Income and Wealth Inequality

Edited by Justin Healey

ISSUES IN SOCIETY
Income and Wealth Inequality

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Income and Wealth Inequality is Volume 382 in the ‘Issues in Society’ series of educational resource books. The aim of this series is to offer current, diverse information about important issues in our world, from an Australian perspective.

KEY ISSUES IN THIS TOPIC
Australia is one of the wealthiest countries in the world and has long prided itself on being an egalitarian society. However, there is a growing divide between those with the most and those with the least. Income inequality has grown as the minimum wage and unemployment benefits have failed to match the rise in average earnings, resulting in a divergence between low-income earners and average Australian wage earners. Current estimates indicate that senior executive pay is 150 times greater than average weekly earnings. In addition to income disparity, wealth in Australia is also unequally distributed, with household wealth being heavily skewed to ‘real assets’ – essentially, property ownership.

How are income and wealth inequality measured in Australia, and what are the impacts of this rising inequality? Should we be trying harder to bridge the gap between the ‘haves’ and ‘have-nots’?

SOURCES OF INFORMATION
Titles in the ‘Issues in Society’ series are individual resource books which provide an overview on a specific subject comprised of facts and opinions.

The information in this resource book is not from any single author, publication or organisation. The unique value of the ‘Issues in Society’ series lies in its diversity of content and perspectives.

The content comes from a wide variety of sources and includes:
- Newspaper reports and opinion pieces
- Website fact sheets
- Magazine and journal articles
- Statistics and surveys
- Government reports
- Literature from special interest groups

CRITICAL EVALUATION
As the information reproduced in this book is from a number of different sources, readers should always be aware of the origin of the text and whether or not the source is likely to be expressing a particular bias or agenda. It is hoped that, as you read about the many aspects of the issues explored in this book, you will critically evaluate the information presented. In some cases, it is important that you decide whether you are being presented with facts or opinions. Does the writer give a biased or an unbiased report? If an opinion is being expressed, do you agree with the writer?

EXPLORING ISSUES
The ‘Exploring issues’ section at the back of this book features a range of ready-to-use worksheets relating to the articles and issues raised in this book. The activities and exercises in these worksheets are suitable for use by students at middle secondary school level and beyond.

FURTHER RESEARCH
This title offers a useful starting point for those who need convenient access to information about the issues involved. However, it is only a starting point. The ‘Web links’ section at the back of this book contains a list of useful websites which you can access for more reading on the topic.
INCOME AND WEALTH INEQUALITY: HOW IS AUSTRALIA FARING?

Once universally thought of as an egalitarian country, what’s happened to wealth and income inequality in Australia in recent decades? Peter Whiteford investigates what has happened to income and wealth inequality in Australia in recent times.

Australians like to think of themselves as egalitarian, and for much of our history we believed our income and wealth was spread around evenly. For many years, the world also shared that view. As early as the 1880s, visitors remarked on Australia’s relatively equal distribution of wealth, the lack of visible poverty, the country’s generally comfortable incomes and its relatively few millionaires.

As late as 1967, prime minister Harold Holt could say that he knew of no other free country where “what is produced by the community is more fairly and evenly distributed among the community” than it was in Australia.

From the 1980s onwards, however, this view of Australia came under scrutiny. As historian John Hirst wrote:

‘Egalitarianism – see under myths’: so runs the index entry in a standard sociological text on Australian society.

The most common measure of inequality is the Gini coefficient, which varies between zero and one. If everyone had exactly the same income then it would be zero (perfect equality). If one household had all the income then it would be one (complete inequality).

The most recent figures for OECD countries, from around 2010, show that Australia is the 11th most unequal of the 34 OECD members. Australia has only ever briefly been below the OECD average Gini coefficient: just as the mining boom started in 2003.

So, was Australia actually never particularly equal? Or have we become more unequal more rapidly than other countries?

Trends in income inequality

Working out what has happened to inequality in Australia over the long term is complex. While there is disagreement about overall trends, according to economists Andrew Leigh and Tony Atkinson, inequality declined between the 1950s and the late 1970s, with Peter Saunders identifying an increase in the 1980s.

These long-run estimates are usually based either on wage trends or income tax data, which means that findings apply to individuals rather than households. Household incomes after benefits and taxes, however, are generally regarded as a better measure of economic resources.

Since the early 1980s, the Australian Bureau of Statistics has conducted regular high-quality surveys of household incomes. The most recent survey covers the 2011-12 year.

Research by economists David Johnson and Roger Wilkins found that the Gini coefficient increased from around 0.27 in 1981-82 to around 0.30 in 1997-98. Subsequently, the official ABS income statistics show that the Gini coefficient increased to 0.34 just before the global financial crisis in 2008, then fell to 0.32 in 2011-12.

The ABS points out that changes from year to year are sometimes not large enough to be statistically significant. Yet the cumulative picture is of an upward trend,
The pillars of egalitarianism in Australia were high wages, high home ownership and low unemployment. If we want to regain this position, we need to ensure that unemployment remains low and that low-income earners are able to buy into affordable housing.

Trends in wealth inequality

For many years, statistics on the distribution of wealth were even sparser than comprehensive statistics on the distribution of income. The improvements in income statistics achieved by the ABS were more recently matched by the collection of information on wealth – or more precisely on ‘net worth’ (assets minus liabilities).

According to the ABS, the wealthiest 20% of Australian households, with an average net worth of A$2.2 million per household in 2011-12, accounted for 61% of total household net worth. The poorest 20% of households accounted for 1% of total household net worth, and had an average net worth of $31,000 per household.

This means that the wealthiest 20% of Australian households had net worth that was 68 times as high as the least wealthy 20%. In contrast, the 20% of Australian households with the highest disposable income were about five times better off than the poorest 20%.

So, it seems pretty clear that wealth is much more unequally distributed in Australia than income. Or is it? This depends on how you look at it.

The most recent Credit Suisse Global Wealth Report, prepared by Anthony Shorrocks, one of the most highly respected world experts on wealth distribution, estimates that the distribution of wealth in Australia is the second least unequal (after Japan) of 27 major countries and the 12th least unequal of 174 countries.

It is also notable that the Credit Suisse report finds that Australia has the second highest average level of wealth in the world and the highest median wealth.

The ABS survey – used by Credit Suisse – also presents two ways of looking at the distribution of wealth: first, by ranking households simply by the amount of wealth they have; second, by ranking households by how much income they have.

When the ABS ranks households by their incomes, the 20% with the lowest incomes have an average net worth of around $437,000, while the 20% with the highest incomes have about $1.3 million in net worth. This means that the poorest one-fifth of households, measured by income, hold 12% of net wealth, while the richest one-fifth hold 36%, a ratio of about 3 to 1.

These figures suggest that wealth is actually more equally distributed than income when the joint distribution of income and wealth is used – which is a more comprehensive measure of total household resources.

These two approaches yield remarkably different pictures of wealth distribution. This reflects the fact that people accumulate wealth over the course of their life. Young people starting off in their first job generally don’t have much in the way of wealth, but as they grow older they will purchase homes – which have been the great wealth ‘equaliser’ in Australia – and accumulate superannuation and other savings.

As a result, older people have much higher average wealth than younger people, but older people generally have lower incomes than younger people.

So, why did we think that income was equally shared in Australia if it wasn’t? The answer is that most of the earlier studies were based on a limited income measure: usually wages before tax and usually full-time wages for men.

In the past, Australia’s wage-fixing system compressed the wage distribution. As late as 1999, Australia had the highest minimum wage relative to the median in the OECD.

If you are a full-time employed male wage earner in Australia, then you have a lower level of income inequality than in Denmark, otherwise one of the lowest inequality countries. The most important source of inequality in Australia is whether you have a job or not.

So the pillars of egalitarianism in Australia were high wages, high home ownership and low unemployment. If we want to regain this position, we need to ensure that unemployment remains low and that low-income earners are able to buy into affordable housing.

Peter Whiteford is professor at Crawford School of Public Policy, Australian National University.

UNDERSTANDING MEASURES OF INCOME AND WEALTH

A household economic wellbeing fact sheet from the Australian Bureau of Statistics

WHY IS INCOME AND WEALTH DISTRIBUTION IMPORTANT?

Economic and social analysts and policy makers are interested in the distribution of resources and how this affects the wellbeing of society and individuals, particularly people’s ability to acquire the goods and services required to satisfy their needs. Questions that researchers ask include:

- How unequal is the distribution of income and wealth? How does this compare with earlier years, or with other countries?
- What are the characteristics of households considered most at risk of economic hardship? Which are in greatest need of financial support?
- Do people have sufficient incomes and wealth accumulation in their working lives and to maintain an adequate standard of living in retirement?

EQUIVALENCE SCALES

Why is an equivalence scale used?

As household size increases, consumption needs also increase but there are economies of scale. An equivalence scale is used to adjust household incomes to take account of the economies that flow from sharing resources and enable more meaningful comparisons across different types of households.

For a lone person household equivalised income is equal to actual income. For households comprising more than one person, it is the estimated income that a lone person household would need to enjoy the same standard of living as the household in question.

How are equilising factors calculated?

Equivalising factors are calculated based on the size and composition of the household, recognising that children typically have fewer needs than adults. The ABS uses the OECD-modified equivalence scale which assigns a value of 1 to the household head, 0.5 to each additional person 15 years or older and 0.3 to each child under 15 years.

Table 1 shows that a couple household with one child would need $1,800 weekly disposable income to

<table>
<thead>
<tr>
<th>Household composition</th>
<th>Equivalising factor (x)</th>
<th>Disposable income (y)</th>
<th>Equivalised disposable income (y/x)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lone person</td>
<td>1.0</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Couple only</td>
<td>(1 + 0.5) = 1.5</td>
<td>1,500</td>
<td>1,000</td>
</tr>
<tr>
<td>Couple with one child under 15 years</td>
<td>(1 + 0.5 + 0.3) = 1.8</td>
<td>1,800</td>
<td>1,000</td>
</tr>
<tr>
<td>Group household with three adults</td>
<td>(1 + 0.5 + 0.5) = 2.0</td>
<td>2,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

KEY TERMS

Disposable income – total income, monetary and in kind, less income tax, the Medicare levy and the Medicare levy surcharge.
Equivalisation – a method of standardising the income, expenditure or wealth of households to take account of household size and composition differences.
Household – a person living alone or a group of related or unrelated people who usually live in the same private dwelling.
Imputed rent – allows more meaningful comparisons of the economic wellbeing of people living in different housing tenures by imputing income based on the difference between market rent and actual housing costs for owner occupiers and subsidised private renters.
Social transfers in kind – goods and services provided to households free or at subsidised prices by governments e.g. for education, health, housing and child care.

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have the same equivalised disposable household income (EDHI) as a lone person household with a disposable income of $1,000.

**Relationship between equivalisation of income, consumption and wealth**

Equivalence scales used for household income are equally applicable for consumption measures. There is less agreement about how to equivalise household wealth as wealth is often built up during a person’s working life and then used during retirement when the composition of the household might be quite different. However, when wealth is being used to support current consumption, particularly for households at risk of economic hardship, household wealth should be equivalised with the same scale used to equivalise household income and consumption.

**ANALYSIS OF HOUSEHOLDS AND PERSONS**

There are two common ways of presenting analysis of households:
- Number of households, or
- Number of people in households.

In the former, each household contributes the same regardless of its size e.g. a four person household would have the same representation as a person living alone.

To provide a better understanding of the circumstances of people it is often preferable to study people in households e.g. the number of people in Australian households experiencing economic hardship. In this analysis, each person is attributed with the characteristics of the household to which they belong e.g. household income is used to determine whether it is a low or high income household but analysis is about numbers of people experiencing hardship.

**SUMMARY MEASURES**

There are several summary measures commonly used for analysing household economic wellbeing.

**Counts**

Counts provide an estimate of the total number of people or households with a particular characteristic and are derived by summing the survey weights of each observation of interest. In sample surveys the weights enable extrapolation of the survey responses to official population estimates.
Means

The arithmetic mean, or average, is the sum of all income divided by the number of observations. Advantages of the mean are that it is easy to calculate and the means of all subcomponents sum to the mean of all observations. Its drawbacks are the effect of extreme values and asymmetry of the distribution, both of which are relevant for income and wealth data. For example, a small number of very wealthy and a large number of relatively poor households may have the same average income or wealth as a population where there is equal distribution of resources.

Medians

Medians are calculated by ranking all observations from the lowest to the highest. The middle observation of the distribution is the median. Compared to the mean, the median is a more stable measure and is less affected by extreme values and sample fluctuations. However, median values of subcomponents do not sum to the median of all observations.

DISTRIBUTION MEASURES

Measures of the distribution of income and wealth help to describe and understand how economic resources are shared across the population and households.

Frequency distribution

Frequency distributions show the proportion of people or households with a particular level of income or wealth. To produce the distribution, the item of interest is ranked by value and the population grouped into classes. The ABS currently uses $50 ranges for weekly income and $100,000 ranges for wealth.

It is useful to include the summary statistics such as the mean and median in the frequency distributions. Income and wealth distributions tend to be asymmetrical, with a small number of people having relatively high income or wealth and a much larger number having relatively low income or wealth. (Graph 1)

Percentiles

Quantile is a term for groups formed by ranking the units of analysis (e.g. household or persons) in ascending order and calculating the shares of the total accruing to a given proportion of the units:
- Quintiles are formed when the population is divided into five equally sized groups
- Deciles into ten groups
- Percentiles into 100 groups.

Therefore the first quintile will comprise the first two deciles and the first 20 percentiles. The mean or the median may be used to summarise the circumstances within a quantile.

Percentile ratios

The boundary between quantiles is usually expressed as the upper value of a particular percentile. The ABS publishes the upper value of each decile (P10 to P90). This provides the range of values in each quintile e.g. the middle (3rd) quintile is formed by households with income/wealth between P40 and P60. The median of each quintile can also be determined e.g. the median of the first quintile is P10, second quintile, P30, etc. The median of the whole population is P50.

Percentile ratios summarise the relative distance between two points on the income or wealth distribution. Percentile ratios will be less volatile than measures based on means, particularly at each end of the distribution.

To illustrate the full spread of the income distribution, the percentile ratio should use points near the extremes e.g. the P90/P10 ratio. The P80/P20 ratio better illustrates the magnitude of the range for the majority of the population. The P90/P50 and P10/P50 ratios

<table>
<thead>
<tr>
<th>TABLE 3: GINI COEFFICIENT, BY HOUSEHOLD INCOME, 2011-12</th>
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<tbody>
<tr>
<td><strong>Gini coefficient</strong></td>
</tr>
<tr>
<td>Equivalised disposable income</td>
</tr>
<tr>
<td>Equivalised disposable income (incl. imputed rent)</td>
</tr>
<tr>
<td>Equivalised disposable income (incl. imputed rent and STIK)</td>
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</tbody>
</table>

Source: ABS Survey of Income and Housing (6523.0), Appendix 4 Social transfers in kind.
compare the ends of the distribution with the median and these are commonly used to understand how the wealthier compare to average and the poorer to average.

Table 2 shows that income is more equally distributed than wealth. In 2011-12, the equivalised income of households at the top of the 80th percentile (or fourth quintile) was 2.6 times higher than that of households at the top of the 20th percentile (or lowest quintile), whereas wealth was 10 times higher (P80/P20).

**Shares of income or wealth**

Income or wealth shares can be calculated and compared for each quantile of a population. The aggregate income/wealth of units in each quantile is divided by the total aggregate of the entire population to derive quantile share.

Graph 3 shows income and wealth shares by decile. Household wealth is more unequally distributed than household income. People in the three lowest equivalised income deciles received 13% of all income, whilst people in the three lowest equivalised wealth deciles held only 3% of all wealth in 2011-12.

**Gini coefficient**

The Gini coefficient is a single statistical indicator of the degree of inequality. It equals zero when all people have the same level of income and equals one when one person receives all the income. In general the smaller the Gini coefficient, the more equal the distribution of income or wealth. Any increase in the income of a person with income greater than the median will always lead to an increase in the Gini coefficient, while an increase in the income of a person with income lower than the median will always lead to a decrease in the coefficient.

The distribution of income becomes more equal when imputed rent and social transfers in kind (STIK) are included in the income measure, down from 0.320 to 0.226 in 2011-12. (Table 3)

**MEASUREMENT ERRORS**

**Sampling error**

Household survey estimates are based on a sample of possible observations and are subject to sampling variability. The sampling error is a measure of the variability that occurs by chance because a sample, rather than the entire population, is surveyed. One measure of the likely difference is given by the standard error (SE). Another measure of the likely difference is the relative standard error (RSE), which is obtained by expressing the SE as a percentage of the estimate. The RSE is a useful measure in that it provides an immediate indication of the percentage errors likely to have occurred due to sampling, and thus avoids the need to refer also to the size of the estimate.

The ABS annotates estimates with a RSE between 25% and less than 50% by a preceding asterisk (e.g. *3.4) to indicate they are subject to high SEs and should be used with caution. Estimates with RSEs of 50% or more are preceded with a double asterisk (e.g. **0.6), indicating that these estimates are considered unreliable for most purposes.

**Significance testing**

To compare estimates between surveys or between populations within a survey it is important to determine whether apparent differences are ‘real’ or simply the product of differences between the survey samples.

A common approach is to determine whether the difference between the estimates is statistically significant by calculating the standard error of the difference between two estimates (x and y) and using that to calculate the test statistic using the formula below:

$$\frac{|x - y|}{SE(x - y)}$$

If the value is greater than 1.96 there is good evidence of a statistically significant difference at 95% confidence levels between the two populations for the characteristic being tested. Otherwise, it cannot be stated with confidence that there is a real difference between the populations.

**FOR MORE INFORMATION**

AUSTRALIA: THE COUNTRY OF THE FAIR GO ... FOR SOME

Australia risks losing its claim as the country of the fair go if the alarming decline in the relative earnings of low-paid workers continues, argues the Australian Council of Trade Unions (ACTU).

ACTU Secretary Dave Oliver said the national minimum wage is now just 43.3% of average full-time wages, the lowest proportion on record.

“The gap between low-paid workers and the rest is the biggest it’s ever been,” Mr Oliver said.

“Only twenty years ago Australia’s minimum wage was nearly 60% of average full-time wages yet it has declined during both economic booms and times of slower growth with the net result being that low-paid workers are being left behind.

“The fact that nearly 19% of Australian workers meet the OECD definition of low pay – those with earnings below two thirds of the median – is equally alarming.

