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Frank Stilwell and Kirrily Jordan
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Chapter One

INEQUALITY

Dramatic economic and social inequalities have become a feature of modern Australia. As the society as a whole has become more wealthy the wealth has been spread very unevenly. Yet there is still a widespread, lingering attachment to egalitarian ideals. This interesting situation requires careful analysis.

Some people have huge incomes, most notably the corporate executives whose prodigious remuneration packages now sometimes exceed $20 million annually. Others, including members of some well-known family dynasties, have vast accumulated wealth: the assets of the richest two hundred wealth holders currently range from $196 million to $7.1 billion. Regularly celebrating these concentrations of wealth, magazines such as *Business Review Weekly* and *Wealth Creators* illustrate the media's tendency to identify success in terms of material prosperity. The conspicuously luxurious lifestyles of the wealthy shape broader social aspirations, often engendering feelings of personal deprivation among people with incomes that, in much of the rest of the world, would also be regarded as affluent.

Other Australians face more tangible economic hardships and insecurity. Many are struggling to meet their expenditure commitments, particularly because housing costs have risen rapidly in the last two decades. Industrial relations policies have increased the downward pressure on the wages of the less well-organised sections of the workforce. Having a job is no longer sufficient to escape the risk of sliding into poverty. Those who are reliant on

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social security payments as the principal source of their income have also been subjected to particular stresses, as governments embracing neoliberal ideology have implemented policies to reduce what they refer to as welfare dependency. So poverty persists – at least relative to the general standard of living – despite the greater affluence of society as a whole. Indeed, it seems that growing wealth and persistent poverty are two sides of the same coin.

Should this gulf between rich and poor be a matter of public concern? Some say not. These are either the complacent or the committed. Those who are complacent accept whatever *is* as natural and therefore not something to be challenged, even if it is a source of anxiety or regret. The committed have a more assertive ideological stance. These are the proponents of 'incentivation'. They argue that, in general, people receive rewards in proportion to their productivity. So a steep gradient between low and high incomes is a necessary incentive for the efforts that create a thriving economy. This view – that economic inequality is conducive to overall economic prosperity – has been very influential in the realm of public policy during the last two decades, when neoliberalism has been the dominant discourse. Neoliberal beliefs generally lead to a *laissez-faire* attitude to inequality, in effect accepting any distribution of incomes and wealth that is generated by a market economy. More audaciously, neoliberal policies, such as cutting income taxes more for the rich than for the poor, directly intensify economic inequalities.

Meanwhile, critics of economic inequality warn of the consequences of a more divided society. They challenge the notion that differential rewards reflect productivity differences, pointing out that, in practice, class-based power relationships significantly determine the distribution of income and wealth. On this reasoning, the gulf between rich and poor has less defensible economic and ethical justifications. It also has some dangerous social consequences. Since problems such as violence and crime tend to intensify in an unequal society, more and more resources need to be allocated to social control. Wealthy suburbs and gated communities coexist with disadvantaged areas in an increasingly tense and unstable mix. Concerns for social cohesion in these circumstances fuel demands for a more egalitarian society.

A cautious, intermediate view between the committed and critical perspectives stresses the desirability of creating equality of opportunity rather

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than equality of outcome. From this meritocratic perspective, the gulf between high incomes and low incomes does not particularly matter. Rather, the issue is whether everyone has an equal opportunity to attain the high incomes. Concern with social mobility thereby takes precedence over concern with economic inequality. It is the sort of view that has also been promoted by politicians claiming to cater for aspirational voters – those who are concerned with their own personal advancement rather than any general egalitarian goals. Such reasoning and political focus are compatible with an increasingly unequal society. So, notwithstanding the inherent appeal of the notion of equality of opportunity (who would seriously argue against it?), it is not a position that challenges big inequalities in the distribution of income and wealth.

