



# Extent of income inequality in Australia: Submission to Senate Standing Committee on Community Affairs

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## 1. Introduction

Thank you for the opportunity to contribute to the inquiry the extent of income inequality in Australia.

The Benevolent Society believes in a just society where everybody has the opportunity to thrive. We have major misgivings about the extent and directions of income inequality in Australia because of its impact on indicators of community wellbeing such as trust, social cohesion and sense of belonging, as well as its impact on individual wellbeing and opportunity and on economic development.

In this submission we focus our comments on points a) – c) and e) – f) of the inquiry's terms of reference.

## 2. About The Benevolent Society

The Benevolent Society is Australia's first charity. We're a not-for-profit organisation helping people, families and communities to achieve positive change for 200 years.

We help people change their lives through support and education, and we speak out for a just society where everyone thrives.

Our focus is to foster wellbeing throughout life – from infancy to older age – with services that:

- prevent problems or reduce their negative impact
- tackle problems early before they become entrenched
- help people use their strengths to solve their problems
- give priority to the most vulnerable and to people experiencing social and financial disadvantage
- help build stronger communities.

### Snapshot

- The Benevolent Society is a secular non-profit organisation with 992 staff and 722 volunteers who, in 2013, supported more than 76,800 people (children and adults).
- We deliver services from 64 locations primarily in New South Wales and Queensland,
- We support people throughout life providing services to children and families, older people, women and people with mental illness, and through community development, social enterprises and social leadership programs.
- We receive financial support from local, state and federal governments, businesses, community partners, private donors, trusts and foundations.
- Our revenue in 2012/13 was \$92 million, of which 83% was from government sources. Private fundraising, trust and foundation grants provided another 4%, client fees generated 7% and investment income 6.5%.
- The Benevolent Society is a company limited by guarantee with an independent Board.

### 3. Extent of income inequality

There is a large body of research on the extent of and trends in income inequality in Australia, and on the related concept of poverty. While estimates vary depending on data sources and methodology used, there is broad agreement that inequality in Australia is increasing despite a period of sustained economic growth.

A report from a recent *Australia21* roundtable on inequality, in which The Benevolent Society participated, summarised the current data noting that in recent decades the income share of the top 1 per cent has doubled, and in the last decade the richest 10% have enjoyed almost 50 per cent of the growth in incomes.<sup>1</sup>

At the other end of the spectrum, in 2010 an estimated 2.2 million people were living below the poverty line after taking housing costs into account. A significant proportion of these are people who depend on social security payments, 37% of whom lived below the poverty line in 2010. They included close to 600,000 children.<sup>2</sup>

The Productivity Commission noted that in 2010 between 10 and 13 per cent of Australians (or between 2.3 and 2.8 million) were estimated to be income poor in relative terms.<sup>3</sup>

ABS data derived from household surveys reveal increasing inequality in absolute terms, although changes in ABS survey methodology mean that there is some uncertainty about the true extent of this increase in inequality.<sup>4</sup>

Other indications of the extent of inequality are that in 2013 charities turned away more than 65,000 people, seeking food each month because they did not have enough to meet demand.<sup>5</sup> One third of these were children.

While The Benevolent Society is not a provider of emergency relief, we have a limited allocation of funds that can be spent on buying items and services to support low income families. This list of the most common items we purchase gives a snapshot of the essential items that low income families may have to forego:

- children's clothing, school uniforms and shoes, school excursions and other activities
- specialist assessments and treatments for children (e.g. speech therapy)
- child care fees
- household items, beds, mattresses, linen and blankets, home safety equipment (e.g. stair gates)
- nappies and personal hygiene products
- medications
- family outings
- books and educational toys for children
- transport
- food and groceries (in emergencies only); and
- electricity bills (in emergencies only).

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<sup>1</sup> Douglas, B., Friel, S., Dennis, R. and Morawetz, D (2014) *Advance Australia Fair: What to do about growing inequality in Australia*, published by Australia21 in collaboration with The Australia Institute

<sup>2</sup> Australian Council of Social Service (2013) *Poverty in Australia*

<sup>3</sup> Productivity Commission (2013), *Deep and Persistent Disadvantage in Australia*, Productivity Commission Staff Working Paper

<sup>4</sup> Douglas, B. et al, *Ibid*

<sup>5</sup> Foodbank. 2013. *End Hunger in Australia*, End Hunger Report 2013, Food Bank Australia

## 4. Impact of income inequality on access to health, housing, education and work

There is also a large body of literature on the impact of income inequality, with effects ranging from loss of trust, social cohesion and sense of belonging, to negative effects on health and wellbeing, to negative effects on economic efficiency and growth, loss of trust in democratic institutions and threats to social stability. Bodies such as the OECD and World Bank now recognise the risks of excessive divergence in income (and wealth) on social and economic development.<sup>6</sup>

We acknowledge that income inequality (or low relative income) does not provide a complete picture of the extent, nature and impact of disadvantage. However, income is an important determinant of people's economic and social wellbeing.

