



Current Issues Brief
No. 4 2000-01

Living Standards

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I N F O R M A T I O N A N D R E S E A R C H S E R V I C E S

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Major Issues

For most people, the single most important economic indicator of living standards is average real (after adjustment for inflation) income and on this basis living standards in Australia have been rising for several decades. Offsetting this improvement, however, has been the fact that income is less equitably distributed than it used to be and there is evidence that increases in real income have slowed considerably over the past decade. Another important economic indicator of living standards is home affordability which, while better than it was at the beginning of the 1990s, is significantly worse than its pre-1980s level.

Social indicators are similarly ambiguous when it comes to assessing what has happened to living standards. Leisure time (reduced working hours) is an important social indicator and while people are enjoying more leisure now than they were in the early part of the 20th century, the available leisure time has fallen considerably over the past 20 years. Other social indicators such as health and education point to a rise in living standards, while increased crime levels suggest a trend in the opposite direction.

Introduction

The term living standards can mean many different things. From a narrow economic viewpoint it means the average income in the community. In a broader sense it refers to welfare or quality of life.¹ While there is no single indicator that adequately measures living standards, an overview can be formed by considering a range of indicators.²

Two measures of income are used in this paper to provide an economic perspective on living standards—wages and salaries and gross national product. While home loan affordability is related to income, it is included here as a separate economic indicator because of the importance of home ownership to many Australians. For a social perspective the indicators considered include leisure (hours worked), health, education and crime.

All indicators cover at least a 20 year period, but wherever possible, a longer time period than this is considered.

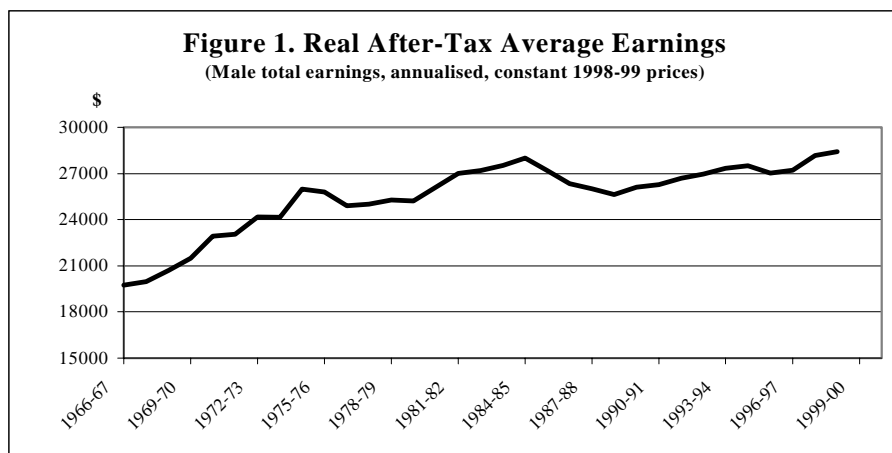
Economic Measures

Wages and Salaries

The most commonly used measure of wage and salary income is average weekly earnings (AWE). There are many different measures of AWE but the one used here is that which has been available longest—male total earnings. It covers all industries and occupations, full-time and part-time workers, adults and juniors and includes overtime payments.³ A shortcoming with this measure, however, is that it is affected by compositional change. For example, an increase in the proportion of workers who are part-time will depress average earnings, even assuming no change in individual earnings.

The movement in male total earnings from the mid-1960s is shown in Figure 1. Earnings are expressed net of income tax and in real (after adjustment for inflation) terms. While real after tax earnings are considerably higher now than they were at the beginning of the period, it is interesting to note that earnings dipped significantly on two occasions—the latter half of the 1970s and again in the latter half of the 1980s. Note also that the increase in living standards as measured by this indicator has slowed appreciably since about the mid-1970s. In the eight years to 1974–75 real after tax earnings rose by more than 30 per cent compared with only a 10 per cent increase in the 25 years that followed.

