



Catholic Religious Australia Submission to the Select Committee on the Cost of Living

11 MAY 2023

Catholic Religious Australia (CRA) welcomes the opportunity to make a submission to the Select Committee on the Cost of Living, to inquire into and report on:

- a) the cost of living pressures facing Australians;
- b) the Government's fiscal policy response to the cost of living;
- c) ways to ease cost of living pressures through the tax and transfer system;
- d) measures to ease the cost of living through the provision of Government services; and,
- e) any other related matter.

CRA is the peak body representing the Leaders of 150 Catholic Religious Institutes and Societies of Apostolic Life which operate in Australia. Our religious institutes comprise about 5,000 Catholic religious women and men, working in education, health care and social welfare, including aged care and disability support.

The cost of living pressures facing Australians

In Australia, as is occurring around the world, individuals and families have been dragged into poverty by the current "cost of living crisis." Supply shortages of goods and services as seen in the wake of the COVID-19 pandemic, severe weather conditions in Australia and globally, and the war in Ukraine, has greatly inflated the associated price of goods and services both internationally and nationally.¹ Recent interest hikes by the Reserve Bank of Australia (RBA), are adding to immense financial strain on everyday Australians, hampering their ability to afford basic goods, including housing, food, energy, petrol and essential health services.

Data from the Australian Community Sector Survey of September 2022, completed by community sector staff, found rising levels of community need and shortages of capacity to meet demand for community services during 2022.² Hardest hit, according to the RBA's April 2023 Financial Stability Review, are those on lower incomes, including many renters, and relatively recent borrowers who have larger debts (relative to income); smaller businesses; and some building construction firms.³ Young People (Millenials and Gen Z) are financially struggling both globally⁴ and in Australia,⁵ with the recent 'Community Attitudes Survey' by the Smith Family finding that 1 in 6 young people are currently experiencing poverty, with an expectation that the cost of living crisis will cause this figure to worsen over the next year.⁶ Other demographics disproportionately impacted include women, especially single women who are elderly or with children,⁷ and those on government concessions, including people living on JobSeeker, Youth Allowance, the Aged Pension and Parenting Payment, who are reporting malnutrition, inability to afford essential medication and the imminent threat of homelessness.^{8,9}

CRA believes that every individual should have equitable access to the resources they need, not only for their basic needs, but also to live fulfilled lives, whereby employment in safe, secure and gratifying

¹ <https://hbr.org/2022/12/what-causes-inflation>

² <https://www.acoss.org.au/helping-people-in-need-during-a-cost-of-living-crisis-findings-from-the-australian-community-sector-survey/>

³ <https://www.rba.gov.au/publications/fsr/2023/apr/pdf/financial-stability-review-2023-04.pdf>

⁴ <https://www2.deloitte.com/content/dam/Deloitte/at/Documents/human-capital/at-gen-z-millennial-survey-2022.pdf>

⁵ <https://www.finder.com.au/gen-z-cost-of-living-report-2023>

⁶ <https://www.thesmithfamily.com.au/media/stories/community-attitudes-survey-2023>

⁷ <https://www.ahuri.edu.au/analysis/brief/what-are-real-costs-australias-housing-crisis-women>

⁸ https://www.acoss.org.au/wp-content/uploads/2022/09/ACOSS-cost-of-living-report_web_v02.pdf

⁹ <https://nationalseniors.com.au/news/featured-news/how-is-the-rising-cost-of-living-affecting-you>

work is balanced with adequate rest and recreation time. The current cost of living crisis is threatening this right for a number of individuals and families by limiting their ability to access both non-discretionary and discretionary goods. Additionally, the strain on household budgets is causing some to seek secondary employment in order to make ends meet.¹⁰

We appreciate that the government has taken short-term actions to provide immediate relief to those in dire need of assistance, including the temporary energy price cap and the anticipated \$15 billion cost of living relief announced in the upcoming May 2023 Federal Budget,¹¹ and we trust that short term relief will continue to be provided.

Importantly however, we call on the government to investigate possible determinants that have led to the current state of inflation, recognising that some of these have been temporary global events, while others are more permanent systemic injustices, which will continue to provide economic challenges into the future if not addressed. This submission will address a number of possible determinants, highlighting what we feel to be deep-seated injustices in the Australian economy, requiring a long-term approach of systemic change to create an Australian economy that ultimately serves the common good.

