



Inequality in Australia

An Economic, Social
& Political Disaster

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Summary

Extreme inequality – which is what we are now experiencing in Australia - slows economic growth, creates social havoc and undermines faith in our political institutions.

The Treasurer, Josh Frydenberg, recently noted that we have enjoyed a remarkable 27 years of uninterrupted economic growth and that the majority of Australians have never experienced a recession in their working lives.¹ In this major speech setting out the Conservative economic platform for the upcoming Federal election, the Member for Kooyong failed to mention that the vast wealth generated over the last three decades has decisively gone into the hands of the privileged few, and not the many. While some brag about the absence of recessions in the “lucky country” Australian workers have been experiencing anemic wages growth, the slowest of any sustained period since World War II ². That is a terrible indictment of the Morrison government. The fact is Australia did a better job of providing “a fair go for all” for most of our post war history than we have managed to achieve in recent years, even though profits have sky rocketed and growth has been steady.

Over the last 27 years labour productivity has increased dramatically and every Australian has contributed to that achievement. Yet only the powerful elite in the banks, insurance companies, big business and multinationals have significantly benefited from this additional wealth. Profits, executive salaries and bonuses have soared while average real wage growth has remained glacial. Consequently, workers have been trying to stretch a static pay packet to cover rising energy bills, childcare costs, medical expenses and other necessities of life. The battle to make-ends-meet has become an ongoing nightmare for most working families. Living costs have outstripped household incomes over the past three years as weak wage growth delivered the biggest fall in living standards for more than 30 years³

In his speech to the Sydney Institute on the 22nd of January, the Treasurer explained in great detail the Coalitions’ plans to transform Australia from the already very unfair income distribution that exists today into a nation with significantly worse levels of income and wealth inequality. Many of the policies he outlined have a remarkable similarity to those pursued by President Trump in America over the last two years. Policies that have exacerbated inequality, caused social deprivation and shaken democracy.

The main focus of the Coalition agenda is on personal income tax cuts for the very wealthy and businesses while promising further attacks on those requiring welfare, the trade union movement and the ability of workers to get a fair wage. In his speech Frydenberg spoke about “class warfare” and his agenda made it clear that the Coalition has its policy “guns” sharply focused on those in the middle and lower parts of the income distribution while cutting the taxes of the wealthy and providing more free rides for the elite.

¹ Josh Frydenburg, Speech to Sydney Institute, 22 January 2019.

² Andrew Stewart, Jim Stanford and Tess Hardy ‘The Wages Crisis in Australia’, University of Adelaide, p 6, 2019.

³ New analysis from Associate Professor Ben Phillips, Australian National University, using ABS Disposable Household income data from the National Accounts, CPI and population growth, 2019.

The approach of the Treasurer is sharply at odds with the stance taken by the Governor of the Reserve Bank of Australia (RBA). The RBA is an independent institution that is responsible for ensuring sound money and macroeconomic stability. Governor Phillip Lowe has argued on many occasions over the last year that wage growth is too low to fulfill the objectives of the RBA.⁴ He appreciates that stagnate real wages depress demand and thus represents a fundamental problem for preserving robust levels of economic growth in the current global context.

The Abbot, Turnbull and Morrison Government has tried to deny that inequality is a problem and tried to divert attention from the low wage crises. For example, in late 2018 the current Treasurer argued that the answer to Australia's economic and social problems was "not to redistribute the pie but to grow the pie".⁵ This simplistic proposition puts the Government directly at odds with the evidence and recommendations of the most respected yet conservative international economic institutions. In the recent past the IMF, World Bank and the OECD have all produced hard evidence demonstrating that high inequality depresses economic growth. Excessive levels of wealth and income inequality weakens the ability of low income groups to buy goods and services, discourages entrepreneurs from investing, reduces the incentive for productivity enhancing technological change, slows economic growth and destroys job. If you really want to "grow the pie" it is important to ensure that everyone is getting a fair slice.

Conservative politicians also try to dismiss concerns about inequality by claiming it is an inevitable global trend. It is true that for the last thirty years income and wealth inequality has been increasing in a majority of OECD countries. But the pace of change has varied significantly from country to country. Common explanations for rising inequality include technological change and globalisation which have impacted all advanced economies. The fact that inequality varies significantly from country to country means that other factors have also been at play. The most important of which concern government policy on labour market institutions, social expenditure and taxation. Some countries have used policies in these domains to mitigate the effects of globalisation and technological change on inequality, while others have exacerbated gaps between rich and poor by simultaneously reducing taxes on the rich and public expenditure on welfare and services that support to middle and low income earners. The countries with the highest levels of inequality have also weakened support for trade unions, collective bargaining and minimum wages.

Scott Morrison says, "if you have a go, you will get a go". The truth is that working people have been "having a go" for decades and building the wealth of our nation. But they have not shared sufficiently in the rewards that stem from this increased productivity. For the last 30 years these rewards have been monopolised by a small elite of wealthy and powerful people. These trends are getting worse not better. In just one year, between 2016 and 2017, the number of Australian

⁴ The RBA has formal annual inflation target of between 2 % and 3 %. In 2018 the inflation rate (as measured by the CPI) was just 1.8%.

⁵ Eryk Bagshaw & David Crowe '*Treasurer Josh Frydenberg challenges Labor on inequality, lays out new economic focus*' Sydney Morning Herald, 15 September 2018 <https://www.smh.com.au/politics/federal/treasurer-josh-frydenberg-challenges-labor-on-inequality-lays-out-new-economic-focus-20180913-p503hg.html>

billionaires increased by over 20% (from 34 to 43)⁶. It is this group, and their multi-millionaire friends who fall slightly short of the billionaire category, that exert excessive political influence in our country through their ability to control parts of the media and fund lobby groups. This is one reason why public confidence in our political system and other key institutions is being undermined.

If we are to restore faith in democracy and our political intuitions it is imperative to demonstrate that after years of consistent economic growth every Australian should be better off. Unfortunately, that has not been the case. In the last three years we have seen living standards fall for working families while there has been a dramatic increase in the wealth of billionaires⁷. It is not the “politics of envy” to seek a fair distribution of the benefits derived from rising productivity.

To maintain robust economic growth and ensure that all Australians prosper from rising productivity the ACTU is recommending policy reform in the following areas:

- Ensuring that real wages rise in line with national productivity improvements through the introduction of a new Living Wage, tackling insecure work, restoring penalty rates for 700,000 low paid workers, raising public sector wages and reform the collective bargaining system so it can deliver rising living standards;
- Making sure everyone pays their fair share of tax including corporations and the wealthiest members of our society. This includes reforms to capital gains, negative gearing and family trusts;
- Lifting the very poorest Australians out of dire poverty including through an increase in Newstart and an increase in the aged pension for those without adequate superannuation;
- Increased expenditure on health and education;
- A comprehensive Jobs Plan to reduce underemployment and unemployment; and,
- Measures to tackle excessive corporate power. The Banking Royal Commission has shown the extent of corporate excess and law breaking. Australia is also littered by firms with oligopoly power in certain sectors. Stronger competition policy is required to ensure people are not being ripped off by excessive prices.

Boosting the wages of the low paid and middle class makes sound economic sense. In a time of international economic uncertainty boosting domestic consumption by lower income groups is desirable. It will provide greater certainty for domestic producers and help lift business investment out of its recent trough. Balanced growth of this nature will ensure that employment growth remains strong. The combination of these political, social and economic achievements will be reflected in a larger and reinvigorated middle class. The polarisation of the last few

⁶ Billionaires Report 2018: New visionaries and the Chinese Century, Summary table, slide 17, UBS / PwC October 26, 2018.

⁷ New analysis on falling living standards from Associate Professor Ben Phillips, Australian National University, using ABS Disposable Household income data from the National Accounts, CPI and population growth, 2019.

⁸ Oxfam *'The Inequality that Divides Us'* Australian Inequality Fact Sheet January 2019 states last year 'collective billionaire wealth increased by a massive \$36 billion to \$160 billion in total. This is equivalent to an increase of \$100 million a day. The Australian billionaire wealth increase of \$36 billion last year is enough to fund about half of the Australian Government's total health budget for the 2018-19 financial year'.

decades can be reversed. A more equal Australia will be one that is more harmonious. It will help slow, and eventually eradicate, recent trend towards extremist politics. A more equal and inclusive society will help mitigate a wide range of social problems. It will help restore social mobility and once again allow Australians to believe they live in a country where everyone gets a “fair go”.

The economic context: global prospects, heightened uncertainty and darkening skies

Globally most respected economic institutions believe the risk of recession has increased and some pundits fear “winter is coming”.⁹ It is now evident that economic growth in China, the engine of the global economy for the last two decades, is slowing rapidly. Stimulus measures by the Chinese authorities will exacerbate already excessive debt levels and add to vulnerabilities. Recent gyrations in financial markets and the inversion of bonds yields in the other main global economic power, the USA, indicate that the current economic up-swing has reached a conclusion. A soft-landing may be possible but many well-placed observers believe downside risks have increased.¹⁰ The latest data from both Japan and Germany point to economic contractions and the probability of a disorderly Brexit remains high. Emerging and developing countries also confront a deteriorating economic outlook as commodity prices decline, the cost of borrowing rises sharply and, despite recent rhetoric from Washington and Beijing, international trade tensions remain intense.¹¹ Economic fear is mounting and because of very high debt levels and limited scope for expansive monetary policy governments have limited tools in responding to these challenges.

The geopolitical environment compounds the economic risks. The two largest Anglo-Saxon countries confront their deepest political divisions in a century. Other western countries that might be expected to shoulder the burden of leadership for liberal, social and democratic principles - such as France - are increasingly paralysed by an increasingly violent movement protesting against excessive income inequality. Germany and several north European countries also confront profound national political challenges that constrain their ability to act decisively and preserve global political stability. Meanwhile the number of armed conflicts and the list of politically extreme national leaders in other parts of the world continues to grow. Because of these political constraints there are realistic concerns that it would be impossible to “mount a coordinated and effective response to a severe global economic slowdown”.¹²

At home we face a national election. It is fair to ask what is the best political and economic strategy to steer Australia through these choppy global waters and maximise our own economic growth, shared prosperity and political stability in the face of these foreign challenges. A

⁹ International Monetary Fund, World Economic Outlook, October 2018 and discussions at the IMF- World Bank Annual meetings in Bali, October 2018.

¹⁰ Lawrence Summers, “We must prepare now for the likelihood of a recession”, Financial Times, January 6, 2019.

¹¹ World Bank, Global Economic Prospects “Darkening Skies”, 8 January 2019.

¹² Martin Wolf, “why the world economy feels so fragile”, Financial Times, 9 January 2019.

sensible response might start by considering policy changes that support greater economic self-reliance and slightly more political independence than has been required over the last 30 or 40 years, while maintaining existing alliances and cooperation with regional partners.

This paper argues that these global conditions enhance the desirability of policies designed to reduce income and wealth inequality. However we can confidently predict that conservative politicians will assert now is not the time to boost wages and increase public expenditure and rather the focus should remain on tax cuts for corporations and the wealthy. In fact, as noted above Josh Frydenberg foreshadowed these arguments when he said “now is not the time to redistribute the pie but to grow the pie”. These arguments hinge on the assertion that high inequality is required to boost investment, growth and jobs.

This is simplistic nonsense. The fact is that by sharing economic wealth more fairly we will accelerate economic growth. This is particularly true at a time when international demand is declining and on the domestic front people are starting to cut spending and investment.¹³ A reduction in income and wealth inequality in Australia will maximise our economic growth potential over the next few years thereby providing scope to maintain high profit levels while ensuring better living standards for lower and middle income earners. As we will see below the ACTU perspective on the relationship between inequality and growth is shared by the International Monetary Fund (IMF), World Bank, the OECD and even some of the richest capitalists in the world.

From a political perspective the current global environment means we should be placing a premium on promoting shared prosperity, cohesive societies and greater integration. This is not the time to mimic those who want to divide their own nations and play to their so-called “base” by exacerbating inequality, attacking immigrants and denying the urgent need for pragmatic climate change and energy policies.

This paper will also argue that a wide range of policy tools should be used to reduce inequality and promote cohesion. By using the widest range of economic instruments the weight placed on any one particular policy will remain modest. We thus need to use wage, tax and public expenditure policies sensibly and pragmatically to reduce inequality and boost growth. This includes tackling the primary income distribution by introducing a living wage, restoring penalty rates, ensuring that casual and precarious workers get a decent income and reforming our wage fixing and industrial relations system.

