

Address to the *New Agenda for Prosperity* conference

Melbourne Institute of Applied Economic and Social Research

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Introduction – it’s the future, stupid

When it comes to discussions of inequality and prosperity, this is the time to have our minds focused firmly on the future.

Too often at conferences such as this we waste effort and time on examination of the entrails of existing or past policies at a time when, in reality, the aggregate picture is not contested. I suggest that this is such a time. Since the last Economic and Social Outlook Conference 18 months ago, I detect a broad consensus has emerged about how our nation currently stands in relation to fairness and prosperity. Whilst we can’t predict the future, the Australian people do expect us move on and to try to anticipate some of the economic and social challenges that are likely to come.

Its in this spirit I want to put forward some ideas that we at the Brotherhood believe will contribute to sustaining prosperity and making strategic inroads into poverty in Australia.

A situation appraisal of inequality and prosperity

With this in mind, let me venture five aspects about our current situation which we could all accept and use as a basis for facing up to future challenges.

First, let’s accept the overwhelming evidence from bodies like NATSEM that disparities in incomes have not changed much in the last decade.

Second, let’s accept the evidence that disparities in wealth have widened, particularly from the perspective of those who don’t own a home.

And third, let’s accept also that while our national prosperity has increased, and official unemployment is at record lows, significant numbers of Australians are not benefiting. The unemployed, the underemployed, and the marginally attached make up the more than one million Australians struggling to get a foothold in the world of work. And there are sharper indicators. For instance, every night around 14,000 Australians sleep rough, and some 100,000 suffer some form of homelessness including about 10,000 children less than twelve years of age – a situation the Prime Minister has deemed “unacceptable”. None have disagreed with him.

Fourth, let’s accept that those who aren’t benefiting are people much like you and me. They are generally people with modest mainstream aspirations to work, to have a decent place to live and to have family – and it should be realistic for them to pursue these aspirations. This is evidenced in large-scale successes by the likes of Rio Tinto

which has brought 1200 Indigenous people into well-paid jobs. It's also evidenced in small-scale success by the likes of the Brotherhood where we have brought the very long term unemployed and the disabled people into work, utilising an innovative intermediate labour market approach.

And fifth, the current situation of skills and labour shortages is likely to continue in aggregate terms for the better part of the next two decades.

Our experience at the Brotherhood is that there are a large and growing number of people in our community who are increasingly uncomfortable that so many have been left behind like this, especially in times of plenty.

This includes many, many businesspeople – people who tend not to be driven not just by moral sentiment but by rational economic calculation. They know from the daily experiences of their businesses that there is a connection between our failure to adequately educate and train so many people and the skill shortages and inflationary pressures that are holding back their companies.

You will have read the recent statements on this subject by the incoming president of the Business Council of Australia.

I can assure you that in making those statements, the BCA wasn't succumbing to an unaccustomed bout of softness; it was simply listening to its members.

The Brotherhood has been listening to the same businesspeople – 300 of whom just four weeks ago attended a working breakfast held to help connect potential employers with out-of-work recent refugees.

If you listen closely enough, it quickly becomes obvious that something is changing.

What I've been witnessing over the last year or so, accelerating with the election of the Rudd government, is the emergence of a new coalition of people calling for big changes in how our welfare system works.

These people are drawn from small and big business; local, state and federal government; the federal Treasury; economic think tanks and university departments; and welfare organizations.

Gradually, these people are shifting opinion in favour of a new wave of economic reform that emphasises investment in human capital as a way of jointly reducing inequality and sustaining economic prosperity.

A human capital agenda

Success will involve a number of crucial elements.

The first is rigour in human capital investments. We need to understand with greater precision this relationship between investing in people – their education, their health and their housing – and the economic returns it can produce. And where the return on investment is a moral one and not an economic one, we need to be transparent about

it. Many have adopted the rhetoric of investment without truly understanding the critical metrics to the investment necessary to bring the disadvantage into the mainstream economic and social life of the nation. I believe this lack of certainty leads us to invest the least we can and accept outcomes that may be far less than what could be possible.

The second is a new framework to guide our investment efforts. Relying upon the safety net approach of past decades leaves too many marooned without the capacities to take advantage of the opportunities the new economy offers.

The Brotherhood's research points to the need to concentrate investment in people around the major transition points of their lives: the early years, school-to-work, in and out of work during working years, and retirement-to-ageing. This more strategic approach to social investments reflects the new risks inherent in an economy that places a premium on education, flexibility and the social infrastructure we have to support our workplace role.

The multi-dimensional nature of modern day disadvantage also needs to be recognised. Factors such as poor health and education, geographic isolation, inadequate transport and limited social networks, often in combination, exclude people from jobs and social participation. This is where the Rudd government's adoption of a social inclusion agenda will be essential if we are to seriously address the participation and productivity challenges facing the nation.

The third is a strategic plan that tells us not only where we want to go in the longer term, but where best to begin allocating resources now. Morality and common sense tells us that we need to begin by giving priority to certain groups of people and to certain places – most notably people in remote indigenous communities, young homeless adults and their children, people with physical and mental disabilities, and the postcodes and neighbourhoods with the highest concentrated disadvantage. In the first stage of the strategy this means that these people and places will be given privilege over others – a difficult electoral bullet to bite but better than spreading resources thinly to no effect.

The fourth is getting governance right.

