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## *REVIEWS*

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### **Achieving a More Egalitarian Australia**

*Fred Argy, **Where to From Here? Australian Egalitarianism Under Threat**, Allen and Unwin, Sydney, 2003*

*Reviewed by **John Freebairn***

Fred Argy is concerned with what he sees as a threatening decline in egalitarianism in Australia over the last 25 years. In a highly readable and concise 200 pages he provides a survey of the facts on the current distribution of, and recent trends in the distribution of, opportunities and outcomes in Australia; an assessment of some of the economic, political and attitudinal changes driving the (mostly) Federal government redistributive policies; and a concluding chapter with his views on a minimalist policy strategy and a far-reaching social reform policy strategy, respectively, to retain and to improve egalitarianism in future Australia. Argy provides an excellent and a balanced synthesis of available material describing many different dimensions of distributional equity, and he offers a good tour of the main forces driving policy attitudes, objectives and the choice of policy instruments to affect redistribution. By contrast, his articulation and analysis of proposals to achieve greater egalitarianism is rudimentary and it raises more questions than answers to what is a highly challenging and complex set of issues.

Chapter 1 summarises the many academic studies and government reports, and for more recent information newspaper reports, on the distribution of economic opportunities and outcomes in Australia over the last 25 years. Not surprisingly, Argy reports some measures indicating greater equality and others indicating greater inequality. Overall, he concludes that the relative pattern of distributional equity has become more unequal.

On the positive or more egalitarian side of the ledger, he points to reduced discrimination against migrants and of discrimination by gender, age and sexual preference, the universality of Medicare, higher secondary school and tertiary education enrolments, employer contributed superannuation, the end of discrimination against Aborigines but still poor outcomes on all economic and social measures, more and better targeted family support, the Job Network, and better assistance in moving from welfare to work.

Examples of measures showing greater disparities in equity include less job opportunities, both high unemployment and the growing share of part-time and casual jobs with limited career prospects, greater dispersion of wages and work conditions, access to welfare now is more conditional and moralistic, the tax system has become less progressive in both design and in the greater availability of opportunities for tax avoidance to the better-off, greater regional disparities in

opportunities and outcomes, greater power imbalances in the workplace, and a fall of government expenditure on education as a share of GDP. While disposable incomes of the poor and those on middle incomes have increased and they have shared in the remarkable growth of Australian real incomes over the 1990s, those in the upper deciles of the distribution have increased their share of the economic pie. Also, Argy points out that Australia is a less egalitarian society when compared with countries in Continental Europe.

The various pictures of distributional equity provided by Argy are of the static, snapshot form. That is, cross-section data for a particular point in time is used. To a large extent limited data availability dictated this approach. It would be highly desirable to complement the static, snapshot pictures with panel data showing distributional outcomes over a life cycle, or at least over several years. A few studies in Australia and overseas find that many individuals and households with very low or very high outcomes in one particular period have a more average experience in other periods so that the extent of variation over a lifetime or several years is much less than is indicated by a static, snapshot picture. People experience temporary good and bad times, they have careers and they move through different family and household arrangements which affect measures of equity. Also of interest is whether economic and social mobility, so much a point of superior distributional equity in Australia relative to Europe in the first part of the twentieth century, has changed over recent decades.

I am in full agreement with Argy that high unemployment has been a major failure of the Australian economy of the 1990s and 2000s. This failure is particularly acute when one adds the hidden unemployed and the under employed, a group which in aggregate at least equal the six per cent plus of the workforce who are registered as unemployed. By contrast with recent times, in the 1950s and 1960s unemployment seldom exceeded two per cent of the workforce. Unemployment is a major cause of income inequality, low personal self-esteem and other measures of inequality. Society and political complacency with continued high unemployment, and a dearth of discussion of policy initiatives to increase employment, rightly is a major concern for all, as well as one highlighted in this book.

Arguably the rapid growth of part-time and casual employment from less than 10 per cent of the workforce in 1970 to nearly 30 per cent now is less a threat to egalitarianism than is the case painted by Argy. Many, but certainly not all, of those in part-time and casual employment self report that they are happy with and prefer these employment arrangements. To a large extent the rapid expansion of non-standard working arrangements has been a consequence of our demand, supported by higher incomes, for all types of services to be available 24 hours a day, seven days a week, versus the olden days with a less consumer friendly 9 to 5, 5 days a week service.

