

CHAPTER 3

POVERTY AND INEQUALITY IN AUSTRALIA

The existing and growing gap between the rich and the poor in Australia is obvious to even the most ardent of sceptics.¹

3.1 This chapter provides an overview of the nature and extent of poverty in Australia. It provides a discussion of the origins of poverty research in Australia, especially the work of Professor Henderson beginning in the 1960s. The chapter then analyses recent statistics related to poverty and inequality in Australia, including an overview of the groups most at risk of being in poverty today and recent studies of income and wealth distribution.

The origins of poverty research

3.2 The first systematic attempt to estimate the extent of poverty in Australia was undertaken in the mid-1960s by researchers at the Melbourne University's Institute of Applied Economic and Social Research (IAESR). The research team, led by IAESR Director Professor Ronald Henderson, conducted a survey of living conditions in Melbourne and estimated the extent of poverty in Melbourne using a poverty line based on a two-adult, two-child family set at an income equal to the value of the basic wage plus child endowment payments. The study found that one in sixteen of Melbourne's population was living in poverty in 1966.

3.3 The poverty benchmark in this study was chosen because of its relevance to Australian concepts of the minimum income, and also because as a proportion of average earnings it was similar to poverty lines used in other countries. It was regarded by the research team as an austere measure, likely to produce lower-bound estimates of poverty. The equivalence scale used to derive poverty lines for other family types was, in the absence of any reliable Australian estimates of relative needs, derived from a survey of household budgets and costs undertaken in New York in the 1950s.

The Henderson Commission of Inquiry

3.4 Community and political pressure following the release of the 1966 survey into poverty in Melbourne led to calls for a national inquiry to determine whether the problems highlighted in this study applied to the nation as a whole. A Commission of Inquiry into Poverty was established in August 1972 by the Prime Minister, Mr McMahon. Professor Henderson was appointed as Chairman of the inquiry (the inquiry was subsequently referred to as the Henderson Inquiry). After the 1972 election the new Prime Minister, Mr Whitlam, expanded the Commission's size and

1 *Submission 44*, p.42 (SVDP National Council).

scope with specific responsibility to focus on the extent of poverty and the groups most at risk of experiencing poverty; the income needs of people in poverty; and issues related to housing and welfare services. These topics were addressed in the Commission's first main report, *Poverty in Australia*, released in August 1975.

3.5 The poverty line described above was subsequently used by the Henderson Inquiry to produce the first authoritative estimates of poverty in Australia. The information on poverty was based on data from an ABS income survey undertaken in August 1973. The report's main focus was on identifying the extent of poverty due to inadequate income, in the sense of being low income relative to need. The income unit chosen was a married (or defacto) couple or single person, with or without dependent children. A unique feature of the Henderson poverty line was that it allowed poverty to be estimated both before and after housing costs. After-housing costs were derived by deducting actual housing costs from income and comparing the remaining income with a poverty line that excluded the housing cost component.²

3.6 The Henderson Commission's main findings were as follows:

- Over 10 per cent of income units in 1972-73 were below the Commission's poverty line. A further 8 per cent were defined as 'rather poor', having an income of less than 20 per cent above that line.
- About 7 per cent of income units were below the poverty line after housing costs were taken into account. Those renting from private landlords were the poorest group.
- About three-quarters of those below the poverty line (before housing) were not in the workforce.
- Overall, female sole parent families comprised the largest proportion of very poor people.
- About one-third of the single aged were very poor before housing. However, less than 10 percent were very poor after housing, because a large number were home-owners.
- The group with the largest percentage gap between its income and the poverty line comprised large families on wages on or just above the minimum wage.
- There was significantly more poverty in rural areas on a before housing basis. After housing, however, the difference was not as significant.

2 Fincher R & Nieuwenhuysen J, eds., *Australian Poverty: Then and Now*, Melbourne University Press, 1998, pp.52-60; Saunders P, 'Poverty and Deprivation in Australia', *Year Book Australia*, 1996, p.5.

- Very few young men were voluntarily unemployed and thus below the poverty line.³

Extent of poverty in Australia

3.7 There have been a number of recent studies that have attempted to estimate the extent of poverty in Australia; however, these estimates vary widely. Submissions to the inquiry, often drawing on these studies, have also presented a range of estimates. A number of recent poverty estimates are presented in Table 3.1.

Table 3.1: Poverty in Australia – Selected Estimates

	Year	Numbers in poverty
Henderson poverty line ¹	1999	3.7 – 4.1 million (20.5 – 22.6% of population)
St Vincent de Paul Society ²	-	3 million
Australian Council of Social Service ³	2000	2.5 – 3.5 million (13.5 – 19% of population)
The Smith Family ⁴	2000	2.4 million (13 % of population)
Brotherhood of St Laurence ⁵	2000	1.5 million
The Australia Institute ⁶	-	5 – 10% of population
Centre for Independent Studies ⁷	-	5% of population in 'chronic poverty'

- Sources:*
- ¹ Cited in Harding A & Szukalska A, *Financial Disadvantage in Australia – 1999*, The Smith Family, 2000, p.38.
 - ² Submission 44, p.44 (SVDP National Council).
 - ³ Submission 163, p.9 (ACOSS).
 - ⁴ Harding A, Lloyd R & Greenwell H, *Financial Disadvantage in Australia – 1990 to 2000*, The Smith Family, 2001, pp.5, 22-23.
 - ⁵ Submission 98, p.3 (BSL).
 - ⁶ *Committee Hansard* 19.6.03, p.648 (The Australia Institute).
 - ⁷ Submission 45, p.10 (CIS).

