

Inequality and Poverty in Australia in the XXI Century: What we know and avenues for future research

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Aim of this presentation

Overview of recent research on poverty and inequality

1. Economic inequality (Atkinson 1997)

- Facts: **Yes**
- Causes: **?**
- Consequences: **No**

2. Poverty: very limited research

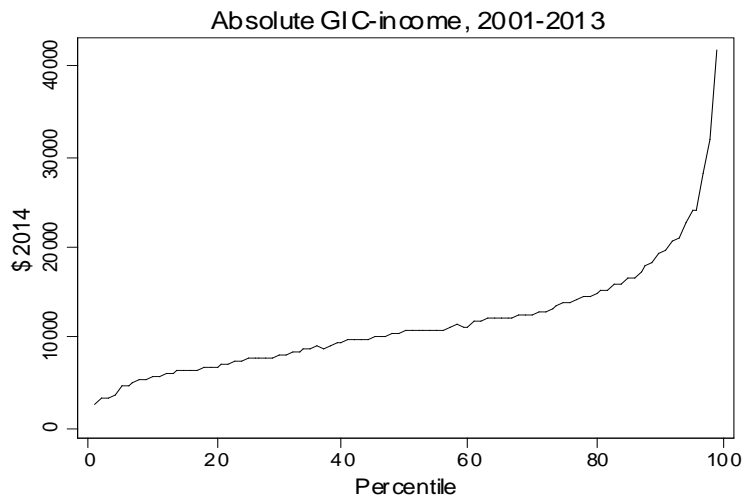
Almost nothing new: more questions than answers

Economic Inequality in Australia

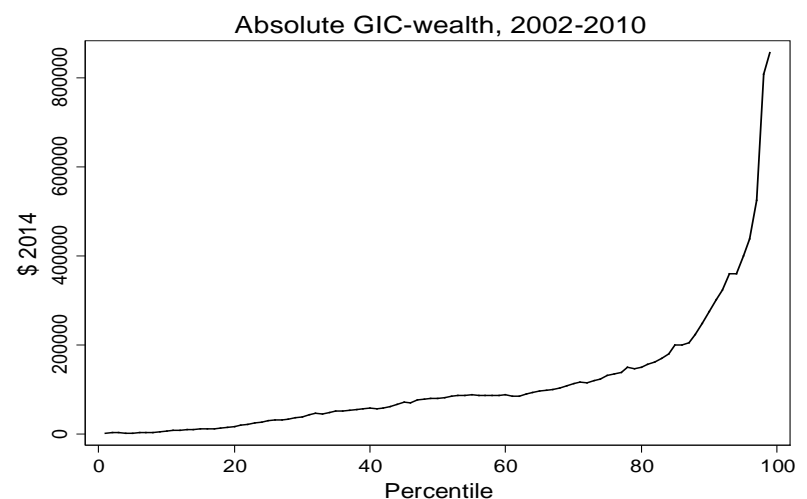
Research on inequality in the 2000s: Atkinson and Leigh (2007), Leigh (2013), Greenville et al (2013), Wilkins (2014)

Facts: Following the trends initiated in the 80s and 90s, inequality and the concentration of incomes have continued to grow. No consensus about how much

Income



Wealth



Economic Inequality in Australia

- Technology & Global markets
 - Technology-skill complementarities
 - Substitution of routine tasks
 - ⇒ Wage inequality and Polarization of labour markets
 - Eg: Akerman et al (2015) roll out of broadband in Norway
 - Generation of economic surplus and offshoring

Borland and Coelli (2015): large increase in the share of high-skill workers and decline of middle-skill workers from 1966 to 2010

Impact on inequality in Australia still unclear

Economic Inequality in Australia

- Fiscal policies
 - Decline in top tax rates: from 70% (1970s) to 45% (2015)
 - Higher concentration on pre-tax incomes
 - Labour supply, tax avoidance, incentives to bargain higher wages, capital accumulation (Piketty et al 2014)

Atkinson and Leigh (2013) decline in tax rates explains 1/3-1/2 of the rise in the share of the top 1 per cent from 1970 to 2000

Herault and Azpitarte (2015) tax policy reforms contributed to the decline in redistribution and increase in inequality in the 2000s.

Economic Inequality in Australia

Why were those policies implemented?

- Context of growing inequality
- Preferences for equality (experiments) maybe not that strong
- Social preferences not reflected in fiscal policy: influenced by the growing power of the rich (Stiglitz 2012)
- Union Membership
 - Large decline since the 1970s: from 50% to under 20% (2010)
 - Borland (1995): it explains 1/3 of the increase 1986-1994
 - No recent research

Economic Inequality in Australia

What are the consequences?

