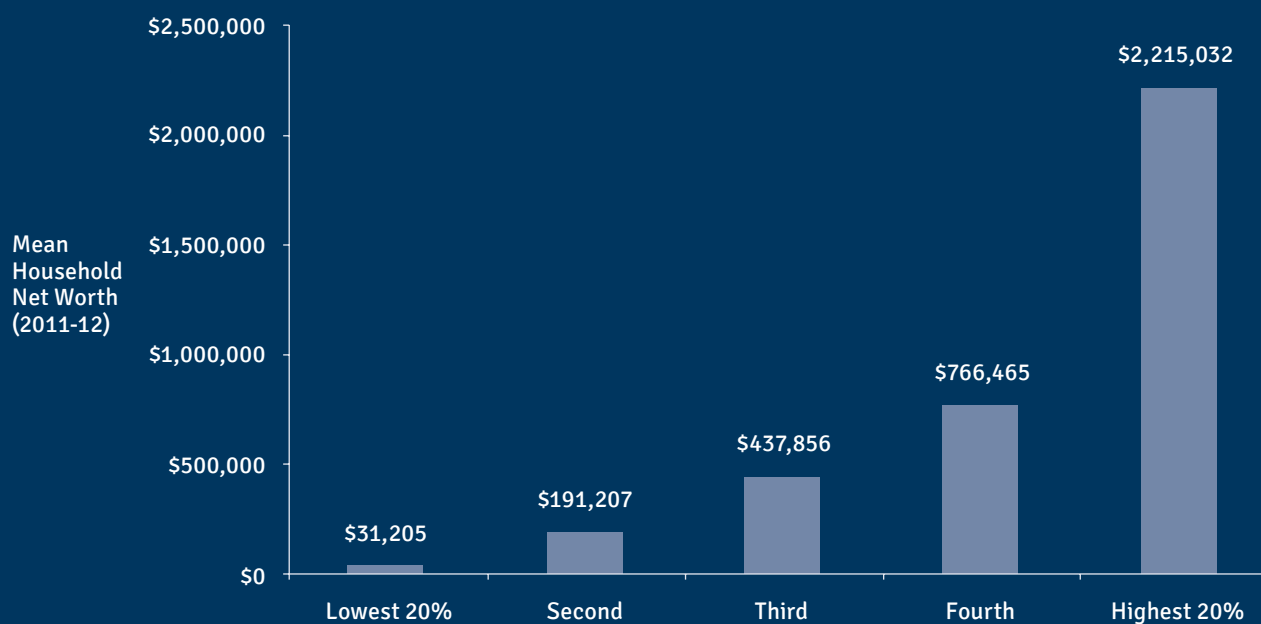


Advance Australia Fair? What to do about growing inequality in Australia

Report following a roundtable held at Parliament House Canberra in January 2014
Bob Douglas, Sharon Friel, Richard Denniss and David Morawetz

Australian Wealth Inequality



Source: ABS, Household Income and Income Distribution, Australia, 2011-12

Advance Australia Fair?

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David Morawetz

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The views expressed by the participants are their own
and do not necessarily represent those of Australia21
or The Australia Institute.

While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by the happy few This imbalance is the result of ideologies that defend the absolute autonomy of the marketplace and financial speculation.

POPE FRANCIS, *Evangelii Gaudium* 2013

The richest 85 people on the globe – who between them could squeeze onto a single double-decker bus – control as much wealth as the poorest half of the global population put together (3.5 billion people).

OXFAM REPORT to the Davos Conference of the World Economic Forum 2014

Business and political leaders at the World Economic Forum should remember that in far too many countries the benefits of growth are being enjoyed by far too few people. This is not a recipe for stability and sustainability. In the years ahead, it will no longer be enough to look simply at economic growth. We will need to ask if this growth is inclusive.

CHRISTINE LAGARDE, *Managing Director International Monetary Fund* 2014

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Foreword by Paul Barratt Chair Australia21

Australia21 is a non-profit body that seeks to develop new insights into complex issues important to Australia's future. For thirteen years we have been bringing together multidisciplinary groups of thinkers, researchers and policy-makers to consider issues about Australia's future ranging from climate and the landscape, our society and our economy, to Australia's place in the world.

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 with 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.

To me, both preparation for the round table and discussion on the day were productive, and highlighted three key messages. The first is the variety of ways that inequality affects Australian society and its individual members – ranging from impacts on health, on skill formation and on economic efficiency, to impacts on a sense of belonging or feeling excluded from society.

The impact on sense of belonging or feeling excluded leads to the second key point: while it can be argued that in an open market economy some degree of inequality is inevitable, a country which prides itself on being 'the land of the fair go' should be asking how much inequality is enough – and how much is too much?

Which brings me to the third point: there are policy options for dealing with inequality, and to a large degree the rapid growth of inequality in Australia reflects policy choices.

Australia21 is not alone in its concerns about inequality; already in 2014, the Davos Conference, United States President Barack Obama and Christine Lagarde, Managing Director of the International Monetary Fund, have identified inequality as a major risk to the pace and stability of future social and economic growth.

Part A of this report covers most of the issues that were raised in discussion at the roundtable and Part B presents the personal views of a number of roundtable participants. The report is being distributed in an effort to stimulate a broad national conversation on this important subject, which goes to the heart of what kind of society we in Australia want to build.

Paul Barratt April 2014



Foreword by Richard Denniss Executive Director The Australia Institute

What defines a successful society? Gandhi once said: ‘the true measure of any society can be found in how it treats its most vulnerable members’, yet in Australia the most widely used measure of society’s success is the rate at which Gross Domestic Product is growing. In a democracy, it is up to the citizens to define the kind of society they want.

As this report makes clear, the gap in Australia between those with the most and those with the least is growing. The report presents evidence that disparity between the very wealthy and the very poor is itself a cause of economic and social problems. Indeed, it presents evidence that more equal societies are likely to grow faster than less equal ones.

But do we care? And should we care?

For some, such as Gandhi, looking after the most vulnerable is an end in itself. To others, equity should be pursued as a means towards the end of greater economic growth. To most, it is simply nicer to live in a society in which people who fall on hard times don’t fall so hard that they, or their children, may never rise again.

However, despite the fact that public opinion surveys, Nobel-prize winning economists such as Joseph Stiglitz, and the head of the International Monetary Fund Christine Lagarde support the pursuit of a more equal distribution of income and wealth, such policy prescriptions have gained little traction in Australia. Not only are they often dismissed as ‘class warfare’ against the rich, but in recent decades successive governments have introduced a wide range of taxation policies that have exacerbated the gap between the rich and the poor.

This report, which draws on a broad range of perspectives, seeks to broaden the policy debate, strengthen the evidence base on which that debate is based, and highlight how broad the support is for a significant change in the direction of policy and the way that policy outcomes are measured in Australia.

Richard Denniss April 2014

Executive summary

Australia has a long and proud tradition of equality, but in recent decades the benefits of strong economic growth have flowed disproportionately to the rich. In the wake of a declining resources boom, there is a growing gulf between those in the top range and those in the lower ranges of wealth and income distributions.

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. In recent decades the income share of the top 1 per cent has doubled, and the wealth share of the top 0.001 per cent has more than tripled. At the same time, poverty is increasing and many of those dependent upon government benefits, including the unemployment benefit, have fallen well below the poverty line. If we do not pay attention to the problem of financial inequality, current economic circumstances are likely to make it worse.

Growth in inequality of incomes and wealth leads to greater stratification of the community, with adverse impacts on trust, self-image, and equality of opportunity for disadvantaged groups. This in turn has negative effects on health and social stability. There is growing evidence, including from the International Monetary Fund, that increasing inequality impedes economic productivity and economic growth as well.

Australia is one of the lowest taxing countries in the industrialised world, and our welfare spending as a proportion of Gross Domestic Product (GDP) is among the lowest in the Organisation for Economic Co-operation and Development (OECD). In the past decade, Australian commonwealth government revenues have fallen from 26 per cent of Gross Domestic Product to 23 per cent, while government spending has remained

at a relatively stable 25 per cent. As a result, government revenues are now insufficient to meet the needs of the community in health, education, income support, and social and physical infrastructure.

Several factors have contributed to the growing inequality of incomes and wealth in Australia. Large tax cuts and tax exemptions introduced by both sides of politics in recent decades have disproportionately favoured the rich. Other factors include globalisation, asymmetric access to rapid technological change, changes in compensation practices for top executives (including use of bonuses and stock options) and the neoliberal economic policies that have prevailed since the 1980s. Another important contributor has been the increasing practice of 'rent seeking', whereby wealthy and powerful companies, organisations or individuals use their resources to obtain economic gain at the expense of others, without contributing to productivity.

A number of policy levers are available to arrest the trend towards greater inequality and, at the same time, remedy the current deficit in government revenue. One prime lever is inclusive job creation policies. A second is long term investment in human capital through improving early childhood development and education and training. Education and health funding need to be distributed more fairly, particularly to disadvantaged children. Other levers include reducing tax breaks for superannuation, capital gains and negative gearing of residential property (all of which disproportionately favour the wealthy), reforming transfer payments through pension, benefits and expenditure reforms, trade policy, and taking steps to avoid 'political capture' by powerful interest groups or companies.

Use of remedial levers like these is never straightforward. There is likely to be opposition from those whose income, power and influence will be diminished under a fairer distribution of income and wealth. Taxation reform and attempts to close tax loopholes are a case in point. However, if we are to make real progress on restoring public revenue to the level now needed, the Australian community needs to begin to consider taxes not as an unfair burden but as the primary way to fund the public goods, services and infrastructure that we share, the price we pay for a civilised and well-functioning society.

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.

In 21st century Australia, do we still care about equality of opportunity, 'a fair go for all'? If so, what are we prepared to do to make it happen?

The roundtable event

The publication of *Battlers and Billionaires* by parliamentarian/economist Andrew Leigh (Leigh 2013) stimulated Australia21 to add inequality to its agenda of complex problems facing Australia's future.

Dr Leigh's book presents a graphic illustration of Australian inequality:

To see the full extent of inequality today, imagine a ladder on which each rung represents a million dollars of wealth. Now imagine the Australian population spread out along this ladder, with distance from the ground reflecting household wealth. On this ladder, most of us are just a few centimetres off the ground. Half of all households are closer to the ground than they are to the first rung. The typical Australian household has a wealth of about half a million dollars, placing it halfway to the first rung. A household in the top 10 per cent is one and a half rungs up, at about knee height. A household in the top 1 per cent is five rungs up, about neck level. The mining billionaire Gina Rinehart is nearly ten kilometres off the ground. (Leigh 2013, pp. 4-5)

Australia21 approached Dr Leigh and several state governments and charitable agencies about holding an inquiry into what to do about Australian inequality. The result was an agreement by the ACT government, the Social Justice Fund and the Reichstein Foundation to co-fund a multidisciplinary roundtable on the topic.

A steering group commissioned a discussion paper, jointly authored by Sharon Friel, Professor of Health Equity at the Australian National University, and Richard Denniss, Executive Director of The Australia Institute (Friel and Denniss 2013). Invitations were extended to leading thinkers in a range of disciplines including economics, political science and public health from universities, non-government organisations, unions and business, as well as to all federal parliamentarians. Five parliamentarians (four Labor and one Green) accepted.

The roundtable was co-sponsored by the Australia Institute, Australia21 and Professor Friel, and was hosted by Dr Leigh at Parliament House.

Prior to the event, all participants were invited to provide a dot-point summary of their views on issues raised in the discussion paper.

On 31st of January 2014, 34 participants met for four 90-minute sessions of open dialogue on 'What should be done about growing Australian inequality?' Session topics were as follows:

- Session 1. Who are we and what are our aspirations for the day?
- Session 2. What are the social, political, economic and cultural consequences of inequality, and the barriers to reform?
- Session 3. What kind of factors will lead to electoral support for change, and what are the viable options that could arrest the increase in inequality in Australia's post-boom days?
- Session 4. What have we concluded from this exchange of views and information?

Discussion was held under the Chatham House rule and proceedings were audio taped and transcribed without identifying who said what. While there was no attempt to reach consensus on all issues, there was agreement by all participants that because increases in inequality in Australia threaten national wellbeing, there is need for a national conversation on the topic.

This report is based on the paper prepared for the roundtable, the dot-points prepared by participants, the transcript of discussions, and current literature on the topic. Notwithstanding the Chatham House rule, a number of participants agreed to their comments on specific issues being included (see Part B).

PART A

What to do about growing inequality in Australia: Report following roundtable

1. Definitions of inequality

The term **inequality** describes a measurable phenomenon that can be applied to income, wealth, social status, education, health and social outcomes. This report concentrates on inequality of incomes as an index of financial inequality, a measure for which national and international data are readily available.

Financial inequality can also be considered in terms of the distribution of total wealth in the population. However there are complexities in the estimates of total wealth. Whiteford has shown that different data sets lead to different conclusions about the relative inequality of distribution of Australian net wealth as opposed to income (Whiteford 2014). This report concentrates mainly on inequality of income, while referring also to inequality of wealth and inequality of opportunity where the data permit.

While inequality refers to a measurement of specific differences, **inequity** introduces an ethical consideration to disparities of inequality, and implies both unfairness and preventability.

Perfect income equality is not a realistic goal. But **equality of opportunity** is generally agreed to be desirable in a fair society. Countries with a high degree of income inequality tend also to have poorer opportunities for those who have lower incomes.

Another measure widely used in the literature is **social mobility**, also known as **inter-generational mobility**, which refers to the likelihood that a child, on growing to adulthood, can expect to move into a higher wealth bracket than that of his or her parents. As income inequality increases, there is a tendency for social mobility to decrease.

The usual indicators of financial inequality are:

- share of wealth or income that accrues to the top 1 per cent or top 0.1 per cent of the population;
- income or wealth of those in the top 10, 20 or 50 per cent expressed as a proportion or ratio of the income or wealth of those in the lower 10, 20 or 50 per cent, for example P90/ P10 or P80/P20;
- Gini coefficient, a statistical measure of income dispersion in a population. A Gini coefficient of 0 expresses perfect equality: everyone has the same income. A Gini coefficient of 1 expresses maximal inequality: one person has all the income.

In recent times, financial inequality has been increasing on each of these measures in almost all countries, with the most rapid rate of increase occurring in the United States. Australia's rate of increase is not far behind.

2. Inequality in Australia

The pillars of (our former) egalitarianism in Australia were high wages, high home ownership and low unemployment. If we want to regain this position, we need to ensure that unemployment remains low and that low income earners are able to buy into affordable housing. (Whiteford 2014)

For most of the last century, Australia was a relatively egalitarian country and proud of it. In the half-century after World War 1, incomes rose faster at the bottom of the income distribution than the top, until by the end of the 1970s Australia was one of the most egalitarian countries in the world.

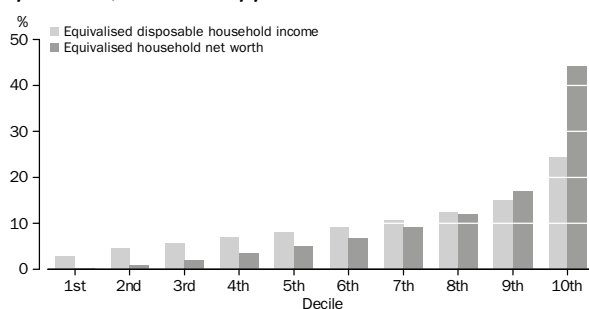
However, from the mid-1970s, full time wages for the bottom tenth of the income distribution have grown only 15 per cent, while full time earnings for the top tenth have increased by 59 per cent. In recent decades, the income share of the top 1 per cent has doubled, the wealth share of the top 0.001 per cent has more than tripled, and the share of the top 0.0001 (the richest one-millionth) has quintupled. In 2009, the top twenty CEOs earned more than 100 times the average wage (Leigh 2013, p.57).

Over the last decade, the richest 10 per cent have enjoyed almost 50 per cent of the growth in incomes, and the richest 1 per cent have received 22 per cent of the gains. This increasing concentration of Australian incomes is not only unfair; the evidence is growing that it is counterproductive to long-term growth and prosperity (Ostry 2014).