3.8 The table shows that the Centre for Independent Studies (CIS) has estimated that 5 per cent of the population can be considered to be in 'chronic poverty'.⁴ Other estimates are much higher. The Smith Family has estimated that 13 per cent of the population was in poverty in 2000 – this had increased from 11.3 per cent since 1990.⁵

3 Commission of Inquiry into Poverty, *Poverty in Australia: First Main Report*, April 1975, pp.27-28.

4 *Submission* 45, p.10 (CIS).

5 Harding A, Lloyd R & Greenwell H, *Financial Disadvantage in Australia - 1990 to 2000*, The Smith Family, 2001, pp.22-23.

Poverty rates based on the Henderson poverty line estimate that 20.5 per cent of the population was in poverty (after paying for housing costs) or 22.6 per cent in poverty (before housing costs) in 1999.⁶ A study by King found that in 1996, 16.7 per cent of income units were below the poverty line and very poor, with a further 13.7 per cent classified as 'rather poor'.⁷

3.9 The CIS estimate of 5 per cent of the population in chronic, long term poverty is based on a number of assumptions. These assumptions include that half to two-thirds of those below the poverty line at any one time are transitional; perhaps half or more are under-reporting their true income; and including the value of government services would raise the final incomes of lower income groups by about 50 per cent. The CIS, however, provides little quantifiable data to support their claims and concede that their estimate of those in poverty is a 'guesstimate'.⁸

3.10 By contrast, as noted above, poverty rates based on the Henderson poverty line have reported much higher estimates of poverty – up to 23 per cent of the population. Serious concerns have been raised over how this poverty line has been updated over time to account for changes in community incomes. It has been argued by some researchers that updating this poverty line by increases in seasonally adjusted household disposable income per capita grossly inflates the poverty estimates. The Smith Family has argued that the Henderson poverty line produces a picture of an 'ever-rising tide' of poverty because it is set at an ever-increasing proportion of family income.⁹

3.11 ACOSS stated that depending on the poverty lines used and taking into account housing costs there are between 2.5 million (13.5 per cent) and 3.5 million people (19 per cent) living in poverty in 2000, with between 800 000 and 1.3 million children in poverty.¹⁰ The Brotherhood of St Laurence (BSL) estimated that even by the most cautious estimate (using the half median income measure) more than 1.5 million people were living below the poverty line in 2000 – 'whichever way it is measured, this is simply too high for a wealthy country like Australia'.¹¹ The SVDP National Council stated that in Australia today approximately 3 million people are poor – and 'further to this, our nation is torn by inequality'.¹²

6 Harding A & Szukalska A, *Financial Disadvantage in Australia - 1999*, The Smith Family, 2000, p.38.

7 King A, 'Income Poverty since the early 1970s', in Fincher & Nieuwenhuysen, p.78.

8 *Submission 45*, p.10 (CIS).

9 Harding & Szukalska, p.36.

10 *Submission 163*, p.9 (ACOSS).

11 *Submission 98*, pp.3-4 (BSL).

12 *Submission 44*, p.44 (SVDP National Council).

3.12 Recent studies commissioned by the Smith Family on poverty in Australia have generally reported poverty estimates midway between the figures produced by the CIS and the Henderson poverty line. One report, *Financial Disadvantage in Australia – 1999*, found that in 1999:

- One in seven Australians or 2.4 million people lived in poverty, when the poverty line is set at half the average family income of all Australians.
- Income poverty had declined slightly since the 1980s – 13.3 per cent of Australians were in poverty in 1999, compared with 14.6 per cent in 1982.
- While there was a slight decline in poverty among adults during this period, the major factor underlying this fall was a 20 per cent fall in the poverty rate among dependent children.
- Aged persons – of all poor Australians, only nine per cent live in a family headed by a person aged 65 years or more. On an after-housing basis, only six per cent of all poor Australians live in households headed by an aged person.
- Poverty mainly affects those of working age – almost one-third of those in poverty live in families where the head is not in the labour force, while over one quarter are in families where the head is unemployed.
- While more than half of all Australians in poverty live in families with no adult earners, over 40 percent live in families where one or both adults in the family works. About one-fifth of all those in poverty live in families where both parents work.
- Just over one half of all of Australia's poor live in families whose main income source is government cash benefits.
- About half of all poor people in Australia live in families that contain children. Children living in sole parent and larger families continue to face high poverty risks.¹³

3.13 The report defined 'financial disadvantage' or 'poverty' in terms of a family whose income is less than half the average family income. The study justified its use of the 'half average income' poverty line arguing that it better captures relative deprivation in times of rising income inequality than using a figure based on median incomes. As the top income earners become better off, then the poor are relatively worse off. That is, they are poorer in relative terms. Using the 'half average income' poverty line denotes acceptance of the proposition that the living standards of the poor should be measured against the living standards of all the population, including the

13 Harding & Szukalska, pp.8-9, 22-23.

very affluent.¹⁴ The data source for the study was the 1997-98 ABS national income survey, updated to May 1999. Income in the study included wages and salaries, workers compensation and superannuation, dividends and rents, income from self-employment and child support payments.

3.14 Another study commissioned by the Smith Family, *Financial Disadvantage in Australia – 1990 to 2000*, examined trends in poverty in Australia during the 1990s. The data sources for this study were various ABS national income surveys conducted over the 1990s. Poverty estimates based on this study are summarised in Table 3.2. The study also contains a large collection of other data on poverty in Australia.

Table 3.2: The Smith Family – Estimated Poverty Rates 1990-2000

1990	1995	1996	1998	2000	
(percentage of population)					
11.3	11.7	12.0	12.6	13.0	(a)
8.2	8.2	8.6	8.4	8.7	(b)

(a) half average income poverty line

(b) half median income poverty line

Source: Harding A, Lloyd R & Greenwell H, *Financial Disadvantage in Australia 1990-2000*, The Smith Family, 2001, p.5.

