



**ACOSS AND UNSW SYDNEY**

# SUPPLEMENTARY REPORT TO INEQUALITY IN AUSTRALIA 2018

*The Causes and Profile of Income Inequality*



**UNSW**  
SYDNEY





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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 Australian Bureau of Statistics (ABS)'s Survey of Income and Housing and the ABS Household Expenditure Survey. For further details on the data and research methods, see ***Inequality in Australia: New estimates and recent trends research methodology for 2018 report***. The report was drafted by Peter Davidson (NeedtoKnowConsulting), with Peter Saunders (UNSW) and Jacqueline Phillips (ACOSS).

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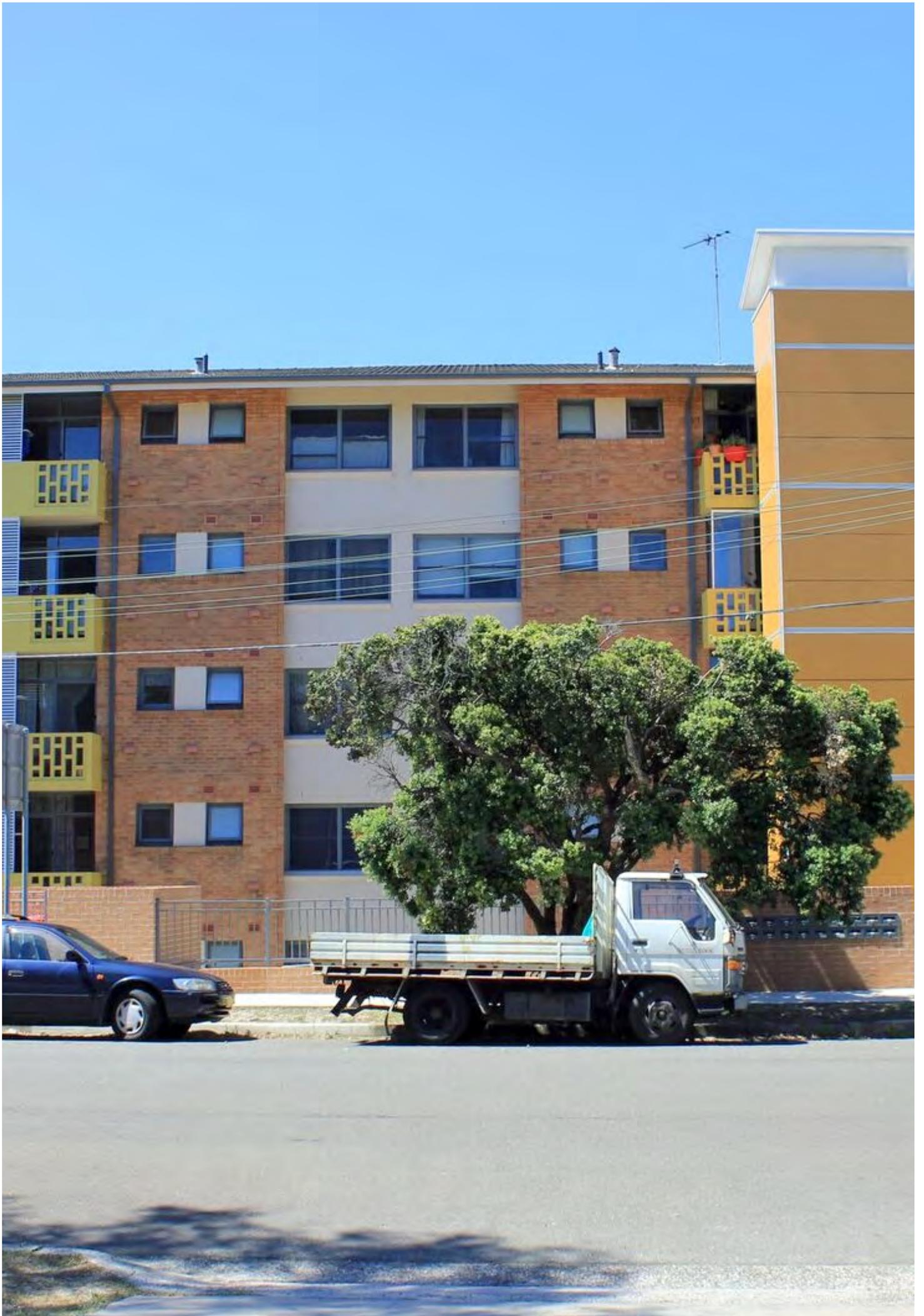


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Photo credit: Kingsford Legal Centre

## Key terms

<b>After tax income</b>	Income from all sources after income tax, the Medicare Levy and the Medicare Levy surcharge are deducted. Also known as <b>net</b> or <b>disposable income</b> . See definition of income below.
<b>ABS</b>	Australian Bureau of Statistics
<b>Before tax income</b>	Income from all sources, before income tax, the Medicare Levy and the Medicare Levy surcharge are deducted. Also known as gross income.
<b>CPI</b>	Consumer Price Index
<b>Equivalisation</b>	A method of standardising the income of households to take account of differences in household size and composition. For further information see <a href="#"><u><i>Inequality in Australia: New estimates and recent trends research methodology for 2018 report</i></u></a>
<b>FTB</b>	Family Tax Benefit
<b>GDP</b>	Gross Domestic Product
<b>GFC</b>	Global Financial Crisis
<b>Gini coefficient</b>	A summary measure of inequality. A Gini coefficient of 0 represents perfect equality (every person has the same income or wealth), while a coefficient of 1 implies perfect inequality (one person has all income or wealth). The closer the Gini coefficient is to zero, the more equal the distribution; the closer to 1, the more unequal.
<b>GST</b>	Goods and Services Tax
<b>Household</b>	A person living alone or a group of related or unrelated people who live in the same private dwelling.

## Income

Income includes receipts from:

- 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).
- Child support, and financial support received from family members not living in the same household).

## Quintile

Groupings that result from ranking households by the level of economic resources (income or wealth) and then dividing the population into five equal groups. Smaller groups can be similarly defined to cover the highest (or lowest) 10 per cent or 5 per cent, based on their levels of income or wealth.

## Net Wealth

The value of a household's total assets less its liabilities. Also known as 'net worth'. Wealth includes:

- 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
- Business assets (less liabilities)

Less, credit card debt and student loans.

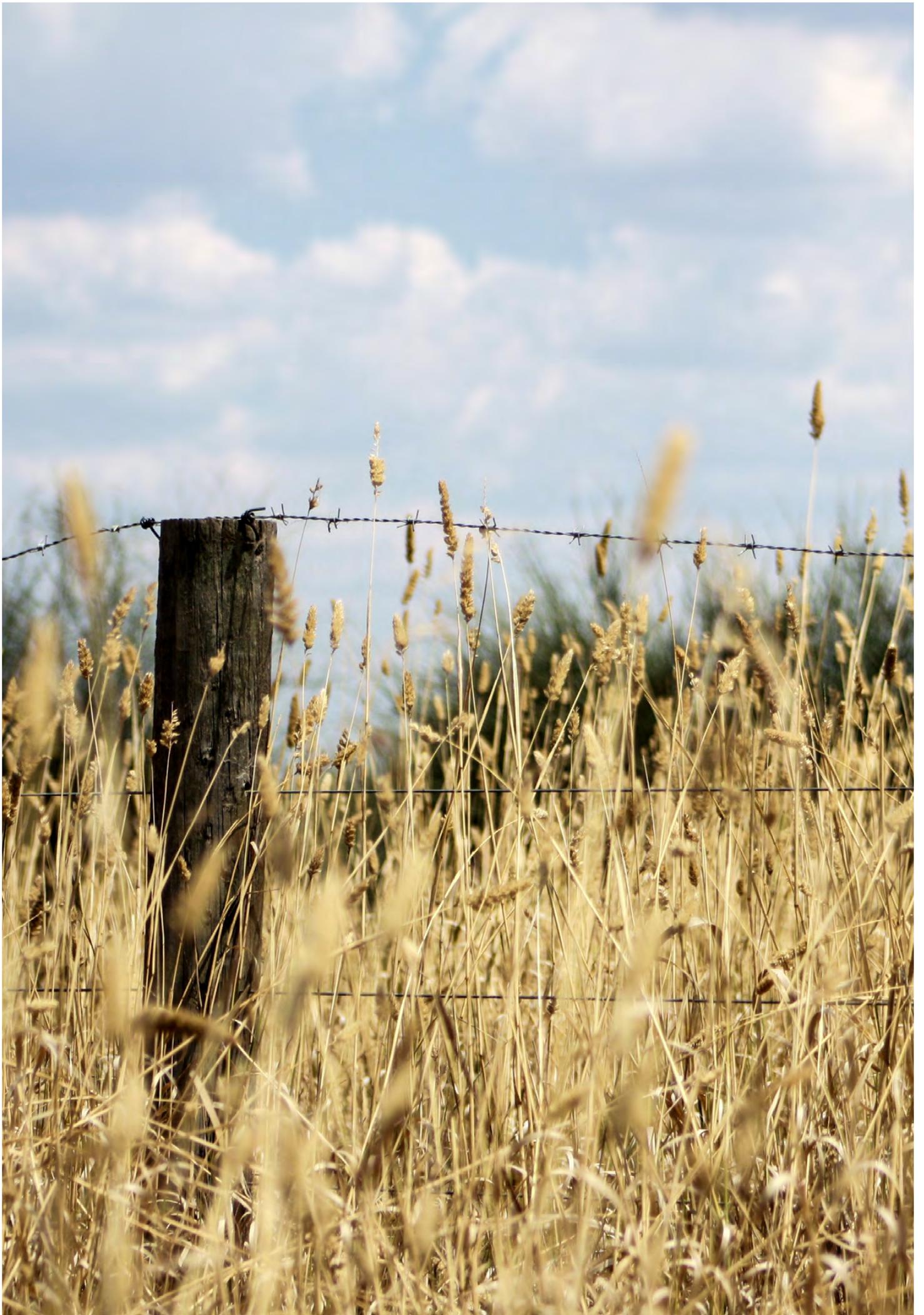
<b>NSA</b>	Newstart Allowance
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<b>PPS</b>	Parenting Payment Single
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<b>RA</b>	Rent Assistance
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<b>YA</b>	Youth Allowance
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## Executive Summary

This report supplements Inequality in Australia 2018 ('main report'). It provides additional information about the causes of income inequality and where different people sit on the income scale.

### *The causes of income inequality*

Income includes earnings, investment income and social security. Earnings comprise the majority of incomes and for this reason, have a substantial impact on inequality. In contrast, although investment incomes form a much smaller proportion of incomes, they are much less equally distributed. Social security plays a vital role in reducing income inequality by boosting the incomes of those with little or no private income. Income taxes also have a progressive impact because high-income earners pay a greater share of their incomes in tax.

Tracking changes in these various income components helps us understand the trends in income inequality over the last few decades. We find that earnings grew strongly between 2000 and 2008, but hourly rates of pay became more unequal. During that period, hours of work increased at the lower end which helped offset the growing inequality in hourly pay rates. After the Global Financial Crisis (GFC), earnings grew more slowly across the board. While this may have played a role in suppressing income inequality, it also meant that the labour share of national income declined while the share going to capital (particularly investment income, which is distributed less equally) increased.

Investment incomes grew strongly in the pre-GFC boom years (fuelling growth in income inequality), but declined following the GFC, contributing to the inequality plateau.

While social security generally plays a role in reducing inequality, inconsistent policies have had different effects. For example, the pension boost in 2009 played an important role in reducing income inequality, while the failure to index allowance payments to wages has had the opposite effect.

For example, the large pension increase in 2009 played an important role in reducing income inequality, while the failure to index allowance payments to wages has had the opposite effect. One reason for this is that many people in the lowest 40% of households by income do not pay income tax, and therefore do not benefit from tax cuts.

### *The profile of income inequality*

This report looks at different population groups and examines where they sit in the income scale. The groups are differentiated by:

- Age,
- Gender,
- Family type,
- Country of birth,
- State or Territory of residence,

- Main income source of household,
- Labour force status of household reference person,
- Household reference person receives one or more social security payments.

For each characteristic, three breakdowns are provided:

1. The share of that group (for example, people aged over 64) in the whole Australian population, shown in [pie charts](#).
2. How the group is dispersed across the household income distribution (e.g. what share of people over 64 are in the bottom 20%, the next 20%, and so on), shown in [horizontal bar graphs](#).
3. The demographic profile or composition of each income group (e.g. the share of individuals in the lowest 20% of households who are over 64), shown in [vertical bar graphs](#).

We find that most (60%) of the lowest 20% are in households that rely mainly on social security for their income, of whom the largest group (51%) receives Age Pensions. Among social security recipients with the lowest incomes (in the lowest 5%), nearly half (47%) receive Newstart Allowance, which was \$270 a week for a single adult in March 2016 (the ABS Survey of Income and Housing was conducted between July 2015 and June 2016).

Among those who are over-represented in the lowest 20% of households by income are sole parents (36% of whom are in this income group), people aged 65 and over (39%), people who are unemployed (77%), people born in non-English speaking countries (24%), and people living outside capital cities in South Australia, Tasmania, Victoria or New South Wales (over 25% in all cases).

Among those over-represented in the highest 20% are people of working-age (26%), couples without children (26%), those in households with at least one full-time paid worker (29%), and those living in Sydney, Perth, the Australian Capital Territory or Northern Territory (all over 25%).

The reference person for each household is chosen by the ABS in their *Household Expenditure Survey and Survey of Income and Housing, User Guide, Australia, 2015-16*, by applying the following selection criteria to all household members aged 15 years and over:

- the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure
- one of the partners in a registered or de facto marriage, with dependent children
- one of the partners in a registered or de facto marriage, without dependent children
- a lone parent with dependent children
- the person with the highest income
- the eldest person.

*Note that individuals are placed in equalized income groups according to the equivalent disposable income of the households to which they belong. (i.e. an equal number of individuals rather than households sits in each slice of the distribution).*



# CHAPTER 1: THE CAUSES OF INCOME INEQUALITY

## The causes of income inequality

### Key points

The main household income sources are earnings, investment income and social security payments, and these are partly offset by personal income tax.

- *Earnings* comprise 77% of all private income and therefore have a large impact on income inequality, before taxes and transfers are taken into account. The highest 20% of households receives *almost three times* the average gross (before tax) earnings of the middle 20% (averaging \$5,390 per week compared with \$2,097), while the middle 20% in turn receives *almost three times* as much as the lowest 20% (\$2,097 per week compared with \$764). These differences are due to variations in the number of people employed in these households, the number of hours they work, and their hourly pay.
- *Investment income* forms a smaller proportion (11%) of private incomes compared with earnings, but is more unequally distributed, especially at the top of the income ladder. The highest 20% has *almost five times* the gross weekly investment income of the middle 20% (averaging \$705 compared with \$150), and the middle 20% has *three times* that of the lowest (\$150 compared with \$46). Since investment income is volatile and highly skewed to high-income earners (the highest 5% has an average of \$1,714 a week or *eleven times* the gross investment income of the middle 20%), it can have a major impact on *changes* in income inequality.
- The *social security system* plays a vital role in reducing inequality. Payments such as the Age Pension, Newstart Allowance and Family Tax Benefit lift the incomes of low-income households. The lowest 20% receives an average of \$418 per week in social security payments (55% of their gross income). In contrast, the middle 20% receives \$205 per week or 10% of their income, and the highest 20% receives \$69 or 1% of their income.
- *Income taxes* also have a progressive impact because high-income earners pay a greater share of their incomes in tax. Individuals in the highest 20% of households pay an average of \$1,411 a week in income tax (26% of their gross income – this is their average, not marginal tax rate). In contrast, those in the middle 20% pay \$318 per week or 15% of their income, and those in the lowest 20% pay \$29, or an average of 4% of their income (since most household members are below tax-free thresholds).<sup>1</sup>

We can better understand **changes in income inequality from 1999-00 to 2015-16** by tracking changes in each of these income components in the two sub-periods before and after the Global Financial Crisis (GFC) in 2008:

- *Earnings* grew strongly from 1999 to 2008, while hourly rates of pay become more unequal (a long-standing trend that persisted at least to 2014). On the other hand, unemployment fell, increasing paid hours for low-income households and reducing inequality. Analysis of the offsetting impact of these two factors is beyond the scope of this report.

<sup>1</sup> The progressive impact of income tax is offset by the regressive impact of indirect taxes such as the GST. For example, in 2010, the lowest 20% paid an average of 23% of their income in all Commonwealth, State and Local taxes, compared with 24% for the middle 20% and 29% for the top 20%. The overall tax system was almost 'flat'. See ACOSS (2015): *Inequality in Australia*, Sydney.

<sup>2</sup> For a more detailed analysis covering an earlier period, see Whiteford, P (2015): 'Inequality and its socio-economic impacts,' *Australian Economic Review* Vol 48 No 1, pp83-92

- From 2008 to 2016 (after the GFC), wages grew much more slowly. The impact on household inequality is ambiguous, on the one hand potentially suppressing growth in earnings inequality and on the other hand reducing the labour share of national income (which could increase inequality to the extent that investment income is more unequally shared than wages). A one-third increase in the unemployment rate was also likely to have increased inequality.
- *Investment incomes* grew very strongly in the boom years before 2008 and given their concentration among high income-earning households this was likely to increase inequality, all things equal. Conversely, reductions in investment incomes after the GFC were likely to reduce it.
- The equalising impact of *social security* lessened from 1999 to 2008 as unemployment fell. The ongoing freeze in the real value of Newstart and Youth Allowances also reduced the contribution of social security to the lowest incomes, especially for those in the lowest 5% of households.
- After 2008, the equalising impact of social security was boosted by a large increase in pensions (in 2009), and growth in unemployment. This was offset by policy changes such as the 'Welfare to Work' policy commencing in 2007, which progressively reduced access to pension payments for sole parents and people with disabilities. Later, there were further restrictions in access to pensions for sole parents in 2012, and cuts to income support and family payments in the 2014 Budget. Together, these changes boosted the incomes of many individuals in low-income households (especially recipients of Age and other pensions) and reduced them for others (especially those who were unemployed or raising a child alone). This helps explain the difference in growth in average household incomes between the lowest 5% (where Newstart Allowance was the most common income support payment) and the lowest 10% (where the Age Pension was the most common payment) in Figure 9 of the main report.
- The interaction between personal income tax cuts and tax 'bracket creep' affects the equalising impact of personal income tax in two main ways: by increasing or reducing the overall share of household incomes collected in tax (a volume effect) and by increasing or reducing the progressivity of the tax scale (a concentration effect). Large income tax cuts increased inequality in the mid-2000s to early 2010s, while the absence of tax cuts in the mid-2010s lifted overall income tax revenues (through 'bracket creep') and is likely to have reduced inequality.<sup>3</sup>

<sup>3</sup> 'Bracket creep' is the increase in taxes paid, as wages and other increases in income lift the share of average income attracting higher marginal tax rates. This can increase or reduce disposable income inequality among tax-payers, but it is more likely than not to reduce inequality across all households since many individuals in the lowest 40% of households do not pay income tax. (NATSEM (2018): *How does the budget affect us? Independent modelling of federal budget 2018-19* University of Canberra.)