At the other end of the income distribution, the bottom 20 per cent has relied on government payments for three quarters of its income. Australia's unemployment benefit (currently called Newstart) is the lowest of all Organisation for Economic Co-operation and Development (OECD) countries. Many government benefits have barely kept pace with inflation over recent decades. Partly as a result, one child in six in Australia lives in poverty, and the unemployment benefit is now 20 per cent below the poverty line.

The inequality of the current distribution of wealth and income (in terms of net worth and disposable income) is illustrated graphically below.

Percentage share of Australian household disposable income and net worth 2011-12 for each decile of the population, lower to upper



Source: ABS Household Income and Income Distribution 2011-12 (ABS equivalised figures are adjusted for household size and composition)

The wealthiest 20 per cent of households in Australia account for 61 per cent of total household net worth, and have an average net worth of \$2.2 million per household. The poorest 20 per cent of households account for just 1 per cent of total household net worth, and have an average net worth of just \$31,205 per household (see the chart on the previous page and the chart on the front cover of this report).

To be included in the wealthiest 1 per cent of Australian households requires having a minimum net worth of more than \$5 million. There are more than 90,000 households in the top 1 per cent (ABS 2013a p. 5).

With respect to income, to be included in the more than 90,000 households in the top 1 per cent requires having a minimum income of \$210,000. The top 1 per cent earned 9 per cent of total household income in 2010-11, and the top 10 per cent received 31 per cent of all income (Atkinson and Leigh 2007, updated by Leigh).

In addition to increased inequalities of income and wealth, **poverty** continues to be a stark reality in modern day Australia. Like inequality, poverty is a relative concept applied to people who cannot afford things that most other people in the same society take for granted. It is usually defined by a financial poverty line: the financial income level below which people struggle to afford rent, food and clothing. A commonly used definition of poverty in Australia and elsewhere is an income less than 50 per cent of the median income (that is, the midpoint at which 50 per cent of incomes are higher and 50 per cent are lower). By contrast, Britain, Ireland and the European Union use a less austere definition of poverty (60 per cent of the median income).

People below the poverty line tend to have worse health outcomes than those at the upper end of the spectrum. They have less disposable income for nutrition, health

care and housing, and are less able to avoid risk. Poverty is often also associated with single parenthood and high consumption of energy-dense but nutrient-poor food, alcohol, tobacco and illicit drugs. Homelessness is also more common among people in this group.

In 2010, the Australian poverty line (50 per cent of median income) for a single adult was \$358 per week, while for a couple with two children it was \$752. In that year, an estimated 2.2 million people were living below the poverty line after taking housing costs into account. It was also estimated that 575,000 children (one child in six) were living in poverty. Of people on social security payments, 37 per cent lived below the poverty line, including 52 per cent of those on the Newstart unemployment allowance, 45 per cent of those on the parenting payment, 42 per cent of those on the disability support pension, but only 14 per cent of those on the aged pension. More than 1.2 million households had a net worth less than \$50,000 in 2011-12, with 114,000 of these households having negative net worth (the bottom 1 per cent of all households) (ACOSS 2012, pp.6-8).

Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom. (Nelson Mandela, 2005)

3. Similar trends in inequality in other countries

The income inequality graph below shows similar trends over time in the percentage of total income enjoyed by the top 1 per cent of the population in the United States, United Kingdom, Canada and Australia since 1950. Australia is shown to be not as unequal as the other three countries but it is heading in a similar direction, and there is some evidence that it is progressing more rapidly along the path of inequality than many other OECD countries.



Source: Piketty 2014 p. 316

Furthermore, the higher one climbs in the income hierarchy, the steeper the rise. Since the 1970s, the share of the top 0.1 per cent (the top thousandth of the population – not shown in the graph above) has approximately quadrupled in the United States, and it has approximately trebled in Australia (Piketty 2014 Figure 9.5, p. 319).

Australian Bureau of Statistics income distribution data derived from its household surveys reveal increasing inequality in Australia in recent years, both in absolute terms and relative to comparator countries. For example, these data show Australia's Gini coefficient rising from

0.302 in 1994-95 to 0.320 in 2011-12, with a peak of 0.336 in 2007-08 (ABS 2013). By comparison, the online OECD database shows the OECD average for the Gini coefficient rising from 0.301 in 1995 to 0.316 in 2010. However, it is difficult to establish the true extent of the increase in inequality in Australia over this period due to changes in ABS survey methods and the income concept introduced (in stages) in the mid-2000s (Australian Treasury 2013, Wilkins 2014).

I believe that this is the defining challenge of our time, making sure our economy works for every working American. It's why I ran for president. It drives everything I do in this office.
(President Barack Obama, 2013)

In the United States, addressing the damaging effects of inequality is now at the top of President Obama's policy agenda. There have also been recent calls to reduce inequality from the usually conservative and free market International Monetary Fund and from *The Economist*, which has warned that 'Inequality has reached a stage where it can be inefficient and bad for growth' (12 June 2012).

According to more than 700 global experts who were surveyed for the global risks report of the World Economic Forum at Davos, growing inequality of incomes is the most likely of 31 global risks to cause serious damage globally in the coming decade, 'threatening social and political stability as well as economic development' (World Economic Forum, 2014, pp.17, 54).

Yet in Australia, serious public discussion about the growing inequality of income and opportunity has barely commenced. Many in the community are not yet aware of the extent of the problem, its cost to societal health and wellbeing, and the fact that inequality of income can be addressed by policy.

4. Causes of growing inequality

Political, economic and social forces generate and distribute power, income and goods and services at global, national and local levels. Power, money and resources are distributed unequally across the social hierarchy. This leads to unfairness in the immediate circumstances in which people are born, grow, live, work and age, including levels of pay and other conditions of work, access to quality health care, schools and education, social protection, the affordability of homes and the nature of communities, towns, or cities (Friel and Denniss 2013).

The causes of increasing inequality in Australia include increasing globalisation, asymmetric access to rapid technological change, the decline of union membership, changes in compensation practices for top executives (including the use of bonuses and stock options), and large tax cuts and tax exemptions introduced by both sides of politics which have favoured the rich (Leigh 2013). Another important contributor has been the increasing practice of ‘rent seeking’, whereby wealthy and powerful companies, organisations or individuals use their resources to obtain economic gain at the expense of others without contributing to productivity.

Many also argue that the increasing international influence of neoliberalism that began during the Reagan administration in the United States and the Thatcher government in the United Kingdom is another contributor. There are now signs in mainstream economics that growing inequality is forcing a reappraisal of some elements of neoliberalism (Spierings 2013).

4.1 Dominant economic paradigm

There is debate about the exact relationship between inequality and economic growth. An analysis of the data by Leigh (2013) found little evidence of inequality having an adverse impact on economic growth in Australia. Others argue that when incomes of the disadvantaged are too low, aggregate demand is depressed, upward social mobility is reduced, and the economy must draw on a smaller talent pool. Consequently the size of the economy is limited, economic productivity is diminished, and growth is ultimately slowed.

An International Monetary Fund Discussion Note entitled ‘Redistribution, Inequality and Growth’ refers to a tentative consensus in the literature that inequality can undermine progress in health and education, cause investment-reducing political and economic instability and undercut the social consensus required to adjust to shocks, and thus that it tends to reduce the pace and durability of growth:

That equality seems to drive higher and more sustainable growth does not in itself support efforts to redistribute. In particular, inequality may impede growth at least in part because it calls forth efforts to redistribute that themselves undercut growth. In such a situation, even if inequality is bad for growth, taxes and transfers may be precisely the wrong remedy.

While considerable controversy surrounds these issues, we should not jump to the conclusion that the treatment for inequality may be worse for growth than the disease itself. Equality-enhancing interventions could actually help growth: think of taxes on activities with negative externalities paid mostly by the rich (perhaps excessive risk-taking in the financial sector) or cash transfers aimed

at encouraging better attendance at primary schools in developing countries, as examples. The macroeconomic effects of redistributive policies will reflect a balance between the components of the fiscal package, and it is an empirical question whether redistribution in practice is pro- or anti-growth. (Ostry et al 2014, p.4)

4.2 Inequitable and inadequate taxation

If we abolished all tax concessions for superannuation (which go overwhelmingly to the rich, and which benefit the poorest not at all), we could give the aged pension to everyone without a means test, and substantially increase it as well – by about 25 per cent to nearly \$40,000 for couples and \$26,000 for singles. At the same time, we would be saving more than \$10 billion a year from the budget bottom line, and greatly improving the super status of women (whose average super payouts are currently just 57 per cent of those paid to men). The proposed scheme is based on one currently in use in New Zealand. (Richard Denniss using Treasury figures, 2014)

Recent Australian governments have changed the Australian tax structure in ways which have disproportionately benefited the already well off through the development of tax loopholes and privileges, reductions in the taxation of superannuation and capital gains, and tax cuts for affluent companies and individuals. Of the \$169 billion in tax cuts over the past seven years, 42 per cent of them (or \$71 billion) went to the top 10 per cent of income earners. The top 10 per cent received more in tax cuts than the bottom 80 per cent (Richardson et al 2014). Negative gearing of property investment by landlords has provided another important benefit to those in the higher wealth bracket.

The net effect of these changes has been both a decline in government revenue and a widening of inequalities. For example, the low tax on superannuation contributions and earnings and the zero tax on superannuation benefits for those above the age of 60 are particularly inequitable. Perversely, the superannuation tax concessions – worth as much as \$35 billion a year – will cost the government more than it outlays on the aged pension in a few years. An extreme example of the inequality of the current tax system is that a person aged over 65 can receive an unlimited amount of income from his or her superannuation fund and pay no tax at all on that income. As an example, a person with \$100 million in a self-managed superannuation fund could have drawn \$10 million tax free from the fund in 2013 (Richardson et al 2014).

The rationale for the introduction of the Goods and Services Tax (GST) included providing an opportunity to replace a number of inefficient taxes with a more efficient tax, and to replenish government revenue by taxing the growing services sector of the economy. The GST was introduced with compensation in transfer payments designed to offset possible increased inequality resulting from the regressive nature of the tax.

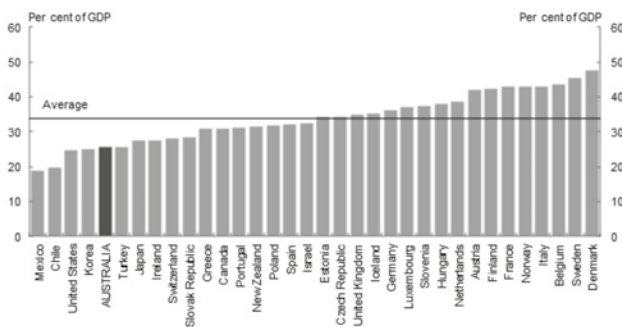
The tax system can clearly help to lessen the extent of the gap between the rich and poor, but this is now happening less. The top tax rates have been reduced from 60 cents in the dollar in 1983-84 to 45 cents in the dollar today. Personal income can be disguised as company or superannuation income where it is taxed at only 30 and 15 (or zero) per cent respectively.

Fifty per cent of capital gains in Australia are earned by the top two per cent of income earners. Why should people who earn income from selling an asset pay half the tax compared with those who earn the same income by hard work? (John Daley, CEO, The Grattan Institute, speaking on ABC Radio National, April 13, 2014)

Individuals and companies who possess an extremely large share of wealth are able to exercise considerable political and media influence in Australia. They have done so by successfully opposing policy changes that might level the playing field, such as the original Resources Super Profits Tax proposed for the mining industry.

As can be seen from the following graph, Australia has one of the lowest rates of taxation as a proportion of GDP of all OECD countries. The Australian average has been below the OECD average for the last 30 years.

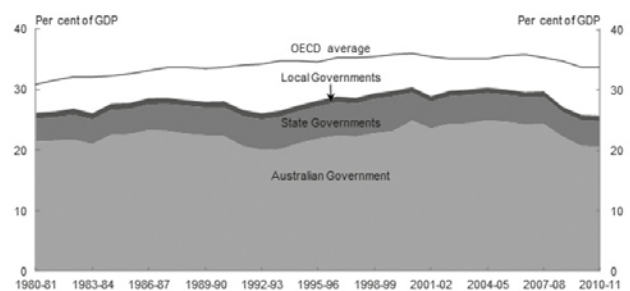
Tax-to-GDP ratio for OECD countries, 2010 (Australian Treasury 2013)



Source: ABS, Taxation Revenue, Australia, 2011-12; and OECD Revenue Statistics, 2012

[The OECD's measure of the tax burden is the total taxation revenue of national, state and local governments expressed as a percentage of gross domestic product (GDP). For Australia, the data are for the 2010-11 financial year, the latest year for which comparable data are available. Most tax revenue in Australia is generated at the federal level].

Australia's tax-to-GDP ratio by level of government (Australian Treasury 2013)



Source: ABS Taxation Revenue, Australia, 2011-12, and OECD Revenue Statistics, 2012

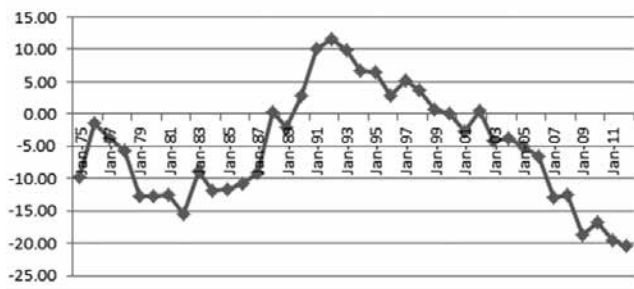
In the context of an unusually high exchange rate for the Australian dollar, the steep decline in mining investment and continuing current economic policy settings, there is now a large risk that as governments cut back on expenditures and transfer payments, inequality in Australia will increase rapidly in the coming years unless specific policies are implemented both to increase revenue and to arrest the inequality trend.

4.3 Decline in relative value of some government transfer payments

Unemployment benefits in Australia have declined steadily compared to other benefits and the cost of living. These benefits are not only among the lowest in the industrialised world, they are also well below what Australians believe they should be.

By 2011 the unemployment benefit had fallen to 20 per cent below the poverty line, as seen in the graph below.

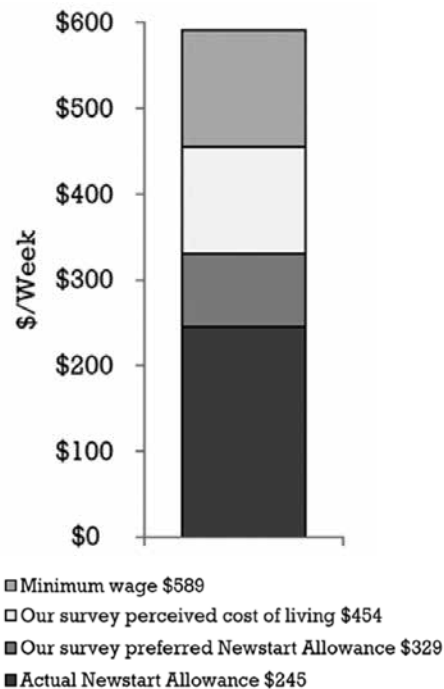
Unemployment benefits versus poverty line, showing the gap as a percentage of the poverty line over time



Source: Calculations by The Australia Institute based on Melbourne Institute of Applied Economic and Social Research, Poverty Lines: Australia (various issues), and Australian Government 2014

The Australia Institute conducted a survey of community awareness of unemployment benefits in Australia and attitudes to their adequacy in 2012. The results, depicted opposite, show that most Australians believe unemployment benefits (the Newstart Allowance) should be substantially higher than they currently are though still well below their perception of the minimum weekly amount required to live modestly (Denniss and Baker 2012).

Actual Newstart Allowance compared with preferred Newstart Allowance, perceived cost of living and minimum wage



Source: Denniss and Baker 2012

4.4 Educational inequalities

In addition to declining performance across the board, Australia has a significant gap between its highest and lowest performing students. This performance gap is far greater in Australia than in many OECD countries, particularly those with high-performing schooling systems. A concerning proportion of Australia's lowest performing students are not meeting minimum standards of achievement. There is also an unacceptable link between low levels of achievement and educational disadvantage, particularly among students from low socioeconomic and Indigenous backgrounds. (Gonski et.al. 2011, p. xiii)

Education is critical for an individual's wellbeing and economic success. More education is associated with better labour market outcomes. For example, Australians with a post-graduate degree earn about twice as much as people with year 11 or lower qualifications. The recent Gonski (2011) report on school performance and funding concluded that Australia's educational performance has been declining. It also found that educational attainment and economic disadvantage are linked, with feedback working in both directions.