Downplaying the importance of economic inequality has also become a feature of some otherwise challenging, progressive social commentary. The writings of Clive Hamilton, executive director of The Australia Institute, are particularly important in this context. Hamilton considers inequality a less central issue than affluence. In publications such as his recent *Quarterly Essay*, *What's Left? The Death of Social Democracy*, he argues that the political Left has overemphasised problems of inequality, leading to insufficient attention being paid to the social consequences of 'affluenza'. According to Hamilton, it is the excesses of affluence and the continual quest by those who want to be wealthier that are more fundamentally problematic. On this reading, the problems of injustice in modern Australian society are focused on just three groups: people in poverty, Indigenous Australians and people with physical disabilities. Beyond that, Hamilton says 'the defining problem of modern industrial society is not injustice but alienation, and the central task of progressive politics today is to achieve not equality, but liberation' (Hamilton 2006: 32). There is merit in this viewpoint, but it is important to recognise the central role that economic inequality plays in contemporary social problems, including the very affluenza that Hamilton emphasises. Affluenza is fuelled by the gap between rich and poor and is manifest in the concerns of the latter to emulate the former. Without redressing economic inequality it is hard to see the problems that Hamilton rightly emphasises ever being resolved. Yet Hamilton's intervention in public debate is significant in demonstrating that views on inequality now no longer align neatly with other issues on which the political Left and Right disagree.

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Economic inequality is evidently a contentious issue. If we are to understand the possibility and desirability of its redress we need an analysis of its causes and consequences. First and foremost we need a clear picture of the facts of the matter – who gets what?

Wide disparities

Australian society has always had marked economic inequalities. Some indication of their current extent can be gauged by looking at the official Australian Bureau of Statistics (ABS) data on the distribution of household incomes, which include income from all sources, such as wages, rents, dividends, interest and social security payments. Dividing the whole population into five groups, or quintiles, and ranking them from richest to poorest gives an initial summary of the overall disparities. Households in the top quintile in 2003–4 had an average after-tax income of $1027 per week, whereas the bottom quintile received an average of only $226. So the former group had average incomes more than four times those of the latter. Over the period since 1994–5 the real income of people in the top quintile rose by an average of $166 per week, while those in the lowest quintile received an average increase of $45 per week. Again, the ratio was about four to one. Of course, those broad categories mask some enormous variations in the incomes of particular groups within Australian society. To take an extreme case, the spectacular remuneration packages enjoyed by senior corporate managers not only dwarf the incomes of the bulk of the population (even dwarfing the average incomes of those in the top quintile identified by the ABS), but they have also been growing dramatically faster. By 2005, the average annual remuneration of chief executives in the top fifty-one companies who are members of the Business Council of Australia had risen to sixty-three times the average annual earnings of full-time Australian workers – up from twenty times the average in 1992 (Shields 2005: 302).

A rather different way of looking at income distribution is in terms of the relative size of incomes received as wages or profits. This shows the shares of labour and capital in the national income. In 2003–4, wages comprised 53.1 per cent of the total, while profits formed 26.7 per cent. This profit

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share was the highest share recorded since 1959–60. A class dimension is embedded in this way of looking at inequality because the shares of wages and profits reflect the relative power of labour and capital – or, broadly speaking, employees and employers. A shift from wages to profits – which has been the dominant trend since the 1970s – predictably feeds into more inequality in the distribution of household incomes. The correlation is not perfect because some of the profits flow as dividend payments to so-called mum and dad shareholders. But the overall distribution of shareholdings is heavily skewed towards the richest households who have been the principal beneficiaries of tax concessions such as dividend imputation and reductions in capital gains tax during the last decade.

Even more striking than the disparities in income are the inequalities in the distribution of wealth – the financial and physical assets, such as cash, shares and real estate, that households own. The wealthiest 10 per cent of the Australian population owns about 45 per cent of the total wealth. The top 50 per cent owns over 90 per cent of the wealth, leaving the people in the other half of Australian society with less than 10 per cent of the national wealth between them (Harding 2002: 11; Headey *et al.* 2005: 159). Not surprisingly, households in the wealthier groups also hold more of their wealth in income-generating forms, such as shares and property. This wealth inequality thereby significantly impacts on income inequalities. Those in the top fifth of the wealth distribution increased their wealth by an average of around $250 000 in the ten years to 2004, two-thirds of which resulted from gains in the real estate property market. In contrast, the least wealthy fifth of the population increased their wealth by only about $3000 in the period, half of which derived from their small superannuation entitlements (Button and Stevenson 2004). Evidently, who gets what depends significantly on who owns what.

At the top of the tree is a tiny elite of extraordinarily wealthy people. According to *Business Review Weekly*, the total amount of wealth held by the richest 200 Australians surpassed $117 billion in 2006. The amount of wealth necessary to just scrape into this 'rich 200' list has more than tripled since the mid 1990s, even accounting for inflation. A chasm separates wealthy individuals such as these from most of Australian society. The sources of their wealth are also distinctive. Among the top wealth holders, the ownership and development of property features particularly prominently, with

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manufacturing, retail development and media interests also significant. Four of the richest ten Australians in 2006 started their careers through family inheritances, although these inheritances were only a fraction of their current wealth.

