

INCOME & WEALTH INEQUALITY IN AUSTRALIA

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JULY 2014

The **Australia Institute**
Research that matters.

Income and wealth inequality in Australia

Policy Brief No. 64

July 2014

ISSN 1836-9014

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Acknowledgements

The authors gratefully acknowledge the editing work of Susanna Nelson.

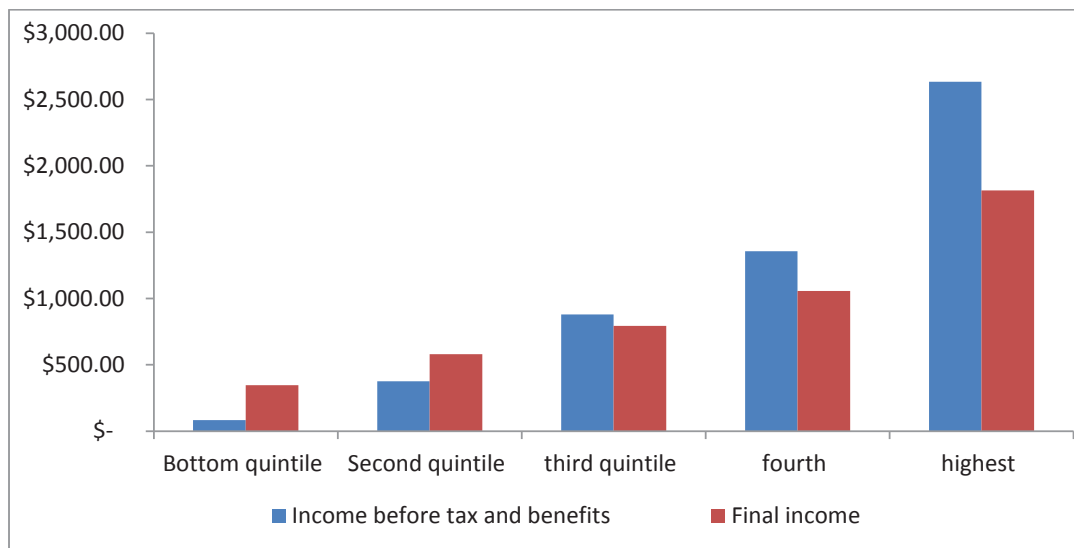
Summary

Inequality between those with the most and those with the least is rising in Australia. Australia is one of the wealthiest countries in the world, but there are many people in our society who are falling behind. For instance, the minimum wage and unemployment benefits have failed to keep pace with the rise in average earnings, resulting in a divergence between low-income earners and the average employed Australian. A divergence has also occurred between the average Australian and those at the top. Senior executive pay is now 150 times greater than average weekly earnings.

While income distribution is unequal, the distribution of wealth is even more so. The top 20 per cent of people have five times more income than the bottom 20 per cent, and hold 71 times more wealth. Perhaps the gap between those with the most and those with the least is most starkly highlighted by the fact that the richest seven individuals in Australia hold more wealth than 1.73 million households in the bottom 20 per cent.

This paper provides clear evidence that the tax-and-transfer system has the capacity to redistribute income effectively to reduce inequality. The figure below illustrates how existing policies boost the incomes of those with the least, while only slightly reducing the incomes of the wealthy. This redistribution has always been the objective of Australia's progressive tax system.

Figure 1: Income distribution before and after the tax and transfer system



Source: ABS (2013) *Household income and income distribution, Australia, 2011-12*.

Despite consistent public support for reducing inequality, the government is currently seeking to reduce income support. In fact, in recent months the Abbott government has begun to argue that inequality is not just unavoidable, but also beneficial. Rather than use the welfare system to redistribute income, the government is seeking to ensure that welfare payments grow at a significantly slower rate than wages. The result will inevitably be an even bigger gap between those with the most and those with the least.

The nature and extent of inequality is the choice of policy makers. We have the capacity to either reduce inequality or to exacerbate it. Successive governments have done little to reduce inequality and have unwound both welfare provisions and the progressive nature of our tax system. Tackling inequality is a political choice, not an economic problem.

... inequality is largely a result of policies – of what we do and don't do. The laws of economics are universal: the fact that in some countries there is so much less inequality and so much more equality of opportunity, the fact that in some countries inequality is not increasing – it is actually decreasing – is not because they have different laws of economics. Every aspect of our economic, legal, and social frameworks helps shape our inequality: from our education system and how we finance it, to our health system, to our tax laws, to our laws governing bankruptcy, corporate governance, the functioning of our financial system, to our anti-trust laws. In virtually every domain, we have made decisions that help enrich the top at the expense of the rest.¹

Introduction

This paper provides an overview of the extent of inequality in Australia and the impact of historic and recent government policies in both exacerbating and mitigating against such inequality. There is clear evidence that governments know how to reduce inequality and, at times, have been successful in their attempts to do so. Evidence also suggests that, at times, increasing the gap between those with the most and those with the least is the objective of government policy.

The paper draws heavily on the arguments advanced by the Nobel Prize winning economist, Professor Joseph Stiglitz. While opinion polls have consistently shown that the public is interested in the issue of inequality, it is only recently that the mainstream economics profession has shown a similar degree of interest. That said, Stiglitz has been a notable and consistent outlier when it comes to prioritising the issue of inequality.

Mainstream economists have tended to treat incomes as simply the market reward for an individual's contribution to society's output. Rising inequality was almost irrelevant to the neoclassical policy agenda. Education was supposed to solve problems of inequality. Until recently it was widely argued that as education added to the stock of 'human capital' it would reduce the proportion of income flowing to the owners of capital. Similarly, as over time children from low-income families benefited from increasing investment in education, the gap between those with the most and those with the least was expected to fall.

The rapid growth in inequality in the US in recent decades, combined with the impact of the GFC, has focused public and policy-maker attention on the failure of mainstream economics to explain, or solve, rising inequality. More recently, the work of Thomas Picketty has spurred an active debate within academia, and the community more generally, about the nature and extent of inequality and, more significantly, what can be done about it.

Following Stiglitz, Picketty suggests a much greater role for taxation in redistributing income and wealth from those with the most to those with the least. Significantly for Australians, Stiglitz proposes increased taxes on "rent-based enterprise 'profits'", while the Abbott government has legislation before the Senate that would abolish the minerals resource rent tax. Likewise, Stiglitz proposes a tax on carbon dioxide emissions, while the Abbott government endeavours to abolish the Australian carbon tax.

In recent months the Abbott government has begun to argue that inequality is not just unavoidable, but beneficial. Rather than use the welfare system to ensure that those on the lowest incomes continue to share in Australia's rising prosperity, the government is seeking to ensure that welfare payments grow at a significantly slower rate than wages. The result will, inevitably, be a much bigger gap between those with the most and those with the least.

¹ Stiglitz JE (2014) *The Price of Inequality: Why inequality matters and what can be done about it*

In the meantime, international aid organisation Oxfam has called on the G20 to put global inequality on the agenda,² while domestically, Australia 21 and The Australia Institute have hosted a roundtable on inequality at Parliament House Canberra, the results of which were published in June 2014.³

What does the Australian community think about inequality?

This section presents the results of a recent survey conducted by The Australia Institute into the attitudes of Australians towards inequality. Significantly, previous surveys have found that Australians tend to believe that the income distribution in Australia is much more equal than it really is.⁴ Such results suggest that people use their own circumstances as the reference point and tend to think that most other people are either just above or just below that reference point.