3.15 The table shows that poverty increased from 11.3 per cent to 13 per cent of the population over the period from 1990 to 2000, when the poverty line is set at half the average family income of all Australians (the study's preferred measure). In 2000 almost one in eight Australians or 2.4 million people lived in poverty. The study pointed to the persistence of poverty despite a decade of economic growth. The report noted that 'strong economic growth over the past decade has not produced comparably strong social outcomes for many different groups within Australia'.¹⁵

3.16 The data shows that estimated poverty rates are sensitive to the poverty line used. As previously noted, the Smith Family studies justify their use of the 'half

14 Harding, Lloyd & Greenwell, p.2.

15 Harding, Lloyd & Greenwell, p.v.

average income' poverty line on the grounds that it better captures relative deprivation in times of increasing income inequality.¹⁶

3.17 The other main findings of the study are detailed below.

- Poverty among adults increased steadily during the decade.
- Child poverty fell during the first half of the 1990s but increased since that time.
- There was an increase in the poverty risk faced by families dependent on government cash benefits, which increased from 24 per cent in 1990 to 31 per cent in 2000. As a result of this shift, by 2000 government cash benefits were the main family income source for about 60 per cent of poor Australians – up from 46 per cent in 1990.
- Unemployment was a key generator of poverty – about half of all Australians aged 15 years and over who were unemployed lived in poverty. Poverty increased among the unemployed in the late 1990s.
- The proportion of poor families that had wages and salaries as their primary income source remained unchanged over the 1990s. Having a job appeared less of a protection against poverty than in the past, with the risk of being in poverty among all Australians aged 15 years and over and working part time rising from 10.7 per cent in 1990 to 11.7 per cent in 2000. Part-time work appeared to be associated with greater vulnerability to poverty than having full-time work. For the vast majority of wage and salary earner families, having a full time job was sufficient to ensure that the family was not in poverty.
- The poverty rate for men was slightly higher than the poverty rate for women, with the somewhat higher number of sole parents and older women in poverty being offset by the large number of single men and men aged between 15 and 64 years in poverty.
- Poverty rates generally decrease with age, although for a large part of the decade poverty among those in the 50 to 64 year age bracket was higher than for people aged 25 to 49 or over 65 years.
- A major change during the decade has been the steady increase in poverty rates among the aged. While the risk of being in poverty was previously much lower for the aged than for those of workforce age, now the risk is relatively similar. However, if poverty is assessed after housing costs have been met a different picture emerges. For the aged, due to their high home ownership rates, the risk of being in poverty did not change during the

1990s. Conversely, poverty among adults aged 25 to 44 years has become more serious, with almost one-fifth of adults aged 25 to 44 years in poverty on an after-housing basis.

- The results by State fluctuate, and it is not clear whether the year-to-year changes reflect real variation or sampling error for the smaller States. NSW had the highest poverty rate in 2000, with 13.9 per cent of its residents in poverty. Poverty also increased in the other States, with only Queensland and Tasmania remaining relatively unchanged.
- The depth of poverty did not change greatly during the 1990s, with the average gap between a poor family's income and the poverty line increasing from \$112 in 1990 to \$118 in 2000 (after accounting for the impact of inflation).¹⁷

3.18 The Centre for Independent Studies has criticised the above Smith Family study into poverty trends arguing that the extent and nature of poverty identified in the study has been exaggerated.

3.19 The CIS has three main criticisms of the study, namely:

- The study has confused poverty and inequality by adopting a relative view of poverty, whereas most people think of poverty in absolute terms.
- By adopting a poverty line based on mean (average) rather than median income the study has exaggerated the extent of poverty in Australia.
- The ABS data on which the study relies are not sufficiently reliable for conclusions to be drawn about the extent of poverty. The problems include under-reporting of incomes especially by welfare recipients and the self employed and the exclusion of certain sources of income, such as income in kind and government benefits provided below cost.¹⁸

3.20 These arguments have been disputed by Professor Peter Saunders of the Social Policy Research Centre. In relation to the first argument, he has argued that while most people think of poverty in subsistence terms, this is not the same as supporting an absolute definition of poverty. A subsistence notion of poverty emphasises that poverty is a situation where basic needs cannot be met, but this is consistent with the goods and services that are required to meet those needs being defined relatively – in the sense that they will depend on the general lifestyles, living standards and values of the community at a particular point in time.

17 Harding, Lloyd & Greenwell, pp.23-24.

18 Tsumori K *et. al.*, 'Poor Arguments', *Issue Analysis*, No.21, January 2002; Saunders P, 'Poor Statistics', *Issue Analysis*, No.23, April 2002. See also *Submission 45*, pp.5-6 (CIS).

3.21 In regard to the second point, Professor Saunders argues that neither the mean nor median income alone provides information about how well needs are being met, although the mean is preferred by some researchers because it better captures relative deprivation in times of rising income inequality. He did concede, however, that most poverty researchers prefer to link poverty lines to median income rather than mean income. In relation to the third CIS argument, he argues that while the ABS data may be unreliable there is no reliable research to support that claim. He also argues that it is not clear what impact the inclusion of many subsidised services would have on the distribution of income.¹⁹

Who is in poverty today?

3.22 Evidence to the Committee and a range of studies into poverty and deprivation has shown that poverty is more likely to occur among particular groups in the population.²⁰ The major groups are identified in the table below and include Indigenous Australians, the unemployed and people dependent on social security benefits. This is not an exclusive list of those groups experiencing poverty, but serves to identify those most commonly referred to in studies into poverty and evidence received during the inquiry. Further discussion of poverty and disadvantage among these groups and others is contained in later chapters of the report.

