In common with the rest of the world, Australia has seen a large increase in inequality in the distribution of income and wealth since the mid-1970s, an increase evident both in wage and total income. Despite a paucity of official statistics, current levels of inequality are certainly at a post-war record and approaching the levels of private inequality exhibited at the peak of the Depression of the 1930s.

Some of us would argue that this is no mere coincidence, but that rising levels of economic inequality give rise to the conditions which precipitate both the occurrence and depth of a severe economic recession/depression. Regardless of one’s economic views, however, it is clear that this increased economic inequality has brought with it all the attendant increases in social inequality—manifested in the areas of health (both physical and emotional), homelessness, violence, suicides, alienation, discriminatory behaviour and social immobility. In other words, there is a far more limited capacity for many to realise the opportunities and choices that political rhetoric would suggest are available to all Australians at birth.

A survey of all the evidence of inequality and poverty would indicate that even after a decade of a Labor government rhetorically and institutionally committed (via the Accord) to social justice, the numbers of people living in poverty have risen. In fairness, the emphasis here is on ‘even’, because the government has through its social security and social wage policies increased the real income of those in poverty. The rich have got richer but so have the poor. Indeed, it is the existence of that social safety net that differentiates the 1990s from the 1930s. But this too is under renewed challenge as eligibility conditions are tightened in response to now orthodox economic shibboleths.

Moreover, more Australians now are vulnerable or in high risk of being in poverty. The relative losers over the last decade and a half have been lower-paid working families. In a more volatile employment market, many more of them are now toppling off the tightrope of economic security and independence. While the government has done much to reduce inequality between people in different family circumstances—horizontal inequality based on differing needs—it has been swamped by the increase in vertical inequality. Poverty has become less a transitory state consequent upon one’s stage in the life-cycle and more a permanent trap.

In particular, despite sporadic bursts of economic growth in income terms, the latter part of the 80s and early 90s have seen rapid increases in the level and permanence of unemployment. It appears that while economic downturns translate rapidly into large increases in unemployment, economic

If government is serious about tackling inequality, says PHIL RASKALL, it may have to do the unthinkable: raise taxes.
upturns are much slower in generating fewer permanent jobs. The extent to which this has occurred has given rise to talk by sociologists of a permanent underclass, whose participation in the paid workforce (and attendant full participation in a market-based society) is either non-existent or marginal.

It is not just sociologists who have come to recognise the more permanent state of poverty and inequality:

One of the unremarked tragedies of the past decade is the destruction of Australia as a classless society and the constant attrition to workers' living standards. No system of government can survive indefinitely if society is split into a privileged, wealthy class and a permanent underclass. This would be the ingredient for instability, civil disruption and revolution.

These words are not the call to the barricades of an unreconstructed marxist, but the considered views of John Hewson, in his Alfred Deakin lecture of late last year. In less flamboyant language Paul Keating has reiterated that this election is about the social justice direction of Australian society.

With the election of a new government on March 13 for a three-year term, what can a government truly committed to reducing levels of social injustice realistically achieve? The first reality is that no government can do much to redress inequality before the middle of this decade and that no government can stand alone against the capital flows of international financial forces, now that we are so integrally tied to that system. There is no quick fix. Indeed, research in our Social and Economic Inequality Study at the University of NSW suggests that trends in inequality tend to follow long-term cycles of at least two decades and that the forces giving rise to the process of inequality are so endemic that governments in the shorter term can merely react and mitigate but not reverse immediately.

Political parties of all colours have made numerous florid claims over the past decade and a half about how, with simplistic monocausal policies, they are going to resolve the problem of inequality. All of this has left the poor, the unemployed, the sick and the disenfranchised devalued of the one significant asset they retain—their hopes and aspirations to make real choices. The very least that the Australian people should expect is that the government truly committed to reducing levels of social injustice will not, through its primary and secondary redistributive policies, make things worse, and that it will set in motion forces which, in the longer term will help reverse current trends.

Any attempt to strengthen the social justice commitment of government requires a fundamental attitudinal shift in our social ethos and goals and a paradigm shift in the conceptual framework adopted by both policy-makers and the economic advisers. Until then we are only going to be playing at the margins.

The most significant cause of inequality, in a society where work and reward are the benchmarks of success, is unemployment and underemployment. To this extent, the prime focal point of the government must obviously be jobs. It is no coincidence that the turning point of economic inequality in the mid-70s coincided with the rejection of the Keynesian definition of full employment (about one to two per cent) and the acceptance of the so-called 'natural rate of unemployment' (about six to seven per cent) based on the pre-eminence of minimising inflation. Moreover, this recession is unique in occurring at a time of massive structural adjustment. Enterprise reorganisation and industry restructuring have have been mostly been labour-displacing and new technology is labour-replacing. Any attendant income growth has either been insufficient or too narrowly based to generate employment growth elsewhere.