The reforms to school funding that were proposed in the Gonski report are intended to increase the assistance given to students suffering a disadvantage regardless of which school system they are in. If this results in more young people getting a better education, the value of their labour is increased as well as their degree of participation in the work force.

A recent OECD study of half a million 15-year-olds from 65 countries including Australia concludes:

The bottom line: while there is a strong relationship between parents' occupations and student performance, the fact that students in some education systems, regardless of what their parents do for a living, outperform children of professionals in other countries shows that it is possible to provide children of factory workers with the same high-quality education opportunities that the children of lawyers and doctors enjoy. (Maslen 2014)

When it came to mathematics performance, for example, children of cleaners in Shanghai were shown to perform better on standardised maths tests than the children of professionals in Australia, the United States, Britain and a dozen other nations.

The most effective and cost-effective way of increasing equality of opportunity is by providing excellent early childhood education in the first five years of life. A 2014 study by Professor Edward Melhuish from Oxford University found that quality preschool education has a bigger influence on children's literacy and numeracy skills at ages 11 and 14 than their primary school education (Brown 2014).

About 30 per cent of secondary education in Australia is now private. This is the highest proportion of private secondary education among the rich countries in the world. In most other rich countries, the private sector accounts for less than 10 per cent of all secondary education. It is generally accepted that private secondary schools provide better networking and employment opportunities for former students, thereby contributing to increased opportunity for those already well off, and increased inequality for the society as a whole.

4.5 Thomas Piketty's theory about capitalism and inequality

A recent book by Thomas Piketty from the Paris School of Economics (Piketty 2014), which has been acclaimed as an economic game changer, carries a strong message about the effects of inequality. Drawing on long term studies of income and wealth trends in 20 countries, and using more complete and extensive data than have been hitherto available, the book develops a unified theory of capitalism that explains its lopsided distribution of rewards.

On the basis of limited earlier data and what has been called the 'Kuznets bell-shaped curve', the assumption has been that the market economy will naturally spread riches fairly, with a rising tide lifting all boats.

From his research, Piketty suggests that the most powerful force pushing in the direction of growing inequality is the tendency of the rate of return on capital 'r' to exceed the rate of growth of output 'g'. When r exceeds g as it did in the 19th century, and as it seems quite likely to do again in the 21st, initial wealth inequalities tend to amplify towards extreme levels. The top few per cent of the world hierarchy tend to appropriate a very large share of national wealth at the expense of the middle and lower classes. That, says Piketty, is what happened in the past, and it appears to be happening again now.

Piketty argues that the reduction in inequality that took place during the two world wars and the great depression were partly a consequence of the shocks and redistributive effects of those events, and that the dissemination of skills and knowledge that occurred with globalisation and contributed to the 'golden era of equality' in most developed countries including Australia from the end of World War 1 to the mid-1970s is partly due to that. He says that we are moving into a period when global economic growth will inevitably slow, and that active policy measures are needed to overcome the otherwise inevitable tendency for massive aggregation of wealth in the hands of a few. While inequality may assist innovation up to a point, beyond a certain level it becomes counter-productive.

Piketty argues that not only are the levels of inequality that now exist in the United States not helpful for growth, they can also lead to a capture of the political process by a tiny high income and high wealth elite. This directly threatens democratic institutions and values. He argues that the ideal remedial approach is a progressive tax on individual net wealth. While he recognises that this will not be popular with the wealthy, he says it is very important to find a policy solution that avoids the growing risks from inequality.

5. Adverse consequences of inequality

Income is one of the key determinants of the daily living conditions in which people are born, grow, live, work and age. Income security is vitally important for economic and social wellbeing as well as health, trust and self-worth. In addition to purchasing power, income also brings prestige. Greater levels of income inequality have been shown to increase status barriers between people, reducing empathy and community within societies, and giving rise to feelings of social exclusion, insecurity and stress. The result is a more fragmented society.

Greater income inequality also leads to more unequal access to quality housing, education, nutritious food, and healthcare. Low income groups are less likely to be able to afford to live in neighborhoods that are conducive to better physical and mental health (green space, facilities in walking range, reliable public transport and a safe environment). They are more likely to hold jobs that are precarious and low paid, thereby creating a greater risk of cardiovascular disease and mental ill health.

ABS figures show that housing stress among low income earners is increasing in Australia: 37 per cent of males and 34 per cent of females in low income households are now living in housing stress (defined as living in accommodation in which more than 30 per cent of income is earmarked for rent) (ABS 2013).

Housing costs are rising faster for all but the highest income Australians. The Australian tax system has a significant adverse impact on housing affordability. Tax breaks such as negative gearing and capital gains tax exemptions encourage investors to make speculative investments in the housing market, where they compete with first home buyers and push up house prices (Australians for affordable housing 2014).

High-income countries including Australia have experienced increases in job insecurity and precarious employment arrangements (such as temporary work, part-time work, informal work, and piece work), job losses, and a weakening of regulatory protection of working conditions. Among those in work, the changes in the labour market have affected working conditions with increasingly less job control, financial and other types of security, work hour flexibility, and access to paid family leave (Benach and Muntaner 2007).

The Australia Institute concluded from its research that:

There is an important gap between two groups of workers in Australia, those in regular employment who experience a good deal of stability in their employment patterns, and the second group who appear to have a more marginal attachment to the workforce. The employment arrangements for this second group are quite unstable, and their experience is one of continuous movement into and out of the various employment categories, including long spells out of the workforce entirely. (Richardson 2012, p.3)

6. Benefits of intervening now to reduce inequality

For better or for worse, Australia often follows United States trends quite closely, and there is little doubt that levels of inequality in Australia are set to increase substantially unless the factors which are contributing to them are seriously addressed. The likelihood is that the longer Australia delays efforts to restore equality of opportunity, the greater the future social, economic and health costs will be.

What is the cost to Australia of not taking action on growing inequality? Discussion of inequality often concentrates on the harms produced by the extremes of inequality, but the case can also be made that more equal societies are more productive economically and have higher rates of social cohesion and physical and mental well being. Joseph Stiglitz paints a frightening picture of societies where inequality runs ‘amok’:

Inequality is a choice I see us entering a world divided not just between the haves and have-nots, but also between those countries that do nothing about it, and those that do. Some countries will be successful in creating shared prosperity – the only kind of prosperity that I believe is truly sustainable. Others will let inequality run amok. In these divided societies, the rich will hunker in gated communities, almost completely separated from the poor, whose lives will be almost unfathomable to them, and vice versa. I’ve visited societies that seem to have chosen this path. They are not places in which most of us would want to live, whether in their cloistered enclaves or their desperate shanty towns. (Stiglitz 2013)

Ross Gittins argues (in Part B p. 39) that efficiency and equity can go hand in hand - the more adults contribute to national production through being engaged in the workforce rather than being on the dole, the better the overall economy and the healthier the population on many physical and psychosocial indices. The real challenges are to find ways to get the unemployed back to work through retraining programs, and to get more of our young people into work through greater investment in education in all sectors.

While some will argue that the economy can ill afford job creation schemes and expenditure on education and early childhood development, the evidence is growing that modern societies cannot afford not to invest in human capital in this way. Economic growth will be of most benefit if it is inclusive, offering a high degree of equality of opportunity to all.

6.1 Restoration of greater personal autonomy, wellbeing and likely health benefits

As inequality of incomes and wealth increases, so does social stratification. In *The Status Syndrome*, Michael Marmot argues that social status powerfully influences health outcomes through its link with personal autonomy and social participation. Marmot was the principal investigator in a series of longitudinal studies of the health of British public servants during the 1970s and ‘80s, which showed a significant gradient in mortality and other health outcomes between those working in the upper echelons and those in the lower pecking orders of the public service (Marmot 2004).

Marmot's research showed that the higher we climb the wealth and status ladder, the more autonomy we have, and the more comfortable we are participating in social activities and relationships. Conversely, the lower down the pecking order we are, the greater are the stresses associated with everyday living, as we do what the system requires rather than enjoy the sense that we are in charge of our lives.

The net effect of a society becoming increasingly unequal in terms of wealth and income is an increase in stress among those in the lower strata, a loss of confidence in participation and relationships, an erosion of community institutions, and a mal-distribution of health, education and developmental infrastructure.

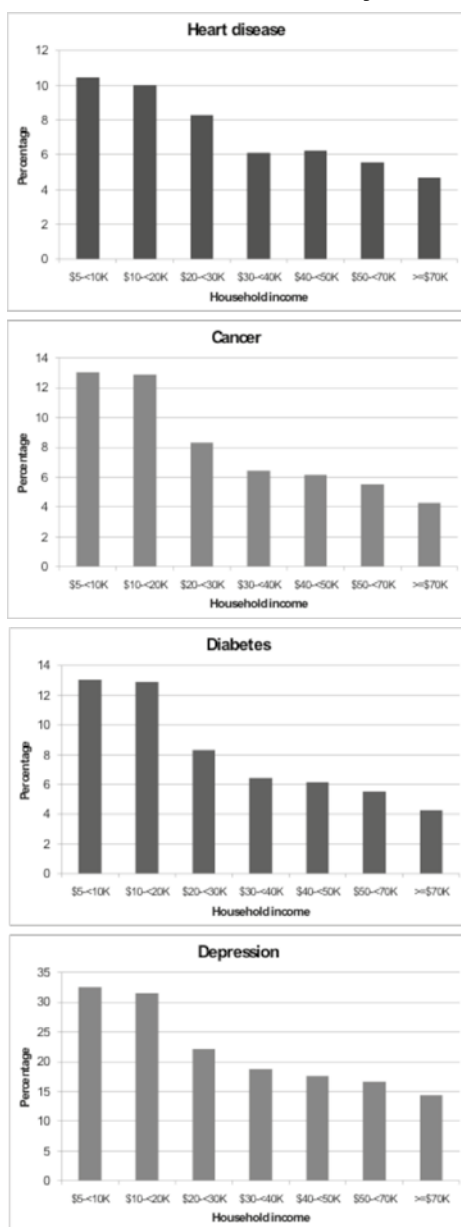
By contrast, societies with less inequality such as the Scandinavian countries and Japan are well known for their social strengths, egalitarianism and excellent health outcomes. The 'income inequality hypothesis' suggests that, beyond a certain level of GDP per capita, the association between absolute income, health and mortality weakens, and the relative distribution of income across society becomes more important.

In *The Spirit Level*, Wilkinson and Pickett (2012) demonstrate that levels of health and social indicators in high-income countries are more closely related to income inequality than to income levels. Some of the findings from these correlational analyses, particularly the mental health associations, have been supported by recent analyses of population cohort studies in Europe and the United States. Australian evidence shows that income inequality is also related to the rates of alcohol-attributable hospitalisations and deaths, to general child health, and to oral health in both children and adults (Friel and Denniss 2013).

To a significant degree, it seems that our health is influenced by those around us, and by how wealth is distributed and spent. This is supported by Sen's foundational idea that it is relative deprivation in terms of incomes that leads to absolute deprivation in terms of capabilities, that is, what people are able to do and to be (Sen 2009).

A large body of research in many countries, including Australia, reveals a consistent gradient in health and social outcomes across various socioeconomic indicators including income, wealth, social status and the socioeconomic classification of residential areas. For instance, the graph following, for New South Wales, shows a consistent correlation between low level of income and high level of heart disease, cancer, diabetes and depression. This has been termed the 'social gradient of health and well being'.

Socioeconomic gradient in the prevalence of four health outcomes, among people aged 45 years and older, New South Wales, Australia (data years 2006-09)



Source: Korda R, Latz I, Yiengprugsawan V, Paige E and Friel S. 2014

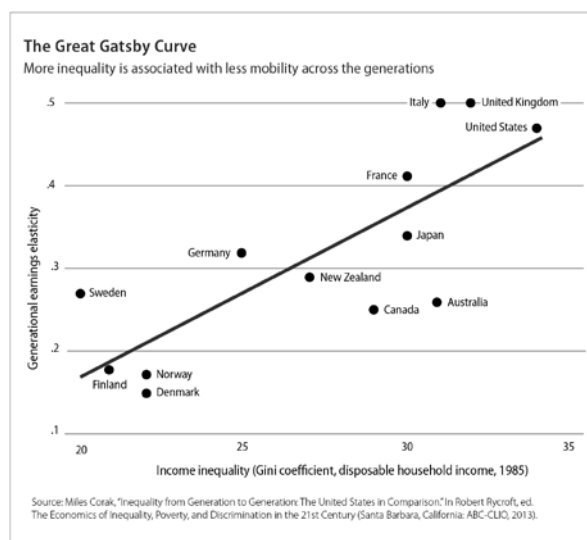
The World Health Organisation has recommended to all governments a range of actions to reduce the social gradients and their impact on health. However, there is debate about the meaning of these repeatedly observed gradients of health outcomes across various socioeconomic parameters. The question is whether the gradients in health correlate with distribution of income or with differences in economic status. Most epidemiologists are sufficiently convinced by the consistency and nature of these associations to believe that interventions that reduce growing inequality would most likely result in generally improved health of the population. Some economists are less convinced. Either way, all parties concede that growing inequality is harmful to social stability, and that is the view taken by this report.

6.2 Improvements in social mobility

Another adverse effect of inequality is its effect on social or ‘intergenerational’ mobility. To what extent do the income and wealth of the parents determine the income and wealth of their children? The extent to which a society provides its descendants with the capacity to move up the income and status ladder is considered by economists an important measure of economic efficiency, and it is considered by most people an important measure of fairness.

Studies have shown a strong correlation between social mobility and equality, in that the children in those countries which have more equal distributions of income and wealth have a greater chance of achieving an economic status different from their parents. The ‘Great Gatsby Curve’ (see next page) ranks countries along two dimensions. The horizontal axis from left to right represents a movement from low inequality to high inequality. Sweden, Finland, Norway and Denmark are the most equal countries, and the United States,

United Kingdom, Italy and Australia are the most unequal. The vertical axis from bottom to top represents a movement from more mobility in economic status across generations to less economic mobility.



In countries such as Finland, Norway and Denmark, the correlation between parental economic status and the adult outcomes of children is the weakest: less than one-fifth of any economic advantage or disadvantage that a father may have had is passed on to a son in adulthood. By contrast, in Italy, the United Kingdom and the United States, roughly 50 per cent of any advantage or disadvantage is inherited by the next generation. If a father was earning twice the average income in Denmark, for example, he would expect his son to end up earning only about 15 per cent above average; in the United States, this would be almost 50 per cent.

In short, more inequality at any point in time is associated with a greater transfer of economic status across the generations. In more unequal societies, the poor are more likely to see their children grow up to be the next generation of poor, and the rich are more likely to see their children remain at the top rungs of the

economic ladder (Corak 2012). This research indicates that more equal communities generally have a higher degree of intergenerational mobility.

The importance of mobility and a fair go in Australia is highlighted by Alannah McTiernan in Part B p. 37 and by Tim Goodwin with particular reference to Indigenous communities in Part B p. 55.

6.3 A more efficiently functioning economy

Conventional wisdom among economists has long been that equality is in conflict with efficiency, however Nobel-prize winning economist Joseph Stiglitz points out that various Scandinavian and other European countries enjoy a standard of living much the same as the United States and Australia, while doing much more to reduce income inequality (Stiglitz 2012). For example, Sweden has similar GDP per capita to Australia, and yet its government takes 54 per cent of GDP in tax, whereas (using the same method of calculation) the Australian government takes just 31 per cent. Most of the high taxing, high income countries have low unemployment and low inflation, and score well on various measures of life satisfaction and wellbeing. This success demonstrates that raising taxes to invest in education, health, housing and infrastructure (which increases equality of opportunity and social mobility) can be consistent with solid economic growth and high average incomes (Smith 2014).