## 1.1 The building blocks of income

Chapter 1 of the *Main Report*<sup>4</sup> showed that income inequality increased over the eight years from 1999-00 to 2007-08, and then plateaued over the eight years after the GFC from 2007-08 to 2015-16. We now examine the three main sources of income that are the building blocks of household income to explain their contribution to overall income inequality, and to point to factors that help explain why income inequality increased and then stabilised over this period.<sup>5</sup>

A full analysis of the causes of these trends in income inequality is beyond the scope of this report.

Households obtain income from three main sources:

- Wages and salaries (or earnings);
- Investments, including superannuation;
- Social security payments.<sup>6</sup>

Some of these income flows are then taxed through the personal income tax system.

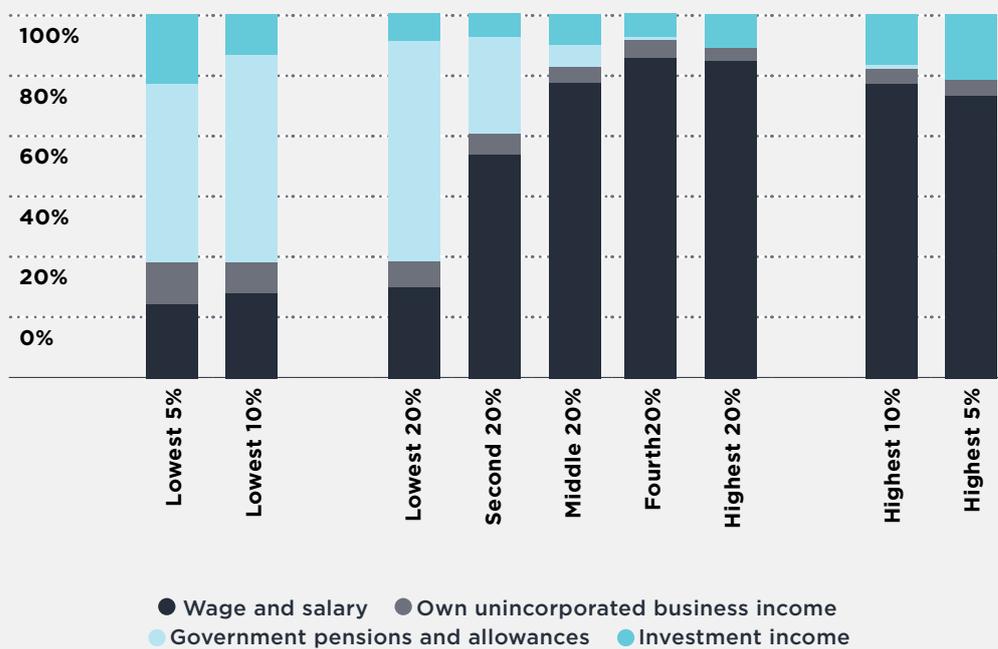
4 ACOSS and UNSW Sydney (2018): *Inequality in Australia 2018*. Sydney. Available: <http://bit.ly/inequalityAus2018>

5 Morelli and Atkinson (2014) explore the relationship between income inequality and economic crises (Morelli S & Atkinson A (2015): *Inequality and Crises Revisited* Working Paper No 387. Centre for Studies in Economics and Finance, University of Naples.

6 Other significant income sources, including self-employment income, are not examined in detail here.

Figure 1 shows that wages are the main source of income for all income groups (individuals in households ranked by household income) except the lowest 20%, which derived most of its income from social security payments. Investment income and income from own-businesses and self-employment are much smaller components of income for all groups and are more likely to be the main source of income for the highest and lowest-income households.<sup>7</sup>

**Figure 1: Main income source, 2016**



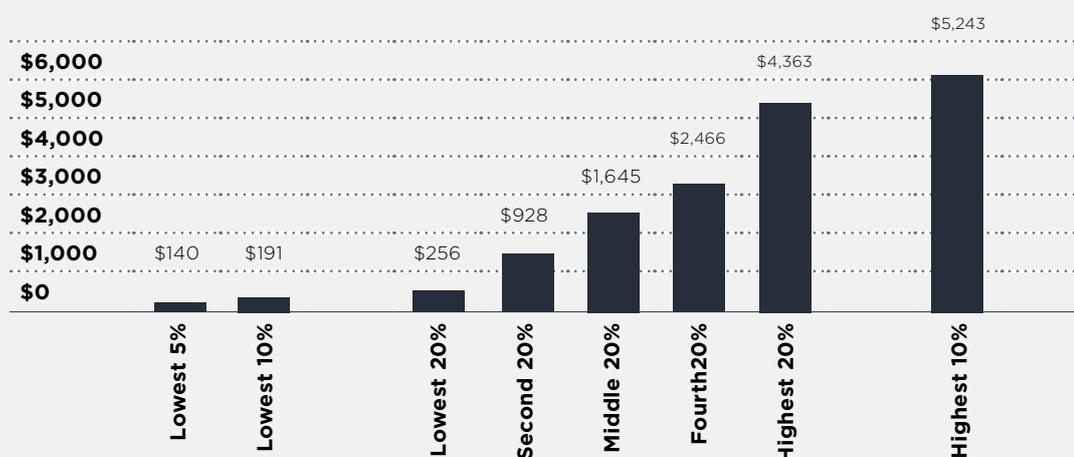
<sup>7</sup> There are significant doubts about the location of many households whose main income is investments or self-employment in the lowest 5%, as their incomes often appear to be under-reported (ABS (2017): *Household Income and Wealth*, Explanatory notes).

## 1.2 Employment and wages

### Earnings inequality accounts for a large part of overall income inequality

Since earnings in the form of wages and salaries comprise 77% of household income, earnings inequality is a major contributor to overall income inequality in Australia. Figure 2 shows the average incomes from wages in households in each income group. The highest 20% of households receives almost three times the average wages of the middle 20% (averaging \$4,363 per week before tax compared with \$1,645), while the middle 20% receives six times as much as the lowest 20% (\$1,645 compared with \$256).

**Figure 2: Average weekly gross household income from earnings, 2015-16**



**The contribution of earnings to household income inequality depends on how paid working hours and hourly rates of pay are distributed among the household income groups.**

The differences in average wages received by household income groups in Figure 2 are the result of variations in the proportion of people employed in different household income groups, the number of hours they work, and their hourly pay.

### Access to jobs and paid working hours increase with household income

Table 1 shows the labour force status of all adults in each of the five main household income groups:

- Only 24% of adults in the lowest 20% of households have paid employment, and less than half of these workers are in full-time jobs.
- In the middle 20%, 68% of adult household members are employed, with 42% of these workers in full-time jobs. It is likely that a 'one and a half earner' model of paid workforce participation is common in these households (that is, a primary income-earner - usually male - in full-time paid work and other family members, employed part-time).<sup>8</sup>
- The highest 20% are relatively 'work rich'. Overall, 87% of adults in these households have paid work, with 67% of them in full-time jobs. This suggests that these households are more likely than the above middle-income group to have two full-time wage earners.

**Table 1: Labour force status of adults in each household income group (% of all adults) in 2015-16**

Household income group	Lowest 20%	2nd 20%	3rd 20%	4th 20%	Highest 20%
<b>Employed full-time</b>	11	25	42	58	67
<b>Employed part-time</b>	13	22	26	24	20
<b>Unemployed</b>	9	5	3	2	1
<b>Not in the labour force (under 64 years)</b>	33	25	15	10	8
<b>Not in the labour force (over 64 years)</b>	34	23	14	6	4
<b>All</b>	100	100	100	100	100

These employment patterns translate into variations in average hourly paid working hours for adults in different household income groups. Using data from the 2013-14 ABS Income Distribution Survey, Borland & Coelli (2017) estimated the average paid working hours for household reference people and their partners in each household income group. Average estimated working hours rose as we move up the household income scale, from less than 15 hours a week for the lowest 20%, to 30-35 hours for the middle 30%, and over 40 hours for the highest 20%.<sup>9</sup>

<sup>8</sup> Figure 16 in Supplementary report, chapter 2 shows that in these households, 69% of household reference persons are in full-time paid employment and 15% are employed part-time. Table 2 indicates that 24% of all adults in the household members (a larger number of people) are employed part-time.

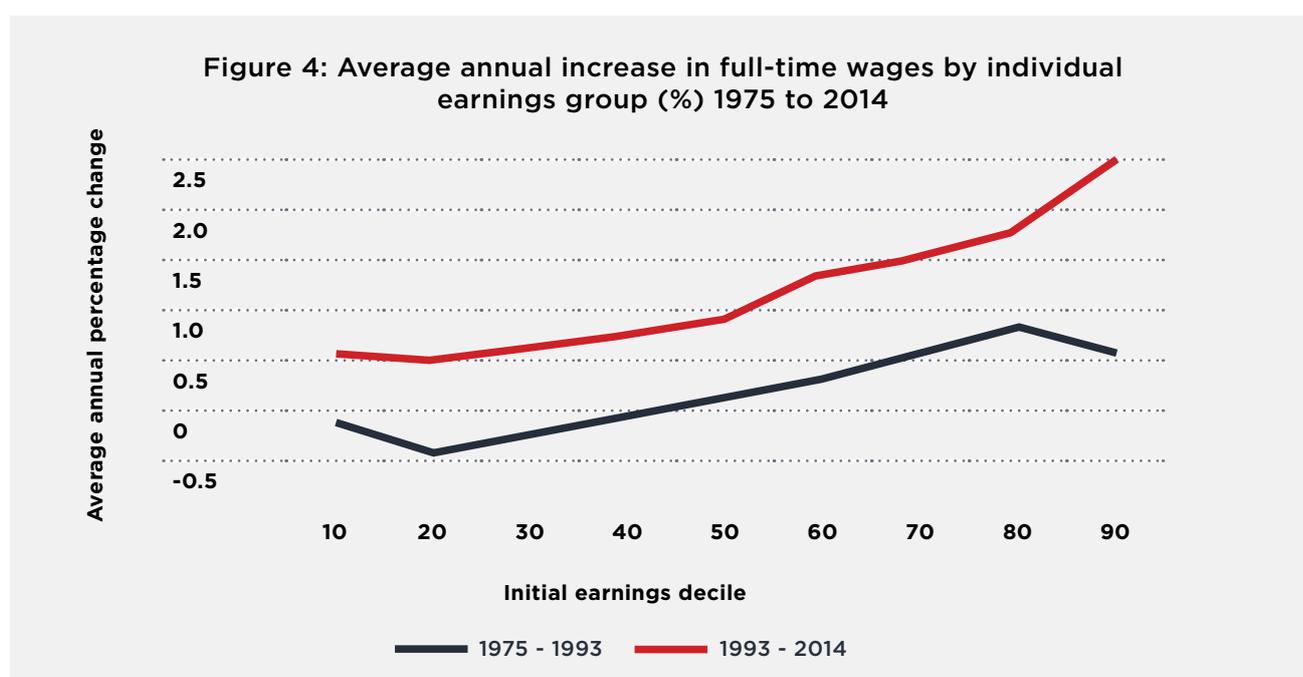
<sup>9</sup> Borland J & Coelli M (2016): 'Labour market inequality in Australia', *Economic Record*, Vol 92, No 299, pp 517-547. Data source is the ABS 2013-2014 Income Distribution Survey. Working hours are the average of the hours of the household reference person (where employed) and those of their partner (if present in the household and also employed). Deciles of weekly income distribution were constructed using equivalent household income (individual-weighted).

### Wage inequality among individuals in paid employment increased from 1993 to 2015

A full analysis of the distributional impact of trends in wage inequality from 1999-00 to 2015-16 is beyond the scope of this report. Instead, we focus on three factors likely to have a substantial impact: trends in wage inequality and unemployment, and the decline in wage inflation since 2008.

Borland & Coelli (2016) found that wage inequality among both full-time and part-time employees increased between 1975 and 1993, and again between 1993 and 2014.<sup>10</sup> Figure 4 presents their results for full-time employees.

Long-term increases in earnings inequality among paid employees in Australia and other wealthy nations have been attributed variously to technological change, changes in the occupational structure of employment, and the weakening of union bargaining power.<sup>11</sup>



Source: Borland J & Coelli M (2016), *Labour market inequality in Australia*, *Economic Record*, Vol 92, No 299, pp 517-547.

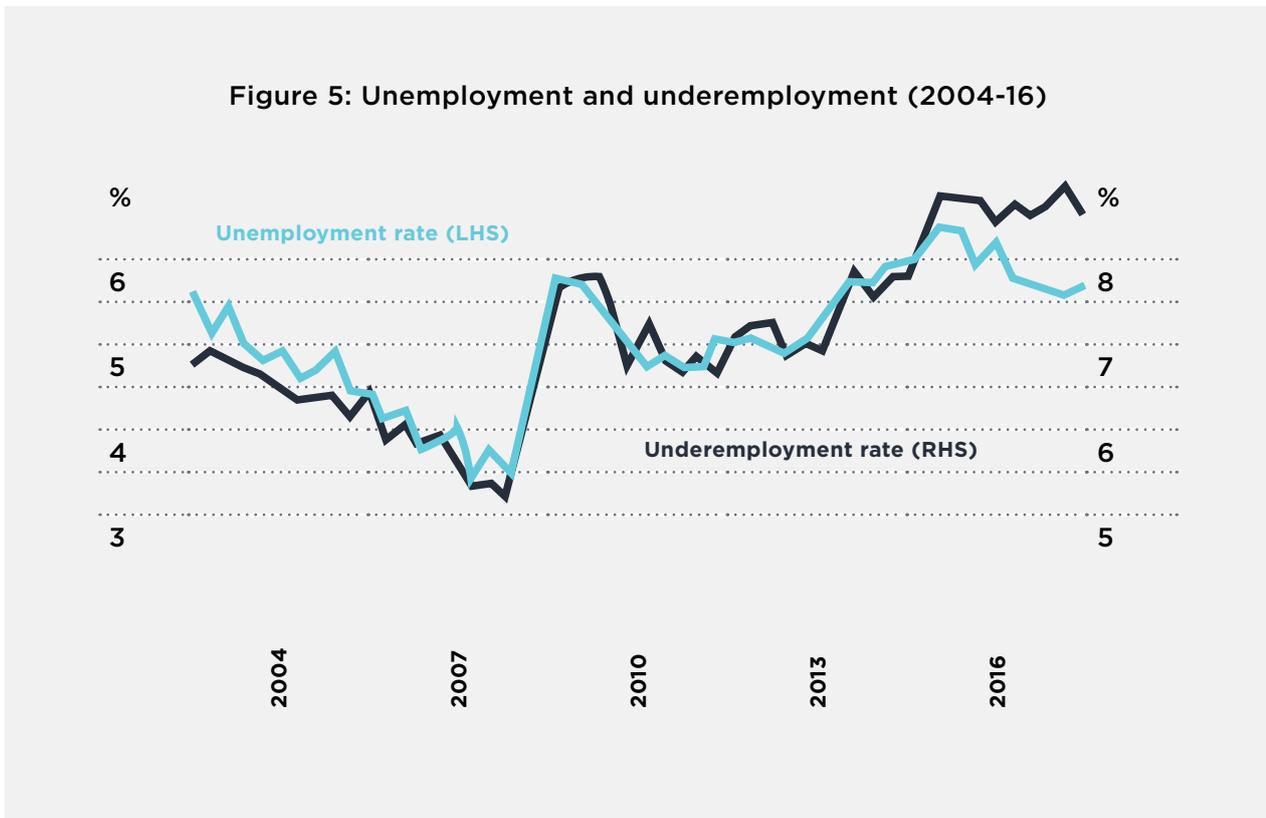
### Reductions in unemployment from 1998 to 2008 may have offset the impact of increases in earnings inequality among those in paid employment.

Unemployment fell from 7% in 1999 to 4% in 2008, then rose again to 6% in 2016 (Figure 5). Since unemployment is concentrated among low income households, the reduction in unemployment up to 2008 would have reduced household income inequality.<sup>12</sup>

<sup>10</sup> Coelli M & Borland J (2015): *Job polarisation and earnings inequality in Australia* Department of Economics, University of Melbourne.

<sup>11</sup> Borland J & Coelli M (2016), op cit; Autor D & Dorn D (2013): 'The Growth of Low-Skill Service Jobs and the Polarization of the US Labor Market', *American Economic Review* Vol 103 No 5, pp 1553-1597; Eichhorst W et al (2008): *What Have We Learned? Assessing Labor Market Institutions and Indicators IZA Discussion Paper No. 3470*, Bonn.

<sup>12</sup> Greenville J et al (2013) found that increases in the share of the working-age population in employment fully offset increases in inequality among paid workers between 1998-99 and 2009-10 (Greenville J et al (2013) op cit).

