

# Chapter 1

## Introduction: why does income inequality matter?

*The form of law which I propose would be as follows: In a state which is desirous of being saved from the greatest of all plagues—not faction, but rather distraction—there should exist among the citizens neither extreme poverty nor, again, excessive wealth, for both are productive of great evil...Now the legislator should determine what is to be the limit of poverty or of wealth. (Plato)*

### Background

1.1 This inquiry is concerned with the extent of income inequality in Australia. Primarily, this relates to the gap between those with the highest and the lowest incomes in Australia, as well as the distribution of incomes across the wage-earning population. Secondly, the inquiry is focussed on the impact that this inequality has on specific disadvantaged groups in Australian society—those with low or no income. It is particularly concerned with the ability of these groups to access health services, housing, education and employment. Thirdly, the committee is directed to examine the likely impact of government policies on current and future income inequality, and the practical measures that government could put in place to alleviate income inequality.

1.2 By necessity, the committee has covered considerable terrain in this inquiry. The extent of income inequality and its effects and possible remedies relates to several policy areas, many of which involve all three levels of government. The committee has gathered evidence on personal and company taxation, wages and superannuation policy, social security payments, employment, the systems of public education and health (including mental health), transport, housing and indigenous affairs. Governments must recognise that just as the causes of income equality are varied and interconnected, so too will the solutions to addressing disadvantage require a multi-pronged approach that considers both the short and the long-term costs and benefits.

1.3 This chapter precludes the content of later chapters by asking the key question; why does income inequality matter? There has been considerable discussion in recent years—both in Australia and overseas—about the extent, the causes and the impact of income inequality and what, if anything, should be done to address it. Various issues that relate to income inequality have been the subject of public debate in Australia in recent years:

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- the level of, and growth in, executive pay;<sup>1</sup>
  - tax avoidance (particularly by the wealthy and large companies);<sup>2</sup>
  - sharing the economic benefits of the mining boom;<sup>3</sup>
  - cost of living pressures;<sup>4</sup>
  - the high cost of housing and the use of negative gearing as an investment strategy;<sup>5</sup>

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1 See 'CEO Pay in ASX 200 Companies', 13<sup>th</sup> Annual ACSI Survey of Chief Executive Remuneration, September 2014, [http://www.acsi.org.au/images/stories/ACSIDocuments/ceo\\_pay\\_in\\_the\\_top\\_200/CEO%20Pay%20in%20Top%20200%20Companies%202012.Sep13.pdf](http://www.acsi.org.au/images/stories/ACSIDocuments/ceo_pay_in_the_top_200/CEO%20Pay%20in%20Top%20200%20Companies%202012.Sep13.pdf) (accessed 27 November 2014).

2 Since 2006, the Australian Taxation Office, the Australian Federal Police and the Australian Crime Commission have led Project Wickenby, a taskforce aimed at fighting tax evasion, tax avoidance and crime. Project Wickenby has helped make a number of high profile prosecutions. As of 31 August 2014, Project Wickenby has raised \$1.991 billion in tax liabilities, completed 4,343 audits and convicted 44 people. See: <https://www.ato.gov.au/General/The-fight-against-tax-crime/News-and-results/Project-Wickenby---getting-results/> (accessed 27 November 2014).

3 On 19 March 2012, the previous Labor Government implemented the Mineral Resources Rent Tax (MRRT). The tax was a profits-based tax that aimed to deliver a fairer share of revenue from the sale of non-renewable resources. The tax was repealed by the Coalition Government in 2013. There has been a broader debate about whether Australia has made the most from the resources boom in terms of saving for the future and using tax windfalls to invest in productive activities. A number of commentators proposed a savings and investment vehicle along the lines of a sovereign wealth fund to better manage the resources boom. See: <http://www.treasury.gov.au/PublicationsAndMedia/Publications/2012/Economic-Roundup-Issue-2/Report/Sovereign-wealth-funds-and-the-exchange-rate> (accessed 27 November 2014).

4 Cost of living pressures have been a recurrent theme in Australian politics over the past decade in particular. In recent years, attention has focussed on the sharp rise in the cost of utility services, particularly electricity. There has been strong criticism of these increases and the effect they have on low income earners in particular. Over the past 12 months, the National Australia Bank's *Consumer Anxiety Index* has consistently found that cost of living was the principal source of anxiety. This inquiry has also considered the evidence on the extent to which basic necessities have increased in price over the past few years (see evidence from Queensland Council of Social Service at the Brisbane hearing, the Western Australian Social of Social Service at the Rockingham hearing and the evidence of Mr Brendan Churchill at the Hobart hearing).

5 Housing affordability has been a highly publicised issue over the past decade. Rising house prices across the country—but particularly in the capital cities—have fed fears that younger generations will be permanently priced out of the market. There are a number of demand and supply-side factors at work. In terms of demand, attention has focussed on the vehicle of negative gearing, which allows rental investors to offset their losses against their income (thereby allowing the investor to hold an appreciating asset). There has also been recent discussion of the effect that overseas buyers have had on the inflating the residential property market. In terms of supply, attention has focussed on land shortages, government and developer charges and zoning laws.

This inquiry has focussed on the issue of housing in the context of both the private rental market and social housing options.

- a funding model for schools and equitable access to tertiary education;<sup>6</sup>
- access to General Practitioner services for low income people;<sup>7</sup>
- the options for a paid parental leave scheme and greater public investment in childcare;<sup>8</sup>
- the challenge of living on *Newstart* benefits;<sup>9</sup> and
- the increase in the number of people on the Disability Support Pension.<sup>10</sup>

1.4 This inquiry and report is therefore particularly timely and aims to provide some perspective to the Australian debate on a wide range of issues.

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6 In December 2011, the *Review of Funding for Schooling* ('the Gonski Review') was provided to the federal government. The review looked at the issue of equity and disadvantage in Australian schooling. It noted that 'maintaining a fair and inclusive education system is one of the most powerful levers available to make society more equitable' (page 107). However, the Review emphasised that Australia's schooling system is characterised by a strong concentration of disadvantaged students in certain schools, and conversely, a strong concentration of advantaged students in other schools. Chapter 3 of this report looks at the findings—and the government's response—to the Gonski Review.

7 The 2014 federal budget proposed a \$7 co-payment for a visit to a General Practitioner. This committee recommended in August 2014 that the Government not proceed with further co-payments and that the Government 'should undertake a comprehensive review of the impact of existing co-payments on individuals' access to health services and health outcomes'. See: [http://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Community\\_Affairs/Australian\\_healthcare/~media/Committees/clac\\_ctte/australian\\_healthcare/report.pdf](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Australian_healthcare/~media/Committees/clac_ctte/australian_healthcare/report.pdf) (accessed 27 November 2014).

8 The Coalition contested the 2013 election offering a Paid Parental Leave Scheme. The Scheme would pay women 26 weeks' salary at their full wage, capped at \$50 000. The projected cost of the scheme is \$5.5 billion with a proposed start date of 1 July 2015. The legislation for the Scheme has not yet been introduced into the Parliament.

Apart from the expense of the Coalition's Scheme, it also generated debate on the need for more investment in childcare and early learning facilities to allow working mothers to return to work. On 31 October 2014, the Government announced the completion of the Productivity Commission's inquiry into Childcare and Early Childhood Learning. The Government is currently considering its response to the report with the Minister anticipating a response by the end of 2014.

9 There was public discussion in early 2013 about the ability of *Newstart* recipients to make ends meet on \$35 a day. This inquiry has also considered recent research and stakeholders' views on the challenges of living on the *Newstart* benefit. The issue was given further attention after government's May 2014 budget announcement proposing withholding an eligible *Newstart* recipient's benefits for six months.