“Australia is meant to be the country of the fair go but the stats speak for themselves – we’re going down the path of the ‘haves’ and the ‘have-nots’ – with the ‘have-not’ population growing.”

Mr Oliver said the ACTU will lodge a submission to the Fair Work Commission (FWC) on Friday March 28 calling for a wage increase for Australia’s lowest paid including cleaners, retail and hospitality staff, child care workers, farm labourers, and some factory workers.

“The annual minimum wage review is the only chance for a pay increase for 1.5 million of Australia’s lowest paid workers, and helps set the pay and pay increases of many more,” Mr Oliver said.

“Someone on a minimum wage of $622 per week barely has enough to cover their basic costs.

“Australia is becoming a high cost country to live in and for low paid workers it’s getting harder and harder to get by.

“We know that households with low-paid adults have experienced a rise in financial stress and deprivation with the number of people seeking welfare assistance nearly doubling.

“If the gap continues to widen, Australians will need to work multiple jobs just to afford the basics moving us towards the ‘working poor’ scenario they have in the US – something Australians have made very clear they don’t want.

“Australians pride themselves on the fair go and enshrined in our laws is a requirement to maintain a safety net of fair minimum wages taking into account relative living standards and the needs of the low paid.

“It is essential that the Fair Work Commission increase the minimum wage to stop the alarming decline in the relative earnings of low-paid workers.”

Mr Oliver said the FWC has already acknowledged that if rising earnings inequality is not addressed there may be ‘broader implications both for our economy and for the maintenance of social cohesion in Australia.’

“The best outcome for workers will be one that stops the gap growing between low-paid workers and the rest of the community.”

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Australian Council of Trade Unions (27 March 2014).
Australia: the country of the fair go … for some (Media release).

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Income and Wealth Inequality
MIND THE GAP: AS INCOMES GROW, SO DOES INEQUALITY

Despite wage gains across the board over the past few decades, the gap between the wealthiest and the poorest members of society is only getting worse, writes Andrew Leigh.

In late 2001, at the age of 55, the Australian journalist Elisabeth Wynhausen decided to take leave and try life as a low-wage worker. In one job, Wynhausen moved to a country town and worked packing eggs. She earned $14 an hour in a job that started at 6am, left her body aching at the end of the day, and where the smell from the nearby chook sheds was constant. Three weeks in, the manager, a millionaire several times over, came to speak to the workers. He announced that the company was selling its egg division. “It’s not all doom and gloom,” he told them – but they knew their jobs were going. Wynhausen was struck by the fact that none of the workers challenged the manager: “Seeing them standing mute in front of the boss was like seeing them stripped of all defences.”

Since 1975, the Australian Bureau of Statistics has surveyed employees about their salaries, allowing us to track wages at the top and bottom. Since 1975, full-time wages for the median employee (the fiftieth percentile) have increased 35 per cent, after inflation (from $43,000 to $58,000). For a worker in the tenth percentile, wages have risen only 15 per cent (from $2,000 to $3,700). For someone in the ninetieth percentile, wages have risen 59 per cent (from $65,000 to $103,000). If workers in the tenth percentile had enjoyed the same wage gains as those in the ninetieth, they would be earning an extra $14,000 a year.

Among top corporate executives, earnings have increased even faster. From 1993 to 2009, average earnings of ASX 100 CEOs rose from $1 million (seventeen times average earnings) to $3 million (forty-two times average earnings). The top twenty CEOs earn more than 100 times the average wage, with a significant number earning eight-figure salaries.

Another way to measure inequality is to look at the share of people living on less than half the median income. This measure, known as ‘relative poverty’, has increased in the 1980s, 1990s and 2000s. Just as the top is accelerating away from the middle, so too has the bottom fallen away from the middle. If you think of inequality as being like a horse race, everyone is still moving in the same direction, but the front runners are accelerating away from the pack, while the laggards are falling further behind. Most studies also show a rising gap in the total value of what the rich and poor consume.

Relative poverty has increased in the 1980s, 1990s and 2000s. Just as the top is accelerating away from the middle, so too has the bottom fallen away from the middle.

Moving from income to wealth, the picture is similar. Using information from the BRW Rich Lists, Pamela Katic and I estimated that from 1984 to 2012, the richest 0.001 per cent more than tripled their share of household wealth from 0.8 to 2.8 per cent. The finding that wealth is rising faster at the top suggests an intriguing possibility: is inequality increasing within the rich list? Indeed, that’s what Katic and I found. The top quarter held about 60 per cent of rich-list wealth in the 1980s, but they held over 70 per cent today. Even within the pages of the BRW Rich List, inequality is rising. It seems that it doesn’t matter how close you are to the top, there’s always someone whose wealth is rising faster.

Matching the rise in top incomes over recent decades has been the advent of a plethora of ways to part the super-rich from their cash. For a start, there are luxury homes. With only a fixed amount of waterfront land, it is no surprise that the price of harbourside property has soared as inequality has risen. For example, the median house price on Laura Street, Seaforth (on Sydney’s lower north shore), is $8.5 million. In Sydney, Melbourne and Perth, there are at least 20 streets where the typical house sells for over $7 million. ‘Top-end homes not only have granite benchtops and ironbark floorboards; they can also feature customised home theatres, indoor waterslides, rock climbing walls, and infrared saunas.

Now it’s time to think about how you’ll get to and from work. Perhaps you could start with a Porsche 911 or Maserati Quattroporte, each costing $300,000? Demand for both is growing. The 2000s saw a 70 per cent increase in annual Porsche sales, and a fivefold increase in Maserati sales. Or there’s the $500,000 carbon fibre Aston Martin, which goes from zero to 100 kilometres per hour in 4.3 seconds, and consumes nearly 16 litres of fuel every 100 kilometres.

Another option is to take to the skies. A basic Robinson helicopter starts at around $300,000, but if you want something that’s faster, quieter and more comfortable, you can spend over $2 million on upmarket brands such as Eurocopter. Since the mid-1990s, the number of helicopters in Australia has more than doubled (prompting a recent attempt to operate a floating helipad in Sydney harbour). We’ve also seen an increase in the number of yachts, with a 20-metre craft priced around $2 to 3 million, and custom-built yachts costing many times more. Australia’s private jet fleet has almost tripled in the past decade. Worldwide, builders of private jets are struggling to keep up with demand.

Andrew Leigh is the federal Labor member for Fraser. This is an edited extract of Battlers and Billionaires: The Story of Inequality in Australia (Black Inc).

The average wealth of Australian households in 2011-12 was $728,000, according to a report released by the Australian Bureau of Statistics.

Caroline Daley, Director of the Living Conditions section at the ABS said, “The level of wealth varied greatly between households with the average wealth for the wealthiest 20 per cent of households at $2.2 million.”

“The average wealth for households in the lowest 20 per cent was $31,000 and the figures released today show that the level of wealth for Australian households has not changed since 2009-10.

“Wealth varied greatly across the states and territories. The ACT had the highest level of wealth at $930,000 which was around 28 per cent higher than the Australian average. Western Australia, New South Wales, Victoria and the Northern Territory all had levels of wealth close to the Australian average.

“South Australia, Queensland and Tasmania had levels of wealth less than the Australian average, with Tasmanian households having the lowest level of average wealth at around $600,000. Household wealth was more concentrated in capital cities, where the average net worth of households was $781,000 compared to $637,000 outside of capital city areas.

“Owner occupied homes were the largest asset held by Australians and the mortgages on owner occupied property was also the largest liability. Over two-thirds of Australian households own their own home outright or with a mortgage.

“Households that owned their home outright (2.7 million households) had an average net worth of $1,237,000. Households with a mortgage on their home (3.1 million households) had an average net worth of $790,000, and the average net worth for households that rent their home was $160,000,” Ms Daley said.

The ABS Survey of Income and Housing showed that in 2011-12, superannuation was the main financial asset held by households, with 80 per cent of all households having some superannuation assets. The average value of superannuation for Australian households was $132,000.

More information can be found in Household Wealth and Wealth Distribution, Australia, 2010-12 (cat. no. 6554.0) available for free download from the ABS website, www.abs.gov.au

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Issues in Society | Volume 382

Income and Wealth Inequality
Household income and income distribution

Key results from the latest Household Income and Income Distribution survey produced by the Australian Bureau of Statistics

Key income results from the 2011-12 SIH

► In real terms, average weekly equivalised disposable household income for low income households rose by 5% (from $452 to $475) between 2009-10 and 2011-12, and those for middle income households rose by 4% (from $760 to $793).
► There were no significant changes in income between 2009-10 and 2011-12 for high income households (from $1,797 to $1,814), or for all households in total (from $894 to $918).
► The share of total household income received by low and middle income households increased between 2007-08 and 2011-12, while the share received by high income households decreased.
► For households with middle and high income levels, wages and salaries were the main source of income for 79% and 88% of households respectively, while for low income households (i.e. those people with household income in the second and third deciles) government pensions and allowances were the main income source for more than 60% of households.
► People living in older households (households where the reference person was aged 65 and over) had the lowest average weekly equivalised disposable household income at $660, and those living alone were more likely than those living in couple households to have government pensions and allowances as their main source of income (76% compared to 61%).
► Couples with dependent children only, where the oldest child was under five, had an average weekly equivalised disposable household income of $960 (29% lower than for young couples without children).
► Average equivalised disposable household incomes in the capital cities in Australia were 21% above those outside the capital cities.
► Average equivalised disposable household incomes in the Australian Capital Territory ($1,144), Western Australia ($1,017), and the not very remote parts of the Northern Territory ($1,012) were above the national average ($918).
► Average equivalised disposable household incomes in Tasmania, South Australia and Victoria were below the national average by 15%, 8% and 4% respectively.

Key net worth results from the 2011-12 SIH

► The wealthiest 20% of households in Australia account for 61% of total household net worth, with an average net worth of $2.2 million per household.
► The poorest 20% of households account for 1% of total household net worth, with an average net worth of $31,205 per household.
► The households in which the 20% of people with the lowest equivalised household incomes live, account for 15% of total household net worth, similar to the shares of net worth held by the households with people in the second and third equivalised household income quintiles.
► The households in which the 20% of people with the highest equivalised household incomes live account for 37% of total household net worth.

O
ver the past 20 years, the incomes of individuals and households in Australia have risen substantially in real terms. Labour earnings have been the key driver with more Australians in paid employment, working more hours for higher hourly wages, according to a staff paper released by the Productivity Commission.

The Staff Working Paper, *Trends in the Distribution of Income in Australia*, by Jared Greenville, Clinton Pobke and Nikki Rogers builds on an OECD methodology to analyse changes in the distribution of various forms of income, from labour earnings of individuals to final incomes (inclusive of government payments and in-kind services along with taxes paid) of households.

The authors found that Australia experienced strong income growth across all parts of the distribution over the 20-year period to 2009-10. In this period, a number of differing trends in distribution are found. At the household level, strong increases in employment have offset the increasing dispersion of individual income, causing measured inequality in household labour incomes to fall. Once capital and other income is taken into account, a small rise has occurred in measured household income inequality overall.

Government taxes and transfers have maintained a significant equalising effect on the distribution of household income. When variation in household size and composition is also factored in, the distribution of final household income is significantly more equal than is observed in individual labour earnings.

While the growing dispersion in full-time earnings in Australia is also observed in other OECD countries, the strong improvement in Australia in both workforce participation and employment, particularly for households in lower income deciles, is not.

© Commonwealth of Australia, Productivity Commission – reproduced by permission.
Strong Labour Earnings Growth Moderates Income Inequality in Australia (Media release).

Trends in the distribution of income in Australia

Key points from a Productivity Commission working paper

- Between 1988-89 and 2009-10, the incomes of individuals and households in Australia have risen substantially in real terms and in comparison to trends in other OECD countries, with particularly strong growth between 2003-04 and 2009-10.
  - The increase has mainly been driven by growth in labour force earnings, arising from employment growth, more hours worked (by part-time workers) and increased hourly wages.
  - While real individual and household incomes have both risen across their distributions, increases have been uneven.
  - The rate of growth has been higher at the ‘top end’ of the distributions than the ‘bottom end’.
  - Incomes for those in the middle of the distribution have spread out (that is, they have become less concentrated around the average).
- These changes underlie the recently observed increases in summary measures of inequality (such as the Gini coefficient) in Australia for individual and household incomes.
  - At the individual level, the key drivers are the widening dispersion of hourly wages of full-time employees and (to a lesser extent) the relatively stronger growth in part-time employment.
  - At the household level, the key driver has been capital income growth amongst higher income households. The impact of growing dispersion of hourly wages on the distribution of labour income has been offset by increased employment of household members including a decline in the share of jobless households.
- Final income is also influenced by government taxes and transfers. These have a substantial redistributive impact on the distribution of household income, substantially reducing measured inequality.
  - Although the progressive impact of the tax and transfer system declined slightly from the early 2000s (with the introduction of the GST and a fall in the number of recipients of government benefit payments associated with higher employment), real growth in the value of direct and indirect transfers contributed to growth in incomes for low income households.
  - The analysis highlights the need to examine the changes in various income components and population subgroups in order to understand the changes in the distribution of income and inequality measures such as the Gini coefficient.
  - Differences in individual income, and therefore household income levels, occur for a variety of reasons including personal choices and innate characteristics as well as opportunities and inheritances. These differences combine with broader economic forces and policy settings to influence the distribution of income over time.
Should we care about income inequality?

Extract from a report produced by The Treasury entitled *Income Inequality in Australia*, authored by Michael Fletcher and Ben Guttmann

There is no clear consensus on what an acceptable level of income inequality is. Societies will choose how much inequality they allow according to the institutions, norms, laws, policies and programs they adopt.

In Australia, like other OECD nations, there has been a trend towards greater income inequality since the mid-1990s, but there has also been very strong growth in incomes across the board, including the bottom decile of households.

As Stiglitz, Sen and Fitoussi (2009) from the Commission on the Measurement of Economic Performance and Social Progress have said: “If average income is increasing but at the same time inequality is increasing, it is not clear whether societal wellbeing is increasing or decreasing.”

Australia uses income-testing more than any other OECD nation, which allows for the greatest share of benefits to be targeted towards low income earners compared to any other OECD nation. The poorest 20 per cent of households in Australia receive 12.4 times the amount of cash benefits than the richest 20 per cent of households – the highest ratio in the OECD and about 50 per cent more than the next most targeted country, New Zealand (Whiteford 2013).

Additionally, according to the OECD (2008), Australia has one of the most progressive systems of direct taxation amongst OECD nations, mostly because lower income individuals pay lower amounts of income tax compared with other nations. This combination of factors had led Whiteford (2006) to argue that Australia has one of the most efficient tax and transfer systems of all OECD nations, although his definition of ‘efficient’ does not take into account behavioural effects from high effective marginal tax rates.

In terms of the extent to which we should be concerned about income inequality, the OECD has noted that simply shifting large amounts of money from high income earners to low income earners through the tax and transfer system is “neither an effective or sustainable way in which to lower income inequality over the long term”. (OECD 2011).

The OECD’s conclusion in *Divided We Stand* was that ensuring equal access for all of the population to high quality public services such as education, health and family care will help to reduce inequality and provide equal opportunities of personal and professional development for all citizens.

This suggests that some refocusing of the debate is required away from those at the very top of the income distribution towards those at the very bottom. Measures of income inequality do not do this well – lying beneath the averages are households that experience greater disadvantage than others. The Australian Social Inclusion Board estimates (using a variety of indicators) that 5 per cent (around 640,000 people) of Australians aged between 18 and 64 have multiple disadvantages.

A greater focus on understanding and tackling multiple and entrenched disadvantage is critical in terms of improving overall wellbeing in Australia, notwithstanding that sustained economic growth and strong real income growth across the spectrum has delivered a great deal to Australians in recent years.
SO ARE WE BETTER OFF? THE ANSWER IS YES – SORT OF, WRITES PETER ROBERTSON

A fter several decades of unprecedented growth, have the benefits trickled down to all Australians? The answer according, to a new study by the Productivity Commission, is a resounding “yes ... probably, but it’s hard to say”.

It’s an honest assessment.

What the study does show is that: more people are working; they are working longer hours and; they are being paid more. But it also shows that there has been a slight increase in overall income inequality.

Why?

Consider the positive equalising forces first. More people are working in paid employment. In part this is due to the decline in the unemployment rate. This is just 5.5% now, compared to a peak of 12% in 1992. Because households in the lowest income groups had stronger employment growth, and because paid employment is by far the most important source of income, the reduction in the unemployment rate means significant increases in income to those who need it the most. As the Cambridge economist Joan Robinson said: “The misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all.”

The other major source of employment has been an increase in participation of females in the labour force. In January 1988 less than 50% of females were in the labour market. That figure is now 58.8%.

On top of this wages have also risen right across the spectrum.

All this is good news. It shows that economic growth has delivered the benefits it should. It has created jobs, increased wages and allowed the government to offer more support programmes. The net effect of all the change however, is a slight increase in overall inequality.

Some might be tempted to worry about this. After all, extreme inequality is the sign of a broken economy – just think of Namibia, South Africa or Haiti.

But as we have already seen the benefits of Australia’s boom have been widespread and the changes in inequality are small. Moreover, standard measures of inequality can increase as a result of demographic and social changes, rather than fundamental changes in the way the economy delivers the gains from growth.

For example if I choose to work part-time, I expect to receive a part-time salary. As the study shows, a large part of the rising inequality is in fact due to the increase in part-time workers. Because they earn less per week, this tends to reduce the average income of low-income households. Statistical analyses then register this change as an increase in inequality.

So be it. But it reflects the fact that more females are choosing to work, rather stay at home, because they can, and because the wages are better than they used to be. This is a good thing, despite the fact that it causes measures of inequality to rise.

Likewise if I retire on a pension, I expect to receive a lower income. Comparing the income of a 65 year pensioner, who may own her home and have no debt, with a 30-something couple with a baby and a mortgage, is not comparing like with like. There is no reason why their incomes should be the same.

But, according to the PC study, much of the so-called ‘equalising’ government payments involve transfers from high-income, high-debt younger families, to sole household pensioners. It is far from obvious that reducing ‘inequality’ from this sort of intergenerational transfer is a good thing, or that that we need more of it. Clearly, at the very least, it depends on how the transfers are targeted among age pensioners.

At a deeper level there is no agreed notion of what sort of market outcomes should be delivered by a society with equality of opportunity, but differences in attitudes, abilities, risk taking, studiousness and determination. So whether rising inequality is a good or bad thing depends on whether we have too little inequality or not enough to begin with. As a country, Australia appears to be pretty much in the middle of the OECD.