Our tax and welfare systems also require slight adjustments to reflect best practice in countries that have achieved high and sustained economic growth without massive increases in inequality. A taxation system that is mildly progressive, treats all sources of income in a consistent manner and is fully enforced are rudimentary and fair principles that need to be applied. We also need to better utilise public policies and government revenue to provide the best levels of education, health and social services possible, because these policies have a profound impact on inequality, social inclusion and political stability. Through marginal but simultaneous adjustments to policies on all these fronts it will be possible to maintain a balanced and

¹³ ABS Cat 8501.0 Retail Trade, Australia, December 2018

reasonably strong domestic economy as global growth slows and geopolitical uncertainty increases.

Let's not go down the American road: As we approach a national election politicians need to outline their vision to tackle rising inequality in Australia

A national election must be held at some point in the next few months and unofficial campaigning has been underway for some time. The Australian people have a right to expect that between now and election day all political parties will set out their vision for the country and explain the policies they will pursue to translate promises into reality. As part of this process all major political parties should be required to unambiguously declare their views, and proposed policies, regarding: income and wealth distribution; wage growth; penalty rates and support for workers in precarious jobs; ways to promote a balance of power at the workplace that is conducive to higher productivity and greater equity; public financial support for health, education and social services; and other issues that impact on social cohesion and a fair society.

Many politicians will dodge these issues over the next few months. Alternatively they will attempt to move the “goalposts” and reinterpret the issues in ways that suit their own agenda. When politicians fail to give comprehensive and forthright responses to critical policy questions one must look at their past policy record and the signals they have sent through their statements and campaign stunts.

Prime Minister Morrison began his unofficial early election campaign back in November 2018. At that time he began wearing an American styled baseball cap and pretended to tour Queensland on a bus while campaigning about his so-called achievements. In his words and deeds, including those at the G20 meeting late last year in Argentina, our new Prime Minister made clear his admiration for President Trump. More importantly, in the latter months of 2018 he proposed replicating some of the most controversial and dangerous foreign policy decisions made by the current American Administration.

Morrison has also expressed support for a range of domestic policies that replicate the Trump agenda. This is particularly true in respect of: regressive tax policies that will benefit millionaires and multinationals; the rejection of any sensible climate change and energy policies; using immigration to create fear and panic; and acceptance or support of discrimination on various grounds including gender and sexual orientation. Other key priorities of the current Trump Administration that are likely to appeal to a Morrison Government include: dismantling legislation that had made access to health services affordable for the poor and low income earners; the introduction of a pay freeze for the public sector employees; continued rejection of any increase in the Federal minimum wage; and, the elimination or reduction in government programs that help mitigate the social consequences of massive income and wealth inequality.

The United States has levels of income and wealth inequality that far exceed other advanced economies. For example, the top 1% of the income distribution in the USA receive 20 % of total

income for the entire country and this is double the OECD average.¹⁴ The distribution of wealth is far more skewed. The top 1% of the distribution in the USA account for over 40 % of all wealth compared to an OECD average of less than 20%.¹⁵ Inequality of this magnitude is a major factor contributing to endemic social and health problems among people in lower and middle income brackets as well as high levels of crime and violence. Today the USA is a divided and divisive nation.

This is not a record anyone should want to emulate in Australia. However, the current Australian Government is not just copying American policies it is also utilising political tactics drawn directly from the Trump play-book. The tactics being utilised include exaggerating achievements, diverting public attention from critical issues and attempts at obfuscation. It is also evident that a dysfunctional approach to governing our nation has replaced evidence based policy development, careful consultation with experts and detailed Cabinet deliberations. Instead “making-it-up-on-the-run” and “fudging the facts” is the new norm in Canberra. The parallels with a White House that has been characterised by misinformation, bitter infighting, regular policy reversals and complete confusion are stark.

Former leader of the Liberal Party, John Hewson warned about the “Trumpification” of our politics and expressed disagreement with some of the extreme positions our national Government has recently adopted¹⁶. Former Prime Minister Turnbull has been even more forthright about the dangers that the extreme right of his own Party represent for the nation. The long list of former Liberal Party members lining up to run as independents in the forthcoming election underlines these concerns about the extreme right-wing agenda of the current Government.

It is imperative that we do not go any further down this disastrous route. On the domestic policy front Australia has nothing to gain, but a lot to lose, by copying the current United States Administration in respect of: tax policy; health, education and social policy; wages policy; and environmental policies.

While, as a nation, we have a tendency to closely observe trends from the wider world in fields as diverse as culture, fashion, politics and public policy and sometimes try to replicate these developments, this is normally implemented in a judicious manner. Most of the time we borrow and adapt the best, not the worst, of global trends. In the current global environment this should entail broadening our perspective well beyond the USA and carefully considering policies that other countries have used to promote lower levels of inequality, increased fairness and inclusion while maintaining robust levels of economic growth and strong labour markets.

¹⁴ OECD, “The Framework for policy action on inclusive growth”, May 2018, Figure 1.8, page 50.

¹⁵ Ibid, Figure 1,17, page 52.

¹⁶ John Hewson “Beware the Trumpification of our politics”, SMH, November 7, 2018.

International economic institutions, famous academics and even business leaders support measures to reduce inequality

The OECD recently stated that:

“The financial crisis revealed the significant limits of existing economic growth models, including the assumption that growing the pie is enough to generate improvements in well-being for all.”¹⁷

The IMF, the World Bank and OECD have all advocated reducing inequality in order to promote faster and sustainable economic growth. There is a consensus among these institutions that a stronger focus on redistribution will enhance growth, not diminish it. For example the IMF have stated that:

“While some inequality is inevitable in a market based economic system, excessive inequality can erode social cohesion, lead to political polarization, and ultimately lower economic growth”¹⁸

The OECD met at Ministerial Level at the end of May 2018. The Australian Government was represented by Steven Ciobo who at that time was our Minister for Trade, Tourism and Investment. At that meeting Minister Ciobo and his colleagues in the Ministerial Council endorsed the “OECD Framework for Policy Action on Inclusive Growth”. This document states:

“Contrary to those at the top, households at the bottom of the income distribution have experienced stagnant wages and low income growth.....OECD work on inequalities and growth show that the accumulation of disadvantages for certain income groups can have detrimental effects on the prosperity and well-being of all. Large degrees of inequality weigh on the potential for future economic and productivity growth.”¹⁹

The OECD has undertaken some important quantitative analysis and demonstrated that increases in inequality have a significant negative impact on economic growth after a time lag. The OECD estimated that the rise in inequality over the 20 year period 1985-2005 in 19 countries knocked 4.7 percentage points off cumulative growth in these same countries between 1990 and 2010.²⁰

¹⁷ OECD, “The Framework for policy action on inclusive growth”, May 2018, p 10 para 16.

¹⁸ IMF “Fiscal Monitor”, October 2017.

¹⁹ OECD, Meeting of the Council at Ministerial Level, 30-31 May 2018, “The Framework For Policy Action On Inclusive Growth”, C/MIN (2018) 5, p7. (<https://www.oecd.org/mcm/documents/C-MIN-2018-5-EN.pdf>).

See also the Statement of the Chair of the OECD Ministerial Council 2018 which notes that the Ministerial Council “welcomed the OECD new Framework for Policy Action on Inclusive Growth and its application through relevant cross-disciplinary analysis and specific studies in interested countries”. (<https://www.oecd.org/mcm/documents/Statement-French-Chair-OECD-MCM-2018.pdf>).

²⁰ OECD, “In it together: Why less inequality benefits all”, 2015.

It is not just the key international economic institutions that believe there is a positive relationship between reduced inequality and growth. Even some of the most famous and wealthy global business leaders have recently conceded that income inequality has reached levels that are undesirable and need to be reversed. For example, Jamie Diamond, the Chairman and CEO of JPMorgan Chase recently wrote that:

“People are disconnected and not benefiting from economic growth. Inequality has grown. Wages are not rising enough.....Business, government and community leaders have a responsibility to help those left behind.”²¹

Many academic economists also strongly disagree with our Treasurer on inequality. Joseph Stiglitz was in Australia late last year to receive the Sydney Peace Prize. Professor Stiglitz won the Nobel Prize for economics and is a former Chief Economist of the World Bank. He had a simple message for Australia: do not follow the American model. He has argued that:

‘....far from being either necessary or good for economic growth, excessive inequality tends to lead to weaker economic performance’²²

As the IMF concluded:

“.....if the income share of the top 20 percent (the rich) increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down. In contrast, an increase in the income share of the bottom 20 percent (the poor) is associated with higher GDP growth. The poor and the middle class matter the most for growth via a number of interrelated economic, social, and political channels”²³

One does not require a Nobel Prize in economics or a career in the IMF to understand that rising inequality will depress, not strengthen, economic growth. There are several channels through which this relationship works, some operating in the short term and others that may take decades to be fully felt.

First, in the short term, poorer families need to spend all their income to survive and much of their expenditure goes towards buying locally produced services and goods, like rent, utilities and food. This boosts demand and creates income for other people in the community who in turn spend their incomes. By comparison those at the top end of the income spectrum use a much bigger proportion of their incomes to either buy expensive foreign made luxury goods or they invest in properties, shares and other assets. Consequently particularly at a time when foreign demand and international trade is going to be heavily constrained it makes sense for Australia to become more self-reliant and boost domestic consumption. Redistribution of income from the very rich to the very poor will contribute to this objective.

²¹ Jamie Dimon, “Business must do more to help those who have been left behind”, Financial Times, 5 November 2018.

²² Stiglitz J “Standard Economics Is Wrong. Inequality and Unearned Income Kills the Economy: The rules of the game can be changed to reverse inequality” <http://economics.com/joseph-stiglitz-inequality-uneared-income/>

²³ IMF Discussion Note ‘Causes and Consequences of Income Inequality: A Global Perspective’ 2015.

Second, rising inequality has had a profound impact on the financial decisions of households. At the bottom of the income distribution low wage growth has been associated with a significant rise in debt-to-assets ratios. Rising mortgages and consumer loans which have not been sufficiently secured mean that the probability of default has increased and the risk of financial market instability is heightened. Meanwhile among wealthy households there was a time when savings were recycled through the financial system to provide capital for entrepreneurs wishing to build factories, open new ventures, create innovative technologies and generate jobs. This is far less evident in the economy today.

A much higher proportion of wealth now goes into unproductive financial transactions rather than the real economy. For example, in 1998 over 48% of business investment in the USA went into new structures like factories and retail outlets plus industrial equipment. In 2018 the comparable figure was below 29%.²⁴ Similar trends are evident in other advanced economies like Australia. In recent year wealth was increasingly invested in property and shares that merely inflate housing and asset prices without generating new production or good jobs. Increasingly investments by the wealthy fund share-buy-back schemes that push up equity prices but do nothing to increase private infrastructure, build factories or expand the number of retail outlets. Five multinational companies: Apple, Alphabet, Cisco, Microsoft and Oracle devoted a massive 115 billion dollars to buying back their own stock in the last year.²⁵ While the business investment that still goes towards tangible assets is increasingly directed into labour saving intellectual property and technology. Thus rising wealth among the elite increasingly fails to expand the productive base of the economy and encourages “bubbles” in the markets for shares, property and other equities. This enhances the risk of a financial crisis.

These developments explain why rising inequality over the medium to longer term has been closely associated with greater economic instability and shorter growth spells. Increased inequality, and its associated focus on inefficient financial transactions, tend to create economic cycles that have a more intense “boom-bust” character. The end result of these gyrations has been lower growth over the medium to longer term in most OECD countries.

Third, there are other longer term channels through which inequality weakens growth. For example, low wages and rising poverty reduce the scope parents have to invest in the education and development of their children. Over time this has a negative impact on our human capital resources and productivity performance, which in turn means slower economic growth. Rising inequality also undermines trust in governments and other institutions and has led to the backlash against globalization and open international trade.

There are multiple sound economic reasons why we should be adopting policies to reduce inequality in addition to the very obvious social and political reasons for fostering cohesion rather than division. The notion that we should just focus on “growing the pie”, and forget about distributional issues, is complete economic nonsense.

²⁴ Rana Foroohar “Capital expenditure boom falls short”, Financial times, 26 November 2018.

²⁵ Ibid.

What does the evidence show about inequality in Australia?

