

## Session I: Setting the Scene

### Reshaping Australia: some economic observations

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#### Introduction

Since the 2008 financial crisis there has been growing political momentum in advanced economies for a movement away from what has become known as “neoliberalism.” Exemplars of this movement include Senator Bernie Sanders’ candidacies for the United States Democratic Party’s presidential nomination, and the rise of New York congressional representative Alexandria Ocasio-Cortez. These self-proclaimed Democratic Socialists advocate not only a rejection of the worst excesses of “neoliberalism,” but a wholesale rejection of markets as a means of resource allocation.

Australia has not been immune from this political shift. The Australian Greens have a platform resonant of Sanders and Ocasio-Cortez. Indeed, it is almost a facsimile of that platform. And while the Albanese Labor government campaigned on promises of a return to the Hawke-Keating era, their first six months in government have revealed the new prime minister to be more of a “Bernie Bro” than a Hawke Hologram.

Yet reports of the death of Australia’s “fair go” are greatly exaggerated. Far from the last four decades marking a decline into a neoliberal Hobbesian jungle, Australia has remained a high-income and

comparatively egalitarian country. Income inequality has not risen; furthermore, our healthcare system remains arguably the best in the world in terms both access, health outcomes, and expenditure. Yet our educational outcomes — at least as measured by standardized test score — have fallen in both absolute and relative terms. This troubling phenomenon threatens both equality of opportunity and egalitarianism, and also the economic growth that, not only drives prosperity and opportunity, but pays for our social safety net.

Indeed, Australia is the country perhaps closest to what Dixon & Holden (2022) call “democratic liberalism:” a philosophy that emphasizes liberal democratic commitments to dignity and equality, but also to freedom and autonomy. Democratic liberalism requires that all citizens receive a “generous social minimum,” that externalities should be internalized, and that monopoly power (both economic and political) should be curbed, but that beyond that market-based solutions should be given primacy. As Dixon & Holden note:

Australia is not fully democratically liberal, nor is democratic liberalism unique to Australia ... [but] the “Australian model” is often closer to our conception of the democratic-liberal ideal than

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either the democratic-socialist model that predominates in much of Europe or the laissez-faire capitalist model that prevails in the US.

Australia’s minimum wage is north of US\$15 per hour, and unions have strong legal protections, but the employment system retains a significant degree of flexibility for employers. Australians are entitled to unemployment benefits without any hard end-date or time-limit, and without having made any tax-based contribution to the system. But they are increasingly required to satisfy quite demanding work requirements in order to receive these benefits and encouraged to return to work wherever possible. Australia has universal healthcare, but not a single-payer system. Australia has privatized many formerly state-owned enterprises, but control of water and prisons remains in government hands. Childcare in Australia is heavily subsidized, but largely privately provided. The tax and transfer system is strongly progres-

sive, reducing pre-tax income inequality substantially, but the tax-to-GDP ratio is 27.8% compared to the OECD average of 34.0%.

In this paper I document these facts and argue that while there is important work to be done, Australia is in need of more evolutionary change than revolutionary change. Even in education there are clear paths to improving student outcomes that are well documented and understood from international experience (and social science), and have often been implemented in individual primary or secondary schools within Australia. The tertiary education sector in Australia is in need of more transformational reform, as I outline below.

The remainder of the paper is organized as follows. Section 2 presents evidence about Australia’s living standards, while Section 3 discusses inequality. Section 4 focuses on education. Section 5 contains some brief concluding remarks, and discusses some political challenges.

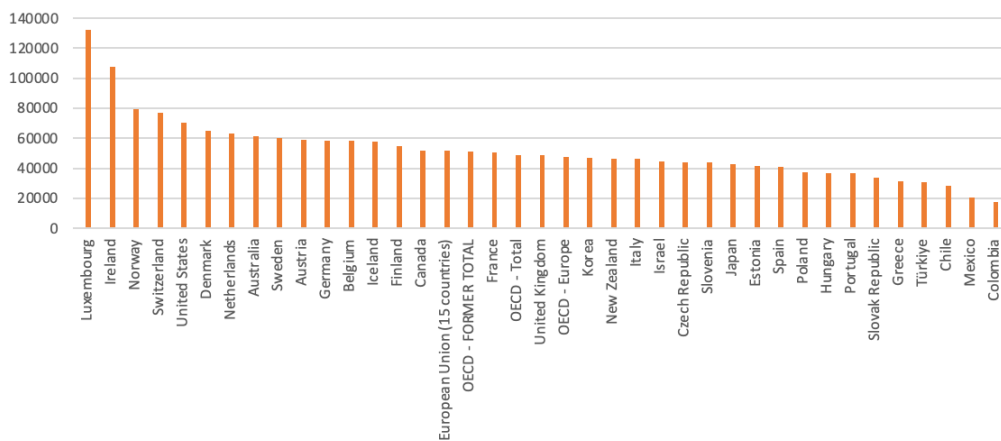


Figure 1: GDP per Capita — OECD Countries. Source: OECD.