At the other end of the scale, the incidence of poverty has proved remarkably persistent. According to a study undertaken for the National Centre for Social and Economic Modelling (NATSEM), if the poverty line is set at half the average family income, about 11 per cent (or one in nine Australians) are living in poverty (Lloyd *et al.* 2004a). Those most at risk include young people in the 15–24 year age bracket, single people, sole parents, Indigenous Australians, recently arrived migrants, refugees and people with disabilities. The 41 per cent poverty rate among the unemployed is the highest of all, being almost four times the national average (Lloyd *et al.* 2004a: 14). But poverty is also evident among those in full-time and part-time work, indicating that a problem of the so-called working poor now exists in the Australian economy, albeit not yet on the same scale as in the USA. Full-time and part-time workers make up more than one-quarter of all Australians living in poverty (Lloyd *et al.* 2004a: 15). Poverty, at least in relative terms, is inseparable from the more general forces reproducing economic inequality.

Does inequality matter?

The predictably divergent views about the pros and cons of economic inequality have their roots in distinctive political economic judgements. The concentration of incomes and wealth is sometimes defended on the grounds that it creates a trickle-down effect. On this reasoning, society as a whole benefits from the presence of very wealthy people because of the employment they create through their business activities, the economic stimulus that results from their consumer spending and the tax contributions they make to government revenues. However, there is a difference between the case for accumulation of wealth in general and for the concentration of that wealth in a few hands. The positive effects of capital accumulation on employment, consumption and tax revenues are not contingent on its

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concentrated ownership, and may even be impaired by it. In other words, a broader spread of income and wealth could be quite compatible with equally strong national economic performance.

The big political economic question is whether there is a trade-off between equity and efficiency. In other words, would sharing incomes and wealth more equitably reduce the total amount to be shared? If that were the case – if a more equitable society were necessarily a poorer society – then egalitarian sentiments and policies would certainly have less general appeal. In practice, the evidence of any such trade-off between equity and efficiency is quite inconclusive. More equitable societies, such as the Scandinavian nations and Japan, are not notably less economically prosperous than other, more unequal, ones. And, within individual nations, economic efficiency evidently has only a weak connection with reward. The remuneration of different occupations, typically, has more to do with bargaining power than any objective measure of efficiency or labour productivity. Incomes from inheritance, to take the extreme case, have nothing to do with the productivity of the recipients. Even in business, the relationship between productivity and economic rewards is dubious: as research undertaken by the author of the study of executive remuneration cited earlier shows, there is no clear overall correlation between executives' incomes and the performance of the companies they manage (Shields *et al.* 2003).

Scepticism about the commonly asserted relationship between material rewards and economic contributions is appropriate. Much depends on the nature of this relationship in practice. If the markedly uneven distribution of income and wealth *were* the product of productivity differentials we might be more inclined to accept it as legitimate – as the logical outcome of a capitalist market system in which people derive rewards according to their economic contributions. Those, such as prominent Australian businessman and Liberal parliamentarian Malcolm Turnbull, who have been arguing for cutting the top rate of income tax in Australia implicitly make that assumption (Turnbull and Temple 2005). Hence the claim that allowing the rich to retain more of their incomes after tax would generate more productive effort, benefiting society as a whole. On similar reasoning, the poor should be encouraged to shift from welfare to work by removing social security payments, which, according to this argument,

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encourage idleness. But the connection between rewards and productivity is, in practice, ill-defined. Productivity is often hard to measure, particularly in service industries, where most Australians now work. Power relationships, deriving from organisational strengths and monopoly positions, are often more decisive than productivity differences in shaping actual incomes (Stilwell 2006: ch. 22). Moreover, as political economist J. K. Galbraith once noted, to justify increased economic inequality on the grounds of 'incentivation' makes an odd behavioural assumption – that the rich will work harder if their incomes are increased whereas the poor will work harder if theirs are reduced (Davidson 1987).