- Quite far from understanding the impact
- This could explain why it has increased so much

Inequality affects the quality of democracy and institutions

- Greater concentration of income/wealth \Rightarrow power to influence policy (Stiglitz 2012, Acemoglu and Robinson 2011)
- Difficult to identify empirically: endogeneity issues

Economic Inequality in Australia

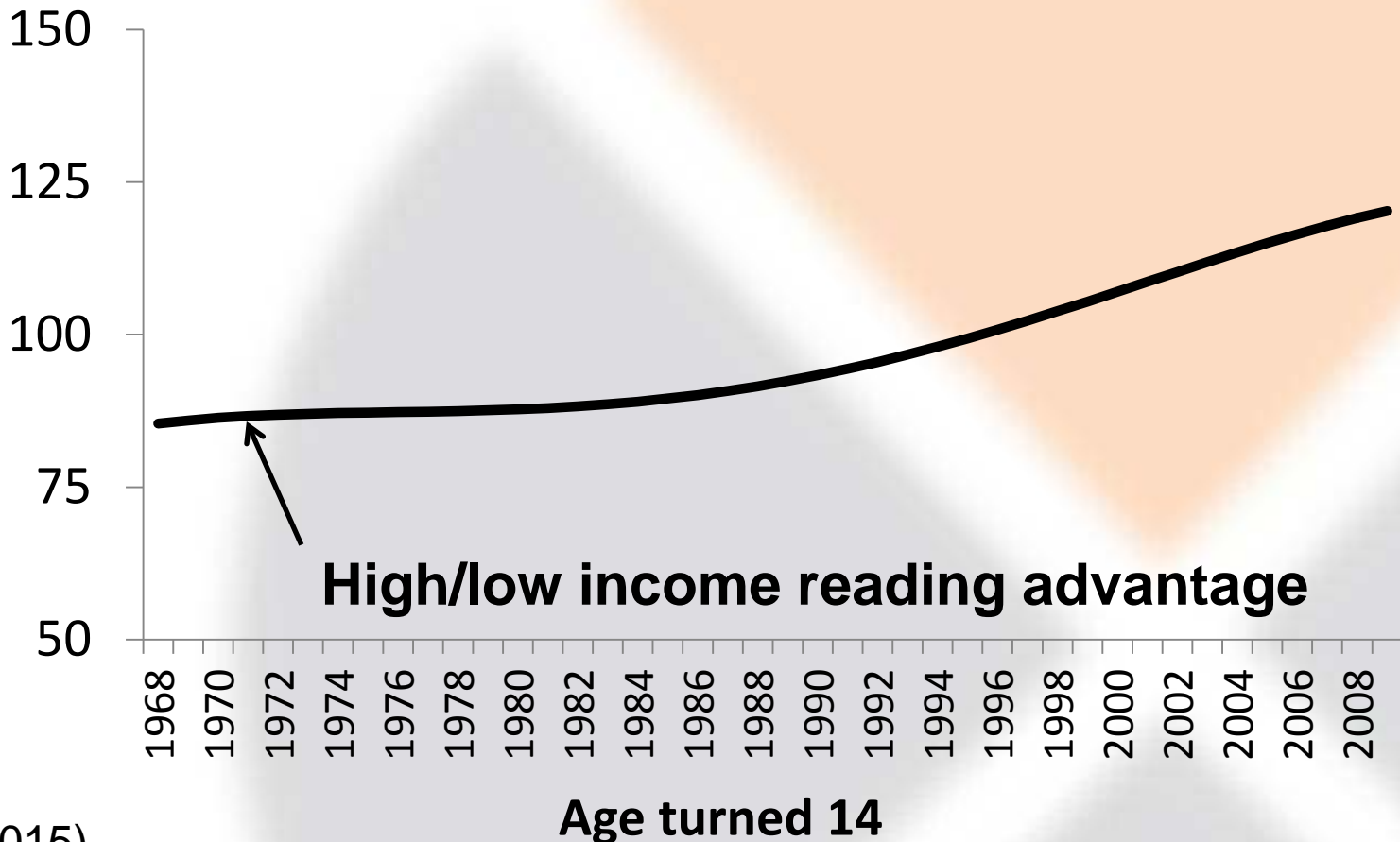
Effect on mobility and opportunities of future generations

- Negative relationship between intergenerational mobility and initial inequality across countries (Leigh 2007, Krueger 2012)
- Australia better than the US but worse than Nordic countries

But why?