Can equity and efficiency pull together? Improving education and health are both ends in themselves and means to an end. The better educated and the healthier a population is, the more its labour is worth, and the richer we can expect it to be. So the more we do to increase and improve the health and the education of the bottom half of the income scale, the more efficient the economy should be, and the faster it should

grow. The most obvious case of increased equity also increasing efficiency is unemployment. It is inefficient to have people who are able to work lying idle and not contributing to national production. Gittins argues that finding ways to get people back to work would often make a far greater contribution to efficiency than many of the micro-economic reforms favoured by economists (Gittins 2013).

Global organisations are also increasingly taking the view that inequality adversely impacts on economic growth. Thus Oxfam:

Discussions around inequality and the concentration of income and wealth are now at the centre of global policy debates. Increasingly, economic growth looks more like a 'winner takes all' system. Recent findings also suggest that chronic inequality stunts long-term economic growth and makes it more difficult to reduce poverty. (Oxfam 2014 p.9)

Recent research at the International Monetary Fund found that countries with higher levels of inequality of incomes have experienced lower growth rates and shorter growth spells than countries with more equal income distributions. The analysis also suggests that sensible redistribution of income which reduces inequality might well raise long term growth as well as produce short term benefits: redistributing from the rich (who save more) to the poor (who save less) is likely to raise aggregate spending.

It would be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable We find that inequality is bad for growth ... in and of itself. (Ostry et al 2013 p.25 and Ostry 2014 p.1)

7 Policies to reduce inequality

As Australia's increase in inequality has come about in part as a consequence of public policy changes, it can be ameliorated by policy reform directed at restoring greater equality of opportunity, promoting social mobility, and increasing the availability of government revenues using fairer taxing policies. Should this occur, there is growing evidence that economic productivity will be strengthened, not weakened

While some measures which enhance equality of opportunity and social mobility will be more feasible politically than tax reform, a more equitable distribution of income and wealth cannot be achieved without increased government revenue. In the past decade, commonwealth government revenues have fallen from 26 per cent of gross domestic product to 23 per cent, while government spending has remained at a relatively stable 25 per cent. As a result, government revenues are now insufficient to meet the needs of the community in health, education, income support, and social and physical infrastructure.

Extra revenue is needed to enable increased investment in human capital, for example in early childhood development, school and tertiary education and life-long learning. Such investments are essential if the 'inclusive growth' that is increasingly seen by economists as an indivisible and essential part of efficient economic growth is to be achieved. The concept of 'inclusive growth' is explained more fully by Paul Smyth in Part B p. 48.

In addition, although much is known about ways of reducing inequality of incomes and wealth, the details of implementing specific programs in locally deprived areas will require carefully evaluated research and in some cases randomised trials to assess the most efficient way

of delivering interventions, as Bob Douglas argues in Part B p. 62.

The section that follows presents a set of ten approaches to ‘advance Australia fair’ which are supported by all roundtable participants and by Australia21. Some of these ideas have already been discussed, while others have been only briefly touched on in previous pages. All, in the view of the authors, deserve serious consideration.

7.1 Promote a national conversation about inequality, its effects, and ways of dealing with it

Until now, the wealth gap has not been a high priority for the Australian electorate. Consequently, there has been little pressure on either the government or the opposition to take remedial action. Generating a national conversation on this matter is clearly the first priority. The urgent need for such a conversation is emphasised in the comments by parliamentarians Alannah MacTiernan, Andrew Giles and Lee Rhiannon in Part B of this report.

The release of this report should be used as an opportunity to engage the media and groups from civil society, churches, schools, Indigenous communities, young people and elderly groups in a consideration of what kind of country we want Australia to become.

We need to restore egalitarianism and equality of opportunity to Australian values. Polling data indicate that many Australians are pessimistic about the future and disengaged from the political process. The national conversation will need to take account of these observations, and help to build new expectations of a fair go for everyone.

The national conversation should include discussion about the kind of economic growth the community wants. Should economic growth serve the interests

of the entire community or should it be an end in itself? The advent of climate change and resource depletion mean that conventional economic thinking will not be enough to address problems in the future. Economic growth will need to be both inclusive and sustainable. The conversation should emphasise the importance of investments in human capital, including in education and early childhood development, and it should take account of the seriousness of ecological constraints.

Can such a national conversation bring about real change? The recent spectacular success of the introduction of the National Disability Insurance Scheme is encouraging. This came about primarily through a national conversation initiated by advocates and then widely endorsed by the community. This enabled both sides of politics to endorse the scheme and agree to a new funding mechanism. The review by the Productivity Commission helped to guide the development of the proposal. This may be seen as a hopeful indication that putting inequality on the agenda for national discussion could help to make change politically palatable.

The power of the media to support change is often noted. 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.

7.2 Increase the fairness and adequacy of government revenue raising through taxation reform

Australia's low rate of taxation revenue and low expenditure on welfare are due in part to the very large number of tax concessions that go overwhelmingly to high income earners, as Matt Cowgill points out in Part B p. 46.

A number of deeply unfair tax concessions and entitlements have resulted from recent government decisions from both sides of politics on superannuation taxation, capital gains taxation, and negative gearing concessions for property investors. Together with income tax cuts over the past two decades, these have deprived the federal government of the sound revenue base that is now desperately needed to meet fundamental social and physical infrastructure needs.

At time of writing, the Coalition government has announced plans to abolish the mining and carbon taxes and to introduce a new parental leave scheme. Whatever the possible benefits of these measures, they will further reduce government revenue and militate against effective remedial action against inequality. The proposed abolition of the hard-won carbon pricing scheme and the current government's efforts to meet emissions targets through direct government expenditures will place even greater pressure on an already overstretched budget.

A recent comprehensive report by the Grattan Institute on budget pressures and the many potential sources of additional revenue comes to similar conclusions (Daley 2013).

Governments of all persuasions are wary about increasing or introducing new taxes. The neglect of the recommendations of the Henry tax review by the previous Labor government illustrates the problem. Bracket creep is the preferred option; however, as pointed out Bob Gregory in Part B p. 41, in a low inflation environment with a flatter tax schedule, the usual way of increasing taxation receipts through bracket creep no longer applies. This means that taxes will need to be explicitly increased or tax concessions explicitly removed, and this will be difficult. But without explicit decisions there will be insufficient funds to direct more government expenditure to reduce poverty and inequality.

Gregory suggests that the most effective approach will be to target superannuation tax breaks and negative gearing (which mostly benefit the rich), but advocacy for these strategies will be required, perhaps in part through emphasising the growing costs of an ageing population. The importance of adequately and appropriately providing for the needs of the elderly is addressed in comments by Ian Maddocks in Part B p. 52.

It is important to engage Australians in understanding the reasons for current and likely future budget deficits, and the range of options that could be brought into play to address the problem. The present government has proposed a tax summit. This would be the moment to review the need for fairer approaches to raising revenues, including a review of current practices on negative gearing and taxation on superannuation.

The revenue currently lost from these sources could be channelled into inclusive growth, rather than being, as now, channelled into benefits to the rich and the very rich, further exacerbating the wealth gap. However, effective discussion at community level will depend on how the issues around reforming superannuation

taxation, capital gains taxation and negative gearing are presented.

7.3 Implement fairer funding reforms for schools

In nations like Australia, we have always understood that we cannot promise that all outcomes will be equal. But at the heart of the social compact has always been the idea that everyone should have a fair go. For most citizens we are doing this. Perhaps not as well as we can but we are trying. But too many of our fellow Australians are being conditioned to less than satisfying lives by a less than satisfactory school system ...

The truth is this: a public school system that does not serve the least in society betrays its mission. The failure of these schools is more than a waste of human promise and a drain on our future workforce. It is a moral scandal that no one should tolerate. A basic education - and the hope for a better life that it brings - ought to be the first civil right of any decent society. (Rupert Murdoch 2008)

Improving ‘a less than satisfactory school system’ was the task of the Gonski review. The reforms advocated by the review are intended to increase the assistance given to students suffering from one or more disadvantages, regardless of which school system they are in. If this results in more young people getting a better education, the value of their labour is increased as well as their degree of participation in the work force. Similarly, the National Disability Insurance Scheme can be expected to increase workforce participation and the acquisition of skills. According to the estimates of the Productivity Commission, the National Disability Insurance Scheme

can be expected to lead to an annual increase in real GDP reaching one percentage point by 2050 (Gittins 2013).

Investment in the education system, with particular attention to early childhood development and especially for disadvantaged groups, is an effective way of reducing inequality. There is ample evidence that both strategies help promote equality of opportunity. Though not easy politically, education may be less difficult to reform than trying to change taxation and transfer payments.

Social factors are also important in increasing inequality. Cultural aspects of inequality have already been noted, including the self-perpetuation of poverty resulting in those at the bottom of the socioeconomic pile being incapable of envisioning a future different from that into which they were born. Building new expectations from early childhood and through the school system is a central requirement for the new framework of inclusive growth.

The Gonski reforms are an important attempt to improve educational outcomes by reducing inequality of school funding. While there has been bi-partisan support to fund the reforms, there is concern that they could be watered down in the context of budget difficulties. In Part B p. 59 David Morawetz proposes a community-based council to monitor the implementation of these reforms.

7.4 Invest nationally in early childhood development, especially for disadvantaged groups

Experts agree that the most effective and cost-effective way of increasing equality of opportunity is by providing high quality early childhood education in the first five years of life. As already noted, quality preschool education has a bigger influence on children’s literacy

and numeracy skills at ages 11 and 14 than their primary school education.

Early childhood development is vital for building healthy and prosperous communities. Interventions improve not only physical and cognitive development but also social and emotional development (WHO 2007). What children experience during the early years sets a critical foundation for their entire life-course, influencing basic learning, school success, economic participation and social citizenry. Interventions that integrate the different dimensions of child development are particularly successful. These result in sustained improvements in physical, social, emotional, and cognitive development while simultaneously reducing the immediate and future burden of disease, especially for those who are most vulnerable and disadvantaged (Engle et al 2007).

Learning experiences in early childhood are thus foundational and uniquely important for social mobility, yet in modern Australia children of disadvantaged and low socioeconomic parents, including and especially in Indigenous communities, have minimal or restricted access to quality early childhood development services. While Australia has paid some attention to this issue, many believe that it has not been adequately or systematically addressed. This issue is taken up by Anne Hollonds in her comments in Part B p. 54.

When Britain introduced fully government-funded preschooling for every child for 15 hours a week ten years ago, it raised the cost of early childhood education from 0.5 per cent of GDP to 1 per cent. By comparison, Australia invests just 0.3 per cent of GDP on early childhood education, ranking us 32nd out of 34 OECD countries. We can and must do better than that. The cost of investing in a free or subsidised early childhood education program would be offset by an increase in female workforce participation, the creation

of a better educated workforce, and a reduction in welfare dependence. The previous federal government committed \$1 billion to subsidising preschool places under its universal access scheme, but the funding runs out at the end of 2014, and at time of writing there is no confirmation on whether it will be renewed. Research needs to be done on the best ways to improve and scale up early childhood education in Australia, especially among the disadvantaged (Brown 2014).

7.5 Set all pensions and benefits no lower than the poverty line and index them to average wages

The claim that Australia cannot afford to lift above the poverty line those who legitimately depend upon income support payments (including pensions and unemployment benefits) does not sit comfortably with the fact that those who are already very well off are benefiting from sizeable tax concessions.

As noted earlier, not only is Australia among the lowest taxing countries in the world, but we are also one of the least generous to those who need government financial support. Some transfer payments (including the unemployment benefit) are indexed to the Consumer Price Index, and thus steadily decline relative to the value they would have if they were indexed to average wages and salaries. All transfer payments need to be sufficient to enable recipients to meet the basic requirements for living in modern Australia.

7.6 Establish more job creation programs in priority areas

Unemployment has been rising in Australia and could rapidly rise further as a consequence of the sharp tapering off of the mining boom, a decline in manufacturing, and efforts to rein in the budget surplus. At time of writing it is estimated that the

nation is short of about 1 million jobs. If the upward trend in unemployment continues, inequality will unquestionably rise.

The expansion of international free markets and developments in technological innovation have led to reduced employment in the manufacturing sector and reduced availability of secure and permanent jobs. There is every sign that this trend will continue. For instance, a free trade agreement now being negotiated (the Trans Pacific Partnership) has not been widely discussed in the Australian community. However there are concerns that it cedes unreasonable powers to multinational corporations, which in some circumstances may override the interests of a community seeking a more egalitarian status for its citizens.

What is needed is new thinking about Australia's future economy. In the light of our deteriorating environment, the decline in world demand for our coal and mineral exports and the already substantial impacts of climate change, we cannot hope to solve the employment problem purely through conventional market activities.

It is already clear that Australia will need to make the transition from mining and manufacturing to innovation, climate adaptation, environmental restoration and human services. The imperatives of addressing climate change in all economic and job creation activities is addressed by Tony McMichael in Part B p. 56.

While there is always room for debate about the role of government as a primary employer, there are certain initiatives which only an elected government can take. For example, there could be significant benefits both to improved sustainability and a reduced wealth gap from a carefully crafted job creation program. Without new thinking about how to address these issues, inequality in Australia is likely to increase.

The Prime Minister has raised the prospect of a green army and work for the dole systems. Review of the need for national landscape restoration by Australia21 in 2013 identified the environmental and economic benefits that could result from a job creation program in this area (Eckersley 2013). These points are reinforced by Richard Eckersley in Part B p. 47. Federally funded employment could help to transform inequality also through enhanced early childhood development programs and improved education in disadvantaged communities, as mentioned above.

7.7 Develop new models of employee management and cooperative ownership of business

Another approach to expanded and sustainable job creation is through the establishment of co-operatives and employee-owned organisations which are burgeoning in parts of Spain, the United Kingdom and the United States. As Geoff Davies argues in Part B p. 49, in this era of globalisation some of these enterprises have long and successful histories, and studies have shown employee-owned firms tend to be more profitable, more competitive and more efficient because people feel included, responsible and committed.

7.8 Implement the World Health Organisation recommendations on the social determinants of health

There has to be proper investment in education and health. If those investments do not take place, there will not be equal opportunities for all to actually reach their potential, to participate in growth, to participate in the jobs market. (Christine Lagarde, Managing Director, International Monetary Fund, speaking on Q and A, ABC TV, Feb 20, 2014)

The World Health Organisation (WHO) has investigated reducing health disadvantage by decreasing the socioeconomic gradient. In 2008 the organisation released the report of the Commission on Social Determinants of Health (WHO 2008). A series of key principles were identified to reduce the presumed role played by financial and social inequalities in disease causation. These include:

- improve daily living conditions (including education), working conditions and social protections;
- address the inequitable distribution of power, money and resources; and
- maintain accurate measurements of the social determinants of health, and assess the potential impact of new policies on health outcomes

In March 2013, the Community Affairs References Committee of the Australian Senate reported the result of its enquiry into Australia's domestic response to the report. The five recommendations of the committee firmly endorsed the WHO recommendations and encouraged government action to implement them. The committee also recommended annual progress reports to parliament by the body tasked with

responsibility for addressing the social determinants of health. There was tripartisan support for the committee's recommendations: from the Labor Party, the Greens and importantly the Liberal Party.

One of the Senate committee's key conclusions was:

Good health involves improving access to education, reducing insecurity and unemployment, improving housing standards, and increasing the opportunities for social engagement available for all citizens. Addressing the discrepancies of health outcomes resulting from the prevailing social determinants means addressing the causes of those social determinants. (Australian Senate 2013)

This social determinants of health approach to inequality has been only partly adopted. There is a need for the WHO and Senate reports to be given wider visibility and a strong implementation focus, both at state/territory and federal levels (see comments by Martin Lavery in Part B p. 50).

Two national Australian networks have recently been developed:

- the Social Determinants of Health Alliance (SDHA), and
- the National Complex Needs Alliance (NCNA).

Both alliances are networks of more than 50 groups of non government organisations and agencies, and both are linked to the Public Health Association of Australia (PHAA). Whereas the SDHA is focused on big picture prevention, the NCNA has a focus on strengthening health and social service coordination across the nation. Both of these networks have a deep interest in the issue of inequality, and could assist in the promotion

of a national conversation and the implementation of strategies aimed at reducing inequalities. Naturally, funding will be needed to enable this to happen at the necessary scale

7.9 Encourage an inquiry by the Productivity Commission into the impact of inequality on economic efficiency and growth

There are clearly many complex issues associated with the economic impact of growing financial inequality. Not least is the question of the likely effect on economic efficiency and economic growth if the income gap were to be narrowed.

