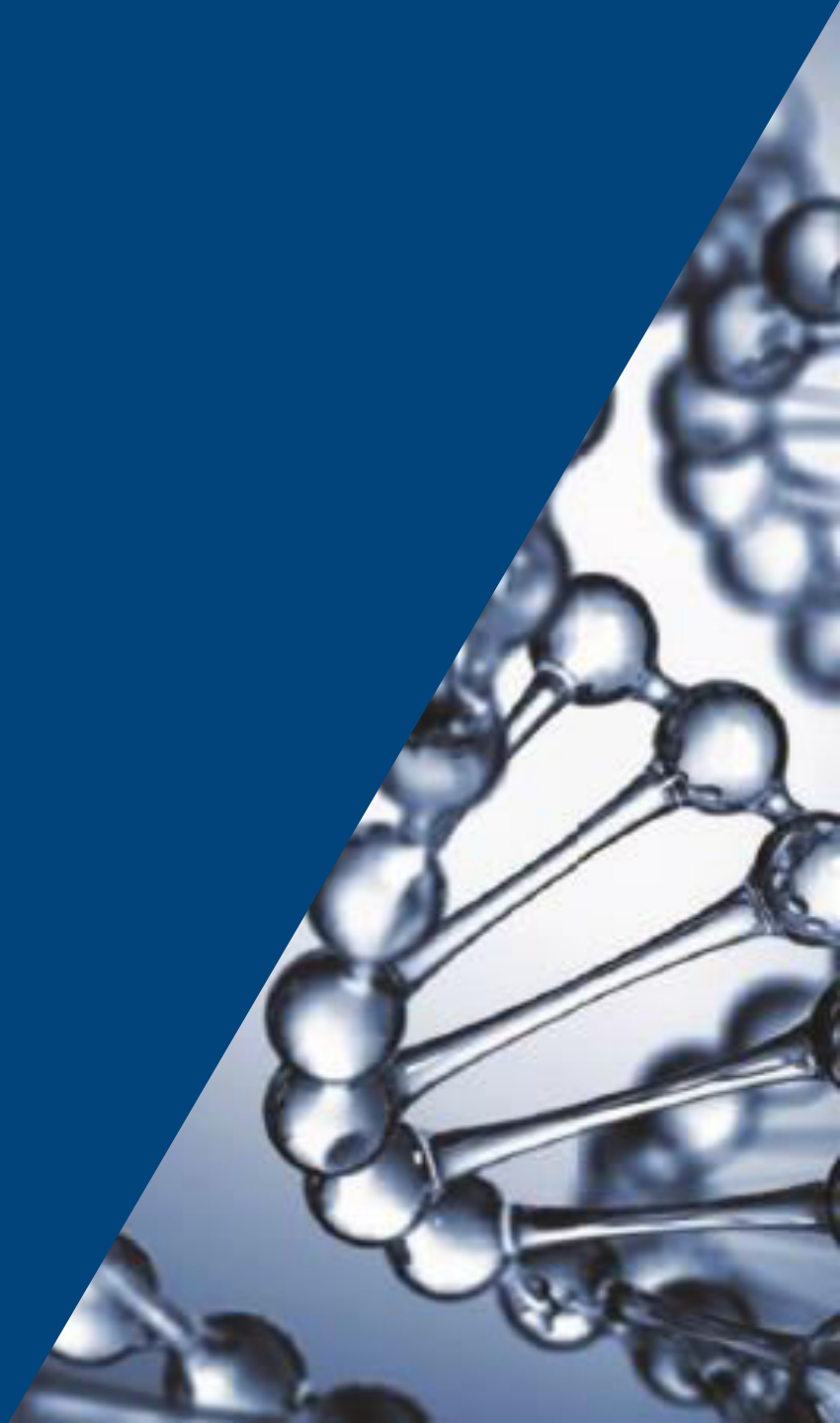


Economic inequality in Australia: Trends and possible policy responses

Roger Wilkins

Friday, 21 July 2017

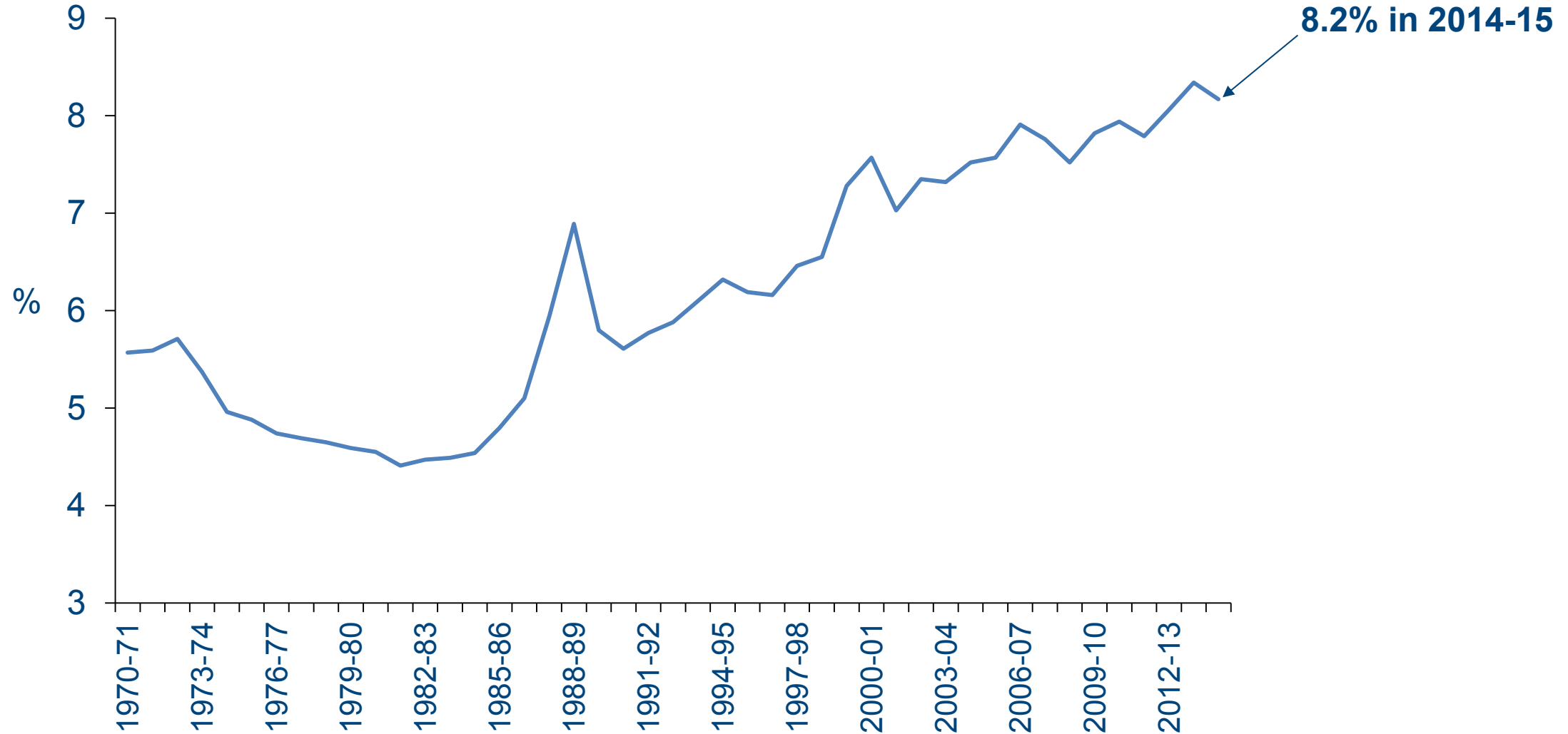


“Australian statistics show that we are at the most unequal we’ve been in 75 years.”

Leader of the Opposition, Bill Shorten, speaking on ABC TV’s Q&A program, September 21, 2015.