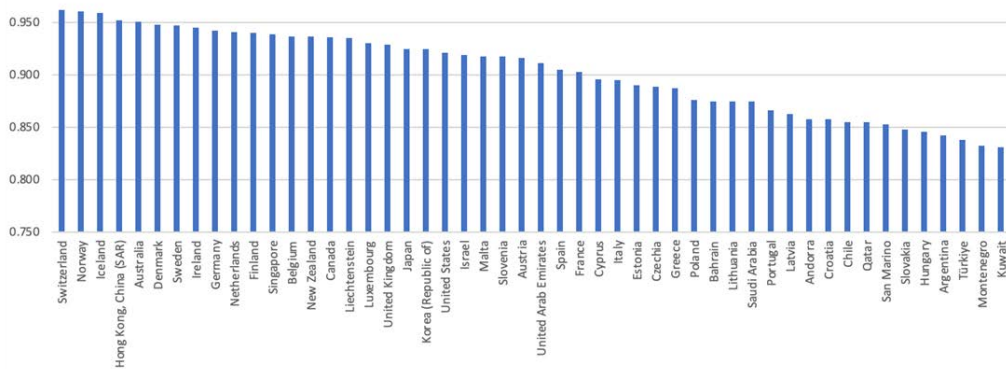


Figure 2: United National Human Development Index. Source: United Nations.

### Living standards in Australia

Australia has had a very high living standard relative to other countries since official measures were first constructed. As Figure 1 shows, Australia’s GDP per capita was 8<sup>th</sup> among advanced economies in 2021. Moreover, four of the countries ranking above Australia have highly skewed GDP (Luxembourg and Switzerland due to international banking, Ireland due to its peculiar corporate income tax regime, and Norway because of natural resources).

Of course, there is a long tradition of recognizing that GDP is not a completely satisfactory measure of living standards. This was perhaps put most eloquently by Robert Kennedy (1968), when he said:

gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or

the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile.

The United Nations Human Development Index is a commonly accepted measure that seeks to extend GDP to be a more meaningful measure of living standards, by taking into account measures of health, education, and income.<sup>2</sup> Here Australia ranks 3<sup>rd</sup> as a country (or 4<sup>th</sup> globally if one includes Hong Kong as a standalone jurisdiction).

In short, Australia is a prosperous country, not only in terms of material wealth, but also factoring in health and education. Indeed, there is a reasonable argument to be made that Australia has the second-highest human development index when one discounts the skewed incomes per capita of Switzerland and Norway (discussed

2 Specifically, “The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean.” <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI>

above). This, naturally, raises the question of how equally that prosperity is distributed throughout the Australian community.

### Inequality in Australia

According to the most commonly-used measure of income inequality, the Gini coefficient, income inequality has remained unchanged — indeed fallen slightly — since 2001. Figure 3 shows the trend from 2001 to 2016. This runs counter to popular narratives about a large recent increase in income inequality. Other measures that are sometimes used include the share of (pre-tax) income of the highest income-earners. The share of (pre-tax) income going to the top 1% has barely increased from 10.6% in 2000 to 11.3% in 2021. Similarly, the share of (pre-tax) income going to the top 10% moved little over the same period — from 30.7% to 32.6%.

There is even less reason to be concerned with recent trends in income inequality once taxes and transfer are taken into account. Australia has one of the most progressive income tax systems in the world, and the transfer system including measure such as the family tax benefit, Medicare, the aged pension, and others are highly progressive.<sup>3</sup>

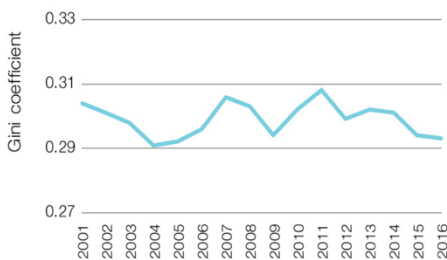


Figure 3: Inequality in Australia before taxes and transfers. Source: Wilkins & Lass (2018)

There is increasing discussion of wealth inequality, as distinct from income inequality. On one level this is rather misguided in the sense that wealth is simply an aggregate of lifetime income, conditional on a consumption-savings profile. Having said that, there are a variety of government policies that can tilt the playing field of that consumption-savings profile systematically in favour of some population subgroups over others.

