

The Senate

Community Affairs
References Committee

Bridging our growing divide: inequality in
Australia

The extent of income inequality in Australia

December 2014

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ABBREVIATIONS

AATSIHS	Australian Aboriginal and Torres Strait Islander Health Survey
ABS	Australian Bureau of Statistics
ACOSS	Australian Council of Social Service
ACTU	Australian Council of Trade Unions
AETR	average effective tax rates
AIHW	Australian Institute of Health and Welfare
ANU	Australian National University
ATO	Australian Taxation Office
ATSI	Aboriginal and Torres Strait Islander
BFO	Building Family Opportunities
Budget	2014-15 federal budget
CDEP	Community Development Employment Projects
CGT	capital gains tax
COAG	Council of Australian Governments
COTA	COTA Australia
CPI	Consumer Price Index
CRA	Commonwealth Rent Assistance
CSHC	Commonwealth Seniors Health Card
DSP	Disability Support Pension
ECEC	Early Childhood Education and Care
ECLS	Early Care and Learning Subsidy
EGWH	equivalised gross weekly household
ELFUR	extended labour force underutilisation rate

FTB	Family Tax Benefit
GDP	Gross Domestic Product
GFC	global financial crisis
Gonski Review	Review of Funding for Schooling
GP	general practitioner
Henry Review	Australia's Future Tax System Review
HILDA	Household, Income and Labour Dynamics in Australia
HPL	Henderson Poverty Lines
IMF	International Monetary Fund
JSA	Job Services Australia
LFUR	labour force underutilisation rate
MBS	Medicare Benefits Schedule
McClure Review	McClure Review on Welfare Reform
MHA	Mental Health Australia
Minister	Minister for Social Services
MTAWE	Male Total Average Weekly Earnings
NASSSA	Northern Adelaide State Secondary Schools Alliance
NATSEM	National Centre for Social and Economic Modelling
NCOA	National Commission of Audit
NCSMC	National Council of Single Mothers and their Children
NDIS	National Disability Insurance Scheme
NPAH	National Partnership Agreement on Homelessness
NRAS	National Rental Affordability Scheme
NUS	National Union of Students
OECD	Organisation for Economic Co-operation and Development
PBS	Pharmaceutical Benefits Scheme

PJC	Parliamentary Joint Committee (on the National Disability Insurance Scheme)
PC	Productivity Commission
PHAA	Public Health Association of Australia
PwD	People with Disability
QCOSS	Queensland Council of Social Service
RCOA	Refugee Council of Australia
RJCP	Remote Jobs and Communities Programme
SEIFA	socio-economic index for areas
SES	socio-economic status
SGC	Superannuation Guarantee Charge
SIH	Survey of Income and Housing
SDOH	Social Determinants of Health Alliance
SMYL	South Metropolitan Youth Link
TASCOSS	Tasmanian Council of Social Service
Taylor Fry	Taylor Fry Consulting Actuaries
Treasurer	Treasurer of the Commonwealth of Australia
VCOSS	Victorian Council of Social Service
WA	Western Australia
WACOSS	Western Australian Council of Social Service

KEY FINDINGS

The evidence before the committee is that **income inequality**—as gauged by various measures across a range of studies—**has increased** in Australia since the mid-1980s (*see chapter 2*).

The evidence shows that the likely **impact of the Budget measures** will be to **exacerbate income inequality and poverty** in Australia. The Henderson Poverty Line (HPL) and the 50 per cent median income poverty line indicate that far too many vulnerable Australians, individuals and families in receipt of income support, are currently living in poverty (*see chapters 2 and 5*).

The evidence provided to the committee showed that the level of **the Newstart payment is too low**. The income of a single, adult Newstart recipient is now more than \$100 per week below both the HPL and the 50 per cent of median income poverty line (*see chapters 5 and 6*).

The **minimum wage** remains an important mechanism for low income people to avoid poverty and participate in society. The evidence shows that the minimum wage makes a significant difference to income inequality and rates of poverty. It is important that the minimum wage is set at a level that reflects the rising cost of living in Australia.

There is a **socio-economic gradient** associated with a large range of **health outcomes**. Poorer health outcomes are recorded for those with lower incomes. A concerted focus on preventive health and improved access to primary healthcare—especially for lower income people—will assist in lifting a number of these outcomes (*see chapter 3*).

Aboriginal and Torres Strait Islander peoples, people with disability, people living with a mental illness, single parents and newly arrived migrants (particularly those without English) are **more vulnerable to poverty and disadvantage**.

Low transfer payments or a **low income often compounds the extent of the disadvantage** felt by people in these disadvantaged groups. Coupled with the disadvantage of a mental health condition, a physical disability or the demands of being a single parent, a low income makes it more difficult to access decent and stable housing, quality health and education services and the skills needed to break out of poverty. But people in these disadvantaged groups are those who most need these assets, services and skills. Where these service supports are not available, they become even more susceptible to ill health and exclusion from the labour market and society (*see chapter 4*).

There is a need to carefully consider how the income support system can assist the large and growing of people with **insecure work** (casual, short-term contracts). There is a cohort within the Australian labour market that moves in and out of short-term, low skilled work. It is very difficult for these people to develop the

financial and personal resilience to move out of poverty and find secure stable housing (*see chapters 3 and 4*).

The **mobility of labour** and **regional variations in labour market opportunities** are often factors that limit people's employment opportunities. People looking for work, particularly those in disadvantaged groups, may not be able to move due to financial constraints, family obligations or are often reluctant to move from their existing support networks in search of employment (*see chapter 4*).

Decent and stable housing is fundamental to the ability of people on income support and those on low incomes to remain in the labour force and participate in society. A shortage of affordable supply, and various factors fuelling demand for housing, has led to record high house prices and private rents. Those on a low income are typically excluded from buying a property and often find even renting difficult in the private market. There are long waiting lists to enter public and social housing. Studies show the importance of **Commonwealth Rent Assistance** in helping those on low incomes avoid housing stress. Moreover, a decent wage is the most effective remedy for lifting people out of housing stress.

An **individualised, one-on-one approach can achieve significant success** in reconnecting people with education, training and employment opportunities. There are a range of settings where the case management approach can work well. The evidence points to significant benefits from investing in programmes that:

- connect with **young people at risk of leaving school early**, through mentoring and hands-on training opportunities;
- encourage **young people** to remain in school and create **opportunities to meet with employers** and vocational education providers. The key is to show young people who are at risk of leaving school early that they have an employment future, and to show them what that future might look like;
- develop **tailored training opportunities for workers aged 50 and over**, particularly those facing retrenchment; and
- provide a **long-term unemployed person with a mentor** who can discuss the specific barriers to a person finding employment, liaise with local employers to discuss job opportunities and the capabilities of the unemployed person actively assist him or her in the application and interview process (*see chapter 6*).

LIST OF RECOMMENDATIONS

Recommendation 1

5.84 The committee recommends that there should be analysis of income inequality in Australia as a result of budget changes. The evidence provided to the committee raises issues around the best way to provide this analysis. There has been support for this work to be undertaken by the Treasury or the Australian Bureau of Statistics. The committee believes that consideration should be given to the most effective process to achieve this analysis.

Recommendation 2

5.85 The committee recommends that the Australian Government not proceed with the following 2014-15 Budget measures, to avoid further hardship for Australians in receipt of income support payments:

- in Schedules 1 to 8 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014, measures that:
 - maintain at their current levels for three years the income free areas for all working age allowances (except student payments) and the income test free area for Parenting Payment Single, from 1 July 2015;
 - index Parenting Payment Single to the Consumer Price Index only, from Royal Assent;
 - maintain at their current levels for three years several FTB free areas, from 1 July 2015;
 - maintain at their current levels for three years the income free areas and other means-tested thresholds for student payments, including the student income bank limits, from 1 January 2015;
 - maintain the standard FTB child rates for two years in the maximum and base rate of FTB Part A and the maximum rate of FTB Part B, from 1 July 2015;
 - revise the FTB end-of-year supplements to their original values and cease indexation, from 1 July 2015;
 - 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, from 1 July 2015;
 - 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, from 1 July 2015;

- extend and simplify the ordinary waiting period for all working age payments, from 1 January 2015;
 - provide for 26-week waiting periods and non-payment periods, from 1 January 2015;
 - cease the pensioner education supplement, from 1 January 2015;
 - cease the education entry payment, from 1 January 2015;
 - extend Youth Allowance (Other) to 22 to 24 year olds in lieu of Newstart Allowance and Sickness Allowance, from 1 January 2015;
 - require young people with full capacity to learn, earn or Work for the Dole, from 1 January 2015; and
 - remove the three months' backdating of disability pension under the *Veterans' Entitlements Act 1986*, from 1 January 2015.
- in Schedules 1 and 2 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 5) Bill 2014, measures that:
 - index all pensions to the Consumer Price Index only, from 20 September 2017;
 - maintain for three years the current income test free areas for all pensioners (except Parenting Payment Single), and the deeming thresholds for all income support payments, from 1 July 2017;
 - reset the income test deeming thresholds for single income support recipients (\$30 000), pensioner couples (\$50 000), and a member of a couple other than a pensioner couple (\$25 000), for social security and veterans' entitlements, from 20 September 2017; and
 - increase the age pension qualifying age and the non-veteran pension age from 67 to 70 years, by six months every two years, commencing 1 July 2025.
 - cessation of payment of the seniors supplement for holders of the Commonwealth Seniors Health Card or the Veterans' Affairs Gold Card, from 20 September 2014 (Schedule 1 of the Social Services and Other Legislation Amendment (Seniors Supplement Cessation) Bill 2014).

The committee recommends that the proposed changes to the HECS-HELP study assist scheme and the proposed GP co-payment do not proceed.

Recommendation 3

6.46 The committee recommends that the Australian Government review the level of working age payments to examine the rate of payment to the poverty line.

Recommendation 4

6.47 The committee recommends that the Australian Government establish a consultation process to engage key stakeholders in discussions on how to set minimum levels for social security payments in Australia, including Commonwealth Rent Assistance payments and student assistance payments. In determining the optimal basis for benchmarking payment levels, these discussions should consider the merit and weight to be placed on each of the following measurements:

- replacement rates;
- poverty lines;
- budget standards; and
- financial stress indicators.

Recommendation 5

6.50 The committee recommends that the Australian Government urgently review the amount of funding allocated to Financial Crisis and Material Aid including for the provision of Emergency Relief and Food Relief (including over the forward estimates), to ensure that vulnerable Australians in need are able to access assistance.

Recommendation 6

6.60 The committee recommends that in its response to the findings of the Review of Australia's Welfare System, the Australian Government ensure that those facing the greatest hardship are better off.

Recommendation 7

6.70 The committee recommends that the Commonwealth Government establish a series of national and regional rental indexes to track the increase of rents. The committee recommends that consideration, including of cost implications, be given to indexing Commonwealth Rent Assistance according to the geographically most suitable index.

Recommendation 8

6.72 The committee recommends that the Commonwealth Government develop National Urban Planning Guidelines ensuring that new and existing developments have access to public transport, health, education and other services.

6.73 The committee also recommends that the Commonwealth Government develop National Planning Guidelines that all new housing developments have a

minimum target of affordable and public and social housing for low income and other disadvantaged groups.

Recommendation 9

6.80 The committee recommends that the Commonwealth Government reconsider its decision to terminate the *Youth Connections* programme and other youth transition programmes. These programmes should be continued or at least rebadged. The focus of the programme must remain on one-on-one mentoring to help young people to overcome the barriers that make it difficult for them to stay in, or return to, school or training.

6.81 The committee recommends that the Commonwealth Government establish TAFE programmes that build on the mentoring approach of the *Youth Connections* programme. The objective of this approach at TAFE level is to ensure that young people remain engaged in vocational training and are able to identify and pursue their employment options.

Recommendation 10

6.91 The committee recommends that Australian schools—particularly those in regions of socio-economic disadvantage—establish alliances with employers and vocational education providers to deliver programmes that encourage young people to remain at school, develop contact with employers and support young people to transition to the workforce or further education or training. These programs should encourage employers and vocational education institutions to take a lead role in designing courses that identify future job opportunities for these young people.

Recommendation 11

6.95 The committee recommends that the Office of the Age Discrimination Commissioner articulates a National Jobs Checkpoint Plan, with costings, that can be put to the Commonwealth and State governments for their consideration. These costings should emphasise the savings that will arise from a preventative approach where older workers can move smoothly to training opportunities and further work, as distinct from these workers being made redundant and reliant on income support payments.

Recommendation 12

6.99 The committee recommends that the Australian Government assess the success and the financial and social benefits of programmes that provide individualised support for the long-term unemployed and those at risk of long-term unemployment. Pending this analysis, the committee recommends that the Australian Government consider the case for funding these programmes on a more secure, longer-term basis.

Recommendation 13

6.122 The committee recommends that as part of the planned discussions leading to a White Paper on taxation reform in 2015, the federal government have regard to how the existing tax system is affecting inequality in Australia. This should include an analysis of existing tax concessions.

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:

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

1 See 'CEO Pay in ASX 200 Companies', 13th 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 (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;⁶
- access to General Practitioner services for low income people;⁷
- the options for a paid parental leave scheme and greater public investment in childcare;⁸
- the challenge of living on *Newstart* benefits;⁹ and
- the increase in the number of people on the Disability Support Pension.¹⁰

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.

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 (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?¹¹ Does it matter that this compensation package for an ASX 200 CEO is 145 times that of a worker on the minimum wage?¹² 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.¹³ 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.

11 The figure for CEO pay is taken from the most recent Australian Council of Superannuation Investors Survey. 'CEO Pay in ASX 200 Companies', 13th 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 (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.

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.¹⁴ 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.¹⁵ 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.¹⁶

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

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&& (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.¹⁸

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.¹⁹

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.²⁰

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.

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.²¹ 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.²²

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.²³

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.²⁴

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'.²⁵

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'.²⁶ 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.²⁷

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:

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.²⁸

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...²⁹

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.³⁰

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 2013.³¹ 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...³²

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.³³

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.³⁴

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

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

33 Professor Thomas Piketty, *Capital in the 21st 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 (accessed 15 October 2014).

housing construction...; for offering opportunity grants for young people; and for improving education.³⁵

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.³⁶ However, Australian governments have not viewed the reduction of income inequality as a specific policy objective.³⁷ 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.³⁸

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

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 21st 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'.³⁹

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?⁴⁰

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

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:

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.aspx> (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 (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 (accessed 16 October 2014).

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.⁴²

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

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 (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?⁴³

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.⁴⁴

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.

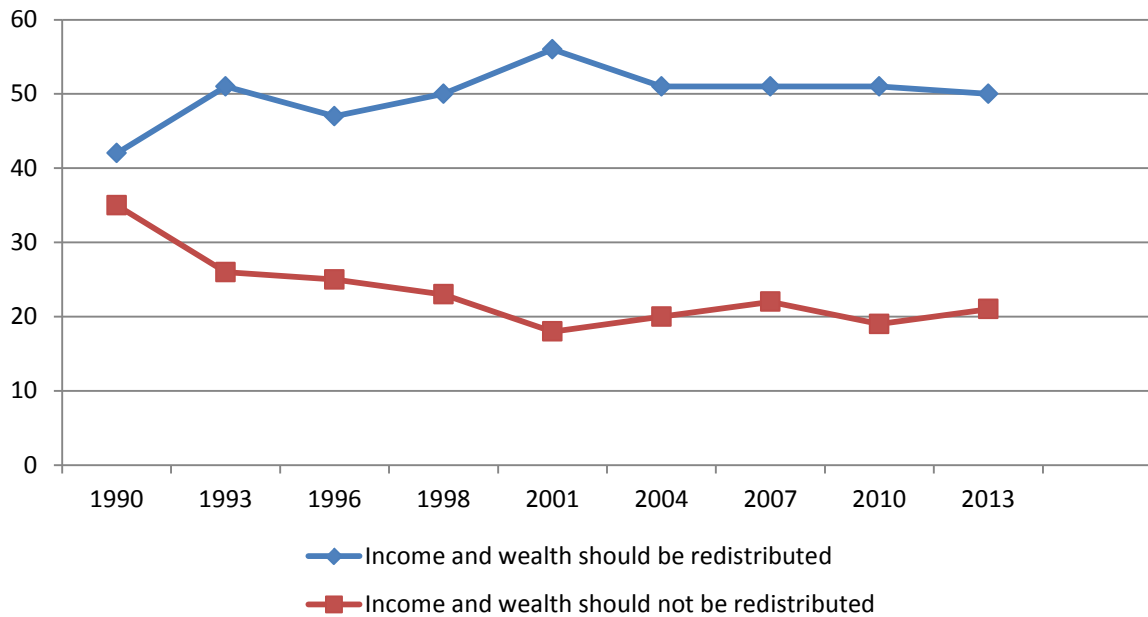
1.34 Figure 1.1 shows that only 1 in 5 people surveyed over the past decade believe that income and wealth should not be redistributed. Roughly half of those surveyed over the past decade believe that income and wealth should be redistributed.

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'.

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

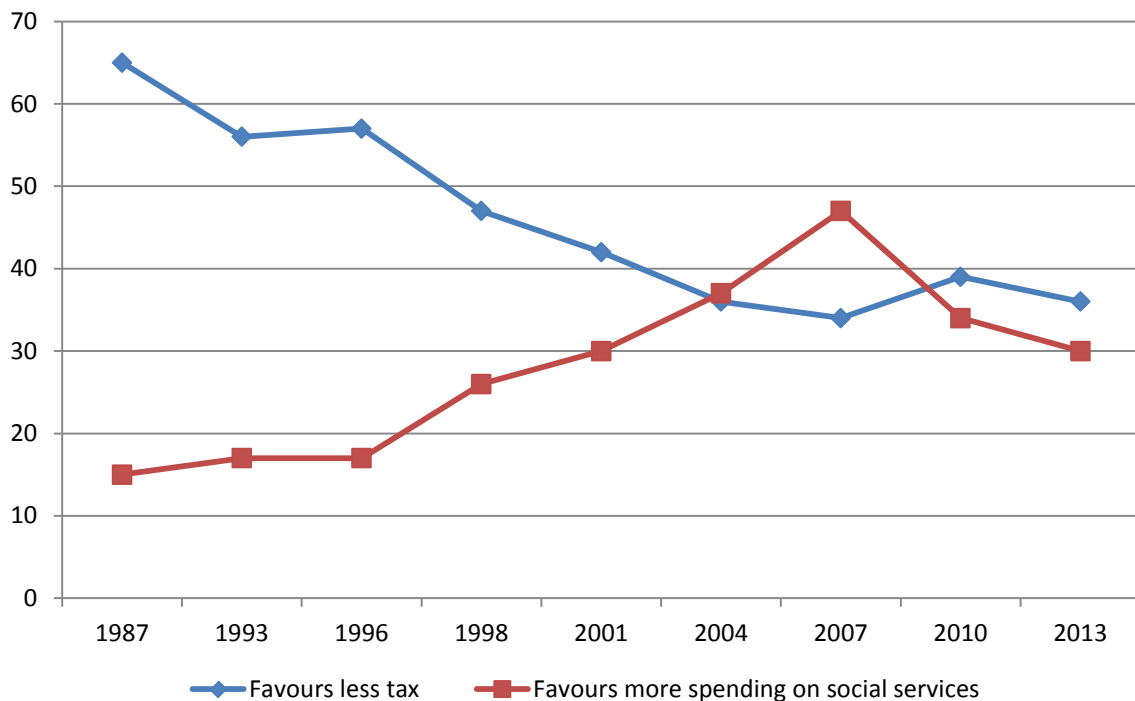
44 Dr Martin Parkinson, *The 2014-15 budget and sustaining broad-based growth in living standards*, Speech to the Australian Business Economists, 20 May 2014, http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Speeches/2014/ABE%20May/Downloads/PDF/ABEMay2014_1200.ashx (accessed 3 December 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.⁴⁵

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.⁴⁶ 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.⁴⁷

1.38 Australian households in the 21st 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.⁴⁸

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

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'.⁴⁹ 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.⁵⁰

1.42 In January 2014, the Australia Institute and Australia²¹ 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.⁵¹ 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);

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*.

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- 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.⁵² Most of the other measures have been incorporated into other bills, which are currently before the Parliament.⁵³

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.⁵⁴

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.⁵⁵

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 (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.⁵⁶

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

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.⁵⁸

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';

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.⁵⁹

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.⁶⁰

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.

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.⁶¹

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

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 members⁶² 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.

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.

Chapter 2

The extent of income inequality in Australia

2.1 This chapter addresses the first term of reference for this inquiry: the extent of income inequality in Australia and the rate at which it is increasing. Income inequality can be measured in a variety of ways. Different measures will yield different findings. Further, the same measure will yield a different result depending on the data source that is used.

2.2 In evidence to the committee, Treasury stated that it is important to consider a range of different indicators of income inequality rather than one or two metrics. Further:

[T]here are alternatives to income which can be used to measure equity, including the distribution of consumption and wellbeing, as well as various measures of material deprivation. It is also necessary to understand what is included or omitted from the analysis and also to consider the impact of policies on opportunity.¹

2.3 The committee notes that the underlying reasons for a change in the level of inequality can be highly complex. As one submission noted, inequality:

...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.²

Measures of income inequality

2.4 In the course of this inquiry, the committee has received data and research on a range of income inequality measures. These include:

- the Gini coefficient;
- the income share of a subset of the population (including the top one per cent);
- the ratio of income between different levels of income distribution;
- the share of the population with an income higher or lower than a population median;
- pre-tax and post-tax and transfer distributions; and
- an individualised measure disaggregated from household data.

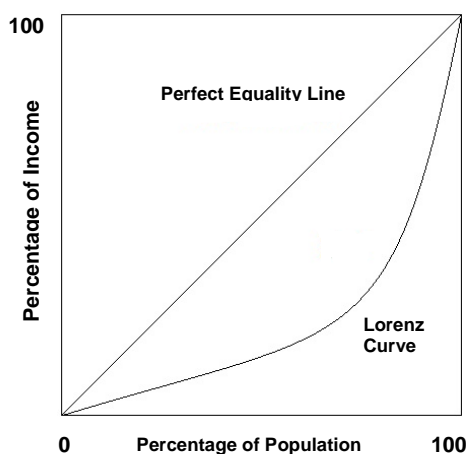
1 Mr Nigel Ray, Executive Director, Fiscal Group, The Treasury, *Committee Hansard*, Canberra, 17 November 2014, p. 1.

2 Professor Peter Whiteford and Professor Andrew Podger, *Submission 55*, p. 1.

The Gini coefficient

2.5 Perhaps the best recognised measure of income inequality is the Gini coefficient. This is a scale from 0 to 1 where 0 is where all incomes are equal and 1 is where there is absolute inequality (ie: a single person has all the income).

2.6 The Gini coefficient is calculated using the Lorenz curve. This curve graphs the cumulative proportion of total income against the cumulative proportion of the population from lowest to highest income. The curve starts at 0 and reaches a maximum of 1.³ A straight line would denote that everyone has the same income; inequality is reflected in a convex curvature. The Gini coefficient is calculated through dividing the area between the straight line of perfect equality and the actual Lorenz curve by that area and the area under the Lorenz curve.



2.7 The Gini coefficient is used by the Organisation for Economic Cooperation and Development (OECD) as a basis for international comparison. Treasury told the committee that the Gini also allows for useful comparisons. However, Treasury has also noted the limitations of the Gini:

...it does not tell us about changes in the distribution of inequality between income groups, such as the top and the bottom...

a reduction in the Gini coefficient could result from a fall in incomes at the top, without a corresponding rise in incomes at the bottom (that is people becoming more equally poor).⁴

Income share

2.8 Points along the Lorenz curve indicate the ratio of people at different ranks in the income distribution. Income share is another common measure of income

3 Professor Roger Wilkins, *Submission 7*, pp 2–3.

4 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup Issue 2, December 2013, p. 38; see also Mr Nigel Ray, Treasury, *Committee Hansard*, Canberra, 17 November 2014, p. 1.

inequality. It can be expressed in terms of x per cent of households holding y per cent of income. Often, reference is made to the income share of the highest one per cent of the population.

The P90/P10 ratio and Q5/Q1 ratio

2.9 A third way to measure income inequality is by charting the ratio of income at different ranks of the income distribution. For example, the P90/P10 ratio is the income of the unit at the 90th percentile relative to that at the 10th percentile. The higher the ratio, the greater the inequality. A variant of this measure is the Q5/Q1 ratio: the ratio of the income share of the richest 20 per cent to that of the poorest 20 per cent. Again, the higher the ratio, the greater the extent of inequality.⁵

2.10 Professor Alan Duncan of the Bankwest Curtin Economics Centre noted his preference for using the income ratios to measure income inequality, as opposed to the Gini coefficient. As he told the committee:

I think the metrics we present, which are based on income ratios or income multiples, are actually far more accessible than, say, Gini coefficients, which are the orthodox metric by which income inequality is judged. The difference between 0.39 and 0.37 in a Gini coefficient means essentially nothing...With income multiples, looking at the typical income in the top 10 per cent of income distribution, in Australia the census was constructed with a series of income bands, where the top income band of \$2,000 per week or more broadly speaking aligned with the top 10 per cent. For the bottom 10 per cent, the income band that characterised the first decile stopped at around \$200 per week. When you are talking about income multiples say of the 90/10 ratio and how that has changed over time, if you look at something like a ratio that is rounded up to five, then you are talking about the difference between somebody who is on \$2,000 a week and somebody who is on \$400 a week.⁶

Relative income poverty

2.11 Some studies of income inequality use the concept of relative income poverty.⁷ This is the share of the population with an income of less than 50 per cent of the respective national median income.

Post-tax and transfers

2.12 The measurement of income inequality can also take into account pre-tax and post-tax and transfer distributions. Studies sometimes compare the two, showing the

5 *Submission 55*, p. 9.

6 *Committee Hansard*, Rockingham, 11 November 2014, pp 7–8.

7 See Organization for Economic Cooperation and Development, 'Social and welfare issues—Inequality', <http://www.oecd.org/social/inequality.htm> (accessed 18 November 2014) (accessed 28 November 2014).

extent to which the tax and transfer system redistributes income.⁸ Most studies of income inequality focus on income after payment of income taxes and receipt of government benefits.⁹ The Australian Bureau of Statistics (ABS) typically reports household income survey data. This data includes social security benefits and deducts direct taxes and adjusts for the number of people living in the household.

Equivalence

2.13 Income inequality is often measured at the household level using an equivalence scale. This scale adjusts for household size and composition and produces a 'per adult equivalent' measure of income.¹⁰

Australian studies into income inequality

2.14 In their submission to this inquiry, Professors Peter Whiteford and Andrew Podger provide an overview of various academic studies of income inequality in Australia over the past 20 years. The table they provide (Table 2.1) shows that most of these studies found that income inequality had increased.

2.15 Professors Whiteford and Podger note that the studies employ a range of data and methods to analyse inequality. The second column in Table 2.1 ('income concept') shows that many Australian studies have used cash disposable income, equivalised to provide a per-adult equivalent measure. Some studies have gone beyond cash income to include the in-kind benefits of health, education, housing and childcare. Associate Professor Roger Wilkins of the University of Melbourne notes that these in-kind transfers 'can be very important to economic wellbeing and, moreover, when included in the definition of income tend to reduce measured inequality'.¹¹

2.16 In commenting on these research findings, Whiteford and Podger observe that while 'the cumulative picture is of rising income inequality over the longer run', there are some periods over which there are 'indications of falling inequality'. They add that the concepts and measures used in these studies 'can make a significant difference'.¹² In similar vein, Professor Wilkins wrote in his submission: '[E]ach measure provides different information on the income distribution, and ideally any study of inequality will examine a battery of measures'.¹³

8 Australian Council of Trade Unions (ACTU), *Submission 46*, Figures 17 and 18, pp 26–27.

9 Professor Roger Wilkins, *Submission 7*, p. 2.

10 Professor Roger Wilkins, *Submission 7*, p. 2.

11 *Submission 7*, p. 2.

12 *Submission 55*, p. 7.

13 *Submission 7*, p. 2.

Table 2.1: Results of selected studies of inequality in Australia

Study	Income Concept	Period	Data Source	Main Results
Bradbury and Doyle 1992	Cash disposable income, equivalised	1983–84 to 1989–90	Microsimulation, IDS	Gini increased from .367 to .370
Gregory 1993	Individual gross earnings, not equivalised	1976 to 1990	Weekly Earnings of Employees (WEED)	Growth in low paid and high-paid jobs - the 'disappearing middle'
Saunders 1993	Cash disposable income, equivalised	1981–82 to 1989–90	IDS	Gini increased from .27 to .29
Harding 1994	Gross income, equivalised	1981–82 to 1989–90	IDS	No change in Gini
Raskall and Urquhart 1994	Social wage income (health, schooling), equivalised	1982–83 to 1989–90	Microsimulation, IDS	Gini increased from .272 to .276
Whiteford 1994	Cash disposable income, equivalised	1982–83 to 1989–90	Microsimulation, IDS	Gini fell from .328 to .319
Gregory and Hunter 1995	Gross household income of areas, not equivalised	1976 to 1991	Census	Gini increased from .14 to .18; incomes fell for low-income areas between 1976 and 1981 and rose for rich between 1981 and 1991
Harding 1995	Social wage income (health, education, housing, childcare), equivalised after housing	1994	Microsimulation, IDS	Gini for cash disposable income of .308, for final income of .289
Johnson et al. 1995	A. Cash disposable income, equivalised B. Social wage income (health, education, housing, childcare, concessions), equivalised	1981–82 to 1993–94	Microsimulation, HES	A. Gini fell from .308 to .296 B. Gini fell from .255 to .226
OECD Atkinson et al. 1995	Cash disposable income, equivalised	1981–82 to 1985–86	IDS	Gini increased from .287 to .295; P90–P10 fell from 4.05 to 4.01
ABS 1996	Final income (social wage plus indirect taxes), not equivalised	1984 to 1993–94	Household Expenditure Survey (HES)	Q5–Q1 increased from 4.5 to 4.7
Borland and Wilkins 1996	Individual gross earnings, not equivalised	1975 to 1994	WEED; Income Distribution Survey (IDS)	Real weekly earnings of males fell at 10th percentile and rose at 90th percentile
ABS 1999	Gini - gross income of income units	1994–95 to 1997–98	IDS	Income distribution of all income units almost unchanged. Gini of .446 not significantly different from that of previous years
Barrett et al. 1999	Consumption inequality	1975 to 1993	HES	Income and consumption inequality both rose, income inequality grew much more than consumption inequality
Lloyd et al. 2000	Mean income by location	1986 to 1996	Census	Income of metropolitan residents increased double the rate of those in major urban centres and regional towns. Between 1991 and 1996, rural towns had the largest increase

Saunders 2001	Wage and salary, market income, gross income, disposable income and equivalent disposable	1990 to 1999–2000	IDS, and Survey of Income and Housing Costs	Wage and salary Gini increased from 0.224 in 1990 to 0.275 in 1999–00. Market Gini rose from 0.543 to 0.572. Gross Gini rose from 0.427 to 0.445. Disposable Gini rose from 0.375 to 0.391. Equivalent disposable Gini rose from 0.330 to 0.346. Australia 6 th most unequal country out of 20 in 1995
Harding and Greenwell, 2002	Disposable income and household expenditure	1984 to 1998-99	IDS, and Survey of Income and Housing Costs and HES	Income inequality has been increasing ,but current expenditure inequality has remained stable
Leigh, 2004	Taxable and disposable income	1942 to 2000	Taxation statistics	Inequality fell in the 1950s and the 1970s, and rose during the 1980s and 1990s – a pattern similar to the United Kingdom.
Johnson and Wilkins, 2006	Private income, gross income, disposable income and equivalent disposable and household expenditure	1982 to 1977-78	IDS and HES	Modest increase in inequality over 1980s and 1990s, with most of the increase being in early 1990s. Expenditure inequality is lower but also increased.
Atkinson and Leigh, 2006	Taxable and disposable income	1921 to 2002	Taxation statistics	The income share of the richest fell from the 1920s until the mid-1940s, rose briefly in the post-war decade, and then declined until the early-1980s. During the 1980s and 1990s, top income shares rose rapidly. At the start of the twenty-first century, the income share of the richest was higher than it had been at any point in the previous fifty years.
Austen and Redmond, 2010	Earnings inequality and household income inequality	1982 to 2007	IDS	Male earnings inequality increased substantially across this period, but change in family income inequality was less significant. Women's earnings played a role in moderating the effects of rising male earnings inequality.
Doiron, 2011	Household disposable income	2000 to 2008	IDS	After a decade of stable even slightly improving income inequality, Australia suffered a sharp widening of its income distribution in the late 2000's. Although this U-turn is not unique to Australia, the change has seemed more extreme with Australia's rank in 30 OECD countries falling from 15 in 2004 to 24 in 2008 in terms of income equality.
Bray, 2014	Household disposable income	1990 to 2010	SIH	Rise in inequality 1990 to 1994, fall to 1998, rise to 2000-01, then fall to 2004, rise to 2008 then fall.
		1976 to 2010	HES	Fall in inequality between 1976 and 1984, rise to 1993-94, fall to 2003-04 and rise to 2008-09.
		2001 to 2010	HILDA	No significant change in inequality between 2001 and 2010.

Source: Professor Peter Whiteford and Professor Andrew Podger, *Submission 55*, pp 7–9. Note: The Gini coefficient ranges between 0 and 1 with a higher Gini implying greater inequality. The P90/P10 ratio is the income of the unit at the 90th percentile relative to that at the 10th percentile, with a higher ratio implying greater inequality. The Q5/Q1 ratio is the ratio of the income share of the richest 20 per cent to that of the poorest 20 per cent, with a higher ratio implying greater inequality.

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Australian Bureau of Statistics data

2.17 ABS data on income inequality are principally derived from two surveys: the Household, Income and Labour Dynamics in Australia Survey (HILDA) and the Survey of Income and Housing (SIH).

The Household, Income and Labour Dynamics in Australia Survey (HILDA)

The Household, Income and Labour Dynamics in Australia Survey (HILDA) is a longitudinal social and economic survey which tracks all members of an initial sample of households in a series of interviews (waves) over an indefinite life. HILDA is designed to collect data in three main areas: economic and subjective well-being, labour market dynamics and family dynamics. Topics covered in these areas include education, current employment and employment history, job search experience, income, health and well-being, child care, housing, family background, marital history and family formation for those aged 15 years and over. Responsibility for the design and management of the survey rests with the Melbourne Institute of Applied Economic and Social Research. Commencing in 2001, HILDA collects data annually.

[http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3414.0main+features132011%20\(Edition%202\)](http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3414.0main+features132011%20(Edition%202))

The Survey of Income and Housing (SIH)

The Survey of Income and Housing (SIH) (previously known as the Survey of Income and Housing Costs (SIHC)) is a household survey which collects information on sources of income, amounts received, housing characteristics, household characteristics and personal characteristics. Income is collected on both a current and financial year basis. In some cycles from 2003-04, information on household net worth is also collected. The survey scope covers residents of private dwellings in both urban and rural areas of Australia. The survey was conducted for most years from 1994-95 to 2003-04 (no survey was run in 1998-99 or 2001-02), from which year it is being conducted biennially.

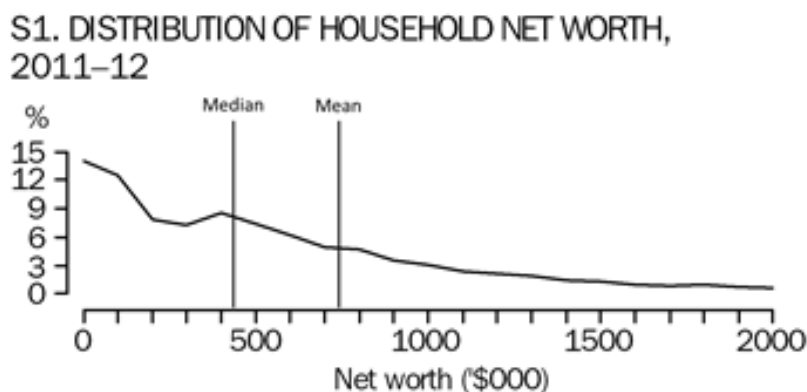
<http://www.abs.gov.au/ausstats/abs@.nsf/dossbytitle/F0CDB39ECC092711CA256BD00026C3D5?OpenDocument>

Household wealth in Australia: ABS Survey of Income and Housing

2.18 Based on its 2011–12 Survey of Income and Housing, the ABS has highlighted the 'asymmetric distribution of wealth between households' in Australia:

While the mean household net worth of all households in Australia in 2011–12 was \$728,000, the median (i.e. the mid-point when all households are ranked in ascending order of net worth) was substantially lower at \$434,000. This difference reflects the asymmetric distribution of wealth between households, where a relatively small number of households had high net worth and a relatively large number of households had low net worth, as illustrated in the following frequency distribution graph.¹⁴

14 Australian Bureau of Statistics, *Household Wealth and wealth distribution, 2011–12*, (6554.0), p. 5, [http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/FB162A8CBB41033DCA257BCD001A5725/\\$File/65540_2011_12.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/FB162A8CBB41033DCA257BCD001A5725/$File/65540_2011_12.pdf) (accessed 13 September 2014).

Figure 2.1: Distribution of household net worth 2011–12 (ABS 2012)¹⁵

2.19 The ABS noted various other findings from the survey:

- over 1.2 million households (14 per cent) had net worth less than \$50,000, with 114,000 of these households having negative net worth (1 per cent of all households);
- in 2011–12, households in the highest net worth quintile held more than 60 per cent of the total net worth of all households, while a further 21 per cent was held by households in the 4th quintile. By comparison, the lowest three quintiles held, in total, 18 per cent of total net worth;
 - the share of net worth held by the second net worth quintile has decreased from 6.0 per cent in 2003–04 to 5.2 per cent in 2011–12. Also the share of net worth held by the third net worth quintile has decreased from 12.7 per cent in 2003–04 to 12 per cent in 2011–12, and the share of net worth held by the highest net worth quintile has increased from 59.0 per cent in 2003–04 to 60.8 per cent in 2011–12;¹⁶
- the net worth of the households at the top of the 80th percentile was 11.6 times higher than the net worth of the households at the top of the 20th percentile (i.e. the ratio of the value of the top of P80 to the value at the top of P20). The corresponding P80/P20 ratio for gross household income was 4.5;
- high net worth households had the highest incidence of home ownership without a mortgage (59 per cent), whereas 91 per cent of the households in the lowest net worth quintile were renters;
 - renters had lower mean net worth (\$160,000) which is 22 per cent of the average for all households. Private renters averaged net worth of

15 Australian Bureau of Statistics, *Household Wealth and Wealth Distribution, Australia, 2011–12*, (6554.0), p. 5.

16 Australian Bureau of Statistics, *Household Wealth and Wealth Distribution, Australia, 2011–12*, (6554.0), p. 6.

\$179,000, while renters from state/territory housing authorities averaged net worth of \$43,000;

- lone persons aged under 35 had the lowest mean household net worth, at \$160,000;
- the mean household net worth of couple only households with a reference person aged under 35 was \$259,000. These couple only households had more than twice the level of mean gross household income of the young lone person household (\$2,543 per week compared with \$1,080 per week);
- one parent, one family households with dependent children had a mean net worth of \$251,000, compared to \$833,000 for couple family households with dependent children; and
- in 2011–12 Tasmanian households recorded the lowest mean net worth at \$601,000, or 17 per cent below the average for all Australian households. Canberra (ACT) households had a mean net worth of \$930,000, 19 per cent above the capital city average of \$781,000 and 28 per cent above the average for all Australian households of \$728,000.¹⁷

Long-run ABS data on income inequality

2.20 The Australian Council of Trade Unions (ACTU) and Professors Whiteford and Podger present in their submissions a figure (Figure 2.2, below) plotting the Gini coefficient in Australia from 1981–82 to 2011–12. There are two different sources: a series from Johnson and Wilkins using old ABS data and a series from 1994–95 using current ABS data.¹⁸

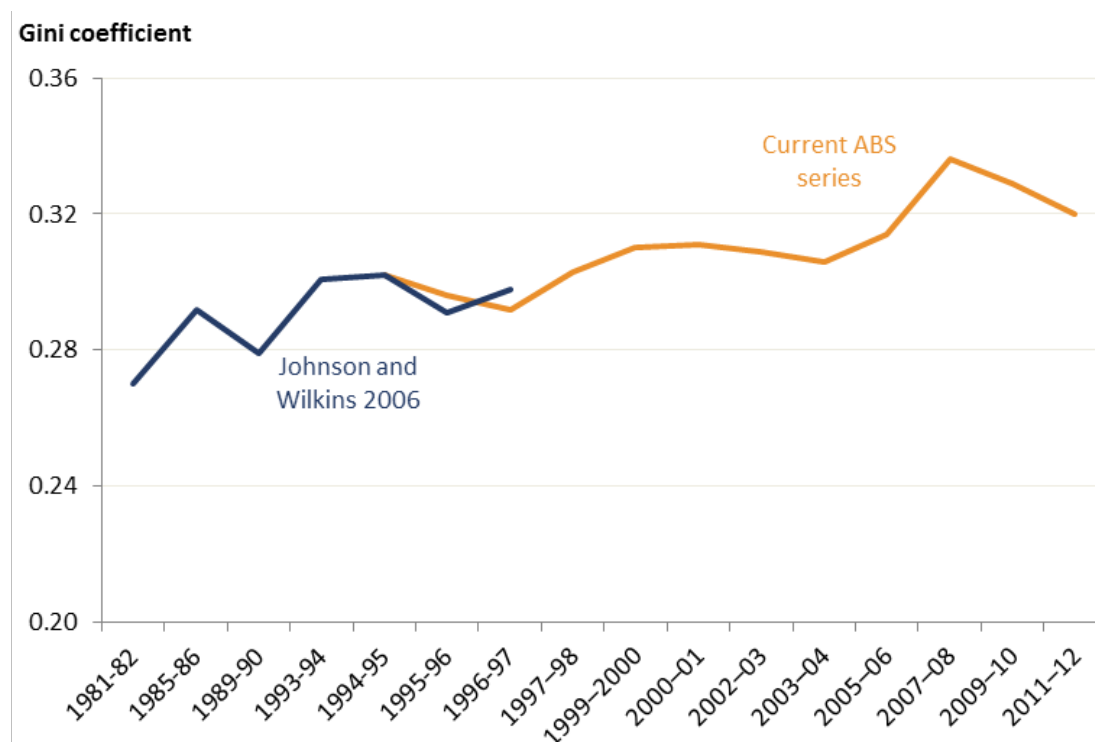
2.21 Professors Whiteford and Podger make the following observations on Figure 2.2:

Despite the differences in income measures and equivalence scales, the long run trend is clear. There are periods in which inequality fell – 1986 to 1990, 1994-95 to 1996-97, and 1999-2000 to 2002-03, but overall inequality measured by the Gini coefficient rose over 2000s, and 0.32-0.34 in the mid and late 2000s. Over the most recent period since the Global Financial Crisis, income inequality as measured by the Gini coefficient has fallen, but remains higher than at any point before 2007-08.¹⁹

17 Australian Bureau of Statistics, *Household Wealth and Wealth Distribution, Australia, 2011–12*, (6554.0), p. 9.

18 D. Johnson and R. Wilkins, ‘The causes of changes in the distribution of family income in Australia, 1982 to 1997–98’, *Social Policy Research Paper Number 27*, Department of Families, Community Services and Indigenous Affairs, Australian Government, Canberra, 2006, Table 4.5, <http://www.dss.gov.au/about-the-department/publicationsarticles/research-publications/social-policy-research-paper-series/number-27-the-causes-of-changes-in-the-distribution-offamily-income-in-australia-1982-to-1997-98> (accessed 10 November 2014).

19 *Submission 55*, p. 11.

Figure 2.2: Income inequality in Australia, 1982 to 2011

Source: Johnson and Wilkins (2006); ABS (various years).

2.22 On the basis of Figure 2.2, the ACTU commented:

Australia's Gini coefficient rose from 0.302 in 1994-95 to 0.336 in 2007-08, an increase in inequality of around 11%. Between 2007-08, income inequality fell a little, with the Gini coefficient coming down to 0.32. While this is lower than the level recorded in 2007-08, it remains higher than the Gini at any time from 1994-95 to 2005-06 (inclusive). The decrease in inequality since the GFC has been ascribed to causes including:

- The economic stimulus packages of 2008-09, a large portion of which consisted of means tested cash transfers to households;
- The increase in pensions in 2009; and
- The post-GFC fall in income from assets such as stocks, the ownership of which is concentrated among high-income earners.²⁰

Methodological concerns with the ABS data

2.23 In a paper titled *Evaluating the evidence on income inequality in Australia in the 2000s*, Professor Wilkins noted that there were technical changes in the SIH methodology, which casts doubt on the results from the 2000s. The paper's abstract states:

Published ABS data from the Survey of Income and Housing (SIH) show a substantial increase in income inequality between 2001 and 2010. However, almost all of the increase occurred over a period when changes in survey methodology and income concept were occurring. I document these changes, present results of analysis of the SIH unit record data, and present independent evidence on income inequality trends using the HILDA Survey, tax records and National Accounts. I conclude that the SIH overstates the growth in income inequality, even when the income variable examined is notionally consistently defined across surveys. The extent of overstatement is uncertain, however, reflecting ambiguity about the nature and extent of changes to the distribution of household market income.²¹

2.24 Professor Wilkins concludes:

We are therefore left with the somewhat unsatisfactory conclusion that it is not possible to produce definitive estimates of income inequality trends between 2001 and 2010. There are, however, some seemingly unambiguous facts about income distribution changes over the decade. No data source shows inequality decreasing, and indeed there is agreement between the weekly SIH, annual SIH and the HILDA Survey that inequality increased from approximately 2003-04 to 2007-08—albeit by differing magnitudes—and then decreased in the next two years. In addition, all three series show that changes to income taxes and to government benefits acted to increase income inequality over the decade.²²

2.25 The ACTU has noted that the ABS has 'improved its survey methodology over time and harmonised its definition of income with the international standard'. It argued:

This means that the recent estimates of the Gini coefficient are more likely to be accurate than earlier estimates. Thus, to the extent that the available figures overstate the rise in inequality, it is likely to be due to an underestimate of inequality in earlier years rather than an overestimate of inequality in later years. The ABS (and OECD) figures are used in this submission, as those organisations are confident enough of the comparability of the post-1994/95 estimates to present them as a time series, but the Committee should be aware of the technical issues here.²³

21 Professor Roger Wilkins, *Evaluating the evidence on income inequality in the 2000s*, Melbourne Institute Working Paper Series, Working Paper No. 26/13, July 2013, p. 55.

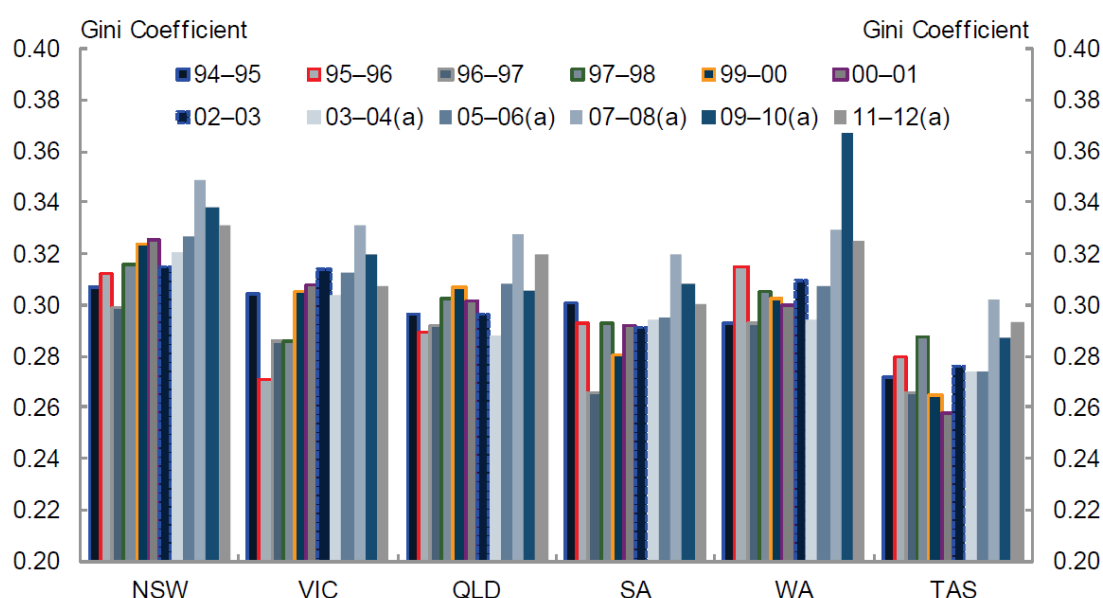
22 Professor Roger Wilkins, *Evaluating the evidence on income inequality in the 2000s*, Melbourne Institute Working Paper Series, Working Paper No. 26/13, July 2013, p. 55. See also *Submission 7*, p. 3.

23 *Submission 46*, p. 9.

Income inequality and the Australian States

2.26 A Treasury paper on income inequality (see below) provided the following chart which plots the Gini coefficient for each of the six Australian States from 1994–95 to 2011–12.

Figure 2.3: Gini coefficient for the States²⁴



(a) The revised trend uses a different definition for income and is therefore not directly comparable.

Source: Australian Bureau of Statistics (ABS cat no. 6523.0).

Note: Horizontal axis corresponds to survey release dates. The interval between surveys varies.

2.27 The chart shows that Gini coefficient trends followed a similar pattern in the Australian States, with the exception of Western Australia. Unlike the other States, income inequality has increased in Western Australia since 2007–08. Treasury stated:

While further work is needed to better understand this trend, it is likely that the increase in income inequality in Western Australia is due to the impact of the mining boom in that state.²⁵

2.28 The Bankwest Curtin Economics Centre has conducted research into the distribution of income and the extent of hardship in the boom mining state of Western Australia (WA). In its February 2014 report titled *Sharing the boom: the distribution of income and wealth in WA*, the Centre found that:

Between 2003–04 and 2011–12, all household income deciles in Western Australia increased by considerably more than was experienced nationally (Figure 9). The exceptions were those households in the first two deciles

24 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup Issue 2, December 2013, p. 40. Reproduced with permission.

25 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup Issue 2, December 2013, p. 40.

(those with the lowest incomes) who experienced increases of 27 per cent and 29 per cent respectively over the period. This compares with a national increase of 23 per cent for the two bottom deciles.

Eight out of the ten income deciles in Western Australia have experienced real growth rates of between 44 and 49 per cent in household gross income between 2003–04 and 2011–12. This compares to national growth which remained relatively flat across deciles over the boom period, at rates of between 23 and 27 per cent. While the majority of WA households grew well ahead of the national average, households in the bottom two deciles have kept pace with national rather than WA incomes growth.²⁶

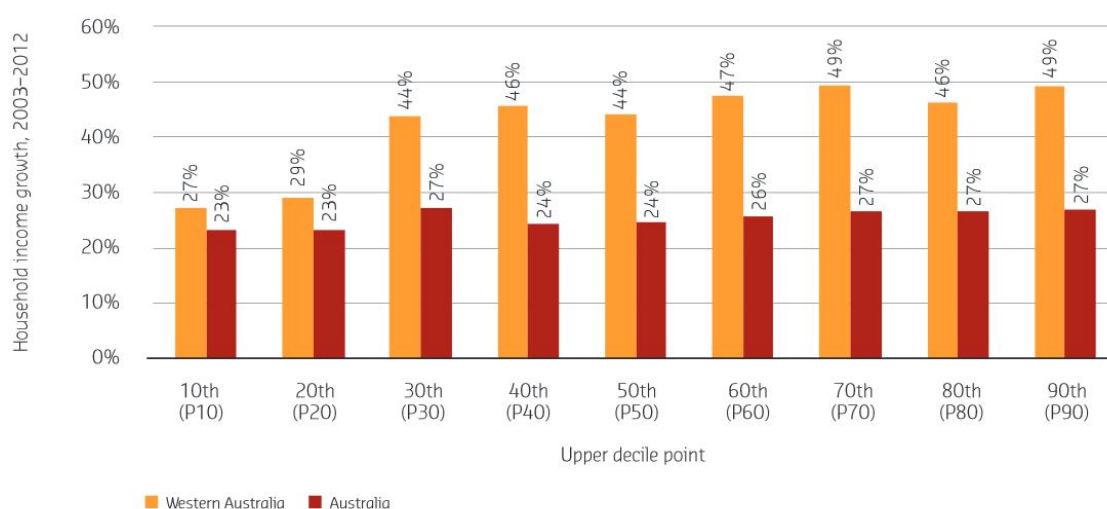
2.29 Professor Duncan elaborated:

If you look at real incomes growth in WA compared to the rest of Australia you find that, over the period between, say, 2003 and 2012, over the last decade...the first two deciles in WA track pretty closely to the first two deciles in the rest of Australia...

In deciles 3 to 10, you see a significantly greater degree of incomes growth in WA than the rest of Australia. It is not just the lowest 10 percentile. We see the separation occurring around decile 3.²⁷

Figure 2.4: Real growth in household gross income between 2003–04 and 2011–12 by decile: WA and Australia²⁸

Figure 9 Real growth in household gross income between 2003–04 and 2011–12 by decile: WA and Australia



Note: Data are expressed in 2011–12 dollars.
Source: BANKWEST CURTIN ECONOMICS CENTRE | AUSTRALIAN BUREAU OF STATISTICS Cat No. 6523.0

26 Bankwest Curtin Economics Centre, *Sharing the boom: the distribution of wealth and income in Western Australia*, February 2014, p. 12.

27 Professor Alan Duncan, *Committee Hansard*, Rockingham, 11 November 2014, p. 6.

28 Bankwest Curtin Economics Centre, *Sharing the boom: the distribution of wealth and income in Western Australia*, February 2014, Figure 9, p. 11. Reproduced with permission.

OECD data

2.30 Using the Gini coefficient, data from the OECD for Australia for the period 2000–2012 shows that income inequality declined from 2000 to 2004, increased from 2004 to 2008 and fell from 2008 to 2010 and again from 2010 to 2012. When compared with the OECD average, Australian income inequality was marginally higher in 2000, 2008 and 2010. Over the period 2000–2012, the United States recorded a Gini coefficient of between 0.36 and 0.39, while the United Kingdom ranged from 0.33 to 0.35.²⁹

2.31 In terms of the top decile of income earners relative to the lowest decline, the multiple in Australia was 8.1 in 2000, falling to 7.7 in 2004 before rising sharply to 9.3 in 2008. It has fallen since and in 2012, the top decile received 8.5 times the income of the bottom decile of income earners. The OECD average was consistently higher on this measure.

2.32 In terms of relative income poverty, in 2000, 12.2 per cent of the Australian population had an income that was less than 50 per cent of national median income. This figure increased to 13.2 per cent in 2004, 14.6 per cent in 2008 before falling in 2010 and 2012. On this measure, in 2000, 2008 and 2010, income inequality in Australia was more pronounced than the average across OECD countries.³⁰

Table 2.2: Income inequality in Australia and OECD averages, 2000–2012

	Gini coefficient		Top 10% vs bottom 10%		Relative income poverty	
	Australia	OECD average	Australia	OECD average	Australia	OECD average
2000	.32	.31	8.1	9.2	12.2	10.5
2004	.31		7.7		13.2	
2005		.32		9.4		
2008	.34	.32	9.3	9.5	14.6	11.6
2010	.33	.32	8.9	9.8	14.4	11.7
2011		.32		9.8		11.7
2012	.32		8.5		13.8	

Source: Organization for Economic Cooperation and Development, 'Social and welfare issues—Inequality', <http://www.oecd.org/social/inequality.htm> (accessed 10 November 2014)

29 Organization for Economic Cooperation and Development, 'Social and welfare issues—Inequality', <http://www.oecd.org/social/inequality.htm> (accessed 18 November 2014).

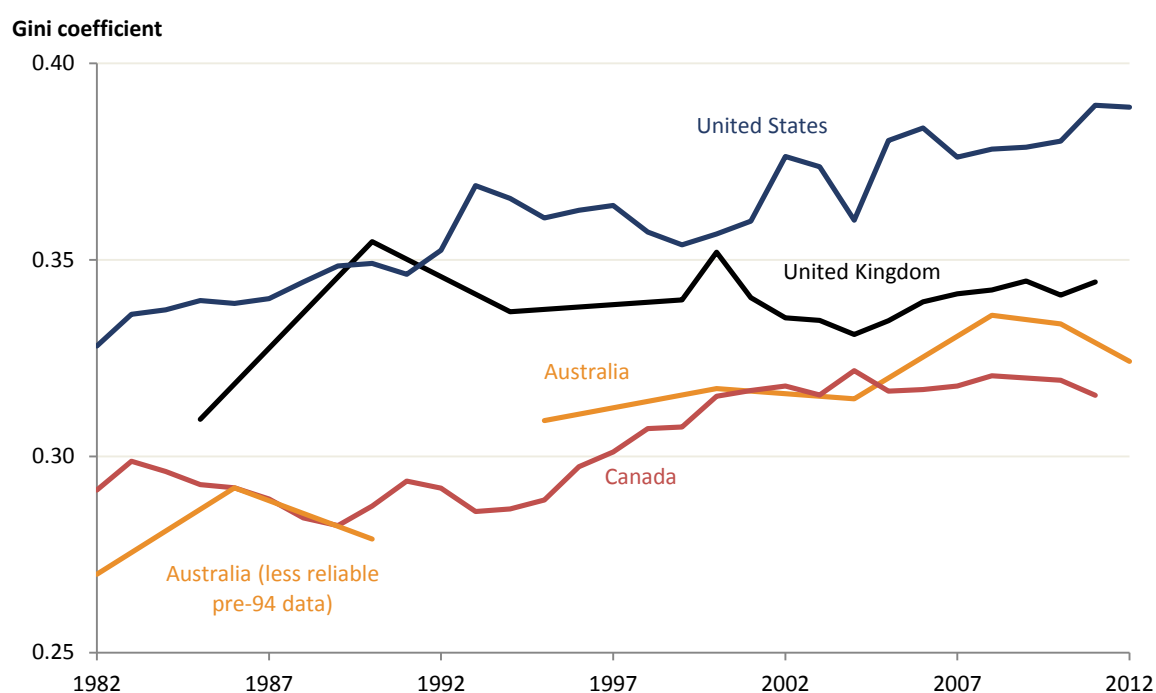
30 Organization for Economic Cooperation and Development, 'Social and welfare issues—Inequality', <http://www.oecd.org/social/inequality.htm> (accessed 18 November 2014).

2.33 Table 2.2 below shows trends in different income inequality measures in each OECD country.³¹ The table shows that in 2008:

- only eight of the other 33 OECD countries had a higher Gini coefficient than Australia—Chile, Mexico, Italy, Turkey, Israel, Portugal, the United States and the United Kingdom; and
- only 8 of the other 33 OECD countries had a higher S80/S20 share ratio³² than Australia—Chile, Israel, Japan, Mexico, Portugal, Turkey, the US and the UK.

2.34 Figure 2.5 is taken from the ACTU's submission to this inquiry. It shows that while income inequality in Australia has increased since the mid-1990s, the level of inequality (as measured by the Gini coefficient) has consistently been below that in the United States and the United Kingdom.

Figure 2.5: Gini coefficient for equivalised disposable household income in Australia, the US, the UK and Canada



Source: Australian Council of Trade Unions, *Submission 46*, p. 9. Reproduced with permission.

31 Organization for Economic Cooperation and Development, *Divided we stand: Why Inequality Keeps Rising*, 2011, <http://www.oecd.org/els/soc/49499779.pdf> (accessed 13 September 2014).

32 —the income of people in the 80th percentile as a proportion of people in the 20th percentile


Table 2.3: Trends in different income inequality measures (OECD 2011)³³

	Levels in late 2000s					Percentage point change									
	Gini coefficient	Interquintile share ratio (S80/S20)	Interdecile ratio (P90/P10)	Squared coefficient of variation (SCV)	Mean log deviation (MLD)	Gini		S80/S20		P90/P10		SCV		MLD	
						Mid-1980s to mid-1990s	Mid-1990s to late 2000s	Mid-1980s to mid-1990s	Mid-1990s to late 2000s	Mid-1980s to mid-1990s	Mid-1990s to late 2000s	Mid-1980s to mid-1990s	Mid-1990s to late 2000s	Mid-1980s to mid-1990s	Mid-1990s to late 2000s
Australia	0.336	5.7	4.5	0.374	0.183	..	2.7	..	0.8	..	0.5	..	-0.9	..	-0.6
Austria	0.261	3.8	3.2	0.281	0.114	0.2	..	0.1	..	0.1	..	1.4	..	-0.2	..
Belgium	0.259	3.8	3.3	0.285	0.114	1.3	..	0.0	..	0.0	..	7.5	..	0.4	..
Canada	0.324	5.4	4.2	0.754	0.193	-0.4	3.5	-0.2	0.8	-0.1	0.4	0.8	34.8	-1.1	4.0
Chile	0.494	12.8	8.5	1.751	0.449	..	-3.3	..	-2.6	..	-1.7	..	-30.4	..	-5.5
Czech Republic	0.256	3.6	2.9	0.360	0.111	2.6	-0.1	0.4	0.0	0.3	0.0	5.3	0.1	1.9	0.1
Denmark	0.248	3.5	2.8	0.671	0.122	-0.6	3.3	-0.1	0.5	-0.2	0.2	3.0	39.0	-0.7	3.9
Estonia	0.315	5.1	4.3	0.384	0.171	..	..	..	..	..	..	..	..	..	..
Finland	0.259	3.8	3.2	0.318	0.114	2.1	3.2	0.0	0.8	0.1	0.4	7.8	7.5	1.2	2.4
France	0.293	4.3	3.4	0.525	0.148	-2.3	1.6	-0.4	0.3	0.0	0.0	-77.7	20.2	-3.0	1.8
Germany	0.295	4.5	3.5	0.634	0.149	1.5	3.0	0.4	0.6	0.3	0.3	4.1	29.8	1.6	2.9
Greece	0.307	4.8	4.0	0.473	0.162	0.0	-2.8	-0.1	-1.0	-0.2	-0.7	1.1	-9.3	-0.4	-3.7
Hungary	0.272	3.9	3.1	0.398	0.128	2.1	-2.1	0.4	-0.4	0.3	-0.4	12.1	-6.6	1.7	-1.6
Iceland	0.301	4.4	3.2	0.571	0.155	..	..	..	..	..	..	..	..	..	..
Ireland	0.293	4.4	3.7	0.376	0.144	-0.6	..	-0.4	..	-0.1	..	32.0	..	-3.0	..
Israel ¹	0.371	7.7	6.2	0.911	0.270	1.2	3.3	0.3	2.1	0.5	1.4	17.5	1.0	0.9	7.7
Italy	0.337	5.6	4.3	0.595	0.221	3.9	-1.1	1.4	-0.7	0.8	-0.5	20.0	-5.3	6.8	-1.8
Japan	0.329	6.0	5.0	0.453	0.202	1.9	0.6	0.7	0.3	0.5	0.5	4.6	-6.5	3.0	0.0
Korea	0.315	5.7	4.8	0.374	0.190	..	..	..	..	..	..	..	..	..	..
Luxembourg	0.288	4.2	3.4	0.405	0.138	1.2	2.9	0.2	0.6	0.2	0.3	2.6	13.2	1.0	2.7
Mexico	0.476	13.0	9.7	2.827	0.417	6.6	-4.3	4.1	-2.5	2.1	-1.1	150.2	20.2	11.3	-7.2
Netherlands	0.294	4.4	3.3	..	..	2.5	-0.3	0.6	0.0	0.5	-0.1	..	..	..	..
New Zealand	0.330	5.3	4.2	..	..	6.4	-0.5	1.3	0.0	0.7	0.1	..	..	..	..
Norway	0.250	3.7	3.0	0.096	0.132	2.1	0.7	0.4	0.2	0.0	0.1	2.8	-20.2	2.9	1.3
Poland	0.305	4.8	4.0	0.418	0.158	..	..	..	..	..	..	..	..	..	..
Portugal	0.353	6.1	4.9	0.620	0.211	3.0	..	0.8	..	0.4	..	14.5	..	3.6	..
Slovak Republic	0.257	3.7	3.1	0.255	0.113	..	..	..	..	..	..	..	..	..	..
Slovenia	0.236	3.4	3.0	0.204	0.095	..	..	..	..	..	..	..	..	..	..
Spain	0.317	5.7	4.6	0.340	0.188	-2.8	..	-1.3	..	-0.9	..	-65.6	..	-6.0	..
Sweden	0.259	3.9	3.2	1.074	0.125	1.4	4.8	0.2	0.9	0.1	0.7	7.9	87.1	1.5	4.2
Switzerland	0.303	4.7	3.7	0.527	0.164	..	..	..	..	..	..	..	..	..	..
Turkey	0.409	8.1	6.2	1.130	0.291	5.6	-8.1	2.0	-3.1	0.3	-0.7	..	..	..	..
United Kingdom	0.345	5.8	4.6	0.861	0.252	2.7	0.9	0.8	0.2	0.5	0.2	18.7	-6.8	3.9	3.2
United States	0.378	7.7	5.9	0.752	0.286	2.3	1.8	0.5	0.8	0.0	0.5	30.2	2.7	2.9	3.7
OECD20	0.316	5.5	4.3	0.735	0.192	2.1	0.5	0.6	0.0	0.3	0.1	12.4	11.8	2.1	1.4
OECD34	0.314	5.4	4.3	0.625	0.185	..	..	..	..	..	..	..	..	..	..