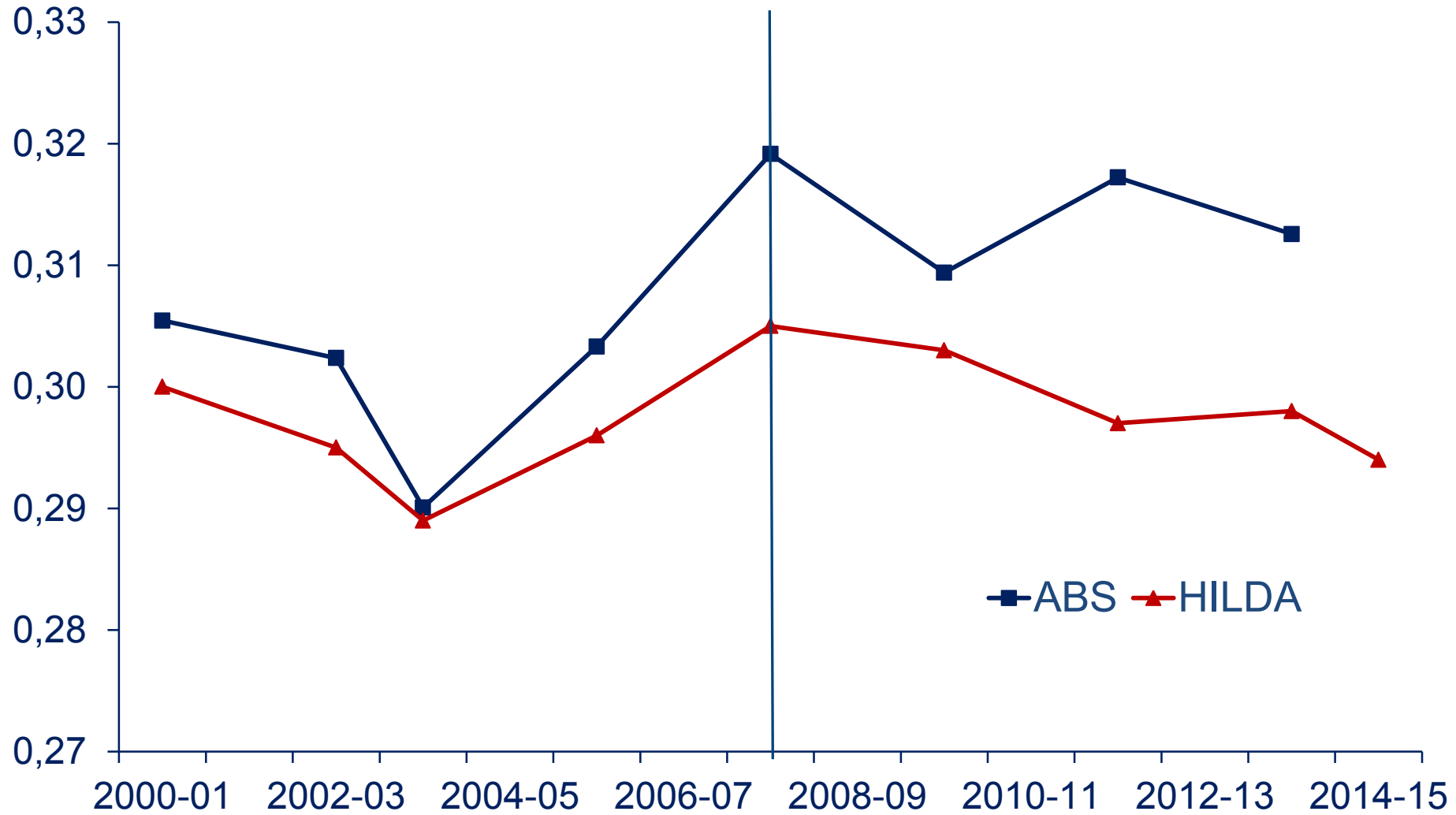
Top incomes in Australia – Tax records data