10 On 23 May 2014, *The Daily Telegraph* reported that 1 in 10 people in some regions of New South Wales now rely on the Disability Support Pension. It also noted that since 2001, successful mental health claims for the DSP have jumped from 140 965 to 256 380. The paper's editorial of that day stated: 'The number of disability claimants in NSW alone is already greater than the number of Australian servicemen and women who have been injured fighting in wars for their nation since the late 1880s'. The 2014 federal budget proposed introducing requirements, such as work-focused activities, for DSP recipients with the aim of increasing DSP recipients' chances of finding and keeping a job.

## Why does income inequality matter?

1.5 Why inquire into the extent of income inequality in Australia? Should the gap between the richest and poorest and the distribution or spread of incomes across society be a matter of concern for government and policymakers? Does it matter that the average full-time adult Australian worker earns \$78 878 per annum while the average compensation package for an Australian ASX 200 Chief Executive Officer is more than 60 times that amount at \$4.84 million per annum?<sup>11</sup> Does it matter that this compensation package for an ASX 200 CEO is 145 times that of a worker on the minimum wage?<sup>12</sup> Would it matter if these differentials grew even further to a factor of 200, or beyond?

1.6 There are a range of views as to whether, and if so, why income inequality matters. The arguments run along political and ideological lines. At one pole are those who dismiss distributional concerns as a matter for the market to determine, not government. At most, they support a minimalist welfare system. At another pole are those who see inequality as morally problematic and who emphasise that a more equal society increases overall wellbeing.<sup>13</sup> There are various views between these positions:

- that it is the alleviation of poverty that matters, rather than inequality;
- that policy-makers should be focussed on addressing the causes and consequences of income inequality, rather than the gap *per se*; and
- that governments need to implement measures that directly reduce income inequality because of the negative effects of significant inequality on:
  - economic growth and productivity;
  - individuals' physical and mental wellbeing;
  - societal cohesion and stability; and
  - the functioning of the polity and the health of liberal democracies.

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11 The figure for CEO pay is taken from the most recent Australian Council of Superannuation Investors Survey. 'CEO Pay in ASX 200 Companies', 13<sup>th</sup> Annual ACSI Survey of Chief Executive Remuneration, September 2014, p. 24.

The figure for an average full-time adult worker was extrapolated from the ABS' Average Weekly Earnings Survey. Australian Bureau of Statistics, *Average Weekly Earnings*, Cat. No. 6302.0, May 2014, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0> (accessed 15 October 2014).

12 The minimum wage is \$640.90 a week or \$33 327 per annum. This figure is based on the Fair Work Commission's *National Minimum Wage Order 2014*, [https://www.fwc.gov.au/documents/sites/wagereview2014/decisions/c20141\\_order.pdf](https://www.fwc.gov.au/documents/sites/wagereview2014/decisions/c20141_order.pdf) (accessed 15 October 2014).

13 For a good summary of this position, see Andrew Leigh, 'Consequences of inequality', *The Monthly*, 8 July 2013. See also the comments of Professor Roger Wilkins in his submission to this inquiry. He writes: 'My own view is that the primary argument against inequality is that it directly lowers social welfare—that is, reduces the overall subjective wellbeing of the population'. *Submission 7*, p. 1.

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### *Poverty, not inequality and the importance of economic growth*

1.7 Some argue that income inequality should not and does not matter. Martin Feldstein, a Professor of Economics at Harvard University and a former adviser to United States President Ronald Reagan, has questioned the harm of the rich getting richer provided the incomes of others do not fall. He held that where the incomes of high-income individuals increase without decreasing the incomes of others, it should be regarded as a good thing as it satisfies the Pareto principle.<sup>14</sup> Feldstein described those who would object to this as 'spiteful egalitarians'. He claimed that it makes these people worse off just to see the rich getting richer and having 'the extra pain of living in a more unequal world'. For Feldstein, the real distributional problem is not inequality but poverty.<sup>15</sup> In other words, provided those at the bottom are looked after, the income and wealth at the top should not be of concern.

1.8 Many opponents of significant redistribution through the taxation and transfer system emphasise the distributive benefits of economic growth. The Nobel Prize-winning economist Professor Robert Lucas, for example, has been widely quoted for the following comment made in a 2003 essay:

Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution...

...[O]f the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production.<sup>16</sup>

1.9 Australian academics and commentators have made similar arguments.<sup>17</sup> Mr Chris Berg, a commentator with the Institute of Public Affairs, has recently contended that the essential economic danger of the 21<sup>st</sup> century is not inequality but slow economic growth. He suggests that inequality is not of concern unless wealth has come through improper means:

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14 The Pareto principle holds that a change is good if it makes someone better off without making anyone worse off.

15 Professor Martin Feldstein, 'Reducing poverty, not inequality', *The Public Interest*, Fall, 1999, p. 34.

16 Professor Robert Lucas, *The Industrial Revolution: Past and Future*, [https://www.minneapolisfed.org/publications\\_papers/pub\\_display.cfm?id=3333&&](https://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3333&&) (accessed 16 October 2014).

17 See the comments of Ms Mikayla Novak, 'Does more equal really mean all better?', *IPA Review article*, <https://ipa.org.au/publications/1824/does-more-equal-really-mean-all-better-> (accessed 10 October 2014).

No doubt some extreme incomes have come at the expense of the rest of society. In Russia the oligarchs have expropriated public wealth to become private wealth. In our liberal society, rent seeking or legal constructs like intellectual property can generate wealth at the expense of the rest of us.

But the issue in these cases is not the existence of the wealth but how it was taken. And the solution would be to close down the illegitimate means of acquiring that wealth.<sup>18</sup>

1.10 Similarly, Mr Peter Saunders from the Centre for Independent Studies has argued that income inequality is no bad thing provided it is not a result of fraud or coercion but of freely-taken decisions by people using their own money. He provides the following example:

Consider the world's top footballers who nowadays earn \$250K or more per week. Why do they get this much? Because top clubs chase scarce talent to improve their team performance. Who pays for these huge salaries? Ultimately, the millions of people who want to watch these players and who are prepared to pay higher ticket prices and/or monthly Pay-TV subscriptions in order to do so. Who gains? Everyone: players, the clubs who employ them, the clubs' customers who want to watch them, and the taxpayer. Who loses? Nobody.<sup>19</sup>

1.11 Others have argued that while overall income inequality is of concern, it should not be a public policy objective in itself. Professors Peter Whiteford and Andrew Podger of the Australian National University explain this perspective as follows:

Inequality is a complex issue. It is affected by many factors, so that it can increase as a result of beneficial changes as well as socially undesirable ones, and can decrease because of changes that reduce overall social wellbeing as well as a result of socially desirable changes. A particular level of inequality may not therefore be suitable as a policy target per se as distinct from such specific objectives as alleviating poverty, increasing employment, achieving a fair taxation system or improving levels of participation and engagement in society. This is not to deny the importance of social solidarity and broader concepts of fair distributions of income and wealth, nor the usefulness of measures of overall inequality as indicators of likely social problems, but a specific level of overall inequality may not be well suited as a policy objective. What we should be concerned about is what specific factors have led to a change in inequality and what policy can do to address these specific causes.<sup>20</sup>

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18 Mr Chris Berg, 'We should fear slow growth, not inequality', *Institute of Public Affairs*, 29 April 2014, <http://ipa.org.au/sectors/economics-deregulation/news/3094/we-should-fear-slow-growth-not-inequality> (accessed 10 October 2014).

19 Mr Peter Saunders, 'What is driving income inequalities?', *The Centre for Independent Studies*, 31 May 2013, <http://www.cis.org.au/publications/ideasthecentre/article/4828-what-is-driving-income-inequalities> (accessed 10 October 2014).

