



Does Inequality Matter?

HOW PEOPLE PERCEIVE ECONOMIC DISPARITIES AND SOCIAL MOBILITY



How does AUSTRALIA compare?

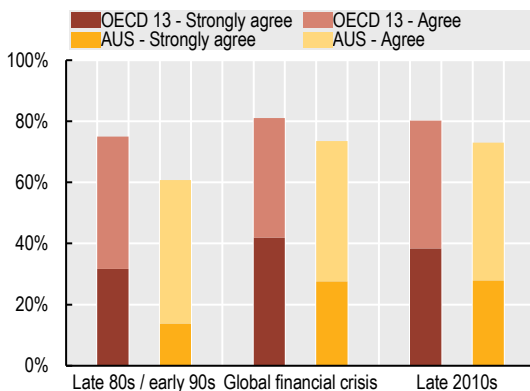
Across the OECD, most people are concerned about inequality. However, such concern varies across countries. It is higher where people perceive wide economic disparities, low intergenerational mobility, and that working hard does not help to get ahead in life. Together with people's views of the effectiveness of policies, these perceptions and beliefs shape people's support for inequality-reducing reforms.

Are people concerned over income disparities?

In Australia, concern over income inequality has traditionally been lower than on the OECD average in the last decades. According to the latest data, slightly less than 70% of population agreed that income disparities are too large and close to 30% strongly agree. Despite being lower, concern increased significantly over time: the fraction of Australians that strongly agree that income differences are too large had doubled between the late 1980s and the global financial crisis (Figure 1) and remained at that higher level until today.

Figure 1. Australia: Concern over income disparities is low

Share who agree that income differences are too large



Source: *Does Inequality Matter?* Chapter 2.

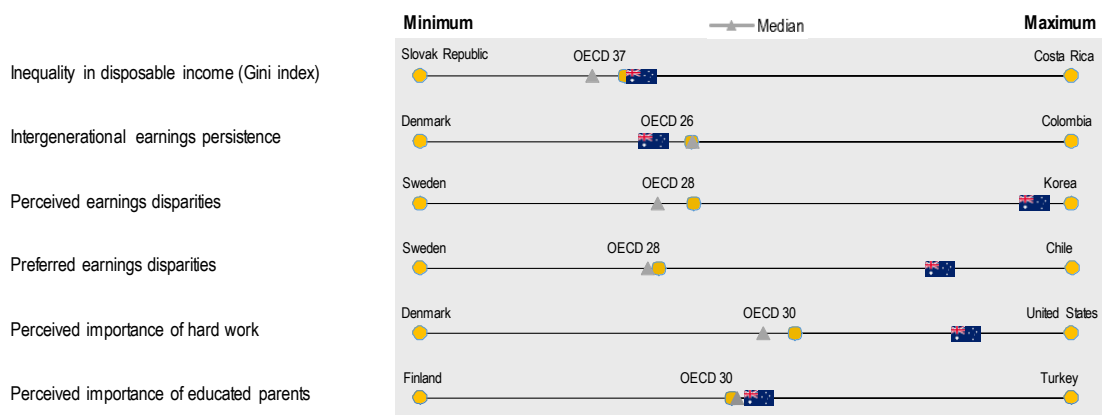
What drives concern?

The level of concern over income disparities is comparatively low although conventional indicators of income inequality and earnings mobility are more in line with the OECD average (Figure 2). Indeed, specific country factors reduce concerns:

- **Perceptions of inequality:** Australians actually perceive comparatively high levels of earnings disparities.
- **Preferences over the level of disparities:** Such high perceived level of earnings disparities is compensated by relatively high levels of preferred earnings disparities, thus explaining low concern.
- **Perceptions of equality of opportunity:** In countries where people perceive that disparities are caused by differences in effort, they are more willing to tolerate them. In Australia, the higher tolerance of economic disparities is likely shaped by one of the highest confidence among OECD countries in the importance of hard work to get ahead in life. Despite this confidence, Australians do not believe in strict equality of opportunities: in fact, their belief that having wealthy and educated parents is important to get ahead in life is in line with the OECD average.
- **Perceptions and preferences dynamic:** The preferred top-bottom earnings ratio has

Figure 2. Australia: The relatively high level of preferred disparities shapes low concern

Indicators and opinions about disparities



Note: The OECD averages refer countries available for each indicator. Conventional statistical indicators refer to the latest available year; all the other data refer to 2009, for which data are available for a wide set of countries.

