Rising Inequality : An Australian Reality

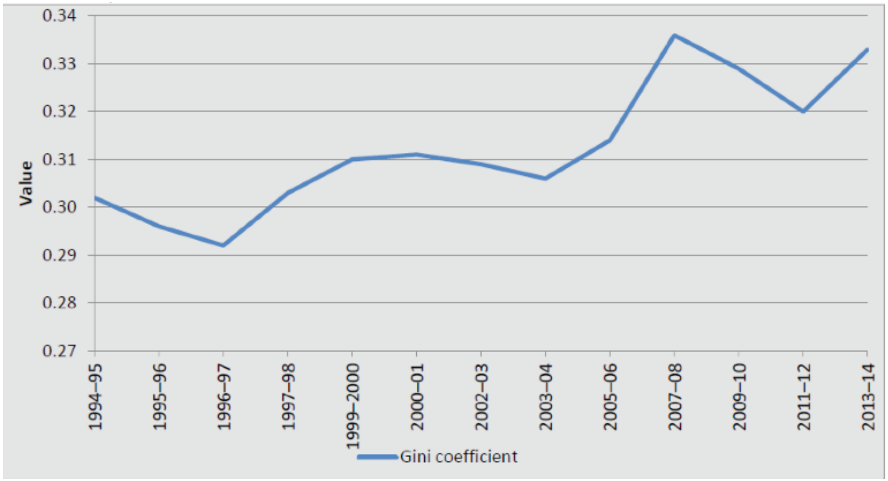
Income inequalities are greater than at any time in the last 70 years. Small elites have amassed vast fortunes and massive political power. While for the vast majority of people, living standards have declined and job security has disappeared.

Inequality is the challenge of our time. If we don't change course, Australia will be a fully Americanised society of high inequality and dead end jobs, with long working hours, no holidays, zero job security and poverty pay levels. These are the economic conditions that breed high levels of crime, discrimination against minorities and a broad range of social problems.

Australia must not go any further down this path. Instead we must return to being a country in which families on a normal income can afford to buy a home, provide a good education for their kids and have a decent standard of living. Societies that pay their workers fairly and provide job security tend to have low crime levels, less social problems and are more inclusive.

Treasurer Scott Morrison denied inequality is a problem. However the facts are clear. The distribution of income throughout society is becoming more unequal. The graph overleaf shows that since the mid-1990s income inequality in Australia has been getting worse. Despite a blip just after the Global Financial Crisis, when share prices fell for a short period and those rich enough to make lots of income through their investments took a hit, it is the clear that the general trend has been towards widening income inequality.