Income inequality leads to more unequal access to quality and secure housing, education, nutritious food and health care. This is not entirely surprising but the question is, what impact is this having on those on lowest incomes and are they being left further behind as a result.

Housing plays a central role in wellbeing, providing shelter but also a place in which a sense of identity can be built. The quality of housing (affordability, appropriateness, location) can affect a person's health, educational and employment outcomes.<sup>7</sup> Income inequality, combined with increases in the cost of housing relative to CPI, have made it very difficult for low income people to compete in the housing market, especially in metropolitan areas. According to Anglicare Australia's research, the percentage of suitable private rental properties advertised in on 5-6 April 2014 that were affordable by single people and families with children on either government benefits or minimum wages (and family tax payments if applicable) ranged between 0% and 4%. (The only group fairing better was couples with children on minimum wages and family tax payments, who could afford 12.2% of properties advertised for rent).<sup>8</sup>

Low income private renters are disproportionately likely to have to move frequently, which is associated with detrimental effects on employment and on social networks. The connections between housing and childhood development are well-recognised in the literature. Insecure housing has been found to affect the mental health of parents and family stability.<sup>9</sup>

High housing costs affect the families we work with in many ways. For example, some families paying high proportions of their income in rent have so little after-housing disposable income that they struggle to cover other necessities such as food, transport or medication. In these families, it is common for children to go without up-to-date school books and uniforms, and to miss out on school excursions and leisure activities because their families simply cannot afford them.

Lower cost housing costs tend to be located in outer suburbs, further from centres of employment, and in areas poorly served by public transport. As a result low income people tend to face higher costs associated with running a car (as a proportion of their income), the cost of which may become a limiting factor preventing their participation in social and recreational activities.<sup>10</sup>

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<sup>6</sup> Smyth, P (2014) in Douglas, B. et al, Ibid

<sup>7</sup> Phibbs, P. (2005) *Housing Assistance and non-shelter outcomes*, AHURI Final report No 74

<sup>8</sup> Anglicare Australia (2014) *Rental Affordability Snapshot*

<sup>9</sup> Taylor and Edwards (2012) *Housing and children's wellbeing and development, Evidence from a national longitudinal study* Family Matters 2012 No. 91 AIFS

<sup>10</sup> Rosier, K. and McDonald, M (2011) *The relationship between transport and disadvantage in Australia*, CAFCA Resources Sheet, Communities and Families Clearinghouse, Australian Institute of Family Studies

Notwithstanding subsidies and safety nets provided by Medicare and the Pharmaceutical Benefits Scheme, in 2011 22% of low income Australians reported putting off seeing a doctor, or not filling scripts as compared to 12% of better off people.<sup>11</sup> There is also consistent evidence of a correlation between socio-economic parameters and health outcomes – such as cardiovascular disease, depression, chronic disease. For example, the lowest 20% of income earners have three times the level of chronic illness as those in the highest income bracket.<sup>12</sup>

There is evidence that low income families have poorer access to early education and care. There are very few fully funded public early childhood and care services and the vast majority of long day care centres, preschools - operated by non-profit organisations or commercial businesses - charge fees. These fees, even with subsidies from government, remain expensive for people on low and modest incomes. Many of the disadvantaged children and families that The Benevolent Society works with cannot afford the fees for early childhood and care.

## 5. Impact of inequality on particular groups

Growing inequality in Australia not only affects adults. It has profound effects on the wellbeing of children. This has long-term costs and consequences for society as a whole as those children grow and become adults themselves (and in turn parents).

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

One result is that 20 per cent of children start school vulnerable in one or more areas of child development.<sup>13</sup> Children living in the most socio-economically disadvantaged Australian communities are more likely to be developmentally vulnerable in each of the domains. The picture is also worse for indigenous children.