Income share of the top 1% Persons aged 15 and over



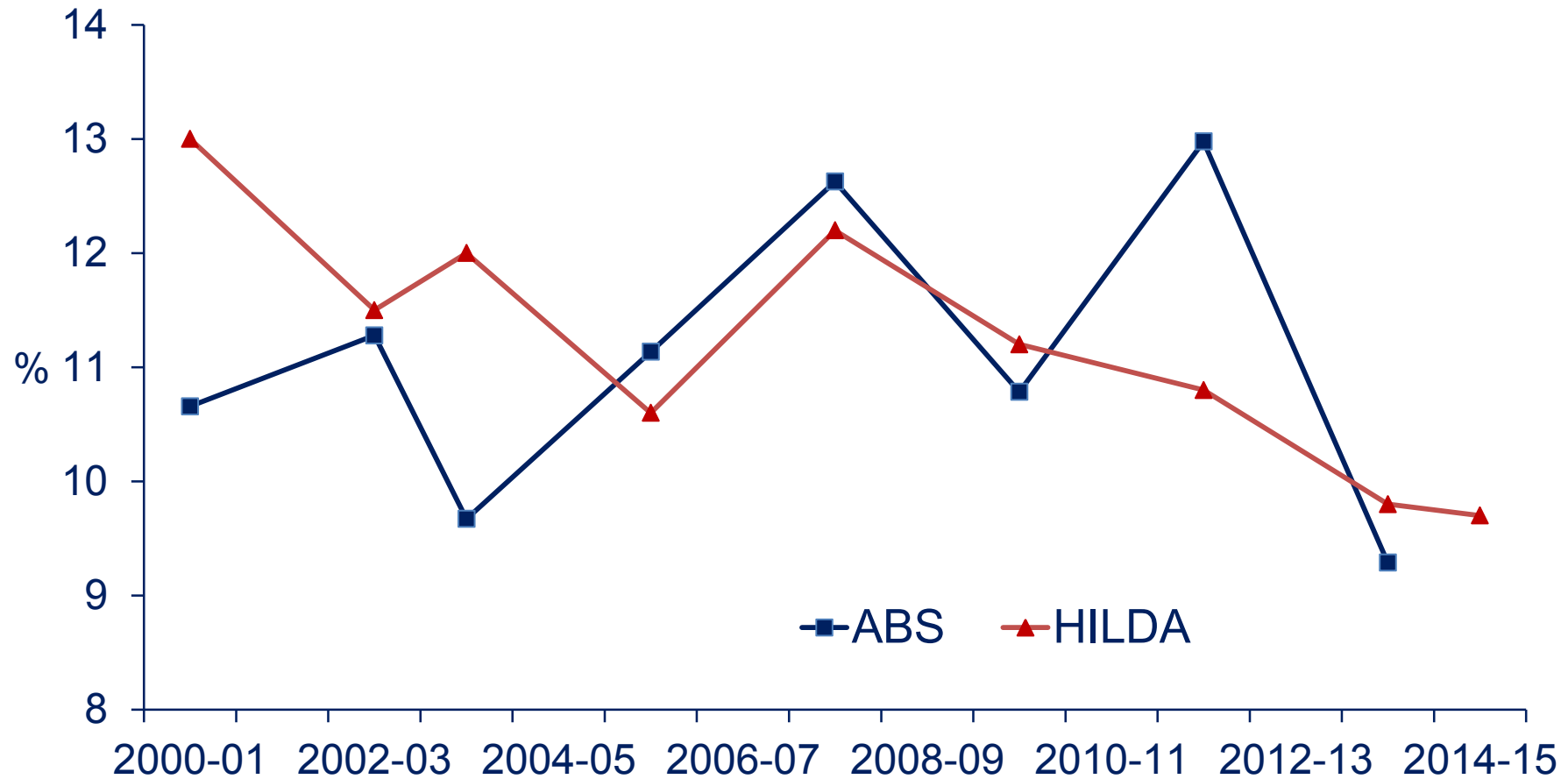
Overall inequality as measured by household surveys