Even if some economic inequality is conducive to the creation of economic incentives, it is important to ask just how much is necessary in practice. On the United Nations league-table of economic inequality, Australia is a middling nation with a ratio of around 12.5:1 between the average incomes of the richest 10 per cent of households and the poorest 10 per cent (United Nations 2004). Would a much lower ratio of, say, 5:1 or 6:1 between high and low incomes be sufficient to maintain economic incentives? In Norway, Sweden and Denmark the ratio is typically of that magnitude, and those nations face no obvious problem of economic stagnation arising from a lack of material incentive. In modern economies there are always going to be some rich people and some poor people, but there are major variations between nations in the extent of that inequality. There is evidently significant scope for different distributions of income and wealth: an element of political choice is inescapable.

Are inequalities consistently conducive to more impressive economic outcomes anyway? There are good grounds for doubt. Big inequalities – or certainly the perception of unwarranted inequalities – can generate quite perverse economic effects in practice. Among any group of people, cooperative and productive relationships usually depend on the expectation of reasonably fair shares in the distribution of the fruits of that cooperation. Casual empiricism suggests that is generally true for households, sporting teams and small businesses, for example, even for universities. One may reasonably expect the same to apply to nations. A high incidence of property crime, violence and other social pathologies is a predictable outcome if some broadly acceptable degree of distributional equity is not ensured. It is not just the facts of inequality that matter, but also beliefs

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about whether the inequalities are justifiable in terms of differential effort or merit.

Then there is the even more fundamental question about whether the drive for income and wealth produces more personal contentment. Does the relentless pursuit of income and wealth make us happier, individually and collectively? Evidently not, according to a range of social surveys that show only a weak correlation between material wealth and self-reported happiness in different societies (see Frey and Stutzer 2002; Saunders 2002; Frank 1999; Hamilton 2003a; Hamilton and Denniss 2005). It also seems that the citizens of societies in which economic inequality is greatest generally report lower levels of personal satisfaction (Layard 2003b, 2005). This is not surprising because, if our wellbeing is assessed in relative terms, a wide gulf between rich and poor tends to intensify the latter's feelings of relative deprivation. Social cohesion can be threatened in these circumstances. This has led to a growing concern, internationally as well as in Australia, that economic growth accompanied by increased inequality may have no net social benefit, and may indeed have negative effects on the overall wellbeing of society.

Logged in or logged out?

Income inequality is strongly correlated with the digital divide – the gulf between those who have ready access to the internet and those who do not. Between 1998–9 and 2004–5, the proportion of Australian homes with computers connected to the internet more than trebled – from 16 per cent to 56 per cent. However, there are striking differences between wealthy and poor households. According to unpublished ABS statistics analysed by Steve Burrell and Anna Patty (2006), households with incomes of $100 000 per annum or more are nearly three and a half times more likely to be connected to the internet than are households with incomes below $25 000 (86 per cent in the former group have internet access, compared with only 26 per cent in the latter). Between these two extremes the digital divide widens consistently. Of households with annual incomes in the $75 000–100 000 range 74 per cent had home internet access, as did 66 per cent of households

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in the $50 000–75 000 range and 38 per cent in the $25 000–50 000 range.

Why does this variation in internet access matter? It certainly provides a striking illustration of how the economic inequality that pervades Australian society shapes access to resources and social opportunities. Moreover, internet access is particularly important because information flows are increasingly computer-based. So being income poor tends to go hand in hand with being information disadvantaged. The problem is most acute in regard to children because information disadvantage affects their educational experiences and the intergenerational transmission of inequality.

Overall, internet access is significantly higher for households with children under fifteen than for households without children – 70 per cent compared with 49 per cent. But the bias according to household income is evident here, too. Ninety-four per cent of households with children and an annual income of $120 000 or more had internet access in 2004–5, but only 50 per cent of households with children and incomes of less than $40 000 did so. Educational success depends on much more than home internet access, of course, but educational specialists (quoted by Burrell and Patty 2006: 30) emphasise the importance of the internet today in coping with areas of knowledge that are rapidly changing, and in developing young people's ability to deal with that knowledge in a more interactive manner than conventional textbooks permit.

Internet access is strongly correlated with the employment status of parents, too. The same study shows only 30 per cent of adults not in the workforce as having home internet access, compared with 64 per cent of those with jobs. In one-parent families where the parent is unemployed the rate was a mere 28 per cent (Burrell and Patty 2006: 29). The relative disadvantages of children in the less well-resourced households can be ameliorated by more universal access to computer facilities in schools, by better provision through public libraries and by programs such as that offered by the Smith Family to teach disadvantaged children internet skills. Even so, there is a strong inbuilt socioeconomic bias to overcome.

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