Of particular concern in Australia is the intergenerational impact of a number of government policies, particularly housing. There is a raft of implicit and explicit government subsidies for home ownership that, while arguably having some positive effects, have significant distributional consequences that make them, on balance, negative. Those are in addition to the negative allocative efficiency consequences of privileging one asset class over others, as Australian housing policy clearly does.

In particular, the fact that there is a primary-residence exemption from capital gains tax means that housing becomes a significantly more attractive investment than would otherwise be the case. Exempting the primary residence from the aged pension asset test is another such policy. Furthermore, negative gearing (where losses on property investments can be deducted against labour income) is both internationally anomalous and substantially distorting (Holden, 2015). All of these factors amplify the fact that individuals can leverage housing investments (though 10–20% down payment requirements on mortgages) dramatically more than other investments such as equities.

<sup>3</sup> See, for instance, [https://www.austaxpolicy.com/wp-content/uploads/2021/07/tfzo\\_upload.pdf](https://www.austaxpolicy.com/wp-content/uploads/2021/07/tfzo_upload.pdf)

Even policies such as so-called “first homeowner grants” — either direct grants or reductions in stamp duty — simply fuel demand and benefit sellers rather than purchasers. It’s fair to say that Australian housing policy has, for decades, failed to focus on supply-side remedies such as land releases and zoning regulations, while fuelling the housing market through large subsidies to demand. This has not only led to a housing affordability crisis, but an effective transfer of wealth from younger Australians to older Australians.

**Our educational outcomes in context**

There has been a long-lamented decline in Australia’s absolute and relative performance on international measures of student performance, as Figure 4 (documenting scores in 3 categories of the OECD’s Program for International Student Assessment (PISA)) shows. In fact, 16 countries have overtaken Australia in mathematics PISA scores since 2000 — namely Canada, Switzerland, United Kingdom, Belgium, France, Denmark, Iceland, Sweden, Ireland, Austria, Norway, Czech Republic, Germany, Poland, Latvia, and Portugal.

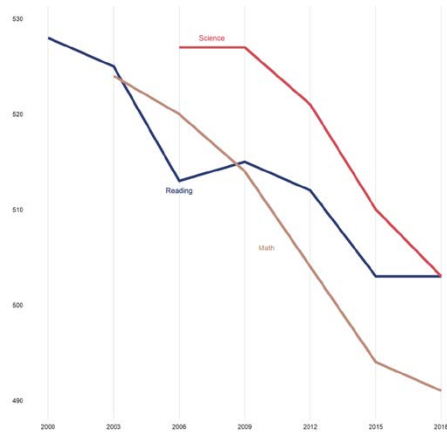


Figure 4: Australian PISA Scores 2000–2018. Source: ACARA and Holden et al. (2022).

In fact, as Holden et al. (2022) highlight, Australia’s decline in student outcomes is long-run and broad-based. In the last two decades of PISA Australia’s proportion of low performers has increased. Our proportion of high performers has decreased in all three areas. And the proportion of students who attained the National Proficient Standard (i.e. satisfied a minimum skill level) has declined in each category.

There is almost surely no single reason for this decline. There is a real question regarding how much teacher time is spent

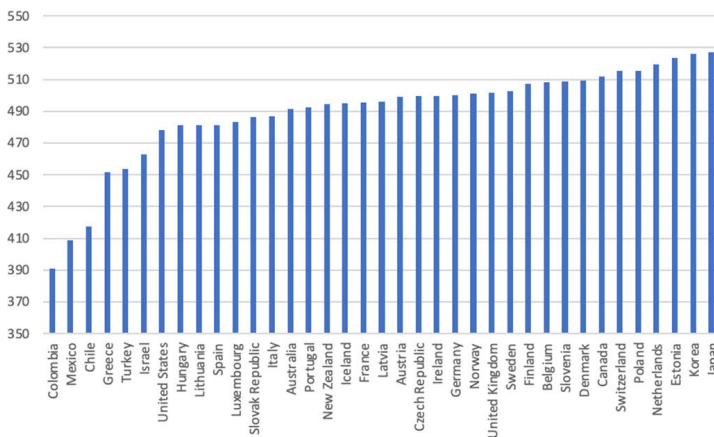


Figure 5: OECD Mathematics PISA Scores 2018. Source: OECD.

actually teaching students rather than on administration. As Holden et al. (2022) observe “According to the OECD Teaching and Learning International Survey, Australian teachers spend the 3<sup>rd</sup> highest number of hours on management and administration in the OECD.”