Gini coefficient - Equivalised income



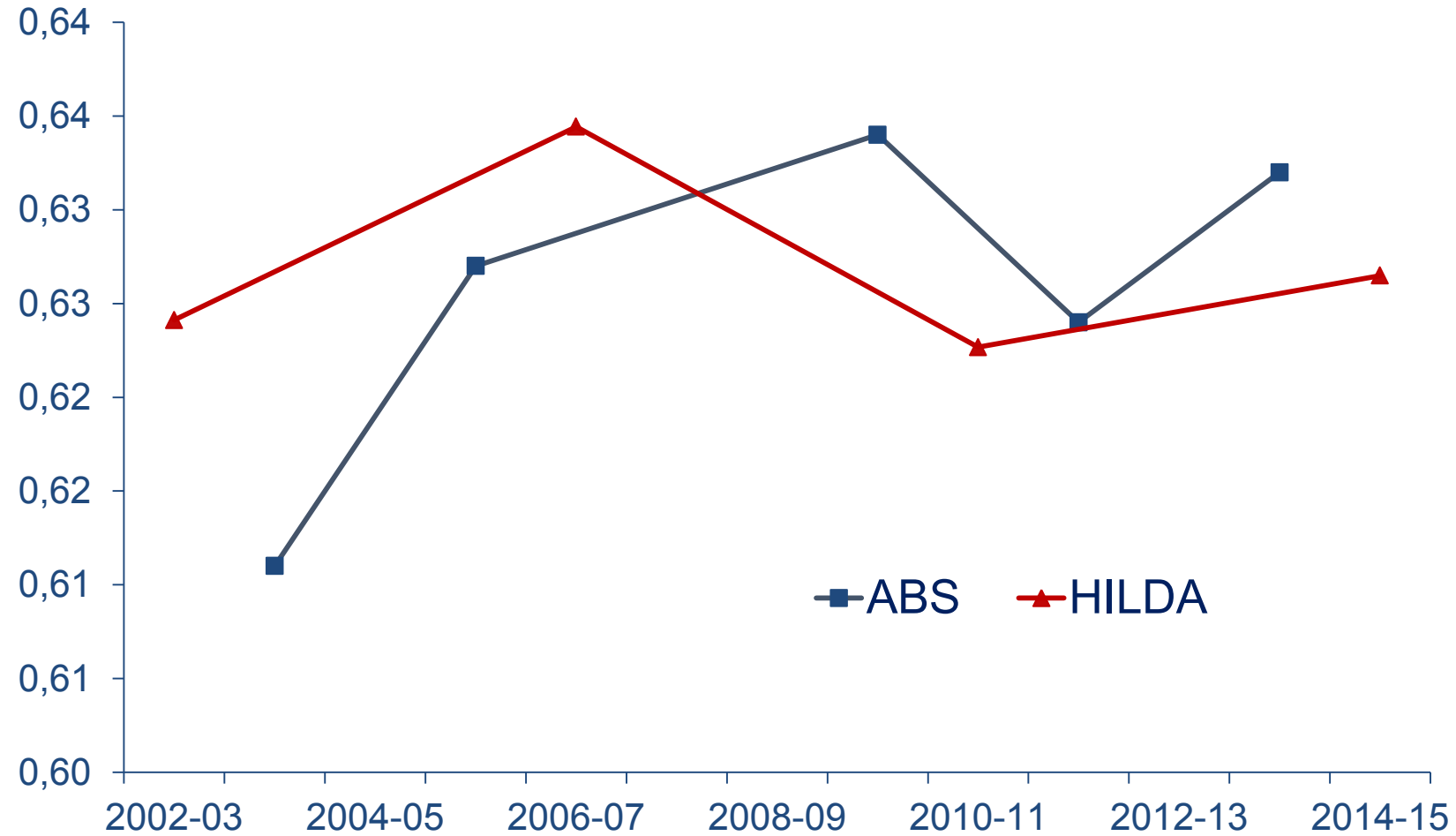
Relative income poverty

Proportion in relative poverty (less than half of median income)



