



Australian Government
Productivity Commission

Inequality and economic mobility: **How's Australia faring?**

Managing Government Finance, October 28, 2024
Dr. Catherine de Fontenay, Commissioner

Productivity Commission research on inequality

Four questions from our recent work on inequality and economic mobility in Aus:



1

How is Australia tracking when it comes to income and wealth inequality?



2

How economically mobile are Australians?

3

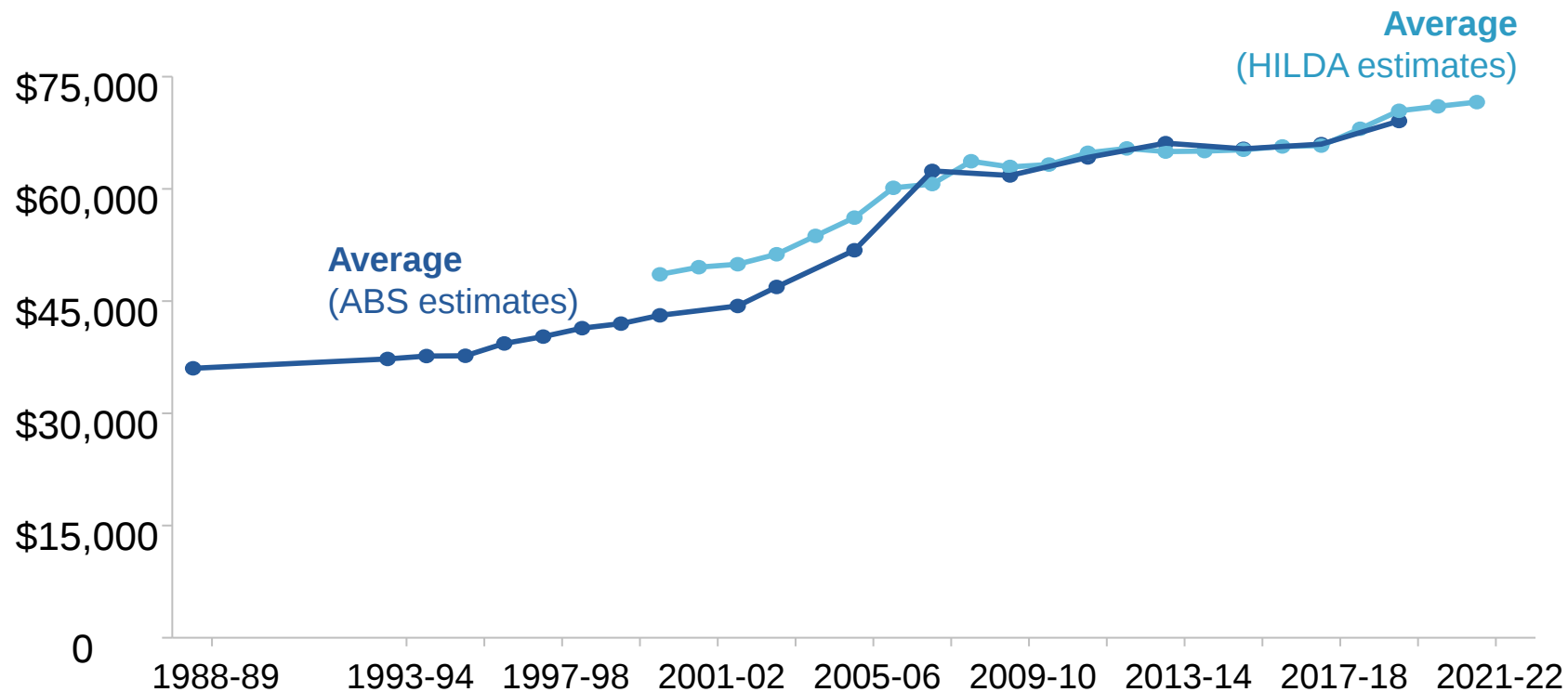
What about deep disadvantage? Who is in poverty and how difficult is it for them to get out?

4

Can we expect this generation to do as well as the last?

Income tracks upwards over time

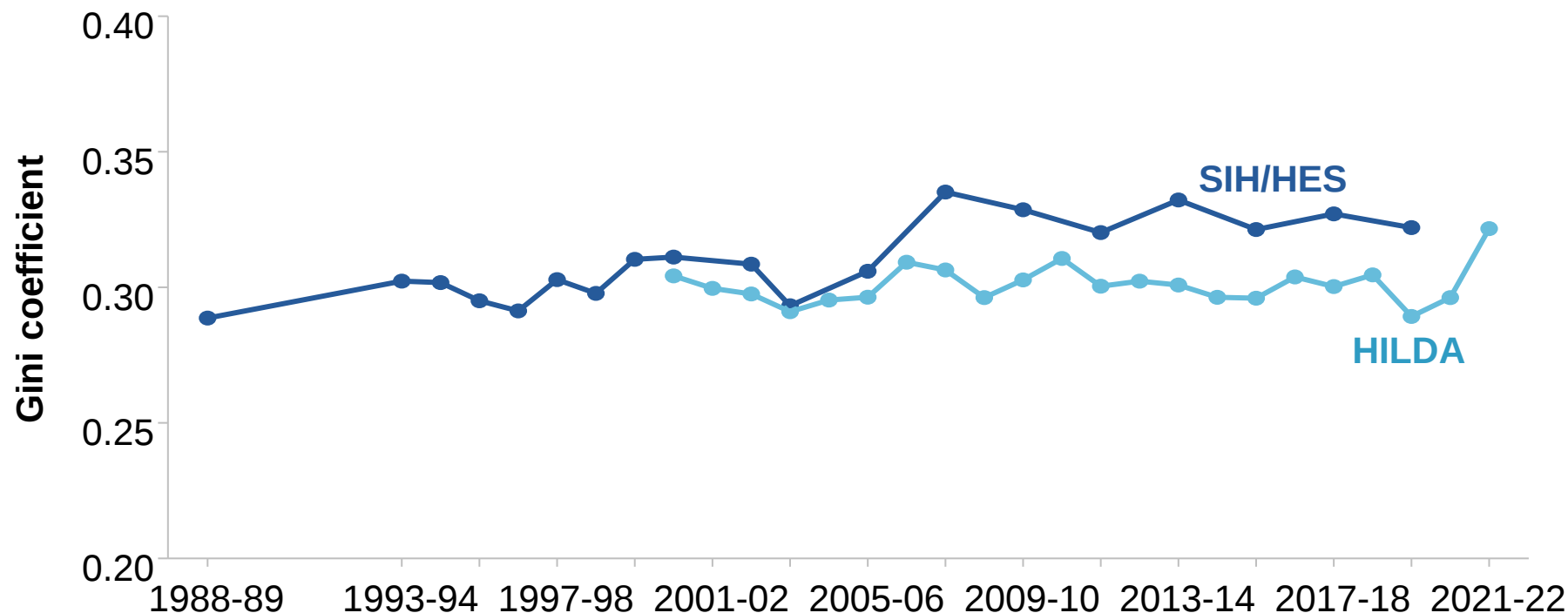
Equivalised household disposable income, 1988-89 to 2021-22, \$2022-23



Source: Productivity Commission estimates using Melbourne Institute data (Household, Income and Labour Dynamics in Australia (HILDA) Survey, Release 22), ABS's Survey of Income and Housing/Household Expenditure Survey (SIH/HES).

Pre-COVID income inequality was relatively flat

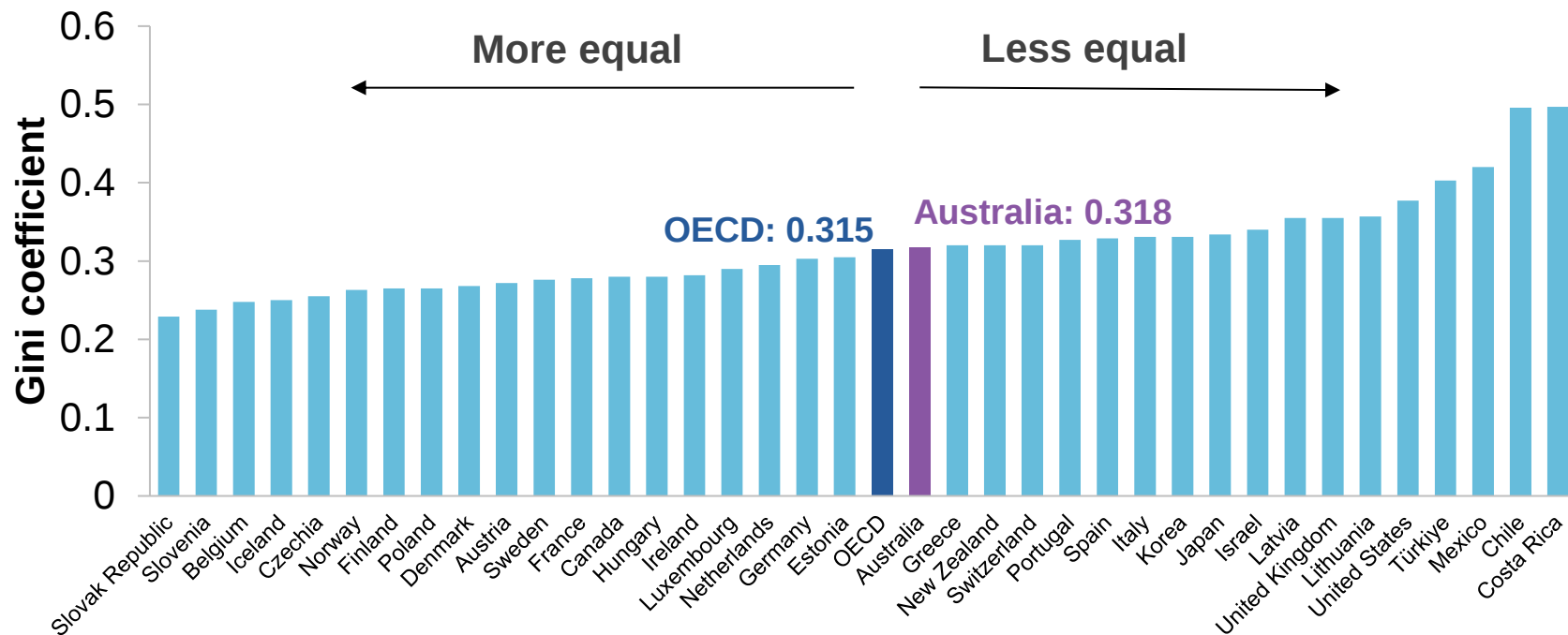
Gini coefficient for equivalised household disposable income, 1988-89 to 2021-22



Note: See Productivity Commission 2024, *A snapshot of inequality in Australia*, Canberra, for methodology Source: Productivity Commission estimates using HILDA and ABS's Survey of Income and Housing/Household Expenditure Survey (SIH/HES).

