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**Submitted electronically**

# Submission on the Extent of Income Inequality in Australia

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The St Vincent de Paul Society (the Society) is a respected lay Catholic charitable organisation operating in 149 countries around the world. Our work in Australia covers every state and territory, and is carried out by more than 60,000 members, volunteers, and employees. Our people are deeply committed to social assistance and social justice, and our mission is to provide help for those who are marginalised by structures of exclusion and injustice. Our programs assist millions of Australians each year, including people living with mental illness, people who are homeless and insecurely housed, migrants and refugees, and people experiencing poverty.

On 18 June 2014, the Senate referred the matter of the extent of income inequality in Australia to the Community Affairs References Committee, inviting submissions. The Society has consulted our members nationally, and we welcome the opportunity to make this contribution.

## 1. Executive Summary

The evidence shows that income inequality is an entrenched, and growing, feature of the Australian economic landscape. Those who feel the pain of this inequality are excluded in a number of key ways, including access to human rights such as housing, health, and education. Moreover, particular groups of Australians are more likely to experience this disadvantage than others, including Indigenous Australians, older and younger Australians, people experiencing illness, refugees, and women.

The Society is deeply concerned by a range of current Federal Government policies, many contained in the 2014 Budget, which we believe will increase income inequality in Australia. Instead, we believe that government should be focussing on a Jobs Plan for Australia, and on an adequate minimum social security benefit. Together, this would enable all Australians to live with dignity, create more jobs for those of us experiencing disadvantage, increase social cohesion, and decrease the cost of many social services (such as health and housing) in the future, by empowering people.

## 2. Term of Reference a)

### The Extent of Income Inequality in Australia

There are a range of ways of measuring income inequality in Australia, all of which suggest that **the extent of income inequality is unacceptably high.**

When compared to other developed countries, Australia performs poorly on income inequality measures. Out of 34 developed countries, we are the ninth most unequal. We are ahead of the US and the UK, but fall behind many countries including New Zealand,

Denmark, Hungary, France, Poland, Spain, and Canada.<sup>1</sup> It is notable that, despite having higher than average income inequality, our current levels of public and social spending are in fact *low* by international standards: the amount of cash benefits we pay (income support payments) is about 35% less than the OECD average.<sup>2</sup>

Income inequality in Australia is further demonstrated by the fact that 13% of Australians live in relative income poverty:<sup>3</sup> Over 2 million Australians live in a household where the annual disposable household income is less than \$19,967 per annum. Those living in such income poverty are more likely to be older Australians, and sole parent families.

In fact, on one recent measure from the ABS, using National Accounts Data, the bottom fifth of households now only receive 2.5% of all wages. Wealthy households are receiving around nineteen times more wages than the poorest families. The average (median) income of a full-time employed person is around \$1,500 per week.<sup>4</sup> A person working full-time on a minimum wage will earn only \$622 a week.<sup>5</sup> Meanwhile, a person on the unemployment benefit is expected to live off only \$249 per week.<sup>6</sup>

High rates of inequality in Australia can also be considered by looking at payment of government benefits to those doing it toughest. One in four Australian households depend on government pensions and allowances for their main source of income.<sup>7</sup> This represents an enormous number of people who are affected by policies lowering their rates of income support. And indeed, income inequality has been found to most greatly impact unemployed households who depend on the government payments Newstart and Youth Allowance.<sup>8</sup> In the ABS Household Expenditure Survey, households were asked questions to determine whether they have experienced any of six financial stressors. An incredible 36% of

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<sup>1</sup> Organisation for Economic Cooperation and Development (OECD), 'Income Distribution and Poverty: by Country – INEQUALITY', *OECD StatExtracts* at [stats.oecd.org/index.aspx?queryid=46189](https://stats.oecd.org/index.aspx?queryid=46189).

<sup>2</sup> At 8% of our GDP, compared to the OECD average of 12.5% of GDP. OECD, *Social Spending During the Crisis* (2012) page 5 at [oecd.org/els/soc/OECD2012SocialSpendingDuringTheCrisis8pages.pdf](https://oecd.org/els/soc/OECD2012SocialSpendingDuringTheCrisis8pages.pdf).

<sup>3</sup> Australian Institute of Health and Welfare (AIHW), *Australia's welfare 2013 – in brief* (2013) page 23 at [aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129544072](https://aihw.gov.au/WorkArea/DownloadAsset.aspx?id=60129544072), above 23.

<sup>4</sup> Australian Bureau of Statistics (ABS), (November 2013), [abs.gov.au/ausstats/abs@.nsf/Products/6302.0~Nov+2013~Main+Features~Key+Figures?OpenDocument](https://abs.gov.au/ausstats/abs@.nsf/Products/6302.0~Nov+2013~Main+Features~Key+Figures?OpenDocument).

<sup>5</sup> Fair Work Ombudsman, *Minimum wages* (2010) at [fairwork.gov.au/pay/national-minimum-wage/pages/default.aspx](https://fairwork.gov.au/pay/national-minimum-wage/pages/default.aspx).

