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**TITLE: Equality of Opportunity: Levelling the Playing Field**

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One's life chances depend in good part on one's innate qualities and character but they depend at least as much on the circumstances into which one is born. This general observation applies almost universally across countries, whatever their political, institutional and economic arrangements. But we know that some countries enjoy more income and occupational mobility than others and that mobility is highly sensitive to the scale and mix of policy instruments used by governments. Countries enjoying relatively high levels of mobility tend to have governments which encourage free, competitive markets, regulate labour markets relatively lightly and engage in active social redistribution. The first two alone will not deliver optimal equality of opportunity.

Indeed, without active social intervention by governments, free markets run the risk of creating a vicious cycle of *worsening* social mobility at the lower end of the income spectrum, denying the more disadvantaged children the same chance to succeed in life as the richer ones.

Looking back on the last thirty years, Australia's policy of economic liberalization and labour market deregulation combined with social activism has been fairly successful. It has delivered a strong economy with moderate but stable income and wealth inequality and, it appears, a reasonably high level of social mobility (at least relative to the US and UK).

But Australia's social policy environment is changing in very fundamental ways. Increasingly, we are embracing American social norms — and the American experience suggests that these norms lead to less, not more, social mobility. Already, the interaction of market forces and policy developments in Australia is creating a two-tier society in employment, health, education, housing and public transport, as well as wide regional disparities in opportunities and growing poverty traps. And the outlook is more of the same. For people with individual market power, the recent spate of workplace and welfare reforms will offer wider choice and greater scope for income and occupational mobility. But for the more disadvantaged in our community, the new policy environment will mean *less* choice and *less* scope for upward income mobility. Without countervailing social initiatives, this might lead to profound community disillusionment with the realities of equal opportunity.

What sort of social initiatives are needed? Governments can, as they have done in the past, use social security transfers to temper the harsh effects of rising market inequalities. Such passive redistribution would ease the pain for some but do little to alleviate the underlying structural barriers to mobility. If we want both economic prosperity *and* substantive equality of opportunity, we need more 'active' forms of social intervention — the kind which develops human capabilities and mobility at the low end of the income spectrum while at the same time putting obligations on benefit recipients to change their behaviour.

In section 6.1 of our paper, we drew out the broad elements of an active social strategy targeted at the major barriers to social mobility — children's early development, public infrastructure deficiencies and inequalities of access to employment, health, education, training and housing. If it is to gain public acceptance, such a strategy would need to be preceded by a campaign of public education. The campaign would have three aims.

First, it would explain why the proposed strategy would be *a worthwhile investment in a better society* — one more consistent with Australians' sense of fair play. The argument it would put is that market income inequalities are both morally defensible and economically desirable only so long as they reflect differences in talent, risk-taking and hard work. But increasingly, the life chances of young Australians are becoming dependent on the circumstances of their birth (other than innate qualities and character) and their degree of access to essential public goods. This is producing market inequalities which are not easy to defend, either morally or economically. The proposed social strategy is needed to remove some of the underlying structural factors which are now distorting the present distribution of market incomes — to 'level the playing field' so to speak — thus making the observed market inequality fairer, more economically rational, more politically legitimate and more socially acceptable. There would still be a need for passive redistribution through the social security system, as too much inequality makes a mockery of equality of opportunity. But that need would gradually diminish.

Second, the education campaign would seek to convince a cynical electorate that the proposed measures would be *effective in achieving their social objectives*. This should not be too difficult. On all the evidence, 'active' social policies — such as those which lift early childhood education, improve parenting and widen access to essential public goods — do work.

Third, the Government would have to forcefully explain to the electorate that its policy reforms *would not harm the economy* — and indeed that, on balance, they would improve the economic fundamentals in the long term by making the workforce more productive and occupationally and geographically mobile.

This paper has provided the building blocks for such a three-pronged public education campaign.

*This is an extract of a paper authored by Fred Argy and published by the Australia Institute (Discussion paper no. 85, April 2006).*