

A large graphic consisting of two overlapping arrows pointing in opposite directions. The top arrow is red and points to the right. The bottom arrow is grey and points to the left. The text "INEQUALITY IN AUSTRALIA" is overlaid on the red arrow, and "A NATION DIVIDED" is overlaid on the grey arrow.

INEQUALITY IN AUSTRALIA A NATION DIVIDED

Inequality in Australia 2015

The first edition of Inequality in Australia, part of the 'Poverty and Inequality in Australia' series from the Australian Council of Social Service.



Who we are.

ACOSS is the peak body of the community and social service sector and the national voice for the needs of people affected by poverty and inequality. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

What we do.

ACOSS leads and supports initiatives within the community and social service sector and acts as an independent non-party political voice. By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

Like our work? Support ACOSS today.

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Make a donation. All donations to ACOSS go straight to our policy development and advocacy work. Donations over \$2 are tax deductible. Make a donation on our website.

Share this report. We know that strength lies in numbers. The more people who understand poverty and disadvantage in Australia, the better. Share this report with your network and help build the conversation about how we can reduce poverty and inequality in Australia.

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Inequality in Australia was published in 2015 by the Australian Council of Social Service:
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Website: www.acoss.org.au

ISSN: 1326 7124

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About this report: This report is part of a series on Poverty and Inequality in Australia. It is based on research conducted by Peter Saunders, Bruce Bradbury and Melissa Wong at the Social Policy Research Centre of the University of New South Wales, and supplemented with data and analysis from other sources. The main data sources are the ABS Survey of Income and Housing and the ABS Household Expenditure Survey. For further details on the data and research methods, see the methods paper available on the ACOSS website.

The report was prepared by ACOSS policy and research staff: Ro Evans, Jacqueline Phillips, Peter Davidson, Penny Dorsch, and *Equity Economics & Development Partners Pty Ltd*, an economic and policy consulting firm.

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Forewords

Dr Cassandra Goldie, Chief Executive Officer, ACOSS

Increasing inequality of income and wealth is dividing many modern societies and poses a threat to the global economy. Australia is no exception with a concerning long-term trend of growing inequality.

While income inequality in Australia is above the OECD average, the good news is that Australia continues to do better than some of our overseas counterparts. This is in part because of the historical effectiveness of our institutions. Our tax system and our system of income support payments have been progressive and highly targeted, and our system of minimum wages had prevented the salaries of low income working households falling to the same extent as in the US.

But as this report shows, despite more than two decades of unparalleled economic growth, our prosperity has not been evenly shared, with income and wealth becoming more concentrated in the hands of fewer people.

This is dividing our nation and threatening the wellbeing of our communities and the longer-term stability of our economy. Christine Lagarde, Managing Director of the International Monetary Fund argues that “excessive inequality makes capitalism less inclusive. It hinders people from participating fully and developing their potential”. If left unchecked growing inequality risks further splintering our social fabric and entrenching social, economic and spatial divisions in our community.

We know that inequality is a choice, and, more than most, Australia has a history of knowing how to fix it. The policy solutions are within our grasp: ensuring every individual and organisation pays their fair share of tax; rebalancing tax breaks skewed in favour of people on higher incomes; redoubling efforts to stem the tide of rising unemployment; and improving the adequacy of payments for people who are unemployed or unable to obtain paid work.

By removing the current barriers preventing some people from participating and sharing in our nation’s wealth, we can change the current trajectory and sow the seeds of a fairer, more inclusive, and more prosperous society.

Dr David Morawetz, Founder and Director, Social Justice Fund; Director, The Australia Institute and Australia 21. Formerly Associate Professor of Economics at Boston University

The OECD has rightly warned that growing inequality is divisive. It polarises our society, splits regions, and carves up the nation between rich and poor. It reduces equality of opportunity, stifles upward mobility between generations, increases social tensions, harms our economy, and reduces economic growth. It is something we simply cannot ignore.

This report, prepared by the Australian Council of Social Service, makes an enormous contribution to our understanding of where we are as a nation today – facing a worrisome wealth divide despite enjoying more than 20 years of unprecedented economic growth. The findings make it clear that the benefits of this growth have not been shared by all – wealth is now more concentrated in our country than ever before. I would like to thank ACOSS and its members for their tireless efforts to highlight the plight of people who are socially and economically excluded, and the growing problem of poverty and inequality in our country. As the peak body for Australia’s community services and welfare sector, ACOSS has long served as a conscience to ourselves. I strongly support this timely report.

We should all be concerned that a person in the top 20% wealth group has around 70 times more wealth than a person in the bottom 20%. Yet this trajectory of widening inequality is not inevitable. Through sound government policies that deliver fair taxation, an adequate safety net and access to vital community services, we can reverse this trend. In a country as wealthy as ours, all citizens should be able to realise their potential and share the benefits of growth and increased prosperity. This report is a wake up call for our nation – a call we must heed.



Lieutenant Colonel Kelvin Alley, National Secretariat, Salvation Army

The Salvation Army welcomes the opportunity, provided by this critical research, to highlight the growing inequality in our community. As one of the largest providers of welfare services in Australia, we see the impact of poverty on individuals and families every single day. Our services include support for people who are homeless, women and children escaping family and domestic violence, those in need of our drug and alcohol programmes and people seeking emergency relief.

Overwhelmingly, we understand that the long term impact of poverty is not simply about “going without,” but is about being excluded from the normal events of community living that most of us take for granted. The costs of poverty and inequality to individuals and families are much greater than those identified in annual budgets, and are significant for the broader community. We see growing numbers of people who are part of a generational poverty cycle as well as those impacted by more recent events.

This report provides critical information and evidence about the extent of inequality in our community. We all need to take notice and act - certainly for the benefit of individuals and families in poverty, but also for the benefit of the whole community. We know that together we can make change and provide a fairer society for everyone.

Kasy Chambers, Executive Director, Anglicare Australia

Anglicare Australia seeks to engage with all Australians to build communities of resilience, hope and justice. Underpinning that mission is our belief there is a place for everyone; and that everyone can participate and have a stake in our society.

Unfortunately the experience across the Anglicare network, working with almost 602,000 Australians, is that this is not the case. Poverty in modern Australia is a profoundly isolating experience. It traps people out of work and limits their connection to others. It robs people of their stake in the wider world and the rest of us of their contribution.

We don't really know – nationally – who poverty affects. Anglicare Australia's annual Housing Affordability Snapshot this year found virtually no affordable private rental housing across Australia for people living on the lowest government payments. The situation for a family trying to live on a minimum wage was only a slightly better.

The impact of growing inequity in the paid work force – and the insecurity and poverty that comes with many short term jobs – is showing up at the Anglicare services that deliver financial counselling, emergency relief and family support. We need to pay more attention to the shape of poverty in Australia, and its enduring nature.

This Inequality Report is important because it will give us robust, up-to-date and reliable information on the extent of inequality in Australia. It will start to fill in the gaps between our affluence by international standards and the economic and social adjustments reflected in the everyday work of Anglicare organisations in communities throughout Australia.

That is why Anglicare Australia – drawing on support from Anglicare Victoria, Anglicare SA, Anglicare WA and Anglicare Southern Queensland – is so pleased to contribute this project. Australia needs the information and the insights that come with this, and subsequent reports, to steer the policies that allow all Australians, particularly the most vulnerable and disadvantaged, to play their part in our society.



Dr John Falzon, Chief Executive Officer, St Vincent de Paul Society, National Council of Australia

It is life that has taught us that an injury to one is an injury to all, and that in the face of these injuries our only weapon is our solidarity.

We are injured when government, on behalf of the rich, steals from the poor. We are injured when unemployment and underemployment are blamed on the individual instead of fixed by the government. We are injured when instead of a Jobs Plan we're served up a putting-the-boot-into-the-unemployed-plan.

We are injured when universal healthcare is hammered, when public education is attacked, when TAFE is undermined, when universities are deregulated. We are injured when the public sector is dismembered and the common good is wrecked, when people are forced into poverty, compelled to rely on charity when all they long for is justice. We are injured when the maximisation of profits takes priority over the rights of workers, including the residualised and discarded, the unpaid, the low-paid, the underemployed and the unemployed.

We have only one common enemy. It is called inequality. And no matter how long it takes we will win against this enemy.

Humanity will win against humiliation. For our solidarity is stronger than our sadness. And even though our struggle is enormous, so too is our hope.

“We have only one common enemy. It is called **inequality**. And no matter how long it takes we will win against this enemy.”



Executive summary

Excessive inequality in any society is harmful. It is harmful to the ability of people to participate in social and economic opportunities, and it undermines social cohesion. Excessive inequality is bad for the economy. When resources are concentrated in fewer hands, there is a reduction in economic activity. Fewer people are starting up businesses, buying houses, and purchasing goods and services. More people become dependent on government intervention. Excessive inequality is ultimately unhealthy for democracy. Money and power matter in terms of who in society gets heard, who can participate, and whose interests are adequately protected. In Australia, which lacks legal protections for basic human rights, the risks of excessive inequality are magnified.

The risks of rising inequality are becoming increasingly recognised around the globe. In a report published in May 2015, the OECD found that rising income inequality reduced economic growth by an average of around 5% across OECD countries over the two decades to 2010. The main reason for this is that, by widening the rungs in the income ladder, it closes off opportunities for people at the bottom of the distribution. By holding people back from realising their potential, especially through employment, it stunts their contribution to the economy.

The widening gap between middle and top income-earners in most wealthy countries over the past 20-30 years is also cause for concern. The top 10%, and even much smaller fractions of this group, are pulling away from the living standards of the majority, and increasingly, people at the top end are leading very different lives to the rest of us.

In a country that prides itself on its egalitarian traditions, the reality of income and wealth inequality in Australia comes as a shock to many. The purpose of this report is to use the latest available information to explain in simple, objective terms what is happening with income and wealth inequality, how big the gaps are, whether they are widening, and who is affected.

The Report has found that there is a big gap in incomes and wealth between different groups in society. A person in the top 20% income group receives around five times as much income as a person in the bottom 20%. A person in the top 20% wealth group has a staggering 70 times as much wealth as a person in the bottom 20%.

The Report also finds that these gaps are widening. Over the last 20 years the share of income going to those at the top has risen, while the share flowing to those in the middle and at the bottom has declined. The same is true for wealth, with the bottom and middle having lost ground to those at the top. The wealth of the top 20% wealth group increased by 28% over the period from 2004 to 2012, while by comparison the wealth of the bottom increased by just 3%.

Income inequality

Australia's level of income inequality is above the OECD average, but below countries such as the United States or the United Kingdom, which have very high levels of inequality. While inequality in Australia is not extreme by international comparison, we are moving in the wrong direction.

In the past, a strong set of institutions in Australia have kept income and wealth inequality in check while still making room for steady economic growth. This 'Australian economic model' included full employment policies, universal access to public education, a unique system of wage regulation, progressive income taxes, and a well-targeted social security safety net. As a result we were able to place limits on inequality within an open economy with relatively low taxes and public expenditures, and a flexible labour market.

Over the past two decades, this social compact appears to be unravelling. The benefits of our world-leading economic growth have been shared much more unequally than in the past.

To figure out why this has happened, this report reviews the basic building blocks of household income and wealth. The vast majority of all household income is wages, so the way jobs, working hours, and hourly wage rates are distributed make a big difference. Over the 17 years before the Global Financial Crisis (GFC), employment growth was strong, helping many people move from reliance on income support to wages. Working against this was increasing disparities in both wage rates and working hours. Over the period, those with skills in demand were paid more per hour and worked longer hours while those in lower paid jobs (most of whom are women) were offered shorter hours.

A smaller proportion of income is from investments (such as shares, housing and bank accounts). Despite its small share of overall income, this is an important driver of inequality because investment income has become increasingly concentrated at the top end. Between 2004 and 2010 average capital and other income more than doubled for the top 10%¹.

Government plays a crucial role in moderating income inequality. Most of the income received from our social security safety net goes to the bottom 40%, many of whom would otherwise live in poverty. Recent increases in pension payments have made a significant difference to overall income inequality, though the indexation of other payments, notably Newstart Allowance, to inflation only (and not wage movements, as with pensions) means that many social security recipients have steadily fallen behind the income levels across the community.

Our tax system is mildly progressive, raising more tax in proportion to income from high income earners than low or middle income earners. This is mainly due to the personal income tax system. However, the progressive impact of income taxes is blunted by consumption taxes such as the Goods and Services Tax (GST).

Over the last two decades, the role of both social security and tax in reducing income inequality has been reduced, due to a combination of economic factors and government policy changes. Solid employment growth up to 2007 reduced reliance on income support, diminishing the equalising role played by social security. At the same time, the low and (relatively) declining rate of Allowance payments are a product of policy decisions. On the tax side eight successive income tax cuts during the 2000s reduced the 'progressivity' of the tax system, so that while most households pay less tax, high income earners benefited the most.

Wealth inequality

Wealth in Australia is highly concentrated, with the top 10% of wealth holders owning 45% of all wealth.

Wealth determines access to many opportunities. Wealth can enhance income by providing access to further education and higher paying jobs or through acquiring assets which generate income, such as shares or investment properties. Wealth also provides financial security, enabling those with higher wealth to maintain living standards during periods when other income is low.

Because wealth contributes to future income, high levels of wealth inequality can deepen inequality overall. In this way, the trend towards greater inequality can spiral out of control.

Australia's household wealth has increased rapidly over the past two decades, driven primarily by an increase in housing prices. Australia's median wealth in 2012 was \$728,000, the second highest in the world after Switzerland.

In the past, another set of Australian institutions has kept wealth inequality in check. The most important was our high level of home ownership. A well designed superannuation system can also grow the wealth of middle-income households, though in the process it opens up gaps between retirees on the lowest incomes (those on the maximum rate of Age Pension) and people who have better access to super throughout their working life.

Housing is the most evenly distributed form of wealth due to high rates of home ownership in the population generally and particularly amongst people who have retired or are nearing retirement, who have relatively low incomes. However, many younger people are now finding it harder to enter the housing market. Home ownership rates have declined since 1981, with the declines greatest amongst young people aged 25 to 44 years. This bodes poorly for the future.

Household wealth in the form of superannuation is less equally shared than owner-occupied housing, but more equally shared than most other investments, likely due to the spread of compulsory superannuation. Approximately 60% of wealth held in superannuation is owned by the top 20% of the wealth distribution.

Other forms of wealth are much more highly concentrated – over 80% of wealth in investment housing and shares accrues to the top 20% of households. Growth in the value of these financial assets is accruing only to a minority of people, and is therefore driving up wealth inequality. As financial assets generate investment income, this also increases income inequality. While wealth inequality declined moderately following the GFC, increases in the value of these and other financial assets are likely to cause wealth inequality to continue to rise over the medium to long term, if the past 20 years are any guide.

¹ J Greenville, C Pobke, N Rogers [2013]: *Trends in the Distribution of Income in Australia*, Productivity Commission Staff Working Paper, March 2013.



Key findings

Income inequality

- Inequality in Australia is higher than the OECD average.
- A person in the top 20% income group has around *five times* as much income as someone in the bottom 20%.
- Strong employment growth over the past 17 years helped to reduce income inequality, as those at the bottom end of the income distribution had greater access to the workforce and worked more hours.
- However, wages growth was very unequal over the period and acted to increase income inequality. Over the 25 years to 2010, real wages increased by 50% on average, but by 14% for those in the bottom 10% compared with 72% for those in the top 10%.
- Increases in investment income for those at the very top of the distribution increased income inequality, with investment income for the top 10% doubling between 2004 and 2010. This increase is responsible for most of the income increase in inequality over this period, despite only forming a small component of income.
- People more likely to be found in the bottom of the income distribution are: over 65 year olds; sole parents; people from non-English speaking countries; and those reliant on government benefits as their main source of income.
- Income is not evenly distributed across the states and territories. For example, people in Tasmania are more likely to be in bottom 20%, whereas people in Western Australia are more likely to be in top 20%².
- There is an urban and regional pattern to income inequality, with people in capital cities more likely to be in the top 20%, while those outside capital cities are more likely to be in the bottom 20%.

Wealth inequality

- Wealth is far more unequally distributed than income. A person in the top 20% has around 70 times more wealth than a person in the bottom 20%.
- The top 10% of households own 45% of all wealth, most of the remainder of wealth is owned by the next 50% of households, while the bottom 40% of households own just 5% of all wealth.
- Ownership of particular asset types is even more concentrated. For example, the top 20% of the wealth distribution owns 80% of all wealth in investment properties and shares and 60% of all superannuation wealth.
- The average wealth of a person in the top 20% increased by 28% over the past 8 years, while for the bottom 20% it increased by only 3%.
- Wealth in owner-occupied housing is more equitably shared than any other wealth. However, many people, particularly younger generations, are now finding it harder to enter the housing market. Home ownership rates have declined since 1981, with the declines greatest amongst young people aged 25 to 34. In 1981, more than 60% of this group owned their own home, compared with 48% in 2011. Ownership of assets is a key source of financial security, including in retirement³.
- Wealth inequality has declined since the GFC, but has increased over the longer term.

² Note that the ACT and Northern Territory have not been included in this analysis as the sample size for these areas does not permit analysis at this level of detail.

³ J Daley, D Wood, B Weidmann and C Harrison (2014): The Wealth of Generations, Grattan Institute.

CHAPTER 1: INCOME

Income is the most commonly used measure of economic wellbeing. Income can be used to purchase goods and services to meet basic needs such as food, clothing, and housing as well as to supply things that enhance quality of life such as recreational activities and family celebrations. In this chapter we look at the distribution of income today, and the factors that have influenced income inequality and trends over approximately 20 years.