- Transmission of advantage and/or disadvantage
- Greg Duncan(2015) insights into the mechanisms in the US
- Growing gaps in reading achievements at age 14 between the top and the bottom

Income-based gaps in reading achievement in the US



Duncan (2015)

Age turned 14

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Two factors:

- **Families:** Rich families are pulling away from the rest in terms of how much they invest on their children
- **Schools/Residential segregation:** increasing isolation of rich and poor families

Equalising effect of schools and education of disadvantaged children is especially important

- In a context of growing inequality: catch up with the rich
- Skills are important : average years of schooling in 1950 \approx 8 in 2010 \approx 11.5 (Barro and Lee, 2015)

The investment required to be in the mainstream is higher now

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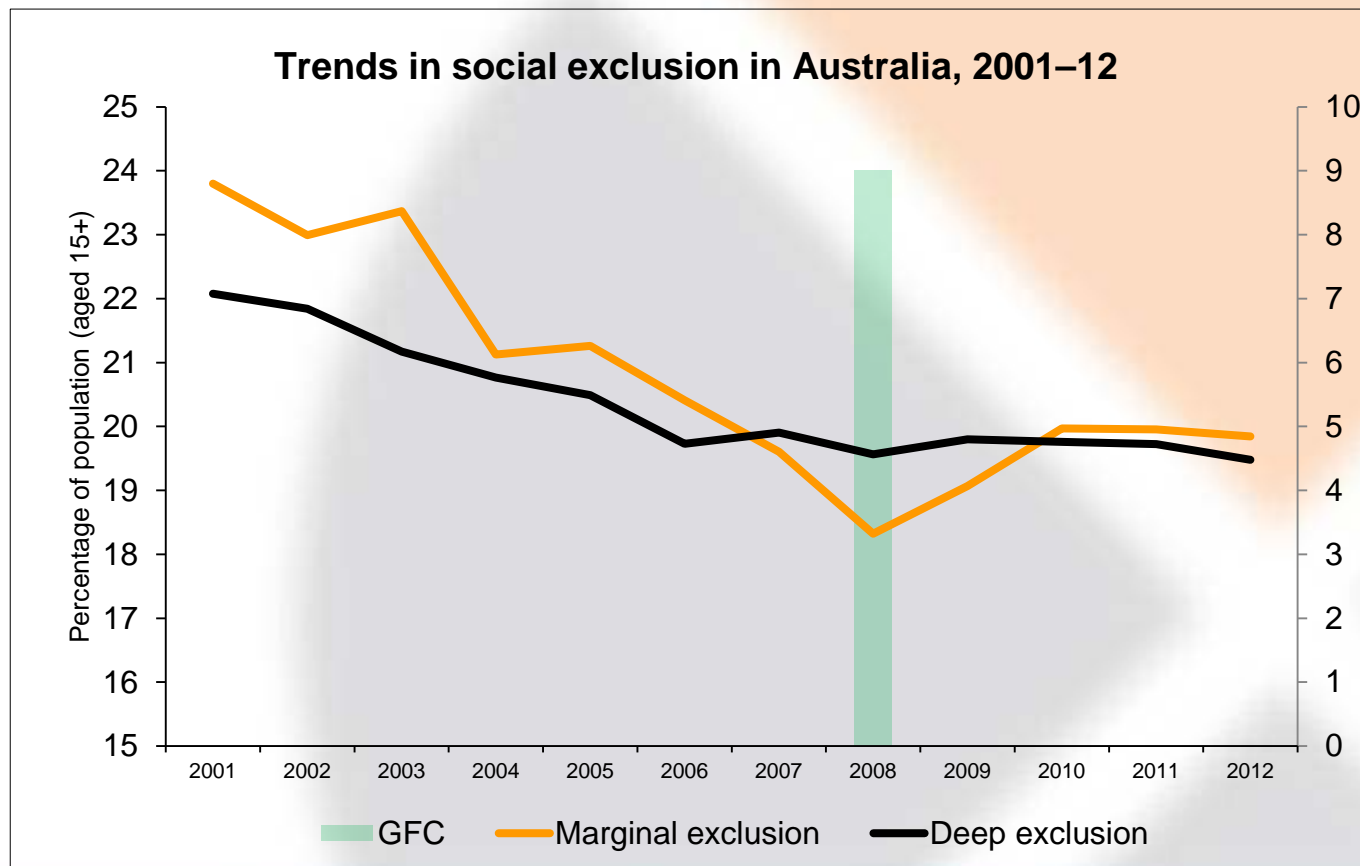
Challenges for inclusive education in this context:

- a) Inequality between low and high SES schools/areas
- b) Inequality within schools
 - Pressure to rise the average standard
 - Impact on the disadvantaged: depends on how we maximise the average