Inequality is rising on trend



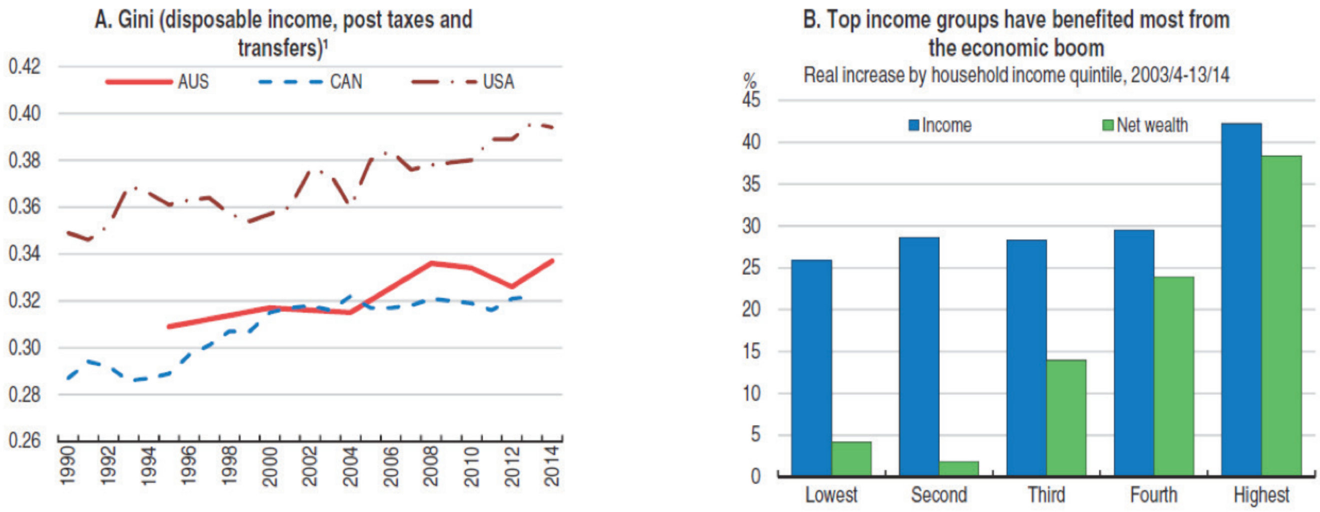
Source: ABS

The last OECD Economic Survey of Australia, released in March 2017, had this to say about income inequality in Australia:

“Inclusiveness has been eroded. The Gini coefficient has been drifting up and households in upper income brackets have benefited disproportionally from Australia’s long period of economic growth. Real incomes for the top quintile of households grew by more than 40% between 2004 and 2014 while those for the lowest quintile only grew by about 25%.”

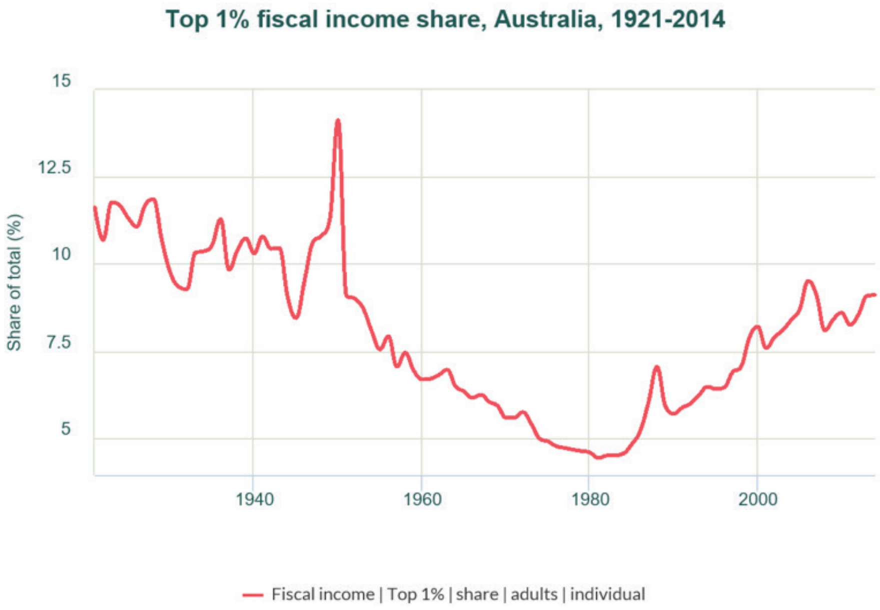
The OECD also released the following graphs that show inequality is rising and the top incomes have benefited disproportionately.

