

Economic inequality in australia



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Why has economic inequality increased in Australia since the 1970s? What have been the consequences of this increase in the quality of life in Australia?

Since 1970, people have been challenging the issue of “conventional wisdom” that was connected to the scarcity aspect rather than attaining successful way of managing affluence. There have been various real problems that required to be addressed. Some of these problems were related to wastage of resources, especially on the weapons of war, the lingering poverty and the imbalance of quality among the public provided services and the privately produced goods that can be summed as “public squalor and private opulence.” After the post-war period, a new world has been delivered, where there have been dominant ideas and concerns over the past on declining significance that is more than inequality (Atkinson, Piketty & Saez 2011). There are few things that can be evidenced in the modern social history rather than the interest of declining the inequality as part of the economic issue. There are various reasons to this. Inequality was not getting to it worse, but it is still profound. Large part of the population had a sense of the economic inequality and security level. The real income level for all the people increased with dramatically while the wealth for those who were at the top stagnated. This situation was well described by certain theory of transformation. The theory indicates that, as the country was more industrialized, the citizens were able to move away from agriculture to industry.

This issue caused inequality to rise since some of the people become richer while other remained poorer. Taking full industrialization aspect of the

country would have caused mass education, increased wage for the workforce, and increase political powers for the mass populations. These were part of the issues that could have caused an increased level of inequality in the country. The income inequality level in most of the OECD countries has increased in the past 20-30 years among them Australia (Alderson, Beckfield & Nielsen 2005) This paper will explore the causes of increased level of inequality in the country while outlining the nature of the economies using both political and historical techniques. The argument will be based on the fact that, the increased inequality level has been due to the deliberate policy, government ideas of shifting the income from wages to profits. As well, there was a shift of income from low to the middle-income earners and to those who earn higher and squeezing the consumption level with an aim of increasing the reward that is available for the investment.

Skill Biased Technical Changes

This has been one of the factors that have been debated as a cause of distribution of market outcomes. In Australia, the dominant explanation that can be cited for the increased income inequality is the impact created by the skill-biased technical changes that have been fostered by the globalization. Skill-biased technical changes can be set out as the shifts that are experienced in the production technology that do favor all the skilled individuals (such as the more educated, more capable and more experienced) than the unskilled individuals. They are being favored due to the increased relative production capacity hence has a relative demand (Alderson, Beckfield & Nielsen 2005). Skill-biased technical changes in the country have been cited as a mean that deliver premium wages to all

individual who have certain specified skills and more to the workforce that has higher education level. The first impact of this issue has been due to the globalization, where production of the unskilled individual is considered quite low. In the economy, labor-intensive commodities are being outsourced to the low wage economic groups, hence reducing the prices. As well, the demand for the unskilled labor in the country has been quite low. As well, another cause is associated with the rise of the production system that do rely on the information technology levels, advanced technology. This situation has a directly increased demand for the skilled and educated staffs compared to the less educated. In the manufacturing sectors, there is an evident rise in the relative employment for the high -educated skilled production staffs, who usually receives higher salaries and wages (Bramble & Kuhn 2011).

Polarization of Income Distribution at the Top

There have been various studies undertaken by scholars to investigate on the extent at which the income inequality may be the main product of the relative low income for the poor individuals. As well, the studies have highlighted or consider the aspect of relative higher incomes for the rich people (Bramble & Kuhn 2011). According to most studies, it was found that, the rise in inequality level is related to the aspect of polarization rather than the downgrading or upgrading that may lead to hollowing out of the model income part of the society. As well, it was found that, in the societies that experience the large increased level of inequality, upgrading would have to take precedence over the aspect of downgrading causes such as polarization. In other better terms, the wells off individual have the chances

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of becoming much richer. This has been the pattern that is evidenced by the rapid increase for the top income earners. In Australia, the share of the total income that is taken by the top 10 percent has decreased from 50 per cent in 1929 and in 1932, it decreased to 35 percent but later in 2007, it increased to 50 percent (Bramble & Kuhn 2011).

Back in year 1970, the decline of inequity was celebrated but one scholar noted that “ it no longer seemed possible for the ownership of tangible assets of the public and the disposal of the income to pass through negligible number of hands. After few years later, this was the situation on distribution of income changes. The situation that was experienced indicated that, almost one percent of the rich population was able to appropriate more than half of the increase in the national income. The remarkable idea was related to the degree of the top 0. 1 percent of the income earners that captured the misappropriated share of the overall national income. According to statistics, the Australian growth rate offers no indication of having experience to most of the population (Brandolini & Smeeding 2009). Back in year 1975-2006, the country average real income per household in the country grew by 32. 2 per cent but taking the top 1 per cent, the growth was by 17. 9 per cent. This is a finding that has been challenging the primacy of the skilled biased technical changes as part of the increased income inequality in the country. The rise in the top incomes has been greater than the suggestion of the extra productivity levels of the skilled workers. As well, very few of the top income earners have higher education and the skilled non-finance professions (Brandolini & Smeeding 2009).

