November 2017

UNDERSTANDING INEQUALITY IN AUSTRALIA

Daniel Wild, Research Fellow
Andrew Bushnell, Research Fellow

Institute of Public Affairs
SECURING FREEDOM FOR THE FUTURE
1943 - 2018

This page intentionally left blank

UNDERSTANDING INEQUALITY IN AUSTRALIA

Daniel Wild, Research Fellow
Andrew Bushnell, Research Fellow

About the authors

Daniel Wild is a Research Fellow at the Institute of Public Affairs. He specialises in red tape, regulation, economic policy, the philosophy of free enterprise, and criminal justice. Daniel has authored research papers on economic policy, environmental regulation, and criminal justice reform. Daniel frequently appears in the media, and has published a number of opinion pieces in The Australian, The Daily Telegraph, The Sydney Morning Herald, The Courier Mail, and The Spectator. Daniel has also made a number of radio and television appearances, including on 2GB, 3AW, Sky News, and Channel 7 News.

Daniel previously worked at the Commonwealth Department of the Prime Minister and Cabinet where he analysed global and domestic macroeconomic policy. Prior to that he worked at the Commonwealth Department of Finance where he worked on regulatory reform. Daniel holds an honours qualification in economics and a degree in international studies from the University of Adelaide.

Andrew Bushnell is a Research Fellow at the Institute of Public Affairs, working on the Criminal Justice Project. He previously worked in policy at the Department of Education in Melbourne and in strategic communications at the Department of Defence in Canberra.

Andrew holds a Bachelor of Arts (Hons.) and a Bachelor of Laws from Monash University, and a Master of Arts from Linköping University in Sweden.

This page intentionally left blank

Contents

Executive Summary 3

Introduction 5

1. How inequality is conceived and measured 6

2. Poverty, Prosperity, and Opportunity 21

3. Opportunities to Live the Good Life 26

4. Conclusion 40

This page intentionally left blank

Executive Summary

- Income inequality in Australia is low and, if anything, declining. Contrary claims, to the extent that they rely on data, rely on inappropriate measures such as the share of income earned by the top 1% of income earners.
- Claims about inequality typically don't account for Australia's tax and transfer system, which substantially lowers measured income inequality.
- The most reliable measure of income inequality, the Gini coefficient, shows income inequality in Australia is relatively stable, slightly lower than it was 15 years ago, and at about the average of comparable nations.
- Australia also has the third most equal distribution of net wealth in the developed world, behind only Japan and Belgium.
- However, focussing only on inequality misses a more important consideration: the opportunities available for Australian's to succeed, reach their potential, become upward economically mobile, and enjoy a good life.
- A better focus for public policy would be removing barriers towards people enjoying the life paths - sometimes characterised as 'middle class' - which have been demonstrated to lead to a better life. These include:
    - Owning a home
    - Entering and maintaining a successful marriage
    - Being employed
    - Receiving a good education
    - Becoming self-sufficient
    - Being raised in a stable family
    - Having access to affordable amenities
    - Participating in the local community
    - The freedom to start a business
- Public policy can play a role in expanding opportunity. It is key to ensure taxes are low, regulations minimal, and welfare is directed toward encouraging self-sufficiency rather than dependency. Furthermore, attention must be paid to the cultural institutions which support people towards rewarding life paths.
- Measures directed toward enhancing opportunity are more effective than policies undertaken to reduce inequality, which is in any event not rising nor an urgent issue.

This page intentionally left blank

Introduction

The goal of public policy should be to give all Australians the greatest opportunity to succeed based on their own hard work and merit. An opportunity society allows people to flourish through affording them the freedom to embark upon the dignified endeavour of building their own lives through work, family, and community participation. The fairest society is the one that encourages and rewards effort, while penalising free-riding (extracting benefits without seeking to make a contribution) and corruption.

The issue of economic inequality is intimately linked to people's concept of a fair and just society. It has long been an issue on the Australian political landscape. The issue has again risen to prominence following a number of recent claims by politicians and policy commentators. In a recent speech by the Leader of the Opposition, Bill Shorten MP, stated that inequality is higher than at any point in the last 75 years, and that it is 'accelerating'. His colleague, the Shadow Assistant Treasurer, Andrew Leigh MP has claimed that inequality is higher than it was a generation ago. Somewhat less troubled in addressing the issue, the Governor of the Reserve Bank, Philip Lowe, said that 'inequality has drifted up a little bit but not very much'.

This Issues Paper is prompted by this recent discussion on economic inequality, and is in three parts.

The first part examines the evidence for the claim that inequality in Australia has become, and is getting, worse. It finds that there is little evidence for this claim. Instead data for the Gini coefficient, the most appropriate and reliable measure of income inequality, suggest that income is more evenly distributed today than it was 15 years ago. International comparison data indicates that Australia has the third most equal distribution of net wealth in the developed world.

The second part places this inequality within the context of Australia's overall prosperity. It finds that, in terms of material prosperity, life for most Australians is far better today than it was in past decades, especially for those at the bottom end of Australia's economic distribution.

The third part discusses the level of opportunity that Australians have for improving their living standards and for accessing all that our society has to offer. It finds that in some ways, opportunity for some Australians is lacking. It argues that opportunity, rather than inequality, is the proper focus for economic and social policy.

It is important that policymakers never lose sight of their primary obligation: to give all Australians the greatest opportunity to succeed based on their own hard work and merit. This means ensuring that taxes aren't so high so as to discourage work and investment; regulation is kept to a minimum; and welfare isn't provided in a way that encourages dependency. But public policy is only one consideration. People's choices, and the culture that informs those choices, has a vastly greater impact on life trajectory than government policy. The evidence, along with common sense, overwhelmingly demonstrates that people who participate in certain activities, follow certain 'life paths', or have access to certain institutions, have a better and more satisfying life than those who don't. Those key indicators of opportunity include: work, education, marriage, family, entrepreneurship, affordable energy, home ownership, volunteering, and self-sufficiency.

1. How inequality is conceived and measured

At the outset it should be noted that there is no perfect measure of income inequality. All currently available measures are highly imprecise. In this as in so many areas of the social sciences, it is important to remember that 'the map is not the territory'. To accurately measure the true state of income or wealth inequality, one would need to:

- track households or individuals over their entire life,
- account for all transfers from both government and non-government organisations, as
    - » cash (such as unemployment benefits) and
    - » non-cash (such as education funding, public transport subsidies, and use of public parks), and,
- control for the differing preferences of individuals (the more or less conscious trade-offs they make between leisure, work, volunteering and so on).

Since, to our knowledge, there are no studies which control for all of these factors, it is not possible to form a definitive conclusion about the nature of income inequality in Australia.

As mentioned, preferences towards work, leisure, and consumption affect the interpretation of inequality statistics. Specifically, some individuals prioritise work and career progression to a greater extent than others. Such individuals are more likely to take employment opportunities which are higher paying, but also require longer work hours. These people will enjoy higher earnings, but will also have less time to dedicate toward non-work activities, such as leisure, family, hobbies, or volunteering in their local communities. Conversely, some people place a greater emphasis on non-work activities and instead may prefer lower paying jobs requiring fewer hours so they have more time to dedicate to non-work activities.

Solely analysing aggregate income statistics, in effect, imposes the assumption that earned income is the only metric relevant to people's lived experience and subjective well-being. But one could as easily talk of leisure-time, family-time, or community-time inequality. Those who are at the higher end of the income distribution scale could well be at the lower end of the leisure-time distribution, while those at the lower end of the income distribution may be at the higher end of leisure-time distribution. Which outcome is preferable is, unavoidably, subject to the framework that the relevant analyst uses to interpret the data and evidence.

Of course, personal preferences and choices are only one part of the equation. People face external constraints and are influenced by events that they do not control. Invariably, this can affect the distribution of income in ways that are relevant to policy makers. However, completely disregarding the role of preferences can lead to a highly distorting and misleading understanding of inequality in Australia. At a minimum, policymakers should be aware that income – and income inequality – is only one, albeit important, component of what determines the well-being of Australians. Policy that aims to 'fix' income inequality whilst ignoring the other relevant factors outlined above could be highly counter-productive, lowering overall well-being.

Noting this important caveat, this section analyses the extent of, and changes to, income inequality in Australia. It analyses:

- The share of income received by the top 1% and top 10% of income earners.
- The ratio of income between the 90th and 10th income decile.
- The Gini coefficient.
- Income inequality in Australia compared with other OECD nations.
- Wealth Inequality.

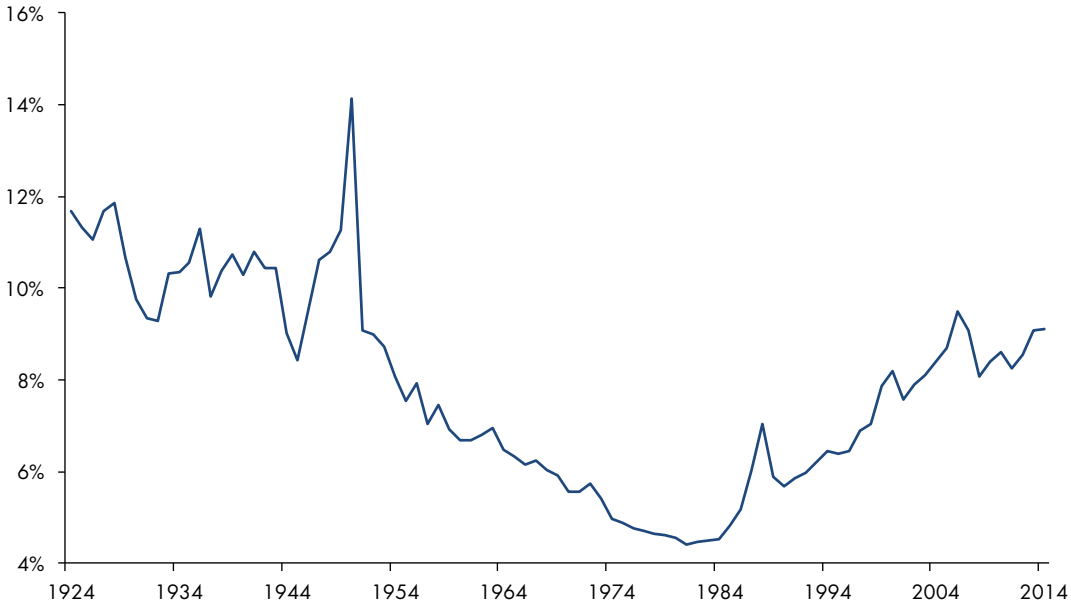
1-1. Share of income received by the top 1% and top 10%

A frequently used measure of income inequality is the share of income received by the top 1% or 10% of income earners. This is the measure that Bill Shorten used when claiming that inequality is at a seventy-five-year high. This claim draws on Assistant Treasurer Andrew Leigh's 2013 book *Battlers and Billionaires* which uses data provided by the World Wealth and Income Database.[1]

As illustrated in Figure 1, by this measure:

- Income inequality has been increasing since the early-1980s.
- The share of income earned by the top 1% of income earners peaked before 1950.
- The top 1% of income earners currently earn 9% of all income (which is below the peak in 1950 of 14%).
- Since 1980, the average share of total income received by the top 1% of income earners is 7.0%. This is well below the pre-1950s average of 10.0% and slightly above the 1950-1980 average of 6.3%.

Figure 1: Share of income received by the top 1% of income earners

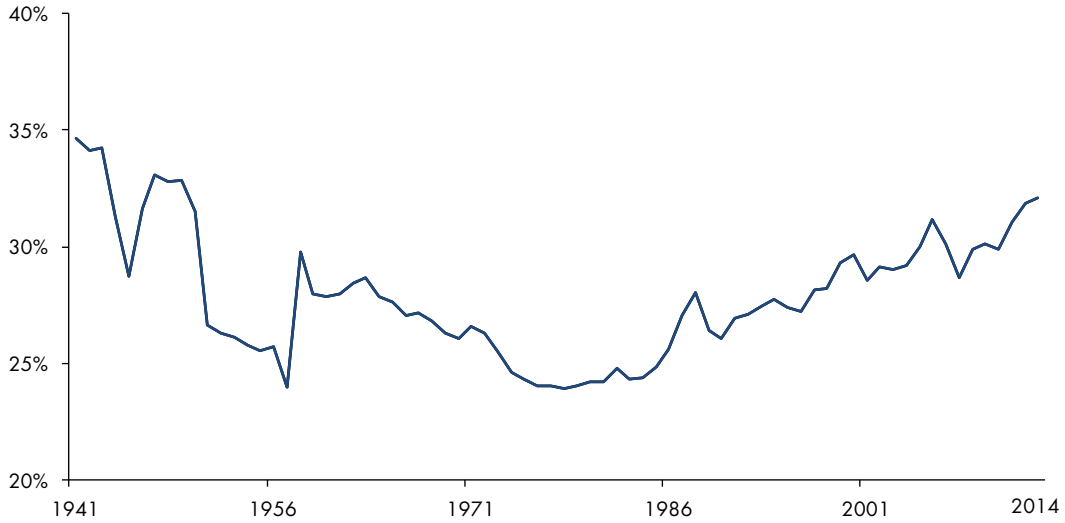


Source: World Wealth and Income Database

As illustrated in Figure 2, assessing the share of income earned by the top 10% of income earners shows a similar picture as the top 1% of income earners. Specifically, the share of income earned by the top 10% of income earners:

- Has been broadly increasing since the early-1980s.
- Is equal to 32% of all income which is above the long-term average of 28%, but below the 1941 peak of 35%.

Figure 2: Share of income earned by top 10% of income earners



Source: World Wealth and Income Database

To put Figures 1 and 2 in perspective, we are examining the significance of movement in a measure by which a notional proportion of 99 in 100 Australians move – over a near 70-year timeframe - from receiving from 88.4%, to 95.5%, and then to 90.9% of available income. Or a notional 9 in 10 Australians move, on average, from receiving slightly more than 67% of available income in the 1940s, increasing to more than 75% in the early 80s, reducing again to 67.9% in the current era. In this light, it is clear we are looking at the movement in an inappropriate measure and finding that it is, in any event, trivial.