The takeaways from the study are, first, that trying to summarise all the nuanced changes in the labour market in a simple index of inequality is fraught with difficulty. Inequality is a multi-dimensional notion, and headline figures often gave a false impression of the how growth delivers economy-wide benefits. Against this background the PC’s analysis appears to be a careful and useful assessment of the many complex changes that have occurred in labour markets over the last two to three decades.

But the PC’s study also shows that there has been real growth in wages and employment so that the benefits of growth have been widely spread around. Amid the biggest minerals boom in Australia’s history, except perhaps the Victorian gold rush, it is easy to forget the scourge that unemployment once was. By creating more employment opportunities, and raising wages, growth has not just trickled down – it has poured out all over the floor.

Peter Robertson is Winthrop Professor and Associate Dean, Research and Research Training at the University of Western Australia.

Income inequality is an indicator of how material resources are distributed across society. Some people consider that high levels of income inequality are morally undesirable. Others regard income inequality as harmful for instrumental reasons – seeing it as causing conflict, limiting co-operation or creating psychological and physical health stresses (Wilkinson and Pickett, 2009). Often the policy concern is focussed more on the direction of change of inequality, rather than its level.

Income inequality varied considerably across the OECD countries in 2010 (Figure 5.1, Panel A). The Gini coefficient ranges from 0.24 in Iceland to approximately twice that value in Chile and Mexico. The Nordic and central European countries have the lowest inequality in disposable income while inequality is high in Chile, Israel, Mexico, Turkey and the United States. Alternative indicators of income inequality suggest similar rankings. The gap between the average income of the richest and the poorest 10% of the population was almost 10 to 1 on average across OECD countries in 2010, ranging from 5 to 1 in Denmark, Iceland and Slovenia to almost six times larger (29 to 1) in Mexico.

Keeping measurement-related differences in mind, emerging countries have higher levels of income inequality than OECD countries, particularly in Brazil and South Africa. Comparable data from the early 1990s suggest that inequality increased in Asia, decreased in Latin America and remained very high in South Africa.

The distribution of income from work and capital (market income, pre-taxes and transfers) widened considerably during the first phase of the crisis. Between 2007 and 2010, market income inequality rose by 1 percentage point or more in 18 OECD countries (markers in Figure 5.1, Panel B). The increase was particularly large in Estonia, Greece, Ireland, Japan and Spain, but also in France and Slovenia. On the other hand, market income inequality fell in Poland and, to a smaller extent, in the Netherlands.

The distribution of income that households ‘take home’ (disposable income, post-taxes and transfers) remained unchanged on average, due to the effect of cash public transfers and personal taxes. Between 2007 and 2010, the Gini coefficient for disposable income remained broadly stable in most OECD countries (bars in Figure 5.1, Panel B). It fell the most in Iceland, New Zealand, Poland and Portugal, and increased the most in France, the Slovak Republic, Spain and Sweden. Overall, the welfare state prevented inequality from going from bad to worse during the first phase of the crisis.

Income inequality increased especially at the top of the distribution: the share of pre-tax income of the top 1% earners more than doubled their share from 1985 to 2010 in the United Kingdom and the United States (Figure 5.2). In Spain and Sweden, the data show a clear upward trend albeit less marked than in English-speaking countries. The upward tendency is also less marked in France, Japan and most continental European countries. Overall, the economic 2007/08 crisis has brought about a fall in top income shares in many countries, but this fall appears to be of a temporary nature.

FURTHER READING


FIGURE NOTES

Figure 5.1: Gini coefficients refer to 2009 for Hungary, Japan, New Zealand and Turkey, and 2011 for Chile instead of 2010, and to 2006 for Chile and Japan, 2008 for Australia, Finland,
Figure 5.1: Large differences in levels of income inequality and market income inequality rose considerably during the first years of the crisis

Panel A. Gini coefficient of household disposable income and gap between richest and poorest 10% in 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Disposable income inequality</th>
<th>Market income inequality</th>
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<tbody>
<tr>
<td>Iceland</td>
<td>0.50</td>
<td>0.70</td>
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<td>Slovenia</td>
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<td>Norway</td>
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<td>Denmark</td>
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<td>Slovak Republic</td>
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<td>United States</td>
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Panel B. Percentage point change in the Gini coefficient at disposable and market incomes between 2007 and 2010

Figure 5.2: Top 1% income share differs widely over time and across OECD countries

Share of pre-tax income going to top 1% earners

Source: OECD Income Distribution Database (www.oecd.org/social/inequality.htm), except top 1% income shares from World Top Incomes Database. http://dx.doi.org/10.1787/888932966466

France, Germany, Israel, Mexico, New Zealand, Norway, Sweden and the United States instead of 2007. Data for Switzerland are not available for 2007. Latest data for key partners are for 2008/09. Gini coefficients are based on equivalised incomes for OECD countries and the Russian Federation and per capita incomes for all key partners except India and Indonesia for which per capita consumption was used.

Society at a Glance social indicators highlights: Australia

The OECD examines how Australia compares with other wealthy countries

Relative poverty in Australia (14.4% of the population) is higher than the OECD average (11.3%). Even if they still are high, poverty rates for youth and particularly those over the age of 65 declined, while child poverty increased.

10% of Australians report that they cannot afford to buy enough food. This share has increased somewhat over the past years, but remains lower than the OECD average of 13.2%.

10% of Australians report that they cannot afford to buy enough food.

High increase in real social spending is mainly explained by pensions

• Annual disposable household income in Australia is considerably higher than the OECD average. Income inequality, as measured by the Gini coefficient (0.334), is also higher than the OECD average (0.313).

The strong increase in real public social spending between 2007/08 and 2012 is mainly explained by pensions, leaving many families with children behind. Yet, public social spending is somewhat below the OECD average.

Australians have high life expectancy

• Australians have a life expectancy of 82 years, nearly two years above the OECD average of 80.1.
• Australian women’s effective age of labour market exit, at 62.9, is slightly below the OECD average of 63.1. Australian women can expect to live 24.2 years in retirement. This is nearly five years more than their male counterparts. With an effective age of labour market exit at 64.9, they can expect to live 19.3 years in retirement.
• The fertility rate in Australia fell from 1.96 children per woman before the economic crisis to 1.88. This rate is above the OECD average but lower than the demographic replacement rate of 2.1.
• More than one quarter of Australians are foreign born, the 3rd highest in the OECD after Luxembourg and Switzerland, and more than double the OECD average of 12.6%. From 2008 to 2010, only Luxembourg had a higher net migration rate.

Australia is among the countries where confidence in financial institutions remained relatively stable during the economic crisis.

Australians’ donations to charities decreased

• 67% of Australians donated money to a charity in 2012. This is well above the OECD average of 44%. However, Australians reduced donations to charities, reduced time spent on volunteering and helped strangers less over the period 2007-12.
Australians are more tolerant of migrants, ethnic monitories, gays and lesbians compared with most of the other OECD countries, even if their perception of tolerance declined slightly from 2007 to 2012.

Confidence in financial institutions is stable

Australia is among the countries where confidence in financial institutions remained relatively stable during the economic crisis.

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The dispersion of measured income and levels of estimated income inequality have been found to vary greatly across countries. This appendix summarises recent OECD reports on measured income inequality. It outlines the OECD’s findings on the proximate factors that help explain variations in income distributions among OECD countries – including its results for Australia. More details can be found in OECD (2008, 2011, 2012b) and the OECD Economics Working Paper series Less Income Inequality and More Growth – Are they Compatible?

It should be noted that there are difficulties in comparing country incomes and interpreting inequality measures based on such comparisons. Difficulties exist in consistently estimating the distribution of income within just one country, as a result ensuring consistent approaches across countries is even more problematic. Nevertheless, investigating the sources of apparent differences in summary measures can provide a starting point for further analysis of distributional differences within and between countries.

C.1: AUSTRALIA IN AN OECD CONTEXT

According to the OECD (2012a), Australia’s dispersion of equivalised household disposable income as measured by the Gini coefficient was 0.34 in 2008, placing it slightly above the OECD average of 0.31 (Figure C.1). By contrast, the lowest measured income inequality estimates are for countries concentrated in parts of Europe, particularly the north – Denmark, for example, has an equivalised household disposable income Gini coefficient of 0.25 (OECD 2012a). At the other end of the spectrum, developing countries have some of the highest levels of measured income with relatively high rates for countries in Latin America and Africa – for example, Chile has a Gini coefficient of 0.49 (OECD 2012a) and Rwanda has a Gini coefficient of 0.51 (World Bank 2012).

At the household level, differences in the distribution of income between countries are determined by differences in the dispersion of:

- Labour income – employee earnings
- Other market income – income from returns to invested capital and from other non-government sources
- Government taxes and transfers – direct taxes and transfers measured by disposable income along with income from service provided ‘in-kind’
- Family formation – household size, composition and partnering behaviour.

Labour income

There are a number of factors which influence the distribution of labour income, including differences in:

- Employment rates
- Earnings distributions
- Income taxes and social security contributions
- Labor market institutions such as collective bargaining and minimum wages
- Industry structure
- Sectoral wage differentials
- Role of the education system
- Role of immigration
- Role of government policies
- Role of trade liberalization
- Role of global value chains
- Role of technological change
- Role of institutional factors.
in wage rates among full time workers, income dispersion among worker sub-groups (full- and part-time workers) and income dispersion among all persons of working age, including the jobless (which captures rates of inactivity) (Hoeller et al. 2012).

Hoeller et al. (2012) found that, among OECD countries, North and South American countries tend to have the widest income distribution for full-time workers, whereas Australia and New Zealand lay below the average Gini coefficient estimates for full-time workers in 2008 (Figure C.2).

When part-time workers were included in the analysis, Hoeller et al.’s estimates of the Gini coefficients increased as income from part-time work tends to be much lower than for full-time work. The impact of the inclusion of part-time workers on the Gini coefficient will tend to be largest in countries where the ratio of part-time work to full-time work is highest. Australia’s Gini coefficient is increased substantially with the inclusion of part-time workers compared to other OECD countries (Figure C.2) due to its relatively high rates of part-time work (Hoeller et al. 2012).

The inclusion of unemployed and working aged people not in the labour force increases Hoeller et al.’s estimates of the Gini coefficient as the low income end of the market income distribution extends down to zero. The countries with the highest unemployment and lowest participation rates tend to have their Gini coefficient most affected by the inclusion of this group. Israel, Korea and Chile fall in to this group while Australia’s Gini coefficient is less affected compared to the OECD average (Figure C.2).

At the household level, the story is more complex. Countries where joblessness is concentrated within particular households (‘jobless households’) will see a disproportionate impact on household income inequality when the entire population is considered compared to countries where joblessness is more spread (that is, where rates of jobless households are lower).

Whiteford (2012) finds that a significant component of the difference in Australia’s measured household income inequality compared to other OECD countries is due to higher rates of jobless households than seen in some other countries.

For example, when comparing Australia’s labour income distributions to Denmark (which has low household disposable income inequality) and the USA (which has high household disposable income inequality) Whiteford (2012) found Australia’s labour income inequality to be lower than both when only the employed are considered. When people not in paid employment are included in the calculation Australia’s labour income Gini coefficient jumps above both Denmark and the USA (Figure C.3).

**Market income**

Total market income includes labour income, capital income, income from self-employment along with income from other private sources. OECD comparisons focus on the first three of these.

Across OECD countries, OECD (2012b) estimates indicate that the distribution of market income is mainly determined by the distribution of labour income. The analysis also suggests that capital income tends to increase estimates of market inequality, but only to a small degree for most countries.

The distribution of capital income...
Income tends to be much less equally distributed compared to other forms of income (Hoeller et al. 2012). Consequently, countries with higher estimated Gini coefficients (such as Australia) also tend to have capital income contributing more to their Gini coefficient compared to countries with lower Gini coefficients (Figure C.4).

However there are some outliers in the OECD analysis. For example Iceland has the largest contribution of capital income to its Gini coefficient (0.09) compared to the average (0.03), yet has a below OECD-average measured market income inequality (0.30 versus 0.37) (OECD 2012b). Similarly, Portugal has one of the highest estimated market income Gini coefficients in the OECD (0.40), yet capital income is estimated to contribute little to this (0.01).

**Distribution of wealth**

One problem with measures of income inequality is that they can overstate or understate the distribution of consumption possibilities by ignoring household wealth, as both income and wealth contribute to households’ capacity to purchase goods and services. For many, wealth is accumulated over time and higher levels may be held by those in retirement who have relatively low incomes (for example, in Australia many of those on the aged pension own their own homes and so have significant wealth but lower income). On the other hand, the distribution of wealth tends to be much more concentrated than the distribution of income, with significant amounts held by those who also have high incomes (and therefore the capacity to save and own assets). This suggests that any inequality measures that incorporated wealth would tend to report higher levels of inequality compared to income alone, and that this effect would be amplified the more unequal the distribution of income.

Unfortunately the small quantity of available data and lack of consistency across countries makes international comparisons difficult. Yet available data suggests that countries with low inequality in their income distributions do not necessarily have low inequality in the distribution of wealth and vice versa. For example, Credit Suisse (2011) estimated that Sweden, which has a very low income Gini coefficient of 0.26, had a high wealth Gini coefficient of 0.82 in 2011. Conversely, Italy and Australia, which have relatively high income Gini coefficients of 0.34, were estimated to have relatively low wealth Gini coefficients of 0.61 and 0.63 respectively (Credit Suisse 2011).

According to Davies et al. (2008) the lowest 50 per cent of households in the wealth distribution hold only a tiny fraction of total wealth in most countries, between -18 (Denmark) and 21 per cent (Japan). By contrast, the top 10 per cent hold between 39 (Japan) and 76 per cent (Denmark) of total wealth. Australia lies in between these extremes with the bottom 50 per cent of households holding nine per cent of total wealth and the top ten per cent holding 45 per cent (Davies et al. 2008).

**Including taxes and transfers: household disposable income**

The distribution of disposable income (market income less direct taxes plus government cash transfers) is narrower than market income due to the typically progressive effect.
In-kind transfers

The OECD (2011) observed that in-kind transfers were larger than cash transfers in Australia and most other OECD countries in the mid-2000s. With healthcare and education consuming most of those funds. The analysis found that these in-kind transfers reduce measured inequality in all countries by a similar amount – around 20 per cent. This reduction had the effect of reducing the estimated average OECD Gini coefficient for final income from 0.30 to 0.24 (a smaller reduction than from the inclusion of cash-transfers)(Figure C.6). Consequently, the inclusion of in-kind transfers had little impact on the OECD’s relative inequality estimates between countries, although important from the perspective of income inequality levels.

Inequality in household income can also be affected by changes in household demographics, such as increases in assortative mating rates and shifts in household structures. The OECD (2011) found assortative mating rates, the proportion of couples with incomes in the same decile and quintile, to have increased from six to eight per cent and 34 to 39 per cent respectively between the mid-1980s and the mid-2000s. The largest convergence of incomes occurred in Luxembourg, the United Kingdom and the Netherlands with two to three fold increases in marital income homogeneity. However, assortative mating rates in Australia were found to have remained relatively steady, with the proportion of couples in the same income decile increasing from 5.8 to 6.3 per cent over the same period of time (OECD 2011).

Changing household structures can also contribute to greater dispersion in the distribution of household income, particularly if increases occur in the number of single-headed households. The OECD (2011) found the share of single-headed households had increased across the board in all OECD countries under study, on average by almost five percentage points. In Australia the proportion of single-headed households was found to have increased from 17 to 22 per cent between 1985 and 2003 (OECD 2011).

While these demographic measures were found to increase the income distribution, the OECD (2011) estimated the impact to be very small for all countries analysed. For Australia, the OECD (2011) estimated that assortative mating and the increase in the proportion of single-headed households each increased the Gini coefficient by 0.006 between the mid-1980s and mid-2000s (the total increase in the Gini coefficient was 0.032 over this period).

ENDNOTE


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Increasing inequality brings high social cost: Report

A new report warns inequality is increasing rapidly in Australia, posing dangers to community wellbeing, health, social stability, sustainable growth and long-term prosperity. Michelle Grattan reports for The Conversation.

The land of the fair go is disappearing, argues former Liberal leader John Hewson, on the release of a new report on wealth inequality. The report warns inequality is increasing rapidly in Australia, posing dangers to community wellbeing, health, social stability, sustainable growth and long-term prosperity.

Entitled Advance Australia Fair?, the report finds that in the wake of a declining resources boom “there is a growing gulf between those in the top range and those in the lower ranges of wealth and income distributions”. The wealthiest 20% of households now account for 61% of total household net worth. The poorest 20% account for only 1%.

“In recent decades the income share of the top 1% has doubled, and the wealth share of the top 0.001% has more than tripled. At the same time, poverty is increasing and many of those dependent upon government benefits, including the unemployment benefit, have fallen well below the poverty line,” according to the report.

“If we do not pay attention to the problem of financial inequality, current economic circumstances are likely to make it worse.”

Written by Bob Douglas, Sharon Friel, Richard Denniss and David Morawetz, the report from Australia21, in partnership with The Australia Institute and the Australian National University, follows a roundtable earlier this year. It comes as the Abbott government’s first budget has been widely attacked for being unfair, with the burden falling on lower and middle income earners. It curbs the growth in pensions and family payments, and critics say it will increase inequality.

For most of the last century, Australia was a relatively egalitarian country “and proud of it”, according to the report. In the half century after World War One, incomes rose faster at the bottom of the income distribution than the top. “By the end of the 1970s Australia was one of the most egalitarian countries in the world.”

But from the mid-1970s, full-time wages for the bottom tenth of the income distribution have grown only 15%, while full-time earnings for the top tenth have increased by 59%.

Australia’s unemployment benefit is the lowest of OECD countries and 20% below the poverty line. Many government benefits “have barely kept pace with inflation over recent decades”, the report finds.

Australia is one of the lowest-taxing countries in the industrialised world and its welfare spending as a proportion of GDP is among the lowest in the OECD.

Large tax cuts and tax exemptions introduced by both sides of politics in recent decades that disproportionately favoured the rich is one factor contributing to the growing inequality of incomes and wealth the report identifies.
**ADVERSE CONSEQUENCES OF INEQUALITY**

Income is one of the key determinants of the daily living conditions in which people are born, grow, live, work and age. Income security is vitally important for economic and social wellbeing as well as health, trust and self-worth. In addition to purchasing power, income also brings prestige. Greater levels of income inequality have been shown to increase status barriers between people, reducing empathy and community within societies, and giving rise to feelings of social exclusion, insecurity and stress. The result is a more fragmented society.