OECD says Inequality is rising



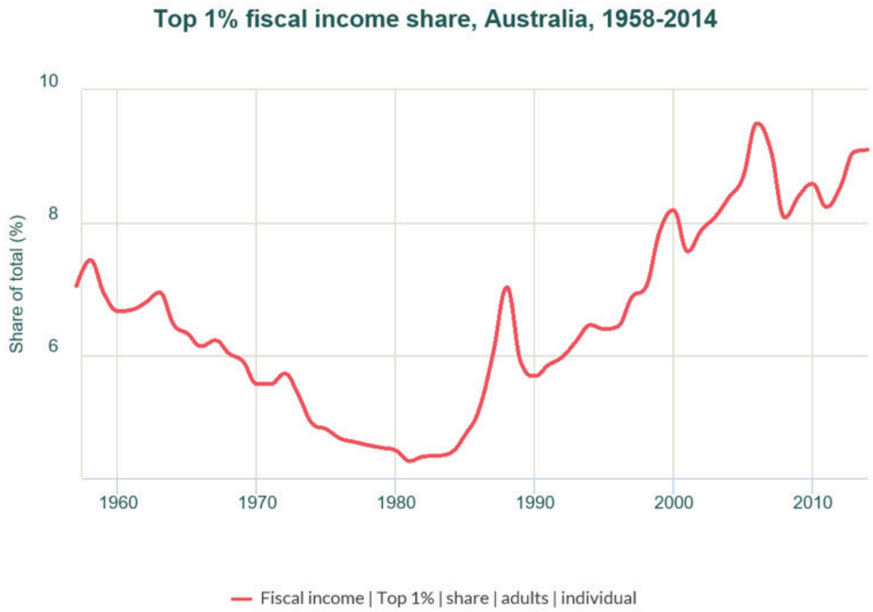
Source: OECD Economic Survey Australia 2017

The graphs above highlight that Australia has a lower level of inequality than the USA but has been rising over time. If we turn to the share of income held by the top 1% it is clear inequality is at a 70 year high.



Source: World Wealth and Income Database

And the share of income held by the richest 1% of the population has been steadily rising since neoliberal approaches began to dominate economic policy in the 1980's.



Source: World Wealth and Income Database

Income inequality is definitely rising in Australia and Scott Morrison's recent statements on this topic confirms his lack of economic and statistical knowledge. The fact that our Government attempts to pretend that inequality is not a problem while the traditionally conservative global economic institutions, such as the OECD and the IMF, argue that rising inequality is among the most pressing issues of our time, demonstrates that our Government is desperate and completely out of touch with reality.

Recent arguments have focused on income inequality. Wealth inequality is worse.

Wealth Inequality

Due to very rapid increases in the value of homes, investment properties, shares and other assets held by the rich, wealth inequality has increased even more sharply than income inequality.

It is common among the wealthy elite in Australia to have a multi-million dollar home, several investment properties, and a large portfolio of shares, bonds and other assets.

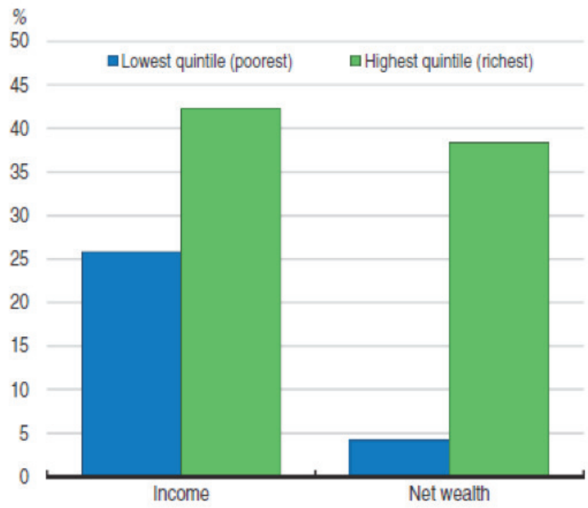
At the other end of the income spectrum many young Australian's are struggling to pay rent and many have been forced to move back in with their parents. They have very little chance of getting into the housing market.

Wealth and income inequality are related. The distribution of income has implications for the distribution of wealth and vice versa. High incomes enable the accumulation of large wealth holdings on the one hand, while large wealth holdings generate high incomes[1].

The graph below shows how the inequality of wealth is much more dramatic.

For the richest and poorest 20 per cent of the population between 2004 and 2014, both groups had an increase in their real incomes during the decade, but the incomes of the rich group rose by almost double that of the poor group. The real net wealth of the rich group jumps by around 38% while that of the poor group increased by only around 4%. The gap between the "haves" and "have-nots" become a great chasm in this decade.