Source: OECD Income Distribution Database and OECD (2018); *Does Inequality Matter?* Chapter 2.

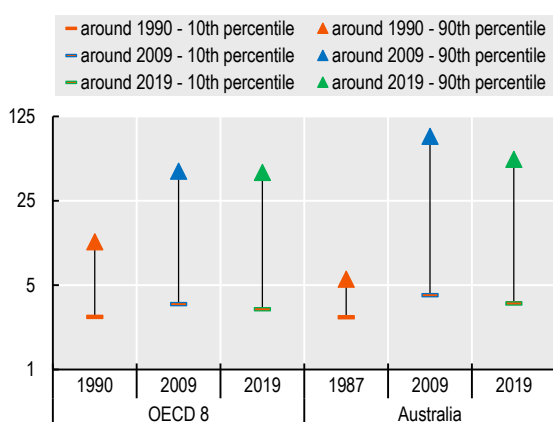
increased in the last decades, from 3 to 5. However, the median perceived top-bottom earnings ratio rose even by more, from 4 in the late 1980s to 12 in the late 2010s, leading to the observed increase in concerns.

How divided is the public opinion?

People often disagree with each other as to the extent of economic disparities. In fact, over time the dispersion of perceived disparities grew extensively across the Australian population, showing an increased division of the public opinion:

Figure 3. Perceptions about earnings disparities became more dispersed in the last decades

90th and 10th percentile of the perceived top-bottom earnings ratio (logarithmic scale)



Note: The lines represent the extent of the differences between the perceptions of the bottom 10% of respondents and the top 10%.

Source: *Does Inequality Matter?* Chapter 4.

- In 1987, 10% of Australian believed that the earnings of high paid jobs (doctors and chairmen of large national corporations) were 3 times, or less, those of low paid jobs (unskilled workers in a factory). On the opposite, 10% believed that paid jobs gained 6 or more times low paid job (Figure 3).
- The distance between these two groups grew considerably in the last 3 decades, especially in the period leading to the Great Recession. The 10% that perceives low disparities did not change much its perception (up to 4 times, from 3 in 1987), while the 10% perceiving high disparities nowadays believe that high paid jobs earn 55 times or more low paid jobs.

How much support is there for inequality-reducing policies?

The lower level of concern translates into lower demand for redistribution in Australia. The share of Australians that agree it is the responsibility of the government to reduce income differences is lower than in most other OECD countries. Nevertheless, this share has increased in the last decades – up to 57% in 2019 (23% strongly agree) from 44% in 1987 (9% strongly agree) – reflecting the increase in perceptions of and concern over economic disparities.

Figure 4. Demand for redistribution is relatively low



Note: Data are for year 2017.

Source: *Does Inequality Matter?* Chapter 3.

How can people's perceptions of and concern over inequality inform policy?

Getting citizens and governments on the same page when it comes to policies reducing inequality and promote social mobility requires understanding how people form their perceptions and opinion. This includes:

Better understanding of public support for reform: Inequality of both outcomes and opportunities matter to people, hence tackling both aspects helps gain support. Nonetheless, people may favour specific policy mixes, depending on their beliefs and preferences.

Better understanding of the effectiveness of policies: People favour policies that they believe to be effective. It is necessary to evaluate the impact of inequality-reducing policies transparently and facilitate people's understanding of their functioning.

Better information on inequality and equality of opportunities: Providing high-quality information about inequality can help providing common ground for public debate, addressing the division and polarization of public opinion.

Contacts

Emanuele Ciani, +33 1 45 24 17 77, Emanuele.CIANI@oecd.org

Michael Förster, +33 1 45 24 92 80, Michael.FORSTER@oecd.org

For more information, access the complete report at: <http://oe.cd/does-inequality-matter>