Greater income inequality also leads to more unequal access to quality housing, education, nutritious food, and healthcare. Low income groups are less likely to be able to afford to live in neighbourhoods that are conducive to better physical and mental health (green space, facilities in walking range, reliable public transport and a safe environment). They are more likely to hold jobs that are precarious and low paid, thereby creating a greater risk of cardiovascular disease and mental ill health.

ABS figures show that housing stress among low income earners is increasing in Australia: 37 per cent of males and 34 per cent of females in low income households are now living in housing stress (defined as living in accommodation in which more than 30 per cent of income is earmarked for rent) (ABS 2013).

Housing costs are rising faster for all but the highest income Australians. The Australian tax system has a significant adverse impact on housing affordability. Tax breaks such as negative gearing and capital gains tax exemptions encourage investors to make speculative investments in the housing market, where they compete with first home buyers and push up house prices (Australians for affordable housing 2014).

High-income countries including Australia have experienced increases in job insecurity and precarious employment arrangements (such as temporary work, part-time work, informal work, and piece work), job losses, and a weakening of regulatory protection of working conditions. Among those in work, the changes in the labour market have affected working conditions with increasingly less job control, financial and other types of security, work hour flexibility, and access to paid family leave (Benach and Muntaner 2007).

The Australia Institute concluded from its research that:

*There is an important gap between two groups of workers in Australia, those in regular employment who experience a good deal of stability in their employment patterns, and the second group who appear to have a more marginal attachment to the workforce. The employment arrangements for this second group are quite unstable, and their experience is one of continuous movement into and out of the various employment categories, including long spells out of the workforce entirely.* (Richardson 2012, p.3)


“Other factors include globalisation, asymmetric access to rapid technological change, changes in compensation practices for top executives (including use of bonuses and stock options) and the neoliberal economic policies that have prevailed since the 1980s.

“Another important contributor has been the increasing practice of ‘rent seeking’, whereby wealthy and powerful organisations, or individuals use their resources to obtain economic gain at the expense of others, without contributing to productivity.”

As remedial measures, the authors urge promoting “a national conversation” about inequality, taxation reforms, fairer funding for schools, more investment in early childhood development especially for the disadvantaged, and setting all pensions and benefits no lower than the poverty line and indexing them to average wages.

Other actions should include establishing more job creation programs in priority areas, developing new models of employee management and co-operative ownership of business, implementing the World Health Organisation recommendations on the social determinants of health, encouraging an inquiry by the Productivity Commission into the impact of inequality on economic efficiency and growth, and establishing a national research program to monitor progress of interventions.

Michelle Grattan is Professorial Fellow at the University of Canberra.

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**AUSTRALIAN WEALTH INEQUALITY**

![Image of Australian Wealth Inequality](chart.png)


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Australia is one of the lowest-taxing countries in the industrialised world and its welfare spending as a proportion of GDP is among the lowest in the OECD.
Advance Australia Fair? What to do about growing inequality in Australia

The wealthiest 20 per cent of households in Australia now account for 61 per cent of total household net worth, whereas the poorest 20 per cent account for just 1 per cent of the total. Following is the executive summary from a report published by Australia21 in collaboration with The Australia Institute, which asks the question: Do we still care about equality of opportunity, 'a fair go for all'? If so, what are we prepared to do to make it happen?

Australia has a long and proud tradition of equality, but in recent decades the benefits of strong economic growth have flowed disproportionately to the rich. In the wake of a declining resources boom, there is a growing gulf between those in the top range and those in the lower ranges of wealth and income distributions.

The wealthiest 20 per cent of households in Australia now account for 61 per cent of total household net worth, whereas the poorest 20 per cent account for just 1 per cent of the total. In recent decades the income share of the top 1 per cent has doubled, and the wealth share of the top 0.001 per cent has more than tripled.

At the same time, poverty is increasing and many of those dependent upon government benefits, including the unemployment benefit, have fallen well below the poverty line. If we do not pay attention to the problem of financial inequality, current economic circumstances are likely to make it worse.

Growth in inequality of incomes and wealth leads to greater stratification of the community, with adverse impacts on trust, self-image, and equality of opportunity for disadvantaged groups. This in turn has negative effects on health and social stability. There is growing evidence, including from the International Monetary Fund, that increasing inequality impedes economic productivity and economic growth as well.

Large tax cuts and tax exemptions introduced by both sides of politics in recent decades have disproportionately favoured the rich.

Australia is one of the lowest taxing countries in the industrialised world, and our welfare spending as a proportion of Gross Domestic Product (GDP) is among the lowest in the Organisation for Economic Co-operation and Development (OECD). In the past decade, Australian commonwealth government revenues have fallen from 26 per cent of Gross Domestic Product to 23 per cent, while government spending has remained at a relatively stable 25 per cent. As a result, government revenues are now insufficient to meet the needs of the community in health, education, income support, and social and physical infrastructure.

Several factors have contributed to the growing inequality of incomes and wealth in Australia. Large tax cuts and tax exemptions introduced by both sides of politics in recent decades have disproportionately favoured the rich.

Other factors include globalisation, asymmetric access to rapid technological change, changes in compensation practices for top executives (including use of bonuses and stock options) and the neoliberal economic policies that have prevailed since the 1980s. Another important contributor has been the increasing practice of ‘rent seeking’, whereby wealthy and powerful companies, organisations or individuals use their resources to obtain economic gain at the expense of others, without contributing to productivity.

A number of policy levers are available to arrest the trend towards greater inequality and, at the same time, remedy the current deficit in government revenue. One prime lever is inclusive job creation policies. A second is long term investment in human capital through improving early childhood development and education and training.

Education and health funding need to be distributed more fairly, particularly to disadvantaged children. Other levers include reducing tax breaks for superannuation, capital gains and negative gearing of residential property (all...
Australians need to engage in a national conversation about how inequality is impacting on our lives, our culture, our economy and our society. Politicians will not act while the community accepts growing inequality passively.

Use of remedial levers like these is never straightforward. There is likely to be opposition from those whose income, power and influence will be diminished under a fairer distribution of income and wealth. Taxation reform and attempts to close tax loopholes are a case in point. However, if we are to make real progress on restoring public revenue to the level now needed, the Australian community needs to begin to consider taxes not as an unfair burden but as the primary way to fund the public goods, services and infrastructure that we share, the price we pay for a civilised and well-functioning society.

Australians need to engage in a national conversation about how inequality is impacting on our lives, our culture, our economy and our society. We need to make clear to our political representatives what kind of society we want for our children and grandchildren. Politicians will not act while the community accepts growing inequality passively.

In 21st century Australia, do we still care about equality of opportunity, ‘a fair go for all’? If so, what are we prepared to do to make it happen?

TEN WAYS TO ADVANCE AUSTRALIA FAIR

1. Promote a national conversation about inequality, its effects, and ways of dealing with it.
2. Increase the fairness and adequacy of government revenue raising through taxation reforms.
3. Implement fairer funding reforms for schools.
4. Invest nationally in early childhood development, especially for disadvantaged groups.
5. Set all pensions and benefits no lower than the poverty line and index them to average wages.
6. Establish more job creation programs in priority areas.
7. Develop new models of employee management and cooperative ownership of business.
8. Implement the World Health Organisation recommendations on the social determinants of health.
9. Encourage an inquiry by the Productivity Commission into the impact of inequality on economic efficiency and growth.
10. Establish a national research program to monitor progress and test the impact of interventions aimed at reducing inequality.

The cost of inequality: how wealth and income extremes hurt us all

Oxfam calls for a new global goal to end extreme wealth by 2025, and reverse the rapid increase in inequality seen in the majority of countries in the last twenty years

The world must urgently set goals to tackle extreme inequality and extreme wealth

It is now widely accepted that rapidly growing extreme wealth and inequality are harmful to human progress, and that something needs to be done. Already this year, the World Economic Forum’s Global Risk Report rated inequality as one of the top global risks of 2013. The IMF and The Economist agree. Around the world, the Occupy protests demonstrated the increasing public anger and feeling that inequality has gone too far.

In the last decade, the focus has been exclusively on one half of the inequality equation – ending extreme poverty. Inequality and the extreme wealth that contributes to it were seen as either not relevant, or a prerequisite for the growth that would also help the poorest, as the wealth created trickled down to the benefit of everyone.

There has been great progress in the fight against extreme poverty. Hundreds of millions of people have seen their lives improve dramatically – an historically unprecedented achievement of which the world should be proud. But as we look to the next decade and new development goals, we need to define progress, we must demonstrate that we are also tackling inequality – and that means looking at not just the poorest but the richest.

Oxfam believes that reducing inequality is a key part of fighting poverty and securing a sustainable future for all. In a world of finite resources, we cannot end poverty unless we reduce inequality rapidly.

That is why we are calling for a new global goal to end extreme wealth by 2025, and reverse the rapid increase in inequality seen in the majority of countries in the last twenty years, taking inequality back to 1990 levels.

Extreme wealth and inequality are reaching levels never before seen and are getting worse

Over the last thirty years inequality has grown dramatically in many countries. In the US the share of national income going to the top 1% has doubled since 1980 from 10 to 20%. For the top 0.01% it has quadrupled to levels never seen before. At a global level, the top 1% (60 million people), and particularly the even more select few in the top 0.01% (600,000 individuals – there are around 1,200 billionaires in the world), the last thirty years has been an incredible feeding frenzy.

This is not confined to the US, or indeed to rich countries. In the UK inequality is rapidly returning to levels not seen since the time of Charles Dickens. In China the top 10% now take home nearly 60% of the income. Chinese inequality levels are now similar to those in South Africa, which are now the most unequal country on earth and significantly more unequal than at the end of apartheid. Even in many of the poorest countries, inequality has rapidly grown.

Globally the incomes of the top 1% have increased 60% in twenty years. The growth in income for the 0.01% has been even greater. Following the financial crisis, the
process has accelerated, with the top 1% further increasing their share of income. The luxury goods market has registered double digit growth every year since the crisis hit. Whether it is a sports car or a super-yacht, caviar or champagne, there has never been a bigger demand for the most expensive luxuries.

The IMF has said that inequality is dangerous and divisive and could lead to civil unrest. Polling shows the public is increasingly concerned about growing inequality in many countries, and by people across the political spectrum.

**Extreme wealth and inequality is economically inefficient**

A growing chorus of voices is pointing to the fact that whilst a certain level of inequality may benefit growth by rewarding risk takers and innovation, the levels of inequality now being seen are in fact economically damaging and inefficient. They limit the overall amount of growth, and at the same time mean that growth fails to benefit the majority. Consolidation of so much wealth and capital in so few hands is inefficient because it depresses demand, a point made famous by Henry Ford and more recently billionaire Nick Hanauer in his much-discussed TED talk.

There quite simply is a limit to how many luxury yachts a person could want or own. Wages in many countries have barely risen in real terms for many years, with the majority of the gains being to capital instead. If this money were instead more evenly spread across the population then it would give more people more spending power, which in turn would drive growth and drive down inequality. The top 100 billionaires added $240 billion to their wealth in 2012 – enough to end world poverty four times over.

As a result growth in more equal countries is much more effective at reducing poverty. Oxfam research has shown that because it is so unequal, in South Africa even with sustained economic growth a million more people will be pushed into poverty by 2020 unless action is taken.

Oxfam believes that reducing inequality is a key part of fighting poverty and securing a sustainable future for all. In a world of finite resources, we cannot end poverty unless we reduce inequality rapidly. That is why we are calling for a new global goal to end extreme wealth by 2025, and reverse the rapid increase in inequality seen in the majority of countries in the last twenty years, taking inequality back to 1990 levels.

**Extreme wealth and inequality is politically corrosive**

If, in the words of the old adage ‘money equals power’ then more unequal societies represent a threat to meaningful democracy. This power can be exercised legally, with hundreds of millions spent each year in many countries on lobbying politicians, or illegitimately with money used to corrupt the political process and purchase democratic decision making. Joseph Stiglitz and others have pointed out the way in which financial liberalisation led to huge power for the financial industry, which in turn has led to further liberalisation.

In the UK the governing Conservative party receives over half its donations from the financial services industry. Capture of politics by elites is also very prevalent in developing countries, leading to policies that benefit the richest few and not the poor majority, even in democracies.

**Extreme wealth and inequality is socially divisive**

Extreme wealth and inequality undermines societies. It leads to far less social mobility. If you are born poor in a very unequal society you are much more likely to end your life in poverty. As Richard Wilkinson, co-author of the *Spirit Level*, has said, the American dream is more real in Sweden than it ever has been in the United States. Social mobility has fallen rapidly in many countries as inequality has grown.

If rich elites use their money to buy services, whether it is private schooling or private healthcare, they have less interest in public services or paying the taxes to support them. Those from elites are much more likely to end up in political office or other positions of power,
Income and Wealth Inequality

further entrenching inequality. Their children are likely to be as rich, if not richer, than their parents, with intergenerational inequality increasing.

Inequality has been linked to many different social ills, including violence, mental health, crime and obesity. Crucially inequality has been shown to be not only bad for the poor in unequal societies but also the rich. Richer people are happier and healthier if they live in more equal societies.

**Extreme wealth and inequality is environmentally destructive**

As the world is rapidly entering a new and unprecedented age of scarcity and volatility, extreme inequality is increasingly environmentally unaffordable and destructive. The World Bank has shown that countries with more equal distribution of land are more equitable and more efficient, and grow faster. Those in the 1% have been estimated to use as much as 10,000 times more carbon than the average US citizen.

Increasing scarcity of resources like land and water mean that assets being monopolised by the few cannot continue if we are to have a sustainable future. Poverty reduction in the face of extreme wealth will become harder as resources become more scarce. More equal societies are better able to cope with disasters and extreme weather events. Studies show that more equal countries are also better able to reduce carbon emissions.

**Extreme wealth and inequality is unethical**

Gandhi famously said “Earth provides enough to satisfy every man's need, but not every man's greed.” From an ethical point of view, it is extremely difficult to justify excessive wealth and inequality. In fact, most philosophers and all of the major religions caution against the pursuit of excessive wealth at all cost and prescribe sharing of income with less fortunate members of the community.

For instance, the Koran bans usury and says that the rich should give away a portion of their money. The decision of Bill Gates and Warren Buffet to give away their fortunes or to call for greater taxation of excess wealth is an example to the rest of the world's billionaires.

**Extreme wealth and inequality is not inevitable**

After the Great Depression in the US in the 1930s, huge steps were taken to tackle inequality and vested interests. President Roosevelt said that the “political equality we once had won was meaningless in the face of economic inequality.” These steps were echoed in Europe after World War Two, leading to three decades of increasing prosperity and reduced inequality. Similarly the growth of the Asian tiger economies like Korea was achieved whilst reducing inequality and meant the benefits were widely spread across their societies.

More recently, countries like Brazil, once a poster child for extreme inequality, have managed to buck the global trend and prosper whilst reducing inequality.

The policies required to reduce inequality are also well known. Decent work for decent wages has had a huge impact. The rise in the power of capital over labour has been identified by Paul Krugman among many others as a key cause of the recent crisis and one that means that assets are not being used productively, in turn reducing demand.

Free public services are crucial to levelling the playing field. In countries like Sweden, knowing that if you get sick or that you will receive good treatment regardless of your income, is one of the greatest achievements and the greatest equalisers of the modern world. Knowing that if you lose your job, or fall on hard times, there is a safety net to help you and your family, is also key to tackling inequality.

Similarly, access to good quality education for all is a huge weapon against inequality.

Finally, regulation and taxation play a critical role in reining in extreme wealth and inequality. Limits to bonuses, or to how much people can earn as a multiple of the earnings of the lowest paid, limits to interest rates, limits to capital accumulation are all only recently-abandoned policy instruments that can be revived.

Progressive taxation that redistributes wealth from the rich to the poor is essential, but currently the opposite is the case – taxation is increasingly regressive and the poor pay higher effective tax rates than the rich, a point recently highlighted by Warren Buffet among others, who has called for greater taxes on the rich.

Cracking down on tax avoidance and tax evasion goes hand in hand with more progressive taxation. Closing tax havens and ending
the global race to the bottom on taxation, for example with a globally agreed minimum rate of corporation tax would make a huge difference. It is estimated that up to a quarter of all global wealth – as much as $32 trillion – is held offshore⁴⁹. If these assets were taxed according to capital gains taxes in different countries, they could yield at least $189 billion in additional tax revenues⁵⁰.

**End extreme wealth and inequality**

Whatever the combination of policies pursued, the first step is for the world to recognise this as the goal. There are many steps that can be taken to reverse inequality. The benefits are huge, for the poorest – but also for the richest. We cannot afford to have a world of extreme wealth and extreme inequality. We cannot afford to have a world where inequality continues to grow in the majority of countries. In a world of increasingly scarce resources, reducing inequality is more important than ever. It needs to be reduced and quickly.

An end to extreme wealth by 2025. Reversing increasing extreme inequality and aiming to return inequality to 1990 levels.

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55. “The experience of today’s Asian tigers is in striking contrast to that of an earlier pack. In Japan, Hong Kong, South Korea and Taiwan growth rates soared in the 1960s and 1970s and prosperity increased rapidly but income gaps shrank. Japan’s Gini coefficient fell from 0.45 in the early 1960s to 0.34 in 1982; Taiwan’s from 0.5 in 1961 to below 0.3 by the mid-1970s. That experience launched the idea of an Asian growth model, one that combined prosperity with equity.” www.oxfam.org/ node/2156408
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What do Australians think about equality?

Disagreements about acceptable levels of inequality often rest on a misunderstanding of the existing distribution of income and wealth, writes Andrew Leigh.

To see whether you care about inequality, take this simple test. Would you prefer to be born into a society in which the bottom fifth of households had 1 per cent and the top fifth had 62 per cent of the wealth? Or a society in which the poor had 15 per cent and the rich had 24 per cent?

The first set of numbers is the actual distribution of wealth in Australia. When surveyed about their ideal distribution, though, the majority of respondents wanted the nation to be more egalitarian. Indeed, the second set of figures is the preference of the most affluent.

In part, this is because most people believe that our wealth distribution is considerably more equal than it turns out to be. On average, Australians think that the top fifth has 40 per cent of all wealth (actually 62 per cent), while the bottom fifth has 5 per cent (actually 1 per cent). This isn’t just a mistake that Australians make: a similar survey found that Americans also underestimated their level of wealth inequality. Shown the distributions in Sweden and the United States (without country labels), 92 per cent of US respondents preferred the former.