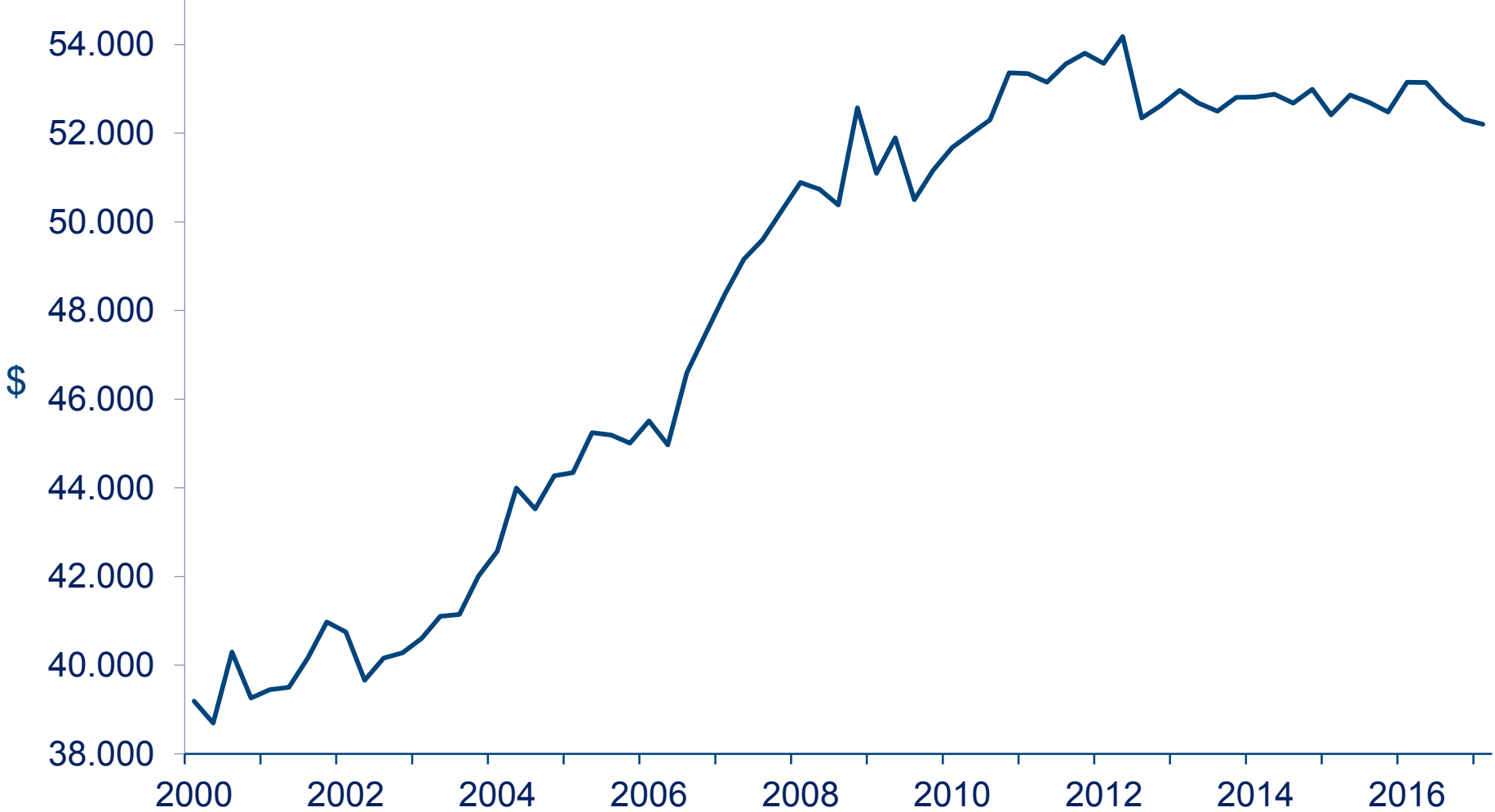
What about the distribution of wealth?

Wealth inequality (Gini coefficient)



