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AS THE RICH GET RICHER : CHANGES IN INCOME DISTRIBUTION IN AUSTRALIA

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CEDA STUDY

Growth and Inequality: A Welfare Perspective* ■

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1. Introduction

"A rising tide lifts all boats," Perhaps not! What if the boats are docked in different harbours and the tides are uneven?

This is a message from the book, *Uneven Tides: Rising Inequality in America* (Danziger and Gottschalk 1993), which illustrates the uneven impact of change on individuals and families in the United States. Although not as extreme, a similar story applies to Australia and to many other developed countries.

The question of whether economic growth will lead to an improvement in the living standards of all, especially of those who are the bottom of the income distribution scale, has always been a debatable issue, but the evidence of the 1980s in Australia and elsewhere tends to support the concern that economic growth will not automatically reduce inequality and poverty and can indeed be accompanied by increasing inequality.

This article covers three areas. First, it asks whether increasing inequality matters. Then it discusses some of the factors that may have influenced the increase in inequality that occurred in Australia during the 1980s. It concludes with the challenge of meeting efficiency and equity objectives at the same time - of having growth with a reduction in inequality.

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2. Does inequality matter?

One outcome of the 1980s may have been a greater acceptance of inequality in Australia, the possibility that "there is no longer a consensus that increased inequality is a problem" (Southwell and Holbert 1994, p63).

There has been some support for greater inequality as a spur to economic growth for reasons which include:

- the promotion of investment through higher returns to capital (with higher income earners more likely to be owners of large amounts of capital);
- the reduction of unemployment through the lowering of wage rates at the bottom of the pay scale (with unemployment seen as an indication that wage rates are too high); and
- the achievement of increased international competitiveness, not only through lowering of wage rates at the bottom, but also by increases at the top for executive and professional salaries (Southwell and Holbert 1994).

If the consequent economic growth in turn reduces inequality in the long-term - or at least provides the tide to raise all incomes - then the short-term increase is seen to be the necessary medicine for the longer-term cure.

But there are at least three possible problems. First, there may be substantial costs which arise from the increase in inequality which have long term rather than short-term consequences, not only for individual people's lives, but also for our community and for economic development. The second problem is that economic gains may not eventuate as expected. The third is that inequality may not be reduced in the long term despite economic growth. There is some evidence that we should give serious attention to all these concerns. For example, Quiggin (1993) has cast doubt on whether the gains of the 'micro-economic reform' agenda will ever generate a significant net increase in employment.

The social costs that arise from increasing inequality can include:

- an increase in hardship and exclusion among the least well-off (exclusion meaning an inability to participate in the activities which make one part of a community);
- a loss of social cohesion; and
- an increased incidence of social problems.

Increased hardship

There is evidence that those who are at the bottom of the income distribution are experiencing exclusion and hardship because of their relative lack of resources, although there are differences of opinion about whether the poverty, of which these are features, increased over the 1980s. Estimates using the Henderson Poverty Line (which is generally considered by the Brotherhood to be the best way of measuring poverty in Australia) have found an increase in the number of people in poverty between 1972-73 and 1981-82, which was dramatic for families with children (Gallagher 1985), and a further increase in poverty between 1981-82 to 1989-90. However, studies which measure poverty by using the lower measures of 50 per cent of median equivalent family income as a standard, find little change in poverty over the 1980s (Southwell and Holbert 1994).

While there is not complete agreement about all of the kinds of families who are most likely to be in poverty, there is agreement that indigenous Australians and sole parent families have the highest incidence of poverty and that others are likely to include some families with children, especially those with a parent who is long term unemployed or jobless, young people who lack family support, and other single adults who are unemployed or outside of the work force, particularly those forced to live in expensive rental accommodation (Brotherhood of St Laurence 1994).