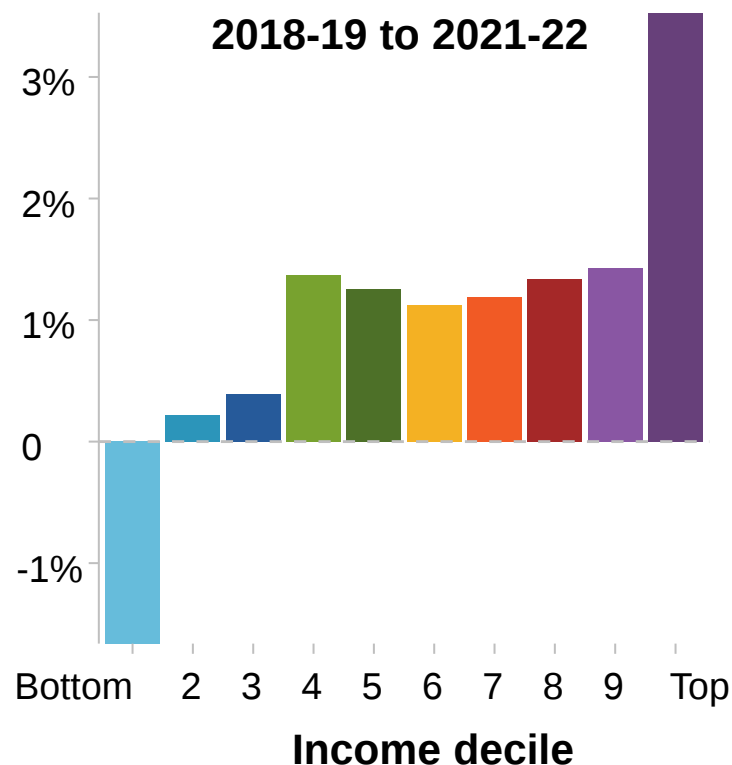
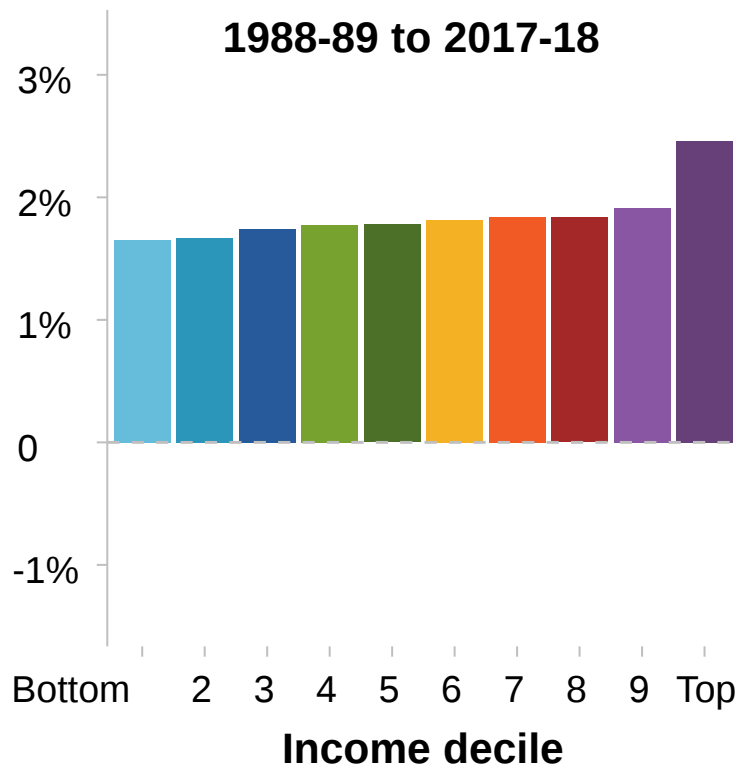
Australia's level of income inequality is 'middle of the pack' by OECD standards

International comparison of income Gini coefficients, 2020 or latest available



But rose during COVID

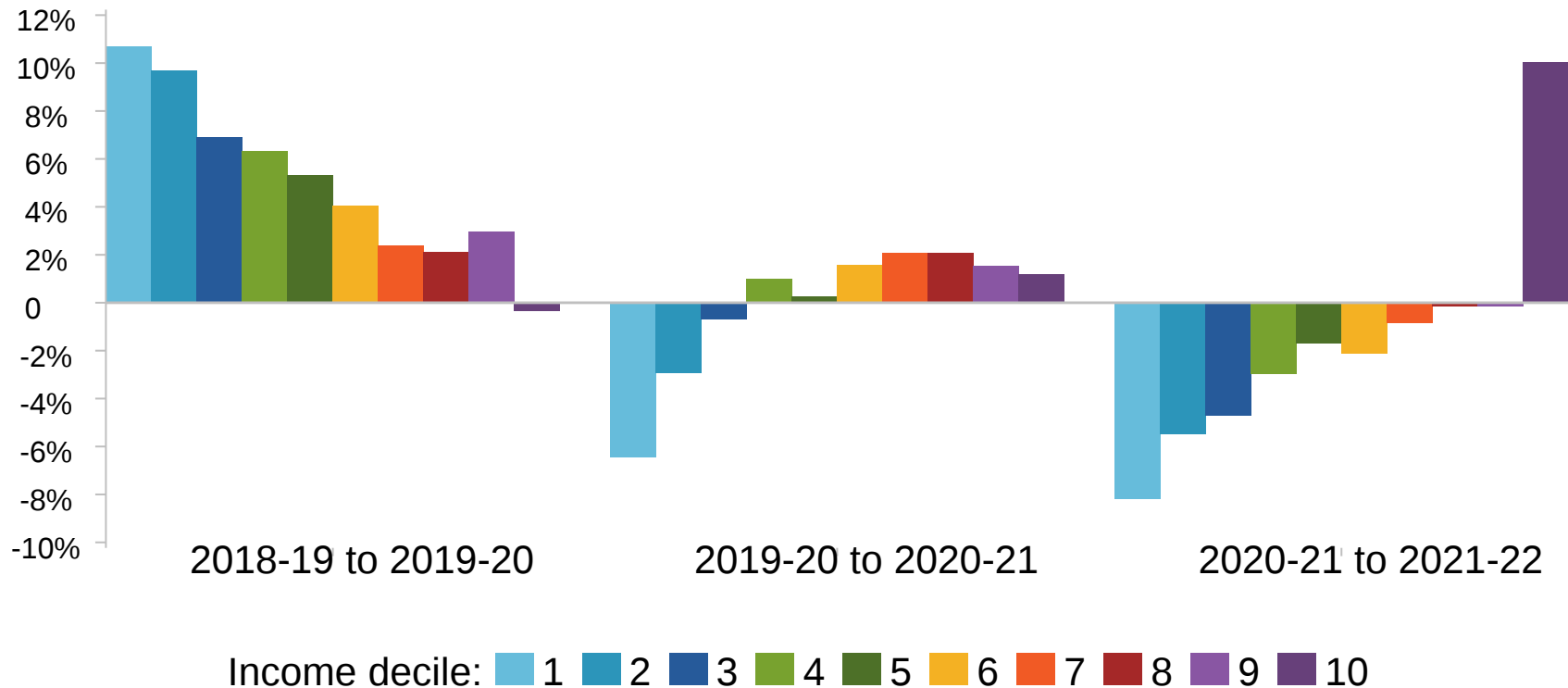
Average annual percentage change in equivalised household disposable income



Source: Productivity Commission estimates using Melbourne Institute data (Household, Income and Labour Dynamics in Australia (HILDA) Survey, Release 22) (2018-19 to 2021-22), ABS's Survey of Income and Housing/Household Expenditure Survey (SIH/HES) (1988-89 to 2017-18).