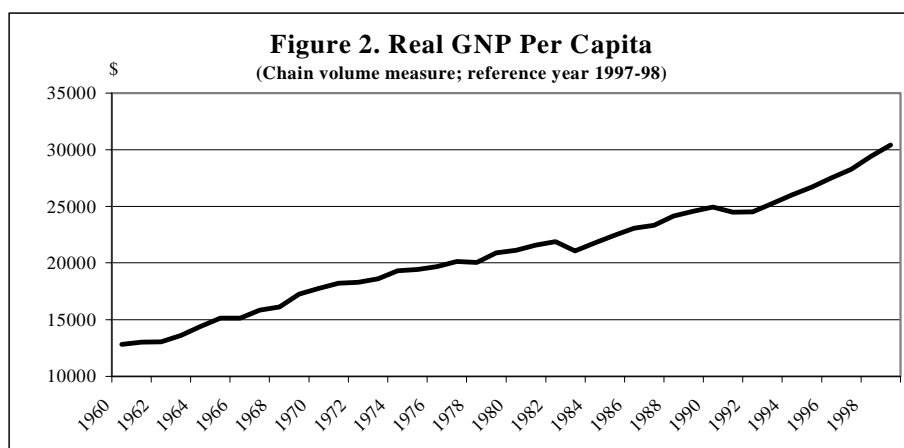
Several factors contribute to the slowdown in earnings growth that has occurred since mid-1970. These include higher unemployment rates (thus easing pressure on wages), higher taxation rates and increased participation in the part-time workforce. The latter has acted to depress average earnings by altering the composition of the workforce.



Sources: *Average Weekly Earnings*, (ABS 6302.0); *Consumer Price Index*, (ABS 6401.0); Australian Taxation Office.

Gross National Product

Another measure of income is Gross National Product (GNP). It covers the income of wage and salary earners as well as that of social security, workers' compensation and superannuation recipients, plus interest, rent, profits and dividends. It also includes net income received from overseas. GNP is therefore a measure of the level of income that *accrues to Australians* and is a better indicator of living standards than the more familiar



Source: *National Income, Expenditure and Product*, (ABS 5206.0).

gross domestic product which measures the level of income *generated in Australia*.⁴

As GNP rises with population and is affected by fluctuations in price levels a measure of real GNP per capita is used to show changes in individual income levels after adjustment for inflation. Figure 2 clearly shows that apart from a noticeable decline in the 1982–83 and 1991–92 recessions, living standards as measured by real GNP per capita have risen steadily over the past 40 years.

It is interesting to note that over the past few decades, GNP per capita has risen faster than average earnings, suggesting that profits and increased employment have been the main factors driving growth.

Income Distribution

A problem with both measures of income noted above is that they take no account of distributional effects. It is questionable whether a rise in average income represents an increase in living standards if that income is concentrated in the hands of fewer people. It is therefore necessary to have some idea of how evenly that income is distributed.

A generally accepted measure of income dispersion is the gini coefficient. While not being concerned with its technical aspects, the gini coefficient is expressed as a range in which a value of 0 means that everyone has the same income (absolute equality) and a value of 1 means that one member of a group has all the income (absolute inequality). The table below shows the gini coefficient as measured for persons from 1915 to 1986 and as measured for income units (a group of persons whose command over income is shared) from 1986 to 1997–98. Despite the break in the series⁵, it is clear there has been an increase in income equality over the period 1933 to 1986 and an decrease in income equality after 1986.⁶

Table 1. Income Distribution and Gini Coefficient

	Persons	Income units
1915	0.547	
1933	0.551	
1981	0.474	
1986	0.450	0.410
1990		0.420
1994-95		0.443
1995-96		0.437
1996-97		0.444
1997-98		0.446

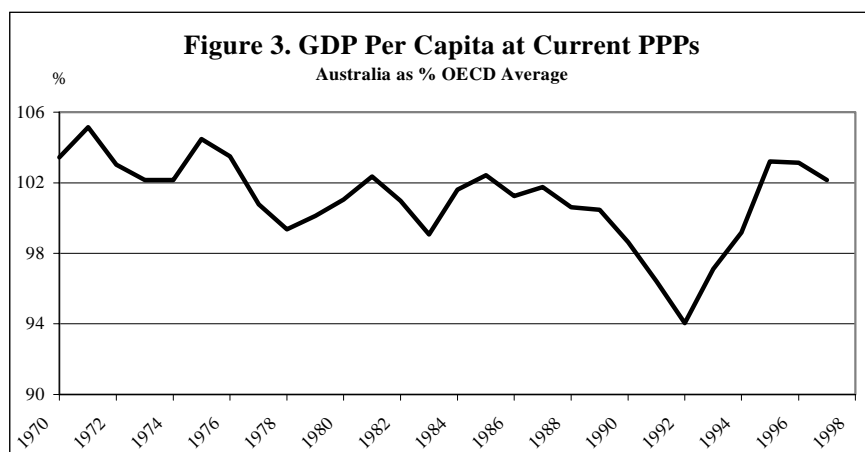
Source: Data for persons from Industry Commission, *Assessing Australia's Productivity Performance* September 1997; for income units from *Income Distribution, Australia*, (ABS 6523.0).

