



# Australia: Inequality and Prosperity in a Radical Welfare State

**Presentation to Secretary's Seminar Series, Department of Prime Minister and Cabinet, 13 June 2013**

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# Outline

- Background, data and methods
- How does Australia compare with other OECD countries
- The Australian welfare state: liberal, residual or radical?
- Trends in inequality and average incomes in Australia
- Prospects for inequality and prosperity

# Background and motivation

- Increasing interest internationally and in Australia in trends in inequality.
- Research supported as part of the GINI project – “Growing Inequalities” Impacts” <http://www.gini-research.org/articles/research>. EU Seventh framework programme cooperation, Theme 8, *Socio-economic sciences and humanities*, SSH-2009 - 2.2.1 social inequalities, their implications and policy options
- “The project focus is inequalities in income/wealth and education and their social, political and cultural impacts. It highlights potential effects of individual distributional positions and increasing inequality for a host of „bad outcomes” (both societal and individual) and allows feedback from these impacts to inequality itself in a frame of policy-oriented debate and comparison across 25 EU countries, the USA, Japan, Canada and Australia.”
- Also based on work undertaken and to continue with Gerry Redmond, Philip Hayes and Elizabeth Adamson, “Supporting families: Horizontal and vertical equity in the Australian tax-benefit system in historical and comparative perspectives “, funded by ARC (LP 100100596).
- [https://crawford.anu.edu.au/public\\_policy\\_community/content/doc/Australia\\_Inequality\\_and-Prosperity\\_final-15-March-13.pdf](https://crawford.anu.edu.au/public_policy_community/content/doc/Australia_Inequality_and-Prosperity_final-15-March-13.pdf)

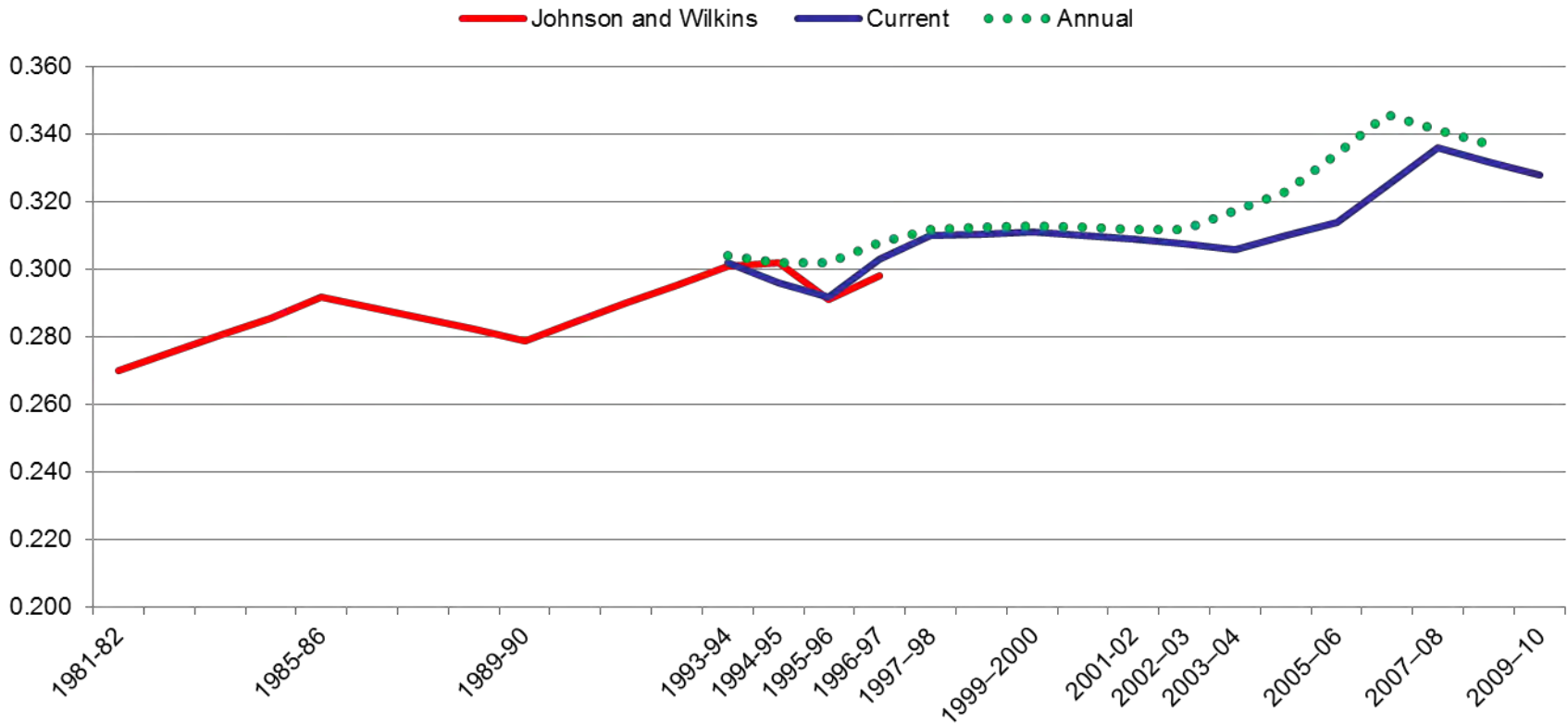
# Data and methods

- Data from ABS income surveys from 1981-82 to 2009-10. The ABS has changed and improved income measures over time; for consistency we use the “unimproved” income measure, showing lower inequality after 2005-06, but effects on earlier trends uncertain.
- Income measure is current weekly income of income units (nuclear family), adjusted for household size using “revised OECD equivalence scales”. Some results refer to income units with a head of working age (up to 64 years).
- Income is made up of **market income** (earnings, self-employment, investment and property income, private transfers); the addition of transfers from government (social security benefits) or privately (e.g. child support) produces **gross income**; direct taxes are deducted to estimate **cash disposable income**.
- The measure of inequality most commonly used is the Gini coefficient, which varies between zero – when all households have exactly the same income and one – when one household has all the income.
- The presentation discusses policy directions and economic trends under different governments – Labor up to 1996, Coalition from 1996 to 2007, Labor since 2007. Interpreting changes as result of government policy decisions is problematic e.g. unemployment rose rapidly between time of 1981-82 Income Survey and election of Labor government in March 1983; declines in welfare receipt after 2000 partly reflect 1995 reforms (raising pension age for women, phasing-out dependency payments).
- There are also long-term “cohort effects” - e.g. rising educational attainment of women and increase in female labour force participation; declines then increases in employment of older workers.
- Some important policy changes not fully captured in cash disposable incomes e.g. reintroduction of Medicare, extension of superannuation, introduction of GST. However, policy trade-offs accompanying these changes may be incorporated e.g. wage restraint under Accord
- Also important to bear in mind what is not included in cash disposable income – e.g. imputed income from housing, indirect taxes, non-cash benefits, superannuation - or is/maybe included but is not easily identifiable – e.g. tax expenditures.