Groups at high risk of poverty

- Indigenous Australians
- people who are unemployed
- people dependent on government cash benefits
- sole parent families and their children
- families that have three or more children
- people earning low wages
- people with disabilities or those experiencing a long term illness
- aged people, especially those renting privately
- young people, especially in low income households
- single people on low incomes
- people who are homeless
- migrants and refugees.

19 Saunders P, 'Getting Poverty Back onto the Policy Agenda', Smith Family Research and Social Policy Briefing Paper, No.10, March 2002, pp.1-3.

20 See, for example, *Submissions* 1, pp.2-3 (Dr Mendes); 98, p.4 (BSL); 172, pp.37-38 (The Smith Family); 163, pp.11-12 (ACOSS); 118, p.7 (VCOSS).

3.23 A study by the Smith Family/NATSEM has illustrated the distribution of poverty as indicated in the table below.²¹

Who is poor in Australia?

A Smith Family study estimated that of every 100 poor Australians:

- 24 live in working-poor (wage and salary) families;
- 23 live in families with an unemployed head;
- 15 live in other families dependent on social security;
- 14 live in sole parent families;
- 9 live in self-employed families;
- 6 live in families headed by an aged person;
- 5 live in some other type of family; and
- 4 live in families reliant on superannuation and investment income.

3.24 Indigenous Australians face a far greater risk of poverty than other Australians, and is indicated in high levels of joblessness, low levels of formal education, poor health, inadequate housing and the experience of dispossession and racism.²² The nature and extent of poverty among Indigenous people is discussed in chapter 13.

3.25 In addition to the groups listed above, other smaller population groups are also vulnerable to poverty including people with drug and alcohol problems; domestic violence survivors; people living in caravan parks; people with caring responsibilities, including young carers; problem gamblers; recently released prisoners and some groups whose poverty remains undocumented in any substantial way (for example mentally ill people).²³ One submission noted that while vulnerability to poverty occurs amongst broad population groups it is likely that smaller population groups can experience high levels of economic hardship where low incomes are compounded by quite specific forms of disadvantage.²⁴

3.26 Poverty is increasingly associated with low pay. The Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMU) noted that the crisis of low pay contributes strongly to poverty as low paid workers are often also the 'jobless

21 Harding & Szukalska, p.16. The data are based on after-housing poverty (that is, those in poverty after paying for housing costs).

22 *Submission 244*, pp.9-10 (ATSIC). See also *Submissions 163*, p.11 (ACOSS); 98, p.4 (BSL).

23 *Submissions 163*, pp.73-88 (ACOSS); 121, pp.2-12 (Victorian Alcohol & Drug Association); 69, p.14 (Victorian Government).

24 *Submission 187*, p.22 (SA Government).

poor'. Low-paid workers tend to 'churn' through a series of low-paid jobs interspersed with periods of unemployment – as such the unemployed and the low paid are often the same people at different times. In addition, a large proportion of poor people live in households with a wage earner (the wages of the low paid thus support the poor); people who earn low pay are generally found in households which have a low income; and low paid workers become retirees – low wages project disadvantage into the future, because low paid workers cannot adequately save for their retirement.²⁵

3.27 Poverty is also associated with where people live. There is growing evidence of regional disparities, with geographic concentrations of great wealth and great disadvantage within areas of all major capital cities and between cities and rural areas.²⁶ Poverty in rural and regional communities is discussed in chapter 14.

Poverty by State/Territory

3.28 The extent of poverty varies between the States and Territories with evidence indicating that the smaller, less populous States generally exhibit the highest incidence of poverty and deprivation (although the extent of poverty often varies depending on the indicator used). Table 3.3 reproduces Smith Family data on poverty levels in the States.

Table 3.3: Poverty levels – States and Territories (1999)^a

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
	%	%	%	%	%	%	%	%
Before housing costs	14.1	12.3	12.9	15.9	12.4	15.4	8.9	8.9
After housing costs	18.1	15.5	18.6	18.9	16.2	18.7	12.4	12.4

^a half average income poverty line.

Source: Harding A & Szukalska A, *Financial Disadvantage in Australia – 1999*, The Smith Family, 2000, p.17.

3.29 As the table shows, poverty levels (on a before-housing cost basis) were greatest in South Australia, Tasmania and NSW. Poverty levels in all the States and Territories increased after housing costs were taken into account, although the pattern of poverty across the States was similar. South Australia, Tasmania and Queensland had the highest proportion of people in poverty after housing costs are removed, while the lowest proportion was recorded in the ACT and the Northern Territory (12.4 per cent).

3.30 ABS data show that, in 2001, the proportion of people in 'low income' households (before housing costs) was highest in Tasmania (27 per cent) and the

25 *Submission* 120, pp.19-20 (LHMU).

26 *Submissions* 1, p.2 (Dr Mendes); 98, p.4 (BSL); 69, p.15 (Victorian Government).