Real Increase of household income and wealth 2004 – 14



Source: OECD Economic Survey Australia 2017

The disparity in wealth is apparent when we see that the top ten richest Australians (according to the 20017 Financial Review Rich List) have over $77 billion dollars between them.

1 The Australia Institute 'Income and Wealth Inequality in Australia' David Richardson and Richard Dennis

Top ten richest Australians

	Entity	Wealth
1	Anthony Pratt & Family	$12.59 Billion
2	Harry Triguboff	$11.43 Billion
3	Gina Rinehart	$10.40 Billion
4	Frank Lowy	$8.26 Billion
5	Ivan Glasenberg	$6.85 Billion
6	Andrew Forrest	$6.84 Billion
7	John Gandel	$6.05 Billion
8	Hui Wing Mau	$ 5.96 Billion
9	James Packer	$ 4.75 Billion
10	Stan Perron	$ 3.90 Billion

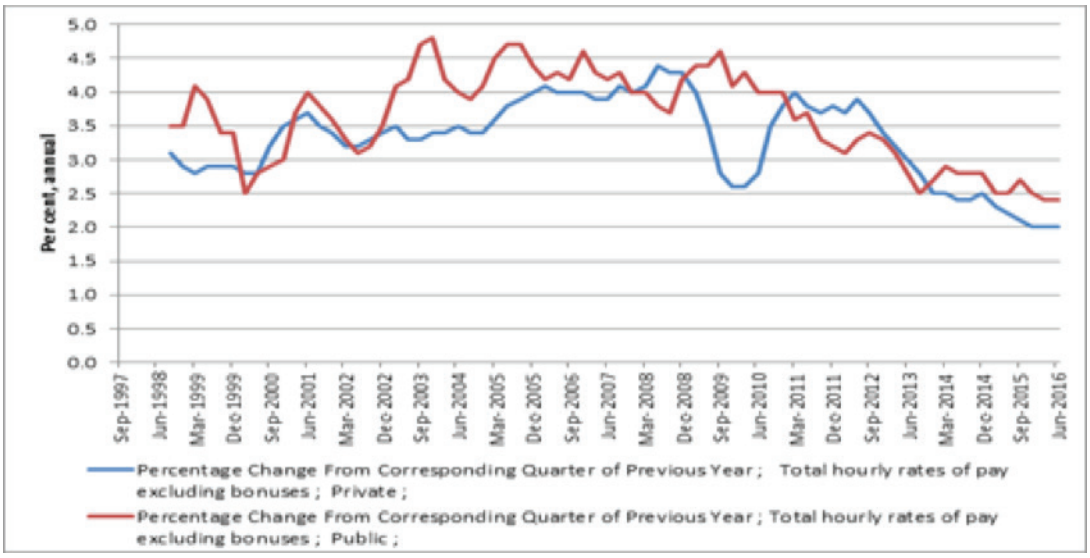
Source: Financial Review Rich List 2017

What's happening to wage growth?

Low wage growth is contributing to inequality. The wage price index (WPI) grew by a little less than 2 per cent over the year to June 2017.

The Governor of the Reserve Bank of Australia have argued that this is highly detrimental to the economic health of the nation.

