

ECONOMIC INEQUALITY

How do we get an economy that provides a more equitable distribution of income and wealth?

The heightened concern with economic inequality that is evident in Australia has been fueled by government policies that favour wealthy big business interests. Similar concerns exist worldwide, reflected in the tremendous attention given to Thomas Piketty's book, *Capital in the Twenty-First Century* which describes and analyses the long-term trends in economic inequality. There is a groundswell of concern to understand 'who gets what?' and 'who owns what?'

Extreme income and wealth inequalities impair social justice, social cohesion and social stability. They underpin a range of economic, environmental and social problems, such as mental and physical health, crime and violence. Surveys also show that, in general, nations that are relatively equal in their distribution of wealth have happier people. Australian surveys have fairly consistently shown most people think society should be more equal.

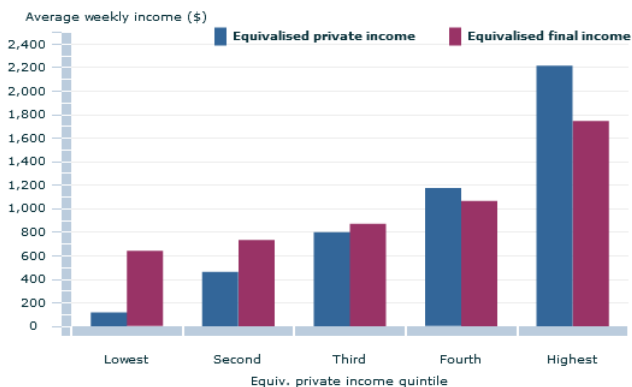
Yet the evidence is that income inequalities are rapidly widening. This is mainly due to the phenomenal growth in the incomes of the super-rich, not to rising rates of absolute poverty (although



relative poverty always rises whenever there is surging growth at the top and stagnation at the bottom). The top 1 per cent of Australian households – a tiny elite – has doubled its share of the total national income during the last three decades.

Accumulated wealth is even more unequally concentrated; and it has become more so in recent years. The richest 10 percent of Australian households now have half of the privately-owned wealth in the nation. The other half of the wealth is shared by the other ninety percent of households. In other words the former group are, on average, about nine times wealthier than the latter group. Throughout Australian cities speculative investment in housing has enabled people with surplus

Graph 4. Private & final household income, by equivalised private household income quintile, 2009-10

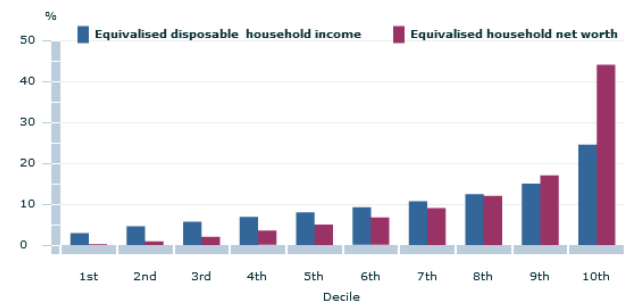


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Graph 3. Share of equivalised household income & net worth (a), 2011-12



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capital to amass even more wealth, while also fueling a spiral of housing unaffordability from which poorer and middle-income people suffer.

Increased wealth inequality is evident in many other countries too, especially those whose economic policies have been influenced by neoliberal policy prescriptions. By international standards, Australia is mid-ranking in terms of economic inequality, not the egalitarian society that many people imagine it to be.

There are plenty of policies that could create a more equality if there were the political will to use them. The options for tax reform include cracking down on the abuse of family trusts and other tax rorts; making the tax arrangements for superannuation less generous to high income earners; dropping the 'negative gearing' provision that operates primarily to facilitate tax avoidance; increasing the effective rate of capital gains taxation; and extending land and wealth taxes, including inheritance tax. These are all potential tax reforms that could have equitable social impacts while generating good revenue to finance social spending.

Ideally, the policy package would also include incomes policies designed to make the initial distribution of incomes between wages, profits, rent and interest less unequal in the first place. Under capitalism market outcomes always produce these inequalities. Centralised wage fixing used to provide an institutional base for protecting the interests of workers as a whole. In its wake we have seen less protection for workers' wages. And women's wages, on average, have slipped behind. But wage bargaining shouldn't have workers always on the back foot: the benefits of higher productivity should be reflected in either higher wages or shorter hours of work. Cooperative industrial relations depend on having more equitable shares.

The political economic challenge now is to change track in this different, more egalitarian direction.

We need to develop strategies for bringing inequalities under social control. It is time to abandon the policies of neoliberalism and the politics of austerity, replacing them with a new agenda for a fairer and sustainable society. This will be resisted by those wanting to retain their current advantages and power. But the broader economic and social benefits would be enormous.

Questions for discussion:

1. **What does the aim of a 'fair society' mean to you?**
2. **Why is the gap between rich and poor currently widening?**
3. **What would be the tolerable range of income or wealth inequality between the richest households and the poorest households: e.g. 100:1, 10:1 or 3:1?**
4. **What taxation policies could narrow the gap?**
5. **What more fundamental changes would be needed to create a fair society in Australia?**
6. **What role could Australia play in fostering more equality in economic development worldwide?**

References:

- T. Piketty, *Capital in the Twenty-first Century* [Harvard University Press, 2014]
- R. Wilkinson and K. Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better* [Allen Lane, London, 2009]
- A. Leigh, *Battlers and Billionaires: the Story of Inequality in Australia* [Black Inc., Melbourne, 2013]

**Send your group or individual ideas and feedback to
contact@commonaction.org.au**

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