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TITLE: How to give all Australians an equal start in life

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We like to think everyone gets a fair go, but the truth is falling short of the ideal.

The social norms and values of Australians are hard to define, but one thing is clear from opinion polls: they care little about equality of outcomes and a lot about equality of opportunity. Their perception of a fair society is one in which people with equal capabilities and motivation have equal chances to succeed, irrespective of their backgrounds and starting opportunities - one in which market income inequalities overwhelmingly reflect differences in talent and effort.

Social scientists have sought to measure the degree of upward income mobility (the ability of low-income people to rise up the ladder over time) and found that some nations perform better than others on this criterion.

Why? Two essential ingredients of success stand out. One is a high degree of economic freedom. The other is a high degree of social activism. The first creates more room at the top. But the second is decisive in determining who is able to fill these jobs. One can view children's eventual economic performance in adulthood as a function of (a) their inherited genetic endowments, (b) their parents' investments (in medical care, nutritious meals, good education and personal monitoring and tuition) and (c) society's investments in such things as early childhood development, public education, health care, low-cost housing and employment programs. Countries with the highest rates of income mobility (such as the Nordics) give the most weight to (c) - societal investment - as a way of lessening the effects of (b).

So how does Australia stack up? Looking back over recent decades, Australia emerges as a more mobile (less 'sticky') society than the United States, Britain and Germany. This may be because successive Australian governments embraced more social activism than the US and Britain but did more to cultivate an open and flexible economy than Germany.

This is the past. The future is much less clear. A discussion paper I have written for the Australia Institute, Equality of Opportunity in Australia - Myth and Reality, highlights the many (often growing) barriers to upward mobility faced by Australians from low income

backgrounds over their lifetimes (relative to their better-off co-citizens). As children and teenagers, they are often handicapped by unhelpful parental environments (in terms of knowledge acquisition, motivation, interpersonal relations etc) and have poorer access to quality education and health care and good living conditions. As grown-ups, they face more hurdles. They are less able to access life-long learning and training and the new digital technology. They are less likely to prevent or deal with health problems. They suffer location and public transport disadvantages and often find it harder to get low-cost housing in areas close to employment and services. They are constrained by their limited capacity to borrow, invest and bear risk. They are more exposed to "poverty traps" (situations in which they are no better off working than on welfare). Some of them (notably non-English-speaking migrants, Aborigines and mature-age workers) are sometimes hampered by various forms of discrimination. All this, combined with structural imbalances in the market for low-skilled labour, acutely limits their employment choices.

The Howard Government has provided generous welfare support for families with children but it is showing little interest in tackling the structural mobility barriers. Some of its policies (such as those relating to workplace arrangements, education, health, housing and taxation) could end up having perverse effects on income mobility. For many, the Australian dream of equal opportunity for all is becoming more a myth than a reality.

The case for more societal investment in early childhood development and improved public services is overwhelming. It would bring us closer to what Australians view as a fair society. It would act as a form of social glue - strengthening community cohesion and the legitimacy of the political system. And it would be good economics.

The economic case is often misunderstood. To address unequal starting opportunities is to correct a fundamental form of market failure, thereby enabling society to make fuller use of its citizens' human potential. And it would, in the long term, reduce welfare reliance. True, higher taxes may have some secondary efficiency costs but these could be minimised in three ways - by choosing revenue instruments that do not distort economic choices and incentives; by making greater use of income-contingent loans such as HECS, in lieu of outright grants; and by funding some new social programs - those that are expected to enhance the stock and quality of human capital in the long term - out of government borrowing rather than current revenue.

I believe that, provided the goals are clearly defined and the social and economic benefits fully spelt out, Australians would see an equal opportunity strategy as a sound and rewarding investment in a better society.

Fred Argy is a former treasury adviser. His Australia Institute discussion paper will be released next week.