



Slicing the Cake or Spreading the Crumbs? Economic Inequality and Social Disadvantage in Australia

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- After decades of neglect, inequality and poverty have emerged as **issues of community concern** that threaten social cohesion and require a (comprehensive) policy response
- Many Australians feel that **they have missed out on the promised benefits from economic reform** while others (at the top) have gained enormously
- This presentation will review available evidence on: (a) the **measurement** and trend in income inequality; and (b) the **nature and extent** of poverty and social disadvantage
- Other conference papers will focus attention on what needs to be done
- Inequality and social disadvantage are **complex and multidimensional phenomena** that raise important objective (measurement), normative (desirability) and response (policy) issues
- While measurement is important, so too is the **underlying conceptual basis** that determines what is measured and how results are interpreted
- **Differences exist** over ‘the facts’ (what has happened), the underlying causes (why has it happened?), the consequences (does it matter, and why?) and responses (what can be done?)
- **Open debate is needed** to close the gaps between evidence, interpretation and action and to understand the basis for community concern

United Nations:

“Inequalities based on income, sex, age, disability, sexual orientation, race, class, ethnicity, religion and opportunity continue to persist across the world, within and among countries. **Inequality threatens long-term social and economic development, harms poverty reduction and destroys people’s sense of fulfillment and self-worth**” (UN Background Paper to the Sustainable Development Goals, SDGs)

SDG Goal 10, Target 1: “By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average”

World Bank (*Taking on Inequality*, 2016):

“Today we face a powerful threat to progress around the world: Inequality. High income inequality is hardly new in human history. But **today, inequality is constraining national economies and destabilizing global collaboration** in ways that put humanity’s most critical achievements and aspirations at risk. This includes the goal of ending extreme poverty by 2030”

OECD (*Divided We Stand*, 2012):

“Rising income inequality ... can **jeopardise social mobility**: intergenerational earnings mobility is low in countries with high inequality ... and higher in ... countries, where income is distributed more evenly ... Inequality can also **fuel protectionist sentiments**. People will no longer support open trade and free markets if they feel that they are losing out while a small group of winners is getting richer and richer”

European Commission, 2017:

“**There are always people who feel that society is unfair, but today, there are simply too many of them.** Why is this? What has gone wrong? How can our political leaders fashion a set of policies which will deliver a society which sufficient numbers of people at least believe to be sufficiently fair?”

UNICEF (*Report Card 14*, 2017):

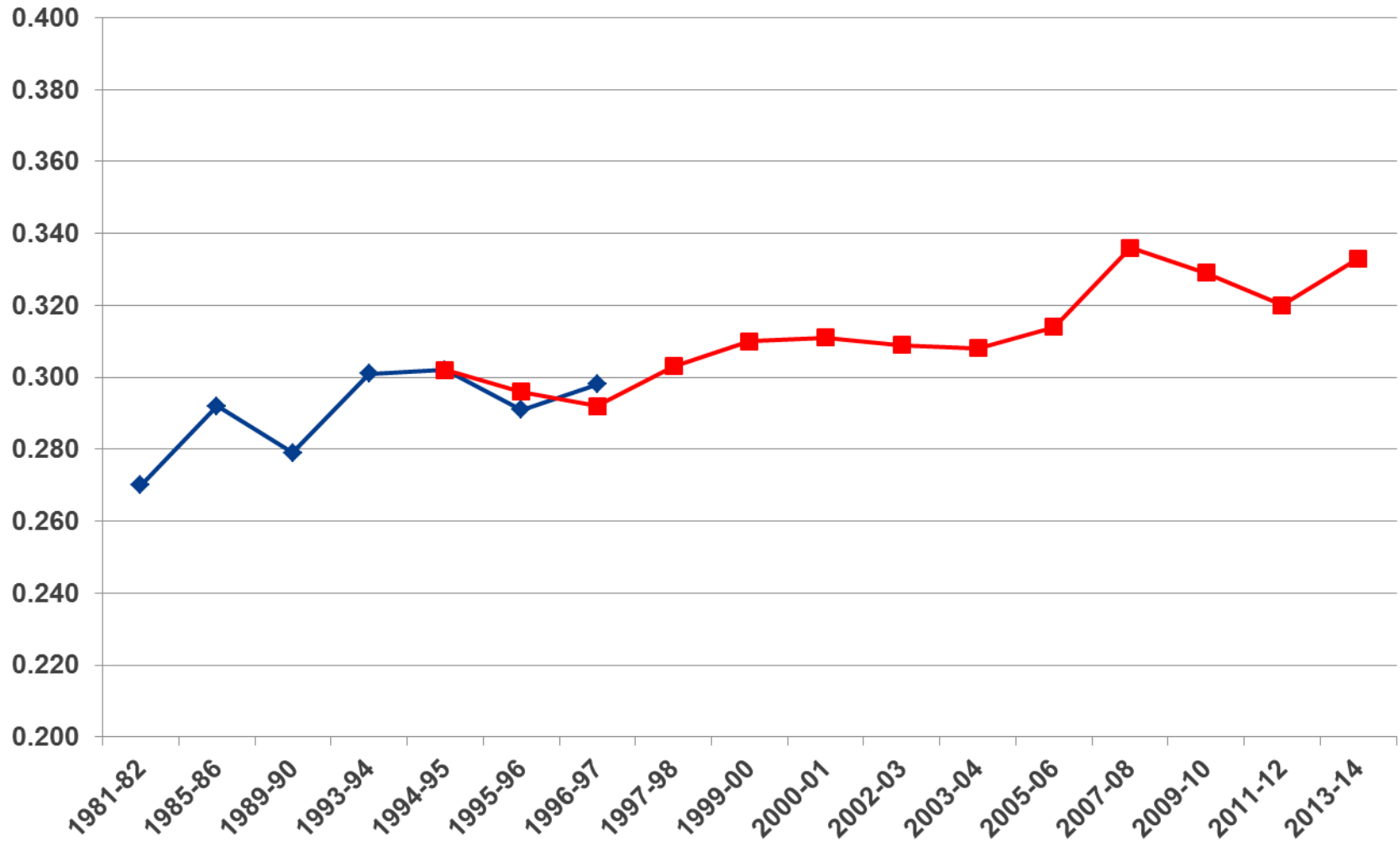
“Recent evidence suggests that **children growing up in countries with less equality tend to have worse outcomes in education, health and life satisfaction** ... in countries with higher income inequality, children’s family income plays a larger role in determining their access to educational opportunities and resources”