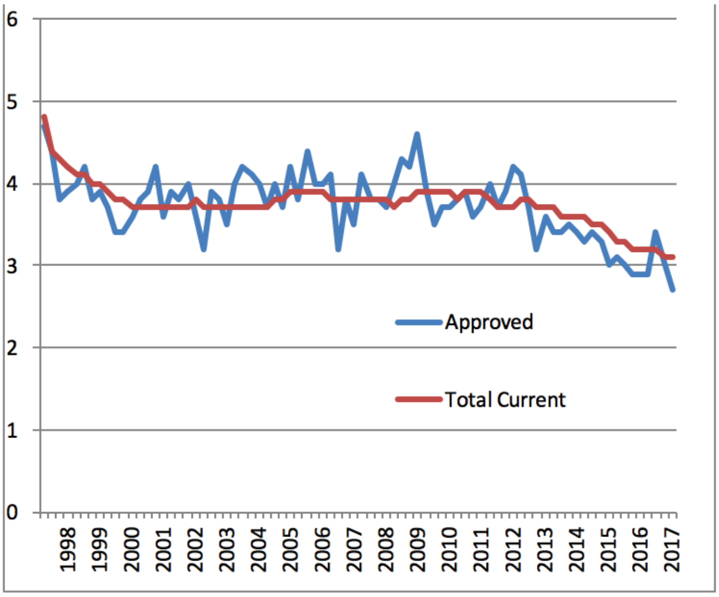
Record low wage growth



Source: ABS

Workers on enterprise agreements have also seen low wage growth. From December 2016 to March 2017 average wages growth for federal enterprise agreements dropped from 3.1 per cent to 2.7 per cent. Since September 2012, the average wage growth of EBAs agreed each quarter has been below the average for all current EBAs except for one quarter.

Average Annual Wage Growth on Enterprise Agreements



Source: Department of Employment data

The increase in the number of workers on minimum award rates has shot up in the last few years - from 15.2% in 2010 to 23.9% in 2016. This is a staggering increase in only six years.

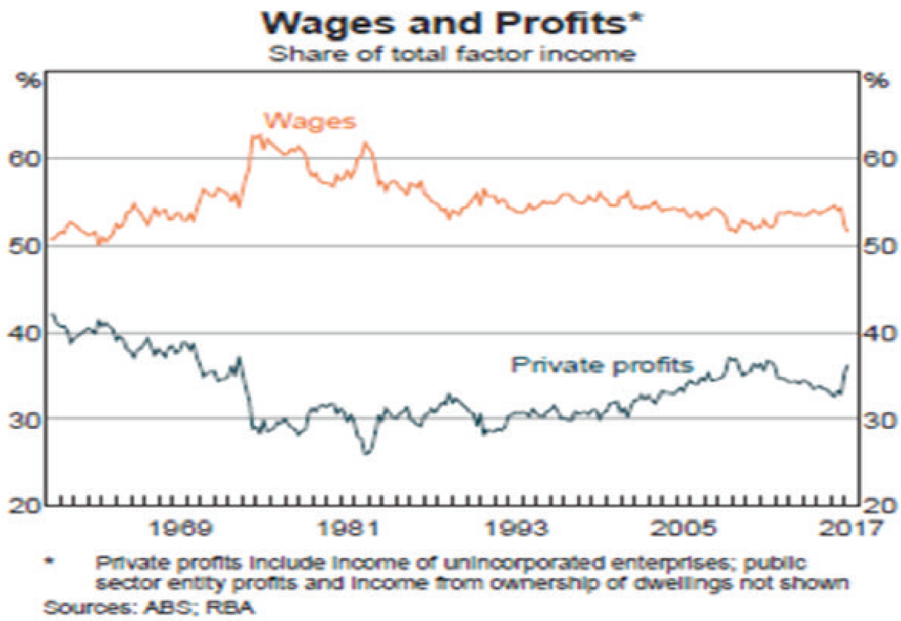
TABLE: Instrument providing rate of pay for all employees, 2010-2016

Instrument providing rate of pay	2010 (%)	2012 (%)	2014 (%)	2016 (%)
Award	15.2	16.1	18.8	23.9
Collective Agreement (Federally Registered)	31.5	32.0	32.6	30.2
Collective Agreement (State Registered)	11.9	9.8	8.6	6.2
Collective Agreement (Unregistered)	0.1	0.2	0.2	0.1
Individual Agreement (Registered and unregistered)	37.3	38.7	36.4	36.2
Owner/managers of incorporated enterprises	4.1	3.3	3.4	3.5

Source: ABS

The recent slow growth in wages, and the increasing number of workers on awards, has contributed to an alarming decline in the share of national income going to labour. In fact the share of national income that goes to labour is at its lowest level in over 50 years. Meanwhile the share of national income going into profits has increased dramatically since 1990. Even the Reserve Bank of Australia in their latest statement on monetary policy noted this disparity.