The Australia Institute's recent polling showed that the majority of people believe their own circumstances fall roughly within the middle of the income distribution. Put simply, nearly all Australians think that average incomes are similar to their own personal incomes. For example, 58 per cent of those earning \$20–\$40,000 per year think that the average Australian earns between \$20,000 and \$40,000 per year. Similarly, 51 per cent of people who earn between \$100,000 and \$150,000 per year think that the average Australian earns between \$100,000 and \$150,000.

Table 1 clearly show how beliefs about income in Australia strongly reflect the respondents' own circumstances. More than 80 per cent of people in the low- and middle-income groups (up to \$100,000) think that the average household income is either in their band or the one just next to it. The number falls off substantially though for those whose household income is \$100,000 or more. Many of these people are aware that they are unusual in terms of income distribution.

² Oxfam Australia (2014) *Still the lucky country? The growing gap between rich and poor is a gaping hole in the G20 agenda*

³ Douglas R, Friel S, Denniss R and Morawetz D (2014) *Advance Australia fair? What to do about growing inequality in Australia*

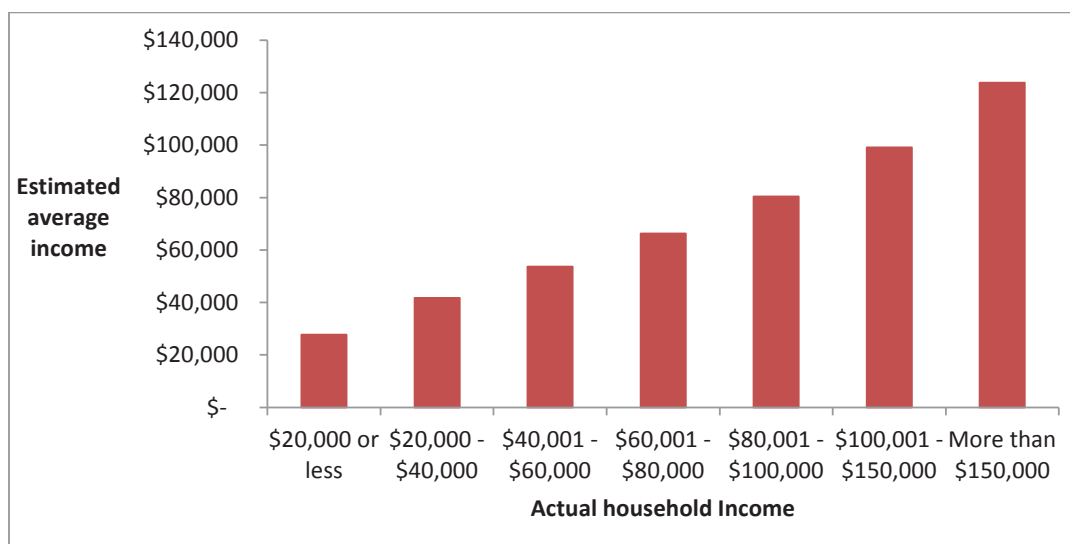
⁴ Neal D et al (2011) *Australian attitudes towards wealth inequality and the minimum wages*

Table 1: Beliefs about average income by income groups

	Annual household income								All
	\$20,000 or less	\$20,000 - \$40,000	\$40,001 - \$60,000	\$60,001 - \$80,000	\$80,001 - \$100,000	\$100,001 - \$150,000	More than \$150,000	Not sure/rather not say	
\$20,000 or less	69%	5%	0%	1%	2%	0%	0%	15%	11%
\$20,000 - \$40,000	13%	58%	6%	1%	3%	1%	0%	12%	15%
\$40,001 - \$60,000	10%	21%	71%	25%	13%	8%	13%	23%	25%
\$60,001 - \$80,000	5%	13%	17%	61%	25%	25%	19%	28%	24%
\$80,001 - \$100,000	2%	3%	5%	9%	55%	15%	20%	13%	13%
\$100,001 - \$150,000	1%	1%	0%	2%	3%	51%	16%	7%	9%
More than \$150,000	1%	0%	0%	0%	1%	0%	33%	3%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number	167	262	218	173	159	173	70	184	1406
Proportion who believe the average is their income range or one above or below	82%	84%	94%	85%	83%	66%	49%	na	

Source: TAI polling.

Figure 2 uses the data presented in Table 1 to show how the estimate of average income rises with actual income. While people earning less than \$20,000 per year think an average Australian earns around \$23,000 per year, people earning more than \$150,000 per year think that an average Australian earns more than \$120,000 per year.

Figure 2: Estimated average household income by reported household income

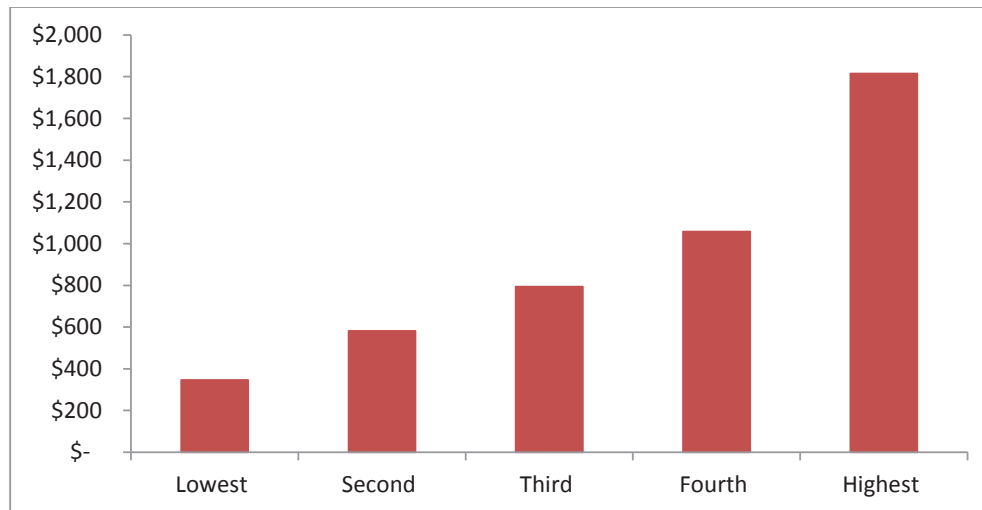
Source: TAI polling.

In contrast to the survey results presented above, Australian Bureau of Statistics (ABS) figures show that in 2011-12 household average incomes were \$918 per week or \$47,736 per annum, while median incomes were \$790 per week or \$41,080 per annum.⁵ Incomes would not have changed significantly between the date of the ABS estimate and the date of the survey.

The distribution of personal income in Australia

The latest ABS data on income distribution figures by quintile are summarised in Figure 3 – the vertical bars represent the average incomes of those households in the bottom, second, third, fourth and top quintiles.

Figure 3: Australian income inequality \$ per week, by quintile



Source: ABS (2013) *Household income and income distribution, Australia, 2011-12*

Figure 3 shows the degree of inequality among income groups after tax and after any transfers from the government such as the age pension, veterans' pensions⁶ and unemployment benefits. Without these taxes and government transfers, income distribution would look much worse than suggested by Figure 3.