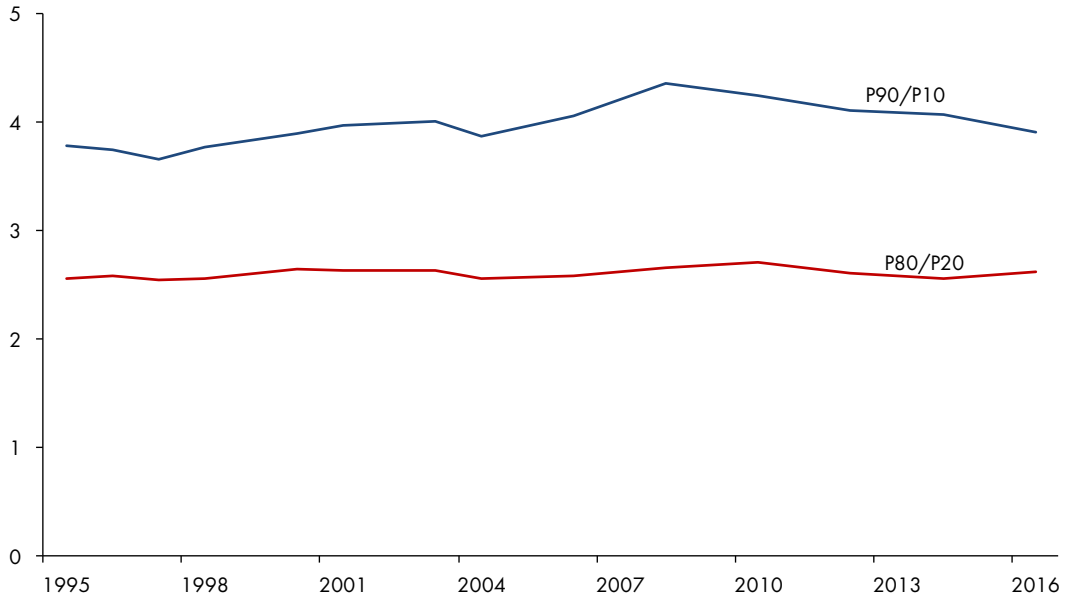
Regardless, using the share of income received by the top 1% or 10% of all income earners is a highly deficient measure of income inequality. This is because:

- It is a pre-tax measure of income and doesn't account for the loss of income to higher income earners through taxes and the increase in income to lower income earners from transfers.
- It doesn't include the expansive array of non-cash transfers from government and non-government organisations to low income earners, such as subsidies for education, health care, use of publically-provided services such as parks and public transport, as well as private charitable donations.
- The data is based on the income received by the top 1% of individuals rather than households. However, some individuals support a large household with many dependents, while some occupy a single-person household.
- It doesn't control for individual or household preferences for work, leisure, or consumption.

1-2. Ratio of income between high and low income earners

A second measure of income inequality is to compare the income earned by top income earners to bottom income earners. There are a range of ways to do this, such as comparing the 90th percentile of income earners to the median income earner, the 20th percentile income earner, or the 10th percentile income earner. The measures used below are the ratio of incomes earned by the person earning the 90th and 80th percentile of income compared with the person earning the 10th and 20th percentile of income, respectively.

Figure 3: Ratio of High to Low Income Earners

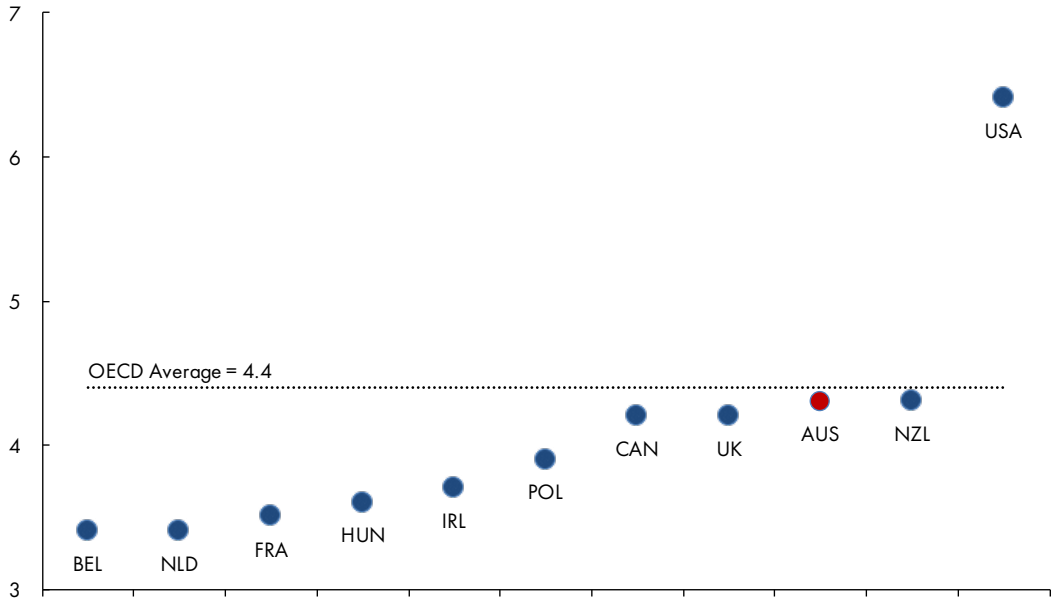


Source: ABS

As Figure 3 shows, the ratio of high to low income earners has been relatively flat for the past two decades. The 90/10 ratio is currently 3.9:1, which means that the 90th percentile income earner earns 3.9 times more than the 10th percentile income earner. This is below the peak of 4.4:1 in 2008, and slightly above a low of 3.7:1 in 1997. The 80/20 ratio is virtually unchanged, currently sitting at 2.6:1, the same as it was in 1995.

It is also instructive to analyse how the income-split in Australia compares with other comparable nations. As Figure 4 shows, OECD data suggests the ratio in Australia is 4.3:1, which is slightly below the OECD average of 4.4:1.[2] Costa-Rica is a clear outlier, with a value of 10.9:1. If the value for Costa-Rica is removed, then the OECD average becomes 4.2:1, which is slightly lower than that of Australia.

Figure 4: Ratio of income between 90th and 10th percentile



Source: OECD

As can be seen, the USA is somewhat of an outlier in this measure. This should give pause to any who may seek to draw analogies from US experience, and also give cause to more closely examine the unique factors in the USA which may be driving that outlier status. Some of these may well be derived from the 'life journeys' described in Section 1.

It is true that this ratio, of high income as opposed to low income earners, is a superior measure of inequality compared with the income earned by the top 1% and 10%, because the ratio measure does account for tax and transfers. However, there remain a number of significant limitations with this measure:

- It doesn't account for non-cash transfers (as discussed in the previous section).
- It doesn't account for private charitable transfers from high to low income earners.
- It doesn't provide information about the distribution of income at different percentiles, and so provides a highly limited picture of income dispersion. For example, a country could have a very low ratio of income between the 10th and 90th percentile, but a large ratio between the 8th and 98th percentile, or the 1st and 99th percentiles. Does such a country have a relatively equal, or relatively unequal, distribution of income?

1-3. Gini coefficient

The most widely used measure of inequality is the Gini coefficient.

- According to the Productivity Commission, 'Gini coefficients are the most common summary statistic of inequality.'[3]
- According to the OECD, the Gini coefficient is a 'standard measure of inequality.'[4]
- According to the RAND Corporation, 'the best single indicator of inequality is the Gini coefficient.'[5]
- Melbourne Institute of Applied Economic and Social Research deputy director Professor Roger Wilkins said he prefers the Gini coefficient to other measures of income inequality.[6]

The Gini coefficient measures the dispersion of income across a population on a scale of zero to one. A Gini coefficient of zero means everyone receives the same amount of income, while a coefficient of one means all of the income is earned by one individual.[7] A Gini coefficient closer to zero implies a more equal distribution of income, while a coefficient closer to one implies a less equal distribution of income.

It is a superior measure because:

- It takes into account relativities between all the 'slices' (deciles, one-hundredths, as the case may be), and not just some.
- It takes into account taxes and transfers.

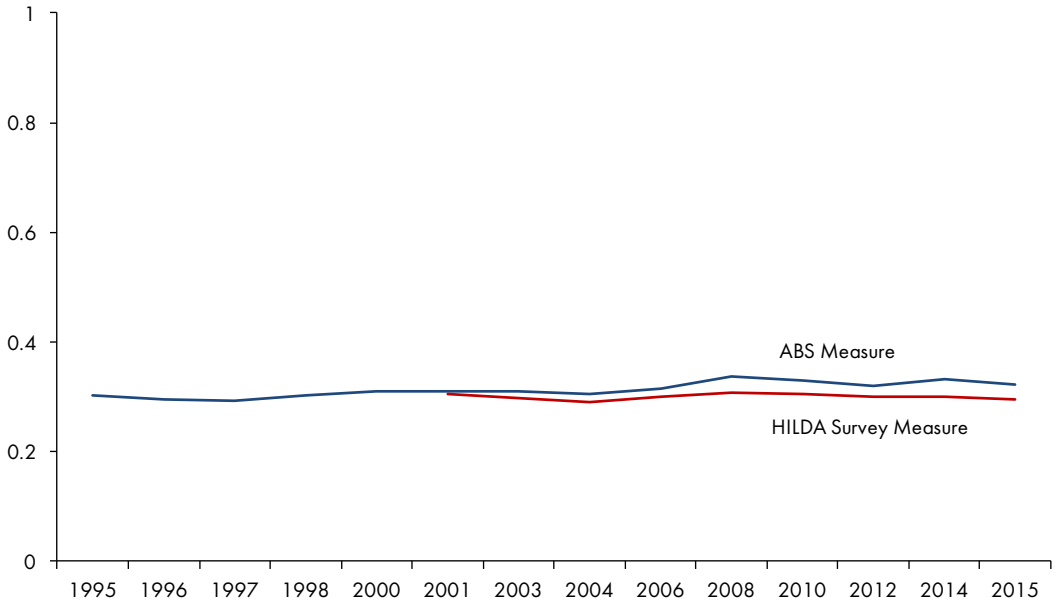
There are three main sources for the Gini coefficient in Australia, the Australian Bureau of Statistics' Survey of Income and Housing, the Australian Bureau of Statistics' Census, and the Household Income and Labour Dynamics in Australia (HILDA) Survey which is produced by the Melbourne Institute at the University of Melbourne. The Gini coefficient from the HILDA survey and the Survey of Income and Housing are provided in Figure 5. Data for the Census is not provided graphically as only two data points are publically available.

All three surveys suggest that income inequality has been largely unchanged over the past 15 or 20 years. The ABS survey suggests income inequality has risen slightly over the past two decades, while the HILDA survey suggests it has decreased over the past 15 years, and the ABS Census suggests it decreased between 2011 and 2016. Specifically:

- The ABS household income survey shows that the Gini coefficient has increased from 0.30 in 1995 to 0.33 in 2016.[8] (which is below a 2008 peak of 0.34).
- The ABS Census shows the Gini coefficient has decreased from 0.38 in 2011 to 0.37 in 2016.[9]
- The HILDA survey shows the Gini coefficient has decreased slightly from 0.31 in 2001 to 0.30 in 2015.[10]

The HILDA survey is a more reliable data source than the ABS Survey of Income and Housing because the methodology used in the ABS Survey changed over time, making comparisons through time difficult. Professor Roger Wilkins argues that a number of changes to the ABS estimate of the Gini coefficient can be attributed 'to changes made by the ABS between 2003-04 and 2007-08 to the definition and measurement of income.'[11]

Figure 5: Gini Coefficient



Source: ABS and HILDA

However, the Gini coefficient also has a number of limitations and inadequacies:

- It doesn't account for non-cash transfers from taxpayers, such as subsidised housing and health care.
- It doesn't include private charitable giving or philanthropic undertakings.
- It doesn't account for which parts of the income distribution are responsible for changes to the Gini coefficient over time.
- It includes only a point-in-time, rather than life-time, measure of inequality (more on this issue below in 1 below).

Box 1: Lifetime versus point-in-time, inequality

Perhaps the greatest deficiency in using the annual Gini coefficient as a measure of income inequality is that it ignores movement over time. Simple observation demonstrates households move up and down the income distribution over time, as the subjects begin their working life with fewer skills, gradually accumulate experience and higher paying jobs, and then ultimately taper off the earning or leave the workforce entirely.

Further, it ignores that one society could be more equal than another but provide fewer opportunities for social mobility – that is, the opportunity for individuals to move out of the socio-economic strata of their birth to one in which there is more (or less) great. What is relevant to a given individual or household is their prospects of both absolute and relative economic advancement over the course of their lives, rather than where they sit on the income distribution at a given point in time.

As the RBA has argued:

Since most individuals experience a period of growing income during their early working years, and a period of lower income as they transition to retirement, and since individuals can borrow and save to smooth out temporary fluctuations in income, overall living standards depend more on lifetime income than on current income.[12]

Unfortunately, to the knowledge of the authors, estimates of lifetime income inequality are not available. The next best alternatives are the 5-year and 15-year income distributions provided by the HILDA survey. Such multi-year incomes are calculated for each individual as the sum of inflation-adjusted annual equivalised income over a 5 or 15- year time horizon. Consistent with intuition, when a longer time horizon is used measured income inequality is far lower than in any given year. Specifically, in 2015, the single-year Gini coefficient was 0.3. This is compared with the:

- Five-year Gini coefficient of 0.28 for 2011-2015.
- Fifteen-year Gini coefficient of 0.23 for working-aged people from 2001-2015.[13]

This is show in Figure 6.

