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The State of the Australian Middle Class

Clive Hamilton, Christian Downie and Yi-Hua Lu

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Summary

There is a widespread view that the middle class in Australia is doing it tough. Beset by mortgage stress and rising prices they are being forced to tighten their belts. Media stories, commentaries and political rhetoric constantly reinforce this narrative. One newspaper has announced the ‘death of the great middle-class dream’.

A number of academic studies have served to entrench the view of the struggling middle class suggesting that it is being ‘hollowed out’ and under sustained pressure from economic reform.

The Government seems caught. On the one hand it wants to emphasise the way in which sustained economic growth has improved real incomes, yet knows that saying that Australians have never had it so good, while economically true, does not gel with the widespread sense of middle-class grievance.

In this paper we test a number of popular views about the state of the Australian middle class against the statistical data. Using data from the ABS and HILDA, we pose and answer the following questions:

1. Can the typical Australian family be said to be struggling?
2. Are mortgages creating severe problems for middle-class families?
3. Is the middle class shrinking?
4. Are families coping financially only because wives are going out to work?

Is the typical Australian family struggling?

When we think of the typical Australian family we do not think of young singles, childless couples, empty nesters or retirees. A truer picture of the economic well-being of the typical Australian family is given by looking at the incomes of those households comprised of a couple with at least one dependent child and headed by someone of prime working age. These households account for 41 per cent of the population.

In 2005 the median disposable income of all households was \$48,193. In contrast, the median disposable income of the typical Australian family as we have defined it was \$69,073, 43 per cent higher. The average income for these households was \$76,778, 37 per cent higher than the average for all households. The standard of living afforded by a disposable income close to \$70,000 is comfortable by any measure and conflicts with the widespread view of struggling families.

Do the median and mean figures conceal a wide disparity in income levels among typical families? In fact the spread of incomes is significantly narrower for typical families than for all households. There are very few typical families with low incomes; only 18 per cent have disposable incomes below \$45,000. The picture is very different for single parent families where low incomes are much more prevalent and the narrative of struggling families has much greater validity.

Are mortgages killing the middle class?

There is a widespread view that Australians are suffering from ‘mortgage stress’ and that the pain has spread to middle-class suburbs across the nation. Media reports give the impression that the bulk of the population is finding it difficult to make ends meet as mortgage repayments rise.

In fact, very few middle-class households suffer from any form of mortgage stress. Defining ‘middle class’ as those households with disposable incomes between the 30th and the 80th percentiles, nearly two-thirds (63 per cent) of middle-class households do not have mortgages at all. Of those who do, 41 per cent have mortgages under \$100,000 and nearly 80 per cent under \$200,000. Only eight per cent of middle-class households have mortgages over \$200,000.

Is the middle class shrinking?

The popular narrative of the struggling middle class sometimes suggests that, because of an inability to cope with financial pressures, the middle class is shrinking, even ‘disappearing’. Here we first define the middle class as those with disposable incomes higher than the bottom 30 per cent and lower than the richest 20 per cent. Did the middle class shrink over the 11-year period 1994-95 to 2005-06 and, if so, did those who left its ranks get pushed up or dragged down?

To answer this question, we used the following technique. For the base year 1994-95, we first found, as multiples of the median, the lower and upper income boundaries of the ‘middle’ 50 per cent of households (i.e. those with disposable incomes between the 30th and the 80th percentiles). Then we took the median level of disposable income for 2005-06 and applied the 1994-95 multiples of the median to the 2005-06 median to find the new cut-off points for the middle class. Finally, we calculate the proportion of households that fell within these cut-off points in 2005-06. If it is less than 50 per cent of all households then the middle class has shrunk, if more than 50 per cent then it has grown.

The results show that the middle class has not shrunk over the 11 years to 2005-06 but has in fact grown slightly, from 50 per cent of households to 51.1 per cent of households. The difference is small but it disproves the claim that the middle class is shrinking, at least when measured in this way. The growth in the middle class has been due mostly to a small migration of households from the high-income category.

Obviously, the incomes of all groups grew over the period in question. But did they grow by the same extent? The analysis shows that, although the average real income of the middle class rose 27 per cent over the 11 years to 2005-06, low-income households saw their incomes rise by 33 per cent and those of high-income households grew by 31 per cent.

Are ‘working wives’ saving the day?

It has been suggested that the only reason household incomes have increased is because women in couple households have been working longer hours. To test this we compared the increase in mean disposable incomes of couple households over the period 1994-95 to 2005-06 with the increase that *would have occurred* if the females

in the couple households ('wives') had not increased their hours of work from the levels in the earlier year.

Average disposable incomes of couple households increased from \$51,201 to \$68,668 over the 11 years to 2005-06, a rise of 34 per cent. The analysis shows that increased working hours by females in couple households accounts for only 18 per cent of the increase in household income over the 11 years to 2005-06, although the effect is stronger for households in the second and third quintiles.

Perception versus reality

The data show that few typical Australian families are struggling financially; in fact, most are doing very well. Contrary to the headlines, fewer than one in ten middle-class households are suffering from mortgage stress; most do not have mortgages. How can the difference between the perception of middle-class distress and real financial health be explained? Three factors may be at work.

Firstly, the constant reinforcement of the message of middle-class distress may persuade Australians that this describes their own situation irrespective of their real financial position.

Second, there is considerable evidence that middle-class Australians focus not on what they have but on the gap between what they have and what they want, creating a sense of material deprivation in a time of plenty. This not only prevents people from appreciating their good fortune but induces government to provide welfare to households that are not in need.

Third, middle-class Australians may be displacing anxieties about moral decline, pressure to succeed and fears about world affairs onto financial concerns. In other words, when middle-class Australians believe they are struggling, it may be that they are struggling with things other than their finances.