Labour's share of national Income is falling while profits are rising



Source: RBA Statement on Monetary Policy August 2017

The importance of trade unions in combating inequality

Inequality is rising and workers are doing it tough. But the interesting debate is not whether inequality is rising, but about the causes of rising income inequality and the appropriate policy responses. There is an international debate raging at the moment on the most important drivers of inequality. The conservative explanation for rising income inequality is technological change and innovation that places a premium on high skilled jobs and this explains why executives of large corporations and those running banks and other financial institutions deserve their very high rewards. According to this perspective the answer to excessive income inequality is increased investment in skills and training so that a wide section of society has access to these high paying jobs.

Technological change may indeed be one factor contributing to widening income inequality. This is why the ACTU is concerned about cuts in the Federal Budget for training and apprenticeship schemes. It is bizarre that on one hand conservatives attribute rising income inequality to technological change and then on the other hand choose to cut the funding for training and apprenticeships.

But technological change and re-training are not the sole cause and cure for income inequality. For a start it is not feasible to think that re-training workers leaving the resources sector or those currently engaged in the hospitality industry to be financial advisors and bankers is a catch-all solution. That said, greater investment in free education and training to give every young person in Australia the opportunity to fulfill their potential is highly desirable from both an economic and social perspective.

The causes of rising income inequality go beyond technological change. They include the weakening of labour institutions such as trade unions, the diminished role of the independent umpire in determining wages and the rapid expansion of precarious forms of work. Globalization is also a major factor underpinning widening income inequality. Globalization did nothing for blue collar workers in advanced economies trying to make a living by working in a factory or in a low skilled occupation that could be transferred to a country without trade unions, collective bargaining and labour rights.

When it comes to policy reforms to contain the expansion of income inequality the options are more narrow. The future of technological change and globalization are largely beyond the control of Australia. On these issues we are merely one player among many. The policy variable that is most within our national control is our national labour institutions and labour laws.
We must not continue the trend of the last 30 years and continue to weaken the protections provided by labour institutions and labour laws that were initially established because there is a massive power imbalance between the individual worker and the employer. The consequence of making that choice will be a further increase in income inequality, as entitlements like penalty rates are whittled away and eventually abolished, and the negative social and political consequences that we can see have been the experiences overseas.

Moving to a more even playing field

The trend of attacking the basic protections for workers has gone too far. We need policies that help move our workplaces towards a more even playing field. We should reverse the cuts to penalty rates, raise the minimum wage, change our industrial relations laws and look at ways we can help support trade unions. The priority areas for our industrial relations framework are:

1. More secure jobs by taking away the incentives to casualise work
2. Restoring a strong, fair and independent industrial umpire
3. Ensuring a level playing field for bargaining
4. Rebuilding a relevant, modern and strong safety net for all workers

Industrial laws have always existed with one primary purpose, that is to address the inherent power imbalance that exists between capital and labour. That imbalance has never been greater. Our laws need to change. Unions are the essential element to keeping inequality in check. It will not be enough to strengthen the support for individual workers if we do not also strengthen the support for their collective power–unions.

Decades of neo liberal policies centered on attacking workers have been central to rising inequality in Australia. Corporations have become too powerful and working people are missing out. So instead of moving further down the path that the USA has travelled we need to turn around and move in the direction of countries which combine rising living standards, fair wages, strong labour market institutions and decent societies.

Corporations should pay their fair share of tax

To address inequality and move to a more even playing field it is essential that corporations pay their fair share of tax. In the recent past Governments in Australia have not had the political courage or confidence in the Australian people to make the case for tax increases in particular areas. Consequently, our tax base remains less than optimal because we have allowed multinational companies and the very wealthy far too many opportunities to avoid contributing their fair share to the public purse.

We need public investments which serve the current and longer term needs of Australians by investing in quality private and public sector jobs; high quality education and research; transport, communications and renewable energy infrastructure and research and development that will enhance innovation, the use of new technologies, higher productivity and new export opportunities.