Note: Income refers to disposable household income, corrected for household size and deflated by the consumer price index (CPI). Earliest year refers to 1985, except for Austria, Belgium, Sweden (1983); France, Italy, Mexico, United States (1984); Finland, Luxembourg, Norway (1986); Ireland (1987); Greece (1988); Portugal (1990); Hungary (1991); Czech Republic (1992). Latest year refers to 2008, except for Chile (2009); Denmark, Hungary, Turkey (2007); Japan (2006). OECD20 excludes countries for which no longer-term trends are available.

1. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD Database on Household Income Distribution and Poverty.

StatLink  <http://dx.doi.org/10.1787/888932537408>

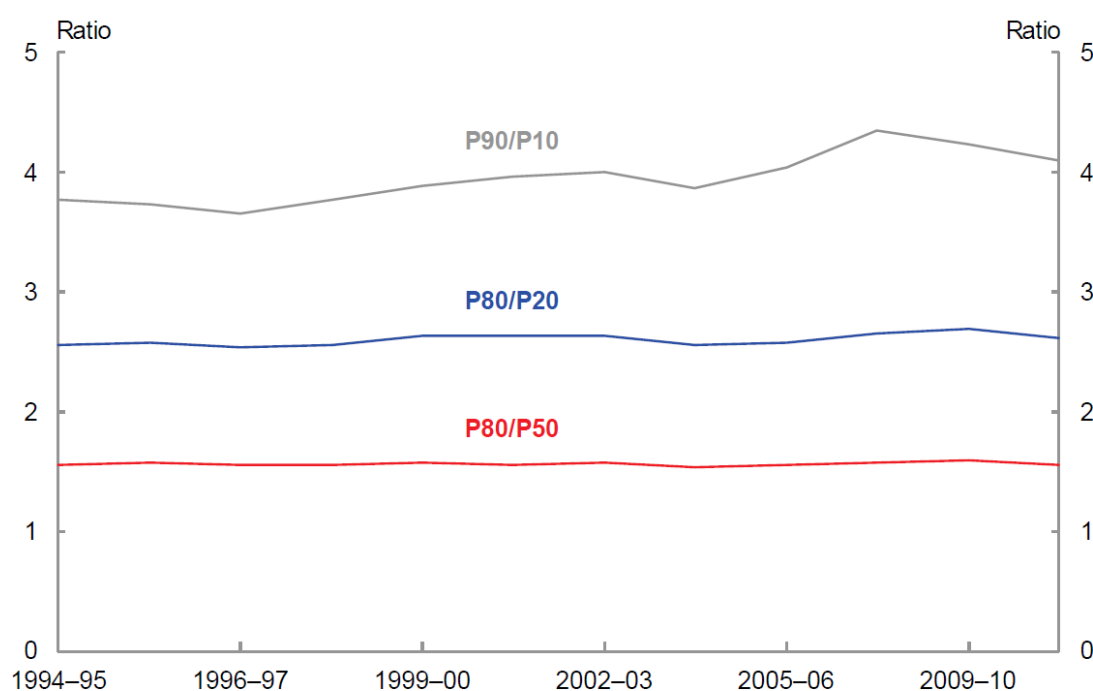
Treasury's evidence on income inequality

2.35 In 2013, a Treasury paper on income inequality concluded:

...while labour income inequality has been on the decline, overall income inequality in Australia has been rising since the mid-1990s. Measures that focus on the very top income earners show a strong gain in their share of national income, as is the case in most OECD countries.³⁴

2.36 The Treasury paper contained the following chart, comparing income inequality for households using the P90/P10 ratio, the P80/P20 ratio and the P80/P50 ratio.

Figure 2.6: P90/P10, P80/P50 and P80/P20 ratios in Australia (1994–95 to 2011–12)³⁵



Source: Australian Bureau of Statistics (ABS cat no. 6523.0).

Note: Horizontal axis corresponds to survey release dates. The interval between surveys varies.

2.37 Treasury summarised the findings as follows:

...in 2011–12, a household at the 80th income percentile had around 2.61 times the weekly household disposable income of a household at the 20th percentile and around 1.56 times the income of a household at the 50th

34 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup, December 2013, p. 36.

35 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup, December 2013, p. 42. Reproduced with permission.

percentile. A household at the 90th percentile had around 4.1 times the weekly household disposable income of a household at the 10th percentile.

Overall, between 1994–95 and 2011–12 the P80/P20 and the P80/P50 ratios have been fairly steady, with periods of small variation.

The P90/P10 line shows a steeper upwards trend than the other two data lines, with a pronounced drop occurring from 2007–08 to 2011–12. These findings are similar to the trend in the Gini coefficient, and are probably due to rises in investment incomes over this period which accrued mostly to those at the top of the income distribution.³⁶

2.38 Treasury emphasised that from 1994–95 until 2011–12, there has been real household income growth across the income distribution, with the biggest gains in the 40th, 80th and 90th percentiles.³⁷ It added:

While all of the household categories have experienced significant real income growth, the biggest gains have gone to singles between the age of 55 and 64 and couples without children, where both members are 55 or above and at least one member is below 65.

2.39 Interestingly, a lone person of prime working age is the household type that recorded the lowest real growth in disposable household income between 1994–95 and 2011–12.³⁸

The 2013 Productivity Commission report

2.40 In 2013, the Productivity Commission (PC) released a report examining income distribution trends in Australia between 1988–89 and 2009–10. The report found that real incomes for most Australians grew in this period and that higher growth in incomes for the higher deciles has led to a 'wider' spread of incomes. This wider spread has led to an increase in the Gini coefficient. In addition, the report found that:

- for households in the top gross income deciles (8 to 10), labour income growth appears to have been driven by higher wages;
- for households in the bottom gross income deciles (2 to 4), labour income growth has been driven by increased workforce participation and employment, not wages;
- while most Australian households do not report significant income from this capital income, a few, primarily in the 10th decile, earn large amounts; and

36 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup, December 2013, p. 41.

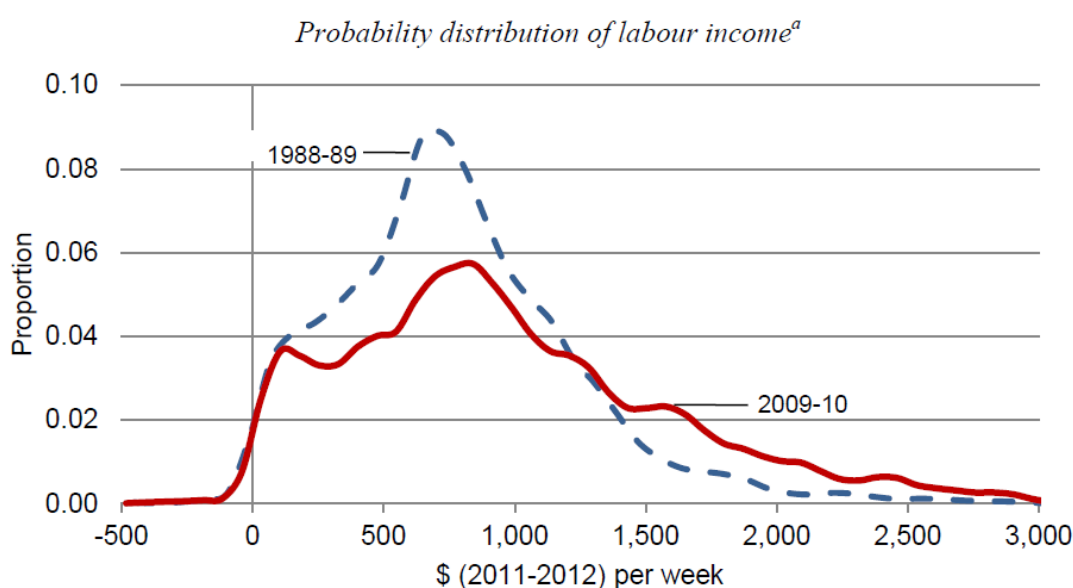
37 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup, December 2013, p. 43.

38 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup, December 2013, p. 45.

- the equalising impact of taxes on household income distribution has declined.³⁹

2.41 Figure 2.7 shows that the distribution of income 'has shifted to the right (indicating rising average incomes) and flattened (indicating greater spread of income), the 'top' tail of the distribution has also lengthened'.⁴⁰ In 1988–89, most households earned an income of \$250–1250 per week with a small percentage earning more than \$1500 per week. In 2009–10, most individuals earned an income of \$250–1750 per week with a much larger number earning more than \$1750 per week.⁴¹

Figure 2.7: Movements in the distribution of individual labour income, 1988–89 to 2009–10



Source: Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, p. 7. Reproduced with permission.

2.42 Cumulative income growth from 1988–89 to 2009–10 is indicated for each decile group in Figure 2.8. A clear gradient of growth from decile 2 to decile 10 can be seen in which lower income groups recorded substantially lower income growth than the higher deciles. This is consistent with the PC finding that those on higher incomes are realising higher wages growth, whilst lower income individuals are simply working more hours with less wages growth. The higher growth in decile 1

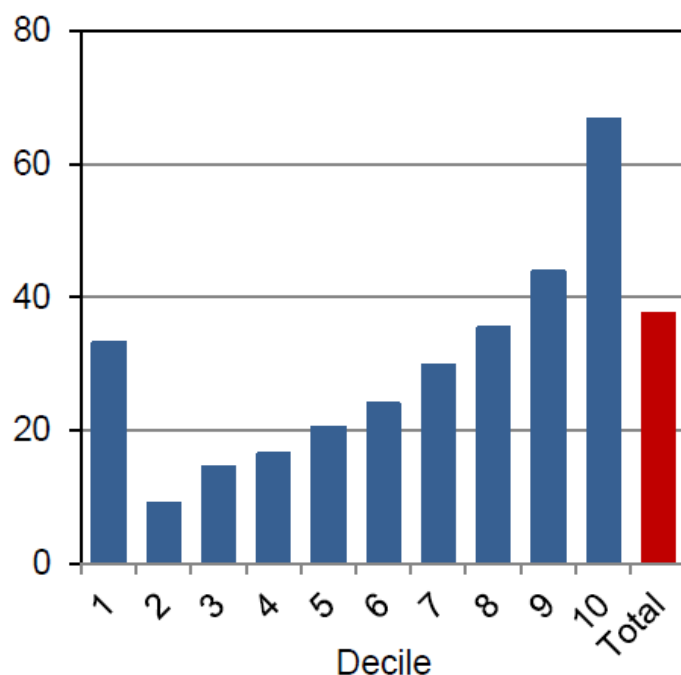
39 Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, p. 59, http://www.pc.gov.au/data/assets/pdf_file/0006/122496/income-distribution-trends.pdf (accessed 20 November 2014).

40 Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, p. 7.

41 These are 2011–12 adjusted values.

was largely accounted for by increases in government payments reflecting the highly targeted nature of the welfare system (see chapter 6).⁴²

Figure 2.8: The percentage change in labour income decile from 1988–89 to 2009–10



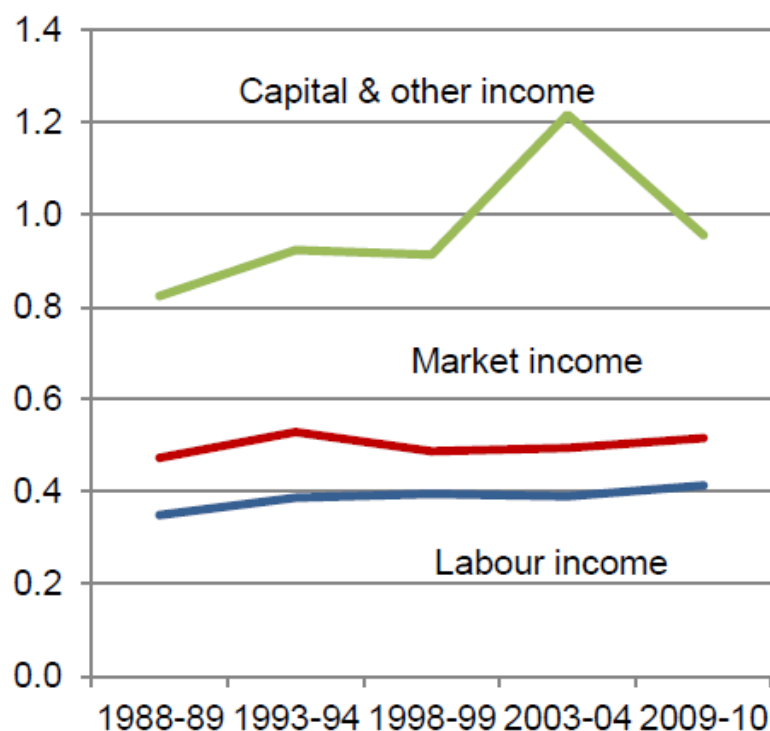
Source: Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, p. 7. Reproduced with permission.

2.43 The PC has compared the Gini coefficient for three different types of incomes—capital, market and labour—seen in Figure 2.9 below. Most literature focuses on labour income (wages and salary) where the Gini has increased from 0.39 to 0.43 (pre-tax and transfer). Market based income which includes wages, salaries, self-employment and other business income has a much higher Gini, and as such, higher levels of inequality. For example, the self-employed have a Gini of 0.59. The highest level of income inequality occurs amongst those receiving income streams from capital. Over the last two decades, the Gini has ranged from 0.8 to 1.2. This is consistent with the PC finding that most capital income accrues to the top decile.⁴³

42 Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, pp 7, 10 and 59, http://www.pc.gov.au/data/assets/pdf_file/0006/122496/income-distribution-trends.pdf (accessed 20 November 2014).

43 Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, pp 7 and 59.

Figure 2.9: Gini coefficients for capital, market and labour income



Source: Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, p. 7. Reproduced with permission.

2.44 The PC found that Australia had the third highest increase in Gini coefficient out of 19 OECD countries between 2000 and 2008.⁴⁴ Contributing to this is that 'the redistributive impact of direct government payments and taxes has fallen in Australia over the last decade'.⁴⁵

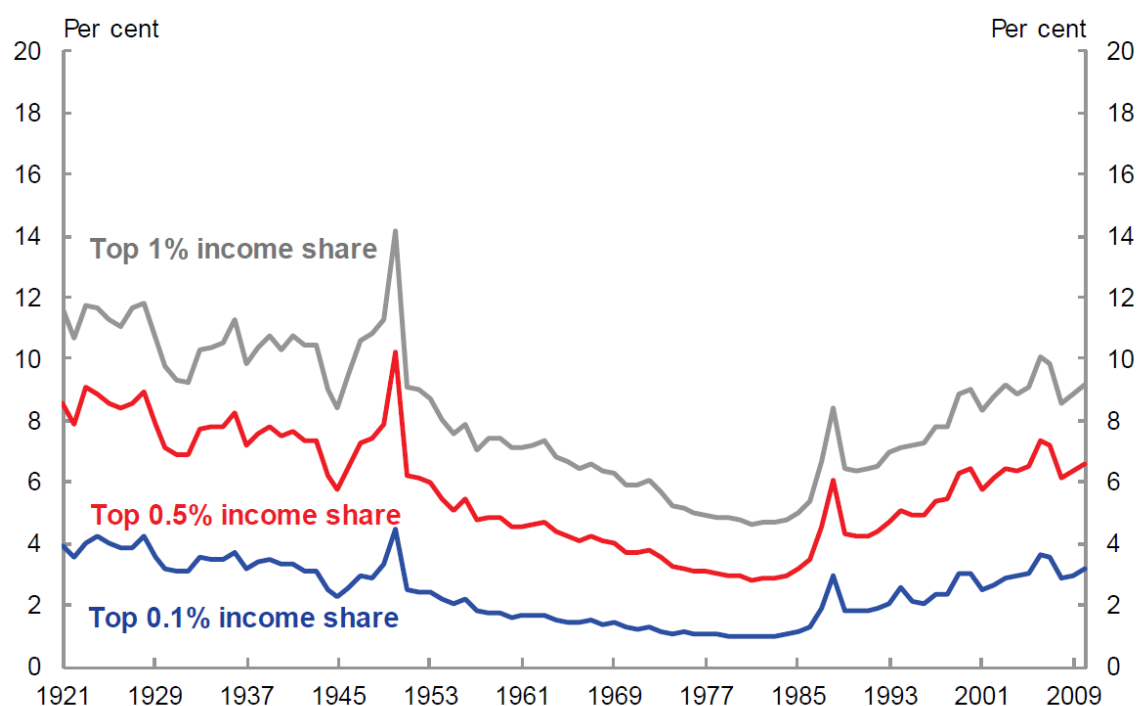
The top 1 per cent income share

2.45 Another measure of inequality is to compare the earnings of the top one per cent of income earners with the rest of the population. Figure 2.10 is drawn from Treasury's paper. It shows that since the early 1980s, there has been a progressive increase in the income share of the top 1 per cent, 0.5 per cent and 0.1 per cent of Australians. Over this period, the share of income held by the top one per cent of earners increased from around 5 per cent to nine per cent.

44 Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, p. 102.

45 Australian Government Productivity Commission, *Trends in the Distribution of Income in Australia*, Staff Working Paper, March 2013, p. 108.

Figure 2.10: Income share of the top 1, 0.5 and 0.1 per cent in Australia from 1921–2010⁴⁶



Source: Atkinson and Leigh (2006).

Note: Data has been updated from <http://www.andrewleigh.com/blog/?cat=29>.

Wealth at the very top

2.46 The gains of the very wealthy have been greater. In his book, *Battlers and Billionaires*, the federal Labor MP and former academic economist, the Hon. Andrew Leigh MP, wrote:

The share of Australian wealth held by the super-rich is steadily rising. Pamela Katic and I estimated that from 1984 to 2012, the richest 0.001 per cent more than tripled their share of household wealth from 0.8 per cent to 2.8 per cent. Over the same period, the top 0.0001 per cent (the richest one-millionth) quintupled their share from 0.25 to 1.4 per cent.⁴⁷

Submitters' and witnesses' views on poverty in Australia

2.47 Another way to approach the measurement of inequality is through qualitative, survey-based research into the extent of poverty, particularly in a wealthy economy such as Australia's. The committee has taken evidence from submitters and

46 Michael Fletcher and Ben Guttman, *Income inequality in Australia*, Treasury Economic Roundup, December 2013, p. 46. Reproduced with permission.

47 Andrew Leigh, *Battlers and Billionaires: The story of inequality in Australia*, Pluto Press, 2013, p. 57.

witnesses who noted, in the past few years, poverty and income inequality have increased in Australia.

2.48 In Western Australia, for example, Professor Duncan referred to two research reports released by Bankwest Curtin Economics Centre in 2014.⁴⁸ He summarised this work as follows:

WA stayed strong during the course of the economic downturn that has weakened most world economies. The resources boom in particular has benefited the majority of WA households, with rising employment and substantial increases in real income and household net wealth. However, the centre's research does find that lower income households in WA have failed to keep pace with the general growth in incomes for the rest of the population. There have been real gains, financially at least, among the lowest income households but they have not been able to share the benefits of the growth in incomes to the same extent as those higher up the income distribution in WA.

Specifically, relative income inequality has risen in WA at a greater rate than for the rest of Australia. The gap between the richest and poorest households in WA rose consistently from the acceleration of the boom in around 2003 to its peak in 2009...One metric we use is the 90:10 ratio, which compares the incomes of the top 10 per cent of households with those at the bottom 10 per cent of the income distribution. Expressed in those terms, in WA the ratio of household equivalised disposable income of the richest 10 per cent rose to 4.8 times the incomes of the poorest 10 per cent. That is a substantial increase over the period from 2003 to 2009–10, which was at the height of the boom. The figure currently has fallen slightly to 4.5 times, and this compares with a rate of no more than 3.7 times income in 2003.⁴⁹

2.49 Dr Ian Goodwin-Smith from the Australian Centre for Community Services Research at Flinders University referred to the aphorism that 'a rising tide lifts all boats'. However, he said:

It is true to say that there is a rising tide and it is also true to say that it is lifting most of the boats. Even if we ignore those boats which are not being lifted—and there are plenty of them—the important point is that it is not

48 *Falling through the cracks, Poverty and disadvantage in Australia*, Focus on the States Report Series, No. 1, October 2014; *Sharing the boom, The distribution of income and wealth in WA*, Focus on Western Australia Report Series, No. 1, February 2014, <http://business.curtin.edu.au/research/centres-institutions/bankwest-curtin-economics-centre/> (accessed 18 November 2014).

49 Director and Bankwest Chair in Economic Policy, Bankwest Curtin Economics Centre, Curtin University, *Committee Hansard*, Rockingham, 11 November 2014, p. 1. Professor Duncan noted that the 90:10 ratio was 4.2 Australia-wide in 2009–10. Officials from The Treasury indicated that its Social Policy Division has not definitively analysed the income inequality issues prevalent in Western Australia: Mr Nigel Ray and Ms Leesa Croke, General Manager, Social Policy Division, Fiscal Group, *Committee Hansard*, Canberra, 17 November 2014, p. 6.

lifting all boats at the same rate. It is a funny tide. In fact, I do not think tides are a very good analogy at all because you do not get tides like that at all. It is very bumpy. What that means is that there continues to be a growth in inequality and disparity of income.⁵⁰

2.50 A South Australian Council of Social Service representative said:

...the evidence suggests that the largest share of [income] growth has been disproportionately captured by those who already have the most resources...we are very aware that rising inequality means increasing levels of poverty, especially for any household or individual whose income does not maintain parity with real living costs.⁵¹

2.51 Professor David Morawetz from Australia21 similarly explained:

The richest 20 per cent of households in Australia now account for 61 per cent of total household net worth, whereas the poorest 20 per cent of households account for just one per cent of the total. In the last decade, the richest 10 per cent of Australians enjoyed almost half of the growth in incomes, and the richest one per cent received 22 per cent of the gains from growth. At the same time, despite 23 years of uninterrupted economic growth, many of those currently dependent on government benefits, including those on Newstart unemployment benefits, are forced to live well below the poverty line. The poverty line in 2010 for a couple with two children was \$27 per person per day, and that has to cover rent, food, clothing, transport, medical expenses, everything—\$27 per person per day. Scandalously, one child in six in Australia now lives below this poverty line.⁵²

2.52 UnitingCare Australia and the St. Vincent de Paul Society National Council indicated, that across their networks, there is more need at the coal face than has previously been the case. Dr John Falzon said that this was a clear manifestation of growing inequality.⁵³

2.53 Reverend Bill Crews, who runs UnitingCare Australia's mission in Ashfield (Sydney), provided the following illustration:

50 Director, *Committee Hansard*, Elizabeth, 10 November 2014, p. 37. Also see: Professor Gerard Richmond, Project Leader, Australian Child Wellbeing Project, School of Social and Policy Studies, Flinders University, *Committee Hansard*, Elizabeth, 10 November 2014, p. 37.

51 Mr Ross Womersley, Chief Executive Officer, *Committee Hansard*, Elizabeth, 10 November 2014, p. 22.

52 Board Member, Australia21, *Committee Hansard*, Melbourne, 18 September 2014, p. 35. Also see: Associate Professor Daphne Habibis, Director, Housing and Community Research Unit, University of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 17.

53 Ms Lin Hatfield Dodds, National Director, UnitingCare Australia and Dr John Falzon, Chief Executive Officer, St. Vincent de Paul Society National Council, *Committee Hansard*, Canberra, 16 October 2014, p. 46.

We run a loaves and fishes free restaurant, which is open for breakfast, lunch and then we have a mobile food van. We are now preparing and delivering 1,000 meals a day every day. We started 25 years ago by delivering maybe 80. We only target the poorest of the poor and what we find is that they are people generally who have slipped between the cracks... We have an old couple who contacted us about a year ago, they are living on pancakes because they have got disabled children or grandchildren. We regularly find people coming into our restaurant who might be on benefits, but after they have paid medical expenses, transport and whatever they have got less than 50c a day to spend on food. We find that over and over again... On different days, we will give out a \$25 food voucher to the guests in some of our restaurants and particularly the men will say: 'Don't give it to me. Give mine to her. She's got these kids. She can take mine as well.' I can go on and on about inequality.⁵⁴

2.54 The Department of Social Services has advised that the Australian Government's funding allocation for emergency relief (including Foodbank Australia)⁵⁵ has been reduced from \$57.457 million in 2013–14 to \$50 million in 2014–15, reflecting a reduction in the number of requests for assistance.⁵⁶

2.55 Some witnesses disputed that there has been any such reduction and advised that demand for assistance from community service organisations has risen.⁵⁷ A representative from Anglicare WA said:

Our clients, the people we see every day, are living in challenging times and, despite recent years of high economic growth and low unemployment [in] Western Australia, many of our clients have missed out on the benefits of the boom. Aboriginal communities in particular have seen the boom go by. Our contacts for emergency relief have doubled over the last two years to more than 10,000 people in 2013-14. In the areas of emergency relief, food insecurity and housing, we see that people on benefits in particular and those on minimum wages are increasingly being swept into crisis. Issues of homelessness, food insecurity and social exclusion travel with people on low incomes.⁵⁸

54 Superintendent, Ashfield Parish Mission, *Committee Hansard*, Canberra, 16 October 2014, p. 46.

55 Foodbank Australia is a non-denominational, non-profit organisation which acts as a pantry to the charities and community groups who feed the hungry: see <http://www.foodbank.org.au/about-us/what-is-foodbank/> (accessed 18 November 2014).

56 Ms Barbara Bennett, Deputy Secretary, *Committee Hansard*, Community Affairs Budget Estimates 2014–15, 5 June 2014, p. 31.

57 See, for example: Ms Lin Hatfield Dodds, UnitingCare Australia, *Committee Hansard*, Canberra, 16 October 2014, pp 47–48. Ms Meredith Perry, Senior Manager Community Services, UnitingCare Wesley Port Adelaide, said that her organisation has had to supplement emergency relief funding: see *Committee Hansard*, Elizabeth, 10 November 2014, p. 14.

58 Mr Mark Glasson, Executive General Manager, Service Operations, *Committee Hansard*, Rockingham, 11 November 2014, p. 19.

2.56 During the course of the inquiry, Foodbank Australia released its annual report into the 'largely hidden problem of hunger in our community'.⁵⁹ The highlights of the report are shown in Diagram 2.1 below.

2.57 The *Foodbank Hunger Report 2014* stated that demand for food relief continues to rise, including:

- an eight per cent increase in the number of people seeking food relief;
- more than 60 per cent of agencies faced an increase in demand; and
- more than 20 per cent of agencies faced increases of over 15 per cent in demand.⁶⁰

2.58 The Tasmanian Council of Social Service (TASCOSS) indicated that poverty is widespread and is a particularly serious issue for that state, which has the highest proportion of people in the lowest income quintile (32 per cent):

It is estimated that over 14,000 Tasmanian children live in poverty. If we use 50 per cent of median income as a poverty line measure, 14 per cent of Tasmanians live below that poverty line. About one-third of Tasmanians rely on Commonwealth pensions and allowances for their main source of income, and this is the highest percentage of all Australian jurisdictions. Of the recipients of Commonwealth pensions and allowances, 37 per cent of those people live below the poverty line, and that percentage is largely made up of Newstart and Youth Allowance recipients.⁶¹

2.59 Chapter 6 of this report recommends that the Commonwealth Government urgently review the amount allocated for emergency relief funding to ensure that Australian in need are able to access assistance.

59 See: Foodbank WA, 'The Hunger Report', <http://www.foodbankwa.org.au/hunger-in-wa/the-hunger-report/> (accessed 18 November 2014).

60 Foodbank Australia, *Foodbank Hunger Report 2014*, 2014, p. 9.

61 Ms Meg Webb, *Committee Hansard*, Hobart, 19 September 2014, pp 1–2. The Treasury noted that there is a Joint Commonwealth and Tasmanian Economic Council which broadly aims to address economic development in Tasmania: Mr Nigel Ray, *Committee Hansard*, Canberra, 17 November 2014, pp 12–13.

Diagram 2.1: Highlights of the Foodbank Hunger Report 2014



Source: Foodbank Australia, *Foodbank Hunger Report 2014*, <http://www.foodbankwa.org.au/hunger-in-wa/the-hunger-report/> (accessed 18 November 2014).

Social mobility

2.60 The committee received evidence that income inequality leads to a lack of social mobility, particularly for those living in poverty. In their submission, Professors Peter Whiteford and Andrew Podger said that:

In considering income mobility by initial location in the income distribution, they found that 55.5 per cent of those in the bottom quintile in 2001 were also in the bottom quintile in 2009; 20.9 per cent were in the second quintile, 11.9 per cent were in the third quintile, 6.2 per cent were in the fourth quintile and 5.5 per cent were in the top quintile. Most people do not move more than one quintile, but equally, relatively few remain in the same quintile. However, the proportions remaining in the top and bottom quintiles are relatively high, at 55.5 per cent for the bottom quintile and 46 per cent for the top quintile.⁶²

This evidence shows those on low incomes—especially in the bottom quintile—are unlikely to earn an income that places them in a higher income quintile.

2.61 The issue of poor intergenerational social mobility was also discussed in evidence to the committee. Although Australia compares favourably against the United States on the elasticity of earnings from fathers to sons, there is 'an appreciable level of inequality of opportunity in Australia'.⁶³ Mr Matt Cowgill of the ACTU, noted that the correlation between income inequality and intergenerational social mobility:

...is nowadays referred to as the Gatsby curve...[T]here is certainly an interdependent relationship between inequality of income in one generation and social mobility over the generations. There is an interdependence there and a correlation there that is not yet fully understood and unpacked, but I think it is quite likely to work in both directions. We highlighted earlier that societies which are less equal in one generation are likely to have less social mobility over time. It is probably also the case that there is some kind of causality working the other way, and that societies which have less mobility over time in which people are less able to achieve their potential are likely to have higher levels of income inequality.⁶⁴

Mr Cowgill continued:

[C]ountries that are more unequal within one generation tend to have lower social mobility across the generations. If you are born into a society that is highly unequal and you are from a relatively poor background, you are less likely to reach up to the middle or higher income levels when you become an adult than if you were born into comparable circumstances in a more equal society. So that distinction between inequality of outcome and inequality of opportunity is largely false. Clearly we are not advocating for complete equality of outcome. But, by the same token, saying that we should ignore the level of income inequality I think ignores the fact that those things are related.⁶⁵

2.62 This evidence shows that the children of those living in poverty are more likely to remain in poverty. Ms Kasy Chambers, the Executive Director of Anglicare Australia, explained the factors that lead to this outcome:

One of the things that concern[s] us and that we see happening increasingly is the lack of social mobility. When children are excluded from education or, as we talk about in our submission, where one child was going to his eighth school in seven years, that is clearly going to affect that child's chances. Even if he makes it through, it would have meant he would have been brilliant if he had not had that kind of disruption very early in his childhood. We would argue that once inequality starts to restrict social

63 Dr Nick Rohde, *Committee Hansard*, Logan, 8 October 2014, p. 49–51.

64 *Committee Hansard*, Melbourne, 18 September 2014, p. 8.

65 *Committee Hansard*, Melbourne, 18 September 2014, pp 3–4.

mobility, that is when it becomes far too concrete for us as a society to accept.⁶⁶

2.63 The committee considers that there is need for more research into matters of intergenerational social mobility in Australia.

Conclusion

2.64 This chapter has discussed some of the major research findings on the extent of income inequality in Australia. On a number of metrics, the evidence indicates that income inequality has increased in Australia against the backdrop of rising incomes across all income deciles. The incomes of those in the deciles may have increased but to a lesser extent than those in higher deciles.

2.65 Fast paced economic and income growth has increased income inequality, as the Western Australian example shows. In WA, the gross household income of the top eight deciles increased by an average 46.5 per cent between 2003–04 and 2011–12 (compared with 26 per cent nationally). In comparison, the bottom two deciles only increased their income by an average of 28 per cent (compared with 23 per cent nationally).

2.66 The committee is particularly concerned with anecdotal evidence that the incidence and severity of poverty is increasing in Australia. It draws attention to Reverend Crews' evidence regarding the demand for food experienced at one community centre and Foodbank Australia's report revealing that nationwide 516 000 people rely on food services each month (35 per cent of whom are children).⁶⁷ Even in a country that has experienced 15 years of uninterrupted economic growth and one of the highest living standards in the world, there is severe hardship.

66 *Committee Hansard*, Canberra, 16 October 2014, p. 36.

67 See chapters 2–3.

Chapter 3

Impact of income inequality on access to services and entrenching disadvantage

If having a higher income simply meant you could go on more holidays and drink more expensive wine, then we wouldn't care very much about how equally or otherwise it is distributed, but when it's the difference between lifesaving health care or a quality education, then we should care a lot. A more equal society is one where you can compress income distribution and also reduce the relationship between income and the other things that matter to a good quality of life. Each individual distribution matters. Money matters. Education matters. Health matters. Job opportunities matter.¹

Introduction

3.1 This chapter will examine the capacity of those on low incomes to access a range of services within the community with a specific focus on health, education, employment, and housing opportunities. The following areas will be examined in detail:

- health—the deleterious effect of low income on different health outcomes; and impediments to access.
- education—disadvantage within the education sector; and the social and economic benefits of education.
- housing—affordability; availability of public and social housing; transport and participation in society.
- employment—impediments to joining the labour market; impact of childcare on the decision to enter the workforce; and the working poor.

This chapter will also look at how poorer access to these services leads to entrenched disadvantage at an individual, household and intergenerational level.

3.2 Access to these basic services are enshrined as fundamental human rights within the UN Human Rights Declaration:

[E]veryone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in

1 Professor Sue Richardson, *Economist warns of growing 'forces of inequality'*, Flinders University Blog, August 2014, <http://blogs.flinders.edu.au/flinders-news/2014/08/01/economist-warns-of-growing-forces-of-inequality/> (accessed 1 October 2014).

the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.²

3.3 The disadvantage endowed by income inequality is not as simple as comparing an individual's yearly income to others. There is a complicated inter-relationship between income inequality and a number of other factors that translates into poorer outcomes particularly for already disadvantaged people. The relationship that income inequality has with health, education, employment and housing is best described as multi-dimensional inequality. The committee received evidence from Dr Nicholas Rohde, Senior Lecturer at Griffith University, about his research:

I looked at income, education, leisure time and health scores. The fact that these things tend to be associated means that you have a higher level of disparity than you would think if you just look at income alone, because poorer people tend to have lower health scores and they tend to be less educated. I think leisure time, or free time, is more or less uncorrelated. But poverty is concentrated over multiple dimensions, and if you add them all up it is worse than it looks just on one dimension alone.³

3.4 Many submitters spoke not about equality of outcomes but equality of opportunity.⁴ All individuals within a society, regardless of household income, should be given the opportunity of access to good quality education (early childhood, schooling and tertiary training), healthcare, and good job opportunities regardless of where they live. A merit based society with intergenerational mobility is the objective not a society where 'everybody has the same income'.⁵

3.5 Inequality is not just a moral argument but also an economic one. This chapter discusses the increased cost that society must bear as low income individuals are more likely to be sick, less likely to participate in employment and more likely to rely on welfare payments and on public housing amongst other things. There are also benefits to society by reducing income inequality and improving service delivery for low income individuals. Through improvements to educational and training opportunities, individuals are more likely to work and pay tax, and be less reliant on welfare payments. By reducing impediments to the workforce, labour market participation can be improved. Higher incomes will result in better mental health and greater capacity

2 United Nations, *The Universal Declaration of Human Rights*, Article 25, <http://www.un.org/en/documents/udhr/> (accessed 1 October 2014).

3 *Committee Hansard*, Logan, 8 October 2014, pp 48–49.

4 For example, see: Dr David Morawetz, Board Member, Australia21, *Committee Hansard*, Melbourne, 18 September 2014, pp 43–44; Mr Matt Cowgill, Economic Policy Officer, Australian Council of Trade Unions, *Committee Hansard*, Melbourne, 18 September 2014, pp 3–4.

5 Dr David Morawetz, Board Member, Australia 21, *Committee Hansard*, Melbourne, 18 September 2014, pp 43–44.

for individuals to contribute to their own healthcare. The inter-related benefits of improving access to these services far outweigh the cost of delivering them.

Health

3.6 Income inequality is a significant barrier to people accessing preventive healthcare and even delay seeking medical assistance for some acute injuries. This ultimately leads to a higher incidence of chronic and other diseases.⁶

3.7 Health related outcomes are strongly correlated to a household's income, with a social gradient for health being observed for life expectancy and a range of chronic diseases.⁷ A recent study on health inequalities in Australia found:

Socioeconomically disadvantaged groups experienced more ill-health, and were more likely to engage in behaviours or have a risk profile consistent with poorer health status. Their use of healthcare services suggested that they were less likely to act to prevent disease or detect it at an asymptomatic stage. Socioeconomic inequalities for many of the health related indicators were found for both males and females and for each age group, and they were evident irrespective of how socioeconomic position was measured.⁸

3.8 This report also found that a higher proportion of those in the lowest income quintile were more likely to engage in riskier lifestyle choices including insufficient physical activity, regular tobacco use, high salt intake, no use of sun protection and food insecurity (running out of food). Lower income children were also less likely to have been breastfed as children. These riskier lifestyle choices combined with poor preventive capacities correlate with higher levels of chronic and other diseases such as obesity, hypertension, diabetes, emphysema, neoplasms (tumours) and arthritis. Although lower income individuals were more likely to visit a GP, they were less likely to do so for preventive reasons such as dental consultations, mammograms or Pap smears. Tellingly, those on lower incomes perceived their own health as being significantly poorer than those in higher quintiles.⁹

6 Social Determinants of Health Alliance, *Submission 43*, p. [6].

7 Professor Sharon Friel & Dr Richard Denniss, *Unfair economic arrangements make us sick*, Australia21, p. 5, <http://www.australia21.org.au/publication-archive/unfair-economic-arrangements-make-us-sick-how-should-australia-respond-to-the-expanding-financial-inequities-among-its-citizens/> (accessed 14 October 2014). See also, Public Health Association of Australia, *Submission 42*, p. 4.

8 Turrell G., Stanley L., de Looper M. & Oldenburg B., *Health Inequalities in Australia: Morbidity, health behaviours, risk factors and health service use. Health Inequalities Monitoring Series No. 2 AIHW Cat. No. PHE 72*, 2006, p. xii, Canberra, QUT and AIHW, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=6442459734> (accessed 13 October 2014).

9 Turrell G., Stanley L., de Looper M. & Oldenburg B., *Health Inequalities in Australia: Morbidity, health behaviours, risk factors and health service use. Health Inequalities Monitoring Series No. 2 AIHW Cat. No. PHE 72*, 2006, pp 52–92.

3.9 In a submission to the committee, the Social Determinants of Health Alliance (SDOH) stated that 'income is a fundamental determinant of health', adding:

[L]ow socioeconomic status determined by income will frequently give rise to exposure to a variety of stressors such as insecure housing and difficulties with managing household finances. Stress gives rise to changes in both the brain and body which can be adaptive in the short term, but if sustained over longer periods contributes to common forms of mental illness such as depression, and increased risk of conditions such as heart disease. Low income is also likely to be associated with other well recognised stressors such as insecure employment and unsafe neighbourhoods.¹⁰

3.10 In its submission, SDOH wrote that 'there is significant evidence available suggesting that the degree of income inequality matters for health across all levels of society'. Referring to modelling conducted by the National Centre for Social and Economic modelling (NATSEM), SDOH asserted that 'there are billions [of dollars] in savings that could be made in Australia's health system through improving the social determinants of health'. These include:

- 500 000 Australians could avoid a chronic illness;
- 170 000 extra Australians could enter the workforce, generating \$8 billion in extra earnings;
- Annual savings of \$4 billion in welfare support payments could be made;
- 60 000 fewer people would need to be admitted to hospital annually, resulting in savings of \$2.3 billion in hospital expenditure;
- 5.5 million fewer Medicare services would be needed each year, resulting in annual savings of \$273 million; and
- 5.3 million fewer Pharmaceutical Benefit Scheme prescriptions would need to be filled each year, resulting in annual savings of \$184.5 million each year.¹¹

3.11 It is also clear that there are specific low income disadvantaged groups with a greater demand for these health services. The next section will examine the deleterious effect of low income on health outcomes and also discuss impediments to access.

Deleterious effect of low income on health outcomes

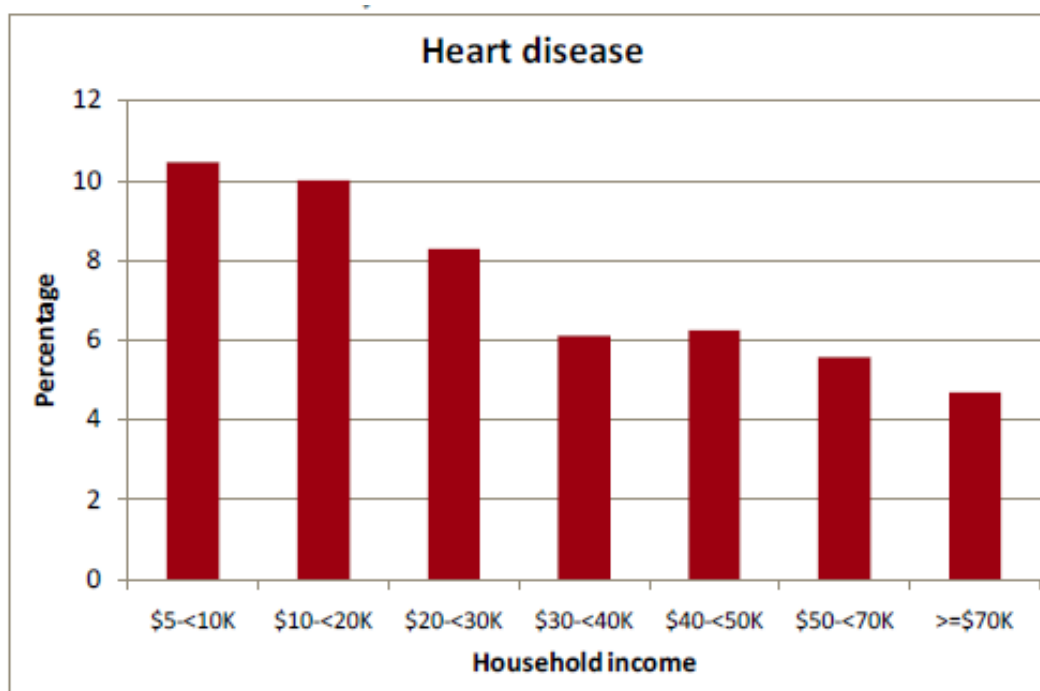
3.12 This section will explain in more detail a range of specific health outcomes and how they disproportionately affect low income earners. The socio-economic

10 Social Determinants of Health Alliance, *Submission 43*, p. 5.

11 Social Determinants of Health Alliance, *Submission 43*, p. [6]. See also: NATSEM, *The Cost of Inaction on the Social Determinants of Health*, University of Canberra, 2012, <http://www.natsem.canberra.edu.au/publications/?publication=the-cost-of-inaction-on-the-social-determinants-of-health> (accessed 4 November 2014).

gradient associated with a number of chronic and debilitating illnesses is well-documented, that is, individuals on low incomes are more likely to have poorer health outcomes than higher income groups.¹² This is seen below in Figures 3.1–3.4 which detail the incidence of heart disease, diabetes, cancer and depression indicating that higher rates of disease are registered amongst lower income earners aged 45 years and older.

Figure 3.1: Percentage of individuals suffering from heart disease within different household income groupings (Korda et al, 2014)



Source: Korda, R.J., Paige, E., Yiengprugsawan, V., Friel, S., 'Income-related inequalities in chronic conditions, physical functioning and psychological distress among older people in Australia: cross-sectional findings from the 45 and up study', *BMC Public Health*, 14(1):741.

12 Rosemary Korda, Ellie Paige, Vasoontara Yiengprugsawan, Isabel Latz, and Sharon Friel, 'Income related inequalities in chronic conditions, physical functioning and psychological distress among older people in Australia: cross-sectional findings from the 45 and up study'. *BMC Public Health*, 14:741, pp 1–10.

Figure 3.2: Percentage of individuals suffering from diabetes within different household income groupings (Korda et al, 2014)

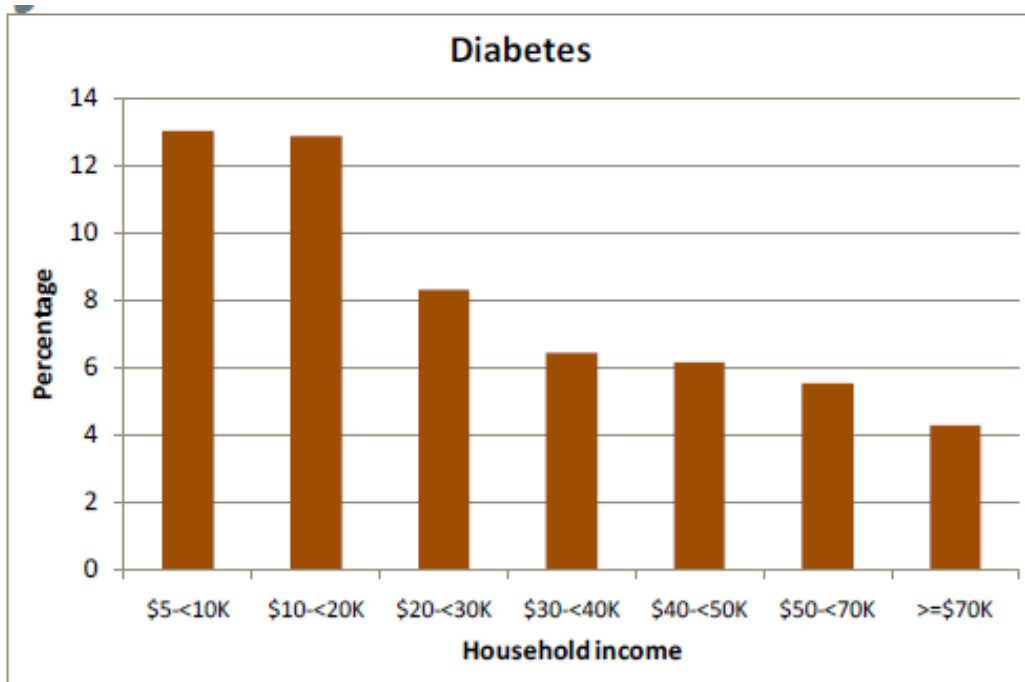


Figure 3.3: Percentage of individuals suffering from cancer within different household income groupings (Korda et al, 2014)

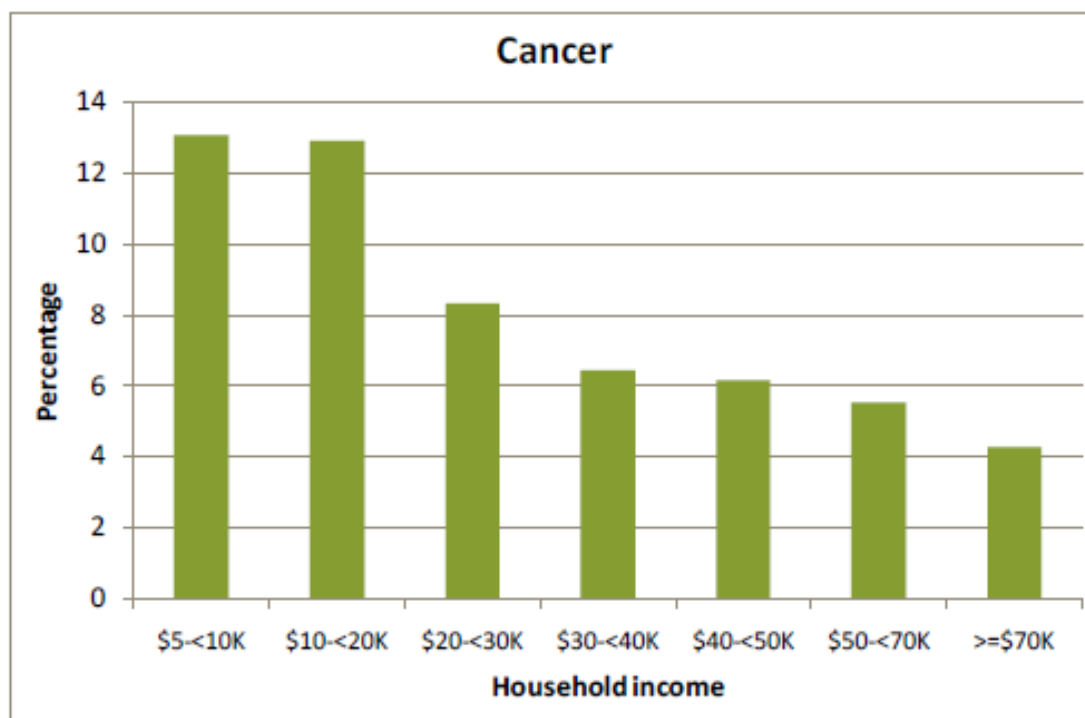
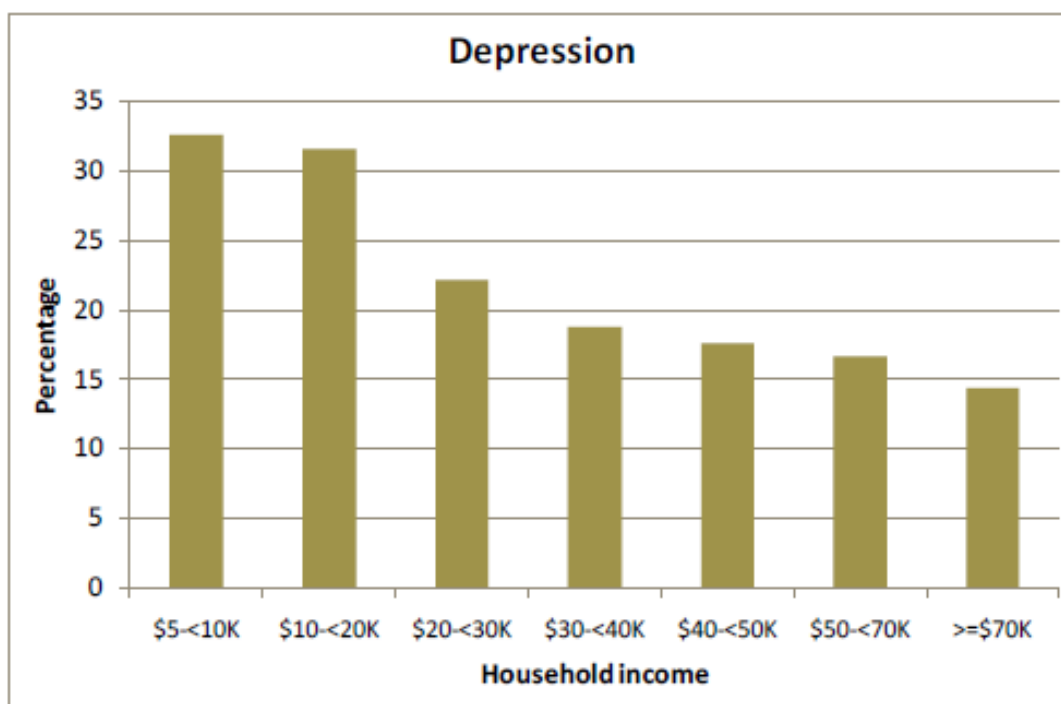


Figure 3.4: Percentage of individuals suffering from depression within different household income groupings (Korda et al, 2014)



3.13 This section will continue examining some of the statistics and trends for low income earners and health with specific reference to disability, mental illness, dental health, obesity and drug use.

3.14 A disability may impact on an individual's capacity to participate in society through less engagement in employment, education and community. The disability may be physical and/or mental and may manifest differently in its severity and presence—that is, it may be episodic or continuous. It may also require additional support such as medical and social services. As such, those with a disability are likely to have a lower income due to lower participation in the workforce and higher reliance on government allowances such as the Disability Support Pension. The effect of low income is further compounded by the additional cost of accessing these health and other social services.

3.15 The committee received evidence that 'people with disability with multiple health issues pay higher out-of pocket costs than the rest of the community.' These additional healthcare costs force the disabled to 'delay seeking healthcare due to cost' and 'make difficult decision[s] between everyday essentials and meeting their healthcare needs'. Further to this, those low income individuals without disability who delay treatment due to cost may find health issues 'become more serious by the time healthcare is sought, which has the potential to lead to long term impairment, disability and further inequality'.¹³

13 People with Disability Australia, *Submission 44*, pp 5 and 13.

3.16 A mental illness may impact on an individual's capacity to participate in society through less engagement in employment, education and community. It may also require additional support such as medical and social services. As such, those with a disability are likely to have a lower income due to lower participation in the workforce and higher reliance on government allowances such as the Disability Support Pension. The effect of low income is further compounded by the additional cost of accessing these health and other social services.

3.17 The committee received evidence from Dr Yvonne Luxford of the Public Health Association of Australia (PHAA) stating that '[p]eople with mental illness experience poorer health outcomes than the mainstream population'. Dr Luxford continued:

Multiple risk factors (e.g. alcohol and drugs, food insecurity) combined with a lack of protective factors (e.g. childhood experiences, income) can predispose a person to the development of mental illness. People experiencing mental illness or homelessness also face significant barriers to accessing services which [then] contribute to poor health outcomes.¹⁴

3.18 The inter-relationship between mental illness and other forms of disadvantage, in particular access to housing, was explained by Mr Josh Fear, the Director of Policy and Projects at Mental Health Australia (MHA):

Turning to housing, we know that rates of mental illness amongst people in the homeless population are three times higher than rates of mental illness more broadly. We, of course, have a huge shortage of affordable housing in this country and long waiting lists to enter public and social housing. At the same time, we know from much research that stable accommodation is vital to mental health. The lack of stable accommodation can escalate someone at risk of mental illness into homelessness and much worse situations requiring expensive intervention by government.¹⁵

3.19 The committee received evidence from Reverend Bill Crews, Superintendent of the Ashfield Parish Mission (UnitingCare Australia), about the lack of support for homeless people with a mental illness:

[I]f you have cancer and you go to hospital, the follow-up is enormous. You get lots of support, lots of all of this, lots of warm fuzzies—all of that. If you have a mental illness and go into hospital, you are thrown out. Recovery is the loneliest place to be in the world, and yet we expect people not only to be in that lonely place while they go through recovery but to deal with Centrelink, to deal with banks, to deal with a card that will not work, to deal with kids and all of that. You are just left on your own to struggle. Yet somebody who has breast cancer or prostate cancer gets all the

14 *Submission 42*, p. 6.

15 *Committee Hansard*, Canberra, 16 October 2014, p. 57.

supports in the world. That is what I mean. The inequality is just mind-boggling.¹⁶

3.20 The World Health Organization states that 'the interrelationship between oral and general health is proven by evidence' with strong associations between oral disease and a range of chronic diseases. Oral health is a 'key determinant factor for quality [and participation in] life' with 'oral diseases restrict[ing] activities in school, at work and at home causing millions of school and work hours to be lost each year'.¹⁷ ABS statistics show that nearly 30 per cent of the most disadvantaged defer access to a dental professional due to cost.¹⁸

3.21 In evidence to the committee, Ms Catherine Bartolo, CEO of YFS Ltd., said that '[t]o me some of the inequality in health is particularly around good dental health and oral health'.¹⁹ Ms Netty Horton of The Salvation Army noted that low income families 'cannot afford a yearly dental check-up for [their] children'.²⁰ Further to this, the committee heard that closure of some dental programs may lead to a reduction in accessibility.²¹

3.22 Individuals who are overweight or obese are at risk of a number of preventable diseases including heart disease, stroke, Type 2 diabetes, osteoarthritis, some cancers and sleep apnoea. In 2007–08, a study found that 25 per cent of Australian adults and 8 per cent of children were obese. This study also found:

A clear gradient can be seen in levels of obesity by socioeconomic disadvantage: people who live in the most disadvantaged areas are more likely to be obese than people who live in areas that are less disadvantaged.²²

16 *Committee Hansard*, Canberra, 16 October 2014, p. 47.

17 World Health Organization, *The World Oral Health Report 2003: Continuous improvement of oral health in the 21st century—the approach of the WHO Global Oral Health Programme*, http://www.who.int/oral_health/media/en/orh_report03_en.pdf (accessed 25 November 2014).

18 Australian Bureau of Statistics, *4839.0—Patient Experiences in Australia: Summary of Findings, 2013–14*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/4839.0~2013-14~Main%20Features~Dental%20professionals~3> (accessed 25 November 2014).

19 *Committee Hansard*, Logan, 8 October 2014, p. 27.

20 Territorial Social Programme Director, *Committee Hansard*, Canberra, 17 November 2014, p. 22.

21 Dr Yvonne Luxford, Member, Public Health Association of Australia (PHAA), *Committee Hansard*, Canberra, 16 October 2014, p. 53.

22 Australia Institute of Health and Welfare, *Australia's health 2012*, Australia's health series no. 13. Cat. No. AUS 156, 2012, pp 209–214, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=10737422169> (accessed 31 October 2014). See also Dr Yvonne Luxford, PHAA, *Committee Hansard*, 16 October 2014, p. 52.

3.23 Low income is likely to lead to poor food choices that lead to obesity.²³ Further to this, those from low socio-economic backgrounds were also found to not engage in sufficient physical activity which is one of the factors leading to obesity.²⁴ It is likely that those from low income backgrounds do not have the means to meet the cost of participating in team sports, going to the gym or purchasing equipment to allow them to remain active.

3.24 The committee received evidence from the Alcohol and Drug Service at St Vincent's Hospital in Sydney noting that there are increases in narcotic and hallucinogen overdose mortality rates, alcohol and drug related harm—including crime and violence—as income inequality increases. Low income groups are predisposed to heavy episodic binge drinking with consequential health impacts ranging from acute injuries, caused by accident and violence, to more cumulative long-term chronic illnesses.²⁵

3.25 Tobacco is the single most preventable cause of ill health and death in Australia. It is a major risk factor in many preventable chronic diseases. Broadly speaking, tobacco use in Australia is falling with daily smoking rates for those aged 14 or over halving between 1985 (30 per cent) and 2010 (15 per cent). However, those with a low socio-economic background are one of a number of disadvantaged groups in Australia where tobacco use remains persistently high. For example, there are 15 per cent more people deemed unable to work who smoke tobacco than those who are currently employed; there are 10 per cent more people from the most disadvantaged socioeconomic status who smoke than the most advantaged groups; and there are 10 per cent more people from remote or very remote locations who smoke than those from major cities.²⁶ As a consequence, 13.5 per cent of all males aged 65 years and over in the lowest income quintile has emphysema compared to 0.5 per cent in the top income quintile. Furthermore, 11.9 per cent of all males aged 65 years and over in the lowest income quintile has diabetes compared to 3.3 per cent in the top income quintile.²⁷ Tobacco use plays a significant role in these statistics which result in an added burden to the health system and affect individuals from low income backgrounds disproportionately.

23 Social Determinants of Health Alliance, *Submission 43*, p. [5].

24 Australia Institute of Health and Welfare, *Australia's health 2012*, Australia's health series no. 13. Cat. No. AUS 156., 2012, pp 203–208.

25 St Vincent's Hospital, Sydney, *Submission 32*, pp [1–2].

26 Australia Institute of Health and Welfare, *Australia's health 2012*, Australia's health series no. 13. Cat. No. AUS 156, 2012, pp 221–225.

27 Turrell G., Stanley L., de Looper M. & Oldenburg B., *Health Inequalities in Australia: Morbidity, health behaviours, risk factors and health service use. Health Inequalities Monitoring Series No. 2 AIHW Cat. No. PHE 72*, 2006, p. 84, Canberra, QUT and AIHW, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=6442459734> (accessed 13 October 2014).

3.26 These socio-economic gradients for chronic disease and high risk health-related behaviours—tobacco and alcohol use—ultimately lead to the socio-economic gradient for death. A 2010 AIHW report found that in the lowest SES group men and women die younger—four years and two years respectively— than those from the highest SES group. Further to this, 'death rates among 15–64 year olds in the lowest SES group were 70 per cent higher than those in the highest SES group.'²⁸ These poor health indicators clearly relate directly to the poorer access for low income people to primary and preventive healthcare services. This will be discussed in the next section.

Impediments to access

3.27 A recent Senate inquiry found that individuals contributed 17.3 per cent of the total health expenditure funding in 2011–12. The committee heard that as a result of this, people would 'defer medical treatment or [defer] fill[ing] prescriptions because of financial reasons.' Further to this, these out-of-pocket costs were found to 'disproportionally impact on individuals with the greatest health needs, including Aboriginal and Torres Strait Islander people, people with chronic illnesses and people living in rural and remote areas'.²⁹ As explored further in chapter 4, these are the groups most likely to have a lower income.