There has been an increase in the degree of inequality in Australia in recent years. The President of Fair Work Australia, Iain Ross, presenting the 2014 minimum wage decision, said:

While real earnings have generally increased over the past decade, earnings inequality is increasing. Over the past five years, the rate of growth in average earnings and bargained rates of pay have outstripped the growth in minimum wages for award-reliant workers. This has reduced the relative living standards of award-reliant workers and reduced the capacity of the low-paid to meet their needs.⁷

The distribution of incomes within the wages and salary system is very important to explain a good deal of the inequality in countries like Australia. Figure 4 shows how average weekly earnings, the minimum wage and the unemployment benefit rate for a single adult have

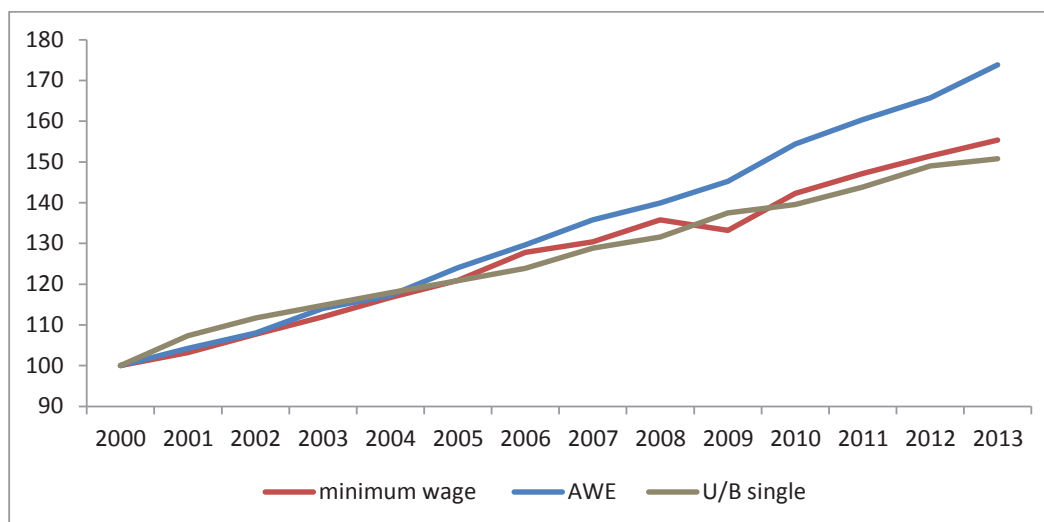
⁵ ABS (2011) *Household expenditure survey, Australia: Summary of results, 2009-10*, Cat no 6530.0, 6 September.

⁶ References to the age pension in the rest of this paper should be read as including the veterans' pension.

⁷ ABC (2014) *Minimum wage decision fails to please business or unions*

diverged over time. Each series is set at an index of 100 for the year 2000, allowing us to follow how those incomes have moved over time.

Figure 4: Minimum wages, average weekly earnings and the single unemployment benefit (indices: 2000=100)



Source: ABS (2014) *Average weekly earnings, Australia, Nov 2013*; O'Neill (2005) *National wage and safety net claims and outcomes 1991-2005*; Australian Government (2014) *Guide to Social Security Law*.

The data in Figure 4 show a divergence of average earnings and the minimum wage by about 20 index points over a short 13-year period – this is fairly substantial movement. Such a divergence would explain a good deal of the increasing inequality that took place because low-income earners were slipping behind average standards. That would also have dragged down the relative wages of people whose wages are set at a margin above the minimum wage. Incidentally the national wage decision increased the minimum wage by three per cent, which is insufficient to close the gap between the average and minimum wages that occurred over the relatively brief period shown in Figure 4. Addressing the gap in Figure 4 would require a one-off 12 per cent increase in the minimum wage as well as indexation to average weekly earnings thereafter.

Also shown in Figure 4 is the unemployment benefit, which is indexed against inflation but nevertheless over time has moved well below both the other series by the year 2013. Over this relatively short period the unemployment benefit has failed to keep up with even the minimum wage.

The role of CEO pay in driving inequality

The rising gap between those with the most and those with the least is perhaps most starkly highlighted by comparing what has happened to the incomes of senior executives and average weekly earnings. The then Prime Minister Kevin Rudd, speaking in 2008, summed up the mood:

The key thing with executive pay is this – first of all, people around the world are fed up and angry with these outrageous packages paid to financial company executives who have contributed so much to what has gone wrong in the global economy. And who pays the price? Working people and their jobs.⁸

⁸ Rudd K (2008) *Press conference at the G20 Leaders' Summit*

This outrage has been evident at the rallies held against what is commonly known as ‘the one per cent’ and is a clear manifestation of the problems at the top of the income distribution.

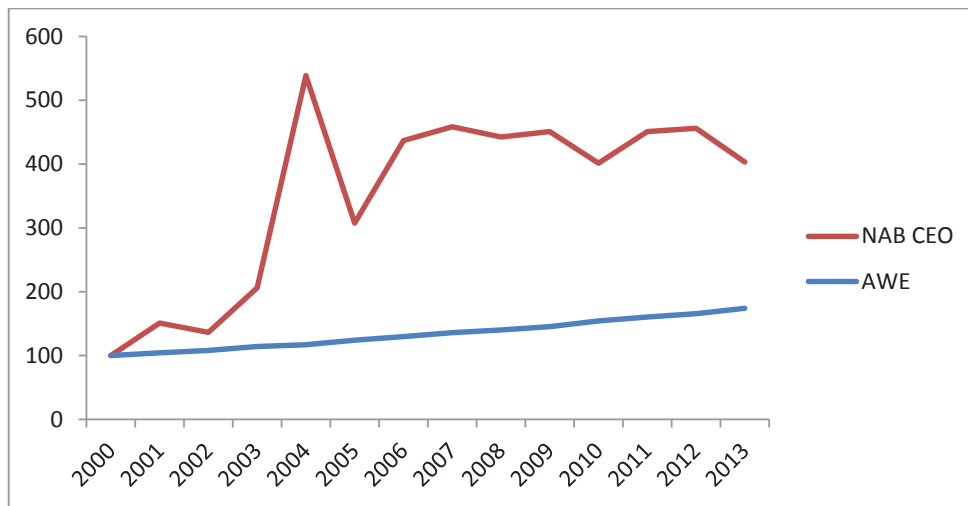
It has to be stressed that the issue of massive chief executive officer (CEO) pay is associated with industry concentration and the dominant market share of big business in the Australian economy. According to Australian Tax Office (ATO) data the average company that reported a positive income earned \$639,000.⁹ An economy dominated by such companies could never pay CEOs anything like the amounts going to the top of the Australian oligopolies and monopolies. It is clear that inequality in incomes and the massive incomes at the top reflect to a large extent the uncompetitive nature of the modern Australian economy.

The Productivity Commission report on executive remuneration reveals that the average pay packet among the top 20 CEOs in Australia is almost \$10 million, 150 times more than average weekly earnings at the time.¹⁰ Among CEOs of the next 20 companies, incomes are about half this amount, around 75 times more than the \$62,218 the average Australian worker earns in a year.

Furthermore, executive pay has been increasing rapidly. Productivity Commission figures reveal that executive pay increased by 250 per cent between 1993 and 2007 and figures submitted to the Commission’s inquiry by Egan Associates showed even greater increases. These were derived from an analysis that also considered the average pay of CEOs and senior executives across the top 100 public companies in Australia. The data from Egan Associates show that in 1993, a company CEO earned 15 times as much as the average full-time worker but by 2007 the gap between executives and the average wage widened out by a factor of 250.

The rapid rise in CEO pay is impressionistic and anecdotal, reflecting the fact that we do not have consistent data over a good length of time. However, Figure 5 shows the pay of the CEO of the National Australia Bank since 2000. That is compared with average weekly earnings over the same period.

Figure 5: NAB CEO pay and average weekly earnings (AWE): Index with 2000=100



Source: National Australia Bank (various years) *Annual Reports*; ABS (2014) *Average weekly earnings, Australia*

⁹ ATO (2012) *Taxation Statistics*

¹⁰ Productivity Commission (2009) *Executive remuneration in Australia: Final Report*; ABS (2014) *Average weekly earnings, Australia, Nov 2013*.

