

HOW UNEQUAL? INSIGHTS ON INEQUALITY

CEDA report overview
April 2018



CEDA's report *How unequal? Insights on inequality* aims to examine: distribution of benefits from Australia's prolonged period of economic growth; whether inequality has increased in Australia during this period; and where policy interventions could assist.

The question of "How unequal?" is an opening to better understand measures of inequality and the social impact of such inequality.

This fact sheet covers the key ideas and recommendations for *How unequal? Insights on inequality*. For further details, download the full report at www.ceda.com.au/inequality.

CHAPTER 1: BASIC CONCEPTS OF INEQUALITY

Dr Simon Longstaff AO FCPA, The Ethics Centre

Dr Longstaff argues it is only possible to reach a deep understanding of inequality if we begin with equality and its connection to justice. In Australia, Dr Longstaff says a large number of people have come to feel they are 'cogs in the machine, counting for nothing more than their capacity to work and vote' – feeling robbed of the basic equality that is their due.

He says that issues of equality should not be shunted to one side – reserved for social policy advocates and a special class of welfare economics. Instead, the concept of equality should be accorded a central place in mainstream economic policy.



CHAPTER 2: MEASURING INEQUALITY

Associate Professor Nicholas Rohde, Dept. of Accounting, Finance and Economics, Griffith University and Professor Lars Osberg, McCulloch Professor of Economics, Dalhousie University, Halifax

The recent debate on Australia's levels of inequality highlights the importance of monitoring it and the impact it is having on people's socioeconomic wellbeing and social cohesion. Associate Professor Rodhe and Professor Osberg surmise that when studying economic inequality, the variable analysed matters.

Simple inequality measures such as the income share, interdecile share of relative poverty rate, make useful partial indicators of inequality.

They find that as of 2014 Australia is slightly above average among developed countries in terms of income inequality. At a global level, income inequality has been falling thanks largely to the economic growth seen in China and India since 2000.

REPORT RECOMMENDATIONS

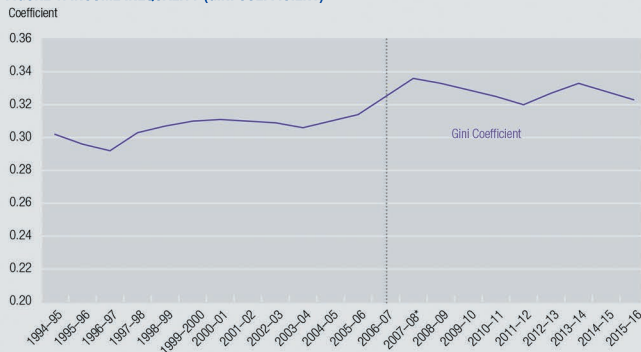
1. The Commonwealth Government should request the Productivity Commission to undertake periodic independent reviews of inequality in Australia. Regular reviews could provide a comprehensive and holistic assessment of the extent of inequality across Australia.
2. The findings and recommendations of CEDA's 2016 report, *VET: securing skills for growth* remain relevant. That report called for a comprehensive national review of the sector to underpin future funding arrangements, along with improved data and transparency to help stakeholders make more informed decisions. It also recommended providing national information around providers, pricing, qualifications, and satisfaction survey results to the public.

"...equality should be accorded a central place in economic policy. It should not be put to one side as a social policy issue or technical issue of welfare economics."

- Dr Simon Longstaff

HOW UNEQUAL? AUSTRALIA'S RECENT PERFORMANCE

FIGURE 1: INCOME INEQUALITY (GINI COEFFICIENT)



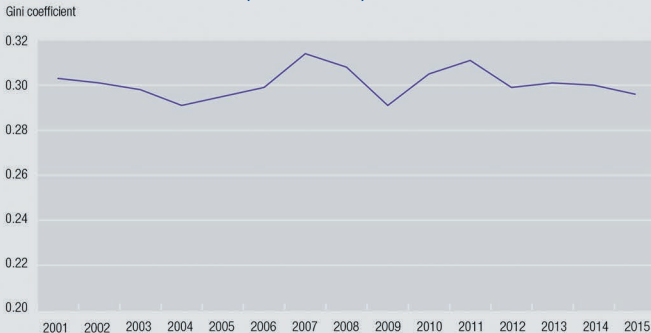
Source: ABS, (2017) Household Income and Wealth, Australia, 2015-16. Catalogue No. 6523.0. Figures for missing years have been interpolated applying a constant rate of change. *Estimates presented for 2007-08 onwards are not directly comparable with estimates for previous cycles due to the improvements made to measuring income introduced in the 2007-08 cycle.

FIGURE 2: P90/P10 INCOME RATIO



Source: ABS, (2017) Household Income and Wealth, Australia, 2015-16. Catalogue No. 6523.0.

FIGURE 3: HILDA INCOME INEQUALITY (GINI COEFFICIENT)



Source: Melbourne Institute of Applied Economic & Social Research, (2017) The Household Income and Labour Dynamics in Australia. Survey: Selected findings from Waves 1 to 15.