A reference might be made to the Productivity Commission asking about the effects of the current high level of inequality on economic efficiency and growth, and ways that inequality might usefully be reduced to increase efficiency and growth. The Productivity Commission's report could provide both an important contribution to the national conversation and valuable advice in the specific formulation of remedial programs.

7.10 Establish a national research program to monitor progress and test the impact of interventions aimed at reducing inequality

Much is already known about the social determinants of health and wellbeing and the adverse effects of inequality on both. There are some areas of policy for which the evidence is clearly unequivocal, some where overseas experience can be translated into an Australian setting, and some where more information is needed and where controlled-trial interventions are required.

Research is also needed to understand how to get thinking about social and health equality into economic policy and to evaluate it. Some Australian states are already working on aspects of inequality and the social determinants of health. A major national commitment is required to test new approaches, such as enhancement of educational opportunities in early child development and at schools in disadvantaged areas, and to evaluate their impact. As the national parliament responds to this challenge, it will be important to develop methodologically robust research activities that address the health and social outcomes of various policy measures taken to address inequality. As pointed out by Bob Douglas (in Part B p. 62), better evaluation will lead to better results.

8 Conclusion

Inequality is increasing rapidly in Australia. The benefits of economic growth are going disproportionately to the already rich and super rich, and equality of opportunity is under growing threat. This is not only unfair, it also poses dangers to community wellbeing, health, social stability, sustainable growth and long-term prosperity.

Australia is not alone in facing this challenge. The gulf between rich and poor has been increasing world-wide in the past 20 years. The global trend is such that corporate members of the World Economic Forum which met in Davos Switzerland in January 2014 took the view that out of 31 global risks in the near future, rising inequality is the greatest risk to the global economy.

This situation demands remedial action, and multiple levers for remedial action are available. However, until the Australian community understands what is happening and what is at stake, neither they nor their elected representatives in government will move to act.

It is true that taking action will require additional government revenue to support initiatives aimed at restoring equality of opportunity. But at a time when Australian governments are crying poor, they are also providing massive tax exemptions to the rich and running one of the lowest taxing economies in the world. These facts need to be more widely understood if things are to change. What is needed now is the social and political will to take action. This in turn requires a better informed electorate, and wide consideration of the 'Ten Ways to Advance Australia Fair' that have been outlined in this report.

The question is: Do we wish to re-establish Australia as a country where everyone can expect a fair go?

TEN WAYS TO ADVANCE AUSTRALIA FAIR

1. Promote a national conversation about inequality, its effects, and ways of dealing with it
2. Increase the fairness and adequacy of government revenue raising through taxation reforms
3. Implement fairer funding reforms for schools
4. Invest nationally in early childhood development, especially for disadvantaged groups
5. Set all pensions and benefits no lower than the poverty line and Index them to average wages
6. Establish more job creation programs in priority areas
7. Develop new models of employee management and cooperative ownership of business
8. Implement the World Health Organisation recommendations on the social determinants of health
9. Encourage an inquiry by the Productivity Commission into the impact of inequality on economic efficiency and growth
10. Establish a national research program to monitor progress and test the impact of interventions aimed at reducing inequality

PART B

Comments by roundtable participants

This section includes comments on the inequality challenge by a number of roundtable participants and invitees.

The comments are an indication of the wide range of discussion and high level of commitment to the importance of the issue expressed by all participants on the day.

The views expressed here are those of the individuals and do not necessarily represent those of Australia21 or The Australia Institute.

Andrew Leigh

What can be done to address inequality?



*Hon Andrew Leigh MP is the Shadow Assistant Treasurer and Federal Member for Fraser in the ACT. Prior to being elected in 2010, Dr Leigh was a professor of economics at the Australian National University. He has previously worked as a lawyer and as a principal adviser to the Australian Treasury. In 2011 he received the Young Economist Award, a prize given every two years by the Economics Society of Australia to the best Australian economist under 40. His books include *Disconnected* (UNSW Press 2010) and *Battlers and Billionaires* (Black Inc. 2013).*

From egalitarian beginnings in the late-1700s, Australian inequality rose significantly during the 1800s. In that century, 4 per cent of the population worked as servants, and the social fabric bore more resemblance to Dickens' London than modern Australia. Inequality continued to rise into the early 1900s, peaking around World War I. Then came the great compression. From the 1920s to the 1970s, incomes rose faster at the bottom than the top, and wealth came to be more equally distributed. Moguls were scarce – as one social commentator noted of the 1960s, the wealthy 'feel under some pressure to be accepted by ordinary working Australians rather than the other way round'. By the end of the 1970s, Australia was one of the most equal countries in the world.

Over the past generation, this has slowly unravelled. Since the mid-1970s, real earnings for the bottom tenth have grown 15 per cent, while earnings for the top tenth have grown 59 per cent. In recent decades, the top 1 per cent income share has doubled, and the wealth share of the top 0.001 per cent has more than tripled. Australia is not as unequal as the United States or many countries in Latin America, but our current level of inequality places us in the top third of the OECD.

How might we seek to redress inequality? To begin with, it is vital to maintain economic growth, because recessions tend to hit the poor hardest. Next, we need to do more to reduce educational inequality – the gap that sees a child from an affluent family performing three to four years beyond a child from a disadvantaged

background. Equality of opportunity doesn't mean making some competitors run with lead shoes, but it might mean buying a pair of runners for someone who can't afford them. It is also worth recognising the role that unions play in reducing inequality, both within sectors and across them (as with recent pay equity cases). Because unions devote disproportionate attention to lower-paid workers, they act as a powerful bulwark against inequality. Allowing unions the freedom to organise is important in ensuring that inequality does not continue to rise.

We need to preserve our means-tested social safety net, which targets scarce public money to the poorest. Applying an assets test to the pension in 1984, or a means-test to the private health insurance rebate in 2012, was politically difficult. But such decisions are vital to ensuring that our welfare system is effective at reducing poverty. We also need better evaluation of social policies, ideally through randomised trials. Right now, randomised trials are compulsory for new pharmaceuticals, but almost non-existent for new social policies. In both areas, better evaluation is likely to lead to better results.

Finally, we should preserve the egalitarian spirit that is so central to Australian identity. A belief in equality has been a golden thread through Australia's history, even at times when the gap between rich and poor has widened. It is vital that egalitarianism stay at the core of our country's ethos.

Alannah MacTiernan

We must regain our egalitarian ethos



Hon Alannah MacTiernan MP, the Shadow Parliamentary Secretary for Western Australia and Shadow Parliamentary Secretary Regional Development and Infrastructure, represents the electorate of Perth in the House of Representatives. Before coming to the federal parliament she represented one of the lowest socioeconomic index areas in Western Australia in the state parliament.

Socioeconomic disadvantage is at least as much cultural as it is economic. In part, it is internalisation of a sense of being less worthy as well as the practical lack of access to skills and networks that allow a person to prosper economically.

The levels of inequality in our society are beginning to become corrosive and have the potential to undermine the very core of what it is to be an Australian, which is, in my view, critically linked to a sense that we are all of equal value and that this is a country where everyone can carve out a place in the sun.

This discussion of inequality is not class warfare or the politics of envy - it is an honest appraisal of the dynamics of human society. It is not aimed at suppressing aspiration but making sure that aspiration is spread widely and is compatible with healthy social arrangements.

People are becoming less focused on the benefits of egalitarianism. There is a danger that a debate about inequality will become a debate about welfare.

If we want to win the hearts and minds of Australians, this has also got to be a debate that goes to the issue of social mobility and equality of opportunity. A well-structured, well-funded education system that is grounded in empiricism and rigour is the most profound anchor for equality of opportunity.

If we get that right, not only will we provide skills for participation in the economy, but community members who can participate in the democratic process to protect their interests.

We need to raise understanding that one of the great accomplishments of the west is the development of democracy and an associated egalitarian ethos. If there is anything that defines us as Australians, it is the institutions that entrench that equality of opportunity and fairness.

Strong investment in the public realm - creating shared assets - is also an important way of redressing the negative impact of growing disparity in private wealth.

Ross Garnaut Inequality in the dog days



Professor Ross Garnaut AO is an economist whose career has been built around the analysis and practice of policy connected to development, economic policy and international relations in Australia, Asia and the Pacific. He is currently Vice-Chancellor's Fellow and Professorial Fellow in Economics at The University of Melbourne, and is the author or editor of numerous books and influential articles on international economics, public finance, and economic development. His most recent book, published in November 2013, is Dog days: Australia after the boom? He prepared these points for the roundtable.

There are several reasons for the tendency towards greater inequality across the world and in Australia.

They include some inevitable consequences of globalisation: more labour intensive processes being undertaken in developing countries and becoming imports into developed countries, and the increase in scale of multi-national business. There have also been innovations in labour saving.

But there is also currently considerable political momentum behind weakening the features of Australian policy that have muted the tendency towards greater inequality in the past.

At time of writing, the new government has implemented or is considering the following: increasing taxation on low income superannuation and reducing taxation on high income superannuation, removing measures to reduce tax avoidance through leasing of motor vehicles, removing the mining tax (weak though it was), and introducing an expensive and inequitable paid parental leave scheme.

In Australia, the increased weight of money in the political process has enabled changes that would have been political poison a generation ago.

As Australia enters what I have called the 'dog days' and an extreme exchange rate overvaluation in the aftermath of the China resources boom, we will be facing risks of an accelerated drift towards greater inequality through reduced employment and inequitable changes to fiscal policy.

Good management of adjustment to the end of the boom requires restraint all round. It is unlikely to be successful economically or politically if the policies through which adjustment is sought are seen in the community as being inequitable.

Ross Gittins

The economic case for a more equitable Australia



Ross Gittins AM, one of Australia's most respected economics commentators, is economics editor of the Sydney Morning Herald and economic columnist for The Age.

The longstanding conventional wisdom among economists is that equity is in conflict with efficiency, but does equity damage efficiency? Joseph Stiglitz, Nobel-prize winning economist, points out that various European countries enjoy a standard of living much the same as the United States while doing much more to reduce income equality. He also cites an International Monetary Fund finding that countries with more equitable income distributions have longer periods of stable economic growth and recessions that are further apart. So there's little evidence that we have to accept a highly unequal society to preserve an efficient growing economy.

The Economist wrote recently: 'Inequality has reached a stage where it can be inefficient and bad for growth Inequality is problematic not because it makes some people jealous of others, but because it effectively locks millions of people out of opportunities to improve their lives' (June 12 2012).

Can equity and efficiency pull together? Improving education and health are both ends in themselves (objectives) and means to an end (instruments). As instruments, the better educated and healthier a population is the more its labour is worth, and the richer we can expect it to be. So the more we do to improve the education and health of the bottom half of the income scale, the more efficient the economy should be and the faster it should grow.

Nobel-prize winning Chicago economist James Heckman has demonstrated the enormous power that attending to early childhood development of at-risk children has in reducing the likelihood of them getting into trouble

with the police, dropping out of school, and being in and out of employment and in and out of jail. It is easy to see that the success of such a program would do much to improve equality of opportunity, and it's not hard to see that it would also greatly improve the contribution of the beneficiaries to the paid labour force (not to mention reducing the pressure on government spending).

The Gonski reforms to school funding are intended to increase the assistance given to students suffering disadvantage regardless of which school system they are in. If this results in more young people getting a better education, the value of their labour is increased as well as their degree of participation in the work force. It is a similar situation with the National Disability Insurance Scheme. It can be expected to increase workforce participation and acquisition of skills, and according to the estimates of the Productivity Commission, it can be expected to lead to an annual increase in GDP reaching 1 percentage point by 2050.

The most obvious case of increasing equity also increasing efficiency is unemployment. It is glaringly inefficient to have people who are able to work lying idle and not contributing to national production. Finding ways to get those people back to work would often make a far greater contribution to efficiency than many of the micro-economic reforms that economists hanker after.

The case for greater equity in Australia is fundamentally a *moral* one: we should do it because it is the right thing to do. However there is evidence that we *can* increase equity in ways that don't reduce efficiency. And if we *look* for them, there are many ways we can *reduce* inequality and *increase* efficiency at the same time. Let's do it.

Alex Wodak

An Australia of gated communities is not a path we should take



Dr Alex Wodak AM, a physician, was Director of the Alcohol and Drug Service at St Vincent's Hospital, Sydney from 1982 until he retired in 2012. His major retirement project is drug law reform.

The international evidence shows that societies with greater inequality also have higher levels of disease and more crime. The 'haves' and 'have-mores' may think that they can always retreat to their gated communities, but they can never avoid the unpleasant effects of severe disadvantage on their doorstep. I have seen life for the wealthy and the poor in a number of countries, for example very rich families in Mexico wondering which loved one will be kidnapped next. That's not the sort of country I want Australia to become.

One of the negative effects of rising inequality in Australia has been the increasing ability of powerful groups to protect their interests to the detriment of the broader community. We see that, for example, with alcohol, obesity, gambling and mining. The more unequal Australia becomes, the harder it will be to reverse these trends.

Some ways of increasing taxation that may be less politically unpalatable include increasing compliance and reducing opportunities for minimising and avoiding tax.

Policy options should be supported by strong evidence of effectiveness, they should be likely to strengthen the economy, and they should be politically feasible and likely to gain sufficient support from the community including key stakeholders (for example, business and unions).

Policy options will need to appeal to strong community values. It seems unlikely to me that reducing inequality can be sold politically only on the basis of increasing fairness.

The arguments that current levels of inequality are damaging Australia's economy seem compelling to me.

Improving pre-school and later education and improving interventions for struggling families with small children seem important, affordable, likely to be effective and also politically feasible.

It is clear that Australia will have to rely less on mining and more on service industries in the future. So improving education is more important than ever for future generations of Australians. The recent threats to the Gonski fairer funding for education reforms remind us how difficult education reforms are politically, especially if they reduce educational inequality.

We should never assume that certain policy options are not going to happen under the conservative side of politics and can only happen when Labor is back in office. The 'Nixon goes to China' phenomenon in the United States in the early 1970s reminds us that sometimes conservative political parties can counter-intuitively implement difficult policies more easily than their political opponents. In this example, the Republicans would never have allowed a Democratic President to recognise communist China but they did not try to stop a Republican President doing so.

Bob Gregory

Time for action on superannuation and negative gearing



Emeritus Professor Bob Gregory is an economist at the Australian National University College of Business and Economics and was a member of the Board of The Reserve Bank of Australia from 1985 to 1995.

One reason that is often given for providing less income for the needy is the current state of government finances. Taxes are insufficient to cover expenses. Of course budget repair will require expenditure reductions but that is unlikely to be sufficient, especially with the additional costs of an ageing population. It seems inevitable that taxes will need to rise. This will not be as easy as in the past.

The main mechanism to increase taxes in the past was bracket creep; nominal wage increases moved all tax payers up the income tax schedule into higher tax brackets with resultant tax increases. To increase tax revenues, all governments had to do was wait. As time passed, the tax take would increase and then subsequent tax reductions could be made every now and then with considerable political fanfare. But in a low inflation regime and with a flatter tax schedule, this way of adjusting taxes upwards is no longer a feasible option. Taxes will need to be *explicitly* increased or tax concessions *explicitly* removed and this will be difficult. Without explicit decisions there will be insufficient funds to direct more government expenditure to reduce poverty and income inequality.

Before the 2013 election, the government announced that there will be a tax summit. Treasury documents discussing Australia's future make clear that there is a need to increase tax revenues. And yet government rhetoric is not preparing the community for this. Instead, at time of writing the Prime Minister is still saying that the way forward is to cut taxes. This is discouraging because I do not see how this can be done without very high inflation or very high economic growth rates to generate additional tax revenue, neither of which seems

likely. Nor does it seem feasible to maintain or increase government deficits for the next decade. Of course some progress towards fiscal consolidation can be made by cutting expenditure but it is really difficult to see how this can be sufficient. At the very least I would argue that government must avoid decreasing taxes, but as I say, this is not a part of government rhetoric.

