be drastically cut. Spending cuts tend to disadvantage low-income people who are more dependent on government transfers while tax cuts tend to benefit high-income households. This widens inequality. Australian taxes are comparatively low; Australia is the fifth-lowest taxing country in the OECD.<sup>50</sup> Australia’s tax system is also progressive, where 57.5% of personal income tax was paid by 17.4% of tax payers

<sup>49</sup> Ibid.

<sup>50</sup> Treasury (2013) 'Pocket Guide to the Australian Tax System' <http://www.treasury.gov.au/Policy-Topics/Taxation/Pocket-Guide-to-the-Australian-Tax-System/Pocket-Guide-to-the-Australian-Tax-System/Part-1>

earning over \$80,000 per annum.<sup>51</sup> The question is: is our tax system as fair as it could be for low-income earners?

Perhaps the answer lies in tax concessions. Australia spends the largest amount on tax concessions in the OECD as a proportion of GDP (8%).<sup>52</sup> Tax expenditures are not necessarily a bad thing; they can be used to further policy objectives, such as saving for retirement. However, they can be inequitable when they overwhelmingly favour high-income earners and deplete government revenue without a corresponding reduction in government spending.

Superannuation illustrates this worst-case scenario perfectly. This financial year, Australia is set to spend almost \$38 billion in superannuation tax concessions and high-income earners will be the major beneficiaries with the top 10% of income earners receiving 38% of the benefit.<sup>53</sup> Despite this mammoth spending on super, by the 2060s, take-up rates of the Age Pension will remain about the same as they are now, at 80 per cent.<sup>54</sup> The proportion of full-rate pensioners will decline and part-rate pensioners will increase, but overall pension rates will remain static. A key reason for this somewhat startling statistic is that low-income earners will not be able to accumulate sufficient super to fully-fund their retirement, even after a full-working life with the Superannuation Guarantee. The Age Pension will still form their primary source of retirement income for low-income earners.

Is Australia therefore getting bang for its buck in super? The evidence suggests not. However, reform of superannuation tax concessions must not be done in isolation. If tax concessions are taken away from high-income earners within the super system without broader tax reform, they will simply chase tax concessions elsewhere. Wider tax reform is required in order to reduce tax minimisation opportunities and boost government revenue. This would reduce pressure on governments to reduce social services spending.

These are just some measures that could help alleviate income inequality in Australia. Investment in public health and education is also critical in reversing the growing trend of income inequality. As a starting point, Australia's tax and transfer system should be designed so that it minimises inequality. It would appear that Australia is not there yet and indeed, on the verge of moving farther away.

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<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Treasury (2012) 'Distributional analysis of superannuation tax concessions' <http://www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/Distributional-analysis-of-superannuation-taxation-concessions>

<sup>54</sup> National Commission of Audit (2014).