There has been a substantial increase in demands on emergency relief agencies which commenced with the recession (Mitchell 1992) but which has not abated with growth, and which is increasingly connected to the inability of many families to meet the cost of basic items such as gas, electricity and their children's educational expenses. Statistics from Victorian emergency relief providers reveal that 34 per cent of applicants cited inability to pay for such items and services as their reason for seeking assistance (Victorian Council of Social Service 1994). This is reinforced by the service and research experience of the Brotherhood of St Laurence (1995).

Recent research by the Brotherhood of St Laurence (Gilley and Taylor forthcoming) and by the Australian Institute of Family Studies (McDonald and Brownlee 1994) have examined aspects of the living standards of families with children and compared the circumstances of families on low-incomes with other families. The Brotherhood's Life Chances Study is a longitudinal examination of the impact of low-income and associated disadvantages on the life chances of 161 children born in inner Melbourne in 1990. The families were last interviewed in 1993. In the Brotherhood's study low-income was defined as below 120 per cent of the relevant Henderson Poverty Line. The Institute's research was a study of Australian living standards and the findings represented below are based on data from 1,768 families in four Melbourne areas:

Berwick, Box Hill, Werribee and Melbourne. The Institute's study defined low-income as the bottom 20 per cent of the income distribution and high income as the top 20 per cent.

Overall, the findings of both studies show that in comparison with other families, families on low-incomes were different in a number of ways.

1. They were considerably less likely to have been able to meet costs of children's education, clothing, the family health care costs (such as children's medicines) or leisure activities - a quote from a mother in the Life Chances Study provides an illustration:

   > We do not have money to buy toys, to let her take up piano lessons, to take her places. We have only enough money to pay for food. We will not have enough money to pay for her training and education.

   The Institute's study found that 56 per cent of low-income families had difficulties in meeting secondary school costs in comparison with 17 per cent of high-income families; 47 per cent of low-income families had difficulty with health costs (19 per cent for high income); and 69 per cent of low-income mothers could not afford leisure activities in contrast with 30 per cent of high-income mothers.

2. Low-income families were much more likely to have been in rental accommodation, to have little or no choice in selecting their housing, to have experienced housing problems and to be dissatisfied with their local area as a place to bring up children. One-third of the low-income families in the Life Chances Study reported serious housing problems in the past year (compared with 10 per cent of other families). Housing problems included poor conditions and high cost of privately-rented housing, overcrowding and lack of safety in some public housing, and overcrowding and stress in shared housing.

3. They were much less likely to be satisfied with their child's educational progress, but more likely to experience anxiety about the potential effect of family finances on the child's future.

4. It was more common for the low-income parents to feel worse-off in psychological terms and in terms of their personal well-being. Low-income mothers in the Life Chances Study were much less likely to describe themselves as happy than mothers in higher income groups (40 per cent versus 84 per cent of other mothers).

5. They were significantly more likely to report serious financial problems and serious disagreement with their partners. Some 45 per cent of low-income mothers reported serious disagreements with their partners (compared with 20 per cent of mothers not on low-incomes). Over half of these low-income mothers linked the conflict with stress related to financial problems and/or unemployment.

Exclusion

An increase in inequality which means that there are more people on low-incomes is likely to mean more people who do not have security, who have debts that cannot be paid, or who are unable to meet the costs of essentials such as education, health or housing. A further damaging consequence to individuals and families is a restriction in their ability to participate in society to the same degree as others - exclusion and stigma may result. This point deserves further elaboration, as in affluent societies such as Australia (Gilley & Taylor forthcoming) the level of absolute poverty may be low and the effects of inequality and poverty may be most felt in terms of exclusion and inability to participate.

The Brotherhood's Life Chances Study found that even at age three (the average age of the children at last interview in 1993), the children in low-income families were being excluded from some forms of participation in the wider world. There was much less use of paid child care by low-income families (only 38 per cent of low-income children compared with 80 per cent of not low-income). Although some mothers wished child care for their children as an opportunity for socialisation, they could not afford it. There was also much less use of play groups. Even more, the parents worried about their children's future and the effect of low family income on their education and training:

> She will not be able to get the things she wants, she will feel inferior. She will think we do not love her because we cannot afford the things she want.