1. Distribution of income today

KEY POINTS:

- Inequality in Australia is higher than the OECD average.
 - A person in the top 20% income group has around five times as much income as someone in the bottom 20%.
 - Strong employment growth over the past 17 years helped to reduce inequality, as those at the bottom end of the income distribution had greater access to the workforce and worked more hours.
 - However, wages growth was very unequal over the period and acted to increase inequality. Over the 25 years to 2010, real wages increased by 50% on average, but by 14% for those in the bottom 10%, compared with 72% for those in the top 10%.
 - Increases in investment income for those at the very top of the distribution increased inequality, with investment income for the top 10% doubling between 2004 and 2010. This increase is responsible for most of the increase in inequality over this period, despite only forming a small component of income.
 - People more likely to be found in the bottom of the income distribution are: over 65 year olds; sole parents; people from non-English speaking countries; and those reliant on government benefits as their main source of income.
 - Income is not evenly distributed across the states and territories. For example, people in Tasmania are more likely to be in the bottom 20%, whereas people in Western Australia are more likely to be in the top 20%.
-



How inequality is presented in this report

In this report, we use the household as our unit of analysis. This is because households typically share income and the costs of living amongst household members, and so it makes sense to look at household income rather than the income of the individuals who live in the household.

Because we cannot look at every household separately, we break the population up into five even groups and look at the income or wealth characteristics of each household. This means, for example, we look at the 20% of the population who are in households with the highest incomes compared with the 20% of the population who are in households with the lowest incomes. To show what is happening at extreme ends of the distribution, we present data on the household incomes of the top 10% and the top 5% of the population, as well as the bottom 5% and the bottom 10%.

We also look at the characteristics of people at different points along the income spectrum (based on the income of their household) – for example, we look at whether people are employed, unemployed, single, over the age of 65 or from a non-English speaking background are more likely to be in low, middle or high income group households.

The number of people in a household, or whether they are adults or children, can make a significant difference to the well-being of each person within a household.

This report takes into account the size and composition of a household when looking at where it sits in the national distribution of income. This is called equivalisation. Equivalisation takes account of two aspects:

1. The number of people in the household: the more people who are in a household, the more income required; and
2. Economies of scale: While more income is required, the more people in a household, there are also economies of scale for some items (e.g. housing; furniture) that allow a given income to go further in meeting household needs when more than one person lives there.

Table 1 below allows the reader to see roughly where their household is in the income distribution. Note the income presented here is average income of all households within the group of 20%.⁴

Table 1: Average household income, 2012

	Bottom 5%	Bottom 10%	Lowest quintile	Second quintile	Third quintile	Fourth quintile	Highest quintile	Top 10%	Top 5%
Average weekly disposable income	\$402	\$496	\$637	\$1,186	\$1,663	\$2,153	\$3,458	\$4,189	\$5,121
Average annual pre-tax income	\$21,095	\$26,116	\$33,911	\$67,113	\$99,570	\$134,127	\$232,175	\$287,907	\$360,048

⁴ See discussion of equivalisation methodology at Appendix 2.

1.1 Who sits where in the income distribution

This report looks beyond the national level trends to identify characteristics of households at different points along the income spectrum. We do this in two ways.

First, we show where different groups (such as different types of families) sit in the income distribution: for example, the proportion of sole parent families who fall within the bottom 20% income group, showing they are more likely to be low income earners than high income earners.

Second, we describe the *profile* of each group along the income spectrum: for example, the proportion of households in the bottom 20% who are sole parent families.

These two perspectives yield different results. For example, almost half (40%) of sole parent families are in the bottom 20% of the distribution. But because sole parent families are only a small part of the population overall (7%) they compose 12% of all family types found the bottom 20%.

There are people who are persistently more likely to be found at the lower end of the income distribution. People over 65 years are more likely to be found at the bottom as most in this age group are no longer earning income from employment and many are reliant on the age pension. As noted above, sole parents are also much more likely to be in the bottom 20% of income earners, due partly due to lower employment levels, and partly to the level of social security payments for these families⁵.

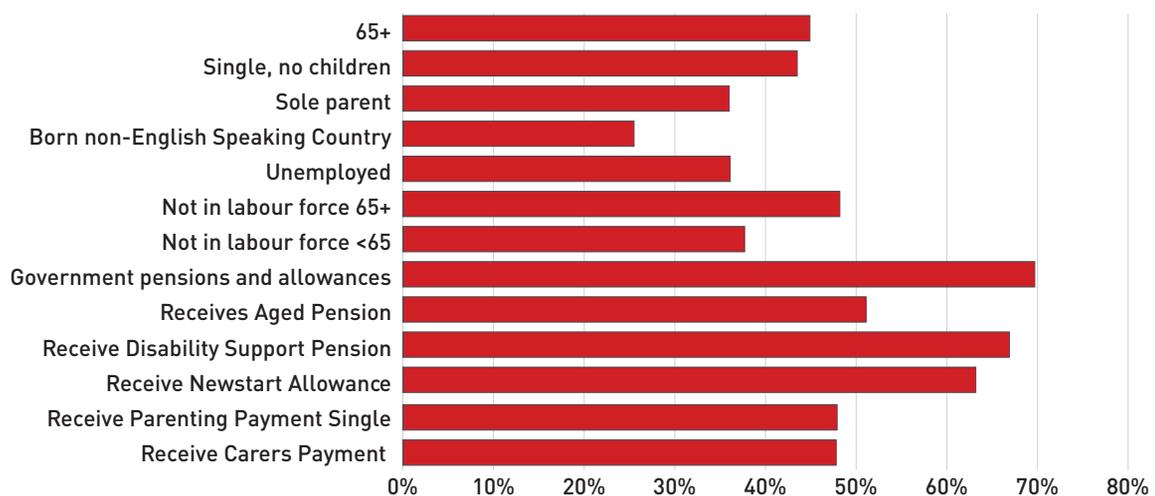
People from non-English speaking countries have a higher likelihood of being in the bottom 20%, reflecting difficulties people from non-English speaking countries face in securing well paid employment in Australia, which include (in many but not all cases) language barriers, problems in having overseas skills or qualifications recognised and discrimination⁶.

By far the most important factor impacting on income levels is labour force status (employment). People living in households where the household head is not in the labour force or is unemployed are significantly more likely to be on lower incomes than those employed full time or part time. Similarly, households reliant on government benefits as their main income source are much more likely to be found in the lowest income group.

By contrast those more likely to be in the top 20% income group are those who are aged 25 to 64, employed full time, born in Australia, or to a lesser extent, another English speaking country, and living in households where the primary income source is wages. While the primary income source of the top 20% income group is wages (as with most other groups in the income distribution), income from investments also makes up close to 10% of the income of this group.

Income is also not evenly distributed across states and territories. For example, people in Tasmania are more likely to be in bottom 20%, whereas people in Western Australia are more likely to be in top 20% income groups.

Figure 1: Proportion of people in certain groups who are in households in the bottom 20% of the income distribution



⁵ Peter Whiteford and Willem Adema (2007): What Works Best in Reducing Child Poverty: A Benefit or Work Strategy? OECD, France. Available: <http://www.oecd.org/dataoecd/30/44/38227981.pdf>.

⁶ Department of Immigration and Citizenship (2010): How new migrants fare: Analysis of the Continuous Survey of Australia's Migrants. Australian Government, Canberra. Available: http://www.immi.gov.au/media/publications/research/_pdf/csam-results-2010.pdf.



Composition of the bottom and top 20% of the income distribution

Those who make up a large proportion of the lowest income group and are more likely to be found in this group than elsewhere include older people (30% of the lowest income group), sole parents and single person households (33%), people of working age who are not in the labour force (35%), people born in a non-English speaking country (26%), and people in households that rely on Government pensions and allowances (67%), primarily the age pension.

The purpose of looking at the composition of people in households in the bottom 20% income group is to show the characteristics of people in these households. Note that as we are grouping by characteristic, some people will appear in more than one group – for example a sole parent who was also born in a non-English speaking background appears in both groups. This does not mean these people are double counted. Also note these categories overlap and so do not add to 100%.

Those who make up a large proportion of the highest income group and are more likely to be found in this group include people of working age (70%), couples without children (37%), people employed full time (71%), people born in Australia (72%), or to a lesser extent another English speaking country (14%), and those whose primary income source is wages (90%).

See Appendix 3 for more detail on who sits where in the income distribution.

1.2 Australia compared with other countries

OECD COMPARISON

Over the past three decades, inequality has increased across the OECD. Overall between the mid-1980s and 2013⁷ income inequality increased in almost every OECD nation. This was also a period of high economic growth across the OECD, and a period of rapid growth in incomes. In the decades leading up to the GFC, real average disposable income increased by 1.6% per annum across OECD countries. Moreover household incomes grew at both the bottom and top of the earnings distribution.

However, consistent with trends in Australia, across the OECD incomes from paid work rose more at the top of the earnings ladder than at the bottom. In three quarters of countries, household incomes of the top 10% increased at a faster rate than the bottom 10%, widening income inequality. Those with skills in highly remunerated demand areas – IT and finance – experienced significant wage increases (especially the top 1%, with performance based pay and bonuses), while the wages of workers with skills in low paid industries did not keep up.

Also similar to the experience in Australia, the key role played by redistributive policies in reducing income inequality (particularly taxation and government income support) declined, partly

as a result of cuts to marginal tax rates for higher income earners. In general this led to increased inequality across OECD countries.

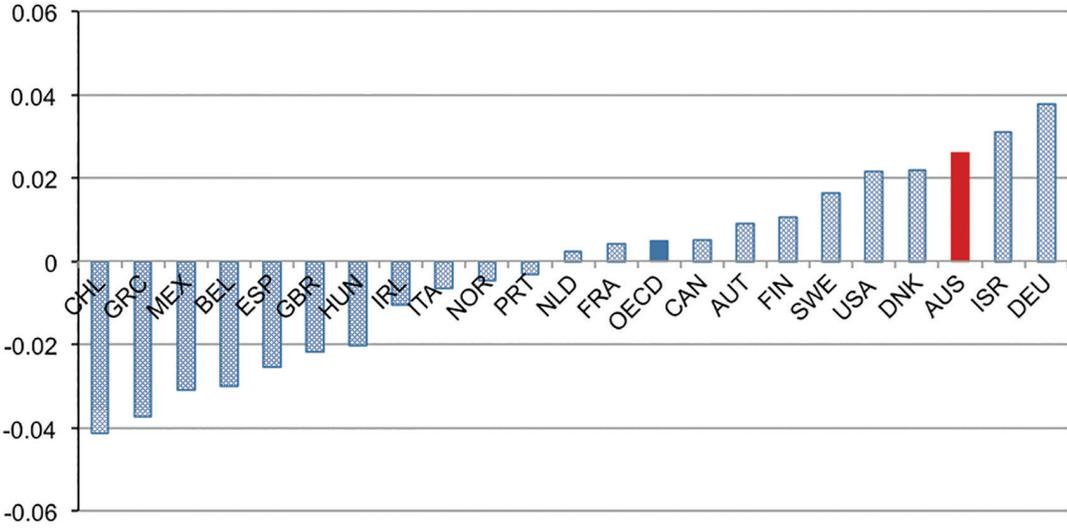
The GFC slowed economic growth across the OECD, with both economic growth and average incomes falling in most OECD countries in the years after the GFC (though to different extents). In general, the incomes of those at the bottom fell more than the incomes of those at the top of the income distribution, and so inequality continued to rise. In the early years following the GFC some of the increase in inequality was cushioned by the tax and transfer (income support) system. However, once fiscal consolidation policies were introduced in many countries, including reductions in income support for unemployed people, income inequality accelerated.

Australia's post-GFC experience has been different to other countries, with the Australian economy continuing to grow, and the increase in unemployment not as dramatic as elsewhere. With growth in the incomes of those at the top slowing after the GFC, and lower and middle incomes continuing to grow, inequality contracted. However, overall, inequality increased in Australia in the years from 1995 to 2012, with a period of declining inequality since the GFC.

⁷ Or latest available data

The rate of rising inequality in Australia has been faster than many other comparable countries. The figure below shows that between 2000 and 2008 (in the lead up to the GFC) inequality grew more rapidly in Australia than in all but two other OECD countries, after which point it slowed and contracted.

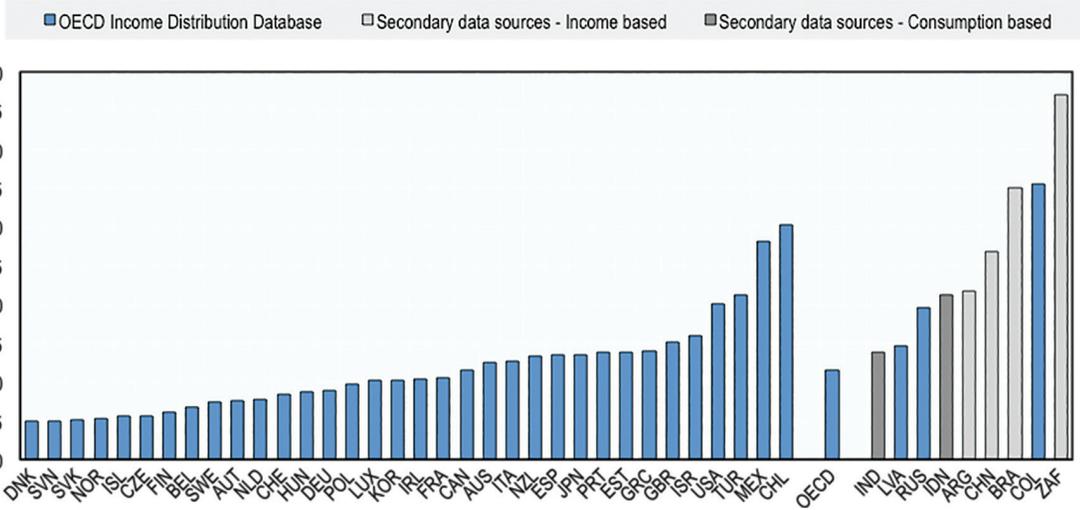
Figure 2: Change in household Gini coefficient, OECD countries, 2000 to 2008
Gini coefficient



Data source: OECD (2011)

Figure 3 shows that, in 2013, six years after the GFC, income inequality in Australia was higher than the OECD average. However, it was still not as high as in some other very unequal societies such as the United States and the United Kingdom⁸.

Figure 3: Income inequality varies greatly across OECD countries and emerging economies
Level of income inequality (Gini coefficient), 2013 or latest available year



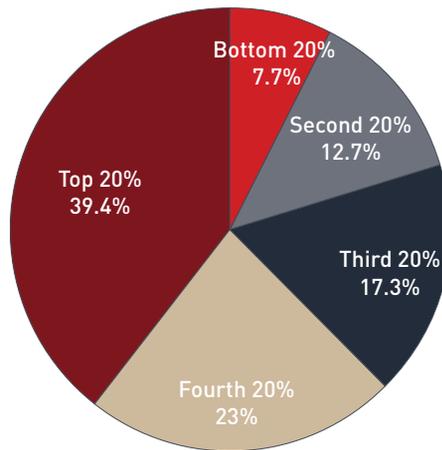
Source: OECD (2015), *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris. DOI: <http://dx.doi.org/10.1787/9789264235120-en>

⁸ Figure 3 draws on the Gini measure of inequality to compare across OECD countries. A Gini coefficient of 0 represents perfect equality (every person has the same income), while a coefficient of 1 implies perfect inequality (one person has all income). The closer to zero, the more equal the income distribution, the closer to 1, the more unequal. Data are for 2013 or the most recently available year for each country.

1.3 The distribution of income in 2012

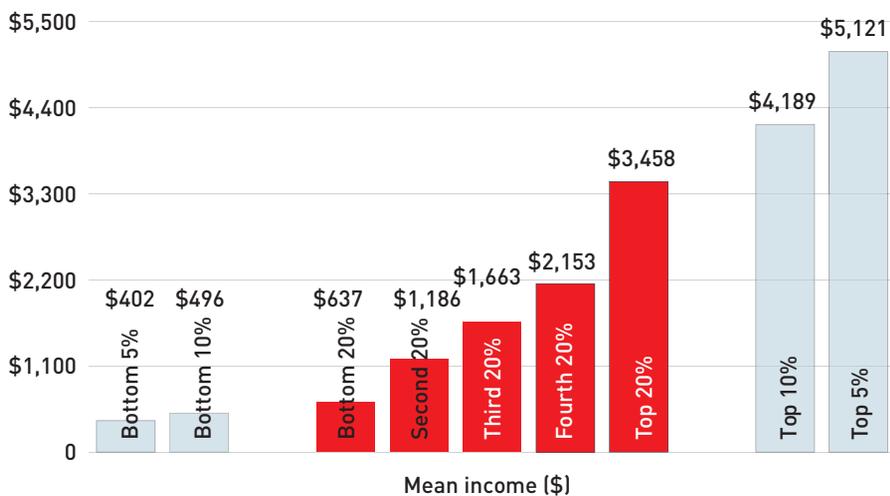
In Australia, national income is unequally distributed. In 2012 (the latest year for which data is available) people in the top 20% income group received 40% of all income. People receiving pensions, other households with social security as their main income source, and low income wage households who compose the bottom 20% received only 7.7% of national income. The second bottom 20% of income earners, which includes mostly wage earning households, but also some recipients of government benefits, received 12.7% of national income.

Figure 4: Share of national income, 2012



It is helpful to look at the average income of a household in each of the income groups, to enable comparisons across the groups. The figure below shows that the average income of a household in the top 20% is *five* times the income of a household in the bottom 20%. At the extreme ends of the distribution, the average weekly after tax income of the top 5% is 13 times that of the bottom 5%. The average income of a household in the top 10% of the income distribution is \$4,189 while average income in the bottom 10% is \$496 a week after tax.

Figure 5: Average weekly income after tax by quintile, 2012



Looking at Australia as a whole, the income of an average household was \$1,819 per week in 2012. However, the median (i.e. the mid-point when all households are ranked in ascending order of income) was only \$1,600 per week. This difference reflects the fact that the income distribution is not symmetrical – that is, a relatively small number of households have very high incomes and a relatively large number of households have lower incomes.

The top 1%

Much of the recent debate about inequality, in Australia and globally, has focused on the share of income and wealth going to the top 1%, and increasingly to the richest 0.1%⁹. As is the case in other OECD countries, a large portion of the benefits of recent economic growth in Australia has accrued to the top 1%. The top 1% in Australia captured more than 20% of the pre-tax growth in income between 1975 and the onset of the GFC in 2007¹⁰, while the share of income going to this group increased from 5% to 10% over a similar period (1980 to 2007)¹¹.