Earnings surveys also show a preference for greater equality. In a 2009 survey, the typical respondent thought that an unskilled factory worker should be paid $59,000 rather than $45,000. Conversely, respondents thought that a cabinet minister should be paid $208,000 rather than $235,000. In other words, cabinet ministers actually earned 420 per cent more than unskilled workers, but the typical respondent thought they should ideally earn 250 per cent more.

Other surveys have asked Australians whether they agree or disagree that “differences in income are too large.” In 2009, 74 per cent agreed, up from 66 per cent in 1994. Conversely, only 20 per cent agreed that “large differences in income are necessary for Australia’s prosperity.” Only one in ten believed that we should copy the way the United States runs its economy. Yet although many Australians are worried about inequality, we’re perhaps a little less concerned than we ought to be. Australia is more unequal than the typical developed nation, but we’re less likely than average to regard our inequality as too high. Indeed, the share of people who are concerned about the gap between rich and poor has fallen in recent years.

Another way of measuring attitudes to inequality is to show people different possible pictures of the income distribution and have them pick the one they prefer. In these exercises, only 19 per cent of respondents opt for a pyramid-shaped income distribution, with a few people at the top and everyone else below. Most people believe that a pyramid shape accurately describes Australian society today, but few regard such a distribution as ideal. Indeed, the share of people who want to live in a pyramid-type society is lower than it was in the late 1980s.

Perhaps one reason Australians like equal societies is that most of us think we’re in the middle. A miniscule 0.1 per cent of people describe themselves as ‘upper class,’ and only 10 per cent call themselves ‘upper middle class.’ Another Australian survey divided society into ten groups, and asked people which they put themselves into. Mathematically, a tenth of us must be in the top 10 per cent, but only 2 per cent placed themselves there.

What do people believe government should do about rising inequality? Over the past quarter-century, the Australian Election Study has been asking whether we agree that “income and wealth should be redistributed towards ordinary working people.” In 1987, the share of people who favoured redistribution was 57 per cent. This rose rapidly in the 1990s, peaking at 76 per cent in 2001. In the most recent survey, 73 per cent supported redistribution. A more specific question shows a similar trend. Asked whether the government should lower taxes or spend more on social services, only 18 per cent of people in 1987 chose the latter. But when the same question was asked most recently, 58 per cent preferred a spending increase to a tax cut.

Given that tax cuts tend to be regressive, while social services spending tends to be progressive, one interpretation of these data is that Australians are more inclined to curb inequality than they were in the 1980s. Other surveys point in the same direction. Asked whether they agree that “it is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes,” 47 per cent agreed and 38 per cent disagreed (with 15 per cent neither agreeing or disagreeing).

Australians don’t tend to think that the rich are undeserving, but as a practical matter almost half think that they pay too little tax. Asked specifically about taxes for those with high incomes, only 21 per cent said they are too high, while 33 per cent said they are about right, and 47 per cent said they are too low.

Views about inequality have a political dimension. Indeed, the political philosopher Norberto Bobbio
famously argued that if you want one principle to divide left from right, it is inequality. Those on the conservative/libertarian side of politics, he argued, are heirs to Friedrich Nietzsche, who believed that all were born unequal and that this was a good thing. By contrast, those on the progressive/social democratic side are heirs to Jean-Jacques Rousseau, who believed that all were born equal and that many of the inequalities we observe come from social institutions. In other words, the left condemns social inequality because of a belief in natural equality, while the right condemns social equality because of a belief in natural inequality.

In saying this, Bobbio wasn’t arguing that people on the right of politics will always defend inequality, or that people on the left will always strive for perfect equality. In Australia, his point simply translates into saying that your attitudes to inequality are a pretty good predictor of whether you’ll vote for Labor or the Coalition.

The statistical evidence supports this point. In the broader electorate, 65 per cent of Labor voters told the *Australian Election Study* they believe that income and wealth should be redistributed; in contrast to only 38 per cent of Coalition voters. The difference is even greater among politicians. An anonymous survey of federal parliamentary candidates found that 67 per cent of Labor candidates agreed that income and wealth should be redistributed, compared with just 16 per cent of Coalition candidates.

Anecdotal evidence backs this up. The [former] treasurer, Wayne Swan, has said, “like most Labor activists, tackling rising inequality was one of the tasks that called me into politics.” Inequality has been a regular theme in writings by other senior Labor figures, such as Craig Emerson and Lindsay Tanner. By contrast, the former Liberal prime minister, John Howard, was more sanguine about inequality. He once commented, “It’s very important to get this income distribution thing in perspective. To the extent that any gaps have widened, it has been that people at the top – there are more of them, and they’re doing better.” The present Liberal leader, Tony Abbott, takes the view that “in the end we have to be a productive and competitive society and greater inequality might be inevitable.” Malcolm Turnbull has shown interest in this topic, but a recent profile of him suggests that “the kind of equality he is most attracted to is not so much greater equality of outcome or even opportunity but ... the ‘equality of manners’.”

Political debates about inequality in Australia display both a partisan pattern and a secular trend. To see this more precisely, I searched the federal parliamentary debates and recorded the number of times the word ‘inequality’ has been mentioned in either the House of Representatives or the Senate since Federation. The word has appeared over 2,000 times (although not all of these mentions relate to economic inequality). To make a comparison over time, I adjusted according to the amount of time parliament sat each year.

The frequency of inequality debates declined during the first two decades after Federation (perhaps
Wealth divide in Australia

- In June 2014, the median wealth of adult Australians stood at $US 225,000 (AUD $258,000) — the highest level in the world. Median wealth is the midpoint between richest and poorest. (Credit Suisse Global Wealth Report 2014).
- Since 2000, the net wealth of the average, or mean (as opposed to median), adult Australian has more than quadrupled, from $US103,151 to $US431,000. That makes Australians the second richest population on this measure, behind the Swiss at $US81,000. (Credit Suisse Global Wealth Report 2014).
- Household wealth in Australia is heavily skewed to ‘real assets’ — essentially property — which average $US319,700 per household, or 60% of gross assets. This is the second highest in the world after Norway. (Credit Suisse Global Wealth Report 2014).
- Only 6% of Australians have wealth below $US10,000, compared with 29% in the United States and 70% for the world as a whole. (Credit Suisse Global Wealth Report 2014).
- However, according to UnitingCare research, Australia’s poverty rate has increased since 2000/01 from 10.2% to 11.8%. (Poverty, Social Exclusion and Disadvantage in Australia, 2013).
- Almost one-quarter of the 2.6 million Australians living under the poverty line are dependent children aged under 25. Almost half a million are under 15. (Poverty, Social Exclusion and Disadvantage in Australia, 2013).
- The poverty rate for single parent families is nearly 20% — double that of the poverty rate for couples with dependent children. (Poverty, Social Exclusion and Disadvantage in Australia, 2013).
- Poverty rates have increased to 70% in families where there is an unemployed person and no one else working. UnitingCare claims the findings reflect the paltry level of Newstart Allowance, which ranges from $501 a fortnight for singles and $542 for single parents. (Poverty, Social Exclusion and Disadvantage in Australia, 2013).


because the focus was on establishing Commonwealth institutions, and then dealing with the first world war). Inequality was often talked about during the Great Depression of the 1930s, but then little debated in the postwar decades. From the 1970s onwards, inequality has been mentioned more often in parliament, although there was a modest decline in the late 1980s, followed by a sharp rise that coincided with the early 1990s recession. In the past four decades, there have been some partisan patterns. Inequality was discussed more in parliament just before and during the period of the Whitlam Labor government (1972–75), and during the Howard Liberal-National government (1996–2007).

These trends are not specific to politicians; they also reflect shifts in the national mood. It was not until the 1970s that concern about inequality returned to the level it had been in 1901. Over the past two decades, as the income share of the top 1 per cent has risen, disquiet about inequality (as expressed in federal political speeches) has reached unprecedented levels.

Partisan differences have also been expressed over the question of restricting access to government payments to those with incomes (and sometimes assets) below a given threshold. In general, Labor governments have favoured targeting welfare payments towards the poor, while Coalition governments have typically preferred universal payments. While targeted welfare is generally regarded by economists of all political hues as being more equitable and more efficient, it involves denying some voters payments. Episodes of means-testing have therefore seen governments criticised heavily by their opponents.

For example, when Bob Hawke’s Labor government sought to reintroduce the pension assets test in the 1980s, the opposition leader Andrew Peacock described assets testing as a “callous and cynical grab for funds” that was one of “the assaults the government has made on the elderly.” His shadow minister for social security said that an assets test was “penalising thrift.” Under John Howard’s Coalition government, the trend was in the opposite direction. Near-universal family payments were expanded. Universal payments such as the First Home Owner Grant, the Baby Bonus and the Private Health Insurance Rebate were introduced.

In recent years, means-testing under the Rudd and Gillard Labor governments has been met with criticism from the Coalition. When the government means-tested the Baby Bonus to exclude the top 6 per cent of families, Malcolm Turnbull called it “an appeal to Labor’s divisive envy politics.” After Labor froze indexation on a Family Tax Benefit supplement and scaled back the Dependent Spouse Tax Offset, the Coalition Treasury spokesperson, Joe Hockey, said, “I despise this envy; this envy and this jealousy.” When the Baby Bonus was scaled back for second and subsequent children, the opposition frontbencher Christopher Pyne called the decision “vicious and savage” while Hockey compared it to China’s one child policy. The practical politics of reducing inequality are not straightforward.

My review of public opinion data demonstrates that a large majority of Australians believe that differences in income are too large. Respondents would prefer a more equal distribution of earnings, and even the affluent would prefer a less skewed wealth distribution. Three-quarters think that government has a role to play, and that income and wealth should be redistributed to ordinary working people.

This is an edited extract from Battlers and Billionaires: The Story of Inequality in Australia by Andrew Leigh, published by Black Inc.

Low economic resource households

People living in low economic resource households are of particular policy and research interest because of their greater risk of experiencing economic hardship. This fact sheet summarises different methods available to identify these households and provides guidance on methods of analysing them.

There are many factors influencing whether people are experiencing economic hardship. The analysis of household economic wellbeing is enhanced significantly when the income, consumption and wealth dimensions are studied jointly, recognising they vary over the lifecycle:

- Income is affected by workforce participation
- Wealth tends to be accumulated during people’s working life and then consumed in retirement
- Younger people may have higher expenditure needs e.g. to buy a home or start a family.

In recognition of the importance of this, the ABS has collected both income and wealth in every Survey of Income and Housing (SIH) from 2003-04 (apart from 2007-08). The ABS Household Expenditure Survey (HES) has been conducted six yearly since 2003-04 on a subsample of SIH households. Expenditure, financial stress, income and wealth data are available for HES households.

**DIAGRAM 1: LOW ECONOMIC RESOURCE HOUSEHOLDS**

INCOME

\[\text{Low wealth only}\]

\[\text{Low economic resources (low income and low wealth)}\]

\[\text{Low income only}\]

WEALTH

**COMPOSITE MEASURES OF LOW ECONOMIC RESOURCE HOUSEHOLDS**

**Low economic resource measure**

The ABS has developed a low economic resource measure (LER) that includes people who are simultaneously in the lowest four deciles of both equivalised disposable household income (EDHI) (including imputed rent) and equivalised household net worth (LER40). This measure therefore excludes people with either relatively high incomes or relatively high wealth. As a result it is more likely to correctly classify people at risk of experiencing economic hardship compared to measures using income or wealth alone.

The LER is a relative measure that classifies around 20% of people in low income, low wealth households. It does not identify whether these people are actually experiencing economic hardship. The actual proportion will vary over time as the joint distribution of income and wealth changes. One of the strengths of this measure is its ability to contrast the characteristics of the LER population with those in the low income and low wealth quintiles. Table 1 compares selected characteristics of LER households to households with low income or low wealth only. The proportion of couple or lone person households where the reference person is 65 and over, reduces from 28% of low income households to 6% of LER households, reflecting their ability to draw on accumulated wealth.

In contrast, whilst 35% of low income households

**GRAPH 1: MEASURES OF LOW ECONOMIC RESOURCE HOUSEHOLDS, PROPORTION OF PERSONS, 2009-10**

Source: ABS data available on request, Household Expenditure Survey (6530.0).
are private renters, this group accounts for 52% of LER households.

**Other composite measures of economic hardship**

The LER measure can be broadened by considering experiences of ‘financial stress’ or ‘missing out’. The indicators used to define these measures are listed in Table 3 of this fact sheet.

**Graph 1** shows examples of LER measures by:

- Varying the cut-off for low income and low wealth (40th percentile (LER40) or 30th percentile (LER30), then
- Adding whether the household experienced ‘financial stress’ or ‘missing out’.

In 2009-10, 23% of people lived in LER40 households and 15% in LER30 households. When experiences of ‘financial stress’ were also considered this reduced to 15% of LER40 and 11% of LER30 households.

### SINGLE DIMENSION MEASUREMENT OF HOUSEHOLD ECONOMIC WELLBEING

When measuring economic wellbeing it is preferable to consider multiple dimensions, particularly income and wealth, however both measures are not always available. This section describes several commonly used single dimension measures of economic wellbeing.

**Income**

Income is the most frequently available measure of economic wellbeing. For most households, it is the main resource used to meet daily expenses. However, analysis using income alone has significant limitations. Income can be volatile for people who are making transitions

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**TABLE 1: PERSONS IN LOW ECONOMIC RESOURCE HOUSEHOLDS, 2011-12**

<table>
<thead>
<tr>
<th>HOUSEHOLD CHARACTERISTICS</th>
<th>Low income(a)</th>
<th>Low wealth(b)</th>
<th>Low economic resource (LER40)(c)</th>
<th>All persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean weekly household income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equivalised disposable household income</td>
<td>$374</td>
<td>644</td>
<td>496</td>
<td>918</td>
</tr>
<tr>
<td>Equivalised disposable household income incl. imputed rent</td>
<td>$398</td>
<td>655</td>
<td>501</td>
<td>970</td>
</tr>
<tr>
<td><strong>Mean equivalised net worth</strong></td>
<td>$’000</td>
<td></td>
<td>54</td>
<td>413</td>
</tr>
<tr>
<td>Tenure type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner without a mortgage</td>
<td>%</td>
<td>18.6</td>
<td>0.5*</td>
<td>3.5</td>
</tr>
<tr>
<td>Owner with a mortgage</td>
<td>%</td>
<td>30.5</td>
<td>5.6</td>
<td>26.5</td>
</tr>
<tr>
<td>Private renter</td>
<td>%</td>
<td>34.7</td>
<td>73.8</td>
<td>52.1</td>
</tr>
<tr>
<td>Selected household groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Couple family with dependent children</td>
<td>%</td>
<td>42.2</td>
<td>33.4</td>
<td>45.8</td>
</tr>
<tr>
<td>One parent family with dependent children</td>
<td>%</td>
<td>14.9</td>
<td>19.3</td>
<td>17.9</td>
</tr>
<tr>
<td>Couple or lone person, 65 and over</td>
<td>%</td>
<td>28.2</td>
<td>0.5</td>
<td>6.4</td>
</tr>
</tbody>
</table>

* Estimate has a relative standard error of 25% to 50% and should be used with caution.

**TABLE 2: RELATIVE POVERTY MEASURES BASED ON PROPORTION BELOW A PERCENTAGE OF MEDIAN INCOME, 2011-12**

<table>
<thead>
<tr>
<th>PROPORTION OF PERSONS IN HOUSEHOLDS</th>
<th>Equivalised disposable household income</th>
<th>Equivalised disposable household income plus IR</th>
<th>Equivalised disposable household income plus IR and STIK</th>
</tr>
</thead>
<tbody>
<tr>
<td>40% of median income</td>
<td>5.5</td>
<td>4.7</td>
<td>2.0</td>
</tr>
<tr>
<td>50% of median income</td>
<td>12.0</td>
<td>9.3</td>
<td>3.9</td>
</tr>
<tr>
<td>60% of median income</td>
<td>20.1</td>
<td>15.4</td>
<td>7.3</td>
</tr>
</tbody>
</table>
between study, jobs, into retirement or changing their hours of work e.g. to care for children. At these times, households may draw on other resources, such as using savings or increasing their debt.

Being able to identify households with accumulated wealth to supplement low incomes is desirable as these people are less likely to experience economic hardship than households without alternative resources to fall back on.

**a) Relative poverty measures based on income**

Many developed countries use relative poverty to measure the economic wellbeing of households. These measures identify the proportion of people with an income below a certain fraction of median EDHI. The OECD publishes various analyses based on poverty lines below 40%, 50% or 60% of median incomes (50% used most often), while Eurostat commonly uses 60% as the cut-off.

Limitations of relative poverty measures include:

- The number of people in poverty is determined by an arbitrary fraction of income (which may not reflect actual hardship).
- The proportion of people identified can change dramatically e.g. in Australia, real median incomes have risen significantly in recent years and the thresholds identified at 40% and 50% of the median are very sensitive to changes in single and couple pension payment points relative to the median.
- The definition and measurement of income can have a significant impact e.g. imputed rent (IR) and social transfers in kind (STIK) are often excluded from income definitions. However, the benefits received from either owning a home or receiving subsided rent (valued by imputing an equivalent rental income), or from receiving services from the government, impact significantly on the economic wellbeing of particular groups e.g. a person able to access free or subsidised health care can be better off than a person with similar income but not able to access these social provisions.

Table 2 shows that the proportion of the Australian population below a relative poverty line varies between 20% (using 60% of median EDHI) and 2% (using 40% of median EDHI including IR and STIK).

**b) Using the second and third deciles to describe low income households**

While it is tempting to label all households in the lowest income decile as ‘low income’, ABS analysis suggests there are variable economic circumstances for households in this group. Households with nil or negative income, or income below government pension rates, make up almost one half of the lowest income decile. However, more than 40% of households in the lowest income decile have net worth in the top five wealth deciles, suggesting a temporary setback to their economic circumstances. 