One conclusion of the Institute's study was that for low-income families:

> The children are usually still at school despite the hardships suffered by families in keeping them there. Austudy plays an important part in this. In terms of our measure of disadvantage, older teenagers in low-income families appear to be in the same position as those in better off families. Low-income however, restricts aspirations for university education for children from low-income families (McDonald & Brownlee 1994, p 59)

While the Institute's study has some mixed findings in relation to secondary school participation, it is important to note that its findings relate to Victoria in 1991 when retention rates for secondary school were very high. Since that time there has been considerable changes to the funding and delivery of education in Victoria, as well as for kindergartens. These changes have raised concern about increases in

costs, and a possible reduction in the quality of education which may impact most on families on low-income (Marginson, 1995).

Other social and economic problems

Less equal incomes can in turn lead to a substantial reduction in equality of opportunity for large numbers of people. There is strong evidence that both health status and educational attainment is influenced by socio-economic status, with children in low-income families more likely to have lower educational outcomes and with people on lower incomes more likely to experience serious health problems (National Health Strategy 1992, Williams 1987). Because of the importance of both health status and educational attainment in influencing a person's economic future, the impact can be a substantial compounding of disadvantage in the longer term. It can also have serious economic consequences.

Another effect of inequality can be a loss of social cohesion, particularly if inequality is accompanied by polarisation and a reduction in the numbers in the middle. McDonald and Brownlee (1994) describe the impact of the reduction of numbers in the middle as the erosion of a feature of life which at present provides both an incentive for the bottom and a buffer for the top. Loss of cohesion, and increased social instability, could also undermine one of Australia's key competitive advantages in comparison with other countries, and thus have adverse economic consequences. Adverse economic consequences can also occur because of the lowering of education, skills and health levels which can result from increased inequality.

The Brotherhood's Life Chances Study (Gilley 1993) points to one aspect of the problem here - a trend to polarisation of the employment situations of families with children. The wives of unemployed men in the Life Chances Study were much less likely to be in paid work than the wives of employed men. Mothers who were parenting alone with young children were also much more likely to be unemployed or jobless. The mothers who increased their participation in paid work following the birth of their child generally had partners who were also employed. There were thus more families with no parents in the paid work force and more families with both parents in the paid work force. This reflects an Australian-wide trend.

3. Factors influencing the increase in inequality

The trend to increased income inequality in the 1980s may have commenced in the mid-1970s and is very likely to have continued to at least 1993 (Saunders 1992b, Harding 1994a).

A number of different studies all point to an increase in income inequality between individual Australians and between Australian families over the 1980s (Saunders 1994; Harding 1994; Borland and Wilkins 1994a; McGuire 1994; King et al 1992). The increase applies to a number of different ways that income is measured, but has been greatest for 'market income' (ie. income from wages and salaries and from capital) and it is least marked when income from all sources (such as security payments) is included and the impact of taxation and family size is taken into account (Harding 1994a).

Harding (1994a) found that between 1981-82 to 1989-90 the top 10 per cent of families increased their share of income by 1.7 percentage points at the expense of the remaining 90 per cent of families. Saunders (1992a) found also that over the 1980s, more income went to very high income earners at the expense of low and middle income earners.

The growth of unemployment and of long term unemployment is a major reason for the growth of inequality and poverty over the past two decades. Unemployment is unevenly spread throughout the population

and more likely to be experienced by those who are low-paid and low-skilled (Saunders 1992b). However, inequality is not solely a matter of unemployment. There are three other factors which influenced the extent of change in inequality of living standards in Australia.