# Trends in income inequality in Australia, 1981-82 to 2009-10

Gini coefficient

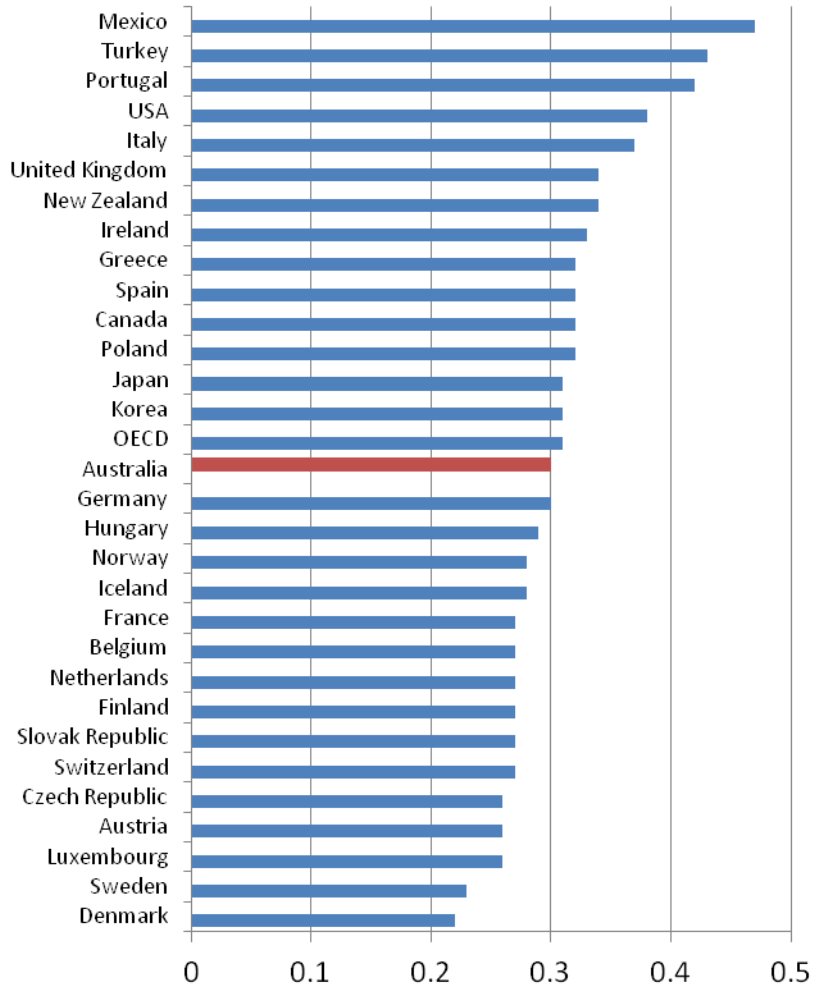




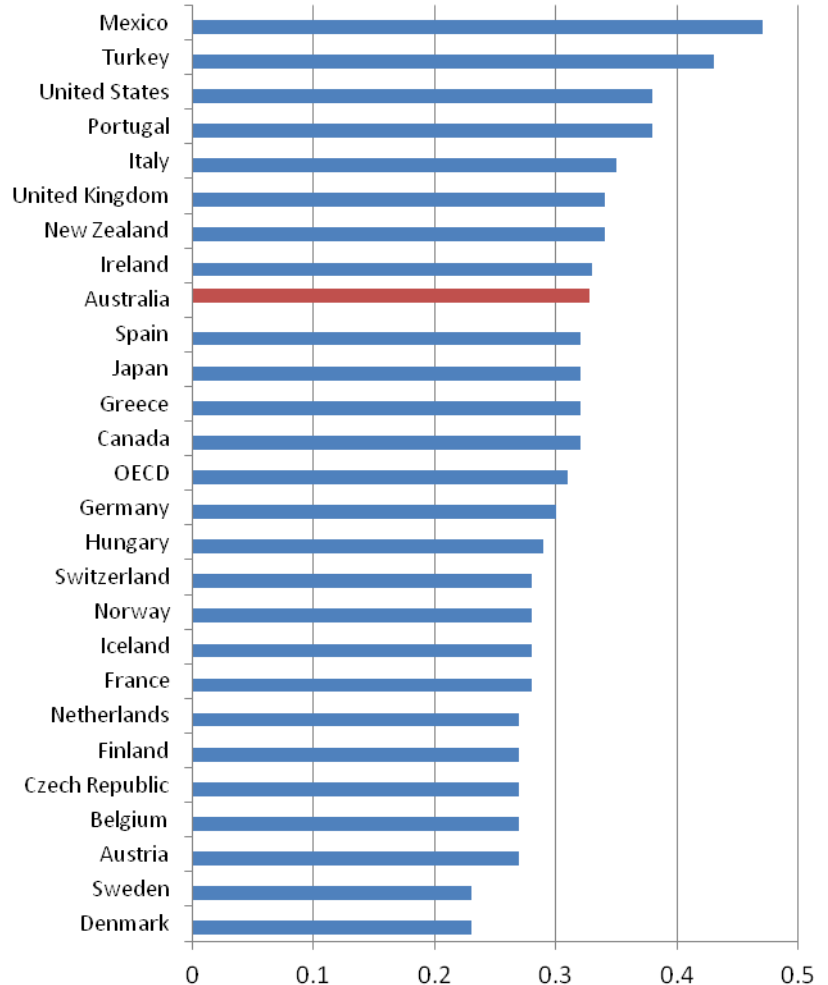
# Situating Australia Internationally

# Level of inequality in OECD countries

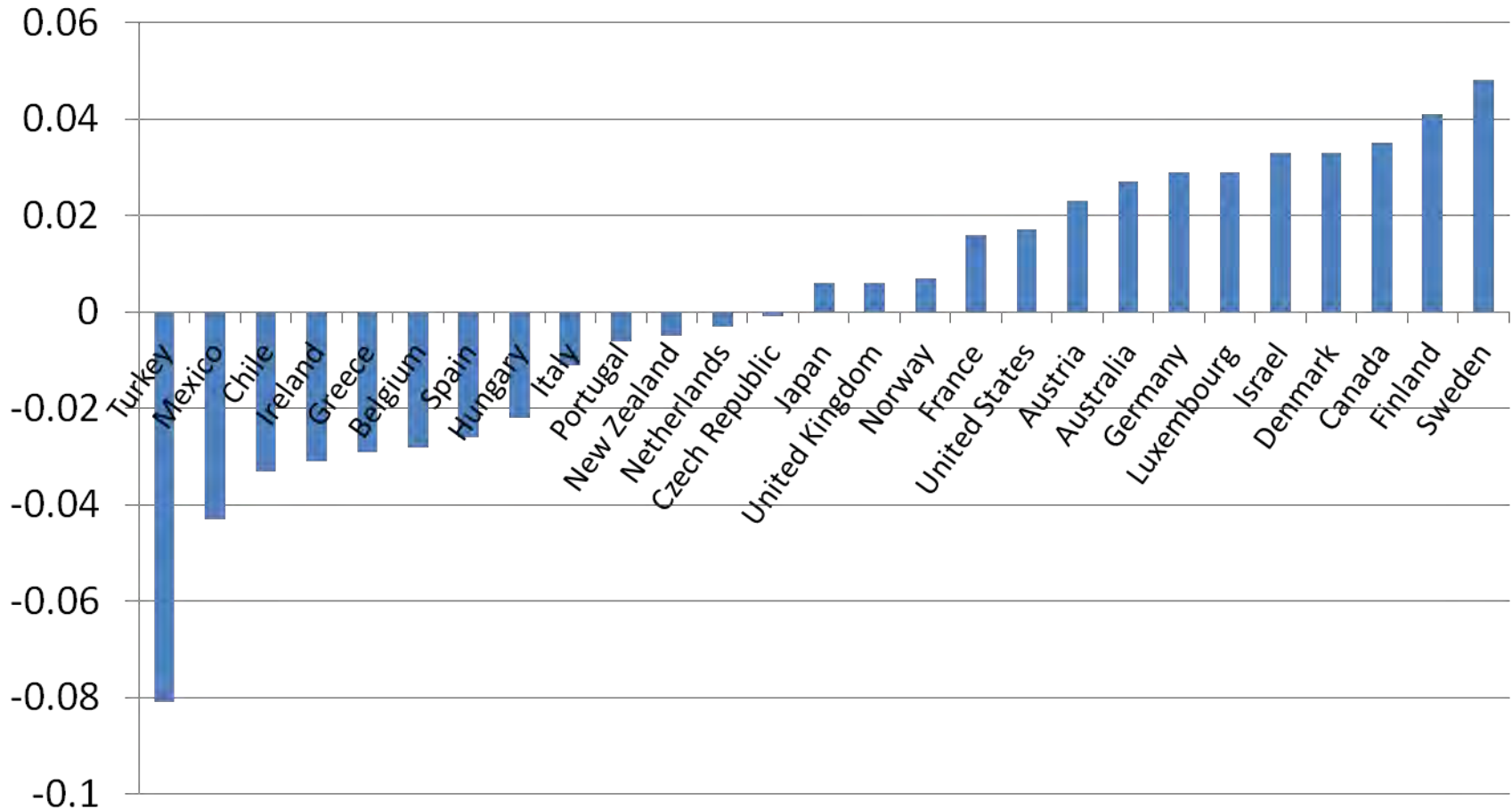
2005



2008



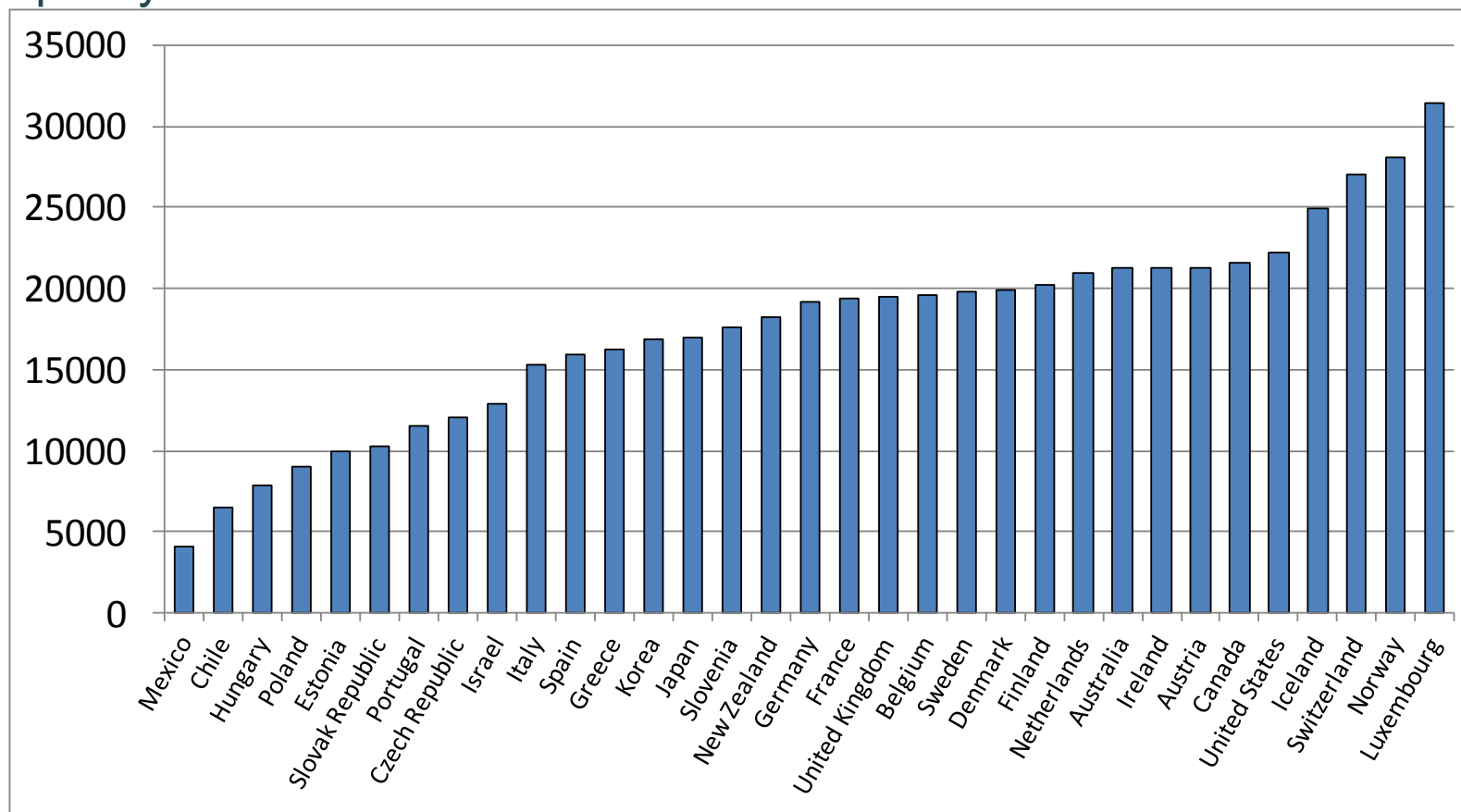
# Change in inequality, OECD countries, 1995 to 2007-08





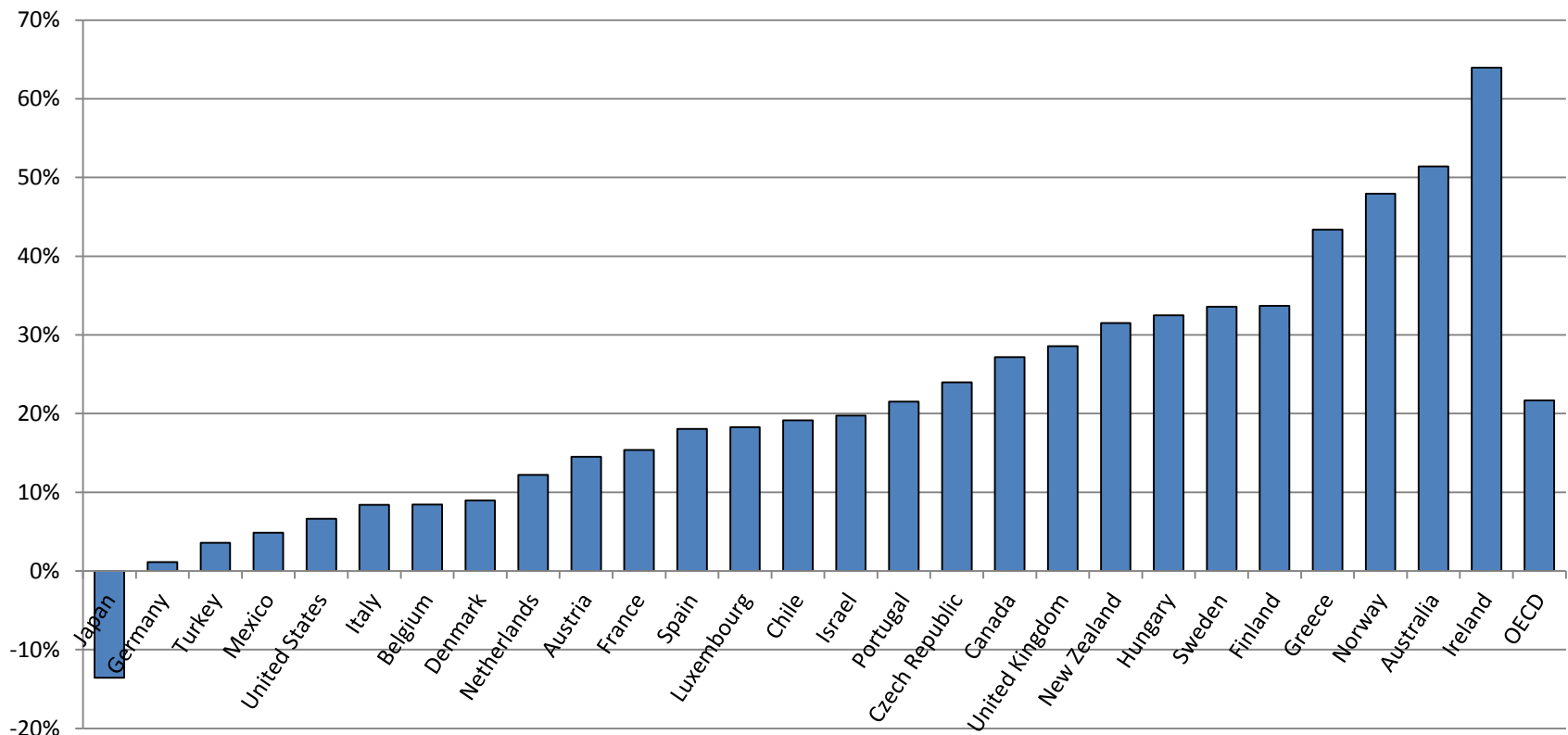
# Sen welfare index, OECD countries, 2008

Mean equivalised income, adjusted to USD (PPPs) and adjusted for inequality



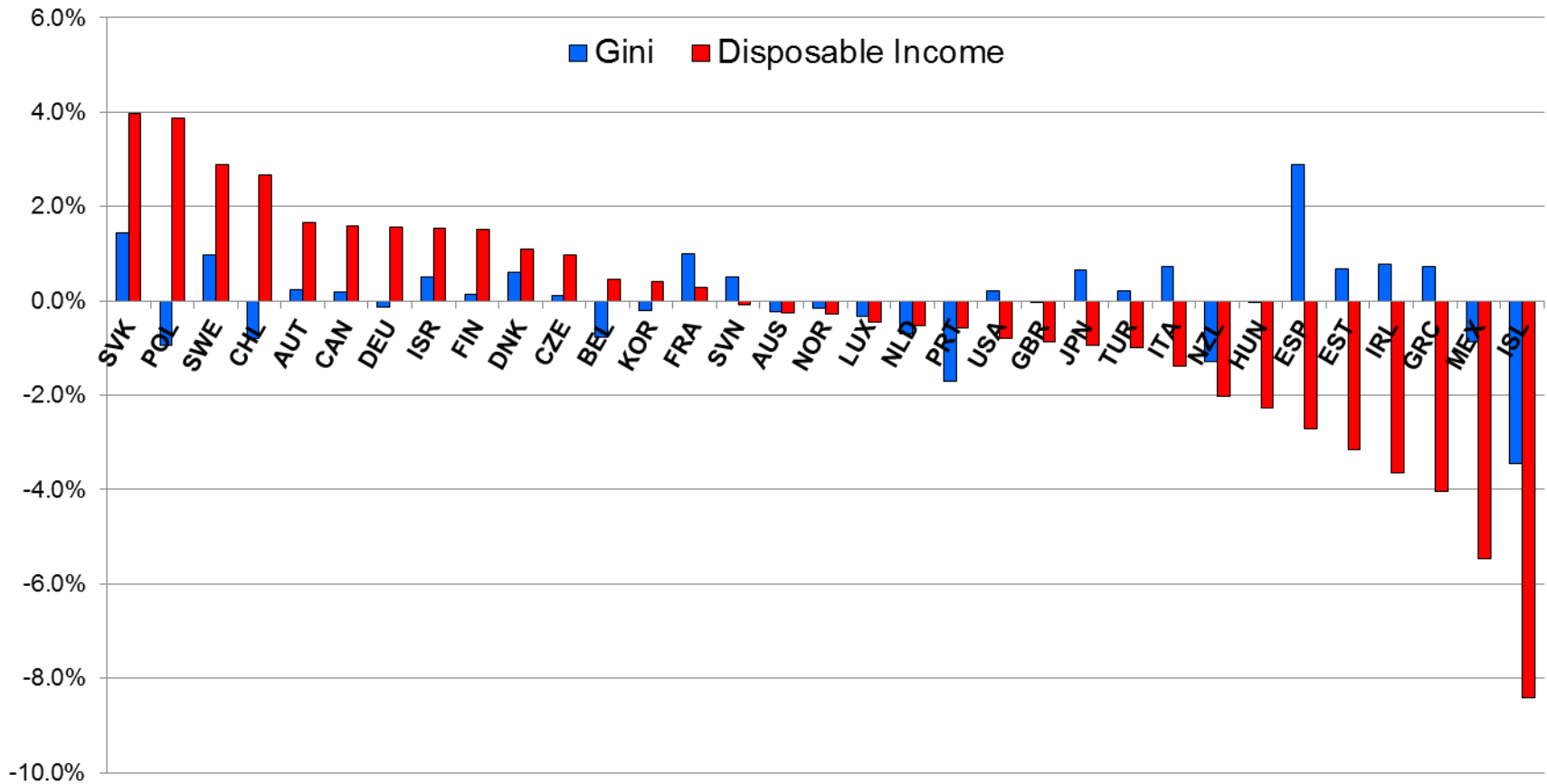
# Change in Sen welfare index, OECD countries, 1995 to 2008