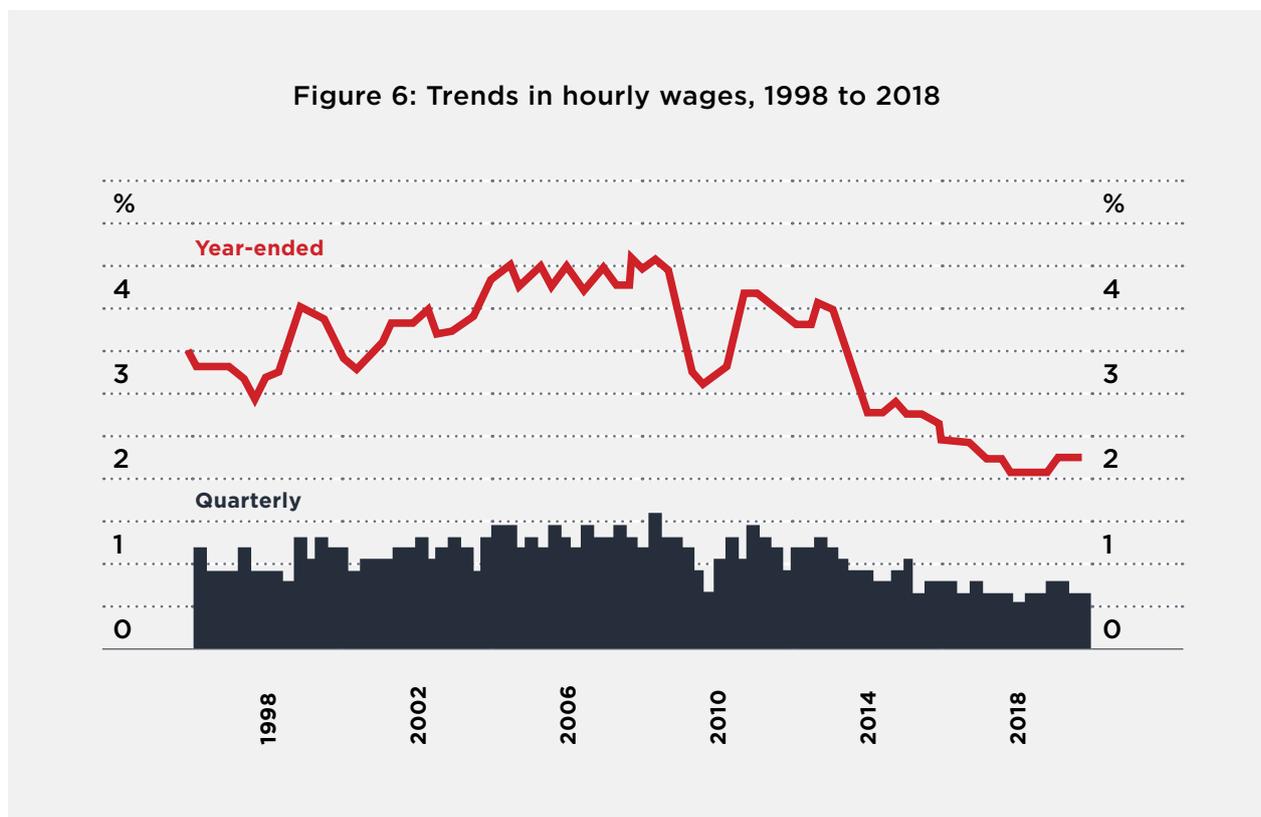


Source: Bishop J & Cassidy N (2017): 'Insights into low wage growth in Australia RBA Bulletin March 2017.

### Slower wage growth since the GFC makes it harder for wage-earners to make ends meet, but the impact on overall income inequality is not yet clear

Figure 6 shows that wage inflation (measured using the Reserve Bank's preferred measure, the Wage Price Index), rose up to 2008 and then declined. Sluggish wage growth in Australia and other wealthy nations in recent years has raised widespread concern.<sup>13</sup>

<sup>13</sup>.....See for example: Bagshaw, E (2018): 'Low wage growth diminishes our shared prosperity': RBA governor Philip Lowe' *Sydney Morning Herald*, 1 May 2018. Available: <https://www.smh.com.au/business/the-economy/low-wage-growth-diminishes-our-shared-prosperity-rba-governor-philip-lowe-20180501-p4zco.html>; Jacobs, D. and A. Rush (2015): 'Why is wage growth so low?' *RBA Bulletin*, June 2015, pp. 9-18.



Source: Reserve Bank: <https://www.rba.gov.au/chart-pack/>

*Note: The Wage Price Index measures changes in the wages and salaries paid by employers for a unit of labour where the quality and quantity of labour are held constant. It abstracts from changes in the composition of employment (e.g. from low to high-skilled jobs) to measure overall changes in the price of a given amount of labour.<sup>14</sup>*

Since earnings are a major component of household income, this decline in wage inflation helps explain the lower overall household income growth from 2007-08 to 2015-16 (0.5% per year) discussed previously.

The impact of slower earnings growth on household income inequality is not yet clear. On the one hand, if wages grow more slowly across the board (including in the highest-income households), this could suppress the trend towards greater earnings inequality among those in paid employment, discussed above – at the expense of lower wages for all. On the other hand (as discussed later), a lower share for labour in overall national income (and a corresponding increase in the share accruing to investors) could increase inequality since investment income is more concentrated than wages at the top of the household income distribution.<sup>15</sup>

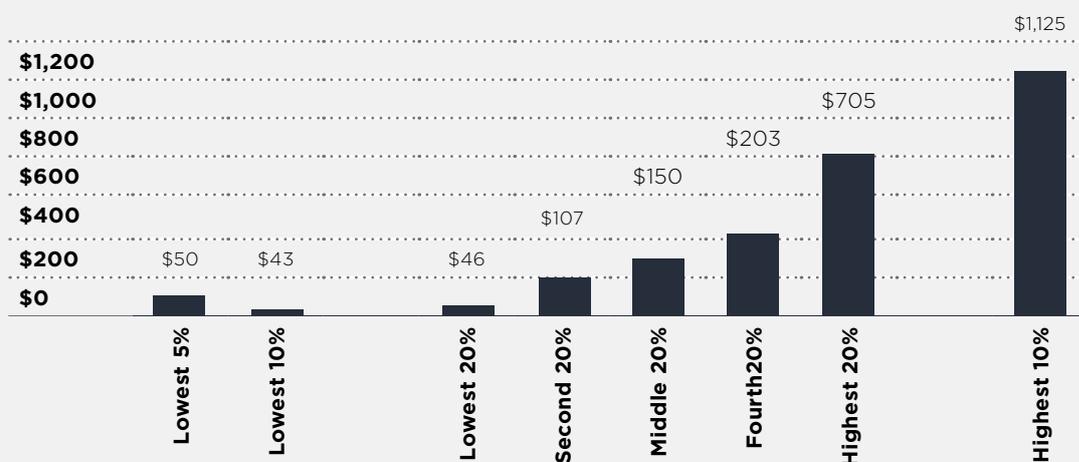
<sup>14</sup> For a detailed explanation of the how the Wage Price Index is derived by the ABS, see: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6102.0.55.001-Feb%202018-Main%20Features-Wage%20Price%20Index-41>

<sup>15</sup> Piketty T (2012): Op cit

## 1.3 Investment income

While income from investments (interest, rent, dividends, royalties and superannuation) is a small part of total income, it is highly concentrated in high-income households. Figure 7 shows that the majority of households receive little or no income from investments while a few receive large amounts. The middle 20% of households had an average of \$150 per week from investments and other private sources, while the highest 20% had five times as much (\$705) and the highest 5% had eight times as much (\$1,125). Moreover, high income-earners also typically benefit from large capital gains which are not included as part of income here.<sup>16</sup> The greater disparity in investment incomes (compared with earnings) is a by-product of the highly unequal distribution of wealth, discussed in Chapter 2 of the main report.

**Figure 7: Average weekly before tax investment and other income in 2015-16**



*Note: 'Other income' includes workers' compensation, scholarships, child support, and financial support received from family members not living in the same household. These amounts are generally small.*

In his influential analysis of inequality over three centuries, Piketty sought to explain why the trend towards reduced inequality in wealthy nations after World War II reversed after the 1970s. His thesis was that a major cause of long-term increases in income inequality was a tendency for returns from investment (which are usually concentrated near the top of the income distribution) to grow more rapidly than national income (GDP). Related to this was a marked shift since the early 1980s in income away from labour towards capital in many countries, including Australia (Figure 8).

<sup>16</sup> See: *Inequality in Australia: New estimates and recent trends research methodology for 2018 report*

<sup>17</sup> Piketty T (2014): *Capital in the 21st century* Harvard University Press, Massachusetts. For a recent update of this collaborative research on international inequality, see Alvaredo F et al (2018): *World inequality report* at <https://wir2018.wid.world/>

**Figure 8: Labour share of national income in Australia (% of total), 1960 to 2015**

Borland J & Coelli M (2016): 'Labour market inequality in Australia', *Economic Record*, Vol 92, No 299, pp 517–547.

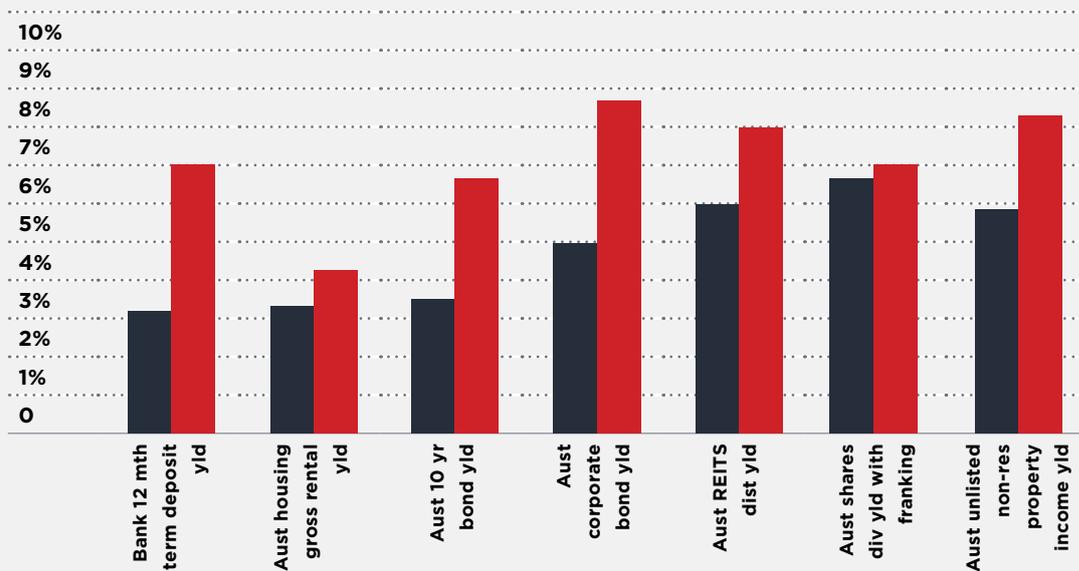
The concentration of investment income at the top of the income distribution and its volatility amplify its impact on *changes* in private income inequality.<sup>18</sup> Strong investment returns, especially in share-markets, increased income inequality in the boom period before the GFC, but investment returns on many financial assets declined after 2009 (Figure 9).<sup>19</sup> International evidence suggests that financial market crises often follow years of rising income inequality, while a sharp fall in investment returns can temporarily reduce income inequality.<sup>20</sup>

<sup>18</sup> Greenville et al (2013): *Op cit*; Whiteford, P (2013): *Australia: Inequality and prosperity and their impacts in a radical welfare state*, Crawford School of Government, Australian National University.

<sup>19</sup> Greenville et al (2013) *op cit*.

<sup>20</sup> Morelli S & Atkinson A (2015): *Inequality and Crises Revisited* Centre for Studies in Economics and Finance University of Naples, Working Paper No 387; Agnello L & Sousa R (2012): 'How do banking crises impact on income inequality?' *Applied Economics Letters*, 2012, 19, 1425–1429.

Figure 9: Average annual investment returns (% of asset values) in 2009 and 2017



Oliver S (2017): *Where are we in the search for yield?* AMP Capital, available: <http://www.ampcapital.com.au/article-detail?alias=%2Folivers-insights%2Fseptember-2017%2Fwhere-are-we-in-the-search-for-yield>

Note: 'Current' refers to 2017; REITs are Real Estate Investment Trusts; 'div yld' is the dividend yield from shares; 'non-res property income yld' is the return on non-residential (e.g. shopping centre) property investments.

These trends in investment returns help explain both the sharp increase (averaging 6% per year) in average incomes for the highest 5% from 2000 to 2008, and the smaller decline (-1% per year) from 2008 to 2016.

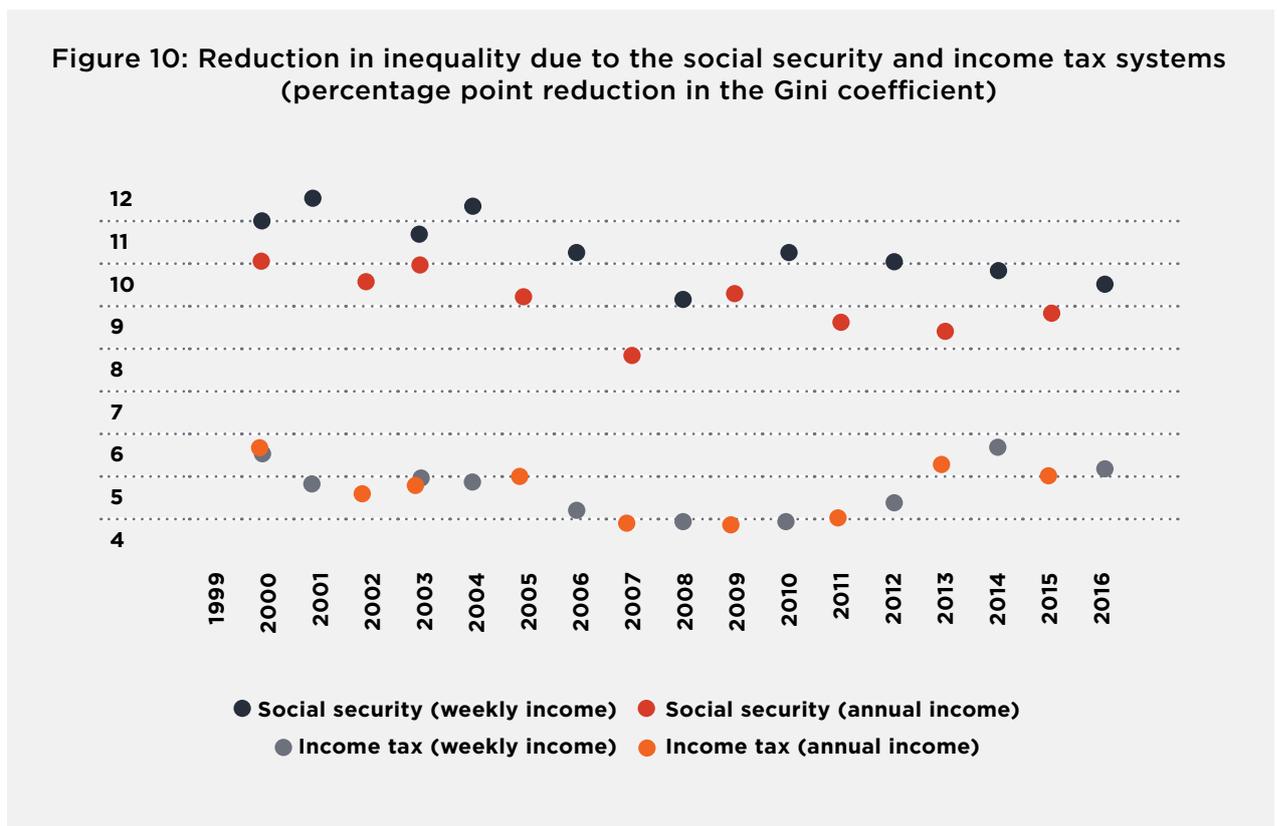
## 1.4 The role of tax and social security in reducing inequality

How inequality in private income translates into inequality of disposable income depends on the social security and tax systems. Both personal income tax and social security payments reduce income inequality, though other measures (such as the Goods and Services Tax (GST) and income tax concessions) increase it. The extent to which the tax-transfer system reduces inequality is influenced by:

- the value of social security payments and number of households receiving them;
- how tightly 'targeted' these payments are (according to income);
- the overall size or volume of tax revenues;
- the extent to which high-income households are taxed more than low-income households (tax progressivity).

Figure 10 shows how the inequality-reducing capacity of the tax-transfer system changed from 1999 to 2016.

- The bottom lines shows the impact on inequality of the social security system (which is the difference between private income and gross income).
- The top lines show the impact on inequality of the income tax system (which is the difference between gross income and disposable income).



*Note: These statistics measure the effectiveness of the social security and income tax systems in reducing income inequality. A reduction in the Gini generally means a reduction in inequality. A one percentage point reduction is equivalent to a 0.01 reduction in the size of the Gini coefficients shown in Figure 7 above. The higher the statistic, the greater the reduction in inequality.*

Figure 10 above shows that social security payments have a greater overall impact on inequality than personal income tax. It also shows that:

- the impact of social security declined in the years before 2008 (that is, the bottom line rose), and increased shortly afterwards (the bottom line fell) then declined after 2011;
- the impact of personal income tax varied in three 'waves', reducing (the top line rose) then increasing (the top line fell) in the early 2000s, declining in the mid-2000s, increasing in the early-2010s, and declining in the mid 2010s.

Possible causes of these trends are examined below.

### **Social security reduces income inequality, especially at the lower end of the income ladder**

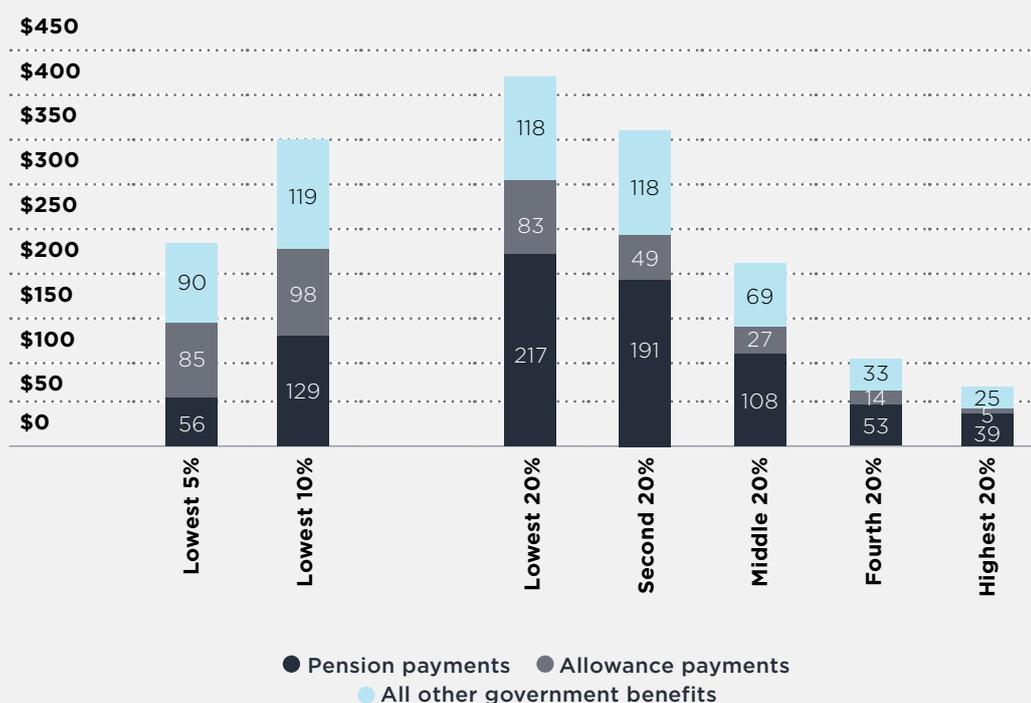
Social security payments include:

- *Pensions* such as the Age Pension for those over 65 who have retired and do not have significant income from other sources, for people with disabilities (Disability Support Pension or DSP), and sole parents (Parenting Payment Single or PPS) with young children, who face barriers to work;
- The lower *Allowances* such as Newstart Allowance (NSA) and Youth Allowance (YA) for those actively seeking employment or studying full-time;
- *Supplementary payments* such as Family Tax Benefit (FTB) and Rent Assistance (RA) for people with low or modest incomes to assist with particular costs (such as the cost of raising children and rent).