Even within the top 10%, income is highly concentrated. Since 1978, 75% of the increase in income of the top 10% has gone to the top 1%, and 65% has gone to the top 0.1%. In 2012, average income for the 180,000 individuals in the top 1% was \$400,000 per annum (per person not household) while the minimum income of a person in the top 1% was \$211,000. There are also 18,000 people in the top 0.1%, with an average income of \$600,000. While substantial, the share of income received by the top 1% in Australia is not as large as in other OECD countries (the share of income going to the top 1% in the US is about double that of Australia). However, the share going to the top 1% has been increasing faster in Australia than in some other OECD nations. In 1980, Australia had the second lowest share of any OECD country accruing to the top 1% (after Sweden), whereas we are now between fifth and seventh in the ladder.

There is no established cause for the top 1% increasingly receiving a greater share of income, although explanations advanced include the internationalisation of the market for chief executives, (pushing up remuneration for this group, including through the use of bonus and stock options), skill-based technological change, and changes to taxation policies (the latter includes both the lowering of top income tax rates and the use of exemptions to avoid paying tax)¹². There is however much more consensus on the potential consequences – including rent seeking behaviour and political and economic capture by the economic elite¹³. An OECD paper investigating this issue suggested that a comprehensive strategy is needed to address this problem. It suggested such a strategy should include reforms to tax policies, including reductions in opportunities for tax avoidance by abolishing or reducing tax expenditures, broadening the personal tax base, making greater use of property taxes, and further development of international tax avoidance treaties¹⁴.

The OECD warns against focusing exclusively on the growth in incomes of the top 1% at the expense of understanding inequality more broadly. While reducing the share of income going to the top 1% would certainly help to reduce overall inequality¹⁵, it would not reduce most of it¹⁶. Indeed, the Melbourne Institute has found that after increasing from the early 1980s and the early 2000's, the share of income going to the top 1% remained flat from 2006 to 2012, although it is not clear whether this has reduced the impact of the top 1% on income inequality¹⁷. The OECD suggests that in terms of the impact inequality can have on economic growth, it is important to focus on the relative well-being of the bottom two groups of 20%, as the incentives and opportunities for these groups to engage in education, further their skills and participate socially and economically are particularly critical to improving economic and social development. The wellbeing of those on lower incomes also reflects the kind of society in which we live.

9 OECD (2015): In it together: Why less inequality benefits us all.

10 OECD (2014): FOCUS on: Top Incomes and Taxation in OECD Countries: Was the crisis a game changer?

11 Peter Whiteford (2013): Australia: Inequality and prosperity and their impacts in a radical welfare state.

12 Fletcher, M. et al (2014) Income Inequality in Australia and OECD (2014).

13 OECD (2015) Op. Cit.

14 OECD (2014) Op. Cit.

15 Greenville et al (2013): Trends in the Distribution of Income in Australia, Productivity Commission Staff Working Paper, Canberra.

16 Greenville et al (2013) Ibid.

17 The Melbourne Institute (2014): Australia's top 1% continues to take home the same share of the pie <http://benews.unimelb.edu.au/2014/australias-top-1-continues-to-take-home-the-same-share-of-the-pie/> and Greenville et al (2013): Op. Cit.



2 Trends in income inequality

KEY POINTS:

- Over the past 17 years, income inequality has increased.
- The share of income going to the top 20% increased by 1.9 percentage points from 37.5% to 39.4%.

2.1 Overall trends

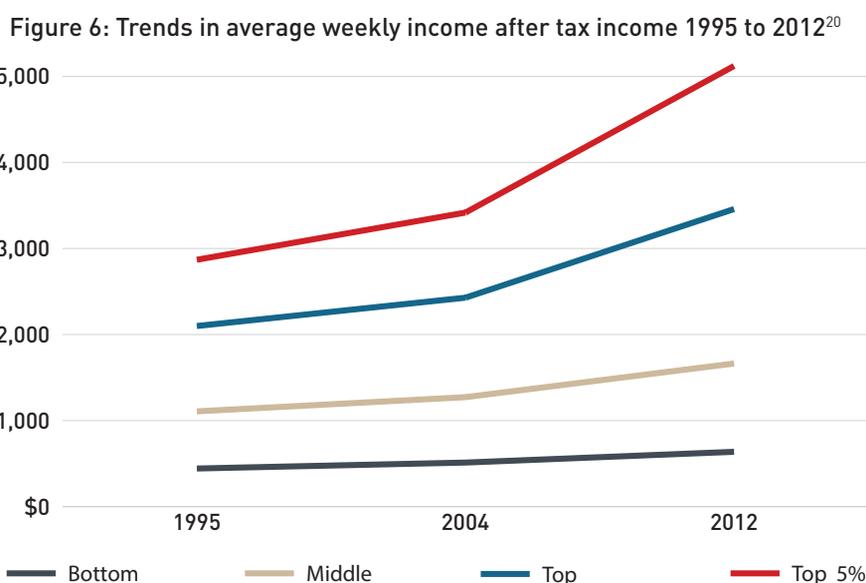
This section looks at changes in income inequality over the past 17 years¹⁸. While there have been different trends within this period, the overall trend is that income inequality in Australia is increasing¹⁹.

The mid to late 1990s saw relatively slow economic growth as Australia recovered from the early 1990s recession. Rapid growth then set in from around 2003 as a result of the mining boom. A brief pause occurred in 2008 as a result of the global financial crisis, with growth recovering up until 2012.

The figure below shows that over the last 20 years, average weekly income increased across the different income groups. However, the rise in incomes has not been spread evenly with higher income households recording greater gains. As you can see in the graph below, the incomes of the top 5% rose more rapidly than the incomes of the bottom 20%.

The average incomes of the top 5% increased in real terms from \$2,869 per week in 1995 to \$5,121 per week in 2012 (a 78% increase). In the same period, the average income for the bottom 20% increased from \$443 to \$637 over the same period (a 44% increase)

Growth in incomes was much more unequal in the second period (as can be seen from the fact that the lines for the top 5% and top 10% rise more rapidly than for the other income groups). This suggests the income growth from the mining boom was not spread evenly and exacerbated income inequality in Australia.

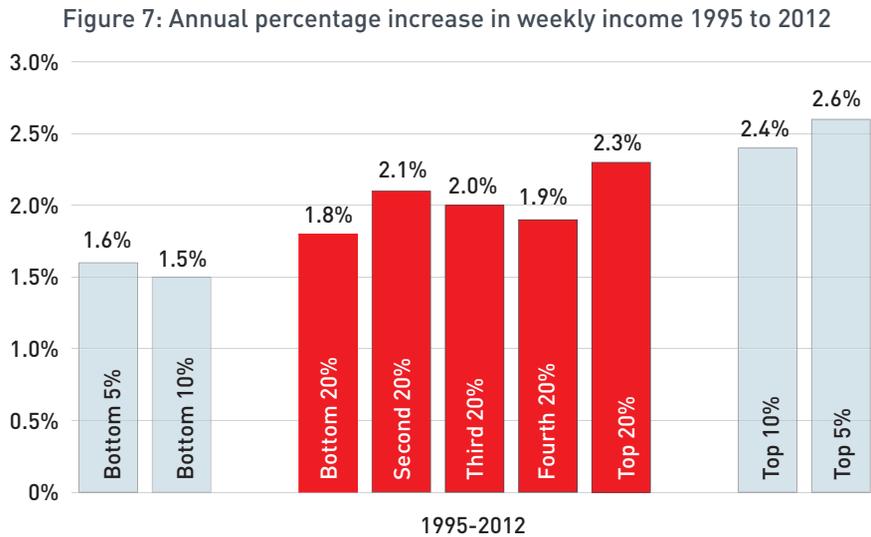


¹⁸ Analysis over longer periods of time can be found in Whiteford (2013) for a 30 year period and Leigh (2005) for a 60 year period – P Whiteford (2013): Australia: Inequality and Prosperity and their Impacts in a Radical Welfare State, Crawford School of Government, Australian National University; Leigh, A (2005), Deriving Long-Run Inequality Series from Tax Data, Economic Record, Vol. 81, No. 255.

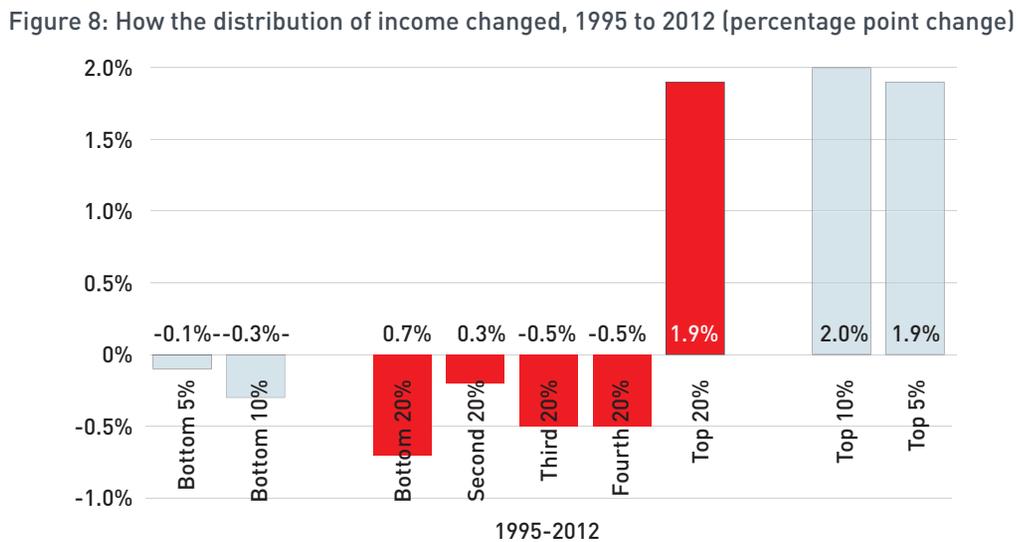
¹⁹ Australian Treasury (2013): Income Inequality in Australia, Economic Roundup Issue 2, 2013, Productivity Commission (2013): Trends in the Distribution of Income in Australia, Productivity Commission Staff Working Paper, and OECD (2011): Divided We Stand: Why Inequality Keeps Rising.

²⁰ Data from 1994-5, 2003-4 and 2011-12 presented in 2011-12 dollars. There was a change to the way the ABS measured income in 2007-08, however the broad trends can still be inferred. See also discussion in Greenville et al (2013).

Another way to show that incomes for all groups increased, but that those at the top increased by more, is to look at how much incomes increased on average each year. The figure below shows the percentage increase across all income groups. Income increased by 1.8% per year on average for the bottom 20%, by 2% for the middle and by 2.3% for the top 20%. By 2012 the incomes of the top 10% were 41% higher than they were in 1995, while the incomes of the bottom 10% were 25% higher.



The rise in income inequality is reflected in changing income shares over the past 20 years. The figure below shows that the top 20% increased their share of total income by 1.9 percentage points. By contrast, all other groups recorded a fall in their income share with the bottom 20% experiencing the largest contraction (a 0.7 percentage point reduction).



The next section will examine the key income factors that have driven this shift.



3 The reasons for increased income inequality

KEY POINTS:

- Wages and salaries contribute the most to household income and therefore to income inequality in Australia before taxes and transfers are taken into account. A person in the middle 20% receives about eight times as much in wages as the bottom 20%.
 - Investment income is highly unequally distributed but it is a small proportion of household incomes compared with wages and salaries, therefore it has a smaller impact on before tax inequality. However, while it is not responsible for the level of inequality, it is responsible for much of the growth in inequality.
 - The tax-transfer system plays an important role in reducing inequality. Progressive income taxes and government income support payments such as the Age Pension, Newstart and family payments reduce inequality. The impact is lessened by indirect taxes such as the GST.
-

The previous section showed that income inequality increased over the 17 years to 2012. We now turn to different forms of income that together make up a household's overall income to explain their contribution to overall income inequality, and to show why income inequality has increased.

Households obtain income from a range of sources, including:

- Wages and salaries²¹;
- Income from investments and self-employment; and
- Government transfer payments.

Some of these income flows are then taxed.

It is possible to look at the distribution of each of these income sources, and the distribution of taxation to show what has happened to income for each of the different groups in the income distribution.

In summary, between 2005 and 2012:

- The **bottom** income group experienced rising incomes due to people returning to the workforce during the boom period. People were more likely to be in paid work, and to work longer hours. There were also increases to some social security payments that benefited low income households, in particular through an increase in the Age Pension.
- For the **middle and top** income groups, wages increased overall, but more rapidly for those at the top. Over the past 20 years, there were several income tax cuts which overall benefited higher income earners more than lower income earners.
- The **top** income group benefited from substantial increases in income from investments. Average income from capital doubled for the top 10% - and this factor has driven much of the recent rise in inequality.

The following sections analyse the distribution of incomes from the perspective of:

- 1) Wages and salaries;
- 2) Investments; and
- 3) Taxes and government benefits, in order to determine their impacts on inequality.

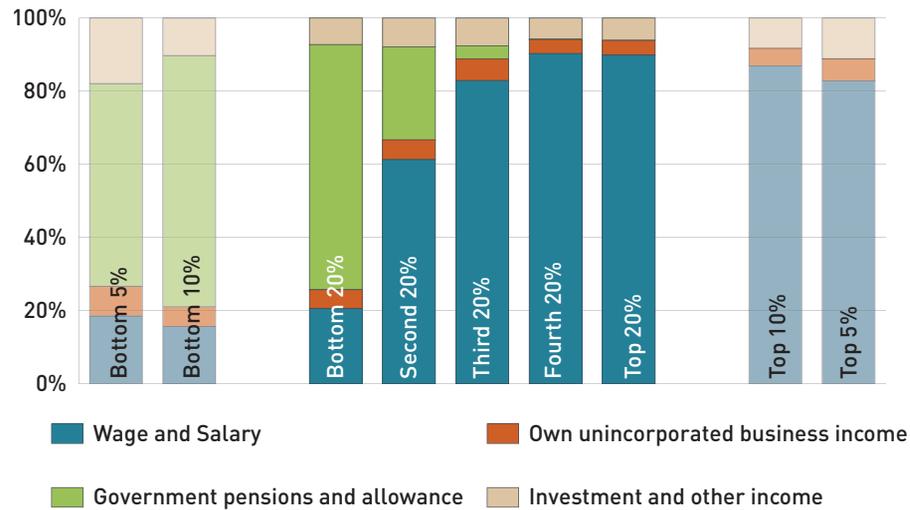
These sections draw on analysis from a range of referenced material, covering periods similar to the period covered in the trend analysis above.

²¹ Another source of income is earnings from self-employment (own unincorporated business income). As this is only a small portion of household income, on average, it is not analysed here. Information on self-employment income can be found in Greenville et al (2013).

3.1 The building blocks of income

Figure 9 shows that wages were the main source of income for all quintiles except for the lowest income group, which derived income mainly from government transfer/income support/social security payments. 'Investment and other income' and income from self-employment (own unincorporated business income) are much smaller components of income for all groups.

Figure 9: Main income source, 2012



“A person in the top 20% receives around 2.5 times the wages and salary income of the middle 20%, and the middle 20% receives eight times the wage and salary income of the bottom 20%.”

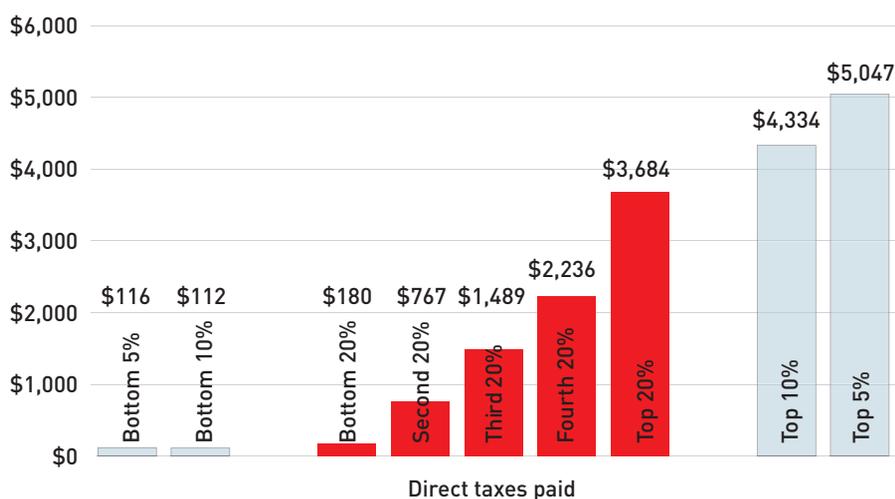


3.2 Wages and salaries

As the largest component of income for most households, inequality in wages and salaries is a major driver of overall income inequality in Australia. Figure 10 shows that a person in the top 20% receives around 2.5 times the wages and salary income of the middle 20%, and the middle 20% receives *eight times* the wage and salary income of the bottom 20%.

It is important to note that differences in earnings are determined not only by differences in wage rates, but also by employment rates and hours of work.

Figure 10: Average weekly before tax income from wages and salaries, 2012



Of the various income components, between 1995 and 2010, earnings growth has been the major driver of increased incomes, but for different reasons:

- For households at the bottom of the income distribution, wage and salary earnings growth has been driven by increased workforce participation and employment.
- For households at the top, earnings growth appears to have been driven by higher wages²².

Income from wages is determined by the number of hours worked, and hourly wages:

- For full-time workers, real hourly wages have grown by around 23% since the late 1990s while hours worked have changed little.
- For part-time workers, both hourly wages and working hours have increased (around 8% and 16%, respectively), raising weekly earnings²³.
- Hourly wages have grown faster for high income earners than for low income earners.

In terms of the overall impact of wages and salaries on inequality over time, there are two key competing factors at work. Employment growth, including an increase in part-time earnings, has acted to reduce inequality. Employment increased from a low of 56% during the last recession in 1993 to 63% just prior to the GFC.

However, growing inequality in the distribution of wages for full-time workers has led to increased income inequality. On the whole, labour earnings inequality has been falling in Australia since the late 1990s. This is because greater access to and participation in the workforce at the low end of the income distribution has more than offset the disproportionate increase in wages at the top²⁴.

²² Greenville et al (2013) Op. Cit.

