

Questions on inequality

1. Figure 17 and Figure 18 from the ACTU's submission. This submission is attached (sub 46). Senator Moore asked for your opinion on what the graphs say about the effectiveness of Australia's transfer system

These graphs show unambiguously that the Australian tax/transfer system reduces the level of inequality that arises from (pre-tax) market incomes alone. Our progressive income tax reduces high incomes more than lower incomes. Our transfer system is concentrated on income support for the very poor, and is well targeted. In addition, taxes that apply across the board are not as high as some European VATs for example.

Nevertheless, Australia still ends up with a relatively high level of inequality post tax and transfer. Australia would do better on inequality if, for example, if taxes on the rich were raised, and if the adequacy of income support was improved. Importantly, while Australia's social security system is well targeted, the degree of support is well below poverty lines and other indicators such as average weekly earnings.

Perhaps Australia's income support is best summed up as 'well targeted but inadequate'.

2. The OECD table titled 'Trends in real household income by income group'. This is the attached Word document. You will recall that Senators Seselja and Reynolds asked for your comments about how the Scandinavian countries have fared and also how Australia has fared over the period 1995-2008

I have reproduced the relevant parts of that table in the following:

	Total population	Bottom decile	Top decile
Australia	3.6	3.0	4.5
Denmark	1.0	0.7	1.5
Norway	2.3	1.4	2.7
Sweden	1.8	0.4	2.4

During this period it is clear that households experienced strong income growth on average in Australia and well in excess of the average income growth in the Scandinavian countries. All countries also witnessed slower income growth in their bottom deciles than their top deciles with the average somewhere in between the growth of the tops and bottoms. That implies that inequality was increasing in Australia and each of the Scandinavian countries. However, it is important to remember that inequality has always been lesser in Scandinavia, which is illustrated in the ACTU's Figure 17.

3. The basis for your comments at the end of page 37 of the Hansard transcript: ‘There are countries that have rates of economic growth similar to ours but are more equal’. You cite the Scandinavian countries as an example. Senators Seselja and Reynolds have requested the basis for this comment and also whether you are aware of international data on income inequality that is more recent than 2012.

Table 1 is constructed to compare the degree of inequality with the economic growth in each country. Economic growth here is a per capita measure of annual economic growth from 1985 to 2013 (except for the Czech Republic that only has data beginning in 1995). The figures come from the IMF *World Economic Outlook Database*.¹ Raw economic growth figures would bias the results in favour of countries with high population growth rates.

Table 1: Inequality and economic growth

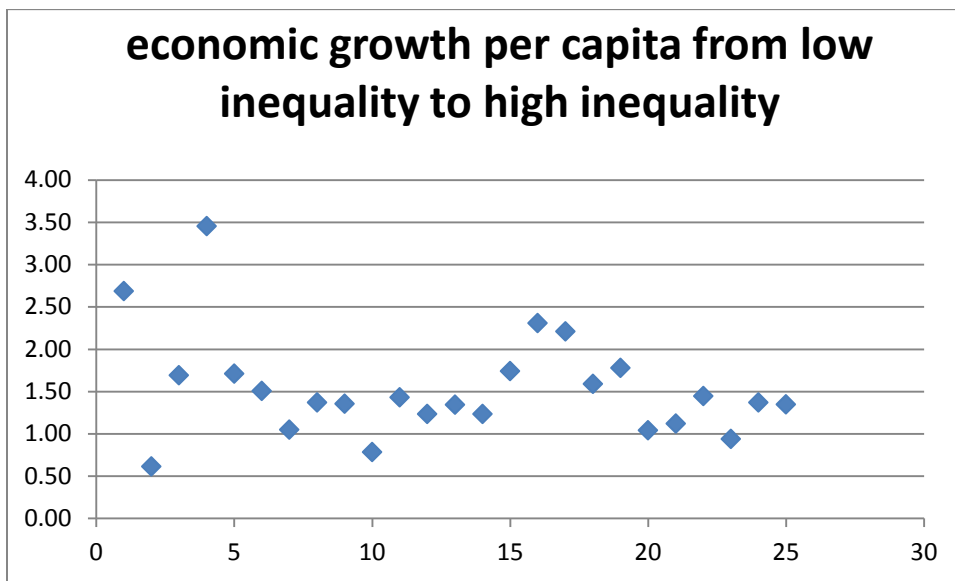
	Inequality rank	economic growth per capita
Ireland	1	2.68
Greece	2	0.61
Portugal	3	1.69
Chile	4	3.45
United Kingdom	5	1.71
Spain	6	1.50
France	7	1.05
United States	8	1.37
Germany	9	1.35
Italy	10	0.78
Austria	11	1.43
Japan	12	1.23
Finland	13	1.34
Belgium	14	1.23
Israel	15	1.74
Luxembourg	16	2.31

¹ IMF (2014) *World Economic Outlook Database, WEO Update July 24*, at <http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx>

Turkey	17	2.21
Australia	18	1.59
Czech Republic	19	1.78
New Zealand	20	1.04
Canada	21	1.12
Sweden	22	1.44
Denmark	23	0.94
Netherlands	24	1.37
Norway	25	1.34

When the comparison is made in Table 1, it is clear that Australia, Denmark, Norway and Sweden experience similar growth rates, but Australia has a higher degree of inequality.

A scatter plot of economic growth per capita against the rank on inequality (with one being the most unequal through to 25 for the most equal) appears to show that there is no relation between inequality and economic growth and inequality.



Some people assume that higher growth is necessarily associated with higher inequality. That assumption is not supported by this scatter plot.

More importantly, the same IMF has found that there is indeed a relationship such that high inequality is associated with lower economic growth. The IMF data used when this latter finding was made cover significantly more countries over a significantly longer period of time.

[For an introduction to the IMF's ongoing work on Inequality, see IMF (2014) IMF's work on income inequality, at <http://www.imf.org/external/np/fad/inequality> ,accessed 30 September 2014].