<sup>6</sup> Department of Human Services (DHS), *Payment rates for Newstart Allowance* (March 2014) at [humanservices.gov.au/customer/enablers/centrelink/newstart-allowance/payment-rates-for-newstart-allowance](https://humanservices.gov.au/customer/enablers/centrelink/newstart-allowance/payment-rates-for-newstart-allowance).

<sup>7</sup> AIHW (2013), *op. cit.* page 23.

<sup>8</sup> Australian Bureau of Statistics (ABS), *Household Income and Income Distribution, Australia* (2013) at [ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/B0530ECF7A48B909CA257BC80016E4D3/\\$File/65230\\_2011-12.pdf](https://ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/B0530ECF7A48B909CA257BC80016E4D3/$File/65230_2011-12.pdf).

Newstart and Youth Allowance households suffer from a minimum of three forms of financially driven deprivation, as opposed to just 8.7% of the general population.<sup>9</sup>

It is clear that Australia experiences high rates of income inequality, and this disadvantage tends to affect some Australians worse than others: older Australians, sole parents, younger Australians, and those receiving income support from the government.

### **The Rate at which Inequality is Increasing in our Community**

The distribution of income for low-, middle- and high-income groups has seen some change from 1994–95 to 2010–11. The high-income group's proportion of total income increased, from 37.8% of the total income to 39.5%. Conversely, the low-income group dropped in its share of total income received, from 10.8% to 10.4%. The middle-income group dropped from 17.7% to 17.3%.<sup>10</sup> This shows that Australia's income divide is widening.

The Gini coefficient is a means of measuring income inequality, with values closer to 0 representing a more equal society, and values closer to 1 representing more inequality.<sup>11</sup> In 1994–95, the Gini coefficient was 0.302 in Australia. However, by 2010–11, income inequality had increased to 0.320.<sup>12</sup>

Increasing income inequality may be caused by a range of factors, including a less progressive taxation system, and decreasing income support for those at the bottom. Indeed, the last decades have seen both of these events occur. Income tax on the wealthy has now fallen to its lowest rate it has been in 60 years,<sup>13</sup> and we have seen a growth in tax avoidance through increasing use of avoidance strategies employed predominantly by the wealthy, such as negative gearing, capital gains, and superannuation tax breaks. We have also seen the values of many social security benefits fall in real terms, for those at the bottom, due to a lack of proper indexation.

Current policies appear to be continuing this trend of decreasing tax for those at the top, while decreasing payments for those most disadvantaged. This is discussed further below.

### **3. Term of Reference b) The Impact of Income Inequality**

The impacts of income inequality are not confined to one group of people, or policy area, but cut across a wide range of social issues.

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<sup>9</sup> Ben Phillips, 'The Great Australian Dream: Just a Dream?', *AMP.NATSEM Income and Wealth Report Issue 29* (July 2011), at [natsem.canberra.edu.au/storage/AMP\\_NATSEM\\_29.pdf](http://natsem.canberra.edu.au/storage/AMP_NATSEM_29.pdf).

<sup>10</sup> ABS (2013) *op. cit.*

<sup>11</sup> ABS (2013), *op. cit.*

<sup>12</sup> ABS (2013), *op. cit.*

<sup>13</sup> See, for example, Sam Reindhardt and Lee Steel, 'A Brief History of Australia's Tax System', *The Treasury Economic Roundup Winter 2006* (June 2006) at [archive.treasury.gov.au/documents/1156/HTML/docshell.asp?URL=01\\_Brief\\_History.asp](http://archive.treasury.gov.au/documents/1156/HTML/docshell.asp?URL=01_Brief_History.asp).

## Housing

We are experiencing a housing affordability crisis in Australia, and low income is one cause.

It is widely known that there has been an increase in demand and a shortfall of supply in housing stock in Australia.<sup>14</sup> However, the mere lack of supply masks the fact that limited housing affordability impacts the hardest on those surviving on low incomes. Over the last decade, median house prices have increased by 247%.<sup>15</sup> This is far above CPI, or most other methods of indexation. Conversely, since 2001, after-tax income has risen by only 95%. This means that middle-income Australians must spend far more of their income if they wish to become home-owners. For those Australians who rely on income support from the government, the story is even bleaker. As these payments are indexed to CPI (around 3% per year), or – if many of the current Budget measures pass – are not indexed at all, the growth in value of social security is less even than the growth in wages. This impact is especially felt by those who are reliant on the private rental market as their only source of accommodation.

Income inequality impacts access to housing: as the gap between rich and poor grows, **those struggling the most are less and less likely to be able to own their own dwelling.**

## Health

Income inequality has a complex relationship with poor health. However, what is clear is that low income is both correlated with and causative of poor health in Australia.