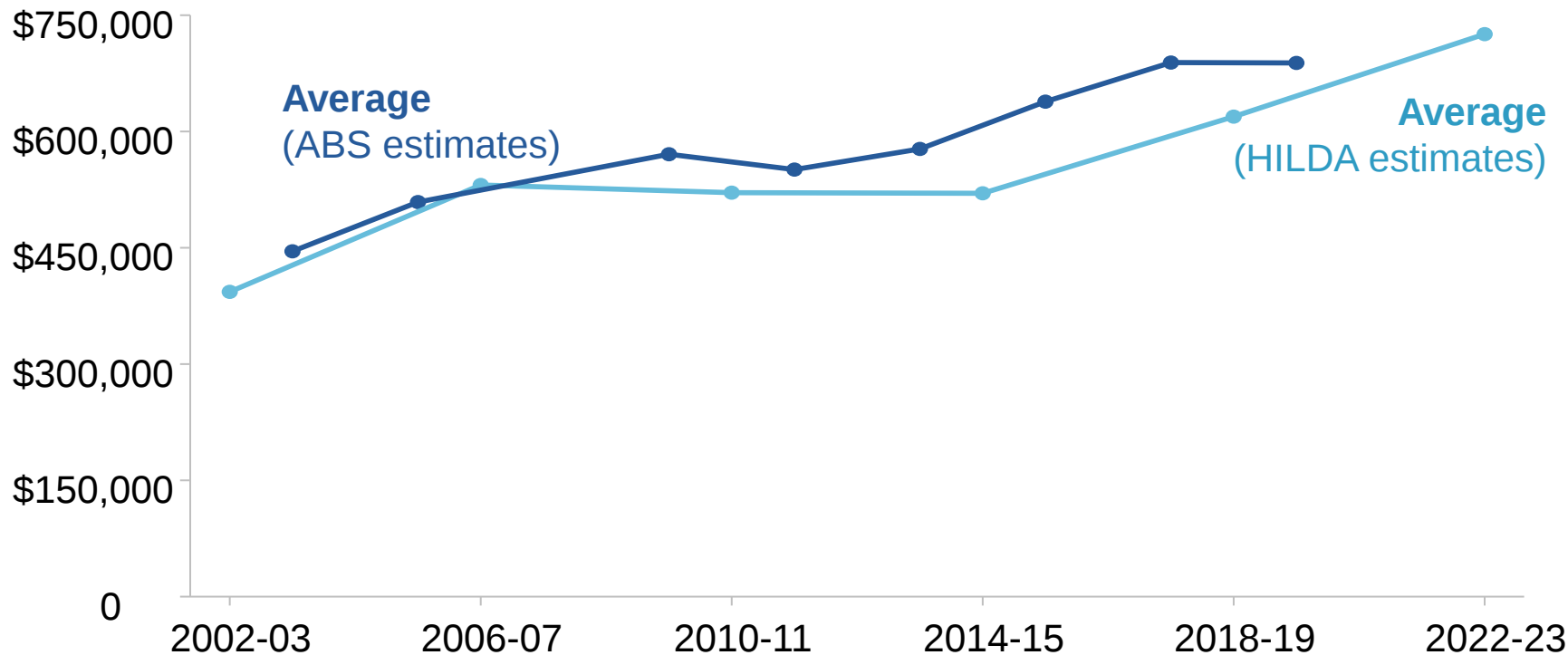
...after falling in the early years of the pandemic

Average annual percentage change in equivalised household disposable income by decile



Wealth is also rising over time

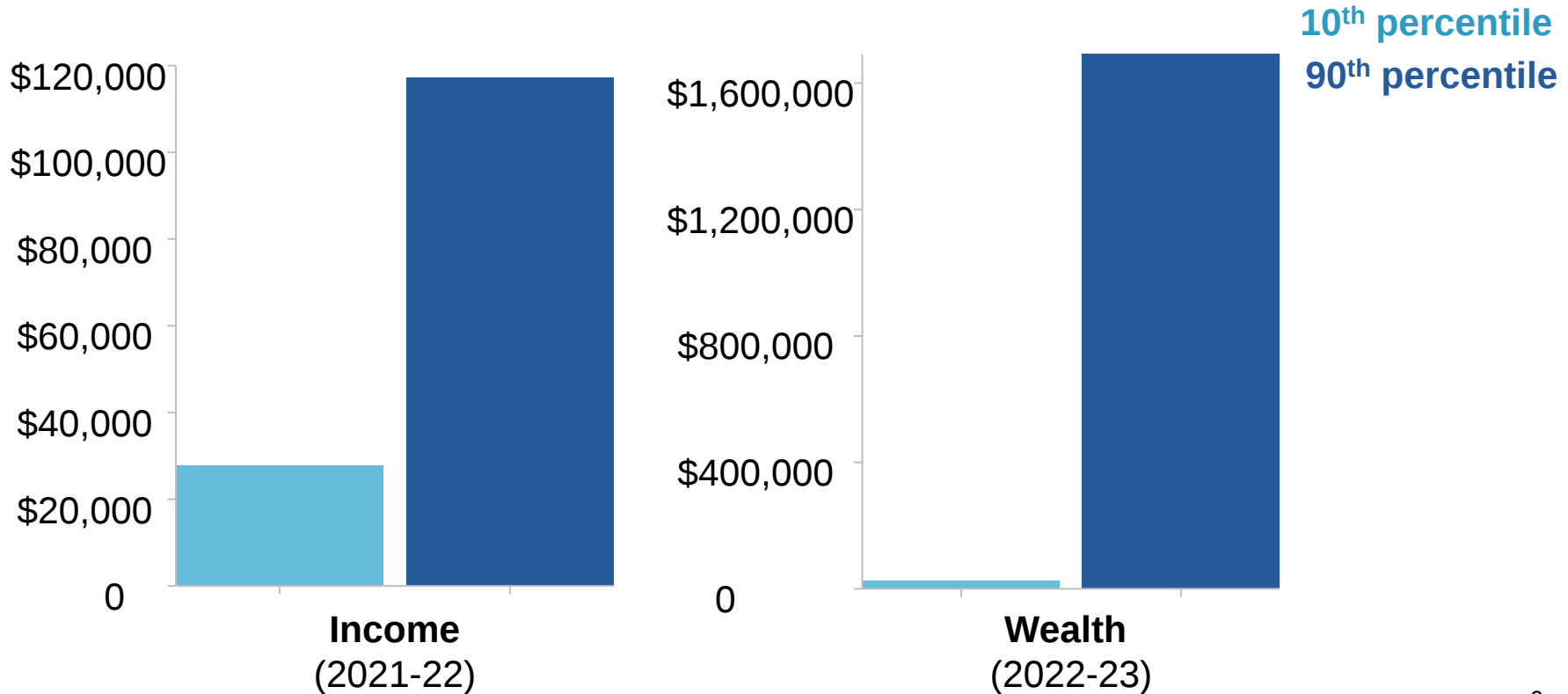
Average equivalised household wealth, 2002-03 to 2022-23, \$2022-23



Source: Productivity Commission estimates using Melbourne Institute data (Household, Income and Labour Dynamics in Australia (HILDA) Survey, Release 22), ABS's Survey of Income and Housing/Household Expenditure Survey (SIH/HES).

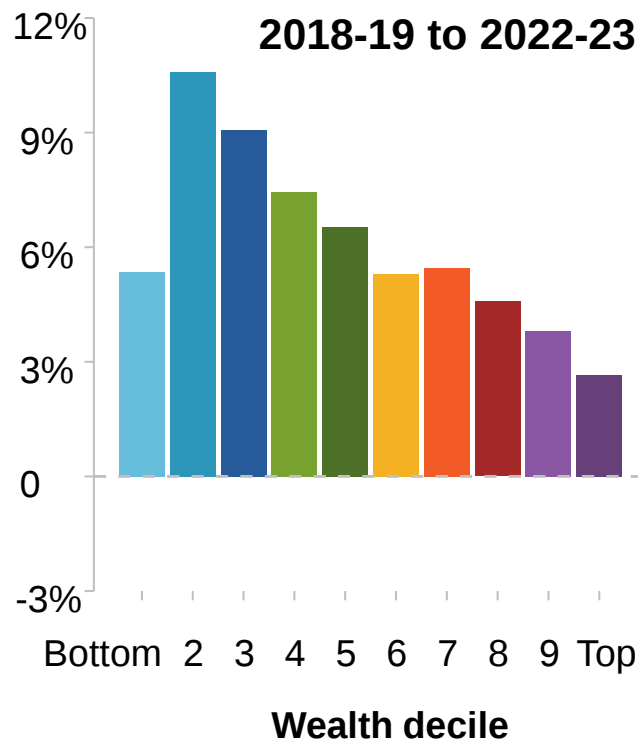
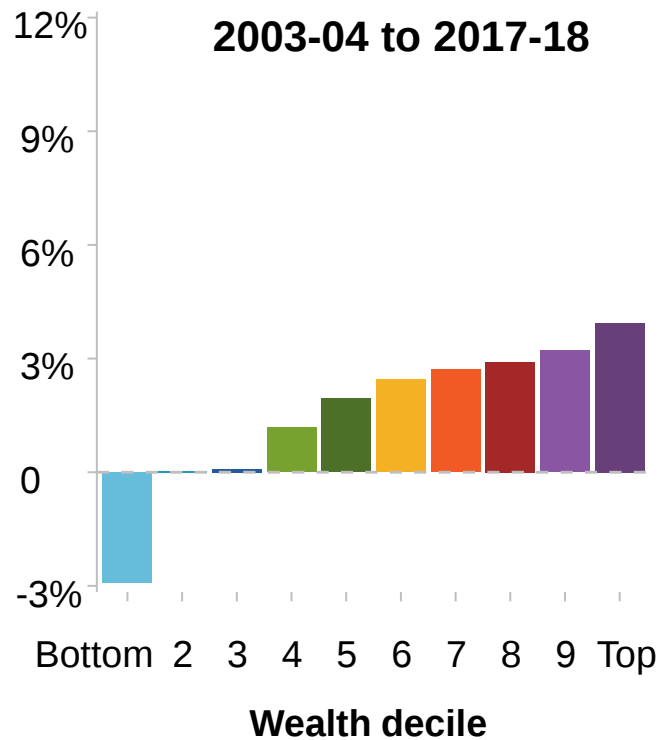
Wealth much more unevenly distributed than income