### TABLE 3: INDICATORS OF FINANCIAL STRESS IN THE LAST 12 MONTHS

<table>
<thead>
<tr>
<th>Financial stress experiences</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unable to raise $2,000 in a week for something important</td>
<td>35</td>
</tr>
<tr>
<td>Spend more money than received</td>
<td>30</td>
</tr>
<tr>
<td>Could not pay gas, electricity or telephone bill on time</td>
<td>25</td>
</tr>
<tr>
<td>Could not pay registration or insurance on time</td>
<td>20</td>
</tr>
<tr>
<td>Pawned or sold something</td>
<td>15</td>
</tr>
<tr>
<td>Went without meals</td>
<td>10</td>
</tr>
<tr>
<td>Unable to heat home</td>
<td>5</td>
</tr>
<tr>
<td>Sought assistance from welfare/community organisations</td>
<td></td>
</tr>
<tr>
<td>Sought financial help from friends or family</td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 3: INDICATORS OF FINANCIAL STRESS IN THE LAST 12 MONTHS

<table>
<thead>
<tr>
<th>Missing out experience</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Could not afford holiday for at least one week a year</td>
<td>35</td>
</tr>
<tr>
<td>Could not afford a night out once a fortnight</td>
<td>30</td>
</tr>
<tr>
<td>Could not afford friends or family over for a meal once a month</td>
<td>25</td>
</tr>
<tr>
<td>Could not afford special meal once a week</td>
<td>20</td>
</tr>
<tr>
<td>Could only afford secondhand clothes most of the time</td>
<td>15</td>
</tr>
<tr>
<td>Could not afford leisure or hobby activities</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: ABS Household Expenditure Survey, 2009-10 (6530.0).
economic wellbeing, such as a temporary loss in their business operations or a temporary job loss.

Furthermore, people in the lowest decile of EDHI had average equivalised expenditure higher than those in the second income decile in 2009-10. (Graph 2) The ABS therefore uses the second and third income deciles to describe ‘low income’ households rather than the lowest income quintile.

However, as the lowest decile includes many households whose only source of income is a government pension or allowance, some people in the lowest income decile experience high levels of economic hardship. Therefore, for many analytical purposes a lower cut-off should be applied to only remove extreme low value households that may distort the results. In 2011-12, Age Pension rates (excluding supplementary payments) for singles and couples were around the 7th percentile of EDHI.

**Financial stress indicators**

While income and wealth statistics describe the economic resources available to people and expenditure statistics describe their consumption patterns, there are other issues relevant to understanding living standards e.g. a person with poor health and high health care costs may have reduced income for other purchases. In attempting to identify which households have the lowest economic wellbeing, other indicators of poor economic outcomes can be considered. Data relating to experiences of financial stress and missing out are collected in the HES. (Table 3)

Financial stress information can provide insight into people’s economic wellbeing although analysis needs to consider overall circumstances. Some individuals may have consumption priorities which differ from socially accepted norms of the ‘basics of life’. In 2009-10, 20% of households in the highest EDHI quintile reported at least one financial stress indicator. (Graph 3)

**MEASURING PERSISTENT ECONOMIC HARDSHIP**

Another key policy interest is people experiencing long-term and persistent economic hardship as distinct from those experiencing short-term hardship.

Longitudinal datasets, such as the Household Income and Labour Dynamics Australia Survey (HILDA) and the ABS Statistical Longitudinal Census Dataset (SLCD), are important sources for identifying people experiencing long-term economic hardship. The HILDA has been tracking the economic circumstances of many respondents since 2001. The SLCD will provide a five-yearly snapshot of the income and housing circumstances of people from 2006.

The SIH measures the short-term persistence of economic hardship by comparing income from the previous financial year with current year income. The circumstances of people with low incomes in both periods can be identified. Combined with wealth data which is more stable over time, this provides a more accurate picture of whether hardship is persistent.

As well as financial stress experiences, the HES also collects data on people’s perception of their current financial circumstances compared to two years ago and their ability to save money.

**FOR MORE INFORMATION**

**IS POVERTY ON THE RISE IN AUSTRALIA?**

Australia does not have a readily available poverty rate – is poverty absolute or relative? According to Nicholas Biddle and Olga Bursian, while it is correct to say that income poverty rates have remained stable over the last decade within Australia’s growing population, the numbers of people experiencing deprivations of the things required to function in society have increased.

Someone who turned 18 just in time for Saturday’s federal election would have been born around the middle of 1995. Back then we were listening to Oasis and the Smashing Pumpkins, watching Toy Story and the X-Files, and basking in the glory of a great Australian cricket team. At the same time, 9.2% of people were living in a household whose income was less than half of the Australian median – a common measure of poverty. We know what happened over the intervening 18 years in the Ashes, but what about poverty?

Answering this question isn’t easy and comes down to on which side of the Poverty Wars you fall. On one side, there are those who argue that poverty is a relative measure. Whether or not a person is considered poor should take into account the standard of living of the general community. Others argue that we should follow more closely the US approach where poverty is measured in absolute terms or the inability to afford a particular basket of goods.

Which side you take will determine the way in which you assess the statement made by the Australian Council of Social Services (ACOSS) that “a growing group of people are simply unable to afford the essentials. Poverty is on the rise.”

The best way is to look at the proportion of the population, living in a household, whose income is below a certain threshold. For relative measures of poverty, this threshold is often for those whose income is below half of the Australian median. (If you earn the median income, you are in the middle – half the population earns more, half less). For absolute measures of poverty, it is necessary to fix the threshold at a certain value. There are no widely accepted absolute measures in Australia, so I will follow a reasonably standard approach and use the relative poverty line fixed at a certain baseline year (1994-95).

Using data from the Survey of Income and Housing, the following table gives the relative poverty

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent below poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>14</td>
</tr>
<tr>
<td>1995-96</td>
<td>12</td>
</tr>
<tr>
<td>1996-97</td>
<td>10</td>
</tr>
<tr>
<td>1998-99</td>
<td>8</td>
</tr>
<tr>
<td>2000-01</td>
<td>6</td>
</tr>
<tr>
<td>2002-03</td>
<td>4</td>
</tr>
<tr>
<td>2005-06</td>
<td>2</td>
</tr>
<tr>
<td>2009-10</td>
<td>0</td>
</tr>
<tr>
<td>2003-04</td>
<td>12</td>
</tr>
<tr>
<td>2004-05</td>
<td>10</td>
</tr>
<tr>
<td>2006-07</td>
<td>8</td>
</tr>
<tr>
<td>2007-08</td>
<td>6</td>
</tr>
<tr>
<td>2008-09</td>
<td>4</td>
</tr>
<tr>
<td>2011-12</td>
<td>2</td>
</tr>
</tbody>
</table>

“Politicians will talk a lot about ‘cost of living pressures’ during this election campaign, even though most people are enjoying living standards that are better than ever. However, a growing group of people are simply unable to afford the essentials. Poverty is on the rise.”

line in Australia after adjusting for inflation. It also shows the estimated percentage of people who live in households that fall below that poverty line. The dotted black line gives the percentage of people who fall below the poverty line from the base year (1994-95).

Looking at the grey line, the level of income required to be above half-median income rose from $253 per week in 1994-95 (in $2011-12) to $395 per week in 2011-12. This reflects strong income growth over the last 18 years across the income distribution.

But, is poverty on the rise? In 1994-95, it was estimated that about 9.2% of people lived in a household that had an income that was less than $253 per week. By 2011-12, the dotted black line shows that only 3.3% of people lived in households below that threshold. A much smaller proportion of people lived in a household in 2011-12 that would have put them in income poverty in 1994-95. However, when taking into account changes in living standards, a much greater proportion of the population were living in relative poverty in 2011-12, rising to 12% of the population.

Other sources of data like the HILDA find a steadier relative poverty rate over the last decade, but no data sources show a decline in relative poverty that matches the rise in income over the period. It is also interesting to note that, according to the General Social Survey, 13.9% of adults in 2002 reported that they were “unable to raise $2,000 within a week for something important” compared to 13.3% in 2010.

Verdict

So, is ACOSS correct in saying that “poverty is on the rise”? That depends on how you measure it. What we can say though is that most people in Australia have a higher standard of living now than 18 years ago. But, there is still a significant minority of people who fall well short of the median income in Australia and who feel the ongoing effects of financial stress.

Review

Australia does not have a readily available poverty rate. It is measured either according to income levels or by a statistical computation which takes account of lack of access to resources in addition to income. The author uses an income-based approach.

Long-standing conventions in poverty research for affluent nations refer to relative poverty, while absolute poverty applies in nations where there is deprivation of the basics such as water, shelter, food, health care, sanitation. The author’s reference to absolute poverty and the ensuing calculations are problematic and, unintentionally in my view, could confuse rather than clarify.

Income-based poverty rates are calculated as either 50% or 60% of median incomes after housing costs. The ACOSS Poverty in Australia Report in 2012 used the 50% median income benchmark to find that 12.8% of the population (or 17.3% of children) lived in poverty in 2010.

The more frequent measure of income poverty (UK, Ireland, Europe) is 60% of median incomes. Applying this benchmark in the HILDA survey, the Australian income poverty rate has been consistently around 20-22% over the decade 2001-2010, according to Brotherhood of St Laurence and the Melbourne Institute of Applied Economic and Social Research.

In addition, measures of poverty as social exclusion take account of multiple deprivations of the resources/opportunities/amenities required to function in society. This rate of poverty as social exclusion has increased since 2008.

So, while it is correct to say that income poverty rates have remained stable over last decade within Australia’s growing population, the numbers of people experiencing deprivation of the basic opportunities/resources/amenities required to participate in society have increased.

Nicholas Biddle is Fellow at Australian National University.
Olga Bursian is Lecturer at Federation University Australia.

THE CONVERSATION

Relative poverty is a poor measure when it comes to forming public policy aimed at helping those Australians who are really doing it tough, writes Matthew Taylor

The poverty wars are back on. Adam Creighton, economics correspondent at The Australian, has taken aim at Australia’s addiction to welfare and a welfare lobby committed to maintaining the “poverty charade”. The Australian Council of Social Services’ (ACOSS) chief executive, Dr Cassandra Goldie, hit back, citing an ACOSS report that found 2.2 million Australians were living in poverty. She stated that this was “by any measure an indictment on a country as wealthy as Australia.”

The two sides of the poverty wars are defined by whether they see relative or absolute poverty as the key concern. Relative poverty views poverty in terms of differences in household incomes between low and middle-income households, while absolute poverty focuses on the living standards of low-income households.

Creighton argues it is the absolute level of income that matters for low-income households. The 1975 Henderson inquiry into poverty in Australia found that in 1973, $62.70 a week was sufficient to sustain two adults and two children. Adjusted for inflation, this amounts to an annual household income of about $25,074 in 2010 dollars. Of course the bundle of goods that would have been considered sufficient to sustain a family in 1973 is likely to be quite different to that in 2014.

According to ACOSS, a household is considered to be living in poverty when its income is less than half the median household income after adjustments for differences in household composition (equivalised household income) and housing costs.

ACOSS’s poverty line of $39,104 is substantially higher than Creighton’s figure. The problem with ACOSS’s methodology, though one widely used, is that increases in the incomes of higher income households produce increases in the number of households classified as living in ‘poverty’, even when the living standards of low-income households are rising.

Income inequality may be rising, but if the living standards for those on low incomes are also rising can poverty really said to be increasing?

Income inequality may be rising, but if the living standards for those on low incomes are also rising can poverty really said to be increasing?

Researchers at the University of Wollongong looked at trends in both relative poverty and absolute poverty using measures similar to those preferred by ACOSS and Creighton. That report found that relative poverty increased by 2 per cent to 13 per cent between 1996 and 2005 while absolute poverty fell by about 2 per cent over the same period. Somewhat ironically, a more generous absolute poverty line than that favoured by Creighton, say $18,000 of equivalised household income (in 2005 dollars), would have produced a 10 per cent reduction in poverty over this period.

Other analyses by the National Centre for Social and Economic Modelling (NATSEM), of which I was a co-author, found the income of households in the bottom 20 per cent increased by an average of $93 a week between 1984 and 2010. Those in the second quintile (above the bottom 20 per cent but not exceeding the bottom 40 per cent) had an increase of $191 a week – after adjusting for increases in the cost of living over this period.

Focusing on relative poverty risks obscuring the number of Australians who really are doing it tough.

This amounts to a 27 per cent increase in the (equivalised) household incomes of the bottom 20 per cent of households and an increase of 31 per cent for the next 20 per cent of households. These gains are considerably higher than the 19 per cent increase experienced by the top 20 per cent of households, though these households have done quite well between 2003 and 2010.

Focusing on relative poverty risks obscuring the number of Australians who really are doing it tough.

For example, another report by NATSEM looked at both households’ lived experiences of poverty in addition to relative poverty. This report found that 2 per cent of households could not afford to heat their homes, and 3 per cent had at least one person who had skipped a meal due to a shortage of money. This indicates that at least one person in 274,144 households had to forgo at least one meal in 2010 for want of money.

This suggests that though there may be some poverty in Australia, the number of people living under conditions generally accepted as constituting poverty is significantly lower than the 2.2 million put forward by ACOSS.

The poverty wars divert attention from what has largely been a good news story for Australian living standards in recent decades – especially for lower-income households. While income inequality may be an important policy issue, this should be argued on its merits rather than merely branded as poverty.

Public policy aimed at reducing poverty should focus on ensuring our scarce tax dollars are directed at the causes of absolute poverty rather than chasing a statistic.

Matthew Taylor is a research fellow at the Centre for Independent Studies.
**POVERTY IS REAL, AND HERE**

Targeting people on the lowest incomes will cost us more in the long term, both economically and socially, writes Cassandra Goldie from ACOSS.

The article by Adam Creighton (Poverty here? Give me a break – The real problem for Australia is an addiction to welfare, January 17) ignores the real poverty faced by 2.2 million people living in Australia today.

In our Poverty in Australia report released last year, Australian Council of Social Service and the Social Policy Research Centre calculated that 2.265,000 people (12.8 per cent of the population) were living below the poverty line in 2010 (not 3.7 million or 21 per cent, as the article suggests). This includes 575,000 children or 17.3 per cent, which by any measure is an indictment on a country as wealthy as Australia. The most alarming aspect is that this level of poverty is in spite of 20 years of strong growth that has made most Australians better off.

ACOSS has consistently pointed out that the problem lies with the very low rate of allowance payments such as Newstart, which have been frozen in real terms since 1994, while overall household living standards have increased by about a third.

This is precisely the reason why ACOSS, joined by business groups, unions and many economists, has been calling for Newstart to be lifted from the current level of $35 a day ($250 a week). The Business Council of Australia has said that the rate is so low that it’s become a barrier to work. Three separate Senate inquiries over the past two years have acknowledged that allowance payments are inadequate, confirming that the payments are not enough to meet the most basic costs such as housing, food, clothing and, importantly, basic job search costs.

In 2010 the poverty line for a single adult, based on the OECD standard of 50 per cent of median income, was $358 a week ($18,667 per annum); for a couple with two children it was $752 a week ($39,211 per annum). This level of income falls well below community standards.

Not surprisingly, the risk of poverty is much greater among those whose main household income source is social security payments (36.5 per cent compared with 12.8 per cent overall), reflecting the fact that most of these payments sit below the poverty line.

The most recent mid-year economic and fiscal outlook points to unemployment increasing in response to a tight labour market, plus barriers for the long-term unemployed to getting work. We will need better solutions than to freeze social security payments (as Creighton recommends) if we are to improve the budget bottom line, as that would only result in greater levels of poverty.

ACOSS agrees that the best path out of poverty is paid work and a form of income, and we’ve long argued that the focus of welfare (especially the Disability Support Pension) should be on assisting people into ongoing employment while ensuring those unable to get paid work can lead a decent and dignified life with adequate income support.

We should be doing a lot more to support the long-term unemployed by expanding case management, training, wage subsidy and paid work experience schemes. There is still much work to do to encourage and support employers to take on people with disabilities and those with other barriers, including the one in three who are more than 45 years of age.

Contrary to recent media reports, the proportion of the population on income support has fallen in the past decade. According to a report from the Department of Human Services, in 2002 there were 4.86 million people on income support (out of a population of 19.6 million). In 2012, there were 5.03 million people on income support, and the population had increased to 22.7 million. Over the decade, population grew by three million as the number on income support grew by 173,000.

The latest OECD figures show that Australia spent 8.6 per cent of gross domestic product on cash benefits in 2013. That’s the second lowest of any OECD country for which the OECD has figures.

Another important fact is that following the reforms that commenced in July 2010, the number of people on the DSP actually declined by 1.2 per cent. In 2011-12, 67,000, or one in every two people seeking the DSP, were rejected; they were placed on the Newstart Allowance, which is almost $300 a fortnight less than the DSP.

There is no doubt Australia’s safety net system has served us well and prevented the levels of poverty we see in other countries. The budgetary challenge before us today should not be used as a stick to further stigmatise and punish people who are doing it tough in our community, under the failed assumption that we will somehow be better off. Targeting people on the lowest incomes will cost us more in the long term, both economically and socially.

Cassandra Goldie is chief executive of ACOSS.

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This article was first published in *The Australian* on 24 January 2014.

Income inequality has risen throughout the world. According to Oxfam, the top 85 richest people now own half the world’s wealth, the audience at the IMF seminar on ‘The Macroeconomics of Income Inequality’, was told.

Guy Ryder, Director General of the International Labor Organisation, said a growing consensus about its damaging effects was creating an unprecedented opportunity to act on reducing inequality.

Previously, inequality was thought to be the price for a functioning global economy, “but now the IMF and other organisations say there is an alignment of getting the global economy working better, creating jobs that we need, and dealing with inequality,” said Ryder.

“If this is a problem, if we all agree this is a problem, what are we going to do about it?” he said.

**Inequality “morally wrong”**

Inequality is not only bad for growth, and a threat to democracy, but it is also “morally wrong” suggested Winnie Byanyima, Executive Director of the charity, Oxfam.

“It just cannot be right that millions are living in abject poverty while others – these 85 we’ve heard about – if they had one thousand life times, could not spend it [their wealth] all,” she said.

Jeffrey Sachs, head of the Earth Institute at Columbia University, identified many different types of inequality including inequality of income, wealth, power, and wellbeing. He was scathing about the significant growth in inequality in the United States which, he said, had allowed the richest to hijack the political process for their own gain.

**IMF publishes on inequality**

Over the last year, the IMF has published two major papers on inequality which explain its effect on growth, and how tax and spending policies can be designed to help achieve redistribution at a minimal cost to economic efficiency.

A number of participants welcomed the publication of the IMF research which have contributed to the growing consensus on the need to address inequality.

The Deputy Managing Director of the IMF, Min Zhu, said inequality could be addressed through government policies. “Macroeconomic policies matter,” he said. It was a recognition which was now routinely integrated into the Fund’s work.