While Australia currently has a world-class, and relatively equitable, public healthcare system, this is only half the story. Firstly, for those Australians who require more than the occasional visit to the doctor or hospital, low income is a real impost to a decent quality of life. We have advocated before about the need to support people who live with disability properly, instead of stigmatising and humiliating them by cutting off their payments, and labelling them “rotters” and “leaners”.

More broadly, the social determinants of health tell us that socioeconomic position can predict who develops a range of serious health problems, including heart disease, diabetes, respiratory disease and particular cancers.<sup>16</sup> From this perspective, health follows a social gradient: the social, economic and political environments in which people live determine which rung they sit on, and whether they are able to move between the rungs.<sup>17</sup>

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<sup>14</sup> Ben Phillips, *op. cit.*

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

<sup>16</sup> George Davey Smith (ed.), *Health Inequalities: Lifecourse Approaches* (2003).

<sup>17</sup> L. Wood & B. Giles-Corti, *Social determinants of health: Healthway review* (2006).

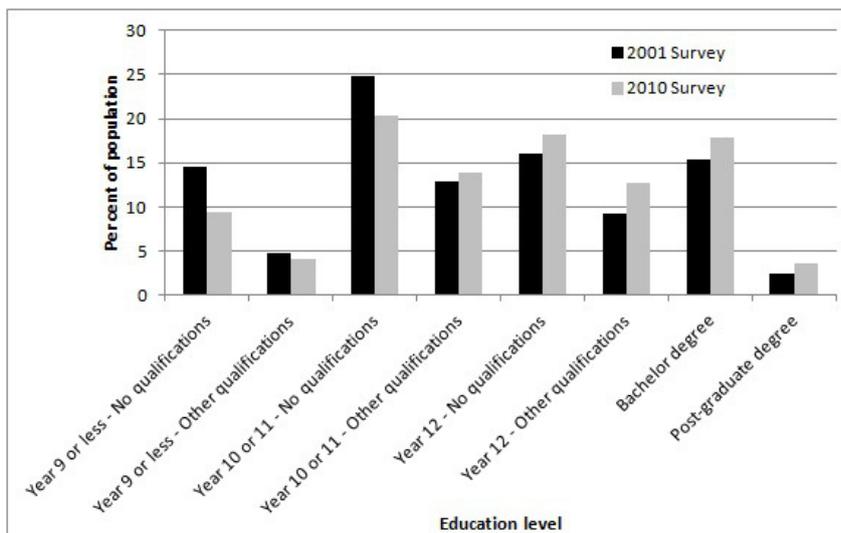
A recent study by Catholic Health Australia and NATSEM (May 2012) found that those that are the most socio-economically disadvantaged are twice as likely to have a long-term health condition than the most affluent Australians. Furthermore, those who are poor are twice as likely to suffer from chronic illnesses and will die on average three years earlier than the most affluent in Australian society.

When these issues build on one another, we see health issues significantly contributing to disadvantage – compounding the barriers to participation faced by people living in poverty through financial costs of their healthcare, the direct impact of their illness, and premature death.

In Australia today, **low income is a predictor of poor health**. Poor health compounds the disadvantage people are already experiencing, and increases inequality between groups.

## Education

Levels of education in Australia are increasing. From 2001- 2010, the number of individuals who completed year 11, a Bachelor’s degree or a post-graduate degree substantially increased, according to HILDA data reproduced here:<sup>18</sup>



However, these gains in education are not evenly spread. OECD data shows that Australia scores lower than average, that is, less equitably, on the slope of socio-economic gradient in schools.<sup>19</sup> This means that, in Australia, a child’s reading performance is strongly linked to

<sup>18</sup> This graph produced by Nicholas Biddle, ‘Education and income inequality in Australia’, *The Number Cruncher* (May 2013) at <http://thenumbercruncher.org/2013/05/14/education-and-income-inequality-in-australia/>.

<sup>19</sup> OECD, *PISA 2009 Results: Overcoming Social Background – Equity in Learning Opportunities and Outcomes (Volume II)* (2010), page 16 at [oecd.org/pisa/pisaproducts/48852584.pdf](http://www.oecd.org/pisa/pisaproducts/48852584.pdf).

their socio-economic background. This may be partly explained by the fact that advantaged schools are far more likely to have access to better educational resources.<sup>20</sup>

It is clear that **low income in Australia leads to lower levels of education**, as well as lower levels of education leading to lower income. Our education system's iniquities are therefore further entrenching income inequality in Australia today.

#### 4. Term of Reference c) The impact on disadvantaged groups

##### Aboriginal and Torres Strait Islander Peoples

Aboriginal and Torres Strait Islander peoples have been significantly impacted by income inequality in Australia.<sup>21</sup>

One way the income divide has widened between ATSI people and non-Indigenous Australians is the considerably shortened length of their work-life. NATSEM research shows that the work-life income of Indigenous Australians currently sits at two-fifths to two-thirds of work-life income of non-Indigenous Australians.<sup>22</sup> If Indigenous Australians had the same work-life length as average Australians, the work-life labour income gap would narrow by about four to seven percentage points.<sup>23</sup>

This is an example of the complex interplay between different structural barriers that people face. While income inequality is a cause of poorer health, housing, and educational outcomes, it is also a consequence of these disadvantages. For Indigenous Australians, their poor health leads to shorter work lives, and significantly less income.