Increased inequality of wages and salaries

First, there has been an increase in inequality in wage earnings amongst employed people, both as a result of the increase in part-time and casual work but also because of the increasing disparity in wages of full-time workers, both male and female (Saunders 1994, Gregory 1993, Harding 1993). The increase in inequality amongst full-time wage earners was greater for males than for females. There are differences in interpretation about what has happened, especially for males, and these differences relate most to the 'disappearing middle' hypothesis put forward by Gregory (1993). According to this view there has been a decline in the number of median earning jobs and a large growth of jobs which are low paid as well as for those which are highly-paid. Others (Belchamber 1995) contest this view. There is however more agreement that an important reason for the increased inequality amongst full-time wage and salary earners was the much larger increases in the wages and salaries of higher income earners (Borland and Wilkins 1994), as well as a growth in employment above the median wage (Harding 1993).

There is also strong evidence that there has been a real decline in the wages of those at the bottom of the wage and salary distribution, especially for men, with the decline probably occurring most in the late 1970s and in the period after 1985 (Borland and Wilkins 1994). Using information from a submission by the Department of Industrial Relations, the Committee on Employment Opportunities (1993, p39) concluded that there had been a fall in earnings in real terms of low-paid workers, a trend which has been "apparent since 1985 and is most pronounced for low paid men".

This trend to greater inequality in the earnings of full-time, full-year workers has also occurred internationally and has prompted an analysis of the reasons, with a recent study concluding that technological change and the internationalisation of world trade are likely to have been of greatest importance. Technological change has increased the income returns from education and skills (Danziger and Gottschalk 1993, Gottschalk and Joyce 1992), and the internationalisation of world trade has placed further downward pressure on the wages of the less skilled and upward pressure in the salaries of professionals and executives (Southwell and Holbert 1994). Other factors such as demographic changes, de-industrialisation (involving a decline in manufacturing jobs and a growth of jobs in the service sector) and changes in the occupational structure of employment are likely to have been less important (Southwell and Holbert 1994).

There are some tentative signs of a growth of poverty amongst full-time, full-year wage earners over the 1980s in Australia (Saunders 1994, Gilley 1993). Harding (1994b) estimates that in 1994 there were around 934,000 people living in couple families with children with incomes below the Henderson Poverty Line. Around 25 per cent of these families had at least one parent who was working full-time, and of these, around 140,000 or 60 per cent were not self-employed. The Brotherhood's Life Chances Study found that there was a small group of families (17 per cent) with a parent in the paid workforce but still on incomes below or near the poverty line. The issue here was not low wages associated with part-time work, but low-paid full-time employment of the breadwinner. Most of the full-time paid jobs of such families in the study provided a weekly wage between $270 and $350 (in 1991 and 1992). There was a range of occupations but most were in manufacturing (Gilley 1993).

There was a definite increase in poverty amongst full-time full-year workers in the United States over the 1980s (Danziger 1988). Thus, even

if such low wages contributed to lower unemployment in that country, it also meant that employment was a less sure route out of poverty. In their comparison of ten OECD countries, Castles and Mitchell (1994) found that the United States had the highest incidence of the working poor with over 13 per cent of full-time workers having incomes below the poverty line. They then comment that in the United States:

> The absence of all but the most vestigial of in-kind social safety-net may guarantee some kind of employment for all those who are willing or who have no choice but to accept market clearing wages, but the cost is the still more rapid emergence of a highly inegalitarian dual labour market, in which a declining part of the working population enjoy well-paid and protected jobs and an increasing minority (perhaps eventually a majority) endure poorly paid and highly insecure employment conditions. (Castles and Mitchell 1994, p 214).

As a result, the experience in the United States has been that most of the poverty-reducing effects of growth in average incomes have been offset by increased inequality, and that without substantial policy change, it is unlikely that economic growth will significantly reduce poverty or inequality in the near future (Danziger 1988). The rising tide will not, it is thought, be enough in the USA.

Inequality between families

Second, there have been changes in the relative position of different family types. The types of families who gained most over the 1980s were high income families and non-aged couples without dependent children, as well some with children. Other families lost and were more likely to be concentrated in the bottom decile at the end of the decade. They included couples with children as well as sole parent families (Sanders 1992a; Harding 1993). One of the effects of these changes is that "Increasingly income has been concentrated in Australia in the hands of people with few or no children, while those experiencing financial difficulties are increasingly those with children (both one and two parent families) (National Population Council 1991, p. 91 cited in van der Schoot 1994).