Pay for the NAB CEO peaked in 2004, but if we ignore that spike then the data show that CEO pay was increasing rapidly during the bulk of the 2000s – during the time people were expressing the most concern. Since then there has been a moderation, and no real increase in pay for the NAB CEO. Whether it was public revulsion, government changes to corporate governance or CEO restraint, pay seems to have moderated since the late 2000s.

Bebchuk and Fried have been influential in changing the perceptions of executive pay in the US – according to them, executives essentially set their own pay using their power over the board of the company, if not the complicity of the board in extracting excessive pay from the company.¹¹ It has also been described as the perception of a self-interested ‘directors’ club’ of board members, fund managers, and executives past and present. ‘You vote for my pay rise and I’ll vote for yours’, in effect. This is an inherently conflicted plutocracy.¹² We can refer to this as the ‘managerial power’ explanation of high executive pay, which is fundamentally different from any explanations based on market forces. Complacency on the part of boards is reinforced by directors not wanting to be seen to be employing a CEO who earns substantially less than benchmarked companies. To get someone at a lower salary may be taken to mean someone who the ‘market’ thinks is inferior.

The Rudd and Gillard governments took action to strengthen corporate governance over remuneration and there appears to be more self-restraint on the part of executives. The reforms from 1 July 2011 included a provision that shareholders can vote to spill a board and force fresh elections if there have been ‘no’ votes of 25 per cent or more recorded against the remuneration report at two consecutive annual general meetings of the company.¹³ This is known as the two strikes test.

As a consequence, executive pay has been frozen at the Commonwealth Bank of Australia, PaperlinX and Rio Tinto.¹⁴ It was also reported that more than 100 companies – including BlueScope Steel, casino group Crown and apparel-maker Pacific Brands – received a ‘no’ vote of 25 per cent or more against their remuneration reports in the first year following the introduction of the new laws on executive pay. Another strike this year on remuneration reports will force directors to stand for re-election.¹⁵

It needs to be stressed that the concerns about CEOs in this sector are not new – they go back at least to the concerns raised by Berle and Means in 1932 and can be traced back to Adam Smith in 1776.¹⁶ So long as we have large uncompetitive companies with the potential to earn super profits there is going to be a class of predators that seeks to capture some of the monopoly rents for themselves. Once upon a time feudal structures would have been involved in taking a ‘cut’ in the spoils of monopoly and, indeed, would have been involved in reinforcing the monopoly.

The Productivity Commission makes the important point that executive pay tends to be associated with the size of the company. The implication is that the problems associated with executive pay are going to be so much worse in an economy that is riddled with monopolies, duopolies and oligopolies – or, in general, big business.

Piketty notes that in the US after World War II the top marginal tax rate on personal income was 90 per cent and, as the US was their occupying power at the time, the same rate was

¹¹ Bebchuk, LA and. Fried JM (2004) *Pay without Performance: The Unfulfilled Promise of Executive Compensation*.

¹² M Vanderlaan cited in Productivity Commission (2009) p. 151.

¹³ Bradbury D (2011) *Shareholders use new powers under Gillard Government executive pay reforms*.

¹⁴ Liondis G (2012) *Narev orders executive pay freeze at CBA*.

¹⁵ Liondis G (2012) *Narev orders executive pay freeze at CBA*.

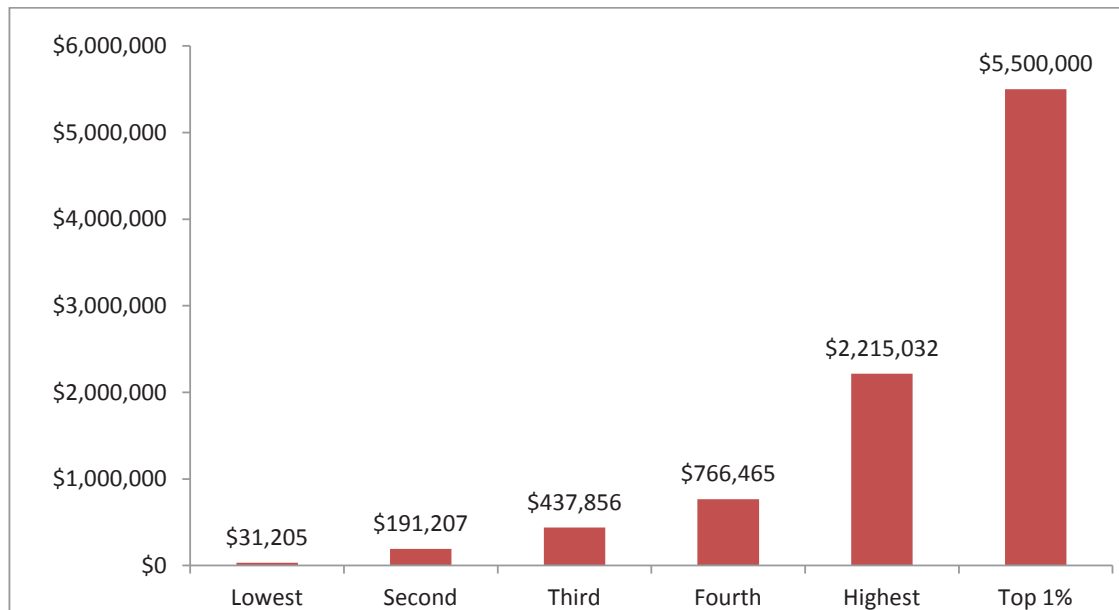
¹⁶ Weinbach MS (2007) ‘Optimal executive compensation versus managerial power: A review of Lucian Bebchuck and Jesse Fried’s *Pay without performance: The unfulfilled promise of executive compensation*’ p. 421

imposed on Germany and Japan. It was part of the 'civilisation package', but it had the side effect of discouraging the grab for excessively high incomes since it was just not worth it attaining a high income if most of it was to be taxed away. Of course, there is no evidence that the high post-war income taxes ever meant there was a shortage of CEOs.

The distribution of wealth in Australia

The distribution of income has implications for the distribution of wealth and vice versa. High incomes enable the accumulation of large wealth holdings on the one hand, while large wealth holdings generate high incomes. Wealth inequality is illustrated in Figure 6, which shows the average level of wealth by quintiles. This figure also provides an average level for the top one per cent of wealth-holders, which is represented in the column on the far right.

Figure 6: Australian wealth inequality



Source: ABS (2013) *Household wealth and wealth distribution, Australia, 2011-12*.

Comparing the graphs for income and wealth distribution, it is clear that the distribution of wealth is much more unequal than the distribution of income. For example, the top income quintile has just over five times the income of the bottom quintile but, by wealth, the top quintile has 71 times the wealth of the bottom quintile. The distribution of wealth is very important, as Piketty shows, since it is the accumulation of income from inherited wealth that drives much of the increasing inequality in modern economic systems.

It is also interesting to observe that those among the bottom quintile, comprising 1.73 million households, have less wealth than the ten wealthiest families in Australia as reported by the Business Review Weekly's rich 200 list.¹⁷ At the top of that list is Gina Rinehart who is estimated to have a personal wealth of \$22 billion. Table 2 gives Gina Rinehart's estimated wealth along with that of the other top ten wealth-holders who, together, hold more than \$66 billion in wealth.