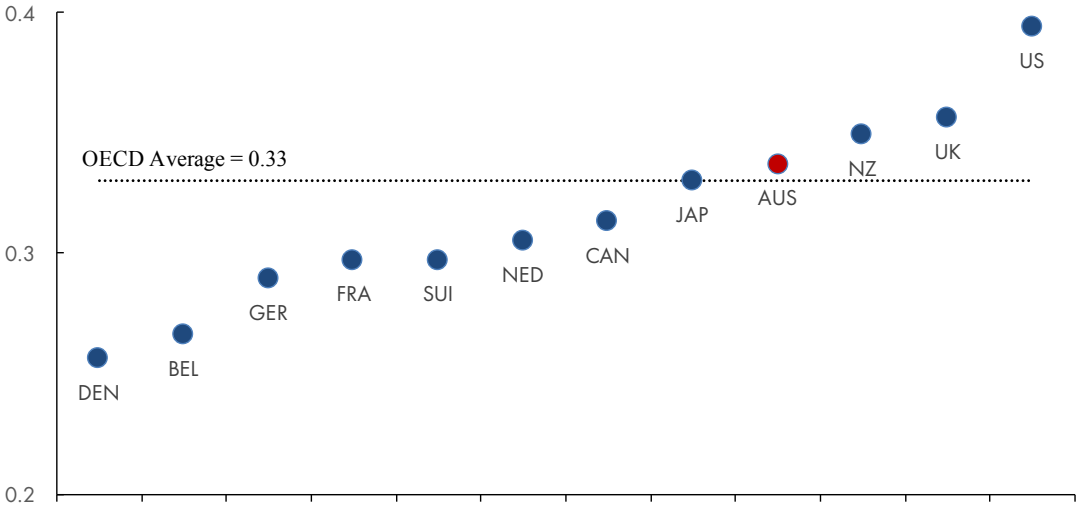
Figure 6: Gini Coefficient Over Time

An interesting future research program would be to estimate lifetime income inequality. Unfortunately, that is beyond the scope of this Issues Paper.

1-4. How Australia compares to other nations

Of interest to policy makers is how the distribution of income in Australia compares with other nations. Based on data from the OECD, the level of income inequality in Australia is around the average of comparable OECD nations. Figure 7 shows the Gini coefficient for Australia was 0.34 in 2014, compared with 0.33 for the OECD average. South Africa is an outlier, with a value of 0.62, which increases the OECD average.[14] If South Africa is removed, then the OECD average is 0.32 – slightly lower than Australia. Suggestions that income inequality are abnormally high in Australia are not supported by the best available evidence.

Figure 7: International comparison of the Gini coefficient



Source: OECD

1-5. What if we consider wealth?

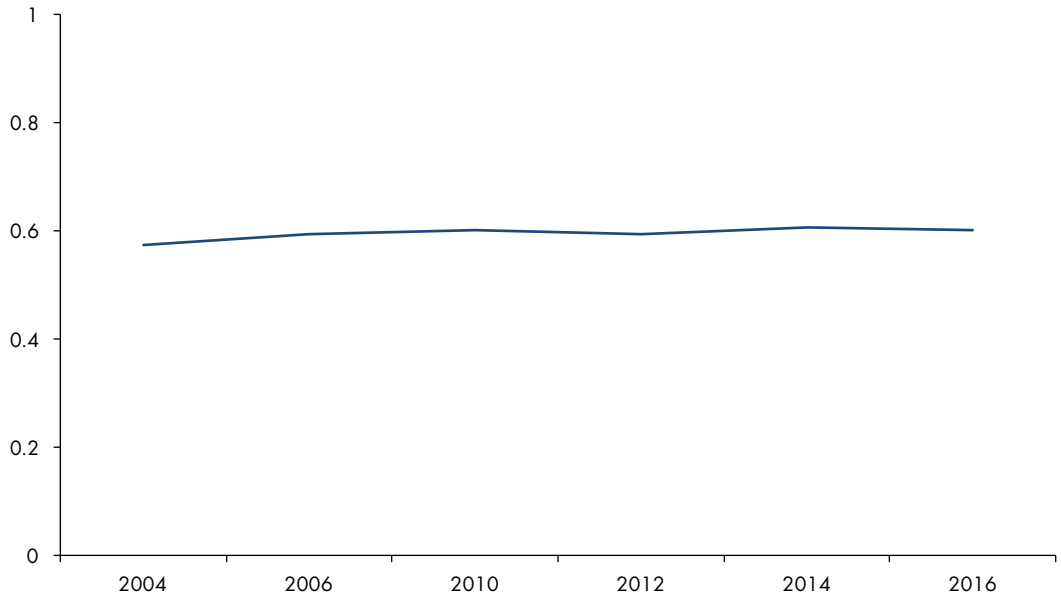
The previous measures of inequality focussed only on personal or household income. While it is the most frequently used measure, income is however only one component of personal or household welfare. An alternative measure is net household wealth, which measures assets such as dwellings, shares, and superannuation accounts, less liabilities such as mortgages, credit cards, and other borrowings.

Based on the ABS Household Income and Wealth Survey, Figure 8 shows that wealth inequality is higher than income inequality in Australia. Specifically:

- The Gini coefficient for net wealth in 2016 was 0.6.
- The Gini coefficient for net wealth has increased from 0.57 in 2004 to 0.6 in 2016.[15]

Public policy has been a key driver of increases to wealth inequality. Asset price inflation in general, and of housing in particular, has been the single most important factor contributing to growing wealth inequality. The Reserve Bank Governor, Philip Lowe, said 'wealth inequality has become more pronounced particularly in the last five or six years because there's been big gains in asset prices...so the people who own assets, which tend to be wealthy people, have seen their wealth go up.'[16] Low interest rates since 2011 have encouraged investment in assets such as company shares, while a high immigration program and policies which restrict housing supply have caused residential property prices to rapidly increase. Residential property prices have increased by 110% in Sydney over the past 10 years, for example.[17]

Figure 8: Wealth Gini coefficient



Source: ABS

However, as with income inequality, it is important to remember that measures of wealth inequality based on a point in time are highly limited. The accumulation of wealth is a lifelong exercise. Most people have two main asset classes: housing and superannuation. In most cases, people realise the benefits of the maturity of those assets once they reach retirement. Current wealth inequality is heavily driven by the sharp appreciation of housing and superannuation which, necessarily, will benefit older Australians. However, today's young Australians are tomorrow's old Australians and they too are likely to benefit from asset price inflation as previous generations have.

In addition, the measure of wealth inequality provided by the ABS only includes six data points which go back only a decade. It is therefore not possible to draw conclusions regarding longer term trends of changes to wealth inequality in Australia.

Finally, in line with the central point of this paper, if asset price inflation as a result of interventionist monetary inflation is the cause, then public policy should address that directly rather than addressing the effect, which is a (relatively minor) upward shift in wealth inequality.

1-6. Findings from Credit Swiss Global Wealth Report

The most comprehensive analysis of global wealth distribution is in the annual Credit Suisse Global Wealth Report. The report analyses the distribution of wealth within and between nations, as well as providing country specific analysis of wealth accumulation and distribution. The most recent report, from 2016, found that:

> 'Wealth inequality is relatively low in Australia, as reflected in a Gini coefficient of just 68% for wealth. Only 11% of Australians have net worth below USD 10,000. This compares to 22% in the UK and 35% in the USA ... The proportion of those with wealth above USD 100,000, at 55.8%, is the fifth highest of any country, and almost seven times the world average. With 1,688,000 people in the top 1% of global wealth-holders, Australia accounts for 3.5% of this top slice, despite being home to just 0.4% of the world's adult population.'[118]

The report provides four key indicators of wealth accumulation and distribution.

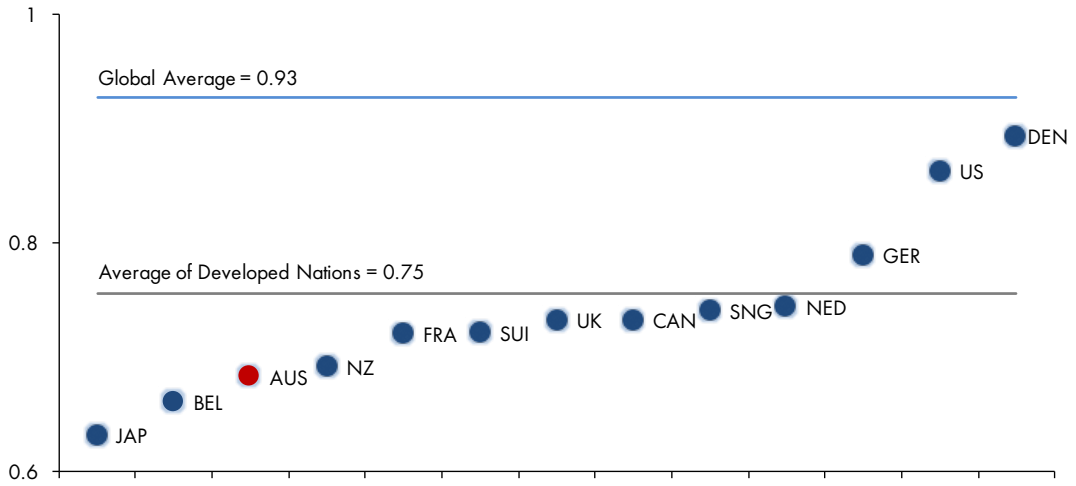
- Wealth Gini coefficient.
- The proportion of people in a given country that have less wealth than the global median.
- The proportion of people in a given country who have net worth below US $10,000.
- The proportion of people in a given country who have a net wealth above US $1,000,000.

Taken together, these measures suggest Australia is a very wealthy society with that wealth being equally distributed compared with other nations.

1-6-1 Global Wealth Gini Coefficient

The first measure is the wealth Gini coefficient, which, like with the income Gini coefficient, measures the distribution of wealth across the wealth distribution of a country. As Figure 9 shows, Australia's wealth Gini coefficient is 0.68, which is the third lowest in the world, behind Japan and Belgium. It is also far lower than the average of 0.75 of nations with a comparable level of economic development, and even further below the global average of 0.93.[19]

Figure 9: International comparison of the wealth Gini coefficient

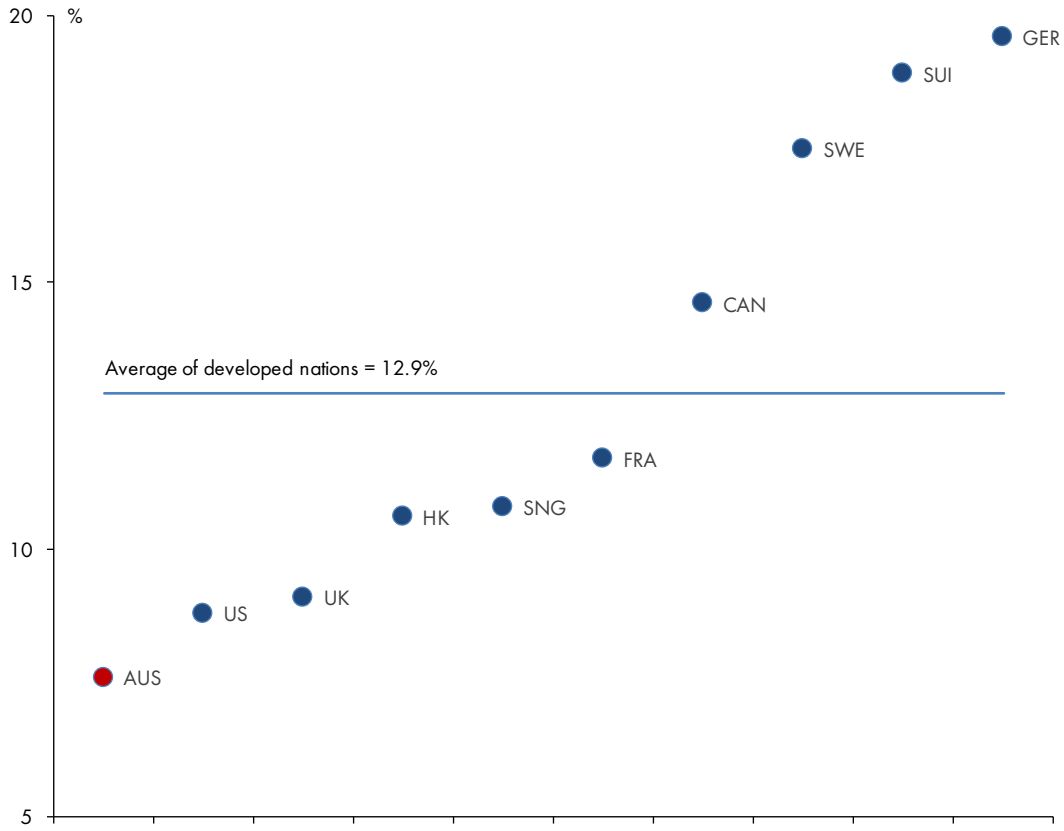


Source: Credit Suisse

1-6-2 Proportion of adults below the global median for net wealth

The second approach is to measure the proportion of adults who have less net wealth than the global median. As Figure 10 shows, Australia has the lowest proportion of adults, just 7.8%, who have less than the global median of net wealth. Otherwise stated, by definition, 50% of the adult population in the world as whole are in the bottom 50% in terms of net wealth, while 50% are in the top 50% for net wealth. A country where 50% of its population has less than the global median of net wealth would be equal to the global average. However, there is substantial disparity between nations. For example, 98% of people in the Democratic Republic of Congo, and 73% of Russians, are below the global median for net wealth. This figure is 7.8% in Australia.[20]

Figure 10: Australia has the lowest proportion of adults below global median for net wealth