International Comparisons

The usually accepted indicator for international comparisons of living standards is gross domestic product per capita converted to \$US using purchasing power parities (PPPs). PPPs are the rates of currency conversion that eliminate price differences between countries. When converted by means of PPPs, the expenditure on GDP for different countries reflects only the volume of goods and services of different countries.

Of the 29 member countries that comprise the OECD, Australia was ranked in 1998 as having the 8th highest standard of living. This placed Australia behind the USA and Canada but ahead of Japan and every European country except Denmark, Iceland, Luxembourg, Norway and Switzerland.

Figure 3 compares Australia's GDP per capita with that of the average for all OECD countries. It shows that relative to the OECD average, Australia's living standards trended downward during the 1970s, fell sharply in the late 1980s and early 1990s but improved rapidly thereafter.



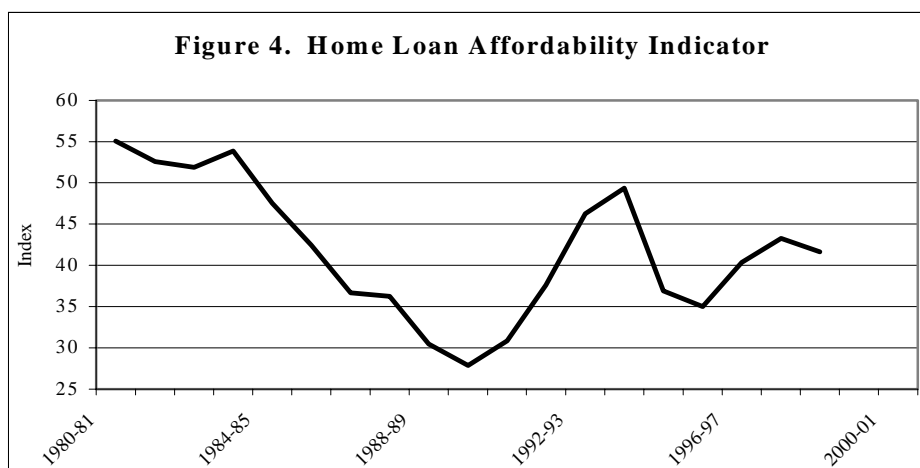
Source: OECD, *National Accounts Main Aggregates 1960–1997*, Vol 1, 1999.

Another international indicator of living standards is the human development index compiled by the United Nations. This is a composite index which combines GDP per capita (PPP US\$) with two other indicators: longevity, as measured by life expectancy at birth; and educational attainment, as measured by a combination of the adult literacy rate and the combined primary, secondary and tertiary enrolment ratio. In 1998, Australia had the third highest level of human development in the world, behind Canada and Norway and equal with the USA.⁷

Home Affordability

While related to income, home loan affordability is included here as a separate economic indicator because of the priority that Australians attach to owning their own home.

The Real Estate Institute of Australia has constructed a measure of home affordability that looks at the relationship between median weekly family income and average home loan repayments on new loans. This is shown below where an increase in the indicator means an improvement in affordability. Over the decade of the 1980s home affordability deteriorated markedly in Australia, mainly in response to the rising interest rates of this period. Home affordability followed a fairly erratic path after 1990, but while it is better today than it was in 1990 it still compares unfavourably with the early 1980s.



Source: Real Estate Institute of Australia and Citibank, *Home Loan Affordability*.