In June 2016, 3,876,000 individuals received pension payments, 1,210,000 received allowances, and 4,644,000 supplementary payments (mainly FTB and RA) were paid.<sup>21</sup> These categories overlap considerably so the same person may receive a pension or Allowance together with a supplement (for example NSA and RA), or more than one supplement (for example FTB and RA).

**Australia has the most targeted social security system (by income) in the OECD <sup>22</sup>**

- Figure 11 shows average social security income received by different households in 2016: Average social security income is \$418 per week for the lowest 20%, of which 52% is from pensions and 20% is from allowances. In contrast, just 25% of the social security income of the lowest 5% is pensions and 37% is allowances (since allowances are lower, their recipients are more likely to be found in the lowest 5%).
- The second 20% receives slightly less from benefits than the first (\$358 per week on average) due in part to the income-tests applying to allowances and pensions, but receives similar supplementary payments (\$118 per week) which mostly comprise FTB.
- The highest 20% receives only \$69 per week on average in social security payments.

**Figure 11: Average weekly before-tax income from social security payments, 2016<sup>23</sup>**

Since social security payments are the main income source for 60% of the lowest 20% of households (see Figure 11), they play a crucial role in reducing poverty. Since they are targeted to those on low incomes, they also play a key role in reducing income inequality.

The contribution of social security to reducing inequality is determined by the number of recipients, the average value of maximum payments, and how tightly they are targeted (especially to income and assets).<sup>24</sup>

<sup>22</sup> Whiteford, P (2014): *op cit*.

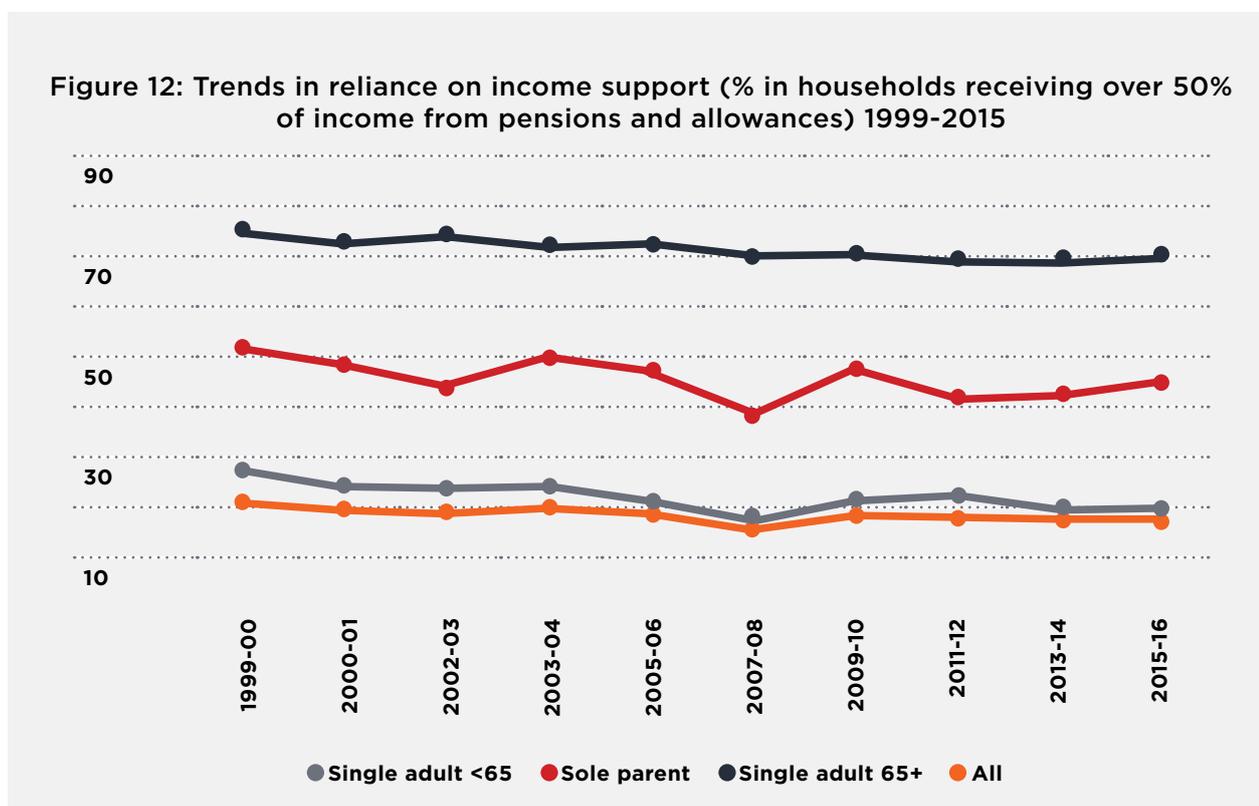
<sup>23</sup> Note that the average income received from social security is not the same as maximum rates of payment, as the latter are reduced as private income rises, and average values are reduced by households within each income group that receive none. Note also the low average values of social security payments received by the top 20%. These are mostly age and disability pensions, veterans' pensions and Newstart Allowance. Since income tests are based on family income, the receipt of payments by high-income households is mainly the result of the less stringent income test for pension payments, and unemployed people or students living with their parents (such as Rent Assistance and Family Tax Benefit). See Whiteford, P (2013): 'Debunking the 'middle-class welfare' furphy', *Crikey*, 6 June 2013.

<sup>24</sup> Changes to income and assets tests are not examined here.

**Reliance on social security declined after 1999 (apart from the GFC in 2008)**

Figure 12 shows that reliance on social security pensions and allowances declined between 2000 and 2016, though the share of people of working-age on these payments rose in 2008 due to the GFC. The long-term decline in social security reliance was due mainly to lower unemployment (before 2008), the closure of ‘pension’ payments for people between 50 and 64 years in the mid-1990s, ‘welfare to work’ policies that also restricted access to pension payments for people of working age (in 2007 and 2012), and the higher private incomes of retirees (from superannuation, employment and other investments).<sup>25</sup>

This helps explain the reduced impact of social security on inequality between 2000 and 2008 observed in Figure 10 (above), and its increased impact after the GFC, in 2010.



Note: Supplementary payments are not included here.

**There were major increases in family payments in the early 2000s and pensions in 2009**

There were significant increases in the maximum rates of some social security payments from 2000 to 2008, especially family payments (from the ‘GST compensation package’ in 2000 through to the Schoolkids Bonus in 2008), and a \$32 per week rise in the single pension rate (excluding sole parents on Parenting Payment Single) in 2009.<sup>26</sup>

<sup>25</sup> Whiteford (2014): *op cit.*

<sup>26</sup> That is, \$32 in 2009 dollars. See Whiteford, P. (2017): ‘Social security and welfare spending in Australia: Assessing long-term trends’, Tax and Transfer Policy Blog, 27 July 2017. Available: <http://www.austaxpolicy.com/social-security-welfare-spending-australia-assessing-long-term-trends-part-1/>

But access to pensions for sole parents and people with disabilities was reduced after 2007, and many payments were cut in ‘austerity budgets’ from 2014 to 2016. Between 2008 and 2012, access to pension payments for people with disabilities and sole parents was restricted, shifting many onto the lower Allowance payments.<sup>27</sup> From 2014, many payments were reduced or made more difficult to claim, as part of a budget deficit reduction strategy.<sup>28</sup> These payment reductions particularly affected those receiving Family Tax Benefit (FTB), Newstart Allowance (NSA) and Youth Allowance (YA).

**Indexation made a big difference: only pensions are benchmarked to wage movements while allowances and family payments (the latter since 2009) are only indexed to the CPI**

A serious inequity in the social security system is the disparity in the ways different payments are indexed. Pensions are linked to earnings movements but allowances and FTB are not.<sup>29</sup> This leads to growing ‘gaps’ between payments that do not reflect the relative needs of recipients.

Before the GFC in 2008, average earnings rose by around 1% per year more than consumer prices. In this way, the benefits of productivity improvements were extended to most wage-earners. Pension recipients shared in this improvement in living standards because pensions were tied to movements in Male Total Average Weekly Earnings.<sup>30</sup> Until 2009, FTB payments for families with low incomes also rose with wage movements, as they were linked to pension rates in the 1988 ‘child poverty package’. However, that link was removed in 2009 as part of the pension increase package, so FTB rates have since effectively been frozen in ‘real terms’ (adjusted only for consumer price inflation).

Recipients of NSA and YA have fared worst, since those payments have not been increased in real terms since 1994. This means people who are unemployed or studying full-time have had their living standards frozen at 1994 levels, falling behind the rest of the community.

Figure 13 shows the different experience of recipients of these social security payments by comparing trends in maximum rates of NSA and pensions for single adults (indexed to consumer prices only) and all other pensions (indexed to wages) between 1993 and 2017. The ‘real’ value of pensions rose from \$283 per week to \$437, an increase of 56%, while NSA rose from \$250 to \$270 (largely due to ‘compensation’ for the GST, and the energy supplement compensating for higher energy prices), an increase of just 8%.<sup>31</sup> Over this period the gap between the two payments increased from \$33 to \$171 per week. The impact of the \$32 increase in pensions in 2009 is clearly shown.

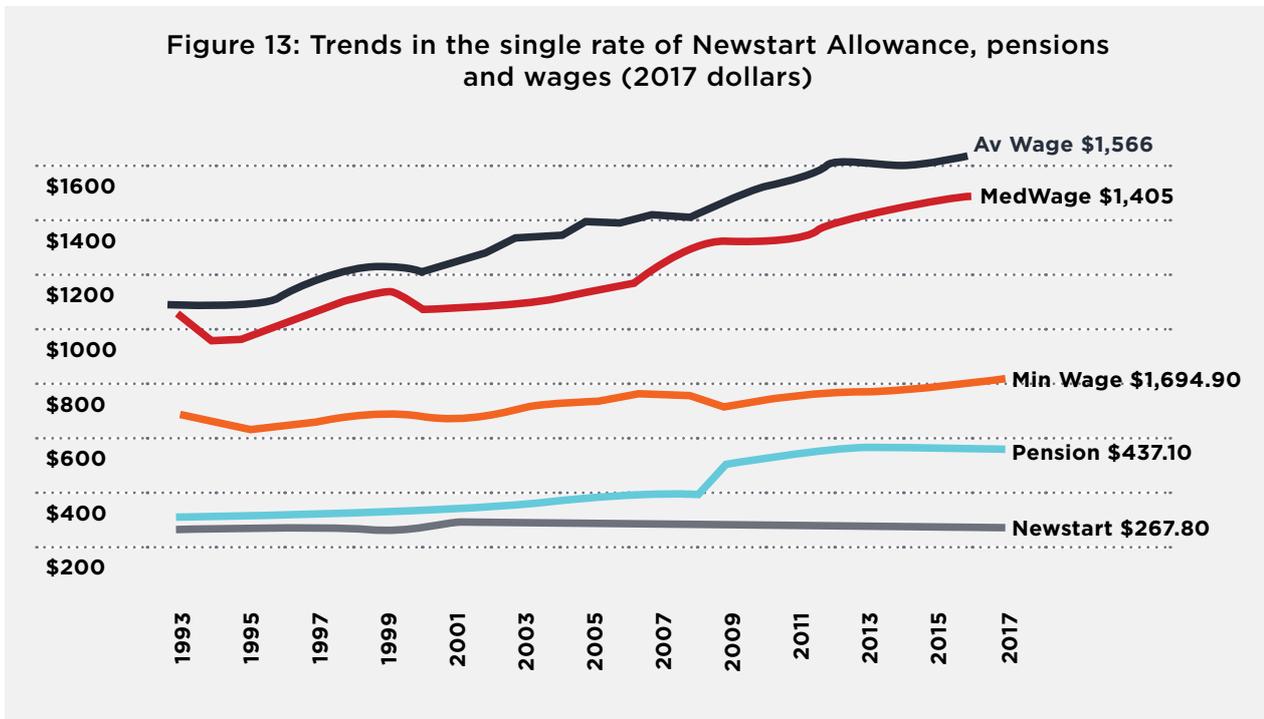
27 Whiteford P (2017): *op cit*.

28 ACOSS: ‘Budget analysis’ (2014, 2015 and 2016).

29 Whiteford P (2013): *op cit*.

30 ACOSS (2011): *Submission to Senate inquiry into the adequacy of Newstart Allowance*, Sydney

31 Note that pensions did not rise as quickly as average full-time wages, due to their link to ‘male total wages’, which includes part-time earnings.



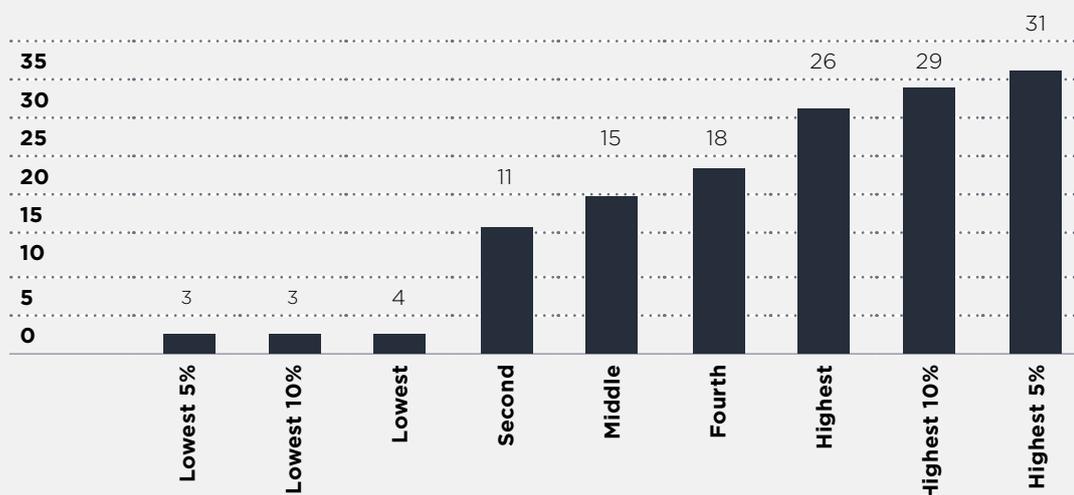
Sources: Department of Social Services; ABS; Fair Work Australia. Social security payments are for single adults without children. Wages are full-time total earnings.

These payment disparities affect the distribution of incomes at the lower end of the distribution, since recipients of the maximum rate of NSA are over-represented (compared with other social security payments) in the lowest 5% of households, while maximum-rate pensioners are over-represented in the second 5% (see Figure 20 and Chapter 2). The 2009 pension increase helps explain the above-average increase in household incomes for the lowest 10% between 2008 and 2016 (2.7% per year compared with an average increase of 0.5% for all households). In contrast, the lack of any real increase in NSA helps explain why the average incomes of the lowest 5% only rose by 0.07% a year over the same period.<sup>32</sup>

### Personal income tax also reduces inequality, especially at the top end of the income ladder

Personal income taxes are progressive, with average tax rates increasing with income. Although they are levied on individuals, their progressive impact extends to the household income distribution as shown in Figure 14. Individuals in households in the lowest 20% pay only 4% of their income in income taxes on average (including the Medicare Levy) compared with 15% for the middle 20% and 26% for the highest 20%.

<sup>32</sup> Both of these income groups contain NSA and pension recipients, but as indicated, the lowest 5% contains a relatively high share of NSA recipients and the lowest 10% a relatively high share of pension recipients.

**Figure 14: Average income tax paid by households as a % of gross income, 2016:**

*Note: These average (or overall) rates are much lower than the marginal tax rates in the income tax scale (which range from 19% to 45%), since marginal tax rates only apply to 'slices' of income above the tax thresholds, and deductions and tax offsets reduce the amount of tax actually paid. Further, note that these are average tax rates for households. Tax paid by households is divided by household gross income. Therefore, average tax rates are reduced where the incomes of individuals in households (especially in the lowest 20% of households) are too low to pay income tax.*

**The impact of income tax on disposable income inequality changes over time, depending on changes in taxable incomes, the impact of tax 'bracket creep', and any tax cuts that are legislated.**

The variations in the impact of income tax on income inequality from 2000 to 2016 shown in Figure 19 (above) can be explained by the interplay between these three factors over that period.<sup>33</sup>

First, changes in taxable incomes (for example, where more people in the lower income groups move from unemployment to paid work) alter the impact of income tax on disposable income inequality (that is, its progressivity), just as they alter the impact of the social security system (as discussed above).<sup>34</sup>

Second, if income taxes are not cut (by lowering tax rates or increasing the thresholds), then average tax rates will rise automatically as a person's income increases. This might be seen as tax progressivity in action since the amount of tax paid is designed to increase as income increases. However, if the tax system is not indexed to prevent 'bracket creep' even those whose incomes only rise in line with prices (and thus experience no rise in purchasing power) will pay a higher proportion of their income in

<sup>33</sup> Bracket creep refers to the impact of increases in taxable income from year to year on average tax paid, due to the interaction between income growth and the progressive personal tax scale.

<sup>34</sup> Herault N & Azpitarte F (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.

tax – an increase that will be small in any single year but will cumulate over time as a person’s income increases.