Sustained poverty during childhood has wide-ranging and long-lasting consequences. Socioeconomic disadvantage in childhood can have an impact on the psychological health and well-being of young adults, and enduring influences on health in mid and later life.

Poor children tend to begin school well behind their more affluent peers, and lose ground during the school years. Children from poor families also go on to complete less schooling, and as adults work less and earn less than others.

The connections between housing and childhood development are well-recognised in the literature. Insecure housing has been found to affect the mental health of parents and family stability. Family instability is associated with poorer educational performance and rates of school completion.<sup>14</sup>

For some outcomes later in life, particularly those related to achievement skills and cognitive development, poverty early in a child's life may be especially harmful.

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<sup>11</sup> Gross P (2014) *Australian health and welfare funding: a review is timely*, in Health Voices Consumers Health Forum

<sup>12</sup> Laverty, M (2014) in Douglas, B. et al, *Ibid*

<sup>13</sup> AEDI (2012) <http://www.aedc.gov.au/communities/findings-from-the-aedc>

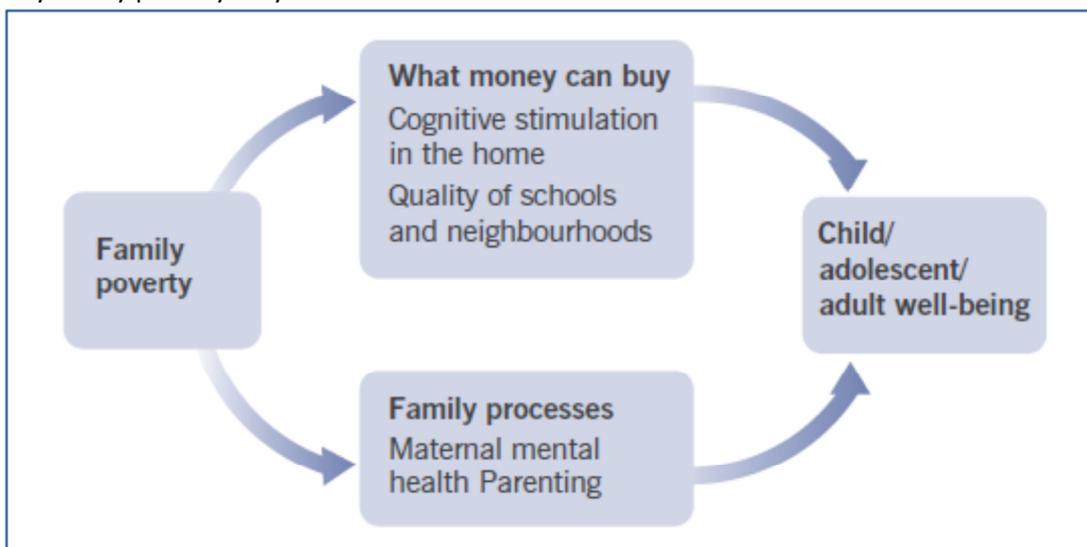
<sup>14</sup> Taylor and Edwards (2012) *Housing and children's wellbeing and development, Evidence from a national longitudinal study* Family Matters 2012 No. 91 AIFS

Recent research from the US and New Zealand has added to the evidence that early childhood is a particularly sensitive period during which economic deprivation may compromise children's life achievement and employment opportunities.<sup>15</sup>

Three pathways appear to be involved in the relationship between childhood poverty and its pervasive life-long effects:

- children in poverty tend to have less cognitively stimulating environments, and live in impoverished language environments;
- lower income parents tend to engage in harsher and less responsive interactions with their children; and
- disadvantaged children must contend with a wide array of stressors that strain and eventually impact negatively upon their brain development and damage their biological and psychological regulatory systems, with effects over the life course.

Why family poverty may hurt children



Source: Duncan, GC. and Magnussen, K, *The importance of poverty early in childhood*, Policy Quarterly Vol 9, May 2013

Regrettably, Australia has a relatively high rate of families in which no adults are in paid work. Family joblessness significantly increases the risk of children living in poverty, and increases the risk that the children living in these families will themselves grow up to be jobless.<sup>16</sup> Children of sole parents are most at risk of living in poverty and/or a jobless household.