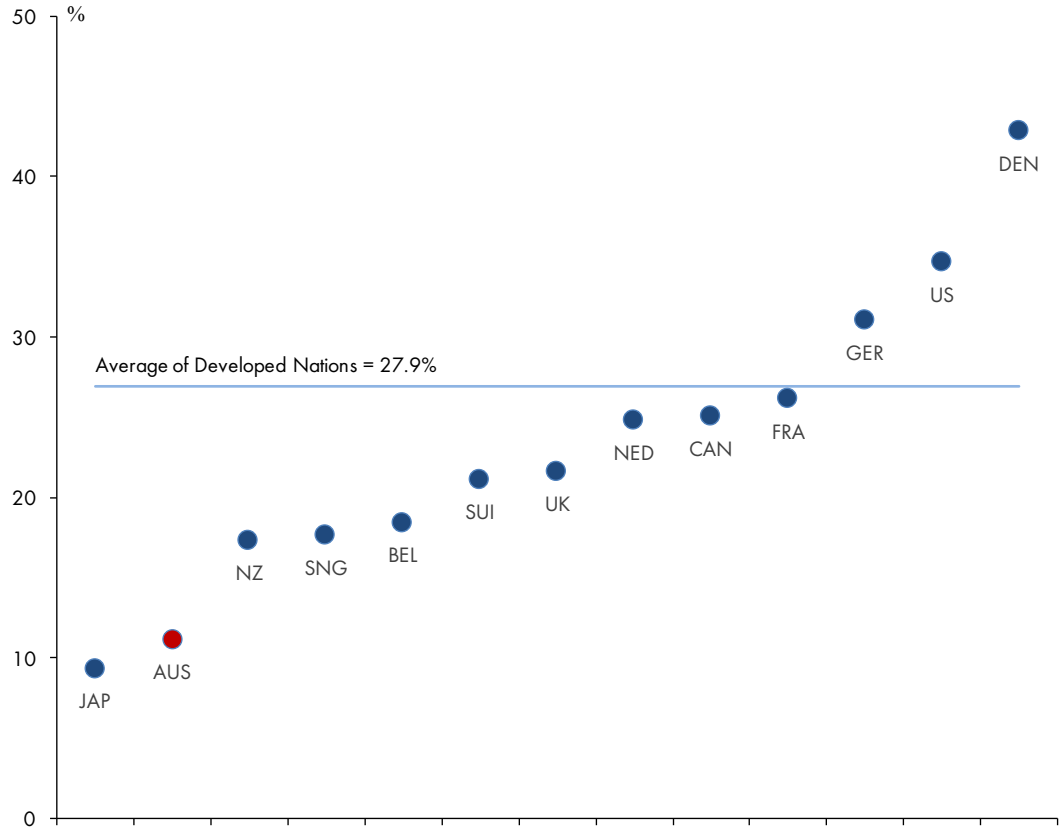


Source: Credit Suisse

1-6-3 Proportion of adults with less than US $10,000 in net wealth

The third approach is to assess the proportion of adults who have a net worth below $10,000 USD. As Figure 11 shows, just 11% of Australia's adult population have less than $10,000 USD in net wealth, second only to Japan at 9.3%. For comparison, this same figure is 22% in the UK, 35% in the USA, 52% in Denmark, and 31% in Finland. The average of comparable nations is 27.9%, while the global average is 73.2%.[21]

Figure 11: Australia has the second lowest proportion of adults with less than US $10,000 in net worth

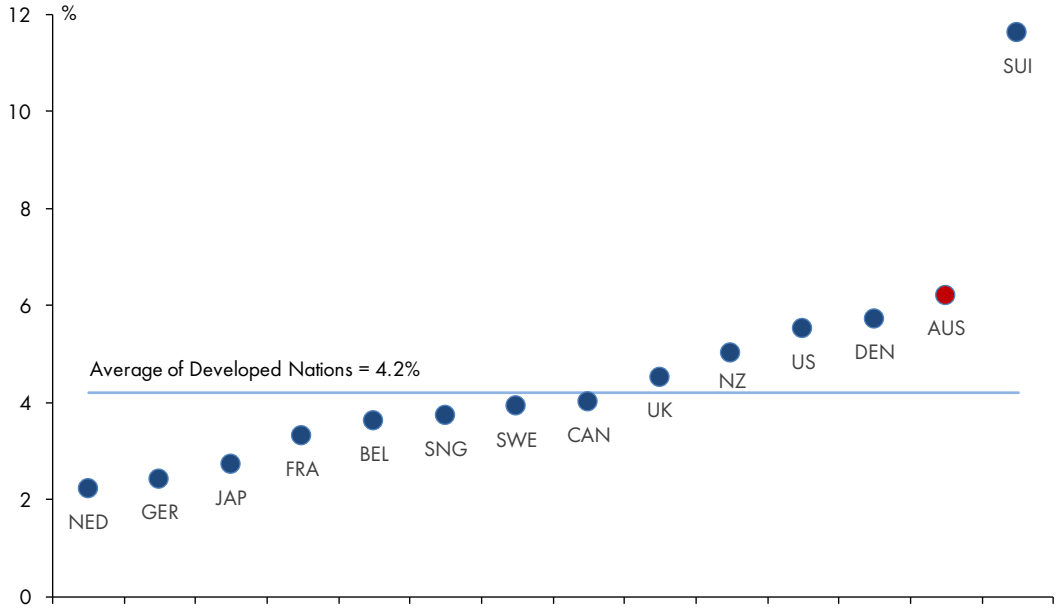


Source: Credit Suisse

1-6-4. Proportion of adults with more than $1,000,000 USD net worth

The fourth approach is the assess the proportion of adults who have net wealth above $1,000,000 USD. As Figure 12 shows, this proportion sits at 6.2% in Australia, second only to Switzerland with 11.6%, and well above the average of selected nations of 4.2% and the global average of 0.7%.[22]

Figure 12: Australia has the second-highest proportion of adults with more than US $1,000,000 in net worth



Source: Credit Suisse

Taken together, these measures suggest the following:

- Australians are disproportionately unlikely to be amongst the poorest in the world in terms of net wealth (those holding less than $10,000 USD in net wealth).
- Australians are disproportionately likely to be amongst the wealthier in the world (those holding more than $1,00,000, USD in net wealth).

As mentioned, any analysis of the explanatory factors behind the greater than average proportion of the population holding more than USD1m would have to include consideration of the life journey of those in that cohort.

Box 2: We might do better looking at consumption inequality

Consumption inequality is a third measure of economic inequality, aside from wealth or income. Arguably, consumption inequality is a better measure of economic inequality than income or wealth because it captures differences in the ability of households or individuals to accumulate resources. According to the Reserve Bank of Australia, 'consumption is a more appropriate measure of household wellbeing than current income or wealth.'[23]

The RBA goes on to argue that 'as consumption is a choice variable, it is more closely connected with the lifetime wealth constraint faced by households than is current income. If some household's smooth temporary fluctuations in income by borrowing and saving, then income will tend to be more variable than consumption at a point in time and hence income will overstate the level of inequality in household welfare.'[24]

However, this Issues Paper does not analyse consumption inequality in Australia due to the lack of academic studies and highly limited data. It should be noted, however, that the few studies which do analyse consumption inequality find that it is lower, sometimes by a significant degree, than either wealth or income inequality. This is a field of research that should be pursued further in Australia.

1-7. Summary of findings on inequality in Australia

There are several findings on income inequality in Australia:

- Claims that inequality in Australia is increasing, and that such inequality is abnormally high by international standards, are not supported by the best available evidence.
- The share of income received by the top 1% or 10% of income earners is the worst measure of inequality available and is highly unreliable.
- The best available measure is the Gini coefficient, and the most recent data available from the HILDA survey's calculation of the Gini coefficient suggests income inequality is lower today than it was 15 years ago.
- The level of income inequality in Australia is around the average of comparable OECD nations.
- Wealth inequality in Australia is extremely low: Australia has the third most equal distribution of net wealth in the developed world, behind Japan and Belgium.
- Australians are disproportionately unlikely to be amongst the poorest in the developed world in terms of net wealth (those holding less than $10,000 USD in net wealth).
- Conversely, Australians are disproportionately likely to be amongst the wealthier in the developed world (those holding more than $1,00,000, USD in net wealth).

2. Poverty, Prosperity, and Opportunity

Australia is not a particularly unequal country, nor is that inequality growing. Moreover, the inequality that is present is only one part of a much larger economic picture. Widening our focus from inequality to prosperity, from relative to absolute measures, we can see that Australia remains a wealthy country in which even those at the low end of the economic distribution can enjoy material abundance.

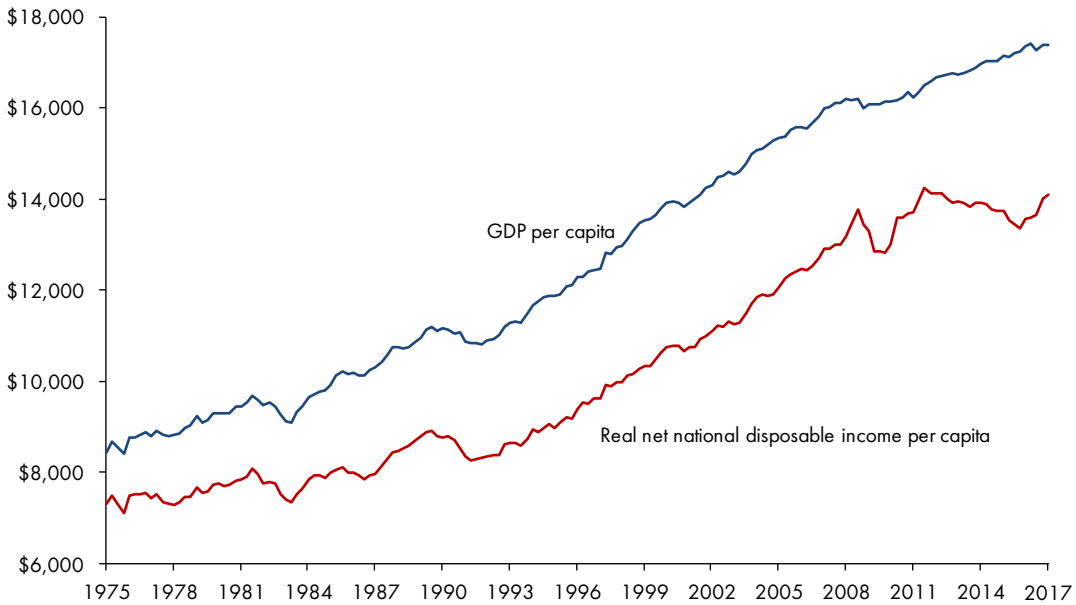
It is intuitive that focusing only on inequality leads to some perverse consequences. A society in which everyone is uniformly impoverished would not be, in most people's estimation, a superior society to one in which everyone is prosperous though some are more prosperous than others.

The implication of this is that rather than looking at the distribution of incomes across society at a given moment in time, we need to also look at how aggregate societal income moves over time, and also how individuals fare across their lives in both absolute and relative terms

2-1. Income growth

One measure of changes to the living standards of households or individuals - albeit highly limited - is income growth. On the whole, since World War II, Australians, along with citizens of many other nations, have experienced a substantial and sustained growth to their incomes. Figure 13 plots the growth to both GDP per capita and real net national disposable income per capita. GDP per capita simply takes total economic output and divides it across the population. Real net national disposable income better approximates living standards because it provides for the resources available for consumption. Both measures shows that incomes have grown substantially over recent decades, although real net national disposable income per capita declined sharply following the tapering off of the mining investment boom in 2011.

Figure 13: Incomes have grown substantially over recent decades

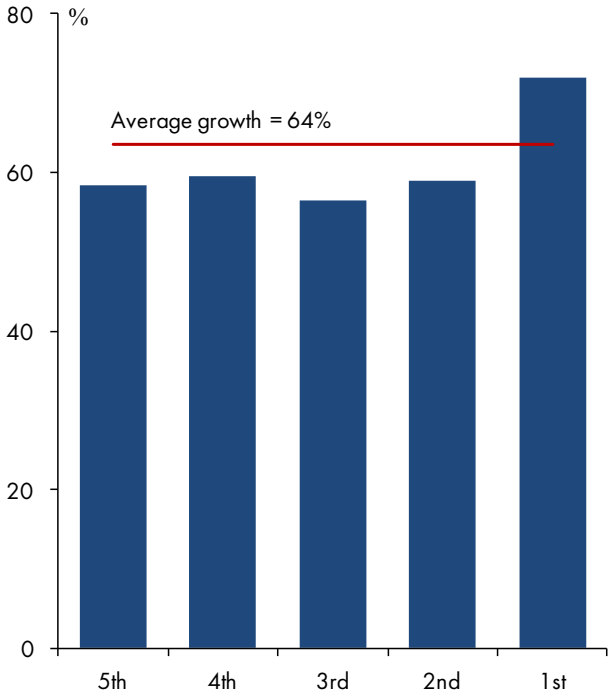


Source: ABS

The best available evidence suggests that income growth has been experienced across the income distribution. While historical data on income growth by income decile or quintile is limited, the ABS does publish data on income by quintile back to 1994. As Figure 14 shows, over the 22 years from 1994-2016 all income quintiles have enjoyed substantial growth to their incomes.

- The largest growth has been to those in the top income quintile, growing by 72% per year on average, compared with the average across all income groups of 64%. On per year compounding basis this is the difference between 3.3% and 2.8% average growth.
- Income in the bottom four quintile groups increased by approximately 58%, or 2.7% per year on average.[25]

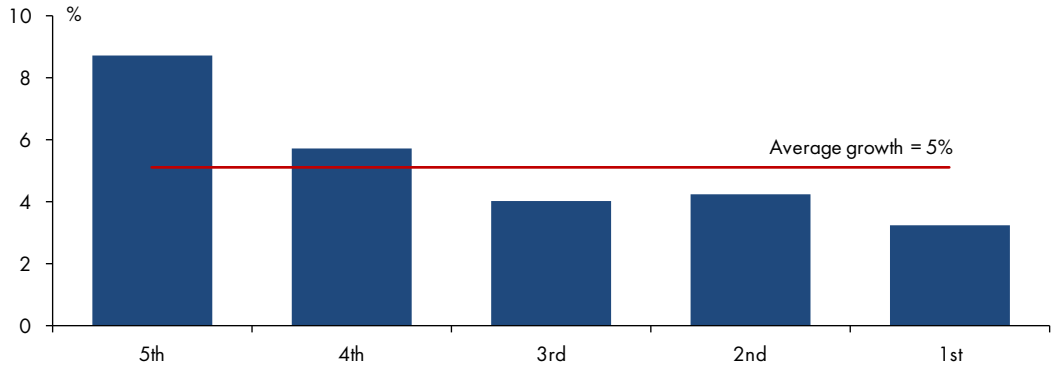
Figure 14: Real income growth by income quintile 1994-2016



Source: ABS

Of interest to policy makers is how structural economic changes have affected income growth. In Australia, there has been a sustained and deep drop in income growth in the years following the GFC (2008 to the present), compared with the years in between the previous recession of the early 1990s and the GFC. Specifically, per capita incomes grew by an annual average of 3% per year in the years between the early 1990s recession and the GFC, compared with 1.3% in the years since. This aggregate statistic is borne out with relatively lower annual average income growth for each income quintile. As Figure 15 shows, income earners in the bottom income quintile have experienced the fastest growth to incomes since the GFC, while the 5th income quintile have experienced the slowest growth.