3.28 Income inequality and its impact on housing outcomes will be discussed in more detail in a later section of this chapter. It is important to note here the relationship between income level and where individuals can afford to live and access services, specifically health services. Generally, those on lower incomes are likely to be living in outer metropolitan, regional, rural and remote areas. Poor access to public transport, health and employment opportunities can compound health problems for those who live in these areas.³⁰

3.29 Those living in rural and remote areas are likely to have poorer health outcomes due to a combination of access and higher costs. Higher costs are generally imposed due to a lack of services in a local area forcing those individuals to travel further and often pay for overnight accommodation to access healthcare. Dr Yvonne Luxford reported:

[P]eople living in rural and remote areas are more likely than those in the major cities to report that they do not attend medical and dental visits,

28 Australian Institute of Health and Welfare, *Australia's Health 2010*, Australia's health series no. 12. Cat. no. AUS 122, p. 253–254, Canberra, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=6442452962> (accessed 2 December 2014).

29 Senate Community Affairs References Committee, *Out-of-pocket costs in Australian healthcare*, 2014, pp 4 and 66, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Australian_healthcare/Report (accessed 20 October 2014).

30 Social Determinants of Health Alliance, *Submission 43*, p. 5.

treatments, tests and medications because of cost. This is exacerbated by a lack of funding in the system to support home visits, especially in rural Australia.³¹

3.30 The proposed introduction of the GP co-payment and increase in the Pharmaceutical Benefits Scheme co-payment will reduce access for low income individuals and households to medical advice and medication as they simply cannot afford this out-of-pocket expense. This is discussed further in chapter 5.

3.31 It is clear that those on a lower income not only have difficulty paying for health services but also tend to face higher costs. It is also well-documented that any policies—such as the GP co-payment—that move to increase these health costs will result in poorer health outcomes. Impediments to access for particular disadvantaged groups will be discussed in chapter 4.

Education

3.32 The link between education and opportunity has long been recognised. In 1972, the then opposition leader, Gough Whitlam, gave a speech where he noted that 'education is the key to equality of opportunity'. The equality of opportunity that high-quality universal education provides is that of the opportunity of social mobility. It is the principle that a 'student's merit rather than a parent's wealth' should decide the outcomes of that individual.³²

3.33 Education provides a series of benefits to an economy. Professor Thomas Piketty in his book *Capital in the 21st Century* noted:

...knowledge and skill diffusion is the key to overall productivity growth as well as the reduction of inequality both within and between countries...the best way to increase wages and reduce wage inequalities in the long run is to invest in education and skills.³³

It is this increase in skills and knowledge that enables employees to become more productive by producing increased marginal value for their employers. The employee's increased marginal value means the employer is able to pay them a higher wage for their improved productivity.

3.34 Dr James Heckman found that an individual's lifetime earning capacity is largely determined by age 18. Education is one of the most important contributors to

31 *Committee Hansard*, Canberra, 16 October 2014, p. 52.

32 Gough Whitlam, *Election Policy Speech for the Australian Labor Party*, Blacktown Civic Centre, 13 November 1972, <http://whitlamdismissal.com/1972/11/13/whitlam-1972-election-policy-speech.html> (accessed 15 October 2014).

33 Professor Thomas Piketty, *Capital in the Twenty-First Century*, Harvard University Press, Cambridge, United States, 2014, pp 21 and 313.

this finding.³⁴ The *Review of Funding for Schooling* (2011), known as the Gonski Review, states:

Individuals who reach their full potential in schooling are usually able to make better career and life choices, leading to successful and productive lives. Success in schooling also helps to provide the skills and capacities needed to keep a society strong into the future. It deepens a country's knowledge base and level of expertise, and increases productivity and competitiveness within the global economy... higher levels of education are associated with almost every positive life outcome—not only improved employment and earnings, but also health, longevity, successful parenting, civic participation and social cohesion. Countries that have significant numbers of people without adequate skills to participate socially and economically in society endure higher social costs for security, health, income support and child welfare.³⁵

3.35 Further to this, in developed countries—such as Australia—the provision of education:

[G]oes beyond the legal obligation of governments to provide the opportunity for schooling for all children that is secular, compulsory and free. Governments must also, through addressing the facets of disadvantage, ensure that all children are given access to an acceptable international standard of education necessary to lead successful and productive lives.³⁶

3.36 In its submission, The Smith Family said:

The clearest pathway to addressing inequality, inter-generational disadvantage and welfare dependency is to support children and young people to develop the knowledge, skills, attitudes and behaviours that set them up for participating in the complex employment market of the 21st century. Education is the key enabler of economic and social participation. Improving school attendance, Year 12 completion and post-school transitions is critical to addressing inequality.³⁷

34 Dr James J Heckman, *The Case for Investing in Disadvantaged Young Children* in *Big Ideas for Children: Investing in our Nation's Future*, University of Chicago School of Economics, p. 49, 2012, <http://www.heckmanequation.org/content/resource/case-investing-disadvantaged-young-children> (accessed 19 September 2014).

35 Australian Government, *Review of Funding for Schooling: Final Report December 2011* (Gonski Review), p. 19, <https://docs.education.gov.au/system/files/doc/other/review-of-funding-for-schooling-final-report-dec-2011.pdf> (accessed 30 September 2014).

36 Gonski Review, p. 105.

37 *Submission 9*, p. 3.

The Gonski Review

3.37 In 2011, the Australian Government commissioned the Gonski Review which found:

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. Australia also has a relatively low proportion of students who attend schools with average or mixed socio-economic backgrounds.³⁸

3.38 There is a strong correlation between a student's level of socio-economic disadvantage and their performance—that is, those with a higher level of disadvantage perform more poorly than those with fewer disadvantages.³⁹

3.39 Further to this, a number of factors are entrenched in schools with more students from a low socio-economic status (SES) background. These include less material and social resources, more behavioural problems, less experienced teachers, lower student and family aspirations, less positive relationships between teachers and students, less homework and a less rigorous curriculum.⁴⁰

3.40 The review also found that 'there are complex interactions between factors of disadvantage, and [that] students who experience multiple factors [of disadvantage] are at a higher risk of poor performance'. For example, Aboriginal and Torres Strait Islander students in remote areas are over-represented in the lowest SES, are likely to speak another language at home and to have a disability that affects their learning.⁴¹ The compound effect of these factors is so large that Aboriginal and Torres Strait Islander students for *all*⁴² levels and domains 'performed, on average, below the mean score of Year 3 non-indigenous metropolitan students'.⁴³

3.41 In response to this identified disadvantage, the Gonski Review recommended that the Australian Government prioritise reducing educational disadvantage in a new funding model. This new funding model would provide a base level of funding for students with additional funding provided in response to defined needs and

38 Gonski Review, p. 124.

39 The Gonski Review defines four main types of educational disadvantage—low SES, location, indigeneity, and a language background other than English (LBOTE).

40 Gonski Review, p. 124.

41 As an example of health disadvantage interacting with educational disadvantage, in 2009, a federal Health survey found that 74 per cent of Aboriginal and Torres Strait Islander children in remote communities had a middle ear infection, with at least 54 per cent recording some hearing loss.

42 Emphasis added.

43 Gonski Review, p. 123.

disadvantage.⁴⁴ A number of recommendations from this report were adopted by the Government at the time; however, there is no longer bipartisan support for these. As such, the school funding model will remain unchanged and not address disadvantage.

Educational segregation

3.42 The committee received evidence from the Victorian Council of Social Service (VCOSS) suggesting that the 'increasing disparity in education [is linked] to socio-economic status'. Lower income families are unable to afford the additional schooling expenses such as 'books, go on excursions and go on camps...that enable children to really participate in schools'. It was submitted that children may attend school but they are not fully participating and engaging due to their families' low income status.⁴⁵

3.43 Housing and the implications it has on inequality are discussed in a later section. However, it is important to note that rising housing costs impact strongly on where individuals and families live and go to school. Low cost housing is largely located on the fringes of cities where access to services, including education, is poor.⁴⁶ Mr Paul Donegan, a Senior Associate of the Grattan Institute, noted the presence of spatial inequality:

In places like Sydney, Melbourne and Brisbane higher income earners are clustered in inner suburbs and the income gap between households in the centre and everywhere else is widening.⁴⁷

The result is that housing is more expensive in the inner city. Those on low incomes are segregated into communities of disadvantage where schoolchildren are segregated into schools and classrooms with other disadvantaged children. The anecdotal evidence suggests that higher income families are purchasing homes in affluent inner city suburbs to access the enrolment areas for high performing government and private schools.⁴⁸ This is a clear example of how income inequality further exacerbates and entrenches the problem of educational disadvantage.

44 Gonski Review, pp 149–151.

45 Ms Emma King, CEO, Victorian Council of Social Service (VCOSS), *Committee Hansard*, Melbourne, 18 September 2014, p. 10. See also: Ms Terese Edwards, National Council of Single Mothers and their Children, *Committee Hansard*, Melbourne, 18 September 2014, pp 17–19; Ms Anne Hampshire, Head, Research and Advocacy, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 39. Ms Hampshire states that 'educational achievement in Australia is much more closely related to family characteristics than is desirable. If we had a reduction of the impact of family background on whether or not a young person achieves educationally, we would be shifting the dial.'

46 Ms Emma King, VCOSS, *Committee Hansard*, Melbourne, 18 September 2014, p. 10.

47 *Committee Hansard*, Logan, 8 October 2014, p. 40.

48 The Weekend Australian, *Power to choose: mums and dad vote on schools with their feet*, 11 October 2014, p. 6.

3.44 The Smith Family noted the importance of extracurricular activities in providing a child with a range of physical, social, emotional and cognitive development opportunities. The most important aspect is the opportunity to build strong social networks whereby 'the positive influence of non-parental adults, such as coaches and tutors, enable[s] young people to expand the networks of people they can draw on to support their development'. Of children aged 5 to 14 years, 47 per cent from disadvantaged backgrounds did not participate in extracurricular activities compared to 13 per cent from the most advantaged communities. The factors for this poor participation included cost of participating, lack of activities in the area, lack of knowledge of activities and a lack of confidence in accessing them. The Smith Family notes that 'this lack of participation [in extracurricular activities] can have negative short and longer term impacts'.⁴⁹

Social and economic benefits of education

3.45 This section discusses the social and economic benefits of action and the consequences of inaction for each of the key stages of education.

Early childhood learning

3.46 The Smith Family comments:

Differences in children's educational and developmental outcomes emerge very early on, with one in five children starting school behind in one or more key areas. For children, living in Australia's most disadvantaged communities, the figure is one in three. Children who start school behind are more likely to be in the bottom 20 per cent of students' scores on NAPLAN across primary and secondary school.⁵⁰

3.47 Professor Piketty says that 'pre-school education is the most important single weapon in promoting equality and in overcoming social, economic and language inequalities'.⁵¹ A paper by Dr James Heckman cites studies that demonstrate the 'substantial positive effects of early environmental enrichment on a range of cognitive and non-cognitive skills, schooling achievement, job performance and social behaviours'. Clearly, this foundation needs to be consolidated with continuing education, but it is clear that a focus on high-quality early education can partially compensate for early adversity. The study conservatively estimates the educational benefits of this approach are in excess of 14 per cent. This estimate is higher than standard stock market returns (7 per cent) and does not take into account other positive direct and indirect economic returns for physical and mental health, increased

49 *Submission 9*, p. 11.

50 *Submission 9*, p. 7.

51 Professor Thomas Piketty, *Capital in the Twenty-First Century*, Harvard University Press, Cambridge, United States, 2014, pp 21 and 313.

economic contribution and reductions in payments of other government assistance over the course of a lifetime.⁵²

3.48 Dr David Morawetz of Australia21 noted in his evidence:

I think it is well established that the period from zero to five—early childhood—is extremely important in what happens in the rest of life. To give you an anecdotal bit on that: a friend of mine was the principal of Williamstown Primary School, one of the inner suburban primary schools in Melbourne. It is a very mixed school—some rich parents, some very, very poor parents with drug addictions and so on. He said: 'We get kids coming here in grade 1 who are three years behind everybody else before you even start, and we can never catch them up. The others have learned to read before they come to school. The others have had books read to them night after night after night. Some of these kids have parents who are on drugs. Some of them have parents who are not on drugs but who are not coping and have had no early childhood education at all in any way, shape or form; and, when they arrive, they are so far behind that I just about cry, because we do everything we can to try and help them to catch up, but they stay behind.' So I think it is probably the single most powerful thing and, hopefully, something that would not politically be a problem for anybody. The single most powerful thing we could do to reduce inequality in Australia and try to give a fair go to all—because we used to care about that, and I think a lot of people still do—is to have really good early childhood education from zero to five. I would say that is priority No. 1.⁵³

3.49 In evidence, the Australian Council of Social Service (ACOSS) submitted that there is 'an inadequate level of resources and an inefficient direction of resources [to early childhood education and care]' highlighting:

[H]ow critical access to early childhood education and care is, particularly to disadvantaged children, and that there are much lower levels of access to these services by lower income households.⁵⁴

52 Dr James J Heckman, *The Case for Investing in Disadvantaged Young Children in Big Ideas for Children: Investing in our Nation's Future*, University of Chicago School of Economics, pp 51–52, 2012 <http://www.heckmanequation.org/content/resource/case-investing-disadvantaged-young-children> (accessed 19 September 2014).

See also; Mr Mark Henley, CEO, Queensland Council of Social Service (QCOSS), *Committee Hansard*, 8 October 2014, p. 17. Mr Henley compares the Australian investment in early childhood learning with Scandinavian countries. See also: Gonski Review, pp 107–108.

'Maintaining a fair and inclusive education system is one of the most powerful levers available to make society more equitable.' The report cites evidence that 'strengthening equity in education can be cost beneficial'. Investment in education at an early age may actually provide the foundational skills that some disadvantaged children do not learn in the home.

53 *Committee Hansard*, Melbourne, 18 September 2014, p. 42.

54 Ms Jacqueline Phillips, Director of Policy, *Committee Hansard*, Canberra, 17 November 2014, p. 24.

3.50 Ms Emma King, CEO of VCOSS, impressed the importance of investing in early childhood learning:

For every dollar that you invest in early childhood education there is a \$16 return. [Governments must continue to] increase the participation rates of children in high-quality early learning and care at the earliest possible opportunities, and looking to increase participation in kindergarten et cetera. We know that it has a significant impact, particularly for the most vulnerable children, but actually for all children.⁵⁵

3.51 The Gonski Review found that 'educationally disadvantaged students are more likely to be developmentally vulnerable when they arrive at school than their peers'. Consequently, it also found that 'strategies to address educational disadvantage in school are most effective when integrated with, and complimentary to, approaches to support early childhood development'.⁵⁶

3.52 Service providers at the hearing in Logan highlighted the benefit of early childhood learning not just for children but also for families. Ms Catherine Bartolo, CEO of YFS Ltd, stated:

[E]ven connecting them to other people to learn some social skills before they get to school. In our families area we say that everyone should be part of a playgroup or be booked into a childcare centre even just for a day a week so that they get into that routine and habit...⁵⁷

3.53 Ms Lin Hatfield Dodds, National Director of UnitingCare Australia, added:

That may be the moment that you want to try to use those childcare opportunities as a soft entry point to start working with the whole family.⁵⁸

The importance of nutrition in the early years, specifically the provision of breakfast in schools, was also raised by members of the committee and witnesses.⁵⁹

Primary and secondary education

3.54 People from disadvantaged backgrounds tend to perform poorly in standardised testing. For example, in Year 3 NAPLAN testing, eight per cent of students from low SES backgrounds and 16 per cent from Aboriginal and Torres Strait Islander backgrounds do not meet the national minimum literacy standard. This compares with 4.7 per cent of the total Year 3 cohort that does not meet this standard. For those in Year 9, 18 per cent from low SES and 32 per cent from Aboriginal and

55 *Committee Hansard*, Melbourne, 18 September 2014, p. 14.

56 Gonski Review, p. 112.

57 *Committee Hansard*, Logan, 8 October 2014, pp 34–35.

58 *Committee Hansard*, Canberra, 16 October 2014, p. 51.

59 Ms Catherine Bartolo, CEO, YFS Limited, *Committee Hansard*, Logan, 8 October 2014, pp 34–35.

Torres Strait Islander backgrounds do not meet the national minimum numeracy standard compared with 9.4 per cent of the total Year 9 cohort. Seventy-four per cent of disadvantaged youth and 54 per cent of Aboriginal and Torres Strait Islander students complete Year 12 compared with 93 per cent completion in the most advantaged SES.⁶⁰ Only 36 per cent of disabled children complete Year 12 schooling. This is despite more than 90 per cent of disabled children attending a mainstream school.⁶¹

3.55 These low Year 12 completion rates have subsequent repercussions with 41.7 per cent from low SES and 60.6 per cent from Aboriginal and Torres Strait Islander backgrounds not engaged in post school work or study. This compares with 17.4 per cent from the most advantaged groups.⁶²

3.56 The consequences of failing to achieve in primary and secondary education is quite profound. Poor educational outcomes impact on an individual's capacity to engage in further training, and in turn, on employment. These employment opportunities will influence an individual's level of income and the certainty of that income.⁶³

3.57 There are many different programs funded at all levels of government that seek to engage with disaffected youth to ensure that they complete their schooling and are able to engage with post school study or work. Some are successful, others are not. Those that work should have their funding extended and be rolled out into other communities where there is an identified need. A lack of co-ordinated program evaluation was identified as the key impediment to successful program delivery in this area:

[E]vidence rarely seems to be collated at a national level and it rarely seems to be available in a timely fashion. If we could reach a time where those things were published, it would enable those people running those programs to benchmark themselves against the best outcomes for those. It would also allow us to truly look at what programs are doing at the time.⁶⁴

60 The Smith Family, *Submission 9*, pp 7–8.

61 *Submission 44*, p. 11. The National Plan for School Improvement, based on the Gonski Review, created a specific disability loading for schools. This funding is not guaranteed past July 2015.

62 *Submission 9*, pp 7–8.

63 *Submission 9*, p. 8.

64 Ms Kasy Chambers, Executive Director, Anglicare Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 37. See also: Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 39. Ms Hampshire cites the closure of the COAG reform council and the loss of yearly data collated at the Commonwealth level for low and high SES as something that needs to be addressed.

3.58 Further:

Early intervention and prevention approaches, particularly those focused on the school transition space, require coordinated cross-sectoral and cross-jurisdictional responses if they are to be effective. No one sector or jurisdiction has all of the resources, skills or level of responsibility to respond to the size and complexity of the school-to-work transition challenge currently facing Australia.⁶⁵

3.59 Evidence to the committee noted that engagement with young people ideally should be through one focal point, rather than multiple state and federal agencies. This would assist in ensuring accountability from government to the individual and then, in turn, accountability reciprocated from the individual to society:

I think one of the problems sometimes is that they have too many people working with them. So they are on this merry-go-round of welfare and going to child safety meetings and meetings about housing. It is almost like [we need] one intense lead agency that they had to be accountable to. Often they will say, 'I can't come because I am going to this appointment' and things like that. It is a concern.⁶⁶

Tertiary and vocational training

3.60 The growth industries in the Australian economy will require highly skilled employees. This, in turn, will require a high quality mass-education system. An Australian Government report into the future Australian economy found:

In the medium and longer term, competitive pressures—as employers navigate a complex mix of supply costs and market opportunities – will mean that all employees will be subjected to the demands of new systems and technologies. The need to combine new operational skills with communication, teamwork and decision-making skills will intensify. The flexibility and resilience to change jobs, apply skills in different contexts and go on learning will be essential...

Along with specialist skills, these workers will need strong basic skills and an ability to quickly adapt and pick up new skills, to make the most of new opportunities.⁶⁷

3.61 Access to tertiary and vocational training is predicated on the cost of the course—whether debt deferred or paid up-front—and capacity to pay for the cost of studying, food, rent and other living essentials. The National Union of Students (NUS) submitted that more than 76 per cent of full-time, low SES undergraduates worried

65 Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 35.

66 Ms Catherine Bartolo, YFS Limited, *Committee Hansard*, Logan, 8 October 2014, p. 34.

67 Australian Government, *Skills for all Australians*, 2012, p. 30, http://www.dpmc.gov.au/publications/skills_for_all_australians/pdf/skills_for_all_australians.pdf (accessed 27 October 2014).

about their financial situation.⁶⁸ Mr Jack Gracie of the NUS stated that 'more than 50 per cent of students believe that their studies are negatively affected by their financial situation'.⁶⁹ These statistics clearly focus on those who have commenced tertiary studies and find it difficult to survive and achieve to their potential at their studies. Universities Australia found that 'people from low SES backgrounds are about one-third as likely as people from high SES backgrounds to participate in higher education'.⁷⁰ Even within the current system, there still remains inequitable access to tertiary education for those from low SES backgrounds.

3.62 The committee received evidence that the recent increase in TAFE fees will dissuade many from undertaking vocational training particularly in low paid industries. Mr Sameh Gowegati, CEO of SMYL, provided the following example in the Western Australian context:

A child-care diploma is an essential requirement now to work in a child-care centre. We provided that free of charge last year. Under the Future Skills funding, that is now nearly \$9,000, none of our clients have the capacity—in any way, shape or form—to pay that. It is one of the negatives of trying to have a more user-pay system. Take the policy side of it. We work with people who have no way in humanity to pay \$9,000 for a course and they will not even try to. To a trainee, you have to up-front show people the course fees. They look at that figure. That is more than a year's income for them. They are out of there. A sad part too is that even if they could afford to pay it they would be looking forward to entering an industry where they start work at between \$15 and \$16 an hour and have to pay back \$9,000.⁷¹

3.63 In this section on education, the importance of engagement with disadvantaged and disengaged youth is discussed. It is important that young Australians undertake further training if they are to participate in the economy of the future. Engagement is critical in showcasing to young adults the possibilities that exist. Equally as important is an equitable tertiary and vocational training system that facilitates participation based on merit rather than family background or income.

68 *Submission 21*, p. [3].

69 *Committee Hansard*, Melbourne, 18 September 2014, p. 32.

70 Universities Australia, *Participation and Equity: A review of the participation in higher education of people from low socio-economic backgrounds and indigenous people*, March 2008, p. 2, <https://www.universitiesaustralia.edu.au/ArticleDocuments/210/Participation%20and%20equity.pdf.aspx> (accessed 25 November 2014). See also, People with Disability Australia, *Submission 44*, p. 11. Only 15% of people with a disability complete a Bachelor degree or higher compared to 26% of people without a disability.

71 *Committee Hansard*, Rockingham, 11 November 2014, p. 38.

Building an education and training culture

3.64 For some families and communities the effects of low income can have a lasting impact as the disadvantage is conveyed inter-generationally. This not only occurs through educational disadvantage where disadvantaged children are segregated from children from advantaged backgrounds, but also through inequality changing the 'aspirations, norms and values of [low socio-economic] people'. As Wilkinson and Pickett have noted:

While education is viewed by the middle class and by teachers and policy makers as the way upwards and outwards for the poor and working class, these values are not always subscribed to by the poor and working class themselves.⁷²

3.65 Professor Jonathon West of the University of Tasmania describes a culture of low aspiration in Tasmania fuelled by intergenerational disadvantage.⁷³ Some of these attitudes may be reflected in Tasmania's Year 12 retention rate of '64 per cent compared to 76 per cent [nationally]'. The committee received further evidence finding that those who live in poorer communities or concentrated areas of disadvantage are often fearful to seek further education as that means they have to leave that community—even simply to complete Year 11 and 12. In Tasmania, this trend is even more pronounced as the consequence of attaining further education often means needing to move to the mainland for employment options, leaving friends and family behind.⁷⁴

3.66 The Tasmanian Youth Forum conducted a forum and survey in September 2013 entitled 'Should I Stay or Should I Go?'. The Forum examined some of the factors that made young people think about leaving Tasmania to 'learn, earn, work or play'. Most participants indicated that they have thought about leaving Tasmania primarily because of 'a lack of jobs in Tasmania'. Sixty-four per cent said they would have to move away from Tasmania to 'do everything they wanted to do in the future'. However, most agreed it was 'okay' to leave and return with a range of experiences. The survey suggested that increased opportunities for education, transport, youth-focused events and jobs would entice young Tasmanians to stay.⁷⁵

3.67 In contrast, some disadvantaged groups are noted for a positive attitude to education and the opportunities for improving the living standards for themselves and

72 Richard Wilkinson and Kate Pickett, *The Spirit Level: Why more equal societies almost always do better*, Penguin Books, Camberwell, 2009, p. 115.

73 Professor Jonathon West, *Obstacles to Progress*, Griffith Review No. 39, 2012, <https://griffithreview.com/articles/obstacles-to-progress/> (accessed 15 September 2014).

74 Associate Professor Daphne Habibis, Director, Housing and Community Research Unit, University of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, pp 13–14.

75 Tasmanian Youth Forum, *Should I Stay or Should I go?*, Final Report, September 2013, http://www.dpac.tas.gov.au/_data/assets/pdf_file/0019/234820/Stay_or_go_what_you_said_final_report_Dec_2013.pdf (accessed 6 November 2014).

the next generation. Dr Peter Shergold, the Vice-Chancellor of the University of Western Sydney, has commented on the drive of some disadvantaged groups:

Migrants (and refugees) bring entrepreneurial drive and ambition for their children. Young people brought up in two cultures possess an additional asset that can enhance their educational qualifications in business, law, medicine, nursing, teaching, engineering or community work.⁷⁶

3.68 In addition to this innate drive, there are examples of programs that assist schools and communities in creating a culture that values education, training and employment. The committee received evidence from Reverend Sandeman of the Automotive Transformation Taskforce on the Northern Adelaide State Secondary Schools Alliance (NASSSA) and Northern Connections:

It is really about making sure the intensity of experience of employment at school is high, that it works for local employers and works for local students. That is where we can assist schools to better provide for post-school opportunities for their young people.⁷⁷

3.69 Chapter 6 of this report will discuss the power of engaging disadvantaged and disengaged youth. Teachers and social workers helping young people and their families understand the opportunities that education and further training bring is helping to break the cycle of disadvantage in places like Logan in south-west Brisbane. Issues around structural unemployment and geographic disadvantage will be discussed in chapter 4.

Housing

3.70 Baptcare, in its affordable housing position paper, has noted that 'safe, secure, appropriate housing is a basic human right for all Australians and is foundational to the wellbeing of individuals, families and communities.'⁷⁸ Previous sections have noted the complex relationship that exists between housing and access to services and opportunities. A number of submitters have also noted the deleterious impact that insecure housing arrangements have on stress levels.⁷⁹ Further to this, there are those

76 Dr Peter Shergold, *Graduation ceremonies a celebration of Australia's cultural diversity*, 20 October 2014, <http://www.smh.com.au/comment/graduation-ceremonies-a-celebration-of-australias-cultural-diversity-20141019-1189v3.html> (accessed 20 October 2014).

77 Board Member, *Committee Hansard*, Elizabeth, 10 November 2014, p. 26.

78 Baptcare, *Baptcare Social Policy Position Paper: Affordable Housing*, 2014, p. 1, <http://www.baptistcareaustralia.org.au/documents/item/221> (accessed 31 October 2014).

79 For example, see: Social Determinants of Health, *Submission 43*, p. 5; Tabled Document, QCOSS, *Indicators of Poverty and Disadvantage*, October 2014, p. 15, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Income_Inequality/Additional_Documents (accessed 8 October 2014).

who have been excluded from housing altogether. The number of homeless in Australia has increased from 89 728 in 2006 to 105 237 people in 2011.⁸⁰

3.71 This section will address issues relating to housing affordability, availability of public housing and homelessness, and the interface between housing, transport and participation.

Affordability

3.72 The cluster of high income earners in the inner city areas of the major metropolitan centres and the consequent growth in inner city housing prices has been discussed in the education section of this chapter. This trend also has implications for access to employment opportunities. In evidence, Mr Donegan stated:

We have seen that since 2006 more than three-fifths of the employment growth in Australia's five biggest cities has occurred within 10 kilometres of the city centre, where somewhere like Western Sydney has seen zero net private sector employment growth. So opportunity is to some extent concentrating closer in...

Since 2006 more than half of the population growth in the five biggest cities in the country has occurred 20 kilometres or more from the CBD. That creates a growing gap between housing and employment. For some households it means it is harder to access the higher incomes on offer closer to city centres. Others have to make tough trade-offs—long commutes, higher living costs, more pressures on family time—the kinds of trade-offs that households living closer to the city centre do not have to contemplate. The most important thing policymakers can do is give people genuine choices about where they live, including in areas with good access to jobs and transport. That means making it easier to build homes in established inner and middle suburbs.⁸¹

3.73 The issue of housing affordability is not about everyone being able to live in fashionable addresses. Affordable housing is about living close to employment opportunities and services. An individual's postcode should not set an upper limit on their income earning potential.

80 Australian Bureau of Statistics, *2049.0—Census of Population and Housing: Estimating Homelessness, 2011*, <http://abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/2049.0Main%20Features22011?opendocument&tabname=Summary&prodno=2049.0&issue=2011&num=&view=> (accessed 25 November 2014).

81 *Committee Hansard*, 8 October 2014, p. 40. See also: Social Determinants of Health Alliance, *Submission 43*, p [5].

Mortgage and rental stress

3.74 A household is experiencing 'mortgage stress' if it is in the lowest 40 per cent of the income distribution and is spending over 30 per cent of its income on mortgage repayments. A 2009 Senate report noted:

Financial institutions have traditionally applied a rule of thumb of not allowing households to take out home loans requiring more than 30 per cent of gross income to service. A government inquiry which looked into housing in the early 1990s concluded that people on low incomes could not afford to pay more than 30 per cent of their income on housing.⁸² This proportion has since become a benchmark.⁸³

3.75 National residential property prices increased by 10.1 per cent in the 2013–14 financial year,⁸⁴ clearly outstripping minimum wage growth (3.0 per cent)⁸⁵ and indexation to the base *Newstart* allowance (2.7 per cent) over this period.⁸⁶ The most recent rental data shows median weekly household rent increased by 49.2 per cent between 2006 and 2011. This is more than double the rate of increase for wages in the same period.⁸⁷

3.76 In 2011–12, more than 90 per cent of those in the lowest income quintile were renting compared to 3.5 per cent in the top quintile.⁸⁸ In the same year, 45.5 per cent of low income households in Queensland spent more than 30 per cent of their gross

82 Australian Government, *National Housing Strategy*, Canberra, 1991, p. 7.

83 Senate Select Committee on Housing Affordability, 'A good home is hard to find: Housing Affordability in Australia', June 2008, p. 35, http://www.aph.gov.au/~media/wopapub/senate/committee/hsaf_ctte/report/report_pdf.ashx (accessed 17 November 2014).

84 ABS, *6416.0—Residential Property Price Indexes: Eight Capital Cities, June 2014*, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6416.0> (accessed 2 October 2014).

85 Fair Work Commission, *Media Release: Fair Work Commission Annual Wage review increases national minimum wage*, <https://employment.gov.au/news/fair-work-commission-annual-wage-review-increases-national-minimum-wage> (accessed 2 October 2014).

86 Australian Government, *Historical versions of 'A guide to Australian Government payments' booklet*, <http://www.humanservices.gov.au/corporate/publications-and-resources/historical-rates-for-co029> (accessed 2 October 2014).

87 ABS, *1380.0.55.013—Perspectives on Regional Australia: Housing Arrangements—Rental Rates in Local Government Areas, 2011*, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/1380.0.55.013> (accessed 7 October 2014).

88 Australian Bureau of Statistics, *6554.0 Household Wealth and Wealth Distribution 2011–12*, pp 18–19, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6554.0Main%20Features22011-12?opendocument&tabname=Summary&prodno=6554.0&issue=2011-12&num=&view=> (accessed 19 September 2014).

income on housing costs.⁸⁹ Dr John Falzon, Chief Executive Officer of the St Vincent de Paul Society National Council, cited the following evidence:

47 per cent of low-income households are paying more than 30 per cent of their income on rent and 217,000 households are now on the waiting list for social housing. These are concrete manifestations of a ramping up of inequality in prosperous Australia.⁹⁰

3.77 The committee heard that '36% of households affected by a disability and renting paid more than 30% of their gross income for housing compared with 26% of households with no disability'.⁹¹

3.78 The growth in housing and rental costs reflects clearly adds to the number of households experiencing mortgage and rental stress and severity of those experiencing this stress. VCOSS submitted that the problem is:

[Q]uite well evidenced in terms of there being pockets of significant mortgage and rental stress, significant unemployment and...a range of other social issues such as increased problem gambling, lower educational attainment et cetera.⁹²

3.79 Professor Alan Duncan, the Director of the Bankwest Curtin Economics Centre, explained that 'housing costs impose a proportionately greater burden on those on low incomes in WA'. A household on median income living in a house with median rent would pay about 30 per cent of their disposable income on rent. A household with an income in the lowest quintile would have to pay 50–70 per cent of their disposable income to afford a lower quartile rental property. Professor Duncan outlined the impact on a household of having to pay such a high proportion of their income on housing costs:

Once one has taken housing costs out of the equation, the amount of income remaining for those at the bottom of the income distribution to afford other necessities of life is preciously small. So local housing markets and the lack of availability of affordable housing for those on low incomes really do have an important bearing on income disadvantage.⁹³

3.80 The 2009 Henry Review recommended that if rent increases faster than government allowances or wages, the most efficient response is to index the growth of housing to a rental index:

89 Tabled Document, QCOSS, *Indicators of Poverty and Disadvantage*, October 2014, p. 16, http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/Income_Inequality/Additional_Documents (accessed 8 October 2014).

90 *Committee Hansard*, Canberra, 16 October 2014, p. 46.

91 *Submission 44*, p. 5.

92 Ms Emma Keys, Chief Executive Officer, VCOSS, *Committee Hansard*, Melbourne, 18 September 2014, p. 11.

93 *Committee Hansard*, Rockingham, 11 November 2014, p. 2.

[t]he maximum rate of Rent Assistance should be increased to assist renters to afford an adequate standard of dwelling. To ensure that Rent Assistance can be maintained at an adequate level over time, the rent maximum should be indexed by movements in national rents, which could be measured by an index of rents paid by income support recipients.⁹⁴

This issue is revisited in chapter 6 of this report.

Negative gearing and Capital Gains Tax concessions—The housing price drivers

3.81 According to the Australian Bureau of Statistics (ABS), on average, most individuals hold the majority of their wealth in property and superannuation. Residential property is the highest value asset that most hold. There is a positive correlation between income and wealth across the different income quintiles. There is also a substantial difference in the net value of such assets between the bottom quintile (-\$3 000) and top quintile (\$1.11 million).⁹⁵ Those on higher incomes accumulate more wealth reflecting a capacity to service higher mortgage payments from a higher income. The Australia Institute states in a recent report that 'high incomes enable the accumulation of large wealth holdings on the one hand, while large wealth holdings generate high incomes'.⁹⁶ Housing investment is a vehicle for wealth creation, wealth disparity and income inequality that is reinforced over generations.

3.82 There are a number of tax concessions that real estate investors can use. The main concessions relate to negative gearing and capital gains tax (CGT) exemptions:

- negative gearing occurs when a 'rental [or investment property] is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings'. This rental loss can be claimed against other forms of income (for example, salary or business income resulting in less tax being paid). The purpose of this type of investment is to minimise tax initially and assumes that the property

94 Australian Government, The Treasury, *Australia's Future Tax System: Final Report [Chapter 12]*, http://taxreview.treasury.gov.au/content/finalreport.aspx?doc=html/publications/papers/final_report_part_1/chapter_12.htm (accessed 14 November 2014).

95 Australian Bureau of Statistics, *6554.0 Household Wealth and Wealth Distribution 2011–12*, pp 18–19. In this section, non-equivalised data sets have been used. Equivalised data adjusts total household income to facilitate comparisons of households of differing sizes and compositions. It is worth noting that equivalised data shows a smaller difference in housing wealth between quintiles.

96 Mr David Richardson and Dr Richard Denniss, *Income and Wealth Inequality in Australia*, July 2014, p. 10, <http://www.tai.org.au/content/income-and-wealth-inequality-australia> (accessed 19 September 2014).

value increases over time allowing the investor to realise a profit when the property is sold at a later date;⁹⁷

- CGT is applied to all asset sales including houses where the asset value has increased over time. The tax is applied to the difference between the purchase price and the sale price. There are a number of exemptions to CGT, notably the exemption for 'main residences'. This exemption is not means tested.⁹⁸

3.83 These taxation arrangements clearly favour those with a high disposable income, allowing them to purchase an investment property. While the practice increases the stock of rental housing, it serves to limit the stock of owner-occupied dwellings for sale. Many have attributed the use of negative gearing to the record growth in house prices in Australia.⁹⁹

3.84 Current taxation policy is exacerbating the problem of increasing housing prices and decreasing housing affordability. In a consultation paper, Treasury suggests that a central tenet of a tax system should be the 'remov[al of] tax biases that negatively affect business and household investment decisions, offering the potential to increase productivity and Australia's long-term prospects for economic growth'.¹⁰⁰ Targeting these housing tax concessions, and the skewed investment incentives created by them, would assist in making housing more affordable for more Australians whilst creating substantial revenues for budget.

Availability of public housing and rent assistance

3.85 Many low income earners have difficulty accessing the private rental market as they simply cannot afford the rent. There are a number of state and federal government initiatives in place to financially support low income earners with access to housing. Commonwealth Rent Assistance (CRA) is available to those who

97 Australian Tax Office, *Rental properties 2012–13: Negative gearing*, <https://www.ato.gov.au/Individuals/Tax-return/2013/In-detail/Publications/Rental-properties-2012-13/?page=16> (accessed 7 October 2014). See also: Dr Richard Denniss, Executive Director, The Australia Institute, *Committee Hansard*, Canberra, 16 October 2014, pp 13–20.

98 Australian Taxation Office, *Capital gains tax*, <https://www.ato.gov.au/General/Capital-gains-tax/> (accessed 7 October 2014).

99 See for example: Alan Kohler, *The two certainties in housing: debt and taxes*, The Drum (originally published in Business Spectator), <http://www.abc.net.au/news/2014-10-02/kohler-the-two-certainties-in-housing-debt-and-taxes/5784272> (accessed 3 October 2014). Alan Kohler states that 'in the past 20 years the shares of total lending by businesses and for housing have basically flipped—housing has gone from 25 to 61 per cent of total credit and business credit has fallen from 64 to 34 per cent.' There is a concern that current taxation policy has skewed borrowing to non-productive sectors (i.e. established housing stock) away from productive sectors that create jobs (i.e. business investment).

100 Australian Department of the Treasury, *Australia's future tax system—Section 6: Taxing business and investment*, http://taxreview.treasury.gov.au/content/ConsultationPaper.aspx?doc=html/publications/Papers/Consultation_Paper/section_6.htm (accessed 7 October 2014).

currently receive a pension or the maximum rate of Family Tax Benefit. This payment ranges from \$85.07—single, no children, share-house—to a maximum of \$168.98—single or couple family with three or more dependent children—per fortnight. This maximum rate is only available if your fortnightly rent is higher than a defined threshold for your family situation.¹⁰¹ The second mechanism is access to social or public housing whereby the state government provides eligible individuals or households with access to housing for a means tested rent of 25 per cent of household income.¹⁰²

3.86 Despite this support, Bapcare has noted that affordable housing is becoming more difficult to access for low income earners. It identified the following trends:

- loss of low income private rental housing in inner city areas—for example, as inner city areas in Melbourne have become gentrified, up to one-third of low income families have been forced to move between 2001 and 2006;
- unaffordable housing is exacerbated by income—every recipient of income support (except for the aged pension) provides an income (including CRA) below the poverty line.¹⁰³ As such, many on these benefits are paying a larger proportion of their income on housing. For example, 'in 2013, 60 percent of people on *Newstart* were paying more than 30 per cent of their income in housing costs and a quarter were paying more than 50 percent of their income in rent'; and
- a decline in public housing—state housing departments are struggling to meet demand for public housing. For example, waiting lists for public housing in Victoria (34 000 people), Queensland (20 000) and Tasmania (2 500) are extensive whilst operating costs of these departments exceed revenue. This indicates that without change to the way that state and federal government's approach housing issues, this problem will only get worse.¹⁰⁴

3.87 The National Rental Affordability Scheme (NRAS) was a federal government program established in 2008 to provide financial incentives to investors to encourage investment in new housing developments for low income renters. Several submitters

101 Department of Human Services, *Rent Assistance*, <http://www.humanservices.gov.au/customer/services/centrelink/rent-assistance> (accessed 21 October 2014).

102 This varies from state to state; however, Queensland charges 25 per cent, whereas NSW charges 25–30 per cent depending on household and income status.

103 Melbourne Institute of Applied Economic and Social Research, *Poverty Lines: Australia*, ISSN 1448-0530 June Quarter 2014, https://melbourneinstitute.com/downloads/publications/Poverty%20Lines/Poverty-Lines-Australia_June2014.pdf (accessed 31 October 2014).

104 Bapcare, *Bapcare Social Policy Position Paper: Affordable Housing*, 2014, pp 6–7, <http://www.baptistcareaustralia.org.au/documents/item/221> (accessed 31 October 2014).

to this inquiry expressed disappointment that the scheme is being discontinued.¹⁰⁵ Although the Queensland Department of Housing and Public Works noted that the Scheme could have been slightly better targeted, NRAS delivered good outcomes for provision of affordable housing:

I think the product was not well targeted to investors and we could have got more out of it. But I think the product, as far as getting tenants into accommodation, is a very good product. Seventy-six per cent of households tenanted through NRAS since 2008 have been on incomes less than \$5[0],000 per annum. NRAS has been very successful in Queensland...We administer around \$125 million per annum, delivering services for homeless people who are probably the people who experience the greatest effects of income inequality and often have no income at all.¹⁰⁶

Homelessness

3.88 Homelessness is defined by the Australian Institute of Health and Welfare (AIHW) as someone living in no shelter, improvised shelter such as a motor vehicle, short-term temporary accommodation or 'couch-surfing' with no tenure.¹⁰⁷

3.89 A recent report released by the AIHW noted that 'in the two and half years [starting] 1 July 2011, Specialist Homelessness Services provided support to over 400 000 people in Australia. Although a range of factors influenced housing outcomes—including domestic violence, drug and alcohol use, mental health issues, or young people living alone—most clients were also likely to be unemployed with either no income or receiving income support'.¹⁰⁸

3.90 The committee received evidence from the Equality Rights Alliance (ERA) that:

Housing unaffordability is a driving force of economic disadvantage, creating and sustaining poverty and homelessness and thereby stagnating efforts to address and reduce inequality.

105 For example, see: Ms Mary D'Elia, State Operations Manager, Tasmania, Baptcare, *Committee Hansard*, Hobart, 19 September 2014, p. 4; Mr Neil Castles, Director-General, Queensland Department of Housing and Public Works, *Committee Hansard*, Logan, 8 October 2014, pp 2 and 7.

106 *Committee Hansard*, Logan, 8 October 2014, p. 2.

107 Australian Institute of Health and Welfare, *Australia's Welfare 2013*, p. 214, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129544561> (accessed 25 November 2014).

108 Australian Institute of Health and Welfare, *Housing outcomes for groups vulnerable to homelessness*, Cat. No. HOU 274, Canberra, 2014, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129548949> (accessed 27 October 2014).

Further to this, ERA noted that women were especially vulnerable to homelessness. Specific groups of women most exposed include single and older, Aboriginal and Torres Strait Islander people, disabled and those with care responsibilities.¹⁰⁹

3.91 Representatives of UnitingCare Wesley Port Adelaide spoke to the committee about the:

[S]ignificant link between unemployment or underemployment and poverty and homelessness. It sets up a cycle of disadvantage that I have described as a perfect storm of disadvantage. People who get trapped in that cycle find it extraordinarily difficult to escape from it without significant support... without early intervention, without prevention programs, it is going to be more and more difficult for people to get off that treadmill of underemployment or unemployment and poverty and homelessness.¹¹⁰

3.92 Further to this, evidence was received that detailed the changing face of homelessness:

We are seeing in our Port Adelaide office a growing number of people who we would classify as the working poor: people who have been affected by one or a couple family members losing their jobs, which throws all of their life plans and their circumstances into disarray. So we have people presenting for emergency relief who feel significant embarrassment and a sense of shame at having to ask for something they have never had to ask for before. So it is not only people who are on a disability support pension, a Newstart allowance or some other sort of allowance who are now coming to us for support; it is people who are in employment but have had hours cut or one person lose a job. We are seeing those across our services in all our areas.¹¹¹

3.93 Joe Gannon described how 'most people are only three pay packets away from a housing crisis' and dismissed the stereotype of 'homeless people sleep[ing] in a park':

That is probably about five per cent of the people we deal with in homelessness. It is not the person sleeping in the park we are dealing with. We are dealing with homeless families. We are talking about mum, who has left her husband, walking in with about four to five children...¹¹²

[O]ver 60 per cent of those are children, under 14 years of age, presenting in a homelessness-crisis situation.¹¹³

109 *Submission 36*, pp 4–5. See also: Mr Chris Twomey, Director, Western Australia Council of Social Service, *Committee Hansard*, Rockingham, 11 November 2014, p. 13.

110 Ms Meredith Perry, Senior Manager—Community Services, *Committee Hansard*, Elizabeth, 10 November 2014, p. 11.

111 *Committee Hansard*, Elizabeth, 10 November 2014, p. 14.

112 Manager—Homelessness Services, *Committee Hansard*, Elizabeth, 10 November 2014, p. 13.

113 *Committee Hansard*, Elizabeth, 10 November 2014, p. 16.

3.94 Evidence the committee has received indicates a surge in demand for emergency relief and financial assistance, and an increase in homelessness.¹¹⁴ Reverend Crews noted that 'in Sydney there are at this moment 100 more homeless people in the inner city than there were this time last year'.¹¹⁵

3.95 The Queensland Department of Housing and Public Works expressed concern that the proposed budget measures 'that impact low-income families [will] increase the risk [that] they will become homeless'.¹¹⁶

3.96 In 2009, the National Partnership Agreement on Homelessness (NPAH) was established through the Council of Australian Governments (COAG) to help 'people who are homeless or at risk of homelessness achieve sustainable housing and social inclusion'. The objective was to create a coordinated approach to housing and homelessness. The four year agreement expired on 30 June 2013. NPAH has been given a one year extension while the Commonwealth conducts a review. Further to this, the role of the Commonwealth and state governments with regard to housing will also be reviewed as part of the White Paper on the Reform of the Federation.¹¹⁷ The committee is concerned that Commonwealth housing and homelessness policy appears to be in a hiatus with no apparent federal leadership on the issue.

The Queensland experience

3.97 The Queensland Department of Housing and Public Works estimates that there are over 200 000 low income households in Queensland who currently receive CRA. Of these people, 72 000 are living in public housing. The Department views its role as providing 'high-subsidy social housing assistance to those most in need while ensuring that other low to moderate income earners can access assistance to stay in or move to the private rental market'.¹¹⁸

3.98 The Department told the committee that 20 years ago, public housing was provided primarily to families whereas today it is provided to people with high needs. In '55 percent of social-housing dwellings there is at least one tenant who has a disability and around 25 per cent of all tenants in a social house have a profound disability'. The Director-General told the committee that the State Government has had to review its housing stock away from 3-bedroom family homes on large blocks to 1–2 and 5–7 bedroom housing to reflect current demand.¹¹⁹

114 *Committee Hansard*, Logan, 8 October 2014, pp 27–38.

115 *Committee Hansard*, Canberra, 16 October 2014, p. 46.

116 *Committee Hansard*, Logan, 8 October 2014, p. 3.

117 The Hon. Tony Abbott MP, Prime Minister of Australia, 'Federation White Paper—Release of First Issues Paper', Media release, 12 September 2014.

118 *Committee Hansard*, Logan, 8 October 2014, p. 1.

119 *Committee Hansard*, Logan, 8 October 2014, pp 1–3.

3.99 As discussed earlier, the Queensland Department of Housing and Public Works charges public housing tenants a rent of 25 per cent of their income. Eighty per cent of public housing tenants receive a Commonwealth allowance as their primary source of income. The Department told the committee:

Obviously any reductions in benefits coming out of the Commonwealth budget reduces our income which reduces our capacity to put money back into social housing. At the moment we estimate our subsidy per household per year to be around \$8,000 per year.¹²⁰

The committee expresses its strong concern at this impact of the proposed budget measure, not only in Queensland but nationwide. There is clearly a need to invest more in social housing options in Australia and any measures—direct or indirect—that curtail this investment are to be strongly opposed.

Transport

3.100 Access to transport—whether private or public—is important to participate in society. Transport provides people with the means to socialise, access shops, services, healthcare, education, and jobs. Without transport people are isolated from society and less likely to participate and prosper.

3.101 Income is one of the key determinants of where individuals live. Those on lower incomes are more likely to live where housing costs are lower—invariably this is on the peripheries of cities. Although Australia is one of the most urbanised societies in the world, our cities are largely designed with the following two underlying principles. First, medium to high density housing in the inner and middle metropolitan areas is supported by strong public transport systems. Second, the lower density outer metropolitan, regional, rural and remote areas are largely designed with cars being the primary means of transport. This clearly presents constraints for those on low incomes—often unable to afford to buy and operate private transport—who are forced to live in areas with inadequate public transport and as a consequence are alienated from essential services and job opportunities.¹²¹

3.102 Mr Donegan told the committee that 'living costs for households that are entirely reliant on car transport are substantially higher than those for people living closer in and who have good access to public transport'.¹²² Other witnesses also raised cost of living pressures:

The other thing that is changing is the cost of housing and the cost of transport for people. All of that is taking a bigger chunk out of casualised,

120 *Committee Hansard*, Logan, 8 October 2014, p. 3.

121 See also Mr Paul Donegan and Mr Ross Elliott in *Committee Hansard*, Logan, 8 October 2014, pp 39–51.

122 *Committee Hansard*, Logan, 8 October 2014, pp 42–43.

inadequate wages and thin and inadequate welfare payments. It is just harder for people to make ends meet.¹²³

3.103 Griffith University publishes a report known as the VAMPIRE¹²⁴ index which examines the distribution of household exposure to higher petrol prices, interest rate rises on mortgages and general price inflation due to the increased price of oil. This report confirms that those living in outer metropolitan areas are more likely to have a mortgage, more likely to use a car as the primary means of transport and are more sensitive to general price inflation. In the face of peak oil with higher petrol prices, and poor or non-existent public transport, lower income households living in these areas are forced to make decisions about what to prioritise in their lives. Reducing car use—with no substitution options for affordable public transport—will undoubtedly mean less participation in society for that individual or family.¹²⁵

The digital divide

3.104 In the modern world, technology is ubiquitous in every aspect of our lives. In The Smith Family's submission to the committee, it was noted:

[A]ccess to technology, including both home computers and the internet, is now seen as a key resource for young people's participation in education.¹²⁶

3.105 Several submissions noted 'a lack of home access' to internet and other technologies was an issue facing low income families with only 67.8 per cent of children aged 5 to 14 years being able to access internet at home. This compares with 90.5 per cent of children in the most advantaged communities.¹²⁷ The Smith Family described the impact of inequitable access:

The more limited access to technology that many young disadvantaged Australians experience can impact their acquisition of digital literacy skills and the educational outcomes they achieve. This in turn can [a]ffect their post school pathways, their ability to secure employment, and their income.¹²⁸

123 Ms Lin Hatfield Dodds, National Director, UnitingCare Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 48.

124 VAMPIRE (Vulnerability assessment for mortgage, petroleum, and inflation risks and expenditure).

125 Jago Dodson and Neil Sipe, *Unsettling Suburbia: The New Landscape of Oil and Mortgage Vulnerability in Australian Cities*, Griffith University, 2008, http://www.griffith.edu.au/_data/assets/pdf_file/0003/88851/urp-rp17-dodson-sipe-2008.pdf (accessed 10 October 2014).

126 *Submission 9*, p. 10.

127 For example, see: The Smith Family, *Submission 9*, p. 10; Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 35.

128 *Submission 9*, p. 10.

3.106 Mr Brendan Markey-Towler of the University of Queensland went further, describing internet access as essential infrastructure to allow individuals to participate in the economy, particularly those in rural and regional areas. As he told the committee:

The challenge for policymakers, as I see it, is to be able to provide services which allow individuals in the country to integrate; just making it easier to obtain even something so simple as internet access which allows them to communicate with economic centres.¹²⁹

3.107 Connectivity to affordable and accessible high-speed broadband is as important as connectivity to affordable and accessible public transport options in order to participate in the modern world.

Employment

3.108 A number of submissions to this inquiry highlighted participation in paid employment as the most effective mechanism to lift individuals out of poverty. Employment is critical to provide individuals with structure, social networks, self-sufficiency in life and retirement, and to achieve a sense of value and contribution. Mr Roland Manderson, Deputy Director at Anglicare Australia, told the committee that the 'notion of participation is much in the public sphere and certainly having a job [or] occupation is a key form of participation'.¹³⁰

3.109 This section focuses on a number of broad issues affecting employment. Employment issues relating to specific disadvantaged groups will be discussed in the next chapter.

Unemployment

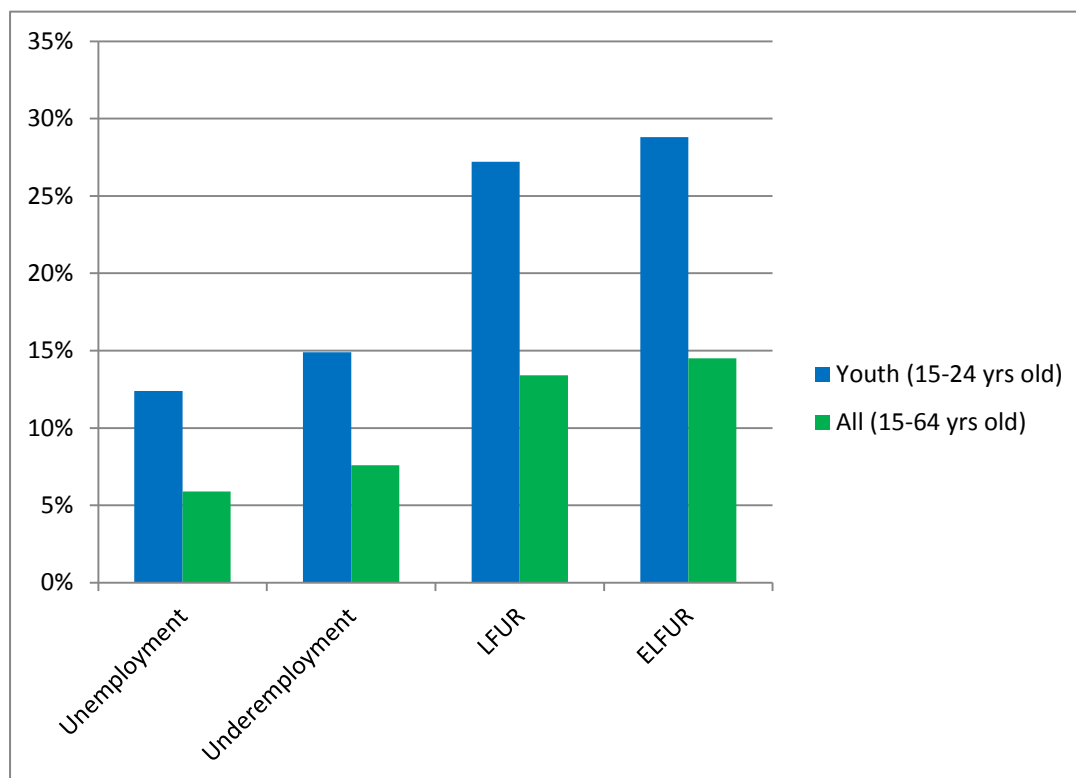
3.110 The unemployment rate—a headline rate of approximately 5–6% for the total population over the last decade—is a deceptive statistic that does not capture the lack of employment opportunities in the labour market, particularly for young people. There are three other important statistics when measuring people's engagement with the labour market. These are the unemployment rate, the underemployment rate,

129 *Committee Hansard*, Logan, 8 October 2014, p. 42.

130 *Committee Hansard*, Canberra, 16 October 2014, p. 34.

the labour force underutilisation rate (LFUR), and the extended labour force underutilisation rate (ELFUR).¹³¹ These can be seen below in Figure 3.5.

Figure 3.5: Comparison of labour force statistics between young people (15–24yrs) and all people (15–64 yrs) on August 2013¹³² (ABS 6105.0 & 6202.0)



3.111 It is important to note that a large proportion of the Australian labour force are eager to work but cannot access a job or sufficient hours. This is the case for nearly 30 per cent of young people and nearly 15 per cent of the total population. If an individual is unemployed, underemployed or engaged in insecure work, he or she is likely to have poorer access to services. In most cases, these are services required to participate in the labour market.

131 ABS 1301.0. Definitions *Year Book Australia*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Featu res~Underutilised%20labour~297> (accessed 6 November 2014). **Unemployment rate** is defined as the unemployed as a percentage of the labour market (unemployed plus employed); **underemployment rate** are those part-time workers are those who are available and would prefer to work more hours; **labour force underutilisation rate** is the sum of the unemployed and the underemployed as a percentage of the labour market; **extended labour force underutilisation rate** is the sum of the unemployed, underemployed, discouraged job seekers and those looking for work but unable to start work in the reference week, but available to start in four weeks.

132 August 2013 was the most recent date of **all** of these labour force statistics.

Working poor

3.112 The advent of flexible work conditions has led to the development of an 'underclass in the workforce'¹³³ exposed to casual, insecure and low paid employment. Dr Falzon submitted that '[w]e are aware of this growing category of the 'precarariat'—people who are precariously employed. There is an increasing trend towards casualisation, insecure work and low paid work.'¹³⁴

3.113 Dr Mark Zirnsak from the Uniting Church gave an example of the impact that insecure work has on individual well-being:

[A Uniting Church inquiry that] took evidence from people about far more insecure forms of work—people whose job now involves getting up at six o'clock in the morning and ringing up their employer to find out whether they have a job for that day and, if so, where it is going to be. That clearly impacts on people. They might be able to get an adequate income, but it is clearly going to affect their ability to plan and to have relationships and affect their sense of wellbeing and security in their life. Even if the income might be adequate, or a higher income than they had in the past, it does impact on those other aspects of their life. So, if you simply say that because their income has improved their lives are better, that does not necessarily follow. And those things—that sort of work security issue, for example—are things that government policy does affect.¹³⁵

3.114 Ms Kasy Chambers, Executive Director of Anglicare Australia, noted the difficulties experienced by low income earners when attempting to participate in the labour force and society:

Like the government and in fact most people, Anglicare Australia believes strongly in the value of participation, of being connected and of belonging. However, we contend when someone's income is too low it can actually prevent them from participation. The benefits of participation are well documented. However, participation also costs. The cost of participation is currently ill met by the lowest of government benefits. Anglicare is again in agreement with the government in believing that nobody should exist on government benefits over a long period. We believe that we owe it to members of society to give them far more than that.¹³⁶

3.115 In a recent speech, the Treasurer, the Hon. Joe Hockey MP, spoke of the importance of self-sufficiency in retirement.¹³⁷ There are many groups in our society

133 The Australia Institute, *Submission 37b*, p. 12.

134 *Committee Hansard*, Canberra, 16 October 2014, p. 50.

135 Director, Justice and International Mission Unit, *Committee Hansard*, Melbourne, 18 September 2014, p. 49.

136 *Committee Hansard*, Canberra, 16 October 2014, p. 34.

137 The Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, 'The Case for Change', Speech, 23 April 2014, <http://www.liberal.org.au/latest-news/2014/04/23/case-change-address-hon-joe-hockey-mp-treasurer> (accessed 13 November 2014).

who are unlikely to ever attain this self-sufficiency. A recent industry survey found that a superannuation balance of \$510 000 (couple) and \$430 000 (single) is required to sustain a comfortable retirement. This survey also found that only 11 per cent of respondents have more than \$400 000 in superannuation and that 25 per cent of respondents have less than \$50 000. Further to this, more than two-thirds expect to rely on the aged pension.¹³⁸ Clearly, there is a large gap between current superannuation balances and self-sufficiency. There is also a large group of people currently reliant on government allowances and exposed to intermittent, insecure employment. For those who are underemployed, unemployed or reliant on low paid employment, there is likely to be a greater reliance on government support for those people in their retirement. The issue of self-funding retirement is discussed further in chapter 4.

Transition—Safety net to the workforce

3.116 There are many impediments to individuals who are trying to transition from government allowances to the labour market. These include financial disincentives such as earnings thresholds and the removal of benefits as an individual transitions into the workforce offering low or no marginal benefit in working; and non-financial disincentives such as discouraged job seekers, and inadequate workplace flexibility for those with children, the disabled and carers.

3.117 In their submission to the committee, People with Disability said:

Pervasive inequality and societal barriers block many people with a disability from improving their situation through work. The labour force participation rate for those aged 15–64 years with disability in 2009 was 54%, much lower than that for those without a disability (83%).¹³⁹

3.118 The committee received evidence from Ms Terese Edwards, CEO of the National Council of Single Mothers and their Children, on the issue of earnings thresholds for payments, in particular Newstart:

We have this crazy, counterproductive system known as the threshold allowance. To give you an example, a mum with three children on parenting payment single can earn and keep about \$113 per week. Once her little one turns eight, she is allowed to keep \$50 per week. These losses are unrecoupable. National Welfare Rights estimates that a mum working 15 hours per week on the minimum wage will have to work 28 hours once she has moved across to Newstart just to retain that same amount. We question whether there is the capacity and whether those hours are available.¹⁴⁰

138 REST Industry Super, *The Journey Begins: Australia's Journey to Retirement*, June 2014, <http://www.rest.com.au/restpension/rest-the-journey-begins.pdf> (accessed 2 December 2014).

139 *Submission 44*, p. 7.

140 *Committee Hansard*, Melbourne, 18 September 2014, p. 18.

In this example, there is no incentive for a mother to find three childcare places, organise the children and her employer, and then pay for the places in order to attend work and then receive no marginal benefit until she has worked 28 hours. For a mother who can only access insecure, intermittent work, the incentive is even less due to the increased difficulty in finding a casual position in childcare, and perhaps not having access to 28 hours per week. In September 2013, there were over 265 000 individuals caring for children who wanted to work but were not looking for work.¹⁴¹ This is most likely due to the lack of incentive as described above.

3.119 According to the ABS, there are over 117 000 discouraged job seekers in Australia with 'the most commonly reported main reason for not actively looking for work was *considered too old by employers* (33 per cent) [and] followed by *no jobs in locality or line of work* (20 per cent)'.¹⁴² Discouraged job seekers are people who want to work but have been worn down by discrimination and a lack of opportunities before becoming disengaged from the labour market.

3.120 Many submitters brought up intergenerational unemployment as an impediment to labour market access.¹⁴³ These intergenerational issues reflect a complex interplay of factors including lack of work opportunities, poor understanding of the benefits of education and training, and a lack of resources to assist the next generation. The phenomenon of intergenerational unemployment has arisen over the last 30 years, however, the welfare payment system has not adapted to these changes. Ms Hatfield Dodds explained that the welfare system was 'designed in a world where unemployment was short term and sporadic [and payment] was really a bridge to get you from job to job.' Ms Hatfield Dodds continued:

What we have seen since the late 1980s is the emergence of intergenerational unemployment. So you do have people unemployed for two, three or four years. We are working with people who have never had a job as well. We work with those people. There are people growing up in areas of locational disadvantage, the poverty postcodes, where no-one in a community has ever had a job.¹⁴⁴

141 Australian Bureau of Statistics, *6220.0—Persons not in the Labour Force, September 2013* (accessed 13 November 2014). See also: *Submission 44*, p. 12.