Profit-price Inflation

Several economists globally¹², including Fabio Panetta, member of the Executive Board of the European Central Bank,¹³ have stated that inflation would not have been driven so high if major corporations and businesses were not turning enormous profits during this period of a cost of living crisis. Indeed, research from the Australia Institute's Centre for Future Work has stated that 69% of excess inflation (above the RBA's 2.5% target) since the end of 2019 has arisen from higher unit corporate profit margins.¹⁴ This was predominantly seen in the mining sector, whereby gross corporate operating profits rose by 89% between end-2019 and end-2022 as a result of vast increases in prices charged to purchasers for fossil fuels, pushing Australian inflation beyond the RBA's target range following COVID lockdowns. Subsequently, over half of all corporate profits in the Australian economy now belong to the mining sector.¹⁵

Centre for Future Work has stated that we are also witnessing substantial gains in corporate profits in wholesale trade, manufacturing, transportation, and other strategic sectors, whereby businesses have been able to use supply chain disruptions and resultant consumer demand, coupled with oligopolistic market power, to raise prices above production costs.¹⁶ This means that not only is the broader Australian population suffering from the unjust price hikes of goods and services by the mining and other sectors, it is also paying the price for that inflation that they did not cause, as a result of the escalation of interest rates by the RBA.

¹⁰ <https://www.finder.com.au/gen-z-cost-of-living-report-2023>

¹¹ <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/gas-price-cap-take-effect>

¹² https://scholarworks.umass.edu/econ_workingpaper/343/

¹³ <https://www.ecb.europa.eu/press/inter/date/2023/html/ecb.in230401~ec65174af7.en.html>

¹⁴ <https://futurework.org.au/report/profits-and-inflation-in-mining-and-non-mining-sectors/>

¹⁵ <https://futurework.org.au/report/profits-and-inflation-in-mining-and-non-mining-sectors/>

¹⁶ <https://futurework.org.au/report/profits-and-inflation-in-mining-and-non-mining-sectors/>, page 1.

Further, a recent report by the Australia Institute, *Inequality on Steroids: The Distribution of Economic Growth in Australia*,¹⁷ has found that between 2009-2019, 93% of the gains from Australia's economic expansion went to the top tenth of income recipients, largely represented by oligopolies of Australian businesses and corporations. This means that a mere 7% of the benefits was received by the bottom 90%, highlighting an entrenched inequality in the Australian economy.

Free markets have the potential to serve as an outlet for human creativity and promote the efficient provision of goods and services, but must be moderated by a healthy culture of corporate social responsibility and the ability of governments to place the markets at the service of the common good. Profiteering businesses should thus consider their role in the current cost of living crisis, and develop healthy cultures that value corporate social responsibility, moving beyond narrow 'shareholder' and 'profit-driven' models of operation. While we believe in the ethical obligation to act responsibly as an end in itself, doing so can greatly benefit businesses, through improving their public image and reducing the government regulation to which they are subject.

In the absence of current, widespread corporate social responsibility, CRA calls on government regulators to investigate the possible role and extent of a profit-price driven inflation, and for the government to consider responses that could include price caps in strategic markets and a reform of the taxation system to better redistribute the accumulated excess wealth of the top 10%, mitigating the current inflation in a more just and effective way. This should include reconsideration of the proposed Stage Three Tax Cuts, which will only serve to further decrease marginal tax rates for the top income earners, rather than more fairly distributing the economic profits gained by this bracket.¹⁸

The Housing Market

The cost-of-living crisis is also being fuelled by a housing crisis, with inflated costs and falling vacancy rates being felt by renters, and the average owner-occupier experiencing steep mortgage increases. This is occurring against a backdrop of many young people being priced out of the housing market. A pre-existing system of tax concessions (such as the Capital Gains Tax Discount), negative gearing and weak lending regulations, is favouring wealthy investors over the everyday (especially younger) Australian, creating a gross inequality whereby almost three-quarters of the benefits of the capital gains tax goes to the top 10% of households by income, and more than half of the \$4.3 billion annual benefit from negative-gearing tax cuts goes to the top 20% of households by income. Beneficiaries are predominantly aged in the over 50 age bracket.¹⁹ This has been coupled with a history of government disinvestment in social housing or other affordable forms of housing.²⁰ Less than 4% of all homes are

¹⁷ <https://australiainstitute.org.au/wp-content/uploads/2023/04/Inequality-on-Steroids-Who-Benefits-From-Economic-Growth-in-Australia-WEB511-copy.pdf>

¹⁸ <https://australiainstitute.org.au/post/the-stage-3-tax-cuts-are-so-g geared-towards-the-rich-that-most-workers-will-pay-more-tax-in-2025-than-they-did-in-2022/>