¹⁷ Business Review Weekly (2013) 'BRW rich 200'

Table 2: Top 10 richest Australians

Name	Rank	Estimated wealth (\$m)
Gina Rinehart	1	22,020
Frank Lowy	2	6,870
James Packer	3	6,000
Anthony Pratt & family	4	5,950
Ivan Glasenberg	5	5,610
Harry Triguboff	6	4,950
Wing Mau Hui	7	4,820
John Gandel	8	3,700
Andrew Forrest	9	3,660
Christopher Wallin	10	2,800
Total		66,380

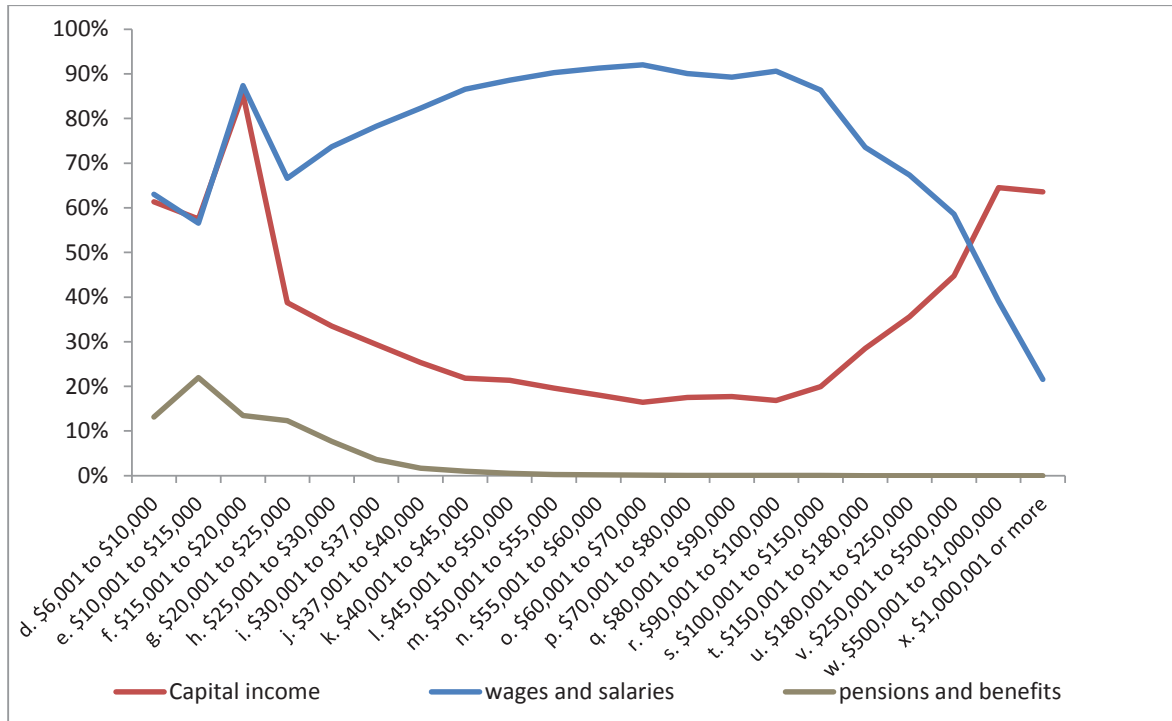
Source: *Business Review Weekly*, Top 10 Rich.

Where does income come from?

So far we have not sought to ask about the sources of income at various points in the income distribution. The ATO figures allow us to divide income into wages, benefits and pensions and capital income. The latter is defined to include private business income, dividends, interest income and similar receipts. Figure 7 is based on ATO data that gives the sources of income for each percentile in the income distribution – that is, going from the bottom one per cent of taxpayers by income through to the top one per cent of taxpayers.

Figure 6 clearly shows that, for low-income groups, payments from the government are an important source of taxable income. As we move up the income scale wages become a dominant source of income, accounting for 90 per cent or more of incomes in the middle-to-upper income ranges, from about \$50,000 to almost \$100,000 per annum. However, wages and salaries fade away beyond that range and account for only a bit over 20 per cent of incomes for the top one per cent of the income distribution.

Figure 7: Contribution to personal income from capital, wages and salaries, pensions and benefits as share of total income, 2011-12.



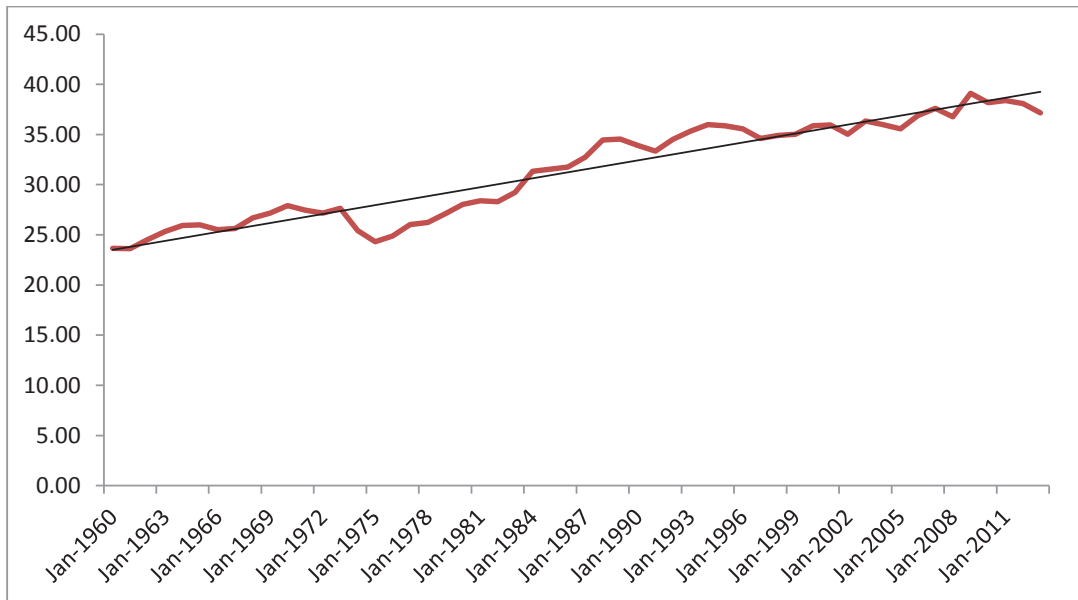
Source: ATO (2014) *Taxation statistics*

The capital income data in Figure 7 shows that capital income begins to dominate as we move higher up the income distribution. The interesting thing is that capital income is also prominent at some very low income levels – but the figures for income are those given to the ATO, so it is quite possible that there is undeclared income or income offset by prior-year losses and other deductions.

Profit and wages shares of national income

The profit share of the economy has a powerful influence on the distribution of income and wealth, especially because wealth inequality in Australia is even worse than income inequality – as the earlier figures show. While the profit share moves around over the course of economic cycles, it is clear that there is a firm upward trend over the period covered in Figure 8. Indeed, in the last 50 years the share of national income accruing to the owners of capital, most of whom are among the highest income earners, has increased from less than 24 per cent of GDP to 37 per cent.