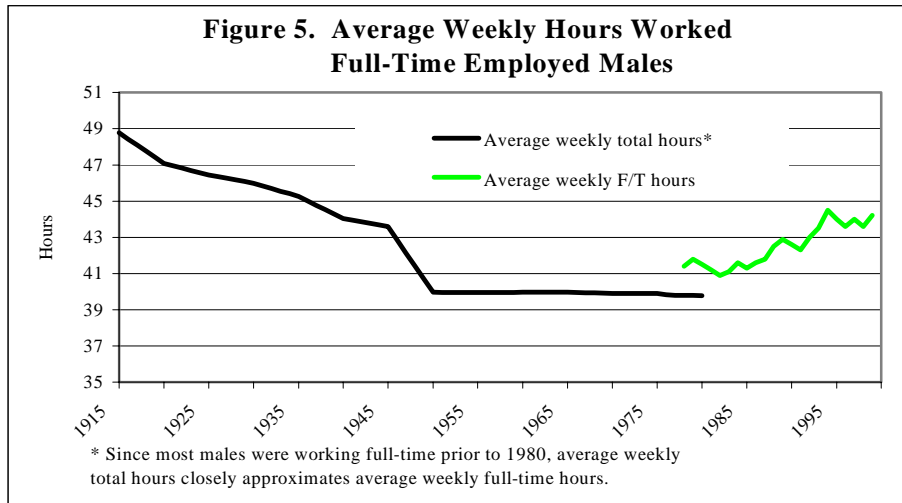
Social Measures

Leisure

Increases in leisure are reflected by changes in average hours worked. A decline in hours worked that isn't associated with a fall in earnings represents an improvement in one's quality of life.

Measured on this basis, the quality of life improved significantly during the first half of the 20th century when the average hours worked by full-time employed males fell from 49 to 40 hours per week. The average remained at 40 hours till about 1980, then started to creep upwards and is now around 44 hours per week. In other words, full-time employed males are working the same average hours today as their counterparts did back in 1940.

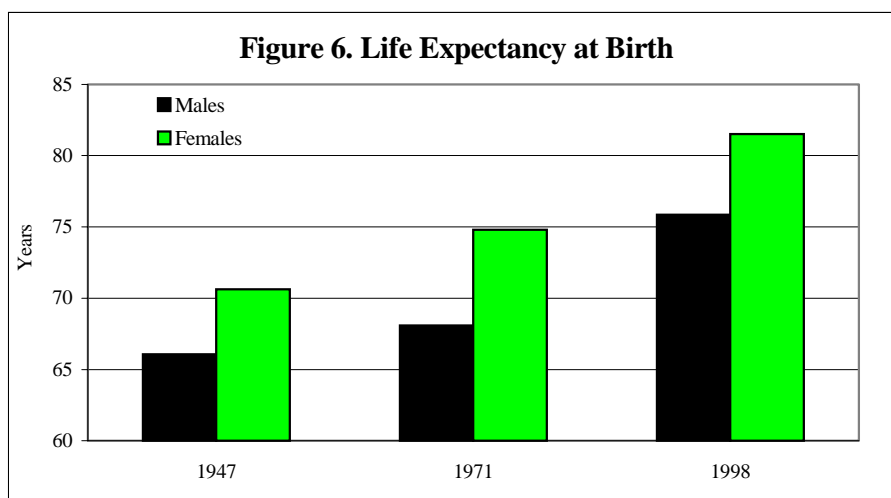
It is interesting to note that in addition to working longer average hours, the last couple of decades have seen a marked increase in the proportion of persons working very long hours (49+ per week). In 1980 just 21 per cent of all full-timers (male and female) were working very long hours; by 2000 this proportion had risen to 33 per cent. For many white-collar workers, these additional hours are being worked as unpaid overtime.⁸



Sources: The Labour Force Australia: Historical Summary (ABS 6204.0); The Labour Force Australia, (ABS 6203.0) .

Life Expectancy

Life expectancy provides an overall indicator of improvements in the standard of health. On this basis, Australians have experienced a very substantial rise in their standard of health with an increase in life expectancy since 1947 of 9.8 years for males and 10.9 years for females. Increases in life expectancy have been sustained even in recent years, rising since 1990 by 2.0 years for males and 1.4 years for females.