However, public investments of the scale required are not possible with our current tax base. Australia continues to have shares of tax revenue and public spending in GDP which are amongst the lowest in the OECD. This Government has lacked the political courage to tackle unproductive negative gearing and capital gains tax concessions which disproportionately benefit the wealthiest Australians. Rather than closing corporate tax loopholes, the government is proposing $65b worth of tax cuts to corporations. The Governments' own modelling shows this will only deliver modest benefits and even this will take many years to achieve. The failure to implement sensible tax reform is costing the Government billions of dollars in lost revenue. Revenue that is desperately required to fund the type of investments mentioned above.

The purpose of our tax system is to generate sufficient revenue to provide the services the community expects, invest in our future prosperity and support a fair society with decent living standards for all. The ACTU has identified billions of dollars in extra revenue from tax changes, including clamping down on multinational tax avoidance, introducing a "Buffet rule", which requires all Australians to pay a minimum tax contribution and a Petroleum Resource Rent tax with at least a 10% royalty. This tax revenue is critical to quality public services and investment in our future economic prosperity.

The Government should also reverse its planned $65 billion dollar corporate tax cuts. Despite the Government's spin, this will not benefit working people or the economy- they are simply handouts to big business. Cutting company tax rates will actually hurt workers by lowering their social wage. The corporate tax cuts will be paid for by cuts to family tax benefits, paid parental leave and essential services such as schools, hospitals and community services that working people rely on. Increased corporate welfare is not used to build new factories, update technology and create more jobs. Rather a tax funded jump in corporate profits will end up in the pockets of the corporate executives and the, all too often offshore, shareholders.

A more equal society is one in which businesses pay their way and contribute their fair share. The government wants to give a $65 billion dollar tax cut to large corporations despite the fact that neither the statutory rate (30%) nor the actual rate corporations pay (23%) is high internationally, for comparable countries[2].

Moreover, the current tax system allows many corporations to pay little or no tax. According to the Australian Tax Office (ATO) one in five of Australian owned private companies with over $100 million in revenue paid no tax in 2015[3]. Of the top 200 ASX listed companies, 57% use subsidiaries in tax havens to avoid paying tax in Australia and nearly one third have an average effective tax rate of 10% or less[4].

If just the ASX 200 companies paid the full rate of company tax, it is estimated that the budget would gain $8.4 billion per year[5]. It's evident that our tax system needs reform when we consider in 2014-15 the top ten companies that paid no tax all had combined total income of $38 billion.

2 Tax Justice Network 'Who pays for our Common Wealth? Tax practices of the ASX 200'

3 http://www.smh.com.au/federal-politics/political-news/one-in-five-large-private-companies-paid-no-tax-last-year-ato-20150923-gjsut6.html

4 Tax Justice Network 'Who pays for our Common Wealth? Tax practices of the ASX 200' page 3

5 Ibid page 3

Top 10 Tax Avoiding Companies in Australia[6]

Company	Total income	Taxable income	Tax Paid	Tax Lost
BHP BILLITON ALUMINIUM AUSTRALIA PTY LTD	**$4,955,930,348**	$495,380,720	**$0**	$148,614,216.00
BLUESCOPE STEEL LIMITED	**$4,975,881,786**	$353,907,424	**$0**	$106,172,227.20
CSL LIMITED	**$2,269,966,638**	$244,415,270	**$0**	$73,324,581.00
QANTAS AIRWAYS LTD	**$15,467,492,749**	$211,727,187	**$0**	$63,518,156.10
RACV (ROYAL AUTOMOBILE CLUB OF VICTORIA LTD)	**$643,791,395**	$190,400,285	**$0**	$57,120,085.50
WASHINGTON H. SOUL PATTINSON & CO LTD	**$367,065,948**	$177,893,568	**$0**	$53,368,070.40
BOEING AUSTRALIA HOLDINGS PTY LTD	**$1,104,498,300**	$147,951,932	**$0**	$44,385,579.60
TRANSURBAN HOLDINGS LTD	**$1,882,421,714**	$143,954,594	**$0**	$43,186,378.20
HOCHTIEF AUSTRALIA HOLDINGS LTD	**$253,754,573**	$130,916,350	**$0**	$39,274,905.00
CONOCOPHILLIPS AUSTRALIA GAS HOLDINGS PTY LTD	**$1,708,851,614**	$112,940,592	**$0**	$33,882,177.60