Change in real mean household income adjusted for inequality



# What has happened in the Great Recession?

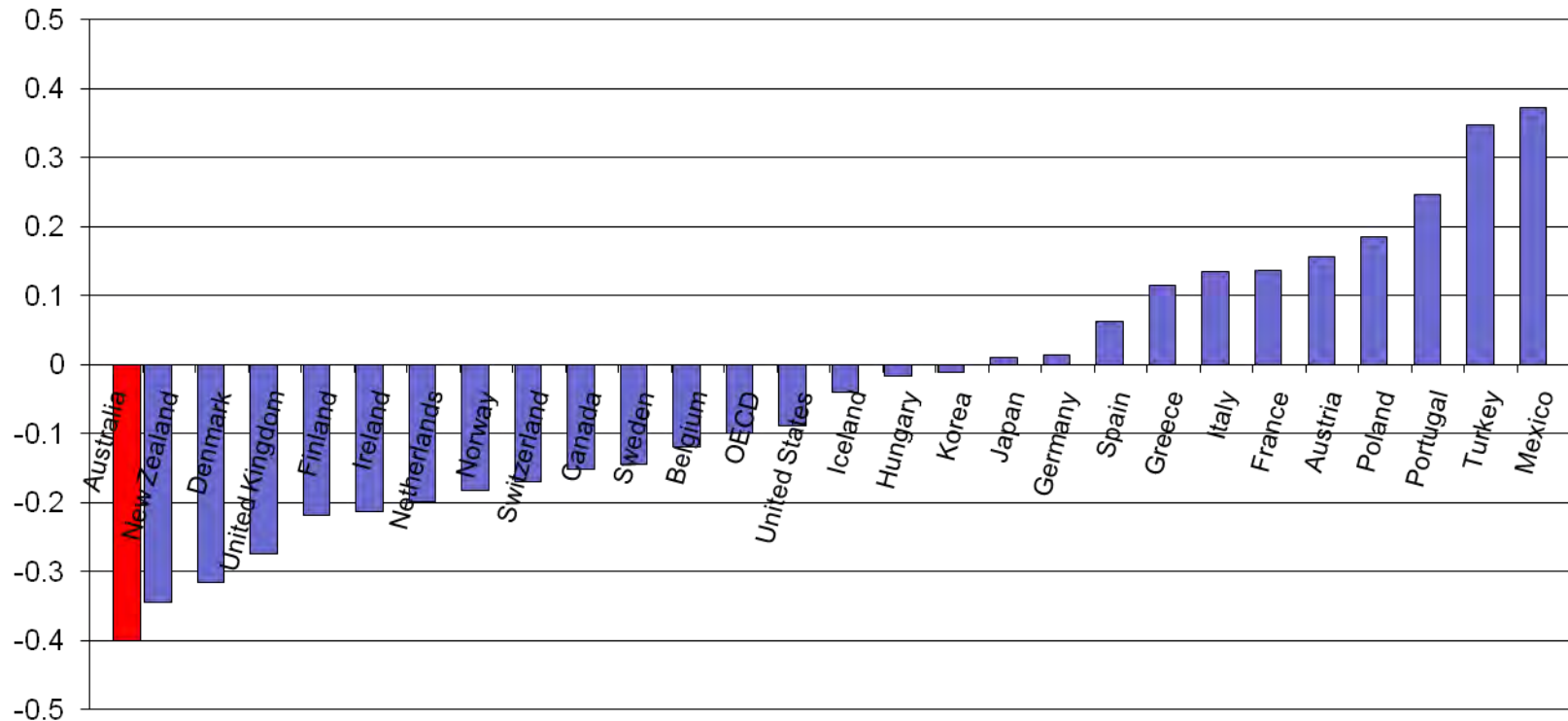
Trends in inequality and disposable incomes, OECD countries, 2007 to 2010



# The Australian welfare state: liberal, residual or radical?

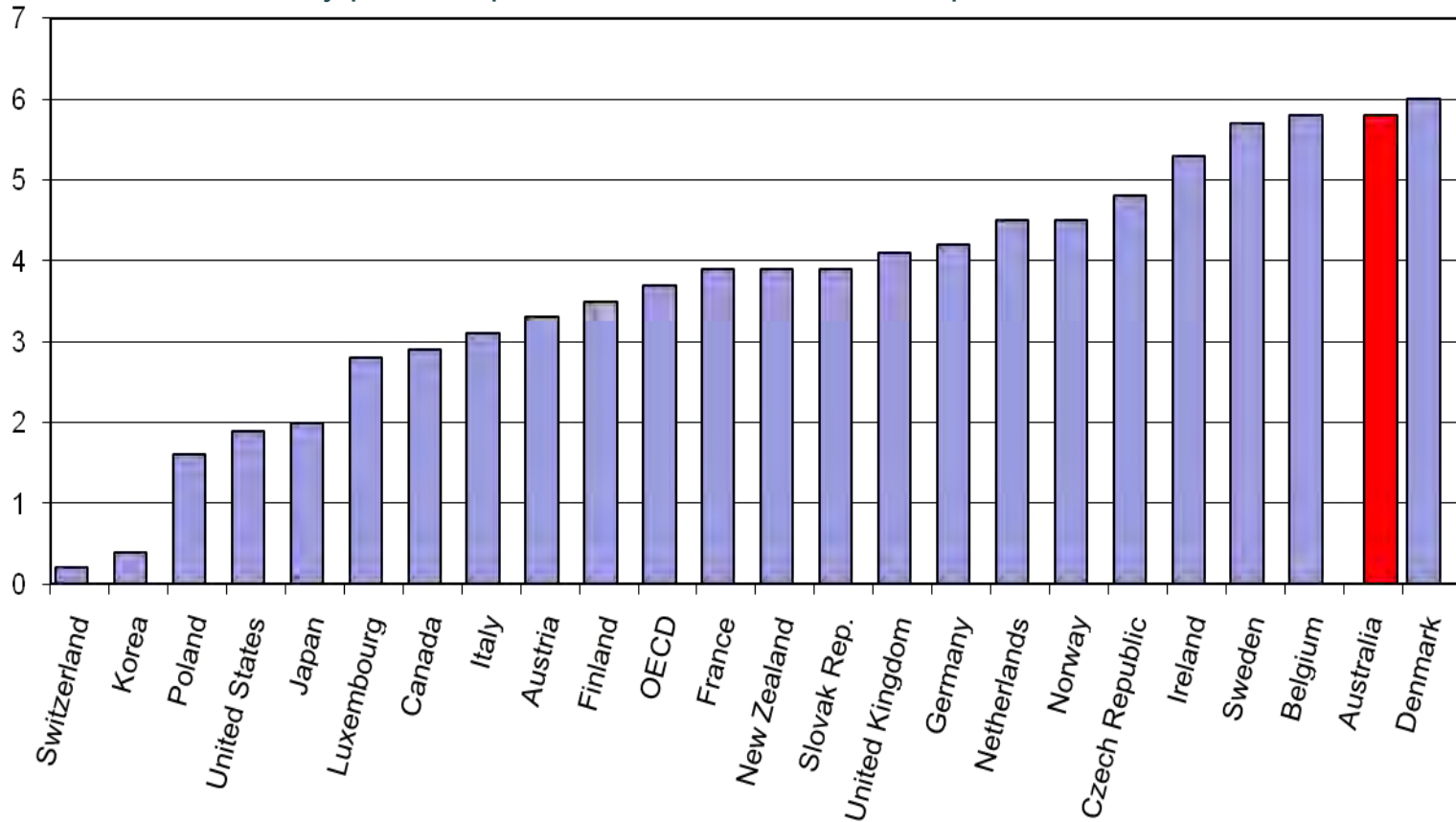
# Australia has the most progressive benefit system in the OECD

Concentration coefficient of transfers



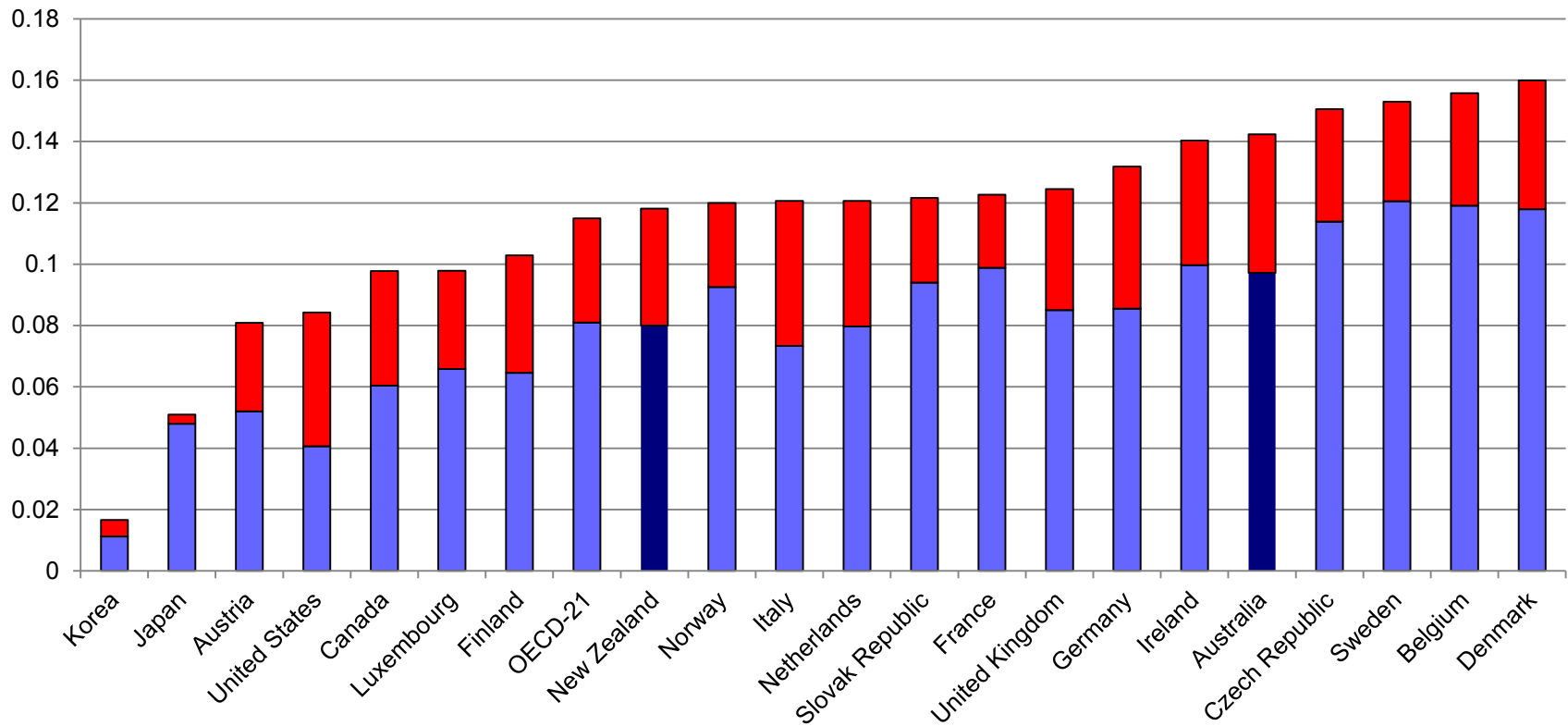
# Net redistribution to the poor is high

Net transfers received by poorest quintile as % of household disposable income



# Australia is one of the most effective countries in the OECD in reducing inequality

Point reduction in the Gini coefficient due to transfers and taxes



# Australia: a radical welfare state

- Australia relies on income testing more than any other OECD countries, and has the most progressive structure of benefits of all OECD countries.
- As a result, as a percentage of household income, net benefits to the poorest 20% of the population are among the highest in the OECD.
- Australia also has one of the most progressive systems of direct taxes in the OECD, and has low and very progressive taxes on retirement age households.
- Australia has less “middle class welfare” than any other country, lower churning than nearly all other countries, and the highest level of transfer *efficiency* in reducing inequality and poverty. Efficiency is a means to an end – the goal is more effectiveness.
- Australia (and Ireland) prove to be nearly as *effective* in reducing inequality as the Nordic countries, while the United Kingdom and New Zealand are about as effective as Germany in reducing inequality.
- The Australian system has many strengths – it targets the poor effectively at lower budgetary cost than many other systems, so is more likely to be sustainable in the medium to long term.
- But the fact that benefits to poor Australians are more generous than benefits to poor Italians (or Americans, or Japanese, Greeks, Spanish etc.) doesn’t help any poor Australians pay their rent.



