

Four Facts about Inequality in Australia

Income inequality is low and decreasing in Australia

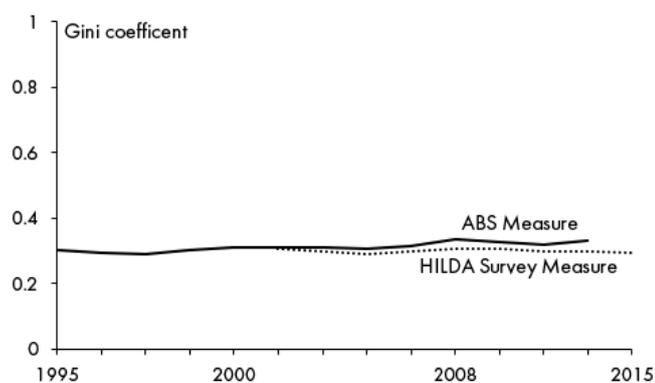
Some have argued that income inequality in Australia is increasing. The measure typically used to support this claim is the income earned by the top 1% of income earners.¹ It is true that the share of income earned by the top 1% has been trending up since 1981. However, this is a deficient measure of inequality because:

- It is a pre-tax measure of income and doesn't account for Australia's highly redistributive tax and transfer system. According to KPMG, 60% of Australian households pay no net income tax.²
- It doesn't include non-cash transfers from government, such as subsidised education, or charitable donations.
- It doesn't account for individual or household choices about work, leisure, or consumption.

A more widely used measure of income inequality is the Gini coefficient, which does take into account tax and transfers.³ The income Gini coefficient is measured on a scale from zero to one. A value closer to zero indicates a more equal distribution of income.

Figure 1 provides two measures, one from the Australian Bureau of Statistics (ABS)⁴, the other from the Melbourne Institute's Household Income and Labour Dynamics in Australia (HILDA) Survey.⁵

Figure 1: The Gini Coefficient in Australia



Source: ABS, HILDA Survey

Based on these figures:

- Income inequality is largely unchanged over the past two decades in Australia.
- The HILDA Survey shows income inequality has decreased slightly, with the Gini coefficient decreasing from 0.31 in 2001 to 0.30 in 2015.
- Additionally, the Gini coefficient on income in Australia is close to the OECD average.

HILDA's measure is preferable to the ABS' because the ABS introduced methodological changes to its survey series, making comparisons through time less reliable.⁶

Wealth inequality has increased slightly in Australia

Wealth is distributed less equally than income in Australia, and that inequality has increased slightly over recent years. According to the ABS, the wealth Gini coefficient has increased from 0.57 in 2004 to 0.6 in 2014.⁷ A key driver has been asset price inflation, such as of housing.

The Reserve Bank Governor said "wealth inequality has become more pronounced particularly in the last five or six years because there's been big gains in asset prices..."⁸

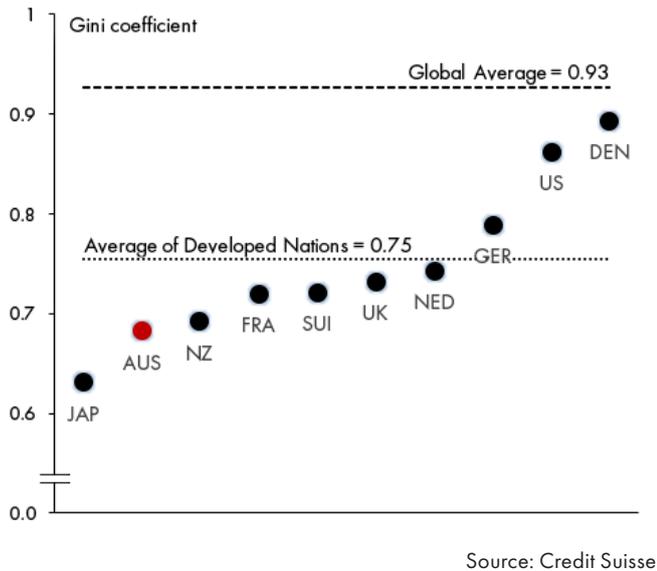
Public policy has put upward pressure on asset prices, and on housing in particular:

- Record low interest rates since 2013 have encouraged investment in housing and in other assets such as company shares.
- Red tape - such as planning and zoning laws - has restricted housing supply.
- Immigration has increased demand for housing.