Unpalatable though it may seem to the upholders of orthodoxy, the response to this must be a circuit-breaker. There must be a halt to the current pace of tariff reduction programs until we can afford the transition costs involved—particularly in those labour-intensive industries employing a workforce susceptible to marginalisation. At least this would slow the haemorrhaging of existing jobs while attention can be properly directed to the growth of new jobs and the matching of skills required. Taken in conjunction with a range of other measures such a delay could work to our advantage.

At this point the debate usually becomes sidetracked into arguments about a more interventionist industry policy, and decisions as to who picks 'winners and losers'. The realistic response is that in the short term the market will determine that and the best we can hope for is that government will provide seeding subsidies to expand potential markets such as in the environmental/conservation and product/process innovation areas. We should not be wasting public funds with a blanket series of 'me too' incentives to business which do not differentiate between need, accountability or performance.

One class of program to which the government should give thought is 'Marginal Employment Subsidy' schemes. These provide a benefit to firms in terms of specific objectives only if they employ more people over the entire enterprise. Such corporate accountability for business welfare is more readily adaptable to differential industry and enterprise groups in accord with direct employment objectives than other forms of 'industry assistance'. Certainly, the ad hocery and corporate bluffing of current industry policy needs revamping.

More immediately, if employment is a real community goal and employment growth is not necessarily related to income growth, the next shibboleth to break is the deficit. In blunt terms, a bit of Keynesian pump-priming is necessary. If, in a seri-
ous recession, governments are committed to the maintenance, albeit strained, of a social safety net, the budget will inevitably go into deficit. But this kind of deficit is a deficit of despair rather than a productive social infrastructure foundation for future welfare. One of the strong conclusions of our research at the Social and Economic Inequality Study has been the significance of the social wage in restraining the growth in inequality over the last decade. It should be remembered that the net accounting cost to government of unemployment and inequality through lost direct and indirect tax revenue and increased social expenditure is only marginally less than the provision of an award wage job. Increased expenditure by government in labour-intensive areas of domestic production would add little to the deficit in the short run.

One area which stands out, given its domestic employment multipliers, is public housing expenditure—doubly so because it can reduce the expenditure side of poverty. Similarly, government needs to undertake a far larger scale public sector job creation program linked to education and training programs if we are to match the skill changes attendant on structural change.

The key underlying concern in all of the above is to raise the importance of employment as an explicit objective of policy as against the single-minded pursuit of income growth—the translation of which into welfare benefits depends in part on the current level of inequality.

To some extent, the expenditure sides of both One Nation and recent government initiatives reflect a move in this direction. However, in both cases, the short-term fiscal injection has been delayed partly because of the nature of some of the projects (too large, too capital intensive) and partly because of the inability of other governments to translate rhetoric into action. One mechanism to improve the speed of transmission might be to take the decision-making powers away from state governments and place them in a body charged with assessing the employment impact (and consequent priorities) of direct and indirect Commonwealth government expenditure. Such a move would also serve to symbolically raise the importance of the employment objective as a community goal.

The danger of this emphasis on jobs and more jobs is to ignore the other side of the inequality equation—the income and living standards of those employed. Job creation programs (such as labour market deregulation) which permanently reduce real wages and create unequal working conditions must be resisted. Already, it is those families in the third, fourth and fifth deciles that have suffered the most in changes in relative living standards (notwithstanding the Family Package) and who are most vulnerable to casualisation and other labour market changes. These are the so-called working poor: mostly single income families, including sole parents with some access to the labour market, along with some lower-paid two-income families. These latter may well benefit from anti-discrimination changes to gender segmentation and the value placed on women's work. Until then they will continue to be vulnerable unless due weight is given to the significance of the social and industrial wage to their economic independence. It is important to maintain centralised mechanisms which don't just stop them being exploited but can actually serve to raise their living standards. If this cannot be done through a fully centralised wage system, it must be done through other mechanisms of government redistribution, notably the tax and social wage systems.

Nevertheless, despite various sorts of rational job creation measures, we may still be left with a high level of permanent unemployment reflecting the changing nature of capitalism in an era of capital-intensive technology. How do we need to adapt our social security policies, which are currently based on acceptance of the notion of full employment, to more adequately cater for permanent unemployment? Is it appropriate, for instance, to treat the long-term unemployed over 50 as old-age pensioners, as we seem to be doing at present? Is it appropriate to use the education system as a form of short-term 'baby-sitter' or are we really just creating a class of highly-educated unemployed? Paradoxically, the more people who have post-secondary training the less the employment value of that training. What value a diploma if the other 30 applicants for the vacancy also have one? And of course the more universal such training the more disadvantage and inequality people suffer if they are unable to obtain it. Hence, if education and training are still to be vigorously pursued, we need to dramatically expand its availability so that the opportunity for discriminatory screening out does not occur.