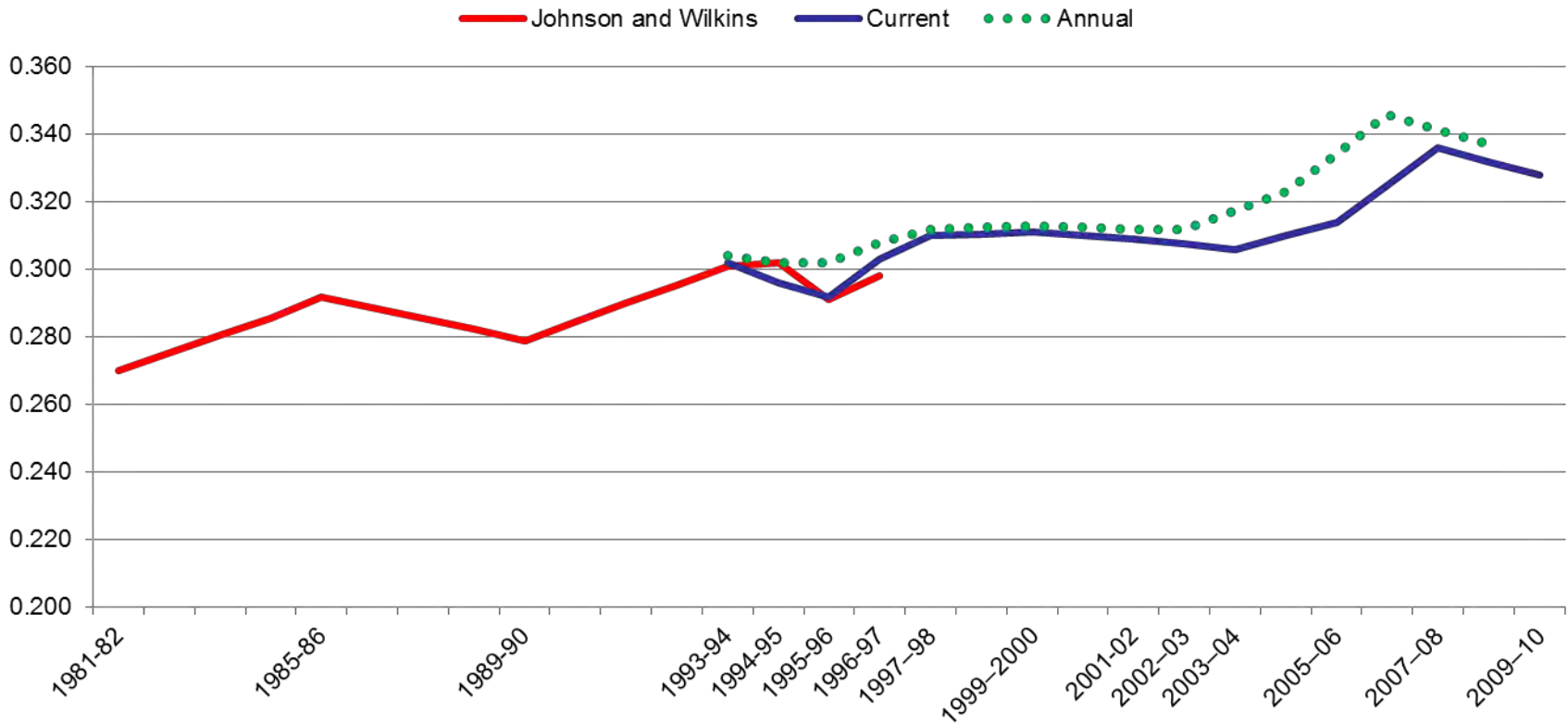


# Unpacking trends and identifying driving sources

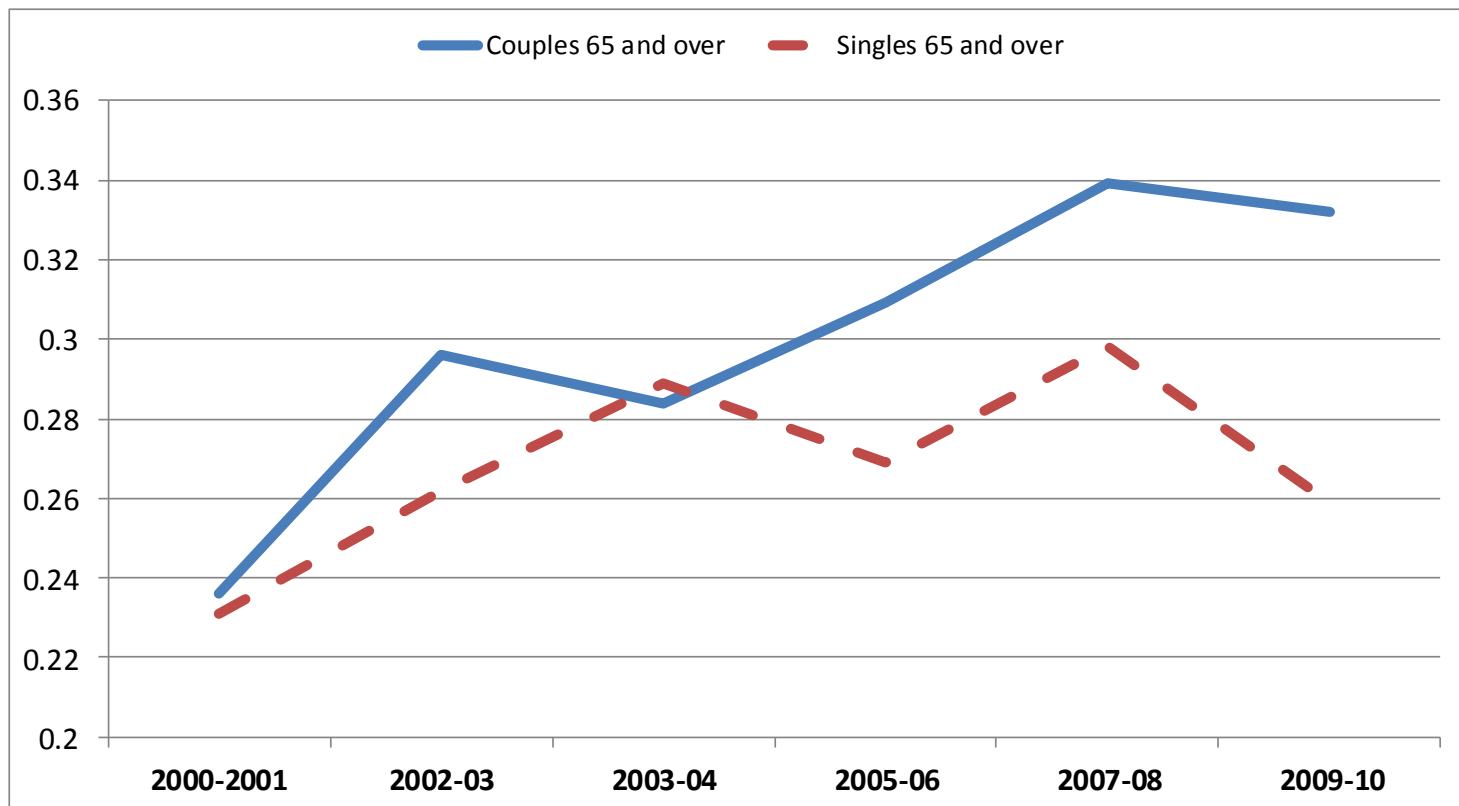


# Trends in income inequality in Australia, 1981-82 to 2009-10

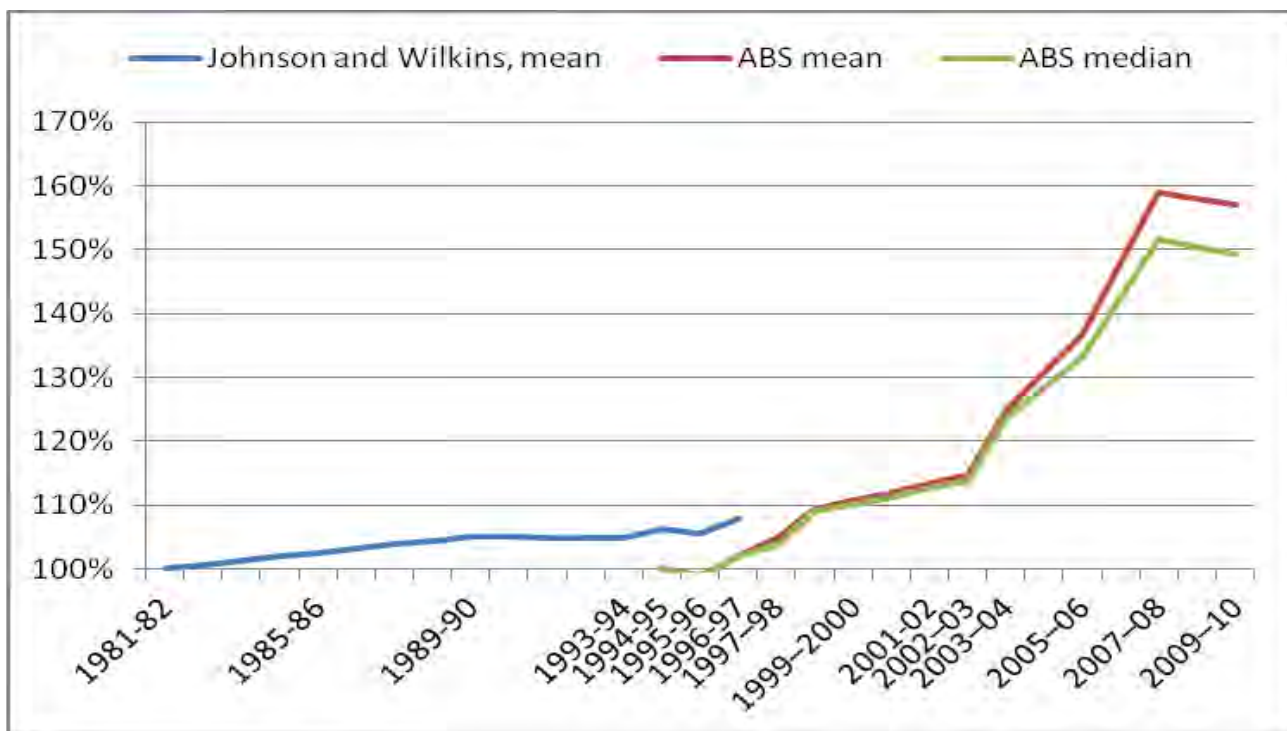
Gini coefficient



# Trends in income inequality (Gini coefficient) among households with a head aged 65 years and over, Australia, 2000-2001 to 2009-10