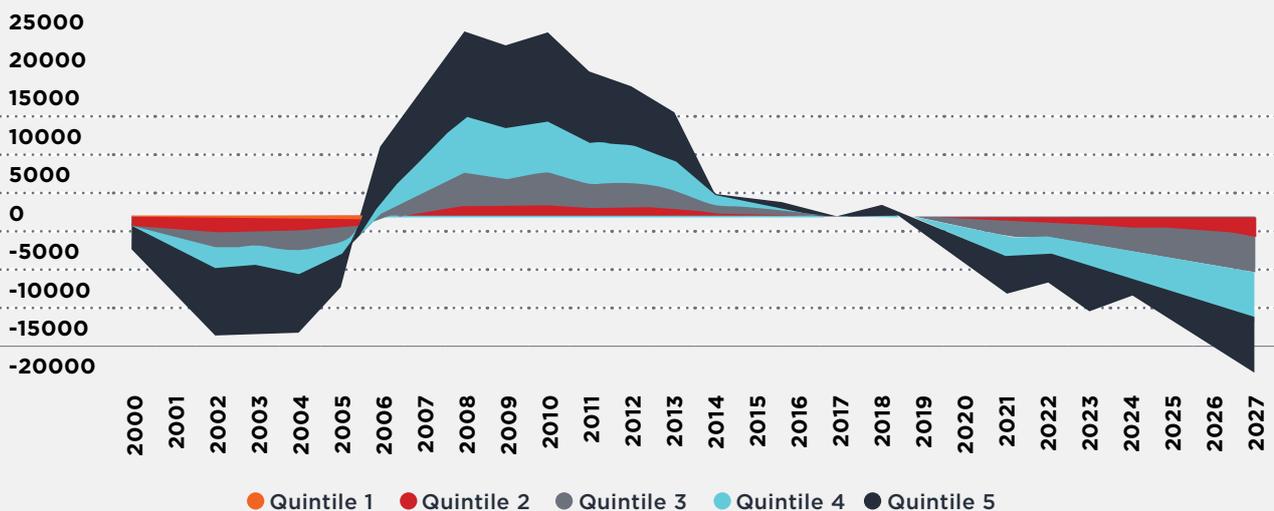
The impact of 'bracket creep' is not even across the income ladder, so leaving the tax scale unaltered as personal incomes rise affects income inequality. That impact is often progressive in overall terms since many individuals in the lowest 40% of households do not pay income tax.<sup>35</sup>

Third, if income taxes are cut, this alters progressivity in ways that depend on the shape of the tax cut. Generally speaking, income tax cuts are unlikely to have an overall progressive impact on the income distribution. Many individuals in the lowest 40% of households do not benefit at all, so cutting income tax widens the disposable income gap between this group and income tax-paying households higher up the income ladder. Further it is difficult to prevent higher income-earners from benefiting from tax cuts directed lower down the scale unless marginal tax rates at the top end are increased.<sup>36</sup>

**The equalising impact of income tax was reduced in the second half of the 2000s**

Figure 14 shows how the combination of bracket creep and income tax cuts affected the after-tax incomes of individuals in different household income groups from 2000 to 2017 (and projects the impact of recently-legislated income tax cuts up to 2027).

**Figure 14: Average income tax paid by households as a % of gross income, 2016**



Source: Gray M (2018), 'Submission to Senate inquiry into Treasury Laws (Personal income tax plan) Bill 2018', Centre for Social Research and Methods, Australian National University, Canberra.

35 A uniform tax increase for all personal income taxpayers (as a share of their taxable income) would narrow the gap between the disposable incomes of those near the bottom of the income distribution (who don't pay income tax) and those higher up the income ladder (who do pay income tax); though of course the impact of bracket creep is not uniform. See National Centre for Social and Economic Modelling (2018): *How does the budget affect us? Independent modelling of federal budget 2018-19* University of Canberra.

36 This can also be achieved, for example, by using income-tested rebates such as the Low Income Tax Offset.

Income tax was cut substantially in 2000, then every year from 2003 to 2011, and again (modestly) in 2016.<sup>37</sup>

- Figure 15 indicates that from 2000 to 2005, the effect of income tax cuts was more than offset by bracket creep (increasing taxes) so that everyone was worse off overall but the losses were greatest for those in the higher income quintiles. Figure 15 (above) indicated that over that period, the equalising impact of income tax on disposable incomes was reduced until 2002, and then increased.
- From 2006 to 2014, the reverse occurred: Income tax cuts more than offset bracket creep and most tax-payers were better-off overall but the gains were greatest for those in the higher quintiles (particularly between 2007 and 2013). Figure 19 indicated that from 2006 to 2011 (the last year of the tax cuts), the equalising impact of income tax on overall disposable household incomes (including those who did not pay income tax) was reduced.

### **When taxes on consumption and business inputs are added in, the tax system is 'almost flat'**

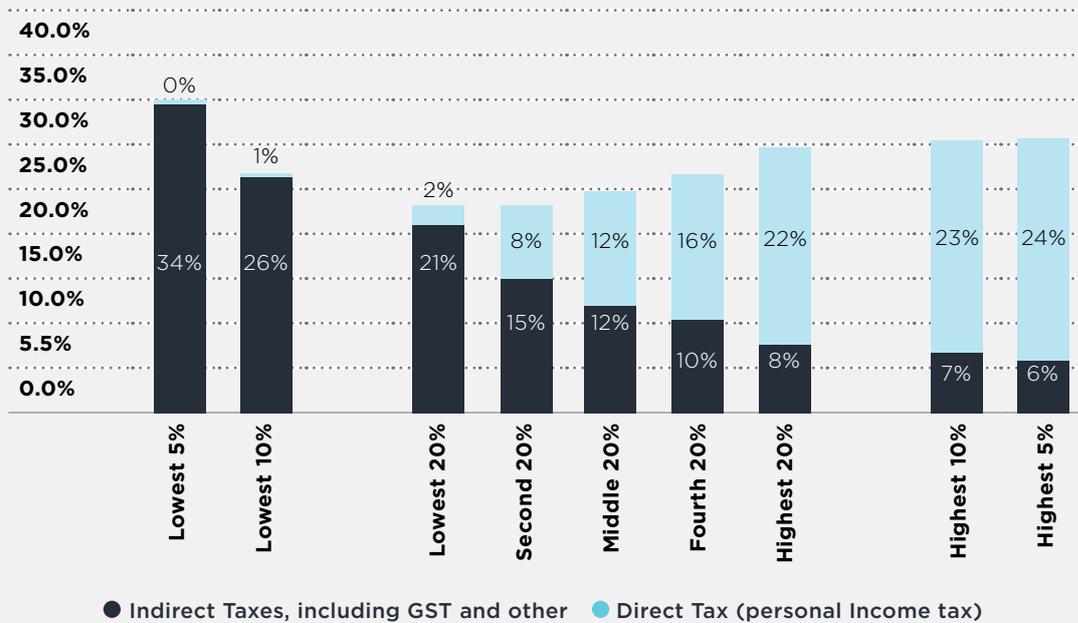
In addition to income taxes, households are affected by the Goods and Services Tax and various federal and State taxes on business inputs such as Stamp Duties. These are not modelled in the above analysis of the impact of taxes on inequality.

Figure 16 (based on data for 2012 rather than 2016) shows that these other taxes are regressive, that is average tax rates fall as incomes rise.<sup>38</sup> In that year, individuals in households in the lowest 20% paid 21% of their overall income in taxes on consumption and business inputs, whereas the highest 20% paid only 8% of their overall income on those taxes.

The overall impact of the taxes modelled in Figure 16 was only mildly progressive. The lowest 20% paid 23% of income in tax, the middle 20% paid 24%, and the highest 20% paid 30%.

<sup>37</sup> Parliamentary Budget Office (2017): Changes in average personal income tax rates, distributional impact, Report No. 3/2017. Note that this analysis was confined to measuring the impact on the distribution of individual incomes among people registered to pay income tax with the ATO.

<sup>38</sup> Other taxes not modelled here by the ABS include taxes on land and company income tax.

**Figure 16: Income and other taxes as a proportion of gross income, 2012**

In sum, both social security payments and personal income tax decrease income inequality. However, over the period as a whole (2000 to 2016), Figure 15 suggested they both became less effective in doing so.<sup>39</sup>

In part, this reflected a reduced need for income support in the years prior to the GFC, as unemployment declined and income from wages increased. It also reflects a failure to index payments such as NSA and FTB in a way that kept up with improvements in general living standards (although FTB was increased significantly in the early 2000s). Consequently, the total incomes of many low-income households fell behind those higher up the income scale.

The significant exception was pension recipients, especially single adults, since those payments were indexed to earnings and also increased substantially one-off in 2009. Social security spending cuts towards the end of the period (from 2014 to 2016) reduced payments for many people in low income households, mainly recipients of Allowance payments and FT

The inequality-reducing impact of personal income tax was also curtailed, due in part to a succession of tax cuts from 2003 to 2011.<sup>40</sup>

Finally, many tax concessions, such as superannuation and investment housing tax concessions, disproportionately benefit higher income-households. This undermines two important goals of the personal tax system: to ensure that individuals contribute according to their capacity, and to moderate income inequality.

<sup>39</sup> See also Whiteford, P (2013); op cit; Herault N & Azpitarte F (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

<sup>40</sup> Herault N & Azpitarte F (2014); *ibid.*





## CHAPTER 2: WHERE PEOPLE FIT IN THE INCOME DISTRIBUTION

## Where people fit in the income distribution

The following graphs drill down into the data to show how different demographic groups in the population are placed within the overall income distribution. For each group (for example age groups), three breakdowns are provided:

1. The share of that group (for example, people over 64) in the whole Australian population, shown in pie charts.
2. How the group is dispersed across the household income distribution (e.g. what share of people over 64 are in the bottom 20%, the next 20%, and so on), shown in horizontal bar graphs.
3. The demographic profile or composition of each income group (e.g. the share of individuals in the lowest 20% of households who are over 64), shown in vertical bar graphs.<sup>41</sup>

Since the groups are defined according to the characteristics of (normally adult) individuals (e.g. their age or labour force status), individuals in the same household (e.g. partners living together) may end up in different demographic groupings.

Despite strong growth in incomes across the population over the past 20 years, some groups remain concentrated at the bottom of the income distribution. Other groups are over-represented at the top end. In this appendix, we look at where people with the following characteristics sit in the income distribution:<sup>42</sup>

- Age,
- Gender,
- Family type,
- Country of birth,
- State or Territory of residence,
- Main income source of household,
- Labour force status of household reference person,
- Household reference person receives one or more social security payments.<sup>43</sup>

<sup>41</sup> Note that, as discussed previously, individuals are placed in equalized income groups according to the equivalent disposable income of the households to which they belong. (i.e. an equal number of individuals rather than households sits in each 20%)

<sup>42</sup> Note that several of these groups overlap.

<sup>43</sup> The reference person for each household is chosen by the ABS, by applying its selection criteria to all household members aged 15 years and over. The selection criteria below is applied in the order listed, until a single appropriate reference person is identified:

- the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure
- one of the partners in a registered or de facto marriage, with dependent children
- one of the partners in a registered or de facto marriage, without dependent children
- a lone parent with dependent children
- the person with the highest income
- the eldest person.

## 2.1 Age

**Figure 17: Australia's population by age (2016)**

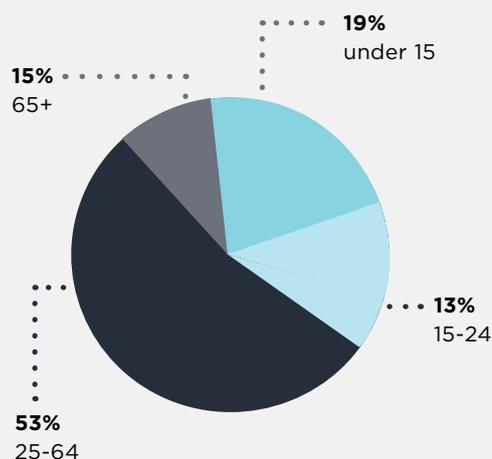


Figure 17 shows that around two-thirds (66%) of Australia's population are of working age (15-64 years old), followed by children under 15 years old (19%). Over 65 year-olds make up 15% of the population.

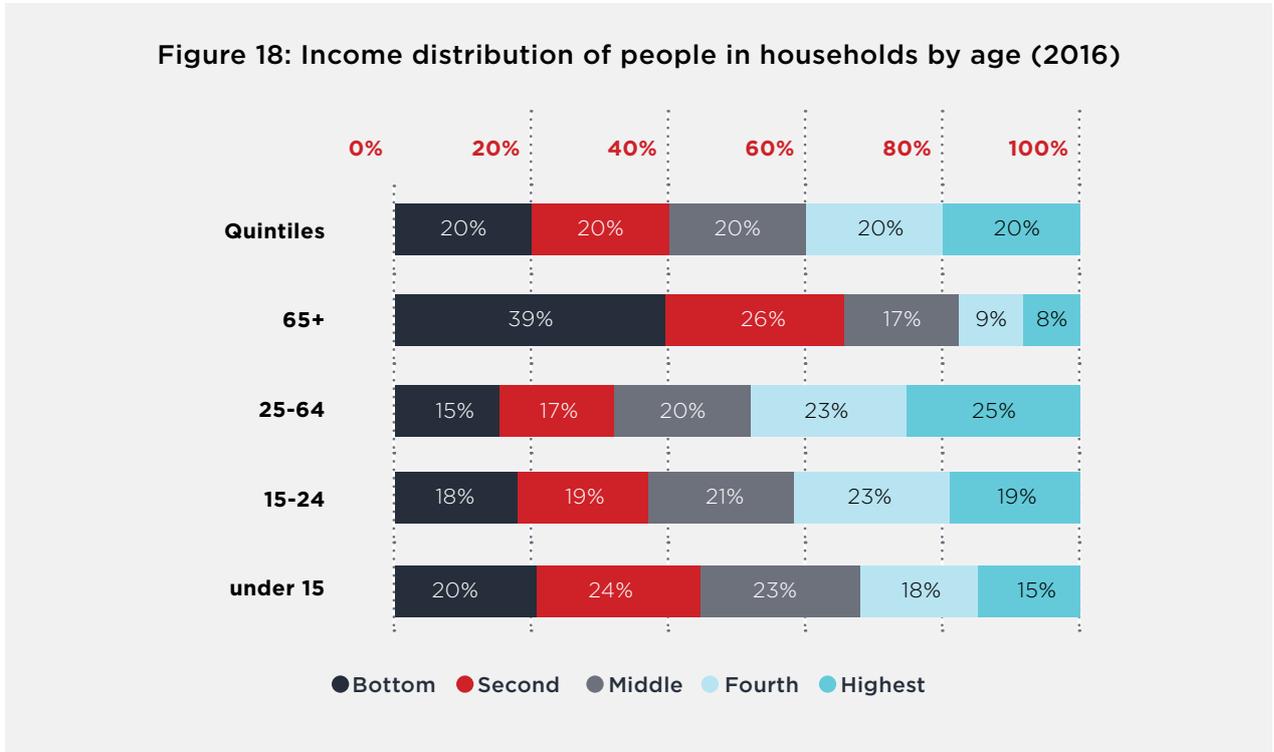
Older people (over 64 years) are found towards the lower end of the income scale. Figure 18 shows that 39% of all older people are in the lowest 20% of households ranked by income. This is largely because most older people are no longer in paid employment, and employment is the main source of income for most Australians. In 2016, almost half (46%) of individuals over 64 years received a maximum-rate pension payment.<sup>44</sup>

People of working-age (25-64 year olds) are located higher up the income distribution, with 48% located in the highest two income groups.

Young people (15-24) are located in the middle to upper half of the distribution (with 47% in the middle and fourth 20%) reflecting the income of their parents, who are likely to be in their peak wage-earning years.<sup>45</sup> Children under 15 years are more likely to be located in the lower to middle parts of the distribution (with 47% in the second and middle 20%), reflecting the younger age of their parents and reduced paid workforce participation among parents of young children.

<sup>44</sup> Social security demographic data from [www.data.gov.au](http://www.data.gov.au). 58% of Age pensioners receive the maximum rate, and 79% of all individuals 65 or over receive an Age Pension.

<sup>45</sup> ABS (2015): *Labour force status and other characteristics of families*.

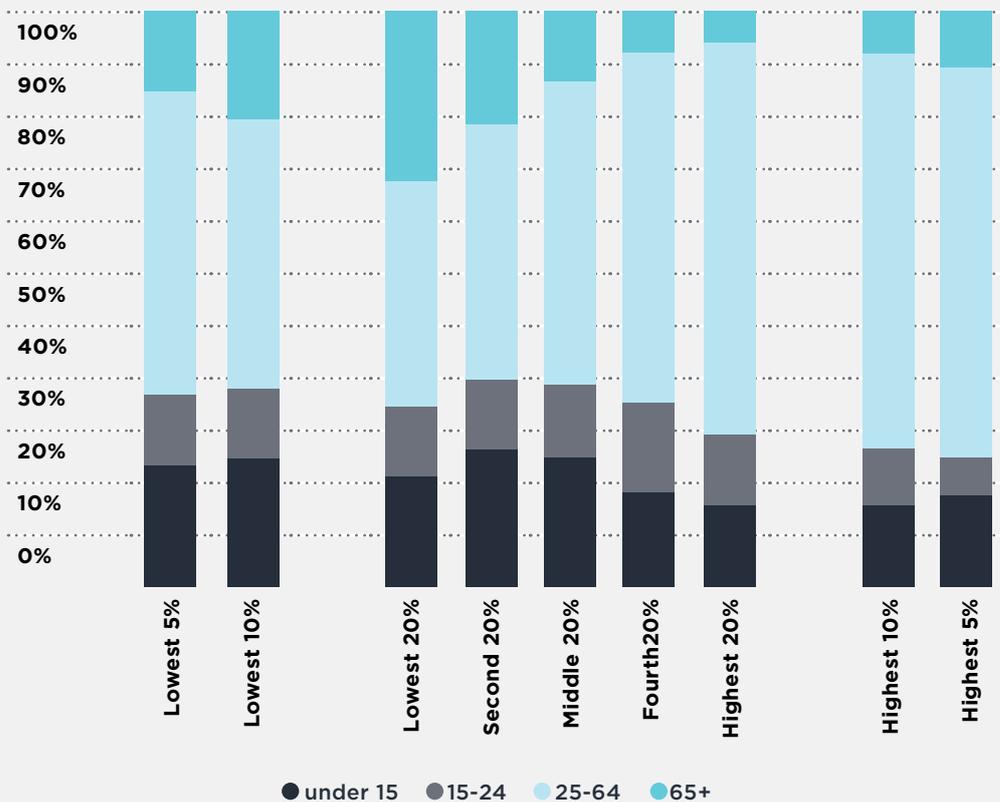


*Note: The top bar shows, for comparative purposes, how all people are distributed across the five income groups (i.e. there are equal numbers of individuals in each income group).*

Figure 19 shows the composition of each income group according to age.