A study commissioned by The Benevolent Society found that living in a jobless family increased the likelihood that a child (aged 5-10) would experience a range of behavioural or emotional problems by 7 to 13%, specifically:

- conduct problems such as lying and fighting increased by 13.4%
- peer problems such as not forming positive relationships with peers or being bullied increased by 7.6%
- emotional problems such as worrying, nervousness increased by 7.5%

<sup>15</sup> Duncan, GC. and Magnussen, K, *The importance of poverty early in childhood*, Policy Quarterly Vol 9, May 2013

<sup>16</sup> The Benevolent Society (2013) *Family joblessness and pathways to Employment*. Social issues snapshot

- hyperactivity problems such as being restless, easily distracted increased by 7.2%.<sup>17</sup>

On a positive note, there is now strong evidence that if we act early to provide children and their families with key services and supports, we can prevent these negative long term outcomes. The benefits of intervening early are far reaching and range from reduced welfare expenditure, less contact with the juvenile and adult justice systems, reduced notifications of child abuse and neglect, through to improved school performance and higher earnings – which result in more productive adults and fewer people dependent on welfare. Intervening early is not only more effective, it is also more cost efficient. This is discussed further below in Section 8.

The International Monetary Fund recommends that education reforms in advanced (and developing) economies could focus on improving access by low-income groups, noting that this also results in inequality of opportunity and perpetuates inequality across generations.<sup>18</sup>

## 6. Principles that should underpin social security provision

Changes to Australia's income support system over time have resulted in unintended complexity, inconsistencies and disincentives for some people to work. Achieving a simpler and sustainable system requires a simpler architecture, a fairer rate structure, targeting of assistance to need, a common approach to adjusting payments, a new approach to supporting of families with children and young people, effective rent assistance, and reward for engaging in paid work.

In essence, the main goal of social security should be to ensure that income support is at a level that enables people to afford the essentials such as housing, food, transport, medical expenses etc. Appropriate supplements should also be available to those that need them to assist with costs associated with raising children (including the extra costs of doing so as a sole parent and the reduced opportunities for earning income from employment as a sole parent), disability, caring responsibilities, rent, looking for work and complying with participation requirements.

Payment should be based on financial need rather than on age or on current or future capacity to work. People in similar circumstances should receive the same level of payment with the same or similar eligibility requirements. Payments should be payable when needed on financial grounds, i.e. they should not be subject to arbitrary waiting periods or time limits.

Commonwealth Rent Assistance should be adequate, take into account differences in housing markets across the country and be indexed to movements in rents.

Income support should be benchmarked to broader community living standards in such a way that maintains the relative value of the payments over time. Payment rates should be indexed to whichever is the higher of movements in wages (eg median wages), or in prices affecting social security recipients, similar to that way in which pension rates are currently indexed.

It is widely acknowledged that the most effective way to reduce poverty and disadvantage is to encourage and support people into employment. Strategies should include job creation, employer incentives and subsidies, education and training, employment services, access to affordable child care and support services that address other barriers to work.

The design of the social security system is also critical in encouraging people into employment. As proposed by the McClure Welfare Reform Reference Group Interim Report, 'The social support system

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<sup>17</sup> The Benevolent Society (2010) *Unemployment and the wellbeing of children aged 5 to 10 years*, Research Snapshot

<sup>18</sup> International Monetary Fund (2014) *Fiscal Policy and Income Inequality*, IMF Policy Paper

should help people build the capacity they need to participate economically and socially, to the extent that they are able.'

Income and assets tests should ignore modest levels of private income and assets, ensure a fair return from paid work, and be readily understood and complied with, in order to encourage participation in paid employment (and to remove disincentives).

Participation requirements of people receiving social security should be reasonable, individually tailored and negotiated, predictable and designed to directly improve each person's employment prospects. For example, participation requirements of people with disabilities or caring responsibilities (that reduce their employment capacity) should be adjusted to take these into account and should be accompanied by appropriate training, services and support so that they can realistically participate in the labour market. Eligibility and participation requirements should, for example, be sensitive to differences between the needs of people with episodic impairment (for example, caused by episodic mental illness) that may disrupt their ability to obtain and maintain employment, and people with other forms of impairment.

Compliance systems should be based on engagement not punishment, and should acknowledge the imbalance between available jobs and the numbers of unemployed. Penalties that result in reduced payments or people being cut-off from income support entirely are often counter productive.

Payment rates for people whose circumstances preclude employment must be such that they do not live in poverty.