Northern Territory (25 per cent), and lowest in the ACT (11 per cent).²⁷ ABS data for 2000-01 indicate that average levels of incomes varied between the States. Three States had disposable household incomes below the national average of \$469 per week. Tasmania was the poorest State with mean weekly income 17 per cent below the national average income level, followed by South Australia (9 per cent below) and Queensland (6 per cent below). NSW and Victoria both recorded incomes at 3 per cent above the national average, with Western Australia at about the national level. The ACT recording the second highest average income (24 per cent above the average) after the Northern Territory.²⁸

3.31 Submissions and witnesses commented on the particular features of poverty in the various States. SACOSS noted that South Australia is a low income state with average (mean) incomes, on both a before and after-housing basis, the lowest in the country. High levels of poverty have been contained by the State's lower housing costs, although this is now at risk due to a reduction in the public housing stock.²⁹ SACOSS stated, however, that the rate of poverty has doubled since the early 1980s. Rates of inequality have also doubled, but South Australia is less unequal than the other States, which is partly due to the fact that it has fewer high-income earners.³⁰

3.32 Tasmania, like South Australia, is a low income State, with high levels of unemployment (and low labour force participation), low rates of pay for those employed and high levels of part-time and casual employment. Tasmania is also a high-cost state in terms of the 'basket' of essential goods and services required by all households, such as food, energy and transport.³¹ Sea freight and transport charges can increase the cost of consumables relative to those on the mainland.³² A further indicator of disadvantage is the high take-up of welfare payments – some 40 per cent of Tasmanian income units rely on government pensions and allowances.³³

3.33 In Western Australia, WACOSS pointed to growing levels of deprivation within the community, noting that it is the most geographically vast and isolated State in the

27 'Low income households' refers to those persons in the bottom 20 per cent of persons ranked by their equivalised gross household income. See ABS, *Australian Social Trends 2003*, pp.6-8.

28 ABS, *Household Income and Income Distribution*, Cat. No. 6523.0, July 2003, p.9. The Northern Territory had the highest mean income – 34 per cent above the national average – although the ABS indicated that this probably overestimated average income levels as data from sparsely settled areas of the NT were excluded from the study.

29 *Submission 46*, p.7 (SACOSS); *Committee Hansard 29.4.03*, p.47 (SACOSS).

30 *Submission 46*, p.7 (SACOSS). See also *Submission 187*, pp.14-22 (SA Government).

31 *Submission 176*, p.7 (TasCOSS); *Committee Hansard 2.5.03*, pp. 207-11 (TasCOSS).

32 *Submission 195* (Mr Peter Brohier).

33 *Submission 185*, p.9 (Tasmanian Government).

country and 'faces unique and complex issues' in relation to poverty, especially related to its remoteness, high living costs and the problem of poverty amongst Indigenous communities.³⁴

3.34 In Queensland the geographical differences in poverty and disadvantage were highlighted. Submissions and other evidence noted that poverty is particularly concentrated in a number of regions such as parts of the Cape and Gulf regions – both areas with large Indigenous populations, certain regional centres and areas on the urban fringe.³⁵ QCOSS indicated that poverty in Queensland has risen steadily from the 1980s to the mid 1990s, with poverty rates almost doubling during that period – 'of great concern is that poverty rates in Queensland have been and continue to be consistently high in comparison with national rates and in comparison with other states and territories'.³⁶

3.35 In Victoria, VCOSS pointed to the growing disparity in income levels between regional/rural areas and metropolitan areas and specific areas within metropolitan centres.³⁷

3.36 In the Northern Territory, NTCOSS indicated that the level of poverty in the Territory is often hidden and that on all indicators the Territory has the highest level of poverty of any State or Territory. NTCOSS commented that poverty is influenced by remoteness, a large Indigenous population, geographical distances with a small population spread over a large area and high population mobility which poses challenges in providing adequate physical and social infrastructure. These factors also impose additional costs for those living in the Territory.³⁸

Income inequality

3.37 Studies into trends in income inequality over recent decades and submissions to the inquiry point to increasing income inequality in Australia. As the Salvation Army noted 'strong economic growth over the last decade has not resulted in the highly anticipated emergence of strong social outcomes for many Australians'.³⁹

34 *Submission* 183, p.9 (WACOSS). See also *Committee Hansard* 28.7.03, pp.1027-30 (WACOSS).

35 *Committee Hansard* 4.8.03, pp.1192-93 (QCOSS); *Submissions* 160, pp.3-10 (QCOSS); 129, p.4 (Queensland Government).

36 *Submission* 160, p.6 (QCOSS).

37 *Submission* 118, pp.6,12 (VCOSS).

38 *Committee Hansard* 29.7.03, pp.1081-83 (NTCOSS).

39 *Submission* 166, p.8 (Salvation Army). See also *Submissions* 44, pp.42-45 (SVDP National Council); 98, pp.5-6 (BSL); 163, pp.67-71 (ACOSS).

3.38 Studies into the distribution of both *earnings* and of *income* have shown increasing inequality. In relation to earnings, studies have found increasing inequality since the 1980s. An ABS study concluded that inequality in the distribution of wage and salary earnings of full-time adult employees increased in the 1980s and that this trend continued through the 1990s.⁴⁰ Another study by Professor Saunders found that the inequality in full-time wage and salary earners incomes, as measured by the Gini coefficient, increased from 0.224 in 1990, to 0.271 in 1994-95 to 0.275 in 1999-2000.⁴¹ Analysis by FaCS confirmed these trends. The Department stated that there has been increasing dispersion of earnings since 1979, with the top percentiles recording stronger growth than the bottom percentiles. Since the mid 1980s three trends were evident:

- between 1985 and 1990, earnings at the bottom fell almost continuously in real terms, while those at the top remained stable after an initial fall;
- between 1990 and 1996, earnings at the bottom initially rose, but then remained stable, while those at the top consistently increased in real terms; and
- between 1996 and 2000 earnings grew at all points, although more rapidly at the top of the earnings distribution.⁴²

3.39 Earnings distribution statistics reflect the impact of the market on the distribution of economic rewards. A more complete picture is provided by taking into account the impact of government tax and transfer (social security) programs. By assessing the impact of these programs it is possible to determine the distributional impact of social security benefits and the impact of income taxes on the distribution of income.