¹⁹ <https://theconversation.com/friday-essay-how-policies-favouring-rich-older-people-make-young-australians-generation-f-d-199403>

²⁰ <https://theconversation.com/friday-essay-how-policies-favouring-rich-older-people-make-young-australians-generation-f-d-199403>

government-owned today²¹ and over the past three years, the Productivity Commission reports that social housing waiting lists have conversely grown by over 17%.²²

This system is creating inter- and intragenerational inequality, locking young people out of affordable home ownership, as well as a number of low-income people, older women, those with disabilities, and Aboriginal and Torres Strait Islander people.²³ With the lack of available social housing, the only viable alternative is the rental market, with over 60% of people aged under 30 currently renting.²⁴ Renters are currently experiencing a surge in pricing, which has grown nationally by 15% over the past year, while simultaneously vacancy rates have fallen to less than 1%.²⁵ This has left renters vulnerable to undignified conditions, including insecurity of tenure, price gouging, abuse from landlords, rent-bidding, and sadly, homelessness.

CRA applauds the government's tabled Housing Australia Future Fund, which is set to pay for 30,000 social and affordable housing units to be built in its first five years. Yet this represents only a fraction of the proposed 216,000 extra dwellings presently needed²⁶ and further government funding into affordable housing is therefore urgently required.

UNSW housing policy experts from the City Futures Research Centre have also suggested that Australia's planning systems could mandate the routine inclusion of affordable housing within private residential developments, whereby a proportion of floorspace of private developments must be reserved for social or affordable housing, as a cost borne by the landowners.²⁷ Again, while this could be government mandated, it would also provide another opportunity for profiteering businesses and investors to exercise greater corporate social responsibility.

This must also be accompanied with an end to the subsidisation of private investors. We recognise that such an approach may need to be phased, as the investor-dominated housing market is also the backbone of Australia's banking system, with 65% of the big four banks' liabilities consisting of private mortgage loans.²⁸ CRA therefore calls for a targeted phase-out of the capital gains tax discount and negative gearing for the wealthiest of investors, who disproportionately benefit from this tax system, and whose purchases inflate housing prices and crowd out many potential first home buyers. This is

²¹ <https://theconversation.com/friday-essay-how-policies-favouring-rich-older-people-make-young-australians-generation-f-d-199403>

²² <https://theconversation.com/yes-the-1-5-million-australians-getting-rent-assistance-need-an-increase-but-more-public-housing-is-the-lasting-fix-for-the-crisis-200908>

²³ <https://theconversation.com/friday-essay-how-policies-favouring-rich-older-people-make-young-australians-generation-f-d-199403>

²⁴ <https://theconversation.com/friday-essay-how-policies-favouring-rich-older-people-make-young-australians-generation-f-d-199403>

²⁵ <https://theconversation.com/friday-essay-how-policies-favouring-rich-older-people-make-young-australians-generation-f-d-199403>

²⁶ <https://theconversation.com/yes-the-1-5-million-australians-getting-rent-assistance-need-an-increase-but-more-public-housing-is-the-lasting-fix-for-the-crisis-200908>

²⁷ <https://newsroom.unsw.edu.au/news/social-affairs/housing-crisis-five-initiatives-should-be-nsw-election-agenda>

²⁸ <https://theconversation.com/friday-essay-how-policies-favouring-rich-older-people-make-young-australians-generation-f-d-199403>

not a new suggestion, with many calling for such a reform of the tax system over a number of years.²⁹ Doing so could make the Australian housing market more sustainable and equitable, while also reducing enormous costs for the federal budget,³¹ raising billions of dollars that could be used on those hardest hit by the cost of living crisis.

Fossil Fuel Dependency

The Australian energy market is experiencing major inflation, due to the war in Ukraine causing a shortage of gas in the global supply chain. The Climate Council has explained that Australian households have been subject to huge price spikes for their fossil fuel-powered energy, with the wholesale price of gas having almost tripled in the space of a year. In March, the Australian Energy Regulator (AER), in its draft Default Market Offer, also predicted a further power price rise of up to 20 - 25% for the 2023-24 period.³²

Approximately 40% of Australian household energy is powered by gas, while 80% of Australian-sourced gas is sent overseas, leaving our energy sector bound to an ever-volatile international market.³³ Ongoing dependency on these energy sources therefore leaves everyday Australians vulnerable to external market forces. In their 'Switch and Save' Report,³⁴ the Climate Council have shown how Australians could therefore save hundreds to thousands of dollars each year by moving away from gas-powered appliances to more sustainable alternatives, such as solar panels and electric heat pumps. This is in addition to the benefits of emission reduction achieved by moving away from fossil fuel powered energy - electrical appliances have the capacity to become less emissions intensive as our electricity grid moves towards renewable power sources.