Australia's wealth is the third most evenly distributed in the developed world

Wealth inequality has increased in recent years. Yet Australia has the third most equal distribution of wealth in the developed world behind Japan and Belgium, according to a recent Credit Suisse report. Further, Australia's wealth Gini coefficient of 0.68 is below both the average of 0.75 of similar nations and the global average of 0.93.⁹

Figure 2: Global Comparison of Wealth Inequality



Inequality of opportunity matters more than inequality of income

Public policy which focusses only on equality of outcomes will make all Australians worse off. A highly distributive welfare system with high taxes and transfers discourages upward economic mobility and wealth creation. Instead, public policy should be focussed on reducing inequalities of opportunity. There are three key inequalities involving employment, education, and public sector work.

Employment

There is inequality in Australia between those who are employed and those who are not.

- 730,000 Australians are unemployed.¹⁰
- The underemployment rate is 9.3%, which is the second highest on record.¹¹
- One in five prime-age males are not in work.¹²

Public policy to encourage employment includes:

- Decentralisation of wage and award bargaining.
- Lowering or eliminating the minimum wage (to be replaced by a wage subsidy if needed).
- Lowering and flattening income taxes and reducing transfers to lower effective marginal tax rates.

Education

Inequality exists between those who have a high quality education and those who do not. More money is being spent on school education, yet results are getting worse.

- According to the Productivity Commission, real government expenditure on schools increased by 24 per cent between 2004-05 and 2013-14;¹³
- Yet results for Australian students in mathematics have declined by 6%, science by 3%, and reading by 5% over the relevant assessment periods.¹⁴

Public policy to improve education outcomes includes:

- Introducing school vouchers provided direct to families and students in lieu of block funding to state governments or schools.
- Untethering schools from the national curriculum.
- Providing schools with greater autonomy over staffing and remuneration decisions.

Public versus Private Sector

There is inequality in pay between those who work in the private sector and those who work in the public sector.

- Public sector wages have grown 10% faster than private sector wages over the past two decades.¹⁵
- Average weekly earnings in the ACT are 15% higher than the national average.¹⁶
- Job security is typically higher in the public sector, and so the risk-adjusted wage differential between public and private sector is even higher.

Conclusion

- The best available evidence suggests income inequality is low and declining in Australia.
- Wealth inequality has increased slightly in recent years due to public policies such as low interest rates, restrictions on housing supply, and immigration.
- Australia has the third most equal distribution of net wealth in the developed world.
- While economic inequality is low in Australia, there are inequalities of opportunity, for example, between those who have work, a good education, and work in the public sector, and those who do not.

The IPA will shortly be releasing a Research Paper on inequality in Australia which explores the issues outlined in this PRB in more detail.

1 Data for these measures are available at <http://wid.world/country/australia/>

2 KPMG, "Australia's poor joining in negative gearing boom", media release, Australia, (17 April 2017)

3 The desirability of using the Gini coefficient over other measures of inequality has been highlighted by the Productivity Commission, the OECD, and the Rand Corporation, amongst other organisations. See, for examples, Productivity Commission, "Trends in Income Distribution in Australia", Canberra, Australia, (2013); Organisation for Economic Co-operation and Development, "Divided we Stand: Why Inequality Keeps Rising", (2015); Charles Wold Jr, "The Inequality Debate" the Rand Corporation, (4 June 2012).

4 Australian Bureau of Statistics, "Household Income and Wealth, Australia, 2013-14", Canberra, Australia, (2015)

5 Wilkins, Roger, "The Household, Income, and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15", Melbourne Institute, the University of Melbourne, (2017)

6 Wilkins, Roger, "Income inequality exists in Australia, but the true picture may not be as bad as you thought", The Conversation, (20 June, 2017)

7 Australian Bureau of Statistics, "Household Income and Wealth, Australia, 2013-14", Canberra, Australia, (2015)

8 Clarke, Carrington, "RBA governor says inequality getting worse, contradicting Scott Morrison", ABC News Online, (27 July 2017)

9 Credit Suisse, "Global Wealth Report, 2016", Zurich, Switzerland, (2016)

10 Australian Bureau of Statistics, "Labour Force Australia, July 2017", Canberra, Australia, (2017)

11 Ibid.

12 Rozner, Gideon, "The Disappearing Australian Working Man", the Institute of Public Affairs, Melbourne, Australia, (2017)

13 Productivity Commission, "Education Evidence Base", Canberra, Australia, (2017)

14 Results available from <https://www.acer.org/ozpisa/>

15 Australian Bureau of Statistics, "Wage Price Index Australia, June 2017", Canberra, Australia, (2017)

16 Ibid. Average Weekly Ordinary Time Earnings are used.