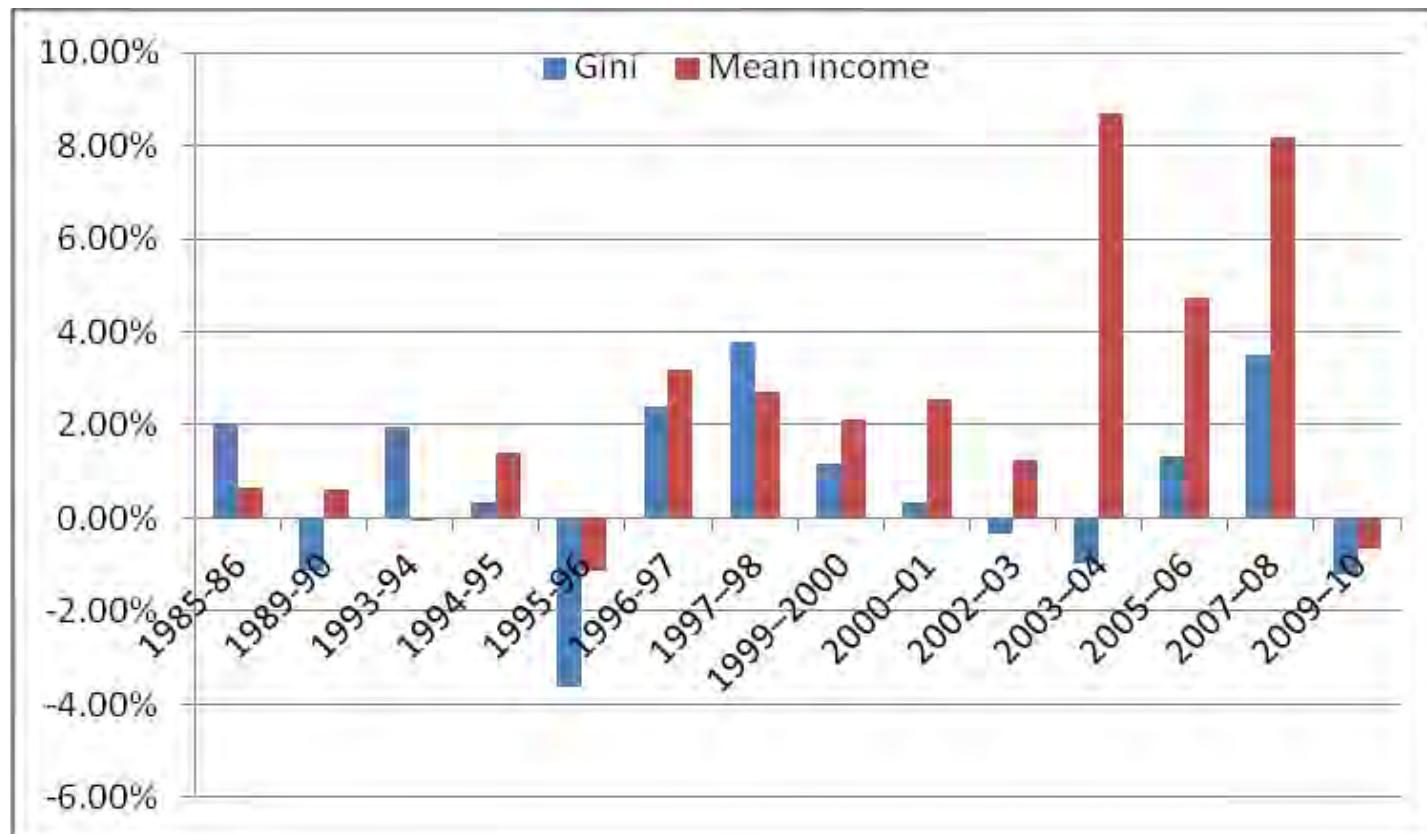


# Trends in real mean and median income unit incomes in Australia, early 1980s to late 2000s



# Patterns of increases in incomes and inequality are complex

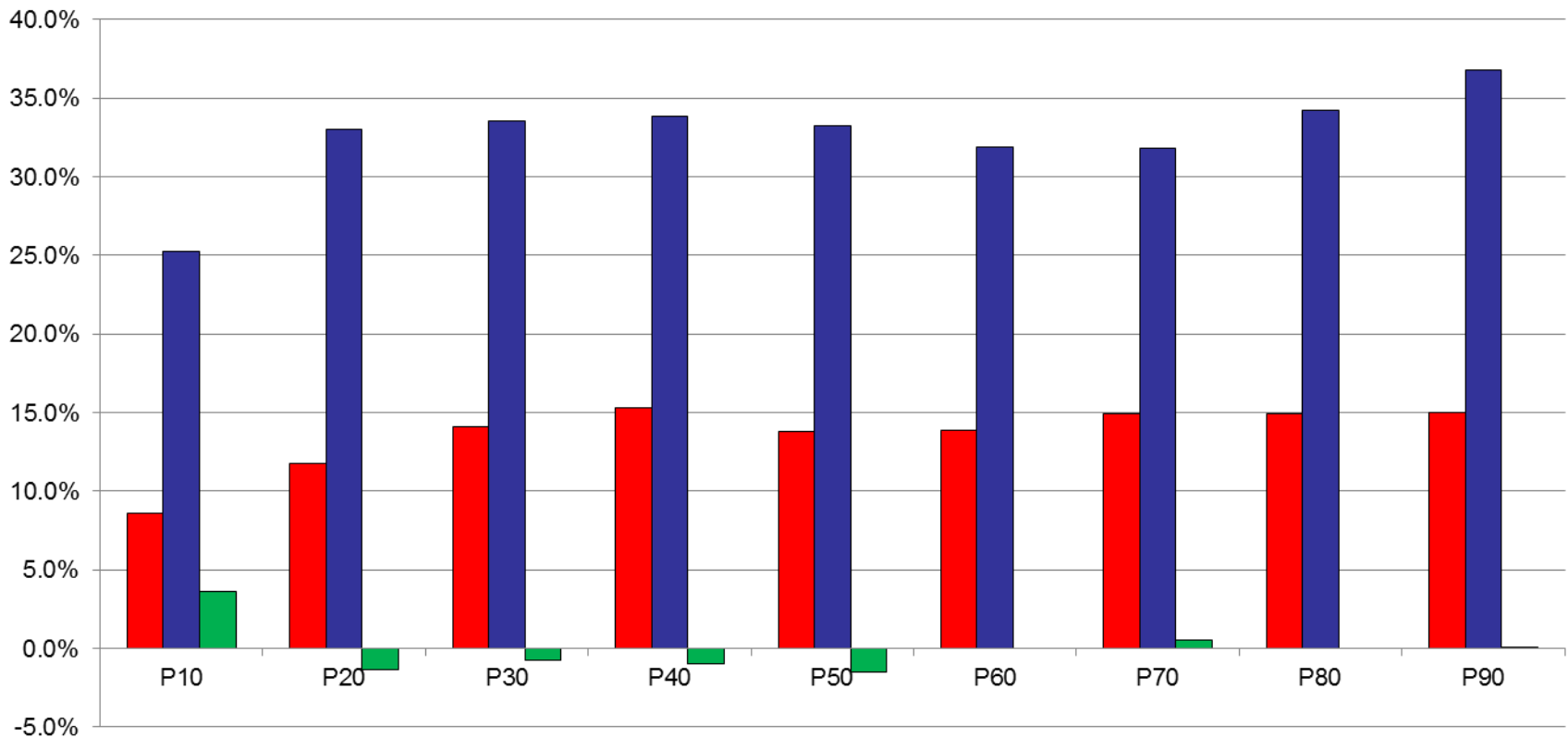
Annual average percentage change between surveys



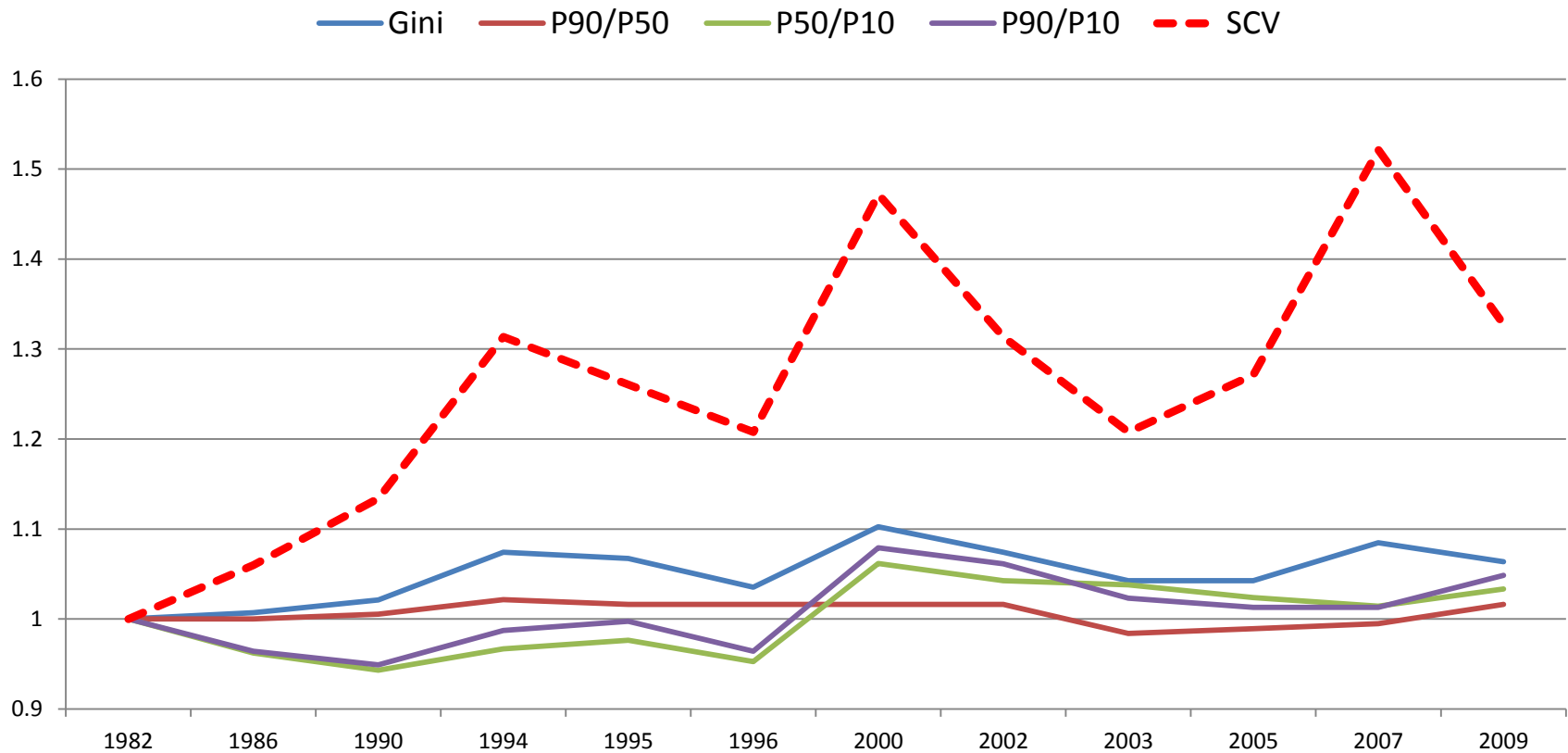
# Trends in real incomes at different decile points, Australia, 1994-95 to 2009-10

Percentage change in real equivalent income unit income

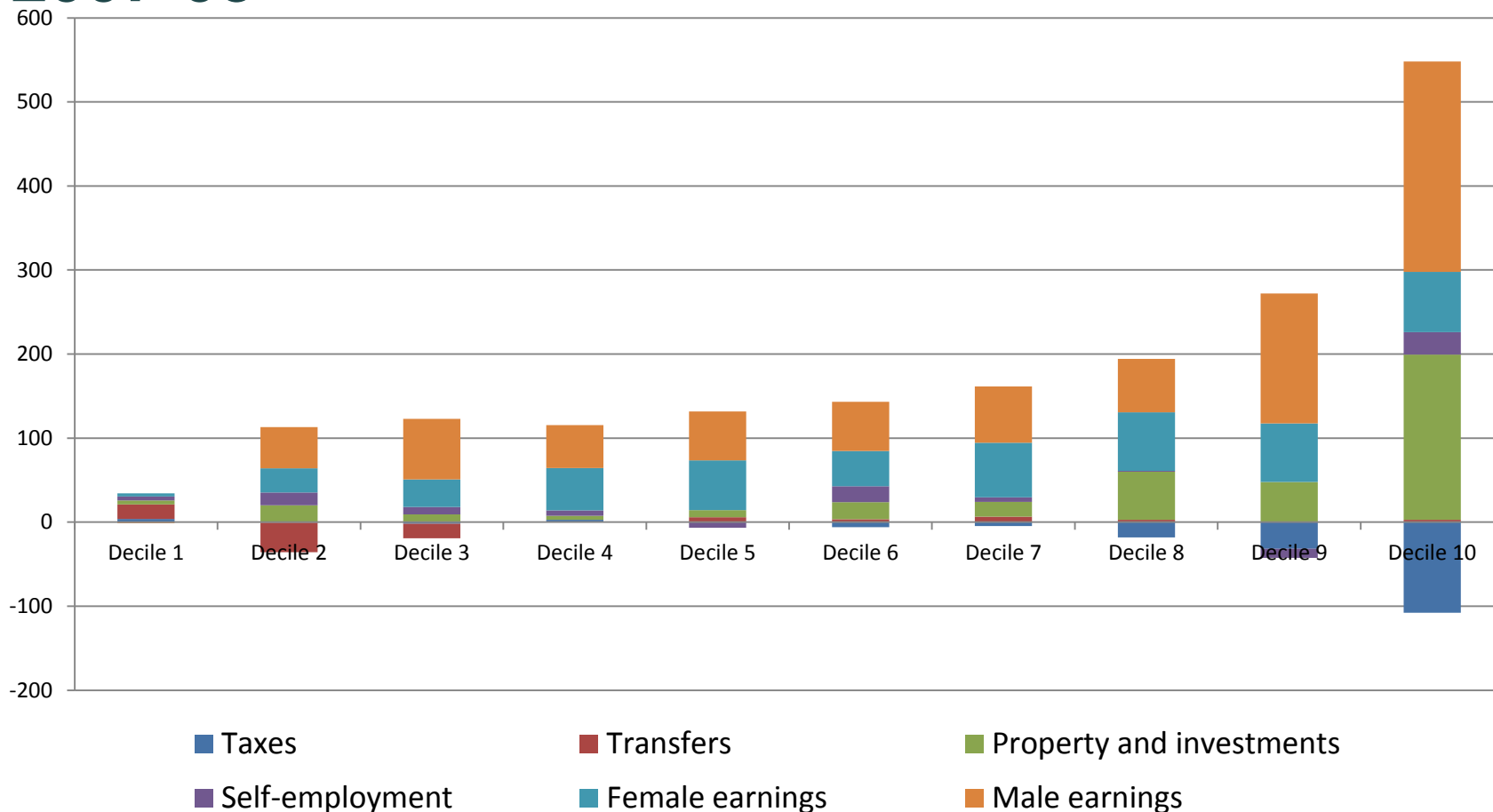
■ 1994-95 to 2002-03 ■ 2002-03 to 2007-08 ■ 2007-08 TO 2009-10