However, the report has also shown that many households may struggle with the upfront costs associated with the swap to sustainable alternatives. They have therefore proposed government initiatives to subsidise the replacement of appliances, which we support, such as low- or zero-interest loans and assistance to disconnect households from gas. Rapidly assisting Australians to move to make the switch is a win-win for both the cost of living crisis, and of course for the future of our planet.

Impact of Climate Change

According to the World Food Programme,³⁵ the war in Ukraine has had an adverse impact on the global food system, sending many developing countries into acute food insecurity. Australia has also been experiencing high food prices, with Australian Bureau of Statistics (ABS) data showing that prices for

²⁹ <https://theconversation.com/negative-gearing-reforms-could-save-a-1-7-billion-without-hurting-poorer-investors-92679>

³⁰ <https://australiainstitute.org.au/wp-content/uploads/2021/04/P911-Income-wealth-an-gender-distribution-of-tax-concessions-WEB.pdf>

³¹ <https://www.abc.net.au/news/2022-11-03/negative-gearing-and-capital-gains-tax-budget-cost/101612854>

³² <https://www.aer.gov.au/news-release/default-market-offer-2023%E2%80%9324-draft-determination>

³³ <https://www.climatecouncil.org.au/resources/electricity-price-spike-pain-remedied-with-interest-free-loans-switch-renewables-and-save/>

³⁴ https://www.climatecouncil.org.au/wp-content/uploads/2022/10/CC_MVSA0323-CC-Report-Switch-and-Save-Gas-vs-Electricity_V6-FA-Screen-Single.pdf

³⁵ https://docs.wfp.org/api/documents/WFP-0000140702/download/?_ga=2.105931840.234457665.1682917245-1150047401.1682917245

products in the food and non-alcoholic beverage subgroup have risen 9.2% over the last 12 months.³⁶ Foodbank's 2022 Hunger Report has subsequently reported that over 2 million Australian households experienced severe food insecurity in that year.³⁷

Importantly, the World Food Programme have stated that food supply shortages are additionally being driven by climate-induced weather events, which will persist into the future as the impacts of climate change are felt. For example, much of central and northern Australia experienced food shortages, as widespread flooding cut off road and rail links from the south in January and February of 2022. The report 'Fork in the Road: Impacts of Climate Change on our Food Supply,'³⁸ by Farmers for Climate Change, has claimed that increasing extreme weather events are likely to cause reverberations at every stage of the food supply chain, from input and production to transportation and storage, resulting in higher costs for retailers and consumers. CRA supports the report's call for further investment in resilience and adaptation in the supply chain, such as financing multiple strategies for production and transportation to allow for quick adjustment to changes in raw materials or supply routes. Likewise, we call for further investment in research and programs for monitoring extreme weather events, allowing the Australian agricultural sectors to be able to respond proactively.³⁹

This of course must be coupled with decisive action and investment by the government to make deep overall emission reductions, such as that exemplified by the Australian red meat and livestock industry, with their CN30 initiative to become carbon neutral by 2030, having recognised the necessity of this for the industry's future.⁴⁰

Conclusion

The cost-of-living crisis currently being faced by Australians is pushing more and more people and families towards the poverty line, whilst entrenching those already beneath it even further. Whilst some causative factors are transient, we have outlined those that we believe represent long-term systemic problems, that must be targets for action if conditions are going to improve moving forward. Government and corporations must take responsibility for actions or inactions that prioritise economic growth over and above the common good, as the evidence has shown that this current approach is only distributing wealth to the top 10% of the population, while leaving the everyday Australians behind.

³⁶ <https://www.mla.com.au/news-and-events/from-the-mds-desk/red-meat-continues-to-offer-value-in-your-grocery-trolley/>

³⁷ <https://reports.foodbank.org.au/wp-content/uploads/2023/03/Foodbank-Hunger-Report-2022.pdf>

³⁸ https://farmersforclimateaction.org.au/wp-content/uploads/2022/03/Fork-in-the-Road_V5.pdf

³⁹ <https://www.mla.com.au/research-and-development/Environment-sustainability/climate-variability/climate/>

⁴⁰ <https://www.mla.com.au/research-and-development/Environment-sustainability/climate-variability/climate/>