²³ Greenville et al (2013) Op. Cit.

²⁴ M Fletcher, B Guttman (2013): Income Inequality in Australia, Treasury Economic Roundup Issue 2, 2013.

3.3 Investment income

Income from investments and other private sources is highly unequally distributed and has become more unequal over time. Unlike labour income, the growth in investment (capital) income has been concentrated at the upper end of the income distribution. Between 2004 and 2010 average capital and other income more than doubled for the top 10%²⁵.

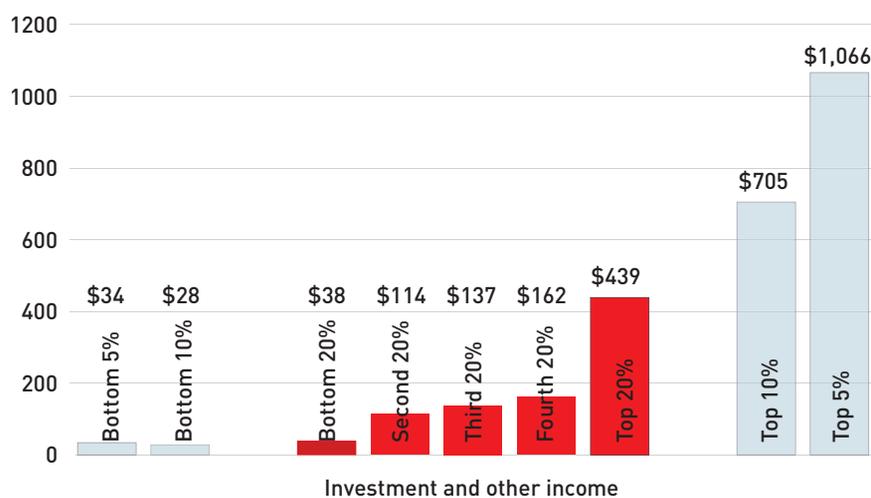
Many advanced economies have been experiencing a gradual but noticeable shift in income away from labour towards capital. This trend in Australia reflects several factors including the liberalisation of financial markets, making it easier and more efficient to access capital, and the investment opportunities of the capital-intensive mining boom. The growth in investment income has been strong, increasing on average every year by 7.5% over the 2000s²⁶.

The Productivity Commission assessed these changes and found that the distribution of capital and other income is responsible for much of the recent increase in income inequality²⁷. Inequality in income from capital has been highly volatile, and has increased particularly among pensioner and retired households²⁸.

Overall, income from investments (interest, rent, dividends, royalties and superannuation) is a small part of total income, but it is highly concentrated. Figure 11 shows that the majority of households earn little or no income from investments while a few earn significant amounts. In 2012, households in the middle of the income distribution derived \$137 per week on average from investments and other private sources, compared with the top 5% which derived over \$1,000 per week from investments. Moreover, high income earners also typically benefit from large capital gains which are not included as part of income here but can be found in the discussion on wealth in Chapter 2.

Figure 11 also highlights the disparity in investment and other private income in dollar terms. The average weekly investment income of the top 5% is around 2.5 times that of the top 20% (\$1,066 compared with \$439), and the average weekly investment income of the top 20% is more than three times that of the middle quintile (\$439 compared with \$137).

Figure 11: Average weekly before tax investment and other income²⁹, 2012



25 Greenville et al (2013) Op. Cit.

26 Parham, D (2013) Labour's Share of Growth in Income and Prosperity, Productivity Commission Staff Working Paper, September 2013.

27 Greenville et al (2013) Op. Cit.

28 Whiteford, P (2013): Australia: Inequality and Prosperity and their Impacts in a Radical Welfare State, Crawford School of Government, Australian National University.

29 Other income may include: workers' compensation, scholarships, child support, and financial support received from family members not living in the same household. These amounts are generally small compared with investment income.



3.4 The role of tax and transfers in reducing inequality

Government transfer payments are a vital source of income for many Australians. Government benefits may supplement income and assist with certain costs, for example the costs of raising children. Or they may be intended as an income safety net, for example the age pension, or disability payments to support people who are unable to obtain paid work.

Many people receive income support at some stage in their lives, but this does not mean this support is received continuously. For example, between 2001 and 2009, 66% of people lived in households where somebody received income support, yet only 11% received it over the whole period³⁰.

The extent to which the tax-transfer system reduces inequality is influenced by a number of factors including:

- The number of households receiving transfer payments (e.g. unemployment benefits).
- How targeted the transfers payments are (i.e. which households receive benefits).
- The extent to which high income households are taxed more than low income households.

In the following sections, we consider the impact of:

- 1) Transfer payments; and
- 2) Taxes, in more detail.

“Between 2001 and 2009, 66% of people lived in households where somebody received income support, yet only 11% received it over the whole period.”

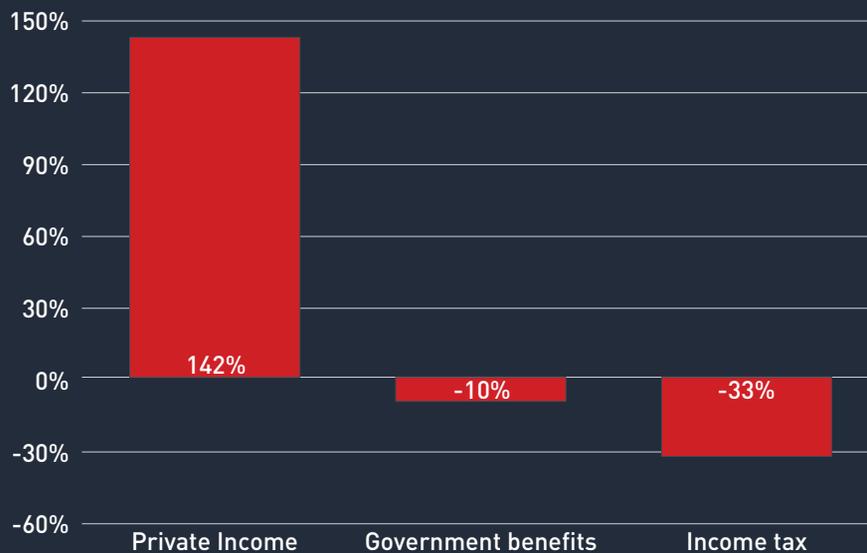
³⁰ Whiteford, P (2014): The Nature of Australia's Social Expenditure, Presentation at the Conference on the Future of Welfare, 30 October 2014, Melbourne.

AUSTRALIA'S INCOME TAXES AND TRANSFERS REDUCE INEQUALITY

Australia is regarded as having one of the most targeted transfer systems amongst advanced economies³¹. Our various income, asset and employment tests mean that as a proportion of overall transfer payments, Australia redistributes more income to the bottom 20% than virtually every other OECD country. The poorest 20% receive 42% of transfer payments, whilst the richest 20% receive only 3%³². In addition, Australia's income tax system is designed to be progressive. This means that lower income households pay a smaller proportion of their income in tax than higher income households.

One way of looking at the impact of the tax and transfer system is to look at how much these elements influence overall inequality. Figure 12 shows the contribution of private income (largely from employment or investments), government transfer payments, and income taxation to inequality. As shown in Figure 12, private income is distributed unequally therefore contributes to increasing inequality while government payments and, more significantly, income taxes, act to reduce inequality.

Figure 12: Contribution to inequality, 2012³³



31 Whiteford, P (2011): How Fair is Australia's Welfare State? Inside Story, 11 July 2011

32 Whiteford, P (2013): Op. Cit.

33 Inequality as measured by the Gini Coefficient. For details on how the contribution analysis is undertaken refer to the methods paper.



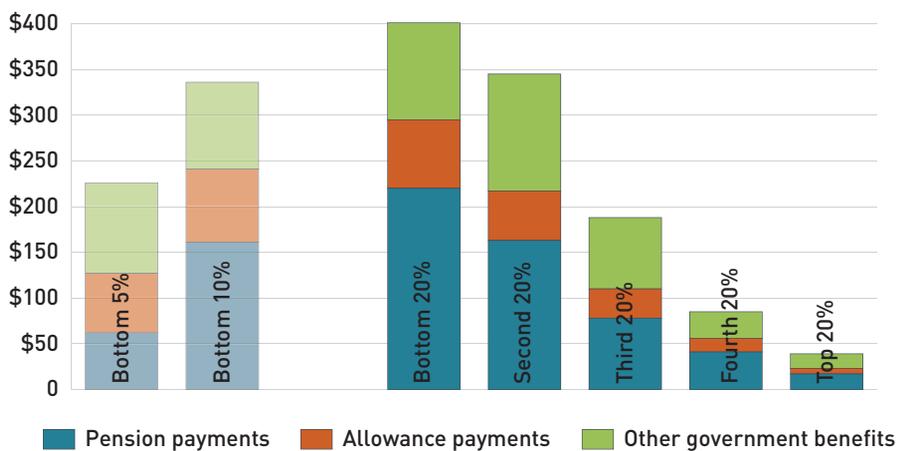
THE IMPACT OF TRANSFER PAYMENTS

Transfer payments, also referred to as social security, include:

- *Pensions* such as the Age Pension for those over 65 who have retired and do not have significant income from other sources, and those for people with disabilities or sole parents with young children who face barriers to work.
- *Allowances* such as Newstart for those actively seeking employment.
- *Other government benefits* such as family payments (e.g. Family Tax Benefit) or rent assistance paid to some low income households receiving social security payments to assist with particular costs.

Figure 13 presents average weekly income from government transfer payments. It shows the tax and transfer system is highly targeted. Average income from benefits is \$402 per week for the lowest income quintile. The second quintile receives slightly less from benefits than the first (\$345 per week), while the highest income quintile receives only \$39 per week. It also reveals that pension payments make up the largest component of government transfer payments received by any income quintile³⁴. This reflects the fact that people on the Age Pension make up around half of all recipients of government benefits. Family payments make up the second largest component (26% for the bottom 20%) while allowance payments such as Newstart and Youth Allowance make up the smallest components (19% for the bottom 20%).

Figure 13: Average weekly before tax income from government benefits, 2012³⁵



Overall, because government transfer payments are targeted to those on low incomes, they play an important role in reducing income inequality, increasing the incomes of those at the very bottom. As discussed above, this group receives far less employment income than other groups.

Increases in benefits were responsible for much of the increase in income of the bottom 20% over the past two decades (with the remainder being income from earnings, primarily from increased employment participation). The most significant increase over this time was to the Age Pension in 2009, when it was increased by \$30 per week³⁶.

However, payments did not increase for all groups over this period. The Newstart Allowance has not increased in real terms since 1994, which means people who are unemployed have their living standards frozen at 1994 levels, falling well behind the rest of the community. This is because payments for the unemployed such as Newstart, are indexed to prices rather than wages causing a fall in relative living standards for these groups. Moreover, Family Tax Benefits are now also indexed to prices which will reduce the effectiveness of family payments in reducing poverty and inequality³⁷.

³⁴ This includes the Age Pension and other pensions such as the Disability Support Pension and Carers Payments.

³⁵ Note that the average amount of income from benefits does not reflect the rate of benefit payments, as the average will be influenced by households within each quintile that receive no benefits. Note also that a very small portion of government benefits go to the top 20% and are mostly age and disability pensions, veterans' pensions and unemployment benefits. This is because income tests in the social security system are based on the family, so receipt of benefits by high-income households is mainly the result of older people, people with disabilities or the unemployed sharing a house with their parents or their children. See Whiteford, P (2013): Debunking the 'middle-class welfare' furphy, Crikey, 6 June 2013.

³⁶ In 2009 dollars.

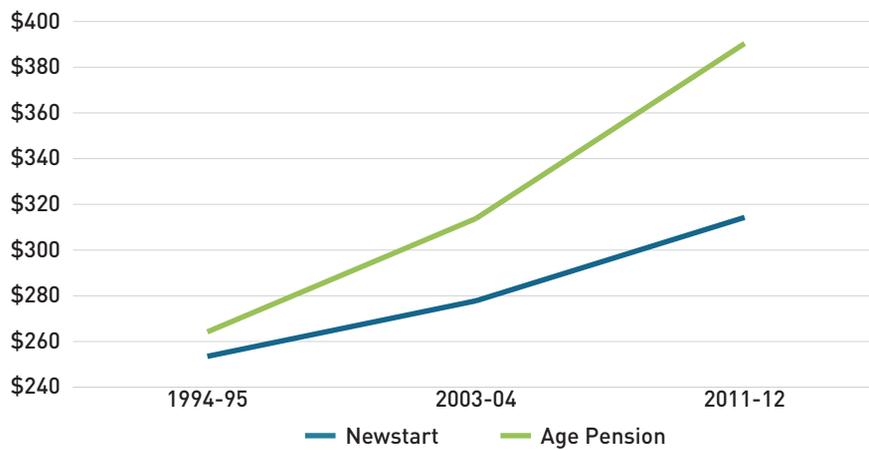
³⁷ Whiteford, P (2013): Op. Cit.

The figure below shows the different experience of low income groups receiving government benefits by comparing income from Newstart (indexed to prices) to the Age Pension (indexed to wages). It shows that the real income of households in the bottom quintile where the main income source was pensions increased from \$264 per week to \$390 per week, an increase of 48%, while the income of households with Newstart as their main source of income increased from \$254 to \$314, an increase of 24%.

As Newstart has only increased with prices over time, any *real* increase in the overall incomes of these households is entirely due to other changes, for example, other household members returning to the labour market, or an increase in other payment types that are indexed to wages.

As only 3% of people are unemployed, the number of people on Newstart is not large enough to influence overall levels of inequality in the population. However, those on Newstart payments are more likely to be found in the bottom 10% of the income distribution – suggesting the low level of Newstart payments creates inequities within the bottom income group.

Figure 14: Average weekly income: Newstart or Age Pension main income source, 1995 to 2012



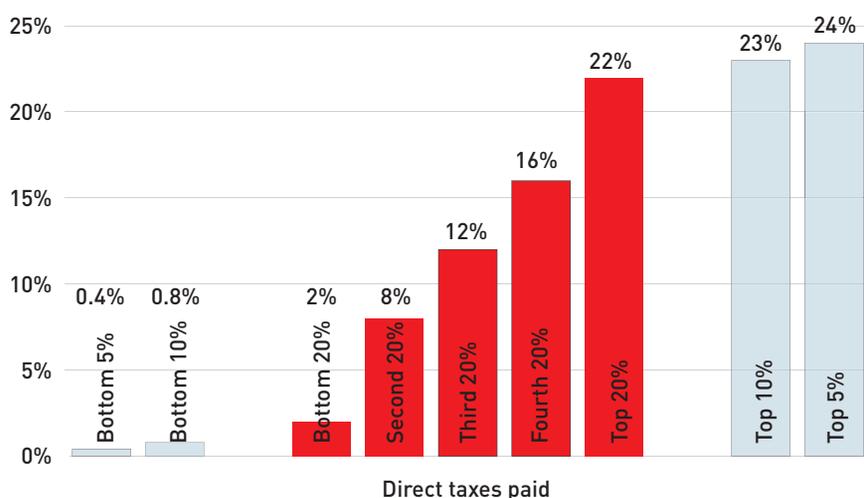
All figures are in 2011-12 dollars and show real changes over time.
Chart shows income for households in the bottom quintile only. Equivalised average income by equivalised quintiles.

THE IMPACT OF TAXATION

Direct taxes

In Australia, direct taxes include income tax, the Medicare levy and the Medicare levy surcharge. Figure 15 shows the progressive nature of direct taxation. Households in the lowest income quintile pay only 2% of their income in direct taxes compared with 12% for the middle quintile and 22% for the highest income quintile. Note that these rates are much lower than published tax rates, which range from 19% to 45%, as these are marginal tax rates that apply once certain income thresholds are reached. Tax concessions also reduce the amount of tax actually paid.

Figure 15: Direct tax paid as a proportion of before tax income, 2010



Indirect taxes

Indirect taxes include consumption taxes such as the GST and fuel excise. They are indirect because they are not directly taxed on income, but rather on the goods purchased with income. Figure 16 shows the regressive nature of indirect taxation. Households in the lowest income quintile pay 21% of their income (after income tax) in indirect taxes, whereas the highest income quintile pays only 8%.

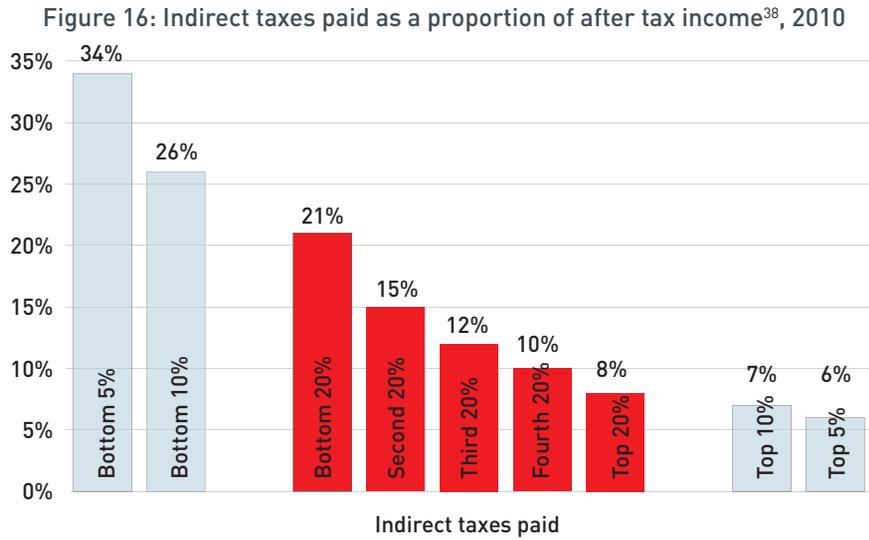
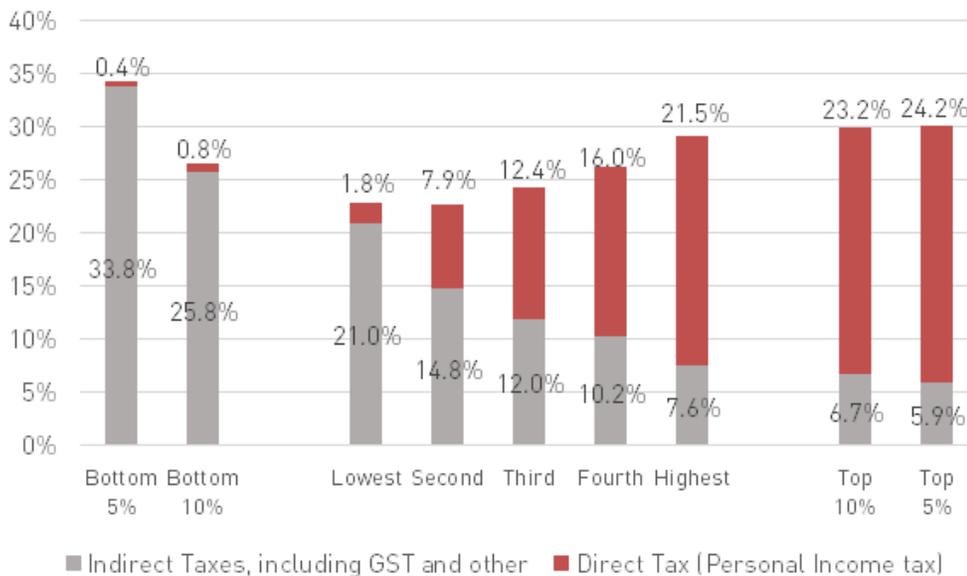


Figure 17 shows average tax paid in income, GST and other indirect taxes as a proportion of household income for each group. The combined effect of these taxes on households is much less progressive than typically believed, with a rate similar to that of a flat tax rate on incomes of around 25%³⁹.