- **These are not alternative goals:** they are inter-related and both are important
- “Inequality of outcome among today’s generation is the source of the unfair advantage received by the next generation. **If we are concerned about equality of opportunity tomorrow, we need to be concerned about inequality of outcome today**” (Atkinson, 2015 in *Inequality: What Can be Done?*)
- **Education** is critical here
- The European Commission has noted that:
 - ❖ Growing up in a family where the father has a low level of education is positively associated with his children reporting poor health
 - ❖ On average across European countries, those who have at least one tertiary educated parent are twice as likely to go on to tertiary education themselves. **This ratio varies greatly between countries**, from over 4 in Italy to just over 2 in Norway and Sweden to just over 1 in Finland
- The OECD 2014 *Education at a Glance* report shows that a person aged 20-34 with at least one tertiary educated parent was **9.5 times more likely** to participate in tertiary education themselves **in Italy and Poland**, but only **1.1 times more likely in South Korea** and **1.4 times more likely in Finland**. Again, the cross-country variation is very large
- **Australia** ranked 12th out of 22 countries, with a ratio of 4.3, slightly better than Estonia (4.7) but slightly worse than Spain (3.9). **We are middling in terms of our performance, at best**

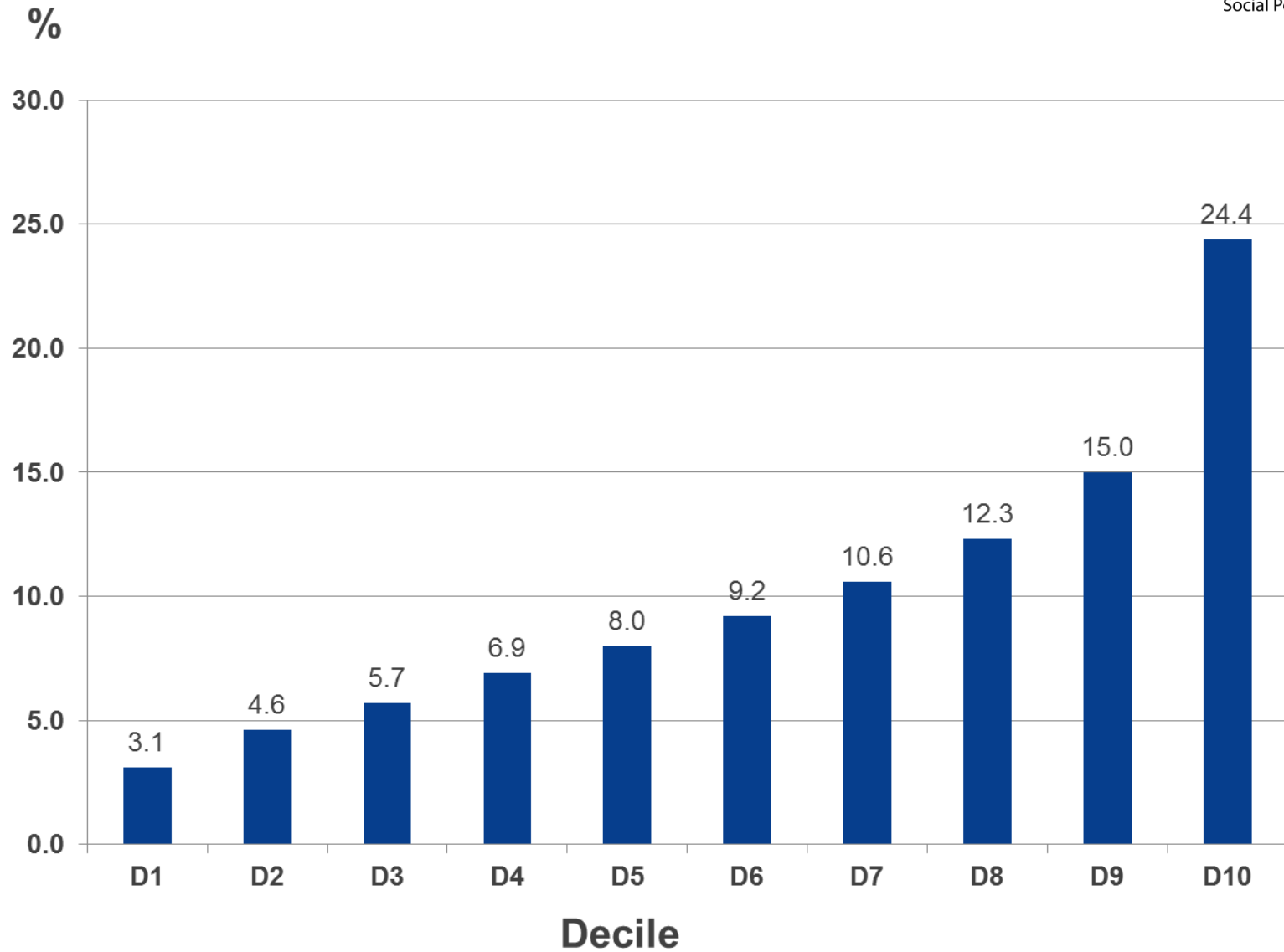
$$G(x) = 0.333$$

[The Treasurer may be right about G, but not about x!]

