



Australian Government
Productivity Commission

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Ms Rebecca Gordon
Inquiry Secretary
House of Representatives Select Committee
on Intergenerational Welfare Dependence

Dear Ms Gordon

In response to the letter from the Committee Secretary of 5 September 2018 inviting the Productivity Commission to appear at public hearings as part of the Committee's inquiry into intergenerational welfare dependence, please find attached a short submission to the inquiry. The submission is to make the Committee aware of some Productivity Commission work that may be relevant to the inquiry.

Yours sincerely

Nina Davidson
Head of Office

Productivity Commission Submission to the House of Representatives Select Committee on Intergenerational Welfare Dependence

The Productivity Commission has produced a number of reports which may be of interest to this Committee. These include: a Commission Research Paper entitled *Rising Inequality? A stocktake of the evidence*, released in August 2018; a Staff Working Paper into *Deep and Persistent Disadvantage in Australia*, released in 2013; and a Commission Research Paper on *Housing Assistance and Employment in Australia*, released in April 2015. This submission provides a brief overview of these papers rather than repeating the analysis and results in detail.

Inequality

The *Rising Inequality?* report was designed to contribute to informing discussions of inequality by bringing together and taking stock of the latest and most complete evidence of trends in inequality, economic mobility and disadvantage. The analysis uses a range of indicators as no single metric is sufficient when looking at what has been happening to inequality, poverty and disadvantage in recent years. While comprehensive, it is not exhaustive. It does not examine geographic, racial or gender inequality and it does not directly enter into debates about the causes and consequences of inequality or what type of policy responses might be appropriate. The report updates and extends an earlier analysis of inequality in another Staff Working Paper, *Trends in the Distribution of Income in Australia*, released in 2013.

The main focus of the 2018 paper is to assess the distributions of three measures of economic resources — income, consumption and wealth — and how those distributions vary over time and across groups. The distribution of consumption is important because it is the measure of economic resources that contributes most directly to material wellbeing and its distribution is quite different from that of income. The distribution of wealth is important because wellbeing depends not only on the goods and services people consume today, but on their consumption possibilities over time — the distribution of wealth thus offers insights into both current and future economic inequality.

To best reflect the standard of living of different households, the analysis was mostly undertaken on an equivalised household basis (that is, adjusting household-level variables for differences in the number and age of people in each household).

The paper uses the Gini coefficient as the main summary indicator of inequality, and distributional patterns are mostly presented using decile charts. The paper looks at the demographics of income and wealth distributions, especially by household type, and includes an analysis of the dynamic aspects of the distribution of incomes.

Some of the key messages from the analysis are:

- inequality has risen slightly over the past 30 years
- sustained growth has delivered significantly improved living standards for the average household in every income decile
- Australia's progressive tax and highly targeted transfer systems have substantially reduced inequality

- economic mobility is high in Australia, with almost everyone moving across the distribution over the course of their lives
- but some Australians experience entrenched economic disadvantage.

Disadvantage

The *Rising Inequality?* report includes a chapter on disadvantage, which updates 2013 Commission research on *Deep and Persistent Disadvantage in Australia*.

Disadvantage is a multidimensional concept that is about impoverished lives, not just depleted wallets. It can take the form of low economic resources (poverty), inability to afford the basic essentials of life (material deprivation), or being unable to participate socially and economically (social exclusion). The 2018 report includes updated estimates of the prevalence of economic disadvantage across these dimensions using a variety of metrics, including ‘anchored’ and ‘relative’ poverty, consumption poverty, financial poverty, poverty gaps, deprivation rates for essential items and for selected demographic groups, and the prevalence and persistence of social exclusion. It also includes new estimates of poverty duration and more detailed coverage of the demographics of Australians who are disadvantaged relative to the 2013 report.

Some of the key findings are:

- many Australians experience economic disadvantage at some stage in their lives, but it is temporary for most
- persistent and recurrent poverty rates affect a small, but significant proportion of the population
 - people living in single parent families, unemployed people, people with disabilities and Indigenous Australians are particularly likely to experience disadvantage
 - there is an elevated risk for people in these groups of disadvantage becoming entrenched, with these risks particularly elevated for children living in jobless households.

Housing assistance and employment

The April 2015 research paper on *Housing Assistance and Employment in Australia* examined the links between housing assistance and employment using administrative datasets. The research showed that receipt of housing assistance plays a very small role in public housing tenants’ relatively low employment rates. It found that the characteristics of individuals, and not the characteristics of the housing assistance they receive, matter to participation in employment. It also highlighted that housing stability is associated with higher employment rates. The report made some policy-related observations, including that a new approach may be needed to tackle the low levels of employment in public housing; one which provides coordinated support across jurisdictions to public housing tenants while also ensuring that the financial incentives they face do not deter them from entering the workforce.

We hope these brief observations, supplemented by the detailed analysis that lies behind them, are useful to the Committee. The detailed analysis is available as follows:

- *Rising Inequality? A stocktake of the evidence at*
<https://www.pc.gov.au/research/completed/rising-inequality> (see Chapters 5 and 6 in particular)

- *Deep and Persistent Disadvantage in Australia* at <https://www.pc.gov.au/research/supporting/deep-persistent-disadvantage/deep-persistent-disadvantage.pdf>
- *Housing Assistance and Employment in Australia* at <https://www.pc.gov.au/research/completed/housing-employment>.