Figure 8: Profit share (GOS) as % GDP

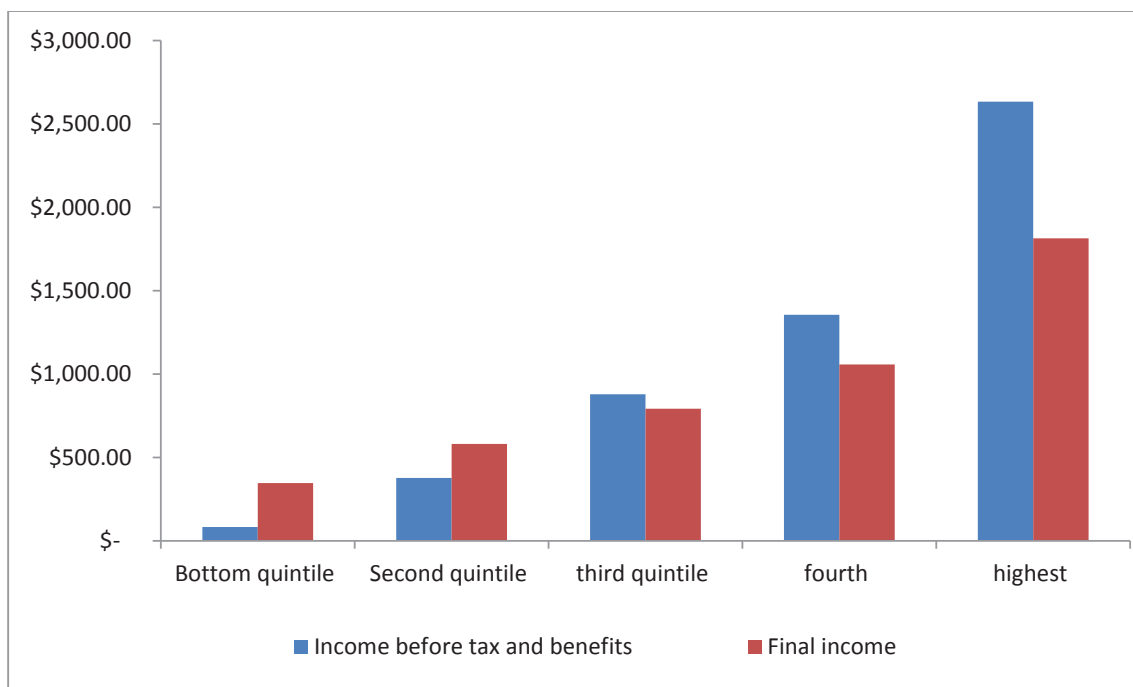


Source: ABS (2013) *Australian System of National Accounts, 2012-13*.

Redistributive role of the state

ABS data allow us to make some estimates about the extent to which Australia's tax and welfare system redistributes income. Those estimates are summarised in Figure 9, which shows the income quintiles before and after the effects of taxation and government pensions and allowances.

Figure 9: Income distribution before and after the tax and transfer system



Source: ABS (2013) *Household income and income distribution, Australia, 2011-12*.

Figure 9 clearly shows that income after the tax and transfer system is so much ‘flatter’ than it is prior to redistribution. Low incomes are dramatically higher, while high incomes are significantly reduced. The interpretation of Figure 8 is likely to be determined by an individual’s desired role of the state. Figure 8 provides clear evidence that our progressive tax-and-transfer system is working as designed, and it also provides clear evidence that high-income earners pay significantly more tax than low-income earners. Whether this is a ‘problem’ or not depends entirely on the objective of government policy.

Leaving aside the disagreement about what governments ‘should’ do about income redistribution, there is little doubt about what governments have done – governments have over time sought to reduce the degree of redistribution implied by the fiscal arrangements. Recall that the top marginal personal income tax rate in the Menzies years was never below 67 per cent – whereas it is now 47 per cent with the Medicare levy, increasing to 49 per cent with the temporary levy due to apply between July 2014 and June 2017.

It is also important to highlight that the present top marginal tax rate takes effect at \$180,000 or 2.4 times average weekly earnings, whereas in 2002-03 the top rate kicked in at \$60,000 or 1.3 times average weekly earnings.¹⁸ The large increases in the top thresholds were part of the favourable treatment for high-income earners under the Howard government. The Howard government also intended to reduce the top marginal tax rate (from 45 to 42 per cent) but this cut was deferred indefinitely by the Rudd government. The distribution of the tax cuts between 2005-06 and 2011-12 is shown in Table 3.

Table 3: Share of income tax cuts (\$million)

Deciles	Share (%)	Share (\$m)
1	0.0%	53
2	0.3%	454
3	0.7%	1,241
4	2.6%	4,314
5	5.4%	9,120
6	6.5%	11,035
7	8.6%	14,456
8	13.7%	23,130
9	20.0%	33,790
10	42.2%	71,286
Total	100%	168,878

Source: Grudnoff M (2013) ‘Tax cuts that broke the budget’, The Australia Institute.

What kind of Australia do Australians want?

While it is impossible to say with certainty what Australians ‘really want’, surveys of community opinion have consistently shown that Australians support the provision of a wide range of income supports and universal services and are willing to pay the taxes necessary to fund such services. Indeed, as shown in Table 4 below, the majority of Australians support increasing the tax paid by high-income earners and spending more money on services.

¹⁸ TAI calculations. Note that in 2008-09 when the top threshold was increased to \$180,000 it represented 3.0 times average weekly ordinary time earnings.

Table 4 suggests that only nine per cent of Australians want to pay less tax and receive fewer government services.

Table 4: Proportion who agreed with the following statements

Statement	Proportion
Provide more social services by collecting more tax from everyone	5%
Provide more social services by collecting more tax, especially from big business and higher income earners	55%
Provide the same level of social services as we do now	21%
Collect less tax from everyone and provide fewer social services	9%
Collect less tax from big business and higher income earners and provide fewer social services.	1%
Don't know	9%
Total	100%

Source: TAI polling.

These results are interesting and suggest that an overwhelming 81 per cent of people want the level of social services to either remain as they are or to be increased, even if increases mean additional taxation – especially from big business and high-income earners.

Inequality and political implications

Work by Larry Bartels¹⁹ in the US has brought attention to the vast disconnect between poorer voters and the political system. Despite decades of figures showing that poor and lower-income groups do much better under Democrat administrations, lower-income groups have a strong tendency to vote against their interests. Unlike wealthier constituents, they fail to put pressure on their elected representatives to advance their interests. That comes out in studies that compare the voting behaviour of representatives from electorates with varying socio-economic characteristics. Moreover, the disengagement of lower-income groups means that they can be manipulated by Republicans, who know that the poor and lower-income groups have short memories and will respond to last-minute Republican measures and promises.

A revealing case study was the estate tax debate. Despite the poor and lower-income groups regularly reporting in surveys that they favoured redistribution from the rich to lower-income groups, they were manipulated into opposition to the estate tax through campaigns that played on Americans' fear of taxation generally as well as suspicion of politicians. That also supports the view that voters tend to be more 'left' than their actual votes would suggest and more 'left' than their representatives.

Other internationally comparative research, including Australian data, shows that with greater income inequality people are less satisfied with the way democracy works and the residents of these countries are less trusting of their politicians and parliaments.²⁰ Another international comparative study finds that, in the absence of strong political mobilisation among low-income earners, higher income inequality is associated with more right-wing policies on the

¹⁹ Bartels L (2009) *Unequal democracy: The political economy of the new gilded age*.

²⁰ Schafer A (2012) *Consequences of social inequality for democracy in Western Europe*

part of right-wing parties but without making left parties more left leaning.²¹ The authors of this study suggest:

Our argument implies that increasing levels of inequality are bound to affect left parties less and less, while they are bound to make right parties more and more opposed to redistribution. In this sense, low-income workers seem to be caught in a vicious circle. Increasing inequality makes their preferences for redistribution stronger, but decreasing mobilization makes their demands less relevant to left parties, which in turn makes these parties less redistributive when they get to power and so inequality continues to grow. Decreasing mobilisation, moreover, makes right parties more likely to respond to inequality in accordance with the preferences of their core constituencies (that is, by opposing redistribution as inequality rises).²²

The mobilisation that these authors had in mind is activity on the part of bodies such as trade unions in particular. In a sense this means that unions counterbalance inequality – as their strength wanes we can expect to see further inequality and so more demoralisation at the political level.