Has the Income Distribution Become Less Unequal? (Gini coefficients)

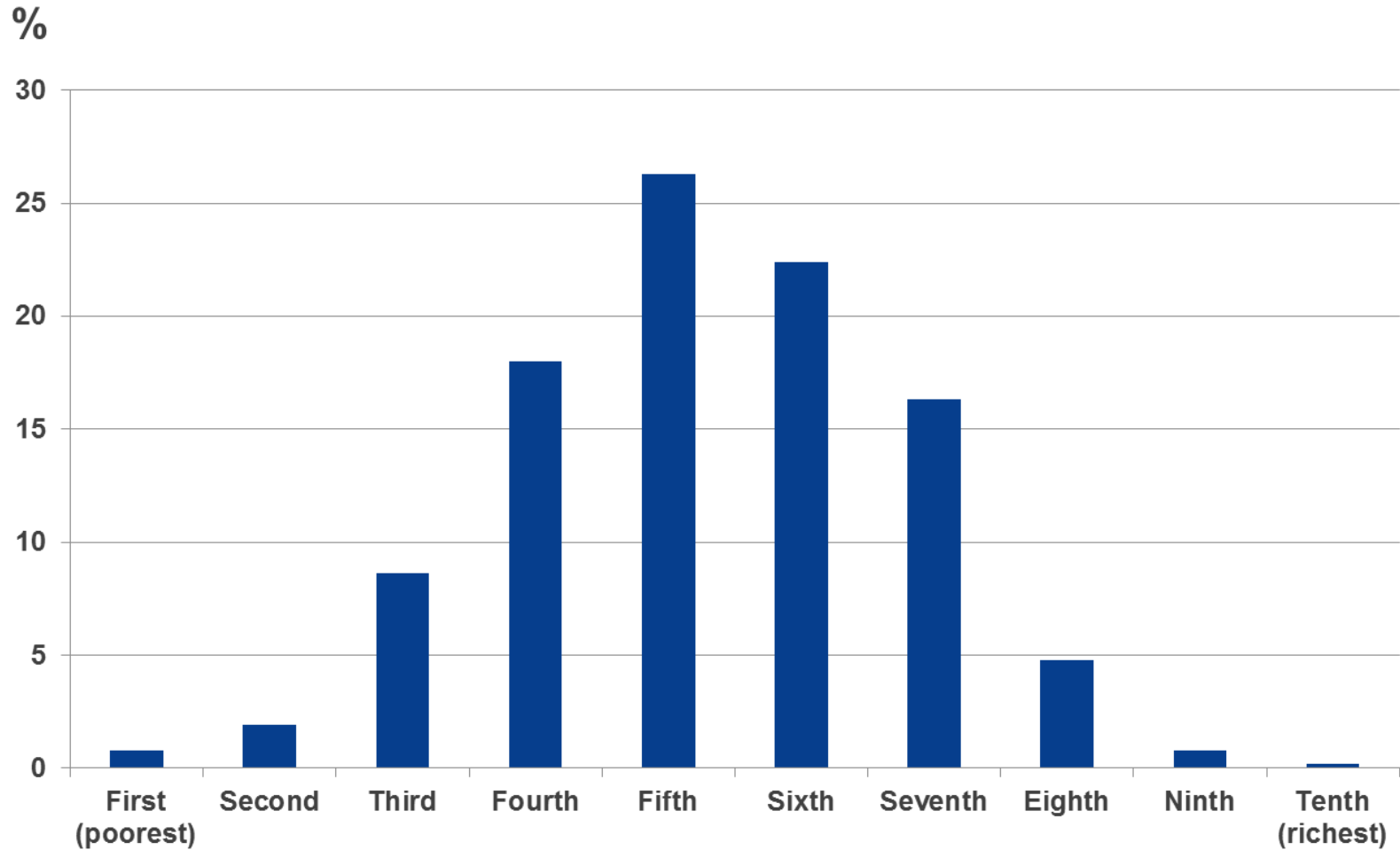


The Income Distribution in 2011-12 (decile shares)



Where Do I Think I Fit in the Income Distribution (in 2010)?

Some people are rich, some are poor and others are somewhere in between. Thinking about your own INCOME how do you think that you compare with other Australians?