If the proposed tax summit is to be successful the ground needs to be prepared early. We need to begin building a clear strategy. This is always hard for governments who like to promise tax cuts even if they are not possible. So government needs to think how to make the case for higher taxes in a way that can be made politically acceptable. I would argue that more emphasis on the economic costs of ageing might be one way of doing this, and using the Intergenerational Report to focus on this issue would be a good start. An ageing focus is also one way to justify removing some of the superannuation tax concessions, which increase the income of high income earners and are not directed towards meeting the higher costs of supporting an increasing number of poorer and older Australians. I think the ground should be prepared for either an increase or a widening of the GST. Given that the states are also under considerable budgetary pressure, they may well throw their support behind a GST adjustment.

It seems to me that superannuation concessions and negative gearing are two big tax issues that should be reformed in their own right, but particularly so because they increase inequality.

Negative gearing encourages the well off to put some of their wealth portfolio into housing. It is sold to Australians by the following argument: Would it be a good idea if the rich built more houses for all Australians? The answer would seem to be yes. But if you describe the concessions slightly differently there will be a very different response: Is it a good idea that the rich be encouraged to own more houses and to increase house prices and force more low income households into renting rather than home ownership? The answer would seem to be no. What negative gearing does is create a renting society among the poorer segments of society. We know that home ownership is a very important way of reducing poverty and inequality among older age groups dependent on government pensions. Policies that reduce home ownership among those who will become reliant on government pensions seem to be a way of creating *more* poverty among the old.

Super concessions are also sold by an argument that also seems misleading: Is it a good thing that people save for their old age and should government encourage it? Yes of course. But is it a good thing that all of the concessions go to the very rich and do little to increase savings among the poor? No, of course it is not.

Once the rhetoric is changed to more accurately describe the nature of the tax concessions, it becomes quite clear that superannuation and negative gearing are primarily impacting on how the rich choose to hold their wealth portfolios and are not about reducing inequality or making society fairer. My view is that the rich will save just as much with or without these concessions. The concessions just reallocate the portfolios of the wealthy to achieve tax savings.

If super concessions and negative gearing concessions were reduced, the rich would change their asset reallocation but with no adverse longer run effects on Australia. But removing or limiting these concessions could have a significant impact on the government budget and create space for more expenditure directed towards reducing poverty. So the rhetoric surrounding these policies has to be changed to something like: It's not the rich who need tax concessions to save for their old age, it is the poor who need to be directly helped - and that requires government expenditure. To adequately meet rising pension and health costs the government needs to raise more tax revenues.

Clearly the tax summit outcomes will depend to a significant degree on politics. It is important therefore that the debate begins to be framed now. Whenever governments and societies do things at the last minute, it is likely that the outcomes will be far from satisfactory. Often, if the debating period is too short, it is those who can exert the most short run political pressure at the time who win out, and inevitably this is the group which has the most to lose - we need only think about the poor outcome for the mining tax which was introduced in such a rush.

But if we all play the long game, as we should, and begin the tax debate early, we all have a better chance of reaching better outcomes for Australia as a whole.

Richard Denniss

Political debate is broken and the beneficiaries are...



Dr Richard Denniss is the Executive Director of The Australia Institute, a Canberra-based public policy think tank. An economist by training, Richard has previously worked as an academic, political adviser and consultant. Richard has published extensively in academic journals, has a fortnightly column in The Canberra Times and the Australian Financial Review, and was co-author of the best-selling Affluenza (with Dr Clive Hamilton) and An Introduction to Australian Public Policy: Theory and Practice (with Dr Sarah Maddison).

Class war, it seems, can only be declared on those who have the least. When laws are reshaped to pour money into the pockets of those with the most, however, it is more polite to call it tax reform.

The so-called ‘faceless men’ of the Australian Labor Party were responsible for waging the last government’s class war. At time of writing, the current government is actually paying former Business Council of Australia president Tony Shepherd for his advice on how to implement the council’s pre-election ‘reform agenda’.

When the well-known class warriors at Treasury were asked by that most left-wing of Labor leaders, Kevin Rudd, to propose ideas for tax reform, they suggested a profits-based tax on the mining industry. Taking their lead from the socialist bible that is the economics textbook, the bleeding hearts at Treasury suggested that it would be good for the economy to tax the enormous windfall profits of the mining industry a bit more and the profits of other businesses a bit less.

But the miners thought they knew more than just how to dig holes and demand subsidies. They also had strong views about the broader economy, the best way to design a tax system and the fairest way to redistribute the benefits of a mining boom. As it turns out, they thought the best way to help the economy and spread the benefits of the mining boom was to let them hang on to all of these benefits.

Political debate in Australia is broken. There are no rules. There is no blow that is too low. There is no sanction for lying or character assassination, and there are enormous advantages to simply shouting louder than anyone else. Groups with privileged access to political power and the money to run large campaigns are distinctly advantaged, in the short term at least, using their money to silence public debate and leapfrog over democratic process.

Just as boxing fans are increasingly switching to cage fighting, our public debates about big issues now look more like drunks yelling in a pub than Oxbridge debating. While it makes sense for the citizens to stop listening to the loudest voices, it does not lead to good decision making in the long run.

The mining tax and carbon tax ‘debates’ were just the beginning, it seems. While textbook economics was called ‘class warfare’ by the folks who lined up behind economic rationalism to slug the poor with user charges in the 1980s and ‘90s, when the Coalition robs from the poor to give to the rich there is barely a peep.

Early in 2014, Health Minister Peter Dutton kicked along debate about the need for a \$6 co-payment for a trip to the doctor. A \$6 co-payment would account for a much larger slice of the \$250 weekly unemployment benefit than of the \$3800 weekly salary of a Liberal backbencher - but don’t worry about that, we were told. We could let health insurance companies cover the cost. The fact that low income earners don’t have health insurance and

that the co-payment would not discourage high income earners with insurance was apparently irrelevant. But was it class war to float it? Of course not!

What about superannuation? According to Treasury - yes, them again - one of the fastest growing areas of government expense is the enormous cost of tax concessions for so called 'self-funded retirees'. Not only does Treasury estimate that 'self-funded' retirement will soon cost the budget \$35 billion a year, they estimate that about 30 per cent of the benefits of that scheme go to the wealthiest 5 per cent of income earners.

Bizarrely, not only do low income earners get no benefit from the current design of the \$35 billion program, thanks to this government they will actually pay more tax on their contributions to their superannuation than they do on their modest incomes. But when the Coalition announced its intention to scrap the low income superannuation contribution - a scheme designed to prevent low income earners paying more tax on their super than they do on their wages - again, there were no cries of class warfare.

And then there are the Schoolkids Bonus, the Income Support Bonus, and measures to support small business. We are told that all of these 'entitlements' have to go, all casualties of the Coalition's war on 'the age of entitlement' and the 'burgeoning budget deficit'.

But while the Coalition conceals its attacks on those with the least behind the flimsy veil of economic austerity and libertarian philosophy, at the same time, they are committed to spend \$5.5 billion every year on a paid parental leave scheme that provides up to \$75,000 to women at the top of the income distribution, though at

time of writing this has been adjusted down to \$50,000 in response to public criticism. We are never told that the cost of tax cuts puts pressure on the budget - but a one-off \$25 million for SPC Ardmona would send us broke and, somehow, \$5.5 billion a year for high income women is just the thing the budget needs!

The gap between those with the most and those with the least continues to rise in Australia, but the gap is no longer simply financial, it is political. Money talks, and civil society has silenced the fact that the gulf between the capacity of an unemployed factory worker and a billionaire mine owner to influence the political process grows ever wider. The debacle in early 2014 over the removal of the healthy food website showed that there's little doubt that those with the money and access to get what they want will take what they want.

But while such an approach may work in the short term, it is a very dangerous long term strategy - as evidenced by the devastating effect on Liberal and National MPs of Pauline Hanson's evidence-free populism.

It has taken thousands of years to develop structures that prioritise honest debate over the passions of the mob. The Coalition and their backers in big business successfully rode into government on the votes of a mob they helped to whip up. While it was obviously an effective way to win office, history suggests it is a poor plan for holding it.

Louise Tarrant

The pain of being on the lower rungs



Louise Tarrant is a lifelong unionist who is now leading United Voice as Secretary of one of Australia's largest unions.

The Occupy Movement had a riveting impact on United States political discourse, significantly contesting the dominant austerity agenda with a focus on inequality as a legitimate and critical issue. The spotlight was shone on 'the hollowing middle', the accelerated accretion of wealth to the very top, and the explosion in minimum wage employment.

Australian-style inequality is almost absent from our own political discourse, but as many of the levers that have exacerbated the United States experience are key drivers of our current economic and political activity, this roundtable discussion and background document have been very welcome. United Voice members are largely low paid, experiencing serious insecurity, and losing confidence in the notion of economic growth being for all.

Arguably, in the post war decades in most western economies we saw a smoothing of inequality through rising real wages, a lessening in the income gap overall, development of the welfare state, and enhanced delivery of public services – all in the context of rapid technological innovation and an expanding global market for business. The expanded role of the public sphere, permanent employment, and rising worker affluence mitigated against personal risk and ensured good returns for both wage earners and capital investors.

Recent decades have seen a reversion of this direction. A number of factors have contributed to an increase both in personal insecurity and in debt and exposure to risk: de-legitimisation of public sector activity and the consequent commercialisation of services, the erosion of worker organising and collective bargaining, the fragmentation and deregulation of paid work, and increased exposure of families to financial insecurity.

The International Monetary Fund has described this transformation as households becoming 'the shock absorber of last resort'.

The industrial table has been skewed as workers' capacity to organise and bargain is eroded. Similarly, at time of writing the tax debate is skewing towards increasing the more regressive consumption based tax, reducing corporate tax, and lowering the tax-spend on services and welfare.

The background paper for the roundtable did a very good job of outlining how pivotal the tax system is to both progressive income redistribution and the provision of services that mute inequality.

In summary, inequality is real and growing in Australia, but addressing inequality isn't seen as a priority. We've heard that economic growth can 'lift all boats', but not necessarily equally - and for many of our members there is a growing sense that they are taking on water.

Matt Cowgill

A robust defence of social security is needed



Matt Cowgill is the Economic Policy Officer at the Australian Council of Trade Unions, the peak body for organised labour in Australia. He also contributes comment pieces to Guardian Australia.

A recent International Monetary Fund Working Paper found that Australia has more ‘tax expenditures’ as a proportion of GDP than any of the other advanced economies it examined. Tax expenditures are concessional arrangements that treat some forms of income or activity differently from others. Superannuation tax concessions are a big part of that, soon to take over from housing as the largest source of tax expenditures.

This year, the concessional treatment of employer superannuation contributions will be worth \$16 billion, rising to \$20.7 billion by 2016-17, and that’s just one way in which super is treated favourably relative to other income or forms of saving.

Analysis by the Treasury shows that these concessions overwhelmingly go to high income earners. The support that high income earners receive for their retirement, in the form of super tax concessions, is greater than the public support for low income earners in the form of the Age Pension. In the words of the Treasury, ‘the top 1 per cent of income earners receive the most combined support’.

It is appropriate that super is taxed at a concessional rate, but distribution of these concessions is inequitable, and the total size is unsustainable. Reforming super tax concessions can reduce inequality while improving the budget position. This option is far preferable to cutting spending in other areas or raising regressive taxes.

Over the past decade or so, the tax system has become less progressive. The amount of tax revenue as a proportion of GDP has also fallen. Both of these

developments reduce the extent of redistribution that government achieves through taxes and spending. I estimate using a NATSEM model that the above-inflation portion of the income tax cuts implemented since 2004-05 cost the Budget \$32.9 billion in 2012-13. The benefits from these tax cuts were strongly skewed towards the top of the income distribution. Further regressive tax cuts need to be resisted.

A robust defence of social security is needed. In 2013 we spent 8.6 per cent of GDP on cash benefits. That is less than the United States (9.7 per cent), Canada (9.1 per cent), New Zealand (9.8 per cent), the United Kingdom (12.2 per cent), Japan (12.2 per cent in 2010), and all members of the Eurozone.

Even in 2005, well before the financial crisis, our spending was below any of these countries. The idea that welfare spending is out of control is not true.

We have the lowest unemployment benefit of any OECD country, expressed as a replacement rate for a single worker on an average wage. The payment is inadequate and must rise. We are at the point where the unemployment benefit is so low that it is actually destroying people’s capacity to engage with the labour market.

Employment protection and adequate minimum wages should be a component of any program to address concerns about inequality.

Richard Eckersley

Job creation possibilities



Richard Eckersley AM is an independent researcher and writer and a founding director of Australia21. He has worked previously at CSIRO and at the Australian National University. His research has concentrated on better measures of national progress and human development; health and wellbeing as a benchmark for progress and sustainable development; the importance of mainstream culture in shaping population health; and a new narrative of young people's health and wellbeing.

Any discussion of inequality, the harm it does, and what should be done about it, should locate inequality within its broader social, political, economic and cultural context. For example, inequality is only one social contributor to poor health, and it is itself a consequence of the way we run our economies and govern our societies. So it is important not to focus too narrowly on inequality alone, to the exclusion of a broader approach that recognises growing inequality as only one harmful consequence of the failure of the western worldview with its narrative of what makes a good society and a better life - and more specifically, the failure of the ideology of consumer capitalism.

Recommendations on what to do about growing inequality in Australia should address not only inequality itself, but specific consequences such as poverty, on the one hand, and inequality's upstream causes, on the other.

One response that would help to address both inequality and wider social, economic and environmental needs is job creation. Work is not just a source of income, it is also important to social inclusion and self-worth, and so to people's wellbeing.

I understand that there is currently a shortfall of 800,000 to 1,000,000 jobs in Australia. According to a recent report by the Brotherhood of St Laurence, unemployment among young Australians aged 15-24 rose to 12.2 per cent in the year to January 2014, compared with 8.8 per cent in 2008 (Brotherhood of St Laurence, 2014). Youth unemployment is currently twice the general unemployment rate. The situation is worst in outer suburban, regional and rural areas.

At time of writing, there are current proposals to introduce 'work for the dole' for the unemployed, and to create a 'green army' to do environmental work (about which Prime Minister Tony Abbott is reportedly enthusiastic). One of our recent enquiries at Australia21 highlighted the urgent need to repair Australian landscapes and to prepare them for climate and other global changes, including though massive reforestation and re-vegetation.

If we rolled all these issues together, it would create an enormous capacity for worthwhile work in areas that are vital to Australia's future.

Paul Smyth

Inclusive growth



*Professor Paul Smyth is Professor of Social Policy at the University of Melbourne and a Fellow of the Research and Policy Centre, Brotherhood of St Laurence. He co-edited *Inclusive Growth in Australia*, Allen & Unwin, 2013.*

The 1980s witnessed a shift in the dominant economic and social policy paradigm from Keynesianism to neoliberalism. Today we see a comparable transition from neoliberalism to inclusive growth. Inclusive growth is an agenda being developed by both Bretton Woods Institutions (the World Bank and the International Monetary Fund) and has the problem of excessive inequality as a central concern.

The concept of inclusive growth emerged with the World Bank's 'Growth Report' (2008). It marked a break with the previous 'trickle down' development model, which emphasised economic growth first with social development to follow. The new thinking recognises that excessive inequality defers broad based social development and can also act as a handbrake on economic growth.

At the OECD, the driver has been concern about the 'great divergence' in income and wealth in developed economies over the last thirty years, along with the return of high unemployment created by the global financial crisis. The OECD's first two key reports were titled: 'Growing unequal? Income Distribution and Poverty in OECD Countries' (OECD 2008) and 'Divided we stand: Why Inequality keeps rising' (OECD 2011). How to boost growth while reducing inequality defines the main policy game for the OECD, which is now working with the World Bank on implications of inclusive growth for developed economies.

In Australia, the problems of inequality are not as extreme as in some countries - notably the United States - but the trends are in the wrong direction. While our tax and transfer system and our minimum wage have significantly moderated the acceleration in market based inequalities over the last three decades, lately they have been losing ground. Of greater concern is a labour market characterised by high levels of insecurity.