20 Professor Peter Whiteford and Professor Andrew Podger, *Submission 55*, pp 1–2.

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***The harm caused by inequality and the need to address it directly***

1.12 Recently, there have been prominent calls for governments to actively reduce income (and wealth) inequality through specific measures aimed at both ends of the income spectrum. This view stresses that the gap between the income and wealth of the poorest and the wealthiest can impact on the performance of the economy, the health of individuals, the cohesiveness of society and the proper functioning of the polity.

1.13 In 2009, Richard Wilkinson and Kate Pickett published their book *The Spirit Level: Why More Equal Societies Almost Always Do Better*. The authors argue that a range of social and environmental problems are more likely to occur in a less equal society: ill-health, violence, drugs, obesity, mental illness, long working hours and big prison populations.<sup>21</sup> Their basic argument is that the amount of inequality in a society matters. As they write:

The relationships between inequality and the prevalence of health and social problems...suggest that if the United States was to reduce its income inequality to something like the average of the four most equal of the rich countries (Japan, Norway, Sweden and Finland). The proportion of the population feeling they could trust others might rise by 75 per cent—presumably with matching improvements in the quality of community life; rates of mental illness and obesity might similarly be cut by almost two-thirds, teenage birth rates could be more than halved, prison populations might be reduced by 75 per cent, and people could live longer while working the equivalent of two months less per year.<sup>22</sup>

1.14 A similar argument was put by Nobel laureate and Columbia University Professor Joseph Stiglitz in his 2012 book, *The Price of Inequality*. He highlighted the harm to individuals, the economy, society and the polity from significant income inequality in America. Part of Professor Stiglitz's argument in opposing the high concentration of wealth is the impact of the undue political influence of those that hold it:

Widely unequal societies do not function effectively, and their economies are neither stable nor sustainable in the long-term. When one interest group holds too much power, it succeeds in getting policies that benefit itself, rather than policies that would benefit society as a whole. When the wealthiest use their political power to benefit excessively the corporations they control, much-needed revenues are diverted into the pockets of a few instead of benefitting society at large.<sup>23</sup>

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21 Richard Wilkinson and Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane, 2009, p. 19.

22 Richard Wilkinson and Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane, 2009, p. 261.

23 Professor Joseph Stiglitz, *The Price of Inequality*, Allen Lane, 2012, p. 83.

1.15 Professor Stiglitz also argued that a concentration of wealth is bad for the stability of the economy and its capacity to generate jobs. He claimed that the shortfall in aggregate demand—which leads to unemployment—can be blamed on 'the extremes of inequality'. He noted that those on high incomes (and in particular the top one per cent of income earners) tend to save a greater proportion of their income relative to lower income cohorts. Accordingly:

If that top 1 percent saves some 20 percent of its income, a shift of just five percentage points to the poor or middle who do not save...would increase aggregate demand directly by 1 percentage point. But as that money recirculates, output would actually increase by some 1½ to 2 percentage points. In an economic downturn such as the current one, that would imply a decrease in the unemployment rate of a comparable amount.<sup>24</sup>

1.16 Further, Professor Stiglitz argued that high inequality leads to a less efficient and productive economy. In particular, he claimed that failing to invest in infrastructure, basic research and education is the end result of a lopsided wealth distribution in society. As he put it: 'The more divided a society becomes in terms of wealth, the more reluctant the wealthy are to spend money on common needs...In the process, they [the rich] become more distant from ordinary people'.<sup>25</sup>

1.17 The Australian parliamentarian and economist, Dr Andrew Leigh, has argued that a strong democracy requires that people 'bump up' against those who are different from them. He put the view that the rich may not value the social safety net if they use different hospitals and schools, travel solely by private transport and live among those in their own income bracket. And if the poor are cut off from the rich, 'they may cease to understand how hard you have to work to create a successful business'.<sup>26</sup> Dr Leigh concluded his 2013 book *Battlers and Billionaires* with the following observation:

The past generation has seen great success for the Australian economy. We are more productive and entrepreneurial; more open to ideas, products and people from overseas. But at the same time, we have become more unequal. There are many things about the 1950s and 1960s that we would not want to keep, but it's worth trying to reclaim those high levels of equality. Too much inequality strains the social fabric, threatening to cleave us from one another.<sup>27</sup>

1.18 Some Australian commentators have noted the negative impact of inequality on economic performance, and the positive economic effect from lowering income inequality. Dr David Richardson of the Australia Institute told the committee:

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24 Professor Joseph Stiglitz, *The Price of Inequality*, Allen Lane, 2012, p. 85.

25 Professor Joseph Stiglitz, *The Price of Inequality*, Allen Lane, 2012, p. 93.

26 Dr Andrew Leigh, 'Consequences of inequality', *The Monthly*, 8 July 2013, <http://www.themonthly.com.au/blog/andrew-leigh/2013/07/08/1373239059/consequences-inequality>

27 Dr Andrew Leigh, *Battlers and Billionaires*, Redback Books, 2013, p. 149.



...if we look around the world, countries that tend to be less unequal, such as Scandinavia, tend to have pretty high average standards of living; and Australia has been in that boat too. On the other hand, the United States is deteriorating in this score; their productivity performance is ordinary, as is much of Latin America and other places where you get extreme inequality.<sup>28</sup>

1.19 Dr Richard Denniss, the Australia Institute's Director, drew the committee's attention to the link between wages and productivity:

High wages drive productivity growth. This is economics 101: high wages drive productivity growth because, in a very low-wage company in a low-wage country, there is no strong incentive to invest in labour-saving technology...

In the US, one of the reasons that their labour productivity is dragged down is that they have an incredible workforce employed in low-productivity domestic servitude. You do not find people in Norway, Switzerland and Sweden with a lot of full-time live-in help. But if the wage is really low, as it is in America, you will find a lot of people employed in that very low-productivity task; whereas, in Australia, you will find a lot of middle-class people have cleaners...<sup>29</sup>

1.20 The economic consequences of inequality have recently been identified in leading multilateral forums. In an address in London in May 2014, the Managing Director of the International Monetary Fund (IMF), Ms Christine Laguarde drew attention to the problem of inequality and its economic impact. She explained:

Fundamentally, excessive inequality makes capitalism less inclusive. It hinders people from participating fully and developing their potential. Disparity also brings division. The principles of solidarity and reciprocity that bind societies together are more likely to erode in excessively unequal societies. History also teaches us that democracy begins to fray at the edges once political battles separate the haves against the have-nots. A greater concentration of wealth could—if unchecked—even undermine the principles of meritocracy and democracy...

It is therefore not surprising that IMF research—which looked at 173 countries over the last 50 years—found that more unequal countries tend to have lower and less durable economic growth.<sup>30</sup>

1.21 One of the most influential books on economics in recent years is the French economist Professor Thomas Piketty's *Capital in the Twenty-First Century*, published in French in 2013.<sup>31</sup> A key part of Piketty's argument is that inequality is 'shaped by

28 Dr David Richardson, *Committee Hansard*, Canberra, 16 October 2014, p. 15.

29 Dr Richard Denniss, *Committee Hansard*, Canberra, 16 October 2014, p. 16.

30 Ms Christine Laguarde, Managing Director, International Monetary Fund, *Economic Inclusion and Financial Integrity – Address to the Conference on Inclusive Capitalism*, 27 May 2014, <https://www.imf.org/external/np/speeches/2014/052714.htm> (accessed 16 October 2014).