“When we advise authorities in our country work, we always put jobs, and growth, and employment into policy formation,” he told the audience.

He said it was critical that the Fund understand the impact of macroeconomics and to devise policy accordingly. “Think about it, if income is concentrated in a small group of people it will change consumption because the capacity for consumption is different at different income levels,” he said.

“Taxing the rich to enable everyone to have an opportunity is one piece of this puzzle. It’s not a conflict between fairness and growth, but puts the two together.”

Jeffrey Sachs

**Proposals to address inequality**

Tyler Cowen, a professor at George Mason University, suggested some additional measures which could help reduce global inequality, including encouraging immigration, conditional cash transfers, and investing in public health and agriculture.

“I think inequality is a symptom of an underlying problem which is not enough opportunities,” Cowen said, adding that his proposals would create openings for poor people.

“If we are concerned with inequality, I would say let’s focus on it with a problem-solving mentality,” he said.

A number of the participants attacked tax evasion and illicit financial flows by corporations, which Byanyima said was money that could be spent on public services – “a real income for the poor”.

**Inequality’s impact on “the guy on the street”**

Ryder said there was no need to look at the “extreme” examples of tax avoidance and aggressive evasion. “Let’s look at the middle,” he said. “How are we going to put money back in people’s pockets? ... Let’s look at what’s happening right here, right now, at the guy on the street,” he said.

Sachs said that inequality was often passed on and exacerbated through generations; that the rich could make higher “investments in human capital” such as education and health, than the poor.

“Taxing the rich to enable everyone to have an opportunity is one piece of this puzzle. It’s not a conflict between fairness and growth, but puts the two together,” said Sachs.

Urgent action needed to tackle rising inequality and social divisions, says OECD

Income inequality and social divisions could worsen and become entrenched unless governments act quickly to boost support for the most vulnerable in society, according to a new OECD report

Society at a Glance 2014 says that despite a gradually improving global economy, medium-term fiscal consolidation in many countries will pose challenges for tackling the social fallout from the crisis.

Public spending on disability, family and unemployment benefits rose during the early phases of the crisis but these areas are now under pressure. Coverage has also been a challenge: while social protection programmes helped soften the blow for many people, others were left with little or no support, notably in southern Europe.

Governments need to consider any further expenditure cuts very carefully. These may add to the hardship of the most vulnerable and could create problems for future social cohesion.

“Society at a Glance 2014 highlights the impact of the crisis across a range of indicators:

- The number of people living in households without any income from work has doubled in Greece, Ireland and Spain, and risen by 20% or more in Estonia, Italy, Latvia, Portugal, Slovenia and the United States.
- Poorer households have lost greater shares of their incomes than the better-off or benefited less in the recovery – particularly in Estonia, Greece, Ireland, Italy and Spain.
- Young people are at greater risk of poverty than before the crisis: the share of 18-25 year-olds in households with incomes below half the national median has climbed in most countries – by 5 percentage points in Estonia, Spain and Turkey, by 4 points in Ireland and the United Kingdom, and by 3 points in Greece and Italy.
- The share of people who report that they cannot afford to buy enough food increased in 23 countries, particularly in Greece and Hungary, but also in the United States.
- Fertility rates have dropped further since the crisis, deepening the demographic and fiscal challenges of ageing. Having risen since 2000 to reach 1.75 children per woman in 2008, they have fallen back to 1.70, as lower and uncertain incomes may have caused more people to delay parenthood or have fewer children.
- While it is too early to quantify the longer-term effects of the crisis on people’s health, unemployment and economic difficulties are known to contribute to a range of health issues, including mental illness.
- Spending on education has fallen relative to GDP in half of the OECD countries since the start of the crisis, with cuts especially sharp in Estonia, Hungary, Iceland, Italy, Sweden, Switzerland and the US. Such cuts will affect the poorest in society the most, says the OECD, and in the long-term could lead to reduced student participation, poorer outcomes and reduced upward mobility for children from low-income families.

By contrast, the large emerging-market economies have aimed to bolster redistribution measures as part of their strategies to reduce poverty and inequality and can learn from the recent experiences of OECD countries.

Society at a Glance gives an overview of social trends and policy developments in OECD countries and selected non-member countries using indicators taken from the OECD and other sources.

The data and country highlights are available from [www.oecd.org/social/societyataglance.htm](http://www.oecd.org/social/societyataglance.htm)

Proposals in a recent Oxfam report, if implemented, would be a recipe for continuing impoverishment of the many. The Oxfam report, Working for the Few, states that inequality is on the march, with about 50 per cent of total wealth owned by 1 per cent of the world’s population, with the other half of total wealth owned for the remaining 90 per cent of the population.

In one particularly attention-grabbing headline, the Working for The Few report states that the world’s 85 richest individuals own as much as the poorest half of the global population.

According to the NGO, “The large and rising concentrations of income and wealth in many countries represent a global threat to stable, inclusive societies for one simple reason: the unbalanced distribution of wealth skews institutions and erodes the social contract between citizens and the state.”

In an unhampered, free-market economy, the distribution of income is wholly determined by the interplay of mutually beneficial market transactions between sellers and buyers. Incomes are attained by selling goods and services to customers willing to pay for them, and suppliers who most closely meet the needs and desires of consumers are rewarded with revenues that more than cover production costs.

The resultant inequality, therefore, derives from the personal choices of the millions, or even billions, of participants in the market process. But unless profitable suppliers can keep pleasing their customers by providing valuable goods and services, their ability to keep accumulating wealth is threatened.

Factoring in other issues, such as the attraction of additional suppliers towards profitable areas of economic activity, technological developments, and changing consumer preferences, it becomes clear that wealth holdings are precarious.

Needless to say, we don’t interact in unhampered markets, with an alliance of big governments and crony capitalists littering the scene. There are great risks that these players prevent others from breaking into the wealthy ranks, but in the real world the ranks of the wealthy can still significantly change within the space of a generation.

Only 25 of the 85 wealthiest people in the world in 2013 were among the 85 back in 1996, with 60 people (including Rupert Murdoch) dropping out of the list during that period. Entering the list came the likes of Mark Zuckerberg of Facebook fame, the owners of Ferrero Rocher chocolates and Nutella spread, Australian miner Gina Rinehart, and others.

Now, Oxfam does acknowledge that “some economic inequality is essential to drive growth and progress, rewarding those with talent, hard earned skills and the ambition to innovate and take entrepreneurial risks”. This is a reasonable point, but the report’s subsequent focus on snapshots of the top 1 per cent overlooks the far more pressing issue about ensuring that more people, including the poor, can tap into opportunities for their own enrichment.

The Oxfam report oddly asserts that attitudes to the effect that it is better to focus on impoverishment, or absolute inequality, than relative inequality “is no longer in fashion”. This ignores the huge benefits arising from what has been described by some as the “greatest and most remarkable achievement in human history”, and that is the precipitous decline in global poverty over the last few decades.

What the world needs is a greatly reduced dose of government intervention, so that wealth becomes the rule rather than the exception.

As recently discussed by American economist Mark Perry, about 5 per cent of the population lived on $US1 a day or less in 2006 compared with about 27 per cent in 1970, a massive decline in global poverty of 80 per cent. Far from being a ‘winner-takes-all’ system, the growing, but incomplete, embrace of market reforms, such as greater respect for private property rights, free trade and deregulation, has meant new opportunities for people to feed, clothe and house themselves and their families. And that translates into real wealth gains for many people, in economic terms, which can only be a good thing.

So, what kinds of policy settings are needed to end impoverishment for many more people throughout the world?

Not high-taxing, big-spending and stringent regulatory policies, such as those advocated by Oxfam, that entrenches the cronies and excludes more people from economic participation.

Higher, and more progressive, income and wealth tax rate structures tend to discourage people from engaging in economic activities, including supplying labour where needed, that would otherwise propel them into higher income brackets. And cracking down on tax havens poses a range of problems all of its own, including for low-income countries seeking to diversify their economic activities.
At the other end of the spectrum, mandated and rising ‘living wages’ risks creating additional unemployment, as companies struggle to afford relatively more expensive labour services.

Education and health care are important, but high-cost, substandard services under monopoly government control are usually at odds with what poor people really need to meaningfully climb ladders of opportunity.

If we are genuinely concerned with ensuring that people escape the mire of poverty, then we would advocate policies ensuring that people cooperating in markets are less hampered in buying and selling between each other. In short, what the world needs is a greatly reduced dose of government intervention, so that wealth becomes the rule rather than the exception.

Dr Julie Novak is a senior fellow at the Institute of Public Affairs.
Economic inequality is rapidly increasing in the majority of countries. The wealth of the world is divided in two: almost half going to the richest one per cent; the other half to the remaining 99 per cent. The World Economic Forum has identified this as a major risk to human progress. Extreme economic inequality and political capture are too often interdependent. Left unchecked, political institutions become undermined and governments overwhelmingly serve the interests of economic elites to the detriment of ordinary people. Extreme inequality is not inevitable, and it can and must be reversed quickly. A briefing paper summary and recommendations from Oxfam

**SUMMARY**

In November 2013, the World Economic Forum released its *Outlook on the Global Agenda 2014*, in which it ranked widening income disparities as the second greatest worldwide risk in the coming 12 to 18 months. Based on those surveyed, inequality is ‘impacting social stability within countries and threatening security on a global scale.’ Oxfam shares its analysis, and wants to see the 2014 World Economic Forum make the commitments needed to counter the growing tide of inequality.

Some economic inequality is essential to drive growth and progress, rewarding those with talent, hard earned skills, and the ambition to innovate and take entrepreneurial risks. However, the extreme levels of wealth concentration occurring today threaten to exclude hundreds of millions of people from realising the benefits of their talents and hard work.

Extreme economic inequality is damaging and worrying for many reasons: it is morally questionable; it can have negative impacts on economic growth and poverty reduction; and it can multiply social problems. It compounds other inequalities, such as those between women and men. In many countries, extreme economic inequality is worrying because of the pernicious impact that wealth concentrations can have on equal political representation. When wealth captures government policymaking, the rules bend to favor the rich, often to the detriment of everyone else.

The consequences include the erosion of democratic governance, the pulling apart of social cohesion, and the vanishing of equal opportunities for all. Unless bold political solutions are instituted to curb the influence of wealth on politics, governments will work for the interests of the rich, while economic and political inequalities continue to rise. As US Supreme Court Justice Louis Brandeis famously said, “We may have democracy, or we may have wealth concentrated in the hands of the few, but we cannot have both.”

Oxfam is concerned that, left unchecked, the effects are potentially immutable, and will lead to ‘opportunity capture’ – in which the lowest tax rates, the best education, and the best healthcare are claimed by the children of the rich. This creates dynamic and mutually reinforcing cycles of advantage that are transmitted across generations.

Given the scale of rising wealth concentrations, opportunity capture and unequal political representation are a serious and worrying trend. For instance:

- Almost half of the world’s wealth is now owned by

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**FIGURE 1: THE RICH GET RICHER**

The share of national income going to the richest one per cent

- United States
- Singapore
- Ireland
- Japan
- Italy
- Australia
- Spain
- France
- Norway
- New Zealand
- Mauritius
- Sweden
- Denmark

The percentage increase in share of income of the richest one per cent

- United States
- Australia
- Sweden
- Norway
- Ireland
- Italy
- Japan
- New Zealand
- Singapore
- Denmark
- Spain
- France
- Mauritius

just one per cent of the population.

- The wealth of the one per cent richest people in the world amounts to $110 trillion. That's 65 times the total wealth of the bottom half of the world's population.
- The bottom half of the world’s population owns the same as the richest 85 people in the world.
- Seven out of ten people live in countries where economic inequality has increased in the last 30 years.
- The richest one per cent increased their share of income in 24 out of 26 countries for which we have data between 1980 and 2012.
- In the US, the wealthiest one per cent captured 95 per cent of post-financial crisis growth since 2009, while the bottom 90 per cent became poorer.

This massive concentration of economic resources in the hands of fewer people presents a significant threat to inclusive political and economic systems. Instead of moving forward together, people are increasingly separated by economic and political power, inevitably heightening social tensions and increasing the risk of societal breakdown.

Oxfam's polling from across the world captures the belief of many that laws and regulations are now designed to benefit the rich. A survey in six countries (Spain, Brazil, India, South Africa, the UK and the US) showed that a majority of people believe that laws are skewed in favour of the rich – in Spain eight out of 10 people agreed with this statement. Another recent Oxfam poll of low-wage earners in the US reveals that 65 per cent believe that Congress passes laws that predominantly benefit the wealthy.

The impact of political capture is striking. Rich and poor countries alike are affected. Financial deregulation, skewed tax systems and rules facilitating evasion, austerity economics, policies that disproportionately harm women, and captured oil and mineral revenues are all examples given in this paper. The short cases included are each intended to offer a sense of how political capture produces ill-gotten wealth, which perpetuates economic inequality.

This dangerous trend can be reversed. The good news is that there are clear examples of success, both historical and current. The US and Europe in the three decades after World War II reduced inequality while growing prosperous. Latin America has significantly reduced inequality in the last decade – through more progressive taxation, public services, social protection and decent work. Central to this progress has been popular politics that represent the majority, instead of being captured by a tiny minority. This has benefited all, both rich and poor.

**RECOMMENDATIONS**

Those gathered at Davos for the World Economic Forum have the power to turn around the rapid increase in inequality. Oxfam is calling on them to pledge that they will:

- Not dodge taxes in their own countries or in countries where they invest and operate, by using tax havens
- Not use their economic wealth to seek political favours that undermine the democratic will of their fellow citizens
- Make public all the investments in companies and trusts for which they are the ultimate beneficial owners
- Support progressive taxation on wealth and income
- Challenge governments to use their tax revenue to provide universal healthcare, education and social protection for citizens
- Demand a living wage in all the companies they own or control
- Challenge other economic elites to join them in these pledges.

When wealth captures government policymaking, the rules bend to favour the rich, often to the detriment of everyone else.

Oxfam has recommended policies in multiple contexts to strengthen the political representation of the poor and middle classes to achieve greater equity.

These policies include:

- A global goal to end extreme economic inequality in every country. This should be a major element of the post-2015 framework, including consistent monitoring in every country of the share of wealth going to the richest one per cent
- Stronger regulation of markets to promote sustainable and equitable growth, and
- Curbing the power of the rich to influence political processes and policies that best suit their interests.

The particular combination of policies required to reverse rising economic inequalities should be tailored to each national context. But developing and developed countries that have successfully reduced economic inequality provide some suggested starting points, notably:

- Cracking down on financial secrecy and tax dodging
- Redistributive transfers; and strengthening of social protection schemes
- Investment in universal access to healthcare and education
- Progressive taxation
- Strengthening wage floors and worker rights
- Removing the barriers to equal rights and opportunities for women.

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Class on a global scale: the emerging transnational capitalists

The World Economic Forum is one meeting place where the hyper-elite, transnational capitalists can get together and become a class without a country. Andrew Self examines how class operates on a global scale, and whether or not it is a cross-border phenomenon.

Economist Adam Smith wrote famously in 1776 that:

*A merchant, it has been said very properly, is not necessarily a citizen of any particular country.*

Over 200 years later, the head of Gillette, Al Zeien, espoused a similar view.

*A global company views the world as a single country. We know that Argentina and France are different, but we treat them the same.*

These quotes both highlight the global capitalist drive to accumulate profit in any market. But there is a difference between the two. Smith focuses on an economy in which capital flows between nations. Zeien alludes to an internationalism of capitalism into a singular global system that has occurred since the 1970s.

It is this very shift in capitalist accumulation that has created a new, transnational capitalist class. The formation of this class has evolved from the opening up of national economies and global integration since the Thatcher and Reagan era. Capital has become more mobile. This means that class formation is less and less tied to a particular nation-state or territory.

The transnational capitalist class is a global ruling class. It is a ruling class because it controls the levers of an emergent transnational apparatus and global decision-making. It is a new hegemonic bloc of various economic and political actors from both the global North and South, which has come out of the new conditions of global capitalism.

**The ties that bind**

Members of this new class have connections to each other that have become more significant than their ties to their home nations and governments. Forums such as the annual World Economic Forum at Davos are where these hyper-elites can get together and become a class without a country: the new global leadership.

This bloc is composed of the transnational corporations and financial institutions, the elites that manage the supranational economic planning agencies, major forces in the dominant political parties, media conglomerates and technocratic elites and state managers in both North and South.

These 7,000 or so people include heads of state, religious and military leaders – even the neoliberal in sunglasses, Bono – but the core membership is businessmen: hedge fund managers, technology entrepreneurs and private equity investors.

What makes this class different from the traditional ruling class in previous epochs is that the interests of its members are increasingly globally linked, rather than exclusively local and national in origin. This is due to the increased mobility of capital, and technology has shifted to create an environment that is beneficial to members of this particularly modern class.

They are also ideologues, expressing the interests of global rather than local capital through free market neoliberal ideologies and the culture-ideology of consumerism. This follows directly from the shareholder-driven growth economy that lies behind the globalisation of the world economy.

This is not to say that the world is still not organised in terms of discrete national economies. The transnational capitalist class...
ideologically constructs the best interests of the world in terms of markets, which may or may not coincide with a specific nation-state.

How does it manifest?

This class’ economic and ideological power has a discourse of national competitiveness and turning most spheres of social life into business. It strives to make schools, universities, prisons, hospitals and welfare more business-like.

In addition to the World Economic Forum, the transnational capital class also exercises power through its membership in thinktanks (such as the American Enterprise Institute, or Institute of Public Affairs in Australia) or corporate associations (such as the World Petroleum Council for the oil industry), and its control of the mass media, countless charities and foundations as well as university boards.

Their development of global, interconnected industries and businesses make them drivers of world capitalism. The program reaffirms the set of macroeconomic fiscal and monetary policies associated with neoliberalism: the withdrawal of the state from economic issues.

But these aspects are combined with a new emphasis on social issues and a quite liberal stance on these matters, emphasising, in the best bourgeois tradition, equality of opportunity, a new political culture of market individualism, and local political decentralisation along with a flexible labour market.

If, in cultural theorist Frederic Jameson’s assessment, postmodernism is the ‘cultural logic’ of late capitalism, what we may be seeing is the emerging ‘political logic’ of global capitalism, with its attendant forms of flexible accumulation.

As a result, the whole global production process is broken down into smaller parts and moved to different countries where investment and profit are the highest. Yet, at the same time, this worldwide decentralisation and fragmentation of the production process has taken place alongside the centralisation of command and control of the global economy by this class.