# Trends in alternative inequality indicators for working age income units, 1981-82 to 2009-10



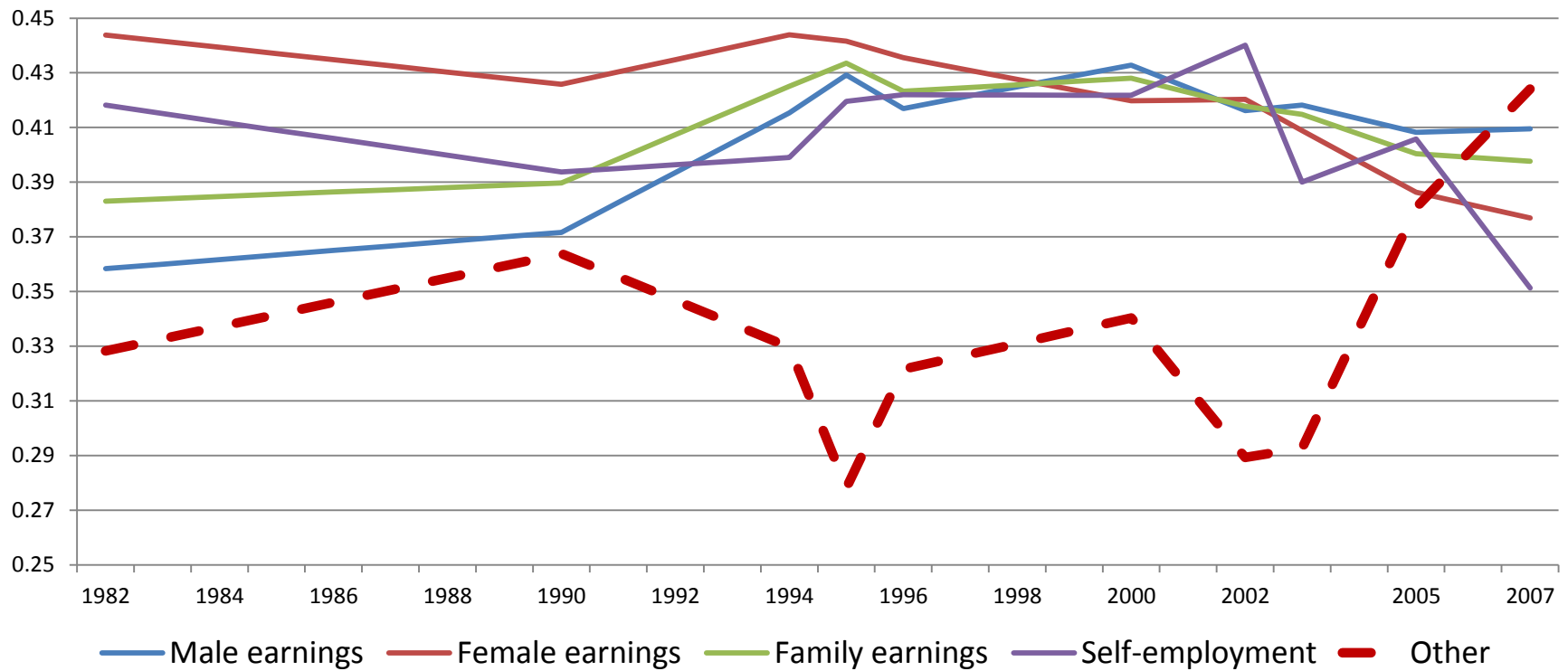
# Components of change in real disposable income, working-age households, 2003-04 to 2007-08



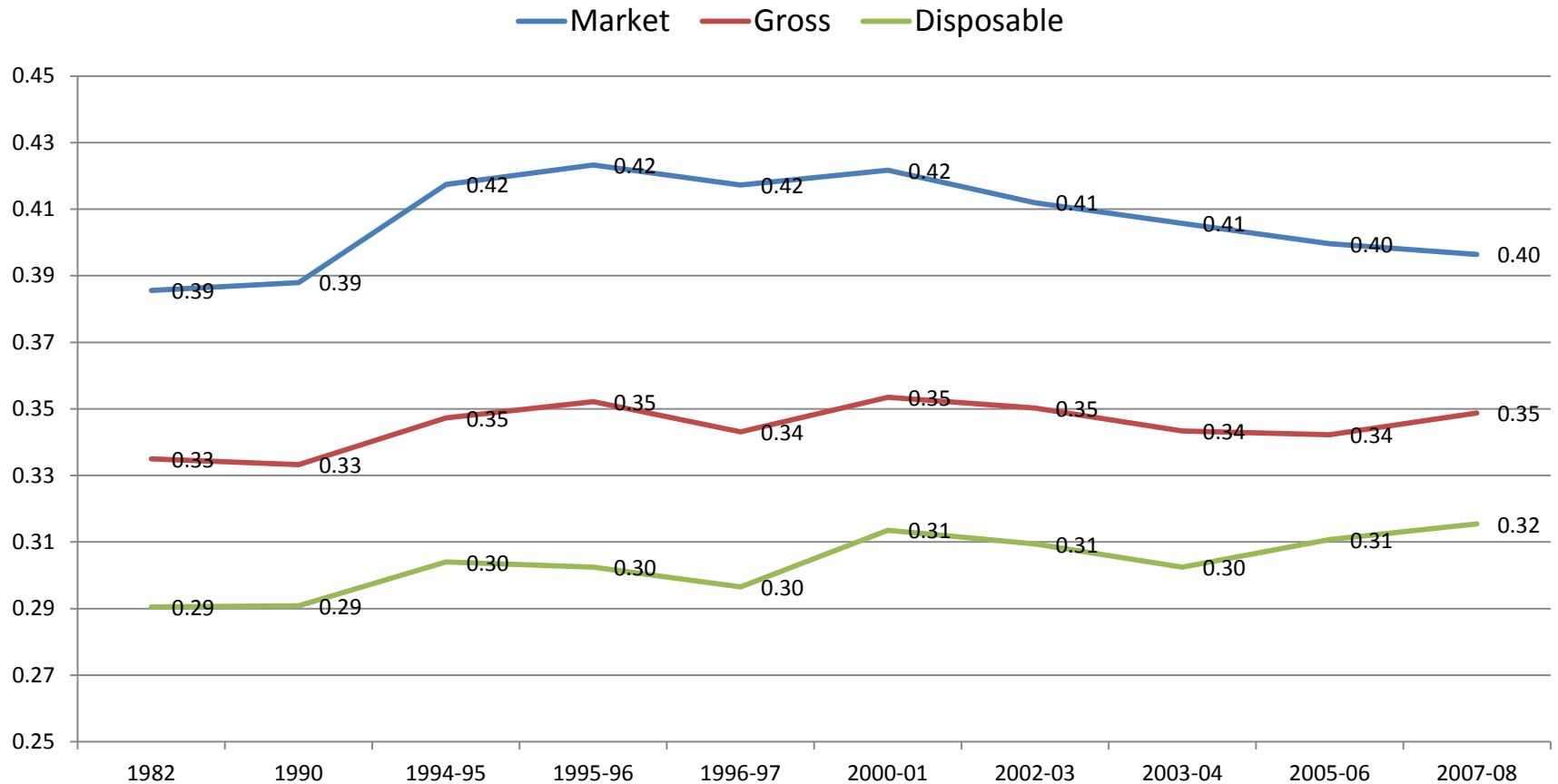


# Trends in income inequality in different income components among working age households, Australia, 1982 to 2007-08

Gini coefficient



# Trends in income inequality in different income measures among working age households, Australia, 1982 to 2007-08



# Disparities in earnings

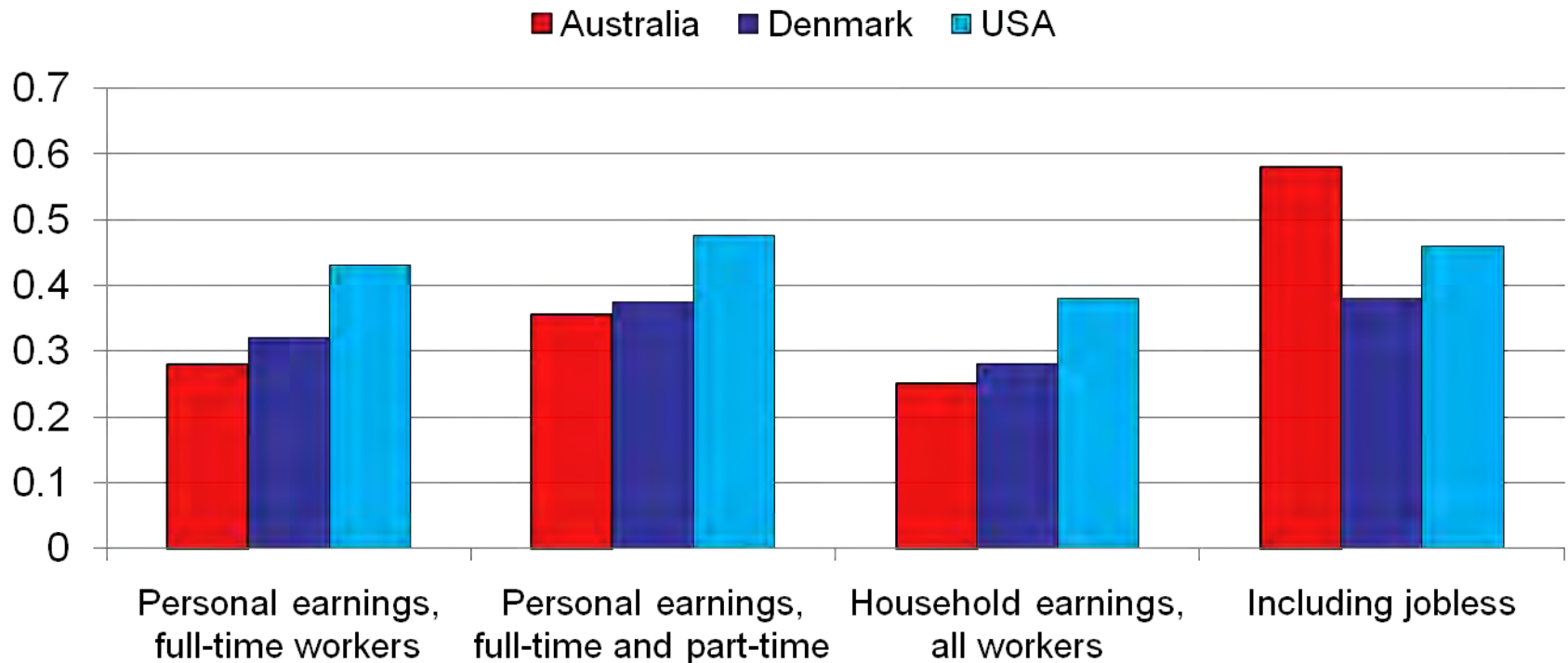
- Earnings represent around three-quarters of total pre-tax household income, the largest single component.
- Disparities in earnings result from:
  - Disparities in hourly wage rates
  - Whether people are in paid work at all
  - The number of hours worked if in paid employment
  - Gaps between wage rates for men and women
  - Household composition – whether you live in a household with no, one or more other people in paid work
- In 1985 Australia had the highest minimum wage in the OECD (as % of median wage), but by 2011 it was the 6th highest (after Turkey, France, New Zealand, Slovenia and Portugal).
- In 1983, a full-time worker at the 90<sup>th</sup> percentile earned 2.0 times as much as a worker at the 10<sup>th</sup> percentile- this disparity increased to 2.3 in 1996, 2.5 in 2004, and 2.8 in 2009-10.
- In 1982 a working-age family at the 90<sup>th</sup> percentile earned 112 times as much as a family at the 10<sup>th</sup> percentile – this disparity reduced to 56 times as much in 1996 and 49 times as much in 2009-10.