31 The English edition was published in 2014.

the way economic, social and political actors view what is just and what is not, as well as by the relative power of those actors and the collective choices that result'. In other words, the extent of inequality is a choice. A detailed historical account, Piketty's book focuses on two key forces for divergence in wealth: the higher rate of return on capital (relative to income) and the rise in managerial salaries. He advocates that:

The ideal policy for ending an endless inegalitarian spiral and regaining control over the dynamics of accumulation would be a progressive global tax on capital...<sup>32</sup>

Income is often not a well-defined concept for very wealthy individuals, and only a direct tax on capital can correctly gauge the contributive capacity of the wealthy.<sup>33</sup>

1.22 Princeton University Professor and *New York Times* columnist Paul Krugman wrote of Piketty's book:

...what's really new about "Capital" is the way it demolishes that most cherished of conservative myths, the insistence that we're living in a meritocracy in which great wealth is earned and deserved.

For the past couple of decades, the conservative response to attempts to make soaring incomes at the top into a political issue has involved two lines of defense: first, denial that the rich are actually doing as well and the rest as badly as they are, but when denial fails, claims that those soaring incomes at the top are a justified reward for services rendered. Don't call them the 1 percent, or the wealthy; call them "job creators."

But how do you make that defense if the rich derive much of their income not from the work they do but from the assets they own? And what if great wealth comes increasingly not from enterprise but from inheritance? What Mr. Piketty shows is that these are not idle questions.<sup>34</sup>

1.23 Certainly, some of Professor Piketty's arguments have been criticised, but even many of these criticisms recognise the need for redistribution. Professor Tyler Cowen, writing in *Foreign Affairs*, for example, observed that wealth taxes 'do not mesh with the norms and practices required by a successful and prosperous capitalist democracy'. Rather, Professor Cowen claimed a 'more sensible and practicable policy agenda' would include calls:

...for establishing more sovereign wealth funds...; for limiting tax deductions that noncharitable nonprofits can claim; for deregulating urban development and loosening zoning laws, which would encourage more

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32 Professor Thomas Piketty, *Capital in the 21<sup>st</sup> Century*, 2014, p. 471.

33 Professor Thomas Piketty, *Capital in the 21<sup>st</sup> Century*, 2014, p. 525.

34 Professor Paul Krugman, 'The Piketty Panic', [http://www.nytimes.com/2014/04/25/opinion/krugman-the-piketty-panic.html?\\_r=0](http://www.nytimes.com/2014/04/25/opinion/krugman-the-piketty-panic.html?_r=0) (accessed 15 October 2014).

housing construction...; for offering opportunity grants for young people; and for improving education.<sup>35</sup>

### *Addressing the causes and consequences of income inequality*

1.24 Australian governments have prioritised reforms that increase prosperity and allow its benefits to be shared. In their rhetoric, both the major Australian political parties emphasise sharing the benefits of growth and providing for most disadvantaged.<sup>36</sup> However, Australian governments have not viewed the reduction of income inequality as a specific policy objective.<sup>37</sup> Nonetheless, governments do recognise the importance of distributing income and wealth across the income spectrum. As the current federal Treasurer, the Hon. Joe Hockey MP, told the Sydney Institute in May 2014:

Official data shows average real household disposable income has gone from \$540 per week in 1994 to over \$820 per week now – that means the average Australian household is almost \$290 per week better off today in real terms than they were around two decades ago. And this growth has been broadly based across society. Household wellbeing across the community has grown significantly in the last two decades. And while much focus has been on the “rich getting richer”, the more accurate story is the fact that everyone is getting richer as a result of economic development. Few countries can tell this story.<sup>38</sup>

1.25 A principal policy objective of the Australian Treasury is to ensure that appropriate economic reforms are made to increase the productivity of the economy. While Treasury recognises the importance that the benefits of this productivity are broadly shared, it is not prescriptive on what the shape of this distribution should be. A 2013 Treasury paper on income inequality explained:

There is no clear consensus on what an acceptable level of income inequality is. Societies will choose how much inequality they allow according to the institutions, norms, laws, policies and programs they adopt.

In Australia, like other [Organisation for Economic Co-operation and Development] nations, there has been a trend towards greater income

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35 Professor Tyler Cowen, 'Capital punishment: Why a global wealth tax on wealth won't end inequality', *Foreign Affairs*, May/June 2014 (Review of Capital in the 21<sup>st</sup> Century by Thomas Piketty), <http://www.foreignaffairs.com/articles/141218/tyler-cowen/capital-punishment> (accessed 18 November 2014).

36 See The Hon. Joe Hockey MP, Treasurer, *Budget Speech 2014-15*, 13 May 2014, <http://www.budget.gov.au/2014-15/content/speech/html/speech.htm> (accessed 3 December 2014).

37 That said, the Queensland Government has recently a 30 year plan for the State which has as one of its goals: 'Increase the wealth of all Queenslanders while achieving Australia's narrowest gap between the wealthy and the poor', <http://queenslandplan.qld.gov.au/assets/images/qld-plan.pdf> (accessed 20 October 2014).

38 The Hon. Joe Hockey, Treasurer, *Address to the Sydney Institute*, 11 June 2014.

inequality since the mid-1990s, but there has also been very strong growth in incomes across the board, including the bottom decile of households.

As Stiglitz, Sen and Fitoussi (2009) from the *Commission on the Measurement of Economic Performance and Social Progress* have said: 'If average income is increasing but at the same time inequality is increasing, it is not clear whether societal well-being is increasing or decreasing'.<sup>39</sup>

1.26 In 2002, the former Secretary of the Treasury and author of the 2010 Tax Review, Dr Ken Henry, wrote:

Even supposing income inequality had increased slightly over the second half of the 1990s, should this be of concern to economic policy makers? The answer to this question is not clearcut. Importantly, there is no clear consensus on what an acceptable level of inequality is ... Moreover, the policy lesson to be drawn from a reform-induced widening of income inequality is not obvious. Policy makers are very likely to believe that the market liberalising reforms of the past couple of decades in Australia have contributed to rising average incomes, and that the income gains have been widely shared. Is anybody seriously suggesting that those reforms should be reversed, in the certain expectation of significantly reduced average incomes and the highly speculative hope of a more egalitarian distribution of a smaller cake?<sup>40</sup>

1.27 Interestingly, there was no mention of the term 'income inequality' in the final report of the Henry Tax Review.<sup>41</sup>

### ***Addressing income inequality through the tax and transfer system***

1.28 Beyond prioritising economic growth, Australia shares with many other countries a broad political consensus on a legislated minimum wage, a progressive taxation system, the provision of a social safety net and public investment in health and education. As chapter 2 of this report explains in more detail, Australia's tax-transfer system is well-targeted and has been effective in reducing income inequality. A 2008 Treasury paper on Australia's tax and transfer system stated:

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39 Michael Fletcher and Ben Guttman, 'Income inequality in Australia', *Treasury Economic Roundup*, 2013, p. 51, <http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2013/Economic%20Roundup%20Issue%202/Downloads/PDF/3-Income-Inequality-Paper.ashx> (accessed 16 October 2014).

40 Dr Ken Henry, 'Globalisation, Poverty and Inequality: Friends, Foes or Strangers', *Towards Opportunity and Prosperity Conference*, University of Melbourne, April 2002, pp 31–32. Also see: [https://www.adelaide.edu.au/apsa/docs\\_papers/Others/Conley.pdf](https://www.adelaide.edu.au/apsa/docs_papers/Others/Conley.pdf) (accessed 3 December 2014).

41 The Treasury, 'Australia's future tax system', [http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs\\_reports.htm](http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm) (accessed 16 October 2014).

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Spending on the transfer system by the Australian Government amounted to over 25 per cent of revenue collected in 2006-07. Transfers provide financial assistance to individuals who are unable, or not expected, to fully support themselves, and to families to help meet the costs of raising children.