##### Older Job Seekers

Income inequality for older job-seekers is a serious and often unacknowledged issue in Australia today. Baby Boomers have a higher rate of *long-term* unemployment and hidden unemployment than younger Australians.<sup>24</sup> Their chance of employment is decreased still

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<sup>20</sup> OECD *op. cit.* page 42.

<sup>21</sup> Binod Nepal and Laurie Brown, *Modelling Potential Impact of Improved Survival of Indigenous Australians on Work-life Labour Income Gap Between Indigenous and Average Australians* (September 2011) at [natsem.canberra.edu.au/storage/WP15%20Final%20for%20Web.pdf](http://natsem.canberra.edu.au/storage/WP15%20Final%20for%20Web.pdf).

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> M. Keegan, R. Cassells and R. Miranti, 'Unemployment, Income Support and Job Search Activity Among Baby Boomers in Australia', *Beyond the Frontiers: New Directions in Economics*, 42nd Australian Conference of Economists (July 2014) Page 1-28, at [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](http://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).

further due to underemployed (being employed part-time when wanting full-time employment), and giving up on job-seeking due to a sense to despair.<sup>25</sup>

Older job-seekers also face discrimination from employers, which contributes to their disadvantage, and lower incomes.

## People with Mental Illness

Income inequality also impacts Australians with mental illness disproportionately.

As mentioned above, social gradients in health are common – for instance, the lower a person’s economic status, the worse their health is.<sup>26</sup> According to NATSEM, ‘health inequalities persist because inequalities persist across key social and political domains... [such as] education, employment[,],... housing... and standards of living.’<sup>27</sup>

People with mental illness are more likely to rely on income support, which – as identified above – is a significant predictor of disadvantage and income inadequacy. They are also less likely to be in permanent, stable, work, and more likely to be without stable and secure accommodation. These factors compound their disadvantage, contributing to their increased exclusion, and further entrenching inequality.

## Refugees

Inequality impacts refugees in a number of ways. The wholesale denial of any form of income support to a number of asylum seekers living in our community has clear ramifications for their exclusion. With no income to speak of, refugees experience some of the highest degrees of deprivation that the Society sees.

Asylum seekers in our community are also impacted by unequal access to services, being barred from accessing healthcare, social housing, the jobs market, and education means that many asylum seekers have no opportunity to even try to overcome the structural barriers they face to participation.

Asylum seekers in our community face some of the highest levels of disadvantage, and this is in no small part caused by the fact that they receive little to no income, and many are not allowed to earn any money themselves.

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<sup>25</sup> Ibid.

<sup>26</sup> Laurie Brown, LincThurect and Binod Nepal, ‘The Cost of Inaction on the Social Determinants of Health’, *CHA-NATSEM Second Report on Health Inequalities* (May 2012) at [natsem.canberra.edu.au/storage/CHA-NATSEM%20Cost%20of%20Inaction.pdf](http://natsem.canberra.edu.au/storage/CHA-NATSEM%20Cost%20of%20Inaction.pdf).

<sup>27</sup> Ibid.

## Single People

Single people in Australia are more at risk of a range of disadvantages, associated with being reliant only on a single income. For those on income support payments, or allowances, including the disability pension, old age pension, Newstart, or Youth Allowance, single people do not receive as many welfare benefits as families or households with more than one person.<sup>28</sup> In fact, single people are more likely than coupled households to receive government allowances and pensions (76% as opposed to 61%).<sup>29</sup> Often, single people are more dependent on government payments because they have no one else to depend on for income.

When we reflect on the fact that people receiving income support are more likely to experience a range of disadvantages, it is clear that single people are more likely than others to bear the costs of income inequality.

## People on Low Income

People on low income are at the greatest risk of poverty and deprivation. HILDA data consistently shows that those on low income are more likely to experience financial stresses; unemployment; and health problems.<sup>30</sup> This stands to reason, and again highlights the way in which multiple forms of disadvantage mutually reinforce, and the fact that the impact of this is more severe for those experiencing the brunt of income inequality.

## Gender Inequality

Gender inequality in Australia today is an equity problem that deserves urgent attention and intervention. Gender inequality has a mutually reinforcing relationship with low income. Women are often expected to take extended breaks from work to fulfil caring roles, and are often forced to take lower pay in order to secure employment after an extended break.<sup>31</sup> Furthermore, time out of work will mean loss of earnings and loss of opportunities for training, experience and promotions or pay increases.<sup>32</sup> Lower working-life income also contributes to lower superannuation balances upon retirement.