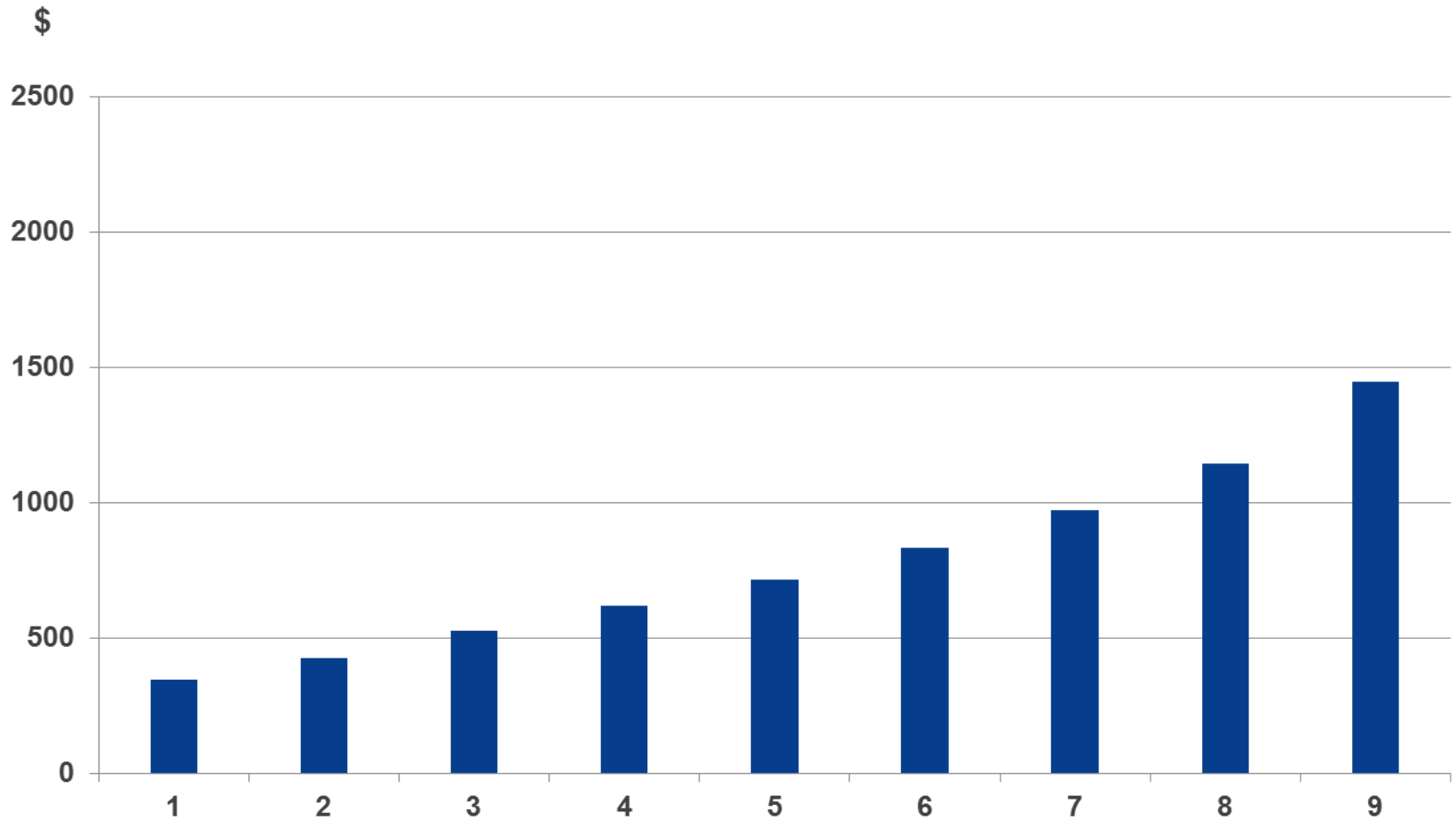


Where Do I Actually Fit in the Income Distribution?

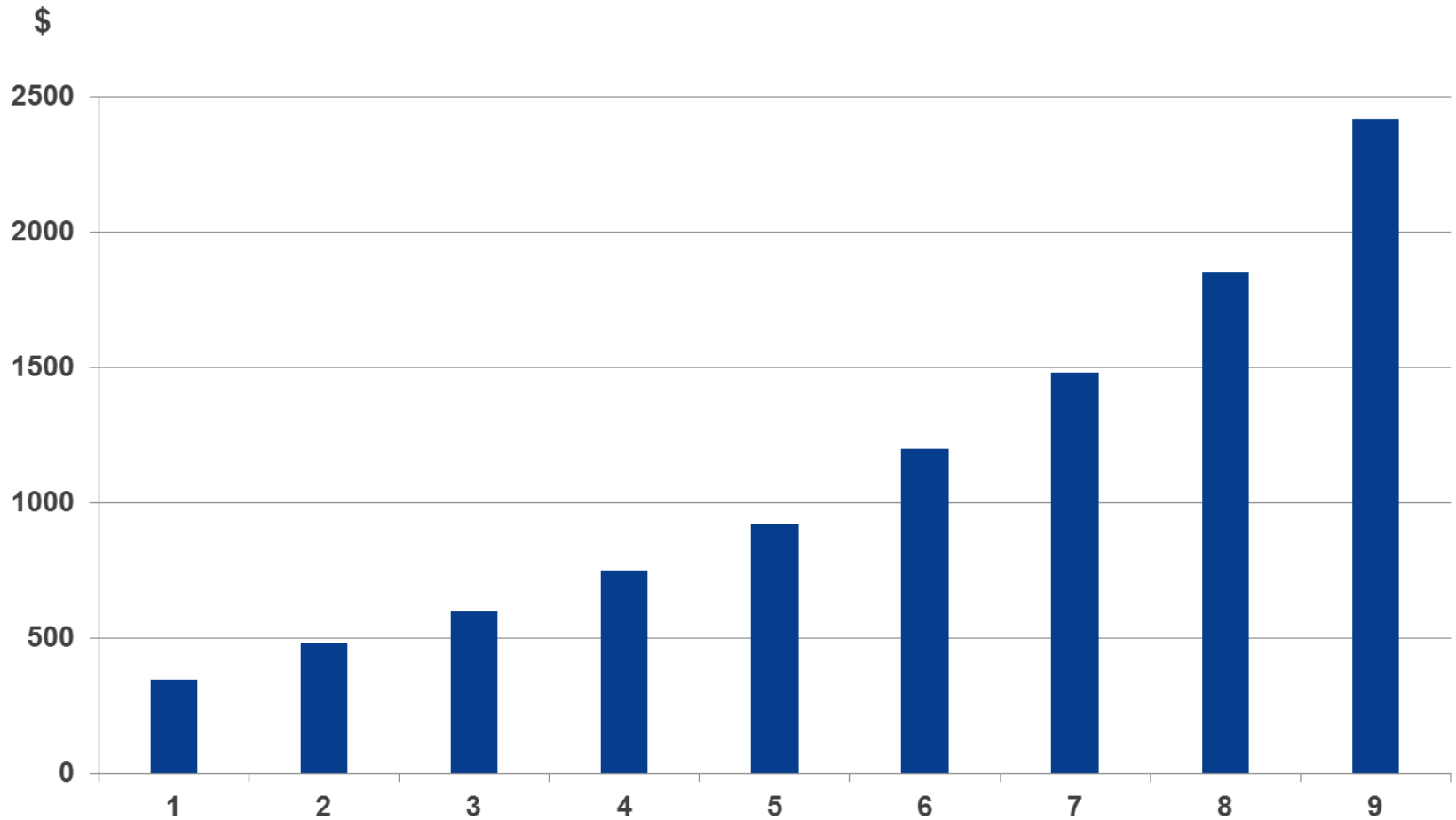
Deciles of EDY	Equivalised take-home dollars (EDYs)/week:		Actual take-home dollars/week:			
	Upper Border, 2011-12	Upper Border, 2016-17	Couple	Couple, 1 child	Couple, 2 children	Couple, 3 children
Decile 1	383	422	633	760	886	1,013
Decile 2	477	526	789	947	1,105	1,262
Decile 3	584	644	966	1,159	1,352	1,546
Decile 4	692	763	1,144	1,373	1,602	1,831
Decile 5	795	876	1,314	1,577	1,840	2,102
Decile 6	911	1,004	1,506	1,807	2,108	2,410
Decile 7	1,052	1,159	1,738	2,086	2,434	2,782
Decile 8	1,244	1,371	2,056	2,468	2,879	3,290
Decile 9	1,559	1,718	2,577	3,092	3,608	4,123
Decile 10	-	-	-	-	-	-