# Joblessness in Australia is highly concentrated in households where no one is in paid work

	Working age population non-employment rate	Share of working age in jobless households	Ratio of household to individual joblessness
UK	27.4	16.3	0.59
Germany	34.5	19.4	0.56
Norway	24.8	13.1	0.53
Australia	28.4	14.2	0.50
Denmark	24.5	9.2	0.38
Sweden	26.1	6.2	0.24
USA	28.5	6.3	0.22
Japan	30.7	5.1	0.17
Spain	35.7	5.8	0.16

# Inequality of earnings among households of working age, 2005

Gini coefficients for different earnings measures

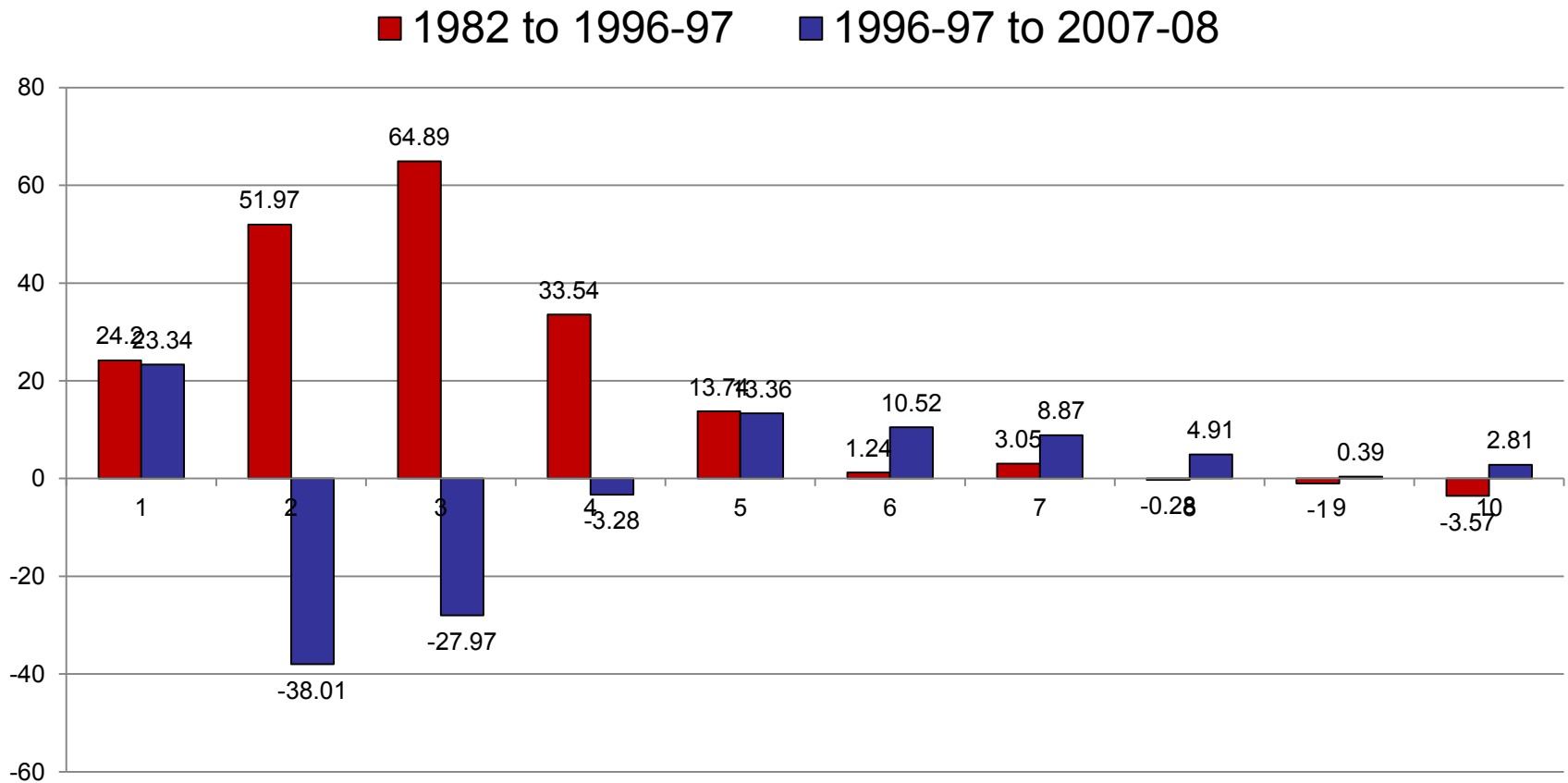


# Reduction in inequality among income units of working age, Australia, 1982 to 2007-08

Point difference in Gini coefficient



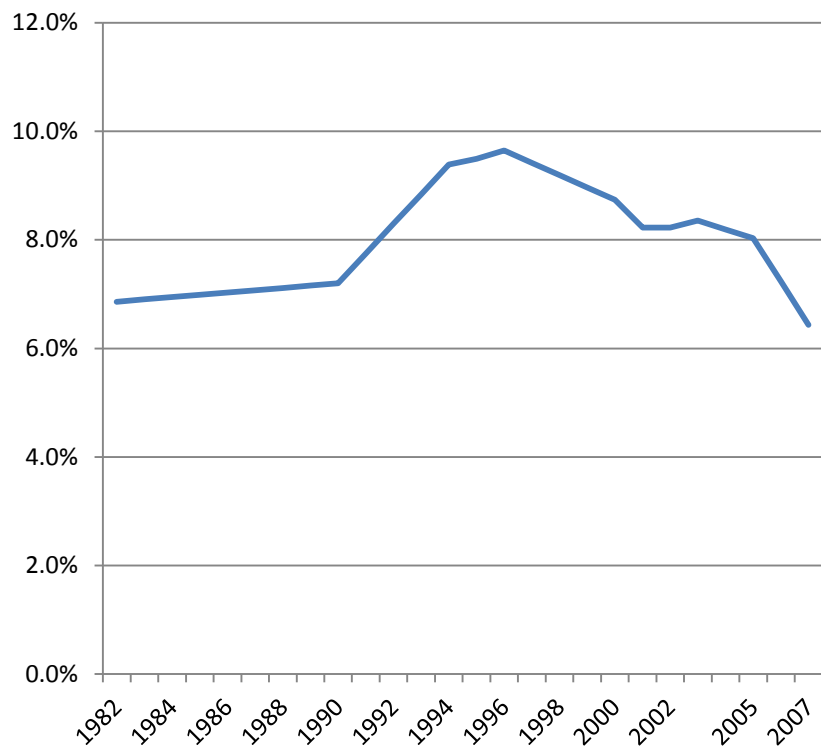
# Change in real value of transfers (2008 \$pw) received by deciles of working age income units



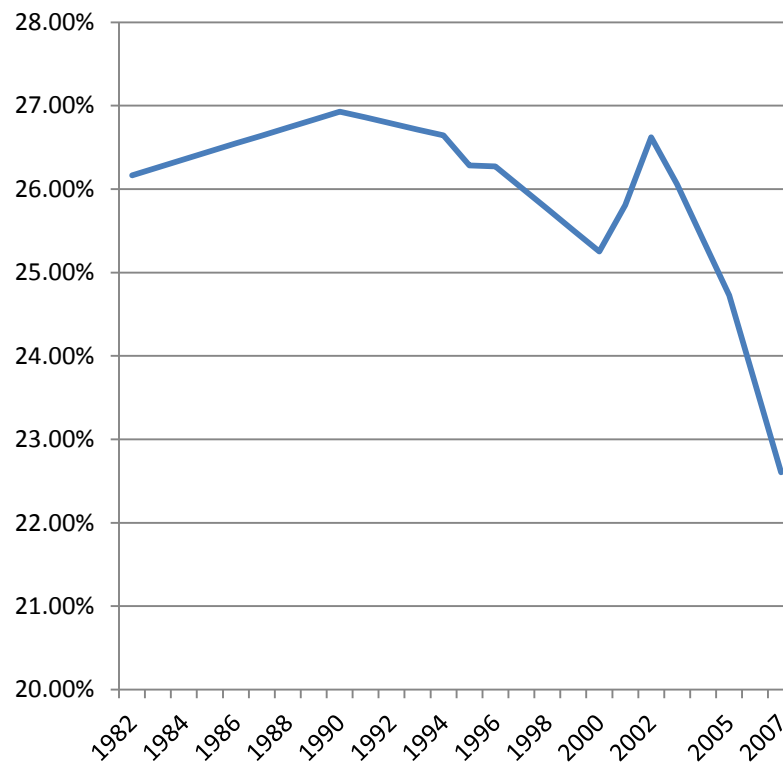
# Trends in level of transfers and taxes for working age households, 1982 to 2007-08