Figure 15: Real Income Grow by Income Quintile, 2010-2016



Source: ABS

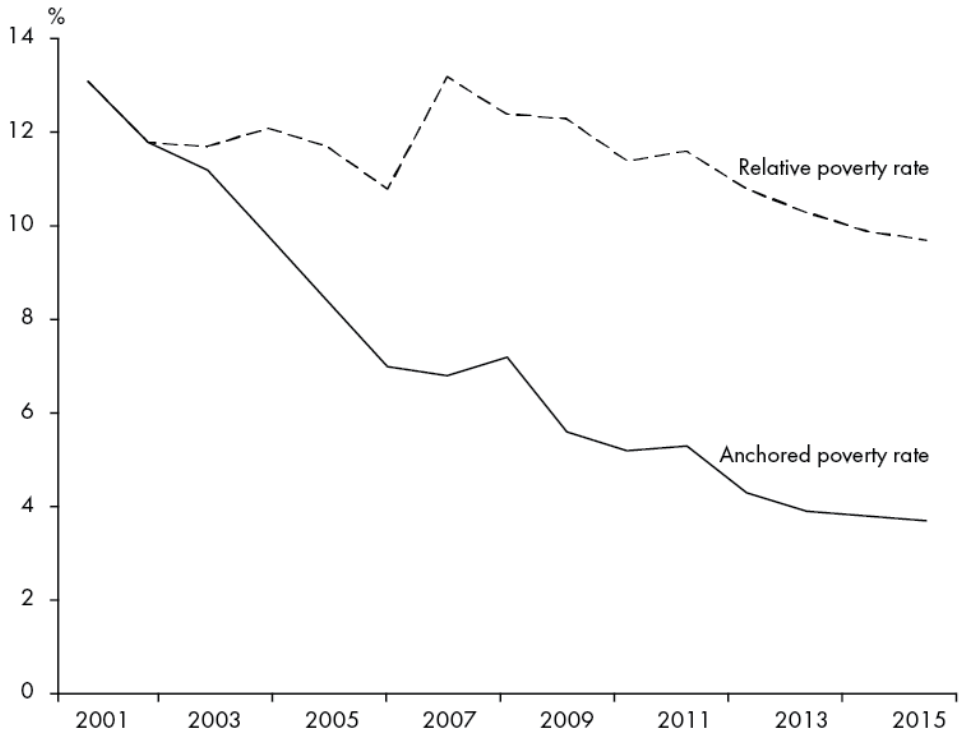
2-2. Poverty

A related measure of living standards, particularly of the very poor, is the proportion of people in poverty. There are two key measures of poverty: the 'anchored' poverty rate and the 'relative' poverty rate. Both measures provide for the proportion of people who earn less than 50% of the median income. The anchored measure provides for the proportion of people in, say, 2015, who earn less than the median income in a previous year, say 2001 – it anchors the measure to a previous year. The second measure provides for the proportion of people in a given year who earn less than half of the median income that same year.

As Figure 16 shows, by either measure poverty is low and has been declining in Australia. Specifically:

- The anchored poverty rate has declined rapidly from 13% in 2001 to just 4% in 2015. This means that just 4% of adults in 2015 earned less than 50% of the median income in 2001.
- The relative poverty rate has declined from 13% in 2001 to 10% in 2015. This means that 10% of adults earn less than 50% if the median income.[26]

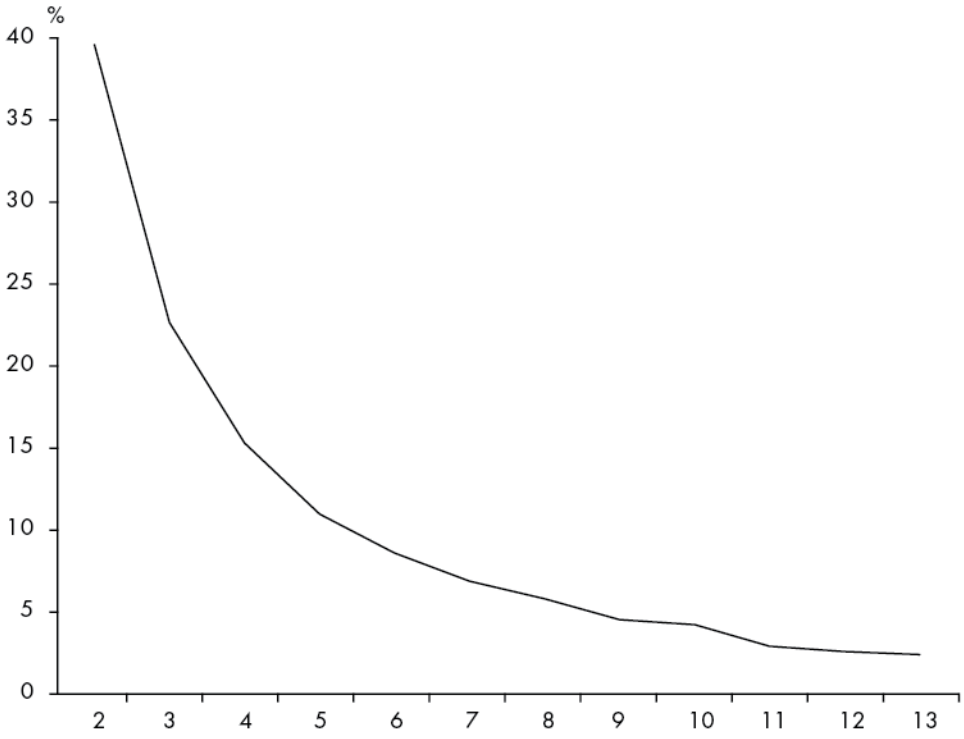
Figure 16: Proportion of people living in poverty in Australia



Source: HILDA, 2017

Moreover, most of those who are in poverty are able to move out of poverty relatively quickly. As shown in Figure 17, according to the 2015 HILDA survey, 40% of those in poverty remain in poverty for just 2 years, while just 10% remain in poverty for 10 years or more.[27] This suggests that, for most, poverty is a temporary phenomenon, and they are able to escape poverty relatively quickly through either earned income or welfare.

Figure 17: Duration of Poverty (% of those in poverty by duration in years)



Source: HILDA, 2016

It is important to note that both of the above measures likely overstate the extent of poverty in Australia as both are relative measures. The relative income position of people in society is not an irrelevant consideration. But only analysing relative measures leads to some distorting outcomes. For example, the relative poverty rate would decrease in situations where the median income decreases. To most observers this would be an unambiguously negative outcome. It is much better to have a higher median income with more people earning less than 50% of that wage, rather than a lower median wage with fewer people earning less than half of that wage. The existence of absolute poverty - unable to afford the basic essentials for survival - has been practically eradicated in Australia as in most other Western nations. Indeed, the shift in nomenclature from absolute to relative poverty by those committed to tracking indigence is testament to that fact.

2-3. Access to material goods

Australians have seen their incomes rise and as a result fewer live in poverty. This increased prosperity, along with technological innovation, has allowed more Australians to enjoy material goods, as shown in Table 1 below.

To the extent that the ability to procure material goods is necessary for a good life, Australia has been very successful.

The data in this section suggests that policymakers should focus on objectives to increase opportunity and prosperity rather than focus on only on economic inequality. While there is undeniably an uneven economic distribution, it is part of an economic system that has provided benefits for everyone across society. The causes of the inequality discussed in section 1 are complex, and likely to be related to the causes of the prosperity demonstrated here. Policymakers should not expect that they can easily address inequality while preserving the improvements seen here.

Table 1: Appliance and equipment ownership rates (percent of households)

	1950s	1960s	1970s	1980s	1990s	2000s	2010s
Air conditioner					33 (1994)	64 (2008)	73 (2011)
Computer					44 (1998)	78 (2009)	83 (2011)
Dishwasher					25 (1994)	45 (2008)	52 (2011)
Refrigerator		94 (1960)			100 (1994)	100 (2008)	100 (2011)
Television	1 (1956)	87 (1966)	92 (1976)			96 (2003)	99 (2011)
Washing machine	40 (1955)	60 (1960)			94 (1994)	97 (2008)	98 (2011)

3. Opportunities to Live the Good Life

Sections 1 and 2 have demonstrated that Australia is a relatively equal country with widely-shared prosperity. However, Australia is not perfect, and the opportunity it provides to its citizens is not as great as it could be. This final section will argue that over and above the impediments placed in the path of opportunity by poor government policy, many people in our country do not have the opportunity to reach their potential due to cultural cues and norms.

Access to certain institutions, cultural norms, and ways of life are necessary if people are to reach their potential. Two children of otherwise equal ability and inclination will likely experience vastly different lives with variant opportunities depending on if they are brought up in a stable home, receive a decent education, and live in a community that values and celebrates hard work and success. Author J.D Vance's autobiographical account in of his childhood in a poor working-class community in the American Mid-West, *A Hillbilly Elegy,* is illustrative of this basic truth. Vance recounts how his move away from living with his Mother, with her frequent violent outbursts and rotating roster of male partners, to the relative stability and peace of his Grandmother's home was integral to his improvement at school which, in turn, enabled his joining the Marines and, later, making it to Yale University. Without the change to his domestic situation it is unlikely Vance could have experienced the relative success he has managed in later life.

Common sense, along with research, demonstrates that certain behaviours are correlated with life satisfaction and success, such as loving relationships, stable housing, community participation, and health. While it is sometimes assumed that these are products of material prosperity, the causation may flow the other way (or in both directions). That is, the adoption of these behaviours is likely to contribute to greater material prosperity. In considering the wellbeing of individuals in our society, we must appreciate the complex interactions between economics, cultural norms, and individual choice.

Amy Wax and Larry Alexander, Professors of Law at the University of Pennsylvania and the University of San Diego, respectively, argue that the social pathologies that have proliferated in Western societies over the past five decades, such as violence, drug use, joblessness, family breakdown, and nihilism, can be attributed to a decline in the observance and practice of so-called middle-class virtues. The authors argue that the old cultural script which better ensured a successful and meaningful life was:

> 'Get married before you have children and strive to stay married for their sake. Get the education you need for gainful employment, work hard, and avoid idleness. Go the extra mile for your employer or client. Be a patriot, ready to serve the country. Be neighbo[u]rly, civic-minded, and charitable. Avoid coarse language in public. Be respectful of authority. Eschew substance abuse and crime.'[28]

A similar study was undertaken by the Washington D.C. based think tank, the American Enterprise Institute which analysed the application of the so-called 'success sequence' to Millennials in the United States. The authors found that following the success sequence – getting a degree (high school graduation at the very least), getting a job, and putting marriage before children, in that order – is closely linked to financial well-being. Specifically, the authors found that Millennials who follow the success sequence almost always avoid poverty and have a clear path into the middle class, and 97% of Millennials who follow the sequence are not poor.[29]

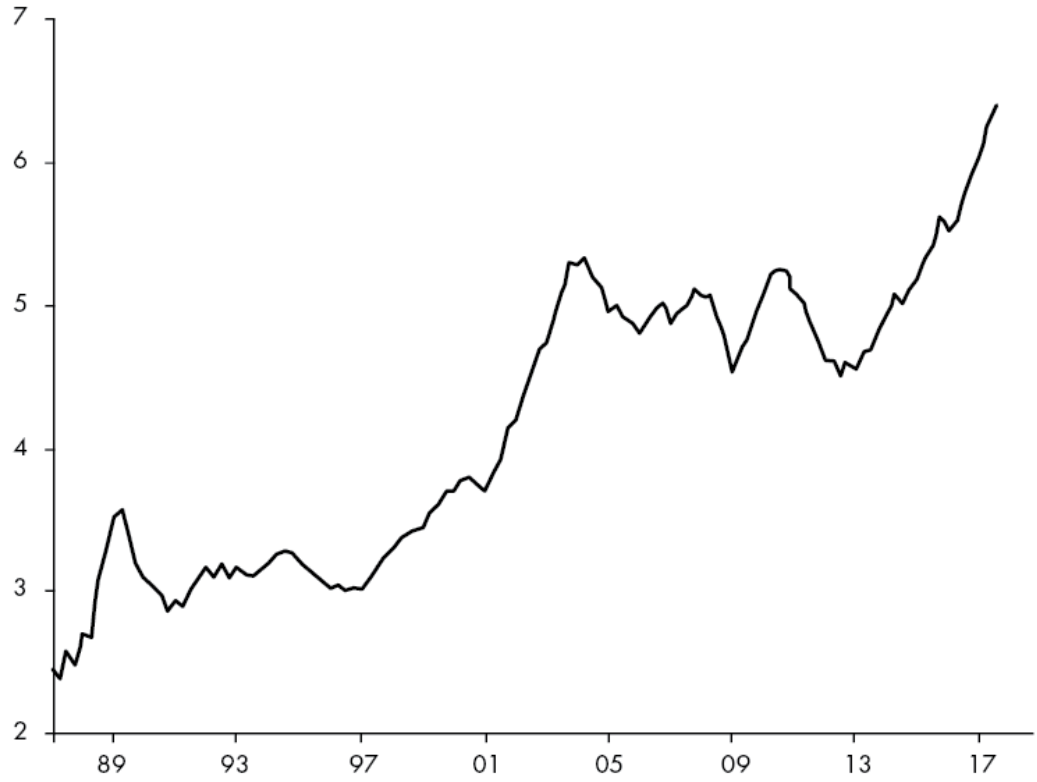
To gain a deeper insight into the culture and institutions necessary for people to succeed and flourish, the Heritage Foundation, another Washington D.C., based think tank, explored 31 key cultural, economic, and social indicators in its *Index of Culture and Opportunity*. While beyond the scope of this paper to replicate the entirety of this analysis using Australian data, the following section investigates in the Australian content a sub-set of these key cultural, economic, and social indicators:

- Home ownership rates
- Employment
- Affordability of electricity
- Marriage and divorce rates
- Single-child households
- Volunteering rates
- Access to quality education
- Welfare dependence
- New business starts

Home Ownership

The IPA's survey of the attitudes of young people found that 98% want to own their own home one day.[30] But, for many, housing is becoming increasingly unaffordable. A common measure of housing affordability is the house-price-to-income ratio which measures the cost of housing compared to a measure of income. As Figure 18 shows, this ratio has risen sharply since 2002, and is currently at a record high of 6.2, meaning that the average house price is 6.2 times greater than the average income. This has grown from around 5.0 a decade ago, and 3.0 two decades ago.