Figure 17: Income and other taxes as a proportion of income, 2012



³⁸That is, after income taxes, Medicare levy and Medicare levy surcharge.

³⁹ACOSS (2015): Tax: Are we paying our fair share? ACOSS Tax Talk No.1, January 2015.

In summary, both government transfers and income taxes act to decrease income inequality. The progressive nature of the income tax system means that higher income earners contribute a higher share of their income towards government expenditure. Low income households are also able to benefit from payments, particularly the age pension and unemployment benefits.

Government taxes and transfers help to reduce income inequality. However, since the mid-1990s they have become less effective in doing so⁴⁰. By 2009, the redistributive impact of the tax-transfer system was 20% lower than in 1994⁴¹. In part, this reflects less need for income support over the period as people gained earnings from employment. Another important factor is that many payments have failed to rise by a sufficient amount to reflect change in purchasing power. However, it also partly reflects a decline in the redistributive impact of the tax system over 1994 to 2009⁴². This was a result of tax policy changes that benefited higher income earners.

Finally, there are many taxation concessions, such as superannuation and investment housing tax concessions that disproportionately benefit higher income households. This is further eroding the effectiveness of the government tax-transfer system in containing inequality.

3.4 Broadening the concept of income

In recent years, the ABS has extended its concept of household income to non-cash items. In particular, for several years the ABS has produced estimates of 'imputed rent' and, more recently, social transfers in-kind. Imputed rent is income constructed for households that reside in owner-occupied housing or subsidised private rentals, for example, due to renting from a family member. Social transfers in-kind are goods or services provided by the government free of charge or at subsidised prices. Examples include free or subsidised education, health and childcare.

Whiteford (2013)⁴³ finds that taking broader measures of household incomes tends to show both higher living standards and lower inequality than standard income measures. For example, adding the value of government non-cash benefits (health and education being the most important) reduces inequality (and raises final incomes). Taking account of imputed income from owner-occupied housing has an even greater effect on inequality, because home ownership is much greater among households over 65 years, and in Australia these households tend to have much lower cash incomes than younger households.

However, Whiteford concludes that while the level of income inequality is lower using these broader measures, the overall trend on virtually all measures is towards greater inequality in the last decade.

Similarly, Greenville et al (2013) recognise that improvements to income measurement in the ABS household expenditure surveys used in their analysis may lead some to question whether a rise in inequality simply reflects better measurement rather than underlying changes. They find that trends in the distribution of income across the entire population can still be inferred and that income inequality has risen over the past 20 years⁴⁴.

40 Whiteford, P (2013) Op. Cit.; N Herault, F Azpitarte (2014): Recent Trends in Income Redistribution in Australia: Can Changes in the Tax-Transfer System Account for the Decline in Redistribution? Melbourne Institute Working Paper No. 2/14.

41 N Herault, F Azpitarte (2014): Ibid

42 N Herault, F Azpitarte (2014): Ibid

43 Whiteford, P (2013): Op. Cit.

44 Greenville et al (2013) Op. Cit.



CHAPTER 2: WEALTH

In the previous section we looked at inequality of household income, including income from wages and salaries, government benefits, investments and self-employment.

This section examines inequality of household wealth. Wealth includes money saved in bank accounts, as well as households' assets such as housing or shares. Net wealth is made up of:

- *Assets*: the residential home, other real estate, other real assets (e.g. home contents, vehicle) and financial assets, including loans to others, bonds, superannuation, bank accounts, shares, trusts, business assets; less
- *Liabilities*: including mortgage debt and other debt (e.g. student loans).

When we look at wealth in this section we are looking at net wealth. This means that liabilities are deducted from assets within each asset class (e.g. own home mortgage is deducted from residential home wealth). The remaining 'other debt' category comprises student loans and credit card debt.

Wealth inequality is important because wealth determines many of the opportunities available to people or households – for example the opportunity to invest in further education (which influences employment outcomes) or to purchase assets that can generate a future income stream, such as shares or investment properties. The OECD finds that because wealth can be used to contribute to future income, high wealth inequality can increase inequality overall which reduces future economic growth⁴⁵.

Wealth also provides financial security for times when income is reduced. Those with higher wealth have a greater capacity to maintain living standards during periods when income is low. This may occur over the course of a life for multiple reasons including sickness or unemployment, or when taking time away from paid work for undertaking education or raising children.

In this section we look at the distribution of wealth today, as well as trends over the last 8 years⁴⁶.

There are two ways of looking at the distribution of wealth⁴⁷. The first method simply ranks households by the amount of wealth that they have. This shows the concentration of wealth across the population. The second method ranks households according to how much income they have, and can be done using the same income quintiles used in the previous section. This shows access to wealth for different income groups. Both approaches are used in this report.

“Wealth provides financial security for times when income is reduced.”

⁴⁵ OECD (2015) Op.Cit.

⁴⁶ ABS data on the distribution of wealth has only been available since 2004.

⁴⁷ Unlike the income section of the report, we do not apply equivalence scales to wealth groups. This is because wealth held by a household will generally be used to finance consumption in the future when the size and make-up of the household will be quite different. Also, for consistency with this, we place the same number of households into each quintile group (rather than the same number of individuals as in the income section). For further detail, refer to the methods paper.

1. Distribution of wealth today

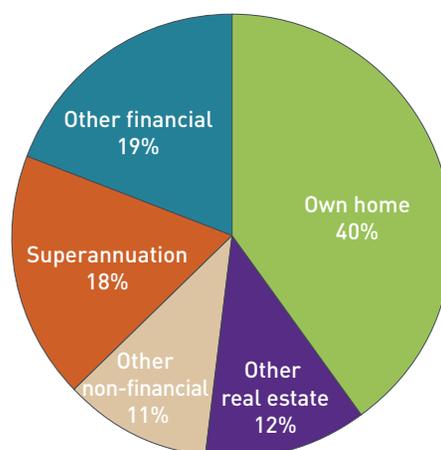
KEY POINTS:

- Wealth is far more unequally distributed than income. The average wealth of a household in the top 20% wealth group is around 70 times the average wealth of a household in the bottom 20% wealth group.
- The top 10% of households own 45% of all wealth, most of the remainder of wealth is owned by the next 50% of households, while the bottom 40% of households own just 5% of all wealth.
- However ownership of particular asset types is even more concentrated. For example, the top 20% of the wealth distribution owns over 80% of all wealth in investment properties and shares and over 60% of all superannuation wealth.
- Wealth held in the own home is relatively evenly distributed across income groups, largely due to the high levels of home ownership of older retirees who are more likely to be in low *income groups*.
- Wealth inequality has declined since the Global Financial Crisis, but has increased over the longer term (between 2004 and 2012).

AUSTRALIA'S WEALTH

Figure 18 shows that a large component of Australia's household wealth is held in the family home (around 40% of total wealth), followed by 19% in financial assets like shares and business, and 18% in superannuation. Around 12% is held in other real estate (investment properties, holiday homes) and 11% in other non-financial assets (vehicles and home contents).

Figure 18: Australia's wealth, 2012

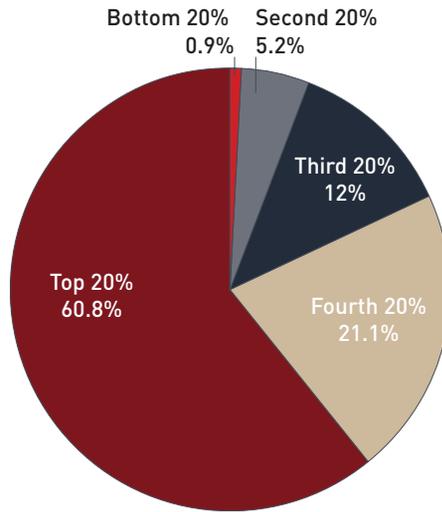


In 2012 Australia's average net wealth per adult was \$728,000.

1.1 The distribution of wealth today

Figure 19 shows that wealth is far more unequally distributed than income. The top 20% of households holds 61% of all wealth and the bottom 20% holds less than 1%. Wealth is highly concentrated at the very top. While the top 20% owns 60% of all wealth, the top 10% owns 44% while the top 5% owns 30%. By comparison, the combined wealth of the bottom 40% is just 5%⁴⁸.

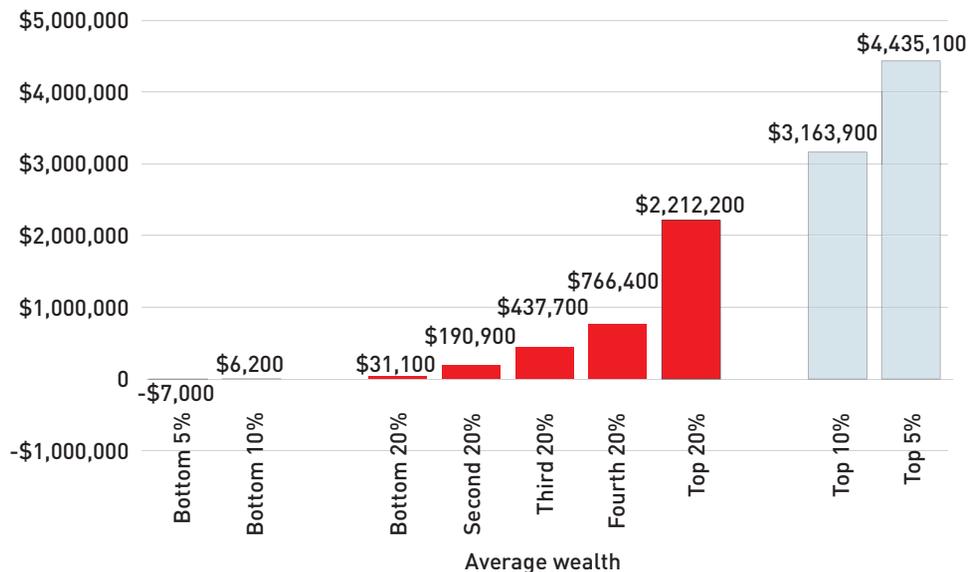
Figure 19: Wealth shares, 2012



It is useful to also look at the average value of wealth. The figure below shows that average wealth for top 20% of Australian households is dramatically higher than all other groups, at \$2.2 million. By contrast, the bottom 20% of households had average wealth of only \$31,000⁴⁹. This means that the top 20% of Australian households hold wealth that is around 70 times more than the least wealthy 20%.

While there is a high level of wealth inequality in Australia, we also have fewer people with a net worth of less than US\$10,000 than most other OECD countries. This is because of widespread home ownership and relatively low credit card and student loan debt. We also have a higher proportion of people with wealth over US\$100,000 than any other country, at eight times the world average⁵⁰.

Figure 20: Average wealth, 2012



⁴⁸ Although Figure 19 shows a high concentration of wealth at the top end of the distribution, this is almost certainly an underestimate of the true extent of wealth inequality. This is because the wealthiest 2% or so of the population, who own a vastly disproportionate share of the wealth, are a small number of people and so are underrepresented in household surveys.

⁴⁹ While the bottom 5% had negative wealth as liabilities outweighed assets.

⁵⁰ Whiteford, P (2013) Op.Cit.

Not only is wealth very unevenly distributed in Australia, the components of wealth differ markedly across wealth groups. Figure 21 shows that most of the wealth of the bottom 20% is made up of low value assets like vehicles and home contents, although to a lesser extent it is also made up of superannuation. For those in the middle (the second group of 20% up to the fourth 20%), most wealth is held in the family/residential home (for example, 56% for those in the third quintile), with less in other non-financial assets (for example, 18% for those in the third quintile) and superannuation (for example, 15% for those in the third quintile). Less than half of the wealth of the top 20% is in the residential home (35%), with greater amounts held in a combination of shares (25%), other real estate (16%) and superannuation (18%) than other groups.

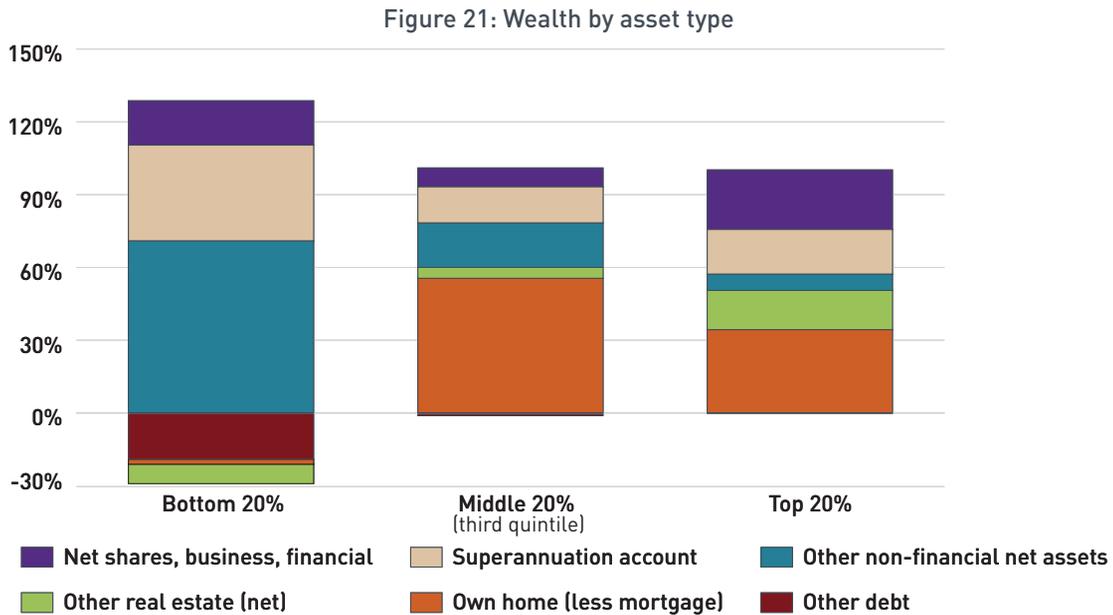
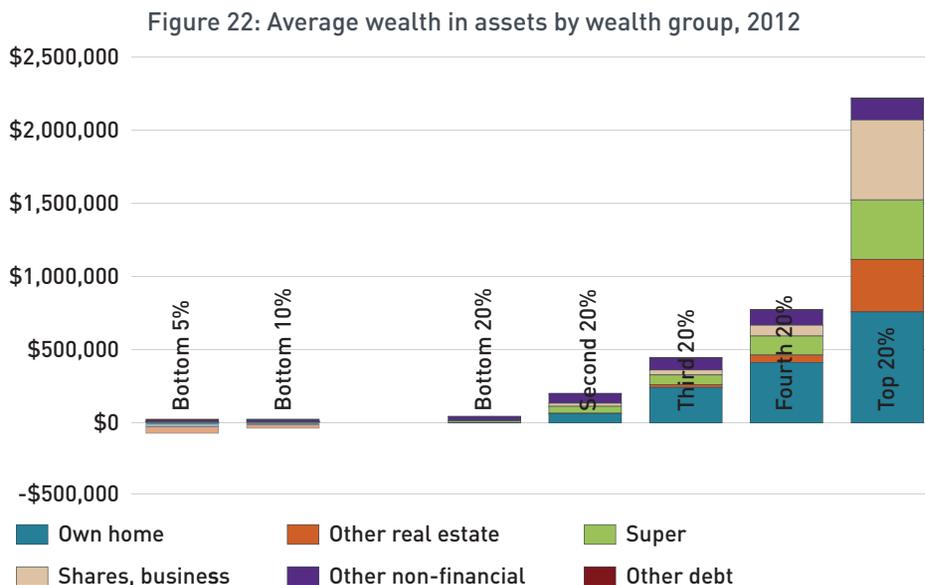
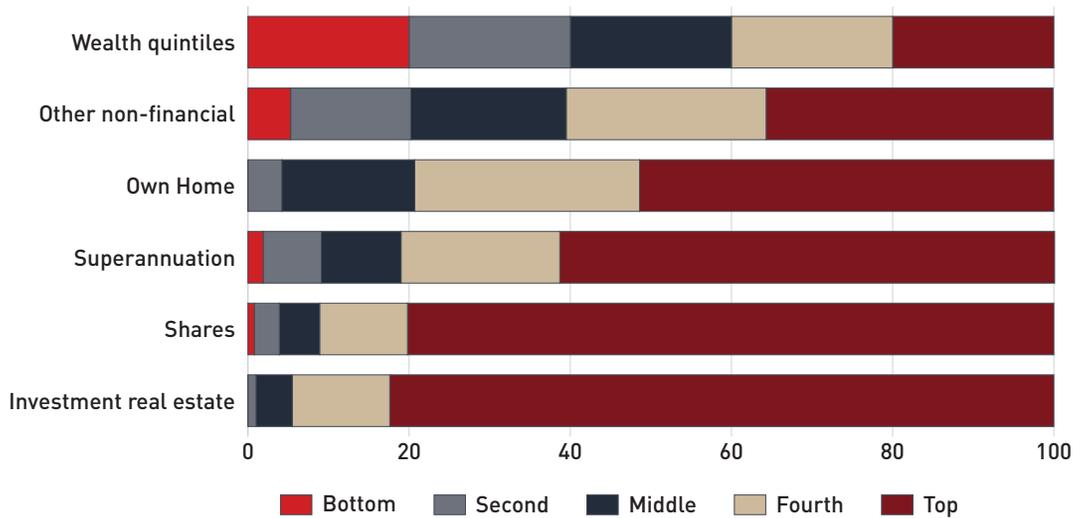


Figure 22 shows average wealth across the wealth distribution, but also shows the distribution of different kinds of wealth. It shows that, moving from the bottom to the top of the wealth distribution, each group of 20% has progressively more wealth held in the family home. However, the top 20%, and above that the top 10% and 5% have much more wealth held in shares, other (investment) real estate, and superannuation. On average, the top 20% has twice as much wealth as the next group down (the fourth quintile), but three times more wealth in superannuation, six times more wealth in investment real estate and seven times more wealth in shares than the second top group of 20%.