'DSP [Disability Support Pension] recipients are also not eligible for Jobs, Education and Training (JET) childcare although people receiving working age payment including Newstart are. This means that DSP recipients who are studying or are want to study must pay for their childcare from their DSP. For the majority of parents on DSP this will make the pursuit of further study too costly.

142 Australian Bureau of Statistics, *6220.0—Persons not in the Labour Force, September 2013* (accessed 13 November 2014).

143 See for example: Mr Joe Gannon, Manager, Homelessness Services, UnitingCare Wesley Port Adelaide, *Committee Hansard*, Elizabeth, 10 November 2014, p. 13; Dr Ian Goodwin-Smith, Director, Australian Centre for Community Services Research, Flinders University, *Committee Hansard*, Elizabeth, 10 November 2014, pp 40–41.

144 *Committee Hansard*, Canberra, 16 October 2014, p. 49.

3.121 Government support for the unemployed is too simplistic and does not attempt to really engage with the range of complex issues that affect the long-term unemployed. Ms Hatfield Dodds divided these into hard issues and soft issues:

The hard issues are things like skilling people up for labour market attachment and thinking around the health, transport, dental and housing issues that we all know about. Then those really intractable issues at the core are about people's expectations and hopes for themselves and their communities. My [Port Adelaide] chair talks about loss of hope and fear of failure being the two least tractable and most difficult things that we work with people around. When you are working with people who are very deprived and very excluded, they do not even dare to hope things can go right because right from the minute they were born into a disadvantaged family in a disadvantaged area they have been excelling at failing on almost any social or economic dimension.¹⁴⁵

3.122 In evidence, Ms Sarah Walbank from Carers Queensland Inc. described the difficulties experienced by a carer:

My daughter is 24 years old but has funding for only 42 hours per week. This means that we are together for no less than 110 hours per week. As a consequence, I have no time to socialise, no assets and no way back into the workforce.' The consequence of a parent carer's decision to leave the workforce and accept more marginalised work is not merely a budgetary inconvenience; it is a significant decision that has the potential to negatively impact the family's financial capacity not only in their working years but also longer term in their retirement years.¹⁴⁶

Ms Walbank continued, explaining the importance of the pensioner education supplement for carers re-entering the workforce:

We have carers who have said to us, 'I'm actually qualified in this but I'm completely unemployable because I've been out of the workforce for 10 years. My qualifications are out of date. I'm not skilled in the software. I'm not using the same language,' et cetera. The supplement is important because it does provide some financial backup, particularly for single-parent carers who we know are the most disadvantaged in Australia.¹⁴⁷

3.123 The issue of childcare is one that affects many Australian families and acts as an impediment to the labour market. Although there are a number of impediments to entering the labour market, the next section will focus specifically on the issue of access to childcare and its impacts on labour force participation.

145 *Committee Hansard*, Canberra, 16 October 2014, p. 49.

146 Policy and Research Officer, *Committee Hansard*, Logan, 8 October 2014, p. 13.

147 *Committee Hansard*, Logan, 8 October 2014, p. 17.

Childcare

3.124 Households with dependent children generally have a number of options regarding childcare and employment. Those households with two parents can decide that one adult will remain in the workforce whilst the other remains home to care for the children; both parents can work part-time and care part-time; or both parents can work full-time whilst the children are placed in childcare full-time. Single household parents with dependent children make similar decisions.

3.125 These decisions are influenced by many factors including personal choice, financial circumstances, workplace flexibility and opportunities for the child's intellectual and social development. These decisions are also influenced by the age of the youngest child—that is, toddlers will require longer day-care whereas school age children may require after-school care or no care depending on school and parental work hours. This section will examine factors that determine these decisions and the impact this has on both current and future earnings capacity.

3.126 For middle and higher income families, the decision to access childcare generally reflects personal circumstance. This may mean that in a two parent household, the parent with the higher income continues working whilst the lower paid partner cares for the children. As discussed in the next chapter, often this partner is the woman. Alternatively, childcare may be used on a full-time or part-time basis to allow both parents to work either in a full-time or part-time capacity.

3.127 In lower income families, deciding whether to access childcare is largely a matter of disincentives or impediments rather than a positive choice. If potential income earned through entering the labour market is less, the same or only marginally better than the cost of childcare, then that household's adults (or adult) may choose to remain outside of the labour market. In most cases, this will mean relying on social security allowances. As seen in chapter 5, these allowances provide a level of income support below the poverty line.

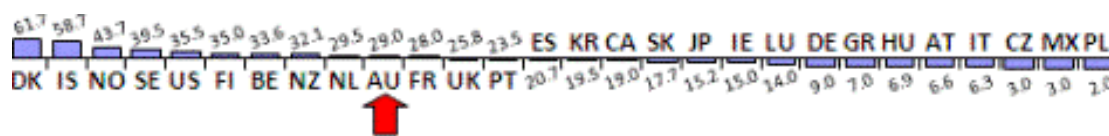
3.128 Although Australia has some of the most expensive childcare fees in the Organisation for Economic Co-operation and Development (OECD), there are a number of rebates that assist in reducing the cost of childcare close to the OECD average.¹⁴⁸ The Australian Government currently offers two forms of assistance to those families using childcare—the Child Care Benefit (means tested) and the Child Care Rebate (not means tested). The Child Care Benefit pays a maximum of \$4.10 per hour of care tapering off as income increases. The Child Care Rebate is available to all

148 OECD 2014, *PF3.4: Childcare support*, http://www.oecd.org/els/family/PF_3_4_Childcare_support_May2014.pdf (accessed 2 October 2014).

families and pays a maximum of 50 per cent of child care costs up to \$7,500 per annum.¹⁴⁹

3.129 Figure 3.6 below outlines that participation in childcare services in Australia is above the OECD average but employment within single parent households is well below the average. This is primarily due to high average effective tax rates (AETR). When moving from a government benefit to employment, single parents are taxed at a high AETR due to benefits being removed and income tax being paid. The AETR is at a rate of 50 per cent and generally higher at the lower income levels. This compares with dual parent households with an AETR of 50 per cent or less. AETR also decreases at higher prospective employment income of all households.¹⁵⁰ This means that those with lower earning potential and particularly single parent households have weak financial incentives to re-enter the labour market. Over fifteen per cent of households in the lowest income quintile are single parent households, this compares with 1.3 per cent in the top quintile and an average of 5.8 per cent across all quintiles.¹⁵¹

Figure 3.6: Participation in childcare services for children aged under 3 years related to OECD average of 22.9152



Source: OECD 2011

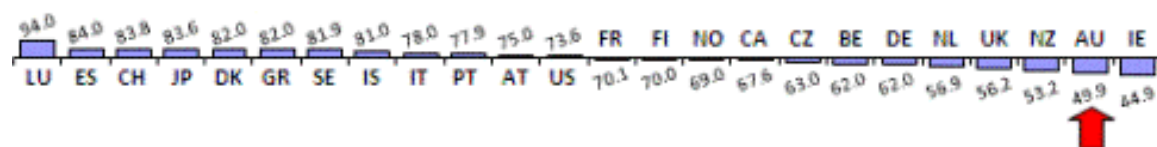
149 Centrelink, *A guide to Australian Government payments: 20 September–31 December 2014*, 2014, pp 10–12, <http://www.humanservices.gov.au/spw/corporate/publications-and-resources/resources/co029/co029-1409.pdf> (accessed 2 October 2014).

150 OECD 2011, *Babies and Bosses—Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries*, pp 79–80, 87.

151 Australian Bureau of Statistics, *6554.0 Household Wealth and Wealth Distribution 2011–12*, pp 18–19, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6554.0Main%20Features22011-12?opendocument&tabname=Summary&prodno=6554.0&issue=2011-12&num=&view=> (accessed 19 September 2014).

152 OECD 2011, *Babies and Bosses—Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries*, http://www.keeppeek.com/Digital-Asset-Management/oecd/social-issues-migration-health/babies-and-bosses-reconciling-work-and-family-life_9789264032477-en#page86 (accessed 2 October 2014).

Figure 3.7: Sole parent employment rate related to OECD average of 70.6%¹⁵³



Source: OECD 2011

Committee view

3.130 This chapter has noted the particularly severe impact that low income has on an individual's ability to access basic services. It is critical that the Commonwealth Government maintain policies and programs, and the delivery of these services, to ensure that inequality in Australia does not continue to rise. Further to this, a number of principles that should guide the retention and improvement of these services are outlined below.

Health

3.131 The committee accepts that access to health services is impeded for low income and other disadvantaged groups. It is important that out-of-pocket expenses do not prevent timely and appropriate access to healthcare and pharmaceuticals for low income and other disadvantaged groups. This will be examined in more detail in Chapter 5. Funding for public healthcare needs to be increased with a renewed focus on primary healthcare and preventive health programs.

Education

3.132 The committee received a range of evidence confirming the importance of education. The committee considers that improved access and outcomes for disadvantaged groups must be prioritised. As such, funding levels must be predicated on the level of disadvantage. That is, more funding and resources need to be provided to ensure that outcomes—such as, standardised testing, Year 12 completion, transition to study or the labour market—for identified disadvantaged individuals and schools are brought in line with the broader population. The Commonwealth must provide both leadership and funding to ensure that all Australians, regardless of background or income level, are able to access education and training that will lead to employment.

Housing

3.133 The committee is concerned that the Commonwealth Government is backing away from its commitments in housing and homelessness (see paragraph 3.93).

¹⁵³ OECD 2011, *Babies and Bosses—Reconciling Work and Family Life: A Synthesis of Findings for OECD Countries*.

Evidence presented to the committee suggests that there needs to be a greater co-ordination of housing policy at a Commonwealth level. The committee considers that national urban planning guidelines should be developed to ensure that new and existing developments have access to public transport, health, education and other services. Further to this, national planning guidelines for new housing be developed which require a social mix of public and private housing with a minimum target of affordable and public housing for low income and other disadvantaged groups.

3.134 The committee received evidence on the issue of rental stress as rents continue to rise in excess of CPI and wages growth. The committee considers that increasing rent assistance commensurate with a rental index that reflects real rental growth would assist with housing cost pressures.

3.135 The committee also notes the negative impact of the favourable taxation treatment of residential property assets on housing affordability. The Commonwealth Government should consider these taxes in its proposed white paper on the reform of Australia's tax system.

Employment

3.136 This chapter has identified a number of systemic and cultural barriers to those with low or no income. This includes disincentives for working mothers, and discrimination against older workers, people with disability and those with caring responsibilities.

3.137 The committee received evidence about a number of successful programs engaging disaffected youth and a number of other disadvantaged groups. The committee recognises that the current funding model does not deliver the best outcomes when considering the need for continuity and the realisation of longer term objectives. This can only be achieved through the provision of secure, longer term project funding which allows service providers to establish a more permanent presence—including continuity of staffing—within a community. Longer term funding arrangements allow social workers to build a real rapport with a community, making change and project success more likely. The committee accepts that programs reliant on government funding need to be accountable and subject to rigorous evaluation. However, greater collaboration and communication between government and service providers to create partnerships with real objectives rather than isolated projects may better assist the community and individuals these projects are designed to serve.¹⁵⁴ A number of these programs are explored in more detail in chapter 6.

3.138 Flexibility within workplaces for those with children, people with disability and carers, and financial disincentives when moving from welfare to work are the major impediments for those wanting to enter the workforce. Employers need to recognise the value of all employees and, in turn, be recognised for employing

154 See, for example: Mr Sameh Gowegati, *Proof Committee Hansard*, Rockingham, 11 November 2014, pp 34–47.

disadvantaged groups such as older (45 years and over), disabled and episodically disabled, working parents, and carers.¹⁵⁵ The Commonwealth Government should consider the income tax burden on low income earners as part of its proposed white paper on the reform of Australia's tax system. The committee considers that low income earners should not be financially penalised as they move from welfare to work. Finally, access to affordable childcare particularly for those with insecure, intermittent employment needs to be prioritised by the Government.

3.139 The committee notes that in many sections of the Australian economy insecure work—including short-term contracts, casual or work in declining industries—poses real challenges to employees. Chapter 6 of this report considers the need for a targeted planning program for workers facing retrenchment. This program would assist workers to gain the necessary skills to transition to more secure employment.

155 See, for example: *Committee Hansard*, Melbourne, 18 September 2014, p. 5; Ms Sarah Walbank, *Committee Hansard*, Logan, 8 October 2014, p. 17 on flexible working options for carers.

Chapter 4

The impact of income inequality on disadvantaged groups

Introduction

4.1 This chapter responds to the inquiry's fourth term of reference relating to the impact of income inequality on disadvantaged groups within the community. These groups include Aboriginal and Torres Strait Islander peoples, older job seekers, people living with a disability or mental illness, refugees, single parents and women. These groups are vulnerable to poverty for reasons that will be discussed. They are typically among the lowest income earners in society and disproportionately represented among social security recipients and public housing tenants.

4.2 This chapter focusses on the impact of low incomes on people within these disadvantaged groups. The committee has had the opportunity to gather evidence from various stakeholders on the underlying vulnerability of these groups to poverty. No or low income among these vulnerable groups often acts to entrench their disadvantage.

4.3 The chapter identifies the disadvantaged groups and the evidence of their disadvantage. It notes:

- the underlying disadvantage and discrimination that is faced by people in these groups;
- how this disadvantage contributes to their economic exclusion; and
- the impact of a low income or welfare dependency on a person's housing, health, education and labour market opportunities.

The chapter concludes by noting that there are other factors—such as geographic disadvantage and the nature of labour markets—that are often experienced by people in these groups which serve to compound their disadvantage.

Disadvantaged groups

4.4 Some groups in Australian society are more vulnerable to poverty and disadvantage than others. This includes Aboriginal and Torres Strait Islander peoples, people with disability, people living with a mental illness, single parents and newly arrived migrants (particularly those without English). For people in these groups, a low income is typically a symptom of more fundamental disadvantages that they face in everyday life. However, income is a key factor in determining the economic wellbeing of these groups. In the absence of an income or transfer payments to sustain a basic standard of living, a person's physical and mental health often deteriorates and

their capacity to enter or re-enter the workforce and engage in community activities is diminished.¹

4.5 There have been several research studies, over a considerable period of time, which highlight the over-representation of these groups among the poorest in society. They are over-represented among low income earners, welfare recipients, the unemployed, the poorly educated and those living in public housing. The combined effects of an established illness and a low income mean that the health outcomes of many members of these groups tend to worse than for the general population. As Dr Matt Fisher of the Southgate Institute for Health, Society and Equity at Flinders University told the committee:

People in the disadvantaged groups named in the terms of reference are among those most likely in Australia to undergo both negative material and psycho-social effects of low income, contributing to their disproportionately high levels of chronic illness and shorter lifespans. An established illness, of course, is also likely to impact on income by being a barrier to employment, or through the costs of medicines.²

4.6 It is also important to remember that many Australians fall within multiple disadvantaged groups. For example, in 2008, 41 per cent of young Aboriginal parents were single parents.³ Refugees will often suffer mental health issues due to pre- and post-migration experiences.⁴

Aboriginal and Torres Strait Islander peoples

4.7 Multiple studies over the past 40 years have highlighted the severe and endemic nature of Aboriginal disadvantage in Australia.⁵ They have found that an Aboriginal person is not only more likely than a non-Aboriginal and Torres Strait Islander Australians to have a lower income, but is also more likely to:

- have poorer health;
- a lower level of education;

1 See Ms Lin Hatfield Dodds, National Director, UnitingCare Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 49.

2 Research Fellow, *Committee Hansard*, Elizabeth, 10 November 2014, p. 32.

3 Australian Bureau of Statistics, *Aboriginal and Torres Strait Islander Wellbeing: A focus on children and youth*, April 2011, Cat. 4725.0, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4725.0Chapter300Apr%202011> (accessed 17 November 2014).

4 Professor Graeme Hugo and the Department of Immigration and Citizenship, *A significant contribution: The economic, social and civic contributions of first and second generation humanitarian entrants*, 'Summary of findings', 2011, p. 23.

5 Sir Roland Wilson, *Bringing Them Home*, 1997; Australian Government, *Closing the Gap* reports, 2009–2014; Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage*, 2003, 2005, 2007, 2009, 2011 and 2014.

- be homeless;
- be incarcerated;
- commit suicide; and
- have a lower life expectancy.⁶

Income inequality and Aboriginal and Torres Strait Islander peoples

4.8 The majority of Aboriginal and Torres Strait Islander people have a low income. The 2011 Census found that:

- fifty-two per cent of Aboriginal and Torres Strait Islander people aged 15 years and over reported a personal income between \$1 and \$599 per week, compared with 32 per cent of the Australian population;⁷ and
- 13 per cent of Aboriginal and Torres Strait Islander people aged 15 years and over reported a gross personal income of \$1 000 or more per week compared with 33 per cent of the non-Aboriginal and Torres Strait Islander people population.⁸

4.9 The Productivity Commission's November 2014 *Key Indicators* report noted that:

The proportion of adults whose main income was from employment increased from 32 per cent in 2002 to 41 per cent in 2012–13, with a corresponding decrease in the proportion on income support. Increasing proportions of employed people were in full time and managerial positions.

After adjusting for inflation, median real equivalised gross weekly household (EGWH) income for Aboriginal and Torres Strait Islander Australians increased from \$385 in 2002 to \$492 in 2008, but did not change significantly between 2008 and 2012–13 (\$465). In 2011–12, non-Indigenous median EGWH income was \$869.⁹

6 Commonwealth of Australia, *Closing the Gap Report*, 2014

7 See; Close the Gap, *Submission 11*, p. 14; Oxfam, *Submission 22*, p. 6; Australian Bureau of Statistics, *Household Income and Income Distribution*, 2011–12, Cat. 6523.0, p. 27, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/B0530ECF7A48B909CA257BC80016E4D3/\\$File/65230_2011-12.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/B0530ECF7A48B909CA257BC80016E4D3/$File/65230_2011-12.pdf) (accessed 1 October 2014).

8 Close the Gap, *Submission 11*, p. 14.

9 Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage, Key indicators report 2014*, pp 2 and 23, http://www.pc.gov.au/data/assets/pdf_file/0007/179260/key-indicators-2014-report.pdf (accessed 24 November 2014).

'Closing the Gap'

4.10 Income inequality is just one of a number of intersecting inequalities that have combined to create the severe poverty faced by Aboriginal Australians.¹⁰ The current focus of Australian Governments is to reduce the level of Aboriginal and Torres Strait Islander peoples disadvantage across a number of key indicators. The 2014 *Closing the Gap* report found that progress towards reaching targets on these indicators had been mixed. It noted that:

- in 2010–12, Aboriginal and Torres Strait Islander peoples life expectancy was 69.1 years for males and 73.7 for females. In 2014, the Australian Bureau of Statistics (ABS) reported that life expectancy for the Australian population was 80.5 for males and 84.6 for females.¹¹ The report commented that 'progress will need to accelerate considerably if the gap is to be closed by 2031';
- in 2012, 88 per cent of Aboriginal and Torres Strait Islander children in remote areas were enrolled in a pre-school programme. The benchmark is 95 per cent;
- in terms of reading, writing and numeracy, 'only two out of eight areas have shown a significant improvement since 2008'; and
- 'no progress has been made against the target to halve the employment gap within a decade' (by 2018).¹²

Employment, unemployment and exclusion from the labour force

4.11 Unemployment and exclusion from the labour force is clearly a significant factor in the relatively lower incomes received by Aboriginal and Torres Strait Islander peoples people. The 2011 Census found that only 46.2 per cent of Aboriginal and Torres Strait Islander people were employed, compared with 72.2 per cent of non-Aboriginal and Torres Strait Islander people. The Aboriginal and Torres Strait Islander people unemployment rate (9.6 per cent) was more than double the rate for non-Aboriginal and Torres Strait Islander people (4.2 per cent).¹³ The proportion of Aboriginal and Torres Strait Islander people not in the labour force (ie: neither

10 See: Ms Johanna Pride, Public Policy and Advocacy Manager, Oxfam Australia, *Committee Hansard*, 18 September 2014, p. 23; Oxfam, *Submission 22*, p. 6.

11 Australian Bureau of Statistics, 'Aussie men now expected to live past 80', *Media release*, 6 November 2014.

12 Closing the Gap Prime Minister's report, http://www.dpnc.gov.au/publications/docs/closing_the_gap_2014.pdf (accessed 10 November 2014)

13 Australian Bureau of Statistics, 'Aboriginal and Torres Strait Islander peoples' labour force outcomes', *Australian Social Trends*, November 2013, Cat. 4102.0, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4102.0Main+Features20Nov+2013> (accessed 1 October 2014).

employed nor unemployed) was 46.2 per cent compared with 23.6 per cent among the non-Aboriginal and Torres Strait Islander people population.¹⁴

4.12 The 2014 *Closing the Gap* report cited employment data from the Australian Aboriginal and Torres Strait Islander Health Survey (AATSIHS) suggesting the proportion of Aboriginal and Torres Strait Islander people employed fell from 53.8 per cent in 2008 to 47.8 per cent in 2012–13. The report did caution:

Some care is required in assessing progress on this target as the Australian Bureau of Statistics (ABS) counts participants in Community Development Employment Projects (CDEP) as being employed. The policy goal is to increase mainstream (non-CDEP) employment not the number of CDEP participants—CDEP is not intended to be a substitute for mainstream employment.

There has been a large fall in the number of CDEP participants from 2008 to 2012–13, which accounts for more than 60 per cent of the decline in the Aboriginal and Torres Strait Islander people employment rate over this period. The Aboriginal and Torres Strait Islander people mainstream (non-CDEP) employment rate also fell from 48.2 per cent in 2008 to 45.9 per cent in 2012–13. However, this fall was not statistically significant.¹⁵

4.13 The 2014 *Closing the Gap* report also noted AATSIHS data that only 30.2 per cent of Aboriginal and Torres Strait Islander adults aged 15–64 in very remote areas were employed in a mainstream job in 2012–13 compared to 51.4 per cent in inner regional areas.¹⁶

4.14 In the 2011 Census, Queensland recorded the highest unemployment rate among Aboriginal and Torres Strait Islander peoples of any Australian jurisdiction.¹⁷ The Aboriginal and Torres Strait Islander peoples unemployment rate in Queensland was 19.5 per cent compared with the State's non-Aboriginal and Torres Strait Islander peoples rate of 6.0 per cent. Ms Catherine Bartolo, Chief Executive of YFS Limited, told the committee that literacy and numeracy remain barriers to employment for Aboriginal and Torres Strait Islander peoples in Queensland. She also noted that the Queensland Government no longer provides programs to assist people to develop the social skills to obtain a job.¹⁸

14 Australian Bureau of Statistics, 'Aboriginal and Torres Strait Islander peoples' labour force outcomes', *Australian Social Trends*, November 2013, Cat. 4102.0.

15 Australian Government, *Closing the Gap Prime Minister's report*, 2014, p. 12

16 Australian Government, *Closing the Gap Prime Minister's report*, 2014, p. 12

17 Queensland Council of Social Service, *Indicators of Poverty and Disadvantage in Queensland*, October 2013.

18 *Committee Hansard*, Logan, 8 October 2014, p. 32.

Community Development Employment Projects

4.15 The CDEP was an Australian Government funded initiative for unemployed Aboriginal and Torres Strait Islander people living in particular locations. The CDEP offered paid (minimum wage) opportunities for Aboriginal and Torres Strait Islander participants to improve their work skills with the aim of securing long term employment.

4.16 Introduced in 1977, the CDEP has been reformed and tightened over the past decade with participant numbers currently less than a third of what they were a decade ago. The current government's focus is on paid work for Aboriginal and Torres Strait Islander people:

Our next priority is getting people into real jobs. Too often, employment and training programmes provide 'training for training's sake' without delivering the practical skills people need to get real jobs.

The Government has commissioned a review of employment and training programmes led by Mr Andrew Forrest. This review will provide recommendations to make Aboriginal and Torres Strait Islander peoples training and employment services better targeted and administered to connect unemployed Aboriginal and Torres Strait Islander people with real and sustainable jobs.¹⁹

4.17 On 1 July 2013, the CDEP was integrated into the Remote Jobs and Communities Programme (RJCP). As of 30 June 2014, the RJCP replaced the CDEP in remote regions of Australia. CDEP participants are being transitioned to mainstream employment services and CDEP wages have been replaced by income support payments.²⁰

4.18 The committee received evidence that the CDEP has not been evaluated on the basis of its original objectives of cultural preservation and community building. Associate Professor Michael Dockery of the Bankwest Curtin Economics Centre told the committee:

...the CDEP was put in place because of a recognition that people were living in remote areas where there was no labour market, so it was silly to talk about: 'We've got to get people into jobs.' The CDEP was brought in originally as an alternative to sit-down money. When you go back and look at the program—it came in with the Aboriginal employment development program following the Miller report in the 1980s—the objectives of the program were explicitly community capacity building, cultural preservation and all those nice words about building community and culture and capacity.

19 Australian Government, *Closing the Gap Prime Minister's report*, 2014, p. 2.

20 Department of Human Services, *Community Development Employment Projects Participant Supplement*, <http://www.humanservices.gov.au/customer/services/centrelink/community-development-employment-projects> (accessed 25 November 2014).

Over the years, when they were evaluated, those objectives were just completely ignored. I have never seen a single measure...of: 'Well, did we build community capacity? Did we promote cultural preservation, cultural strengthening?' The objectives of those programs were completely ignored. In the CDEP, there is a review every year; there are about 15 of them...

They more and more focus on, 'Did we get them into mainstream employment?' And this is in the middle of the desert, where there are no jobs...

The whole objective was ignored. It is now assumed that this was a failure, without a proper evaluation, in my view. One of the reports criticised CDEP because it found people were happy on CDEP. It said: 'We can't have people happy. They should be really unhappy and wanting to get into a mainstream job.'²¹

Homelessness among Aboriginal and Torres Strait Islander people

4.19 One-quarter of homeless Australians are Aboriginal. The 2011 Census found that there were 105 237 homeless people in Australia of which 26 744 were Aboriginal or Torres Strait Islander people.²² The November 2014 *Key Indicators* report stated:

Aboriginal and Torres Strait Islander people are overrepresented amongst those who received assistance from specialist homelessness agencies. Although only representing 3 per cent of the Australian population in 2011, Aboriginal and Torres Strait Islander people represented around one-fifth (22 per cent) of [specialist homelessness services] SHS clients (AIHW 2013). However, Aboriginal and Torres Strait Islander people and non-Indigenous people sought services for similar reasons.

In 2012-13, domestic/family violence was the second most common main reason both Aboriginal and Torres Strait Islander and non-Indigenous people sought SHS (24.0 per cent and 22.4 per cent respectively), after accommodation difficulties (30.6 per cent and 30.1 per cent respectively). For both Aboriginal and Torres Strait Islander and non-Indigenous SHS clients, the proportion for whom domestic/family violence was the main reason for seeking assistance increased as remoteness increased (17.0 per cent and 19.4 per cent respectively in major cities compared to 45.0 per cent and 55.3 per cent respectively in very remote areas).²³

21 Principal Research Fellow, *Committee Hansard*, Rockingham, 11 November 2014, p. 4.

22 Australian Bureau of Statistics, *Census of Population and Housing: Estimating homelessness*, 2011, Cat. No. 2049.0, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/2049.0Main%20Features22011?opendocument&tabname=Summary&prodno=2049.0&issue=2011&num=&view> (accessed 10 November 2014).

23 Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage, Key indicators report 2014*, pp 4.94–4.95.

4.20 The committee heard that Aboriginal people from remote areas can find it difficult to adapt to living in an urban environments. Professor Daphne Habibis of the University of Tasmania told the committee:

It is very well established that when Aboriginal people move from remote communities into larger population centres they are very vulnerable to homelessness. There is to some extent a culturally-sanctioned norm of living in open spaces, but that comes with very high health costs if they do that for any length of time. They are also exposed to environments of access to drugs and alcohol, which can be very damaging for them. They may not have the money to return home, so providing ways to support people who move to large population centres is very important but it is also providing avenues for them to return home if they are not living in an appropriate environment in the city centres.²⁴

Incarceration

4.21 At 30 June 2013, there were 8,430 prisoners who identified as Aboriginal and Torres Strait Islander. This represented just over one quarter (27 per cent) of the total prisoner population (30 775).²⁵ The age standardised imprisonment rate for Aboriginal and Torres Strait Islander prisoners at 30 June 2013 was 1,959 Aboriginal and Torres Strait Islander prisoners per 100 000 adult Aboriginal and Torres Strait Islander population. The equivalent rate for non-Aboriginal and Torres Strait Islander prisoners was 131 non-Aboriginal and Torres Strait Islander prisoners per 100 000 adult non-Aboriginal and Torres Strait Islander population.²⁶

Recidivism

4.22 The rates of recidivism among Aboriginal and Torres Strait Islander prisoners, both adult and juvenile, are significantly higher than those for non-Aboriginal and Torres Strait Islander prisoners. Figure 4.1 is drawn from the November 2014 *Key Indicators* report. With reference to the figure, the report observed:

Nationally, 77.0 per cent of Aboriginal and Torres Strait Islander prisoners on 30 June 2013 had a known prior imprisonment, with this proportion remaining relatively unchanged over the past 13 years. The proportion of non-Indigenous prisoners with known prior imprisonment was 50.9 per cent, also relatively unchanged over time...

Nationally, 77.9 per cent of Aboriginal and Torres Strait Islander male prisoners had experienced prior adult imprisonment, compared with 67.8 per cent of Aboriginal and Torres Strait Islander female prisoners. The proportion was higher for Aboriginal and Torres Strait Islander male

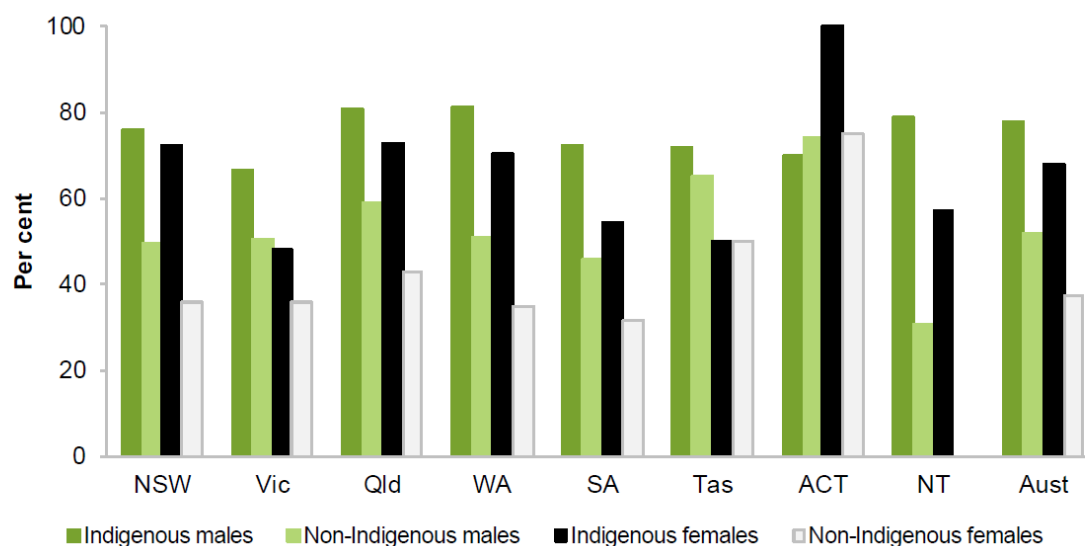
24 Director, Community and Housing Research Unit, *Committee Hansard*, Hobart, 19 September 2014, p. 16.

25 Australian Bureau of Statistics, *Cat 4517.0*, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/4517.0> (accessed 15 November 2014).

26 Australian Bureau of Statistics, *Cat 4517.0*.

prisoners compared with non-Indigenous male prisoners (except in the ACT) and Aboriginal and Torres Strait Islander female prisoners compared with non-Indigenous female prisoners (except in Tasmania).

Figure 4.1: Proportion of prisoners with known prior adult imprisonment under sentence, by sex, 30 June 2013



^a In the NT, there were no non-Indigenous female prisoners with known prior adult imprisonment at 30 June 2013.

Source: ABS (2013) *Prisoners in Australia*, 2013, Cat. no. 4517.0; table 11A.4.2.

Aboriginal and Torres Strait Islander peoples education and training

4.23 Aboriginal and Torres Strait Islander people have lower levels of education compared to non-Aboriginal and Torres Strait Islander Australians. A recent Australian Institute of Health and Welfare report found that in 2011, 26 per cent of Aboriginal and Torres Strait Islander Australians aged 15 years and over completed a non-school qualification compared to 49 per cent of non-Aboriginal and Torres Strait Islander Australians.²⁷

4.24 School retention rates are also significantly lower for Aboriginal and Torres Strait Islander peoples people than for non-Aboriginal and Torres Strait Islander peoples Australians. The federal government has stated:

Getting children to school is the Australian Government's number one priority in Aboriginal and Torres Strait Islander peoples Affairs. Poor attendance means that Aboriginal and Torres Strait Islander children find it hard to perform at school. We must break the cycle of

²⁷ Australian Institute of Health and Welfare, *Australia's Health 2014*, p. 17.

non-attendance to ensure today's kids are educated and equipped to become future leaders in their communities.²⁸

4.25 In 2013, there were around 180 000 Aboriginal and Torres Strait Islander students attending school full-time. The majority of these students attended a public school. In 2013, the national apparent retention rate for Year 7/8 to Year 12 Aboriginal and Torres Strait Islander students was 55.1 per cent compared with 82.9 per cent for all other students. Nonetheless, the Aboriginal and Torres Strait Islander school retention rate has increased significantly, up from 39.1 per cent in 2003.²⁹

4.26 The committee did hear of positive outcomes in terms of both retention rates and Aboriginal education programs. Ms Anne Hampshire of The Smith Family highlighted the achievements of two such programs:

We are running a more intensive form of our scholarship program in Centralian Middle School in Alice Springs. It is initially focused on Aboriginal girls, but it is a mixed program because the Aboriginal community wanted it to be a mixed program. There is very little in the Aboriginal girls' space in terms of programs. There is a 12 per cent difference in attendance rates for Aboriginal girls on the program compared to Aboriginal girls in the school not on the program. It is more intensive, so our ratio is three coaches—we call them 'coaches' deliberately—for 25 students. There is a whole wraparound support, experiential trips, breakfast with a mentor, regular activities and regular touch points for the girl and their family in the context of a supportive school environment. We have a 12 per cent difference in the attendance rates...

Learning For Life is well established as well. We have been doing much more refined work around the outcomes. Our Aboriginal attendance rates on our Learning for Life scholarship are 86 per cent. So our average attendance rates are higher than national Aboriginal attendance rates generally. Our average primary attendance rates are 90.4. So these are very consistent good figures, but we are obviously working harder to increase them again.³⁰

4.27 At the public hearing in Hobart, the committee took evidence from the Youth Network of Tasmania. The Network's Chief Executive Officer, Ms Joanna Siejka, highlighted the success of a case-management approach:

Youth Connections is a really effective service working with young people who are either completely disengaged from schooling, from the workplace and from family right across the board—no connections whatsoever—or

28 Australian Government, *Closing the Gap Prime Minister's report*, 2014, p. 2.

29 Australian Bureau of Statistics, 'Aboriginal and Torres Strait Islander Students', Cat. 4221.0—Schools, Australia, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/4221.0Main%20Features100062013?opendocument&tabname=Summary&prodno=4221.0&issue=2013&num=&view=> (accessed 10 November 2014).

30 Head, Research and Advocacy, *Committee Hansard*, Canberra, 16 October 2014, pp 40–41.

have some connections. It provides case management support to assist them to work out what their pathway will be and to support them to maintain that. They are very, very high risk clients. It has a very high rate of success with young people of Aboriginal and Torres Strait background.³¹

4.28 At the public hearing in Rockingham, Mr Craig Comrie of the Youth Affairs Council of Western Australia, drew the committee's attention to some significant initiatives in the State to equip and support Aboriginal and Torres Strait Islander peoples young people to enter the workforce or education. As he told the committee:

I want to mention in particular the ICEA Foundation, run by Lachie Cooke, and the Australian Aboriginal and Torres Strait Islander peoples Mentoring Experience—AIME—where young people are trying to tackle issues in local communities for Aboriginal people. It is actually young people who are taking the leadership role and saying, 'We want something better in our communities. We want something better for young people.' The main thing that those two programs are doing that I think is having great success is focusing on providing young people with mentors and role models that they can actually have in their lives who are potentially successful in their area of expertise. Providing them with someone that they can aspire to be is something that I think we need to be looking more at. The energy of these organisations is unmatched by many others. Seeing young people driving the agenda is something we need to be encouraging more.³²

4.29 At the same hearing, Mr Sameh Gowegati, the Chief Executive Officer of the South Metropolitan Youth Link Inc. (SMYL), noted the progress that had been made in Western Australia on Aboriginal and Torres Strait Islander peoples school retention rates. He told the committee:

When we started our Aboriginal schools program in 1997, 18 per cent of Aboriginal kids in WA got to year 12. That was a disgrace. It was not such a huge problem in 1997 because you could get a job with a year 10 qualification. By the time we got to 2000, you could not get into TAFE with a year 10 qualification and the jobs were shrinking, so we had to come up with a solution. The schools program basically got those kids into employment and training with a host employer for a day a week, and they were staying at school and doing a day at TAFE. We played around with it and tried to create a pathway for Aboriginal kids. That program was successful. By 2008 we had in WA achieved a completion rate of year 12 for Aboriginal kids of 52 per cent based primarily on that program. So we had raised the retention rate of Aboriginal kids to year 12 from 18 per cent to 52 per cent by 2008. Commensurate with that, we have provided about 3,000 Aboriginal kids with apprenticeships, traineeships and jobs. These were kids who otherwise would not have participated and so that, probably more than anything else in this region, had a fundamentally huge

31 *Committee Hansard*, Melbourne, 19 September 2014, p. 6.

32 Chief Executive Officer, *Committee Hansard*, Rockingham, 11 November 2014, pp 28–29.

impact on addressing that huge gap between Aboriginal poverty, equality and everything else.³³

4.30 However, Mr Gowegati expressed regret that retention levels had since fallen in the state, in part because of a lack of commitment and structure to funding programs. In terms of the SMYL program, he explained that:

The federal government pulled its funding out. The state government decided that it would focus on excellence, not equity, and so it basically damned the program. As a trainer, we kept it alive. We kept funding it ourselves, but the numbers dropped. So instead of having 400 to 500 Aboriginal kids every year staying at school and completing year 12, the numbers dropped down to about 180 that we could fund ourselves.³⁴

4.31 The committee was interested in SMYL's role of identifying Aboriginal children at risk of falling out of the mainstream education system and giving them training on a wage. Mr Gowegati told the committee that schools approach SMYL with details of children who are not attending school, are at risk of falling out or who have been suspended. SMYL then matches the young person with an employer. As Mr Gowegati put it:

...they are taking them on, because we are paying the wages for them and managing the process, and, all things being equal, they will employ them at the end of the program. It puts enormous pressure on the charity to meet the wages of 500 or 600 kids every year—between Aboriginal kids and non-Aboriginal kids—which we have to do. Having said that, it is about the only thing we can point to that actually gets these kids, who are completely disengaged, into the world of education and employment with a 70 per cent success rate. So it does work. As I keep saying, it is not a stick to punish them; it is the fact that they are guaranteed income. They are being paid to go to work. That is what gets them in.³⁵

4.32 The committee considers the issue of funding youth and Aboriginal and Torres Strait Islander employment programs in chapter 6 of this report.

Aboriginal and Torres Strait Islander peoples' health

4.33 Poor health outcomes among the Aboriginal and Torres Strait Islander population remain an area of acute and ongoing concern. *Australia's Health 2014*, released by the Australian Institute of Health and Welfare, found that Aboriginal and Torres Strait Islander Australians have a burden of disease two to three times greater

33 *Committee Hansard*, Rockingham, 11 November 2014, p. 35.

34 *Committee Hansard*, Rockingham, 11 November 2014, p. 35.

35 *Committee Hansard*, Rockingham, 11 November 2014, p. 41.

than the general Australian population and are more likely to die at younger ages, experience disability and report their health as fair or poor.³⁶

4.34 The Productivity Commission's 2014 *Key Indicators* report found that the health of Aboriginal and Torres Strait Islander peoples continues to lag well behind that of the general population. Some of the report's findings included:

- in 2012–13, 39.3 per cent of Aboriginal and Torres Strait Islander Australians aged 15 years and over reported their health status as excellent or very good. This was a decrease from 43.7 per cent in 2008;
- in 2012–13, around one in seven (13.6 per cent) of Aboriginal and Torres Strait Islander Australians aged 18 years and over had not consulted a GP/specialist in the previous 12 months—a decrease from 20.6 per cent in 2004–05 and 19.4 per cent in 2001;³⁷
- the hospitalisation rate for chronic conditions for Aboriginal and Torres Strait Islander Australians was more than four times the rate for non-Indigenous Australians;
- the hospitalisation rate for potentially preventable acute conditions for Aboriginal and Torres Strait Islander Australians was more than twice the rate for non-Indigenous Australians;³⁸
- between 2001 and 2012–13, the crude daily smoking rate for Aboriginal and Torres Strait Islander adults declined from 50.7 to 44.4 per cent. A similar decline in non-Indigenous smoking rates meant that the gap in (age adjusted) daily smoking rates remained relatively constant at around 26 percentage points between 2001 and 2011–13;³⁹
- in 2012–13, 69.2 per cent of Aboriginal and Torres Strait Islander adults were categorised as clinically obese (39.8 per cent) or overweight (29.4 per cent). Only 27.7 per cent were considered to be of normal weight;⁴⁰
- in 2012–13, almost one-third of Aboriginal and Torres Strait Islander adults (30.1 per cent) reported experiencing high/very high levels of psychological distress, an increase from 27.2 per cent in 2004–05; and

36 Australian Institute of Health and Welfare, *Australia's Health 2014*, p. 81, <http://www.aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129548150> (accessed 1 November 2014).

37 Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage, Key indicators report 2014*, p. 8.3.

38 Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage, Key indicators report 2014*, p. 8.11.

39 Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage, Key indicators report 2014*, p. 8.20.

40 Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage, Key indicators report 2014*, p. 8.25.

- the proportion of Aboriginal and Torres Strait Islander adults experiencing high/very high psychological distress in 2012–13 was 2.7 times the proportion for non-Indigenous Australians in 2011–12.⁴¹

4.35 In its submission to this inquiry, the Social Determinants of Health Alliance said that '[T]here is a clear relationship between the social disadvantages experienced by Aboriginal and Torres Strait Islander people and their current health status (Carson et al. 2007)'.⁴² Ms Yvonne Luxford of the Public Health Association of Australia told the committee that Aboriginal disadvantage in health can, and must, be rectified:

Social, economic, political and cultural deprivation have directly contributed to much lower life expectancy and a high burden of disease across diverse areas such as cardiovascular disease, accidents and injuries, respiratory disease, renal disease and diabetes—such a high burden of preventable disease that, as a society, we should simply be ashamed. We should be ashamed because we can change it...⁴³

4.36 Oxfam recommended in its submission that the new funding formula for Aboriginal health services should be developed in collaboration with Aboriginal Community Controlled Health Services and peak organisations.⁴⁴ The committee agrees with this approach.

Culture and Aboriginal and Torres Strait Islander peoples' disadvantage

4.37 Any effort to address Aboriginal and Torres Strait Islander peoples disadvantage in Australia must identify and overcome the underlying reasons for these poor outcomes. The committee has not focussed on these matters in any detail during this inquiry. However, the committee does highlight the following evidence from Associate Professor Dockery:

Throughout the history of discussion about what policies should do in Australia to address Indigenous disadvantage, there has been a constant assumption that Aboriginal and Torres Strait Islander peoples culture is a barrier to achievement. It is basically a story between two camps—the self-determination people, who think Aboriginal and Torres Strait Islander people should have the right to choose what they want of our culture and our ways, and the assimilationist camp, who say, 'We've just got to get them out of their culture and into our culture and then they'll have better outcomes.' This has been the dialogue and both sides assume the

41 Productivity Commission, *Overcoming Aboriginal and Torres Strait Islander peoples Disadvantage, Key indicators report 2014*, p. 8.35.

42 *Submission 43*, p. 7. Also see: Carson, B., Dunbar, T., Chenhall, RD., Bailie, R. Eds (2007). *Social determinants of Aboriginal and Torres Strait Islander peoples health*. Crows Nest, NSW: Allen and Unwin.

43 Board Member, *Committee Hansard*, Canberra, 16 October 2014, p. 52.

44 *Submission 22*, p. 10.

culture is a barrier. Even the people who believe in self-determination say it is a barrier, that there is a trade-off but it is a choice they have to make.

There is hardly any empirical evidence on this, and I think I am one of the only people who has looked at Australian empirical evidence. The empirical evidence suggests exactly the opposite. People who have stronger identification and engagement with their traditional culture have better outcomes. These are not just wellbeing outcomes; these are mainstream outcomes—employment, education, being less likely to abuse substances, less likely to end up in jail.

Whatever the solutions are, they have to, for a long time to come, incorporate Aboriginal and Torres Strait Islander peoples aspirations relating to important things for them—attachment to country, engagement in culture, kinship networks. Those things are very important. If you are going to go down the path of, 'No, you've just got to have employment; you've just got to increase your income,' it just will not work. In my view, you will add to 200 years of policy failure.⁴⁵

People with disability

4.38 People with disability in Australia have—on average—lower incomes than people without disability:

- A 2011 report commissioned by the Australian Network on Disability found that the average weekly income for a working-age person with a disability is \$344, nearly half that of a person without a disability (\$671).⁴⁶
- Less than 10 per cent of people on the DSP earn an income and close to half of those that do have earnings receive less than \$250 per week. The average duration on income support for people receiving the DSP is around 10 years.⁴⁷
- The 2012 ABS Survey of Disability Ageing and Carers found that people with disability aged 15 years and over are more likely to live in a household in the lowest two equivalised gross household income quintiles than those without disability (48 per cent compared with 22 per cent).⁴⁸

45 *Committee Hansard*, Rockingham, 11 November 2014, p. 3.

46 Deloitte Access Economics, *The economic benefits of increasing employment for people with disability*, Commissioned by the Australian Network on Disability, August 2011, p. 13, http://www.and.org.au/data/Conference/DAE_Report_8May.pdf (accessed 17 November 2014).

47 Deloitte Access Economics, *The economic benefits of increasing employment for people with disability*, Commissioned by the Australian Network on Disability, August 2011, p. 15.

48 Australian Bureau of Statistics, *Disability, Ageing and Carers, Australia: Summary of findings 2012*, Cat. 4430.0, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/A813E50F4C45A338CA257C21000E4F36?opendocument> (accessed 17 November 2014).

4.39 People with disability are under-represented in the Australian labour market and workforce:

- The labour force participation rate for those aged 15–64 years with disability in 2009 was 54 per cent (compared with 83 per cent for those without a disability).⁴⁹
- In terms of employment, 50 per cent of people aged 15 to 64 with disability and 28 per cent of people with severe or profound core activity limitation were employed compared with 79 per cent of people without disability.⁵⁰
- A lower proportion of people with disability were in employment after receiving employment assistance than the proportion without a disability. Thirty-six per cent of people with disability who used Job Services Australia streams 1–4 were employed post-assistance, compared with 49 per cent of all job seekers who used the program.⁵¹
- People with disability are more likely to be working part-time than people without disability.⁵²
- Forty-five per cent of people with disability in Australia live in or near poverty⁵³ compared with the OECD average of only 22 per cent.⁵⁴

4.40 People with disability in Australia also face poorer health outcomes than the rest of the population. Some of these outcomes include conditions that are unrelated to the specific health condition associated with the disability. People with multiple chronic health conditions have reported spending several thousand dollars a year on out of pocket health costs.⁵⁵

The Disability Support Pension, the cost of living and employment

4.41 In its submission to this inquiry, People with Disability Australia (PWD) emphasised that while having a disability means that everyday life is more expensive, the Disability Support Pension (DSP) is inadequate to cover for this additional cost. Further, while the reforms to the DSP since 2010 have led to a decrease in the number of people on the pension:

49 *Submission 44*, p. 8. Australian Institute of Health and Welfare, *Australia's welfare 2013*, p. 73.

50 Australian Institute of Health and Welfare, *Australia's welfare 2013*, p. 73.

51 Australian Institute of Health and Welfare, *Australia's welfare 2013*, p. 228.

52 Deloitte Access Economics, *The economic benefits of increasing employment for people with disability*, August 2011, http://www.and.org.au/data/Conference/DAE_Report_8May.pdf (accessed 3 December 2014).

53 *Submission 44*, p. 4.

54 *Submission 44*, p. 7.

55 Senate Community Affairs References Committee, *Out of pocket costs in Australian healthcare*, August 2014, p. 34.

...they have not led to an increase in workforce participation for people with disability. The perverse outcome of these measures is that more people with disability are now struggling to survive on less income, deepening the inequality in our communities.⁵⁶

4.42 PwD was also strongly critical of the 2014 federal budget's proposals to reassess DSP recipients against new Impairment Tables and introduce increased job-seeking requirements for people with disability (see chapters 5 and 6). It argued the need for government to address the barriers to employment through a jobs plan, rather than simply tighten the eligibility requirements for the DSP.⁵⁷

Housing for people with disability

4.43 The availability of appropriate and affordable housing is a crucial issue for people with disability. PwD noted that housing issues are a common concern raised with its individual advocates. It said that:

- only 28 per cent of people who receive the DSP own their own home;⁵⁸
- 36 per cent of households affected by a disability and renting paid more than 30 per cent of their gross income for housing (compared with 26 per cent of households with no disability); and
- the majority of existing homes in Australia are not accessible for people with disability.⁵⁹

4.44 People with disability rely heavily on social housing options. In 2011–12, 34 per cent of all public housing tenants relied on the DSP as their primary source of income.⁶⁰ At the hearing in Logan, the Director-General of the Queensland Department of Housing and Public Works told the committee:

Because of demand there is an increasing need to target high-subsidy social-housing assistance to those most in need while still ensuring that other low- to moderate-income earners can access assistance to stay in or move to the private rental market. In other words, 20 or 30 years ago social housing was provided to families; today it is provided to high—and very high needs people. In around 55 per cent of social-housing dwellings there is at least one tenant who has a disability and around 25 per cent of all tenants in a social house have a profound disability.⁶¹

56 *Submission 44*, p. 7.

57 *Submission 44*, p. 8.

58 *Submission 44*, p. 5. The reference given was to the Department of Social Services, *Characteristics of Disability Support Pension Recipients*, 2013, p. 19.

59 *Submission 44*, p. 5.

60 Australian Institute of Health and Welfare, *Australia's welfare 2013*, p. 123.

61 Mr Neil Castles, *Committee Hansard*, Logan, 8 October 2014, p. 1.

4.45 The committee shares PwD's concern that appropriate housing is provided for people with disability. PwD has noted that the National Rental Affordability Scheme (NRAS) is to be phased out, adding:

With no alternative to the NRAS, and no dedicated investment at a federal or state level to improve appropriate housing availability, people with disability will still have their housing choices constrained. For some people this may mean that they are trapped in institutional type settings because there are no alternatives for them to move to.⁶²

4.46 The committee highlights the following observations of the Parliamentary Joint Committee (PJC) on the National Disability Insurance Scheme in its June 2014 report into the progress of the NDIS trial sites:

[T]he availability of suitable housing for people with disability was a significant theme in evidence from the trial sites. Witnesses expressed a wide range of housing concerns including young people living in residential aged care homes and the deinstitutionalisation of state-run large residential centres. It is important to note that suitable housing for people with disability is a significant issue that pre-dates the introduction of the NDIS. The introduction of the Scheme is an opportunity for this issue to be addressed. These matters, and the broader problem of the limited stock of housing for people with disability, require policy leadership at the national level and should be the focus of the Council of Australian Governments Disability Reform Council.⁶³

4.47 This committee shares the PJC's view that the NDIS presents important opportunities for governments to address the issue of housing for people with disability. Further, it agrees with PwD that:

The implementation of the NDIS, on time and fully funded, will play an important part in addressing the barriers to social inclusion that many people with disability face in Australia.⁶⁴

If dedicated resources are not provided to guarantee provision and accessibility of mainstream services for all people with disability (such as housing, education, healthcare, transport), the opportunities provided through the NDIS will not be realized and the inequality of the majority of people with disability will persist.⁶⁵

62 *Submission 44*, p. 6.

63 Joint Parliamentary Committee on the National Disability Insurance Scheme, *Progress report on the implementation and administration of the National Disability Insurance Scheme*, July 2014, p. xvi, http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/National_Disability_Insurance_Scheme/~media/Committees/ndis_ctte/progress_report/report.pdf (accessed 1 November 2014).

64 *Submission 44*, p. 9.

65 *Submission 44*, p. 10.

People with mental illness

4.48 Mental illnesses can have a debilitating effect on the sufferer and his or her carer(s). Apart from the psychological and physical distresses of the illness, the sufferer may have reduced productivity, experience discrimination in the workplace, have periods of unemployment or be permanently excluded from the workforce. It is clear that having a mental illness can lead a person to being financially disadvantaged. What is not clear is whether a person's financial situation could trigger a mental illness.⁶⁶

4.49 The most common mental disorders are depression, anxiety and substance use disorders. Less common, and often more severe disorders include schizophrenia, schizoaffective disorder and bipolar disorder.⁶⁷ The National Mental Health Report 2013 estimated that:

- two to three per cent of Australians—around 600 000 people—have severe disorders (as judged by diagnosis, intensity and duration of symptoms, and degree of disability);
- another four to six per cent of Australians—about 1 million people—have moderate disorders; and
- a further nine to twelve per cent—about 2 million people—have mild disorders.⁶⁸

Access to health, housing and employment

4.50 Mental Health Australia's (MHA) submission states that 'people with lived experience of mental illness and mental health carers are over-represented amongst people on the lowest incomes'.⁶⁹ It noted that having a low income can affect a mentally ill person's ability to access health services, housing and employment. In terms of accessing health services, MHA argued:

[I]ncome inequality constrains the choices that people can make regarding their health and wellbeing. Gap payments and other 'out of pocket' expenses can make accessing services such as General Practice, psychology and psychiatry cost-prohibitive for people on low to moderate incomes.⁷⁰

4.51 Mr Josh Fear of MHA told the committee that people with mental illness face significant costs in addition to the basic cost of living and 'these costs rise the more

66 Mr Josh Fear, Director, Policy and Projects, Mental Health Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 56.

67 Australian Institute of Health and Welfare, *Australia's Health 2014*, p. 131.

68 Australian Institute of Health and Welfare, *Australia's Health 2014*, p. 131.

69 *Submission 16*, p. 4.

70 *Submission 16*, p. 5.

health services you need to access'.⁷¹ He expressed particular concern with the impact of the proposed co-payment on the capacity of people to seek help with a mental health issue. As Mr Fear told the committee:

GPs are often the first port of call for someone with a mental health issue, both someone who has never experienced those symptoms before and is worrying about what they mean and also people who have an enduring mental illness that they need to cope with over time. In fact 1½ million GP services are provided every year for a mental health issue.

It is Mental Health Australia's position that a co-payment will actually discourage help-seeking... We have as many government initiatives at state and Commonwealth level which have tried to encourage help-seeking, yet we hear from our members and from the broader mental health sector that a GP co-payment will do precisely the opposite and discourage people from getting help early.⁷²

4.52 In terms of housing, MHA emphasised the vulnerability of mentally ill people to poorer housing options, but also the benefit that stable housing can provide to their recovery. It noted:

There is a strong correlation between homelessness and poorer health and wellbeing especially in relation to mental health outcomes. According to the ABS survey of mental health and wellbeing, for the 484,400 people who reported ever being homeless, more than half (54%) had a 12-month mental disorder, which is almost three times the prevalence of people who reported they had never been homeless (19%). In addition, specialist homelessness services supported more than 41,000 people who identified as having mental health concerns in 2012–13. Conversely stable housing has been shown to improve chances of recovery from mental illness and having a place to call home is widely acknowledged as a critical foundation upon which to build a place in community and social life.⁷³

4.53 In terms of gaining and retaining employment, MHA noted that 70 per cent of Australians with a mental illness are employed. Still:

...rates of labour force participation are lower for people with mental illness than average, suggesting that more needs to be done to address the specific barriers people with mental illness face in relation to paid employment.⁷⁴

4.54 In evidence to the committee, Mr Fear elaborated:

We know that only 38 per cent of people with mental illness work full time, compared to 55 per cent of the rest of the population. When we look at people with serious mental illness, the rate of unemployment amongst

71 *Committee Hansard*, Canberra, 16 October 2014, p. 59.

72 *Committee Hansard*, Canberra, 16 October 2014, p. 57.

73 *Submission 16*, p. 6.

74 *Submission 16*, p. 6.

people with psychosis is 67 per cent, rather than five per cent. We know that around 260,000 people on the DSP have a psychiatric disability. We also know that around 200,000 people on Newstart have an identified mental illness. I would strongly suggest that many more people on Newstart have a mental illness that they have not disclosed to Centrelink. Part of that is to do with the way that Centrelink deals with its customers and part is to do with the stigma associated with having a mental illness.⁷⁵

4.55 MHA emphasised the economic and social benefits of ensuring that people with mental illness maintain their employment and productively participate in the workplace. It proposes a number of measures to increase employment participation by people with mental illness, including wage subsidies for employers who employ people with mental illness. These proposals were also put to the McClure Review on Welfare Reform.⁷⁶

Mental illness and the NDIS

4.56 The committee is aware there is currently work being conducted into the eligibility of people with psychiatric disabilities for a 'Tier 3' package of supports under the National Disability Insurance Scheme (NDIS). Some people with more severe psychiatric illnesses will have financial support to cover the cost of private psychiatric appointments (among other major expenses). MHA suggested that the NDIS will provide an individualised support package to 'around one in four or one in five people with psychosocial disability'.⁷⁷

4.57 The committee notes MHA's concern that carers of people with mental illness are not currently able to access any kind of financial assistance from the Commonwealth. This is not the case for carers of people with other disabilities. Mr Fear suggested that this implied the government was 'picking favourites' among disabilities. He suggested that there needs to be a review of the way that assessments for financial support for carers are carried out.⁷⁸

Refugees

4.58 Refugees are another group that face particular challenges in the Australian labour market by dint of their (often short to medium-term) personal circumstances.

75 *Committee Hansard*, Canberra, 16 October 2014, p. 56.

76 See: https://www.dss.gov.au/sites/default/files/documents/08_2014/133_-_national_mental_health_consumer_carer_forum_mental_health_council_of_australia.pdf (accessed 3 December 2014).

77 Mr Josh Fear, *Committee Hansard*, p. 59. The 2011 Productivity Commission report estimated that 57 000 people will be eligible for an individualised package. Productivity Commission, *Disability Care and Support*, Vol. 1, No. 54, 31 July 2011, page 27 and page 190. Mental Health Australia estimated that there are around 20 000 to 300 000 people in Australia with a psychosocial disability.

78 *Committee Hansard*, Canberra, 16 October 2014, p. 59.

In 2012–13, the Australian Government granted a total of 20 019 visas under the Humanitarian Programme.⁷⁹ The highest number of visas granted in 2012–13 (under the offshore component) was in the Middle East region (55.7 per cent), followed by the Asia region (34.1 per cent) and the Africa region (9.9 per cent).⁸⁰

The income of humanitarian entrants

4.59 The renowned Australian demographer, Professor Graeme Hugo, has found that humanitarian entrants to Australia have the lowest income of migrant groups.⁸¹ Commenting on his findings, a 2011 Department of Immigration and Citizenship report stated that over half of humanitarian entrants have weekly incomes under \$250, compared with just under 30 per cent for the other migration categories:

[H]umanitarian entrants have the lowest proportion of nil or negative incomes, which Professor Hugo identified as partly the result of humanitarian entrants having immediate access to unemployment benefits. The lower levels of income have other consequences, such as a lesser ability to buy a house. The research showed that the more recent waves of humanitarian entrants were slower to enter the housing market and were more likely to be renting. The older waves and the second generation were, however, more likely to be on a par with those born in Australia with respect to owning a home.⁸²

Barriers for humanitarian entrants in gaining employment

4.60 The Refugee Council of Australia (RCOA) identified the following potential barriers to employment by refugee and humanitarian entrants:

- limited English proficiency;
- lack of Australian work experience and limited knowledge of Australian workplace culture and systems;
- limited access to transport and affordable housing close to employment;
- pressures of juggling employment and domestic responsibilities (a particularly significant issue for women);
- lack of appropriate services to support employment transitions;

79 This included 7504 grants under the onshore component and 12 515 grants under the offshore component. In the offshore component, 12 012 (95.9 per cent) grants were Refugee visas and 503 (4.0 per cent) were SHP visas.

80 Department of Immigration and Border Protection, Information Paper, Appendix A, December 2013, <http://www.immi.gov.au/media/publications/refugee/ref-hum-issues/pdf/humanitarian-program-information-paper-14-15.pdf> (accessed 17 November 2014).

81 Based on a 2006 figure for migrants aged over 15 years of age.

82 Professor Graeme Hugo and the Department of Immigration and Citizenship, *A significant contribution: The economic, social and civic contributions of first and second generation humanitarian entrants*, 'Summary of findings', 2011, p. 23.

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- the impacts of past trauma on health and wellbeing;
 - downward mobility and the pressure to accept insecure employment, which can result in underutilisation of skills and hamper longer-term career advancement;
 - lack of qualifications or difficulties with recognition of qualifications, skills and experience;
 - discrimination and negative attitudes; and
 - visa restrictions (in the case of asylum seekers and temporary humanitarian visa holders).⁸³

4.61 Professor Hugo interviewed humanitarian entrants to gauge—among other things—the barriers that they have faced in gaining employment in Australia. Prior to migration these factors included exposure to violence, instability and persecution, lack of education, lack of knowledge about the Australian labour market, lack of documentation prior to migration and misinformation about employment opportunities. Post-migration, the identified barriers included: mental health issues; illiteracy and low English proficiency; lack of opportunities or finances to have skills recognised; lack of knowledge about the skills recognition processes; lack of established networks in Australia; and experiences of racism and discrimination.⁸⁴

4.62 Professor Hugo also found that 69.7 per cent of those surveyed had at some time sent money to their homeland. It was not unusual for recent African migrants to send 10 to 20 per cent of their weekly income to their families in the homeland or in a refugee camp.⁸⁵

4.63 The RCOA's submission to this inquiry focussed on the capacity of refugee and humanitarian entrants to access income support payments. It noted that these people tend to be younger than the general Australian population: between 2009–10 and 2013–14, 87 per cent of the 70 000 people who were granted humanitarian visas were under the age of 35 when they arrived in Australia. The RCOA argued that given their age profile, and the fact they often rely on income support payments during their early years of settlement, refugees are 'likely to be disproportionately affected' by the 2014 budget measures.