Key issue for further research

Poverty in Australia

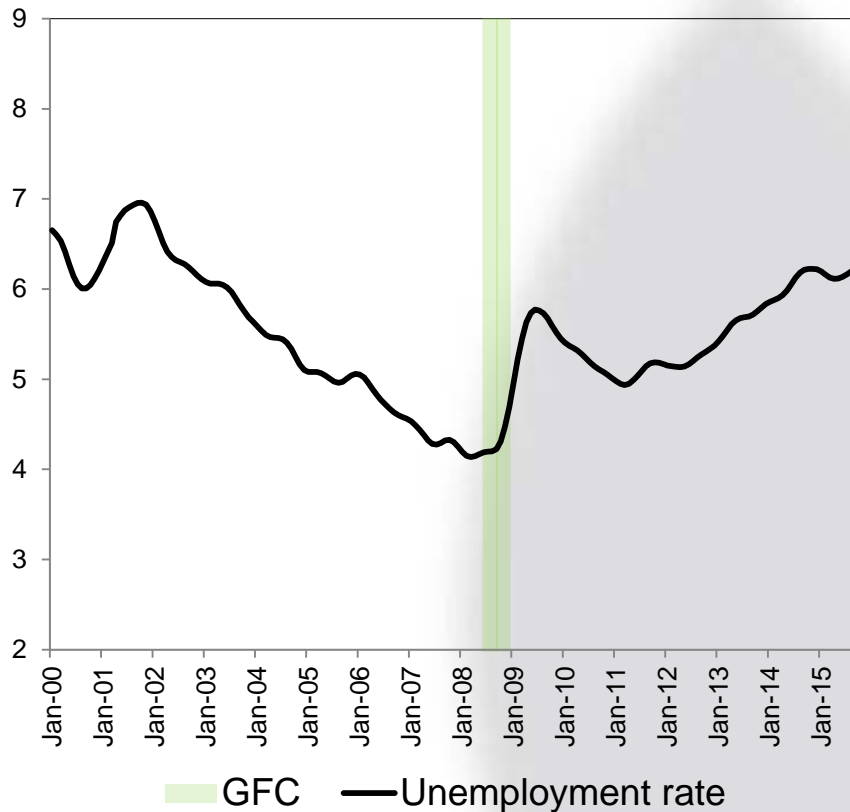
BSL & UoM multidimensional measure of social exclusion:
education, employment, income, health, safety, social & community



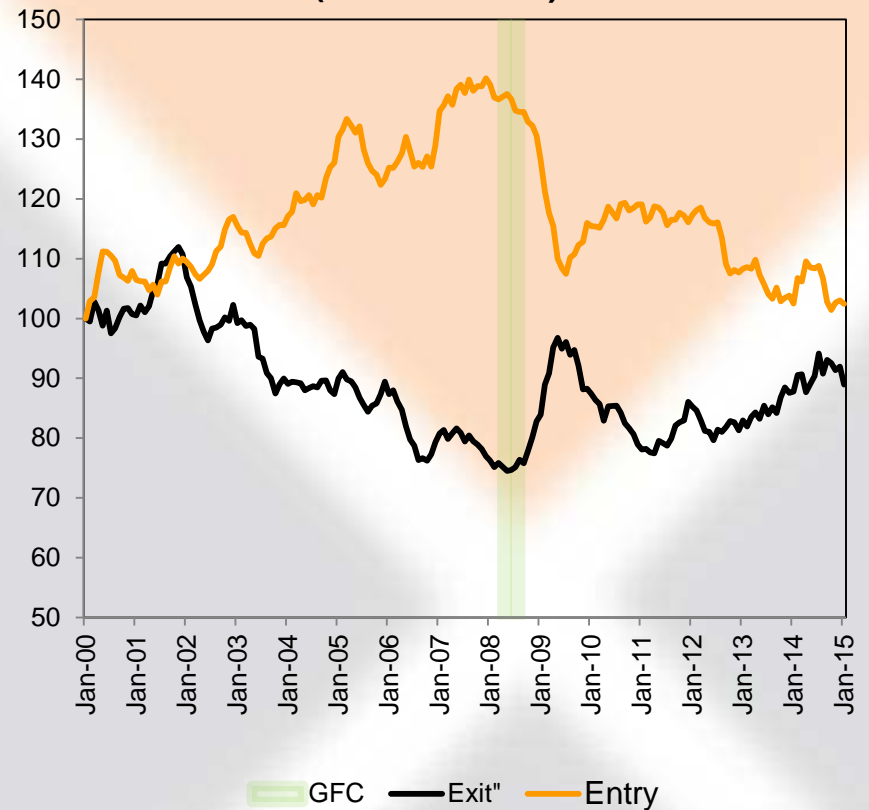
Poverty in Australia

Improvement driven by the employment domain

Unemployment, Jan 2000-Sept 2015 (%)



Job exit and entry rates (%), 2000-2015
(Jan 2000=100)



Conclusions

- Good knowledge of inequality trends and some knowledge of causes (less than the US and UK)
- More research on the effects of inequality
 - Equal opportunities and children's outcomes
 - Family investments and segregation
 - Role of schools in buffering the impact of inequality
- Research on poverty and labour markets is also needed