The largest age group in every income group are 25-64 year olds, reflecting their 53% share of the overall population (Figure 17). However, relatively high proportions of individuals found in the lowest 20% are older people (29%) and children (19%). Individuals found in the highest 20% are much more likely to be aged 25-64 years (68%), reflecting that age group's larger size and greater earning capacity. Nevertheless, substantial numbers of people from all age groups are found in all income groups.

**Figure 19: Profile of each income group by age (2016)**



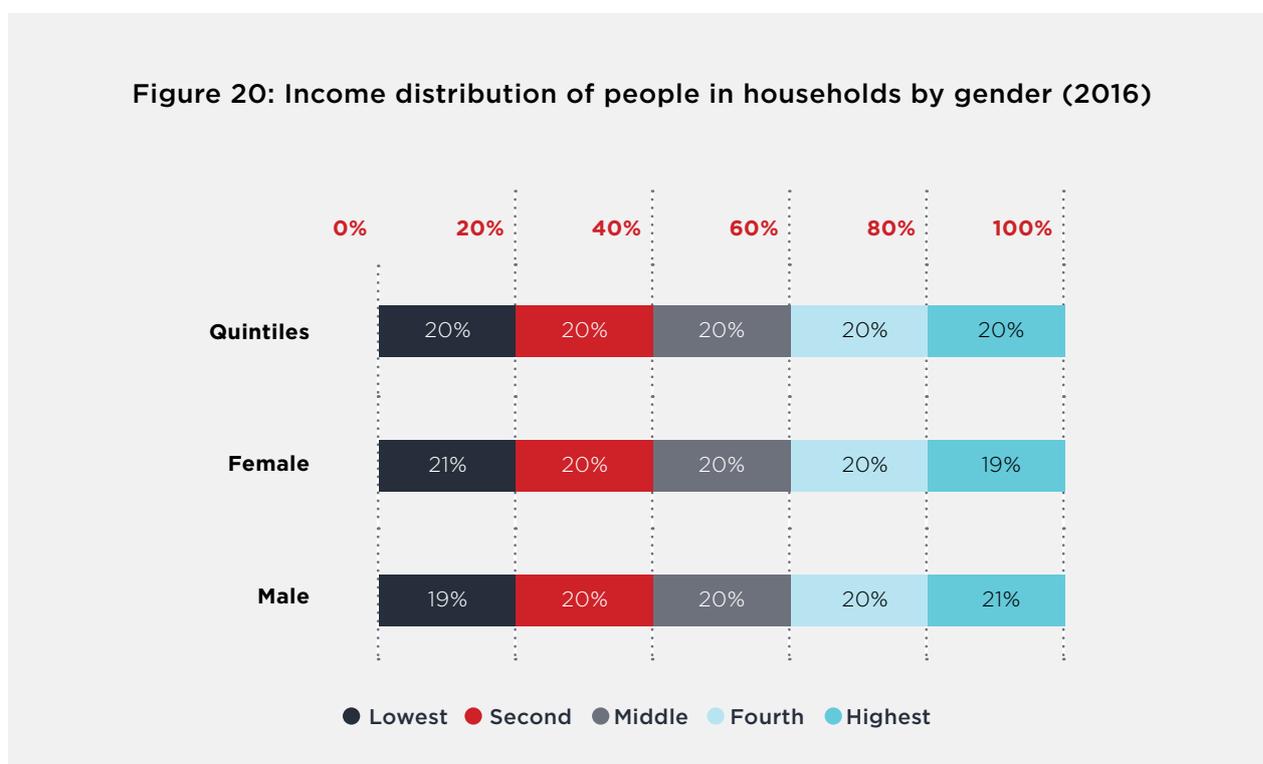
## 2.2 Gender

In 2016, 50.8% of Australia's population were women and girls.<sup>46</sup>

The individual incomes of females are generally lower than those of males. In 2016, median earnings from paid work (both full-time and part-time) for females were 71% that for males.<sup>47</sup> However, in this report, individuals are assigned to income groups based on the income of their household (assuming that incomes are equally shared within households), rather than individual incomes. This reduces measured income inequality between and males and females and can mask gender inequities.<sup>48</sup>

Figure 20 shows that women are only slightly more likely to be in lower-income households, with 21% of women located in the lowest 20%.

The slightly higher share of females in the lowest 20% reflects the fact that most sole parent households and older people living alone are households where the reference person is female, and these households are found disproportionately in the lowest 20%.<sup>49</sup>



46 ABS (2016): *Population by Age and Sex, Regions of Australia*.

47 ABS (2017): *Gender indicators, Australia*.

48 This is a design feature of inequality research based on households, which captures the effect of (assumed) income sharing (however imperfectly) but not the full extent of inequality at the individual level. The approach has been extensively criticised by feminist researchers for this reason.

49 ABS (2017): *op cit*.

## 2.3 Family type

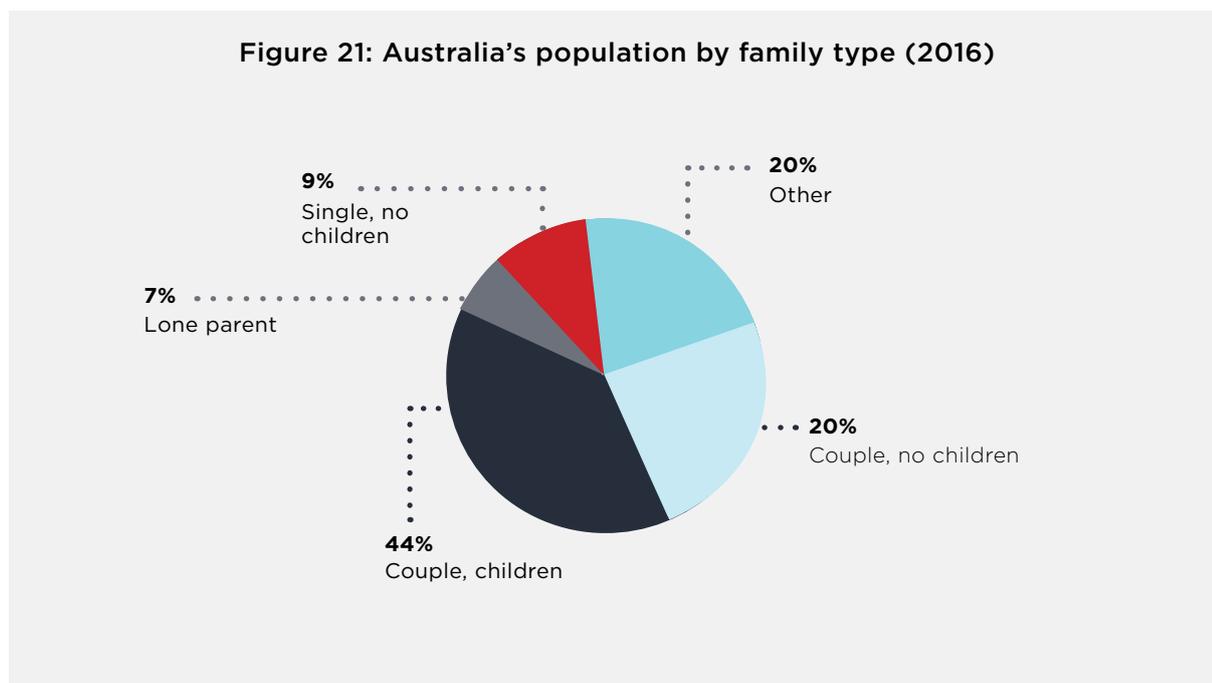


Figure 21 shows that the largest family type is couples with children (containing 44% of individuals), followed by couples without children and 'other' households each comprising 20% of the population.<sup>50</sup> Single person households comprise 9% of the population, and sole parents, 7%.

Figure 22 shows that single people are much more likely to be found in the lowest 20% (42% of singles without children and 36% of sole parents). This is despite the downward adjustment of the incomes of partnered families through equivalisation, suggesting that households with a single reference person face a greater risk of poverty.<sup>51</sup>

Single people living alone without children are more likely to be retired.<sup>52</sup>

Of all sole parents, 63% are in the lowest 40% by income. This likely reflects their lower rates of employment and caring responsibilities. In 2015, 51% of sole parents were employed compared with 73% of parents in partnered families with children.<sup>53</sup>

In contrast, 26% of couples without children are found in the highest 20%. Likely reasons for their over-representation in the highest income group include the higher earnings of younger, dual-earner childless couples and 'empty nesters' (older workers without children).<sup>54</sup>

<sup>50</sup> Includes siblings, households with multiple families and unrelated people living together.

<sup>51</sup> ACOSS (2016): *Poverty in Australia 2016* Sydney

<sup>52</sup> In 2015, more than one-quarter (27%) of older people living in households lived alone, with older women more likely to live alone than men (35% compared with 18%). See Australian Institute for Health and Welfare (2017): *Australia's welfare* Canberra.

<sup>53</sup> ABS (2015): *op cit*.

<sup>54</sup> ABS (2015): *Household and Family Projections, Australia, 2011 to 2036*.

Figure 22: Income distribution of people by family type (2016)

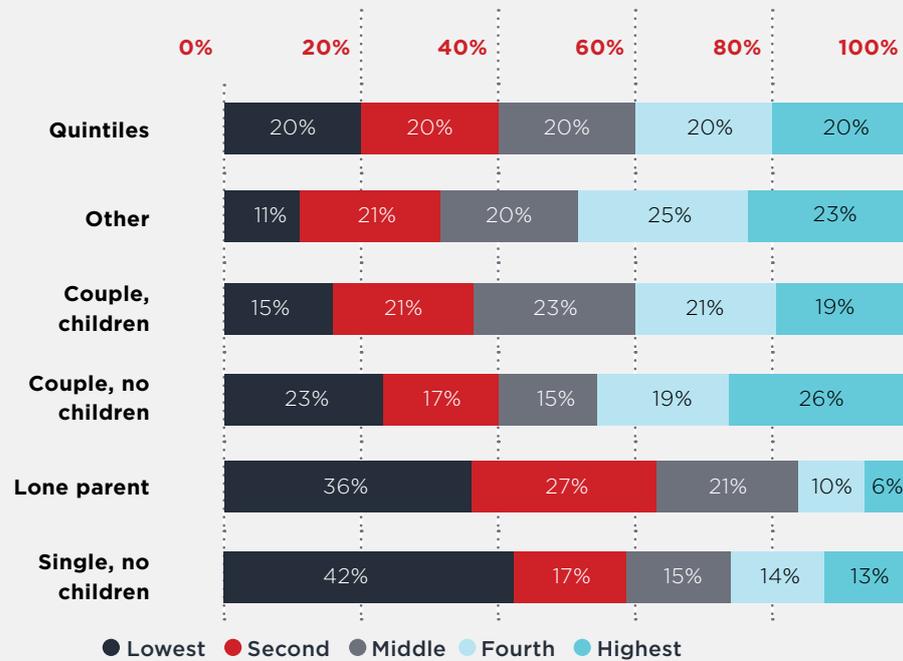
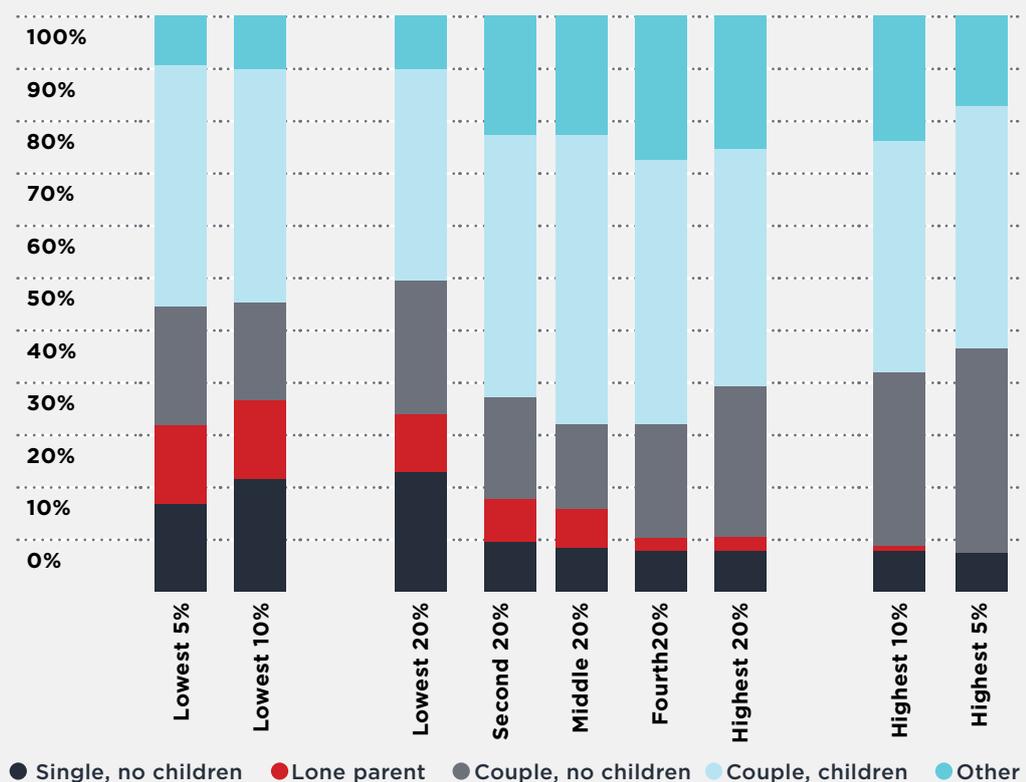


Figure 23 shows the composition of each income group according to age. This indicates that 32% of people in the lowest 20% are single (with or without children) compared with just 8% of those in the highest 20%. However, a majority (57%) of people in the lowest 20% are in couple families, reflecting their greater share (64%) of the overall population.

Figure 23: Profile of each income group by family type (2016)



## 2.4 Country of birth

**Figure 24: Australia's population by country of birth (2016)**

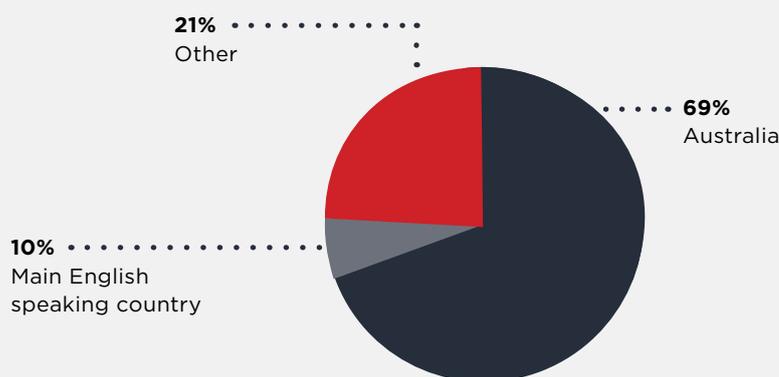


Figure 24 shows that 69% of the population were born in Australia, 10% in one of the main English-speaking countries, and 21% were born elsewhere (mainly in non-English speaking countries).

Figure 24 shows that people born in non-English speaking countries are over-represented (24%) among people living in the lowest 20% of households, while people born in Australia or other English speaking countries are over-represented among those in the highest 20% of households (25% and 22% respectively).

For newly-arrived migrants, finding employment can be challenging until they gain the necessary skills or recognition of existing qualifications, and where necessary learn English.<sup>55</sup> In 2016, the unemployment rate for recent migrants and temporary residents was 7.4%, compared with 5.4% for people born in Australia.<sup>56</sup>

The different labour market experience of migrants from English speaking and non English-speaking countries reflects their skills and reasons for entry to Australia as well as language difficulties and other employment barriers.

Among new migrants arriving between 2006 and 2016, those qualifying for skilled migrant visas were more likely to be employed in 2016 (75%) than those with family visas (54%) or other permanent visas including refugees (59%).<sup>57</sup> New migrants from wealthier countries (more likely to be English-speaking) were more likely to enter Australia under skilled visas. Of those who entered Australia with permanent visas from 2006 to 2016, 62% of those coming from North-west Europe had skilled visas, compared with 49% of those from South-east Asia and 14% of those from North Africa and the Middle East.

<sup>55</sup> The Ethnic Communities' Council of Victoria (2014): *Submission to the Senate Committee Affairs Reference Committee Inquiry into the Extent of Income Inequality in Australia*.

<sup>56</sup> ABS (2016): *Characteristics of Recent Migrants*, Australia, November 2016. 'Recent' refers to those settling in Australia between 2006 and 2016.