Green = over \$100,000pa; blue = over \$150,000pa; red = over \$200,000pa

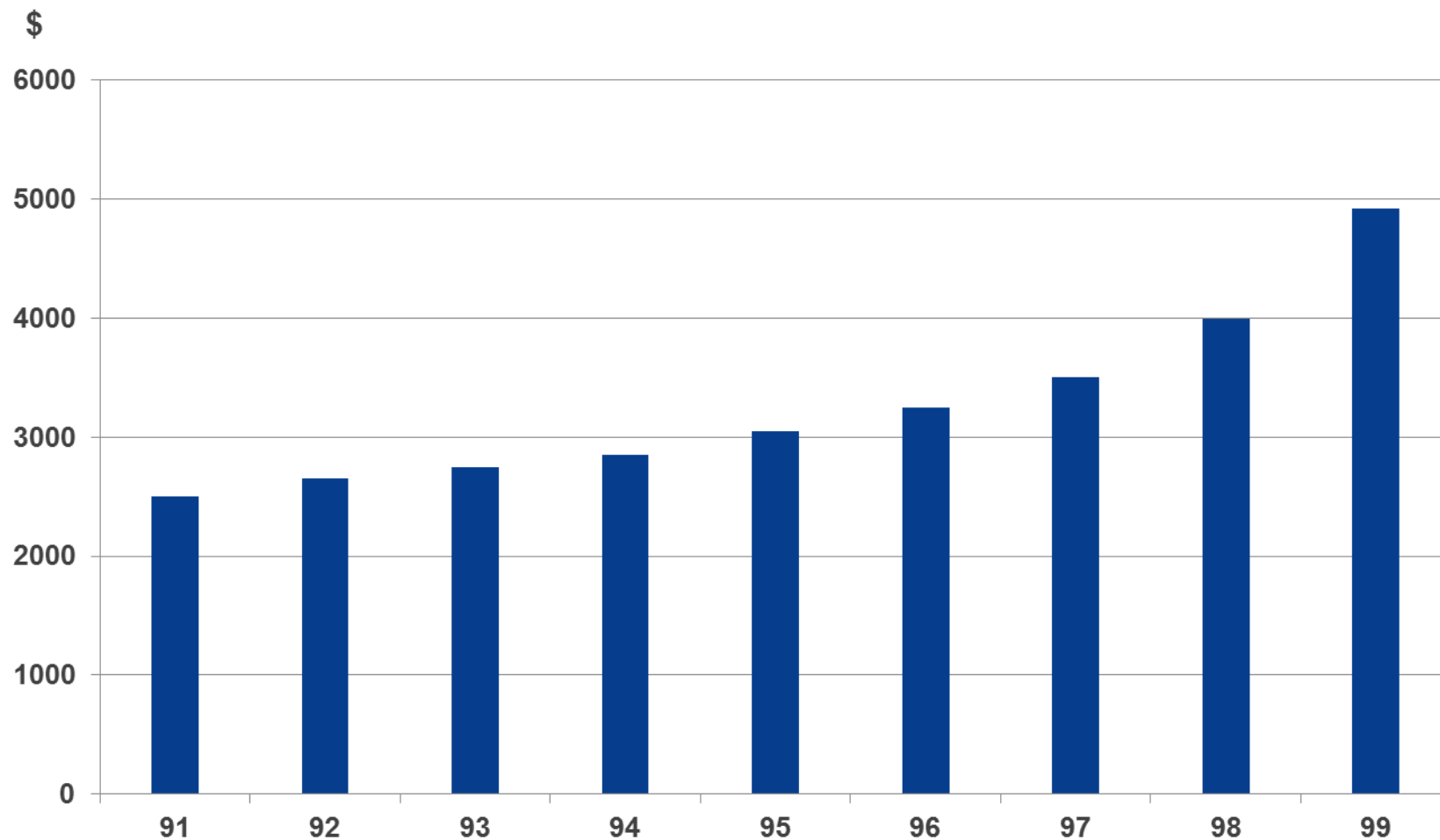
The 'Official' (ABS) Income Distribution in 2009-10 (decile cut-offs, in weekly equivalised individual after-tax dollars)



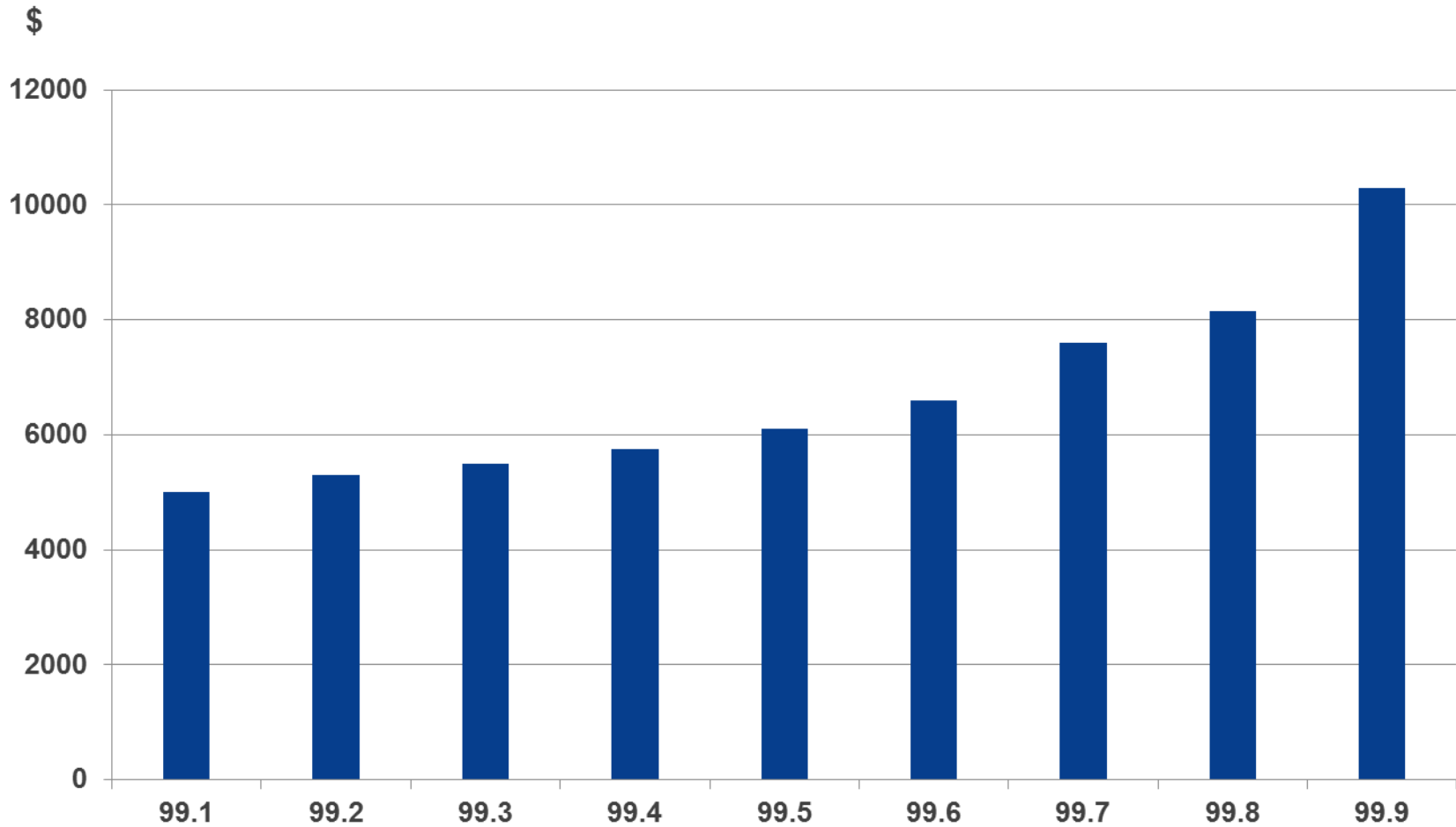
How Actual Incomes Were Distributed in 2009-10 (decile cut-offs , in weekly actual household after-tax dollars)