4.64 The RCOA emphasised that refugee and humanitarian entrants are often 'desperate to find stable employment'. Accordingly, it argued:

83 *Submission 24*, pp 2–3.

84 Professor Graeme Hugo and the Department of Immigration and Citizenship, *A significant contribution: The economic, social and civic contributions of first and second generation humanitarian entrants*, 'Summary of findings', 2011, p. 23.

85 Professor Graeme Hugo and the Department of Immigration and Citizenship, *A significant contribution: The economic, social and civic contributions of first and second generation humanitarian entrants*, 'Summary of findings', 2011, p. 40.

...the application of punitive financial “incentives” to refugee and humanitarian entrants would represent a serious misdiagnosis of the reasons for their (initially) lower participation in the workforce and cause significant financial hardship without enhancing employment outcomes.⁸⁶

4.65 The committee considers that a longitudinal analysis on how humanitarian visa holders have fared in the Australian labour market over the first 10 years of their settlement would be very useful. It would be particularly worthwhile for this study to combine quantitative data on humanitarian entrants' income levels over time with qualitative surveys—of the type conducted by Professor Hugo—which identify the barriers and the keys to obtaining and retaining employment.

Older workers and those at risk of poverty in retirement

4.66 The terms of reference for this inquiry direct the committee to consider the impact of income inequality on older workers and workers at risk of poverty in retirement. Within this demographic, there are varying degrees of actual and potential hardship and disadvantage. There are:

- older unemployed people;
- pensioners living in poverty;
- those older workers on a low income with no assets or retirement savings;
- parent carers; and
- those on relatively good incomes who have suffered investment losses and the prospect of insufficient savings to self-fund their retirement.

Older unemployed people

4.67 Older unemployed people can face particular difficulties regaining employment. A substantial number of older Australians of working age are not employed. Department of Social Services data show that in September 2014, there were nearly 400 000 job seekers receiving the Newstart Allowance. Of these, 79 163 were aged over 50, nearly 20 per cent of all Newstart recipients.⁸⁷

4.68 The Department of Social Services has noted that between 2010 and 2013, there was a 41.2 per cent increase in people in their 50s and 60s receiving the Newstart unemployment benefit, much higher than the overall growth across all

86 *Submission 24*, p. 3.

87 Department of Social Services, *Labour market and related payments: a monthly profile*, September 2014, p. 9, https://www.dss.gov.au/sites/default/files/documents/11_2014/labour_market_and_related_payments_september_2014_updated_13nov14.pdf (accessed 17 November 2014).

demographics.⁸⁸ Older people are more likely to be unemployed long-term than any other group.⁸⁹

4.69 At the Logan hearing, Ms Bartolo told the committee that some of YFS Limited's clients are older men in their late 50s who have lost their jobs and cannot meet their commitments.⁹⁰ Ms Mary D'Elia of Baptcare emphasised that unemployed older Australians living on the Newstart Allowance have an income level 'generally acknowledged as inadequate'. She argued that the pension age should not be raised to 70 years without a simultaneous increase in the level of the Newstart Allowance.⁹¹

4.70 The committee recognises and supports government initiatives to assist older unemployed Australians to gain work and encourage older workers to remain in the workforce. The number of Australians aged over 55 (both male and female) participating in the workforce has increased since the early 1990s. The ABS has found:

In 2009–10, there were around 5.5 million Australians aged 55 years and over, making up one quarter of the population. Around one third of them (or 1.9 million) were participating in the labour force. People aged 55 years and over made up 16% of the total labour force, up from around 10% three decades earlier. The participation rate of Australians aged 55 and over has increased from 25% to 34% over the past 30 years, with most of the increase occurring in the past decade.⁹²

Pensioners living in poverty

4.71 In its submission to this inquiry, the COTA Australia (COTA) stated that older people are consistently over-represented in poverty statistics. It noted that incidences of poverty are high for single older women and single older men, as well as older couples.⁹³

88 2013–14 Additional Estimates Hearings, Senate Community Affairs Committee, Social Services Portfolio, Question 583, response to Senator Siewert.

89 See also Dr Marcia Keegan, Associate Professor Rebecca Cassels and Dr Riyana Miranti, 'Unemployment, income support and job search activity among baby boomers in Australia', Conference paper presented to 42nd Australian Conference of Economists, Murdoch University, 7–10 July 2013, <http://www.murdoch.edu.au/School-of-Management-and-Governance/document/Australian-Conference-of-Economists/Unemployment-income-support-and-job-search-activity-among-baby-boomers-in-Australia.pdf> (accessed 2 December 2014).

90 *Committee Hansard*, Logan, 8 October 2014, p. 29.

91 State Operations Manager, Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 3.

92 Australian Bureau of Statistics, *Australian Social Trends September 2010: Older people and the labour market*, Cat. 4102.0, p. 1, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication29.09.104/\\$File/41020_OlderWorkers.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication29.09.104/$File/41020_OlderWorkers.pdf) (accessed 1 November 2014).

93 *Submission 38*, p. 4.

4.72 COTA did recognise that changes to pension arrangements in 2009 alleviated the levels of poverty. As part of these changes, the aged pension increased and indexation arrangements were introduced that fixed the age pension to a proportion of Male Total Weekly Average Earnings (MTAWE) and set the biannual indexation at the best of the Pensioner And Beneficiary Living Cost Index, the Consumer Price Index (CPI) or MTAWE.⁹⁴

4.73 Welfare agencies told the committee that increasingly, older homeless people are presenting to them in need of assistance. Ms Cheryl Fairclough of Baptcare in Tasmania told the committee:

More and more agencies are seeing older people homeless for the first time in their lives at retirement, particularly older single women. Studies by the University of Melbourne looked at the fact that, even in the buoyant years of 2001 to 2007, one in 12 older people suffered severe disadvantage and poverty. Certainly, for single pensioners, one-third, generally, are suffering financial and housing stress.⁹⁵

4.74 Ms Fairclough's colleague, Ms D'Elia, told the committee of the particular relevance of seniors living in poverty in Tasmania. She noted:

By June 2013 more than 17 per cent of Tasmanians were aged 65 and over—the highest percentage of any Australian state or territory. As an aged-care agency, Baptcare is particularly concerned with the growing poverty and housing insecurity amongst seniors. Indeed, around 40 per cent of the aged-care residents at our Baptcare Karingal community facility in Devonport are financially and socially disadvantaged. We also have a target of 30 per cent of our home care packages being provided to disadvantaged aged clients.

4.75 Baptcare and COTA both expressed strong concern at the plans to shift the indexation for aged pensions from a percentage of the average male weekly earnings to the lower baseline of average weekly earnings and then indexing pensions to CPI instead of wages growth. In terms of the impact of this measure, Baptcare identified a particularly vulnerable group as grandparents on the aged pension or on Newstart with responsibility for caring for their grandchildren.⁹⁶

Older workers on a low income with no assets

4.76 Of great concern for the committee is the cohort of older Australians who have lived for many years on a low income and who face a retirement without assets. The committee is aware that the Household Income and Labour Dynamics in Australia (HILDA) Survey contains data on Australians' asset holdings by age group.

94 *Submission 38*, p. 4.

95 Social Policy Officer, *Committee Hansard*, Hobart, 19 September 2014, p. 9.

96 *Committee Hansard*, Hobart, 19 September 2014, p. 4.

The eighth statistical report contained the following table (Table 4.1). The report noted:

...in all age groups, there has been a decline in home ownership between 2001 and 2010, but the largest declines have been for people aged 35 to 54 years. One way of viewing these changes by age group is to take a ‘birth cohort’ perspective. Thus, the homeownership rate when aged 35 to 44 years was 4.5 percentage points lower for the cohort born between 1966 and 1975 than for the cohort born between 1956 and 1965; and the home-ownership rate when aged 45 to 54 years was 5.5 percentage points lower for the cohort born between 1956 and 1965 than for the cohort born between 1946 and 1955.⁹⁷

Table 4.1: Rates of home ownership by age group (%)

	Mean rate over 2001 to 2010	Change in rate 2001 to 2010
18–24	10.4	–0.3
25–33	43.1	–1.8
35–44	67.8	–4.5
45–54	77.9	–5.5
55–64	83.3	–1.1
65 and over	82.7	–1.1

Source: Melbourne Institute of Applied Economic and Social Research, *Families, Incomes and Jobs, Volume 8*, 2013, p. 93.

4.77 In additional information provided to the committee, the Queensland Council of Social Service (QCOSS) noted:

One of the significant challenges older people who live a life-time of low income is their inability to purchase a home. Without a home of their own many of these older people rely on the private rental market to meet their housing needs and face a significant struggle meeting the high cost of renting which can absorb a large proportion of income.⁹⁸

4.78 This issue will be returned to in chapter 6 of this report in the context of how negative gearing limits the stock of owner-occupier housing, forcing low-income renters to accept market rental rates.

4.79 The Western Australian Council of Social Service (WACOSS) told the committee at the Rockingham hearing that early intervention is needed to ensure that older workers facing retrenchment are provided with retraining opportunities while they are still employed. As Mr Chris Twomey, WACOSS's Director of Social Policy, told the committee:

97 Melbourne Institute of Applied Economic and Social Research, *Families, Incomes and Jobs, Volume 8*, 2013, p. 93, https://www.melbourneinstitute.com/downloads/hilda/Stat_Report/statreport-v8-2013.pdf (accessed 25 November 2014).

98 *Additional information*, 8 October 2014, p. 13.

...there is some interesting work that the commissioner for age discrimination is currently doing that is looking at the opportunities to do a scan of older employed people in their mid-50s who are in the industries, as in South Australia, that are at risk of winding up and that the best opportunity to intervene and retrain is while these people are still at work. As soon as they are unemployed, they have all of those additional barriers to finding more work. That is a promising area to respond to.⁹⁹

4.80 In September 2014, the Hon. Susan Ryan AO, the Age Discrimination Commissioner, told the National Press Club in Canberra:

...we don't want to see a repeat of the South Australian car manufacturing industry collapse, where middle-aged skilled workers were laid off and left—initially at least—with no advice and no direction as to how they might find new jobs.

What workers in this situation need – and virtually every individual does at some point in their working life – is a structured process by which they can review where they are and plan for their ongoing participation in employment.

That is why I am calling today for a National Jobs Checkpoint Plan. I am urging a high profile, widely supported, and nationally coordinated approach to helping all people at midlife to check where they are and change direction if they need to. This national approach can be developed by governments, industry and vocational education providers working together. I see TAFE right at the center of this Plan. TAFE colleges have the required training skills and links with local employers and government programs, but these links need to be strengthened and supported for vocational education everywhere throughout Australia.

...Initially under this Plan, anyone approaching 50 could attend a local TAFE to get a skills analysis, and basic advice about which sectors are growing and need workers, where the jobs are located in that region, and what skills and credentials are required to secure one. A well-targeted checkup and redirection at 50 could set a person up for another 20 years work, age pension age rules notwithstanding.

This is not a crisis management plan, it is a preventative approach that would have older people recharging and moving smoothly into their next stage of employment.¹⁰⁰

4.81 The committee believes that the focus on well-coordinated, preventative approach based on vocational education and training is sound. It will require an appropriate level of investment from the Commonwealth and State Governments and

99 *Committee Hansard*, Rockingham, 11 November 2014, pp 10–11.

100 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).

a framework whereby older workers in declining sectors can be effectively case managed. Chapter 6 returns to this issue.

Parent carers

4.82 Another cohort of older person at risk of financial hardship is parent carers. The long-term sacrifices that these parents make in caring for their child often leaves them without an income, a career or any assets. The committee heard from Ms Sarah Walbank of Carers' Queensland that:

The lack of appropriately skilled and affordable locally based care services leaves them [parent carers] with no alternative except to leave the full-time workforce and become full-time carers—a loss to the economy that is rarely acknowledged in the public domain. This scenario is very aptly illustrated by a quote from a carer to our annual quality of life report. She says: 'My daughter is 24 years old but has funding for only 42 hours per week. This means that we are together for no less than 110 hours per week. As a consequence, I have no time to socialise, no assets and no way back into the workforce.' The consequence of a parent carer's decision to leave the workforce and accept more marginalised work is not merely a budgetary inconvenience; it is a significant decision that has the potential to negatively impact the family's financial capacity not only in their working years but also longer term in their retirement years. As one carer said: 'The future security is a subject that keeps me up at night and it constricts my chest. I have very little superannuation left and I have no career. I have been a carer now for 14 years, and there is no end in sight. What will be my fate when I am aged and impoverished.'¹⁰¹

The challenge of self-funding retirement

4.83 About eighty per cent of Australians of retirement age draw a full or part pension.¹⁰² Despite the significant political emphasis and national investment in superannuation, only a minority of Australians are self-funded retirees.

4.84 The aftermath of the Global Financial Crisis (GFC) brought with it public commentary in Australia (and internationally) about the impact of the GFC on older workers' superannuation nest eggs. Would they still be able to self-fund their retirement and if so, for how much longer would they have to work? Journalist George Megalogenis wrote in October 2011:

In the three years before the GFC, when Australia was running out of workers, men in their late 50s were the only grouping to reduce their labour force participation. The lure of former Liberal treasurer Peter Costello's tax-free super payouts, promised in the 2006 budget, seemed to be driving people into early retirement.

101 Policy and Research Officer, *Committee Hansard*, Logan, 8 October 2014, p. 13.

102 National Commission of Audit, *7.1, The Age Pension*, 2014.

But the income shock of the GFC has reversed the trend. In the three years since the GFC, men in their late 50s have been responsible for the second-sharpest jump in labour force participation across the economy. Only women aged 60-64 years entered the workforce at a faster rate. The new research by *The Weekend Australian* confirms the role the GFC has played in the greying of the workforce.

But the bigger picture is just as interesting. The baby boomers have known for some years that the compulsory super system wouldn't deliver its promise of a self-funded retirement in their lifetime. The super system only reached the 9 per cent contribution benchmark in 2002—when employers had to kick in 9 per cent of a worker's wage into a super fund.¹⁰³

4.85 The revenue collected from the previous federal government's mining super profits tax was earmarked to increase the Superannuation Guarantee Charge (SGC) from 9 per cent to 12 per cent. The repeal of the mining tax in this Parliament has meant that this increase will now not occur until at least 1 July 2021.¹⁰⁴

4.86 The Assistant Secretary of the Australian Council of Trade Unions (ACTU), Mr Tim Lyons, told the committee that the freeze of the superannuation guarantee charge will have a regressive impact. As he explained:

The delay in increases to the superannuation guarantee charge will certainly result in lower retirement incomes from super being available to middle-income earners in particular but also low-income earners. Every year that is delayed will result in a smaller pool of retirement income savings for those people. The delay in the SG probably will not affect high-income earners in the same way as much of the money that is pumped into the system is from additional voluntary contributions that people make in order to access and take advantage of the tax concessions.¹⁰⁵

4.87 The committee has strong concerns about the SGC freeze. It not only fears the regressive impact of this policy but highlights the contradiction of the government seeking to boost retirement incomes and reduce reliance on the aged pension while capping personal and employer contributions to superannuation.

Gender and inequality

4.88 There has been important recent research into the gender pay gap in Australia. In November 2014, Curtin University academics Associate Professor Siobhan Austen, Associate Professor Rachel Ong, Dr Sherry Bawa and Associate Professor Therese Jefferson published research findings which showed that Australia's gender wealth

103 'Generation GFC forced back to work', *The Weekend Australian*, 22 October 2011, <http://www.theaustralian.com.au/business/economics/generation-gfc-forced-back-to-work/story-e6frg926-1226173518461> (accessed 1 November 2014).

104 Explanatory Memorandum, Minerals Resource Rent Tax Repeal and Other Measures 2013, p. 27.

105 *Committee Hansard*, Melbourne, 18 September 2014, p. 4.

gap has widened sharply over the past decade. Across all age groups, the disparity in average wealth between single men and single women grew from \$18 300 to \$47 000 between 2002 and 2010. The study found that single young women had a little over half the average assets of their male counterparts. The main reason for this differential was the growth in the value of housing assets owned by single men.¹⁰⁶

4.89 In terms of earnings, Associate Professor Austen and her colleagues found that the differential between the average full-time male worker and the average full-time female worker was 18.2 per cent in August 2014. This was the largest differential since 1994. Associate Professor Austen noted that these trends seemed at odds with the trends of greater female participation in the workforce and the higher number of women in tertiary education than men.¹⁰⁷

4.90 In evidence to the committee, Associate Professor Austen also commented on research she has conducted into gender income inequality with Professor Gerard Redmond of Flinders University. The central finding of this research was that as more women have entered the Australian workforce since the 1980s, family income inequality was 'generally been pushed downwards'.¹⁰⁸ She explained this research to the committee in the following terms:

...we looked at the increasing trend in male earnings inequality as well as female earnings inequality, which increased by a lesser amount in the decades 1980s and 1990s through to 2007, but from a higher base. The trend towards inequality in both earnings distributions was upwards.

In terms of family income inequality, we found the growth in women's earnings within Australian households had a mixed effect on family income inequality. In a period 1982 to 1995-96, women's earnings' growth had what we call a disequalising effect on family income inequality. This happened because, increasingly, the growth in earnings by women was happening in households that were characterised by high male earnings.

From 1995 through to 2008 an opposite pattern emerged, where we saw the growth in women's earnings occurring more substantially in households where male earnings were relatively less. In that period, as women's earnings increased, we saw it having a positive or equalising effect on family-income inequality. These changes in trends were associated with big changes in women's employment over those decades.¹⁰⁹

106 Exploring recent increases in the gender wealth gap among Australia's single households, *The Economic and Labour Relations Review*, published 17 October 2014, <http://elr.sagepub.com/content/early/2014/08/18/1035304614556040.full.pdf+html> (accessed 17 November 2014).

107 *Committee Hansard*, Elizabeth, 10 November 2014, p. 34.

108 Her caveat to this finding was that women may have had to have worked longer hours in order to offset the effects of growing male-earnings inequality.

109 *Committee Hansard*, Elizabeth, 10 November 2014, p. 34.

4.91 Associate Professor Austen also drew the committee's attention to her research on women's share of total income. She noted that this share 'still sits somewhere below 40 per cent, at around 38 per cent' and portrayed the broader picture in the following terms:

Women remain overrepresented in low-income groups...and underrepresented in high-income groups within our community. We have not seen much progress in women's share of income despite...the rapid rise in employment and the rapid rise in education. There are several reasons for this. Women's employment rates are relatively low. When they do work they tend to work part-time hours, much more than men, and their wages when they are in paid work tend to be relatively low as well.¹¹⁰

4.92 Mr Tim Cowgill from the ACTU told the committee:

...the gender pay gap is not only large but it has risen quite substantially since the mid 2000s and it is now at its highest since the 1980s. That is a concern in and of itself, regardless of the subsequent effects on wealth inequality and other things. But, of course, if women on average are earning less, they are likely to have less retirement savings and that compounds over time.¹¹¹

4.93 Welfare agencies corroborated the financial hardship faced by women. Mr Llewellyn Reynders of the Victorian Council of Social Service (VCOSS) spoke of 'the feminisation of poverty in Australia' and stated that 'the gender pay gap is now at its worst level in 20 years'. He told the committee that VCOSS has noted a growing number of incidents of women experiencing homelessness, including older women, as well as a rise in Victoria in the number of family violence notifications.¹¹²

Single parents

4.94 Single parents—the majority of whom are single mothers—are another group that is highly susceptible to poverty and exclusion from the workforce. Twenty years ago, the Australian academic Dr Michael Jones wrote:

Single parents—the major cause of the 'feminisation of poverty'—are regarded as a recent and serious social problem in most western countries... Poverty surveys repeatedly show single parents to be the most vulnerable poverty group. Unlike most of the aged, single parents have not accumulated the assets, especially a dwelling. Many have low skills and low earning potential; inadequate low-cost childcare is a major impediment to employment and self-sufficiency...Many single parents are young,

110 *Committee Hansard*, Elizabeth, 10 November 2014, p. 34.

111 Assistant Secretary, *Committee Hansard*, Melbourne, 18 September 2014, p. 5.

112 Policy and Programs Manager, *Committee Hansard*, Melbourne, 18 September 2014, p. 14.

so they can face many years of dependency. This is damaging to their future, as well as being costly to the state.¹¹³

4.95 Recent data show that in terms of both workforce participation and income, single parents fare less well than couples with dependent children. In its 2013 report, the Australian Institute of Health and Welfare provided the following data (as of June 2011):

- lone mothers headed 86 per cent of single parent families with children aged under 15 years;
- single parent families with a child under 15 were much more likely to be jobless (39 per cent) than couple families (5 per cent);
- fifty-four per cent of single mothers with a child under 15 were in employment in June 2011, compared with sixty-seven per cent of single fathers with a child under 15; and
- a higher proportion of single mothers were in part-time work (30 per cent) than in full-time work (24 per cent). Conversely, a higher proportion of working single fathers had full-time work (53 per cent) than part-time work (14 per cent);¹¹⁴
- in 2009–2010, the median weekly income of a single parent with dependent children was \$478 compared with a median income of \$738 for a couple with dependent children;
- 38.9 per cent of single parents with dependent children were in the lowest income quintile compared with 16.9 per cent of couples with dependent children;
- only 3.6 per cent of single parents with dependent children were in the top quintile of income earners; and
- the highest childcare attendance rates were for children in one-parent families with an employed parent (82 per cent).¹¹⁵

4.96 Several witnesses drew the committee's attention to the vulnerability of single parents to poverty. Ms Terese Edwards of the National Council of Single Mothers and their Children (NCSMC) noted:

...in March 2013, the latest longitudinal study, HILDA, found that child poverty in sole-parent families jumped 15 per cent in the last decade. This occurred throughout our prosperous years. One in four children residing in a sole-parent family will be impacted by poverty.¹¹⁶

113 Michael Jones, *The Australian welfare state: evaluating social policy*, Allen & Unwin, Fourth edition, 1996, pp 91 and 93.

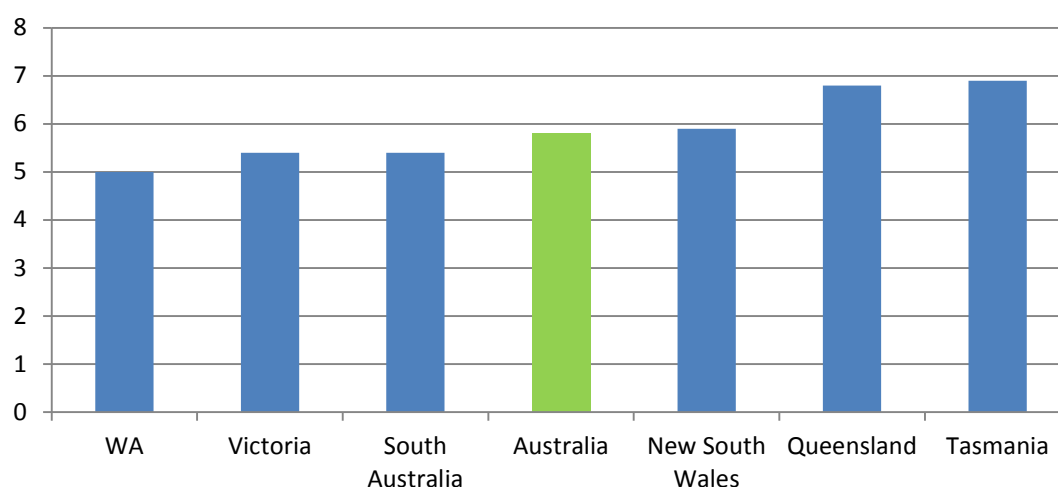
114 Australian Institute of Health and Welfare, *Australia's welfare 2013*, pp 71–72.

115 Australian Institute of Health and Welfare, *Australia's welfare 2013*, p. 77.

116 Chief Executive Officer, *Committee Hansard*, Melbourne, 18 September 2014, p. 17.

4.97 The Victorian Council of Social Service told the committee that single parents are 'three times as likely to live in poverty as couple families with children—25 per cent versus nine per cent'.¹¹⁷ QCOSS noted the 'very high proportion' of households that are one parent households in Queensland, relative to the other States. It provided the committee with the following figure by way of illustration. Figure 4.2 shows that Tasmania and Queensland are the States with the highest percentage of one parent households with dependent children.

Figure 4.2: Proportion (per cent) of households that are one parent households with dependent children, Australia States 2011–12



Source: Queensland Council of Social Service, *Additional information provided at public hearing on 8 October 2014*. Source of data is the Australian Bureau of Statistics, Cat. 6523.0 – Household Income and Income Distribution

4.98 QCOSS also noted the high proportion people receiving a single parent benefit who reside in Queensland. In March 2014, there were almost 63 000 parenting payment single recipients in Queensland—just over 24 per cent of recipients nationally. A single parent with two dependents receiving the Parenting Payment Single and working part-time on the minimum wage would earn \$22 per week less than 'a very basic standard of living in September 2013'.¹¹⁸

4.99 Chapter 5 of this report notes that the likely impact of the proposed budget measures on a single-parent, single-income family will be substantial. On one estimate, the reduction in income for this cohort would be, on average, 10.8 per cent.¹¹⁹

117 Ms Emma King, Chief Executive Officer, Victorian Council of Social Service, *Committee Hansard*, Melbourne, 18 September 2014, p. 14.

118 Additional information provided at public hearing on 8 October 2014, p. 13.

119 Mr Ben Phillips, Principal Research Fellow, NATSEM, *Committee Hansard*, Canberra, 16 October 2014, p. 23.

Changing perceptions and investing in single mothers

4.100 NCSMC representative, Ms Edwards, told the committee:

One of the things that we believe has happened with sole parents is that there is greater awareness from the community, and also from the media, commentators and members of parliament, that there is a group who are really doing it hard and have been doing it too hard for way too long, and they are not to blame. The myth of a single mother with three children, who had no aspirations for herself or her family, who did not want to study or was not in the workforce, has been well and truly smashed.¹²⁰

4.101 NCSMC emphasised the need to recognise the value and economic contribution of unpaid care and understand that this in itself can be a barrier to employment.¹²¹ Ms Edwards told the committee:

When I think of these sole parents, the struggling mums raising, loving and nurturing their children into adulthood, I imagine an obstacle course. I imagine the first, harsh obstacle is our inability in Australia to measure or respect the contribution of unpaid care. When that is our take on it, it means that these mums are particularly vulnerable and the assistance they receive is not viewed as an investment; it is viewed more as somewhere we may be able to find more savings. She may be able to get over that hurdle but then, bang, her little one turns eight and she moves across to Newstart. Those families—and I noticed there was some discussion before about housing stress et cetera—lose up to \$140 per week. They are in severe housing stress. They will not be able to recoup that. We then have the child support conundrum....

The last part is that, once she has survived all of that, we then try and blame her. We then question her motives and suggest that perhaps she is not doing enough for her children. How can we make it even harder and force this mother to do more?¹²²

4.102 The committee considers that more should be done to assist single parents through a case based system which includes income support payments and training and employment opportunities. Given the important role that single parents perform in raising children, these payments and opportunities should be seen for what they are—an investment in the future. Adequate payments need to be a platform to allow single parents to take advantage of training and employment opportunities. Chapter 6 develops these arguments in more detail.

120 *Committee Hansard*, Melbourne, 18 September 2014, p. 19.

121 *Submission 15*, p. 4.

122 *Committee Hansard*, Melbourne, 18 September 2014, p. 18.

'Other factors'

4.103 This chapter has noted the disadvantage experienced by several groups in Australian society. While for each of these groups a low income is a symptom of a deeper disadvantage, a low income generally compounds this disadvantage. It limits a person's ability to spend on even the most basic of necessities—such as food, housing and utility expenses—which will often worsen a person's physical and mental wellbeing. People in these groups are highly susceptible to long-term poverty.

4.104 In addition to these multiple reinforcing disadvantages, and overlap in the membership of these disadvantaged groups, there are other factors that compound the impact of income inequality on these groups. The committee highlights two in particular:

- the regional nature of disadvantage; and
- the vulnerability of disadvantaged groups in the labour market.

Geography and disadvantage

4.105 An often-noted aspect of income inequality in Australia, as in other countries, is the regional nature of economic and social disadvantage.¹²³ As the Bankwest Curtin Economics Centre put it:

...individuals who possess particular attributes can have higher propensities of poverty. However, possessing these attributes together with living in a particular area can exacerbate and prolong poverty and disadvantage.¹²⁴

4.106 The committee had the opportunity to visit three areas with particular economic and social disadvantages: Logan in south-west Brisbane, Elizabeth in the north of Adelaide and Rockingham, 40 kilometres south of Perth. There are a number of distinctive demographic trends common to these areas:

- above average unemployment and youth unemployment (see Figure 4.3);
- a range of associated social problems including family breakdown, homelessness, crime and substance abuse;¹²⁵
- single parent families account for a high proportion of all families in these areas (11 per cent in Logan and Rockingham and 17 per cent in Elizabeth);¹²⁶

123 See for example, Wayne Swan, *Postcode: the splintering of a nation*, Pluto Press, North Melbourne, 2005.

124 *Falling through the cracks: Poverty and disadvantage in Australia*, Focus on the States Report Series No. 1, October 2014, p. 60.

125 See *Committee Hansard*, 8 October 2014 (Logan), 10 November 2014 (Elizabeth) and 11 November 2014 (Rockingham).

126 For Elizabeth, see: <http://profile.id.com.au/playford/households-with-children>
 For Rockingham, see: <http://profile.id.com.au/rockingham/households-with-children>
 For Logan, see: <http://profile.id.com.au/logan/households-with-children>

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- a low proportion of educated professionals and a high proportion of vulnerable occupations in the 'old-economy' (manual labour, manufacturing);¹²⁷
 - a relatively lowly rank on the socio-economic index for areas (SEIFA) with incomes below the State average;¹²⁸
 - a high proportion of residents did not complete Year 12 (31 per cent in Elizabeth, 39 per cent in Rockingham, 43 per cent in Logan);¹²⁹ and
 - public housing accounts for a large share of tenure.¹³⁰

127 For Elizabeth, see: <http://profile.id.com.au/playford/occupations?BMID=50>
For Rockingham, see: <http://profile.id.com.au/rockingham/occupations>
For Logan, see: <http://profile.id.com.au/logan/occupations>

128 For Elizabeth, see: <http://economy.id.com.au/playford/income>
<http://profile.id.com.au/playford/seifa-disadvantage>
For Rockingham, see: <http://economy.id.com.au/rockingham/income>
<http://profile.id.com.au/rockingham/seifa-disadvantage>
For Logan, see: <http://economy.id.com.au/rockingham/income>
<http://profile.id.com.au/rockingham/seifa-disadvantage>

129 For Elizabeth, see: <http://profile.id.com.au/playford/schooling>
For Rockingham, see: <http://profile.id.com.au/rockingham/schooling>
For Logan, see: <http://profile.id.com.au/logan/schooling>

130 See *Committee Hansard*, 8 October, 10 November and 11 November 2014.

Elizabeth

The committee heard that the suburb of Elizabeth, created 60 years ago, faces particular hardships. In December 2013, the Chief Executive of Holden Australia, Mr Mike Devereux, announced that 'Holden will cease manufacturing in Australia by the end of 2017 and that this factory will no longer operate beyond that'.

Reverend Peter Sandeman the Chief Executive Officer of AnglicareSA and a Board Member of the Automotive Transformation Taskforce, has said that the 'closure of Ford in 2016 followed by Toyota and Holden in 2017 will lead to the total collapse of the automotive sector in Australia.' This will result in the direct loss of 1760 jobs in the Holden Elizabeth factory and the indirect loss of over 13 000 jobs.

South Australia is embarking on a period of significant transformation. The short- and long-term economic and social costs as a result of the loss of the automotive industry will have major impacts in South Australia in terms of businesses and workers in the automotive supply chain and in specific regions. The closure of an entire industry of this scale, complexity and importance is without precedent.

Reverend Sandeman discussed the challenges facing the Elizabeth community.

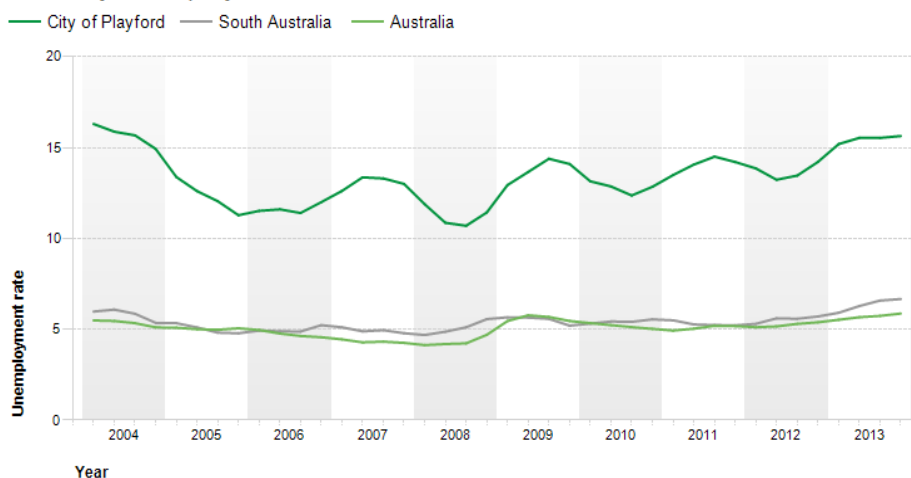
There has been a process of stripping away the industrial base of the northern suburbs over the last 20 years....The difficulty now is that the local jobs are disappearing. Unless we are able to entice in the new Playford era significant investment into the northern suburbs and Edinburgh Parks and reuse the Holden site, even greater social and economic dislocation will result...This dislocation is much larger and, dare I suggest, much more difficult to resolve.

In evidence to the committee, Mr Joe Gannon, Manager of Homelessness Services with UnitingCare Wesley Port Adelaide spoke about the likely social implications of these challenges.

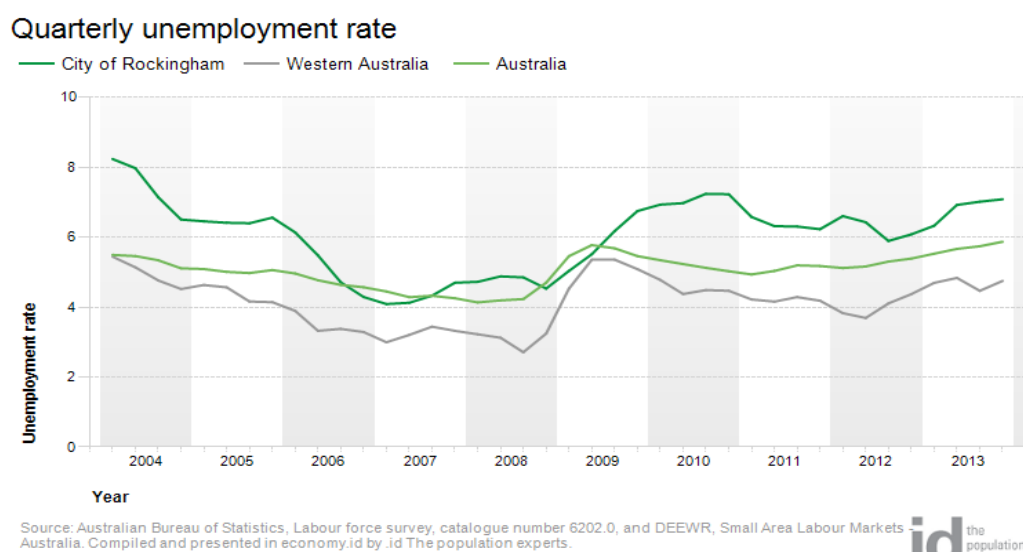
We are working with two or three decade's worth of issues here. What we are really talking about in particular with places like Holden closing down is that we will feel the effect in homelessness services. There are no two ways about it.

Figure 4.3: Unemployment rate for city of Playford, 2004-2013

Quarterly unemployment rate



Source: Australian Bureau of Statistics, Labour force survey, catalogue number 6202.0, and DEEWR, Small Area Labour Markets Australia. Compiled and presented in economy.id by .id The population experts.

Figure 4.4: Unemployment rate for city of Rockingham, 2004-2013**Figure 4.5: Unemployment rate for city of Logan, 2004-2014**

Disadvantaged groups in the Australian labour market

4.107 The nature of the Australian labour market is such that people in the disadvantaged groups identified in this chapter tend to be particularly vulnerable to economic exclusion. They may have had discouraging experiences in the labour market including having parents that have never, or seldom, worked. The work that they do is often part-time and/or on a contractual basis.

The challenge of job readiness

4.108 One of the themes of this inquiry has been that people in disadvantaged groups sometimes lack the basic employability skills to participate in the labour market. These skills include being presentable, punctual and able to relate well to colleagues. For many, these attributes may seem easy to acquire but for a person with very little money, substance abuse issues, an unstable and even threatening home environment, and a long history of exclusion from the workforce, they are significant barriers.

4.109 Dr Ian Goodwin-Smith of Flinders University in Adelaide drew the committee's attention to the work of Dr Anthony Mann, the Director of Policy and Research at the Education and Employers Taskforce in the United Kingdom. Dr Mann's work emphasises the importance of students having a positive interaction with employers. His research shows that there is a positive connection between employer engagement with students at school and the employability and earning power of a young adult who could recall that same interaction.¹³¹

4.110 In referencing Dr Mann's work, Dr Goodwin-Smith told the committee that, by interacting with employers, young people:

...get a more complex array of social and cultural capital—they get that life experience which you do not get, necessarily, in an intergenerationally unemployed family...

There needs to be a lot of work done, with people who have been unemployed throughout the generations, to overcome that kind of cultural and social exclusion. There also needs to be a commitment to carrying that work through to post-employment support. That is what a lot of our research showed us as well. Worker acculturation and post-employment support using a case-management approach are really important.¹³²

4.111 The committee draws attention to the difficulty for people suffering significant instability and turmoil in their private lives to function and perform at work. As Dr Goodwin-Smith explained:

The other kinds of things that are really important, taking this life-first approach, are overcoming impediments that exist across the range of life domains. Homelessness and drug-and-alcohol and mental-health problems are disproportionately represented amongst the cohort of people I am talking about. It is hard to get to work and put your mind to that if you are wondering where you are going to sleep tonight, and it is hard to have all of the necessary accoutrements of work that you need under your belt—such as an ironed shirt et cetera—by nine o'clock in the morning. We are talking about a range of problems the solution to which is out of scope for a lot of

131 See <http://www.darwin2014.com.au/dr-anthony-mann/> (accessed 3 December 2014).

132 Director, Australian Centre for Community Services Research, *Committee Hansard*, Elizabeth, 10 November 2014, p. 41.

people who are severely workforce excluded. To focus on those types of barriers across life domains is also important.¹³³

4.112 Ms Lin Hatfield-Dodds, the National Director of UnitingCare Australia, told the committee of the hopelessness that some of her clients feel in trying to engage with the labour market. As she explained:

There are people growing up in areas of locational disadvantage, the poverty postcodes, where no-one in a community has ever had a job. There are hard issues and what are often called soft issues. Those are actually the most intractable. The hard issues are things like skilling people up for labour market attachment and thinking around the health, transport, dental and housing issues that we all know about. Then those really intractable issues at the core are about people's expectations and hopes for themselves and their communities. My chair, who has lived and worked his whole life in Port Adelaide, talks about loss of hope and fear of failure being the two least tractable and most difficult things that we work with people around. When you are working with people who are very deprived and very excluded, they do not even dare to hope things can go right because right from the minute they were born into a disadvantaged family in a disadvantaged area they have been excelling at failing on almost any social or economic dimension.¹³⁴

Casual and contract-based work

4.113 When a disadvantaged person is able to obtain employment, this will often be of a casual, part-time or contractual nature. This work is not conducive to supporting households, buying a property, renting in the private market or preparing for retirement. Professor Alan Duncan, the Director of the Bankwest Curtin Economics Centre, told the committee:

It also has to be the right type of employment. One of the caveats, or just a note of warning, relates to what I see to be an increasing prevalence of casual contracts. Those casual contracts, even though in employment, do not necessarily deliver that long-term support for households in such positions. There is an insecurity of employment associated with casual contracts. There is a problem with the lack of accumulation of resources for a time and through superannuation accumulation. So, whilst employment in and of itself is a good target, one should also deal with genuine and substantial attachments to the labour market.¹³⁵

4.114 Other witnesses also identified the importance of quality employment opportunities and positive experiences in the workforce. Contrary to some of the political rhetoric of the past 20 years, Dr Goodwin-Smith told the committee:

133 *Committee Hansard*, Elizabeth, 10 November 2014, p. 41.

134 *Committee Hansard*, Canberra, 16 October 2014, p. 49.

135 *Committee Hansard*, Rockingham, 11 November 2014, p. 9.

There is no evidence to suggest that 'a job is a job' is a good thing. A job can be a very bad thing. People who are marginalised and used to the experience of marginalisation—who are, in other words, quite vulnerable—are really open to those sorts of negative experiences. I do not see any basis, other than wishful thinking, to assume that a job is inherently a good thing. Unemployed people need good jobs and quality jobs or their ability to keep jobs is compromised. Our research demonstrates that.¹³⁶

4.115 Associate Professor Austen agreed:

I think what has been co-opted is an argument, and a good argument, about the enormous damages of unemployment and the importance of work to people's wellbeing, but a lot of the inequality in our community exists between people who are in paid work. We know that the damages of low-paid work and low-quality jobs are particularly large. That type of argument, just getting people into work—paying strong attention to the supports that many people need to achieve good employment and good employment outcomes for themselves and their families is what is most important.¹³⁷

4.116 Indeed, the committee heard that casual employment arrangements are often those that are first to go during an economic downturn. Further, where disadvantaged people lose work, they often do not return to the labour market for a significant period. As Ms Edwards told the committee:

With insecure work we know that when the economy hits a bump or a huge bump—and it happened in the global financial crisis—it is the casual people who fall off the tree and do not come back, and that includes a lot of sole parents.¹³⁸

4.117 In this context of insecure employment, WACOSS highlighted the importance of people's financial and personal resilience. Mr Twomey told the committee that with insecure work on a low income, people may face ongoing poverty. Further, they may have limited access to the income support system because of the assets test. As he explained:

...one of the biggest single problems that we have is simply the adequacy of people's incomes, and then, beyond that, when they are coming in and out of the income support system, whether that is helping and supporting them to build up a bit of financial resilience. At the moment it is undermined because of our asset tests and so on.

...The issue there is that, if you go into short-term insecure employment, you earn a certain amount of money. You then have to spend all of that money before you are then eligible to go back onto income support. Where is the benefit that has come from that work that you have done?

136 *Committee Hansard*, Elizabeth, 10 November 2014, p. 41.

137 *Committee Hansard*, Elizabeth, 10 November 2014, p. 42.

138 *Committee Hansard*, Melbourne, 18 September 2014, p. 21.

What are you doing that is about the financial resilience that puts you in a position when you get the next job to have the money that you need to get along to interviews, get work clothes or simply bridge that transition where, 'My income support has stopped, but I haven't got my first pay cheque'.¹³⁹

4.118 In addition, the housing opportunities for those in insecure employment are limited. A person with low pay and short-term work contracts will experience difficulty accessing the private rental market—both securing a rental agreement and paying rent—or obtaining a mortgage. Mr Mark Glasson of Anglicare WA, told the committee of the situation in the Western Australian housing market:

The state affordable housing strategy and the target of 20,000 new premises is really good, and that is getting people into more affordable housing through shared equity and things like that. But there is still a sizeable body of the population for whom home ownership is not a realistic option. They are the people...who are in insecure employment and short-term contracts and things like that. Home ownership is not an option for most of those people. And if you look at the history of the construction of public housing over the last 50 years what you will see is that we have stopped doing it. So we have a reliance on a private rental market that cannot meet the demand, but it is not affordable for the people who need it anyway.¹⁴⁰

Worker (im)mobility

4.119 The committee inquired as to why those facing redundancy or those at the end of their employment contract could not move to seek employment opportunities elsewhere. Reverend Sandeman identified the following factors that constrain worker mobility:

First is information and understanding about the labour market and what is available elsewhere. We do not have authoritative information which can guide individuals in their decision making. Second, it depends on your family life cycle. If you have a family that is closely connected into a community, where the kids are playing sport for the local team et cetera, it is terribly difficult to move them. If you are trapped in a mortgage on a property that is of declining value, that is a major issue as well.¹⁴¹

4.120 There are also personal reasons as to why a person may be unable to relocate for work. Mr Craig Comrie, the Chief Executive Officer of the Youth Affairs Council of Western Australia, explained that a lot of young people with high or complex needs need to be around their support networks. He told the committee that these young people need to:

139 *Committee Hansard*, Elizabeth, 10 November 2014, p. 16.

140 Executive General Manager, Service Operations, *Committee Hansard*, Rockingham, 11 November 2014, p. 21.

141 *Committee Hansard*, Elizabeth, 10 November 2014, p. 8.

...have the support of their family, friends, peers, youth workers, social workers, whoever in order for them not just to find employment but to ensure that their mental health is sound, that their health is fine and, if they have children, that they are looking after their children. If they have to move down to the south-west [of Western Australia], it is quite a complex thing. They potentially need to pay rent up here if they have a house up here or need to say, 'Okay, I'm going away for six months; I'm going to give up that property that I have.' They potentially need to pay something for housing in the environment they are going to. They actually really need to shift their entire lives, and I think that taking a young person who is probably experiencing some mental health issues and putting them down in the south-west at a fruit picking farm where there are not appropriate services or support for those young people is not going to have the outcome that we need, which is that those young people feel that they have been given skills, that they have been supported and that they actually can move on to another job.¹⁴²

4.121 Witnesses also noted that efforts to relocate for work were often not attempted and where they were, they occasionally did not end well. Mr Brendan Churchill noted the Tasmanian context:

If you are somebody who lives on the north-west coast, if you are going to move to your next-nearest population centre, which might be Launceston, it is difficult, because there are no guarantees you are going to find a job. One in three between 18 and 30 in Burnie are currently unemployed, I think it is one in four in the greater Launceston area who are unemployed and it is one in five almost...

I know Victoria and South Australia are also experiencing similar levels of youth unemployment, so even if they do make the jump to the mainland there is no guarantee that this issue is resolved.¹⁴³

4.122 Similarly, Mr Twomey of WACOSS told the committee:

If you look at the WA Treasury figures, there has been very little interstate migration. The projections going forward have interstate migration dropping off or even going backwards, while international migration still continues. That is mostly around the fit of the jobs and the skills—jobs that are available and the skills that are needed versus people coming. Certainly, our emergency relief agencies have had stories of people who packed up everything into their car, drove across the Nullarbor and got here because they were told that is what they needed to do to get a job. They have ended up in crisis because that has not come together for them. So there are big risks and there are certainly big risks when people move away from where they have support networks and they know people.¹⁴⁴

142 *Committee Hansard*, Rockingham, 11 November 2014, p. 25.

143 Lecturer in Sociology, School of Social Sciences, University of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 15.

144 *Committee Hansard*, Rockingham, 11 November 2014, p. 14.

4.123 As noted earlier, for Aboriginal and Torres Strait Islander peoples, there are cultural issues as to why moving to an urban centre might cause dislocation and hardship.¹⁴⁵

Concluding comment and committee view

4.124 It is clear that income is a key factor in determining the economic wellbeing of most Australians. A low income or low transfer payments will often exacerbate the disadvantage suffered by a person and their dependants. Take the case of a retrenched worker who may be forced to live on savings or the *Newstart* allowance for a period of time. This may mean foregoing health services with out of pocket expenses, refinancing a mortgage or ending childcare or private school tuition for their children. A more prolonged period of unemployment may lead to despondency, mental health problems, marital breakdown and homelessness. The committee is very mindful that a low income resulting from retrenchment or marital breakdown can have a significant flow-on impact on individuals and families.¹⁴⁶ Breaking this cycle can be extremely difficult.

4.125 This chapter has dealt with disadvantage of a more endemic nature. Its focus has been on groups in Australian society that suffer from significant personal hardship, cultural deprivation, discrimination and injustice. For people in these groups, a low income is a symptom of these underlying circumstances. Nonetheless, low transfer payments or a low income often compounds the extent of the disadvantage felt by people in these groups. Coupled with the disadvantage of a mental health condition, a physical disability or the demands of being a single mother, a low income makes it more difficult to access decent and stable housing, quality health and education services and the skills needed to break out of poverty. And yet it is these assets, services and skills that are most needed by people in these disadvantaged groups. Where they cannot be found, they become even more susceptible to ill health and exclusion from the labour market and society.

4.126 The committee considers that it is important to ask the question: what would be the economic and the social gain to the individual and to the Australian economy of providing adequate transfer payments and access and incentives to work for people in these disadvantaged groups? In other words, if the gaps could be closed, what would be the benefits? There have been some significant responses to this question in recent years. In separately commissioned work, Deloitte Access Economics has calculated that:

- a further three per cent increase in workforce participation amongst workers aged 55 and over would contribute an extra \$33 billion to Gross Domestic

145 See the comments of Associate Professor Daphne Habibis, University of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 16.

146 See the discussion at *Committee Hansard*, Elizabeth, 10 November 2014, p. 16.

Product or around 1.6 per cent of national income, while an additional five per cent would contribute a further \$48 billion;¹⁴⁷

- closing the gap between labour market participation rates and unemployment rates for people with and without disabilities by one-third would result in a cumulative \$43 billion increase in Australia's GDP over the next decade in real dollar terms. The modelling also suggests that GDP will be around 0.85 per cent higher over the longer term, which is equivalent to an increase in GDP in 2011 of \$12 billion;¹⁴⁸ and
- if the gaps in Aboriginal and Torres Strait Islander peoples life-expectancy, employment and productivity could be closed to match those of the Australian population, by 2031, the Australian economy would be more than 1.15 per cent larger in real terms than would otherwise be the case. This is an additional \$24 billion (in 2012–13 dollars).

4.127 Chapter 6 of this report returns to these issues in the context of New Zealand's forward liability model.¹⁴⁹

147 Deloitte Access Economics, *Increasing economic participation among older workers: the grey army advances*, September 2012, p. 12, <https://www.humanrights.gov.au/increasing-participation-among-older-workers-grey-army-advances2012> (accessed 17 November 2014).

148 Deloitte Access Economics, *The economic benefits of increasing employment for people with disability*, Commissioned by the Australian Network on Disability, August 2011, p. ii.

149 This is the 'investment approach' and the 'forward liability model'.

Chapter 5

2014–15 Budget impact on income inequality

In the same town were two men, one rich, the other poor. The rich man had flocks and herds in great abundance; the poor man had nothing but a ewe lamb, only a single little one which he had bought. He fostered it and it grew up with him and his children, eating his bread, drinking from his cup, sleeping in his arms...When a traveller came to stay, the rich man would not take anything from his own flock or herd to provide for the wayfarer who had come to him. Instead, he stole the poor man's lamb and prepared that for his guest.¹

5.1 Government policies affect income inequality. The 2014–15 Budget (Budget) proposed multiple policy changes, which many submitters and witnesses argued will increase the level and extent of income inequality in Australia, by widening the gap between low income and other Australian households.

5.2 In this chapter, the committee examines certain Budget measures and their anticipated effect on low income households. The chapter focuses particularly on Budget measures in the Social Services portfolio, as the committee received considerable information in relation to these changes.

Analyses of the 2014–15 Budget

5.3 On 13 May 2014, the Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, presented the Budget, noting that Australia (then) had '\$123 billion of deficits and \$667 billion of debt'.² To return to surplus and reduce the debt, the Budget presented a number of measures that affect tax offsets and income support payments in the Treasury and the Social Services portfolios.

Analyses conducted in May 2014

5.4 In the fortnight following its presentation, the Budget's impact on household disposable income was analysed by Professor Peter Whiteford and Mr Daniel Nethery from the Crawford School of Public Policy at the Australian National University (ANU), and by Mr Ben Phillips, Principal Research Fellow for the National Centre for Social and Economic Modelling (NATSEM) at the University of Canberra.

National Centre for Social and Economic Modelling

5.5 NATSEM analysed the impact of tax and benefit changes under the Coalition Government, by estimating the distributional impact on family incomes of the major

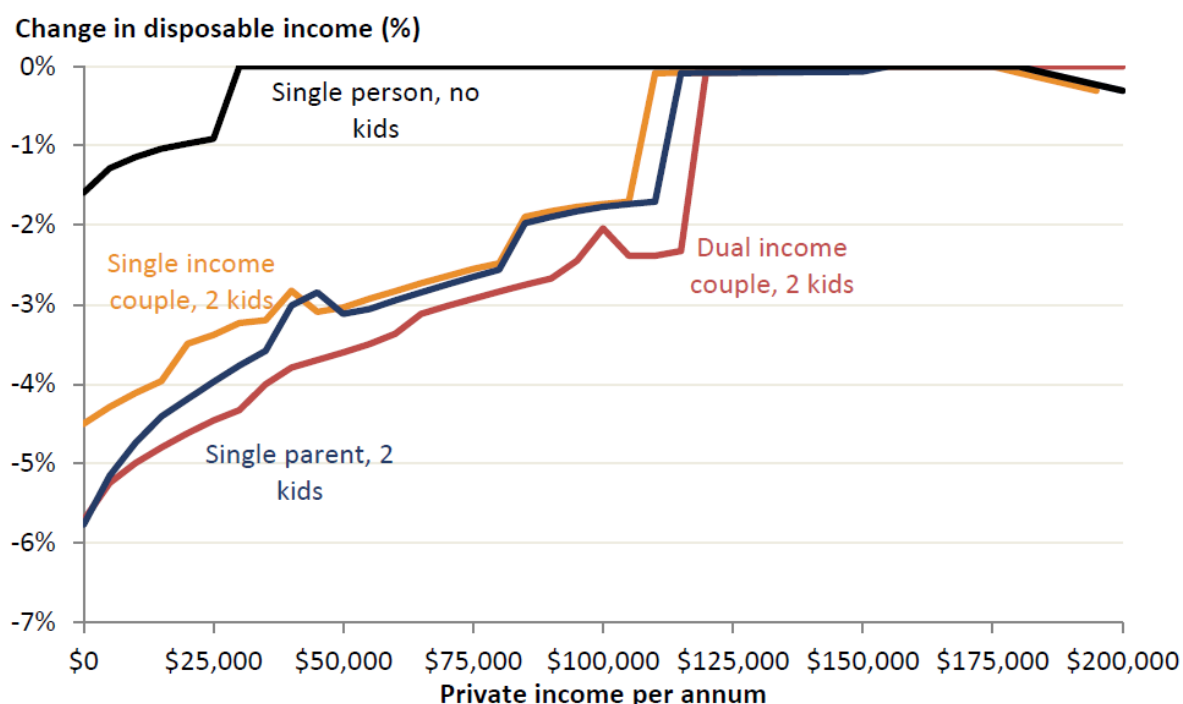
1 2 Samuel 12:1–4.

2 Budget Speech, *House Hansard*, 13 May 2014, p. 3591.

changes effected following the 2013 Federal Election (including those contained in the Budget).³ The results of the analysis show that low income families with children will be disproportionately affected by the Budget.

Figure 5.1: Measures proposed in the Budget will disproportionately hurt low income people

(Modelled change in disposable income in 2014–15 by private income for various household types)



Source: Australian Council of Trade Unions, *Submission 46*, p. 30, citing Phillips, B., *NATSEM Budget 2014–15 Analysis*, NATSEM, University of Canberra, 26 May 2014.

5.6 NATSEM's findings in relation to the immediate impact of the Budget on households were summarised as follows:

The burden on families for 2014–15 falls most heavily on low and middle income families with children. The impact on high income families with children is smaller in dollar terms and [percentage] terms. Across all families (including singles and couples without children) the dollar impact varies by income level without a clear pattern. In percentage terms,

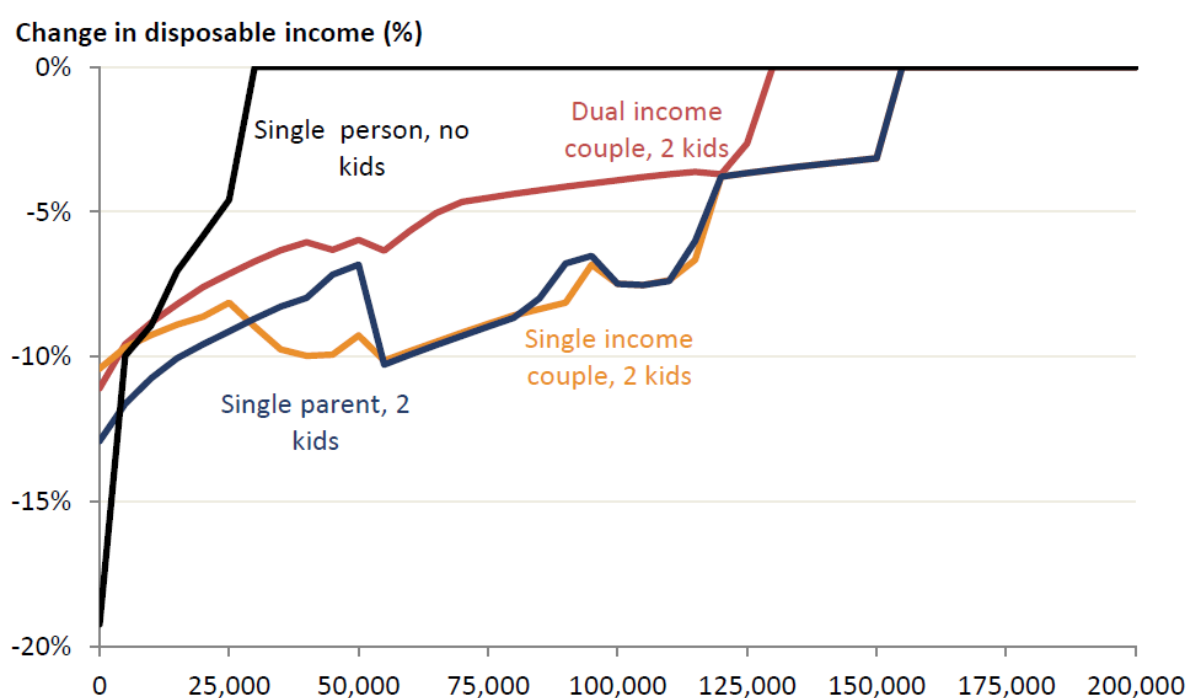
3 Phillips, B., *NATSEM Budget 2014-15 Analysis*, National Centre for Social and Economic Modelling (NATSEM), University of Canberra, 26 May 2014, p. 1, <http://www.natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf> (accessed 18 November 2014). The modelling focussed on 18 budget measures and three additional measures (Schoolkids Bonus, The Income Support Bonus, and the repeal of the Carbon Price) but did not include the Stronger Participation Incentives for Job Seekers under 30 measure, which would 'add significantly to the impact on low income families, mostly single persons': p. 3.

the impact is clearly felt by the low income families more than high income families.⁴

5.7 NATSEM's analysis also revealed that, within three financial years, the Budget will not negatively impact high income earners. In contrast, measures in the Budget which are not temporary (for example: indexation, payment rates, eligibility thresholds) will continue to affect low income earners.⁵

Figure 5.2: The effect on low income earners grows: the effect on high income earners disappears

(Modelled change in disposable income in 2017-18 by private income for various household types)



Source: Australian Council of Trade Unions, *Submission 46*, p. 31, citing Phillips, B., *NATSEM Budget 2014–15 Analysis*, NATSEM, University of Canberra, 26 May 2014.

5.8 NATSEM reported:

The burden on families of the 2014–15 budget is quite clear by 2017–18 once all grandfathering arrangements are removed and the deficit levy is removed. Low income couples with children (bottom 20 per cent) are worse off by around 6.6 per cent while single parents are worse off by around 10.8

4 *NATSEM Budget 2014–15 Analysis*, 26 May 2014, p. 4.

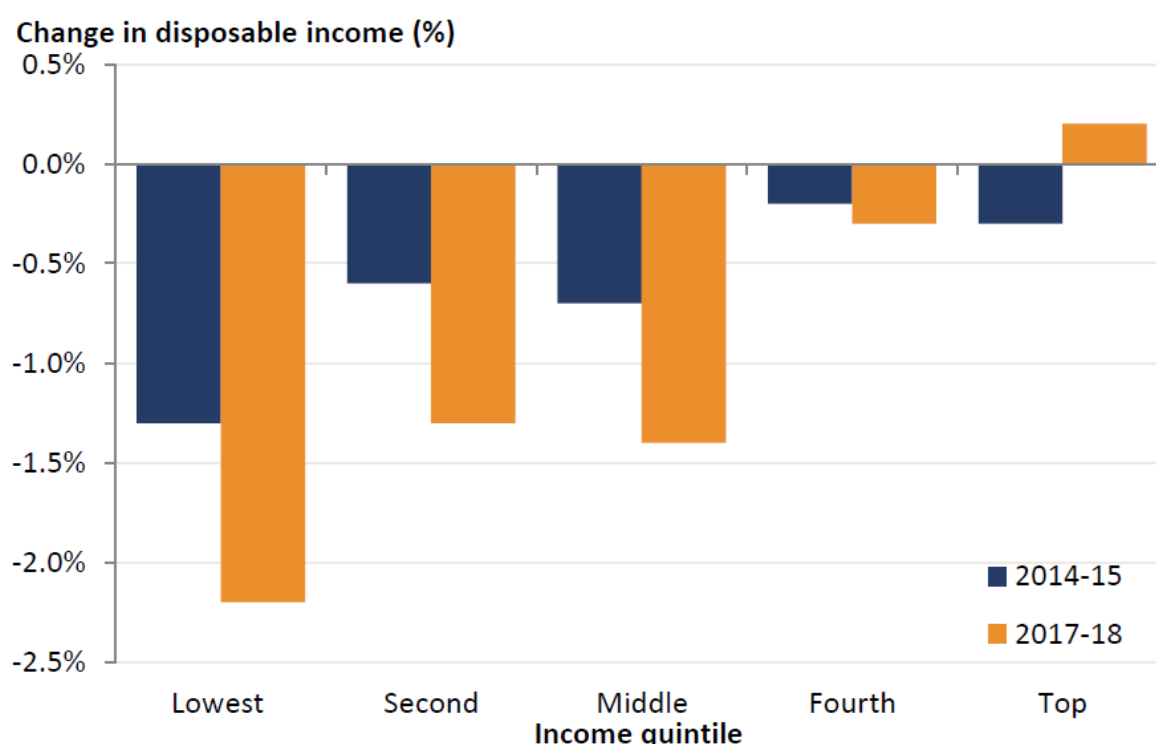
5 Australian Council of Trade Unions (ACTU), *Submission 46*, p. 30; Ms Emma King, Chief Executive Officer, Victorian Council of Social Service, *Committee Hansard*, Melbourne, 18 September 2014, p. 10.

per cent on average. High income families are marginally better off thanks to the carbon price removal.⁶

5.9 The Australian Council of Trade Unions (ACTU) submitted that the inequitable effect of the Budget can be seen most clearly in Figure 5.3,⁷ which shows the greatest mean change in disposable income for the lowest income quintile in both 2014–15 and 2017–18.