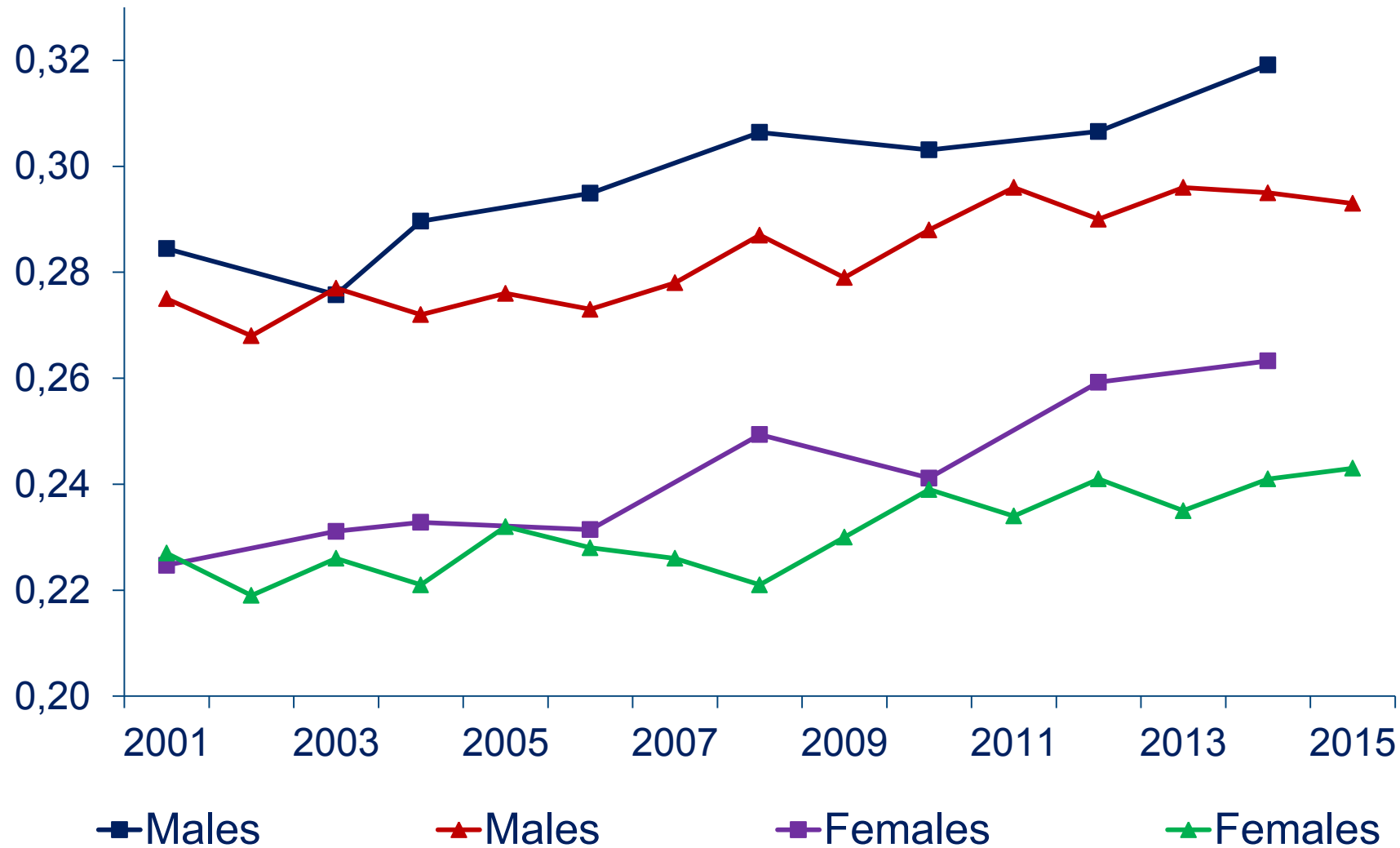
Household annual disposable income per capita

March 2017 prices - Quarterly seasonally adjusted series



Earnings inequality

Gini coefficient - Weekly earnings of full-time employees



Policies to address economic inequality – a few principles

- There are many tools available (and required)
- Evaluate the distributional effects of all policies and institutions.
- Address inequality of opportunity and inequality of outcomes (It is not enough to tackle inequality of opportunities)
- Prioritise tackling the economically inefficient sources of inequality
- In-kind income is an important consideration
- Don't underestimate the importance of incentives or the benefits of a market-based economy

Some policies to address economic inequality

Improve progressivity of the income tax and transfer system

- Traditional mechanism, and has an important role to play
- Reduce various tax expenditures/exemptions (e.g., capital gains)

Reduce economic rents

- Especially those deriving from government actions – licensing, zoning, regulatory activity, etc.
- Competition policy also a useful tool

Invest in public education and health systems

- Especially helpful for reducing inequality of opportunity

Broad-based land tax

- Easier and more efficient than a wealth tax

Treat gifts and inheritances as taxable income of the recipient

What I wouldn't do

Increase minimum wages

- Better to take steps to improve labour's productivity and bargaining power

Introduce a Universal Basic Income (unconditional payment to all adults)

- A decent UBI would require much higher taxes (e.g., \$20,000 UBI = \$380 billion) and would blunt the benefits of work
- Not very effective at reducing inequality (and may increase it)
- Also doesn't appeal as a response to automation: Doesn't seem to be a good idea to plan for a world in which many or most do not work
 - Taxing capital intensive production (a 'robot tax') is likely to be preferable

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