Average equivalised household disposable income and wealth, \$2022-23



Wealth inequality growth reversed during COVID

Average annual percentage change in equivalised household wealth





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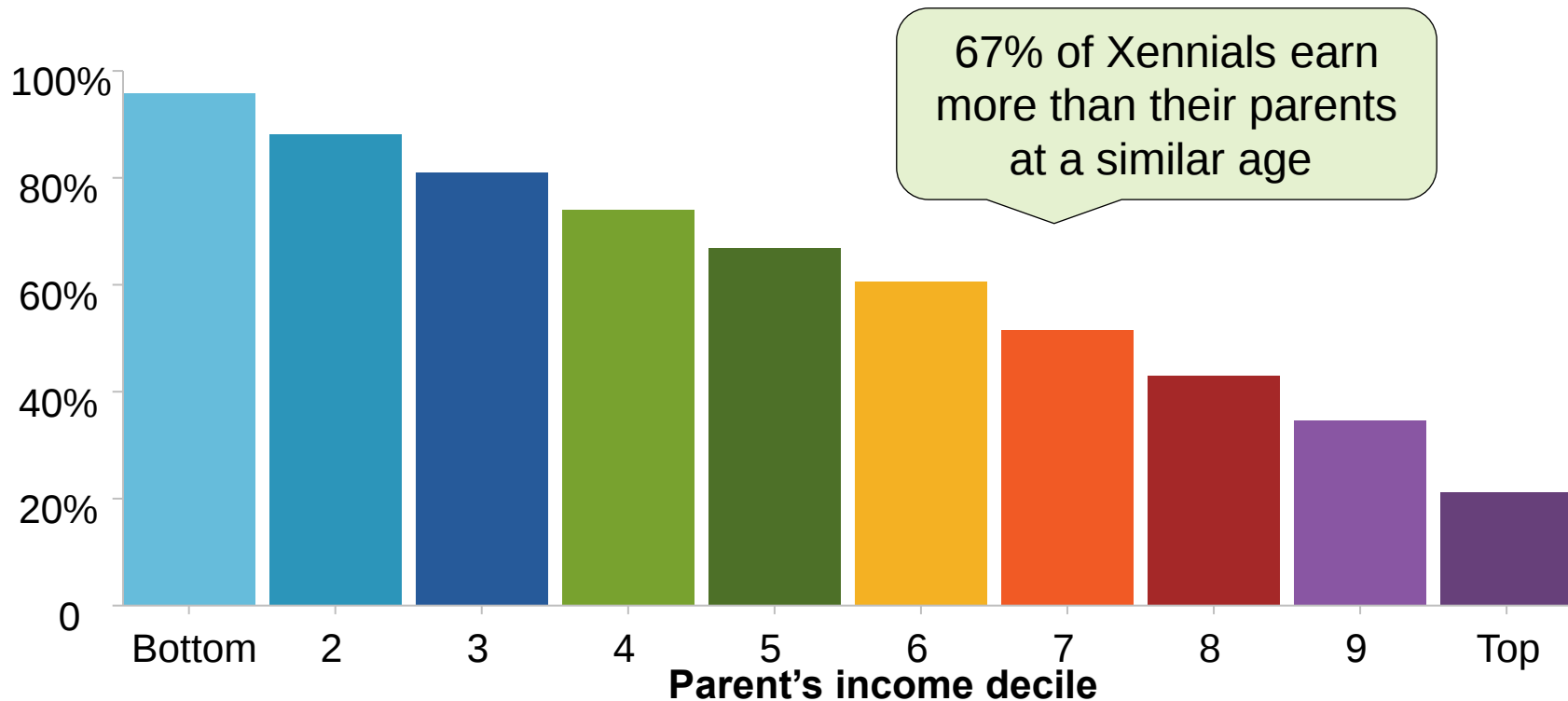
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Most earn more than their parents did

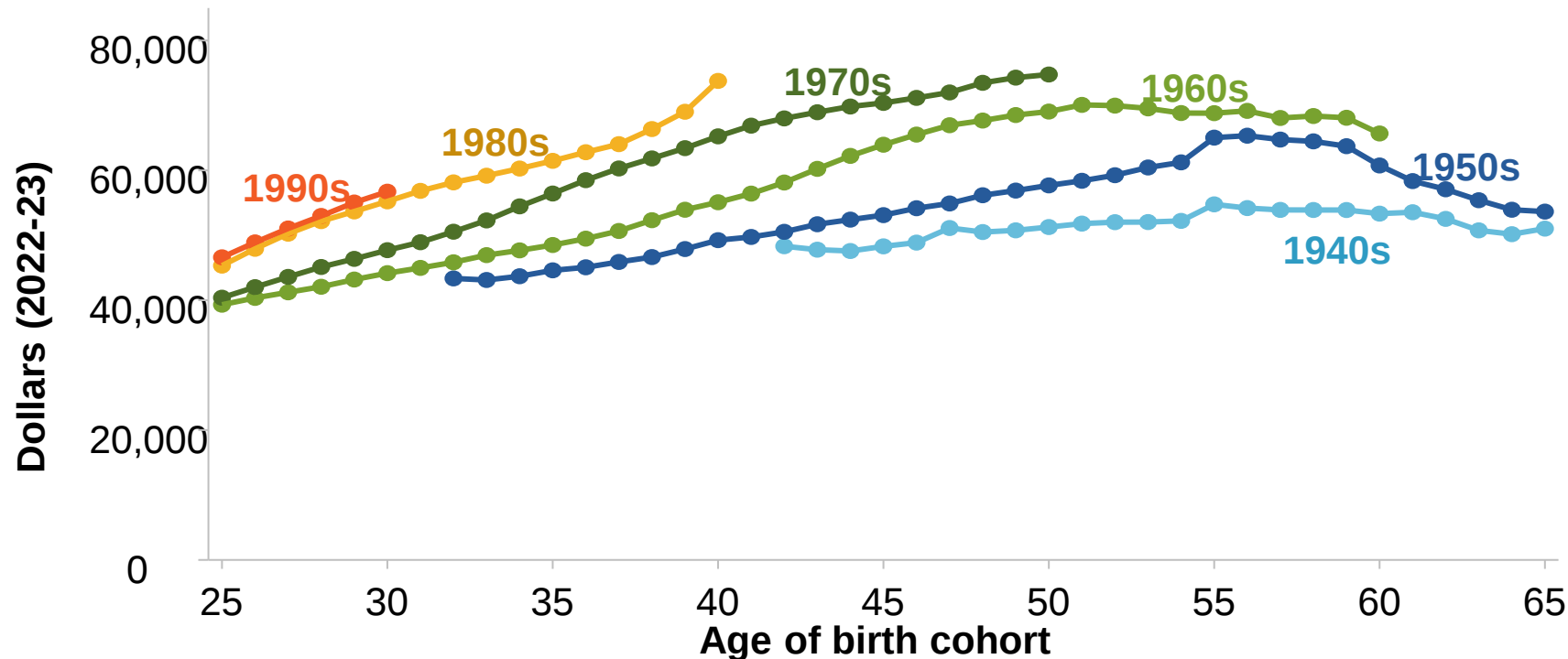
Children who earned more than their parents by parent's income decile, 1976–82 birth cohort, %



Notes: The income measure is 'total income', which includes transfers but not taxes and deductions. Data controls for age. See Productivity Commission 2024, *Fairly Equal? Economic Mobility in Australia*, Canberra for methodology. Source: Productivity Commission estimates using ALife.

This is partly because of generation-on-generation income growth

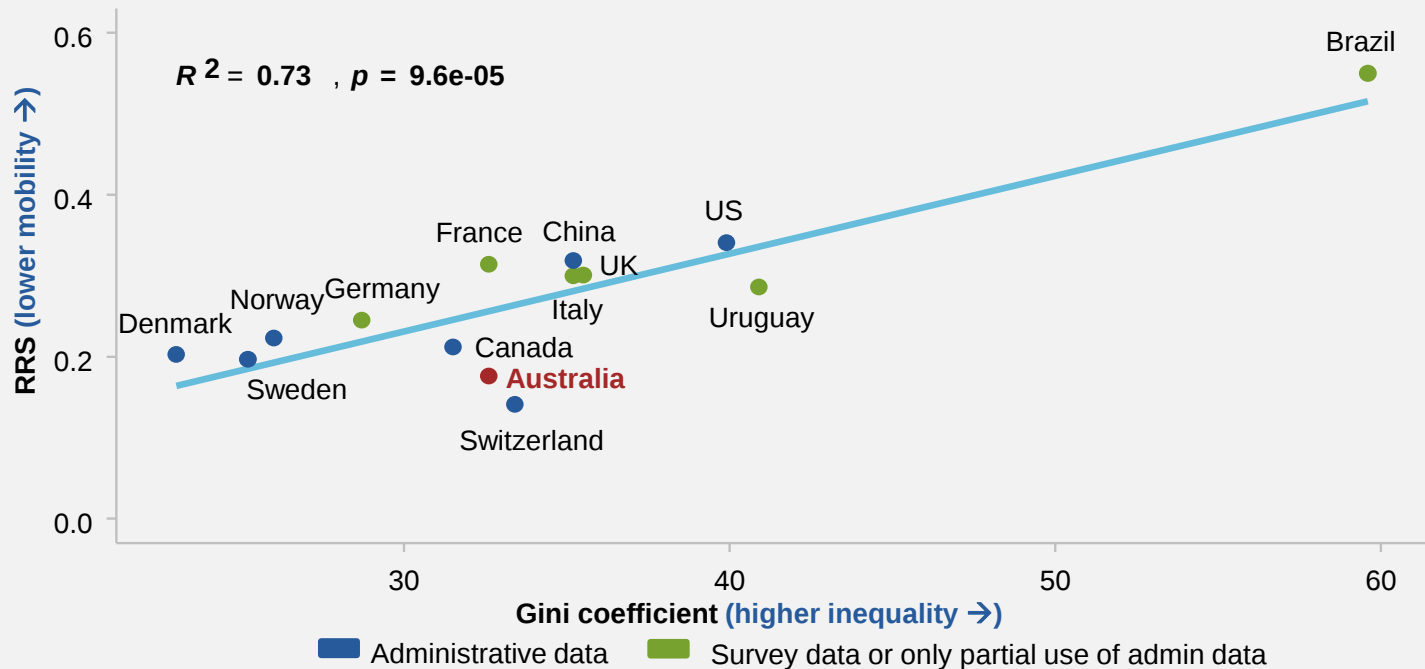
Average individual disposable income by birth decade and age