Figure 5.3: The Budget affects low income earners the most

Mean change in disposable income by quintile as a result of the 2014 Budget in 2014–15 and 2017–18



Source: ACTU, *Submission 46*, p. 32, citing Phillips, B., *NATSEM Budget 2014-15 Analysis*, NATSEM, University of Canberra, 26 May 2014.

Australian National University

5.10 The ANU replicated the methodologies used in previous editions of the Budget Overview, to calculate the disposable income of households in different family situations and at different income levels, contrasting this income with its 2016-17

6 *NATSEM Budget 2014–15 Analysis*, 26 May 2014, p. 4.

7 *Submission 46*, p. 31.

value, with and without the proposed Budget changes.⁸ Professor Whiteford and Mr Nethery found that 'people on benefits do the heaviest lifting':

An unemployed 23-year-old loses \$47 per week or 18 per cent of their disposable income. An unemployed lone parent with one 8-year-old child loses \$54 per week or 12 per cent.

Lone parents earning around two-thirds of the average wage lose between 5.6 to 7 per cent of their disposable income. A single-income couple with two school-age children and average earnings loses \$82 per week or 6 per cent of their disposable income.

Compare this to the \$24, or less than 1 per cent of disposable income paid through the Deficit Levy by an individual on three times the average wage—close to \$250,000 by 2016–17. High-income couples could together bring in up to \$360,000 per year and not contribute an extra cent.⁹

Treasury analysis released in August 2014

5.11 On 1 August 2014, Treasury released its 'Final Distributional Analysis for 2014–15 Budget'. This analysis revealed findings similar to those of the ANU and NATSEM:¹⁰ the Budget will reduce the average cash transfer for lower income groups by a greater amount than for higher income groups.¹¹

5.12 Associate Professor Roger Wilkins from the Melbourne Institute of Applied Economic and Social Research commented on Treasury analysis having been discovered under Freedom of Information processes. Professor Wilkins considered that such analysis should be routinely conducted and made available by Treasury:

[A]s a matter of course much more detailed analysis of the implications for the income distribution of policy measures should be produced. It is in the interests of transparent government that that be done. Obviously, there are

8 Whiteford, P. and Nethery, D. (2014), 'Sharing the Budget Pain', Crawford School of Public Policy, Australian National University, Canberra, p. 2, <https://crawford.anu.edu.au/news/4081/budget-pain-being-shared-fairly> (accessed 18 November 2014).

9 Whiteford, P. and Nethery, D. (2014), 'Sharing the Budget Pain', Crawford School of Public Policy, Australian National University, Canberra, p. 2. The paper notes that all calculations are conservative and do not take into account non-Budget measures and general policies.

10 Mr Ben Phillips advised that NATSEM's analysis 'should reflect accurately what is in the budget papers [within two per cent]': Principal Research Fellow, NATSEM, *Committee Hansard*, Canberra, 16 October 2014, p. 22. Also see p. 30.

11 *Final Distributional Analysis For 2014-15 Budget, Document 3—Data underlying the chart 'Working age families and singles in 2016-17' in the 2014-15 Budget Overview glossy [p. 5]*, <http://www.treasury.gov.au/Access-to-Information/DisclosureLog/2014/1510> (accessed 18 November 2014). The estimated cash transfers are: lower income groups—\$842; middle income groups—\$477; and higher income groups—\$71.

some resource issues with doing that additional analysis. I think the importance warrants it.¹²

5.13 Professor Whiteford and Mr Nethery directly attributed the conduct of the ANU analysis to the omission of this information from the Budget papers, noting:

The absence of estimates of distributional impacts is striking, given that since 2004–05, the Budget Overview has each year contained an Appendix showing how much different types of households have gained from policy changes announced in the Budget or over the course of the period of government. Showing losses is not as politically attractive as showing increases in disposable income, however.¹³

5.14 In response to Professor Wilkins' suggestion, Treasury advised that the Australian Bureau of Statistics (ABS) comprehensively measures the impact of budget measures on distribution every five years:

What that does is what we call fiscal incidence analysis. So it actually takes a look at: what is the distributional impact of the budget, as far as possible, in total? So it takes account of not only the tax transfer system but also the provision of direct services by governments...when you look at the distributional impact of the budget it is redistributing from the top two quintiles to the bottom two quintiles in the broad. That is comprehensive work. It takes a number of years afterwards for it to be published. The next dataset which they use for this, the household expenditure survey, is going to be conducted in 2015–16. It will take until 2018, we expect, to actually publish it.¹⁴

5.15 The Treasury representative concluded that it would not be feasible for the department to publish a comprehensive view of the impact of a single budget. Further, Treasury could not improve on the ABS's work:

...were we to do it each year it would not change very much, because, except very exceptionally, the changes that are in a budget are quite marginal compared with the base.¹⁵

12 Principal Research Fellow and HILDA Survey Deputy Director (Research), Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, *Committee Hansard*, Canberra, 16 October 2014, p. 31. Also see: Associate Professor Roger Wilkins, *Submission 7*, p. 4.

13 Whiteford, P. and Nethery, D. (2014), 'Sharing the Budget Pain', Crawford School of Public Policy, Australian National University, Canberra, p. 2.

14 Mr Nigel Ray, Executive Director, Fiscal Group, *Committee Hansard*, Canberra, 17 November 2014, p. 8.

15 Mr Nigel Ray, *Committee Hansard*, Canberra, 17 November 2014, p. 8.

National Centre for Social and Economic Modelling September 2014 analysis

5.16 In October 2014, NATSEM released further research into the distributional and regional household effects of the main 'hip-pocket' Budget measures. The regional results found that, although 'relatively modest and evenly spread for 2014–15', from 2015–16 the regional impacts become 'more substantial and more unequal' as social security measures take effect:

By 2017–18 with the budget repair levy no longer applying the impacts are felt almost entirely by low income regions of Australia. The 'Coalition impacts', on average, across all income unit types, range from a small positive impact in high income inner city suburbs to around \$1,600 per annum in low income suburbs in Western Sydney and Northern Melbourne. These impacts are magnified when the analysis is only for families with children where the impacts are, on average, up to \$3,371 per annum in some Northern Melbourne suburbs.¹⁶

5.17 Table 5.1 below shows that families with children in Campbellfield-Coolaroo, Broadmeadows and Thomastown (outer northern Melbourne) are the most affected by the Budget measures. The annual impact in these low income suburbs varies from \$3 098.30 to \$3 371.20 (4.1 to 4.4 per cent of their disposable income). The least affected suburbs are high income mining towns and high income city suburbs. For example, Forrest in Canberra has a positive impact of \$48.30 per annum. Each of the least affected suburbs has an impact that is negligible relative to its income level.

16 Phillips, B., *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, September 2014, p. 22, <http://www.natsem.canberra.edu.au/publications/?publication=national-and-regional-analysis-of-the-2014-15-federal-budget> (accessed 18 November 2014). Also see Table 4 at p. 16.

Table 5.1: SA2 Impact on family disposable income, Families with children, Australia*Largest Impact*

Rank	SA2 (Suburb)	Annual \$ Impact	% Disposable Income
1	Campbellfield–Coolaroo	-3371.2	-4.1
2	Broadmeadows	-3120.7	-4.4
3	Thomastown	-3098.3	-4.1
4	Ashcroft–Busby–Miller	-3065.7	-3.7
5	Mount Druitt–Whalan	-2886.4	-3.9
6	Meadow Heights	-2862.3	-3.1
7	Clayton South	-2857.3	-3.5
8	Springvale South	-2852	-3.3
9	Parramatta–Rosehill	-2813.8	-3.6
10	Guildford–South Granville	-2812.7	-3.8

Smallest Impact

2050	Wahroonga–Warrawee	-394.2	-0.33
2051	Aranda	-353.9	-0.2
2052	Paddington–Moore Park	-337.6	-0.3
2053	Rose Bay–Vaucluse–Watsons Bay	-336.2	-0.2
2054	Cottesloe	-328.2	-0.2
2055	City Beach	-327.6	-0.2
2056	Chapman	-315	-0.2
2057	Nhulunbuy	-219.8	-0.2
2058	Newman	-199.9	-0.2
2059	Forrest	48.3	0

Source: Ben Phillips, *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, September 2014, p. 19.

5.18 In its analysis, NATSEM specifically reported that the regional affects for South Australia mirror those of the rest of country. Table 5.2 shows the budget affects for South Australian suburbs for families with children. The most affected suburbs are The Parks (\$2,760.90 per year, 3.5 per cent of disposable income) and Elizabeth, North Adelaide (\$2,561.60 per year, 3.6 per cent of disposable income). The least affected suburbs are Walkerville (\$768.30 per annum) and Aldgate-Stirling (\$806.60 per annum). NATSEM stated that the smallest impact suburbs have relatively high incomes.¹⁷

17 Phillips, B., *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, p. 19.

Table 5.2: SA2 Impact on family disposable income, Families with children, South Australia

<i>Largest Impact</i> Rank	SA2 (Suburb)	Annual \$ Impact	% Disposable Income
1	The Parks	-2760.9	-3.5
2	Elizabeth	-2561.6	-3.6
3	Smithfield–Elizabeth North	-2399	-3
4	The Coorong	-2276.7	-3.2
5	Yorke Peninsula–South	-2205.1	-3.2
6	Salisbury	-2169.5	-2.4
7	Salisbury North	-2163.6	-2.4
8	Goolwa–Port Elliot	-2158.4	-2.6
9	Enfield–Blair Athol	-2143.8	-2.4
10	Davoren Park	-2117.2	-2.2
<i>Smallest Impact</i>			
152	Belair	-940.4	-0.7
153	Clarendon	-925.6	-0.7
154	Goodwood–Millswood	-904.4	-0.7
155	Roxby Downs	-904.2	-0.7
156	Hahndorf–Echunga	-901.8	-0.7
157	Coromandel Valley	-900.6	-0.7
158	Toorak Gardens	-880.9	-0.7
159	Glenside–Beaumont	-812	-0.6
160	Aldgate–Stirling	-806.6	-0.6
161	Walkerville	-768.3	-0.6

Source: Phillips, B., *National and Regional Analysis of the 2014–15 Federal Budget*, NATSEM, University of Canberra, September 2014, p. 20.

Submitters' and witnesses' views on analyses of the Budget

5.19 Submitters and witnesses referred to the independent and government analyses of the Budget, and agreed that the Budget will negatively affect people on low incomes, with consequent impacts on inequality in Australia.¹⁸

5.20 Associate Professor Gerard Redmond, Leader of the Australian Child Wellbeing Project, School of Social and Policy Studies at Flinders University, said:

Lots of factors can influence children's and young people's wellbeing in the present and their opportunities in the future. One such factor is money. Money can make a difference in young people's lives. Policies that reduce

¹⁸ See, for example: Ms Meg Webb, Deputy Chief Executive, Tasmanian Council of Social Service, *Committee Hansard*, Hobart, 19 September 2014, pp 3 and 8–9; Ms Donna Siejka, Chief Executive Officer, Youth Network of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 4; Ms Sarah Walbank, Policy and Research Officer, Carers Queensland Inc., *Committee Hansard*, Logan, 8 October 2014, p. 13; Mr Ross Walmersley, Chief Executive Officer, South Australia Council of Social Service, *Committee Hansard*, Elizabeth, 10 November 2014, pp 22–23; Mr Craig Comrie, Chief Executive Officer, Youth Affairs Council of Western Australia, *Committee Hansard*, Rockingham, 11 November 2014, p. 18.

financial support to low-income families will...exacerbate inequalities in income now and inequalities in young people's opportunities in the future.¹⁹

5.21 Dr John Falzon, Chief Executive Officer from St. Vincent de Paul Society National Council, described the 'battle against inequality at the beginning of the 21st Century' as follows:

We are still coming to grips in Australia with the federal budget, including measures that would rip the guts out of what remains of a fair and egalitarian Australia like forcing young people to live on fresh air and sunshine for six months of every year, forcing them to rely on charity or to survive through crime—as if this was going to address the structural causes of unemployment. It is not charity that young people, or older people for that matter, or people with a disability or single mums should have to count on. It is justice they should be able to count on...

We have only one enemy—and it is called inequality. It is that meanness of spirit entailed in taking the little that people who are living in poverty have in order, supposedly, to reduce the deficit. It is taking the lamb away from the poor man instead of drawing on the flocks and herds in abundance by sustainably and fairly taxing those who can afford it, including the corporates. As even the [Organisation for Economic Co-operation (OECD)] points out: you do not build a strong economy by increasing the level of inequality; you do not create a strong country on the backs of the already poor.²⁰

5.22 The ACTU commented that Australia's level of pre-tax, pre-transfer inequality is lower than in many OECD countries (Gini 0.46). However, the post-tax, post-transfer inequality (Gini 0.32) is higher than in other developed countries. Further, the extent of Australia's redistribution (Gini 0.14) is lower than most OECD countries.²¹

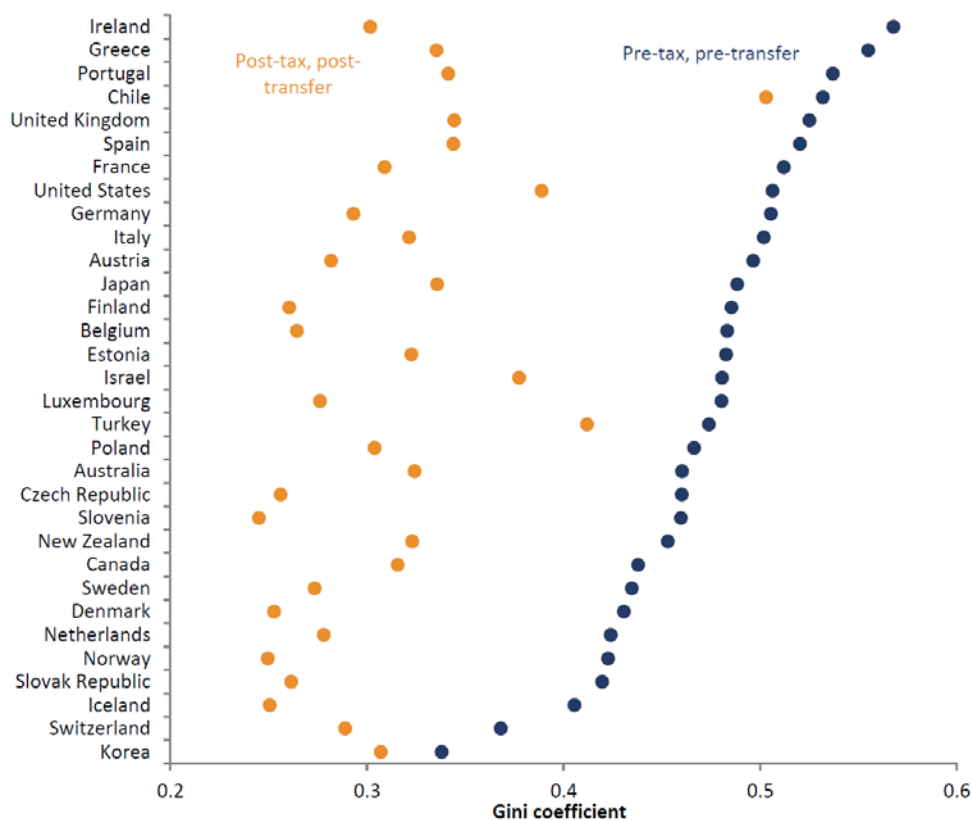
19 *Committee Hansard*, Elizabeth, 10 November 2014, p. 33.

20 *Committee Hansard*, Canberra, 16 October 2014, p. 44.

21 *Submission 46*, p. 27.

Figure 5.4: Countries with similar levels of pre-tax inequality can have very different post-tax inequality

(Gini coefficient before and after direct taxes and cash transfers in OECD countries)



Note: The data are the latest available for each country; for most countries this is 2011.

Source: ACTU, *Submission 46*, p. 27, citing OECD.StatExtracts, 'Income Distribution and Poverty', <http://stats.oecd.org/Index.aspx?DataSetCode=IDD> (accessed 11 November 2014).

5.23 Professor Keith Jacobs from the University of Tasmania described Australia's position among the OECD countries as:

...not at the top end and...not at the very, very bottom. There are other countries like the United States [Gini 0.39] which actually have a far worse redistribution than we do. But...we are slipping back, and the politics that are now being pursued I think are actually regressive and will take us back into a darker period rather than one that is going to be a progressive one.²²

22 Deputy Associate Dean, Research, School of Social Sciences, *Committee Hansard*, Hobart, 19 September 2014, p. 24.

5.24 The ACTU submitted that Australia is 'a low-tax, low-spending country' and consequently, 'a low redistribution, somewhat high inequality country'.²³ The ACTU contended that the Budget will increase the inequality as it further reduces the amount of redistribution:

The impact of the Budget cuts on households is clear. Most households will suffer a reduction in disposable income as a result of the Budget. Lower income households will generally suffer the largest cuts in income. The inequity of the impact on households will grow over time.²⁴

5.25 In evidence, Mr Phillips advised that budgets do not normally affect income inequality to a significant extent. However, separate to its Budget analyses, NATSEM examined the Gini coefficient in Australia, finding that it has increased as a result of the Budget:

From this budget it has moved from 0.3277 in our STINMOD model to 0.335. That may not mean a lot to a lot of people, but to put that into perspective...According to the ABS stats it has increased from about 0.3 to 0.32 over the last couple of decades. Roughly, in this budget alone there is an impact of about 40 per cent of that entire increase in the change in income inequality.²⁵

2014–15 Budget measures in the Social Services portfolio

5.26 Submitters and witnesses commented on specific Budget measures in the Social Services portfolio (for example: changes to Family Tax Benefit,²⁶ the annual indexation applied to HELP debts,²⁷ and CPI indexation for various benefits²⁸).

23 *Submission 46*, p. 28. Also see: Dr David Morawetz, Board Member, Australia21, *Committee Hansard*, Melbourne, 18 September 2014, p. 36. For alternative views on the efficiency of the tax and transfer system, see, for example: Mr Llewellyn Reynders, Policy and Programs Manager, Victorian Council of Social Service, *Committee Hansard*, Melbourne, 18 September 2014, p. 15; Mr Brendan Markey-Towler, Research higher degree candidate, School of Economics, University of Queensland, *Committee Hansard*, Logan, 8 October 2014, p. 46; Dr Richard Denniss, The Australia Institute, *Committee Hansard*, Canberra, 16 October 2014, p. 13.

24 *Submission 46*, p. 33. Also see pp 29 and 31.

25 *Committee Hansard*, Canberra, 16 October 2014, p. 23. STINMOD (Static Incomes Model) is a model of the Australian tax and benefits system that is used to analyse the effect of policy change. It has been developed over the past 20 years for use by the Treasury, the Social Services, Education and Employment departments.

26 See, for example: Ms Emma King, Victorian Council of Social Service, *Committee Hansard*, Melbourne, 18 September 2014, pp 10 and 14; Mr Mark Henley, Chief Executive Officer, Queensland Council of Social Service, *Committee Hansard*, Logan, 8 October 2014, p. 14.

27 See, for example: Ms Deanna Taylor, National President, National Union of Students, *Committee Hansard*, Melbourne, 18 September 2014, p. 30.

28 See, for example: Ms Meg Webb, Tasmanian Council of Social Service, *Committee Hansard*, Hobart, 19 September 2014, p. 2; Ms Mary D'Elia, State Operations Manager, Tasmania, Bapcare, *Committee Hansard*, Hobart, 19 September 2014, p. 3.

This section of the report examines only a selection of the Budget measures, commencing with the primary concern underpinning submitters' and witnesses' opposition to the measures: that is, the measures will exacerbate income inequality and further impoverish individuals and families on low incomes.

Henderson Poverty Lines

5.27 In Australia, poverty is commonly measured using the Henderson Poverty Lines (HPLs),²⁹ which are designated income levels for various types of income units (such as employed or unemployed couples, with or without children). The HPLs are updated every three months using an index of per capita household disposable income, based on estimated data provided by the ABS. Table 5.3 below shows the HPLs for income units in the June Quarter 2014.

Table 5.3: Poverty Lines: Australia, June Quarter, 2014^{a, b}

Income Unit	Including Housing (\$pw)	Other than Housing (\$pw)
Head in workforce		
Couple	681.61	498.53
Couple plus 1	819.33	619.69
Couple plus 2	957.05	740.85
Couple plus 3	1094.77	862.02
Couple plus 4	1,232.49	981.84
Single person	509.53	342.91
Single parent plus 1	654.14	470.96
Single parent plus 2	791.77	592.13
Single parent plus 3	929.49	713.29
Single parent plus 4	1,067.21	834.45
Head not in workforce		
Couple	585.24	402.06
Couple plus 1	722.96	523.32
Couple plus 2	860.68	644.48
Couple plus 3	998.40	765.64
Couple plus 4	1,136.12	885.46
Single person	413.16	246.54
Single parent plus 1	557.67	374.59
Single parent plus 2	695.39	495.75
Single parent plus 3	833.11	616.92
Single parent plus 4	970.83	738.08

Note: (a) Based on seasonally adjusted household disposable income per head per week for the June quarter 2014 of \$810.18. (b) All figures refer to income after tax. Source: Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, *Poverty Lines: Australia*, June Quarter 2014, p. 1.

29 Another relative poverty line is 50 per cent of the median income, which is the measure used by the Organisation for Economic Co-operation and Development.

5.28 *Poverty Lines: Australia*, the newsletter that updates the HPLs, also compares the poverty lines with maximum welfare payments for income units.³⁰ Table 5.4 shows the comparison for the June Quarter 2014.

Table 5.4: Comparison of Henderson Poverty Lines with the income of adults who receive maximum welfare payments and have no other income, June Quarter 2014

(Per capita household disposable income = \$810.18 per week)							
	<i>Basic Payment of Person 1^g</i>	<i>Basic Payment of Person 2 (Partner)^g</i>	<i>Family Tax Benefit Part A</i>	<i>Family Tax Benefit Part B</i>	<i>Rent Assistance</i>	<i>Total Income^h</i>	<i>Poverty Lineⁱ</i>
<i>Married couple</i>							
Allowee ^a	230.45	230.45	0.00	0.00	59.40	520.30	681.61
Pensioner ^b	312.40	312.40	0.00	0.00	59.40	684.20	585.24
Couple with 1 child ^c	230.45	230.45	86.10	24.89	73.99	645.88	819.33
2 children	230.45	230.45	172.20	24.89	73.99	731.98	957.05
3 children	230.45	230.45	264.32	47.02	83.65	855.89	1094.77
4 children	230.45	230.45	382.34	47.02	83.65	973.91	1232.49
<i>Single adult</i>							
Allowee ^d	255.25	-	0.00	0.00	63.20	318.45	509.53
Pensioner ^e	414.45	-	0.00	0.00	63.20	477.65	413.16
Single with 1 child ^f	356.60	-	86.10	51.10	73.99	567.79	557.67
2 children	356.60	-	172.20	51.10	73.99	653.89	695.39
3 children	356.60	-	264.32	73.22	83.65	777.79	833.11
4 children	356.60	-	382.34	73.22	83.65	895.81	970.83

Source: Information booklets on benefits and allowances are published quarterly by Centrelink. The booklets provide details of eligibility criteria and rates of payment for all income support and non-income support payments made by Centrelink on behalf of the Australian Government Departments of Families, Housing, Community Services and Indigenous Affairs and Education, Employment and Workplace Relations.

Notes:

^a A married couple without children receiving Allowances is assumed to be receiving Newstart Allowance.

^b A married couple without children receiving Pensions is assumed to be receiving the Age Pension or Disability Support Pension.

^c A married couple with children receiving Allowances is assumed to be receiving Newstart Allowance or Parenting Payment Partnered.

^d A single person receiving an Allowance is assumed to be receiving Newstart Allowance.

^e A single person receiving a Pension is assumed to be receiving the Age Pension or the Disability Support Pension.

^f A sole parent is assumed to be receiving Parenting Payment Single.

^g All basic payments for Pensioners include the maximum applicable Pension Supplement.

^h Total income is the sum of allowances, pensions and benefits for persons who have no other income. Income figures do not include Clean Energy Advance payments. To be comparable with the poverty lines, total income reported should be net of personal income tax. However, allowing for offsets/rebates, no income tax would be payable for welfare recipients who received no other income. Hence, direct comparisons of total income with the poverty lines are valid.

ⁱ Poverty lines for single persons and married couples with up to four children are shown here, inclusive of housing costs. For recipients of allowances, the income unit head is assumed to be in the workforce, since recipients of the most common allowance, Newstart Allowance, are usually required to search for employment to be eligible for payment. For pensioners and sole parent families, costs are

Source: Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, *Poverty Lines: Australia*, June Quarter 2014, p. 3.

5.29 According to the current HPLs, many Australians who receive income support payments are living in poverty. Couples with children fare the worst, receiving up to \$258.58 per week below the poverty line. Childless couples and singles are, respectively, living on \$161.31 and \$191.08 per week below the poverty line. Single parents with two or more children are receiving up to \$75.02 below the poverty

30 The payment levels considered in *Poverty Lines: Australia* reflects direct payments and do not take into account indirect benefits (e.g. health, education et cetera).

line on a weekly basis. Singles and couples on pensions, as well as single parents with one child, are the only welfare recipients to rise above the poverty line.

The Budget and its effect on employment

5.30 Submitters and witnesses argued that Newstart Allowance and Youth Allowance are currently below the poverty line. A key concern throughout the inquiry was the changes associated with these two allowances, as well as the new Work for the Dole programme and new policy Stronger Participation Incentives for Job Seekers under 30, all of which, it was contended, will further negatively impact students and unemployed people.

Newstart Allowance

5.31 Newstart Allowance provides income support to persons who are looking for paid work.³¹ At present, the basic rate ranges from \$465.50 per fortnight (partnered, each) to \$720.30 per fortnight (single principal carer granted an activity test exemption). The basic rate for a single person with no children is \$515.60 per fortnight.³²

5.32 The ACTU submitted that the income of a single adult Newstart Allowance recipient is more than \$100 per week below the HPL. Newstart Allowance is also less than one-half of median income, which was \$1,453.90 per week as at May 2014.³³ The ACTU noted that the allowance was relatively higher 20 years ago:

In the mid-1990s, Newstart was equal to 50% of median income poverty line; now a single adult reliant on Newstart has an income that is barely two-thirds the level of the poverty line. The decline relative to the Henderson line has been of a similar magnitude.³⁴

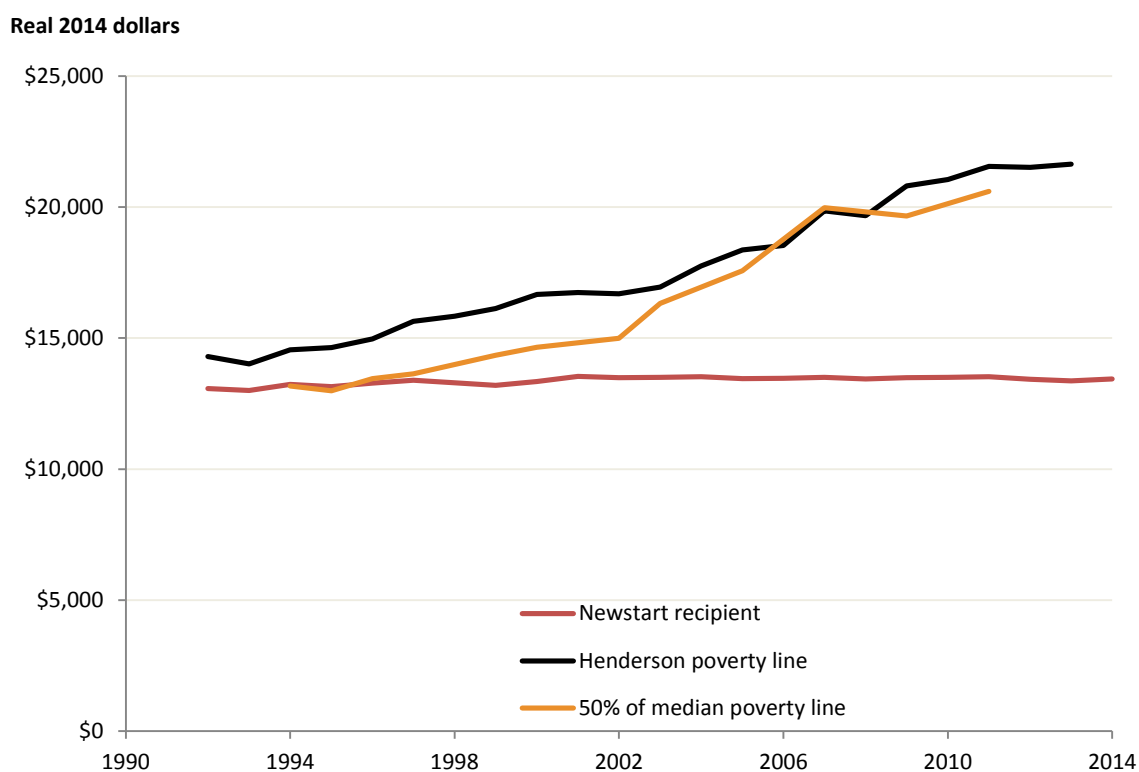
31 Department of Human Services, 'Eligibility for Newstart Allowance', <http://www.humanservices.gov.au/customer/enablers/centrelink/newstart-allowance/eligibility-for-newstart-allowance> (accessed 18 November 2014). Newstart Allowance recipients must be younger than the Age Pension qualifying age.

32 Department of Human Services, 'A guide to Australian Government payments, 20 September-31 December 2014', p. 27, <http://www.humanservices.gov.au/corporate/publications-and-resources/a-guide-to-australian-government-payments> (accessed 18 November 2014).

33 Australian Bureau of Statistics, '6302.0—Average Weekly Earnings, Australia, May 2014', <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0> (accessed 18 November 2014).

34 *Submission 46*, p. 41.

Figure 5.5: Newstart, the Henderson Poverty Line, and the 50 per cent of median income poverty line



Source: ACTU, *Submission 46*, p. 42.

5.33 The ACTU submitted that the gap between Newstart Allowance and the poverty line is large and growing: 'This is a strong indication that the payment rate is inadequate'.³⁵ In support of this conclusion, the ACTU referred also to the findings of the Low Cost Budget Standard (an alternative measure of standards of living that guides decisions regarding the adequacy of income support payments), and the incidence of financial stress and deprivation among payment recipients, compared with that experienced by other groups.³⁶

5.34 A recent study undertaken by Dr Alan Morris and Dr Shaun Wilson documented the circumstances of Newstart Allowance recipients in inner Sydney. The study found that the payment rates adversely affected recipients' physical and mental health, housing and social life, as well as their re-entry into the workforce.³⁷ One survey respondent stated:

35 *Submission 46*, p. 43.

36 *Submission 46*, pp 42–44.

37 Morris, A. and Wilson, S. (2014), 'Struggling on the Newstart unemployment benefit in Australia: The experience of a neoliberal form of employment assistance', *The Economic and Labour Relations Review*, Vol. 25, No. 2, p. 217, <http://elr.sagepub.com/content/25/2/202> (accessed 18 November 2014).

...\$260 a week...is completely insufficient financially to live a normal healthy existence and look for work. By that I mean maintain interview clothes...appearance and health that is going to be acceptable at an interview situation; pay for transport, rent, electricity, phone, food for example. There's simply not enough money...Putting someone on a drip feed of \$20 a week is not going to do anything for them. Whereas if I could have continued on [a decent income] I would have found another job within months. Really fast. With the same levels of support that I was used to and could cope with...Sometimes I've had to walk to interviews, like kilometres, without a cent in my pocket, and hungry. This is a system that is unfortunately, so self-perpetuating[.]³⁸

5.35 UnitingCare Australia, which was among stakeholders consulted by the Reference Group currently reviewing Australia's welfare system,³⁹ suggested that the adequacy of income support payments is not a focus of the review.⁴⁰ However, a representative from St. Vincent de Paul Society National Council said:

...there was virtual unanimity amongst the people...at that consultation in saying that [the inadequacy of Newstart payments] is the most essential place to start—that people are not being forced to live below the poverty line while needing to rely on the social security system.⁴¹

Youth Allowance

5.36 Submitters and witnesses also questioned the adequacy of the lower Youth Allowance, which will be the applicable benefit for unemployed people under 25 years, from 1 January 2015 if the Government's legislation is passed.⁴² The basic rate of Youth Allowance currently varies from \$226.80 to \$720.30 per fortnight (exclusive of Rent Assistance), dependent upon the recipient's personal circumstances.⁴³

38 Morris, A. and Wilson, S. (2014), 'Struggling on the Newstart unemployment benefit in Australia: The experience of a neoliberal form of employment assistance', *The Economic and Labour Relations Review*, Vol. 25, No. 2, p. 216 quoting Gary (a pseudonym).

39 In December 2013, the Hon. Kevin Andrews MP, Minister for Social Services, commissioned a review of Australia's welfare system to identify improvements aimed at ensuring that the social support system is sustainable, effective and coherent, and encourages people to work. This review is commonly known as the McClure Review for the Chair of the Reference Group, Mr Patrick McClure AO.

40 Ms Lin Hatfield Dodds, *Committee Hansard*, Canberra, 16 October 2014, p. 45.

41 Dr John Falzon, *Committee Hansard*, Canberra, 16 October 2014, p. 45.

42 Australian Government, 'Budget Measures 2014-15, Budget Paper No. 2', p. 203; The Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, Budget Speech, *House Hansard*, 13 May 2014, p. 3594.

43 Department of Human Services, 'A guide to Australian Government payments, 20 September-31 December 2014', p. 25.

5.37 Submitters and witnesses argued that these payment levels will increase poverty.⁴⁴ For example, the ACTU submitted that 'pushing more young people onto this allowance will do nothing for the effectiveness of their job search and will merely increase their poverty'.⁴⁵

5.38 Similar to the ACTU's comments in respect of Newstart Allowance, the National Union of Students (NUS) stated that the Tertiary Assistance Education Scheme (the forerunner of Youth Allowance and Austudy) was 'more generous than current programs', submitting that, when introduced in 1974:

The full payment for a single person living away from home in a share house was 75% of the Henderson Poverty Line (the equivalent figure for current Youth Allowance including rent assistance is 48.8% of the poverty line).⁴⁶

5.39 Each year, the NUS publishes a table of maximum student benefits, compared with the relevant HPL. The 2014 calculations show that benefits are below the poverty line (ranging from 27 per cent to 77.8 per cent) and that, in some cases, the percentage decline of those benefits is from 4.3 per cent to 8.4 per cent from its 2008 value.⁴⁷ Based on these findings, the NUS suggested that the basic rate and Rent Assistance should be increased to at least 100% of the HPL for Youth Allowance, Austudy and Abstudy.⁴⁸

Stronger Participation Incentives for Job Seekers under 30

5.40 If the Government's legislation is passed, from 1 January 2015 people under the age of 30 years making a new claim for Newstart Allowance and Youth Allowance (Other) will be required to demonstrate job search and participation in employment services support for six months before receiving payments. After six months, new payment recipients will also be required to participate in 25 hours per week Work for the Dole, and possibly a further six months in employment services. The new arrangements will apply to existing payment recipients from 1 July 2015.⁴⁹

5.41 NATSEM estimated that the measure 'would increase the household impact on families in its [May analysis of the Budget] by a further 13 per cent'.⁵⁰ Throughout

44 See, for example: Ms Mary D'Elia, Baptcare, *Committee Hansard*, Hobart, 19 September 2014, p. 3.

45 *Submission 46*, p. 35.

46 *Submission 21*, p. 2.

47 *Submission 21*, Appendix 1. For example, Youth Allowance, single at home, decreased from 31.3 per cent to 27 per cent; Youth Allowance, single away from home, decreased from 61.8 per cent to 53.4 per cent (living alone or with a partner) and 57.1 per cent to 48.8 per cent (living in share accommodation).

48 *Submission 21*, p. 8.

49 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', p. 210.

50 *NATSEM Budget 2014–15 Analysis*, 26 May 2014, p. 3.

the inquiry, submitters and witnesses agreed that the new policy will increase inequality, by causing and entrenching poverty among unemployed youth.⁵¹

5.42 Mr Mark Henley, Chief Executive Officer of Queensland Council of Social Service (QCOSS), said that the measure will further marginalise unemployed youth:

If you look at those communities which have high levels of unemployment and experience lower levels of income, you see that this will affect not only those youth but also those families and those communities and you will see a further driving of inequality in Australia.⁵²

5.43 A representative from the Victorian Council of Social Service said:

I am not sure where [people] are meant to live during that time when they have no income and if they do not have close family or people to support them... They have no hope. Not only is it morally wrong and socially wrong but it will cost us more in the long run as well, because we are going to have this whole cohort of young people, whom we should give every chance to step up, and whom we are going to lose because they are not going to have a way to eat, a way to live and, instead, they will make a significant call on community agencies for basic emergency relief.⁵³

5.44 At Senate Budget Estimates 2014–15, the Department of Social Services estimated that 550 000 job seekers over four years would need to access emergency relief as a result of the measure.⁵⁴ Using the Department's estimate, the Tasmanian Council for Social Service calculated that approximately 16 500 requests for assistance will be made in that state alone. Further:

Since the bulk of money received by low income earners is spent in the local economy on essential goods and services, the loss of income to jobseekers translates into a loss of income to the Tasmanian economy. We estimate that the total loss of income experienced by Tasmanians affected by Newstart suspensions over the next four year period to be around \$85 million.⁵⁵

5.45 The ACTU described the Strong Participation Incentives for Job Seekers under 30 as 'arguably the most punitive and objectionable measure in the Budget':

51 See, for example: Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia, *Submission 28*, pp 5–6; ACTU, *Submission 46*, p. 35; Mr Brendan Churchill, Lecturer in Sociology, School of Social Sciences, University of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 13.

52 *Committee Hansard*, Logan, 8 October 2014, p. 14.

53 Ms Emma King, *Committee Hansard*, Melbourne, 18 September 2014, p. 16. Also see: National Union of Students, *Submission 21*, p. 7.

54 Ms Serena Wilson, Deputy Secretary, *Proof Hansard*, Community Affairs Budget Estimates 2014–15, 4 June 2014, p. 124. Ms Wilson advised that \$229.6 million has been budgeted for emergency relief over the forward estimates.

55 Ms Meg Webb, *Committee Hansard*, Hobart, 19 September 2014, p. 2.

There is no case for such a policy at any time. However, it is especially troubling that the measure has been introduced at a time when unemployment, and youth unemployment, are at their highest levels in over a decade. The latest ABS labour force data for July 2014 has unemployment now at 6.4%. Youth unemployment is more than double that at 14.1%. There are now 789,000 unemployed Australians.

At the same time, there are now only 146,100 job vacancies. The Government's own research shows the number of skill shortages is at an 'historical low'. There are generally large and growing fields of applicants vying for skilled jobs[.]⁵⁶

5.46 The NUS' representative advised:

The unemployment rate for students graduating is about 3.4 per cent. That is a significant proportion of the population and a significant proportion of unemployed Australians. Another problem many graduates face is underemployment. Earlier this year Graduate Careers Australia...released a report that said that only 71 per cent of graduates were finding full-time work within four months of graduating...The concern that we have with regard to the Newstart payment is that once these often highly skilled graduates enter the workforce and cannot find employment immediately they are effectively being locked out of income support. Many of them do not have particularly good relationships with their parents or cannot rely on their parents for financial reasons...It would be very concerning for us to see graduates like that plunge into poverty for no good reason aside from the fact that the job market is very unstable.⁵⁷

5.47 The ACTU stated that the new policy 'panders to prejudices about the unemployed, suggesting that those not fortunate enough to be in work are to blame for their predicament'. Further, it is predicated on the belief that the unemployment benefit acts as a disincentive to finding paid work (rather than acting as an essential support).⁵⁸ Several witnesses disputed this belief, stating that the social security system does not cause unemployment, with most people on benefits preferring to be in paid work.⁵⁹

56 *Submission 46*, pp 34–35. Also see: Ms Donna Siejka, Youth Network of Tasmania, *Committee Hansard*, Hobart, 19 September 2014, p. 4.

57 Mr Jack Gracie, Welfare Officer, *Committee Hansard*, Melbourne, 18 September 2014, pp 31–32.

58 *Submission 46*, p. 35.

59 See, for example: Dr John Falzon, St. Vincent de Paul Society National Council, *Committee Hansard*, Canberra, 16 October 2014, p. 50; Mr Chris Twomey, Director of Policy, Western Australian Council of Social Service, *Committee Hansard*, Rockingham, 11 November 2014, p. 12.

Work for the Dole

5.48 The Budget proposes to expand the Work for the Dole programme. From 1 July 2014 to 30 June 2015, Work for the Dole will be mandatory in 18 of the 21 Priority Employment Areas for 'all job seekers aged between 18 and 30 years old who are in the Work Experience Phase or the Compulsory Activity Phase of Job Services Australia (JSA), unless they are working part-time'.⁶⁰

5.49 The Youth Network of Tasmania argued that this measure will have an unintended and negative impact:

The Work for the Dole program can cause or encourage participants to reduce their efforts in seeking employment, as many view their work placements as employment, which discourages them from searching for jobs. Participants also have less available time to complete job search activities. Research also indicates that Work for the Dole programs do not match the participant's career interests with their work placement.⁶¹

5.50 Ms Catherine Bartolo, Chief Executive Office of YFS Limited, said that Work for the Dole needs to be meaningful and more than simply 'sweeping up streets [or picking up rubbish]. It needs to be something that leads to a certificate that is accredited or something'.⁶²

5.51 Submitters and witnesses expressed concern about the arbitrary movement of unemployed people, who will be required to relocate to accept jobs in regional areas. For example, Mr Craig Comrie, Chief Executive Officer of Youth Affairs Council of Western Australia, outlined the importance of vulnerable young people not being removed from their support network of 'family, friends, peers, youth workers [and] social workers', as such removal will not lead to sustainable employment outcomes.⁶³

5.52 Dr Goodwin-Smith gave evidence, describing the long-term negative effects of a bad employment or job placement experience:

Our research also speaks to the fact that quality of employment is also important and that a job is not a job—focus on quality does matter. If you have people who are inter-generationally unemployed or severely unemployed...a negative employment experience is going to be pretty effective in ensuring that their attachment to the workforce is not sustainable and that their negative views of workforce attachment are reinforced. Bad workforce experiences in jobs that do not have a quality element to them are really problematic and can entrench workforce

60 Australian Government, 'Budget Measures 2014-15, Budget Paper No. 2', p. 98.

61 *Submission 20*, p. 10.

62 *Committee Hansard*, Logan, 8 October 2014, p. 36.

63 *Committee Hansard*, Rockingham, 11 November 2014, p. 25.

exclusion. That is a really powerful argument against a blunt work-first approach.⁶⁴

5.53 Dr Falzon contended that governments must transition policy away from punitive measures, such as the Work for the Dole programme, and drive real economic development that creates jobs:

[T]his is the kind of bold vision that we need as a nation if we are to seriously address the underlying structural problems in the labour market. That means a regional economic development approach. And it means government working with the private sector, but it means government taking the ultimate responsibility to make sure that, where it is at all possible for people to work, they are given the opportunity to work. I do not mean work for the dole; I mean work for the wage. That is a really important distinction.⁶⁵

The Budget and its effect on the retirement age

5.54 The Australian Government's plan to increase the qualifying age for the Age Pension (from 67 years in 2023 to 70 years in 2036) provoked criticism from several quarters, most notably on behalf of blue collar workers in physically demanding jobs. For example, Bapcare questioned whether it is practical to expect manual workers in industries such as forestry, fishing and mining to keep working until the age of 70.⁶⁶

5.55 In 2010, the ABS' Labour Force Survey found that 18.3 per cent of male workers over the age of 55 were 'technicians and trades workers', 12.2 per cent were 'machinery operators and drivers' and 10.9 per cent were 'labourers'.⁶⁷ In other words, over 40 per cent of male workers over the age of 55 were blue collar workers.

5.56 COTA Australia acknowledged that the Age Pension should be linked to life expectancy, but submitted that the average age of retirement is 61 years. Further, many people retire for reasons beyond their control:

In 2011, 12.2% of male and 8.6% of female workers retired involuntarily due to dismissal, pressure from employers or others at work to retire, inability to find another job or reaching compulsory retirement age. An additional 35.3% of men and 35.8% of women retired involuntarily due to their own ill health or to care for a partner or family member.

64 Dr Ian Goodwin-Smith, Director, Australian Centre for Community Services Research, Flinders University, *Committee Hansard*, 10 November 2014, p. 41

65 Dr John Falzon, CEO, St Vincent de Paul Society, *Committee Hansard*, 16 October 2014, p. 50.

66 Ms Mary D'Elia, *Committee Hansard*, Hobart, 19 September 2014, p. 4.

67 Australian Bureau of Statistics, *Australian Social Trends September 2010: Older people and the labour market*, Cat. 4102.0, p. 3, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication29.09.104/\\$File/41020_OlderWorkers.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/LookupAttach/4102.0Publication29.09.104/$File/41020_OlderWorkers.pdf) (accessed 1 November 2014).

This means that many people end up spending a number of years on Newstart or the Disability Support Pension before becoming eligible for the age pension—and this situation will only worsen if the eligibility age increases. Indeed, over 80 per cent of people who go onto the full age pension at age 65 move across from another income support payment.

Furthermore, if people cannot access any income support from the Government, [the Association of Superannuation Funds of Australia] estimates a person will need almost \$60,000 more in superannuation or retirement savings to fund their retirement between 67 and 70.⁶⁸

The Budget and reform of higher education

5.57 As foreshadowed in the Budget,⁶⁹ the Higher Education and Research Reform Amendment Bill 2014 was introduced into the Parliament on 28 August 2014,⁷⁰ and seeks to reform the higher education system:

...by deregulating fees and extending demand driven funding to higher education qualifications below the level of bachelor degree, including higher education diplomas, advanced diplomas, and associate degrees, and also to private universities and non-university higher education providers. The Bill will enable providers to determine the amount that students contribute to the cost of their courses...The Bill also restructures Commonwealth subsidies for Commonwealth supported places[.]⁷¹

5.58 The NUS highlighted students' concern that the bill will increase fees and the interest charged on student debt, deterring 'students from low [socio-economic status (SES)], mature age and rural backgrounds from participating in higher education and missing out on opportunities for higher life-time earnings'.⁷²

5.59 Ms Meg Webb, Deputy Chief Executive of Tasmanian Council of Social Service, expressed particular concern about the proposed higher education measures on women:

...they will be particularly penalised through interest accrued on HECS debts and that time out of the workforce will increase the length of time for paying off a HECS debt and increase the level of interest paid. So for women, in particular, that is a real disincentive for higher education.⁷³

68 *Submission 38*, p. 5.

69 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', pp 77–79 and 83–85.

70 House of Representatives, *Votes and Proceedings*, No.61, 28 August 2014, p. 765.

71 Explanatory Memorandum, p. 1.

72 *Submission 21*, p. [5]. Also see: Youth Affairs Council of Western Australia, *Submission 25*, p. 10. Also see: Ms Meg Webb, National Union of Students, *Committee Hansard*, Hobart, 19 September 2014, p. 34.

73 *Committee Hansard*, Hobart, 19 September 2014, p. 11.

5.60 Ms Deanna Taylor, National President of the NUS, advised:

...the evidence we have seen time and time again, both in Australia and when doing comparisons with countries overseas, is that [study debt diversion] is a very real phenomenon, particularly for people from low-SES backgrounds and rural and regional areas and mature-age students, who obviously are unwilling to take on extra debt if they feel that it is not going to be worth it...we simply cannot afford to go down the road of deregulation of fees and the changes to interest rates on HELP loans. It is something that should be unequivocally rejected.⁷⁴

5.61 Submitters and witnesses noted that the budget measures will have long-term impacts on students. Ms Taylor summarised that the measures 'are going to leave students plunged irretrievably into a lifetime of debt'.⁷⁵ Her colleague, Mr Jack Gracie, also rejected the notion that the debt is temporary:

You do not get any bank account when you graduate. You are still carrying debt into your mid- to late-twenties or maybe early thirties. If you take into consideration the proposed changes in higher education—particularly the real interest—you are not talking about a temporary situation. You are talking about a situation where your debt continues to accumulate over years, and it takes you maybe 18 to 25 years to pay off your HECS debt, when originally it might have taken you 10 years. Those particular effects will continue to affect graduates into their forties, possibly.⁷⁶

5.62 Ms Taylor added:

...there is some evidence to suggest that the changes to higher education in the legislation that the government is proposing, and its impact on graduate debt, will have an economic impact broader than what we currently suspect. So there will be things such as fewer young people willing to take on mortgages, which will have an impact on the housing market and car loans. There will be all those kinds of things that will have a broader economic impact than what I think is currently understood.⁷⁷

5.63 In this context, Ms Webb highlighted:

...it is not just necessarily the university sector but introducing HECS-type repayment fees for apprenticeships and that side of things. It also means that people following those pathways into training and employment will come through that training with a debt to repay. That is a difficult thing to face at the very beginning of your career. So extending that down to those forms of training as well is unfortunate.⁷⁸

74 *Committee Hansard*, Hobart, 19 September 2014, pp 32-33.

75 *Committee Hansard*, Hobart, 19 September 2014, p. 30.

76 Welfare Officer, *Committee Hansard*, Melbourne, 18 September 2014, p. 34.

77 *Committee Hansard*, Melbourne, 18 September 2014, p. 34.

78 *Committee Hansard*, Hobart, 19 September 2014, p. 11.

5.64 Professor Thomas Piketty has written that, in the United States of America:

...the proportion of college degrees earned by children whose parents belong to the bottom two quartiles of the income hierarchy stagnated at 10–20 per cent in 1970–2010, while it rose from 40 to 80 per cent for children with parents in the top quartile. In other words, parents' income has become an almost perfect predictor of university access.⁷⁹

5.65 Nobel laureate Professor Joseph Stiglitz recently wrote in the *Sydney Morning Herald*:

There are several areas where Australia should be particularly cautious about imitating the US model. One of the reasons that the US has gone to the bottom of the league tables in economic opportunity is our education system, and especially the way higher education is financed. It is one of the reasons that only about 8 per cent of those in the bottom half get a college education. Australia's income contingent loan program [the HECS-HELP study assist scheme], is the envy of the rest of the world. It works. The best US universities are superb—the best in the world—but they are all either state financed or non-profits, supported by generous philanthropy. They compete vigorously in quality—but it is not conventional market competition, where price plays a pivotal role. The under-regulated for-profit universities excel—in exploiting children from poor families and in lobbying to make sure that they can continue to do so.⁸⁰

5.66 Mr Brendan Markey-Towler, a research higher degree candidate from the School of Economics at the University of Queensland, said:

If you were to ask me what is the single most important policy for mitigating the negative effects of inequality in Australia, it would be the HECS system in so far as it allows for public education on a mass scale...In Australia the defining feature of the HECS system is not just that it subsidises the students significantly. The most important feature in my opinion would be that the government provides the loan at a fairly low interest rate and also does not demand regular payments. You pay the loan back when you get the income, and it is taken out as tax from your taxable income. That is extremely important in providing access to university for students.⁸¹

79 *Capital in the Twenty-First Century*, Harvard University Press, Cambridge, United States, 2014, p. 485.

80 Professor Joseph Stiglitz, 'Inequality: why Australia must not follow the US', *Sydney Morning Herald*, 6 July 2014, <http://www.smh.com.au/comment/inequality-why-australia-must-not-follow-the-us-20140706-zsxtk.html> (accessed 17 November 2014).

81 *Committee Hansard*, Logan, 8 October 2014, pp 47 and 51.

The Budget and the GP co-payment

5.67 The Budget proposed to achieve savings of \$3.5 billion over five years:

...by reducing Medicare Benefits Schedule (MBS) rebates from 1 July 2015 by \$5 for standard general practitioner [GP] consultations and out-of-hospital pathology and diagnostic imaging services and allowing the providers of these services to collect a patient contribution of \$7 per service.⁸²

5.68 The Budget also proposed to achieve savings (\$1.3 billion over four years), by increasing the Pharmaceutical Benefits Scheme (PBS) co-payments and safety net thresholds, from 1 January 2015. This measure will increase:

- co-payments for general patients by \$5.00 (from \$37.70 to \$42.70) and for concessional patients by \$0.80 (from \$6.10 to \$6.90); and
- thresholds each year for four years, with general safety net thresholds to increase by 10 per cent each year and concessional safety nets to increase by the cost of two prescriptions each year.⁸³

5.69 Some witnesses commented on the MBS and PBS measures, saying that the patient contribution will reduce access to medical services and prescription medications for low income and disadvantaged Australians.⁸⁴ Dr Yvonne Luxford, Member of the Public Health Association of Australia, indicated that consideration could have been given to the many people who will be affected by the measures:

Look at the different groups who will be directly affected by a GP co-payment and who have come out and claimed that they will be directly affected—such as Aboriginal and Torres Strait Islander Australians. All of the groups associated with advocacy around the health of Aboriginal and Torres Strait Islander Australians have spoken about the damage that a GP co-payment will cause in terms of their continuing access to health care. There has also been a strong voice from the rural sector, such as the National Rural Health Alliance, which has been arguing on the same levels. We see the same...also in terms of access to care for those who are dying, or anybody with a chronic disease, when you are looking at both sides of that, in terms of being able to visit a GP and the changing levels of the PBS safety net et cetera. If you are needing ongoing medication and ongoing medical treatment, those things are obviously going to be affected by a GP co-payment and other changes there.⁸⁵

82 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', p. 133.

83 Australian Government, 'Budget Measures 2014–15, Budget Paper No. 2', p. 140.

84 See, for example: Dr Yvonne Luxford, Member, Public Health Association of Australia, *Committee Hansard*, Canberra, 16 October 2014, p. 54. Ms Catherine Bartolo, Chief Executive Office of YFS Ltd, related anecdotal evidence that this effect is already occurring in anticipation of the enabling legislation: *Committee Hansard*, Logan, 8 October 2014, p. 31.

85 *Committee Hansard*, Canberra, 16 October 2014, p. 54.

5.70 Mr Joshua Fear from Mental Health Australia said:

...it will not surprise the committee to learn that people with mental illness often face very high out-of-pocket costs. GPs are often the first port of call for someone with a mental health issue, both someone who has never experienced those symptoms before and is worrying about what they mean and also people who have an enduring mental illness that they need to cope with over time. In fact 1½ million GP services are provided every year for a mental health issue...[A] co-payment will actually discourage help-seeking.⁸⁶

5.71 TASCROSS added:

We need nothing to discourage people from attending their GP appointments regularly. A co-payment does that outright. Particularly for people in Tasmania who are on low incomes, who are on allowances and pensions, any level of co-payment required will be a deterrent and that will inevitably lead to worse health outcomes and a much more expensive health system for our state in the long run.⁸⁷

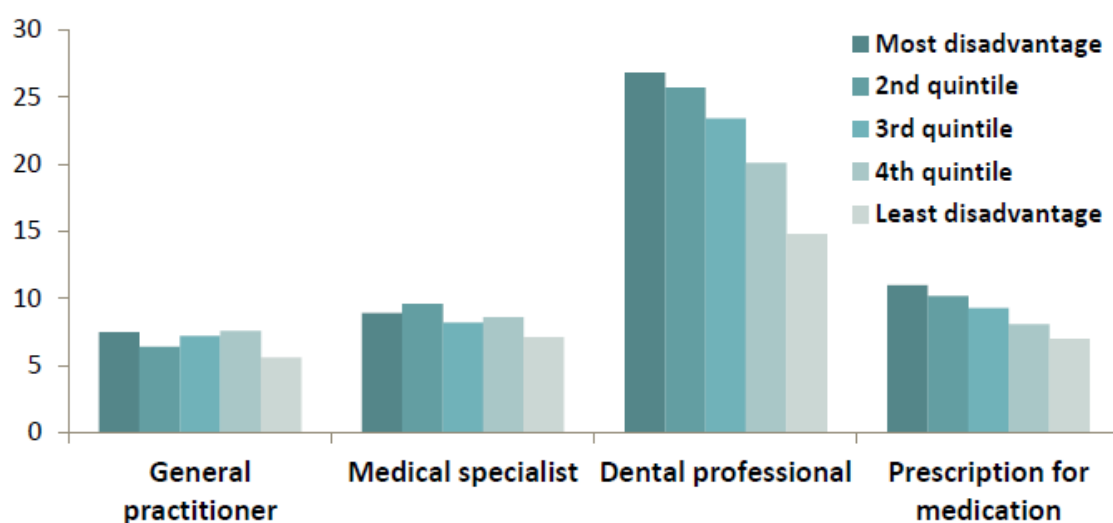
5.72 At the Logan public hearing, QCOSS tabled its 2013 report into *Indicators of Poverty and Disadvantage in Queensland*, showing that, in that state in 2011–12, 7.4 per cent of the population deferred access to a GP and 11.5 per cent of the population deferred access to medications, for costs reasons.⁸⁸ The national statistics were also reported for that financial year by the ABS (Figure 5.6).

86 *Committee Hansard*, Canberra, 16 October 2014, p. 57.

87 Ms Meg Webb, Deputy Chief Executive, *Committee Hansard*, Hobart, 19 September 2014, p. 9.

88 Queensland Council of Social Service, *Indicators of Poverty and Disadvantage in Queensland*, October 2013, tabled 8 October 2014, p. 33.

Figure 5.6: Percentage of individuals who delay or did not use service due to cost by level of disadvantage (ABS 4839.0, 2011–2012)



Committee view

5.73 Government policy affects income and other forms of inequality. Evidence received by the committee highlighted particularly how the 2014–15 Budget will disproportionately and negatively impact people living on low incomes. Most concerning is NATSEM's estimate that single parents will fare worst losing approximately 10.8 per cent of income on average. Also concerning is the ANU's estimate that an unemployed adult will face an 18 per cent reduction in disposable income. These independent analyses are not disputed.

5.74 Treasury explained that it would not be possible to annually measure the impact of budget measures on income distribution. It is surely possible however to model the likely impact of those changes, as has occurred with previous budgets and as undertaken by NATSEM and the ANU. The committee notes that the Treasury—among others—uses a model not only developed for that department but similar to the STINMOD model used by NATSEM.⁸⁹

5.75 In the interests of transparency and accountability, the Australian Government should be making available more detailed analysis of budget measures which significantly affect the whole, or part of the, Australian community. For the 2014–15 financial year, the negative effects on low income households is patently clear and, according to further NATSEM analysis, so significant as to atypically increase Australia's Gini co-efficient rating by a margin not achieved in the last few decades.

89 Mr Nigel Ray and Ms Marisa Purvis-Smith, Principal Advisor, Tax Analysis Division, Revenue Group, The Treasury, *Committee Hansard*, Canberra, 17 November 2014, pp 4–5.

5.76 Much of the evidence showed that the likely impact of the Budget measures will be to exacerbate income inequality and poverty in Australia. The HPLs and the 50 per cent median income poverty line indicate that far too many vulnerable Australians, individuals and families in receipt of income support, are currently living in poverty.

5.77 One solution suggested by the ACTU, in respect of Newstart Allowance but equally applicable to several income support payments (Parenting Payment, Youth Allowance, Austudy), is to review the adequacy of payments.⁹⁰ The committee considers this to be a sound proposal but notes that the Reference Group reviewing Australia's welfare system might not be actively considering this issue. If this were the case, the review would miss an opportunity to examine a fundamental aspect of the Australian welfare system and to address any inadequacies in that area.

5.78 In relation to Stronger Participation Incentives for Job Seekers under 30, Submitters and witnesses described how the new policy will adversely affect individuals and families, as well as communities. Dr Falzon described a practical outcome of this policy as 'forcing young people to live on fresh air and sunshine'.⁹¹ The committee questions the evidence base for this harsh proposal that is intended to encourage young people to earn, learn or participate in Work for the Dole.⁹²

5.79 The committee notes that the Australian Government has indicated that it is 'pragmatic' about its ability to pass legislation introducing a patient contribution, due to insufficient support for the policy proposal in the Senate.⁹³ In recent days, senior ministers have also affirmed that the Government remains committed to the policy and is currently negotiating changes which will secure the passage of the legislation.⁹⁴

5.80 The committee accepts evidence to the inquiry that a GP co-payment will frustrate access to health services for people who cannot afford the contribution. The committee considers that equitable access to health care is a fundamental feature of the Australian health system, and a policy—such as the GP co-payment—which jeopardises people's ability to access necessary health care is not supportable. Equally,

90 See chapter 6.

91 *Committee Hansard*, Canberra, 16 October 2014, p. 44.

92 The Hon. Joe Hockey MP, Treasurer of the Commonwealth of Australia, Budget Speech, *House Hansard*, 13 May 2014, p. 3594.

93 The Hon. Peter Dutton MP, Minister for Health, quoted in Greg Jennett, 'GP Co-payment: Federal Government looking at 'different options'', *ABC News*, 27 November 2014, <http://www.abc.net.au/news/2014-11-27/government-looking-at-different-options-on-gp-co-payment/5920908> (accessed 27 November 2014). Also see: 'Govt reportedly abandon GP Co-payment', *Sky News*, 27 November 2014, <http://www.skynews.com.au/news/top-stories/2014/11/27/govt-reportedly-abandoned-gp-co-payment.html> (accessed 27 November 2014).

94 Stefanie Balogh and Rosie Lewis, 'We're ready to work on co-payment: Robb', *The Australian*, 1 December 2014, p. 6; Rosie Lewis, 'GP co-payment: Julie Bishop says government committed to policy', 28 November 2014, p.

the committee is not convinced that impeding individuals' access to prescription medications, by raising contributions and safety net thresholds, is justifiable.

5.81 In relation to the Budget measures aimed at achieving higher education reform, the committee highlights the erudite comments of Professor Stiglitz. The committee considers that the HECS-HELP study assist scheme must be preserved, as must access to affordable vocational training.

5.82 The committee acknowledges that low income regions across Australia—such as Elizabeth (South Australia), the location of the fifth public hearing for this inquiry—will be gravely affected also by the measures in the Budget. The closure of the Ford, Toyota and General Motors Holden factories within the Elizabeth area is an unfortunate but prime example of the way in which government policy can impact income inequality.

5.83 With the above comments in mind, the committee makes the following recommendations.

Recommendation 1

5.84 The committee recommends that there should be analysis of income inequality in Australia as a result of budget changes. The evidence provided to the committee raises issues around the best way to provide this analysis. There has been support for this work to be undertaken by the Treasury or the Australian Bureau of Statistics. The committee believes that consideration should be given to the most effective process to achieve this analysis.