Changes In...	Reading Literacy (2000-2018)	Mathematical Literacy (2000-2018)	Scientific Literacy (2000-2018)
Average performance	▼ 26 points	▼ 33 points	▼ 24 points
Proportion of low performers	▲ 7 per centage points	▲ 8 per centage points	▲ 6 per centage points
Proportion of high performers	▼ 4 per centage points	▼ 9 per centage points	▼ 5 per centage points
Proportion of students who attained the National Proficient Standard	▼ 10 per centage points	▼ 13 per centage points	▼ 9 per centage points

Figure 6: Australia’s Educational Performance. Source: OECD and Holden et al (2022).

Perhaps more important that uncovering the cause of the decline is understanding what can reverse it and improve educational outcomes in Australia. Fortunately, there is a substantial body of overseas evidence from randomized controlled trials that points to a range of educational interventions that can materially improve student outcome in Australia. Holden et al. (2022) summarize this evidence and translate it into PISA-score equivalents and calculate the cost per student of these interventions. This allows policy makers to think about the rate of return on a variety of educational investments.

Of course, there is the perennial question of external validity with experimental evidence (RCTs or quasi-experimental variation) from other jurisdictions. To that end, more RCTs on educational interventions should be conducted in Australia. A first step in that direction is Dobrescu et al. (2021), studying cultural context in stand-

ardized tests (NAPLAN years 5 and 7) in Dubbo, NSW.

### Our health outcomes in context<sup>4</sup>

The Australian healthcare system certainly fits with the notion of democratic liberalism discussed in the introduction to this paper. And, as Dixon & Holden (2020) note, Australians, like Europeans, view health care as a right, not a privilege. This is in stark contrast to the United States (at least in practice) prior to the passage of the Affordable Care Act during the presidency of Barack Obama. For Australian policy makers, the operative question is the scope of this right — what components of health care are included — and how to pay for it.

The Australian health care system involves a free *baseline* plan that covers all Australians: Medicare. This system provides all Australians with a baseline level of medical coverage for all core (rather than merely essential) health care needs. This includes emergency room visits and acute care, non-elective surgery, and general practitioner (sometimes known as “primary-care physician”) coverage. And, of course, coverage for a wide array of prescription drugs is provided through the Pharmaceutical Benefits Scheme.

This baseline plan guarantees, in the parlance of democratic liberalism, a “social minimum” — a minimum level of dignity for all. For health services beyond that minimum, however, such as priority elective surgery, dental and optical, or a private room in a hospital, private insurance is more or less required though a range of incentives and requirements.

<sup>4</sup> This section follows closely and is based heavily on Dixon & Holden (2020).