FIGURE 4: INEQUALITY ACROSS THE OECD (GINI COEFFICIENT, 2014)



Source: OECD (2018) Income inequality (indicator). doi: 10.1787/459aa711-en (Accessed on 08 March 2018)

CHAPTER 3 - 5: INEQUALITY OF OPPORTUNITY

Laura B. Perry, Associate Professor of Education Policy and Comparative Education, Murdoch University

Associate Professor Laura Perry explores educational opportunity, and says that **Australia's students experience significant disparity – as much as 4.5 years of schooling.** She argues small countries do not have the luxury of maintaining inequitable schooling if they want to remain globally competitive. To reduce educational equality, she says social segregation between schools needs to be reduced, while providing extra support to low-performing socially disadvantaged students and schools.

“...17 per cent of Australian young people leave secondary school without achieving basic educational skill levels...eliminating school underperformance would reap enough fiscal benefits to pay for the country's entire school system.”
- Associate Professor Laura Perry

Professor Alison Sheridan, Professor of Management, UNE Business School, University of New England

Exploring workplace inequality, Professor Alison Sheridan focuses on gender. She says while 2017 saw the spotlight drawn to gender pay disparities, Australia's dismal record in addressing inequality in the workplace will continue, with a real cost to national productivity, until the fundamental problem of the undervaluing of traditionally 'female' work and occupations achieves a more equal distribution of women and men as well as increased participation rates of disadvantaged groups in the labour market.

Patricia Faulkner AO, Chairman, Jesuit Social Services

Patricia Faulkner AO outlines Australia's performance in post-code disadvantage, the implications of this and how policy makers and other groups should respond. Faulkner says there is the need for more integrated solutions and targeted place-based approaches; innovative forms of investment and partnership such as microfinance and social procurement; and enhanced sharing and use of data.

REPORT RECOMMENDATIONS

3. In order to reduce Australia's pockets of concentrated geographical disadvantage, a concerted effort will need to be made across all levels of government, the community sector and business.

This will require:

- Implementation of place-based initiatives;
- A more targeted approach to the most vulnerable through a dedicated agency and navigators as we have seen proposed in New Zealand;
- Adjusting the level of Newstart payments to a more appropriate benchmark and indexation arrangement to ensure adequacy over time;
- More effectively tailored job search assistance for the long-term unemployed; and
- Better availability and access to public datasets on disadvantaged populations, drawing on recommendations 6.1 to 6.17 of the Productivity Commission's inquiry into data availability and use.

“Despite 26 years of uninterrupted economic growth Australia still has large pockets of disadvantage across the country, with 13 per cent of Australia's population living below the poverty line.”

- Patricia Faulkner AO

CHAPTER 6-7: THE FUTURE OF INEQUALITY

Professor Peter Whiteford, Crawford School of Public Policy, Australian National University

Professor Peter Whiteford asks whether young people today are likely to do as well as older generations. He looks at changes in wealth of different age groups over generations, where he finds the wealth of older generations has increased more rapidly than that of younger generations due to both superannuation wealth and property wealth increasing. However he says, that younger Australian households have continued to enjoy increases in real incomes over time, in contrast to the same cohort in other advanced economies, where they have fallen behind.

“What is most striking in the case of Australia - which shows the reverse of the other seven countries - is that younger households have experienced household incomes growth that is 27 per cent higher than the national average...”

- Professor Peter Whiteford



Nicholas Davis, Head of Society and Innovation, World Economic Forum

Nicholas Davis explores how emerging technologies could further influence future levels of inequality. Davis says that we do not have to choose between accepting or rejecting technologies due to fears of future inequality but that we actually face a more difficult task: simultaneously accelerating the development and adoption of new technologies to continue the dramatic rise in living standards Australians want and deserve, while ensuring no-one is unfairly excluded or discriminated against along the way.

“Technologies increase the productivity of industries, groups and individuals to different extents, skewing the rewards of labour to those able to access and make use of the new technology, something visible in increasing skill premiums in labour markets.”

- Nicholas Davis

CEDA 2018 RESEARCH PROGRAM

How unequal? Insights into inequality is the first piece in CEDA's 2018 research agenda that will examine the benefits and cost of economic growth. Subsequent CEDA work in 2018 will examine community attitudes to economic growth and development; and a review of the purpose of economic development and development in Australia.

REPORT RECOMMENDATIONS

4. All levels of government should seek to address the affordability of housing for young Australians in line with the findings and recommendations of CEDA's August 2017 report *Housing Australia*.

This includes:

- Planning restrictions, particularly those imposed by councils, need to be relaxed and made more consistent, and housing density increased.
- Governments should further relax rules around the means testing of income received from downsizing in situations where it results in greater housing density.
- Governments should be encouraged to move towards charging an annual land tax in place of transaction taxes on housing.
- Governments should review the way in which pensions, superannuation and housing interact in providing support for Australians in the retirement phase.
- A larger component of capital gains should be taxed.

5. Given the time and resources that will be required to up-skill and transition workers who are displaced because of technological change, any short-term government assistance should be targeted at retraining and transitioning affected workers. It should not provide passive assistance to disrupted industries.

6. The government, in consultation with relevant stakeholders, should explore the adequacy of superannuation, pension and savings products for contingent workers, and whether action is necessary to ensure sufficient retirement income for these workers.

7. In encouraging ethical and unbiased algorithmic models, Australian governments and businesses should:

- Develop and adopt ethical principles and guidelines for this use of artificial intelligence, data mining and autonomous systems. These should align and build on international accepted principles; and
- Seek as much as possible to support emerging mechanisms for peer review and independent scrutiny of algorithmic models.