Figure 18: House-price-to-income ratio

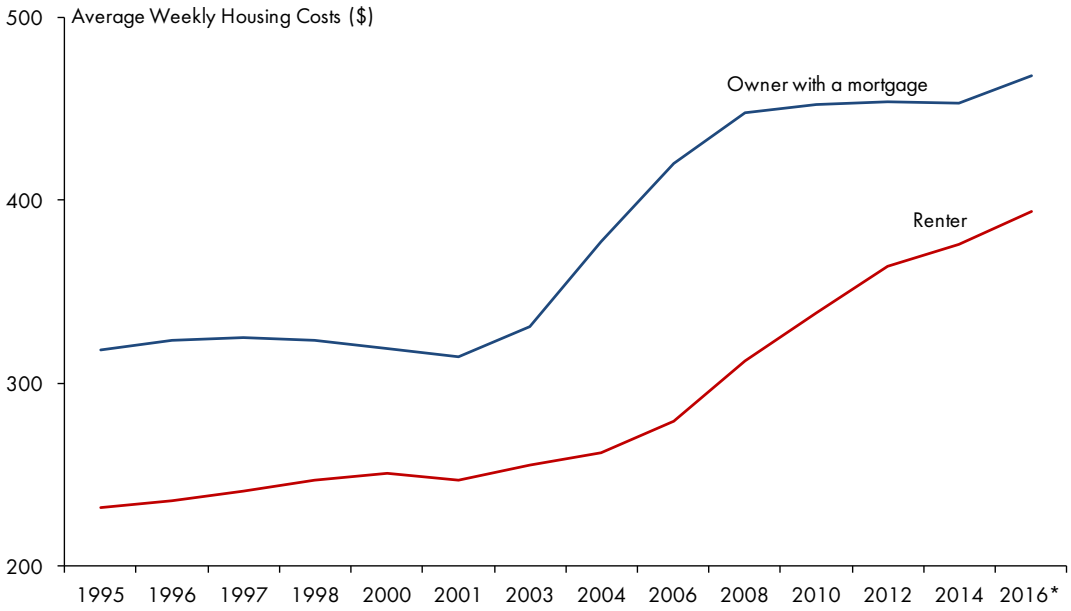


Source: UBS

Unsurprisingly, the increased cost of buying a home has led to diminished rates of home ownership, especially among the young and those at the lower end of the income distribution. The proportion of Australians aged 18 to 39 who own a home has decreased sharply from 33% in 2002 to 25% in 2014.[31] Data from the ABS also shows that the proportion of all dwellings purchased by first home buyers is just 15%.[32] This is slightly higher than the record low of 12.9% reached a year ago, but is well below the long-term average of 19.2%. And among the bottom quintile of income earners, just 13% own a home. Among the second quintile this rate rises only slightly to 17%. [33] This is compared with a home ownership rate of 33% and 32% of the fourth and fifth income quintiles, respectively.

Rising house prices have led to people borrowing more to meet the costs and to more people renting. As a result, the share of income that households are devoting to meeting their mortgage repayments and rent has increased, as shown in Figure 19.

Figure 19: Housing costs as share of income



Source: ABS; *projection by the IPA based on interpolation

Government policy has played a key role in reducing housing affordability. High immigration rates have increased demand, while red tape and regulation through planning and zoning laws, stamp duty, minimum apartment sizes, and energy efficiency requirements, have reduced supply. Higher demand and artificially limited supply have worked together to push house prices to record highs.

Energy Affordability

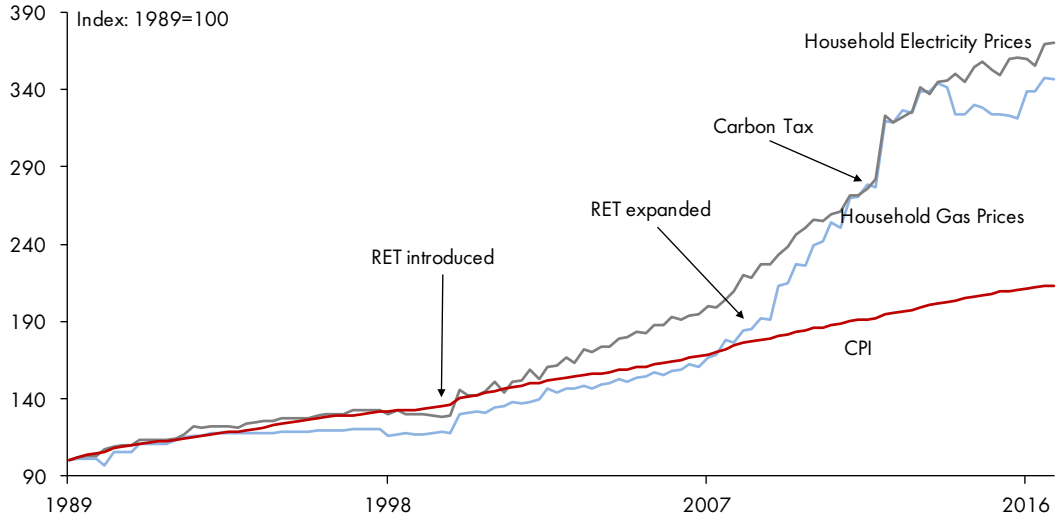
Access to reliable and affordable energy is a necessary prerequisite for people to have successful and fulfilling lives. Higher energy prices increase the cost of operating a business, which discourages investment and job creation, resulting in fewer employment opportunities for Australians. At the same time, higher energy prices also leave less income available for people to spend elsewhere.

Australia has one of the most abundant supplies of energy in the world with over 1,000 years' worth of coal, 40% of the world's uranium deposits, and abundant natural gas. This means that Australia should have amongst the lowest electricity prices in the world. However, instead of having the lowest energy costs in the world, Australians have among the highest, with South Australia amongst the worst in the developed world, as shown in Figure 20.

According to data from the ABS, household electricity prices have risen by 165% and gas prices have risen by 160% since 2001 (when the Renewable Energy Target was introduced), compared with just a 50% increase to the economy-wide level of inflation.[34] This trend is expected to worsen as government decisions to subsidise more renewable generation and thus force closure coal-fired power plants takes greater effect.

Figure 20: South Australia has the highest electricity prices in the world

Figure 21: Electricity Prices



Source: ABS

Increased housing and electricity costs fall heaviest on the poor. According to the ABS, in 2013-14 (the latest year for which data is available) low income earners spent 27% of their gross income on housing costs, compared with 16% for all households.[35] Similarly, low income households spend about 4% of their gross weekly income on household energy costs, compared with about 2% for middle income households, and 1% for higher income households.[36] Indeed, the ABS data could well understate the extent of hardship for low income households. For example, the Finkel Review into Australia's energy market, referencing the Australian Energy Regulator's 2016 Annual Report, argued that 'a typical low income household spends around 4 to 9% of its disposable household income on electricity bills'.[37]

Increases to electricity prices have been driven by government policies which have promoted renewable energy generation at the expense of cheaper and more reliable sources of energy. The key policies include the Renewable Energy Target, the carbon tax, and the myriad of state and federal regulatory restrictions on the exploration and development of coal and gas reserves.

Employment

An important measure of whether Australians have the opportunity to earn an income commensurate with their talents and preferences is labour force participation. The labour force participation rate is an important measure of the overall health of an economy, and the extent to which people are seeking employment opportunities. The participation rate measures the proportion of the working age population that is in the workforce: those that are either employed or those who are unemployed but are actively seeking work. Over the past 40 years, proportionately more Australians have come to participate in the workforce. This increase has been driven by the expansion of the female workforce, which has slightly more than offset a decrease in male labour force participation.

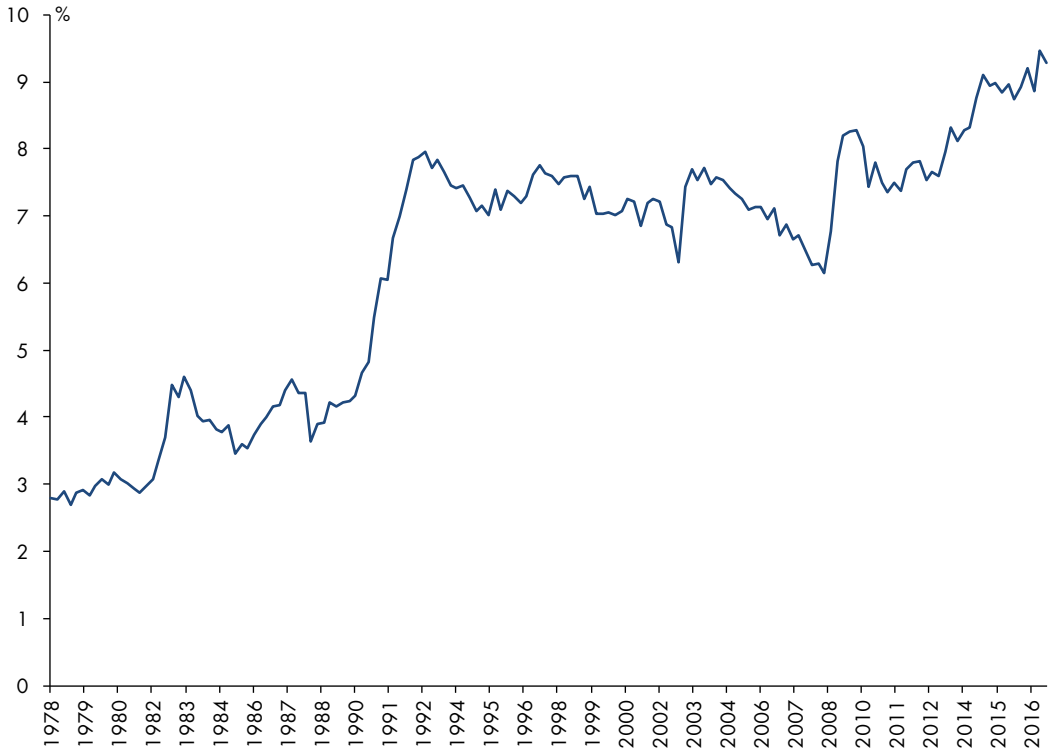
However, as Figure 22 shows, labour force participation has been trending down over the past decade. This is partly the result of an ageing population as more people permanently exit the labour force as they enter retirement. However, it is also driven by an increasing share of prime-age (25-54) Australians, and men in particular, who are no longer engaged in, or actively seeking, employment. Indeed, more than one in five working-age males are not in work, with a work-to-population ratio of just 79%, according the most recently-available census data. This is a sharp drop from a rate of over 96% in the 1950s.[38]

Figure 22: Labour force participation rate

Source: ABS

Making matters worse, an increasing share of those who do have jobs are increasingly reporting that they cannot get their desired number of hours. As Figure 23 shows, the underemployment rate is now 9.3%, the second highest on record.

Figure 23: Underemployment ratio (percentage of employed)



Source: ABS

Together, a declining participation rate and an increasing underemployment rate suggest that employment opportunities are diminishing for many Australians. This is partly due to structural economic factors: automation is displacing workers in many traditional industries such as manufacturing and construction, while globalisation challenges the market position of domestic businesses. However, policy to limit both of these factors would be counterproductive. For example, limiting the effects of globalisation through reducing free trade would put more people out of work by increasing domestic prices, making domestic firms less cost competitive, and reducing opportunities for businesses to grow by exporting to overseas markets.

However, public policy has also played a key role in putting people out of work. Australia has one of the highest minimum wages in the world, which prevents many young and low skilled Australians from accessing opportunities to work. Further, the *Fair Work Act* provides for highly centralised industrial arbitration and limits the flexibility for employers and employees to develop terms and conditions that are mutually beneficial. A further policy that limits employment opportunity is occupational licensing, which imposes a barrier on people finding work or starting their own business.

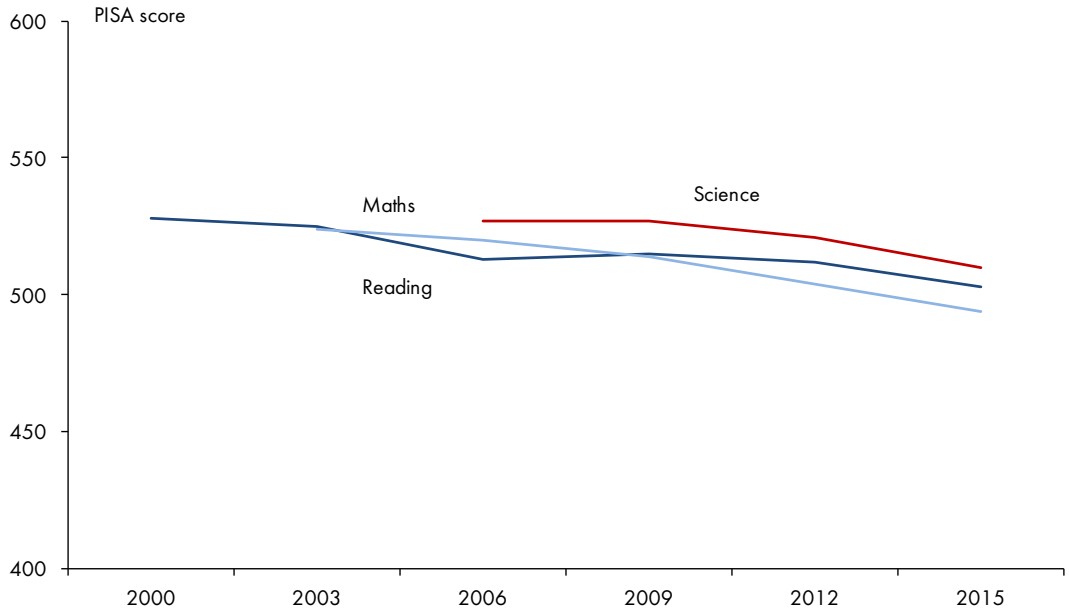
Education

A high quality education is an essential building block to a successful life and career. Having a well-informed citizenry is also an integral component of the function of any liberal democracy such as Australia's. Indeed, the entire enterprise of self-governance is predicated on individuals being able to form their own goals and develop the skills and talents necessary to pursue those goals.