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<sup>28</sup> ABS (2013) *op. cit.*

<sup>29</sup> ABS (2013) *op. cit.*

<sup>30</sup> ABS (2013) *op. cit.*

<sup>31</sup> Workplace Gender Equality Agency 2013, 'Gender pay gap taskforce report: Recommendations on calculating, interpreting and communicating the gender pay gap', Commonwealth Government of Australia, Canberra. Dr Linda Peach and Dr Carla Harris, *Gender pay gap taskforce report: Recommendations on calculating, interpreting and communicating the gender pay gap* (2013) at [wgea.gov.au/sites/default/files/2013-09-02%20WGEA%20GPG%20Taskforce%20Report%20FINAL\\_0.pdf](http://wgea.gov.au/sites/default/files/2013-09-02%20WGEA%20GPG%20Taskforce%20Report%20FINAL_0.pdf).

<sup>32</sup> *Ibid.*

With women continuing to be excluded at high rates from our boardrooms, parliaments, and executive appointments in almost all industries, gender inequality in Australia continues to entrench discriminatory patterns of disadvantage and low income.

## **5. Term of Reference d) the likely impact of Government policies on current and future rates of inequality**

The Society is deeply concerned by recent Government policies, particularly those proposed by the 2014 Budget, and the extent to which they appear to privilege the wealthy over the poor, reinforcing inequality across Australian society.

Modelling by NATSEM has made it clear that this Budget is raising revenue by taking income from the disadvantaged people in far greater proportions than from the affluent. As a result of changes to pensions, family allowances, unemployment benefits, and other social security payments, the poorest one-in-five Australian families will be hit for up to 10.8% of their income in 2017-18. By contrast, the richest Australian families can expect to forego a maximum of 1.7% in the same period.<sup>33</sup>

This disparity is reinforced by recent data released by the Treasury,<sup>34</sup> which highlights the difference in average cash transfers and income taxes that can be expected if Budget changes are implemented. The net impact on the average lower-income Australian in 2016-17 is calculated at \$844 per year, compared to a net impact of just \$517 on the higher-income group. After 2016-2017, when the 'budget repair levy' ceases to apply, the disparity will become even greater. That those who have far less resources would have more money taken from them in absolute terms is nothing short of astounding.

The largest amount of revenue forgone from tax breaks comes from the capital gains tax exemption on the family home, the 50 per cent capital gains tax discount and superannuation concessions. The Society is concerned that many of these concessions, especially for superannuation, undermine the fairness of the tax system, as it is the top income earners who benefit most from the capital gains tax and super concessions. For example, capital gains tax cuts mean wealthy investors can afford to own second homes and profit from their growth in value, while offsetting the cost of owning the homes against their income. This is not an option for low income Australians. Assets such as shares and owned property, the sole function of which is to generate income, are being driven further driven up in value. The top 5% of earners receive 37% of superannuation tax concessions, while

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<sup>33</sup> NATSEM, *Budget 2014-2015 Analysis* (May 26 2014) page 10 at [natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf](http://natsem.canberra.edu.au/storage/2014-15%20Budget%20Research%20Note.pdf)

<sup>34</sup> Department of the Treasury, Freedom of Information document, at [treasury.gov.au/~media/Treasury/Access%20to%20Information/Disclosure%20Log/2014/1510/PDF/1510\\_Document\\_3.ashx](http://treasury.gov.au/~media/Treasury/Access%20to%20Information/Disclosure%20Log/2014/1510/PDF/1510_Document_3.ashx)

part-time workers (including many single parents) receive no benefit.<sup>35</sup> These Budget measures therefore ultimately will enable the wealthy to grow their wealth, while the poor are severely disadvantaged by these austerity measures.

One of the main concerns that the Society has regarding the Budget are the changes made to the pensions and support payments which low income earners depend on. For instance, the Budget seeks to change many of the processes by which social security payments are indexed. Some indexation rates are being lowered (including pensions), while other payments are having their indexation paused. When indexations are lowered or paused, the value of payments will decrease each year, as will its purchasing power. The Society strongly opposes stopping, pausing, or reducing indexation. These moves will only exclude still further those experiencing the greatest degree of disadvantage in Australia.

Another troubling policy is the reassessment of persons previously receiving a Disability Support Pension. Under this policy a single 23-year-old on a disability pension, living out of home, might find themselves reassessed as a jobseeker and put onto youth allowance. This person will suddenly go from a DSP allowance of \$383 a week<sup>36</sup> to just \$207 a week<sup>37</sup> – a loss of nearly half their income. Such a loss will make it impossible for the person to pay their rent and utilities, as well as medical costs associated with their physical or psychological impairments. This is a heavy blow for people already on a low income, and serves to expand the gap between wealthy and poor.