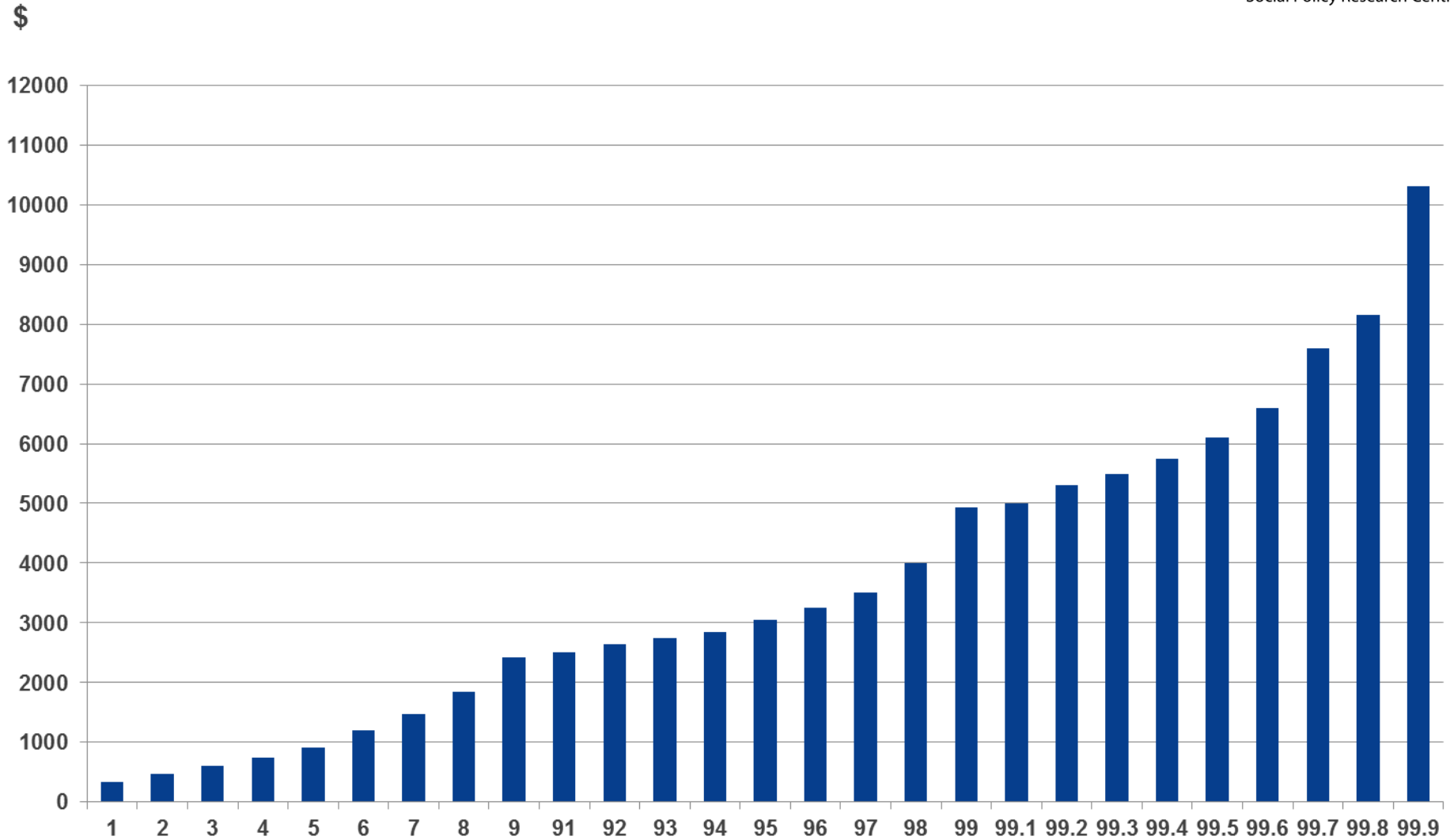
Taking a Closer Look at the Top Decile



Taking an Even Closer Look at the Top Percentile



Pulling It all Together (using a common income scale)



How Big Are The Giants?