Intergenerational mobility in Australia is high

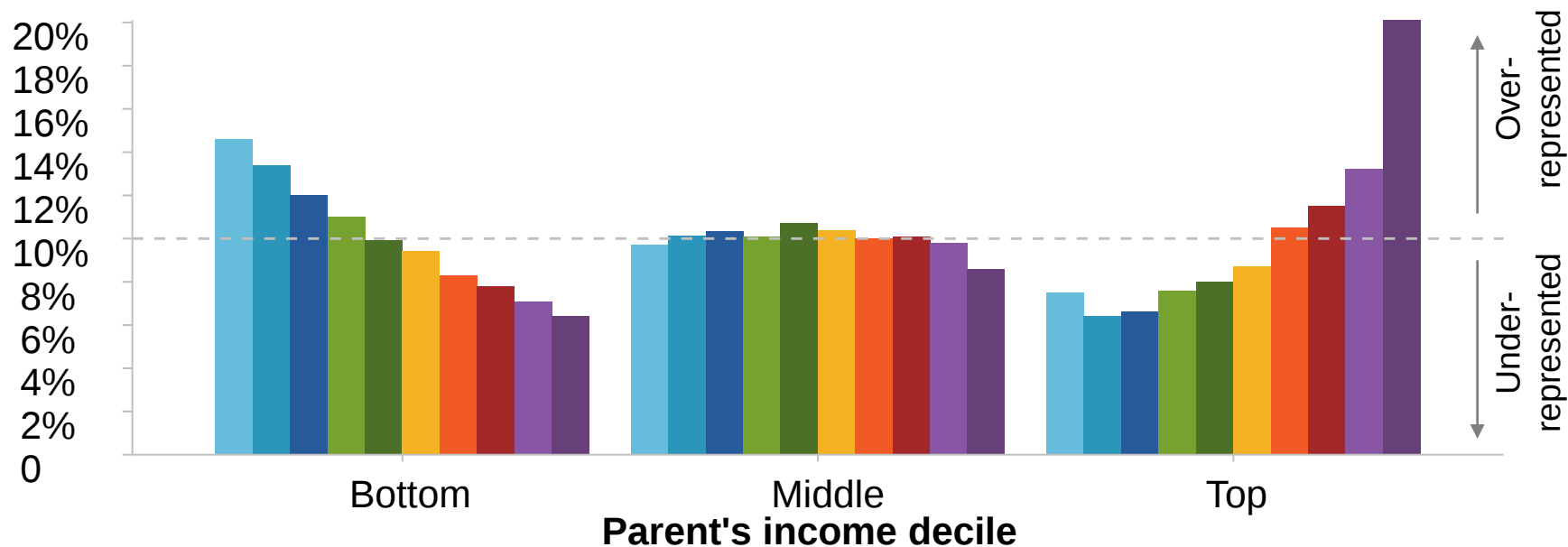
Rank-rank slope, by country

Countries with higher income inequality tend to have less intergenerational mobility



And income is stickier at the top and bottom of the distribution

Share of children who ended up in each income decile by their parents' income decile, 1976–82 birth cohort



Child's income decile: Bottom 2 3 4 5 6 7 8 9 Top

Note: See Productivity Commission 2024, *Fairly Equal? Economic Mobility in Australia*, Canberra for full methodology. Source: Productivity Commission estimates using ALife.



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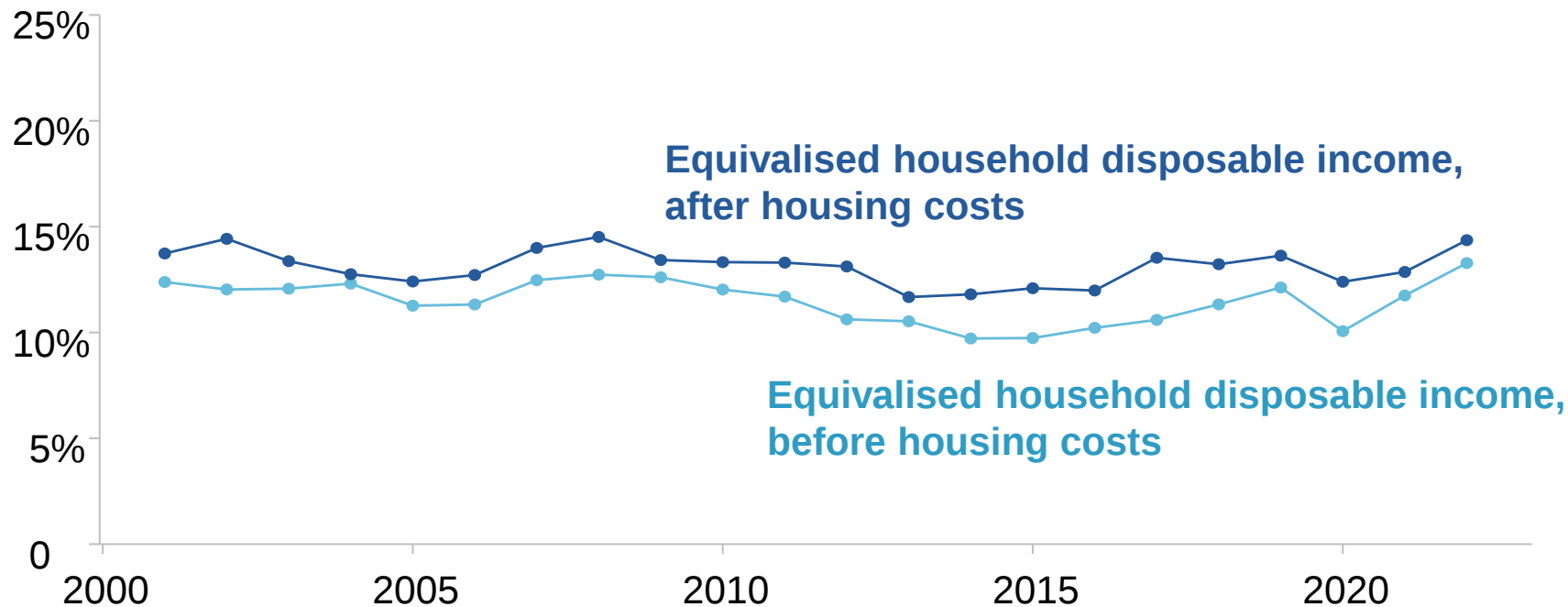
**What about deep disadvantage?
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Poverty rates have been relatively stable