It is worrying, then, that student results at Australia's schools have been in structural decline since the Programme for International Student Assessment (PISA) measurement commenced in 2000, as shown in Figure 24. This decline has taken place across all three categories measures – mathematics, science, and reading literacy. This decline has also occurred despite billions of dollars in extra spending that takes place each year. The Productivity Commission, in its Inquiry into the national education evidence base, found that:

> 'Real government expenditure on schools increased by 24 per cent (from $40.7 billion to $50.4 billion) between 2004-05 and 2013-14, or almost 14 per cent per student across government and non-government schools (SCRGSP 2016a). Despite this increase in expenditure, Australia's performance on national and international student assessments has stalled or, in some cases, declined.'[39]

Figure 24: PISA Scores



The most recent intervention by the Commonwealth government in education is the so-called Gonski reforms ('Gonski 2.0'). However, although the Gonski funding model is designed to focus resources to those schools where disadvantage is most-heavily concentrated, its fundamental premise that more funding will improve results is flawed. The meta-analysis of Australian education by expert John Hattie indicates that among in-school factors affecting student performance, teacher ability is the most important.[40] It is not obvious that an increase of resources at the school level will address the need for greater competence among Australia's teaching workforce.

Further, since the 1960s, a body of evidence has been developed which shows that student performance is more strongly correlated with out-of-school factors. This is intuitive, since children spend more time outside school than in attendance. The stability and happiness of children's home lives and the engagement in their education of their parents are key determinants of how able children are to take advantage of the opportunity to learn. This means that the good of education (both inherent and economic) is sensitive to the interaction between family life and socio-cultural phenomena. J.D Vance argues in the Heritage Foundation's 2017 *Index of Culture and Opportunity* that:

> 'Efforts to reform and improve our schools are welcome, for instance, but unless they account for the homes and neighbo[u]rhoods of the children who learn in those schools, reformers will find themselves working in a vacuum in which real people and the real problems they face are never fully understood or fully addressed. Reform divorced from an understanding of culture is a recipe for spending money, wasting time, and doing very little good.[41]

Public policy is a key driving factor behind declining education attainment. Current policy considers only how much money is being spent on education. Rather, what is more relevant is what is being taught and how it is being taught. This means policies orientated toward changing the national curriculum (or, indeed, abolishing or decentralising it), and the arrangements around how teachers are hired, fired, and rewarded, need to be put at the centre of education policy. The best way to lift school standards is to devolve authority to schools to make hiring and firing practices in accordance with teacher quality, rather than being bound by a rigid and centralised wage arbitration system. Further, implementing a broad-based vouchers program in lieu of block funding would increase choice for families and students, as well as increase competitive pressures on schools to lift their standards.

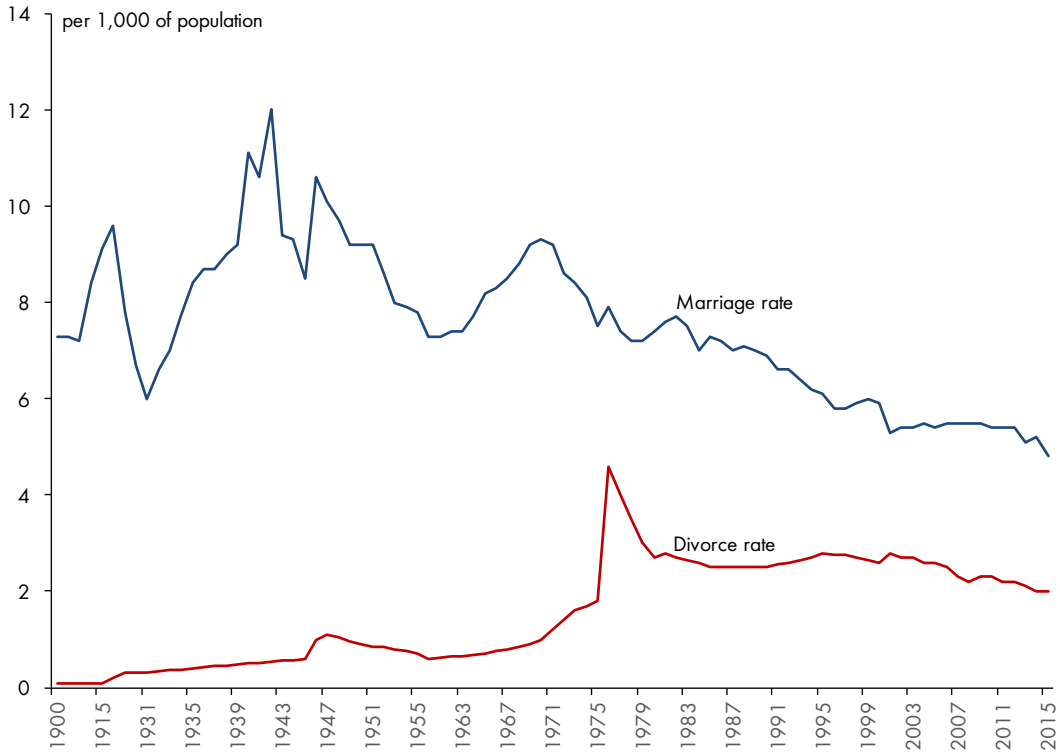
Marriage

Marriage is another social good that is both inherently valuable and linked to greater economic prosperity. Marriage is a source of permanence, order, and connection in a world that is becoming increasingly chaotic and isolating. The permanence afforded by marriage allows people to create order by planning for the future and developing trust with others.

Marriage is also economically beneficial as it allows people to pool resources, manage risk (such as loss of a job or incurrence of ill health), and to access the benefits of being connected to two sets of families. And a large body of evidence demonstrates that marriage is an important bulwark against poverty. Evidence from the United States suggests that married households are four times less likely to be in poverty than unmarried households. Children of married couples also typically have better lives than children in unmarried households.[42]

However, over the past four decades the marriage rate has been declining while the divorce rate, although dropping slightly over the past two decades, is far higher today than it was four decades ago. Further, the decline in the divorce rate is partly driven by the decline in the marriage rate: fewer marriages means there is likely to be fewer divorces. The decline in marriages and increase in divorces is not an unalloyed negative. Some marriages are bad and should be ended, or should never have commenced. But, on the whole, the decline in marriages is a worrying trend for society.

Figure 25: Marriage and Divorce rates



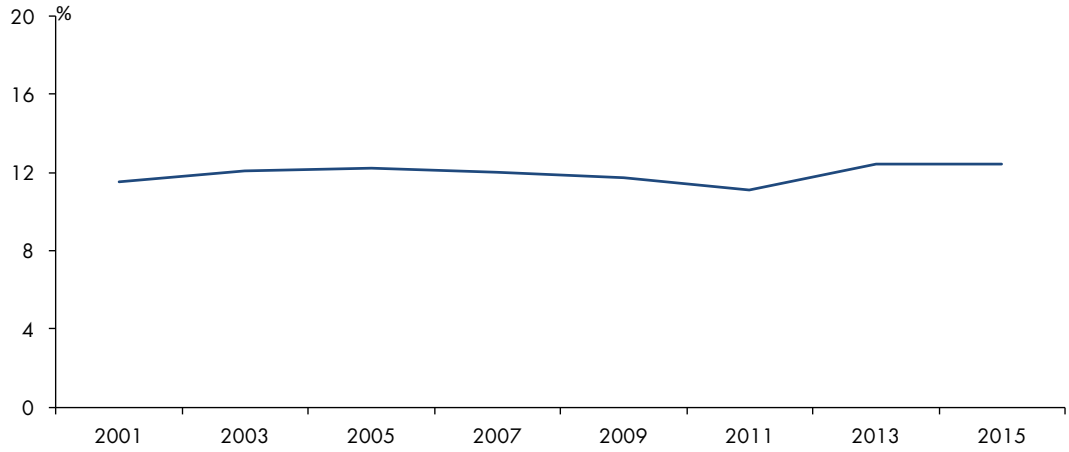
Source: Australian Institute of Family Studies

Single-parent households

Children fare much better when they are brought up in stable two-parent families for the duration of their childhood. Single parent households comprise approximately 12% of all households.[43] This rate has been largely unchanged over the past 15 years. There is a large body of evidence examining the effects of father absence which is correlated with range of negative effects, including on household income, education attainment, labour force participation, substance abuse, early sexual activity, and violent crime. Children rely on predictability, routine, and habit. They need to be guided by their parents, especially in their yearly years, firstly, to simply enjoy their childhood, and secondly, the maximise the chances that they will have a successful life.

None of this means that children from single parent households will not be able to flourish or reach their potential. There are many successful people across the community who were brought up in single parent households. Neither does it mean that single parent households don't deserve support – they do and, in many ways, they need it most. But it would be doing a great disservice to children not to recognise that they are, on balance, better off when brought up with a mother and father.

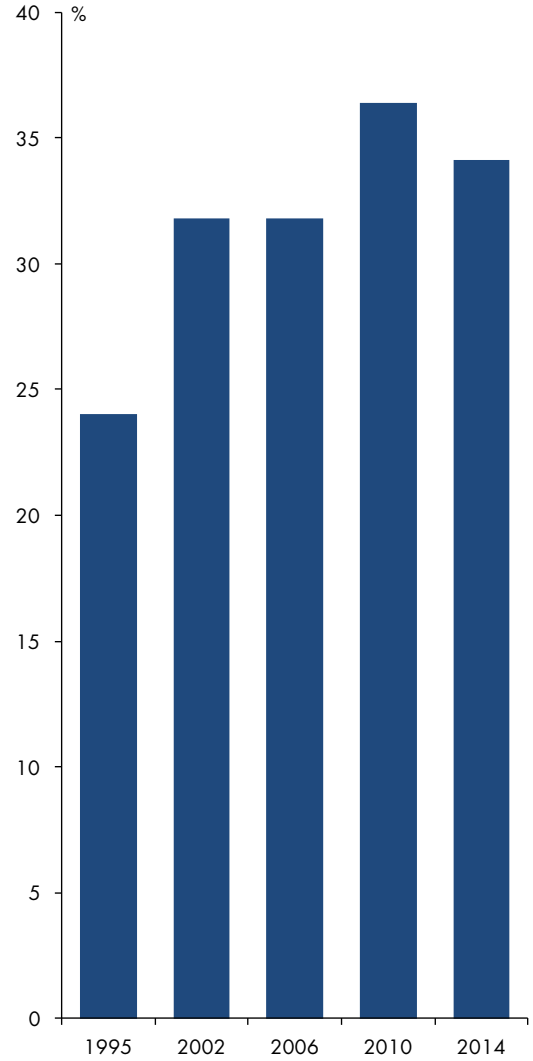
Figure 26: Percentage of single-parent households



Source: HILDA, 2017

Volunteering

Figure 27: Volunteer rates



Source: ABS

Volunteering is a two-way street. It benefits those who receive the work, resources, and assistance of volunteers. But it also benefits those who do the volunteering. Giving is its own gift. It is instructive to look at the root words of the term volunteer, as well as compassion, a key emotion motivating volunteering. As James Whiteford explains in his chapter for the Heritage Foundation's *Index of Culture and Opportunity*, the Latin root words for compassion is *cum passus*, which we translate to 'the suffer with'.[44] While the Latin word for voluntary, voluntarius, means 'of one's free will.' Taken together, volunteering constitutes actions freely taken to carry the burden of life's suffering with others. As James Whiteford explains, 'compassion is the instinctive response to another's suffering and serves to fuel charity.'[45]

Volunteering also strengthens civil society through the formation of community groups, typically small in size, dedicated toward alleviating the broad array of social pathologies so prevalent in our society, from drug abuse, to violence, depression, anxiety, family breakdown,

and alcoholism. Importantly, these groups are far better placed to address these issues than is the welfare state. Where volunteer groups promote mutual obligations, responsibility, and developing human connections and trust, the welfare state promotes dependence, on the one hand, and paternalism on the other, through provision of money. However, for many of those in need money is only a part of the answer. Indeed, many social pathologies continue to rise despite trillions of dollars spent on welfare since the 1960s and a society that has never been wealthier than before, as illustrated in section 2.

Rates of volunteering have risen across Australia over the past two decades, from around 24% in 1995, to 32% in 2014. Although this is down slightly from the peak of 35% in 2010, it remains comfortably above the long-term average of 29%.[46]

Public policy can affect volunteer rates in two key ways. The first is directly, through the imposition of red tape and regulation on charitable enterprises. One report found that charities waste $15 million each year on adhering to regulatory obligations.[47] The other avenue through which public policy affects volunteer rates is through the provision of welfare. Welfare undermines the formation of local community organisations and creates a disincentive for those in need to seek the help of their neighbours. The result is for government intervention to crowd out the actions of civil society.

Entrepreneurship

A key measure of economic opportunity is the ease with which people are able to set up new businesses. The easier it is to become self-employed, the lower the probability that someone will need to stay in an leave a ill-suited, low paying, or dissatisfying job in order to pursue value-creating opportunities.