The net effect of the personal tax-transfer system is to reduce the incomes of higher income households, and increase the incomes of lower income households (see Chart 7.2). The combined effect of taxes and transfers is to make the distribution of income across households more equal. The [Australian Bureau of Statistics (ABS)] reports that there was no significant change in income inequality from the mid-1990s to 2005-06 (ABS 2007d). This is despite a more pronounced increase in private incomes at higher income levels than the increases for those on low and middle incomes.<sup>42</sup>

1.29 There has been considerable conjecture in Australia, as in other countries, about the level and thresholds of taxation, and the level and thresholds for benefits. A lot of political debate has focused on which people in society are most deserving of welfare payments. There have been successive media campaigns since the 1970s raising doubts as to whether unemployment benefit recipients are deserving of the payment. As noted above, this has more recently been directed at recipients of the Disability Support Pension.

1.30 The recent federal budget has again fuelled debate as to whether the current level of redistribution is fair. As the Treasurer stated a few weeks after the federal budget:

Payments are too broadly available to too many people. As a result, less is available for those most in need. At the moment over half of Australian households receive a taxpayer funded payment from the government...

To put it in perspective, around one in ten households (roughly 13%) rely entirely on the government for household income. Thirteen per cent of young Australians receive Youth Allowance. Over seventy per cent of Australians over 65 receive the Age or Service Pension. And more than one in twenty working age Australians receive the Disability Support Pension. So we have a very comprehensive welfare system. But it should not be taboo to question whether everyone is entitled to these payments...

This year the Australian government will spend on average over \$6,000 on welfare for every man, woman and child in the country. Given that only around 45 per cent of the population pays income tax, the average taxpayer must pay more than twice this amount in tax to fund welfare expenditure. In other words the average working Australian, be they a cleaner, a plumber

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42 The Treasury, *Architecture of Australia's tax and transfer system*, August 2008, p. 224, [http://taxreview.treasury.gov.au/content/downloads/report/Architecture\\_of\\_Australias\\_Tax\\_and\\_Transfer\\_System\\_Revised.pdf](http://taxreview.treasury.gov.au/content/downloads/report/Architecture_of_Australias_Tax_and_Transfer_System_Revised.pdf) (accessed 16 October 2014).

or a teacher, is working over one month full time each year just to pay for the welfare of another Australian. Is this fair?<sup>43</sup>

1.31 Governments address income inequality not just through direct payments but also through the provision of taxpayer-funded services. In a speech to business economists in May 2014, the current Treasury Secretary Dr Martin Parkinson noted:

After we factor in taxes and transfers, income inequality has increased only slightly in Australia over the past two decades against the backdrop of very strong growth in incomes across the entire income distribution. This means that the income gains we've enjoyed over the past two decades have been shared much more broadly [than in the United States].

This reflects, among other things, the access provided right across the community to good quality education, training and healthcare. These are the essential pre-requisites to securing well paid employment. A key motivation for the Government in shaping the Budget has been reinforcing sustainability and access to high quality health and education well into the future.<sup>44</sup>

1.32 This inquiry focuses on the interplay between income inequality and access to education, housing, education, transport and work. It recognises that an analysis of income inequality in isolation does not measure the benefit to the individual or family from accessing these services. In this report, the committee acknowledges the supplement that these services should provide in addition to a wage and income support payments, but also the impact that having a low income may have in being unable to access these services (see chapter 3).

### ***What do Australians think about income and wealth redistribution?***

1.33 Another way of thinking about whether income inequality matters is to consider the public's view. Indeed, the level and types of taxation and redistribution are inherently democratic questions. It is the public that should determine what a 'fair' society looks like.

1.34 Figure 1.1 shows that only 1 in 5 people surveyed over the past decade believe that income and wealth should not be redistributed. Roughly half of those surveyed over the past decade believe that income and wealth should be redistributed.

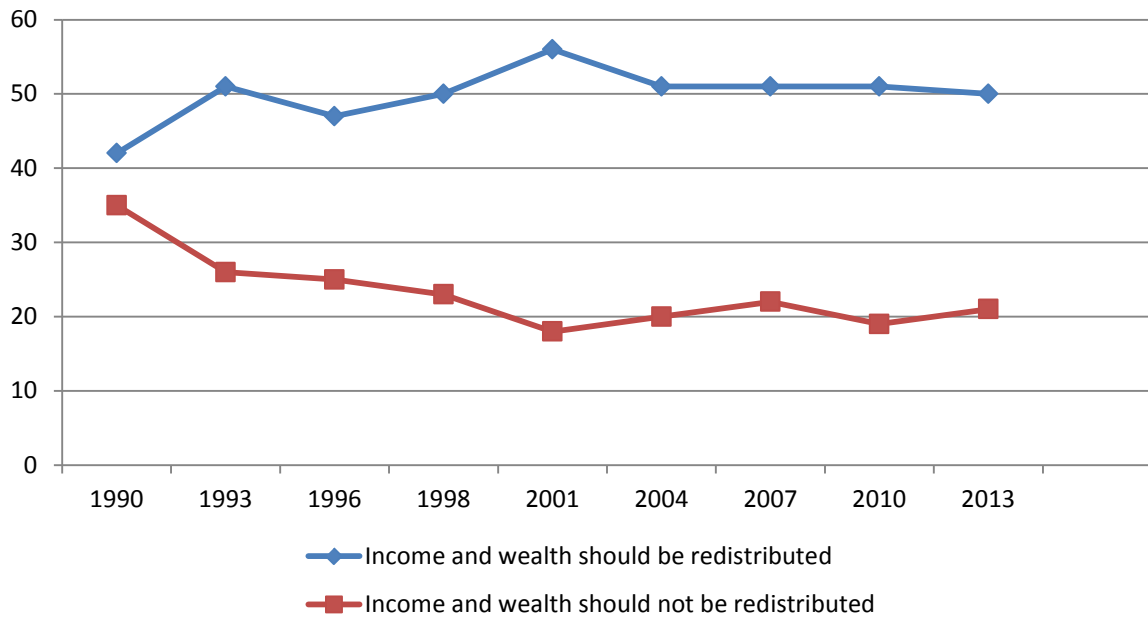
1.35 Figure 1.2 shows that over the past decade, the proportion of people favour less tax over more spending on social services has ranged from 34 to 42 per cent. The proportion favouring more social services over less tax has ranged from 30 to 47 per cent. The longer-term picture is of declining support for the option of 'less tax' and greater support for 'more spending on social services'.

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43 The Hon. Joe Hockey MP, Treasurer, *Address to the Sydney Institute*, 11 June 2014.