Poverty rates, 2001-02 to 2021-22



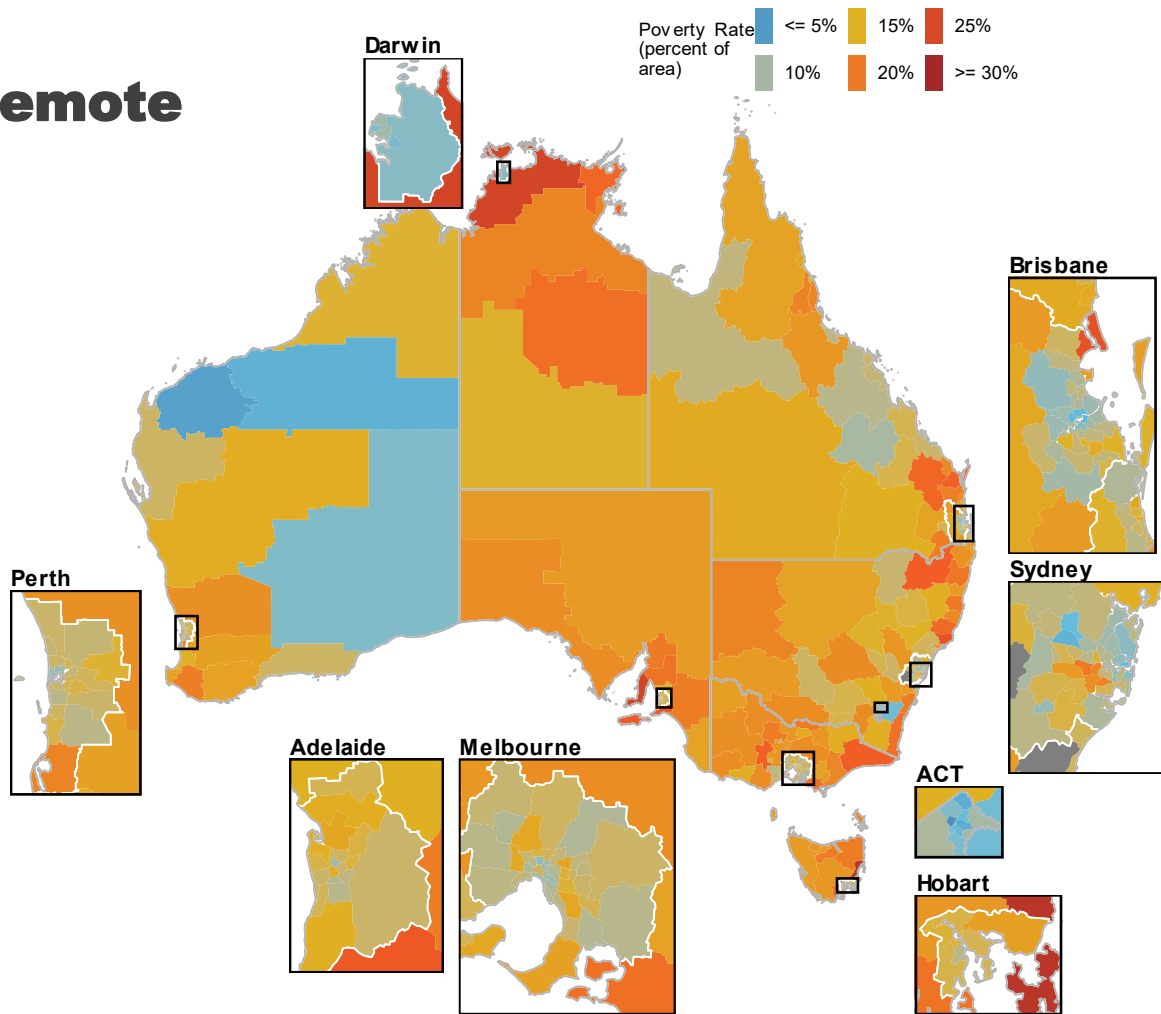
Note: See Productivity Commission 2024, *Fairly Equal? Economic Mobility in Australia*, Canberra for full methodology. Source: Productivity Commission estimates using HILDA survey, Release 22.

Poverty rates are 50% higher in very remote

If we also include the high cost of living in remote areas (NIAA 2020), remote poverty is much worse.

* Local poverty rates are calculated relative to the national poverty line.

Source: Commission estimates using linked ATO Personal Income Tax, DSS government payment, Census data and ABS derived demographics data in the Person Level Integrated Data Asset (PLIDA).



Remoteness affects Aboriginal and Torres Strait Islander incomes

Aboriginal and Torres Strait Islander and Australian incomes by location, 2021 22



Poverty is more entrenched for those in remote areas

Percent of people in poverty by current and previous region

	Region of residence in 2021				
Region of residence in 2016	Major city	Inner regional	Outer regional	Remote	Very remote
Major city	12.7%	13.2%	13.4%	6.9%	5.4%
Inner regional	10.1%	17.2%	14.1%	8.9%	8.1%
Outer regional	9.3%	13.8%	17.1%	8.4%	6.4%
Remote	9.0%	12.9%	12.1%	15.5%	8.8%
Very remote	10.4%	12.6%	12.7%	11.5%	23.1%

Commission estimates using linked ATO Personal Income Tax, DSS government payment, Census data and ABS derived demographics data in the Person Level Integrated Data Asset (PLIDA).

From our consultations

- Access issues are extremely important in remote locations:
 - Resolving issues, finding the right information
 - Receiving payments that one qualifies for
- Need for better data on who does not have access, and what level of service would improve access

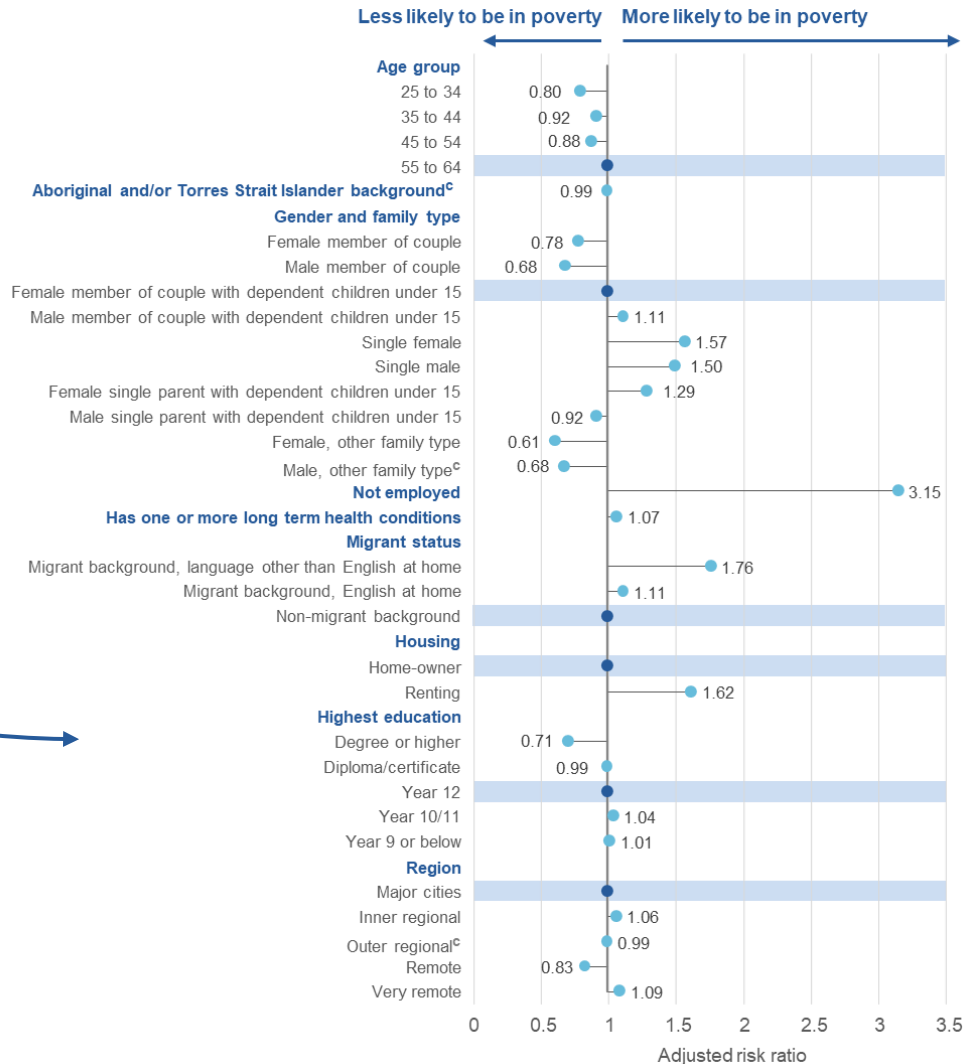
You're more likely to be in poverty if...

You're unemployed

You're a migrant who doesn't speak English at home

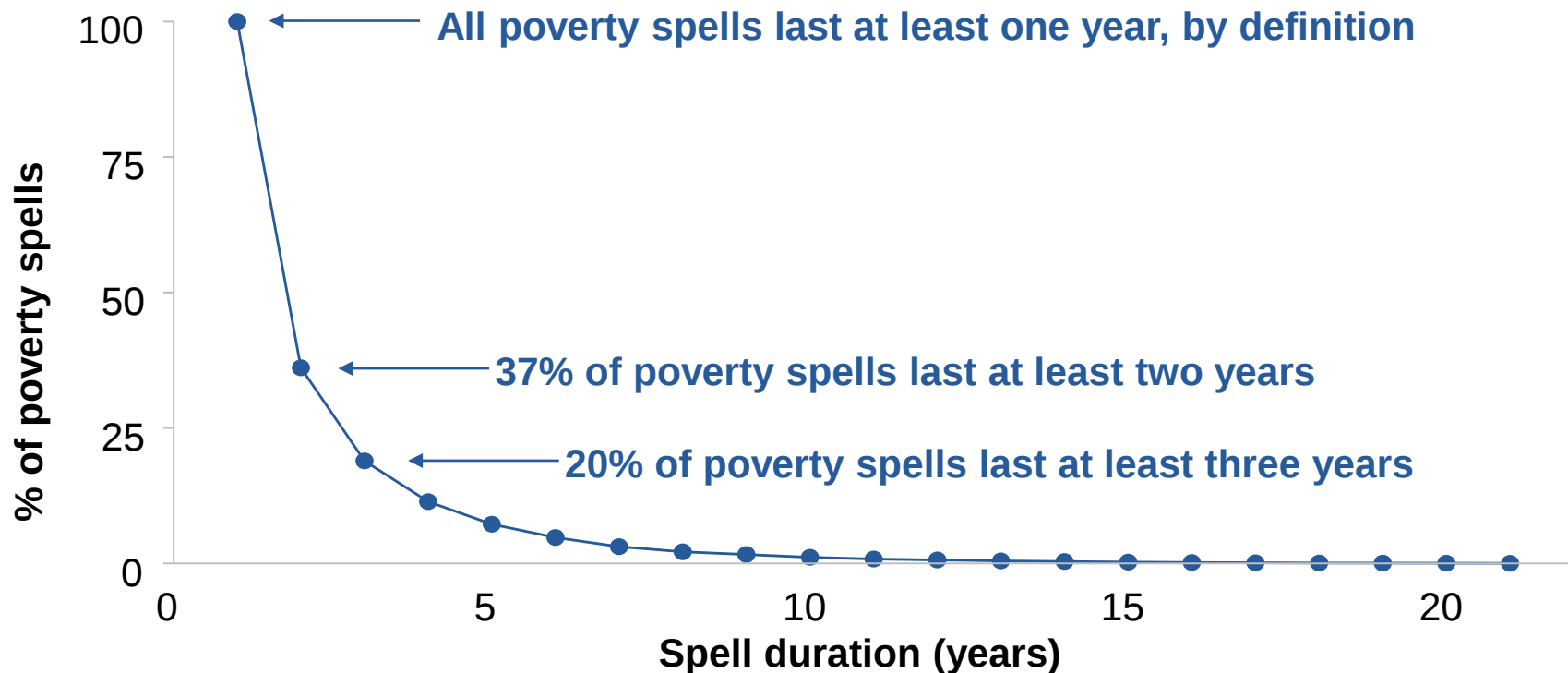
You live alone

You're renting your home



Poverty spells are usually short, but some are very long

Share of poverty spells by length of time in poverty in years



It's harder to exit poverty if...