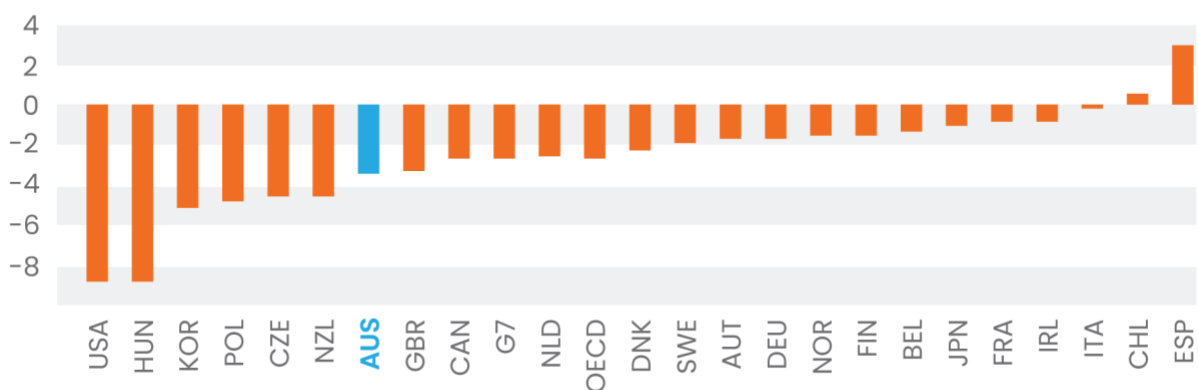
There are a range of concepts and many statistical indicators that can be used to gauge inequality of income and wealth. Most of the literature and policy debates focus on inequality in: gross wages and salaries derived from employment; gross income regardless of source; net or disposable income which takes into account taxes and government cash transfers; net income adjusted to reflect the impact on household consumption of government services like education and health that are provide free or are subsidised; wealth inequality; and finally the inequality between the share of national out going to labour in the form of wages and salaries and that going to capital through profits.

To get an accurate and comprehensive picture of how a country is managing inequality one needs to review this lengthy list of indicators and review long term trends.

Wage inequality

In recent years average real wage growth in Australia has stalled and most workers have not received the benefits they should have enjoyed from productivity improvements. However this wage crisis has not been uniform across the labour market. In general workers on high wages have enjoyed substantially greater percentage increases in their real wages compared to those in the middle and bottom of the wage spectrum. This is reflected in a decoupling between median wage growth, that is the growth in wages applying to the person at the mid-point of the wage spectrum and average wage growth. Consequently wage inequality has expanded significantly. Over the period 1995 to 2012 the ratio of median to average wages declined by over 3 percentage points. As can be seen from Figure 1 this divergence in wage growth between low and medium paid workers, on the one hand, and highly paid workers, on the other, has been particularly significant in Australia compared to other advanced economies. The decoupling effect in Australia significantly exceeds the OECD average and is much greater than that experienced in all west European countries for which the OECD has data.

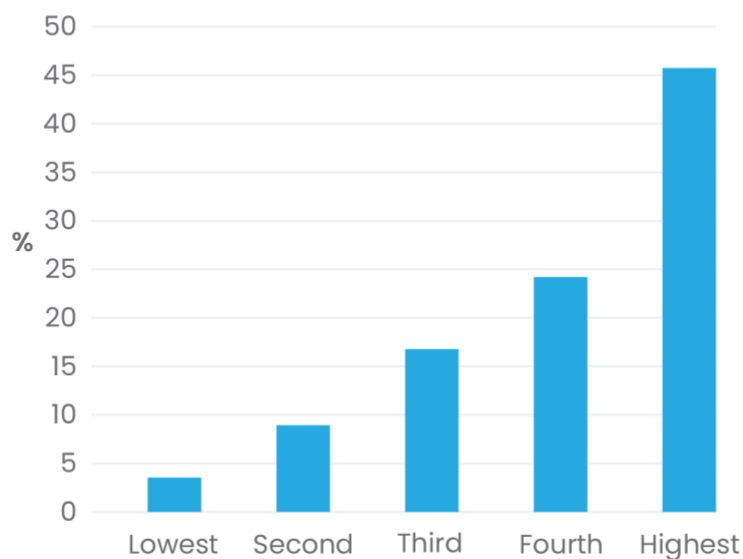
Figure 1: The ratio of median to average wages has declined OECD countries 1995–2013.



Source: OECD 'The Framework for Policy Action on Inclusive Growth' 2018

In late November 2018 the Australian Bureau of Statistics (ABS) released National Accounts based data that covers trends in the distribution of household income, consumption and wealth over the period 2003-04 to 2017-18.²⁶ Figure 2 presents data from this source concerning the proportion of total compensation paid to employees in 2017/18 across the income distribution. The bar at the far right of Figure 2 indicates that 46% of wages, salaries and employer contributions to superannuation went to the 20% of households who enjoy the highest incomes in Australia. At the other end of the spectrum (far left of Figure 2) the poorest 20% of households in the nation received just 3% of all wages, salaries and super contributions in the last financial year. The ratio of compensation received by the top 20 % compared to the bottom 20% is 16 to 1.

Figure 2: Compensation of Employees (COE), share of total compensation received by households in each quintile of the income distribution, 2017-18.



Source: ABS, Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003/04 to 2017/18, Chapter 2.

Income inequality

Virtually all families have some sources of market income beyond what they receive through work, albeit these amounts are usually very minor for those at the bottom end of the distribution. This additional pre-tax and transfer income might be derived from bank interest, dividends, rents, the profits of own account workers and a range of other sources. When we take into account income derived from all sources, including wages and salaries, the share of total income accruing to those at the top of the distribution increases. The new ABS data indicates that those in highest quintile (top 20%) of the income distribution receive nearly half of total “market” or “gross” income in Australia. To be precise this elite group accrued 47.5% of all pre-tax and transfer income in 2017/18.

²⁶ ABS Catalogue No 5204.0.55.011, 20 November 2018.

This is only 1.6 percentage points higher than the proportion of employee compensation accruing to those in the top one-fifth of the distribution. This would tend to suggest that the labour market is critical to the debate about inequality and that income gaps resulting from what happens at the workplace are highly significant in determining if our society is fair or not. The latest OECD Economic Survey of Australia confirms this outcome noting that: “Australia’s income inequality has risen primarily due to higher earnings inequality.”²⁷ The OECD have highlighted the expansion in part-time and other precarious forms of work as one factor contributing to the ongoing rise in wage inequality.

The tax and social security systems and public policies in areas like health and education also play a critical role in determining if we have an inclusive society but these mechanisms will only be able to achieve this objective if the wage gap between those at the top and bottom of the spectrum is reasonable. If we do not have a robust wage floor, and a wage fixing mechanism that ensures real wages increase in line with productivity improvements, the burden on the tax and welfare system to deliver a fair society will be excessive.

The data released by the ABS in late 2018 also shows that the proportion of total gross income going to the top 20% of the distribution has remained fairly constant for the last three years. Politicians and commentators who want to obfuscate and justify tax and welfare policies that will exacerbate inequality will no doubt highlight this outcome. They will assert that inequality has stopped increasing so there is nothing to worry about. However over a longer period it is evident that this top quintile has increased their share of the so-called “economic pie”. Their share of all gross income is now 2.4 percentage points higher than it was in 2003/04, which is the earliest year for which data is available from this source.

By comparison in 2017/18 those in the bottom quintile of the distribution accounted for a mere 3.6% of total income prior to taking into account taxes and government income transfers. This figure decreased from 4.1% in the previous year. On average lower income households endured a deterioration in their relative income position in the last year. Over the eight years for which data is available from this source the share of gross or market income going to the poorest 20% of Australian households has fluctuated between 3.3% and 4.1%. The ratio of gross income going to the richest 20 % of households compared to the poorest 20% of households exceeds 13 to 1 throughout this period.

While the income gaps described above are shocking and help explain the pervasive sense of unfairness in our society, it is longer term trends in inequality and the gaps between those at the very top and bottom of the spectrum that are most important from both an economic and fairness perspective. Figure 3 below shows the share of total income held by those in the top 1% of income distribution over the last 70 years. It is evident that between the 1950s and early 1980s the share of income accruing to this rich elite diminished, albeit with some short term fluctuations. In the mid-1980s this broad trend was reversed and the share of national income going to the top 1% has been on a sharp upward long term trend since that time.

The data used in Figure 3 is from the World Wealth and Income Database. This source shows that the share of total income held by the “top 1%” of the income distribution diminished to just

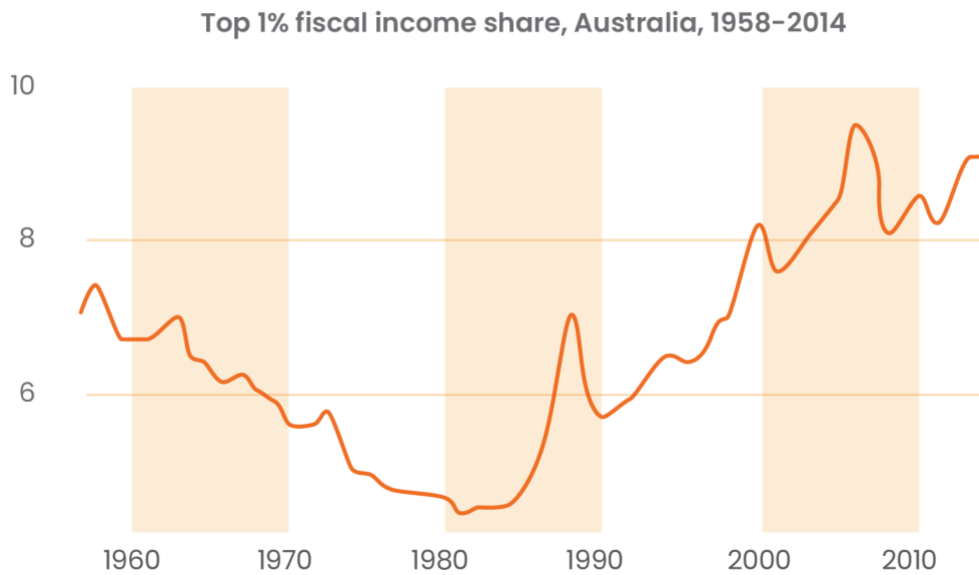
²⁷ OECD, Economic Surveys Australia, December 2018, p 74.

4.4% in 1981. But over the next three decades the proportion of total Australian income held by this small elite group had more than doubled, reaching 9.1% by 2014 (which is the latest data available from this source). Similar trends are evident if one considers a larger section of high income earners. The richest 10% of Australians managed to accrue 23.9% of all national income in 1978. By 2014 this group accounted for 31.9% of national income. Based on the most recent data from this source roughly one-third of all income is flowing to one-tenth of the population, whereas forty years ago this group controlled less than a quarter of total income

As can be seen from Figure 3 these trends are not constant over time and the share of income accruing to the richest 1% of the population has declined on occasions. For example, this happened following the global financial crisis in 2008 when asset prices fell dramatically for a short period before recovering and then moving to much higher peaks. Despite these short-run fluctuations the overall trend is clear: the very wealthy are enjoying a share of the “economic pie” that is at least equal to the biggest slice they have had in the last 70 years.

The Government has attempted to “move the goal posts” in the debate about inequality by focusing attention on short run changes in income shares or carefully selecting points in time to make comparisons. For example, they will focus on changes in the share of income belonging to the elite in 2008 and compare that with the latest data and claim there has been no change in inequality. Or, as mentioned above, they will assert that income inequality is not increasing any further because there have not been dramatic increases in the last few years. But as explained in the previous section it is the medium to longer term changes in income distribution that are important and are associated with major structural changes in the economy that retard economic growth. Over the last forty years the top decile of the distribution has increased their share of total income from less than a quarter to around one-third. This has become a fixed feature in the economic landscape of Australia. These changes have exacerbated instability and led to slower average economic growth rates by encouraging investment in financial assets rather than the real economy.