We believe that the Budget will also have a severe impact on the income of young people and students. Young people on Newstart risk losing significant income as a result of the changes flagged by the Budget. Under the new six month cycle, Australians under 30 on Newstart will be completely without income for 6 months, in addition to any existing waiting periods. During this time, they will still be expected to meet rigid requirements around job seeking, and after six months of support they will be deprived of income once again, unless they have found work or commenced study. Many young people without family or supports to draw on will face poverty and homelessness as a result of these changes. In a climate of high unemployment, and particularly a shortage of entry level jobs across the country, it will be harder than ever for young Australians to get a foothold in the workplace. Once again, it is made even harder for people on low incomes to improve their circumstances and cross the widening income gap.

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<sup>35</sup> The Australia Institute, *Research Paper 61*, page 2, at <https://www.tai.org.au/index.php?q=node%2F19&pubid=540&act=display>.

<sup>36</sup> DHS, *Disability Support Pension* (August 2014), at <humanservices.gov.au/customer/services/centrelink/disability-support-pension>.

<sup>37</sup> DHS, *Payment rates for Youth Allowance* (March 2014) at <humanservices.gov.au/customer/enablers/centrelink/youth-allowance/payment-rates>.

## 6. Term of Reference e) The principles that should underpin the provision of social security payments in Australia

The Society believes that the most pressing issue Australia faces in relation to welfare reform is that **the labour market is failing to provide jobs for many Australians**. Global and macroeconomic forces have changed how jobs are created, and what kind of entry-level jobs are available. Additionally, long-standing, historical structural barriers continue to lock out many people.

Given the clear structural barriers that are locking many people out of the labour market, **we believe in a strong welfare system**, which provides adequate income for everyone, to enable all people to live with dignity and respect. The aim of this system must be to prevent poverty and ensure that no one is denied the essentials of life, while also recognising the value of unpaid contributions (eg volunteering, caring, and previous work), acknowledging that not everyone is able to contribute in the same way, as well as properly supporting those looking for work. The aim of the system should not be humiliation, nor control: compulsory income management, and other means of punishing people who are unable to find work, are not acceptable. Similarly, the social security system should not be so meagre as to force people to rely on emergency relief, or on charity and the community sector, for their essential needs.

Australia already spends comparatively little on welfare by international standards.<sup>38</sup> Given the daily battles to survive that we witness in our work with people excluded from the labour market, we believe we **must increase many of the payment rates** for social security benefits to enable people to have a decent standard of living. The Society has consistently pointed to a range of changes in taxation that would enable increased spending in this area.

We hope that many of these principles will be reflected in the final Report of current reference group considering Australia's welfare system.<sup>39</sup>

## 7. Term of Reference f) The practical measures that could be implemented by Governments to address inequality, particularly appropriate and adequate income support payments

There are a range of measures that Governments could take to address income inequality, and particularly appropriate and adequate income support payments.

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<sup>38</sup> The average amount OECD countries spend on cash benefits (income support) is 12/5% of GDP. Australia spends 8%. OECD *op. cit.* page 5.

<sup>39</sup> Department of Social Services (DSS) *Review of Australia's Welfare System* (2014) at [dss.gov.au/our-responsibilities/review-of-australia-s-welfare-system#release](https://dss.gov.au/our-responsibilities/review-of-australia-s-welfare-system#release).

First, we call on the government to support the establishment of a benchmarking process for an **adequate minimum social security payment** that is fair for all. At present, the rate structure is not fair. There are a range of barriers to fairness, including significant drops in payment rates at certain life transition points (ceasing caring responsibilities, or moving from a pension onto Newstart); different methods of indexation, which have resulted in an old-age pension significantly higher than the unemployment payment; and rent assistance payments that are ineffective. One of the greatest unfairnesses in the system is the lowness of the Newstart payment, and Youth Allowance (other), for young people living out of home. It has already been identified that the rate of Newstart, at \$255 per week (single, no children),<sup>40</sup> is a barrier to participation, and employment.<sup>41</sup> The rate of Youth Allowance is 20% lower than this, creating no doubt that both will severely impact people's quality of life: inadequate access to healthcare; not being able to afford to live in safe, secure, permanent housing; being unable to spend the time or money necessary to obtain further training and education; being pushed to the physical outskirts of cities, where jobs and public transport are more scarce; etc. Moreover, this base level of payment must be guaranteed for life. It is unacceptable that people could be cut off from receiving a payment for a period (such as the current proposed 6-month wait period for Newstart) just because they are young.

Secondly, any **mutual obligations** must be truly mutual. There is only one job for every five job-seekers on Newstart.<sup>42</sup> When we add the number of people already working low hours, but actively looking for more work, we find there is only one job for every *ten* job seekers.<sup>43</sup> Of these ten job-seekers, presumably, the most qualified and experienced will be able to win that one available job. We call on government to **establish a Jobs Plan for Australia**, which will engage the government's responsibility as macroeconomic manager to enact policy that will create meaningful employment opportunities for millions of disadvantaged Australians.