The ABC's 'vote compass' confirms that voters tend to have a more pro-government services position than the elected governments tend to have. For example, voters favour same-sex marriage and want to see dentistry included on Medicare.²³ TAI polling referred to in Table 4 clearly shows that the Australian population includes a large proportion of people who favour universal healthcare (92 per cent), education (82 per cent) and age pensions (76 per cent). Australian politics may well support the Pontusson and Rueda view that with rising inequality right-wing parties become more opposed to redistribution. The Coalition government's rhetoric about entitlements bears this out – for example, the Treasurer's 2014-15 budget speech in which he said that the "age of entitlement is over".²⁴

Gender inequality

Inequality is not evenly distributed. Some demographic and geographic groups experience much higher levels of absolute and relative inequality. Similarly, policies to reduce inequality will deliver greater benefits to some groups and come at a higher cost to others. For example, as women are over-represented among low-income earners and are underrepresented among high-income earners they, as a group, tend to benefit from redistributive policies and fare poorly when governments cut taxes and benefits.

The ABS figures for income and wealth are generally silent on the gender balance except for wages and salaries. For information about the gender distribution of income we have to rely on ATO statistics, which show that women comprise 45 per cent of all taxpayers. Figure 10 shows the proportion of women at the various income points, ranging from the first one per cent of taxpayers by income to the top one per cent.

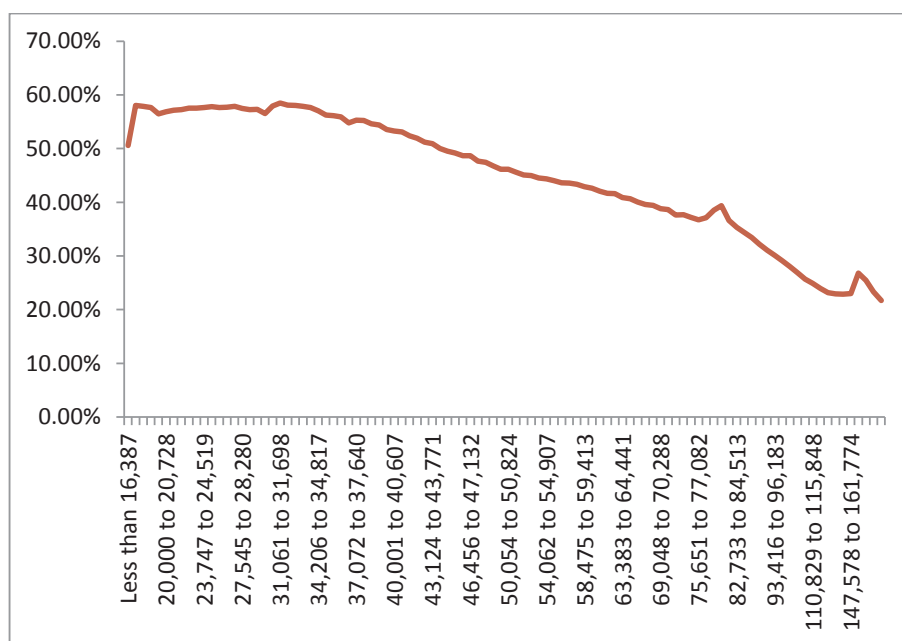
²¹ Pontusson J and Rueda D (2008) 'Inequality as a source of political polarization: A comparative analysis of twelve OECD countries', in Beramendi P and Anderson C, *Democracy, inequality, and representation: A comparative perspective*, pp 312- 53.

²² Pontusson J and Rueda D (2008) p. 347.

²³ ABC (2013) Vote compass explorer: What Australians think about the big political issues

²⁴ Hockey J (2014) 'Budget speech 2014-15', *Budget 2014-15*.

Figure 10: Proportion of women by percentiles in the income distribution



Source: Australian Taxation Office (2014) *Australian taxation statistics, 2011-12*.

Figure 10 clearly shows that women are disproportionately represented at lower incomes and do not reach 45 per cent, their overall share, until the fifty-third percentile and the income range \$51,606 to \$52,407. After that women are disproportionately under-represented. For example, in the top percentile women are only 21.7 per cent of taxpayers and they peak at 58.5 per cent of taxpayers in the twenty-first percentile with an income range of \$31,061 to \$31,698. The taxation statistics also show that, while women were 45 per cent of taxpayers, they earned 37 per cent of the income. In addition, while the average male income was \$78,407, for women the figure was \$56,527. That is a discrepancy of \$21,880 – or put differently, women earn 28 per cent less than men on those figures. As mentioned, ABS figures give wages and salaries by gender and they show women earn 17 per cent less than men.

Low income earners by electorate

In a previous study, The Australia Institute examined the incidence of low-income earners by electorate in order to highlight the fact that low-income earners are not dispersed evenly across the continent but rather are concentrated in some regions. This has particular relevance when analysing policies that impact on low-income earners such as the Low Income Superannuation Contribution (LISC).

The LISC assists low-income earners by boosting their superannuation contribution. The payments are made on behalf of people on incomes up to \$37,000. That data gives a good indicator of the incidence of low-income earners by region and electorate.

Table 5 below sets out the 10 electorates with the highest proportion of low-income earners, with the proportion of employees affected from highest, at the top of the table, to lowest.

Table 5: Top 10 – Number and proportion of low-income employees

Commonwealth Electoral Divisions	number of employees affected	Proportion of employees affected	Party
Cowper, NSW	23,093	46.5	National
Page, NSW	23,392	46.0	National
Mallee, Vic	24,674	45.4	National
Lyne, NSW	20,843	44.8	National
Richmond, NSW	23,762	44.5	ALP
Wide Bay, Qld	22,947	44.4	National
Lyons, Tas	17,796	44.3	Liberal
Murray, Vic	24,199	44.1	Liberal
Barker, SA	29,219	44.0	Liberal
Wannon, Vic	24,986	43.8	Liberal

Source: ABS Census data and TAI calculations.

Table 6 shows the ten electorates that would be least impacted by the removal of the LISC.

Table 6: Bottom 10 – Number and proportion of low-income employees.

Commonwealth Electoral Divisions	number of employees affected	Proportion of employees affected %	Party
Wentworth, NSW	15,216	18.1	Liberal
North Sydney, NSW	15,322	19.6	Liberal
Solomon, NT	10,911	20.4	CLP
Melbourne Ports, Vic	18,131	20.9	ALP
Canberra, ACT	19,987	21.7	ALP
Warringah, NSW	16,685	21.9	Liberal
Sydney, NSW	21,092	22.0	ALP
Fraser, ACT	23,563	23.1	ALP
Higgins, Vic	16,800	24.1	Liberal
Brisbane, Qld	20,266	24.3	Liberal

Source: ABS Census data and TAI calculations.

Table 6 shows that the electorates with the lowest proportions of low-income employees tend to be inner-city electorates and are held by the Liberal Party and the ALP. The clear exception is Solomon in the NT.