However, the increase in the earnings of wives that occurred as a result of increased participation of married females during the 1980s actually reduced the growth of inequality between families (Saunders 1993, Harding 1993). Thus, the growth in the number of two-earner families was not the key factor which increased family inequality in Australia. Rather, the main reason was the increase in inequality of husbands' earnings which resulted from increased unemployment and increased inequality of wage and salary earnings of males. Another contributing factor was the increase in inequality in earnings from capital.

Government payments, taxes and services

Third, similar trends in inequality have been observed in many other developed countries.

> There is strong evidence that inequality in individual earnings grew over the 1980s in a number of OECD countries including Canada, France, the Netherlands, Sweden, the United Kingdom and the United States (Southwell and Holbert (1994), p 65).

However, the increase in inequality has not been universal and the extent has varied between countries (Saunders 1994). One key factor in moderating the extent of the income inequality in Australia, and in contributing to the different rate of growth of inequality between countries, has been action by governments, particularly in the form of income support payments and taxation (Fritzell 1993).

In Australia, increases to the level of payments to unemployed and low-wage families with dependent children was important in protecting their position over the 1980s. The effects of changes to the tax system on income inequality is less clear-cut. Some changes, including the decline in marginal tax rates at the upper end and the introduction of dividend imputation, benefited high income earners most. Others, including the taxation of some capital gains and the introduction of the fringe benefits tax, probably reduced the growth of inequality (although the final impact of the fringe benefits tax is not certain). It is clear that the combined impact of tax and income security changes would have reduced the growth of income inequality and poverty in Australia (Whiteford 1994).

Services provided by government have also been critically important in substantially reducing the impact of increased income inequality on the distribution of living standards in Australia. Saunders (1994) shows that access to government-provided or subsidised services, such as education, housing and health, was an extremely important protective factor for people on low-incomes, at least in the period between 1984 and 1989.

4. Meeting Efficiency and Equity Objectives Together

The reason for discussing the fundamental sources of increased inequality is to stress the need for an equally fundamental response.

Inequality is not a problem that welfare measures can fix. Rather it demands that we constantly aim to improve both equity and efficiency in Australia in coming years.

The most successful economies in the long term are those in which the optimum number of people maximise their potential to participate and contribute to economic and social life. It is possible to have both a more efficient and a more equitable economy if we choose our strategies carefully. Indeed, the achievement of one can contribute to the achievement of the other. The contributions of economic development to equity and social justice is widely appreciated, especially since we have experienced large-scale unemployment, but the contribution of social justice to economic development is not so appreciated. As mentioned previously, social stability will be undermined by unacceptable inequality, yet social stability is one of Australia's key competitive advantages. The improvement of education, skills and health levels of disadvantaged groups can also have a substantial impact on our economic performance.

It is extremely important to understand that, given international factors, we can no longer assume that economic growth will automatically translate into a substantial reduction in inequality. Sustained economic growth is still an essential precondition for both a general improvement in living standards and the avoidance of a significant polarisation of incomes. Reducing unemployment is the critical priority but the way in which we go about it is also important. Australia's capacity to combine economic and employment growth with the necessary reduction of poverty and inequality will depend on the way we promote growth, and the way in which we combine macro-economic policies with taxation and social expenditure policies. We must especially avoid high rates of interest and large cuts in government in social expenditure. There are several points to emphasise.

First, the CEDA vision (CEDA 1994) identifies the need to improve Australia's savings and investment performance. There should be a special focus on improving the quality of public and private investment, as well as the quantity. Without some direction and assistance (or the very least the removal of distortions), we will not have sufficient development of industries capable of generating export earnings or employment opportunities. Strategies for investment over the next ten years must avoid the mistakes of the 1980s, when there was a net decline in public investment and when the increase in private investment was overwhelmingly concentrated in housing and property, with only a minor increase in plant and equipment. While some of the factors responsible for these mistakes are not currently operating, others including distortions in the taxation system involving deficiencies in the capital gains tax and the tax treatment of debt, still remain.