Figure 3: Increasing income inequality since the rise of neoliberal economic policies

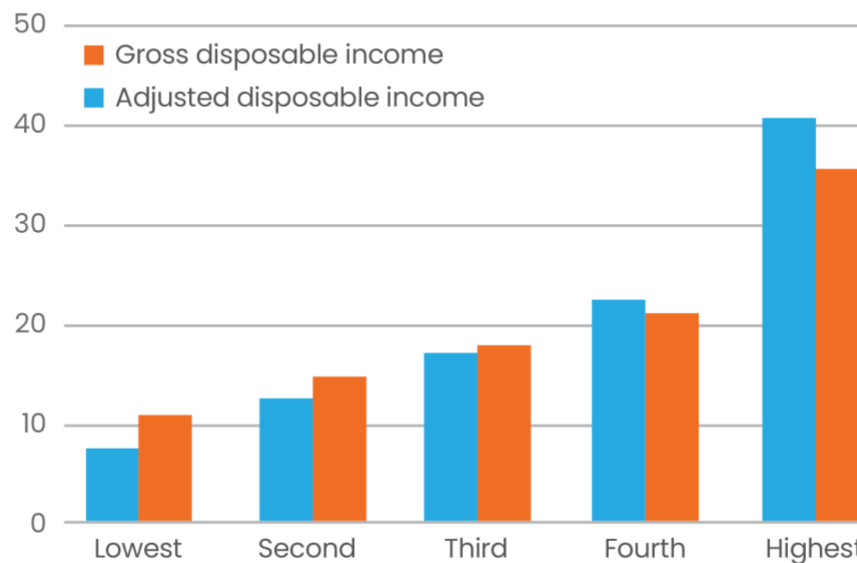


Source: World Wealth and Income Database

Net or disposable income inequality

Our tax and social security systems should help redistribute income and make Australia a more fair country. There is evidence that our public policies are helping to promote this objective but only up to a point, and by international standards our policies are not particularly progressive. Figure 4 presents data from the ABS that shows the distribution of total income between quintiles after taking into account the impact of taxes and cash transfers like the aged pension, Newstart and the family tax benefit (the blue bars). Figure 4 also adjusts the resulting disposable income data to take into account the impact of “in kind” public services like health and education on the welfare of households at different points in the distribution (the green bars).

Figure 4: Gross and Adjusted Disposable Income – Share of total, income quintiles, 2017–18



Source: ABS Cat 5204.0.55.011 - Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18

After taking into account taxes and cash transfers the proportion of total gross disposable income accruing to those in the top 20% of the distribution declines to 41% (down from 47.5% of gross national income) and the share going to those in the lowest quintile increases to 8% (up from 3.6% of gross national income).

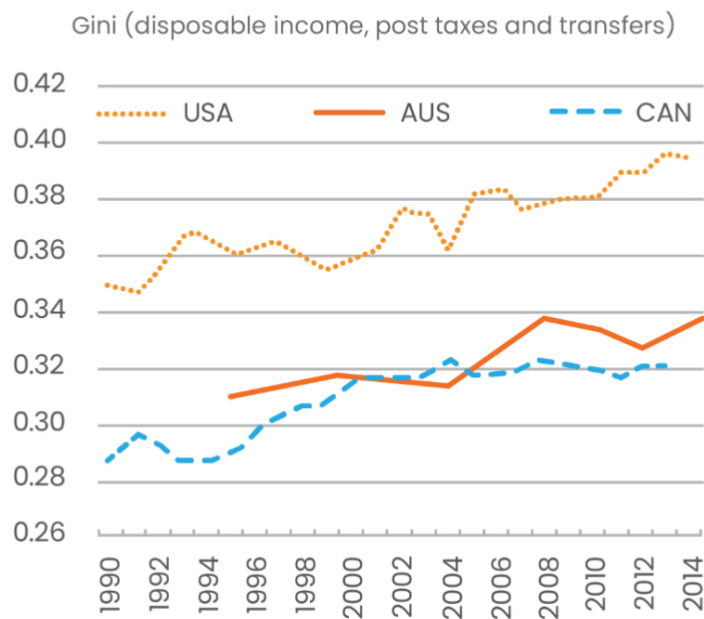
When the data on disposable incomes is then adjusted to take into account the expenditure that households at different points along the income distribution would need to spend on public services like education and health if these items were not provided by governments one gets another important indicator of inequality that the ABS has termed “adjusted disposable income” (the green bars in Figure 4). This brings the share of total income accruing to those in the top quintile down to 35% and boosts the share going to those in the lowest quintile up to 11%. A number of authors have reviewed this same data and underlined the critical importance of these government services in reducing the vast gaps in living standards between rich and poor in Australia.²⁸

Rather than just looking at what proportion of total income goes to the top 20% or 1% of the population, there are other statistical indicators that attempt to measure the dispersion of incomes across the entire population. The so-called Gini coefficient is one such indicator, with higher values indicating greater income inequality. Figure 5 depicts trends in the Gini indicator for disposable incomes in Australia, Canada and the USA over the last quarter of a century. This

²⁸ Ibid.

indicator takes into account both the so-called market incomes that people receive from wages, salaries and other sources plus the impact of taxes and transfers they might receive from their governments, but not the “in kind” impact of government services. In all three countries it is evident that short term fluctuations occur in the Gini coefficient but the medium to longer term trends are towards widening inequality. It is also evident that income inequality is significantly greater in the USA than in either Australia or Canada. It is clear that Canada and Australia had comparable levels of income inequality in the early to mid-2000s, but more recently Canada has done a far better job in preventing income inequality from increasing.

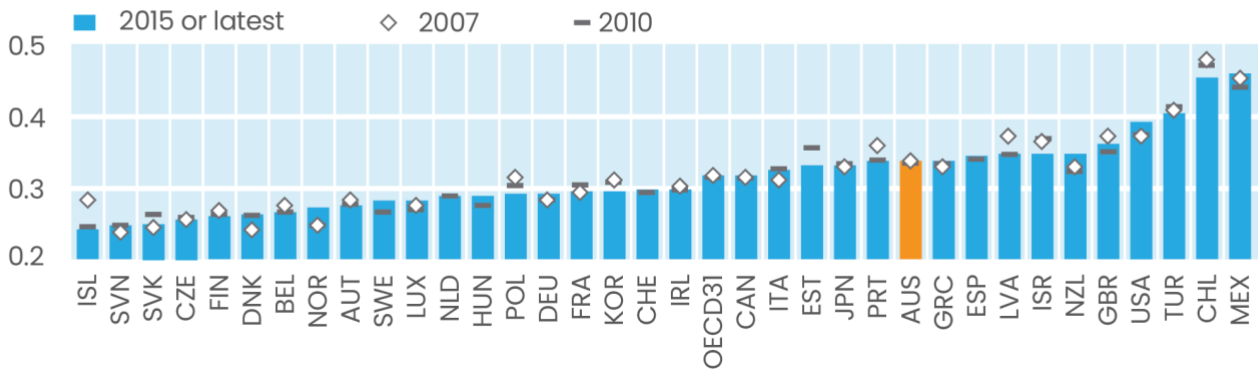
Figure 5: OECD says Inequality is rising in Australia



Source: OECD Economic Survey of Australia, March 2017

By OECD standards Canada does not have a particularly progressive income tax system or generous social security system. It should be disconcerting that Australia has failed to match the achievements of Canada since the early to mid-2000s. If we compare the income redistribution system in Australia with most west European countries it becomes apparent that our tax and social security systems are failing to provide the degree of support to low income groups that is required to generate an inclusive and fair society. Figure 6 shows the Gini coefficient of disposable income for a large number of OECD countries. The coefficient for Australia is significantly above the OECD average and also well above that applying in the vast majority of European countries. Canada is in line with the OECD average. In drawing comparisons between Australia and Canada we are not setting “the bar” terribly high.

Figure 6: Gini coefficient of disposable income
 Total population, OECD countries, 2016 or latest, 2010 and 2007

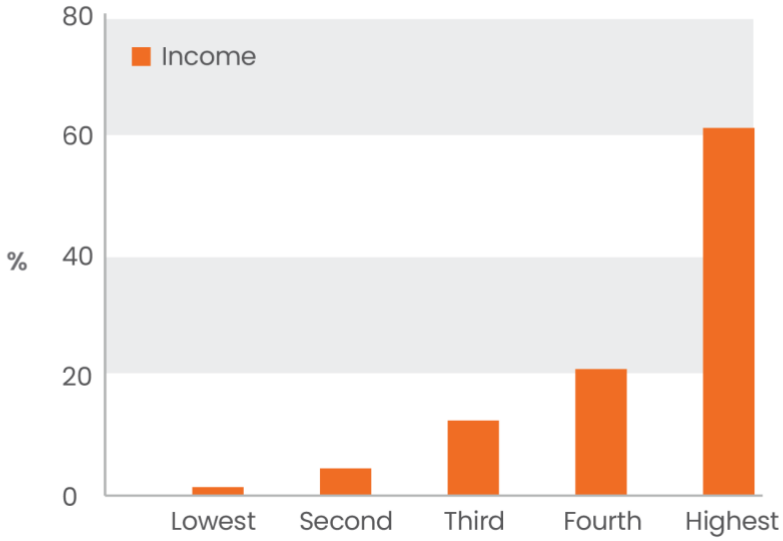


Source: OECD, "The Framework for policy action on inclusive growth", May 2018, p 51

Wealth inequality

Due to very rapid increases in the value of homes, investment properties, shares and other assets held by the rich, wealth inequality is significantly greater 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. The extremely wealthy may also store their assets in precious metals, antiques, paintings and similar forms that appreciate over time. Some of these assets may generate a regular flow of income which is reflected in data on income inequality, others do not. Over time all these assets tend to increase in value (capital gains) which contributes to wealth inequality. 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, while older persons without adequate superannuation and those relying on social benefits to survive are highly unlikely to have assets that appreciate in value. This is reflected in Figure 7 below which indicates that just over 60% of all net worth in Australia is held by those in the highest wealth quintile while those in the bottom quintile hold just 1% of net wealth.

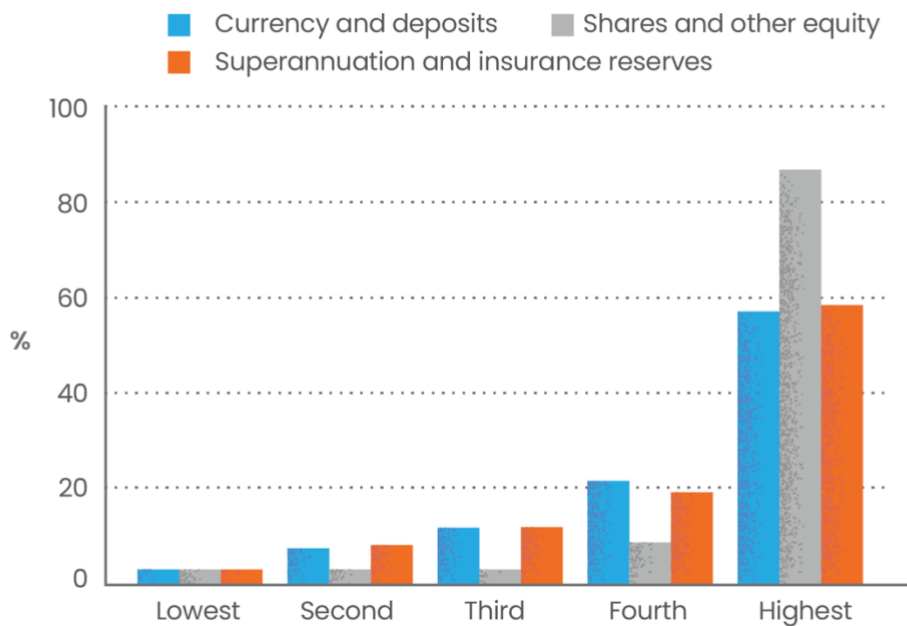
Figure 7: Share of net worth held by households in different quintiles of the distribution



Source: ABS Cat 5204.0.55.011 - Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18

Figure 8 shows the distribution of some key assets that contribute to wealth inequality. It is evident that the top quintile controls well over 80% of all shares and other equities held by households in Australia and they all own around 60% of all currency, bank deposits, superannuation and insurance reserves. It is evident from Figure 8 that the remaining 80% of Australian households have limited financial assets. While it comes as no surprise to find that those in the bottom quintile of the distribution have limited financial assets, it is more surprising to see the relatively low share of financial assets held by “middle Australia”, which are those in the second, third and fourth quintiles of the distribution.