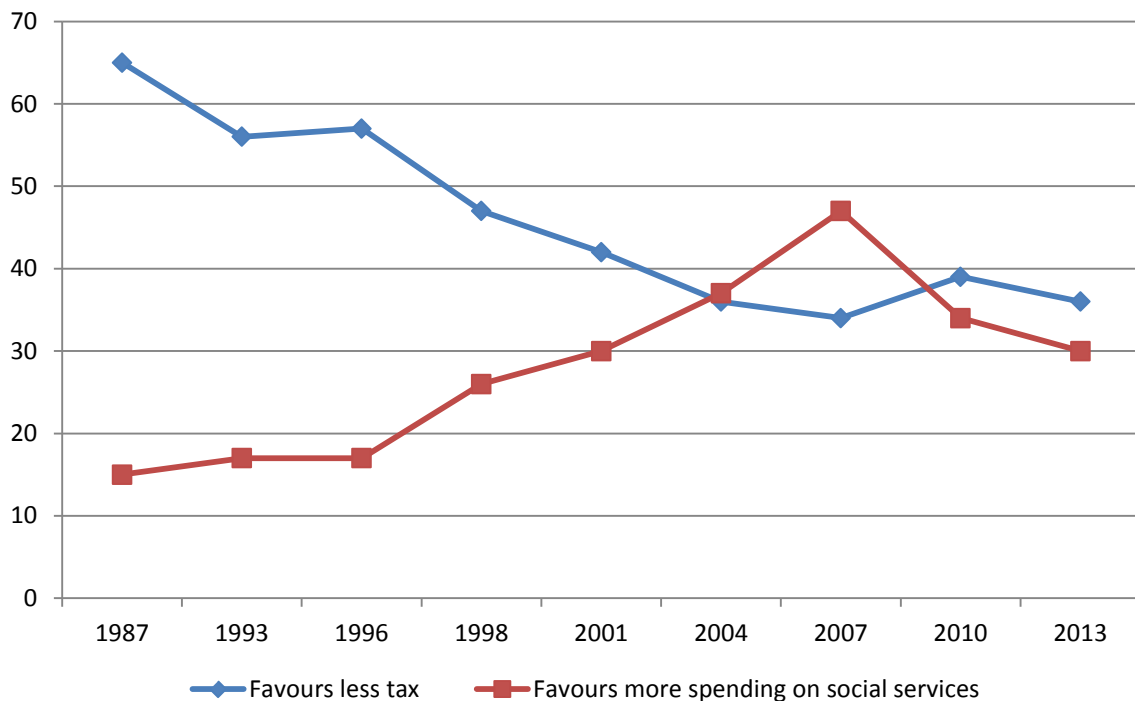
44 Dr Martin Parkinson, *The 2014-15 budget and sustaining broad-based growth in living standards*, Speech to the Australian Business Economists, 20 May 2014, [http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Speeches/2014/ABE%20May/Downloads/PDF/ABEMay2014\\_1200.ashx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Speeches/2014/ABE%20May/Downloads/PDF/ABEMay2014_1200.ashx) (accessed 3 December 2014).

**Figure 1.1: Should wealth and income be redistributed?**



Source: School of Politics and International Relations, Australian National University, *Trends in Australian political opinion: Results from the Australia Election Study 1987–2013*, p. 55. For income and wealth should be redistributed, estimates combine ‘strongly agree’ and ‘agree’. For income and wealth should not be redistributed, estimates combine ‘disagree’ and ‘strongly disagree’.

**Figure 1.2: Less tax or more social services?**



Source: School of Politics and International Relations, Australian National University, *Trends in Australian political opinion: Results from the Australia Election Study 1987–2013*, p. 54. For ‘favours less tax’, the response categories are (1987–2013) ‘strongly favour reducing taxes’ and ‘mildly favour reducing taxes’. For ‘favours spending more on social services’, the response categories are (1987–2013) ‘mildly favour spending more on social services’ and ‘strongly favour spending more on social services’.

## Australia's system of social security payments

1.36 In the first decade of Federation, the seminal Harvester Judgment of 1907 established a system of high minimum wages in Australia. The judge of the Commonwealth Conciliation and Arbitration Court, Justice Henry Higgins, found that wages at a Melbourne factory (the Sunshine Harvester Company) should be based on the cost of living for a worker and his family. The test of a fair and reasonable wage was 'the normal needs of the average employee regarded as a human being living in a civilized community'. The Harvester Judgment established that Australia's minimum wage should be based on what is fair and reasonable rather than what the employer was offering or the capacity of industry to pay.<sup>45</sup>

1.37 The Harvester Judgment was fundamental to establishing a minimalist welfare system in Australia. In 1985, the Australian academic Professor Frank Castles used the term 'wage-earner's welfare state' to describe Australia's system of wage and support payment.<sup>46</sup> This model of social protection was characterised by high minimum wages, a male dominated labour force, extremely low unemployment, easy access to owner-occupied housing and a selective system of welfare state benefits that was almost wholly non-discretionary in character.<sup>47</sup>

1.38 Australian households in the 21<sup>st</sup> century are significantly more complex and diverse to those catered to by the Harvester Judgment and Australia's pre-1970s welfare system. Different family structures, multiple careers in a lifetime, a significantly higher female labour market participation rate, longer life expectancy and mass-tertiary education have all challenged policymakers to adapt. As the Hon. Susan Ryan AO, the Age Discrimination Commissioner, recently noted:

Gone are the days when the typical structure of Australian households involved a male breadwinner and female homemaker, with the male spending his working life in one job before retiring, worn out, at the age of 65, and conveniently dying not too much later.<sup>48</sup>

1.39 Over the past century, welfare benefits and social protection programs in Australia have been incrementally introduced, amended and rebadged. The aged pension was introduced nationally in 1909 followed by invalid pensions in 1910 and a maternity allowance in 1912. From 1940, aged pensions were automatically adjusted

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45 Michael Jones, *The Australian welfare state: evaluating social policy*, Allen & Unwin, Fourth edition, 1996, p. 14.

46 Frank Castles, *The Working Class and Welfare*, Sydney, Allen & Unwin, 1985.

47 Professor Frank Castles, 'How society chooses: Policy and values, past and future', *Eureka Street*, 2002, <http://www.eurekastreet.com.au/articles/0404castles.html> (accessed 1 November 2014).

48 The Hon. Susan Ryan AO, Age Discrimination Commissioner, *The Longevity Revolution—Crisis or Opportunity?*, Address to the National Press Club, September 2014, <https://www.humanrights.gov.au/news/speeches/longevity-revolution-crisis-or-opportunity> (accessed 17 November 2014).



for movements in the Consumer Price Index (CPI). A family allowance (child endowment) was introduced in 1941, a widow's pension the following year, and unemployment benefits in 1945. In 1973, a supporting parent's benefit was introduced followed by a handicapped child's allowance in 1974. In 1976, all pensions were automatically indexed to the CPI and a new family allowance payment replaced the child endowment. In 1983, a family income supplement was enacted followed in 1985 by a carer's pension and the Home and Community Care Program. Various large-scale childcare and labour market programs were introduced in the 1980s and 1990s. Compulsory superannuation was introduced in 1992. Since the mid-1990s, behavioural conditions have been placed on payments: in 1998, the 'Work for the Dole' Scheme was first enacted; in 2006, income management was introduced. One of the most significant recent social reforms, the National Disability Insurance Scheme, was legislated in 2013.

1.40 In 2014, the main income support payments are:

- Family Tax Benefit (FTB)—a two-part payment toward the cost of raising children. FTB Part A is paid for each child, with the payment amount dependent upon the family's individual circumstances. FTB Part B is an extra payment for single parents and families with one main income;
- the Parenting Payment—an income support payment for parents or guardians to assist with the cost of raising children. Single parents must care for at least one child under eight years, partnered parents need to care for at least one child under six years;
- the Age Pension—income support and access to a range of concessions for eligible older Australians. The qualifying age for men is currently 65 years and for women either 64 and a half years or 65 years, dependent on the individual's birth date;
- the Disability Support Pension (DSP)—financial support for people with a physical, intellectual or psychiatric impairment, or who are permanently blind, who are not able to work, or retrain for work, as a result of that impairment;
- the Carer Payment—an income support payment for people who personally provide constant care in the home of someone with a severe disability, medical condition or who is frail aged;
- Austudy—financial assistance for people aged 25 years or more who are engaged in full-time study or who have undertaken a full time Australian Apprenticeship or traineeship; and
- Newstart Allowance—financial assistance for people who are looking for work and undertaking activities that may increase the chances of finding a job.