Percentile	Height (mtrs.)	Height (ft.)
P50	1.69	5' 7"
P90	4.50	14' 6"
P95	5.62	18' 4"
P99	9.19	30' 1"
P995	11.25	36' 8"
P999	19.31	63' 3"

Note: Median height of Australian adults in 2011-12 was **1.69 metres.**

More on the Gini Coefficient

- The Gini coefficient collapses the variation in income among the entire population (almost 9 million households) into a single statistic. **We expect a lot from that statistic!**
- The focus is on **vertical inequality** (inequality between rich and poor)
- In theory, the Gini can vary between 0 (complete equality, where everyone has the same income) and 1 (complete inequality, where one individual has all the income)
- In practice, it varies in a narrow range from 0.246 (in Iceland) to 0.459 (in Mexico), (OECD data for 2014) that covers **just over one-quarter of the total range**
- **It takes a lot of redistribution to shift the Gini**
- Australia's **Gini of 0.34 compares with the US (0.39), the UK (0.36) and New Zealand (0.35)** falling between Japan and Portugal
- In that year, Australia ranked 23 out of 37 in terms of its Gini coefficient, or one-third from the bottom of the OECD income equality ranking. **Again, we are middling in terms of our performance, at best**
- The fact that the Gini varies so much across OECD countries facing similar economic and social conditions implies that **the level of inequality is a policy choice for governments**

The Size of the Cake....

- In 2013-14, the ABS *Survey of Income and Housing* (SIH) sample is ‘weighted-up’ to represent around **8.8 million households** containing **22.7 million individuals** (adults and children)
- The average income per individual was \$998, so that total income across the population was \$22.6 billion on a weekly after-tax (disposable), need-adjusted (equivalised) basis
- In other words, each one per cent share of EDY represents **\$226 million of weekly EDY**

...And Slicing It Up

- If the income share of the top quintile in 2013-14 was **1 percentage point lower** (i.e. equal to 39.8% rather than 40.8% - still higher than in 2003-04) and this amount (\$226 million) was distributed equally among the 18.2 million individuals in quintiles 1 to 4, it would represent an average of around **\$12.4 per person per week or \$50 a week for a household of 2 adults and 2 children**
- If the **1.4 percentage point increase** in the income share of the top quintile between 2003-04 and 2013-14 (\$316 million) was redistributed equally among the bottom 80% in 2013-14, it would provide an increase of just under **\$70 a week for the (2 adult, 2 child) household**
- These hypothetical calculations illustrate **how much income has been foregone by those who have missed out** at the expense of those who have gained most from recent distributional shifts

- The claim that; ‘There will always be relative poverty as long as there is inequality’ is incorrect’: **Inequality exists when some people have less than others, while poverty only exists when some people have less than they need**
- Focus is more on **horizontal inequalities**, reflected in differences in the poverty rates (or risks) facing social groups defined on the basis of age, family type, ethnicity, housing status, etc.
- The conventional approach to measuring poverty using a **poverty line** is open to criticism because low-income does not always translate into poverty (e.g. because of access to wealth), while a higher income may not prevent poverty if needs are high (e.g. because of a disability)
- Recent developments in poverty measurement have taken two main forms:
 1. Focusing on whether the **living standards actually experienced are unacceptable** rather than whether income is below a poverty line
 2. Acknowledging that **poverty is multi-dimensional** and cannot be adequately captured using a single metric like income
- The rest of this presentation will provide an example of these developments using the ‘relative deprivation’ or ‘consensual approach’

- **Poverty exists when people lack the resources to achieve an acceptable standard of living, identified when they do not have and cannot afford items regarded as essential ‘for all Australians’ by a majority in the community**
- Social surveys are conducted to establish the degree of support for items being essential and **people are asked if they have each essential item and if not, whether this is because they cannot afford it**
- **Deprivation exists when people do not have and cannot afford items regarded as essential by a majority**
- The degree (or severity) of deprivation can then be measured using **a threshold** (e.g. deprived of at least 3 essential items) or a **deprivation score** (based on the number of deprivations)
- Surveys conducted by the SPRC in 2006 and 2010 have shown that the approach is capable of producing robust findings that **shed new light on material deprivation (and social exclusion)**
- The items identified as essential in these surveys formed the basis of a special deprivation module introduced for the first time in **the HILDA survey in 2014**
- The plan is to include this module every four years in future HILDA surveys

Deprivation Rates in 2014

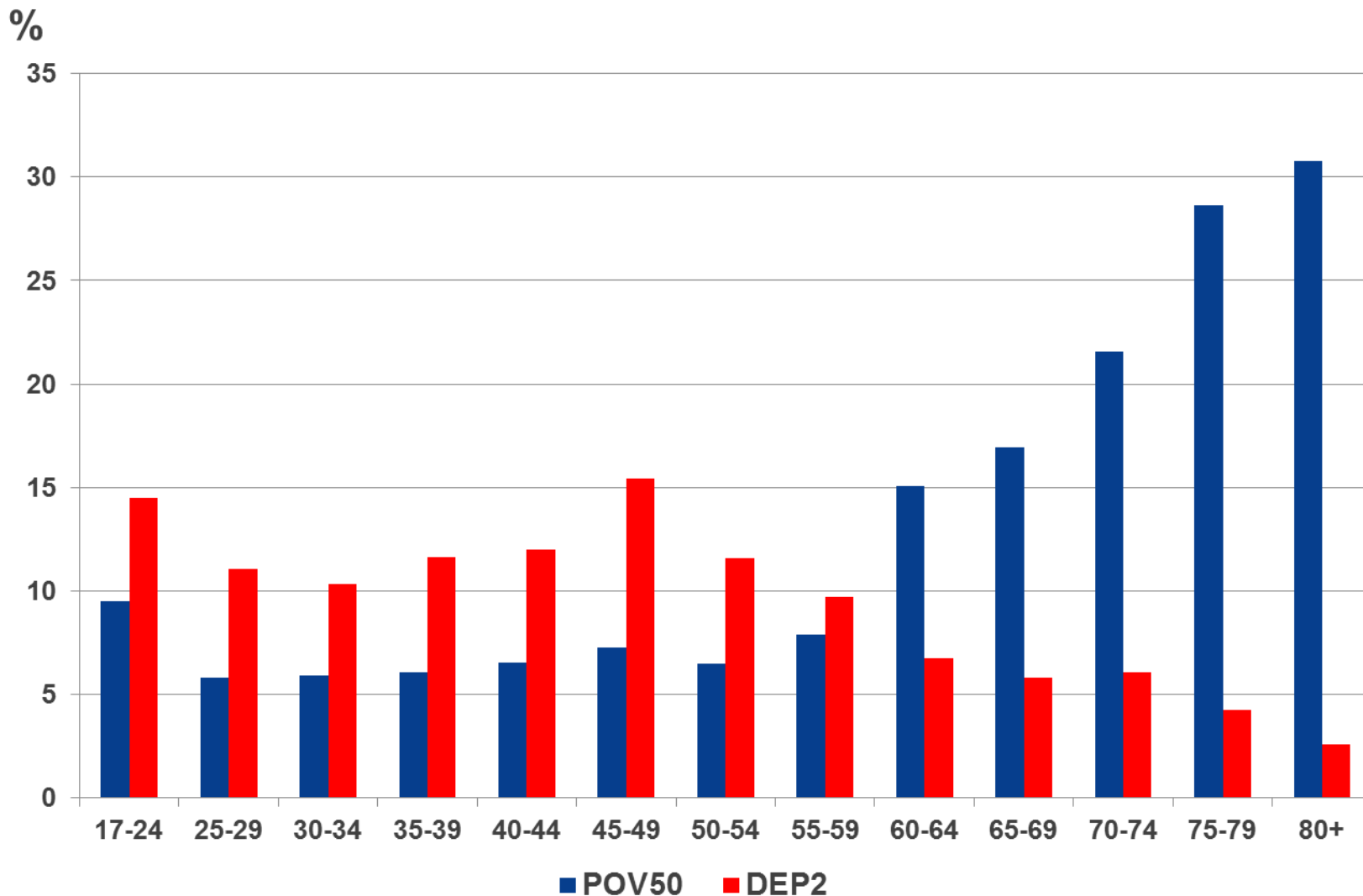
Item	Deprivation rate (%)	Item	Deprivation rate (%)
Warm clothes and bedding for when it's cold	0.1	A roof and gutters that do not leak	2.3
Medical treatment when needed	1.0	Getting together with family or friends for a drink or meal	2.4
Can buy prescribed medications	0.5	Furniture in reasonable condition	0.3
A substantial daily meal	0.1	Keeping one room adequately warm	0.7
Dental treatment when needed	4.9	Up to \$500 in emergency savings	11.3
A decent and secure home	0.3	A separate bed for each child	0.8
Yearly dental check-up for children	3.3	A washing machine	0.3
Children can go on school trips and events	2.1	Home contents insurance	7.7
A hobby/leisure activity for children	3.4	Comprehensive motor vehicle insurance	4.4
New school clothes	6.7	A telephone	0.1
Secure doors and windows	0.6	A motor vehicle	2.0