Figure 8: Financial assets– share of total, net worth quintiles, 2017-18



Source: ABS Cat 5204.0.55.011 - Australian National Accounts: Distribution of Household Income, Consumption and Wealth, 2003-04 to 2017-18

Table 1. Changes of net wealth at different points of distribution

Selected OECD countries, between 2006 and 2016 or latest, annual percentage change

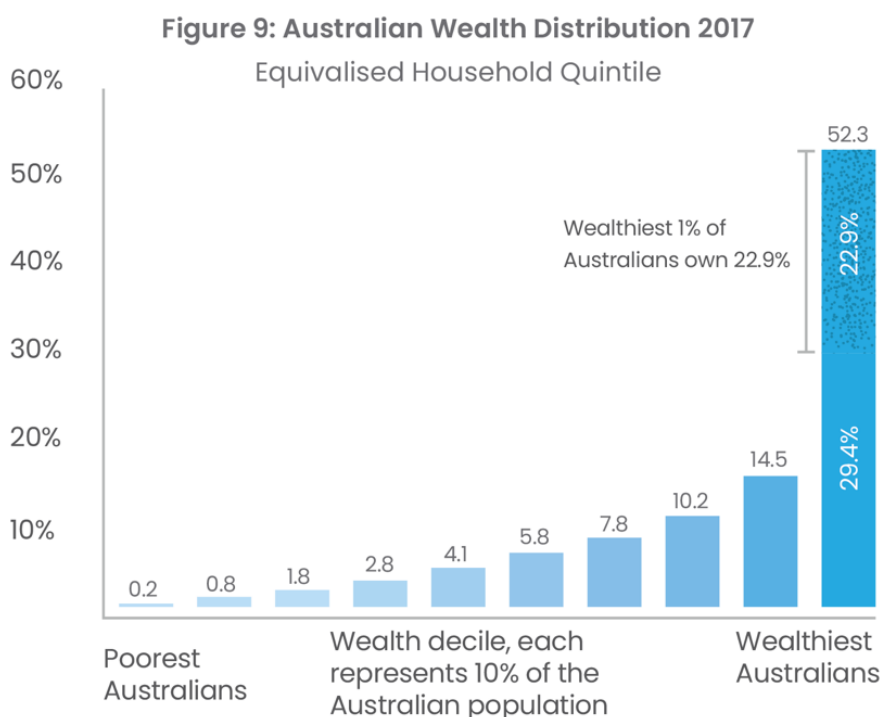
	Mean	Median	Bottom quintile	Middle three quintiles	Top quintiles	Top 10%	Top 5%
Australia	0.9	0.2	-2.5	-0.1	1.1	1.1	0.8
Canada	3.2	3.5	4.4	3.4	3.1	2.9	2.6
US	0.7	-3.3	-9.9	-3.2	1.3	1.6	1.6

Source: OECD, “The Framework for policy action on inclusive growth”, May 2018, Table 1.1 page 53a

Table 1 contains information that allows us to examine more closely wealth inequality trends in Australia compared to the USA and Canada since the mid-2000s. The figures in this Table were compiled by the OECD and indicate that between 2005 and 2016 people in the bottom quintile (the bottom 20%) of the distribution in Canada had a 4.4% annual average increase in their net wealth. This is a very substantial improvement for the poorest segment of society. Over roughly the same period (2006 to 2014) the OECD data show that the bottom quintile in Australia suffered a 2.5% annual average decline in their net wealth. The comparable group in the USA suffered a massive 9.9% annual average decline in their net wealth. The poorest section of the population in Canada had a substantial improvement in their economic welfare and living standards in the last decade while the same group in Australia went backwards, and those in the USA were reversing at top speed.

Table 1 also shows that in Australia the middle three quintiles (the middle 60%) of the distribution suffered a small annual decline in their net wealth while there was roughly a 1% annual increase in the net wealth of those in the top 20% or 10% of the distribution. In aggregate there was a significant increase in wealth inequality over this decade in Australia. Interestingly the opposite occurred in Canada. In Canada people at all points along the distribution had greater increases in their wealth than the comparable group in Australia but the increases were highest for the poorest segments of Canadian society and the rate of increase gradually decelerated as one moved up the wealth ladder. The OECD have suggested that the narrowing of the gap between rich and poor in Canada was in part the result of the strong performance by young people who improved their relative position whereas in Australia growing disparities between young and older people (partly related to ownership of real estate that was appreciating rapidly) led to the widening in inequality.²⁹

The measurement of income and particularly wealth inequality is extremely difficult and a number of independent organisations have devoted considerable resources to developing accurate estimates.³⁰ The data derived from different sources is not completely consistent but

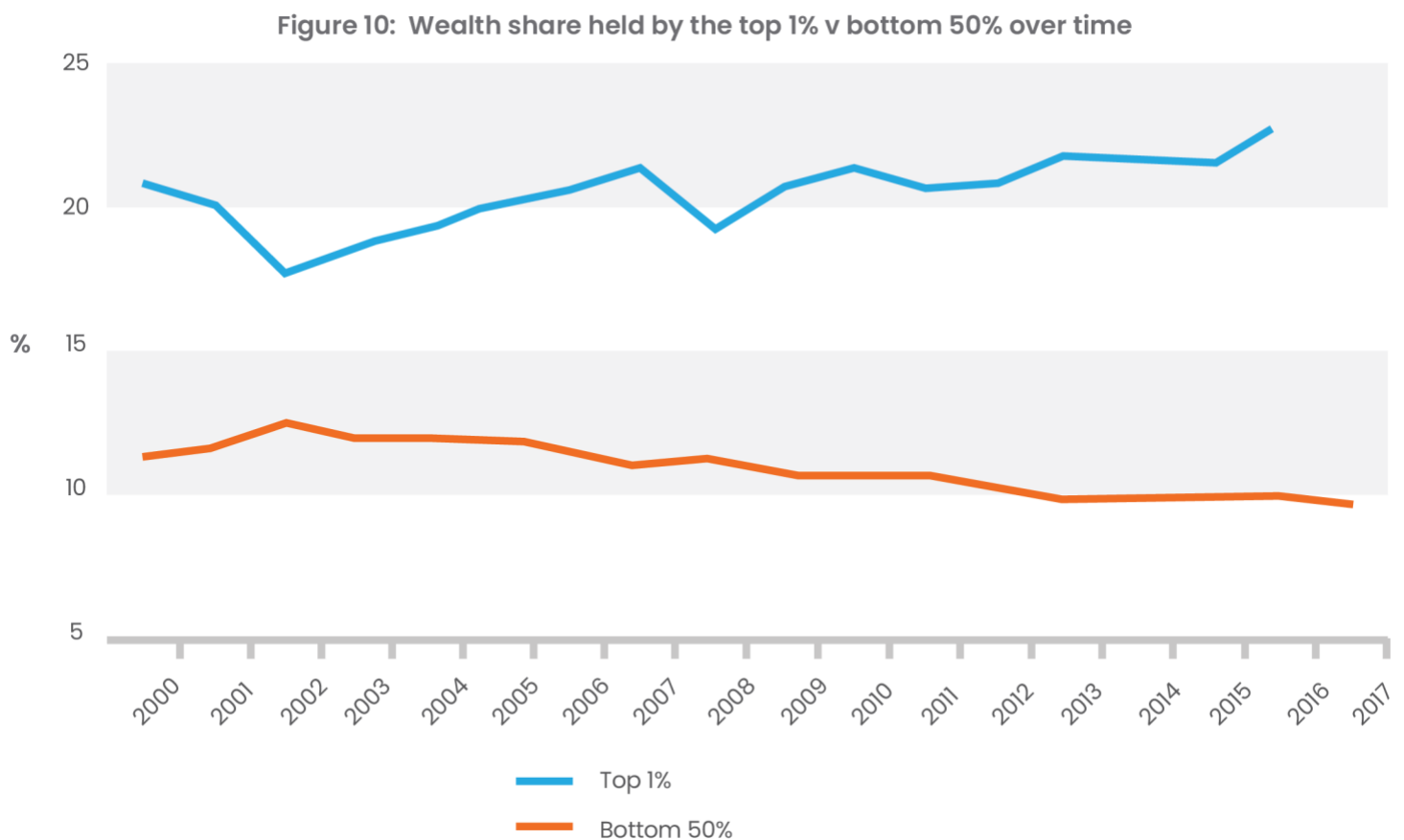


²⁹ OECD, “The Framework for policy action on inclusive growth”, May 2011, p 53.

³⁰ OECD, Box 1.1 “OECD and national initiatives for improving the measurement of the income distribution”, The Framework for Policy Action on Inclusive Growth”, May 2018.

the general picture that emerges is very similar. Attention has rightly focused on inequality between the very elite, such as the top 1% of the distribution and the remainder of the population. For example, Oxfam produced the information in Figure 8 using Credit Suisse data for 2017 to highlight the wealth distribution in Australia.

Figure 9 suggests that over 52% of all wealth is controlled by those in the top 10% of the distribution and those in the top 1% of the distribution account for a massive 23% of all wealth in Australia³¹. According to this source, nearly a quarter of all wealth in the nation is in the hands of just 1% of our population. The report by Oxfam also showed that the wealth share for those in the bottom half of the distribution has been declining almost continuously over the past two decades, while the share of wealth held by the top 1% has grown steadily over the same period with some slight dips followed by a rapid recovery. As can be seen from Figure 10 the wealth gap between the top 1% and the bottom 50% of the distribution was greater in 2017 than at any time over this 20 year period.



Source: Oxfam Australian, Inequality Factsheet, 2018, compiled using Credit Suisse data from their Global Wealth Report.

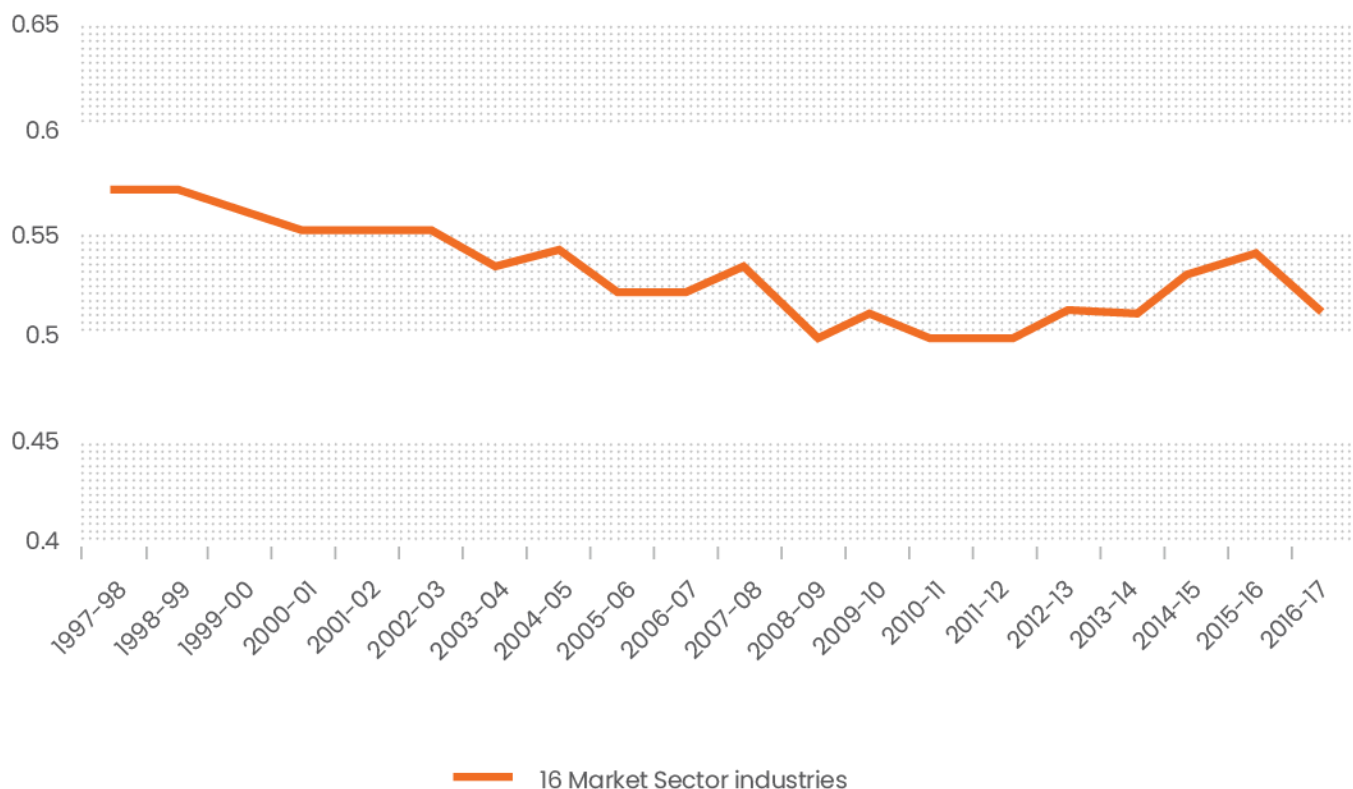
³¹ Source: Oxfam Australian, Inequality Factsheet, 2018, compiled using Credit Suisse data from their Global Wealth Report.