% of household income

## Transfers



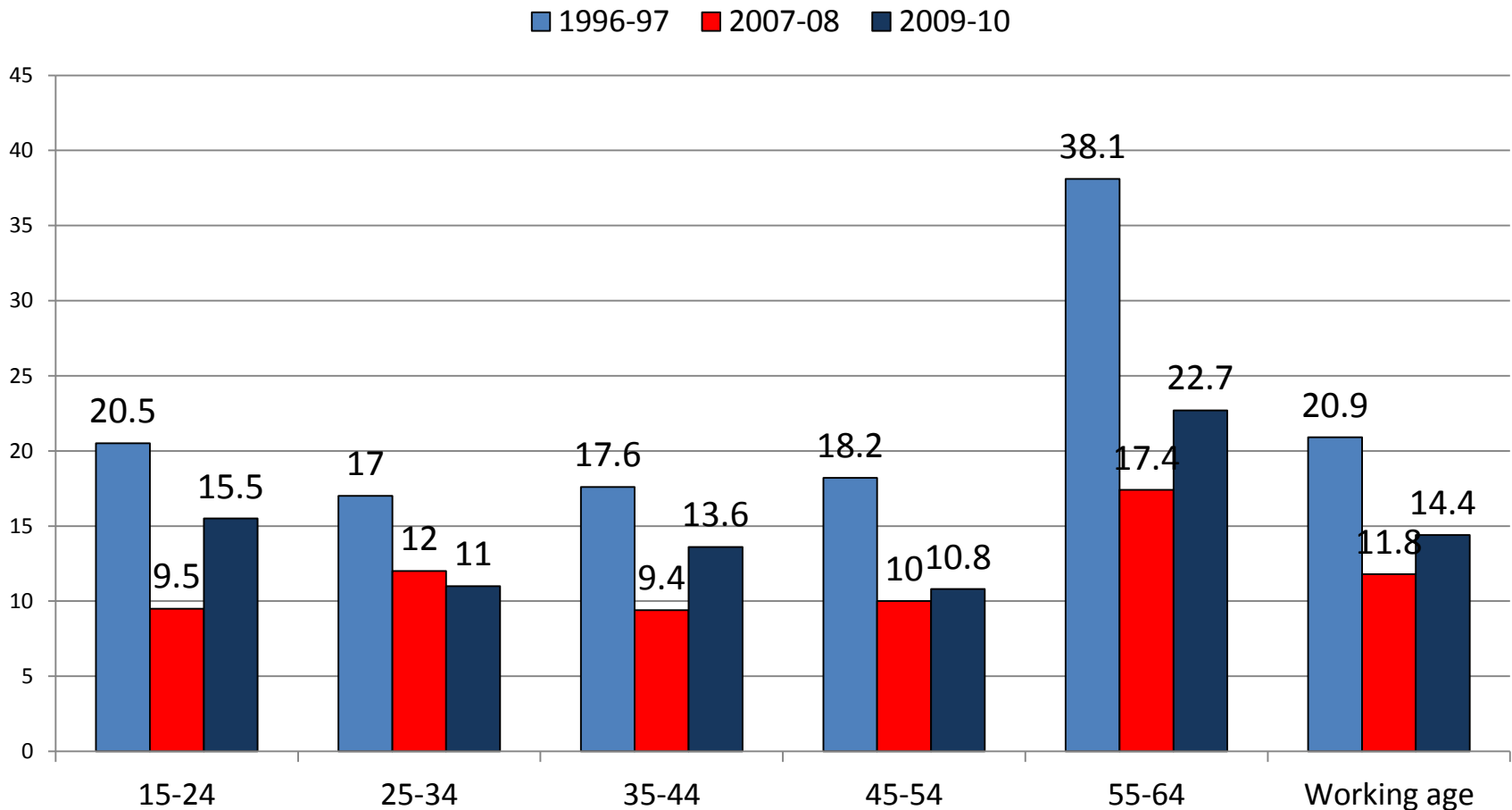
## Taxes





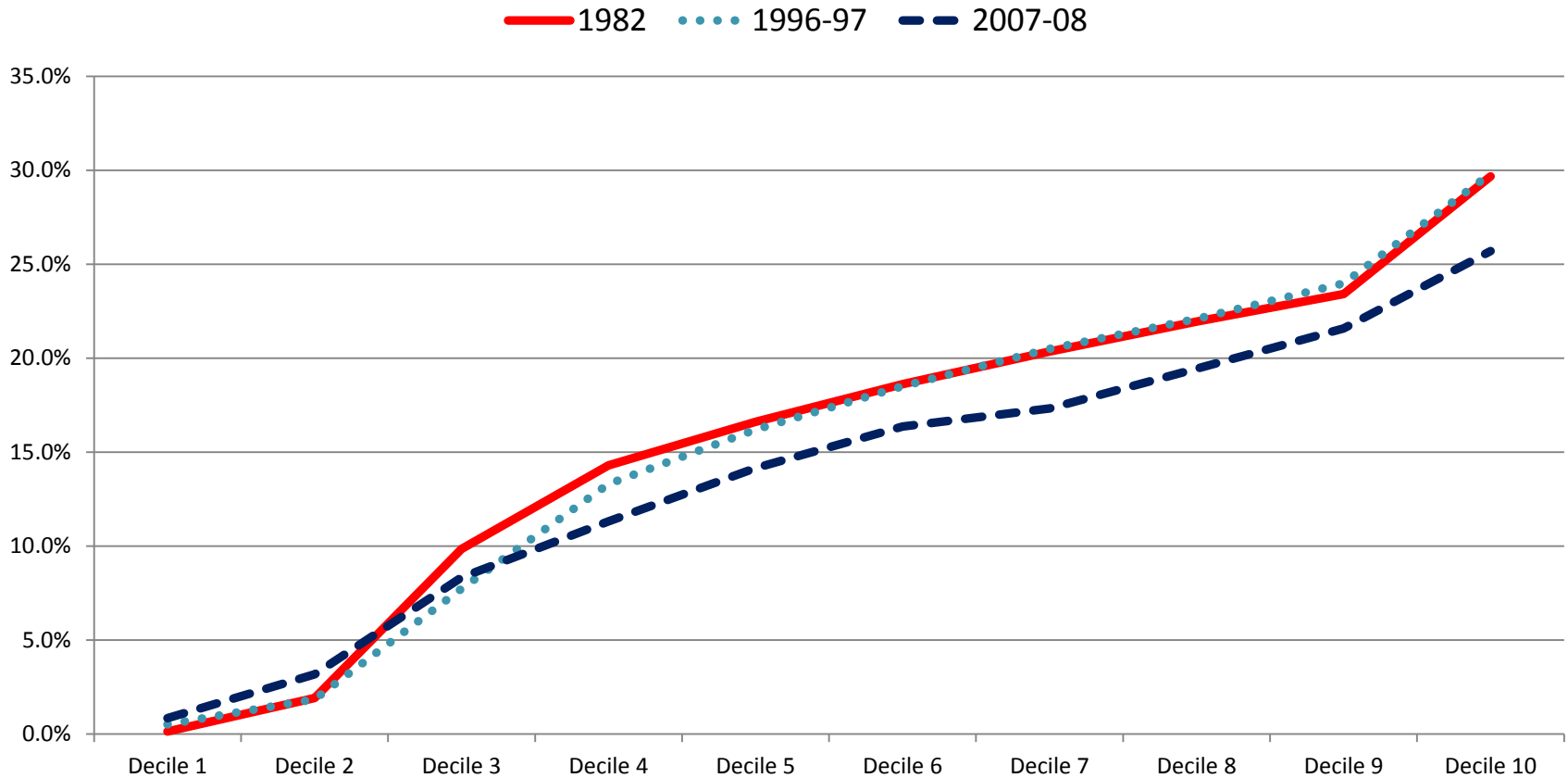
# Change in working age income support recipients, 1996-97 to 2009-10

% of households by age group





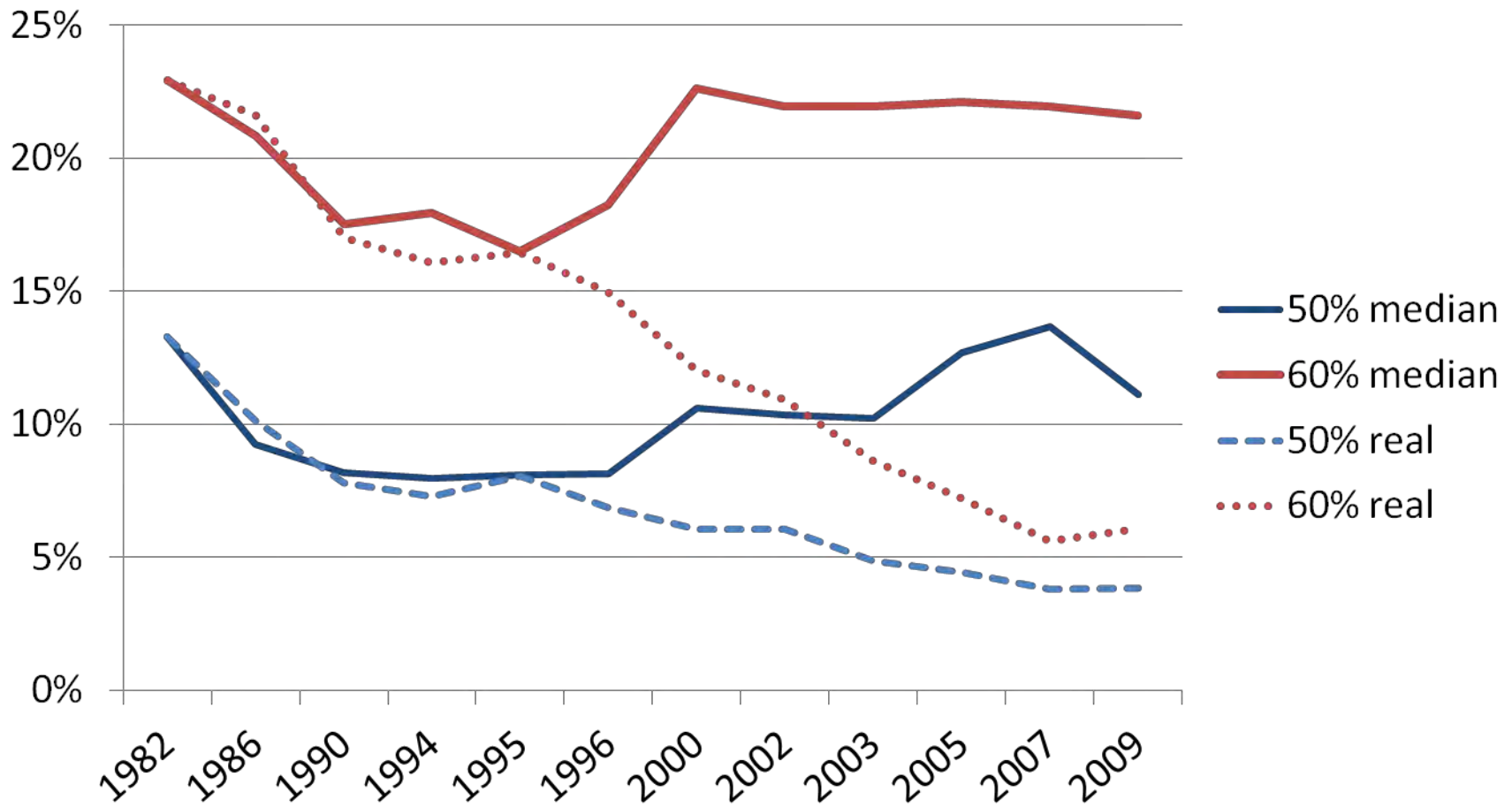
# Average tax rates (%) by deciles of household income, 1982, 1996-97 and 2007-08



# Summing up: Inequality and prosperity in Australia

- Trends in inequality differ by time period, income components and income measures. Thus, there is no single trend, but the complex interaction of multiple influences
- Trends differ significantly by time period – from early 1980s to mid 1990s median income growth was very slow and there was a hollowing out of the middle class – gains being highest at the top and bottom of the income distribution. Much of the increase in inequality was offset by taxes and transfers – and more so if account is taken of non-cash benefits and indirect taxes.
- Wage inequality has increased steadily from early 1980s onwards.
- Despite increasing wage dispersion, market income inequality fell from 1996-97 to 2007-08, mainly because of increased family earnings, particularly for women. Capital income inequality rose significantly after 2003, but insufficient to offset lower inequality in earnings
- From the mid 1990s to the great recession income growth was very high by historic and international standards – Australia had the highest income growth at the median of any country apart from Ireland. All income groups had large real income increases, but the richest did best. Taxes and transfers reduced inequality less effectively than in the mid 1990s. Even though market income inequality fell, disposable income inequality rose.
- After 2008, incomes fell somewhat and inequality fell, mainly due to large declines in incomes from property and investments at the top of the income distribution. The various household stimulus packages were very progressive, and also there was a large increase in age pensions

# Trends in relative poverty, Australia, 1982 to 2009-10

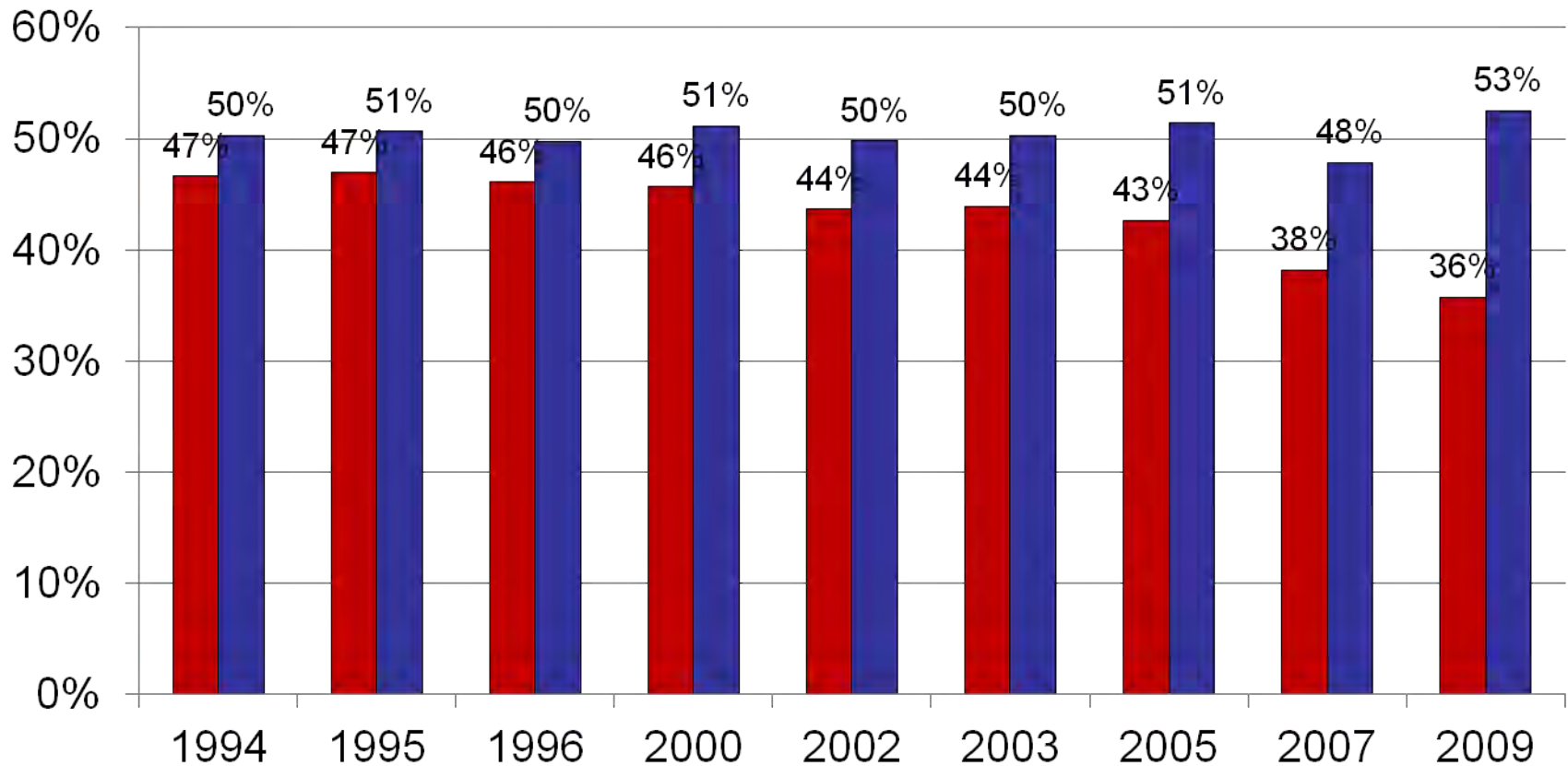




# Poverty in a time of prosperity

Payments for single person as % of median equivalent income

■ Newstart ■ Pension



# Purchasing Power Parity Converted GDP Per Capita Relative to the United States, G-K method, at current prices for Australia (USA=100)