## **The context of this inquiry**

1.41 As noted, this inquiry comes at a time of renewed interest in issues of wealth and income distribution both in Australia and internationally. Internationally, the debate has been fuelled by a combination of influential writings from economists such as Piketty and Stiglitz and public statements from prominent figures and organisations. In January 2014, the World Economic Forum's Global Risk report argued that that 'the chronic gap between the incomes of the richest and poorest citizens is seen as the risk that is most likely to cause serious damage globally in the coming decade'.<sup>49</sup> These concerns with extent and the impact of income inequality have also been identified by the IMF, United States President Barack Obama, media baron Rupert Murdoch and Pope Francis.<sup>50</sup>

1.42 In January 2014, the Australia Institute and Australia<sup>21</sup> convened a roundtable to discuss how Australia should respond to growing inequality. It brought together a range of academics, welfare and public health advocates, union representatives, economists and parliamentarians.<sup>51</sup> The roundtable and its findings will be discussed in later chapters of this report.

1.43 The debate on income inequality in Australia has also been stimulated by the federal government's proposed budget measures and its review into the welfare system.

### ***The 2014 federal budget***

1.44 The terms of reference for this inquiry direct the committee to examine the likely impact of the changes proposed in the 2014–15 Budget. While chapter 5 of this report examines some of the Social Services measures in more detail, an outline of some of the key Budget measures is useful here.

1.45 The key social security measures in the Budget include proposals to:

- apply a six month waiting period for Newstart Allowance, for new job seekers under 30 years;
- exclude young people aged 22 to 24 years from the Newstart Allowance or Sickness Allowance (persons in this age group would instead qualify for Youth Allowance (Student) or Youth Allowance (Other) until they turn 25 years);

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49 World Economic Forum, 'Worsening health gap seen as biggest risk Facing the world in 2014', *News Release*, <http://www.weforum.org/news/worsening-wealth-gap-seen-biggest-risk-facing-world-2014> (accessed 3 December 2014).

50 Mr Murdoch's comments were based on a speech (published in advance in *The Australian* newspaper on 28 October 2014) to the G20 meeting in Brisbane.

51 Australia21, *Advance Australia Fair? What to do about growing inequality in Australia*, *Submission 37*.

- 
- limit the FTB Part A large family supplement to families with four or more children;
  - reduce the primary earner income limit from \$150,000 per annum to \$100,000 per annum for FTB Part B;
  - limit FTB Part B to families with children under six years of age, with transitional arrangements applying to current recipients with children above the new age limit for two years;
  - introduce a new allowance for single parents on the maximum rate of FTB Part A, for each child aged six to 12 years inclusive, and not receiving FTB Part B;
  - pause indexation for three years of:
    - the income free areas and assets value limits for all working age allowances (other than student payments), and the income test free area and assets value limit for Parenting Payment (Single);
    - the income free areas and assets value limits for student payments, including the student income bank limits;
    - the income and assets test free areas for all pensioners (other than Parenting Payment (Single)) and the deeming thresholds for all income support payments;
  - index Parenting Payment (Single) to the CPI only, by removing benchmarking to Male Total Average Weekly Earnings (MTAWE);
  - index all pensions to the CPI only;
  - reset the social security and veterans' entitlements income test deeming thresholds to \$30,000 for single income support recipients, \$50,000 combined for pensioner couples, and \$25,000 for a member of a couple other than a pensioner couple;
  - pause indexation for three years for several FTB free areas;
  - pause indexation of the FTB rates for two years in the maximum and base rate of FTB Part A and the maximum rate of FTB Part B;
  - further increase the qualifying age for the Age Pension, from 67 years (2023) to 70 years (2036);
  - introduce requirements for DSP recipients (such as work-focused activities), to increase recipients' chances of finding and keeping a job;
  - change the circumstances in which students can receive social security payments while travelling overseas;
  - limit the overseas portability period for DSP recipients to 28 days (currently up to 6 weeks) in a twelve-month period from 1 January 2015;
  - abolish the Seniors Supplement for Commonwealth Seniors Health Card (CSHC) holders after the June 2014 payment; and

- include tax-free superannuation income in the income assessment for qualification for the CSHC. The government has stated that this measure would ensure a consistent approach in the assessment of people with similar incomes when they apply for government benefits.

1.46 Some of the proposed changes to FTB have passed the Parliament and become law.<sup>52</sup> Most of the other measures have been incorporated into other bills, which are currently before the Parliament.<sup>53</sup>

### ***The McClure Review***

1.47 In December 2013, the Minister for Social Services, the Hon. Kevin Andrews MP (Minister), commissioned a review of Australia's welfare system to identify improvements to ensure the social support system is sustainable, effective and coherent, and encourages people to work. An independent Reference Group, comprising Mr Patrick McClure AO (Chair), Ms Sally Sinclair and Mr Wesley Aird, was appointed to conduct the review.<sup>54</sup>

1.48 The Reference Group was asked to advise the Minister on how the welfare system can:

- provide incentives to work for those who are able to work;
- adequately support those who are genuinely not able to work;
- support social and economic participation through measures that build individual and family capability;
- be affordable and sustainable both now and in the future and across economic cycles; and
- be easy to access and understand, and able to be delivered efficiently and effectively.<sup>55</sup>

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52 These changes are: limitation of the FTB Part A large family supplement; removal of the FTB Part A per child add on; and reduction of the FTB Part B primary earner income limit, see: Social Services and Other Legislation Amendment (2014 Budget Measures No. 6) Act 2014, [http://www.aph.gov.au/Parliamentary\\_Business/Bills\\_Legislation/Bills\\_Search\\_Results/Result?bId=r5357](http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r5357) (accessed 2 December 2014).

53 See: Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014; Social Services and Other Legislation Amendment (2014 Budget Measures No. 5) Bill 2014; Social Security Legislation Amendment (Strengthening the Job Seeker Compliance Framework) Bill 2014; Social Services and Other Legislation Amendment (Student Measures) Bill 2014; Social Services and Other Legislation Amendment (Seniors Supplement Cessation) Bill 2014.

54 Department of Social Services, *Review of Australia's Welfare System*, <http://www.dss.gov.au/our-responsibilities/review-of-australia-s-welfare-system> (accessed 15 September 2014).

55 Department of Social Services, *Review of Australia's Welfare System*.

1.49 In June 2014, the Reference Group's Interim Report proposed four pillars of reform:

- simpler and sustainable income support system;
- strengthening individual and family capability;
- engaging with employers; and
- building community capacity.<sup>56</sup>

1.50 As of early September 2014, the Review had received 227 submissions in response to the Interim Report.<sup>57</sup>

### ***The Australia21 Report***

1.51 In April 2014, the Australia Institute and Australia21 published *Advance Australia Fair? What to do about growing inequality in Australia*. The report, provided to the committee as an attachment to Australia21's submission, details the proceedings and findings of the January 2014 roundtable on the subject of income inequality. The report's foreword states:

For some time Australia21 has been concerned that our political leaders are addressing neither the fact nor the implications arising from the fact that income inequality has been growing rapidly in Australia. On 31 January 2014 Australia21, in collaboration with the Australia Institute and the gracious support of Andrew Leigh MP, convened a roundtable discussion in Parliament House, Canberra to consider how Australia should respond to this growing inequality.<sup>58</sup>

1.52 The report's Executive Summary makes the following points:

- the wealthiest 20 per cent of households in Australia now account for 61 per cent of total household net worth, whereas the poorest 20 per cent account for just 1 per cent of the total;
- several factors have contributed to the growing inequality of incomes and wealth in Australia. These include: the large tax cuts and tax exemptions which have disproportionately favoured the rich; globalisation; asymmetric access to rapid technological change; changes to compensation packages for top executives; and 'the neoliberal policies that have prevailed since the 1980s';

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56 A New System for Better Employment and Social Outcomes—Interim Report, <http://www.dss.gov.au/our-responsibilities/review-of-australia-s-welfare-system/a-new-system-for-better-employment-and-social-outcomes-full-version-of-the-interim-report> (accessed 15 September 2014).