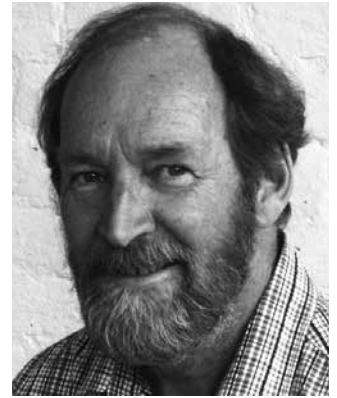
Deep uncertainty surrounds the future structure of the economy post the mineral boom, and especially how it will deliver the 'more and better jobs' which are essential to inclusive growth.

In terms of social policy, there are three things which can put Australia in the vanguard of inclusive growth:

- first, we switch from a welfare to a social investment model, and work to close the inequality gaps which exist across the life course (early years, youth, working years, ageing and retirement);
- second, we get serious about the economics of this social investment package, especially when it comes to human capital - we need to tackle the economic costs of under investing in some while over investing in others;
- third, we negotiate the new interface of wages and welfare in a deregulated economy to create a welfare package that ensures the right balances between paid work, caring, unemployment, education and retirement.

Geoff Davies

Collective ownership and rent/buy approaches



*Emeritus Professor Geoff Davies is a scientist, author and commentator. He has been exploring economics for the past fifteen years or so and is the author of *Sack the Economists* (BWM Publishing, 2013, <http://sacktheeconomists.com>). He is a retired Senior Fellow (now a Visiting Fellow) in geophysics at the Australian National University and blogs at <http://betternature.wordpress.com/>.*

Ownership is a key determinant of how wealth flows to people. Unfortunately most people don't own any of the means of production, and many struggle even to own their own house. Yet there are quite viable options that would gain more ownership, and hence more wealth, for more people.

Cooperatives have a long history, but although there are many they comprise only a small proportion of businesses. However there are outstandingly successful examples. The Mondragón cooperatives in the Basque country of Spain are a network of more than 200 small companies that in 2011 employed more than 80,000 people and turned over about 15 billion euros. They operate in finance, industry, retail and knowledge, and clearly demonstrate the viability of a well-planned cooperative structure in the modern global economy.

In Britain the Scott Bader Commonwealth has operated successfully as an employee-owned company since the 1950s. In the United States many companies have been taken over by their employees using *employee stock ownership plans* (ESOPs), which were legislated in the 1950s. About 1,500 American businesses now have majority employee ownership, prominent examples being Avis car rental company and United Airlines.

Many studies have shown employee-owned firms tend to be more profitable, more competitive and more efficient because people feel included, responsible and committed.

Creative options also exist to overcome barriers to ownership of dwellings and shares of community wealth. One proposal is for ownership of dwellings to be progressively transferred to tenants, following the model of Build, Own, Operate and Transfer (BOOT) infrastructure projects such as toll roads. Thus ownership of a flat would transfer progressively from a developer to a renter over the course of, say, a 20-year contract.

Another idea is for a Community Land Bank (CBL) to capture for a community the wealth due to the proximity of people, businesses and infrastructure. Only residents would receive shares in the CLB, and the accruing wealth would be used for the further benefit of the community, rather than being drained off by landlords and developers.

If we are serious about tackling inequality in Australia, we need to recognise that there are many working models that could be adapted to Australian needs.

Martin Lavery World Health Organisation recommendations on social determinants of health



Martin Lavery is Chief Executive of Catholic Health Australia and a member of the boards of the National Disability Insurance Agency, the NSW Public Service Commission, and the National Heart Foundation. He chairs the Social Determinants of Health Alliance comprising sixty organisations seeking Australia's implementation of the World Health Organisation's social determinants of health framework.

We need to respond to the fact that the lowest 20 per cent of income earners in Australia have three times the level of chronic illness of those in the highest income bracket. We know how to address this. The World Health Organisation in 2008 gave all nations an action plan on how to address health inequalities. Australia simply has not acted on it.

In 2013 an Australian Senate enquiry with the tri-partisan support of the Labor Party, the Greens and very importantly the Liberal Party recommended that Australia should adopt the action plan, translated for local experience (Australian Senate 2013). We have not yet had the translation. When developed, the action plan will need to build momentum with a co-ordinated national campaign. That is what our Social Determinants of Health Alliance is seeking to do.

I was involved in the establishment of the National Disability Insurance Scheme that is now moving into an operational phase, and I can say that this came about by advocates engaging with both sides of the political fence in Australia. Any solution that we seek for health inequalities, and for inequality generally, needs to be considered and endorsed by both sides of politics.

Action by federal and state governments is required for progress to be made on inequality. For these governments to act on inequality, proposals must be specific and supported by evidence of likely success; proposals must be affordable financially and politically; and perhaps most importantly proposals must align with the interests of governing parties.

To these ends, it would be counterproductive to propose redistribution of power or dramatic tax transfer changes at the present time when six of Australia's nine governments as Liberal/National governments favour personal responsibility and constrained public expenditure.

Instead, we need to point to the fact that a more equal society will result in a more productive economy as we regenerate social capital.

The extraordinary dynamics that resulted in bipartisan political support for the National Disability Insurance Scheme, part funded by a tax increase with wide community support, demonstrates that Australian politicians and electors are willing to take significant action on specific inequality when certain dynamics occur. The precedent of the birth of this scheme offers a template for achieving the type of action required to also address poverty.

Inviting the federal government to respond to the tripartisan Senate recommendations offers a starting place for new action on social equality.

Sharon Friel

Inequitable economic arrangements are bad for health



Professor Sharon Friel is Professor of Health Equity in The National Centre for Epidemiology and Population Health at the Australian National University. Between 2005 and 2008 she worked with Sir Michael Marmot as the Head of the Scientific Secretariat (University College London) for the World Health Organisation's landmark global Commission on Social Determinants of Health.

There is increasing evidence of a relationship between wealth inequality and health and social outcomes. It is not just at the correlation level - the relationship is real, and the social gradient has been replicated not only in Australia but in countries everywhere.

The Whitehall study in the 1970s and '80s was about the demonstration of the social gradient. Among Whitehall civil servants who are not poor by any conventional standards there was a gradient in health outcomes. The question arose as to why in a population that was not poor there was still this gradient in health outcomes. This led to consideration about the issue of control within the workplace.

I am convinced of the validity of the social gradient relationship and its relevance to public policy.

There are a lot of natural experiments that we can use right now. They might not meet the control criteria required by a randomised controlled trial but they produce strong results nevertheless.

One such natural experiment done by colleagues is called 'body economics'. The strap-line for this study is 'austerity kills'. After the 2008 financial crisis, the researchers compared what happened in countries around the world that followed the austerity agenda with those that followed the stimulus agenda. The argument was that in those countries which introduced the austerity agenda there was a very serious decline in social and health outcomes. In Greece for example

there was a 47 per cent increase in HIV infections after the introduction of the austerity measures. That was partly because of the close down of the needle exchange programs.

There are several such natural experiments around the world, which are giving us a wealth of relevant evidence about what can be done. We may not know exactly how to do it, but we have to recall that these are complex systems at play and that the whole issue is entirely dynamic.

We know that there are some tipping points and key levers in what is a complex system. We don't have to intervene on everything at one point in time, but we need to understand that if, for example, we work on the taxation system it will have implications across the whole of the system. It is not a steady state.

Income inequity is a consequence of inequities in power. There may now be a window of opportunity, especially as the Minister for Women and Minister for Indigenous Affairs is also the Prime Minister. This may provide some focus.

Ian Maddocks

Addressing the needs of the elderly



Emeritus Professor Ian Maddocks AM is a retired palliative care physician. His fourteen years work in Papua New Guinea, leadership in medical advocacy against nuclear weapons, and twenty-five years practice and education in care of the dying have led him to a concern for better care of the increasing population of the very aged. He was Senior Australian of the Year 2013.

The elderly are a large group in Australian society whose health and wellbeing are poorly served by current care arrangements. Elderly numbers are sure to burgeon in coming decades, and their situation needs to be urgently addressed in the national conversation before increasing demand reaches crisis levels.

Funding for aged care is already frugal and relatively inflexible, but governments will increasingly be unable to maintain the care models now in place. Pension payments will be restricted, and individuals and families will be expected to shoulder greater responsibility for aged care through savings and superannuation. Mean age at death is progressively increasing and, for many, savings and superannuation will be expended well before death.

Some diagnostic areas have benefited from a raised public profile – dementia care, Parkinson’s disease and palliative care are examples. Coordination of care for all major categories of need at a community level could do better, and save expense.

The elderly do not need five-star hotel accommodation; they look for safety and the availability of attention where familiar routines and flexible responses to their changing needs are provided, and where staff have adequate time and appropriate training to provide compassion as well as skill. Home care is the preferred option, and it can also be linked to residential care with advantage.

The Community Hub, a plan to transform Residential Care Facilities, aims to provide a comprehensive medical team in-house with capacity to support a full range of both residential and home care for the local elderly population, including those with dementia, frailty and terminal illness. Extended hub functions would make them centres for training and community life, and for the encouragement of healthy ageing in those preserving activity of body and mind.

A trial of this concept opens opportunity to explore improved architecture and more independent and flexible management, plus the provision of a heightened clinical expertise so that care continues in the patient’s preferred site, and expensive hospital transfers are reduced, whether from home or residential care.

Vivienne Moxham-Hall

Addressing the needs of young people



Vivienne Moxham-Hall is an Honorary Youth Advisor to the Board of Australia21. She graduated from Sydney University in 2013 with a Bachelor of Arts, Bachelor of Science and Master of Health Policy. She is currently working at the NSW Department of Health and is the Secretary of the Australian Drug Law Reform Foundation.

I am concerned about how inequality will impact on the future of young people. Our generation deserves to have a future that we can look forward to, and not one that has been driven towards stark equity contrasts, entrenching disadvantage, crime and distrust among the Australian community.

Equity from a youth perspective should mean that there is equal opportunity, particularly with regard to: effective, publicly funded, quality education; access to quality health care; and youth working conditions.

Education is a key enabler for overcoming social disadvantage and the creation of a productive, informed community. Youth who have had access to tertiary education are likely to be more employable, and are likely to remain unemployed for shorter periods of time. Family, teachers and peers can often impact on an individual's capacity or willingness to obtain a higher degree of educational competency. We need to ensure that Australia's public education is getting the funding it needs, and we are not splitting our demographic between those who can pay for a better education and those who can't. We need to have access that is not determined by the wealth of parents.

A child coming from a family that earns the minimum wage and whose parents have not completed secondary education will never be able to compete with an affluent family that is able to afford a prestigious school and additional private tuition if we don't invest more in those who have less.

We need more scholarships for people from disadvantaged backgrounds. In addition, Open Education courses in America have allowed access to education for those less able to afford or attend tertiary education. This, combined with a system of free computer labs and access to internet, can enable an education across the community with little to no cost to the government.

The reality of global warming has highlighted the finite resources of the earth and high rates of use by the well off compared with those 'worse off', thereby connecting financial inequity with resource accessibility. A functional health system will be crucial to ensuring that these changes do not exacerbate the social determinants of health.

Young workers can be paid as little as \$6.03 an hour in Australia. This can disadvantage young people as they are unable to obtain a livable wage, and it also disadvantages older workers who have a set minimum wage because they cost more to hire. When young people who don't have financial support are trying to get through their first year at university, it is going to take a lot of hours at \$11-\$13 an hour to pay for a \$150 text book, leaving precious little time for study.

Australia needs to find better ways of financing opportunities, diminishing inequalities and reforming the taxation system to enable positive changes to a more equal Australia. Some countries are already improving their social, environmental and economic outcomes by acting on inequality and introducing fairer policy measures. Australia needs to be following their lead now, not sitting back waiting for more research, because the future we forge now is the legacy that the young people of today will inherit.

Anne Hollonds Prevention and early intervention



Anne Hollonds is Chief Executive of the Benevolent Society, Australia's first not-for-profit organisation established in 1813 as a grassroots movement assisting the destitute, including children, and advocating for social change such as the old age pension, child protection legislation, free legal aid, and maternity care. In 2013 the Benevolent Society commenced one of Australia's first social benefit bonds, providing intensive support for vulnerable children and families. Anne is a psychologist with extensive practice and policy experience in a variety of settings.

Growing inequality in Australia not only impacts on the wellbeing of children, it also has long term costs and consequences for society.

It is now widely acknowledged that the early years are a critical period for brain development, when the foundations for later learning and development are laid down. Research shows that young children who experience high levels of toxic stress at home as a result of such things as sustained poverty, abuse and neglect and family violence often experience greater challenges in school, struggle with adult and family relationships, and have poorer long term health outcomes.

It is unacceptable, in a country such as ours, that one in five children start school vulnerable in one or more areas of child development and that the educational performance gap between children in high and low socioeconomic groups is now greater than the OECD average. Children who start behind often fail to catch up. Sadly, this growing inequity in Australia is trapping thousands of disadvantaged Australians in low paying work or unemployment, or in even more desperate circumstances.

On a positive note, there is now strong evidence that if we act early to provide children and their families with key services and supports, we can prevent negative long term outcomes. The benefits of intervening early are far reaching and range from reduced welfare expenditure, less contact with the juvenile and adult justice systems, reduced notifications of child abuse and neglect, through to improved school performance and higher earnings –

which result in more productive adults and fewer people dependent on welfare.

Intervening early is not only more effective, it is also more cost efficient.

To turn things around, we need long term planning and commitment to increased investment in early intervention. There must also be much greater collaboration between different government departments and different levels of government, and between government and non government services, to ensure a more seamless service system. Finally, it is essential that the families who *most* need support have access to critical services when they need them.

If we as a society fail to invest more in prevention and early action, we are signing a blank cheque for much higher costs to society in the future.

Tim Goodwin

Keeping indigenous inequality in the frame



Tim Goodwin is a lawyer, a Trustee of the Reichstein Foundation, and a member of the Yuin people of South East New South Wales.

I think a particular focus of our concern should be social mobility. In a world of rising inequality we also have decreasing social mobility, which leads to questions about the important role of entrepreneurship and access to finance.

Access to capital can increase social mobility.

The drivers of inequality include inflating housing prices over the last two decades. In the solutions, we need to talk about a value capture and resources rent approach. That's the kind of thing we need to think about in solving inequality rather than just thinking about taxation.

We need to consider the 'vision' question. I think that sometimes we as Australians want to focus on what the problem is and what we want to be done about it, but we don't necessarily think as hard or as clearly about what we want to achieve in the long term.

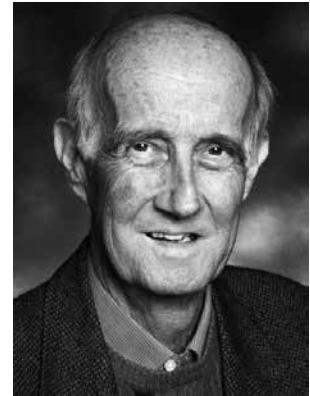
What will the post-inequality world look like? If we are selling the idea of the problems of inequality to Australians, we also need to be selling the so-called utopia which will result if we fix the problems.

I don't think it is enough to say that we will all be happier or healthier. We need to properly envision the Australia that we want to live in.

I am concerned to ensure that Indigenous people are not simply a footnote to these discussions.

Tony McMichael

Climate change and inequality



Professor Tony McMichael AO is Professor Emeritus (Population Health) at the Australian National University where, during 2002-12, he headed the research program on the health risks of climate change. He has led the International Panel on Climate Change assessments of risks to humans, is an elected member of the United States National Academies of Science, and Honorary Professor of Climate Change and Health, University of Copenhagen.

Human-driven climate change is often described as a ‘risk multiplier’. If socioeconomically disadvantaged groups already have above average rates of various diseases, such as heart disease, chronic lung disease and child diarrhoeal disease, they will incur greater absolute increases in poor health from the diverse effects of climate change than will others in the population.

In Melbourne’s extreme 2009 heatwave, hospitalisations and deaths came disproportionately from over-heated, dense, inner-west suburbs. Likewise Sydney’s low income western suburbs are at above average risk from heatwaves. During New Orleans’ Hurricane Katrina most deaths occurred in poor, black, peripheral suburbs with vulnerable location and infrastructure and unconnected to health and emergency services.

Globally and in Australia, climate change will tend to act also as an ‘inequality multiplier’ by increasing disparities in living conditions, livelihoods and life expectancy. Fatalities from an increase in extreme weather events will commonly impinge unequally within the community.