We live in a diverse country, with each community having its own mix of economic base, cultural difference and social problems. Uniform national programs run out of Canberra will not meet local needs. Only devolved governance structures can hope to maximise the effective allocation of resources and integrate programs at the local level without involving a labyrinth of bureaucracy. So if we are serious about economic reform we must have the courage to regionalise economic policy and trust communities to allocate significant educational, health and welfare resources.

This is even more fundamental than the challenges thrown up by our federation – as significant as they are. This involves governments getting out of the way and allowing local solutions to emerge with public accountability for high-level outcomes rather than highly specified processes.

This is a big change to the way we are currently governed. And those in government will no doubt point to the risks. But I ask you to point to any endeavour that had major breakthroughs that did not involve risk.

Fifth and finally, of course, it will take money.

In the lead-up to the federal Budget, the opinion pages of our newspapers are bulging with argument about the need for the new federal government to bite the bullet on the issue of tax reform. At the risk of being accused of flattering our sponsor, let me say the stand-out winners in the debate so far have been *The Australian's* Mike Steketee and George Megalogenis.

Mike and George have hit on something that has got people's heads nodding – the need to rein in the worst aspects of the tax transfer and deductions system created by the Howard Government, variously labelled 'middle class welfare', 'upper middle class welfare', 'upside-down welfare' and a 'frequent flyer points tax system'.

It's time for decent tax reform to ensure our taxes are raised in the most transparent and progressive way. We need to change the way we view taxation: we have to stop seeing it as a device for churning tax back to taxpayers, and start see it as part of the new 'nation building' agenda for government, involving investment in human capital, infrastructure and social inclusion. We need to strengthen our tax base to give us the wherewithal to invest in people and to encourage and enable greater workforce participation, as well as to maintain a fair and just society.

We should be looking to broaden the income tax base eliminating some of the more outrageous deductions, concessions and loopholes, like the massive capital gains tax concessions and negative gearing deductions that almost everyone concedes have given us some of the highest house prices in the world and provoked a rental crisis that is causing homelessness.

We of course have to be careful when making changes of this kind. Many low to middle income households actually rely on various family payments to keep themselves above the bread line. A little 'churn' is preferable to driving more children into poverty. And the last thing we want to do is inadvertently cause chaos in an already overstressed housing market.

So what we need is a major review of Australia's tax and benefits system to enshrine the principles of fairness, efficiency and transparency. It could be the right forum for airing cool, calm ideas to gradually remove the most regressive benefits of our tax system and unravel the Gordian knot of housing concessions and deductions we've unwittingly created.

It could ease us into a situation where Australia's capital is invested in producing more affordable purchase and rental housing and in creating a stronger and more productive economy. Julian Disney has proposed a number of sensible housing-related ideas from which such a review of taxation could profitably draw.

Equity and sustainability

I mentioned at the start the need for us to try to anticipate some of the economic and social challenges of the future. One of those is climate change.

Professor Ross Garnaut has recently acknowledged that one of the answers to climate change – the pricing of carbon through a tax or emissions trading system – will potentially impact heavily on low income earners and those in industries and communities vulnerable to climate change.

The Brotherhood today released the latest in a series of new research reports that proves that Professor Garnaut and others are absolutely correct in this assessment.

Research commissioned by the Brotherhood into the financial impact on Victorian households of pricing carbon has found that without compensating policies, emissions trading could be highly socially regressive.

The research finds that pricing carbon at \$25 per tonne would add 2.5 per cent to the weekly cost of living to the poorest households and potentially push another 206,000 Victorian households below the poverty line, defined as 50 per cent of median income.

And pricing it at \$50 per tonne would add 5.1 per cent to those same budgets and potentially push 409,000 more Victorian households below the poverty line.

Remember, some like Nicholas Stern have suggested the price of carbon could be as high as \$110 per tonne.

The research is clear: unless we act, we're in danger of creating a new group we call "the climate change poor".

In the Brotherhood's view, the federal government must resist the massive pressure now being brought to bear on it to hand out emissions trading permits free to affected businesses. Instead, the permits should be auctioned – which the Garnaut Report's commissioned research estimates will raise between \$7 and \$20 billion – with the proceeds used to fund a number of important measures:

- Energy efficiency assistance programs to assist low income households reduce their carbon consumption. The best way is to help them adapt and make them part of the solution, but we can't afford to be pure about this. Given the substantial amount of work this will take, and some of the long lead times involved, financial compensation will be needed, at least in the transition period.
- A human capital plan to ensure that people trying to get a foothold in the world of work, and those in vulnerable industries and with vulnerable skills, gain the qualifications they need to succeed in a sustainable economy. With demographic pressures set to reduce the pool of available workers further, we can't afford to repeat the mistakes of the last 30 years when we failed to match

economic reforms with adequate social policies and human capital investments to help affected communities and individuals adjust.

- Urban planning initiatives that house low-income families closer to public transport, while increasing the availability and quality of public transport services.

Conclusion

The best way to sustain and share prosperity is to invest in the capacities of all our people.

It will take a new emphasis on human capital, and an acknowledgment of the reality of emerging issues like climate change.

And it will require the securing of revenue by strengthening the tax base, including putting some of the proceeds of carbon pricing to the benefit of everyone.

The majority are now coming to realise that this approach offers the brightest future for Australia.