Thirdly, **mutual obligation** must be strengths-based, and proven to be effective, rather than ideological and punitive. Compulsory income management was part of the Northern Territory Intervention, and is now being trialled in locations around the country,<sup>44</sup> with the view to further roll-out. We believe this is a particularly offensive means of degrading and

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<sup>40</sup> Department of Human Services (DHS), *op. cit.*

<sup>41</sup> See, eg, Business Council of Australia, *Submission to Submission to the Senate Education, Employment and Workplace Relations References Committee Inquiry into the Adequacy of the Allowance Payment System for Jobseekers and Others*, (August 2012) at [bca.com.au/docs/94852CF2-D812-4D3C-93CC-384C2ECA5820/submission\\_to\\_the\\_senate\\_inquiry\\_into\\_newstart\\_and\\_other\\_allowances\\_final\\_10-8-2012.pdf](http://bca.com.au/docs/94852CF2-D812-4D3C-93CC-384C2ECA5820/submission_to_the_senate_inquiry_into_newstart_and_other_allowances_final_10-8-2012.pdf).

<sup>42</sup> ABS, *Job Vacancies, Australia, May 2014* (May 2014) at [abs.gov.au/ausstats/abs@.nsf/mf/6354.0](http://abs.gov.au/ausstats/abs@.nsf/mf/6354.0) and DSS, *Labour market and related payments: A monthly profile* (May 2014) at [dss.gov.au/sites/default/files/documents/06\\_2014/labour\\_market\\_and\\_related\\_payments\\_may\\_2014.pdf](http://dss.gov.au/sites/default/files/documents/06_2014/labour_market_and_related_payments_may_2014.pdf).

<sup>43</sup> September 2013, ABS data on underemployment (those seeking more hours) ABS, *Underemployed Workers, Australia, September 2013* (February 2014) at [abs.gov.au/ausstats/abs@.nsf/Latestproducts/6265.0Main%20Features3September%202013?opendocument&tabname=Summary&prodno=6265.0&issue=September%202013&num=&view](http://abs.gov.au/ausstats/abs@.nsf/Latestproducts/6265.0Main%20Features3September%202013?opendocument&tabname=Summary&prodno=6265.0&issue=September%202013&num=&view).

<sup>44</sup> Bankstown (NSW), Logan (Qld), Playford (SA), and Perth (WA).DSS, *Income Management* (July 2014) at [humanservices.gov.au/customer/services/centrelink/income-management](http://humanservices.gov.au/customer/services/centrelink/income-management).

stigmatising people because they live in poverty: controlling how someone spends their income is inherently disempowering, disrespectful and fails to address the core issues of income inadequacy and a labour market that is not delivering jobs. It inappropriately individualises a broad, structural problem. Research shows that income management programmes have not had the intended outcome in any case,<sup>45</sup> and removing income management would save around \$100 million per year.<sup>46</sup>

Similarly, Work for the Dole is a policy unsupported by any genuine rationale or evidence. There is no evidence that there are large numbers of young people who are currently unengaged and uninterested in work, and there is no evidence that Work for the Dole style programmes really help anyone find work. In fact, due to the nature of many of the tasks; the fact that attendance is compulsory rather than optional; the fact that so much time must be spent “working” for no pay, rather than seeking paid work; the absence of structured training or education components; and the stigma attached to the program, it seems likely that this program will **decrease people’s ability to find paid work**.<sup>47</sup> It is unclear why a program which creates a lot of stigma, humiliates young people, interferes with their jobseeking activity, and risks replacing paid jobs in the economy with unpaid labour, is being reintroduced.

Finally, payments must be **sustainable**: levels of payment must support someone not just today, but into the future. For this reason, the Society has consistently advocated that indexation of payments is essential, and must be adequate.<sup>48</sup> When payments are not indexed at all, or their indexation is paused, by definition their real value or purchasing power will drop each year. Similarly, we have argued that the Consumer Price Index (CPI) does not reflect real indexation, as it does not reflect the real cost of living. The CPI is a national average, taken in cities only, of the cost of a wide range of consumer goods. This average does not tend to reflect the prices of the particular goods that those relying on welfare payments are spending most of their income on.<sup>49</sup> Our research has suggested that the increase in the types of items that make up the vast majority of low income households’

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<sup>45</sup> J Rob Bray, Matthew Gray, Kelly Hand, Bruce Bradbury, Christine Eastman and Ilan Katz, *Evaluating New Income Management in the Northern Territory: First Evaluation Report* (July 2012) at [dss.gov.au/sites/default/files/documents/11\\_2012/nim\\_first\\_evaluation\\_report.pdf](http://dss.gov.au/sites/default/files/documents/11_2012/nim_first_evaluation_report.pdf).

<sup>46</sup> Luke Buckmaster, Carol Ey and Michael Klapdor, *Income Management: An Overview* (June 2012) at [aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/BN/2011-2012/IncomeManagementOverview#\\_Toc328056521](http://aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BN/2011-2012/IncomeManagementOverview#_Toc328056521).