Recommendation 2

5.85 The committee recommends that the Australian Government not proceed with the following 2014-15 Budget measures, to avoid further hardship for Australians in receipt of income support payments:

- in Schedules 1 to 8 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 4) Bill 2014, measures that:
 - maintain at their current levels for three years the income free areas for all working age allowances (except student payments) and the income test free area for Parenting Payment Single, from 1 July 2015;
 - index Parenting Payment Single to the Consumer Price Index only, from Royal Assent;
 - maintain at their current levels for three years several FTB free areas, from 1 July 2015;
 - maintain at their current levels for three years the income free areas and other means-tested thresholds for student payments, including the student income bank limits, from 1 January 2015;
 - maintain the standard FTB child rates for two years in the maximum and base rate of FTB Part A and the maximum rate of FTB Part B, from 1 July 2015;
 - revise the FTB end-of-year supplements to their original values and cease indexation, from 1 July 2015;
 - 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, from 1 July 2015;
 - 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, from 1 July 2015;
 - extend and simplify the ordinary waiting period for all working age payments, from 1 January 2015;
 - provide for 26-week waiting periods and non-payment periods, from 1 January 2015;

- **cease the pensioner education supplement, from 1 January 2015;**
- **cease the education entry payment, from 1 January 2015;**
- **extend Youth Allowance (Other) to 22 to 24 year olds in lieu of Newstart Allowance and Sickness Allowance, from 1 January 2015;**
- **require young people with full capacity to learn, earn or Work for the Dole, from 1 January 2015; and**
- **remove the three months' backdating of disability pension under the *Veterans' Entitlements Act 1986*, from 1 January 2015.**
- **in Schedules 1 and 2 of the Social Services and Other Legislation Amendment (2014 Budget Measures No. 5) Bill 2014, measures that:**
 - **index all pensions to the Consumer Price Index only, from 20 September 2017;**
 - **maintain for three years the current income test free areas for all pensioners (except Parenting Payment Single), and the deeming thresholds for all income support payments, from 1 July 2017;**
 - **reset the income test deeming thresholds for single income support recipients (\$30 000), pensioner couples (\$50 000), and a member of a couple other than a pensioner couple (\$25 000), for social security and veterans' entitlements, from 20 September 2017; and**
 - **increase the age pension qualifying age and the non-veteran pension age from 67 to 70 years, by six months every two years, commencing 1 July 2025.**
- **cessation of payment of the seniors supplement for holders of the Commonwealth Seniors Health Card or the Veterans' Affairs Gold Card, from 20 September 2014 (Schedule 1 of the Social Services and Other Legislation Amendment (Seniors Supplement Cessation) Bill 2014).**

The committee recommends that the proposed changes to the HECS-HELP study assist scheme and the proposed GP co-payment do not proceed.

Chapter 6

The principles that should underpin social security payments and practical measures to address inequality

- 6.1 The final chapter of this report addresses the last two terms of reference:
- the principles that should underpin the provision of social security payments in Australia; and
 - the practical measures that could be implemented by Governments to address inequality, particularly appropriate and adequate income support payments.

The principles underpinning the provision of social security payments

6.2 Since the Asprey Taxation Review of the 1970s, there has been consensus in Australia that the principles of efficiency, equity (fairness) and simplicity should inform a well-designed taxation system. What should be the principles that inform a well-designed system of social security payments?

6.3 Some submitters identified the following three principles as important in the provision of social security payments in Australia:

- first and foremost, payments must be adequate. The payment must provide the recipient with a basic standard of living in the context of prevailing living standards;
- second, the payment should be set at a level that provides an incentive for recipients to be employed where they are able to do so; and
- third, and relatedly, payments should be means-tested to ensure they are directed to those most in need.¹

6.4 The Australian Council of Social Service (ACOSS), COTA Australia (COTA) and other peak organisations have identified the following six principles that should underpin the provision of social security payments in Australia:

Adequacy:

The base rates of social security payments for singles and couples should be adequate to meet socially accepted essential living costs; that is, to prevent poverty;

The safety net should be there when it is needed, including for young people who are unemployed.

1 See, for example, Australian Council of Trade Unions (ACTU), *Submission 46*.

Income support should be benchmarked to broader community living standards; - and indexed to movements in wages as well as prices affecting social security recipients.

Supplements should meet additional major non-discretionary costs; - including housing rents, costs of disability, costs of sole parenthood, costs of caring, and retention of a separate system of family payments for the costs of children.

Fairness:

People with the same financial needs should receive the same level of income support.

Maximum payment levels should be based on current financial need rather than 'deservedness'

No group should be financially worse off as a result of reform, and those facing the greatest hardship should be better off. - People should not be moved from higher to lower payments when their financial needs are the same, and the system should be redesigned to prevent this happening.

Housing affordability:

Comprehensive action should be taken to make housing affordable for people on low incomes, including in places where jobs are available. - Rent Assistance should be adequate and indexed to movements in rents. - Improvements in Rent Assistance should complement, not replace, adequate public investment in social housing and reform of incentives for private investment in affordable housing.

Employment incentives:

To improve employment incentives for people with barriers to employment, maximum payment levels should be based on an individual's current financial need rather than their future employment prospects. - Payments should not reduce the closer a person with a disability or caring responsibility comes to securing paid employment.

Base rates of social security payments should be targeted to people in financial need through income and assets tests which ignore modest levels of private income and assets, ensure a fair return to paid work, and can be readily understood and complied with. Supplements should be less strictly income tested, in accordance with their purpose (for example to assist with the extra costs associated with a disability, which do not reduce once a person gains employment).

Simplicity:

The payment system to be as simple and understandable as possible. The main goal of simplification reforms should not be to reduce the number of payments, but to: - streamline the system so that people in similar circumstances receive the same level of payments with the same or similar eligibility requirements; - remove the hurdles the present system throws up for people undergoing common life transitions such as employment, unemployment, different stages in the care of children or other family members.

Administration:

Social security should be paid as a legislative entitlement without restriction on its use, unless the recipient or local community elects to receive payments in a different form (for example, to pool payments to provide employment in a remote community). - Entitlements and compliance with any participation requirements should be assessed by a single statutory agency that is accessible to all. - 'Income Management' should not be compulsory and should not apply automatically to categories of people based on benefit type, location, or race.²

Committee comment on these principles

6.5 The committee considers that the ACOSS and COTA principles are fundamental to the integrity of Australia's social security payment system. They are properly centred on the financial need of an Australian citizen, and his or her *entitlement* to access a payment when they are in financial need.

6.6 In light of the evidence presented in chapter 5 of this report, the committee is deeply concerned that the proposed 2014 federal budget measures relating to social security payments abrogate the ACOSS and COTA principles.

6.7 The following section on 'principles' begins by presenting the committee's evidence on the principles of 'adequacy', 'incentives to work' and 'means-testing'. In the course of this discussion, the committee considers and comments on the ACOSS / COTA principles of 'employment incentives', 'fairness', 'simplicity' and 'administration'.

The first principle: the adequacy of payments

6.8 The principle of payment adequacy is fundamental and generally undisputed. The obvious questions arise however: what is an adequate payment and how best to determine this level? There are several methods of responding to these questions. Australia's Future Tax System Review ('the Henry Review') identified four common measurements of the adequacy of income support payments. These are:

- replacement rates, which compare the income of a payment recipient with that of a worker (such as a minimum wage worker or the median worker);
- poverty lines, to which the disposable incomes of payment recipients are compared;
- budget standards, which estimate the amount of income necessary to sustain a particular standard of living; and

2 COTA Australia, *Submission 38*, Attachment 1, pp 21–22.

- financial stress indicators, which enable a comparison of the financial wellbeing experienced by payment recipients with that of the community as a whole.³

6.9 All four measures seek to define adequacy in relative terms. This is a long-established and accepted approach.⁴ As the 2009 Harmer Pension Review stated:

The central question for the Review was the level at which the full rate of pension should be set.

The Review's approach to this question was to test whether current rates of pension are providing a basic acceptable standard of living, accounting for prevailing community standards. The Review considered that the full rate of pension should provide a basic acceptable standard of living for those who are wholly reliant on it, often for extended periods, without any assumptions about access to private income or assets. In adopting this approach, the Review notes that while the question of adequacy can be conceived of in both absolute and relative terms, ultimately it needs to be answered in the context of contemporary society, and the living standards of others.⁵

Replacement rate

6.10 The Australian Council of Trade Unions (ACTU) noted in its submission to this inquiry that the replacement rate of Australia's unemployment benefit is the lowest of any advanced economy. As it explained:

An Australian worker on average wages who loses his or her job and claims Newstart Allowance will suffer a larger negative income shock than his or her counterparts in any other [Organisation for Economic Co-operation and Development (OECD)] country...

The Australian replacement rate is also at its lowest level in several decades. The indexation of allowances to [Consumer Price Index (CPI)], while wages rise in real terms, ensures that these replacement rates will continue to fall.⁶

6.11 The ACTU presented a chart showing that the ratio of Newstart payment to the full-time minimum wage is currently at 40 per cent. The ratio has essentially been

3 Australia's Future Tax System Review, 'Section 7.3: Important impacts of the personal tax-transfer system', Architecture of Australia's Tax and Transfer System, Commonwealth of Australia, Canberra, 2009; ACTU, *Submission 46*, p. 39. The ACTU's submission to this inquiry provides a considered assessment of current Newstart payment levels against each of these four measurements.

4 ACTU, *Submission 46*, p. 39.

5 Dr Jeff Harmer, *Pension Review Report*, 27 February 2009, pp xii–xiii, https://www.dss.gov.au/sites/default/files/documents/05_2012/pensionreviewreport.pdf (accessed 17 November 2014).

6 *Submission 46*, p. 40.

falling (from around 45 per cent) since the mid-1990s. The ratio of Newstart payment to average full-time earnings is now at around 17 per cent. It too has progressively fallen since the mid-1990s (when the ratio was around 24 per cent).⁷

Payments and the 'budget standards approach'

6.12 In 1998, Professor Peter Saunders of the Social Policy Research Centre at the University of New South Wales derived a monetary amount that aligned to two standards of living: a 'modest but adequate budget standard' and a 'low cost budget standard'.⁸ The former was described as:

One which affords full opportunity to participate in contemporary Australian society and the basic options it offers... lying between the standards of survival and decency and those of luxury as these are commonly understood...(falling) somewhere around the median standard of living experienced within the Australian community as a whole.⁹

The 'low cost budget standard' was described as:

A level of living which may mean frugal and careful management of resources but would still allow social and economic participation consistent with community standards and enable the individual to fulfil community expectations in the workplace, at home and in the community... corresponding to a standard of living which is achievable at about one-half of the median standard.¹⁰

6.13 Professor Saunders and his colleagues found that the low cost budget standard equated to \$302.80 in February 1997 for single adults in the private rental market. The ACTU adjusted this figure for the growth in the CPI unto the June 2012 Quarter. The adjusted amount is \$481, which is \$163 more than the current Newstart payment of \$318 a week.¹¹

7 *Submission 46*, p. 41.

8 P Saunders, J Chalmers, M McHugh, C Murray, M Bittman & B Bradbury, 'Development of Indicative Budget Standards for Australia', *Research paper No. 74*, Social Policy Research Centre (SPRC), University of New South Wales, March 1998, p. iv.

9 P Saunders, J Chalmers, M McHugh, C Murray, M Bittman & B Bradbury, 'Development of Indicative Budget Standards for Australia', *Research paper No. 74*, SPRC, University of New South Wales, March 1998, pp iv-v.

10 ACTU, *Submission 46*, p. 43.

11 *Submission 46*, p. 43. The ACTU noted that it had taken one of three possible measures mentioned in the SPRC report to update standards over time. The other two measures were repricing the elements of the baskets of goods on a regular basis and conducting the exercise afresh. The ACTU argued that re-conducting the exercise was the best way to update the standards.

Payments and poverty lines

6.14 Another way of looking at the issue of payment adequacy is to compare payment rates with the Henderson Poverty Lines (HPL) and the 50 per cent of median income poverty line. The poverty line is based on a benchmark income of \$62.70 for the December Quarter 1973. For a single person not in the workforce, the poverty line for the June 2012 Quarter was \$384.51 per week (including housing).¹² This was \$66 higher than the level of Newstart payment.

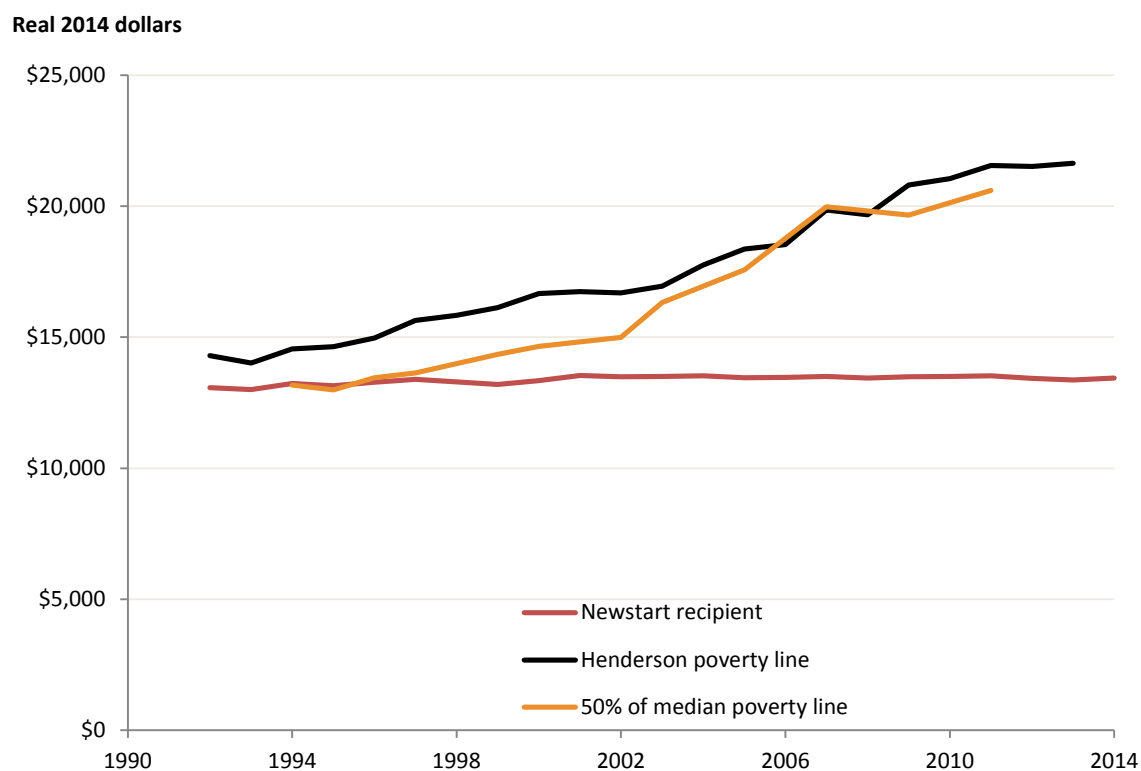
6.15 With reference to the figures below, the ACTU highlighted that the income of a single, adult Newstart recipient is now more than \$100 per week below both the HPL and the 50 per cent of median income poverty line. It added:

The gap between Newstart and the poverty line (be it the Henderson line or the 50% of median income line) is large and growing. This is a strong indication that the payment rate is inadequate. A basic function of the safety net is to protect households from poverty. Although the choice of any particular poverty measure involves some degree of subjectivity and value judgement, a payment rate that is less than two-thirds of the level of either of the main relative poverty lines for a single adult is clearly inadequate.¹³

12 Melbourne Institute of Applied Economic and Social Research, *Poverty lines: Australia ISSN 1448-0530, June Quarter 2012*, <https://melbourneinstitute.com/downloads/publications/Poverty%20Lines/Poverty-lines-Australia-June2012.pdf> (accessed 18 November 2014).

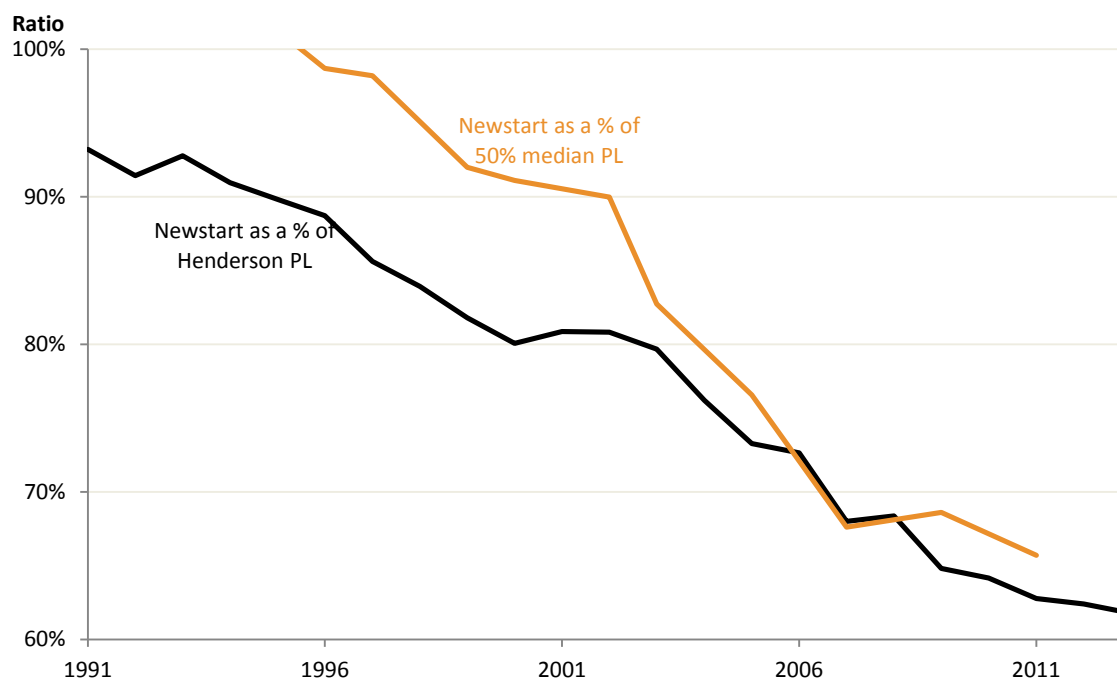
13 *Submission 46*, p. 42. See also Mr Matt Cowgill, Economic Policy Officer, ACTU, *Committee Hansard*, 18 September 2014, p. 7.

Figure 6.1: Newstart, the HPL and the 50% of median income poverty line



Source: Provided to the committee by the Australian Council of Trade Unions, 25 November 2014.

Figure 6.2: Newstart as a proportion of two poverty lines



Source: Provided to the committee by the Australian Council of Trade Unions, 25 November 2014.

6.16 Professor Peter Whiteford of the Australian National University told the committee that the relative financial position of a person living on the *Newstart* allowance today is lower than what it was in the early 1990s. As he put it:

the poorest 10 per cent are 40 per cent better off than they were in the early nineties...But if you are on Newstart the real increase in your payment is negligible...

...somebody who is at the 10th percentile...is 40 per cent better off but a person on Newstart, compared to somebody who was on Newstart in the early nineties, is not 40 per cent better off. The reason is that people on those payments are moving down the income distribution. Back in the early nineties if you were a single person on Newstart you were about \$6 to \$10 a week below this 10th percentile point. You are now about \$160 a week below that point. People on those payments are falling down, so to speak...

I would have thought that a person on Newstart or youth allowance is now right at the bottom, the real bottom, of the income distribution.¹⁴

Financial hardship approaches

6.17 The 'deprivation approach', a fourth way of assessing the adequacy of payments, is more qualitative in approach. Professor Saunders has explained that:

The deprivation approach seeks to identify who is unable to afford items that are widely regarded as essential. In order to achieve this, it is necessary to conduct a survey in which people are asked which of a list of items they regard as essential, where that term is defined as covering 'things that no-one should have to go without in Australia today' — thus, they are asked which items are essential for people in general, not just for themselves. The items included in the list should not be arbitrarily selected but should reflect the experiences of those living in, or close to, poverty.¹⁵

6.18 The figure below is from Professor Saunders' research on deprivation. It compares the values of two deprivation measures across seven income groups. Professor Saunders summarises the findings shown in this figure as follows:

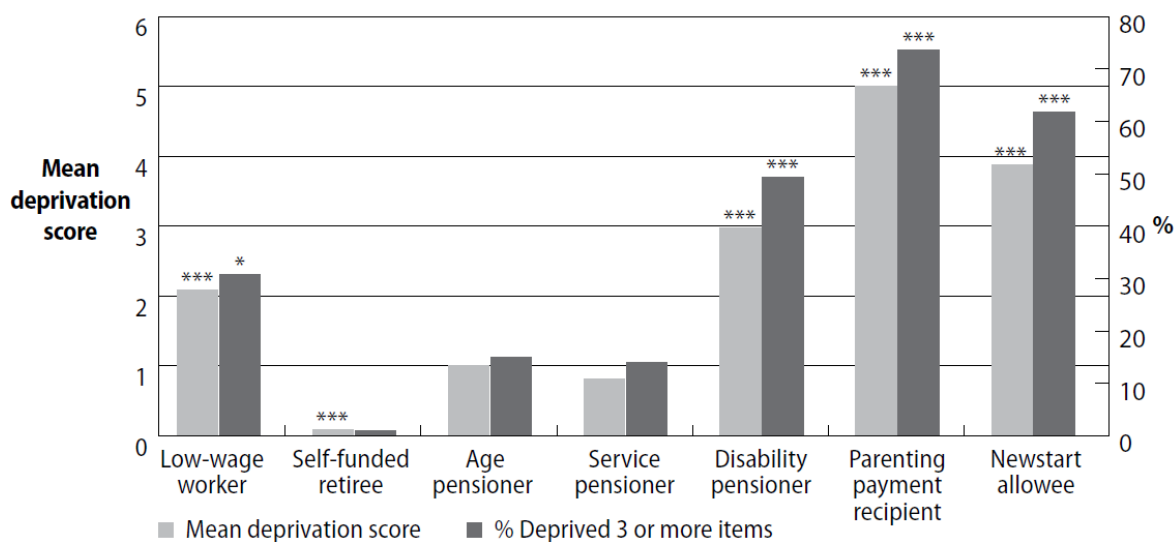
On average, those reliant on the Age Pension were deprived of about one essential item, similar to the level of deprivation among service pensioners. In contrast, there was almost no deprivation among the self-funded retiree group, a finding which provides reassuring evidence that the pension income and assets test are doing their job, and that the mean deprivation scores do indeed track the living standards of each group. However, the most striking aspect of the results in Figure 1 is the high levels of deprivation among the other groups included in the analysis. Thus, in round terms, low-wage workers were deprived of around two essential items, disability pensioners of around three items, Newstart allowees of around

14 Director, Social Policy Institute, *Committee Hansard*, Canberra, 16 October 2014, pp 27–28.

15 Peter Saunders and Melissa Wong, 'Pension adequacy and the Pension Review', *The Economic and Labour Relations Review*, Vol. 22, No. 3, 2011, pp. 12–13.

four items, and sole parents of close to five items. All of these latter levels of deprivation are significantly higher than that experienced on average by the age pensioner group.¹⁶

Figure 6.3: Deprivation by income source, 2006¹⁷



Source: CUPSE survey (see text).

Note: Asterisks indicate that the difference between the group measures and those for the age pensioner group was statistically significant: *denotes significance at 10%; **denotes significance at 5%; ***denotes significance at 1%.

6.19 Noting Professor Saunders' work among other 'financial stress' research findings, the ACTU concluded that they 'confirm the conclusion suggested by replacement rates, poverty lines and budget standards: the current Newstart payment rate is inadequate'.¹⁸

Submitters' and witnesses' concerns with the level of payments

6.20 Several submitters and witnesses to this inquiry shared the ACTU's criticism of the inadequate level of current payments. In particular, there was concern that payment rates for the unemployed, single parents and students are simply inadequate. The Australia Institute commented that for those at the bottom of the income ladder:

...the issue is one of adequacy. I think Youth Allowance and unemployment benefits are too low, and I note that the Business Council of

16 Peter Saunders and Melissa Wong, 'Pension adequacy and the Pension Review', *The Economic and Labour Relations Review*, Vol. 22, No. 3, 2011, p. 17.

17 Peter Saunders and Melissa Wong, 'Pension adequacy and the Pension Review', *The Economic and Labour Relations Review*, Vol. 22, No. 3, 2011, p. 17.

18 *Submission 46*, p. 44.

Australia and a wide range of conservative economists agree with that assessment.¹⁹

6.21 ACOSS wrote in its submission:

The main weakness of our social security safety net is the inadequacy of 'allowance' payments for unemployed people, single parents and students. Recent increases in pensions for older people have sharply reduced poverty but these were not extended to allowance recipients and the gap in payments between pensions and allowances is now \$166 per week for a single adult. Policy makers should end the pretence that employment and activation policies alone can prevent poverty among people of working age. This has not happened in any OECD country. Clearly the social security system needs to carry its share of the load, starting with implementation of the 'Henry Report' proposal to extend recent pension increases to those on the lower allowance payments.²⁰

6.22 The committee was concerned to hear of some speculation in recent months that the issue of payment levels had not been raised in roundtable discussions held as part of the McClure Review process. However, several submitters to this inquiry stated that this was not the case. The St Vincent de Paul Society and UnitingCare Australia both noted that they had made verbal submissions to the McClure Review where they—among many others—drew attention to the inadequacy of income support payments, particularly the Newstart payment. Both organisations suggested that the Review was not focussed on this issue of payment levels. Conversely, Dr John Falzon of St Vincent de Paul Society National Council told the committee that among those giving evidence to the Review, the 'essential starting position' was that people on social security benefits should not be forced to live below the poverty line.²¹

6.23 UnitingCare Australia argued there should be clearly established criteria to determine the appropriate level of payment. It emphasised that:

...it is appropriate that the criteria for assessing the adequacy of a single base payment and supplements [should] include that the payment levels protect against poverty, deprivation and homelessness and enable the transition to employment and access to affordable and appropriate housing.

The establishment of an adequate base payment will bolster current payments that expose recipients to deprivation and homelessness, reduce their ability to secure and retain employment and cause serious disadvantage for their families.

We expect that a determination of adequacy would be the subject of comprehensive research that considered the usefulness of various approaches and measures, including:

19 Dr Richard Denniss, Executive Director, *Committee Hansard*, Melbourne, 16 October 2014, p. 13.

20 *Submission 29*, p. 3.

21 Chief Executive Officer, *Committee Hansard*, Canberra, 16 October 2014, p. 45.

- a combination of movements in wages and prices;
- the budget standards approach (currently under revision) originally produced by the Social Policy Research Centre at UNSW and commissioned by the then Department of Family and Community Services (see Saunders 2004).²²

Committee view on the adequacy of payments

6.24 The committee emphasises the importance of a social security system that ensures that people are not living in poverty. Put simply, payment levels for working age benefits must be adequate to ensure that people are not living in poverty. The committee considers that there should be a review of the level of working age payments (see recommendation 3).

The second principle: incentives to work

6.25 The second principle emphasises the importance of setting payment rates at levels that encourage people to work. The federal government has signalled that it believes the current system of support payments for working age people who are able to work needs to be reformed. Chapter 1 noted that a review has been commissioned. In November 2014, the Minister for Social Services, the Hon. Kevin Andrews MP (Minister), stated:

...the present system fails to provide clear incentives, opportunities and rewards for working age Australians wanting to leave income support, even among those who desperately wish to do...

...perverse incentives have grown over time, encouraging people to take actions that are detrimental to their own long term interests.

The \$260 a fortnight gap in the rate of payment between the Disability Support Pension and the Newstart Allowance, for example, has created a perverse incentive for people on unemployment benefits to test their eligibility for the DSP which has historically had no requirements to look for a job.²³

6.26 The ACTU took issue with the argument that lower payment rates relative to wages (ie. lower replacement rates) will promote workforce participation. This is the view that the smaller the replacement rate, the greater the amount by which an individual can increase his or her income by becoming employed, and therefore the greater the immediate financial incentive to seek employment.²⁴

22 *Submission 30*, p. 8. Saunders, Peter 2004, Updated budget standard estimates for Australian working families in September 2003, Final Report, SPRC Report 1/04, University of New South Wales, Sydney.

23 The Hon. Kevin Andrews MP, *Keynote Address to the Committee for Economic Development of Australia*, 10 November 2014, <http://kevinandrews.com.au/latest-news/2014/11/10/keynote-address-committee-economic-development-australia-ceda/> (accessed 17 November 2014).

24 *Submission 46*, p. 48.

6.27 The ACTU put the following position:

At some point, it is likely to be true that increased payment rates would reduce the incentive to participate in the workforce. However, the relationship between the adequacy of the replacement rate and the effectiveness of recipients' job search activities is not monotonic. Increasing the replacement rate to 100 would eliminate the immediate financial incentive to seek work, but reducing the replacement rate to 0 (ie. abolishing unemployment assistance) would leave unemployed people socially excluded, unable to subsist, and unable to meet the costs of searching for work. Unemployed people need a sufficient income to allow them to maintain a stable home, meet all necessary costs of living, purchase appropriate clothing for interviews and employment, and pay for transport to and from job interviews and potential places of employment. Very low incomes can also lead to a decline in physical and mental health that can reduce a person's likelihood of finding employment.²⁵

6.28 Other submitters to the inquiry also cautioned that incentives to work should not mean setting payments at levels that drive people into poverty. They indicated that current payment levels were so low that they jeopardised the ability of people to find work. Ms Therese Edwards of the National Council of Single Mothers and their Children told the committee that a payments system should serve as a 'springboard for parents' to give them 'a solid footing and chance to gain a start in the labour market'.²⁶ In particular, she criticised the current threshold arrangements with when a single parent's child turns eight and is shifted to Newstart:

...a mum with three children on parenting payment single can earn and keep about \$113 per week. Once her little one turns eight, she is allowed to keep \$50 per week. These losses are unrecoupable. National Welfare Rights estimates that a mum working 15 hours per week on the minimum wage will have to work 28 hours once she has moved across to Newstart just to retain that same amount. We question whether there is the capacity and whether those hours are available.²⁷

6.29 UnitingCare Australia's National Director, Ms Lin Hatfield Dodds, told the committee:

The establishment of an adequate base payment would bolster current payments that expose recipients to deprivation and homelessness, reduce their ability to secure and retain employment, and cause serious disadvantage for their families.²⁸

6.30 Anglicare Australia emphasised that obligations regarding employment and training:

25 *Submission 46*, p. 48.

26 Chief Executive Officer, *Committee Hansard*, Melbourne, 18 September 2014, p. 17.

27 *Committee Hansard*, Melbourne, 18 September 2014, p. 18.

28 *Committee Hansard*, Melbourne, 16 October, p. 43.

...need to be framed around the capacities of those people, and need to recognise their strengths and their circumstances. They need to take on board the reality of the job market in which people find themselves. And there are also responsibilities that the wider society has, above and beyond ensuring adequate income for people out of work. Leadership, employment creation and respect for those who are doing it tough are the starting points.²⁹

6.31 The ACTU argued that income support recipients should receive 'a decent increase' in their take-home pay if they move into work, or increase their hours of work. It argued that to do this, effective tax rates should not be prohibitively high and the rate at which payments are withdrawn as earnings rise (the taper rate) should not be excessive.³⁰

6.32 In this context, the ACTU criticised the National Commission of Audit's (NCOA) recommendation to apply a taper rates for various payments of 75 per cent, arguing that this setting would discourage workforce participation. It noted that at this rate, an income support recipient who chooses to earn an extra \$20 from work will lose \$15 of income support and may also pay income tax out of the remaining \$5. The ACTU concluded:

Prohibitively high taper rates such as those recommended by the NCOA would be at odds with the principle of promoting workforce participation.³¹

Committee comment on the incentive to work principle

6.33 The committee notes that that ACOSS / COTA 'employment incentives' principle emphasises that these incentives should emphasise a person's financial need rather than rigid compliance with income and assets tests. This is a point that is often overlooked in efforts to design a payment system to encourage people into work. Many submitters and witnesses to this inquiry emphasised the importance of providing working-age people with a payment that is adequate for them to gain employment. It is of real concern to the committee that this is currently not the case.

6.34 The committee strongly agrees with the ACOSS / COTA principle on employment incentives. Maximum payment levels must be based on an individual's current financial need rather than their future employment prospects, and payments should not be reduced the closer a person with a disability or caring responsibility comes to securing paid employment.

29 *Submission 33*, p. 13.

30 *Submission 46*, p. 47.

31 *Submission 46*, p. 47.

Means-testing benefits: a third principle?

6.35 The Australian system of social security establishes a number of criteria that determine a person's eligibility for benefit payments. One of these criteria is a means-test which applies either an income or assets test (or both) to determine eligibility. Under a set threshold, a person will typically be eligible for the full benefit; for each dollar earned over the threshold, there is a commensurate reduction in the rate of the benefit.

6.36 Australian governments have viewed means-testing as important not only to assisting those most in need, but to keep the cost of welfare under control. The Minister said in May 2014:

Australia needs a well-targeted means-tested income support system, which provides financial assistance to those most in need, while encouraging self-provision whenever possible.³²

6.37 The Australian social security system is tightly means-tested. A 2009 paper published by the Parliamentary Library explained:

Australia is unique among Western countries for the extent to which its social welfare programs are means tested. Income support is extended across a range of categories, including the old, people with a disability, the unemployed and people caring for children. This support is provided on a flat rate basis and funded from general taxation, rather than from contributions from workers. The Australian system of income support differs from those in most other welfare states in that it is not based around social insurance, whereby, for example, the old, unemployed and sick are protected by earnings related income replacement schemes. Consequently, Australian welfare benefits are generally lower than in other welfare states.³³

6.38 Even with low benefits, the means-tested Australian social security system creates a significant redistributive shift from the top to the bottom 20 per cent of the population. As Treasury noted:

The Australian tax and transfer system overwhelmingly directs assistance towards low income earners. According to the latest ABS Household Expenditure Survey, the poorest 20 per cent of Australian households, on average, receive cash transfers and social services benefits worth more than eight times what they pay in taxes. By contrast, the richest 20 per cent of

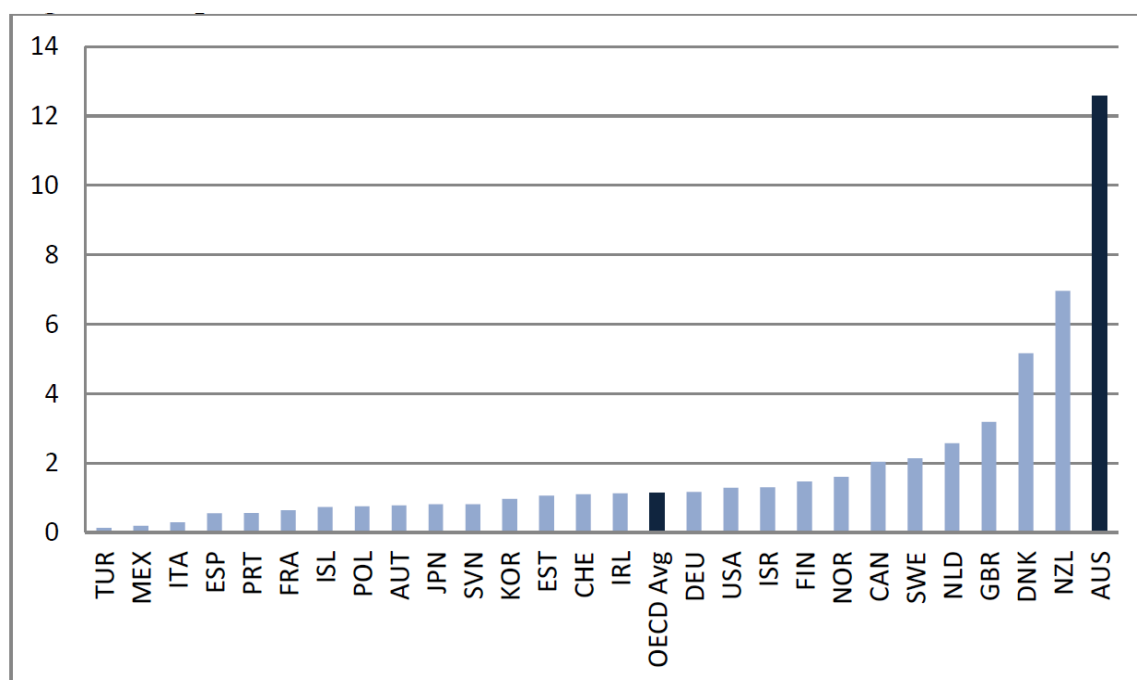
32 'Delivering on our commitments to Australian seniors', *Media releases*, 13 May 2014, <http://kevinandrews.dss.gov.au/media-releases/88> (accessed 18 November 2014).

33 Dr Luke Buckmaster, *Money for nothing? Australia in the global middle class welfare debate*, *Research Paper No. 31*, Parliamentary Library, 2008–09, http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp0809/09rp31#_ftn33 (accessed 18 November 2014).

households, on average, pay more than four times as much tax as they receive in benefits.³⁴

6.39 Figure 6.4 below shows that Australia transfers 12.1 times as much to the poorest 20 per cent of the population, compared to the richest 20 per cent of the population. The OECD average is a ratio of 1.1.

Figure 6.4: Top and Bottom Income Quintiles: Ratio of Transfers to each



Source: Department of Social Services, *answer to question on notice*, received 13 November 2014, p. 2.

Middle class welfare

6.40 As in other countries, there has been debate in Australia about whether benefits should be distributed to those on middle incomes. The political argument in favour of these benefits is that governments should provide assistance to the cost of raising a family. The contrary position is that payments to middle and upper income earners are not efficient and do not meet the basic test of a system that provides for those most in need.

6.41 Research by Professor Whiteford, Professor Gerard Redmond and Elizabeth Adamson found that while there was an increase in middle class welfare between 1982 and 2007–08, the increase was 'relatively modest and focussed on families not far above the second decile'. They conclude:

Overall what appears to have happened over the period since 1982 is that benefit spending has become less targeted on the poorest 20 per cent of the

34 Mr Nigel Ray, Executive Director, Fiscal Group, Treasury, *Committee Hansard*, Canberra, 17 November 2014, p. 2.

population but has been shared more widely with individuals and families below the median. Persons in these income ranges may not be poor, but it is difficult to characterise them as rich...³⁵

Committee comment on means-testing

6.42 The committee believes that the means-testing of benefits should principally be viewed as a design feature of Australia's social security system, as opposed to a principle underpinning social security payments. The committee notes that a tightly means-tested system of income support payments can compromise the system's ability to deliver on the principles of adequacy and providing incentives to work. Applying stringent means-tests can result in poverty traps high effective marginal tax rates, both of which discourage people from participating in the workforce.³⁶

6.43 The committee agrees with ACOSS / COTA principle relating to employment incentives that 'modest levels of private income and assets' should be ignored in determining eligibility for base rate payments. It also agrees that supplements should be less strictly income tested given that their purpose is to assist with extra costs of an employed person.

6.44 The committee considers that in determining eligibility for social security payments, the principle of 'fairness' is crucial. As noted above, 'fairness' relates to providing payments based on *financial need*. It also stresses that people should not be moved from higher to lower payments when their financial needs are the same (see paragraph 6.3).³⁷

A benchmarking process for setting payment levels

6.45 UnitingCare Australia, The Salvation Army, Anglicare Australia, Catholic Social Services Australia and Baptcare Australia all support a benchmarking process to set adequate minimum payment levels for social security benefits in Australia.³⁸ The committee agrees that this approach is necessary. It is concerned with

35 'Middle Class Welfare in Australia: How has the distribution of cash benefits changed since the 1980s?', *Australian Journal of Labour Economics*, Vol. 14, No. 2, 2011, pp 81 and 100.

36 See Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 28, pp 72–73; ACTU, Submission 46, p. 39; Dr Luke Buckmaster, Money for nothing? Australia in the global middle class welfare debate', *Research Paper No. 31*, Parliamentary Library, 2008–09.

37 It has been reported that the McClure Review is 'keen to report that "no one is financially disadvantaged" by the radical welfare changes in the short-term'. See Patricia Karvelas, 'Macklin: McClure dole plan will leave welfare recipients worse off', *The Australian*, 9 October 2014.

38 Ms Lin Hatfield Dodds, Chief Executive, UnitingCare Australia, *Committee Hansard*, Canberra, 16 October 2014, pp 43–44; UnitingCare, *Submission 30*, p. 4; Anglicare Australia, *Submission 33*, p. 12; St Vincent de Paul Society, *Submission 19*, p. 13.

the evidence presented in submissions that across a range of measurements, the payment level for Newstart recipients has failed to keep pace with community standards.

Recommendation 3

6.46 The committee recommends that the Australian Government review the level of working age payments to examine the rate of payment to the poverty line.

Recommendation 4

6.47 The committee recommends that the Australian Government establish a consultation process to engage key stakeholders in discussions on how to set minimum levels for social security payments in Australia, including Commonwealth Rent Assistance payments and student assistance payments. In determining the optimal basis for benchmarking payment levels, these discussions should consider the merit and weight to be placed on each of the following measurements:

- replacement rates;
- poverty lines;
- budget standards; and
- financial stress indicators.

Emergency relief

6.48 Chapter 2 of this report noted that emergency relief funding had been reduced in 2014–2015 by \$7 million. The Department of Social Services explained this reduction in funding in terms of reduced need for emergency funding. The Deputy Secretary told an Estimates hearing in June 2014:

In 2011-12 there were just over a million requests for assistance. In 2012-13 there were 864,000 requests for assistance. Last year there were, to date for a half year, 374,000.³⁹

6.49 The committee questions this data and the government's proposed cut to emergency funding assistance. The evidence that the committee has received from various welfare agencies on the level and severity of hardship in recent years indicates that there is a need for more, not less, emergency relief funding (see chapter 2).

Recommendation 5

6.50 The committee recommends that the Australian Government urgently review the amount of funding allocated to Financial Crisis and Material Aid including for the provision of Emergency Relief and Food Relief (including over

39 Ms Barbara Bennett, Deputy Secretary, Department of Social Services, *Committee Hansard*, Community Affairs Budget Estimates 2014–15, 5 June 2014, pp 47–48.

the forward estimates), to ensure that vulnerable Australians in need are able to access assistance.

Should an independent body set payment levels?

6.51 The preceding discussion raises the question of who should set the base level for payment. Should it be the government or should an independent body be charged with setting payment levels based on a transparent benchmarking process. Anglicare Australia noted in its submission that it has twice conducted a national survey to test public support for an independent body to set payment levels. It said:

On both occasions, around 60% of respondents, across all population groups, were in favour of an independent body setting payment levels, and about 20% favoured the government. Governments of all persuasions, however, have not responded well to this idea. That is why Anglicare Australia is calling for, at the very minimum, an independent and transparent benchmarking process that informs – and be seen to inform – government decision makers.⁴⁰

6.52 UnitingCare Australia put a different argument. Ms Hatfield Dodds told the committee:

We are not proposing that an independent process is set up that binds government. We are proposing a transparent benchmarking process under which government can then make its own decision about how it wants to deal with that in a budget context.⁴¹

6.53 The committee notes that under the ACOSS / COTA principle of 'administration', 'entitlements and compliance with any participation requirements should be assessed by a single statutory agency'. However, the committee is not convinced that an independent statutory body should be setting payment levels. It believes that this is the role of government. However, it is important that governments follow a clear and transparent process for measuring, setting and indexing working-age payment levels. The committee reiterates the need for proper consultation with stakeholders to establish this process.

A tiered system of payments

6.54 One option aimed at simplifying the current payments structure and prioritising work incentives in social security payments is to categorise payments and alter payment levels according to a recipient's prospects of returning to work. The Interim Report of the McClure Review Reference Group (see chapter 1) proposed:

40 *Submission 33*, p. 13.

41 *Committee Hansard*, Canberra, 16 October 2014, p. 44.

...a simpler architecture for the income support system consisting of the following payment types: a tiered working age payment; a Disability Support Pension; an Age Pension and a child payment.⁴²

6.55 The Interim Report proposed that the working age payment be tiered to 'take account of individual circumstances, such as partial capacity to work, parental responsibilities or limitations on availability for work because of caring'. The Disability Support Pension (DSP) would only be available for people with a permanent impairment. The Interim Report also proposed a tiered working age payment for those currently on the DSP with a capacity to work.⁴³ In terms of child payments, the Interim Report proposed 'a simpler child payment structure' which could bring together Family Tax Benefit Part A, Youth Allowance, ABSTUDY and other payments for dependent children and young people.⁴⁴

6.56 Interestingly, the Interim Report suggested that single parents and others with a significant barrier to full-time employment could be given a higher rate. It stated:

In moving towards a new working age payment, consideration should be given to reducing the current gap between pensions and allowances, particularly for people with limited work capacity, or with significant labour market disadvantages.

Within a tiered working age payment structure, consideration should be given to when a higher rate should be paid. Recipients of higher rates could include single parents, people with disability and a partial capacity to work, and others with a significant barrier to full-time employment. Recipients of the lower payment rates could include students and single unemployed, particularly those of younger age.⁴⁵

6.57 The 2009 Henry Review proposed a broadly similar structure. It suggested that payments should fall into one of three tiers, dependent on the recipient and the purpose of the payment. The first category should be pensions for those people not expected to work (the elderly, those with disability). These payments should be 'sufficient to provide an adequate standard of living, based on an accepted community standard'. The second category he termed 'participation payments'. These are provided to people 'who are able to work and expected to work' (the unemployed, single parents). The rates of payment here 'should provide a basic level of adequacy'.

42 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 6, https://www.dss.gov.au/sites/default/files/documents/06_2014/dss001_14_full_report_27_june_tagged.pdf (accessed 17 November 2014).

43 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 6.

44 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 6.

45 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 7.

The third category is student assistance which should be a lower payment rate than the participation rate.⁴⁶

Reform and simplicity

6.58 In the context of the preceding discussion, the committee draws attention to the ACOSS / COTA principle of 'simplicity'. The committee understands that a key theme of stakeholders' discussions as part of the McClure Review is to simplify the payment system. Consistent with the ACOSS / COTA principle, the committee emphasises that reform to simplify the current system must:

- ensure that people in similar circumstances receive the same level of payments with the same or similar eligibility requirements; and
- remove the hurdles for people undergoing common life transitions such as employment, unemployment, different stages in the care of children or other family members.

6.59 In the context of the current reform process, the committee also reiterates its concern that any changes to the current system are consistent with the principle of fairness. Payments must be based on financial need and no recipient should be financially worse off as a result of the reforms.

Recommendation 6

6.60 The committee recommends that in its response to the findings of the Review of Australia's Welfare System, the Australian Government ensure that those facing the greatest hardship are better off.

Other practical measures to address income inequality

6.61 The previous section identified the need to increase the level of social security payments, and index these payments on a consistent basis to ensure that payment levels reflect current community standards. This section identifies some other specific measures that Australian Governments could pursue to alleviate income inequality. These could include:

- improving housing affordability for people on low incomes, and in particular:
 - increasing the level of Commonwealth Rent Assistance;
 - indexing this assistance to market rents rather than the CPI; and
 - setting aside a percentage of all new housing developments for public housing;

46 *Australia's Future Tax System Review*, 'Section 7.3: Important impacts of the personal tax-transfer system', *Architecture of Australia's Tax and Transfer System*, Commonwealth of Australia, Canberra, 2009, pp 59–60.

-
- mentoring young people who are disengaged (or at risk of dropping out) from school, including 'hands-on' training programs and initiatives to connect young people with employers;
 - retraining programs for older workers and case management to help the long-term unemployed find work;
 - targeted assistance for low income groups to assist with the cost of childcare;
 - strengthening taxation compliance;
 - taxation reform including proposals to:
 - further increase the tax-free threshold;
 - limit the use of negative gearing as an investment strategy; and
 - progressively increase the rate of taxation on superannuation contributions, fund earnings and payouts.

Housing affordability and Commonwealth Rent Assistance

6.62 The ACOSS / COTA principles outlined above contain a principle on 'housing affordability' which says:

...comprehensive action should be taken to make housing affordable for people on low incomes...

Rent Assistance should be adequate and indexed to movements in rents.

Improvements in Rent Assistance should complement, not replace, adequate public investment in social housing and reform of incentives for private investment in affordable housing.⁴⁷

6.63 In its submission, COTA noted that Commonwealth Rent Assistance (CRA) payments are often 'the difference between having and not having a home'. However, CRA payments have not kept pace with increases in private rents, particularly in metropolitan areas. COTA argued that while long term solutions for increasing the supply of affordable housing are critical:

...an increase in the CRA for the lowest income groups is an important measure as it would start to reduce the gap between the level of subsidy received by people in public housing and people in private rental who may have similar incomes and needs.⁴⁸

6.64 COTA also argued the need to index payments to the private rental market to ensure the value of assistance does not erode over time.⁴⁹

47 See COTA, *Submission 38*, Attachment 1, p. 21.

48 *Submission 38*, p. 11.

49 *Submission 38*, p. 11.

6.65 This inquiry has received some evidence that CRA should be increased (see paragraph 3.85–3.86). Ms Mary D'Elia, the State Operations Manager of Baptcare in Tasmania, told the committee:

In a situation of increasing income inequality, it is low-income households living in private rental that face the greatest financial stress. Baptcare calls for the Commonwealth rent assistance to be increased and for it to be indexed to the rental component of the CPI. It is also disappointing that the Commonwealth has suspended NRAS initiatives for the construction of new housing developments for low-income renters. Baptcare encourages the Commonwealth to work with the social housing sector to establish viable, long-term strategies in this field so that housing does not increasingly exacerbate the impact of income inequality.⁵⁰

6.66 The Queensland Department of Housing and Public Works told the committee that there are approximately 200 000 low-income Queensland households that currently receive CRA. Of this number, around 18 000 are in community sector housing with the remaining 182 000 in the private rental market. The Director-General of the Department, Mr Neil Castles, told the committee:

The issue with CRA is that it is not particularly responsive to variations in household income, movements in market rentals and regional differences. In some parts of Queensland there is probably a lesser need for CRA but if you are in the CBD or close to the CBD of Brisbane—and that may be a requirement, depending on need—CRA may not be adequate. It is a one-size-fits-all approach and that does not necessarily work.⁵¹

6.67 The Henry Review recommended that the maximum rates of rent assistance for income support recipients should be 'substantially increased' and linked to movements in market rents. Further, public housing rent concessions should be replaced by rent assistance and 'a new form of assistance for high-need tenants to improve equity and work incentives'.⁵²

6.68 The Interim Report of the Reference Group on Welfare Reform has recognised that current arrangements that index rent assistance to the CPI are not effective. As it explained:

Rent Assistance is indexed to the Consumer Price Index (CPI), but private rents have been rising at a higher rate than the CPI for some time. This means that Rent Assistance has been gradually becoming less effective in reducing rental stress for people in the private market. It has also widened

50 *Committee Hansard*, Hobart, 19 September 2009, p. 4.

51 *Committee Hansard*, Logan, 8 October 2014, p. 2.

52 *Australia's Future Tax System Review*, Report to the Treasurer, Part 1, Overview, Commonwealth of Australia, Canberra, 2009, p. xxiii.

the gap between the relative generosity of Rent Assistance and public housing.⁵³

6.69 The committee has not had the opportunity or the evidence to examine the issue of the maximum rate of rent assistance in any detail. However, the committee recognises that this is an important issue. It proposes that the level and the method for setting CRA payments should be considered as part of the consultation process on social security payments (see recommendation 4). It also makes the following recommendation.

Recommendation 7

6.70 The committee recommends that the Commonwealth Government establish a series of national and regional rental indexes to track the increase of rents. The committee recommends that consideration, including of cost implications, be given to indexing Commonwealth Rent Assistance according to the geographically most suitable index.

A percentage of social housing in national planning guidelines

6.71 In addition to increasing the funding for CRA to reflect rent increases, the committee also highlights the need to increase the stock of public housing for people on lower incomes. The committee considers that government should aim to set a requirement that new housing developments contain a certain proportion of social housing. Specifically, the committee encourages the federal government, in partnership with state governments, to:

- develop national planning guidelines for new housing developments that require a social mix of public and private housing with a minimum target of affordable and public housing, and housing that caters for diverse social and cultural needs;
- increase the provision of emergency accommodation and transitional housing for people in need. This includes women and children affected by family violence, people experiencing homelessness, refugees and asylum seekers, migrants and people released from detention;
- develop national urban planning guidelines that provide for the location of high density housing and commercial buildings close to high capacity public transport; and
- the clustering of medium-density housing, community facilities and small-scale businesses around neighbourhood shopping centres and other social facilities linked with public transport.

53 Interim report of the Reference Group on Welfare Reform to the Minister for Social Services, *A new system for better employment and social outcomes*, Full Report, June 2014, p. 31.

Recommendation 8

6.72 The committee recommends that the Commonwealth Government develop National Urban Planning Guidelines ensuring that new and existing developments have access to public transport, health, education and other services.

6.73 The committee also recommends that the Commonwealth Government develop National Planning Guidelines that all new housing developments have a minimum target of affordable and public and social housing for low income and other disadvantaged groups.

Education and training: the importance of youth mentoring

6.74 This inquiry has received valuable evidence from a range of submitters and witnesses on the type of education and training programmes that successfully support young people from disadvantaged backgrounds to remain in school until Year 12, and further training or the workforce after school. These programmes instil the importance of school and enabling young people to see that they have an employment future and where this future lies. The programmes have achieved some excellent outcomes.

Youth Connections

6.75 Youth Connections is a federal government programme that assists young people at risk of not completing Year 12 to engage with employment opportunities to ensure they finished year 12 and then transition into employment or further study. The programme's providers offer outreach activities for young people who are disengaged from education, training or employment to support them in their local communities. The programme also aims to build the capacity of schools and communities to improve the support available to young people at risk of disengaging.⁵⁴

6.76 The Youth Connections programme will cease at the end of 2014. Several submitters have noted the success and popularity of the programme in improving Year 12 completion rates in disadvantaged areas and recommended that it be continued. Mr Womersley of the South Australian Council of Social Service, for example, expressed his disappointment that the programme would not be funded beyond 2014. He drew the committee's attention to the programme's role in building long term connections with disaffected young people.⁵⁵

6.77 Similarly, the Youth Affairs Council of Western Australia highlighted 'the importance that the nationally funded Youth Connections Program plays in reducing

54 See Department of Education, 'Youth Connections', <http://education.gov.au/youth-connections> (accessed 18 November 2014).

55 Executive Director, *Committee Hansard*, Elizabeth, 10 November 2014, p. 29.

income inequality in our communities'. It urged that the government 'continue funding of the highly successful and critically important, Youth Connections Program'.⁵⁶

Mr Craig Comrie told the committee:

Across the country it [the Youth Connections programme] has a success rate of 80 per cent in engaging young people to stay in education or employment. In some parts of the country the success rate is 94 per cent.⁵⁷

... It is a \$7.5 million investment in Western Australia. In terms of cost, it is really not expensive for the outcomes that are achieved by the program. There are 1,500 young people supported every year, and there are also 77 youth workers, who, on 31 December, will lose their jobs. We really need to stop the back and forth between the state and federal governments, and someone needs to make a commitment in this area.⁵⁸

... One of the potential safeguards in place around the Youth Connections programs is [Job Services Australia (JSA)]. I would suggest that JSA is probably not equipped at the moment to best support young people. There is a different conversation that needs to be had with young people, going back to what I mentioned about meeting young people where they are and hearing their story rather than simply being, 'Okay, you've come to JSA. The aim here is to get you into employment.' For youth services the aim is: 'We want to know where you're coming from, we want to know your story and we want to know what you want in life so that we can help you get there.'⁵⁹

6.78 The Youth Affairs Council of South Australia (YACSA) conducted a survey of young people, the results of which were reported in its submission. One of the survey questions asked what governments can do to make things better for young people experiencing poverty. YACSA noted:

- 80 per cent of respondents called for the provision of more education and employment pathways programs (the highest response);
- 76 per cent called for more affordable housing options including more government housing; and
- 65.1 per cent called for higher rates of government allowances.⁶⁰

YACSA added that specific comments from the survey:

...centred on governments providing employment and training transitions programs (like the recently defunded Youth Connections), meaningful mentoring programs, more programs to teach young people about starting

56 *Submission 25*, p. 10.

57 *Committee Hansard*, Rockingham, 11 November 2014, p. 20.

58 *Committee Hansard*, Rockingham, 11 November 2014, p. 20.

59 Chief Executive Officer, *Committee Hansard*, Rockingham, 11 November 2014, p. 27.

60 *Submission 35*, p. 9.

their own business, and providing a fair and consistent Centrelink Allowance system that covers the basics of life.⁶¹

6.79 The committee is concerned that the decision to terminate the Youth Connections programme and other youth transition programmes will leave a significant gap in services for those young people who no longer attend school. The committee urges the Commonwealth Government to either recommit funding for the Youth Connections programme or introduce a rebadged program with the same objectives and design as Youth Connections. In addition, the committee recommends that the Australian Government considers incorporating the key mentoring aspects of the Youth Connections programme into TAFE courses.

Recommendation 9

6.80 The committee recommends that the Commonwealth Government reconsider its decision to terminate the *Youth Connections* programme and other youth transition programmes. These programmes should be continued or at least rebadged. The focus of the programme must remain on one-on-one mentoring to help young people to overcome the barriers that make it difficult for them to stay in, or return to, school or training.

6.81 The committee recommends that the Commonwealth Government establish TAFE programmes that build on the mentoring approach of the *Youth Connections* programme. The objective of this approach at TAFE level is to ensure that young people remain engaged in vocational training and are able to identify and pursue their employment options.

Pasifika Families with Pride and Purpose Programme

6.82 Ms Ranandy Stanley from the Hope Centre in Logan noted the achievements of the Pasifika Families with Pride and Purpose Program, which engages migrant families from Pacific Islander backgrounds.⁶² Despite being a new initiative, it has improved Year 12 retention rates at several local schools. The programme aims to:

[G]et elders from the community to talk about how to fit into the Australian customs. We have Griffith University come in and talk about how important education is and finding pathways for them to get into university. Then we have someone talking about healthy relationships at home and

61 *Submission 35*, p. 9.

62 *Pasifika Families Program with Purpose and Pride*, https://prezi.com/yh6xxw_6etos/pasifika-families-program-with-purpose-and-pride/ (accessed 18 November 2014).

how to interact with your parents and that sort of thing. We touch on different topics.⁶³

Learning for Life

6.83 Ms Anne Hampshire of The Smith Family noted that 'low-income families have very high aspirations for their children and their family generally, but they struggle to provide the resources and the stepping stones to realise those aspirations'.⁶⁴ The Smith Family runs a programme called *Learning for Life* that seeks to provide those resources to 'attain Year 12 and beyond'. The programme engages with the young person and their family, tailoring access to resources in addition to small financial contributions contingent on the young person meeting specific goals such as attendance and utilisation of the opportunities provided. That is, the scholarship's strength is this idea of mutual obligation and trust between the individual and The Smith Family. This programme supports over 34 000 young people.⁶⁵

The South Metropolitan Youth Link in Western Australia

6.84 The South Metropolitan Youth Link (SMYL) in Western Australia places school age children at risk of disengaging from the education and training system into a workplace. SMYL pays the wages of these children whilst they attend a workplace and learn the requisite skills to function as an employee. There is a role for government to assist with paying these young people's wages to ensure they remain engaged with study or in some cases moving directly into the workforce:

We have the constant assertion from industry that it cannot afford to pay the \$100 a day to put a kid at the workplace. There is a point where [the government and not-for-profit sectors] have to wear that because we work with kids who are really difficult. They are not good year 12 kids. Within six to 12 months, most of our kids are functioning, but we still have to carry their wages until year 12. After year 12, about 85 or 90 per cent of the non-Aboriginal kids get employment straightaway with their host employers. We have that kind of compact with employers. Our fear about this is: if you wait until the kids have left school, it becomes almost

63 Ms Rananda Stanley, Multicultural Liaison and Community Development Coordinator, Hope Centre Services, *Committee Hansard*, Logan, 8 October 2014, pp 29–30. See also evidence from Ms Jane Frawley, Community Services Manager, Logan City Council, *Committee Hansard*, Logan, 8 October 2014, pp 23–24. The Scanlon Foundation also provides funding for six community hubs and six staff to engage with students who are disengaged from schooling and at risk of not finishing school. Mr Neil Castles, Director-General, Queensland Department of Housing and Public Works, *Committee Hansard*, Logan, 8 October 2014, p. 2. The AFL Cape York House in Cairns was also described in evidence as a boarding house where indigenous children from remote locations can board and then attend local high schools.

64 Head, Research and Advocacy, *Committee Hansard*, Canberra, 16 October 2014, p. 40.

65 Ms Anne Hampshire, The Smith Family, *Committee Hansard*, Canberra, 16 October 2014, p. 40.

impossible. It is too expensive. If we get these kids while they are not attending school but at school age, we can get them re-engaged.⁶⁶

6.85 As chapter 1 of this report noted, the committee had an opportunity to visit SMYL's College and training facility in Rockingham and was impressed. Clearly, the College has had significant success in keeping its students on its roll and engaged in practical and hands-on activities. It is also clear that the mainstream schooling system could not have achieved these results.

The Northern Adelaide State Secondary Schools Alliance

6.86 The committee also heard of the success of programmes that connected school students with vocational education providers and employers. The Chief Executive Officer of AnglicareSA, Reverend Peter Sandeman, told the committee of a successful collaborative programme in north Adelaide that connected schools with TAFE, providing later-year school children with TAFE training opportunities:

The first organisation I draw your attention to is the Northern Adelaide State Secondary Schools Alliance, affectionately known as NASSSA. The purpose of the alliance is to maximise the learning opportunities, career pathways, retention and educational outcomes for students in state secondary schools in the northern Adelaide region. The alliance is a key link between 11 secondary schools and community, university, training organisations and industry partners across the northern Adelaide region. It has enabled those schools to stop talking about 'my students' and start talking about 'our young people' and that is a big jump. It is one of the things I was associated with in the north and it has endured to this day. NASSSA then allows schools to work with employers and employer groups as a whole.⁶⁷

We had the schools working together to provide TAFE opportunities during year 10, 11 and 12. Let me give you an example. By themselves, individual high schools could only muster maybe three or four kids who wanted a particular program, and TAFE would say, 'Sorry; not interested.' So what we did was to get the schools to develop an alliance, and I think we went from 56 kids doing TAFE training in one year to 560 the next year, simply through the schools buying from and negotiating with TAFE in bulk.⁶⁸

Work Inspiration

6.87 Work Inspiration is an employer-led programme aimed at making a young person's first experience of work both meaningful and inspiring. It is operated in partnership between The Smith Family, the Foundation for Young Australians and the

66 Mr Sam Gowegati, Chief Executive Officer, *Committee Hansard*, Rockingham, 11 November 2014, p. 41.

67 *Committee Hansard*, Elizabeth, 10 November 2014, pp 25–26.

68 Board Member, Automotive Transformation Taskforce, *Committee Hansard*, Elizabeth, 10 November 2014, pp 3–4.

National Australia Bank. Employers are encouraged to create their own format for a work experience programme. This programme should encourage a dialogue between the young person and employer: the young person explaining themselves and their interests and the employer explaining the opportunities that might suit these interests and how a career might pan out.⁶⁹ Mrs Hampshire from The Smith Family told the committee:

Work Inspiration is an employer-led initiative but involves very close partnerships with schools and community organisations. It came from the UK originally; it provides young people with a very different type of work experience, a very hands-on, personal opportunity. For the employer it allows them to understand what a potential youth labour force might look like. It allows them also to get—what generation are we up to now?—Generation Z's view of how they might sell their products, et cetera. We need far more innovative and creative ways.⁷⁰

6.88 At the hearing in Elizabeth, the committee heard of the importance of school students—particularly those from disadvantaged backgrounds—being able to connect with employers. Dr Ian Goodwin-Smith of Flinders University drew the committee's attention to the work of Dr Anthony Mann, the Director of Policy and Research at the Education and Employers Taskforce in the United Kingdom. Dr Mann's research shows that there is a positive connection between employer engagement with students at school and the employability and earning power of a young adult who could recall that interaction.⁷¹

6.89 In referencing Dr Mann's work, Dr Goodwin-Smith told the committee that, by interacting with employers, young people:

...get a more complex array of social and cultural capital—they get that life experience which you do not get, necessarily, in an inter-generationally unemployed family...