## **7. Practical measures to address inequality**

### **Social security measures**

There are several practical measures that would have an immediate impact on current and future income inequality. In relation to social security these include:

- Raising the maximum single rates of Newstart and other Allowances (including student payments and payments for young people living independently of their parents) by \$50 per week, to bring them into line with the increases granted to pensioners in 2009.
- Increasing payments for sole parents with school age children. We remain concerned that Parenting Payment Single is currently limited to parents with children aged under eight years and that parents whose children are all above eight must move on to the Newstart allowance, with its much lower payment rates and tougher income tests affecting those with income from work. Family Tax Benefit Part B for sole parents with school age children should also be increased to the same level that applies to those with younger children.
- Increasing student payments for adults (Austudy and Abstudy Payment) to the same level as other Allowance payments such as Newstart.
- Increasing the rate of Commonwealth Rent Assistance for those in housing stress paying unavoidable high rents, and benchmarking Commonwealth Rent Assistance to movements in rents. Commonwealth Rent Assistance is critical in protecting vulnerable households in private rental accommodation from homelessness.

### **Better support for the long term unemployed with significant barriers to employment**

The Benevolent Society works with long-term unemployed people who are amongst the most vulnerable in the community and who typically experience significant barriers to employment. These include families

who lack parenting skills and struggle to cope with raising their children; families affected by domestic violence and/or substance abuse; individuals and families affected by past trauma, by mental illness or disability; and people with limited education, low literacy, no vocational training and few work skills. We also work with people who, for various reasons, struggle to cope with aspects of daily living that most people do not need to think twice about, such as personal hygiene, shopping, cooking, cleaning and transporting children to school. The majority are jobless and rely on income support as their main source of income.

Achieving sustainable improvements in outcomes for this minority group of unemployed people is very challenging. Given the complexity of the issues they face, they typically require intensive, individually tailored, and sometimes prolonged, assistance. For this group, rather than helping people obtain employment, social security participation requirements can be a major hindrance to overcoming barriers to employment. They can be an added overwhelming burden on top of everything else they are facing in their lives.

For this group, our experience is that there is, in effect, too big a gap between their capacity and the expectations placed upon them by the social security system.

### Enhanced early interventions

In addition to social security and job service policies that boost (parental) income in childhood, there is a strong case for boosting early intervention services to children and families.<sup>19</sup>

The most economically efficient way to remediate the effects of adverse family environments is to invest in disadvantaged children when they are young. A US study, for example, followed a group of children living in poverty who received a high quality preschool program at ages three and four plus home visits to their families. At age 40, the adults who had attended the preschool program had higher earnings, were more likely to hold a job, had committed fewer crimes, and were more likely to have graduated from high school than adults who did not have access to preschool.<sup>20</sup>

Scandinavian countries have long recognised the value of prevention and early intervention and have invested heavily in this area. This investment has paid off as they consistently lead international comparisons in terms of child welfare and general wellbeing. Notably, over 80 per cent of Swedish mothers with children aged three to five are in some form of employment. In Australia it is only about 50 per cent.<sup>21</sup>

The Benevolent Society's snapshot on *Early action to improve lives and break the cycle of disadvantage*,<sup>22</sup> summarises the case for boosting early intervention and strategies needed to improve the long-term outcomes of Australian children, especially those experiencing disadvantage. These include:

- improving support for 'at risk' parents of infants, young children and pre-natal, through home visiting, parenting education and improved access to early childhood education and care
- access to integrated services in the key areas of maternal and paediatric health services, parenting education, family support, early learning/preschool education programs and other social services

<sup>19</sup> Discussed in detail in Moore, T.G. and McDonald, M. (2013). [Acting Early, Changing Lives: How prevention and early action saves money and improves wellbeing](#), prepared for The Benevolent Society by the Murdoch Children's Research Institute

<sup>20</sup> Heckman, J.J. (2000). Invest in the Very Young. Chicago, Illinois, Ounce of Prevention Fund and the University of Chicago Harris School of Public Policy Analysis

<sup>21</sup> Van der Hoeven, M. (2010). *Lessons from Sweden: affordable child care for Australia*

<sup>22</sup> The Benevolent Society (2014) [Early action to improve lives and break the cycle of disadvantage](#), Social Issues Snapshot

- more effective planning and resource management, with a much greater level of collaboration between different government departments, levels of government and between government and non-government services.

The provision of government subsidies for child care is the subject of a major inquiry by the Productivity Commission and we will not comment on this topic further here, except to say that the Benevolent Society strongly recommends that early childhood education and care subsidies be better targeted to disadvantaged and low income families.