3.40 As noted above, income distribution statistics, which take into account the impact of the tax-transfer system, show a trend towards increasing inequality in Australia. This is indicated in recent ABS statistics as detailed in Table 3.4.⁴³

3.41 As the table shows, one measure of the spread of incomes across the population is indicated by the percentile ratios. The P90/P10 ratio shows that in 2000-01, the top 10 per cent of households received 3.97 times the income of the bottom 10 per cent.

40 ABS, *Australian Social Trends 2000*, p.x. See also *Submission 94*, p.8 (ACTU).

41 The Gini coefficient varies between 0, when income is equally distributed, and 1, when income is most unequal. See Saunders, *Year Book Australia, 2002*, p.11.

42 *Submission 165*, p.56 (FaCS).

43 'Income' in the study refers to disposable income, that is income from employment, investments and transfers from government (such as pensions, allowances and benefits), private institutions and other households, after the deduction of income tax and the Medicare levy. See ABS, *Household Income and Income Distribution*, Cat. No. 6523.0, p.29.

This ratio has increased from 3.77 in 1994-95, thus showing increasing inequality over the period 1994-95 to 2000-01.⁴⁴

Table 3.4: Selected Income Distribution Indicators*

		1994-95	1995-96	1996-97	1997-98	1999-2000	2000-01
<i>Ratios of incomes of households at top of selected income percentiles</i>							
P90/P10	ratio	3.77	3.74	3.66	3.77	3.89	3.97
P80/P20	ratio	2.56	2.58	2.54	2.56	2.64	2.63
P80/P50	ratio	1.55	1.57	1.56	1.56	1.57	1.56
P20/P50	ratio	0.61	0.61	0.61	0.61	0.59	0.59
<i>Income share</i>							
Lowest quintile	%	7.9	8.1	8.3	7.9	7.7	7.6
Second quintile	%	12.8	13.0	13.1	12.8	12.6	12.5
Third quintile	%	17.7	17.7	17.8	17.6	17.6	17.7
Fourth quintile	%	23.7	23.9	23.7	23.8	23.7	23.6
Highest quintile	%	37.8	37.3	37.1	37.9	38.4	38.5
All persons	%	100.0	100.0	100.0	100.0	100.0	100.0
<i>Percentage share of total income received by persons with:</i>							
Low income (a)	%	10.8	10.9	11.0	10.8	10.5	10.5
Middle income (b)	%	17.7	17.7	17.8	17.6	17.6	17.7
High income (c)	%	37.8	37.3	37.1	37.9	38.4	38.5
Gini coefficient	no.	0.302	0.296	0.292	0.303	0.310	0.311

* Equivalised disposable household income – disposable household income adjusted on the basis of the household's size and composition.

- (a) Persons in the second and third income deciles.
- (b) Persons in the middle income quintile.
- (c) Persons in the highest income quintile.

Source: ABS, *Household Income and Income Distribution*, Cat. No.6523.0, July 2003, pp.10, 13.

44 P90 is the income level dividing the bottom 90 per cent of the population from the top 10 per cent. P10 is the income level dividing the bottom 10 per cent of the population from the rest of the population.

3.42 Another measure of income distribution is provided in the income shares going to groups of people at different points in the income distribution. The table shows that, in 2000-01, those on 'low incomes' (that is, 20 per cent of the population in the 2nd and 3rd income deciles) received 10.5 per cent of household income, whereas those in the 'high income' group (that is, the 20 per cent of the population in the highest income quintile) received 38.5 per cent of the income.⁴⁵ The income shares of the low income group declined from 10.8 per cent to 10.5 percent of income over the period 1994-95 to 2000-01, whereas the income share of the high income group increased from 37.8 to 38.5 per cent over the same period. The 'middle income' group's share of income remained relatively stable. The ABS concluded that its analysis of the latest income distribution statistics support 'a conclusion of some increase in inequality' since 1994-95.⁴⁶

3.43 Professor Saunders, commenting on the ABS data, noted that since 1995-96, 47 per cent of the total increase in income was received by those in the top quintile. He added that 'almost half of the economy-wide increase in income generated by economic growth under the Howard Government was of no benefit to the bottom four-fifths of the population'.⁴⁷

3.44 An earlier study by Harding and Greenwell reflected these trends. The study based on ABS income surveys found that income inequality increased between the late 1980s and the mid-1990s and there was some evidence to suggest that this trend had continued (which was confirmed in the ABS study cited). The increase in inequality was driven by declines in the income shares of the bottom 10 per cent, and to a lesser extent, the middle 20 per cent of Australians during the 1990s, and an increase in the income share of the top 10 per cent.⁴⁸

3.45 This trend towards increasing inequality was reinforced in evidence from ACOSS. Drawing on Smith Family research, ACOSS noted that using three different poverty lines 'all three show a gradual but significant increase in income poverty over the late 1990s'. This is illustrated in Figure 3.1.⁴⁹