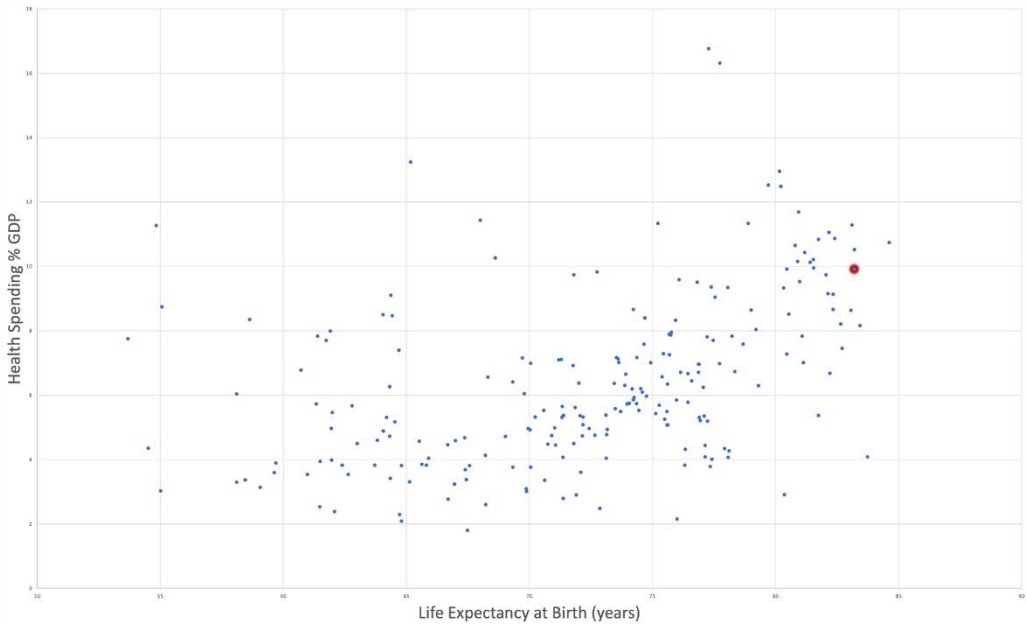


Figure 7: Health Spending and Life Expectancy around the World. Source: “Our World in Data” <https://ourworldindata.org>

To this end, the Australian federal government encourages higher-income earners to buy private health insurance that pays for above-baseline care, and effectively takes the burden off Medicare for these and other services used by the privately insured, through a mix of carrots and sticks. Those buying insurance do indeed get something extra, beyond Medicare, for the money they pay. And they are encouraged to buy-in early, by regulations that effectively require prices to increase for those who buy insurance later — or when they are at higher risk. This is known as “lifetime community rating.”

But the system also involves various sticks, chief among which is a tax penalty of an additional 1 per cent marginal tax rate for not purchasing private health insurance if family income is above \$180,000, scaling up to 1.5 per cent for family incomes above \$280,000.

In this sense, the Australian model is more of a *public baseline* than a *public option* (that is often discussed in the context of United States healthcare debates) — and it gives higher income earners strong incentives to buy private insurance, as a top up, rather than alternative, to public coverage.

And it works. Total health care expenditures (public and private) in Australia are around 10 per cent of GDP, compared to 18 per cent in the United States. And the Australian system works well — contributing to a life expectancy of 82.8 years, the fourth highest in the world.

Indeed, as Figure 7 highlights, Australian life expectancy is among the highest in the world, while total healthcare spending as a proportion of GDP is lower than numerous other countries with significantly worse health outcomes in terms of life expectancy. If one drew a naïve line of best fit through

the data points in Figure 7, it is clear that Australia would lie well below that line, indicating that the “bang for the buck” of our health expenditures is high by international standards.

It would be remiss not to comment briefly on the National Disability Insurance Scheme (NDIS). Although not part of the Medicare budget, and applying to only about half a million Australians, the NDIS is both a large and important program. There are also pressing questions about the fiscal sustainability of the scheme. Although the NDIS is a relatively new program (it was enacted by the Gillard government), it has already grown well beyond what was initially envisaged. Gillard initially suggested that in steady state the NDIS would cost no more than \$25 billion per annum. By 2022 it already cost more than \$30 billion at was growing at 10.6 per cent per annum.

Although the NDIS plays an important role in providing dignity to a large number of Australians, its cost growth is patently unsustainable. In fact, it already costs more than Medicare. More concerning is that, given its growth rate, expenditure on the NDIS will be double that on Medicare in a relatively short period of time. This cannot be allowed to happen but, as Holden (2023) observes, it “raises difficult, perhaps wrenching questions about eligibility, the benefits provided, and the efficiency with which they are provided.”

### Some challenges

It would be foolish to think of Australia as some kind of ideal society, devoid of the need for meaningful changes and improvements. But Australia does come closer to a democratic liberal ideal of providing a generous social minimum while also allow-

ing markets to provide opportunity and efficiency.

Yet Australian politics has been characterized by a failure to address obvious and important policy issues over the last 15 years. Lack of action on the environment is perhaps the standout issue, leading to the downfall of multiple prime ministers with little actual progress in decarbonization. Tax reform is another. Australia still gets far too high a proportion of its revenues from income taxes compared to consumption taxes like the GST — dramatically higher than other OECD countries. Superannuation is subsidized to the tune of more than \$40 billion a year, forces people to save 10 per cent of their own income, yet delivers substandard returns. There is a \$50 billion structural budget deficit with no plan from either side of politics to repair the budget.

And, as we have outlined above, primary and secondary education in Australia is substandard. Educational outcomes are in decline in both absolute and relative terms. Failure to solve our educational issues will undermine intergenerational mobility, make Australia less internationally attractive as a destination for investment, and undermine the funding base to provide for the generous social minimum Australians have rightly come to expect. There is much to be done.

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