You're older

You live alone

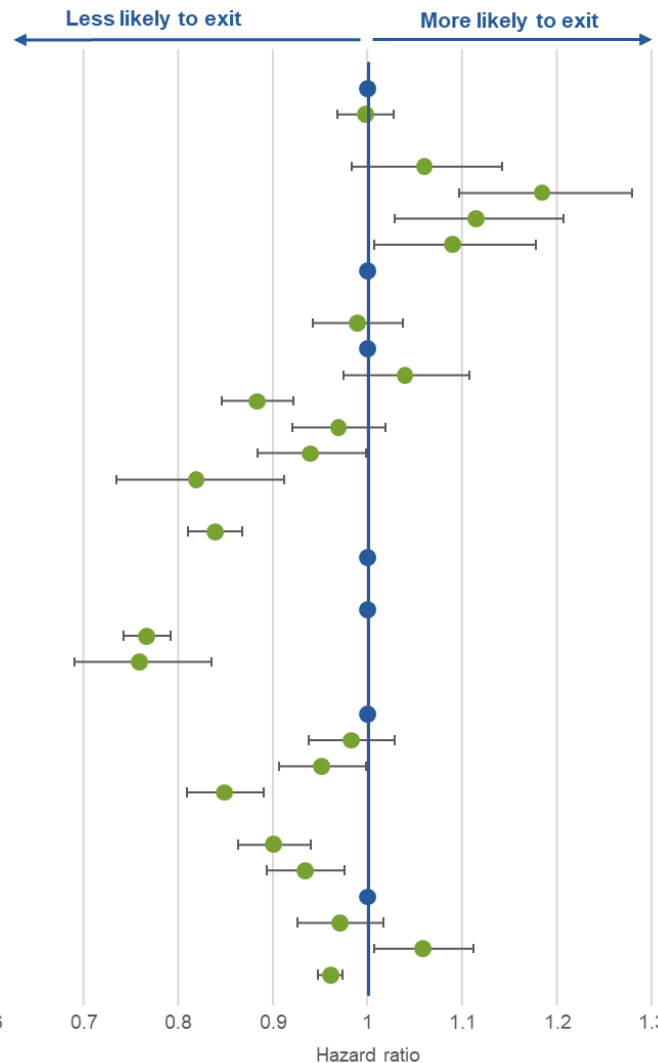
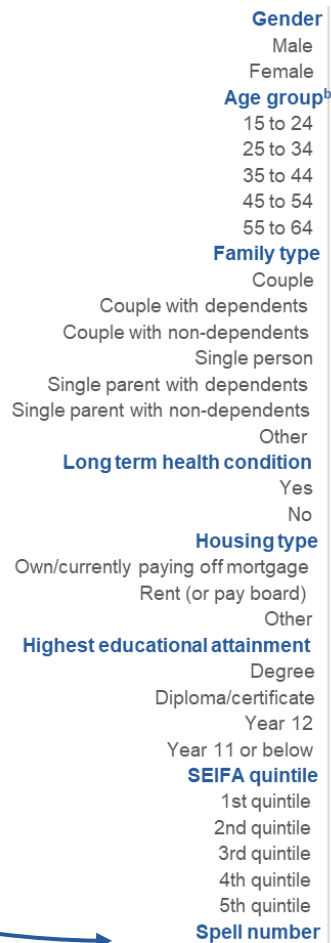
You're renting your home

You have a long-term health condition

You have lower education levels

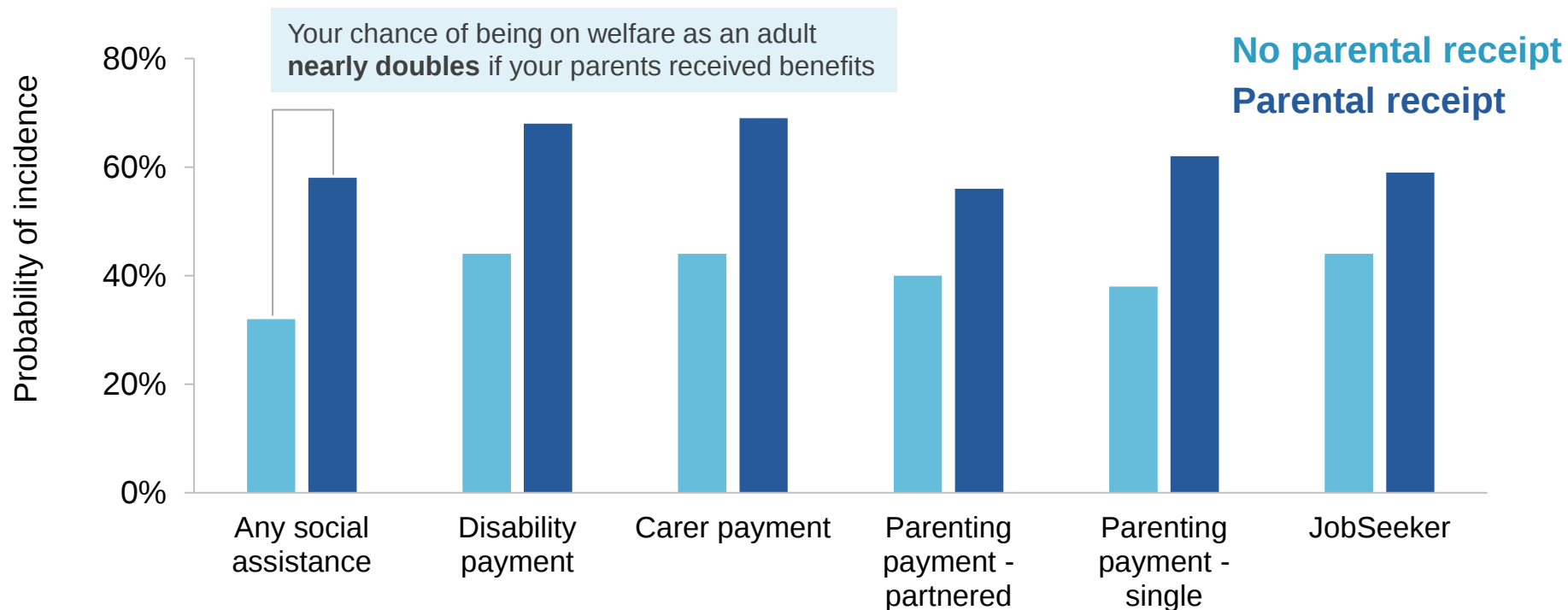
You live in a poorer region

You've been in poverty before



You're more likely to need welfare if your parents did

Predicted incidence of youth social assistance receipt, by parents' benefit



Notes: Estimates derived from the Transgenerational Data Set (TDS) constructed by the Department of Social Services (years 1996-2014), 124,285 parent-youth pair observations. Bars represent conditional predicted probabilities of general social assistance receipt from OLS regressions, separately for each parental payment and controlling for basic demographics. At the time of the data collection, JobSeeker was known as Newstart. Source: Cobb-Clark et al., 2022, 'Intergenerational disadvantage: Learning about equal opportunity from social assistance receipt', *Journal of Labour Economics*, vol. 79, Table 3.