There needs to be a lot of work done, with people who have been unemployed throughout the generations, to overcome that kind of cultural and social exclusion. There also needs to be a commitment to carrying that work through to post-employment support. That is what a lot of our research showed us as well. Worker acculturation and post-employment support using a case-management approach are really important.⁷²

6.90 Similarly, Ms Catherine Bartolo of YFS Limited suggested the need for 'champions' for disengaged youth, adding that service providers can fulfil that role:

69 Work Inspiration, 'What's involved?', <http://www.workinspiration.com.au/whats-involved/> (accessed 19 November 2014).

70 *Committee Hansard*, Canberra, 16 October 2014, pp 41–42.

71 See: <http://www.darwin2014.com.au/dr-anthony-mann/> (accessed 3 December 2014).

72 Director, Australian Centre for Community Services Research, *Committee Hansard*, Elizabeth, 10 November 2014, p. 41.

They need people in their lives to champion—whether it is a football coach, a teacher or an agency like us that says, 'We're going to do what it takes to make it work.' We have to break some of those cycles.⁷³

Recommendation 10

6.91 The committee recommends that Australian schools—particularly those in regions of socio-economic disadvantage—establish alliances with employers and vocational education providers to deliver programmes that encourage young people to remain at school, develop contact with employers and support young people to transition to the workforce or further education or training. These programs should encourage employers and vocational education institutions to take a lead role in designing courses that identify future job opportunities for these young people.

Training and employment for older workers and the long-term unemployed

6.92 The committee also received important evidence on the need for targeted training programs to assist older workers (particularly those facing retrenchment) and long-term unemployed people looking to re-enter the workforce.

Retraining opportunities for older workers

6.93 The TAFE system also has an important role to play in providing retraining opportunities for older workers. Chapter 4 noted the comments of the Age Discrimination Commissioner and her call for a National Jobs Checkpoint Plan (see paragraph 4.79). Ms Ryan envisaged that this Plan would be:

...high profile, widely supported, and nationally coordinated approach to helping all people at midlife to check where they are and change direction if they need to. This national approach can be developed by governments, industry and vocational education providers working together. I see TAFE right at the centre of this Plan. TAFE colleges have the required training skills and links with local employers and government programs, but these links need to be strengthened and supported for vocational education everywhere throughout Australia.⁷⁴

6.94 As chapter 4 noted, the committee believes that this proposal has merit. It encourages the Office of the Age Discrimination Commissioner to articulate a plan, with costings, that can be put to the Commonwealth and State governments for their

73 Chief Executive Officer, *Committee Hansard*, Logan, 8 October 2014, p. 34.

74 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). See also, Joanna Mather, 'Slow start for aged workers subsidy', *Australian Financial Review*, 20 September 2014, p. 11.

consideration.⁷⁵ The costings should emphasise the savings that will arise from a preventative approach where people move smoothly to training and further work, as distinct from older workers being made redundant and reliant on income support payments.

Recommendation 11

6.95 The committee recommends that the Office of the Age Discrimination Commissioner articulates a National Jobs Checkpoint Plan, with costings, that can be put to the Commonwealth and State governments for their consideration. These costings should emphasise the savings that will arise from a preventative approach where older workers can move smoothly to training opportunities and further work, as distinct from these workers being made redundant and reliant on income support payments.

Connecting the long-term unemployed to the workforce

6.96 The task of encouraging low-income people from disadvantaged groups into the labour market requires a sustained and coordinated effort. For many years in Australia, a targeted approach has been applied through various labour market programmes. On the basis of the evidence received during this inquiry, the committee suggests that there are significant benefits from the case management approach of programs operating in areas of acute socio-economic disadvantage.

6.97 As chapter 1 noted, in Elizabeth, the committee had the opportunity to meet representatives of the Building Family Opportunities (BFO) Program, run by Wesley UnitingCare Port Adelaide. The program seeks to bring 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. The approach of JSA tends to be more focused on job skills, experience and local job opportunities (see paragraphs 1.60–1.61).

6.98 The committee commends programs such as the BFO Program. These initiatives are carefully targeted to meet the specific needs of families facing severe hardship.

Recommendation 12

6.99 The committee recommends that the Australian Government assess the success and the financial and social benefits of programmes that provide individualised support for the long-term unemployed and those at risk of long-term unemployment. Pending this analysis, the committee recommends that the

75 The committee understands that the Age Discrimination Commissioner has made some preliminary approaches to federal Ministers and Shadow Ministers. Discussion with the Hon. Susan Ryan AO, 27 November 2014.

Australian Government consider the case for funding these programmes on a more secure, longer-term basis.

Childcare

6.100 Currently, the Australian Government assists with the cost of childcare through a means-tested childcare benefit and a capped childcare rebate. The maximum rate of childcare benefit is payable for a family income under \$42 997 or for families receiving income support. A family with one child is not eligible for the benefit if its income exceeds \$149 597; for two children, the benefit cuts out at an income of \$155 013 and a family with three children is only eligible for the benefit if its income is less than \$175 041.⁷⁶ The child care rebate covers 50 per cent of out of pocket child care expenses up to a maximum of \$7500 per child per year.

6.101 The Henry Review recommended combining the Child Care Benefit and the Child Care Rebate into a single payment based on a percentage of childcare costs. The Review proposed that the payment should have a high rate of subsidy for low-income families that covers up to 90 per cent of the costs of childcare. It also proposed a base rate of assistance for all families that use child care to facilitate parental engagement in the workforce. The base rate of assistance should be set as a proportion of child care costs, with reference to the marginal tax rate faced by the majority of taxpayers.

6.102 The committee notes that the Productivity Commission (PC) is currently undertaking a review of Childcare and Early Childhood Learning. In its July 2014 draft report, the PC recommended that the all childcare subsidies should be consolidated into one payment called the Early Care and Learning Subsidy (ECLS). This subsidy would also contain a top-up provision to provide additional services to specific groups of children based on need, 'notably children assessed at risk, [indigenous children], and children with a diagnosed disability'. The PC also proposed establishing two block-funded programs to cater to specific areas of need:

The Special Early Care and Learning Subsidy would fund the deemed cost of meeting additional needs for those children who are assessed as eligible for the subsidy. This includes funding a means tested proportion of the deemed cost of mainstream services and the 'top-up' deemed cost of delivering services to specific groups of children based on their needs, notably children assessed as at risk, and children with a diagnosed disability.

76 Department of Human Services, *Childcare benefit*, <http://www.humanservices.gov.au/customer/services/centrelink/child-care-benefit> (accessed 17 November 2014).

The Disadvantaged Communities Program⁷⁷ would block fund providers, in full or in part, to deliver services to specific highly disadvantaged community groups, most notably Indigenous children. This program is to be designed to transition recipients to child-based funding arrangements wherever possible. This program would also fund coordination activities in integrated services where [Early Childhood Education and Care (ECEC)] is the major element.

The Inclusion Support Program would provide once-off grants to ECEC providers to build the capacity to provide services to additional needs children. This can include modifications to facilities and equipment and training for staff to meet the needs of children with a disability, Indigenous children, and other children from culturally and linguistically diverse backgrounds.⁷⁸

6.103 The report also suggested a shift in funding priorities from the proposed Paid Parental Leave scheme to ECEC:

A considerable number of submitters, the 2014 National Commission of Audit and various commentators, suggested that the Government direct at least some of the funding for its proposed Paid Parental Leave (PPL) scheme to ECEC assistance for families, to ensure continuity of support for working parents with young children. The Commission considers that it is unclear that the proposed changes to the Paid Parental Leave scheme—which is more generous than the existing scheme and that recommended in the Commission's 2009 report on paid parental leave—would bring significant additional benefits to the broader community beyond those occurring under the existing scheme. There may be a case, therefore, for diverting some funding from the proposed new scheme to another area of government funding, such as ECEC, where more significant family benefits are likely. Such a move could add up to a further \$1.5 billion per year to Australian Government assistance for ECEC.⁷⁹

6.104 The committee notes media speculation that the PC's final report as part of the federal government's review into childcare and early childhood learning will recommend a single means-tested payment for childcare, with government assistance based on a percentage of the 'deemed cost' of childcare.⁸⁰

77 The Productivity Commission (PC) recommended that the government establish this program (as well as the *Inclusion Support Program*) to cater for those areas where delivery is likely to be improved through a block-funding approach, rather than a child-based funded approach. See page 23 of the Draft Report.

78 PC, *Childcare and Early Childhood Learning*, Draft Report, July 2014, p. 49.

79 PC, *Childcare and Early Childhood Learning*, Draft Report, July 2014, p. 41.

80 'Childcare resolutions will have to wait for the new year', *Sydney Morning Herald*, 30 October 2014, <http://www.smh.com.au/federal-politics/political-news/childcare-resolutions-will-have-to-wait-for-the-new-year-20141031-1leazr.html> (accessed 18 November 2014).

6.105 This inquiry has not examined the issue of childcare costs in any detail. Few submitters raised the issue. The Salvation Army proposed temporary tax cuts to offset the cost of childcare.⁸¹

6.106 The committee does recognise that childcare costs can be significant impost not only for low income families and single parents, but even for people and households on average incomes. It also acknowledges that there is a significant opportunity cost to the economy where women either choose, or are financially forced, to remain at home to care for a child. The committee awaits the PC's final report.⁸² It hopes that the report will make recommendations that adequately address the key issue of increasing investment in childcare places, particularly in areas of socio-economic disadvantage.

Taxation options: raising the tax-free threshold

6.107 Apart from increasing benefits, another obvious way to assist low income people is to remove their tax obligations. The Australian taxation system has a tax-free threshold: a person earning below this threshold is exempt from paying income tax. Tax is only paid on taxable income exceeding the threshold.

6.108 As of July 2012, the tax-free threshold increased from \$6000 to \$18 200. Dr Paul Blacklow of the University of Tasmania told the committee:

...I think that most public policy for the last 20 years has only contributed to inequality. Really, the raising of the tax-free threshold is the only thing I can think of that has been a positive step...⁸³

6.109 The final Report of the Henry Review noted the merit of a tax system that reduced the number of income support recipients need to pay tax. It argued that the transparency of the system could be improved by 'a more complete separation of the tax system from the transfer system' which could be achieved by setting the tax-free threshold at a 'much higher level'. One of the recommendations of the Henry Review was that 'a much higher personal tax-free threshold, around \$25,000, should replace the current complex array of thresholds and offsets'.⁸⁴ The Review estimated that a threshold set at this level:

...would mean that more than 1.2 million additional people would no longer pay tax—over 10 per cent of current taxpayers. Many of these would not have to file a tax return (although some would continue to do so to claim withheld amounts or imputation credits). Setting the tax-free

81 *Submission 13*, p. 7.

82 The Draft Report, released in July 2014, can be found here:
http://www.pc.gov.au/data/assets/pdf_file/0008/138383/childcare-draft.pdf

83 Lecturer in Microeconomics, Tasmanian School of Business and Economics,
Committee Hansard, Hobart, 19 September 2014, p. 13.

84 Australia's Future Tax System Review, Report to the Treasurer, Part 1, Overview,
Commonwealth of Australia, Canberra, 2009, p. xx.

threshold at this level would remove the need for the low income tax offset and limit the need for the senior Australians tax offset.⁸⁵

Strengthening tax compliance

6.110 Compliance with taxation laws is important not only to the integrity of the tax system but also to ensure that revenue for public services is collected and the intended distributional effects actually occur. In evidence to the committee, the Australian Taxation Office (ATO) stated:

The overwhelming majority of Australians actually do the right thing in terms of complying with their tax obligations. That is the evidence we experience, in terms of our view, at the ATO. We devote an enormous amount of effort to trying to make it as easy as possible for people to comply. By the same token, we also devote resources to those who are not complying, initially from a help and educational perspective, to try and help them to understand their obligations and meet them—because many who do not do so inadvertently. For those who do so deliberately, we have a particular focus around those as well to ensure that they do meet their obligations and continue to do so going forward.⁸⁶

6.111 Several contributors to this inquiry stressed the importance of strengthening compliance with the tax system and closing tax shelters and loopholes. The committee also draws attention to what appears to be a double standard in the government agencies' approach to compliance issues at different ends of the income spectrum. As Dr Richard Denniss of the Australia Institute told the committee:

The ATO is proud of the fact that it focuses on the 95 per cent of people who pay their tax and pay their tax willingly. They are proud of the fact that they adopt a commercial approach to negotiation with those who are in default whereby they do not throw money at cases they are unlikely to win. They are proud of the fact that they take a 'light touch' approach; they are happy to settle rather than bankrupt people. This is not the approach taken by our welfare agencies, where people are bankrupted for very small debts.⁸⁷

Tax concessions

6.112 There are legal ways to minimise personal tax liabilities. These strategies tend to be adopted by those on higher incomes and with more wealth. These vehicles include negative gearing on investment properties, superannuation tax concessions, capital gains tax arrangements and the use of private trusts. In its submission, ACOSS argued:

85 Australia's Future Tax System Review, Report to the Treasurer, Part 2, Detailed Analysis, Commonwealth of Australia, Canberra, 2009, p. 22.

86 Mr Tim Dyce, Deputy Commissioner, Aggressive Tax Planning, Australian Taxation Office, *Committee Hansard*, Canberra, 16 October 2014, p. 1.

87 Executive Director, *Committee Hansard*, Canberra, 16 October 2014, p. 13.

While the progressive personal income tax rate scale is clearly progressive, people on higher incomes can easily avoid paying tax at their marginal rate through tax shelters and loopholes such as superannuation, negatively geared investment in assets, the preferential tax treatment of capital gains, and the use of private trusts. For example, the top 20% of wage earners receive the majority of the benefits from tax breaks for superannuation, even though they are unlikely to have to rely on age pensions when they retire. The top 10% of male wage earners receive more in superannuation tax concessions over their lives than they would if they received the full rate of the age pension.

To ensure that tax policies reduce income inequality rather than increase it, access to these and other tax shelters which make no positive contribution to economic growth and productivity should be restricted. It is also vital that policy makers avoid any major shift in the incidence of taxation from income to consumption as this would greatly increase inequality of spending power by raising taxes on people on the lowest incomes and reducing them on high income households.⁸⁸

Superannuation taxation concessions

6.113 The taxation of superannuation contributions, earnings and withdrawals in Australia is at a discounted rate (relative to the income tax schedules). Employer contributions are taxed at 15 per cent on amounts up to \$30 000 a year.⁸⁹ Salary sacrificed contributions are also taxed at 15 per cent on amounts up to \$35 000 a year.⁹⁰ Income earned in a superannuation fund is taxed at 15 per cent. If a person is aged 60 or over, any withdrawals from a taxed superannuation fund are tax-free. Dr Denniss noted the generosity of these taxation arrangements:

If you are over 60, any income you withdraw from a super fund is tax-free. A million dollars a year, \$10 million a year—pull out as much as you want—it is tax-free. That is why people are so desperate to get their money into super. It is not to take pressure off the age pension. This is the best money laundering ever invented. If you can get it into super, you wash it of its tax on the way out. No-one is breaking the law. This is the law. This is the system. But you have been told it is to 'take pressure off the aged pension'. It is obscene. No-one with ten million bucks was ever going to get the age pension.⁹¹

6.114 Dr Denniss highlighted the regressive impact of way that superannuation is currently taxed in Australia with the following analogy:

...imagine we had \$40 billion in front of us now and parliament wanted to decide who to give it to in retirement. We have decided not to give it to

88 *Submission 29*, p. 4.

89 Amounts in excess of \$30 000 are taxed at the personal tax rate plus an interest charge.

90 Amounts in excess of \$35 000 are taxed at the personal tax rate plus an interest charge.

91 *Committee Hansard*, Canberra, 16 October 2014, p. 19.

young people. We have decided not to give it to disabled people. We have decided not to give it to minimum wage workers. The \$40 billion is most needed by retirees.

The current system effectively lines people up from the poorest at one end to the richest at the other end and gives the vast majority of the money to those with the most. And not only does it give nothing to those with the least, but when the low-income super contribution leaves us in 2017, low-income earners will pay more tax—more tax—on their compulsory superannuation than they do on their meagre incomes.

If the parliament, rather than use tax concessions to achieve this incredible disparity, were to post cheques, it would be posting cheques for tens of thousands of dollars to the wealthiest Australians and it would be sending a bill to the poorest Australians. The superannuation tax concession system is obscene. Nine per cent of our incomes—9½ per cent of our incomes—is compulsorily provided to superannuation. You do not need a tax incentive to make someone do something that is compulsory. It is compulsory.⁹²

6.115 Similarly, COTA wrote in its submission:

Tax concessions for superannuation are broadly equivalent to expenditure on the age pension. The need to rebalance this equation could be established through a systematic review of retirement income policy which is what COTA is recommending. COTA is particularly uneasy about the way in which government support through superannuation tax concessions has been apportioned.

COTA joins ACOSS in their concern that:

Current superannuation tax expenditure settings are poorly targeted, with some 30% of the value of superannuation tax breaks going to the top 10% of income earners and only 20% of tax concessions received by people in the bottom 50% of income distribution.⁹³

6.116 The committee encourages the government to assess whether the current tax incentives to invest in superannuation and take pressure off the aged pension outweigh the significant cost to the public purse in offering these tax concessions. More particularly, the committee encourages the government to assess the equity implications of the current arrangements for the taxation of superannuation:

- Is it fair that the concessions are directed to the very rich and do little to increase the retirement savings of the poor?
- Would those who benefit the most from current concessional arrangements be adversely impacted if these concessions were tightened, or would their savings be redirected into another investment vehicle?

92 *Committee Hansard*, Canberra, 16 October 2014, pp 16–17.

93 *Submission 38*, p. 6.

Negative gearing

6.117 The other area with significant concessions in Australia's tax system relates to negative gearing. As with the superannuation tax concessions, the effect of negative gearing is to disproportionately deliver benefits to the very wealthy.⁹⁴ The ATO has found that negatively geared property investors claimed \$13.2 billion in losses in 2010–11. The average loss per negatively geared investor was \$10 950. For investors earning over \$180 000, the average loss was \$23 800.⁹⁵

6.118 As chapter 3 discussed, negative gearing allows a property investor in Australia to offset rental losses against income. In addition to the reduced personal income tax liability, negative gearing allows an investor to hold a property which is rising in value. As an investment strategy, negative gearing has become increasingly popular:

In 1993-94 there were 980,471 investors, with 480,736 (49%) positively geared and 499,735 (51%) negatively geared. The number of investors increased to 1,751,679 in 2009-10, a significant rise of 79%, with 640,757 positively geared and 1,110,922 negatively geared. This is a remarkable increase of negatively geared investors compared to those who are positively geared. The number of negatively geared investors increased by 122% over this period, while those positively geared increased only 33%. The trend shows that negative gearing is becoming central to residential property investment.⁹⁶

Table 6.1: Individuals with net rental income less than \$0, by taxable income, 2012–13 income year

-----Net rental income less than \$0-----				
Taxable income	No.	%	\$million	%
\$18 2000 or less	167 042	13	–1522	13
\$18 201–\$37 000	186 238	15	–1415	12
\$37 000–\$80 000	486 136	39	–4027	33
\$80 001–\$180 000	342 955	27	–3548	29
\$180 001 or more	79 673	6	–1551	13
Total	1 262 044		–12 603	100

Source: Australian Taxation Office, *Answer to Question on Notice*, pp 5–6 of Committee Hansard, 16 October 2014.

94 Dr Richard Denniss, The Australia Institute, *Committee Hansard*, Canberra, 16 October 2014, p. 13.

95 <http://www.smh.com.au/business/federal-budget/boom-puts-spotlight-on-negative-gearing-20140411-36him.html> (accessed 3 December 2014).

96 <http://www.smh.com.au/business/federal-budget/boom-puts-spotlight-on-negative-gearing-20140411-36him.html> (accessed 3 December 2014).

6.119 Table 6.1 shows that the majority of negatively geared properties are owned by individuals with a taxable income less than \$80 000. This statistic is misleading for a number of reasons. Firstly and most importantly, many of these investors have a taxable income below this value through the use of negative gearing deductions. Second, the Reserve Bank of Australia has noted that as of September 2014, 60 per cent of investor housing debt is held by the top quintile and that investment housing loans are twice as common in the top quintile (see Table 6.2 below).⁹⁷ This may be because higher income individuals buy more expensive properties as investments, which ultimately results in those with a higher income accruing the majority of the financial benefits of negative gearing. Finally, there are 74 000 individuals declaring rental income who have a total taxable income of \$0 or less. These people are likely to be individuals with other income streams (partners), non-taxable income streams (superannuants), or those who live overseas and earn an income in another tax jurisdiction (foreign investors).⁹⁸

Table 6.2: Investor Housing Leverage and Debt Serviceability, (Households with investor housing debt, by disposable income quintile, 2010)

Income quintile	Share of investor housing debt ^(a)	Share of total housing debt ^(b)	Median total housing debt repayments to disposable income ratio	Ahead of schedule on owner-occupied housing debt repayments
	Per cent	Per cent	Per cent	Per cent of households in each income quintile
1 (lowest)	2	1	127	19
2	7	2	49	17
3	12	5	42	49
4	20	10	33	47
5 (highest)	60	28	28	54

(a) Sum does not total 100 due to rounding
(b) Total housing debt includes debt on investment properties and any owner-occupier housing debt
Source: HILDA Release 12.0

Source: Reserve Bank of Australia, *Financial Stability Review*, September 2014, p. 51.

6.120 The committee is concerned not only with the regressive distributional nature of negative gearing tax concessions, but the impact of the policy on housing affordability. This inquiry has heard from several submitters and witnesses that low income, and even middle income, people and households are not only missing out on the Australian dream of home ownership but are also priced out of the private rental market. Policy settings, including taxation settings, should be directed at increasing

97 Reserve Bank of Australia, *Financial Stability Review*, September 2014, p. 51, <http://www.rba.gov.au/publications/fsr/2014/sep/pdf/0914.pdf> (accessed 17 November 2014).

98 Mr Michael Janda, 'The myth of 'mum and dad' property investors', *The Drum*, Australian Broadcasting Commission, <http://www.abc.net.au/news/2014-09-24/janda-the-myth-of-mum-and-dad-negative-gearers/5766724> (accessed 24 September 2014).

the stock of owner-occupier housing in Australia. Rather, its effect is to limit this stock and 'create a renting society among the poorer segments of society'.⁹⁹

6.121 The committee considers that the government, as part of its upcoming White Paper on taxation, should look at the options to curtail the generosity of the current negative gearing concessions. It is aware of media reports in the lead-up to this year's federal budget that the Treasury had conducted work on limiting negative gearing to new homes. Just as the First Home Owners' Grant is being limited to the purchase of new houses, if negative gearing is to remain, the policy settings should be directed at creating incentives to increase the affordability and supply of housing.¹⁰⁰

Recommendation 13

6.122 The committee recommends that as part of the planned discussions leading to a White Paper on taxation reform in 2015, the federal government have regard to how the existing tax system is affecting inequality in Australia. This should include an analysis of existing tax concessions.

99 Professor Bob Gregory, 'Time for action on superannuation and negative gearing', in *Advance Australia Fair? What to do about growing income inequality in Australia?*, Presented to the Committee by Australia21 as *submission 37*, Attachment 1, p. 44.

100 Office of State Revenue, New South Wales Government, First Home Owners Grant (New Homes) Scheme, <http://www.osr.nsw.gov.au/grants/fhog> (accessed 18 November 2014).

The liability investment approach

In 2011–12, the New Zealand Government commenced a programme of welfare reform, which aims to reduce long-term welfare dependency. Central to this reform is the conceptualisation of the dependency as a future liability (social, economic and fiscal), the costs of which can be decreased with early investment in employment outcomes (liability investment).

As part of this new approach, the Welfare Working Group, whose recommendations underpinned the reform, noted the importance of actuarial measurement of the future (or forward) liability.¹ In October 2011, Australian firm Taylor Fry Consulting Actuaries (Taylor Fry) developed a model for measuring the fiscal liability¹ and was subsequently commissioned to undertake the 'first actuarial valuation of the NZ benefit system as a baseline prior to welfare reform'.²

In January 2014, a 2013 valuation conducted by Taylor Fry was publicly released, showing that the inflated and discounted estimate of the client liability as at 30 June 2013 was \$76.5 billion (a decrease of \$7.4 billion, from 2011-2012).³ The Taylor Fry valuation notes that the Ministry of Social Development is able to influence 'the number of leaves and joins and changes to future behaviour' (through the Work and Income programme), which combined achieved a \$4.4 billion reduction in the liability. Of this amount, \$1.8 billion was due to higher than expected leaves and lower joins.

Figure 6.6 shows that nearly all the reduction arose from Sole parents (including those with children 14 years and older who are included in the Jobseekers segment), who accounted for \$1.1 billion of the reduction and other Jobseekers who accounted for \$0.7 billion.

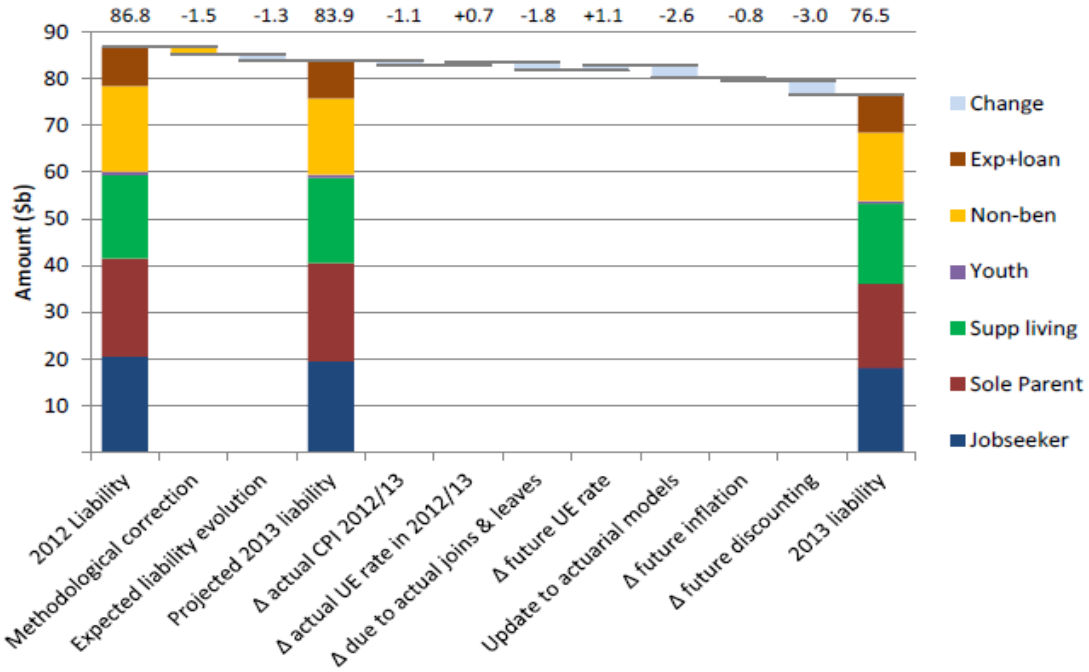
Ms Hatfield Dodds referred to New Zealand's investment approach in her evidence to the committee:

...they are just embarking on an endeavour to have a look at an investment approach, which is really an actuarial approach to public policy. It is about how government behaves and how government thinks about disadvantaged people. They have a liability approach...

For example, one of the issues I was told about were single parents, mostly women there as it is here, who are 20 and under with children on benefit payments are something like four or five times more likely to be on benefits continuously through to their thirties if investment in supports and services are not made when they are 20 or below. The earlier you can get to single parents, the better a social gain it is. The liability investment approach does not talk about the social gain; it talks about the fiscal cost to government of not acting...The liability is a proxy for wellbeing, but it seems to me that any proxy that has national government departments of treasury and finance excited about it and coming to the cabinet process wanting to invest heavily and early in the life of these social issues that people have is something that is worth having a good look at.⁴

1. *Welfare Working Group, Reducing Long-Term Benefit Dependency, Recommendations, February 2011, p. 2, available at: <http://igps.victoria.ac.nz/WelfareWorkingGroup/Index.html> (accessed 25 November 2014).*
2. *Taylor Fry, Actuarial advice of feasibility: A long-term investment approach to improving employment, social and financial outcomes from welfare benefits and service, report for Ministry of Social Development and The Treasury, New Zealand, 27 October 2011.*
3. *Taylor Fry, Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2011, report for Ministry of Social Development and The Treasury, New Zealand, p. 2.*
4. *Taylor Fry, Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2013, report for Ministry of Social Development and The Treasury, New Zealand, p. 3.*

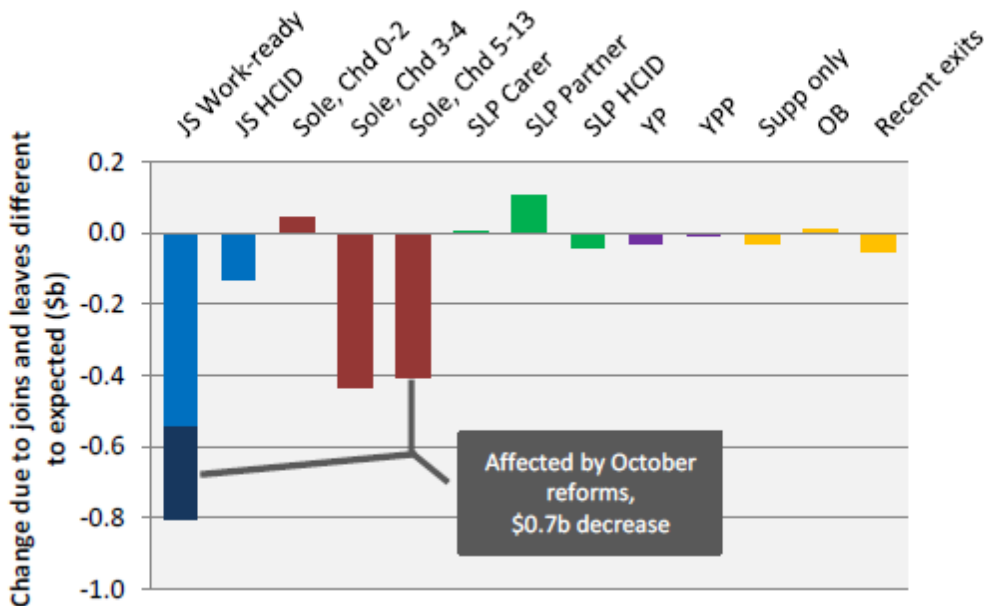
Figure 6.5–Movement from the 2012 current client liability to the 2013 current client liability



Note: Δ represents change

Source: Taylor Fry, *Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2013*, report for Ministry of Social Development and The Treasury, New Zealand, p. 3. Reproduced with permission.

Figure 6.6–Change in liability due to joins and leaves being different to expected, by segment



Source: Taylor Fry, *Actuarial valuation of the Benefit System for Working-age Adults as at 30 June 2013*, report for Ministry of Social Development and The Treasury, New Zealand, p. 5. Reproduced with permission.

Concluding comments

6.123 This inquiry has occurred at a time of considerable international interest in the issues of income and wealth inequality. Internationally, several high-profile figures have identified the harm that significant inequality causes and need for concerted action to address the problem. Important empirical and qualitative research from prominent academic economists has added weight to this agenda. It is widely acknowledged that the remedy is not only to provide quality jobs, health services and education opportunities to increase the income of the poorest in society. It also involves curtailing the rent-seeking and tax avoidance activities that have inflated the wealth of the richest in society. The gap between the richest and the poorest does matter: it impacts on the type of society that is created.

6.124 To date, the debate in Australia on the issue of inequality has been confined to welfare groups, academic economists, political scientists and sociologists and a handful of parliamentarians. However, there has been significant discussion in the media and in the community generally about issues related to income inequality. For example, cost of living pressures on households have dominated the political debate in Australia for a decade. The inter-generational impact of record low levels of housing affordability has been of acute concern for some years. The quality of Australian schools has also been widely discussed, particularly since the introduction of NAPLAN in 2008.

6.125 Several submitters and witnesses to this inquiry have argued that there is a need for a national conversation on issues of income inequality. Notably, the Australia21 report published in March this year stated:

Australians need to engage in a national conversation about how inequality is impacting on our lives, our culture, our economy and our society. We need to make clear to our political representatives what kind of society we want for our children and grandchildren. Politicians will not act while the community accepts growing inequality passively.¹⁰¹

6.126 The committee considers there is urgent need for action on the issue of benefit levels. As this chapter has noted, and as the ACTU's submission clearly sets out, the level of Newstart benefit is simply inadequate. On four measures, it is too low.

6.127 The aim of the committee's proposal to address this is to establish a clear and transparent process through which to set benefit levels and index these payments to keep pace with community standards (see recommendation 4). It is disappointing that a major review into welfare reform options that is currently in train is not properly considering the inadequacy of benefit levels. However, the committee's proposal for reform should not—and will not—interfere with the broader welfare reform process. It is critical that the harsh measures to cut and withhold benefits proposed in the 2014

101 Executive Summary, *Advance Australia Fair? What to do about growing income inequality in Australia?*, Presented to the Committee by Australia21 as *submission 37*, Attachment 1, p. 9.

federal budget not be passed (recommendation 2). It is also crucial that reform of Australia's social security payment system not only leaves no group financially worse off, but increases the financial position of those facing greatest hardship (recommendations 3 and 6).

6.128 Payments aside, there is a diverse range of broader issues that impact on income inequality. Taxation reform, including tighter compliance measures for earners in upper income brackets, offers significant opportunities to create a fairer, more equal society. The forthcoming White Paper on taxation should have regard to how existing tax concessions affect income inequality (recommendation 13).

6.129 The committee recommends a multi-pronged approach to improving the housing options for people on low incomes. This includes:

- increasing Commonwealth Rental Assistance payments and indexing these payments to a national and a regional rental index (recommendation 7);
- developing National Urban Planning Guidelines to ensure that new and existing developments have access to public transport, health, education and other services (recommendation 8); and
- develop National Planning Guidelines that all new housing developments have a minimum target of affordable and public housing for low income and other disadvantaged groups (recommendation 8).

6.130 This inquiry has also considered options for governments, working with welfare agencies and not-for-profit organisations, to promote the education, training and employment prospects of young people at risk of dropping out of school, as well as older workers facing retrenchment and the long-term unemployed. The options that the committee favours include:

- developing alliances between schools, employers and vocational education providers to encourage young people to remain at school until Year 12 and provide them with a positive first experience in the workforce (recommendation 10);
- developing a plan that will coordinate efforts between governments, employers and vocational education providers to retrain older workers through the vocational training system (recommendation 11); and
- properly fund programs that offer a targeted case management approach to assist the long-term unemployed (back) into the workforce (recommendation 12).

6.131 The committee urges federal and state governments to recognise the long-term economic and social benefits of investing properly in these initiatives, and learning from and improving the outcomes.

Senator Rachel Siewert

Chair

Australian Greens' Additional Comments

1.1 The Australian Greens have been able to achieve consensus with Australian Labor Party Senators on the recommendations in the majority report. However, there are a few recommendations where the Australian Greens believe there needs to be action that extends beyond the thrust of these recommendations.

1.2 The first of these relates to Recommendation 3 in the majority report. The Australian Greens believe that the level of working age payments must be increased. The evidence gathered during this inquiry is unequivocal: working age payments, particularly the *Newstart Allowance and Youth Allowance*, are too low and must be increased. It is fundamental to the integrity of Australia's social security system that payments are set at levels above the poverty line. It is of real concern to the Australian Greens that this is not currently the case.

Recommendation 1

1.3 The committee recommends that the Australian Government *increase* the level of working age payments to ensure that Australians who are not in paid work are not living below the Henderson Poverty Line. All income support payments must be:

- **benchmarked to broader community living standards; and**
- **indexed to movements in wages as well as prices.**

1.4 Recommendation 13 of the majority report states that, as part of the planned discussions leading to a White Paper on taxation reform in 2015, the federal government should have regard to how the existing tax system is affecting inequality in Australia. The Australian Greens argue that the discussions on taxation reform must focus on measures that address inequality such as those that have been raised in evidence to the inquiry.

Recommendation 2

1.5 The committee recommends that, as part of the planned discussions leading to a White Paper on taxation reform in 2015, the federal government consider the impact of tax reform on the ability to address inequality, including taxation concessions of superannuation contributions, earnings and withdrawals, and impact of capital gains.

Recommendation 3

1.6 The committee recommends that, as part of the planned discussions leading to a White Paper on taxation reform in 2015, the federal government consider tax arrangements that improve affordability and increase the supply of housing.

Senator Rachel Siewert

Chair

Coalition Senators' Dissenting Report

Introduction

1.1 The Coalition members of the Community Affairs (References) Committee consider the Chairperson's inquiry report into the Extent of Income Inequality in Australia ("the Report") does not accurately reflect the complex causes of low socio-economic outcomes in Australia and does not provide sufficient evidence that income inequality is, in isolation, a significant factor in these outcomes.

1.2 Coalition members acknowledge that levels of income in Australia vary widely, and that poverty leads to poor outcomes on a number of levels. However the Report fails to make the case that inequality, in and of itself, leads to low socio-economic outcomes. The Report makes numerous sweeping statements about inequality in Australia without adequate evidence; it regularly conflates income inequality with wealth redistribution, it is replete with emotive and unsubstantiated arguments and frequently disregards the significant evidence of Australia's overall egalitarian economic context.

1.3 Coalition members note that during hearings for this inquiry there was a tendency to conflate the issue of income inequality with that of wealth redistribution. Wealth redistribution is a political policy issue and should not be confused with income inequality. As Professor Robert Lucas notes: '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.¹

1.4 Coalition members also note that during the inquiry, many witnesses stated that the best way to decrease income inequality was through employment. Treasury officials stated that:

Building the capacity of people at the bottom of the income distribution to participate in the workforce by earning a wage or salary is one of the most useful ways that governments can address inequality, particularly in an environment where wages are growing.²

1 Majority Report, p. 5.

2 Mr Nigel Ray, Executive Director, Fiscal Group, The Treasury, *Committee Hansard*, Canberra, 17 November 2014, p. 2.

1.5 The Report also fails to note the substantial tax and transfer system already in place in Australia which seeks to alleviate poverty and has, in contrast to many other OECD countries, led to increases in incomes across all levels and led to Australia being one of the most prosperous and equal societies in the world. Finally, the Report fails to note that it is employment in a strong overall economic context that is the best way out of poverty.

Extent of Income Inequality in Australia

1.6 The Report outlines a number of different statistics and measurements which can be used to measure inequality. The Report notes that different measures, using different underlying assumptions and statistics, will render different findings. The Report takes it as a given that income inequality is rising and is a significant issue, yet Table 2.1 shows that under different measures, inequality has not been a significant economic factor. For example, the Bray (2014) study showed, on one measure, 'No significant change in inequality between 2001 and 2010'.³

1.7 In fact, the 2014 Credit Suisse Global Wealth Report notes that, contrary to the narrative of the Report, Australia has the highest median wealth in the world.⁴

1.8 Furthermore, the Report consistently disregards the fact that income is not the only measure of inequality. As Treasury officials noted in their evidence to the committee:

In discussing income inequality and social inequality more broadly it is important to look at a range of different indicators rather than focusing on just one or two metrics. There are also alternatives to income which can be used to measure equity, including the distribution of consumption and wellbeing, as well as various measures of material deprivation.⁵

1.9 Coalition Senators also note that, as Treasury officials noted in evidence, income inequality measures often do not take into account the impact of Australia's tax and transfer system on real income levels. In particular:

Income inequality measures typically do not take into account the effects of in-kind transfers, such as public health, subsidised medicines and education. Equality of access to these services is especially important at the lower end of the income distribution. According to the latest ABS survey of income and households, if in-kind transfers are taken into account average real disposable incomes in Australia for those at the bottom two income deciles have grown by almost as much as the top two deciles over the period 2003–04 to 2011–12.⁶

3 Majority Report, p. 32.

4 Credit Suisse Research Institute, *Global Wealth Report 2014*, p. 52, <https://publications.credit-suisse.com/tasks/render/file/?fileID=60931FDE-A2D2-F568-B041B58C5EA591A4>

5 Mr Nigel Ray, *Committee Hansard*, Canberra, 17 November 2014, p. 1.

6 Mr Nigel Ray, *Committee Hansard*, Canberra, 17 November 2014, p. 1.

1.10 Almost all the evidence submitted to the Committee included acknowledgement on this point: that overall average income, including in the lowest socio-economic bracket, have risen over the last two decades, even as the gap between the richest and the poorest may have widened. Coalition Senators assert that it is this raising of overall standards through rising employment, low inflation, and strong economic management that is the defining factor in lifting people out of poverty, rather than any arbitrary measure of income inequality.

1.11 This is best illustrated in the Report's figures in section 2.61 which show that:

In WA, the gross household income of the top eight deciles increased by an average 46.5 per cent between 2003–04 and 2011–12 (compared with 26 per cent nationally). In comparison, the bottom two deciles only increased their income by an average of 28 per cent (compared with 23 per cent nationally).

1.12 The Report uses these figures in an attempt to illustrate how a fast paced period of strong economic growth increases inequality. However the Coalition Senators note that the significance of these figures is that they show how strong economic growth lifts incomes for everyone at a greater rate than would otherwise be the case. Note that the 28 per cent average of income increase for the bottom two deciles in WA is, in fact, 2 per cent greater than the average increase in income nationally over that period. Given this fact, it is simply not credible for the Report to assert that the greater proportional rise in income for the top eight deciles is adversely impacting the bottom two deciles.

1.13 There is further evidence of the inadequacy of using inequality to measure poverty in the use of the Gini Coefficient in the Report and by many of the submitters. A stark example is the case of Tasmania, where many participants in the inquiry noted Tasmania's economic disadvantage. Section 2.19 the Report notes 'in 2011–12 Tasmanian households recorded the lowest mean net worth at \$601 000 or 17 per cent below the average for all Australian households.' Yet in Figure 2.3, Tasmania has the lowest Gini Coefficient number of all the states. That is, Tasmania is more equal.

1.14 Therefore, greater equality in Tasmania has, in fact, led to worse outcomes for all. This stands in contrast to the situation in Western Australia where there is greater inequality but everyone is, on average, better off.

The impact of income inequality on access to health, housing, education and work in Australia, and on the quality of the outcomes achieved

1.15 The Report includes a lengthy chapter on the disadvantages people in lower socio-economic circumstances. While Coalition Senators acknowledge and express concern about the impact living in poverty has on outcomes in health, education, and overall quality of life, the Report fails to draw any meaningful and specific links between these poor outcomes and inequality. Coalition Senators stress that correlation does not equal causation.

1.16 In the field of education, the Report notes that price signals have the potential to exclude those from lower socio-economic background to attain higher education, particularly at the diploma level. The Report fails to note that it is this very issue that the Coalition Government is seeking to address through its higher education reform announced in the 2014–15 Federal budget where HELP-style loans will be available for sub-graduate degrees. This reform is not mentioned anywhere in the report, including in the section devoted to budget analysis.

1.17 The Report does, however, note that it is employment participation that will best address the causes of poverty. In section 4.125, the Report quotes a Deloitte Access Economics study which states that 'a further three per cent increase in workforce participation amongst workers aged 55 and over would contribute an extra \$33 billion to GDP.' This is another area the Coalition Government is directly addressing through the mature-age worker incentive payments in the *Restart* programme. The Report does not make note of this policy.

Budget Context

1.18 Coalition Senators also draw attention to the overall budget context in which the inquiry has been undertaken. With Government debt on a trajectory towards \$667 billion, the Coalition Government has produced a budget that seeks to begin the long task of paying down the debt and creating a firm economic foundation into the future. The Report is critical of some of these measures on the basis of inequality, but fails to note the intergenerational inequality that would result from failure to deal with this debt issue.

1.19 As Treasury stated in their evidence:

In light of the current budget situation and Australia's ongoing current account deficit, prudent fiscal policy is required to ensure that we grow the economy to support employment growth and address inequality.⁷

1.20 The Report fails to take account of the debt and deficit context and assumes that policy changes, such as increasing certain welfare payments, can be implemented without any cost. Coalition Senators reject this thesis and note that burdening future generations with debt is a damaging form of inequality.

Conclusion

1.21 Coalition Senators affirm that Australia is a prosperous, egalitarian society, which provides security and opportunity for all. While there is no doubt of some significant issues with poverty in Australia, and much work can be done to improve opportunity and circumstances for Australians, the Report into the extent of income inequality in Australia adds little to this debate. History has shown that a strong economy that provides employment opportunities is the best way to build a

7 Mr Nigel Ray, *Committee Hansard*, Canberra, 16 November 2014, p. 2.

prosperous society. Arbitrary comparisons between relative income levels pale in significance compared to Australia's capacity to grow wealth and lift people out of poverty through employment and education.

1.22 The Report comprehensively fails to make the case that it is inequality that is a driving source of poor socio-economic outcomes and does not meaningfully engage with the Government policies from the recent budget that seek to address some of these outcomes.

Recommendation 1

1.23 That the Senate implements the Government's agenda to build a strong and prosperous economy for the benefit of all Australians.

Senator Zed Seselja

Senator Linda Reynolds

APPENDIX 1

Submissions and additional information received by the Committee

Submissions

- 1** Catholic Health Australia
- 2** Confidential
- 3** Ethnic Communities' Council of Victoria
- 4** Australia Institute
- 5** Mr Peter Dixon
- 6** Professor Frank Stilwell
- 7** Associate Professor Roger Wilkins (plus two attachments)
- 8** Australian Association of Social Workers
- 9** The Smith Family
- 10** Carers Queensland
- 11** Close the Gap Campaign
- 12** YWCA Australia
- 13** The Salvation Army
- 14** Combined Pensioners and Superannuants Association of NSW
- 15** National Council of Single Mothers and their Children
- 16** Mental Health Australia
- 17** Federation of Ethnic Communities' Councils of Australia
- 18** Aged and Community Services Australia
- 19** St Vincent de Paul Society
- 20** Youth Network of Tasmania
- 21** National Union of Students
- 22** Oxfam Australia
- 23** National Employment Services Association
- 24** Refugee Council of Australia

- 25 Youth Affairs Council of Western Australia (plus two attachments)
- 26 Sydney Food Fairness Alliance
- 27 WA Council of Social Service (plus an attachment)
- 28 Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia
- 29 Australian Council of Social Service (plus six attachments)
- 30 UnitingCare Australia
- 31 National Aboriginal Community Controlled Health Organisation
- 32 The Alcohol and Drug Service, St Vincent's Hospital, Sydney
- 33 Anglicare Australia
- 34 Fair Go for Pensioners Coalition
- 35 Youth Affairs Council of South Australia
- 36 Equality Rights Alliance
- 37 Australia21 (plus two attachments)
- 38 COTA Australia
- 39 VicHealth (Victorian Health Promotion Foundation)
- 40 Human Rights Committee of the Law Society of NSW
- 41 Australian Manufacturing Workers' Union
- 42 Public Health Association of Australia
- 43 Social Determinants of Health Alliance
- 44 People with Disability Australia
- 45 Benevolent Society
- 46 Australian Council of Trade Unions
- 47 Consumer Action Law Centre
- 48 Australian Psychological Society
- 49 Carers Australia
- 50 National Welfare Rights Network
- 51 National Growth Areas Alliance (plus an attachment)

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- 52 Aboriginal Peak Organisations of the Northern Territory (plus two attachments)
 - 53 Confidential
 - 54 Mr Ian Daniels
 - 55 Professor Peter Whiteford and Professor Andrew Podger
 - 56 Mr Brendan Markey-Towler
 - 57 National Rural Health Alliance
 - 58 Name Withheld
 - 59 Logan City Council
 - 60 Ms Chanelle Smith
 - 61 Brisbane City Council
 - 62 Ms Tegan Reilly
 - 63 Ms Holli Chiera
 - 64 Ms Karyn Oster

Additional Information

- 1 Preliminary Communique Summary, by Tasmanian Youth Forum, received from Youth Network of Tasmania, 10 October 2014
- 2 The Cost of Inaction on the Social Determinants of Health, Report No. 2/2012, by National Centre for Social and Economic Modelling, received from Public Health Association of Australia, 20 October 2014
- 3 Health in all policies: Helsinki statement and Framework for country action, by World Health Organization, received from Public Health Association of Australia, 20 October 2014
- 4 Governance for health equity report, by World Health Organization, received from Public Health Association of Australia, 20 October 2014
- 5 2014 Cost of Living Report, received from Western Australian Council of Social Service, 4 November 2014
- 6 Summary of the history of the welfare state in New Zealand, by Paul Carpenter, received from UnitingCare Australia, 5 November 2014

- 7** Strategic Plan 2013-16, received from UnitingCare Wesley Port Adelaide, 10 November 2014
- 8** UCWPA Community Services Annual Summary: Episodes of Service July 2013 to 30th June 2014, received from UnitingCare Wesley Port Adelaide, 10 November 2014
- 9** Specialist Homelessness Sector information, received from UnitingCare Wesley Port Adelaide, 10 November 2014
- 10** Sector briefing: AIHW, Housing outcomes for groups vulnerable to homelessness, 1 July 2011 - 31 December 2013, by Homelessness Australia, received from UnitingCare Wesley Port Adelaide, 10 November 2014
- 11** Housing SA Homelessness Strategy, by South Australian Government Department for Communities and Social Inclusion, received from UnitingCare Wesley Port Adelaide, 10 November 2014
- 12** The rising cost of under-employment: building a policy and program response to improving social inclusion and community for under-employed households, by Dr Janette Hancock and Dr Susan Oakley, received from UnitingCare Wesley Port Adelaide, 10 November 2014
- 13** Information, received from Northern Futures Inc, 10 November 2014
- 14** CWDC Outcomes Report as at 11th November 2014, received from Northern Futures Inc, 10 November 2014
- 15** Further information, received from Northern Futures Inc, 10 November 2014
- 16** Northern Futures Strategic Plan 2014-2016, received from Northern Futures Inc, 10 November 2014
- 17** The College Bugle, September 2014, received from SMYL Community College, 11 November 2014
- 18** Sharing The Boom, The distribution of income and wealth in WA, Focus on Western Australia Report Series No. 1, February 2014, by Bankwest Curtin Economics Centre, received from Professor Alan Duncan, 14 November 2014
- 19** Falling Through the Cracks, Poverty and disadvantage in Australia, Focus on the States Report Series No. 1, October 2014, by Bankwest Curtin Economics Centre, received from Professor Alan Duncan, 14 November 2014

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- 20 Employment Related Accommodation program operational framework, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 21 Employment Related Accommodation program operational model, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 22 Employment Related Accommodation program brochure, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 23 Pathways to employment for South and North Sudanese Communities Resettled in South Australia research paper, by Dr James Lino Lejukole, November 2012, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 24 Building Family Opportunities Funding Deed, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 25 Building Family Opportunities Playford Client Pathway Service Model, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 26 'Whole of Community' Engagement Framework, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 27 Building Family Opportunities Program 2014-2016, UCWPA Staff Handbook, received from UnitingCare Wesley Port Adelaide, 18 November 2014
 - 28 Information on rent payments at Foyer, Results Based Accountability, and the operation of the Halls Creek Healing Foundation, received from Anglicare WA, 24 November 2014

Answers to Questions on Notice

- 1 Answers to Questions taken on Notice during 18 September public hearing, received from Synod of Victoria and Tasmania, Uniting Church in Australia, 21 September 2014
- 2 Answers to Questions taken on Notice during 18 September public hearing, received from Dr David Morawetz, 18 September 2014
- 3 Answers to Questions taken on Notice during 18 September public hearing, received from Dr David Morawetz, 18 September 2014
- 4 Answers to Questions taken on Notice during 18 September public hearing, received from Dr David Morawetz, 24 September 2014

- 5 Answers to Questions taken on Notice during 18 September public hearing, received from Dr David Morawetz, 4 October 2014
- 6 Answers to Questions taken on Notice during 18 September public hearing, received from Victorian Council of Social Service, 10 October 2014
- 7 Answers to Questions taken on Notice during 19 September public hearing, received from Merete Schmidt, 9 October 2014
- 8 Answers to Questions taken on Notice during 8 October public hearing, received from Queensland Council of Social Service, 16 October 2014
- 9 Answers to Questions taken on Notice during 16 October public hearing, received from The Australia Institute, 20 October 2014
- 10 Answers to Questions taken on Notice during 16 October public hearing, received from UnitingCare Australia, 5 November 2014
- 11 Answers to Questions taken on Notice during 16 October public hearing, received from UnitingCare Australia, 5 November 2014
- 12 Answers to Questions taken on Notice during 16 October public hearing, received from Department of Social Services, 13 November 2014
- 13 Answers to Questions taken on Notice during 16 October public hearing, received from Australian Taxation Office, 14 November 2014
- 14 Answers to Questions taken on Notice during 10 November public hearing, received from Child and Family Welfare Association SA Inc, 10 November 2014
- 15 Answers to Questions taken on Notice during 11 November public hearing, received from Associate Professor Michael Dockery, 11 November 2014
- 16 Answers to Questions taken on Notice during 17 November public hearing, received from The Salvation Army, 24 November 2014

Correspondence

- 1 Correspondence clarifying evidence given at Logan public hearing on 8 October, from Logan City Council, received 22 October 2014
- 2 Correspondence clarifying evidence given at Logan public hearing on 8 October, from YFS Ltd, received 22 October 2014

Tabled Documents

- 1** 'Still The Lucky Country?' booklet, June 2014, tabled by OXFAM Australia, at Melbourne public hearing 18 September 2014
- 2** 'Schools worse now than Gonski' Sunday Age newspaper article, 14 September 2014, tabled by Australia21, at Melbourne public hearing 18 September 2014
- 3** Federal Budget 2014-15 Fact sheet 1: A planned crisis, tabled by TasCOSS, at Hobart public hearing 19 September 2014
- 4** Federal Budget 2014-15 Fact sheet 2: Work for the Dole, tabled by TasCOSS, at Hobart public hearing 19 September 2014
- 5** Supporting material from the Youth Network of Tasmania: The need for a specific youth Job Service Agency, tabled by Youth Network of Tasmania, at Hobart public hearing 19 September 2014
- 6** Indicators of Poverty and Disadvantage in Queensland, October 2013, report by Queensland Council of Social Service, tabled by Queensland Council of Social Service, at Brisbane public hearing 8 October 2014
- 7** Income Inequality information, by Queensland Council of Social Service, tabled by Queensland Council of Social Service, at Brisbane public hearing 8 October 2014
- 8** Cost of Living Report - Special Edition, The cost of living and age pensioner households, Issue 2 2014, by Queensland Council of Social Service, tabled by Queensland Council of Social Service, at Brisbane public hearing 8 October 2014
- 9** Cost of Living Report, Can low-income households afford a basic standard of living?, Update to Issue 3 2013, by Queensland Council of Social Service, tabled by Queensland Council of Social Service, at Brisbane public hearing 8 October 2014
- 10** Background information, tabled by YFS Ltd, at Brisbane public hearing 8 October 2014
- 11** Presentation, tabled by UnitingCare Wesley Port Adelaide, at Elizabeth public hearing 10 November 2014
- 12** Submission by Associate Professor Rebecca Cassells, Professor Alan Duncan and Associate Professor Michael Dockery, tabled by Professor Alan Duncan, at Rockingham public hearing 11 November 2014
- 13** Information, tabled by Western Australian Council of Social Service, at Rockingham public hearing 11 November 2014

APPENDIX 2

Public hearings

Thursday, 18 September 2014

Monash Conference Centre, Melbourne

Witnesses

Australian Council of Trade Unions

LYONS, Mr Tim, Assistant Secretary
COWGILL, Mr Matt, Economic Policy Officer

Victorian Council of Social Service

KING, Ms Emma, Chief Executive Officer
REYNDERS, Mr Llewellyn, Policy and Programs Manager

National Council of Single Mothers and their Children Inc.

EDWARDS, Ms Terese, Chief Executive Officer

Oxfam Australia

KYRIACOU, Ms Joy, International Development Adviser
LEWIS, Dr Peter, Aboriginal and Torres Strait Islander Peoples Rights Advocacy
Lead
PRIDE, Ms Johanna, Public Policy and Advocacy Manager

National Union of Students

TAYLOR, Ms Deanna, National President
GRACIE, Mr Jack, Welfare Officer

Australia21

MORAWETZ, Dr David, Board Member

Synod of Victoria and Tasmania, Uniting Church in Australia

ZIRNSAK, Dr Mark, Director, Justice and International Mission Unit
LAGOS, Ms Stephanie, Director, UnitingCare Victoria and Tasmania

Friday, 19 September 2014

Parliament of Tasmania, Hobart

Witnesses

Baptcare

D'ELIA, Ms Mary, State Operations Manager, Tasmania
FAIRCLOUGH, Ms Cheryl, Social Policy Officer

Tasmanian Council of Social Service

MCLEAN, Dr Kath, Senior Policy and Research Officer
WEBB, Ms Meg, Deputy Chief Executive

Youth Network of Tasmania

SIEJKA, Ms Joanna, Chief Executive Officer

BLACKLOW, Dr Paul Andrew, Lecturer in Microeconomics, Tasmanian School of Business and Economics, University of Tasmania

CHURCHILL, Mr Brendan, Lecturer in Sociology, School of Social Sciences, University of Tasmania

HABIBIS, Associate Professor Daphne, Director, Housing and Community Research Unit, University of Tasmania

JACOBS, Professor Keith, Deputy Associate Dean, Research, School of Social Sciences, University of Tasmania

Wednesday, 8 October 2014

Logan City Council, Logan Central

Witnesses

Department of Housing and Public Works, Queensland

CASTLES, Mr Neil, Director-General
WALKER, Mr Damien, Deputy Director-General, Housing Services

Carers Queensland Inc.

WALBANK, Ms Sarah, Policy and Research officer

Queensland Council of Social Service

HENLEY, Mr Mark, CEO

ROSE, Mrs Valmae, Senior Manager, Practice, Research and Policy

Logan City Council

FRAWLEY, Ms Jane, Community Services Manager

YFS Ltd

BARTOLO, Ms Catherine, Chief Executive Officer

Hope Centre Services

STANLEY, Ms Ranandy, Multicultural Liaison and Community Development Coordinator

ADRA Community Centre, Logan Central

WOOD, Mrs Pamela Elizabeth, Centre Manager/Administrator

ELLIOTT, Mr Ross, Consultant

**MARKEY-TOWLER, Mr Brendan Peter, Research higher degree candidate,
School of Economics, University of Queensland**

ROHDE, Dr Nicholas, Senior Lecturer in Economics, Griffith University

DONEGAN, Mr Paul, Senior Associate, Grattan Institute

Thursday, 16 October 2014

Parliament House, Canberra

Witnesses**Australian Taxation Office**

DYCE, Mr Tim, Deputy Commissioner, Aggressive Tax Planning

O'NEILL, Mr Michael, Assistant Deputy Commissioner, Public Groups International

Department of Social Services

ESSEX, Ms Allyson, Branch Manager, Policy Strategy Branch

The Australia Institute

DENNISS, Dr Richard, Executive Director

RICHARDSON, Mr David, Senior Research Fellow

Anglicare Australia

CHAMBERS, Ms Kasy, Executive Director

MANDERSON, Mr Roland, Deputy Director

The Smith Family

HAMPSHIRE, Ms Anne Catherine, Head, Research and Advocacy

UnitingCare Australia

HATFIELD DODDS, Ms Lin, National Director

PEREIRA, Ms Annette, Manager, Communications and Public Affairs

CREWS, Reverend Bill, Superintendent, Ashfield Parish Mission

St Vincent de Paul Society National Council

FALZON, Dr John, Chief Executive Officer

Public Health Association of Australia

LUXFORD, Dr Yvonne, Member

Mental Health Australia

FEAR, Mr Joshua Graeme, Director, Policy and Projects

Australia21

DOUGLAS, Professor Robert Matheson, Director

PHILLIPS, Mr Ben, Principal Research Fellow, National Centre for Social and Economic Modelling, University of Canberra**WHITEFORD, Professor Peter Bernard, Director, Social Policy Institute, Australian National University****WILKINS, Associate Professor Roger Kingsley, Principal Research Fellow, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne**

Monday, 10 November 2014

Northern Sound System, Elizabeth

Witnesses

Automotive Transformation Taskforce

SANDEMAN, Reverend Peter, Board Member

UnitingCare Wesley Port Adelaide

PERRY, Ms Meredith Anne, Senior Manager Community Services

GANNON, Mr Joe, Manager Homelessness Services

JOLLY, Ms Cherie, Employment Services Manager

Child and Family Welfare Association of South Australia

BARELDS, Mr Albert, Executive Director

AnglicareSA

SANDEMAN, Reverend Peter, Chief Executive Officer

South Australian Council of Social Service

WOMERSLEY, Mr Ross, Executive Director

AUSTEN, Associate Professor Siobhan, Director, Centre for Research in Applied Economics

FISHER, Dr Ian Matthew, Research Fellow, Southgate Institute for Health, Society and Equity, Flinders University

GOODWIN-SMITH, Dr Ian, Director, Australian Centre for Community Services Research, Flinders University

REDMOND, Associate Professor Gerard, Project Leader, Australian Child Wellbeing Project, School of Social and Policy studies, Flinders University

Tuesday, 11 November 2014

Mike Barnett Sports Complex, Rockingham

Witnesses

DOCKERY, Associate Professor Alfred Michael, Principal Research Fellow, Bankwest Curtin Economics Centre; and Principal Research Leader, Population Mobility and Labour Markets, CRC for Remote Economic Participation

DUNCAN, Professor Alan Stewart, Director and Bankwest Chair in Economic Policy, Bankwest Curtin Economics Centre, Curtin University

Western Australian Council of Social Service

TWOMEY, Mr Chris, Director of Policy

Youth Affairs Council of Western Australia

COMRIE, Mr Craig, Chief Executive Officer

Anglicare WA

GLASSON, Mr Mark, Executive General Manager, Service Operations

South Metropolitan Youth Link Inc.

GOWEGATI, Mr Sameh, Chief Executive Officer

Monday, 17 November 2014

Parliament House, Canberra

Witnesses

The Treasury

RAY, Mr Nigel, Executive Director, Fiscal Group

CROKE, Ms Leesa, General Manager, Social Policy Division, Fiscal Group

FOSTER, Mr Chris, Principal Adviser, Social Policy Division, Fiscal Group

PURVIS-SMITH, Ms Marisa, Principal Adviser, Tax Analysis Division, Revenue Group

QUIGGIN, Professor John Charles, School of Economics, University of Queensland

STILWELL, Emeritus Professor Frank, Department of Political Economy, University of Sydney

Australian Council of Social Service

PHILLIPS, Ms Jacqueline, Director of Policy

EVANS, Ms Ro, Policy Officer

People with Disability

FINCH, Mrs Katherine Mary, Advocacy Projects Manager

The Salvation Army

HORTON, Ms Netty, Territorial Social Programme Director