<sup>57</sup> ABS (2016): *ibid.*

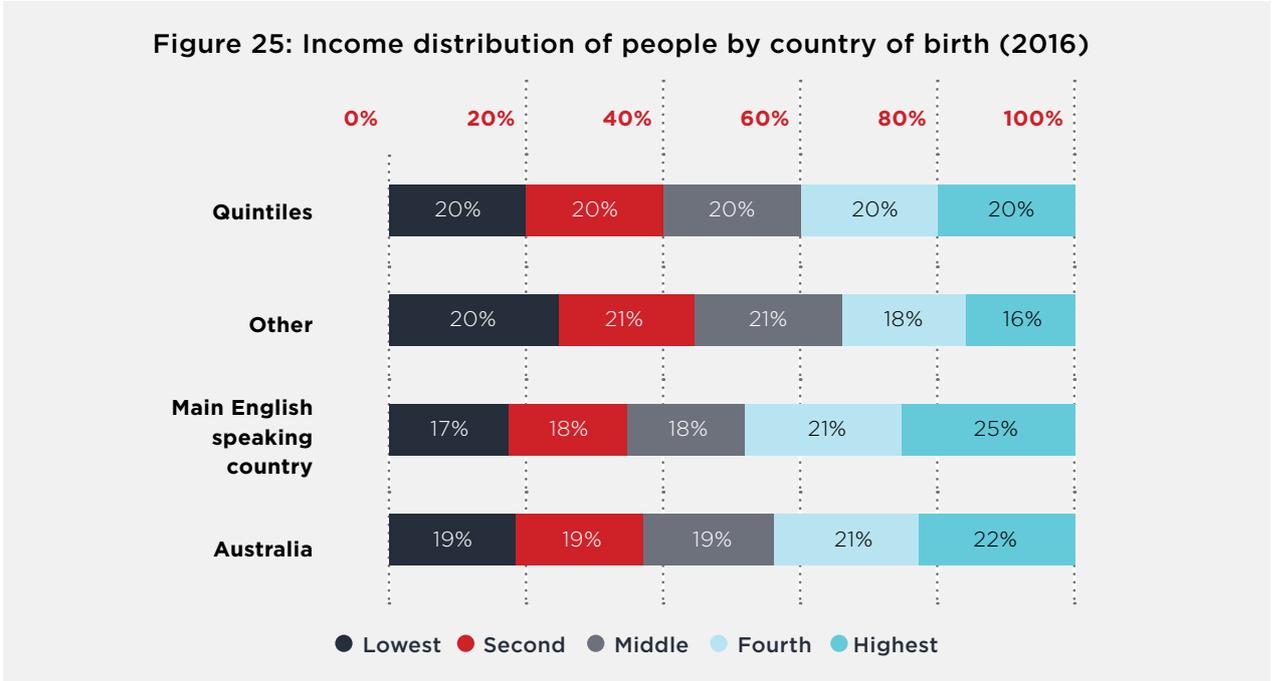
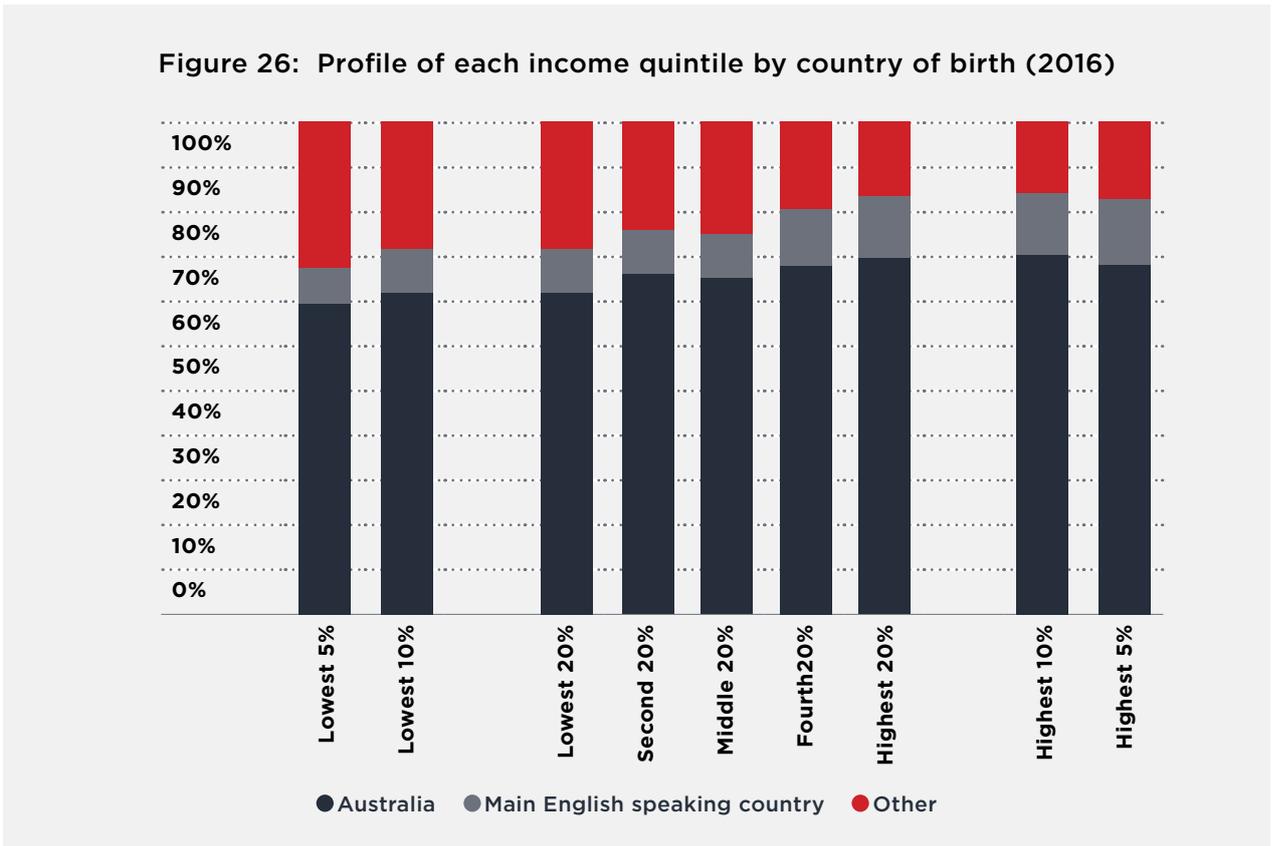


Figure 25 shows the composition of each income group according to country of birth. While the majority (65%) of individuals in the lowest 20% were Australian-born (reflecting their high proportion - 69% - of the overall population), 25% were born in a non English-speaking country. In contrast, 72% of those in the highest 20% were Australian born and only 15% were from non-English speaking countries.

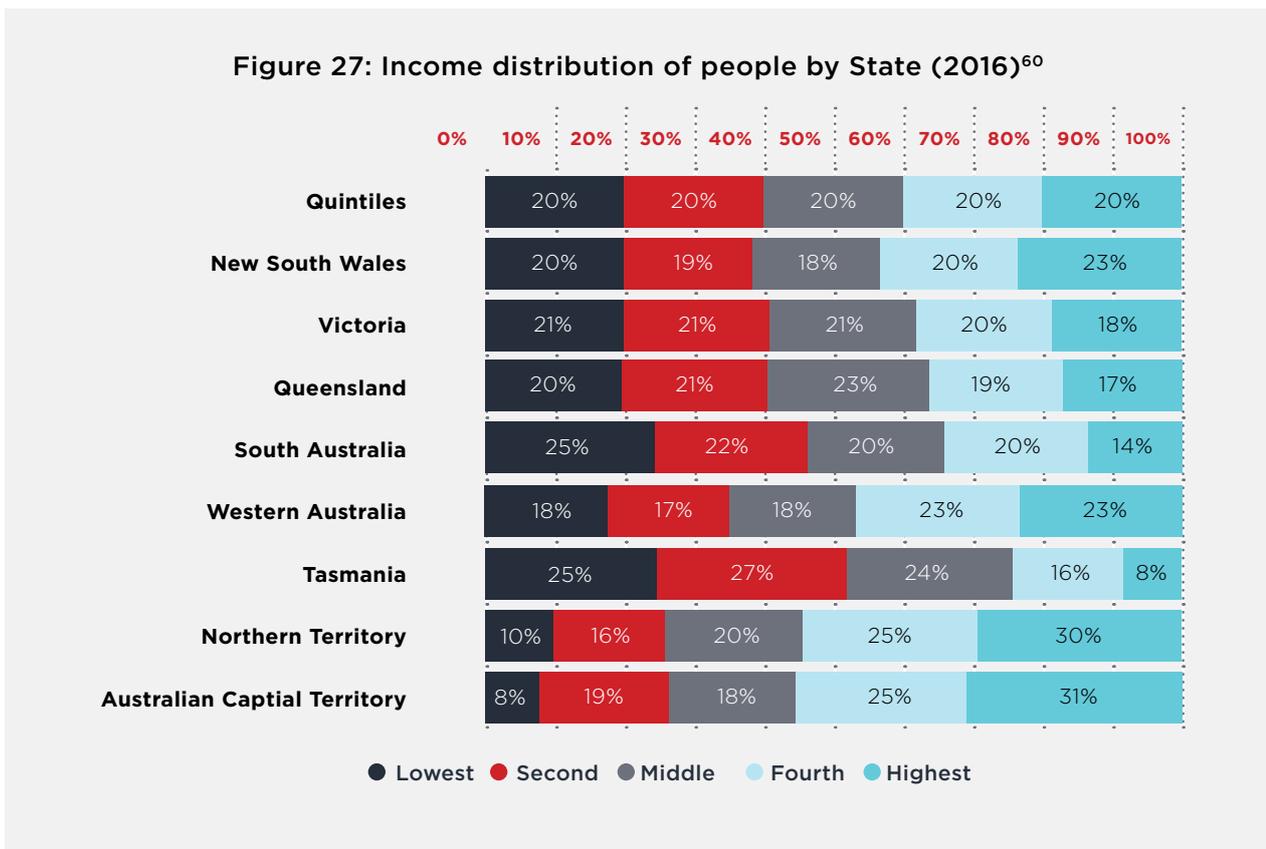


## 2.5 State or Territory of residence

Figure 27 shows where people fit in the income distribution according to where they live.

The States with the largest populations, New South Wales, Victoria and Queensland, have a more even representation of people across the distribution. By contrast, smaller States and Territories have a greater concentration of people towards the highest or lowest ends of the income spectrum. For example, 25% of people living in Tasmania and South Australia are in the lowest 20%, while 23% of people in Western Australia and around 30% of people in the Territories are in the highest 20%.

This likely reflects differences in employment levels and age profiles of the populations living in each of the States and Territories.<sup>59</sup>

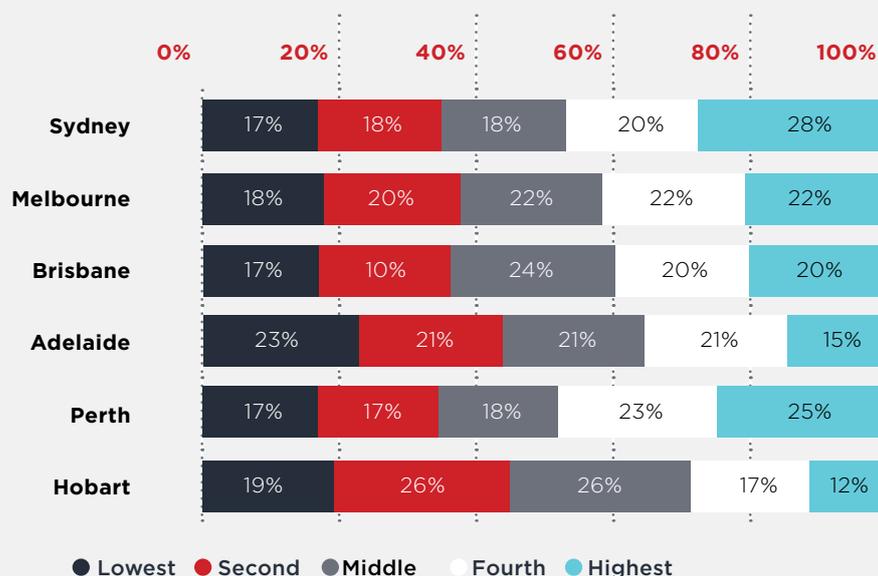


Turning to capital city residents, Figure 13 shows that people living in Sydney (28%) or Perth (25%) are more likely to be in the highest 20%. Conversely, residents of Adelaide (23%) were more likely to be found in the lowest 20%.

58 Daley J et al (2016): *Regional patterns of Australia's economy and population* Grattan Institute, Melbourne

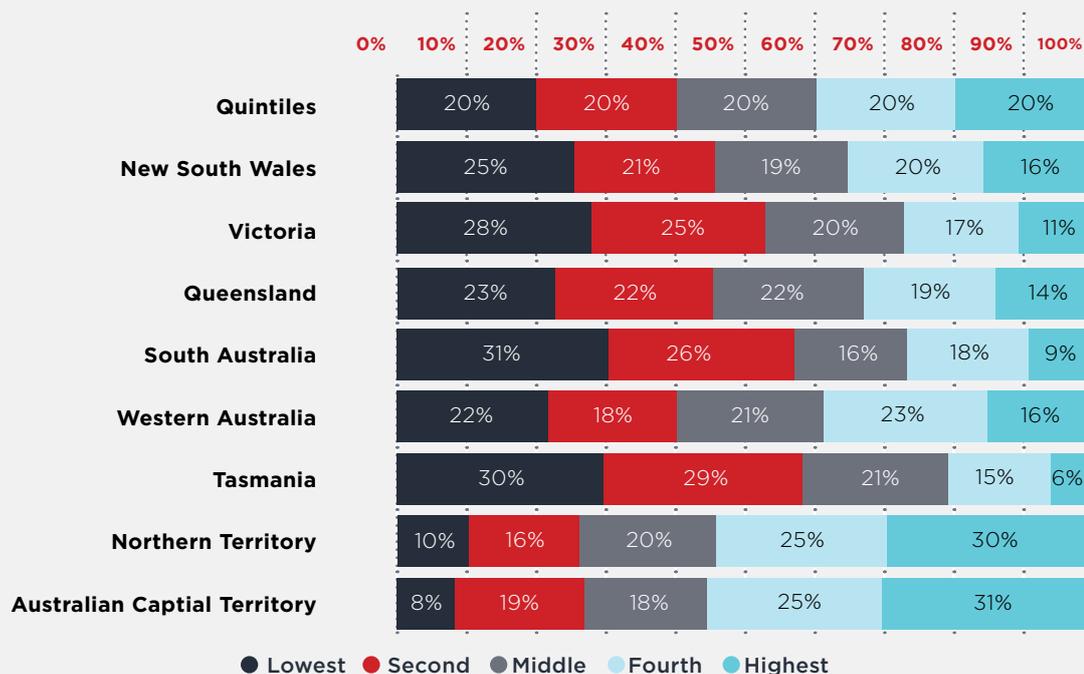
59 Capital city and non-metropolitan data are not disaggregated in ACT and NT data due to small sample sizes.

Figure 28: Income distribution of people by capital city (2016)



Comparing Figures 28 (above) and 29 (below), we find that the share of non-metropolitan residents in the lowest 20% was higher than for capital city residents in all States.<sup>60</sup> The highest shares of non-metropolitan residents in the lowest 20% are found in South Australia (31%), Tasmania (30%) and Victoria (28%).<sup>61</sup>

Figure 29: Income distribution of people outside capital cities (2016)

60 See Daley J et al (2016): *ibid.*

61 Capital city and non-metropolitan data are not disaggregated in ACT and NT data due to small sample sizes.

## 2.6 Labour force status

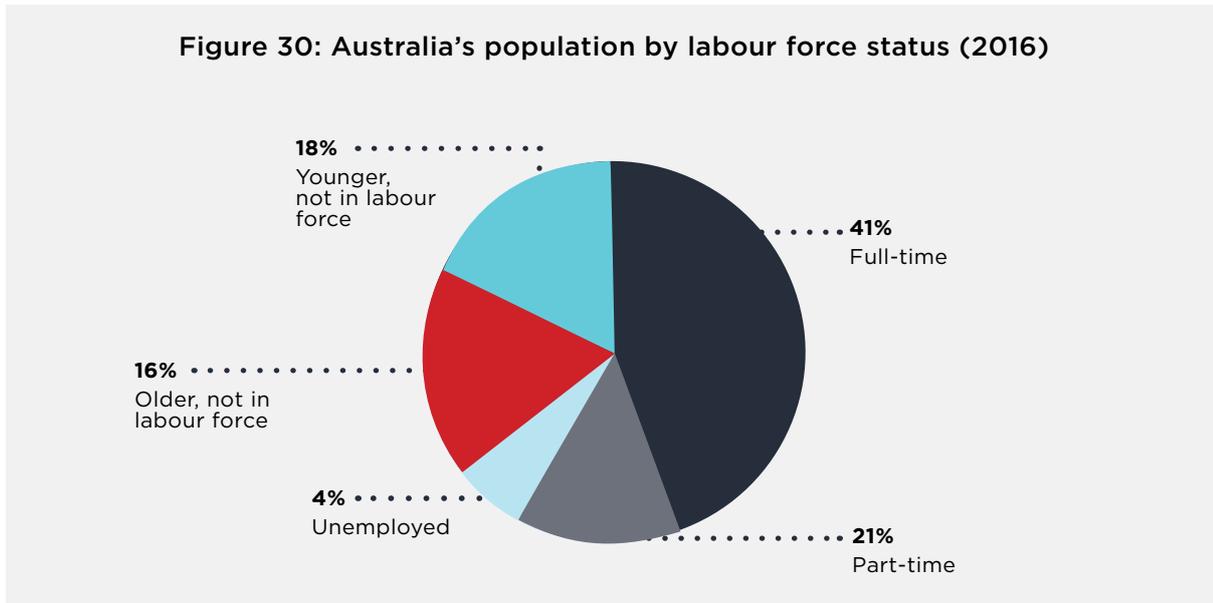


Figure 30 shows that close to two-thirds (62%) of Australia's total population are employed: the majority in full-time paid work (41%) but also a significant portion (21%) in part-time jobs. Around one-third (34%) of the population (mainly younger and older people) are not in the labour force: Around 4% of the total population is unemployed.<sup>62</sup>

Labour force status, especially that of the highest income-earner in a household, strongly impacts on household income.<sup>63</sup> Focussing on the labour force status of the household reference person rather than all household members, Figure 30 shows that people living in households where the reference person is not in the labour force or unemployed are concentrated in low-income households. Of all people in households where the reference person is unemployed, 77% are in the lowest 20%, along with 59% where the reference person is of working age but outside the paid workforce, and 42% where the reference person is 65 years or over and retired.

On the other hand, 29% of those in households where the reference person is employed full-time are in the highest 20%. Living in a household where the reference person is employed part-time is no guarantee of a good income. Of all people in these households, only 11% are found in the highest 20% and 52% are in the lowest 40%.

<sup>62</sup> This is lower than the unemployment rate in December 2015 (5.8%) since the latter statistic is calculated as a proportion of the labour force rather than the whole population (ABS 2015: *op cit*).

<sup>63</sup> Note that the focus in this section is on the household reference person, who is generally but not always the highest income-earner.