Inequality between capital and labour

Another important guide to trends in inequality are measures that show the proportion of total output (GDP) that goes to labour in the form of wages and salaries and that which goes to capital in the form of profits. In early 2018 the ABS used their National Accounts data base to produce the information contained in Figure 11 which shows the labour share of output in a dozen selected industries. The ABS had the following to say about their own analysis:

“Consistent with the general global trend, the labour share of income has declined over the past two decades in Australia. There was a steady decline through the late 1990s and early 2000s, which was temporarily disrupted by the effect of the global financial crisis on company profits in 2007-08. In recent years, the labour income share has been relatively volatile during a period of large movements in commodity prices that also affect company profits.”

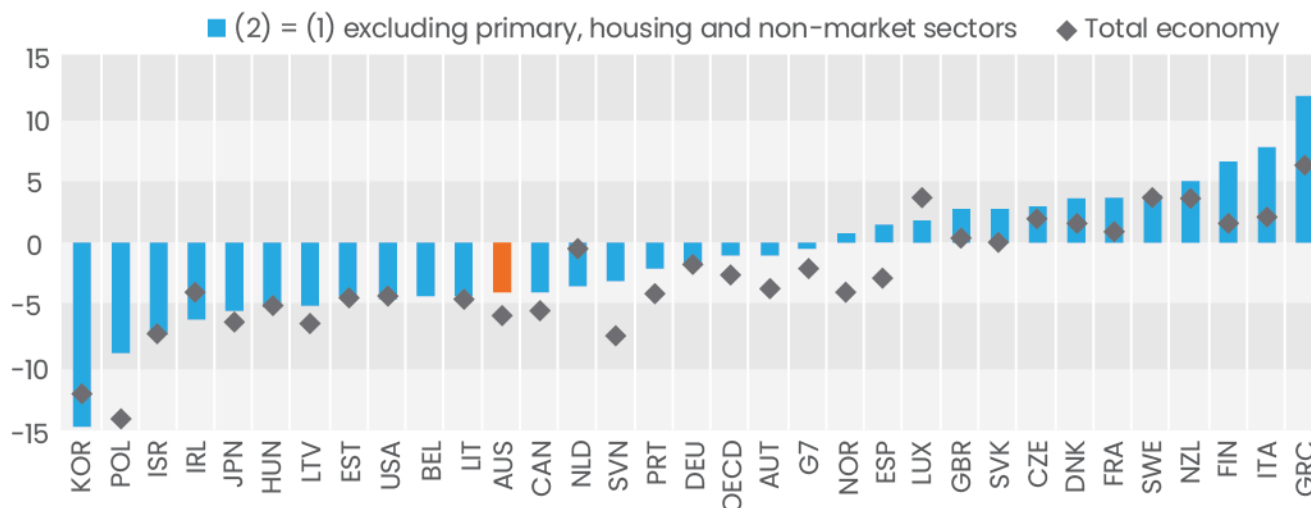
Figure 11: Aggregate Labour Income Shares between 1997-98 and 2016-17



Source: ABS, “Trends in the labour income share in Australia”, Cat No. 5260.0.55.002 January 2018.

The ABS noted that the labour share of output has declined in many countries in the last two decades. However as can be seen from Figure 12 this is not the case in all OECD countries. It is also evident that decline in the wage share in Australia is much greater than the OECD average and on par with the decline in the USA. It is notable that over the last two decades that wage share in New Zealand increased by roughly 5 percentage points while it declined by about the same amount in Australia.

Figure 12: Labour share income evolutions OECD countries 1995–2014 % points



Source: OECD 'The Framework for Policy Action on Inclusive Growth' 2018 page 47

Occupational Social Mobility: Australia's entrenched inequality

Despite all the rhetoric about Australia being a country in which everyone gets a “fair go” the evidence suggests otherwise. The children of families at the bottom of the income ladder have little chance of moving upward. Australia is in the two worst countries in the OECD in respect of occupational mobility. Almost half of children of manual workers remain manual workers themselves, and only 12% become managers. This compares to 37% and 24% respectively in the OECD (see figure 14 and 15).³² The OECD has suggested that the low completion rate for VET certificates has played a role in Australia's low occupational mobility. The OECD has reported that taking into account earnings mobility from one generation to the next as well as the level of income inequality in Australia, it could take 4 generations of children born in a family at the bottom of the income distribution to reach the mean income.³³

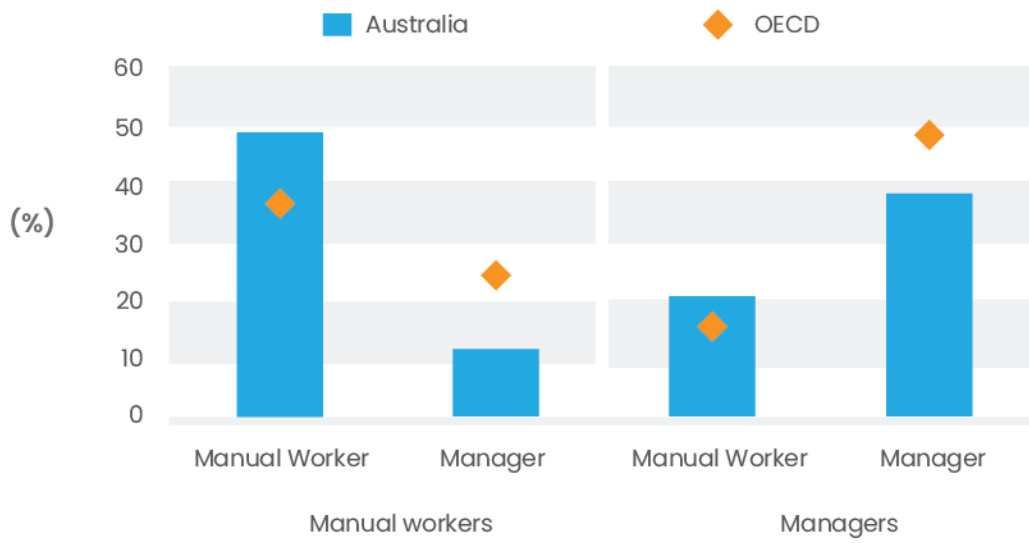
This has harmful economic, social and political consequences. Lack of generational mobility means that many of the most talented young Australians are denied the opportunity to fulfil their potential. This is devastating for the individual and also bad for the economy as it lowers productivity potential economic growth. Moreover recent studies by the OECD reveal that there is a substantial risk for young people from middle-income households to slide into low income and poverty over their lifetime.³⁴

³² Ibid.

³³ OECD 'A broken social elevator? How to promote social mobility?' How does Australia compare?', 2018.

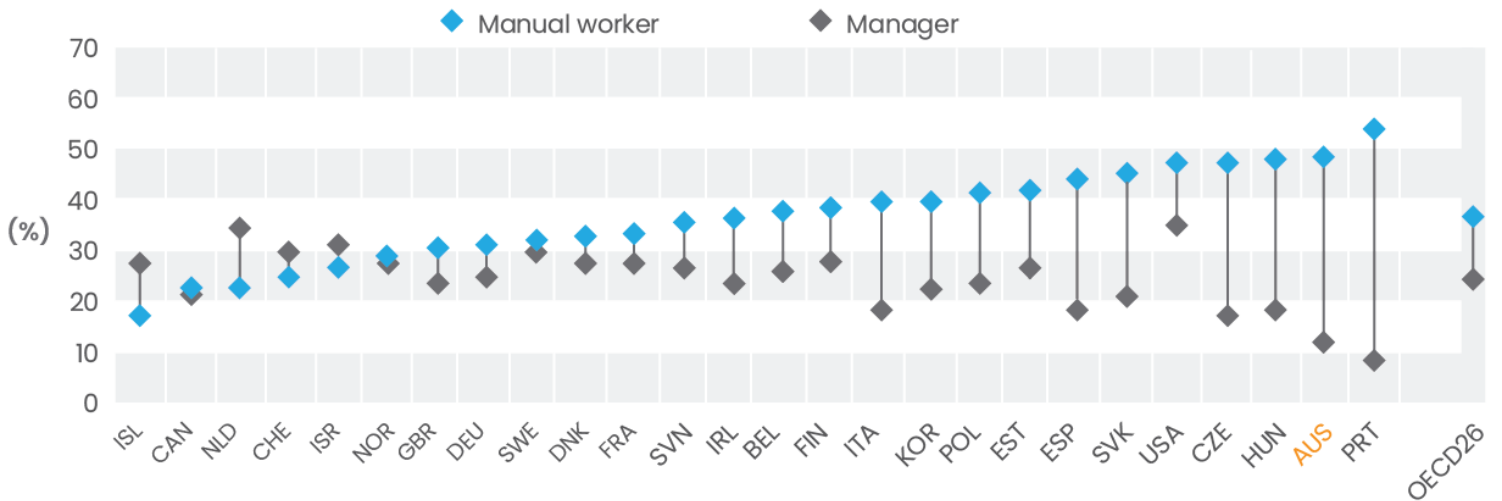
³⁴ Ibid.

Figure 13: Entrenched inequality and occupational social mobility
 Percentage of manual workers and managers by parental occupation



Source: OECD 'A broken social elevator? How to promote social mobility?' How does Australia compare?', 2018

Figure 14: Australia is in the two worst countries in the OECD in respect of occupational mobility

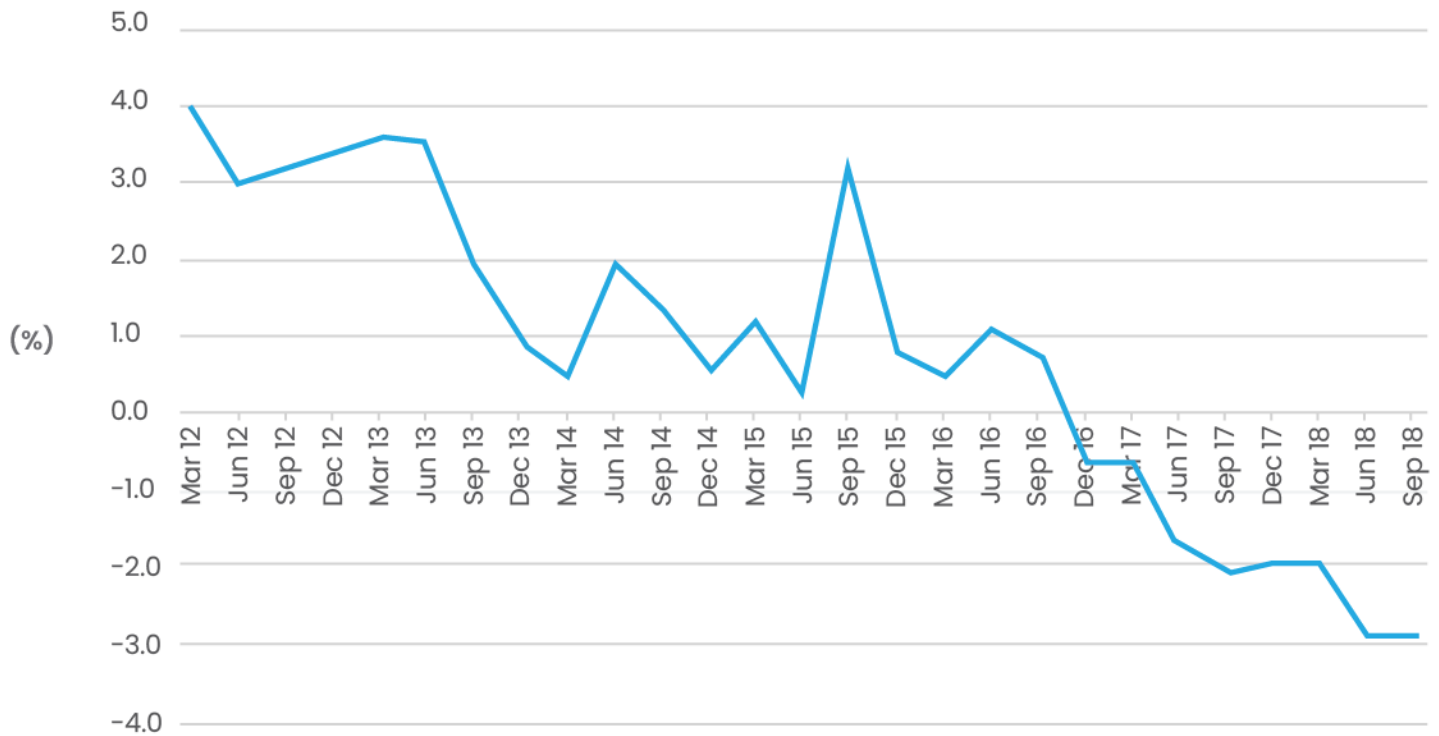


Source: OECD 'A broken social elevator? How to promote social mobility?', 2018

Australia has seen the biggest fall in living standards in 30 years

As well as seeing a rise in different forms of inequality Australians have experienced a fall in their living standards. Living costs outstripped household incomes by 2.9% over the past three years as weak wage growth delivered the biggest fall in living standards for more than 30 years.