<sup>47</sup> See, for example, Jeff Borland and Yi-Ping Tseng, *Does ‘Work for the Dole’ Work?* (June 2013) at [melbourneinstitute.com/downloads/labour/6\\_wfd\\_FinReport.pdf](http://melbourneinstitute.com/downloads/labour/6_wfd_FinReport.pdf); OECD Economic Survey of Australia, Paris, 2000, p.100, Australian Council of Social Services (ACOSS), “Does Work for the Dole lead to Work for Wages?” *ACOSS Info* 223(November 2000).

<sup>48</sup> See, for example, St Vincent de Paul National Council, *Submission to Inquiry into Social Security Amendment Supporting More Australians into Work Bill* (June 2013) at [vinnies.org.au/icms\\_docs/168659\\_Submission\\_to\\_the\\_Inquiry\\_into\\_the\\_Social\\_Security\\_Amendment\\_Supporting\\_More\\_Australians\\_into\\_Work\\_Bill\\_2013.pdf](http://vinnies.org.au/icms_docs/168659_Submission_to_the_Inquiry_into_the_Social_Security_Amendment_Supporting_More_Australians_into_Work_Bill_2013.pdf).

<sup>49</sup> Terry McCarthy and John Wicks, *Two Australias: Addressing Inequality and Poverty* (2001), page 23 at [vinnies.org.au/icms\\_docs/169073\\_Two\\_Australias\\_Report\\_on\\_Poverty.pdf](http://vinnies.org.au/icms_docs/169073_Two_Australias_Report_on_Poverty.pdf).

purchases – food, education, public transport, housing, and utility bills – is rising at 8.7% higher than CPI.<sup>50</sup> For example, fuel and power make up 4% of the poorest fifth of the population’s expenses, but only 2% of the richest fifth’s:<sup>51</sup> when those costs go up, they hit the poor harder than the rich. In short, “CPI significantly underestimates the true increase in the price of the basket of commodities which these household groups typically consume.”<sup>52</sup> The Society supports the view of the Australian Council of Social Services,<sup>53</sup> that all payments should be indexed to average wages.

## 8. Conclusion

The evidence outlined above leaves no doubt that income inequality is a significant problem in Australia today. As many as 13% Australians live in a household where the income is less than \$20,000 per year, and these people are also likely to experience other barriers, including poor housing, ill health, lack of access to education. Inequality does not affect everyone equally: those who suffer the most are more likely to be Indigenous Australians, older and younger Australians, people experiencing illness, refugees, and women.

Instead of pursuing the austerity measures in the current Budget, many of which remove income from those who are already experiencing the brunt of inequality, we call on government to commit to a positive, proactive, and forward-looking plan for Australia. We believe that governments should create a Jobs Plan, outlining a pathway to job creation for the 1.5 million Australians currently unemployed and underemployed. Secondly, for those currently excluded from the labour market, we urge governments to create a benchmarking process to determine an adequate minimum social security benefit, which enables people to live with dignity. Thirdly, we need to embrace a national social and affordable housing strategy that ensures that no one is denied the right to a place they can call home. Fourthly, we call on government to honour its pre-election commitment to the Gonski school education reforms so that no child is denied access to the highest quality education. Government should also abandon its planned deregulation of the higher education sector, which will have calamitous effects on equitable access to universities. The TAFE sector, similarly should be supported and expanded rather than being marketised and denuded. Fifthly, government must commit to strengthening, rather than making unaffordable, the model of universal healthcare for all.

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<sup>50</sup> St Vincent de Paul Victoria, *The Relative Price Index*, (August 2013), at [vinnies.org.au/content/Document/RPI\\_Summary\\_Report\\_Aus\\_Dec\\_2012%20\(21%20August%202013\).pdf](http://vinnies.org.au/content/Document/RPI_Summary_Report_Aus_Dec_2012%20(21%20August%202013).pdf).

<sup>51</sup> Ian McAuley, *What Are We Complaining About? An Analysis of Cost of Living Pressures* (February 2012) page 18 at [cpd.org.au/wp-content/uploads/2012/05/What-are-we-complaining-about-CPD-formatting.pdf](http://cpd.org.au/wp-content/uploads/2012/05/What-are-we-complaining-about-CPD-formatting.pdf).

<sup>52</sup> St Vincent de Paul Victoria, *op. cit.* page 35

<sup>53</sup> ACOSS, *2013–2014 Budget Priority Statement* (April 2013) page 32, at [acoss.org.au/images/uploads/ACOSS\\_2013-14\\_Budget\\_Priority\\_Statement\\_final.pdf](http://acoss.org.au/images/uploads/ACOSS_2013-14_Budget_Priority_Statement_final.pdf).

Through the strength and resilience of people living life on the margins, which we at St Vincent de Paul see everyday, we know that a future in which all prosper together is possible. We believe that this vision of Australia is possible, if we work together, and start today.