Second, the CEDA vision also correctly points to the need to improve education and training in order to sustain growth. The priority must be to improve outcomes for those currently disadvantaged, given the lower educational and training outcomes that currently apply to people of lower socio-economic backgrounds and the increasing importance of education and training in terms of capacity to acquire a job which is well paid.

Third, we must pay attention to the type of growth we promote as this will be extremely influential in determining the distribution of income, resources and opportunities. To reduce inequality we need to foster the type of growth that will generate secure well-paid employment. Given worldwide trends, this can no longer be assumed to occur without specific attention to the composition of growth.

Fourth, we must not reduce our efforts to help unemployed people to obtain jobs, despite the high level of job growth in recent months and the reduction of unemployment. At around 9 per cent, unemployment is still unacceptably high. Through *Working Nation*, the government sought to improve the distribution of unemployment. The Job Compact seeks to systematically address the problem of long-term unemployment - and the risks that new jobs will bypass those people now unemployed - and it goes someway to lowering the barriers which discourage unemployed people from taking as much advantage as possible from the jobs that do emerge. It is critical that we enhance these initiatives, not reduce them, as we did during the 1980s with the result that high levels of unemployment prevailed for most of the second part of that decade. The quality of assistance given to unemployed people is especially important and must be improved.

We especially need to look more closely at the situations of those families with no parents in the paid workforce. We need to devise more effective ways of assisting the wives of unemployed men to obtain work. *Working Nation* contained some innovative proposals to achieve this, but we will need to go further, especially for wives with children.

Fifth, we will need to ensure that opening up public enterprises to competition, as envisaged by Hilmer, does not translate into reduced access for disadvantaged people to essential services such as gas, electricity, water and transport. As mentioned previously, there is disturbing evidence that in Victoria at least, the restructuring of utilities has resulted in hardship. There has been a marked rise in electricity disconnection and water restriction. Price increases have made it more difficult to meet the costs of bills, particularly for low-income families. Electricity, gas and water bills - and now schooling costs - are major reasons why people are forced to go to emergency relief agencies.

Sixth, we must be mindful of the importance of government action in the form of income supplements and services to reducing inequality in living standards and providing protection for all, especially for the large numbers of people who will be either unemployed or on low wages for some time. We will need more creative combinations of work and welfare in the future. However, insufficient revenue has reduced the capacity of governments to provide this protection at a time when it is most needed. Over the past eight years social protection has been achieved by a run-down of public infrastructure and asset sales, greater targeting of services and support to those at the lower end, a reduction to those in the middle, and increased efficiency in provision. There are limits to this strategy with undesirable consequences for both growth

and equity if we take it much further. For example, we have to ask how much we can cut education without affecting the quality of outcomes. There is also additional pressure placed on the middle by tighter targeting of health and educational assistance.

FitzGerald (1993) first identified a long-term erosion in Australia's revenue as contributing to the decline in public saving in Australia. The level of Commonwealth revenue in Australia is now at its lowest level for almost twenty years, having peaked at 27.8 per cent of GDP in 1986-87 and thereafter declined. It is projected to be 23.8 per cent in 1997-98, well below the average figure for the 1980s of 26.5 per cent, a loss of revenue equivalent to $15 billion in current dollars. The current and projected figures indicate that, in contrast to the upturn in revenue following the 1980s recession, the government is anticipating little revenue growth in the recovery period following the 1990s recession (Australia 1994, p.4.33). Such revenue erosion will undermine the government's capacity to pursue sustainable economic development and social justice simultaneously.

Unless we are prepared to re-examine this trend, as a country we will be increasingly unable either to moderate the trend to inequality or provide sufficient protection for the living standards of those Australians most adversely affected by the winds of change and this will also place significant constraints on our economic development.

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