Figure 15: Australia has seen falling living standards

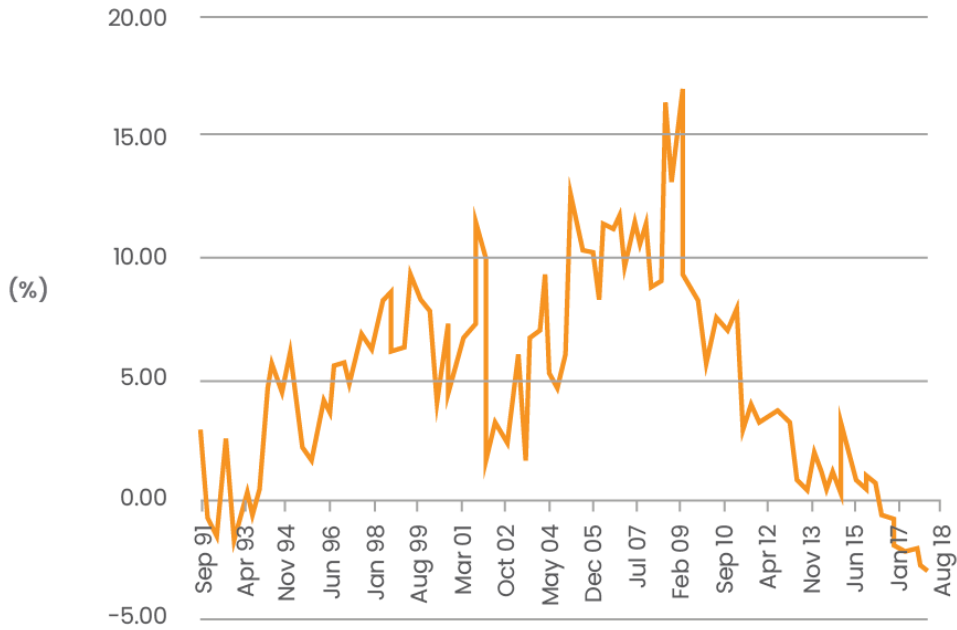


Source: Ben Phillips, Australian National University, using ABS Disposable Household income data from the National Accounts, CPI and population growth. Change over 3-year intervals.

Associate Professor Ben Phillips estimates are based on household incomes, including wages, welfare payments and investment incomes. After allowing for taxes and interest payments and the effect of population growth and rising costs, he shows living standards peaked in 2011. There was no improvement for the next four years, but incomes started falling behind rising living costs from late 2015 onwards. The clear driver for the fall in living standards has been low wages growth.

The fall in living standards in the past three years was greater than during the last recession in 1991-92. It is clear Australia is currently facing an 'income recession'.

Figure 16: Australia has seen the biggest fall in living standards in 30 years and is now experiencing an 'incomes recession'.



Source: Ben Phillips, Australian National University, using ABS Disposable Household income data from the National Accounts, CPI and population growth. Change over 3-year intervals.

Anaemic real wages growth is the key driver in Australia’s declining living standards. Using wages and salaries data from the national accounts we can see that this has been slowest and most sustained period for most of Australia’s post second world war history.

Figure 17: Five year average growth in wages & salaries from the National accounts 1949–2018



Source: ACTU calculation using RBA Australian Economic Statistics 1949-1950 to 1996-1997, Table 5.3b and ABS National Accounts Cat 5206.0

Policy implications and recommendations

In any market economy there will exist inequality in pay, income and wealth. This is not in question. The ACTU firmly believes that everyone is entitled to expect that their real wages and salaries should reflect their productivity and hours they work. Pay scales should provide positive signals encouraging individual investment in education, technical skills and workplace commitment. When wage differentials become excessive they cease to exert a positive influence on the economy and can become a disincentive for constructive engagement at work and in society. The ACTU also supports the right of all Australians to derive income from investments and accumulate wealth. These are fundamental and desirable attributes of a market based economy. It is equally true however, that economic efficiency and equity considerations require that all sources of income are taxed in a transparent and fair manner.

The OECD has recently noted that the high levels of income and wealth inequality in Australia are partly the result of excessive wage differentials and the expansion of precarious forms of work. It is evident that not all Australians are being paid in accordance with their marginal productivity, which is what simple economic textbook models of perfect competition would require. This is because power and influence is not evenly distributed among the population. Our product and labour markets are heavily distorted by oligopolies and monopolies.

Indeed information such as that revealed through the Banking Royal Commission has definitely confirmed that many of those receiving massive remuneration packages do not deserve the financial rewards they have received. In many cases extremely high executive salaries and bonus do not reflect the higher intelligence, greater productivity or hard work of the beneficiaries but rather their ability to manipulate people and extract rents. Sometimes through extremely corrupt practices. These concerns are not confined to the financial sector. A Fairfax press investigation late last year revealed that executive pay in ten of our largest companies had soared back to levels that prevailed prior to the global financial crisis. This report also showed that these same companies paid little or no tax.³⁵

Because this type of scandal is replicated across the Australian corporate landscape working people are discouraged. They realise that no matter how hard, or how long, they work they will not get ahead. Unfortunately, Australia is increasingly becoming a country in which it is “who you know and not what you know” that determines your salary and standard of living. This is why people have decided the current system is unfair.

Scott Morrison can say “if you have a go, you will get a go”. The truth is that working people have been “having a go” for decades and building the wealth of our nation. But they have not shared sufficiently in the rewards that stem from this increased productivity. For the last 30 years these rewards have been monopolised by a small elite of wealthy and powerful people. These trends

³⁵ Eryk Bagshaw, “These CEOs got multimillion-dollar bonuses. Their companies paid little or no tax”, 27 December 2018.

are getting worse not better. Between 2016 and 2017 the number of Australian billionaires increased from 34 to 43.³⁶

Conservative politicians argue that Australia is not unique and high levels of inequality are the norm. It is true that for the last thirty years inequality has been increasing in most OECD countries but the pace of change has varied significantly from country to country. Common explanations for rising inequality include technological change and globalization which have impacted all advanced economies. The fact that inequality varies significantly from country to country means that other factors have been at play. The most important of which concern government policy on labour market institutions, social expenditure and taxation. Some countries have used policies in these domains to mitigate the effects of globalization and technological change on inequality while others have exacerbated gaps between rich and poor by simultaneously reducing fiscal redistribution and public policies that provide support to middle and low income earners. This has included weakening support for trade unions, collective bargaining and minimum wages.

For a long time key international economic institutions like the OECD, IMF and World Bank were in the vanguard of the neo-liberal economic agenda and cheer leaders for tax cuts, reducing the generosity of social security systems and weakening the power of labour. However in the last few years all these conservative economic institutions have publicly acknowledged that these reforms were pushed too far and rising inequality is now a threat to social cohesion and economic growth. The OECD has been particularly outspoken in advocating a stronger role for trade unions and industry level collective bargaining.³⁷

The analysis in this paper has underlined the fact that wage inequality in Australia is a major factor in determining income and wealth inequality. The ACTU has previously demonstrated that real wages have stagnated and workers have been denied their share of past productivity improvements. In response to these trends many conservative commentators and politicians have suggested that wage hikes are on the horizon and workers should just be patient. Unfortunately, data released by the ABS in early December demonstrated that such assertions are nonsense. The September quarter 2018 National Accounts showed that wage growth remains anemic.

To achieve real wage growth in line with national productivity movements will require fundamentals reforms to our labour legislation and wage fixing mechanisms. The ACTU has clearly articulated the precise nature of the required reforms and has mounted an active campaign to change the rules. These demands are completely consistent with reforms advocated by conservative international economic institutions and the most respected labour economist in this country.³⁸

³⁶ UBS "Billionaires Report 2018", October 26, 2018, Summary table, p18.

³⁷ OECD, Employment Outlook, 2017 and 2018.

³⁸ Damian Kyloh, "A union perspective on the wages crisis and how to solve it", in 'The Wages Crisis in Australia', Stewart, Stanford, Hardy (eds), University of Adelaide, 2018.

Stronger labour institutions and faster wage growth are a necessary, but not sufficient condition, to tackle rising inequality. Fiscal and public policy also have a key role to play. As noted in the analysis above public expenditure in areas like education, health and social services play a very important role in determine the living standards of poor and middle income families. Past budget cuts in these areas by conservative Governments have limited the effectiveness of these services. A rich country like Australia that boasts about having record for the longest period without a recession in the OECD, should be aiming to be a pace setter when it comes to public investment in these critical services. We lag well behind the best performing OECD countries on this scorecard. We should be aiming to move up this particular league table and any politicians flirting with copying American style policies and public funding arrangements in the areas like health, education and social services should be shunned.

Investments in these areas make sound economic, as well as social, sense. International economic institutions have recently taken the lead in advocating increased public expenditure in various social domains. For example the IMF, which has responsibility for promoting equilibrium in the balance of payments, low inflation and fiscal responsibility, and a well-deserved reputation for supporting the neo-liberal economic agenda, has recently argued that:

“...public spending on education and health can directly reduce market income inequality. Another key feature that distinguishes education and health policies from other redistributive fiscal instruments is that they have the potential to promote both growth and equity. In particular, education and health gaps are still sizable in many countries, and closing them—for example, through better allocation of public spending—would improve equity and efficiency by enhancing human capital and productivity.”³⁹

The IMF have also noted that narrowing the disparities in education and learning outcomes—by improving enrolment and quality of education for the disadvantaged is crucial for reducing inequality. First, it lowers the persistence of income inequality across generations. Achieving better education outcomes for children from disadvantaged families is associated with larger intergenerational earnings mobility. Addressing education disparities also leads to an improvement in economic efficiency in that education resources are allocated more on the basis of children’s ability than of their family socioeconomic status. Second, the IMF states that education expansion is typically associated with lower inequality of education outcomes (as measured by years of schooling), which lowers future income inequality. Third, the IMF highlight that reducing learning gaps can also help reduce the disparities in health outcomes, given the strong and positive association between education and health outcomes.

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 globalisation 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. This was a period of rapidly expanding foreign direct

39 IMF, Fiscal Monitor, October 2017.

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. 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 the trade war between China and the USA while the latest acts of terrorism and political instability in key nations saturate the daily news. Closer to home the much publicized free trade deal between Australia and Indonesia remains problematic. This is not a global political or economic environment in which Australia should place all its economic eggs in the globalisation basket.

In current circumstances it would be simple common sense to make Australia more self-reliant and less exposed 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.

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 five 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.