Social Group	Incidence of Multiple Deprivation (maximum = 22) (%):				Mean Deprivation Score (MDS)
	0 items	At least 1 item	At least 2 items	At least 3 items	
All	79.4	20.6	10.7	5.9	0.43
Age 15-29	79.3	20.7	10.7	5.8	0.55
Age 65+	87.9	12.1	4.8	2.1	0.21
Couple with children	79.9	20.1	10.3	6.0	0.42
Sole parent with children	53.7	46.3	26.3	16.0	1.06
Indigenous	43.9	56.1	40.6	21.2	1.33
Non-Indigenous	79.9	20.1	10.4	5.7	0.42
Has an on-going disability	71.8	28.2	16.4	9.6	0.64
No on-going disability	82.2	17.8	8.5	4.4	0.35

Are the Profiles of Deprivation and Poverty Different? (percentages)

Social Group	DEP2	POV50	Overlap	Combined measure (Consistent poverty, DEP2 and POV50)
All	10.7	10.5	26.4	2.8
Age 15-29	10.7	8.1	40.5	3.3
Age 65+	4.8	23.4	7.5	1.8
Couple with children	10.3	5.2	46.1	2.4
Sole parent family	26.3	16.5	37.6	6.2
Indigenous	40.6	20.6	59.3	12.3
Non-Indigenous	10.4	9.3	25.4	2.4
Has an on-going disability	16.4	19.9	27.1	5.4
No on-going disability	8.5	6.8	25.6	1.8

The Age Profiles of Deprivation and Poverty (percentages)



Deprivation, Poverty and Domains of Life Satisfaction (mean scores)

Life Satisfaction Domain (0-10 point scale)	POV50		DEP2		POV50 & DEP2	
	No	Yes	No	Yes	No	Yes
Employment opportunities	6.9	5.7	7.0	5.6	6.9	5.0
Financial situation	6.6	5.8	6.7	4.5	6.6	4.2
Feel part of your community	6.8	6.7	6.9	6.1	6.8	5.8
Your health	7.3	6.8	7.4	6.6	7.3	6.1
Overall life satisfaction	7.9	7.7	8.0	7.4	7.9	7.1

Note: Red figures indicate that the well-being difference is statistically significant

Are Children's Views About Essential Items the Same as Adult Views? (unweighted percentages)

Item	Support for Being Essential (%):				
	NSW schools survey (2016), by age:		HILDA survey of adults (2014) by age:		
	11-14	15-17	15-29	30-64	65+
Internet at home	79.4	80.0	44.0	46.0	44.2
Car	93.6	90.0	51.0	52.7	65.9
Meal out with family (or friends - HILDA)	66.7	57.8	76.7	77.2	80.0
Holiday away at least once a year	68.5	59.7	37.2	39.5	50.1
New school clothes (and school books)	95.3	94.0	54.0	53.4	58.8
School trips (and activities)	70.9	66.2	83.8	81.5	81.9

- Incomes in Australia **have become more unequal since the early 1980s and over the last one and two decades**
- This is true for most other OECD countries and has **raised community concerns about its adverse economic and social impacts**
- **Australia's distributional performance relative to other OECD countries is middling at best**
- (Re-)Slicing the Cake: The income gains for those at the top could, if redistributed, **fund substantial increases for those lower down the distribution**
- We know how to redistribute income, but have **lost the political will to do it (and vote for it)**
- The income distribution giants are towering over the rest of us; but we can feel their shadow!
- The deprivation approach is providing **important new insights into the extent and nature of Australian poverty and social disadvantage**
- Spreading the Crumbs: Deprivation among some groups is between 2 and 4 times higher than the overall average
- **Deprivation and income poverty are different.** They affect different groups in different ways and the overlap between them is relatively low
- Deprivation status is a **better predictor of life satisfaction scores** across all dimensions than poverty status
- More work is needed to explore whether **a single unified approach (or measure)** is capable of capturing the extent and extremes of both economic inequality and social disadvantage