Source: ATO 2014-15

Supporting the Australian economy and its people

An important part of reducing inequality and rising living standards is being aware of the global economic circumstances and understanding what potential shocks could be on the horizon. The world we currently live in is vastly different to that which prevailed in the early 1980s when the recent wave of globalization was getting started. Between 1987 and 2007 global trade grew at a rate in excess of double the rate of growth of global GDP thanks to new economic power houses like China and other emerging economies[7]. This was a period of rapidly expanding foreign direct investment and global supply chains. It made sound economic sense in this period for Australia to integrate fully into the global economy and ride this wave that saw commodity prices boom and investment in our resources sector explode.

The situation in the global economy today is vastly different. In the last few years global trade growth has only just equaled global GDP growth and global growth has been slow by historical standards[8]. The expansion of global supply chains has been checked and foreign direct investment flows have been curtailed. More recently geopolitical uncertainty and tensions between key nations have mounted. Economic headlines are dominated by a potential for a trade war between China and the USA while the latest act of terrorism and political instability

6 Source: ATO 2014-15

7 IMF World Economic Outlook, October 2016 'Global Trade: What's behind the slowdown?

8 Ibid

in key nations saturate the daily news. This is not a global political or economic environment in which Australia should place all its economic eggs in the globalization basket.

In current circumstances it would be simple common sense to make Australia more self-reliant and resilient to global economic and political shocks. This will require bold new initiatives to build domestic demand, support Australian business, ensure that our workers have the incomes to buy more of the products and services produced within Australia and continue to expand our population.

Despite buckets of rhetoric about jobs and growth both the Abbott and Turnbull Governments have been plagued by policy paralysis. Sound bites and slogans do not deliver an economic transition. Australia made no progress over the last few years in adjusting to slower growth in emerging economies and more normal commodity prices. Now we have the added complications of heightened economic uncertainty in both the United States and Europe.

The failure of the Australian economy to transition from the mining boom to more broadly based and sustainable sources of growth is underlined by recent low growth rates. The fact that inflation has remained well below the Reserve Bank target rate also suggests that economic activity is lackluster and that the much talked about transition is a myth.

But working Australians did not need the recent national accounts or CPI figures to realize their part of the economy had gone into reverse gear. Real wages have stagnated for several years. Workers have not been receiving their fair share of productivity improvements for a long time while profits have soared. Headline figures about unemployment levels provide a misleading guide when trying to judge the strength of the labour market. In recent years much of the job growth has been casual or part-time with no security and no benefits. Making ends meet has been an uphill struggle for working class families for some time. As housing costs and other expenses continue to rise most working families now feel they are being asked to climb a mountain just to survive. Australia has forfeited its reputation for a fair go as income inequality has increased.

In these tense and turbulent times Australia needs to rely more on our own communities, businesses and multi-cultural population to provide economic security and good quality jobs. Our Government needs to support local endeavor with action not just empty words. This means boosting investment in infrastructure, providing incentives for research and development while making our health, education and community services world class. Public investments in these areas should have been implemented during the last four years when it was evident the resources boom was over and new domestic engines of economic growth were required. But it is not too late to take bold initiatives now.

The business community in Australia will respond positively to rising demand for the products and services they provide. In a world where we cannot be confident about the levels of international demand it makes sense to boost sales at home. The combination of a much needed pay rise for local workers and a buy Australia campaign is required to boost domestic demand and underpin economic growth going forward. Rising domestic demand, rather than cuts in company tax, are more certain to spur local investment and generate jobs.