Chapter 2 is about the trade-off between equity and efficiency. Argy clearly and repeatedly, in Chapter 6 for example, argues in favour of economic growth to increase the aggregate size of the economic pie available for redistribution. Further, he recognises the necessity of dismantling of the Australian Settlement

policies and the benefits of microeconomic reform of the last 25 years in raising productivity and promoting growth. He is explicit about the need for further productivity growth and structural change for the future. Argy points to some instances of complementarities between equity and efficiency, for example, the importance of a safety net for effective operation of the labour market and for risk taking, investments in education, and social stability providing a more conducive environment for productive investment and work effort.

But in other dimensions there is a trade-off between equity and efficiency, and here Argy considers disincentives and distortions caused by taxation to fund greater government outlays on programs to achieve equity, and the crowding-out effects of budget deficits to fund public investment. Focussing primarily on taxation distortions to labour supply decisions, Argy asserts that the equity/efficiency trade-off with Australia's relatively low (statutory but not effective) tax rates is low, and much lower than those in Continental Europe where the sky has not fallen in because of higher tax rates.

In my view Argy has drawn an optimistic scenario on the low efficiency losses of further government outlays to achieve greater distributional equity. As noted in some detail in chapter 3, there are high effective marginal tax rates arising from interaction of the taxation system, and here not only income tax but also the expenditure taxes, including GST, excise taxes and the State taxes which reduce real spending-power, and withdrawal of means tested social security pensions and benefits. Effective marginal tax rates often are of more concern than the top statutory income tax rate of 48.5 per cent. Some 15 per cent of couples with children and 23 per cent of sole parents face effective marginal tax rates of over 60 per cent, and these households generally have higher labour supply elasticities than do high income earners.

Here there are policy challenges to rationalise the complex social security system with its stacking of withdrawal rates of different support measures, and then to better integrate the income tax system for individuals with the social security system which means tests on family income and assets. Argy ignores also the distortions and efficiency costs associated with Australia's hybrid or mongrel tax system which places very different tax rates on different investment and savings choice options and on different forms of business organisation and financing.

A part of Argy's agenda for greater equity involves more public expenditure on education, health and housing. Since most of these products have private-good properties and are provided by governments for free or well below cost, it is almost certain that consumption efficiency losses will be involved. These examples are not to say that Argy is incorrect in claiming that the efficiency costs of larger governments are acceptable, but that he underestimates these costs, and, importantly, there are more areas of the reform agenda to follow.

Using the results of attitudinal surveys, in Chapters 4 and 6 Argy argues that while there is a high level of cynicism in the broader community, and in the policy making precincts, about the motives and effectiveness of government intervention

in the economy, there remains a strong body of support for intervention to achieve distributional equity, especially of equality of opportunity.

In chapter 5 it is asserted, rather than rigorously argued, that globalisation does not unduly restrict the use of government policies to redistribute for equity goals.

Argy then chances his arm in Chapter 7 with proposals to achieve a more egalitarian Australia in the future. His preferred far-reaching social reform agenda would include; further poverty relief for the most disadvantaged, including indigenous people; special taxation assistance for the working poor, for example a variant of the US earned income tax credit; labour market programs for the long term unemployed; more equal access to school education and to health care; direct assistance to low income families to build their wealth; and regional policies.

The required extra funding he suggests in part could come from broadening tax bases and removing concessions favouring the better-off, from reviewing the efficacy of existing programs and by allowing governments to run short and medium run deficits for public investment expenditure so long as they pass a formal benefit cost assessment. Unfortunately it has to be said that some of these policy proposals have been tried before with very limited success, including labour market programs and selective regional assistance policies. The overall effectiveness of other parts of the package, such as the earned income tax credit, is controversial, and other parts of the package, and in particular the low income wealth scheme, are largely untried. In my view, this chapter is too short on supporting analysis and detailed evidence to convince other than the already converted.

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