57 'Public Submissions', <https://www.dss.gov.au/our-responsibilities/review-of-australia-s-welfare-system/public-submissions> (accessed 1 December 2014).

58 Australia21, *Advance Australia Fair? What to do about growing inequality in Australia*, Submission 37, Attachment 1, p. 6.

- there are a number of policy options to address the problem which include inclusive job creation policies, long-term investment in human capital, reducing tax breaks for superannuation, capital gains and negative gearing of residential property, reforming transfer payments through pension, benefits and expenditure reforms, trade policy and taking steps to avoid 'political capture' by powerful interest groups; and
- Australians need to engage in a national conversation about how inequality is impacting on our lives, our culture, our economy and our society.<sup>59</sup>

1.53 In terms of the need for this national conversation, the report suggested that:

A media outlet might be encouraged and possibly subsidised to publish a series of in-depth articles to inform the Australian people about the extent of the problem and actions to address it over the next six months.<sup>60</sup>

## **The conduct of the inquiry**

### ***Submissions***

1.54 The committee called for submissions by 22 August 2014. It received 64 submissions mainly from academics, peak stakeholder organisations and welfare agencies. The committee thanks all those individuals and organisations who made a submission to this inquiry.

1.55 The committee thanks The Treasury, the Productivity Commission, the Australian Council of Trade Unions, Professor Peter Whiteford of the Australian National University, Professor Peter Saunders from the University of New South Wales, the Bankwest Curtin Economics Centre and Taylor Fry Consulting Actuaries for their permission to reproduce the tables and figures in this report.

### ***Public hearings***

1.56 The committee conducted seven public hearings in the course of this inquiry:

- at Parliament House in Canberra on 16 October and 17 November;
- in Melbourne on 18 September;
- in Hobart on 19 September;
- in Logan in south-west Brisbane on 18 October;
- in Elizabeth in northern Adelaide on 10 November; and
- in Rockingham south of Perth on 11 November.

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59 Australia21, *Advance Australia Fair? What to do about growing inequality in Australia*, Submission 37, Attachment 1, p. 8.

60 Australia21, *Advance Australia Fair? What to do about growing inequality in Australia*, Submission 37, Attachment 1, p. 28.

1.57 Unfortunately, time did not allow for hearings in Sydney and Darwin. The committee did schedule a hearing in Sydney which was unfortunately cancelled and moved to Canberra due to the Senate being recalled.

### *Site visits*

1.58 Following the public hearings, the committee conducted site visits in Elizabeth and Rockingham. In Elizabeth, the committee visited Northern Futures Inc., a not-for-profit organisation focused on improving the employability of people across the northern Adelaide region (covering a population of 300 000 people). The Chief Executive Officer, Ms Gail Sulicich, and Board member, Mr Kelvin Trimper, explained some of the programs that Northern Futures is funded to operate to secure employment for the long-term unemployed in the region. She noted the success of some programs—such as the *Skills for Jobs in Regions*—in placing long-term unemployed people into pre-employment training programs. These programs have led these individuals to develop some of the basic skills that make them job-ready.

1.59 Ms Sulicich told the committee that an important part of her organisation's role is to discuss with employers in the region what job applicants need to do to gain employment. She noted that Northern Futures had gained a good reputation for finding employment for young people, mature-age workers and retrenched workers. However, it faced ongoing challenges in terms of ensure the long-term viability of its programs.

1.60 Following this meeting, the committee met with representatives of the Building Family Opportunities (BFO) Program, run by Wesley UnitingCare Port Adelaide. This program seeks to:

[B]ring together long-term jobless families, local community organisations, government, and employers to find solutions to complex issues that prevent families from participating in employment.

BFO case managers work with families to address all barriers until a sustainable job is achieved.<sup>61</sup>

1.61 Typically, an unemployed person is obliged to attend a Job Services Australia (JSA) provider who assists with finding work. The JSA support model centres around a regular 15 minute meeting which is quite administrative and mechanical, primarily focusing on job skills, experience and local job opportunities. This process does not identify non-employment related constraints which may be preventing a person from finding and retaining sustainable employment. The BFO model invests more time in the individual. BFO case managers explained that by spending an hour (instead of 15 minutes) with an individual can assist in building trust, identifying constraints and then working on solutions allow a person to then enter employment with a greater

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61 South Australian Government, Department of State Development, *Building Family Opportunities Program*, <http://www.dfeest.sa.gov.au/bfo> (accessed 21 November 2014). Also see: <http://www.ucwpa.org.au/program-details-system-page/21> (accessed 21 November 2014).

chance of retaining this job. The BFO model requires a greater up-front investment but in the longer term ensures that these people are in sustainable employment and participating in society.

1.62 The Manager of Employment Services at Wesley, Ms Cherie Jolly, introduced five of her team members<sup>62</sup> to the committee noting their diverse training and backgrounds. Each member discussed their role in helping clients from often highly disadvantaged backgrounds achieve positive employment and training outcomes. Mr Peter Wall-Smith explained that his role as a mental health officer required him to liaise with local employers, identifying vacancies and job requirements. He would then seek to match his clients to these positions and accompany them to meet with prospective employers and seek feedback from the employer after the meeting. It is the case manager's ability to adapt and treat each client as an individual that has allowed BFO to succeed in placing long-term unemployed into jobs. Many JSAs have failed to get these outcomes.

1.63 In Rockingham, the committee visited SMYL Community College where it met with the Chief Executive Officer Mr Sameh Gowegati and the school's principal Mr Tony McRae. The College is completing its fourth year of operation. Mr McRae explained to committee members the role of the school, the demographic and personal circumstances of students and some of the school's achievements and challenges. He noted that not all students came from a poor background but invariably the students' family situation was unsettled and often distressing. Mr McRae told the committee that the school has an impressive retention rate and that some of its students will progress to vocational and tertiary education.

1.64 The committee has the opportunity to visit the school's cooking facilities, where students are required to make meals for their peers. Breakfast is served from 8.15am from Monday to Thursday on schooldays. The committee then visited a nearby SMYL training facility where students undertake woodwork, metalwork, maintenance and welding, as well as acquiring skills in a charity retail shop and hairdressing salon. The training facility allows students to graduate with a Certificate II qualification. The committee was most impressed by SMYL's school and training facilities in Rockingham. It is important that these ventures are able to obtain long-term funding to ensure that the significant benefits of their work can continue.

1.65 The committee extends its sincere thanks to Ms Sulicich and her team at Northern Futures, Ms Jolly and her team at Wesley UnitingCare Port Adelaide, and Mr Gowegati and Mr McRae at SMYL Community Services in Rockingham. All three visits impressed the need for these organisations to be funded properly to undertake programs of vital community need. There also appears to be a need for greater engagement by State Government officials with these organisations to ensure that their crucial front-line work is not impeded by administrative and compliance requirements.

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62 The other members of the team present were Mr Peter Wall-Smith, Mr James Lino, Ms Muriel Bic, Ms Selina De Gioia and Ms Ann Piper.



## **The structure of the report**

1.66 This report has six chapters:

- chapter 2 looks at the data on the measures of income inequality, and the extent of income inequality in Australia;
- chapter 3 looks at the issue of the impact of income inequality on access to health, housing, education and work in Australia;
- chapter 4 examines the impact of income inequality on specific disadvantaged groups;
- chapter 5 presents the evidence that the 2014 federal budget will hurt the poor and exacerbate income inequality in Australia; and
- chapter 6 looks at the principles that should underpin the provision of social security payments and presents some possible solutions to address income inequality in Australia.