What alternative work options need to be developed? One outcome of a review of the future of work may well be a more flexible social security system better geared to the realities of the labour market and Australian society in the 1990s and beyond. For instance, it would seem appropriate to re-examine the notion of a Guaranteed Minimum Income Scheme that takes less account of people's particular current circumstances and places more emphasis on basic entitlements to cash and non-cash income support mechanisms. This would take away much of the punitive nature of 'work-testing'. More particularly, it would enable the development and application of more flexible policy alternatives of labour market participation and income support.

Within the current social security system the government will need to address the anomalies that are arising from the development of a two-tiered retirement system based on occupational and state

"Is it appropriate to use the education system as a 'baby-sitter', or are we just creating a class of highly educated unemployed?'
'Despite the hysteria of the early 1980s, the capital gains tax is now an accepted and important part of the tax system.'

pensions. The interaction of the first, based on individual accumulations of funds from income, and the second, based upon family circumstances, will lead to severe anomalies which could well disadvantage those whose working life will not provide them with sufficient superannuation. And as our notions of social justice and inequity begin to acknowledge a spatial component—particularly through differential costs of housing—there is a clear necessity to make rent assistance more locationally-oriented to reflect need.

There is one other vital mechanism of redistribution available to government—the taxation system. The best we can expect is that, upon election, the new government admits that the magnitude of the task in front of them is such that they have to postpone proposed income tax cuts. Unless they have stacks of kids, anyone earning under $25,000 a year loses out under Labor and anyone under about $30,000 under Fightback!

The problem is compounded by the current trend of announcing tax programs which lock up all available revenue over the entire course of an election period and beyond. The government has already precommitted revenue from the 1996/97 budget. This dramatically reduces the potential for redistribution within the life of the next parliament unless the government explicitly changes the current tax system or introduces new taxes. If sanity prevails what is realistically achievable?

First, rather than tax reductions, it is time to contemplate tax increases—to provide both the revenue for expenditure measures and restore the redistributive progressivity of the direct tax system. In the most recent five-year period Commonwealth revenue has fallen by over three percent of GDP—more than ten percent less than it would have been if the ratio to GDP had been maintained. Most of this went to higher income earners. Of course, tax increases can create more unemployment by reducing domestic demand. Hence they should be borne disproportionately by higher income earners whose expenditure contains a higher import content.

If direct tax increases are politically unrealistic, tax cuts should, in principle, be directed towards low-income earners. The problem is that, in practice, we cannot target these effectively under current mechanisms. Even the most progressive move, raising the minimum tax threshold, provides equal dollar value cuts to all taxpayers. One way around this is to introduce a tapered threshold, the benefit of which is progressively reduced and then eliminated as income increases. Whether such a radical change to the personal income tax system is realistic within the next three years is unlikely without a major change in community attitudes. In any case, in order to provide some tax relief for lowest-income taxpayers, the government should raise the tax-free threshold.

Equally necessary, but equally problematic in a three-year term of government, is some change to the taxation treatment of dividends. If there was one government-directed move over the 80s which dramatically increased after-tax income inequality it was the introduction in 1987 of dividend imputation—ostensibly to remove the so-called 'double taxation' of dividend income. In 1988-89, for instance, the 3053 taxpayers with taxable income exceeding $500,000 received $834 million of income which was previously taxable. That these top income earners didn’t hesitate to ‘rip out the dividends’ with consequent effect on corporate funds for reinvestment can be gleaned from the fact that in 1986-87 such dividends in the same group totalled a mere $11 million. The average tax liability of these individuals actually fell by about $150,000. Conversely, the average corporate tax rate as a proportion of company income has not increased. What can plausibly be done about this, short of reversing dividend imputation? One option worthy of exploration might be to reverse the emphasis—that is, to make all surpluses of corporate entities tax-free at the company level but fully taxable in the hands of shareholders. Coupled with an industry and employment policy linked to the investment of retained earnings, that at least might have beneficial efficiency effects, rather than being dissipated in higher import demand. It might also serve to raise the stock of internally-generated capital.

Finally—and this extends into the grey areas of ‘realistic’ advice for a three-year term—it is apparent that the options for progressive tax reform with the existing tax arrangements are severely limited. That raises the question, if the will is there, of new taxes. If reducing inequality is a real and explicit goal of government, then the question of taxes on capital must be addressed. Despite the hysteria of the early 1980s, the capital gains tax, albeit in much reduced form, is now an accepted and important part of the tax system. It could be extended with deemed realisation on death to embrace an inheritance tax, or more explicitly, a capital transfer tax on gifts incorporation inheritances. As it stands, some 40% of wealth is inherited tax-free—which flies in the face of all equity and efficiency considerations. The question is how serious the government and the Australian people are about reducing inequality.

This brings us back to the starting point for this article. Unless inequality and its causal factors are raised as explicit and operational goals, it will never be reduced within the terms of one, two or three governments, without a major external shock to the economic and social system. If, on the other hand, the levels, implications and costs of inequality are recognised, then what may at first glance seem ‘utopian’ policies become not merely realistic but an economic necessity.

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