In a recent Oxfam report, The Cost of Inequality, it was noted that in the past 20 years, the richest 1% had increased their incomes by 60%. Barbara Stocking, an Oxfam executive, said unequivocally that this is:

... economically inefficient, politically corrosive, socially divisive and environmentally destructive ... We can no longer pretend that the creation of wealth for a few will inevitably benefit the many – too often the reverse is true.

The top 147 transnational corporations control roughly 40% of the entire economic value of the world’s transnational corporations.

This form of globalisation unifies the world into a single production system. But this also means that the new global capitalism opens up a large rift between the global rich and the global poor, not just on a national scale. Therefore, the 21st century is going to see conflicts and disputes for control between the new transnational ruling group and the expanding ranks of the poor and the marginalised.

In developing countries such as Turkey, there has been the downward mobility – or proletarianisation – of older middle classes and professional strata. Peasants and artisans, and the working class itself, has become flexible and informal.

A growing global working class has emerged that runs the factories, offices and farms of the global economy. It is a stratified and heterogeneous class, to be sure, but an expanding one. It is this new proletariat created in Latin America since the 1980s that is largely responsible for the ‘left turn’ in the region.

And although the first world working class does not realise it, being dependent on first world surplus profit, these are our allies in creating a better, fairer, sustainable world.

It is not clear in the new epoch how the contradictions of global capitalism will be played out, in particular those of over-accumulation and worldwide social polarisation. An expanding transnational proletariat is the alter ego of the transnational capitalist class. Struggle between the two will shape the dynamics of emerging global society.

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What can be done about income inequality?

Stephen Grenville explores the issue of inequality in this opinion piece from The Interpreter, published by the Lowy Institute for International Policy

The income-inequality debate is an old one, but it’s getting renewed interest, most recently from President Obama in his State of the Union address, where he advocated raising the minimum hourly wage from $7.25 to just over $10. He also spoke of the closely related issue of social mobility (a ‘ladder of opportunity’).

This is just one element of a wider inequality debate. At the other end of the income spectrum is the debate about the ‘one per cent’, the rich apex of the income pyramid. This is starkest in the US. In the past three decades, the top 1% have increased their real after-tax income by close to 300%, doubling their share of total income to 16%. The very top (0.1%) have done even better: this tiny cohort gets 7% of total income. The rest of the top quintile (the richest 20%) have done OK, but the bottom 80% have lost income share, with median real wage unchanged for three decades.

There is no single, simple explanation. Economies have become more complex, with more capital and high returns to technological innovation and intellectual property. Technology has certainly not favoured unskilled labour.

Globalisation is also blamed. International trade has risen from 19% of global GDP in the early 1990s to 33% now (what one commentator calls ‘hyperglobalisation’).

The vexed issue is how, in this increasingly integrated world, traded goods can be profitably produced in advanced countries where even the meagre US minimum wage is ten times China’s minimum and one hundred times Bangladesh’s minimum. Of course the American worker is much more productive, but that gap is closing. When, in the not-too-distant future, China’s automobile production lines are essentially the same as America’s, will the wage of Chinese auto-workers rise to keep America competitive?

The experience of countries which have already made a rapid economic transition suggests that wages do tend to equilibrate. We no longer worry about low-wage competition from Japan, Singapore or South Korea. But the outlook is bleak for producers of standard manufactured goods in high-wage economies. There have already been big shifts in where traded goods are produced, and more are in store.

High-wage countries need to restructure in two directions. First, towards traded goods where they have a clear comparative advantage (Australia in minerals and agriculture; New Zealand in milk) or a sustainable niche market providing unique products. Second, towards services for the domestic market (ranging from hamburger flippers to heart surgeons), which fortunately are in higher demand as economies get wealthier. These restructurings are painful, and a market-determined unskilled wage in this environment is likely to be below socially acceptable norms.

One compensation for those at the bottom of the ladder comes from the prospect of mobility, always a

Economies have become more complex, with more capital and high returns to technological innovation and intellectual property. Technology has certainly not favoured unskilled labour.
central part of the American dream, and strong social glue everywhere. The widespread perception is that mobility has become worse, although recent research argues otherwise. Even if mobility hasn’t changed much, it’s still best to pick your parents carefully: 30% of low-income children who do well at school go on to finish university, while 74% of high-income high-score children do.

Globalisation isn’t the whole story. Technology fosters more ‘winner takes all’ outcomes (e.g. in sport and entertainment a mass audience can watch the very best, with little demand for the second best). Network externalities often produce a dominant product or technology, with the same sorts of supreme winners: Bill Gates, Steve Jobs and Mark Zuckerberg come to mind.

Tyler Cowen sees more of this coming. The winners in Cowen’s world will be individuals who can harness the power of technology to complement their natural talents. His model is chess: the player-plus-computer easily beats either the player or the computer alone. Angus Deaton has a similar message, particularly for the developing world: ‘inequality is the handmaiden of progress’.

But are the extreme income disparities seen in the US intrinsic and necessary? They don’t seem to be essential as incentives to motivate the talented elite.

After all, sports stars and entertainers rose to the top long before huge rewards were on offer. For business, salaries and bonuses are central to self-esteem and status, but are more about relativities than absolute need. Gates, Jobs and Zuckerberg would have done what they did for less.

This change in income distribution is not just technology-driven. It is a product of the institutional environment. The return on technology and intellectual property is supported by the quasi-monopolies created by patents. The complexity of modern society has created many rent-seeking opportunities, with income earned from holding a license (e.g. taxi plates) or protected by regulation (e.g. the professions).

Like all countries exposed to international competition, Australia will have to trim its sails to this international wind. Australia’s minimum wage (nearly US$17) is over twice that of America. We have a better society because of that. The challenge now is to demonstrate that this can remain viable. This means we can’t afford to sustain uncompetitive industries, tie up production with unnecessary red tape or reward rent-seekers whose returns exceed their contribution to society.

This article originally appeared in the Lowy Institute’s online magazine, The Interpreter.
WORKSHEETS AND ACTIVITIES

The Exploring Issues section comprises a range of ready-to-use worksheets featuring activities which relate to facts and views raised in this book.

The exercises presented in these worksheets are suitable for use by students at middle secondary school level and beyond. Some of the activities may be explored either individually or as a group.

As the information in this book is compiled from a number of different sources, readers are prompted to consider the origin of the text and to critically evaluate the questions presented.

Is the information cited from a primary or secondary source? Are you being presented with facts or opinions?

Is there any evidence of a particular bias or agenda? What are your own views after having explored the issues?

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Brainstorm, individually or as a group, to find out what you know about income and wealth inequality.

1. What is income inequality, and what are some examples of its negative impacts?

2. What is the Gini coefficient, and how is it used?

3. What is the difference between absolute poverty and relative poverty?
Complete the following activity on a separate sheet of paper if more space is required.

In 1967 Australian prime minister Harold Holt said that he knew of no other free country where “what is produced by the community is more fairly and evenly distributed among the community” than it is in Australia.

Research trends in income and wealth inequality in Australia over the period since this statement was made. Provide a summary of your findings, including any relevant statistics and source citations.
Complete the following activity on a separate sheet of paper if more space is required.

In the article entitled, *What do Australians think about equality?* (page 30), author Andrew Leigh proposes the following:

“To see whether you care about inequality, take this simple test. Would you prefer to be born into a society in which the bottom fifth of households had 1 per cent and the top fifth had 62 per cent of the wealth? Or a society in which the poor had 15 per cent and the rich had 24 per cent?”

Form into pairs or small groups, and discuss which society you would prefer to be born into and why. Cite statistics and opinions from this book to support your arguments. In your discussion consider both options.
Complete the following multiple choice questionnaire by circling or matching your preferred responses. The answers are at the end of the next page.

1. What percentage of the world’s population controls nearly half of global wealth?
   a. 1%
   b. 10%
   c. 22%
   d. 46%
   e. 62%
   f. 75%

2. A rapid increase in inequality can have which of the following effects on the community? (select all that apply)
   a. Increase in wellbeing
   b. Increase in status barriers
   c. Reduction in social stability
   d. Increase in equality of opportunity
   e. Reduction in sustainable growth
   f. Increase in lack of trust
   g. Increase in long-term prosperity

3. According to the Australian Bureau of Statistics, what was the average wealth of Australian households in 2011-2012?
   a. $31,000
   b. $160,000
   c. $728,000
   d. $759,000
   e. $1.2 million
   f. $2.2 million

4. What is the numeric value for “perfect inequality” under the Gini coefficient?
   a. 0
   b. 0.5
   c. 1
   d. 10
   e. 50
   f. 100

5. In the OECD’s Society at a Glance 2014 highlights, what percentage of Australians reported that they could not afford to buy enough food?
   a. 1%
   b. 10%
   c. 40%
   d. 50%
   e. 62%
   f. 75%
6. Match the following terms to their correct definitions:

1. Percentile ratios  
   a. To compare estimates between surveys or between populations within a survey it is important to determine whether apparent differences are ‘real’ or simply the product of differences between the survey samples.

2. Disposable income  
   b. A measure of the variability that occurs by chance because a sample, rather than the entire population, is surveyed.

3. Equivalisation  
   c. A method of standardising the income, expenditure or wealth of households to take account of household size and composition differences.

4. Sampling error  
   d. The minimum income levels considered necessary to achieve a decent standard of living.

5. Median wealth  
   e. The relative distance between two points on the income or wealth distribution.

6. Significance testing  
   f. The midpoint between the richest and the poorest.

7. Poverty line  
   g. Total income, monetary and in kind, less income tax, the Medicare levy and the Medicare levy surcharge.

MULTIPLE CHOICE ANSWERS

1. Percentile ratios  
2. Disposable income  
3. Equivalisation  
4. Sampling error  
5. Median wealth  
6. Significance testing  
7. Poverty line
Between 1988-89 and 2009-10, the incomes of individuals owner occupied homes were the largest asset held. From 1993 to 2009, average earnings of ASX 100 CEOs rose from $1 million (17 times average earnings) to $3 million (42 times average earnings) (Leigh, A, Mind the gap: as incomes grow, so does inequality). (p.8)

Owner occupied homes were the largest asset held by Australians and the mortgages on owner occupied property was also the largest liability (ABS, Household Wealth and Wealth Distribution, Australia, 2011-12). (p.9)

In 2011-12, superannuation was the main financial asset held by households, with 85% of all households having some superannuation assets. The average value of superannuation for Australian households was $132,000 (ibid). (p.9)

For households with middle and high income levels, wages and salaries were the main source of income for 75% and 88% of households respectively, while for low income households, government pensions and allowances were the main income source for more than 60% of households. (ABS, Household and Income Distribution). (p.10)

Between 1988-89 and 2009-10, the incomes of individuals and households in Australia have risen substantially in real terms and in comparison to trends in other OECD countries (Greenville, J, Pobke, C, and Rogers, N, Trends in the Distribution of Income in Australia, Productivity Commission Staff Working Paper). (p.11)

The poorest 20% of households in Australia receive 12.4 times the amount of cash benefits than the richest 20% of households – the highest ratio in the OECD and about 50% more than the next most targeted country, New Zealand (Fletcher, M and Guttmann, B, Economic Roundup Issue 2, 2013: Income inequality in Australia). (p.12)

According to the OECD (2008), Australia has one of the most progressive systems of direct taxation amongst OECD nations (ibid). (p.12)

The gap between the average income of the richest and the poorest 10% of the population was almost 10 to 1 on average across OECD countries in 2010, ranging from 5 to 1 in Denmark, Iceland and Slovenia to almost six times larger (29 to 1) in Mexico (OECD, Society at a Glance 2014: OECD Social Indicator), (p.14)

Relative poverty in Australia (14.4% of the population) is higher than the OECD average (11.3%) (ibid). (p.16)

Australia is among the countries where confidence in financial institutions remained relatively stable during the economic crisis (ibid). (p.17)

According to the OECD, Australia’s dispersion of equivalised household disposable income as measured by the Gini coefficient was 0.34 in 2008, placing it slightly above the OECD average of 0.31. (p.18)

Australia’s unemployment benefit is the lowest of OECD countries and 20% below the poverty line (Grattan, M, Increasing inequality brings high social cost: report). (p.22)

In the past decade, Australian commonwealth government revenues have fallen from 26% of GDP to 23%, while government spending has remained at a relatively stable 25%. As a result, government revenues are now insufficient to meet the needs of the community in health, education, income support, and social and physical infrastructure (Douglas, B, Friel, S, Denniss, R and Morawetz, D, Advance Australia Fair? What to do about growing inequality in Australia). (p.24)

Almost 1/4 of the 2.6 million Australians living under the poverty line are dependent children aged under 25. Almost half a million are under 15. (UnitingCare, Poverty, Social Exclusion and Disadvantage in Australia, 2013). (p.32)

The poverty rate for single parent families is nearly 20% – double that of the poverty rate for couples with dependent children. (ibid). (p.32)

The Australian income poverty rate has been consistently around 20-22% over the decade 2001-2010 (Biddle, N and Bursian, OA, FactCheck: is poverty on the rise in Australia?). (p.38)

2,265,000 people (12.8% of the population) were living below the poverty line in 2010 (Goldie, C, Poverty is real, and here). (p.40)

In 2002, there were 4,86 million people on income support (out of a population of 19.6 million). In 2012, there were 5.03 million people on income support (ibid). (p.40)

The world’s 85 richest individuals own as much as the poorest half of the global population (Novak, J, “It’s not just the rich who benefit from free markets”). (p.43)

The wealth of the 1% richest people in the world amounts to $110 trillion. That’s 65 times the total wealth of the bottom half of the world’s population (Oxfam, Working for the few: Political capture and economic inequality). (p.46)

In the past 20 years, the richest 1% increased their incomes by 60%. (Self, A, Class on a global scale: the emerging transnational capitalists). (p.48)

30% of low-income children who do well at school go on to finish university, while 74% of high-income high-score children do (Greenville, S, What can be done about income inequality?). (p.50).
Absolute poverty
Absolute poverty or abject poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services. The term ‘absolute poverty’ is usually synonymous with ‘extreme poverty’.

Deciles/quintiles
Groupings that result from ranking households by economic resource and then dividing the population into ten equal groups (deciles) or five equal groups (quintiles).

Disposable income
Total income, monetary and in kind, less income tax, the Medicare levy and the Medicare levy surcharge.

Equivalisation
Method of standardising the income, expenditure or wealth of households to take account of household size and composition differences.

Financial hardship
The inability to enjoy an adequate material standard of living (in terms of food, shelter, clothing and health) that results primarily from inadequate income.

Gini coefficient
An inequality indicator which measures the inequality of income distribution within a country. It varies from zero, which indicates perfect equality, with every household earning exactly the same, to one, which implies absolute inequality, with a single household earning a country’s entire income. Latin America is the world’s most unequal region, with a Gini coefficient of around 0.5; in rich countries the figure is closer to 0.3.

High financial stress
The proportion of people whose household reported an incidence of five or more individual financial stress indicators (out of a total of 15) in the previous 12 months. These include being unable to pay certain bills on time, whether they could not afford activities such as a night out once a fortnight, or a special meal once a week; or whether they had gone without food or heating because of a shortage of money.

Household
A person living alone or a group of related or unrelated people who usually live in the same private dwelling.

Imputed rent
Allows more meaningful comparisons of the economic wellbeing of people living in different housing tenures by imputing income based on the difference between market rent and actual housing costs for owner occupiers and subsidised private renters.

Inequality
Describes a measurable phenomenon that can be applied to income, wealth, social status, education, health and social outcomes. There is an increasing inequality between rich and poor in Australia which continues to impact on the disadvantaged in a number of ways. This has been particularly noticeable in some inner city areas of Australia’s major cities. Despite the increasing cost of housing in the inner city areas, enclaves of poverty continue to exist.

Median wealth
The midpoint between the richest and poorest.

Poverty
Poverty is the state of being without the necessities of daily living, often associated with need, hardship and lack of resources across a wide range of circumstances. For some, poverty is a subjective and comparative term; for others, it is moral and evaluative; and for others, scientifically established. Internationally, people who lack food and shelter for minimal needs are said to be living in absolute poverty. Poverty in Australia, however, is generally relative poverty. People are considered to be poor if their living standards fall below an overall community standard, and they are unable to participate fully in the ordinary activities of society.

Poverty line
These are set at minimum income levels considered necessary to achieve a decent standard of living. Two commonly used poverty lines in Australia – 50% of median income and 60% of median income.

Relative poverty
When a group in society receives significantly less than the average person in that society. Poverty can also be measured in relative terms, where the poverty line is set as some proportion of the average income or wealth of the society. There are many different ways to calculate relative poverty, resulting in different levels of poverty, and researchers often argue about where the line should be drawn.

Social transfers in kind
Goods and services provided to households free or at subsidised prices by governments e.g. for education, health, housing and child care.

Unemployment
The unemployment rate is a figure produced monthly by the Australian Bureau of Statistics (ABS). An unemployed person is defined by the ABS as someone not in paid employment who is actively looking for work. Anyone who is doing paid work for at least one hour a week is not considered to be unemployed. Anyone can become unemployed. Statistically, however, Indigenous Australians, recently arrived migrants, people with disabilities, young people and older workers who have been retrenched are most likely to be unemployed. People living in remote and rural communities also have higher rates of unemployment. People who have been unemployed for a period of 52 weeks or longer are defined as long-term unemployed.
Websites with further information on the topic

Anglicare Australia  www.anglicare.asn.au
Anti-Poverty Week  www.antipovertyweek.org.au
Australian Bureau of Statistics  www.abs.gov.au
Australian Council of Social Service (ACOSS)  www.acoss.org.au
Australian Productivity Commission  www.pc.gov.au
Brotherhood of St Laurence  www.bsl.org.au
Department of Social Services  www.dss.gov.au
Homelessness Australia  www.homelessnessaustralia.org.au
International Monetary Fund  www.imf.org
Melbourne Institute of Applied Economic and Social Research  http://melbourneinstitute.com
Mission Australia  www.missionaustralia.com.au
National Centre for Economic and Social Modelling (NATSEM)  www.natsem.canberra.edu.au
Organisation for Economic Co-operation and Development (OECD)  www.oecd.org/australia/
Oxfam Australia  www.oxfam.org.au
Social Policy and Research Centre (SPRC)  www.sprc.unsw.edu.au
The Australia Institute  www.tai.org.au
United Nations Development Program (Poverty Reduction)  www.undp.org/poverty
UnitingCare Australia  www.unitingcare.org.au
World Bank  www.worldbank.org

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