Tax and Welfare Regime

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In Australia, the income inequality level has increased and the rise may significantly be fostered by the inequality in the market incomes. As well, changes in the tax and welfare regimes have in some ways reduced or increased the impact experienced in the market outcomes. There was in an increase in the inequality of the market outcome between 1979 and 2004 caused by the higher tax rates and the increased level of generosity on social assistance and employment assistance. This was taken in the ways of counteracting the effect of increased inequality in market outcomes or the households. In 1990s, the market income inequality grew rapider and, the tax and welfare program failed in reducing the polarization effect. Lowering the personal taxes mainly for the highest incomes reduced the issue of unemployment benefits, and this assisted in accounting for the rise in inequality.

Increased social assistance and tax and welfare reforms were the most deliberate policy and decisions that caused the impact of inequality in the country (Card & DiNardo 2002). An argument that was raised stated that, if the effect if taxation of the income at the top was frozen, there would be a very big chunk of the increased inequality for the super-rich and the rest part of the population. As well, recognizing the skill-biased technical changes to have a direct impact on the jobs and wages, it was criticized that the fixation of inequality was among the large section of the income distribution pattern. This was an issue that was obscuring the government policy that targeted becoming more generous toward individuals who were at the top (Bramble 2008). There is an extent of strength of the trade union organization that has been crucial when it comes to limiting the income inequality. This argument

has been linked with the decline in income inequality in the post-war years that was due to the strong trade unions, the progressive tax methods, low level of unemployment and the welfare system. Collective bargaining has been cited to be the cause of reduced the inequality of pay when compared to the competitive nature market. The inequality increase has been due to the result of a decline in the crucial bargaining power in the government expenditures (Bramble 2008).

Economic crisis of 1974-1975 actively contributed to the inequality in Australia. This economic crisis erupted after Whitlam Labor government was re-elected in 1974. During this time, the government policies that were in place swung from the Keynesian stimulus of austerity with struggle of a Minister policy. As well, the Australian trade union has won a case on pay rise but the level of inflation was spiral and out of control hence alarming the business. The society polarized sharply. Australia had strong and organized trade unions that laid their attempts of defending the unions and gain wage rise that could have sustained the real values of price, while the government tried to restrain the wages. This plunged the country into severe political crisis, and this caused seven years of a political impasse. The business, government, and the unions were quite mobilizing with attempts to defend their interest. The political impasse ended in year 1983, this was followed by election of new labor government, and there were results of unprecedented and restructured economy (Borland, Gregory & Sheehan 2001) To end the crisis, the new elected government has to propose Prices and Income Accord that was part of agreement set by trade unions and guaranteed an industrial peace and wage restraints in exchange of guarantee and the government

way of protecting the real wages and improve the social wage. All business representative were to be consulted and the trade unions movements especially on economic, tax and social issues. After the Labor won the election, the agreements become the structure of the government for the next one decade. There were a closer ways of monitoring the prices and all the workplace and unions that attempted to increase the wages beyond the maximum agreed rate was highly disciplined (Bagguley 1995). Along the wage policies, the government was able to restructure the business taxation policies. The statutory tax rates were reduced in year 1983 to 46 per cent and in year 1996 to 36 percent. Changes in the rules that were applied in corporate tax caused a great impact on the effective rate and corporate tax decline. Later in year 1986, the fringe benefits tax and the capital gain tax were introduced (Card & DiNardo 2002). These were some of the crucial measures that tried to reduce the income inequality level. The personal taxes that were charged in the higher income individual were cut in two crucial ways. As well, the government has to introduce dividend amputation that tried to reduce the income tax on share dividend a significant reform that benefited wealthy individuals. In the history years, business used to pay for company tax, and dividends were paid to shareholders and they were expected to pay tax on them (Alderson, Beckfield & Nielsen 2005)

Conclusion

The society will never be equal, there must be horizon for the disadvantaged, and they are hard to rise. Normal operations of the economy may place great economy power to the hand of business owners especially when it comes to employee's relation. The government has to take some

alternative and facilitate successful and profitable operations for the business that target a protection of a business owner from the employee's harmful actions. The government has ideas of reducing the inequality with consideration of low unemployment, increased levels of social security, minimum wages and higher marginal tax rates for the income earners.

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