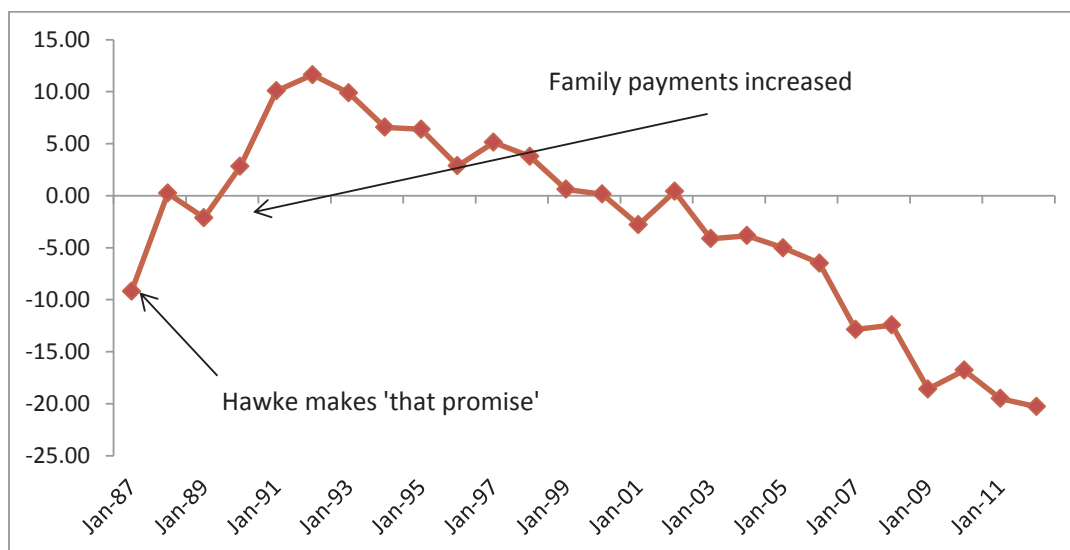
Just as tax and spending policies have significantly different impacts on men and women, changes to government grants have disproportionate effects on different regions around Australia. Such gender and geographical differences are often overlooked in national debates about ‘the role of government’ and the need for ‘fiscal consolidation’.

Government income support, indexation and poverty

There have been many calls for increases in the payments going to the unemployed in Australia, including from the Business Council of Australia.²⁵ Families that rely on the unemployment benefit (Newstart) are among the poorest in Australia. We noted in the quote from Stiglitz at the beginning of this paper that policy is fundamentally important when it comes to inequality – the experience of those who rely on the unemployment benefit is a very good example. Public policy affecting those who cannot fend for themselves is the main determinant of the numbers who are in poverty.

In the campaign leading up to the 1987 election the then Prime Minister Bob Hawke made the famous promise that “by 1990 no Australian child will live in poverty”. That promise has been ridiculed ever since by cynics, but few people have looked at the facts. Around that time there were enormous changes introduced under the then Minister for Social Security, Brian Howe. Increases in income support and family payments significantly increased incomes and the impact is best illustrated by taking the example of an unemployed family of four, two adults and two children, and examining how their income moved relative to the Henderson poverty line. This is represented in Figure 11, which begins in 1987 when the promise was first made. At the time, payments for that family were almost 10 per cent below the poverty line. Where the graph line touches zero, payments for this family are the exact amount needed to be at the poverty line. Where the graph line is below it, the family is living below the poverty line. The axis shows the percentage by which the family is above or below the poverty line.

Figure 11: Unemployment benefit relative to the poverty line (%)



Source: Calculations by The Australia Institute based on Melbourne Institute of Applied Economic and Social Research, Poverty Lines: Australia (various issues), and Australian Government (2014) *Guide to Social Security Law*.

After Hawke made ‘that promise’, this family had indeed moved above the poverty line. By the early 1990s their income had peaked at just a bit more than 10 per cent above the poverty line. The movement relative to the poverty line has been downward ever since. By the early 2000s this family was back at the poverty line. By June 2012 the family was 20 per cent below it – much worse off than when Hawke made his original promise. Of course poverty is relative and the Henderson poverty line was deliberately designed so that it would

²⁵ See Denniss R and Baker D (2012) *Are unemployment benefits adequate in Australia?*

keep up relative to the rest of society. Even though payments have been indexed ever since the early 1990s, such a long period of time has elapsed that the payments continue to fall further behind community standards.

Over that time the pension too has increased relative to Newstart – because the former is indexed to the higher of the Consumer Price Index (CPI), the Pensioner and Beneficiary Living Cost Index or Male Total Average Weekly Earnings. Usually, and over the long term, the average weekly earnings series published by the ABS outperforms the CPI and keeps up to date with community standards.²⁶

Currently the age pension for someone who rents privately is \$468.70 per week, or \$671.40 for couples, which is above the poverty lines of \$408.44 and \$578.55 respectively. Those figures and the relevant figures for those with their own homes are included in Table 7.

Table 7: Pensioners, payments and poverty lines per week

	Single age pensioner			Couple age pensioners		
	Payment \$	Poverty line \$	% above poverty line	Payment \$	Poverty line \$	% above the poverty line
Home-owners	406.00	243.72	66.58	613.10	397.46	54.25
Renters	468.70	408.44	14.75	671.40	578.55	16.05

Source: Melbourne Institute of Applied Economic and Social Research (2014) *Poverty lines: Australia, December quarter 2013*.

Table 7 shows that age pensioners are well above the poverty line if they own their own home. They are still 15 or 16 per cent above if they rent privately. However, a buffer of 15 to 16 per cent does not keep people above the poverty line for long if payments fail to keep pace with community standards. If community standards are increasing at 1.5 per cent above the inflation rate, the buffer will be eliminated in 10 years as a result of switching indexation away from average weekly earnings to just the CPI – which is exactly what is likely to happen in the future if present plans are followed through.

On budget night 2014 the Treasurer Joe Hockey announced that, as of September 2017, the age pension would be indexed only against the CPI and would no longer be indexed against the higher of that or the Pensioner and Beneficiary Living Cost Index or Male Total Average Weekly Earnings. The Pensioner and Beneficiary Living Cost Index is a series similar to the CPI but concentrates on the goods and services likely to be consumed by people on income support. Male Total Average Weekly Earnings is a separate series published by the ABS that comes out with the average weekly earnings series.

Conclusion

Australia is one of the wealthiest countries in the world. We have low levels of debt, low levels of tax and a small deficit by historic and international standards. Despite our prosperity, and despite making it through the Global Financial Crisis relatively unscathed, the current government is seeking to reduce income support provided to the lowest income earners in Australia.

This paper has provided clear evidence that the inequality between those with the most and those with the least is increasing in Australia, in terms of both income and wealth. It also

²⁶ While this is true of Australia it is not universally true as the experience of the US demonstrates.

shows that, while the community underestimate the extent of this inequality, they still want it to be reduced.

This paper has also provided clear evidence that the tax-and-transfer system has the capacity to effectively redistribute resources from those with the most to those with the least. The ABS data in Figure 9 clearly shows how existing policies boost the incomes of those with the least while reducing slightly the income of those with the most. Such a redistribution is, of course, the primary objective of a progressive welfare and tax system.

The paper also shows how, over time, the generosity of the welfare system and the progressive nature of the tax system has been unwound. For example, Figure 11 shows how welfare payments that were once sufficient to maintain recipients above the poverty line have been eroded. Similarly, Table 3 shows that, in the last eight years, the cost of tax cuts introduced by successive governments has amounted to around \$170 billion and that the top ten per cent of income earners received more benefit from those tax cuts than the bottom 80 per cent of taxpayers combined.

The nature and extent of inequality is the choice of policy makers. We know how to reduce it and we know how to exacerbate it. Despite the fact that the Australian public expresses a strong desire to reduce inequality, successive governments have done little in recent years to reduce it and much to increase it. To conclude, tackling poverty is primarily a political problem, not an economic problem.

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