Set out below are the key policy areas that must be addressed in order to lower inequality, raise the living standards of all Australians, maintain robust levels of economic growth and revitalise faith in our democratic process.

a) Wages Policy

We need a comprehensive package of reforms to restore balance at the workplace. The reforms being advanced by the ACTU include:

- tighten laws to reduce the number of insecure jobs
- restore a living wage so no full-time worker lives in poverty
- repair and restore awards to they maintain their relevance, including restoring penalty rates

- reform the collective bargaining system so it is accessible to everyone and simpler and fairer for workers, including options for multi-employer agreements
- reform the Fair Work Commission into a strong, fair and independent industrial umpire that can stop wage theft and ensure gender equity
- repeal laws that inhibit the rights of workers and their unions to act democratically and collectively
- ensure public sector pay adjustments fully reflect consumer price increases and productivity increases, thereby provide an indicative guide for general wage setting in the private sector

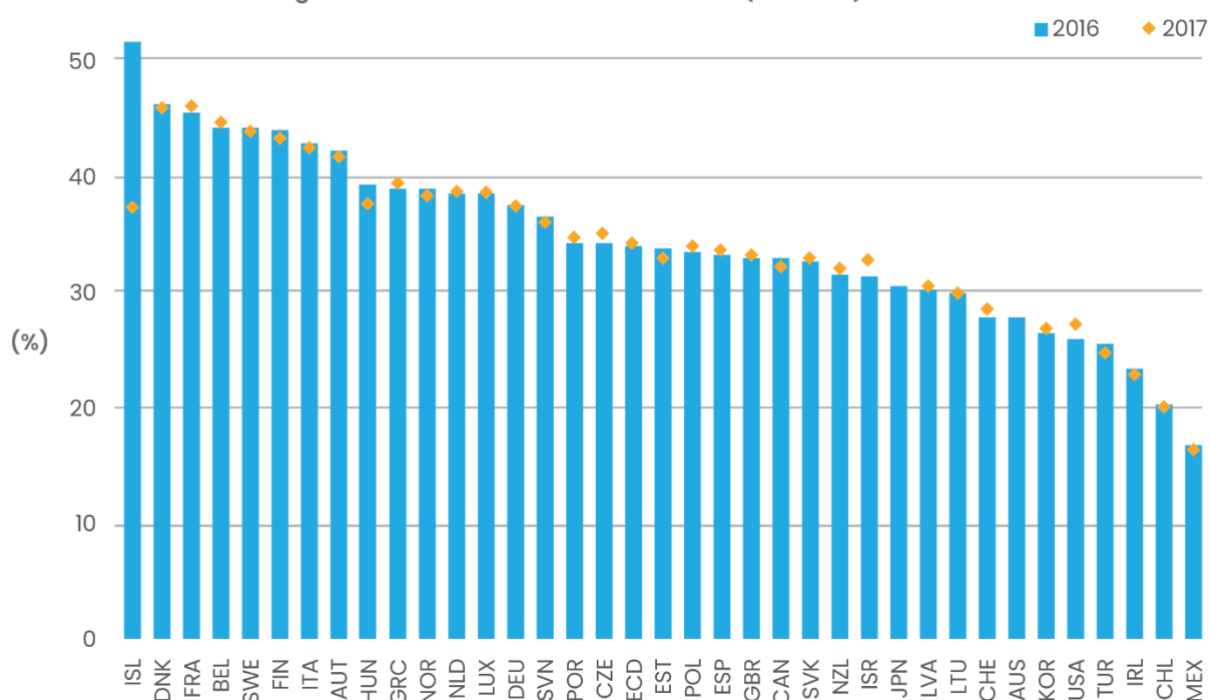
This comprehensive reform package would go a long way towards restoring a more level playing field in the workplace and allowing workers to achieve real wage adjustments in line with national productivity improvements.

b) Tax Policy

As demonstrated in this paper the tax system plays a critical role in ensuring we have both an efficient and equitable country. In the recent past Governments in Australia have not had the political courage or confidence to explain why sound public policy requires an adequate revenue base and how sensible public expenditure raises economic growth, provides the social services we all use and safeguards the Australian way of life. Consequently, our tax base remains less than optimal. In particular multinational companies, some other corporations and some very wealthy individuals have had far too many opportunities to avoid, or evade, contributing their fair share to the public purse.

We need public investments that serve the current and longer term needs of Australians for: high quality education; world class health systems; efficient transport systems; modern communications networks; renewable energy infrastructure; research and development that will enhance innovation, the use of new technologies, higher productivity and new export opportunities. Public investments of the scale required are not possible with our current tax base. Australia continues to have ratios of tax revenue to GDP, and public expenditure to GDP, that are amongst the lowest in the OECD (see figure 17).

Figure 18: Tax to GDP ratios 2016 and 2017 (% of GDP) OECD countries



Source: 'Revenue Statistics 2018: Tax revenue trends in the OECD' OECD 2018

The Morrison 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 \$80b worth of tax cuts to corporations. This is despite the fact that neither the statutory corporate tax rate (30%) nor the actual rate corporations pay (23%) is high by international standards.⁴⁰

The proposed corporate tax cuts and the Governments' commitment to a fiscal surplus when economic growth is forecast to slow means that cuts will be required in some areas. Although the Government would like to avoid this discussion it is obvious that, in these circumstances, a conservative government will target reductions 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. A tax funded jump in corporate profits will end up in the pockets of the corporate executives and the, all too often offshore, shareholders.

ACTU has identified billions of dollars in extra revenue that can be raised from tax reforms including clamping down on multinational tax avoidance, and creating a Petroleum Resource Rent tax with at least a 10% royalty. This additional tax revenue is critical if we are to provide maintain macroeconomic stability and provide quality public services and investment.

⁴⁰ Tax Justice Network 'Who pays for our Common Wealth? Tax practices of the ASX 200.

c) Raise Newstart

Government income transfers for the poorest and most disadvantaged members of society need to be adjusted and should be sufficient to lift recipients out of poverty. A high priority should be increasing the old aged pension for those without adequate Superannuation. Australia has one of the highest poverty rates among older people in the OECD. This is a direct consequence of inadequate real adjustments to the pension and the fact that many older people reached retirement age without any or sufficient super.

The ACTU supports increasing the Newstart allowance. Newstart has not been increased in real terms for 24 years, and is now worth just \$278 a week.⁴¹ This reform makes sound economic sense as well as being socially desirable. Regional communities would receive a significant economic boost if the Government raised the rate of Newstart, Youth Allowance and related payments through an increase in consumer spending. Based on the evidence reviewed in a new study every region in Australia would benefit from an increase in these payments but some regions, which are currently facing major economic difficulties, will be clear winners.⁴²

d) Increase expenditure on health and education

We need a world class education system for all Australians. As noted above public spending on education and health can directly reduce income inequality and enhance economic growth. The global social and economic challenges of the 21st century mean building a smart Australia is more urgent than ever. Education is the great enabler, not only of the knowledge and skills our industries need to innovate and prosper, but of the social mobility, engaged citizenship and harmony we seek for our people. For Australia to prosper we must also develop world-class training institutions and dramatically improve our apprenticeship system. This will also require additional investment and improvement in education at all levels: early childhood, the primary and secondary years, and post-secondary education.

The Morrison governments \$1.9 billion funding cut to public schools in 2018 and 2019 will leave 87% of public schools below the minimum level of funding required to meet the educational needs of children. Needs-based funding would ensure all schools can meet the agreed school resource standard⁴³.

⁴¹ <https://www.acoss.org.au/wp-content/uploads/2018/03/Raise-the-Rate-Explainer-1.pdf>.

⁴² https://www.acoss.org.au/media-releases/?media_release=raising-newstart-and-youth-allowance-would-boost-jobs-wages-and-inject-millions-into-local-communities.

⁴³ School finance data compiled by ABC News shows that rather than closing the equity gap, the income divide is wider for many schools than at any point in the past decade. Please see '*Counting the cost of the education revolution*' by Inga Ting, Ri Liu and Nathanael Scott, 22 Nov 2018.

e) Comprehensive jobs plan

Having a job you can count on – one that is meaningful, safe, secure, and fairly paid – allows Australians to earn a living, support their families and contribute to the economy and society. Our collective right to decent work must be the centrepiece of any progressive economic and social vision for Australia. When jobs are abundant, well-paid and secure, stronger wellbeing and esteem improves, living standards rise and both household and government budgets improve.

The ACTU's policy paper 'Jobs you can count on' released last year set out in detail several recommendations to create more high quality, secure local jobs. When combined with the strengthening of employment regulations through reforms to workplace and industrial relations policy, we will drive a broad improvement in job quality – enhancing the security and stability of work for millions of Australians.

f) Tackling excessive corporate power

We must rein in corporate excess, from obscene oligopoly power to indefensible levels of executive pay. The pay of ASX100 CEOs has hit record highs. The highest-paid CEO took home as much as 124 average Australian workers⁴⁴. If company boards can't impose pay restraint on these exorbitant executive salaries, it's time to consider mechanisms to cap CEO pay. Even the most enterprising CEO will never generate as much economic growth as 124 workers on the average wage. The Banking Royal Commission has confirmed that many of those receiving massive remuneration packages do not deserve the financial rewards they have received.

Only the powerful elite in the banks, insurance companies, big business and multinationals have significantly benefited from the additional wealth generated from decades of economic growth. Tackling CEO pay and excessive corporate power will make Australia a fairer country.

⁴⁴ This is an underestimate. If we used median wages which is more reflective of the true midpoint of the labour market the ratio would be higher. Average wages are always pushed up by the outliers in the upper deciles of the income bracket. None the less even using these conservative figures there is a dramatic difference between the pay of CEO's and the 'average Australian worker'.

CEO PAY HAS SKYROCKETED AND THESE COMPANIES PAID NO OR LITTLE TAX



Total income: **\$15.62b**
Corporate tax paid: **0%**



Alan Joyce, CEO
Base salary: **\$2.1m**
Total package:* **\$10.2m**
Times greater than minimum wage worker: **273**
Times greater than average worker: **124**



Total income: **\$5.46b**
Corporate tax paid: **0%**



Paul O'Malley, CEO
Base salary: **\$1.86m**
Total package:* **\$6.86m**
Times greater than minimum wage worker: **183**
Times greater than average worker: **83**



Total income: **\$2.6b**
Corporate tax paid: **0%**



Scott Charlton, CEO
Base salary: **\$2.18m**
Total package:* **\$6.6m**
Times greater than minimum wage worker: **176**
Times greater than average worker: **80**



Total income: **\$4.589b**
Corporate tax paid: **0%**



John Borghetti, CEO
Base salary: **\$1.93m**
Total package:* **\$6.5m**
Times greater than minimum wage worker: **174**
Times greater than average worker: **79**



Total income: **\$25.33b**
Corporate tax paid: **11.05%**



Craig Meller, CEO
Base salary: **\$1.97m**
Total package:* **\$5.3m**
Times greater than minimum wage worker: **142**
Times greater than average worker: **64**



Total income: **\$1.395b**
Corporate tax paid: **0%**



Kerrie Mather, CEO
Base salary: **\$1.78m**
Total package:* **\$4.8m**
Times greater than minimum wage worker: **128**
Times greater than average worker: **58**



Total income: **\$385.8m**
Corporate tax paid: **19.20%**



Don Meij, CEO
Base salary: **\$1.1m**
Total package:* **\$4.7m**
Times greater than minimum wage worker: **126**
Times greater than average worker: **57**



Total income: **\$3.51b**
Corporate tax paid: **19.81%**



Mike Kane, CEO
Base salary: **\$1.84m**
Total package:* **\$4.06m**
Times greater than minimum wage worker: **107**
Times greater than average worker: **49**



Total income: **\$4.07b**
Corporate tax paid: **0%**



Mark Palmquist, CEO
Base salary: **\$1.29m**
Total package:* **\$3.4m**
Times greater than minimum wage worker: **91**
Times greater than average worker: **41**



Total income: **\$2b**
Corporate tax paid: **5.62%**



Alberto Calderin, CEO
Base salary: **\$1.8m**
Total package:* **\$3.2m**
Times greater than minimum wage worker: **86**
Times greater than average worker: **39**

*Including bonuses

Source: ACTU calculations and Eryk Bagshaw, 'These CEO's got multimillion dollar bonuses their companies paid little or no tax', Sydney Morning Herald, December 27th 2018

Conclusions

Wage, income and wealth inequality has reached levels that should place it center stage in the political and economic debate.

This has happened at the international level. The IMF Managing Director Christine Lagarde stated in 2015 that “...reducing excessive inequality is not just morally and politically correct, but it is good economics”. OECD Secretary-General Angel Gurría said in 2014: ‘...addressing high and growing inequality is critical to promote strong and sustained growth’ and in 2015 that: “Inequality can no longer be treated as an afterthought. We need to focus the debate on how the benefits of growth are distributed”. In 2014 the World Bank adopted for the first time a target for reduced global income inequality. Rising inequality has also featured extensively in political debates across countries, with commentary highlighting the role it has played in the rise of populist parties, as well as the election of Donald Trump in the United States and the UK referendum vote to leave the European Union.

As we approach a national election the voters have a right to know how all the main political parties in Australia intend to tackle inequality.

The Morrison Government has so far ignored the social consequences of rising inequality and denied the economic relationship between rising inequality and slower economic growth. Our Treasurer has argued that we should ignore distributional issues and only concentrate on “growing the economic pie”. This is a Government that has either failed to read the current economic literature on inequality and growth, or worse still, they know their policies are detrimental to the economy and society, but carry on regardless in pursuit of an extreme ideological objective.

In our nation 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. 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. Our Prime Minister has made clear his personal admiration of President Trump and has started to replicate some of the worst international and domestic policies of the current USA Administration. This should scare all sensible Australians regardless of what political parties they may have supported in the past. We must not allow our country to go any further down this path. Instead we need a commitment to wage, tax and social expenditure policies that will support families in the lower and mid parts of the income distribution and thereby expand the middle class.

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