The ownership of shares, investment real estate and superannuation is highly concentrated. The top 20% of the wealth distribution owns over 80% of all wealth in investment properties and shares and 60% of all superannuation wealth (Figure 23). Household wealth in the residential home is more evenly distributed, with the most evenly distributed asset type being other non-financial assets (e.g. vehicles and home contents), reflecting the fact that households across the distribution are likely to own these kinds of assets.

Figure 23: Distribution of wealth by asset type



The ABS has analysed wealth for different household groups over the life cycle⁵¹, and the following paragraphs draw on this work⁵².

Older couples aged between 55 and 64 without dependents have the highest average household wealth (\$1.3 million) of all household types. Many of these household members are either nearing the end of their time in the labour force or have recently retired, meaning that they are at the end of the main wealth accumulation period. People over 65 had lower wealth on average (\$1.2 million for couples and \$620,000 for singles), at least partly reflecting a run-down of assets to support consumption in retirement. These older cohorts may also have had less opportunity for wealth accumulation in earlier decades, for example, because women had lower participation rates in the paid work force.

Groups with the lowest wealth holdings are young, single persons and sole parents. These groups are also more likely to be in the bottom 20% of the income distribution. Single persons aged under 35 had the lowest average wealth, at \$160,000. Sole parent households with one dependent child had average wealth of only \$250,000, compared with \$830,000 for couple family households with dependent children. In part, this reflects the low rate of home ownership among sole parent households - about half that of the couple family household rate (37% for sole parents, and 75% for two-parent families). While young single people on higher incomes may have an opportunity to accumulate wealth over their life cycle, sole parent households are likely to have more limited capacity to accumulate wealth due to being older (average age 42) and facing barriers to employment. Sole parent households are also more likely to be in the bottom two income groups than other single person households.

51 ABS (2013): Household Wealth and Wealth Distribution 2011-12, Cat. No. 6554.0.

52 People accumulate wealth over their lifetimes. Older households tend to have more wealth on average and younger households less wealth as they are often purchasing a home and raising children.

1.2 Wealth by income

It is useful to examine wealth using the same income groups we used in the previous chapter to show access to wealth for different income groups⁵³.

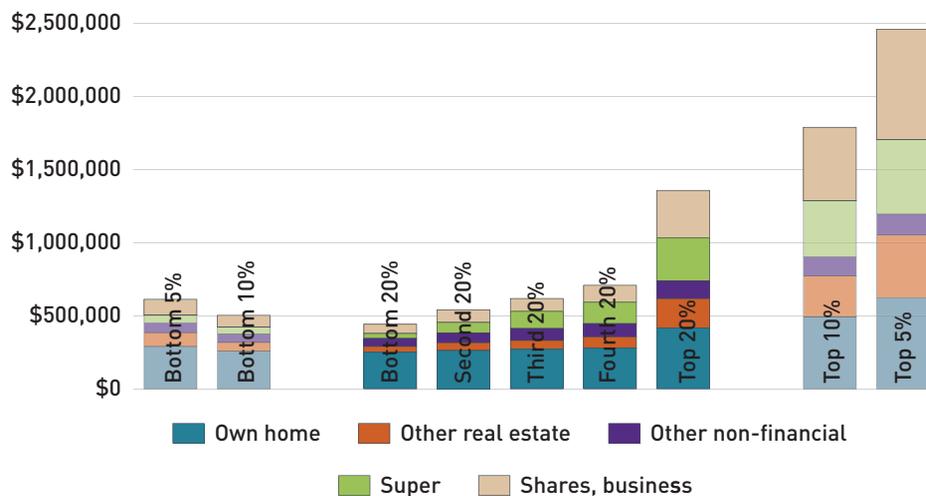
Wealth held in the residential home is relatively more evenly distributed across *income groups* due to relatively high levels of home ownership across the population as a whole, and specifically due to high levels of home ownership of older retirees who are more likely to have lower incomes.

Other kinds of wealth are highly unevenly distributed. The figure below shows wealth by income group, as well as the distribution of different kinds of wealth. It shows that wealth held in the residential home is relatively evenly distributed across the groups, with the top 20% owning 1.7 times the wealth in the residential home of the bottom 20%. This of course masks the very low rates of home ownership of many people on low incomes. For example, in 2010, only 27% of sole parent families were home owners while home ownership amongst sole parent families not in paid work was 15%. By contrast, 75% of couple parent families were home owners including 38% of those where neither parent was in paid work.⁵⁴ This is also discussed in the breakout on the previous page.

Other forms of wealth are much less evenly distributed. The top 20% owns five times the value of shares and investment real estate as the bottom 20%, and eight times the value of superannuation wealth. In addition, ownership of these kinds of wealth increases substantially between the top 20% and the second top 20%. The top 20% owns over twice the wealth in these assets combined than the second top 20%.

Even when housing wealth is included (looking at total wealth), wealth by income group is still concentrated at the top end of the distribution. When households are ranked by income, the 20% with the lowest incomes have average wealth of around \$440,000, while the 20% with the highest incomes have wealth of about \$1.35 million. Nonetheless, the top 20% is a clear outlier with nearly twice as much wealth as the next income group, and significantly more wealth in shares, other investments and superannuation alongside a more valuable residential home. This trend is even more pronounced for the top 5% which derive substantial wealth from shares and other investments.

Figure 24: Average wealth in assets by income group



⁵³ As we are analysing wealth at the household level, we define income quintile groups so that they contain the same number of households in each group, as opposed to the same number of people as used in the income sections of this report⁵⁸. This is because wealth (e.g. a family home) is largely shared between household members.

⁵⁴ J Baxter (2012): Parental joblessness, financial disadvantage and the wellbeing of parents and children. Department of Families, Housing, Community Services and Indigenous Affairs, Occasional paper number 48.



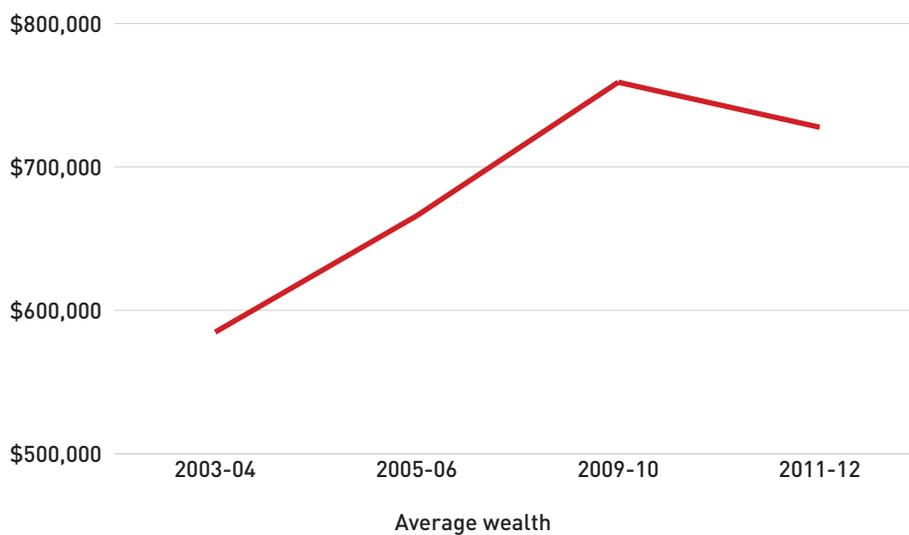
2. Trends in the distribution of wealth

KEY POINTS:

- Over the 8 years to 2012, wealth inequality increased, although there was some levelling off following the global financial crisis.
 - Wealth increased much more rapidly at the top of the wealth distribution than at the bottom. The wealth of the top 20% increased by 28% over the period from 2004 to 2012, while the wealth of the bottom increased by just 3%.
 - As a result, the top 20% have increased their share of all wealth (by 1.8 percentage points). All other groups have lost ground, with the greatest losses for middle wealth households.
-

Australia has experienced rapid growth in net wealth over the period from 2000 to 2009, before declining slightly between 2009 and 2012. Over the period, average wealth increased in real terms from around \$585,000 in 2004 to around \$728,000 in 2012.

Figure 25: Average wealth, Australia, 2004 to 2012



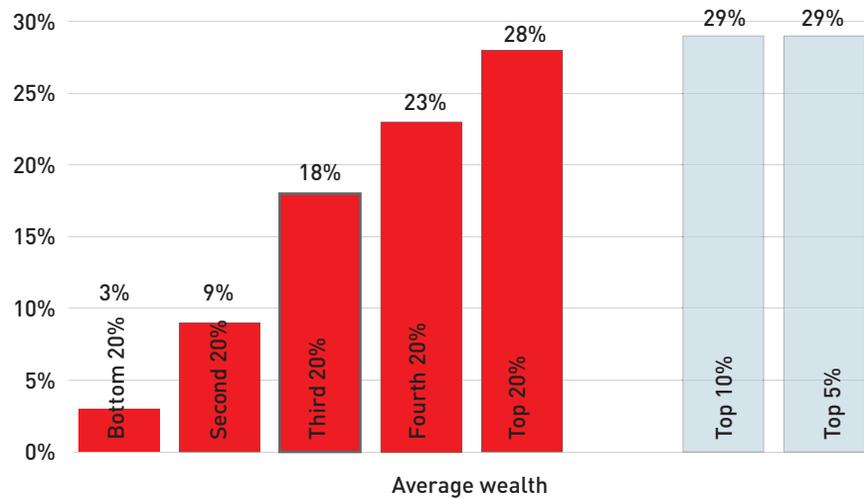
Several factors can influence growth in average household wealth –these include changes in rates of savings, changes in asset prices, and changes in the age structure of the population (as household savings differs by age). Australia’s rapid increase in wealth was a result of increases in asset prices, particularly increasing house prices. From 2002-12, average prices rose by 92% for houses and 40% for flats.

3. The reasons for increased wealth inequality

Though comprising a smaller proportion of overall wealth than housing, the highly concentrated nature of financial assets has meant that the increase in the value of these assets has driven a more rapid increase in wealth at the top of the wealth distribution, increasing overall wealth inequality.

Over the period from 2004 to 2012, average wealth increased across the distribution, however it increased fastest for those in the top.

Figure 26: Increase in average wealth by wealth group, 2004 to 2012⁵⁵



The residential home is the most evenly distributed form of wealth due to high rates of home ownership in the population generally and particularly amongst people who have retired or are nearing retirement, who have relatively low incomes. These high levels of home ownership have historically made the distribution of wealth more even and kept wealth inequality in check. However, many people, particularly amongst younger groups are finding it increasingly difficult to enter the housing market. Home ownership rates have declined since 1981, with the declines greatest amongst young people aged 25 to 34 years (from 60% in 1981 to 48% in 2011) and as such home ownership is likely to do less to reduce inequality in the future.

At the same time, an increasing proportion of housing stock is held in investment housing. From 2000 to 2013 lending for investment housing rose by 230% compared with a rise of 165% in lending for owner occupied housing. Investment housing is particularly highly concentrated, with 80% of all wealth in investment housing being owned by the top 20% of the wealth distribution, representing an increasing concentration of housing wealth.

Further, over two thirds of individual property investors in 2011 (1.2 million people) were negatively geared on their investment. These arrangements enable losses made in an investment to be deducted from taxable income, while subsequent capital gains made on the sale of the investment are taxed at a reduced rate of 50%. This arrangement advantages those purchasing housing as an investment, and underpins the trend towards investment housing.

The transfer of wealth from older to younger generations is likely to further concentrate wealth ownership, with inheritances increasingly received later in life and benefiting households higher up the wealth distribution⁵⁶.

Household wealth in the form of superannuation is less equally shared than owner-occupied housing, but more equally shared than most other investments, likely due to the increased use of compulsory superannuation. Approximately 60% of wealth held in superannuation is owned by the top 20% of the wealth distribution.

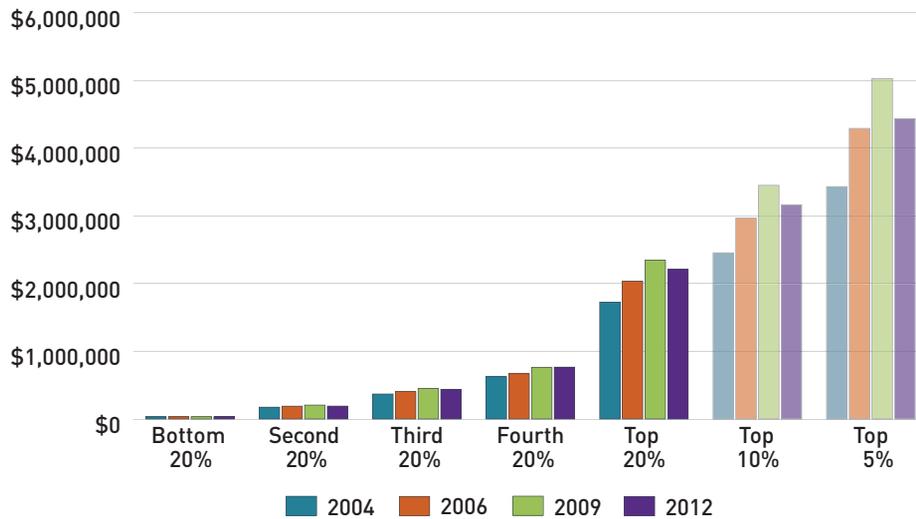
A well designed superannuation system can also increase the wealth of middle-income households, though in the process it opens up gaps between retirees on the lowest incomes (those on the maximum rate of Age Pension) and people who have better access to super throughout working life. However, current superannuation tax arrangements provide most benefit to higher income earners, enabling higher income groups to further accumulate superannuation wealth, thereby enabling a further concentration of wealth.

⁵⁵ Note wealth of the bottom 10% declined by 43%. While it declined by a greater amount for the bottom 5%, this was from a very low base.

⁵⁶ J Daley et al (2014) Op. Cit.

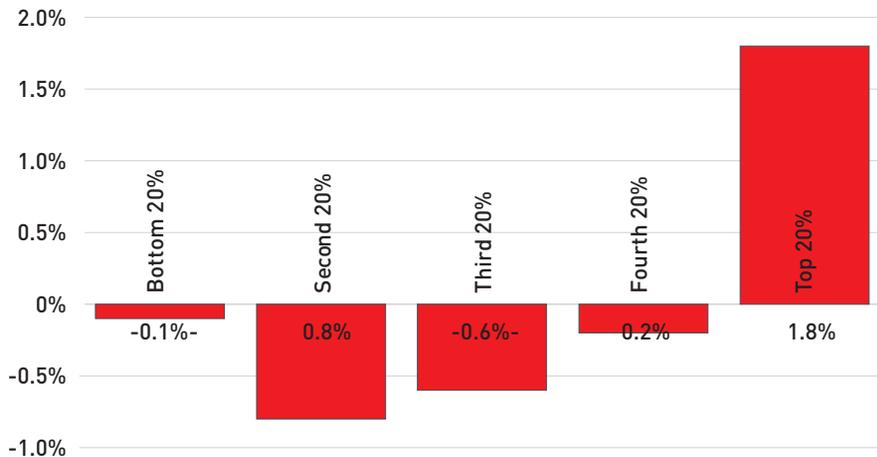
Figure 27 shows the more rapid increase in wealth for the top 20%, and within that the top 10% and 5%. This is despite the effects of the global financial crisis in 2008, where many households experienced a decline in wealth (seen over the period 2009 to 2012), with those declines greater at the top of the distribution.

Figure 27: Average wealth, 2004 to 2012 (2011-12 dollars)



Over the period from 2004 to 2012, wealth inequality increased, with the share of wealth of the top 20% increasing and the share for all other groups declining. This is illustrated in the figure below, which shows that over the whole period the top 20% increased their share of total wealth by 1.8 percentage points, while all other groups recorded a fall in their wealth share. The declines were the greatest for those in the middle and lower wealth groups.

Figure 28: Change in wealth shares 2004 to 2012



3.1 Australia compared with other countries

Comparing wealth distributions across countries is very difficult due to different methods in valuing household wealth. In the 2014 Credit Suisse Global Wealth Report⁵⁷ Australia is ranked as the second wealthiest nation behind Switzerland for average wealth per adult (US \$431,000), and in first place for median wealth per adult (US \$225,000)⁵⁸. An OECD report in 2015 found Australia's wealth inequality was below the OECD average. Whereas the top 10% owns 50% of wealth on average in the OECD, in Australia the top 10% owns 45% of wealth, while the bottom 40% owns 5.1% (compared with the lower 3% across the OECD). However, the OECD average is also influenced by the US, which has extremely high wealth inequality. In the US, the top 10% owns 76% of wealth while the bottom 40% owns less than half a per cent.