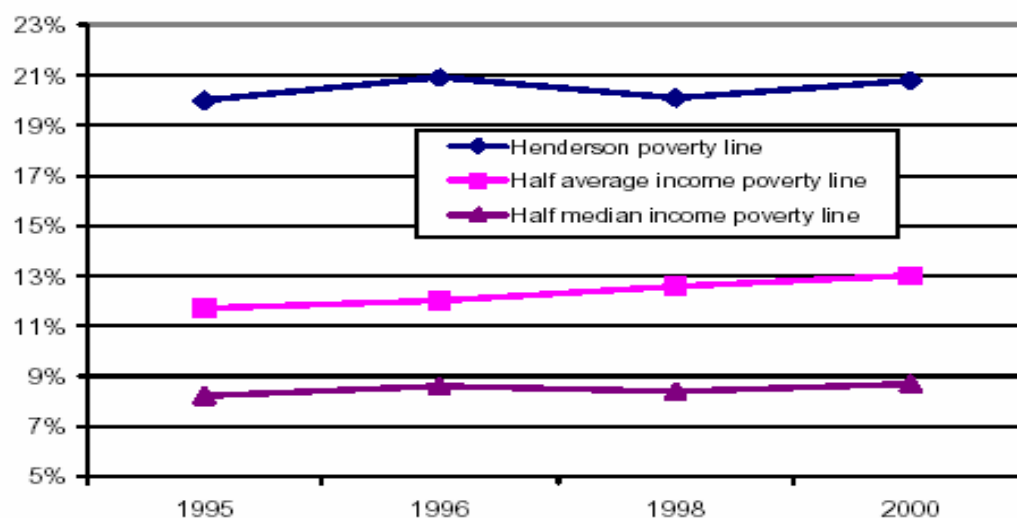
45 The ABS uses the second and third deciles and not the lowest decile to indicate 'low income' because of some underreporting of income by low income households in the lowest income decile and the reporting of low or negative business incomes in this decile which may distort the income distribution. See ABS, *Household Income and Income Distribution*, pp.29-30.

46 ABS, *Household Income and Income Distribution*, p.11.

47 Saunders P, 'It's Official: Inequality is Increasing Again' *Impact*, Spring 2003, p 5.

48 Refers to disposable (after income tax) income, adjusted for differences in household size. See Harding A & Greenwell H, 'Trends in Income and Expenditure Inequality in the 1980s and 1990s', NATSEM Discussion Paper No 57, June 2002, p.21.

49 *Submission* 163, p.69 (ACOSS).

Figure 3.1: Trends in income poverty

3.46 Not only are income levels low for large numbers of Australians but critical expenditures on a range of necessities have been rising at a faster rate than the level of inflation. For example, Table 3.5 shows that since 1989-1990 the following costs have increased.

Table 3.5: Cost Increases

Education
<i>An Increase of 173 % higher than the increase in the CPI</i>
Health
<i>An Increase of 98 % higher than the increase in the CPI</i>
Hospital and medical
<i>An Increase of 137 % higher than the increase in the CPI</i>
Dental
<i>An Increase of 113.5 % higher than the increase in the CPI</i>
Urban Transport Fares
<i>An Increase of 134 % higher than the increase in the CPI</i>

Source: Submission 44, p.19 (SVDP National Council).

Impact of the GST

3.47 Submissions commented on the adverse financial impact that the GST is having on low income groups. They noted that the costs for many products and services have substantially increased since the introduction of the GST, especially in relation to clothing and other necessities, utility prices, insurance, and household services including repairs and maintenance. It was commented on that the compensation

arrangements in relation to tax cuts and pension increases for low income households when the GST was introduced has been inadequate.⁵⁰

3.48 FaCS advised the Committee that information on the distributional impact of the GST on different income groups will not be available until the release of data from the 2003-04 ABS Household Income and Expenditure Survey. This data will not be available until late 2005.⁵¹

Impact of taxes, transfers and other benefits

3.49 Studies have shown that the trend towards increasing earnings dispersion, in particular, has been mitigated by the redistributive impact of taxes and transfer (social security) payments and other benefits. One study noted that in 1999-2000, for example, social transfers reduced income inequality (as measured by the Gini coefficient) by 22.2 per cent, while income taxes reduced it by an additional 12.1 per cent. In that year, the two main distributive instruments of the welfare state combined to reduce income inequality generated in the market sector by around one-third.⁵²

3.50 A comprehensive study in the Smith Family submission showed the redistributive effect of taxes, transfers and indirect benefits. The study looked at the impact of government cash transfers (such as pensions), income taxes, selected indirect taxes and indirect benefits, such as health, education, housing and welfare. This study is particularly valuable as previous studies referred to above generally *exclude* the impact of indirect taxes and indirect benefits. Details of the study are provided in Table 3.6.

3.51 The study shows that direct cash benefits, such as the age pension and unemployment allowances, are heavily skewed towards lower income groups. Indirect benefits, via the use of free or subsidised social services, are also skewed towards lower income groups but are not nearly as targeted towards lower income groups as the direct cash benefits. In particular, the second lowest and middle income quintiles receive higher indirect benefits than the lowest income quintile.

50 *Submissions* 44, p.39 (SVDP National Council); 223, p.4 (APSF); 184, p.19 (COTA National Seniors).

51 *Submission* 165, Supplementary Information, 13.8.03, p.10 (FaCS).

52 Saunders P, *Year Book Australia, 2001*, p.12.

Table 3.6: Estimated average value of benefits received and taxes paid by equivalent income quintile, 1998-99^a

	<i>Quintile of Equivalent Disposable Income</i>					
	Bottom 20% \$ pw	Next 20% \$ pw	Middle 20% \$ pw	Next 20% \$ pw	Top 20% \$ pw	All 20% \$ pw
Direct cash benefits ^b	252.3	202.4	68.8	25.5	6.5	111.0
Gross income	233.6	440.4	787.4	1132.2	1826.7	884.8
Disposable income	232.7	418.2	666.3	899.8	1311.9	706.3
<i>Selected indirect benefits</i>						
- Education	43.5	85.8	106.8	81.0	51.0	73.6
- Health	92.8	106.2	87.6	74.0	61.8	84.4
- Welfare	49.3	45.6	26.4	12.1	2.3	27.1
- Housing	12.6	3.4	1.0	0.4	0.2	3.5
Total indirect benefits	198.3	241.0	221.8	167.5	115.3	188.7
Disposable income + indirect benefits	431.0	659.2	888.0	1067.3	1427.2	895.0
Selected indirect taxes	38.8	60.8	86.1	95.4	114.7	79.2
Final income	392.2	598.3	802.0	971.9	1312.5	815.8
Ratio of final income to disposable income	1.7	1.5	1.2	1.1	1.0	1.2
Average number of usual residents	2.0	2.7	3.1	2.8	2.4	2.6

^a Disposable income equals gross income minus income tax. Final income equals disposable income plus indirect benefits minus indirect taxes.