The social and ethical challenge of reducing social-economic inequality in Australia thus becomes increasingly complex – although few within the political arena appear to understand or acknowledge that achieving a fairer society will now be a more complex task than in the 20th century.

If we stumble on without a renovated economic model that integrates the pursuit of sustainable ways of living with a redistributive and human capital-mobilising policy framework, the now plausible Plus 2-3°C Australia that

lies a half-century ahead will amplify material, social and health inequalities.

As climate change and other systemic environmental changes gain momentum, regressive costs to the population – such as rises in house insurance, staple food prices and electricity prices – will amplify economic inequalities. Adverse health consequences will follow.

The future of farming and rural health in parts of Australia provides another example. Falling farm yields will afflict regions affected by adverse changes in climate. Their communities will tend to shrink and become demoralised, and health problems will increase.

Andrew Giles

Addressing alienation through a national conversation



Hon Andrew Giles MP was elected to the House of Representatives for the federal electorate of Scullin in 2013. He has practised as a solicitor, and held previous roles including as Chief of Staff and Senior Adviser in the Bracks and Brumby governments.

I am concerned that an effective political response to inequality must rest on restating, forcefully, the fact that Australia is becoming less equal, and articulating the extent of the societal consequences of this.

A national conversation is essential to ensure that our constituents understand the factors that underpin this growing trend in our economy.

This is a moral challenge. When we understand the impact of inequality on people's lives, can it be right to do nothing about this? As Will Hutton wrote recently in *The Guardian*:

It's inequality, stupid. It's inequality that is behind poverty, ill-health and the growth of the welfare bill. It's inequality propelling the escalating demand for credit. It's inequality that has created our fragile banking system and its still feral proclivities. It's inequality that has provoked the collapse in productivity, and the stagnation in innovation and investment – evident before the financial crisis and even more so now. This is the truth that cannot yet be spoken

The indifference to the growing gap between rich and poor, in all its multiple dimensions, is the first order category mistake of our times. No lasting solution to the socio economic crisis through which we are living is possible without addressing it...The recovery cannot hold unless we address inequality; our politicians must rebuild the institutions they have so carelessly trashed. Inequality must be tackled head on. (The Guardian, 19 Jan. 2014, first and last paragraphs)

We are not, yet, facing the same conditions that gave rise to these comments about the situation in the United Kingdom. But the force of this call to arms is a powerful wake-up call as we anticipate the evolving situation in Australia.

Bridging the gap between 'representative' and 'responsible' politics is a fundamental challenge to resolving the political dimensions of inequality. The alienation of many from the political process must be addressed.

Lee Rhiannon

The common good is broader than what happens in parliament



Senator Lee Rhiannon is a Greens NSW Senator, having previously been a Greens NSW MP for a decade. A trained zoologist and botanist, her work over many years has involved a range of endeavours for social justice and environmental protection.

We are in the middle of the age of inequality. Across the world the trends within countries, between countries and most likely between generations reveal a widening gap in income, asset ownership, and access to basic services.

The Economist has recently pointed out that 'Inequality has reached a stage where it can be inefficient and bad for growth' (12 June 2012).

For more than 200 years, Australian society has perpetuated one of the most extreme examples of inequality – between Indigenous and non-Indigenous Australians.

Recognising that politics is much broader than what happens in parliament, we need social movements promoting the common good. To achieve this we need frank public discourse that recognises the ecological constraints we live under as we determine the path to a sustainable economy.

We need to be alert that in the discourse to reduce inequality any reorganisation of the alignment of public and private ownership, profit distribution and working conditions does not drive down wages, working conditions and welfare.

Those who benefit and grow wealthy as the inequality gap widens have become masterful at using the language of equality and justice to attempt to sidestep or disguise the levels of exploitation they are involved in. For example, businessman Dick Estens, who runs the Aboriginal Employment Strategy, has said that weekend penalty rates must be cut to help create more 'transitional' jobs for Aborigines.

We cannot alter the ecological constraints of our planet, but humans can and do shape all aspects of their societies.

The unequal relationships between different classes need to be addressed as we take practical steps to develop sustainable societies that achieve work-life balance, climate action and human rights. All these factors are interconnected.

David Morawetz

Nine policies to reduce inequality



Dr David Morawetz has had three careers so far: as an economist (including as Associate Professor of Economics at Boston University), as a counselling psychologist, and as a philanthropist. David's Social Justice Fund is a supporter of this inequality roundtable.

Growth for whom?

In the last decade in Australia, the richest 10 per cent enjoyed almost 50 per cent of the growth in incomes, and the richest 1 per cent received 22 per cent of the gains. Growing inequality like this is not just unfair, it is counterproductive to economic growth and long term prosperity. Even the usually conservative International Monetary Fund (Ostry et al 2013, 2014), the OECD (2011) and *The Economist* (2012) have been saying so recently.

Inequality of opportunity is what matters most, more than inequality of incomes or wealth (though the three are closely correlated). Credit Suisse recently rated Australia as the richest country in the world, followed by Switzerland. Yet one child in six in Australia lives in poverty. These economically disadvantaged children have much less opportunity to achieve their potential (and to contribute to economic growth and efficiency) than the children of richer parents.

What are some specific policies that might help to reduce inequality in Australia?

1. Expand early childhood education

The previous commonwealth government committed \$1 billion to subsidising preschool places under its universal access scheme, but the funding runs out at the end of 2014, and at time of writing, there is no confirmation on whether it will be renewed. Research needs to be done on the best ways to improve and scale up early childhood education in Australia, especially among the disadvantaged (Brown 2014).

2. Oversee implementation of the fairer school funding reforms

One of the most useful things that could be done to reduce inequality of opportunity in Australia is to ensure that the current Coalition government honours its pre-election promise of a unity ticket on implementing the fairer school funding reforms. In the Labor government's original bill, the commonwealth government was going to oversee implementation of these reforms, but that function has been removed under the Coalition government. A council or committee might be set up to monitor and report publicly on the extent to which state governments are actually implementing the fairer funding reforms. This body might have as members some of the key authors of the Gonski report, plus prominent educationalists from each state and territory.

3. Raise more tax revenue

Australia has one of the smallest public sectors of all developed countries. Most interventions to increase equality of opportunity will require the government to spend more. Every time an opinion poll asks about budget choices, people say they want lower taxes, more spending, and a bigger budget surplus. Nevertheless, the increase of the Medicare Levy to fund the National Disability Insurance Scheme, which was agreed to by all sides of politics, suggests that if people can see the benefits of new spending to reduce unfairness, they can be persuaded to vote for increased taxes. The Mayor of New York Bill de Blasio recently justified his tax hike on those earning \$500,000-\$1 million annually by saying: 'We don't ask more of the wealthy to punish success, we do it to create more success stories.'

We need to raise more tax revenue in a fair manner so we can implement 'a fair go for all', while balancing the budget over the economic cycle. A recent report from The Grattan Institute (Daley 2013) canvasses most of the significant ways in which more tax revenue can be raised. We might pick out revenue-raising measures from that report (and from the Henry tax review) that are fairest and best, and try to promote them.

4. Minimise unemployment

One of the most powerful ways to reduce inequality is to avoid recessions and minimise unemployment. Given that Australia's government debt as a percentage of GDP is much lower than government debt in most OECD countries, minimising unemployment (for example by increasing spending on infrastructure) should take priority over early fiscal consolidation.

5. Raise the unemployment benefit

Australia's unemployment benefit (Newstart) is among the lowest in the OECD. The \$36 a day payment has not been increased in real inflation-adjusted terms for 20 years, so it has steadily fallen behind community standards and is now 20 per cent below the poverty line. Newstart needs to be brought up to the poverty line at least, and indexed to average wages (like the aged pension) instead of to the Consumer Price Index, which has increased more slowly than average wages.

6. Explain why inequality reduces economic efficiency and economic growth

To engage the top 20 per cent of income earners, who have strong political influence, it might be useful to produce a brief summary statement by top Australian economists explaining why increasing inequality of opportunity is bad for the economy and bad for the wealthy in Australia. This statement would need

to spell out what the top 20 per cent will gain from increased equality of opportunity. For example, how does spreading equality of opportunity more widely increase economic efficiency and hence economic growth?

Many of the references at the end of this report can make a significant contribution here, including the recent research by the International Monetary Fund and the OECD that was referred to above and unpublished papers on Australian inequality by Ross Gittins (2013), Ian McAuley (2013) and Lars Osberg (2013).

7. Learn from previous attempts to reduce inequality

Both the Rudd and Gillard governments had a Minister for Social Inclusion. What can we learn from their experiences?

In 2010, the United Kingdom legislated a new Equality Act, which they said would make Britain 'stronger, fairer and more equal'. The Equality Act 'puts a new duty on Government Ministers, departments and key public bodies (such as Local Authorities, Police or Education Authorities), when making strategic decisions about their spending and services, to consider what action they can take to reduce the socio-economic inequality that people face [including especially to reduce inequality of opportunity]'. A review was to be carried out in late 2013. What can we learn from this review about ways to reduce inequality of opportunity in Australia?

What can we learn from the experiences of other countries that have greater equality of opportunity (for example Scandinavian and other European countries), and from those that have increased equality of opportunity in recent years, albeit from a low base (Brazil, Korea, Mexico, others).

8. Agree on wording that encapsulates the message about equality of opportunity

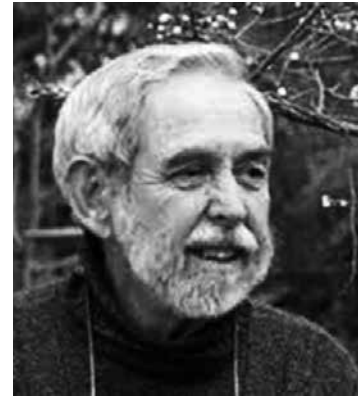
Given the political power of slogans these days, in order to help build a coalition of public opinion in favour of increasing equality of opportunity, it might be useful to develop some agreed wording. ACOSS interviewed focus groups on this subject a few years ago, and found that people related best to 'Australia Fair' and 'a fair go for all'.

9. Foster media stories on inequality

To further the national conversation, we might explore ways to encourage the media to publish a series on 'The growing inequality in Australia and what can be done about it', similar to the excellent two-week series that the *Globe* and *Mail* published for Canada in late 2013.

Bob Douglas

Underpinning intervention with a research and monitoring program



Emeritus Professor Bob Douglas AO is a retired medical epidemiologist whose career also included working as both a general practitioner and as a specialist physician. From 1989 to 2001 he was founding Director of the National Centre for Epidemiology and Population Health at the Australian National University. For ten years following his retirement, from 2001 to 2011 he was the founding Chair of Australia21.

Much is already known about both the causes of inequality and its remedies. What is less clear at present is how interventions can best be introduced into Australian society, and how their impact can be monitored and evaluated.

Roundtable participants have agreed that the first step must be to engage the Australian community in the problem and the range of ways in which it can be addressed. However it is unlikely that remedial policies will be introduced without evidence that they will be effective.

I would like to see a comprehensive program of collaborative research across Australia aimed at a state of the art documentation of Australia's current level of equality and efforts to maintain a fair go for all segments of Australian society.

This work needs to be initiated quickly, and it needs to be supported by researchers in the universities, policymakers in both state and federal governments, and senior representatives of non government organisations, unions and businesses.

Such an initiative should be able to attract substantial funding from the Australian Research Council and the National Health and Medical Research Council, and perhaps also from business. The research should begin by assessing efforts to initiate a national conversation with the involvement of all political parties.

A five-person steering committee with representation from academia, federal government and state governments, non government organisations and business could initiate the research. A starting point might be the report of the Senate Committee on the World Health Organisation's recommendations on the social determinants of health (Australian Senate 2013).

The plan should include the collection of baseline data in a number of states and territories of Australia, with careful monitoring over time of the impact of specific policy initiatives on a series of defined health and social outcomes.

Participants in the roundtable

Mr Paul Barratt AO, Chair of Australia21, Private Consultant and former Secretary of Defence

Dr Rob Bray, Research Fellow, Centre for Aboriginal Economic Policy Research ANU

Dr Steven Cork, Futurist, Director Australia21, Private Consultant and former CSIRO Eco-Scientist

Dr Matt Cowgill, Economics Policy Officer at The Australian Council of Trade Unions

Dr Geoff Davies, Retired Geophysicist, Author of Sack the Economists (2013)

Dr Richard Denniss, Economist, Executive Director of The Australia Institute

Emeritus Professor Bob Douglas AO, Former Public Health Academic, Director Australia21 (Chair of roundtable)

Dr Aron Ping D'Souza, Executive Chair Good Super, Founding editor of The Journal Jurisprudence

Mr Richard Eckersley AM, Social Researcher, Director Australia21

Ms Ro Evans, Policy Officer, Australian Council of Social Services

Professor Sharon Friel, Professor Health Equity ANU

Ms Liz Furler, Former Senior Public servant in Health and Education, federal and state

Emeritus Professor Bob Gregory AO, Economist ANU, Former Member of Board of Reserve Bank

Hon Andrew Giles MP, Federal Member for Scullin, Member of H of Reps Indigenous Affairs Committee

Mr Tim Goodwin, Lawyer, Member of the Yuin People SE NSW, Trustee of the Reichstein Foundation

Mr Geoff Gorrie PSM, Former Senior Public Servant and Director of Australia21

Ms Anne Hollonds, CEO Benevolent Society of Australia

Mr Adam Kilvert, Director, Social and Justice Policy, Dept Premier and Cabinet, SA government

Mr Martin Lavery, CEO Catholic Health Australia and Chair of Social Determinants of Health Alliance

Hon Andrew Leigh MP, Shadow Assistant Treasurer and author of Battlers and Billionaires (2013)

Hon Jenny Macklin MP, Shadow Minister for Families, Payments and Disability Reform

Hon Alanna McTiernan MP, Member for Perth, Member of H of Reps Committee Education, Employment

Emeritus Professor Ian Maddocks AM, Palliative Care Physician, Senior Australian of the Year 2013

Emeritus Professor Tony McMichael AO, Epidemiologist ANU, Climate Change & Health Adviser to WHO

Ms Vivienne Moxham Hall. Hon Youth Advisor to the Board of Australia²¹

Dr David Morawetz. Economist, Counselling Psychologist in private practice, Philanthropist

Mr Duncan Peppercorn, Head of Social Ventures Australia Consulting

Senator Lee Rhiannon, Senator for NSW, Member of Senate Standing Committee Employment, Education

Professor Paul Smyth, School of Social Political Sciences Uni Melb, B'hood St Laurence Policy Res Fellow

Ms Louise Tarrant, Union Secretary of United Voice

Ms Laura Tingle, Political Editor The Australian Financial Review

Ms Melanie Walker, Deputy CEO Public Health Association of Australia

A/Professor Roger Wilkins, Principal Research Fellow Institute of Applied Economic and Social Research, Uni Melb

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Prepared submissions to roundtable but could not attend

Professor Valerie Braithwaite, Interdisciplinary social scientist Regulatory Institutions Network ANU

Dr Jane Dixon, Senior Fellow, National Centre for Epidemiology and Population Health ANU

Professor Ross Garnaut AO, Vice Chancellor's Fellow and Professorial Fellow University of Melbourne

Mr Ross Gittins AM, Economics Editor Sydney Morning Herald

Mr Geoffrey Rutledge, Director Strategic Policy Group, Chief Minister and Treasury, ACT government.

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TEN WAYS TO ADVANCE AUSTRALIA FAIR

1. Promote a national conversation about inequality, its effects, and ways of dealing with it
 2. Increase the fairness and adequacy of government revenue raising through taxation reforms
 3. Implement fairer funding reforms for schools
 4. Invest nationally in early childhood development, especially for disadvantaged groups
 5. Set all pensions and benefits no lower than the poverty line and Index them to average wages
 6. Establish more job creation programs in priority areas
 7. Develop new models of employee management and cooperative ownership of business
 8. Implement the World Health Organisation recommendations on the social determinants of health
 9. Encourage an inquiry by the Productivity Commission into the impact of inequality on economic efficiency and growth
 10. Establish a national research program to monitor progress and test the impact of interventions aimed at reducing inequality
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