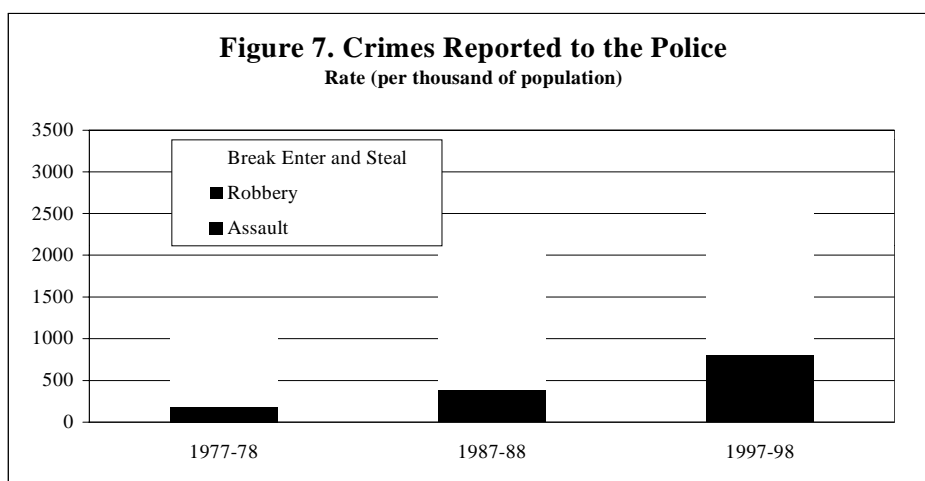
Sources: *Australian Demographic Statistics* (ABS 3101.0); *Deaths* (ABS 3302.0)

Education

A better education, by improving job prospects and increasing earning capacity, is often seen as the pathway to a better quality of life. Young Australians today are participating in education to a greater extent than ever before with more than half of all 15–19 year olds in education and a Year 12 retention rate of more than 70 per cent. This compares with quarter of a century ago when the 15–19 year old participation rate was 36 per cent and the Year 12 retention rate was only 34 per cent. These improvements have in turn increased the proportion of the population with a degree or higher qualification, rising from 3 per cent of all persons aged 15 and over in 1976 to more than 10 per cent today.

Crime

Levels of crime in society affect feelings of security and therefore quality of life. During the past couple of decades the number of crimes reported to police in Australia has risen dramatically. Break-ins have increased from 880 per thousand of population in 1977–78 to 2125 in 1997–98. Assaults over the same period have risen from 90 to 689 per thousand of population while robberies have risen from 23 to 113 per thousand of population. Based on feelings of security therefore, Australia's standard of living has declined considerably over the past 20 years.



Source: Australian Institute of Criminology.

Conclusion

If measured in terms of average income then Australia's standard of living has been improving over several decades. Offsetting this, however, is the fact that Australia's

income is less equitably distributed than it used to be. Moreover, there is evidence, based on average weekly earnings data, that improvements in our standard of living have slowed considerably over the last decade.

If social indicators are the measure of living standards in Australia then the outcome is similarly ambiguous. While we have more leisure time now than at the beginning of the 20th century, the amount of available leisure time has decreased over the last 20 years. Health standards and education have undoubtedly improved but feelings of security have declined.

While several other factors could have been discussed in this paper (e.g. environmental factors) it is clear that any judgement on whether living standards have improved or deteriorated over the past 20 years is very much dependent on the relative importance that individuals attach to the indicators discussed above.

Endnotes

1. Robert Dippelsman, 'Living Standards', *Current Issues Paper* No. 5, Department of the Parliamentary Library, 1989–90, p. 3.
2. Many of the indicators discussed in this paper also appear in Industry Commission, *Assessing Australia's Productivity Performance*, September 1997, pp. 117–123.
3. Robert Dippelsman, op. cit.
4. *ibid.*
5. Since no one series covers whole of period from 1915 to present, data has been presented for 2 separate series. Despite differences in absolute size of numbers, the significance of each series lies in whether the gini coefficient has been increasing or decreasing over time.
6. For a more detailed discussion of income distribution see Geoff Winter, 'Are Incomes Becoming More Unequal? Are Real Incomes Increasing?', *Current Issues Brief* No. 15, Department of the Parliamentary Library, 1999–2000.
7. United Nations, *Human Development Report 2000*, p. 157.
8. Australian Centre for Industrial Research and Training, *Australia at Work*, 1999, p.104