^b For low-income households average cash benefits are higher than gross income because some households have negative private incomes (eg small businesses with losses).

Source: *Submission 172*, p.36 (The Smith Family).

3.52 The impact of selected indirect taxes including petroleum, alcohol and tobacco taxes is also included in the study. Such taxes are regressive, taking a greater proportion of the income of low income households than of high-income households. Indirect taxes paid by low-income households, for example, amount to an estimated \$38.80 per week – or just under 17 per cent of disposable income. For high income households, indirect taxes are much higher at \$114.70 per week, but this represents only 14 per cent of disposable income. 'Final income' in the study refers to private earnings, social security cash payments, indirect benefits such as education and health and the impact of indirect and income taxes. As the table indicates, low income households are net beneficiaries from these indirect benefits and taxes, with such indirect benefits and taxes increasing final income by 70 per cent relative to disposable income. For high income households, indirect taxes paid cancel out indirect benefits received, leaving their disposable and final income at the same level.

The study shows that the incomes of low-income households are significantly raised after taking into account taxes and benefits.⁵³

Wealth distribution

3.53 Wealth plays an important role in generating well-being. Not only do assets, such as investments, generate income for households, but others, such as owner-occupied housing, provide a flow of benefits such as reduced housing costs. In addition assets, if liquid, can be used to smooth consumption over periods of limited earnings, or illiquid assets can be used as a source of collateral for such purposes. The SVDP noted that:

There can be no rational discussion of poverty without consideration of wealth...Poverty exists against a backdrop of wealth. To understand poverty in our community, we need also to address the environment of wealth in which poverty is produced.⁵⁴

3.54 Wealth is more unevenly distributed than income and trends indicate that it is increasingly concentrated in fewer hands in Australia.⁵⁵ One study found that in 1967, 25 per cent of the wealth was concentrated in the hands of just 5 per cent of the population – this had increased to 29 per cent by 1998. The wealth held by the top two quintiles grew between 1967 and 1998 while the wealth of the bottom three declined. The study concluded that 'the trend towards greater wealth equality from the start of the century to the 1960s did not continue into the 1990s and may have reversed'.⁵⁶

3.55 The estimated distribution of wealth in 2000 and projections to 2030 is detailed in Table 3.7. The table shows that in 2000, the bottom 50 per cent of the population held just 7 per cent of the wealth, whereas the top one per cent held 13 per cent of the wealth. The top 5 per cent of the population held 32 per cent of the wealth. The table indicates that the distribution of wealth will become more concentrated over the next 30 years. The share of the bottom 50 percent is estimated to decline from 7 per cent in 2000 to 5 per cent in 2030, while the share of the top 10 per cent is projected to increase from 45 per cent to 50 percent over the same period.

53 See *Submission 172*, pp.35-36 (The Smith Family). See also *Submission 165*, p.58 (FaCS).

54 *Submission 44*, pp.12,37 (SVDP National Council).

55 See *Submission 44*, p.45 (SVDP National Council).

56 Kelly S, 'Simulating Future Trends in Wealth Inequality', Paper presented at the 2002 Australian Conference of Economists, October 2002, p.3.

Table 3.7: Estimated distribution of wealth by selected percentiles, 2000-2030

Wealth Percentile	2000	2010	2020	2030
	%	%	%	%
Top 1%	13.9	11.7	11.8	11.7
Top 5%	31.6	29.2	30.9	32.7
Top 10%	45.3	43.1	46.1	49.5
Top 20%	64.0	62.7	66.4	70.0
Bottom 50%	7.0	6.7	5.7	4.9

Note: 'Wealth' refers to the value of owner occupied housing, equities, rental investment property, superannuation and interest-bearing deposits.

Source: Kelly S, 'Simulating Future Trends in Wealth Inequality', Paper presented at the 2002 Australian Conference of Economists, October 2002, p.12.

Conclusion

3.56 Evidence presented to the Committee and recent studies provide a profoundly disturbing picture of the extent of poverty and deprivation in Australia. While the numbers of those living in poverty varies between studies, even the most conservative estimates point to substantial numbers of people in material deprivation, struggling to make ends meet and largely excluded from social and economic participation in the wider society. Those most at risk of poverty today cover a wide range of groups living in various circumstances and spread throughout the country – ranging from Indigenous Australians, the unemployed, sole parent families, people on low wages and young people.

3.57 Evidence to the inquiry and specialist reports have also highlighted a trend towards increasing income and wealth inequalities in Australia. Statistics indicate that the dispersion of earnings and income have become more unequal in Australia, especially since the 1980s. While the impact of taxes, transfers (social security payments) and other benefits, such as education, health and welfare has resulted in some redistribution of income, inequality remains unacceptably high in this country.

3.58 The wider society must now face the consequences of increasing levels of poverty and disadvantage in this country. In succeeding chapters the Committee has outlined a series of strategies to address the persistence of poverty and deprivation in this country that sadly co-exists amid affluence and general material prosperity – a prosperity that has failed to be adequately shared by all Australians.

