

Inequality in Australia

An Economic, Social and Political Disaster Summary

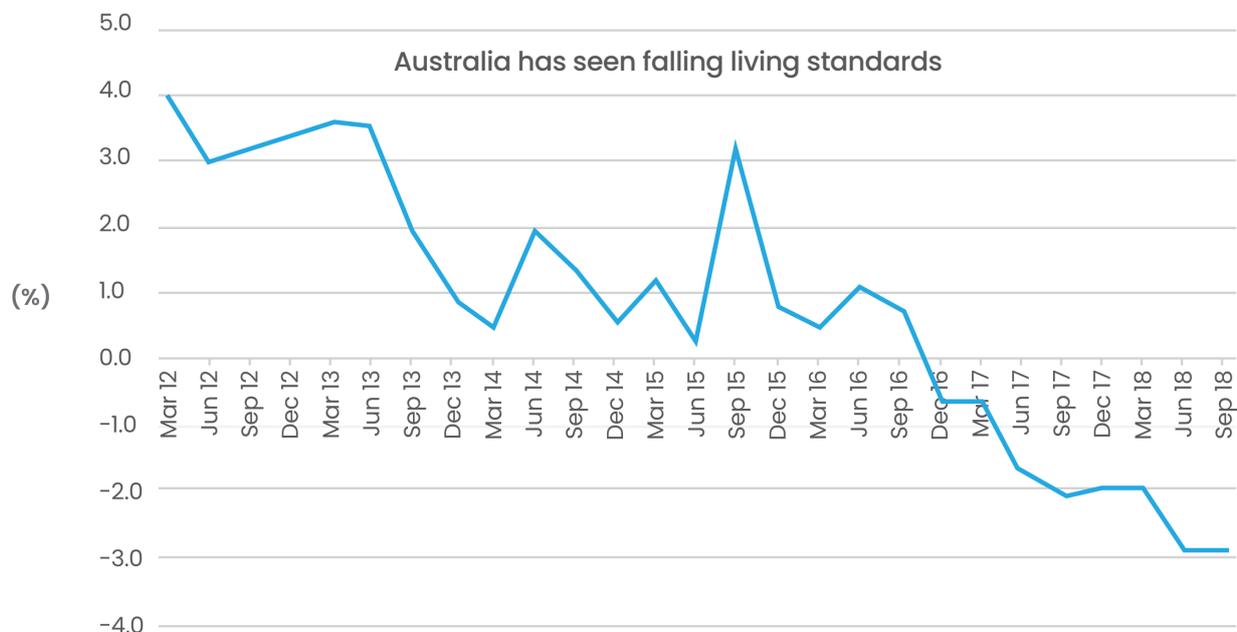


The vast wealth generated over the last three decades has decisively gone into the hands of the privileged few, and not the many. While some brag about the absence of recessions in the “lucky country” Australian workers have been experiencing anaemic wages growth, the slowest of any sustained period since World War II¹. That is a terrible indictment on 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 worker 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 anaemic. 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.

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Australians have experienced a fall in their living standards. Living costs outstripped household incomes by 2.9 per cent over the past three years as weak wage growth delivered the biggest fall in living standards for more than 30 years.

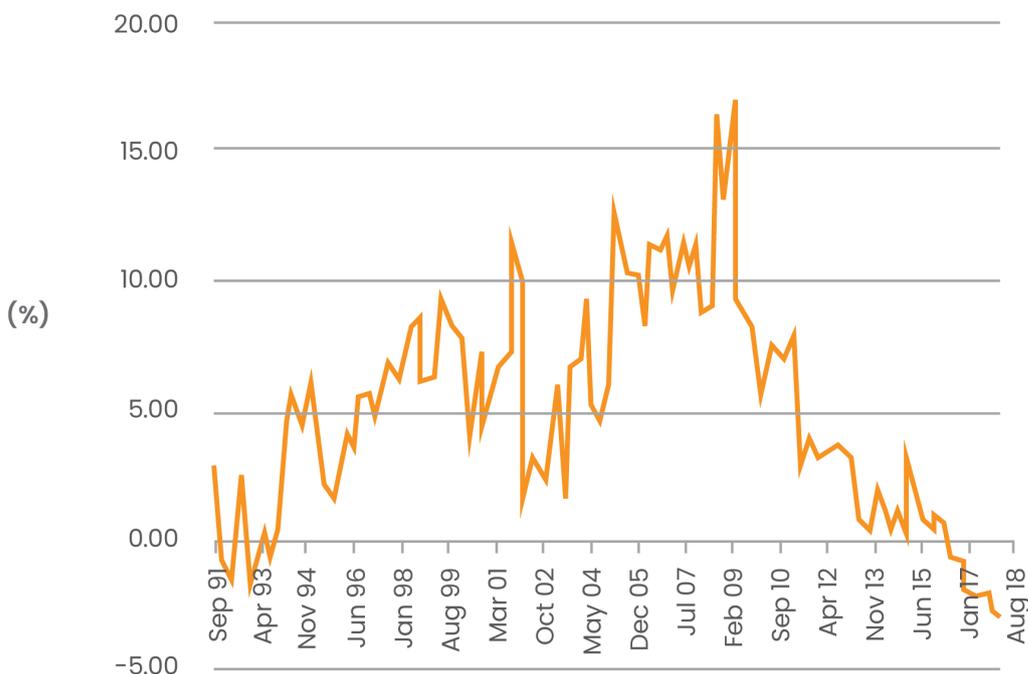


Source: Ben Phillips - Associate Professor, Australian National University, using ABS Disposable Household income data from the National Accounts, CPI and population growth. Change over 3-year intervals

1 Andrew Stewart, Jim Stanford and Tess Hardy 'The Wages Crisis in Australia', University of Adelaide, p 6, 2019

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

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



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

The Morrison Government has denied inequality is a problem

Josh Frydenberg has said Australia needs “not 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.² A reduction in income and wealth inequality in Australia will maximize 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. The ACTU perspective on the relationship between inequality and growth is shared by the International Monetary Fund (IMF), World Bank and the OECD.

* (SMH article, 'Treasurer Josh Frydenberg challenges Labor on inequality, lays out new economic focus' September 15, 2018)

2 ABS Cat 8501.0 Retail Trade, Australia, December 2018

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 provided free or are subsidised; wealth inequality; and finally the inequality between the share of national outgoing 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 a lengthy list of indicators and review long term trends. This is explored more thoroughly in the full report:

- **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.
- **Income inequality:** 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 2017/18³.
- **Wealth 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. 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 wealth⁴.
- **Inequality between capital and labour:** Labour’s share of income is close to a 50 year low. The decline in the wage share in Australia is much greater than the OECD average and on par with the decline in the USA.
- **Occupational social mobility:** 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 the second worst country 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.⁵ 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.
- **Between 2016 and 2017, the number of Australian billionaires increased by over 20 % (from 34 to 43)**⁶. 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.
- **The average ASX200 company CEO in 2018 were paid the median yearly wage for a worker every 4.6 days**⁷

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

4 ibid

5 ibid

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

7 New ACTU calculation and ‘CEO Pay in ASX200Companies’ Australian Council of Superannuation Investors

Let's not go down the American road

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.

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.

Policy Solutions

- **Wages policy:** 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;
- **Tax policy:** 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;
- **Raise Newstart:** 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;**
- **Jobs plan:** 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.