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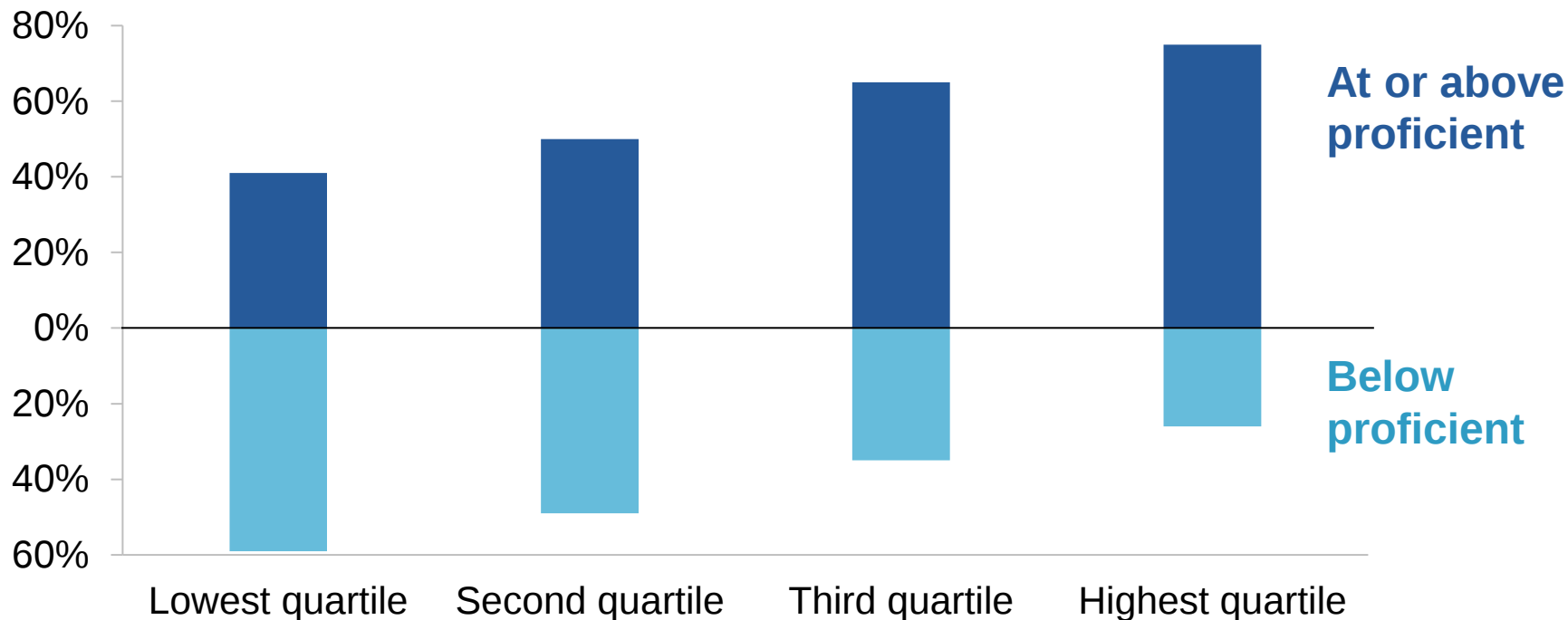
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Disadvantaged kids aren't learning to read properly

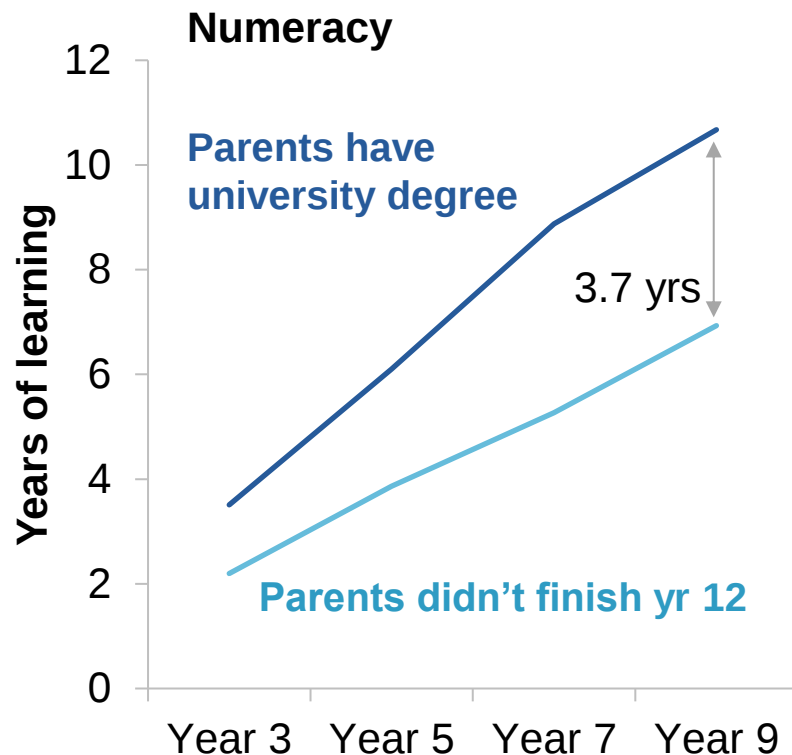
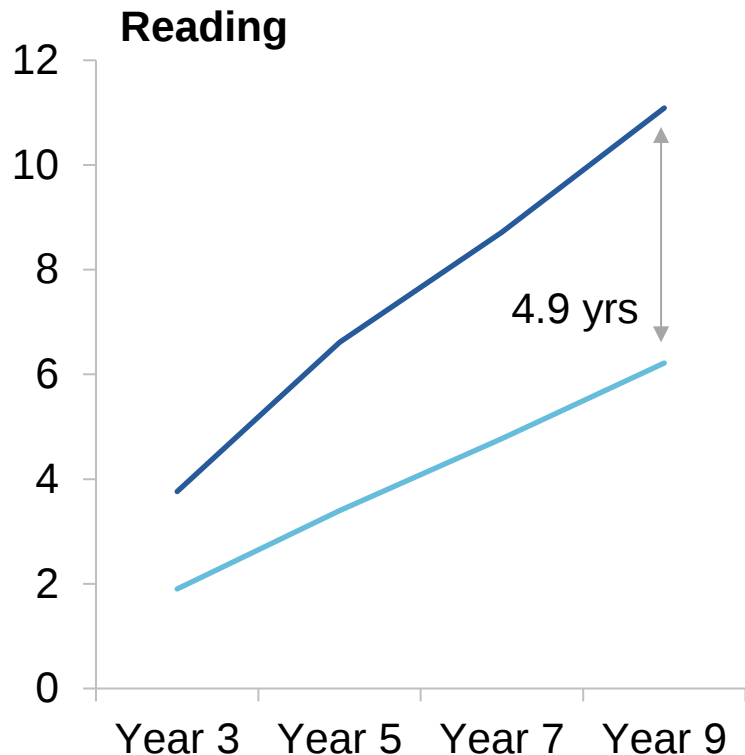
Share of 15-year-old students at each reading performance level, PISA 2022



Notes: 'At or above proficient' includes students who scored in PISA Level 3 or above. 'Below proficient' is considered PISA Level 2 or under.
Source: Hunter, J et al. 2023, 'The Reading Guarantee: How to give every child the best chance of success.' Grattan Institute, Figure 1.2.

Kids do better at school if their parents went to uni

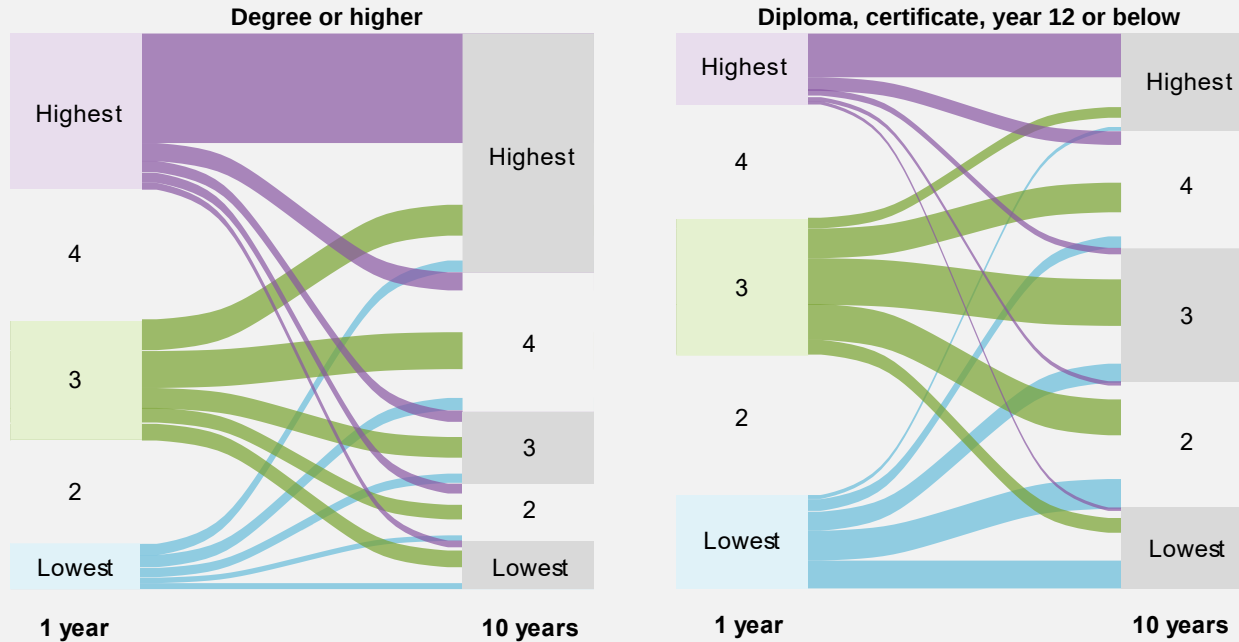
Time taken to bridge gap in learning scores by parents' education, 2013 to 2021



Notes: Commission estimates of de-identified student-level NAPLAN data, for same cohort from 2013 to 2021. Results from 2008 to 2022 are not directly comparable to 2023 or 2024 due to updates to the administration and reporting of NAPLAN data. Source: Productivity Commission 2022a, 'Review of the National School Reform Agreement', Study Report, Canberra.

People with a degree are more likely to stay at the top

Transition between income quintiles, by level of education



A policy maker's toolbox

Bottom

'Entrenched disadvantage'

- Health and education
- Welfare supports
- Minimum wage settings
- Full employment policies

Middle

'Hollowing out of middle class'

- Higher education
- Labour laws
- Trade settings
- Making the most of technological change
- Social insurance

Top

'Opportunity hoarding'

- Regulatory settings
- Antitrust policies
- Lobbying and political donations laws
- Taxation (incl. wealth)

Note: Adapted from Rodrik, D 2019, concluding remarks, presented at Pearson Institute for International Economics 2019, 'Combating inequality: Rethinking policies to reduce inequality in advanced economies', October 17 to 18, Washington DC. Policy items should be subject to evaluation of their costs and benefits and are not formal recommendations of the Productivity Commission.



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