57 Credit Suisse Research Institute (2014): Global Wealth Report 2014, together with Professors Anthony Shorrocks and Jim Davies

58 That is, the mid-point when all adults are ranked in ascending order of wealth.

Appendix 1: Key terms

After tax income	Income from all sources after income tax, the Medicare levy and the Medicare levy surcharge are deducted. Also known as net income or disposable income. See definition of income below.
Before tax income	Income from all sources, before income tax, the Medicare levy and the Medicare levy surcharge are deducted. Also known as gross income.
Equivalisation	A method of standardising the income of households to take account of household size and composition differences. For further information see Appendix 2: A note on equivalisation.
Gini coefficient	A summary measure of inequality. A Gini coefficient of 0 represents perfect equality (every person has the same income or wealth), while an coefficient of 1 implies perfect inequality (one person has all income or wealth). The closer to zero, the more equal the distribution, the closer to 1, the more unequal.
Household	A person living alone or a group of related or unrelated people who usually live in the same private dwelling.
Income	Income includes receipts from: <ul style="list-style-type: none"> • Wages and salaries and other receipts from employment (whether from an employer or own incorporated enterprise), including income provided as part of salary sacrificed and/or salary package arrangements; • Profit/loss from own unincorporated business (including partnerships); • Net investment income (interest, rent, dividends, royalties), but not capital gains; • Government pensions and allowances; • Private transfers (e.g. superannuation, workers' compensation, income from annuities; and • Child support, and financial support received from family members not living in the same household).
Quintile	Groupings that result from ranking households by economic resources and then dividing the population into five equal groups. For example, in the 2011-12 Survey of Income and Housing, Australia's population of approximately 22 million people can be ranked by incomes and divided into five groups, each with approximately 4.4 million people.
Wealth	Value of a household's assets less liabilities. Also known as 'net worth'. Wealth includes: <ul style="list-style-type: none"> • Own home (less mortgage); • Other real estate (less liabilities); • Other financial assets (less liabilities), e.g. home contents, vehicle, loans to others, bonds, etc.; • Superannuation account; • Shares, trusts, partnerships; • Bank accounts; and • Business assets (less liabilities). <p>Less credit card debt and student loans.</p>



Appendix 2: A note on equivalisation and data definition

Households come in all different shapes and sizes. From a single person, to a couple without children, or a couple with three children, the number of people in a household and the way they typically share resources can make a difference to well-being. To enable comparisons to be made across all different types of households, the ABS and researchers all around the world adopt a practice called equivalisation.

As household size increases, consumption needs also increase but there are economies of scale from sharing resources. Equivalisation takes account of the fact that a higher living standard can be realised with shared resources. For example, it is usually cost-effective for a household to share rent, bills and food. Also, a 2 bedroom house is more expensive than a 1 bedroom house but it is generally not twice as expensive, so a saving is made from sharing.

To calculate the 'equivalent' income of a person, depending on the type of household they live in, a scale is applied on the basis of the size and age of people in the household. The ABS uses the OECD-modified equivalence scale which assigns the following weights:

- 1.0 for the household head.
- 0.5 for each additional person 15 years or older.
- 0.3 for each child under 15 years.

For a single person household, equivalised income is equal to actual income. For households with more than one person, 'equivalised income' is the income that a single person household would need to enjoy the same standard of living as the household in question.

The table below shows how equivalised income is calculated. A couple with one child for example, would need \$1,800 weekly disposable income to have the equivalent income per person as a lone person with a disposable income of \$1,000. Note that \$1,800 for the couple with one child is less than $3 \times \$1,000 = \$3,000$ as it takes into account sharing of resources and the fact that children consume less.

Table A.1: Examples of equivalised disposable income

Household consumption	Equivalising factor (x)	Disposable income (y)	Equivalised disposable income (y/x)
	no.	\$	\$
Lone person	1.0	1,000	1,000
Couple only	$(1+0.5)=1.5$	1,500	1,000
Couple with one child under 15 years	$(1+0.5+0.3)=1.8$	1,800	1,000
Group household with three adults	$(1+0.5+0.5)=2.0$	2,000	1,000

Source: ABS Household Economic Wellbeing Fact Sheet No.2, Understanding measures of income and wealth, 2013

Definitional Changes

Over the period covered by this analysis, the ABS has introduced a series of definitional changes to both the Survey of Income and Housing (SIH) and the Household Expenditure Survey (HES) to improve the quality of the income data collected. These are detailed by the ABS in the Survey of income and Housing 'User Guide'⁵⁹.

The Productivity Commission considered these changes as they apply to the HES and concluded that it is likely that the changes influenced measured income and trends in summary measures of income dispersion, such as the Gini co-efficient. However, they find it is unlikely that they have had a pervasive impact on the trends observed in the distribution of income across the entire population, and conclude therefore that the HES therefore represents a reasonably robust information source from which trends in the distribution of income can be explored. (Productivity Commission, page 117).

For the period covered in the report the changes raise the same issues for the SIH as they do for the HES, and so the conclusions drawn by the Productivity Commission apply here. The data provided in this report based on the SIH is used to describe broad distributional trends across the population, while where analysis at the level of individual components of income is presented, the data and analysis is drawn from other research papers which use a variety of other data sources.

The bottom 5%

Some studies have suggested that data for the bottom 3-5% of the income distribution are unreliable because the data include households that have characteristics more closely associated with higher income households (for example, average expenditure that is higher than average income⁶⁰). This problem is addressed in this report by removing data for households reporting zero or negative incomes. However, households in the bottom 5% in this study still show some characteristics similar to those of higher income households, for example, a slightly higher proportion of wealth is held in investment housing, and a slightly lower proportion of households rely on government benefits than is the case for the bottom 20% of households overall. This would suggest that the bottom 5% includes households that are either under-estimating their income (for example self employed people conflating business expenses with personal expenses) or drawing down the value of their assets to maintain their living standards (as is often the case for retirees). As such, they may not be households traditionally regarded as financially disadvantaged. Overall however, the majority of households (55%) in this group rely on social security as their main income source, and are therefore traditionally regarded as facing a risk of financial disadvantage. In addition, an unknown proportion of the bottom 5% are likely to be recent migrants (who are ineligible for social security), and self employed people with low actual incomes and limited financial assets, groups who are more likely to face financial disadvantage. Separating out those who are more or less likely to face financial disadvantage is a complex research task beyond the scope of this report.

⁵⁹ ABS (2013) Information Paper Information Paper: Survey of Income and Housing, User Guide, Australia 2011–12.

⁶⁰ P Saunders and B Bradbury (2006): Monitoring Trends in Poverty and Income Distribution: Data, Methodology and Measurement, The Economic Record, Vol 82, No. 258, September, 2006, 341-364 Saunders, P. and Bradbury, B. Monitoring Trends in Poverty and Income Distribution: Data, Methodology and Measurement, The Economic Record, Vol 82, No. 258, September, 2006, 341-364



Appendix 3: Groups across the income distribution

Despite strong growth in incomes across the population over the past 20 years, some groups remain concentrated at the bottom of the income distribution. Similarly, certain groups are over-represented at the top end. In this appendix, we look at where particular groups are likely to sit in the income distribution.

In summary, the following groups are over-represented in the bottom 20%⁶¹:

- People aged 65 and over
- Single person households
- Sole parent households
- People not in the labour force
- People who are not unemployed
- People from a non-English speaking country
- People on government benefits, including people on the Age Pension and Newstart

The following groups are over-represented in the top 20%⁶²:

- People aged 25-64
- People on a wage or salary
- People who are employed full time
- People whose country of birth was Australia or another English-speaking country

The following sections go into these characteristics in more detail.

⁶¹ Note that several of these groups may be overlapping.

⁶² Again several of the groups may be overlapping.

Age

Figure A.1: Australia's population by age

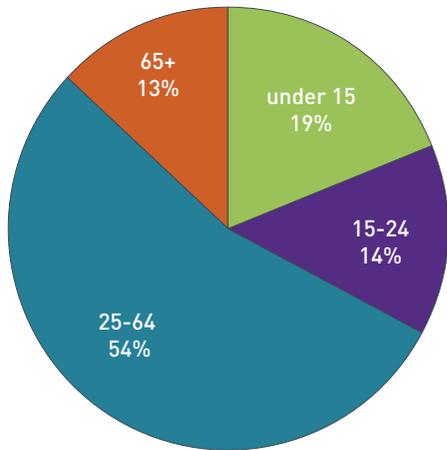


Figure A.1 shows that over two-thirds (73%) of Australia's population are of working age (15-64 years old), followed by children under 15 years old (19%). Over 65 year olds make up around 13% of the population.

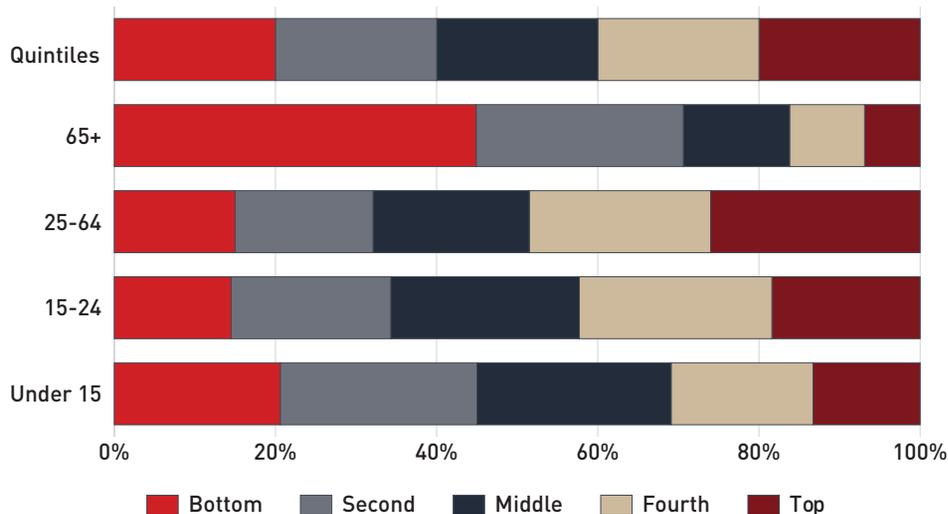
Over 65 years olds tend to be found in the bottom of the income distribution. Figure A.2 shows that almost half (45%) of all older people are in households in the bottom 20% of the income distribution. This is largely because most older people are no longer in paid employment, and employment is the main source of income for Australians.

Moreover, around 45% of older Australians rely on the full Age Pension⁶³, currently \$430 per week (for a single person)⁶⁴, placing them squarely in the bottom quintile if no other income is received.

Note however, that housing costs are likely to make a significant difference to this group. As shown in the ACOSS Poverty report⁶⁵, for individuals who rely on the Age Pension and own their own home outright, the pension plus a small amount of income is enough to lift them above the housing-adjusted poverty line. However, for older people who rent, the low income of the pension may be insufficient once housing costs are taken into account. The ACOSS Poverty report found that around 15% of people over the age of 65 are living below the OECD poverty line⁶⁶.

Figure A.2 also shows that people of working-age (15-64 year olds) tend to be found more towards the middle and the top end of the income distribution and children (under 15) in the middle.

Figure A.2: Proportion of people in each income quintile by age, 2012



⁶³ Based on 76% of people aged 65 and over receiving an Age Pension through Department of Human Services or a similar payment from the Department of Veterans' Affairs. More than half (59%) of those receiving a Centrelink Age Pension received a full-rate pension. Australian Institute of Health and Welfare, Australia's Welfare 2013, Chapter 6: Older People.

⁶⁴ Rate for Single Age Pension through Department of Human Services, including Pension Supplement and Energy Supplement, as at 15 April 2015.

⁶⁵ ACOSS (2014) *Poverty in Australia*.

⁶⁶ Set at 50% of median income.

Family type

Figure A.3: Proportion of people in each income quintile by family type

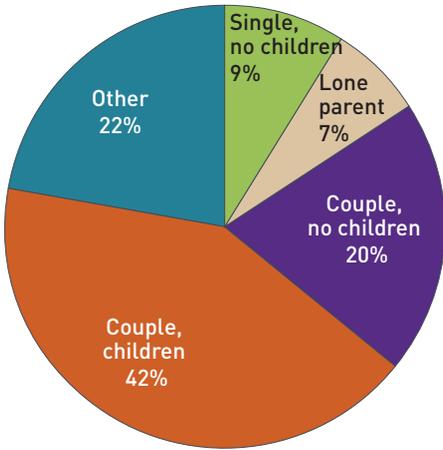
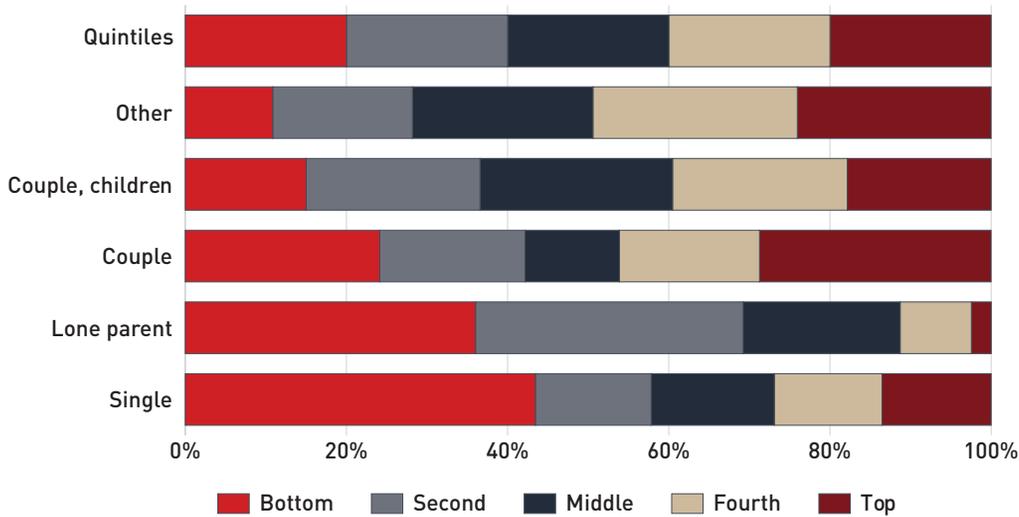


Figure A.3 shows that the majority of households are couples with children (42%), followed by ‘other’ groups⁶⁷ living together (22%). Couples with no children make up 20% of the population, single person households 9% and sole parents, 7%.

Figure A.4 shows that over 40% of single person households are in the bottom quintile. These are likely to be single older people over the age of 65, as well as some working age households. Close to 40% of sole parents are also in the bottom quintile and a further 30% in the second lowest quintile. Sole parents are much less likely to be found at the top end of the income distribution. This likely reflects lower rates of full-time employment. In 2012, the parent was full-time employed in only 58% of sole parent families⁶⁸. Caring responsibilities and inability to supplement income with a second earner means that sole parent households are more likely to be in the bottom 20%.

Figure A.4 also shows that people living in ‘other’ household combinations tend to be found less in the bottom quintile and more in the top, in part likely reflecting groups of working professionals living together. Couples with children are less likely to be in either the bottom or top quintile and more likely to be in the middle. Couples without children can be found at either the top or bottom end of the distribution.

Figure A.4: Proportion of people in each income quintile by family type, 2012



⁶⁷ Includes siblings, households with multiple families and unrelated people living together.

⁶⁸ ABS (2012) Labour Force, Australia: Labour Force Status and Other Characteristics of Families, Cat. No. 6224.0.55.001.

Labour force status

Figure A.5: Australia's population by labour force status

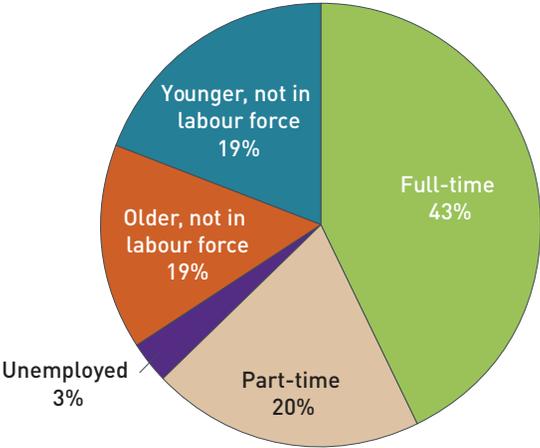
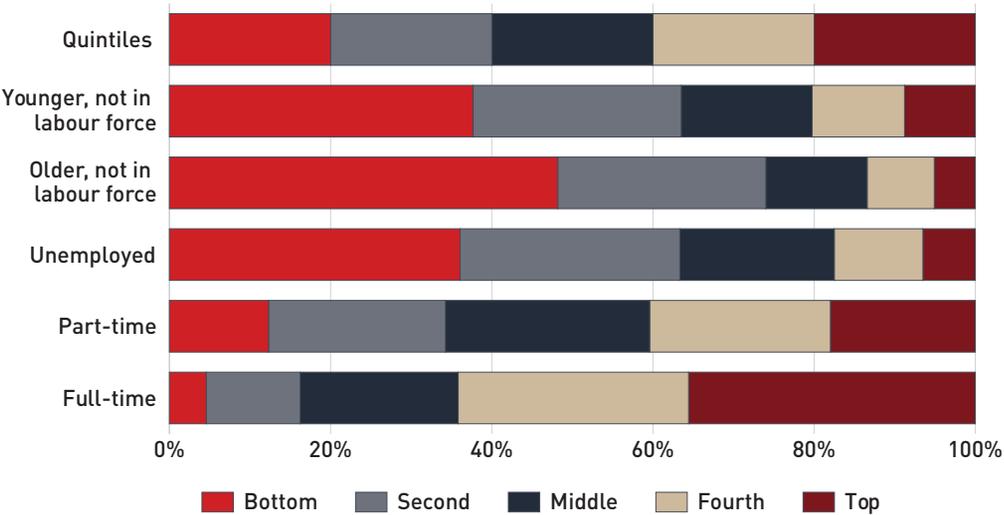


Figure A.5 shows that close to two-thirds of Australia's total population are employed: the majority in full-time work (43%) but also a significant portion (20%) in part-time work. Over one-third (38%) of the population are not in the labour force: both younger and older people. Around 3% of the total population is unemployed.