Equally important is how dynamic an economy as a whole. While it is important that new businesses are able to commence, it is also important that unproductive and inefficient businesses close down. This is the creative destructive process outlined by Joseph Schumpeter.[48]

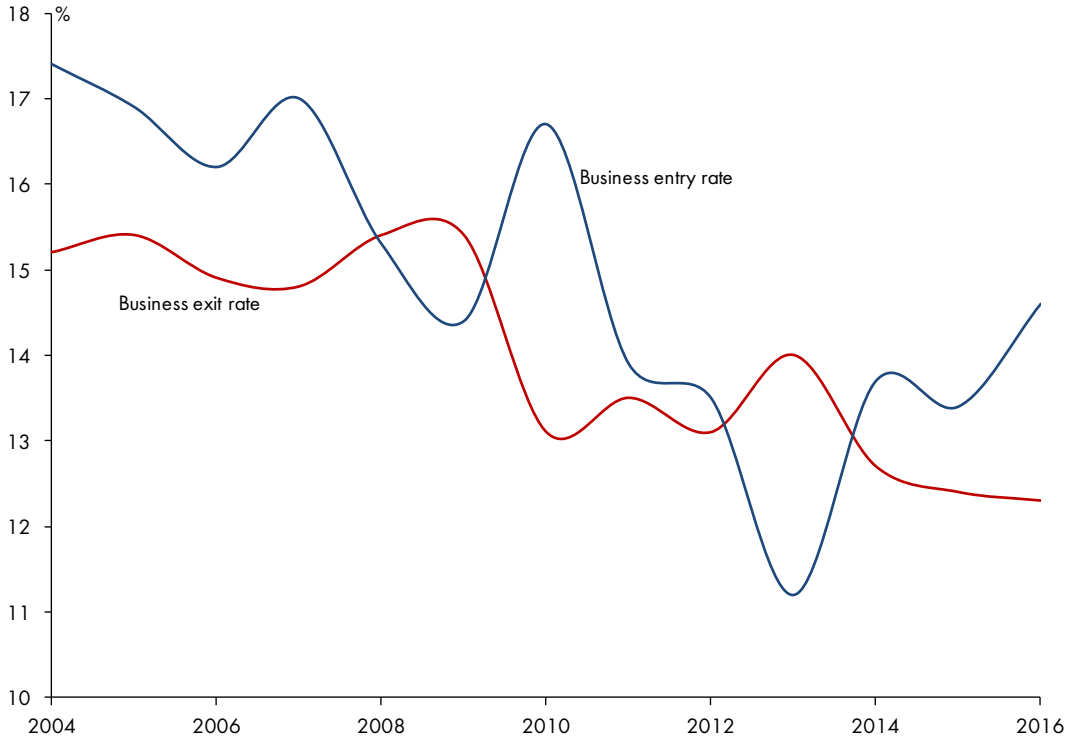
In Australia, both the business exit and entry rates are in structural decline. Specifically:

- The business entry rate was 14.6% in 2016, compared with 17.4% in 2004
- The business exit rate was 12.3% in 2016, compared with 15.2% in 2004.[49]

Worryingly, 25,000 fewer new businesses commenced in 2016 than in 2004, despite the population aged 15+ increasing by more than 20% over the same time period. This suggests that the average new Australian entering the labour force is either less entrepreneurial than in the past, or is less able, as a result of regulation and red tape, to give effect to those entrepreneurial ambitions by starting their own business.

A survey of young people aged 18-25 conducted by the IPA in 2016, suggested the entrepreneurial spirit is alive in young people, as 60% indicated a desire to start their own business. This suggests that barrier to new business formation may be determinative of the outcome.

Figure 28: Business entry and exit rates

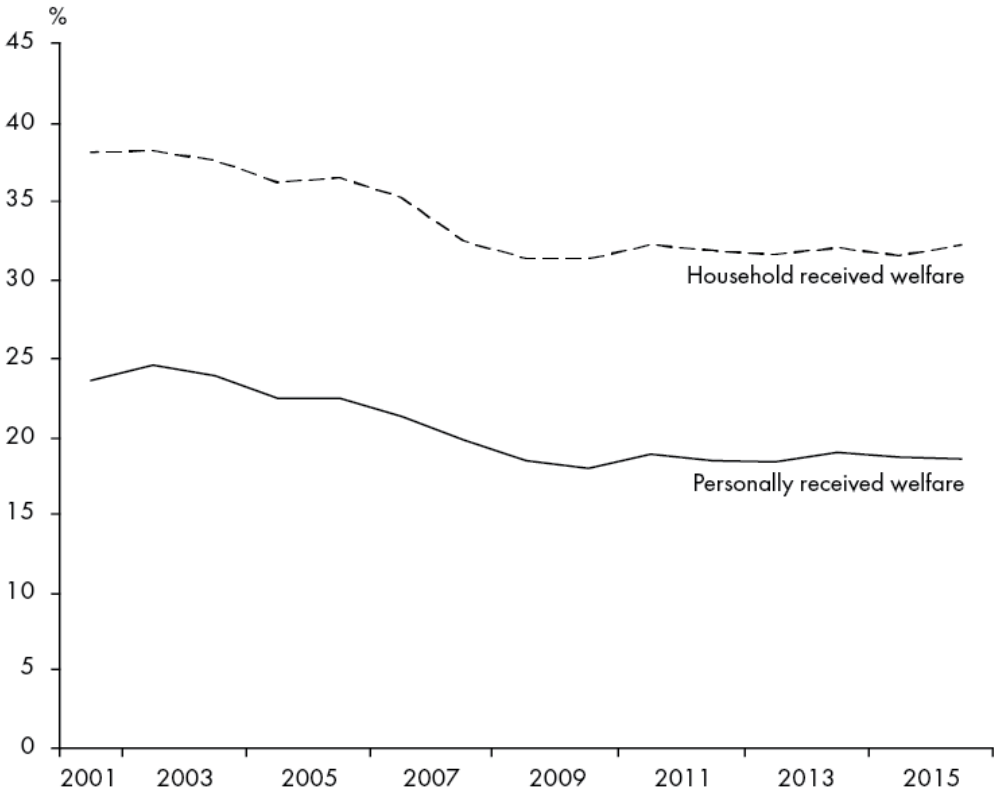


Welfare Dependency

People rarely flourish when they are welfare dependant. They miss out on the inherent dignity of work, building a family, and achieving self-sufficiency, independence, and being able to give their own time, effort, and resources to their community. Welfare is necessary for many people to alleviate what would otherwise be crippling material deprivation. However, it is important to remember that not all income is the same. $10,000 from a welfare cheque is not the same as $10,000 from a pay cheque. One is representative of dependency and helplessness, the other of opportunity and success. The goal of public policy is to move people from dependency to opportunity, which means from welfare to work.

A society with an increasing share of its population dependant on welfare is a society with insufficient opportunities. Such a society is one of decay, both economically and in respect of subjective well-being. Fortunately, while Australia has a high proportion of its population who are dependent on welfare, this proportion has been moderating over time. Specifically, the proportion of households which receive welfare has decline from around 38% in 2001 to 33% in 2015, although that figure is slightly higher than it was in 2013.[50]

Figure 29: Welfare dependency



Source: HILDA, 2017

4. Conclusion

The best available evidence demonstrates that income inequality is low and declining in Australia. Suggestions to the contrary rely on highly unreliable and potentially misleading measures, such as the income share earned by the top 1% of income earners.

Further, Australia has the third most equal distribution of net wealth in the developed world, the second lowest proportion of adults with net wealth below $10,000USD, and the second highest proportion of adults with wealth above $1,000,000USD. Together, these factors suggest Australia is a very wealthy country, with that wealth widely shared.

Australia, as whole, is also a very prosperous nation, with all income quintiles experiencing solid growth to their incomes over the past two decades. Access to basic material goods is close to universal. Absolute poverty has been virtually eradicated, while relative poverty is low and has been declining in recent years.

Yet, for all of this material prosperity we observe in Australia, as with other Western nations, worsening social pathologies such as crime, violence, drug use, nihilism, alcoholism, and family break-ups. Such pathologies stand in the way of many Australians reaching their potential and accessing the opportunities available in this country.

It has been widely documented that access to certain institutions, the pursuit of certain life paths, and communities which re-inforce certain norms, are central to people being able to live a good life. Specifically, being raised in a stable and, ideally, loving family, receiving a good education, pursuing a career, and avoiding crime, drugs, and alcohol dependency, are all associated with life success. Strangely, such basic knowledge, available to humans for millennia, seems to have been erased in our modern times.

On some key opportunity indicators, Australia is performing well: volunteer rates are increasing and welfare dependency is decreasing. However, home ownership is vanishing, joblessness is increasing and becoming entrenched, education is becoming lower quality, single-parent households remain stubbornly high, and entrepreneurship appears to be in structural decline, while basics such as electricity are becoming unaffordable for the poor. There are many reasons for this. Public policy is a key culprit of high energy prices, housing affordability, and joblessness.

Yet, it is the culture that matters more. The hollowing out of key mediating institutions which provided a source of direction, meaning, and order, such as family, religion, and communities, has left many Australians without access to the body of wisdom about how to live a good life accumulated through the ages. Re-invigorating civil society, and a culture of responsibility, hard work, and togetherness, will be necessary if more Australians are to access the opportunities this country has to offer.

Therefore, building public policy on the foundation of spurious measures of inequality will necessarily lead to sub-optimal outcomes, and it would more appropriate to support measures which provide greater opportunities for individuals and society at large.

Endnotes

1 Data available from http://wid.world/

2 Data available from https://data.oecd.org/inequality/income-inequality.htm. Note: ABS data and OECD data differ due to different calculation methodologies and time periods used.

3 Productivity Commission, 'Trends in Income Distribution in Australia', Canberra, Australia, (2013)

4 Organisation for Economic Co-operation and Development, 'Divided we Stand: Why Inequality Keeps Rising', (2015)

5 Charles Wold Jr, 'The Inequality Debate' the Rand Corporation, (4 June 2012)

6 Potter, Ben, 'Bill Shortens ever-rising inequality story 'patently false'', Australian Financial Review, (21 June 2017)

7 The measured is based on work by the Italian statistician Corrado Gini. For an explanation of the methodology underpinning the Gini Coefficient, see: Greenville, Jared., Pobke, Clinton., Rogers, Nikki., 'Trends in the Distribution of Income in Australia', the Productivity Commission, Melbourne, Australia (March 2013), pg. 6, Box. 1

8 Australian Bureau of Statistics, 'Household Income and Wealth, Australia, 2015-16', Canberra, Australia, (2015)

9 Australian Bureau of Statistics, 'Census', Canberra, Australia, (2016)

10 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)

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

12 Dollman, Rosetta, Kaplan, Greg, La Cava, Gianni, and Stone, Tahlee 'Household Economic Inequality in Australia', Reserve Bank of Australia, Sydney, Australia, (2015)

13 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)

14 Data available from https://data.oecd.org/inequality/income-inequality.htm

15 Australian Bureau of Statistics, 'Household Income and Wealth, Australia, 2015-16', Canberra, Australia, (2015)

16 Clarke, Carrington, 'RBA governor says inequality getting worse, contradicting Scott Morrison', ABC News Online, (27 July, 2017), http://www.abc.net.au/news/2017-07-26/rba-says-inequality-getting-worse/8746594

17 Australian Bureau of Statistics, 'Residential Property Price Indexes', Canberra, Australia, (June 2017)

18 Credit Suisse, 'Global Wealth Report, 2016', Zurich, Switzerland, (2016)

19 Ibid.

20 Ibid.

21 Ibid.

22 Ibid.

23 Dollman, Rosetta, Kaplan, Greg, La Cava, Gianni, and Stone, Tahlee 'Household Economic Inequality in Australia', Reserve Bank of Australia, Sydney, Australia, (2015)

24 Ibid.

25 Australian Bureau of Statistics, 'Household Income and Wealth, Australia, 2015-16', Canberra, Australia, (2015)

26 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)

27 Wilkins, Roger, 'The Household, Income, and Labour Dynamics in Australia Survey: elected Findings from Waves 1 to 15', Melbourne Institute, the University of Melbourne, (2016)

28 Wax, Amy., Alexander, Larry, 'Paying the price for breakdown of the country's bourgeois values', *The Inquirer*, Philadelphia, United States, (9 August, 2017)

29 Wilcox, Bradford., Wang, Wendy, 'The Millennial success: Marriage, kids, and the 'success sequence' among young adults', The American Enterprise Institute, Washington, D.C., United States, (2017)

30 Institute of Public Affairs, 'Growing Freedom: Survey of Young Australians', Melbourne, Australia, '2016)

31 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)

32 Australian Bureau of Statistics, 'Housing Finance, Australia, June 2017', Canberra, Australia, (August, 2017)

33

34 Australian Bureau of Statistics, 'Consumer Price Index, Australia, 2017', Canberra, Australia, (July 2017)

35 Australian Bureau of Statistics, 'Housing Occupancy and Costs, 2013-14', Canberra, Australia, (November, 2015)

36 Australian Bureau of Statistics, 'Household Energy Consumption Survey, Australia: Summary of Results, 2012', Canberra, Australia, (October 2013)

37 Australian Government, 'Independent Review into the Future Security of the National Electricity Market', Canberra, Australia, (2017), pg. 144

38 Rozner, Gideon, 'The Disappearing Australian Working Man', the Institute of Public Affairs, Melbourne, Australian, (August, 2017)

39 Productivity Commission, 'Education Evidence Base', Canberra, Australia, (2017)

40 https://visible-learning.org/hattie-ranking-influences-effect-sizes-learning-achievement/

41 Vance, J.D., 'Forward to Heritage Foundation *Index of Culture and Opportunity*', Heritage Foundation, Washington, D.C., United States, (2017)

42 Need a source for this claim

43 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)

44 Whitford, James, 'Crowding out Compassion', Heritage Foundation's 2017 Index of Culture and Opportunity, Washington D.C., USA, (2017)

45 Ibid.

46 Australian Bureau of Statistics, 'General Social Survey: Summary Results, Australia, 2014', Canberra, Australia, (June 2015)

47 McDougall, Bruce, 'Millions wasted in charity donations wasted on administrative costs, red tape', *Daily Telegraph*, (4 April, 2017)

48 Schumpeter, Joseph, 'Capitalism, Socialism, and Democracy', (New York: Harper, 1975)

49 Australian Bureau of Statistics, 'Counts of Australian Businesses, including Entries and Exits', Canberra, Australia, (February 2017)

50 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)

This page intentionally left blank

Institute of
Public Affairs
SECURING FREEDOM FOR THE FUTURE
1943 - 2018