Labour force status strongly impacts on household income. Figure A.6 shows that people living in households where the household head is not in the labour force or unemployed are significantly more likely to be on lower incomes than those employed full time or part time. At the top of the income distribution are mainly those working full-time and to a lesser extent, part-time.

Figure A.6: Proportion of people in each income quintile by labour force status, 2012

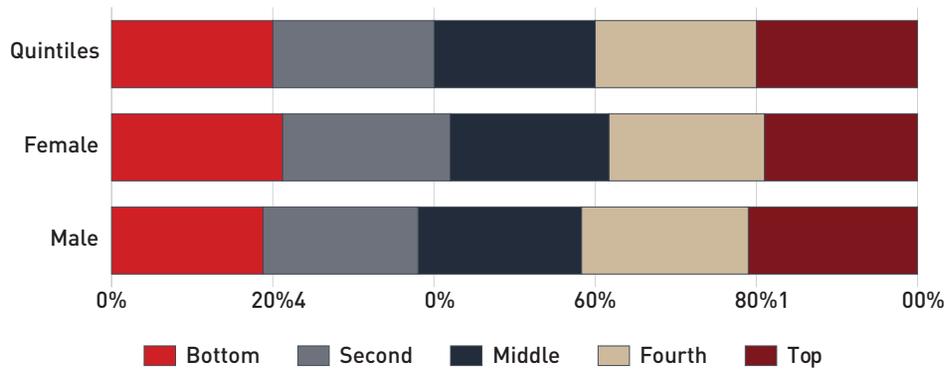




Gender

Australia's population is divided approximately equally between women and men. Figure A.7 shows that men are slightly more likely to be in households in the highest income quintile and slightly less likely to be in households in lower income quintiles, while for women the reverse is true.

Figure A.7: Proportion of people in each income quintile by gender



In part, this is explained by the fact that the income unit being measured is the household unit where income is shared. As a result, although women have lower incomes on average compared to men⁶⁹, they are only slightly more likely to be in lower income households. Slightly more women at the bottom of the income distribution reflects the fact that most sole parent households are headed by women and these households tend to be found at the lower end.

⁶⁹ Workplace Gender Equality Agency (2014) Gender pay gap at 17.1%, employers tackle pay inequity, Media Release, 20 February 2014.

Country of birth

Figure A.8: Australia's population by country of birth

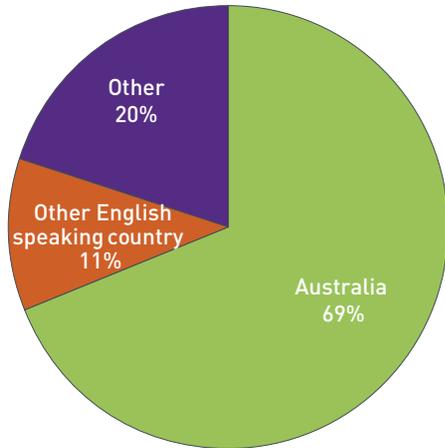
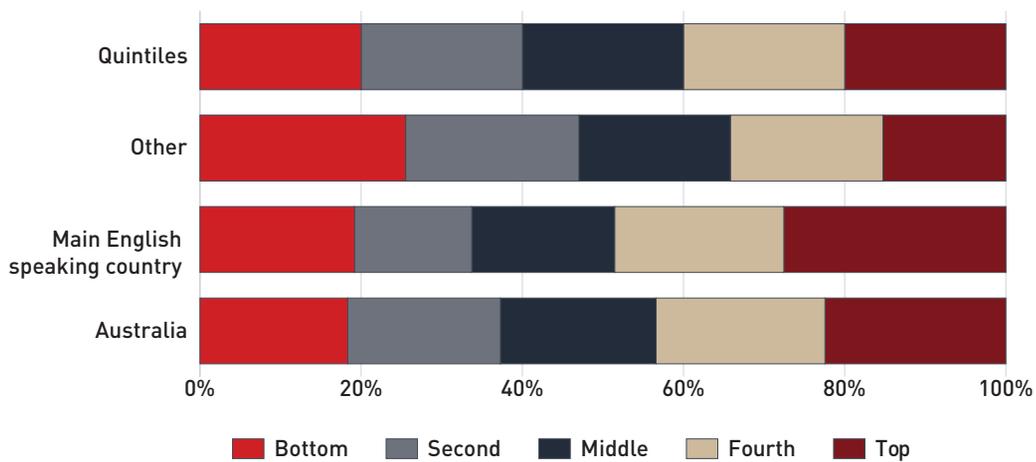


Figure A.8 shows that almost 70% of Australia's population were born in Australia, around 10% in another English speaking country and 20% in a non-English speaking country.

Figure A.9 shows that people born in non-English speaking countries are more likely to be in households in the lowest income quintiles while people born in Australia or other English speaking countries are more likely to be at the top of the income distribution.

For some newly arrived migrant families, finding employment can be challenging until they gain the necessary skills or recognition of existing qualifications⁷⁰. In 2011, the unemployment rate of recent migrants was 8.5% compared to 4.6% for the Australian-born population⁷¹. In addition, recent migrants from non-English speaking countries also typically face language barriers to gaining employment⁷².

Figure A.9: Proportion of people in each income quintile by country of birth



⁷⁰ The Ethnic Communities' Council of Victoria (2014) *Submission to the Senate Committee Affairs Reference Committee Inquiry into the Extent of Income Inequality in Australia*.

⁷¹ Australian Bureau of Statistics (2011) *Perspectives on Migrants*, Catalogue No. 3416.0.

⁷² Australian Bureau of Statistics (2010) *Perspectives on Migrants*, Catalogue No. 3416.0.

Main income source

Figure A.10: Australia's population by main source of income

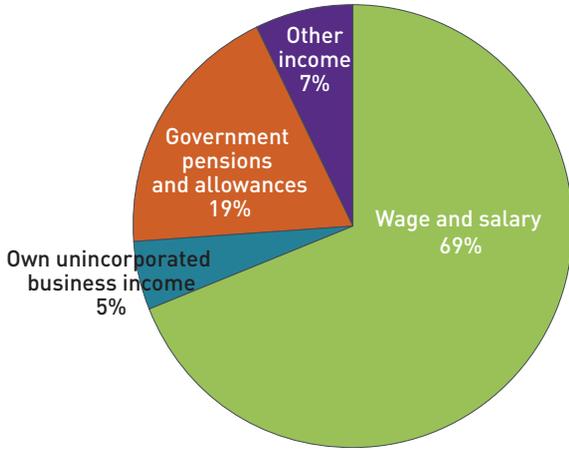
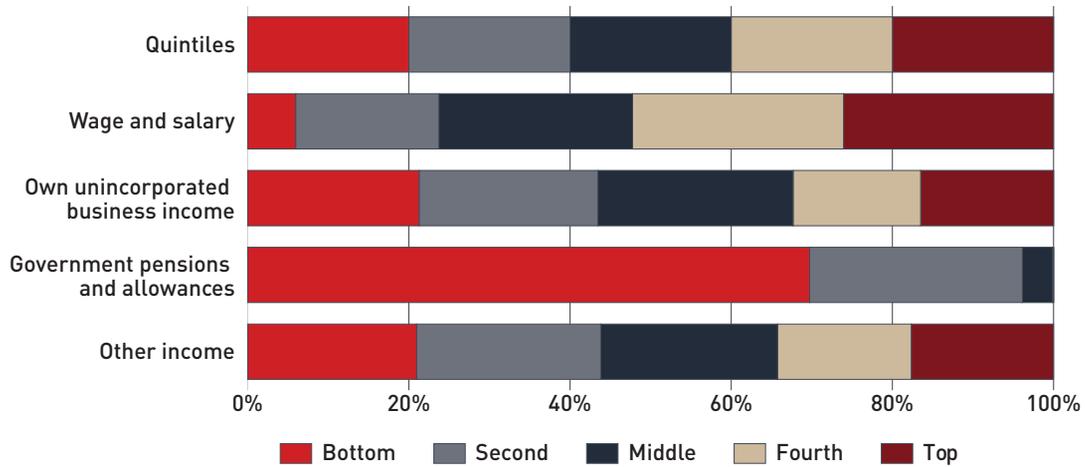


Figure A.10 shows that most Australians receive their main source of income from wages and salaries (69%). Nonetheless, 19% of the population rely on government benefits as their main source of income. Around 5% obtain income from self-employment and 7% from other sources.

Figure A.11 shows that people who rely on government benefits are significantly more likely to be found in the bottom quintile (70%). By contrast, people earning wages or salaries are more likely to be found at the higher end of the distribution.

Figure A.11: Proportion of people in each income quintile by main income source

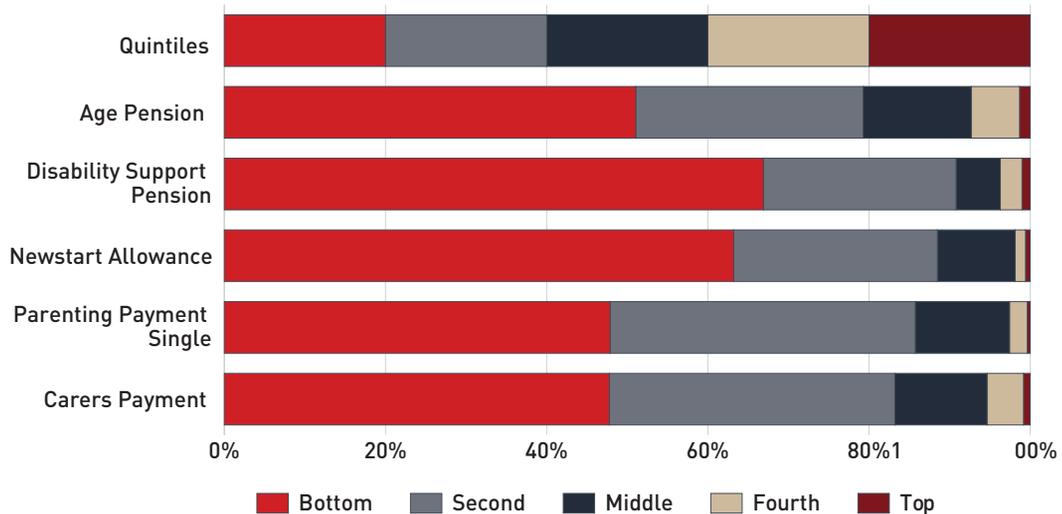


Not surprisingly, people living in households receiving government benefits are mostly found in the bottom quintile. However, our analysis of the bottom quintile (not shown here) also reveals that almost half the people in the bottom quintile do not receive any payments. These are likely to be low-income wage or salary earners, or self-employed.

Payment type

Figure A.12 shows that some recipients of government benefits are more likely than others to be found in the bottom quintile. Around two-third of people living in households receiving the Disability Support Pension or Newstart are in the bottom quintile. Around half of people living in households receiving the Age Pension, Parenting Payment and Carers Payment are also in the bottom quintile. Analysis of the bottom 10% (not shown here) reveals that people on Newstart are more likely than any other payment type to be found in the bottom 10%.

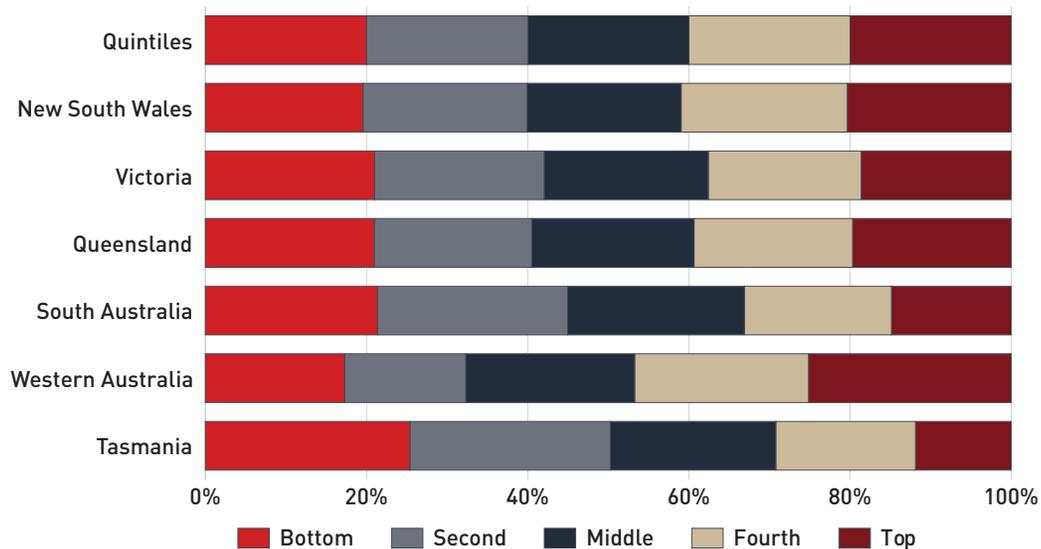
Figure A.12: Proportion of people in each income quintile by payment type



Income by state

Figure A.13 shows where people fit in the income distribution by State⁷³. The States with the largest populations, New South Wales, Victoria and Queensland, tend to have a more even representation of people across the distribution. By contrast, some states have a greater concentration of people in particular parts of the income spectrum. For example, people living in Tasmania are more likely to be in the bottom 20% than other states while those from Western Australia are more likely to be in the top 20%. Similarly, people living in South Australia are more likely to be found in the bottom or middle and less at the top. This likely reflects differences in employment opportunities and age profiles of the different states.

Figure A.13: Proportion of people in each income quintile by state, 2012



⁷³ ACT and Northern Territory are not included here as the data are not able to be separated.

Turning to capital cities and regional areas, Figure A.14 shows that people living in the capital cities of Perth, Sydney, Brisbane, and to a lesser extent Melbourne, are more likely to be in the top 20% and less likely to be in the bottom 20%. Figure A.15 shows that people living outside capital cities tend to be found more at the bottom of the income distribution than at the top, except in Western Australia.

Figure A.14: Proportion of people in each income quintile by capital city, 2012

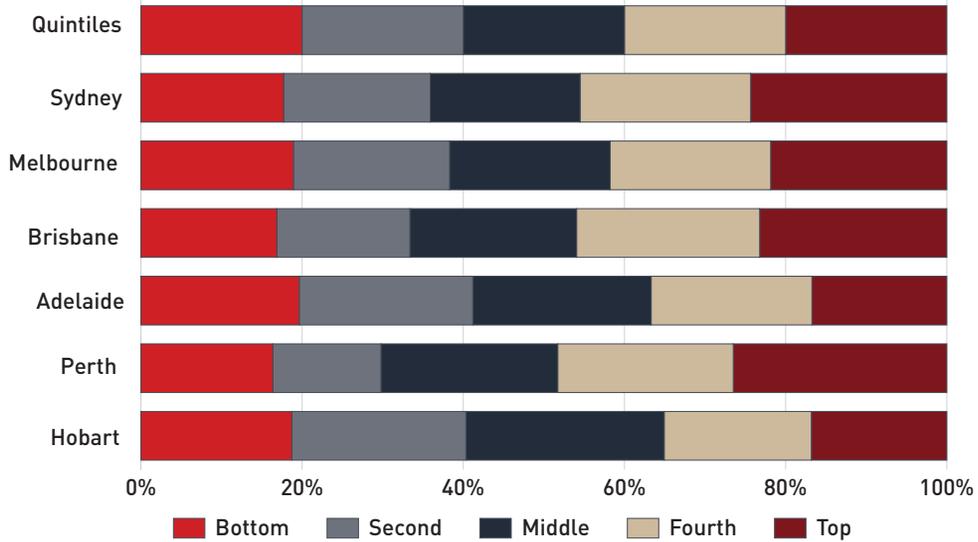
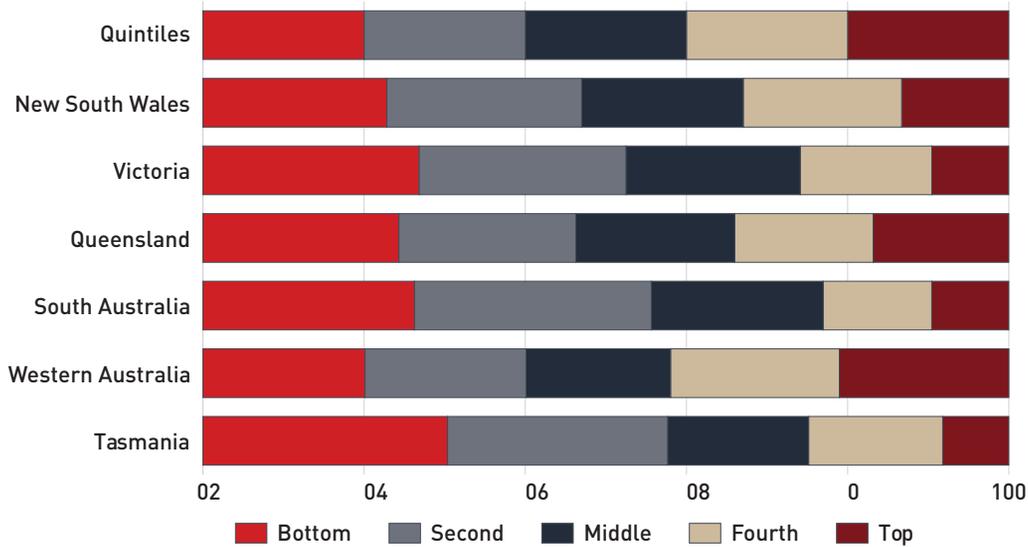


Figure A.15: Proportion of people in each income quintile outside capital cities, 2012



Thanks

Valuable input and advice was provided by: Dr David Morawetz, Founder and Director, Social Justice Fund, a sub-group of Australian Communities Foundation; John Spierings, Executive Officer, Reichstein Foundation; Paul McDonald, Chief Executive Officer, Anglicare Victoria; Netty Horton, Territorial Social Programme Director, The Salvation Army, Australia Southern Territory; Rik Sutherland, Policy Adviser, St Vincent de Paul National Council; Alison McClelland, Commissioner, Productivity Commission; Professor Rick Krever, Monash University Department of Business Law and Taxation; Nicholas Gruen, Lateral Economics. .





Inequality in Australia was published in 2015 by the Australian Council of Social Service:
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