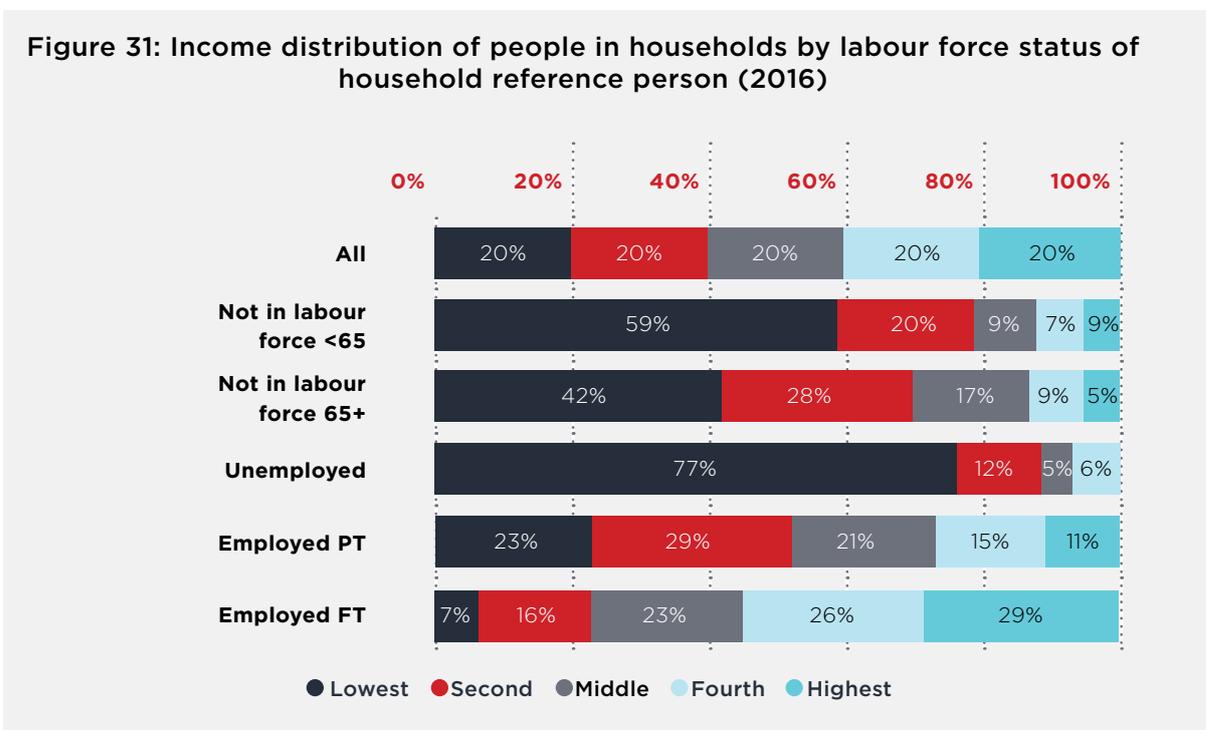


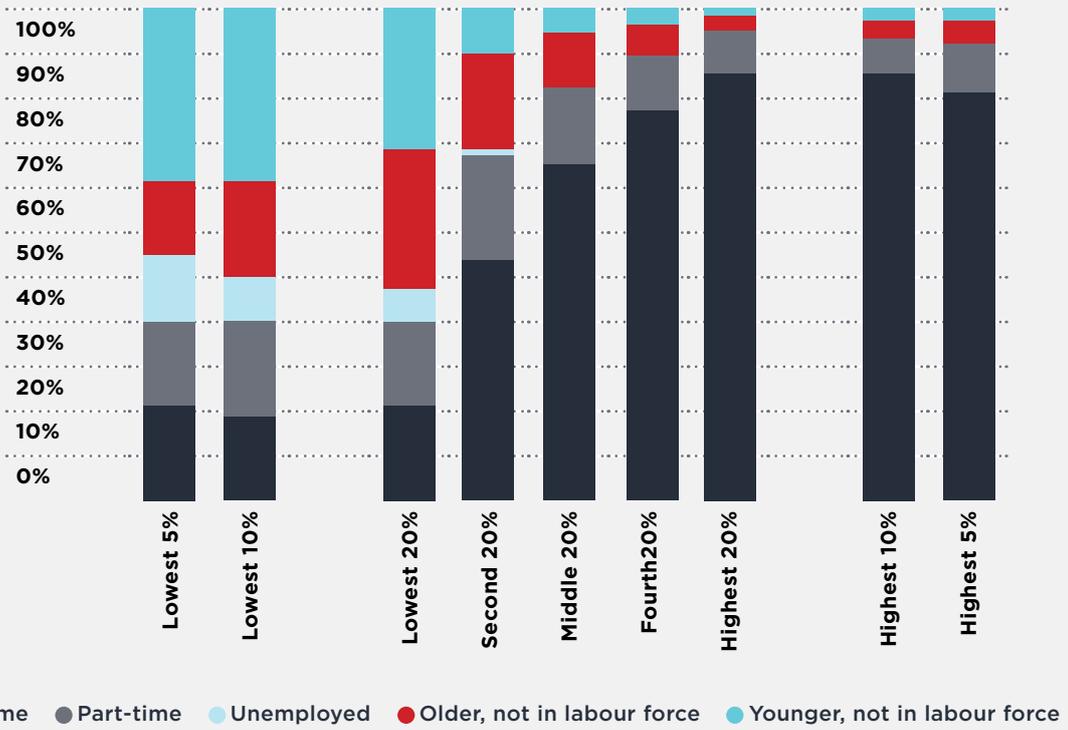
Figure 31 shows the composition of each income group according to the labour force status of the household reference person.

This shows that individuals in households where the reference person is unemployed form a larger share of income groups as we move down the income scale: 7% of the lowest 20%, 10% of the lowest 10% and 13% of the lowest 5%. The same applies to households where the reference person is of working age and out of the paid workforce (for example a person with disabilities), who comprise 28% of the lowest 20%, 34% of the lowest 10% and 35% of the lowest 5%.

The lowest 20% mainly comprises households where the reference person is out of the paid workforce: 30% where the reference person is over 64 and 28% where they are of working age. Another 20% are employed full-time, 16% are employed part-time, and the remaining 7% are unemployed.

In contrast, 87% of reference persons in households in the highest 20% are employed full-time.

**Figure 32: Profile of each income group by labour force status of household reference person (2016)**



## 2.7 Main income source

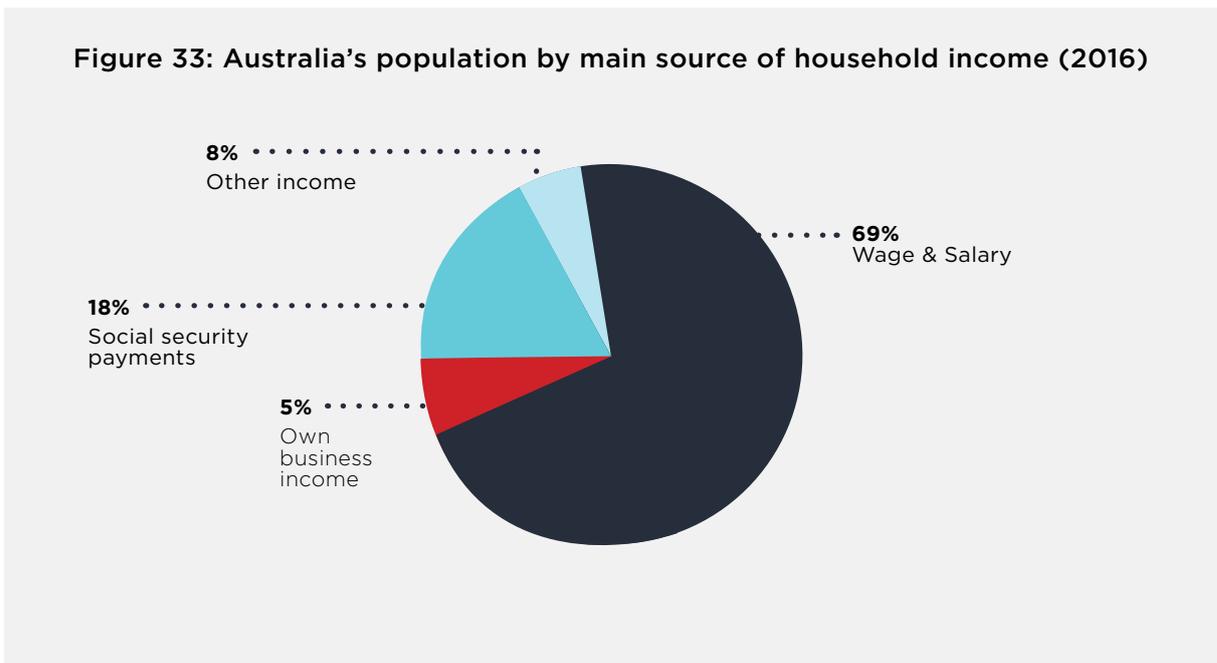


Figure 33 shows that for most Australians, the main source of household income is wages and salaries (69%). Nonetheless, 18% rely on social security as their main household income, 5% on income from self-employment and 8% from other sources (mainly investments).

Figure 34 shows that 65% of people in households that mainly rely on social security are concentrated in the lowest 20%. This reflects the targeting of social security to people with low incomes.<sup>64</sup> By contrast, people in households relying mainly on wages or salaries are more likely to be found at the higher end of the distribution (with 51% in the highest 40%). Households whose main income is from an unincorporated business are more likely (27%) to belong to the lowest 20%.<sup>65</sup>

<sup>64</sup> Whiteford (2014): *op cit.*

<sup>65</sup> Note, however, that the incomes from self-employment are more likely than incomes from wages to be under-reported or unreliable because of the difficulty distinguishing between personal and business income for this group. See ABS (2017): *Household Income and Wealth, Australia*, Explanatory notes, at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6523.0Explanatory%20Notes%2015-16?OpenDocument>

**Figure 34: Income distribution of people in households by main income source (2016)**

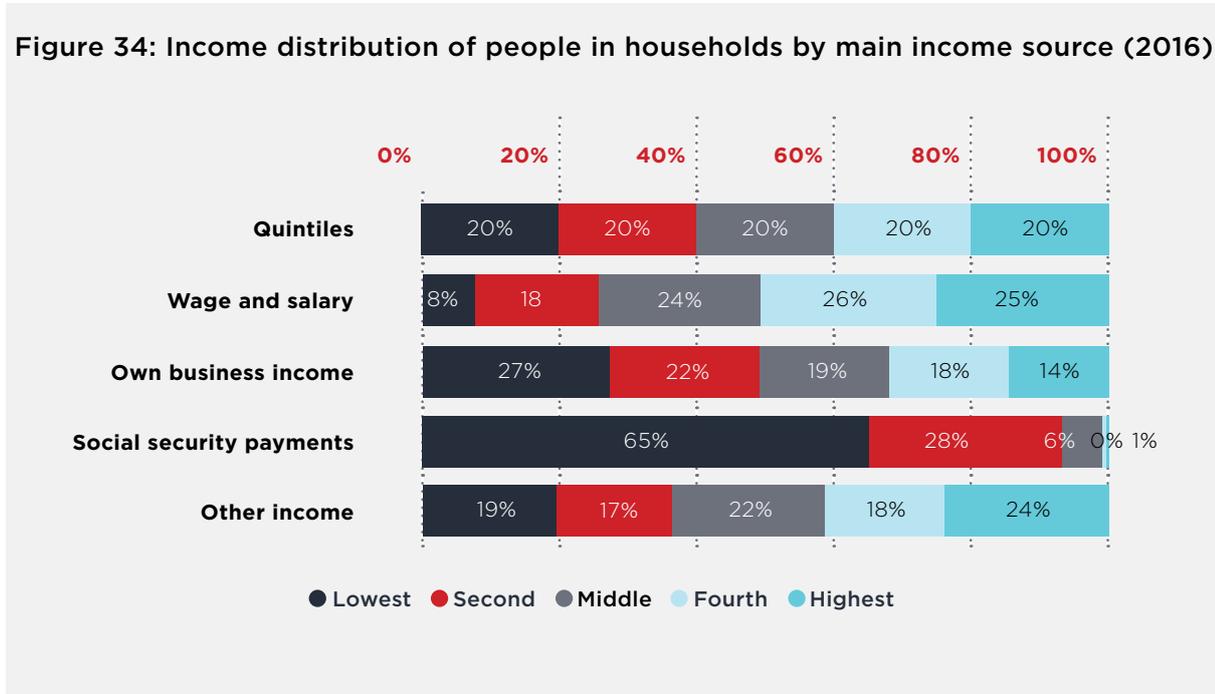
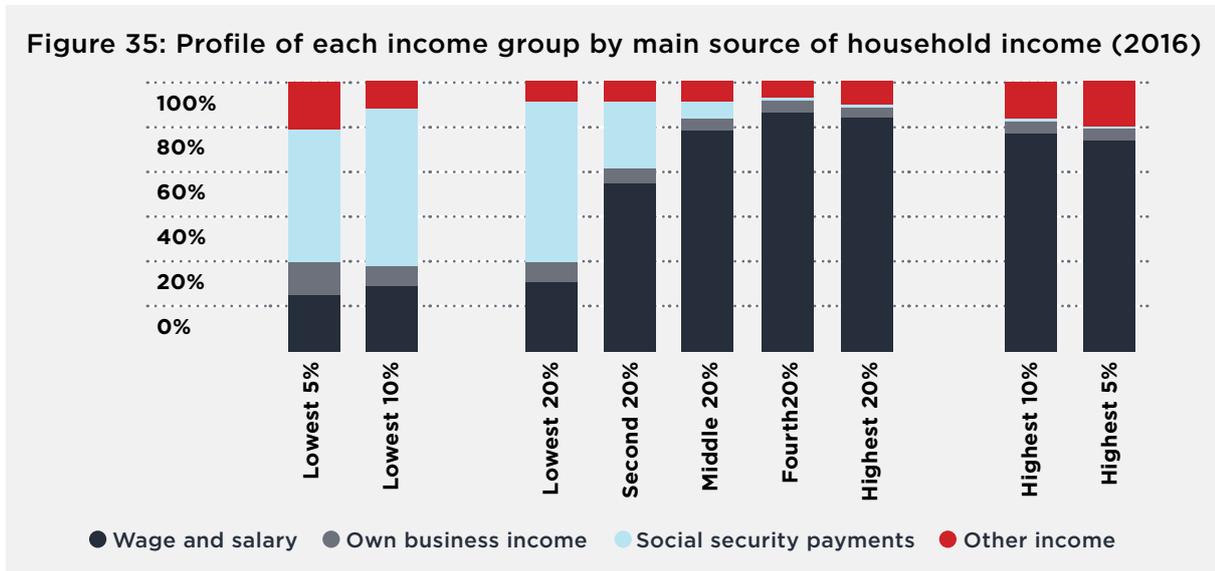


Figure 35 shows the composition of each income group according to the main source of household income (for the entire household, not only the reference person).

People living in households whose main income is social security are mostly found in the lowest 20%. Yet 40% of people in the lowest 20% rely mainly on other income sources, including wages (26%), own business income (6%), and other income (mainly investments) (8%).

At the other end of the scale, 87% of the highest 20% are in households relying mainly on earnings. As we move further up the scale, an increasing proportion rely mainly on investment income: from 9% of the highest 20%, to 14% of the highest 10%, and 17% of the highest 5%.

**Figure 35: Profile of each income group by main source of household income (2016)**



## 2.8 Income support payments

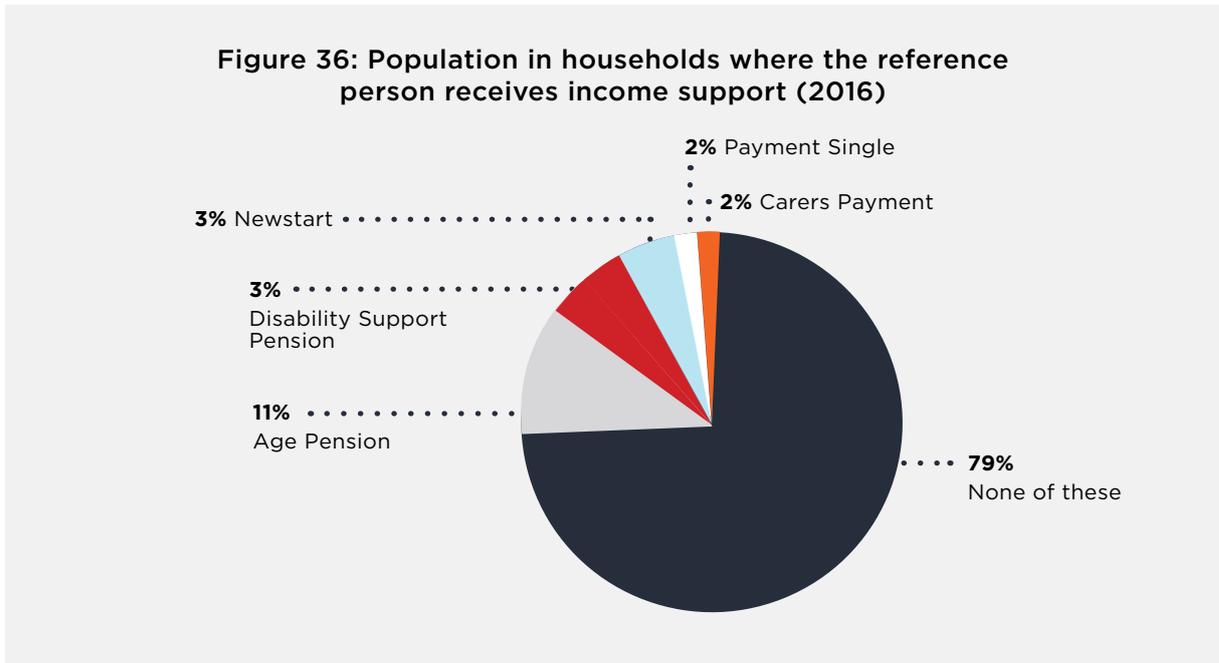


Figure 36 shows that only a minority of people (21%) live in households where the reference person receives a social security income support payment.<sup>66</sup> The largest such group are in households whose reference person receives an Age Pension (11%), followed by Disability Support Pension (3%), Newstart Allowance (3%), Parenting Payment Single (2%) and Carer Payment (2%).<sup>67</sup>

Figure 37 shows that people in households whose highest income earner receives different kinds of income support payment are distributed differently across the five income groups, depending on the payment received. Those most likely to be in lowest quintile are in households where the reference person receives Newstart Allowance (63%), followed by Disability Support Pension (57%), and Parenting Payment Single (53%). People in households whose reference person receives Age Pension or Carer Payment are somewhat less likely to be found in the lowest 20% (46% and 42% respectively) but are still over-represented.

These differences in the distribution of income support recipients are due in part to variations in rates of payment (Newstart Allowance being the lowest), and in the severity of the income tests on different payments (Newstart being the most stringent).

<sup>66</sup> Income support is a type of social security payment designed to provide the main income for adults 18 years or more, who are in families with low private incomes. Other social security payments such as Family Tax Benefit and Rent Assistance supplement low incomes in order to assist with special expenses such as the costs of children or rent.

<sup>67</sup> Carer Payment is an income support payment, as distinct from the smaller Carer Allowance, which is a supplement to help with the costs of caring for a person with a disability. Some income support payments, such as Austudy Payment, are not included here due to small sample sizes.

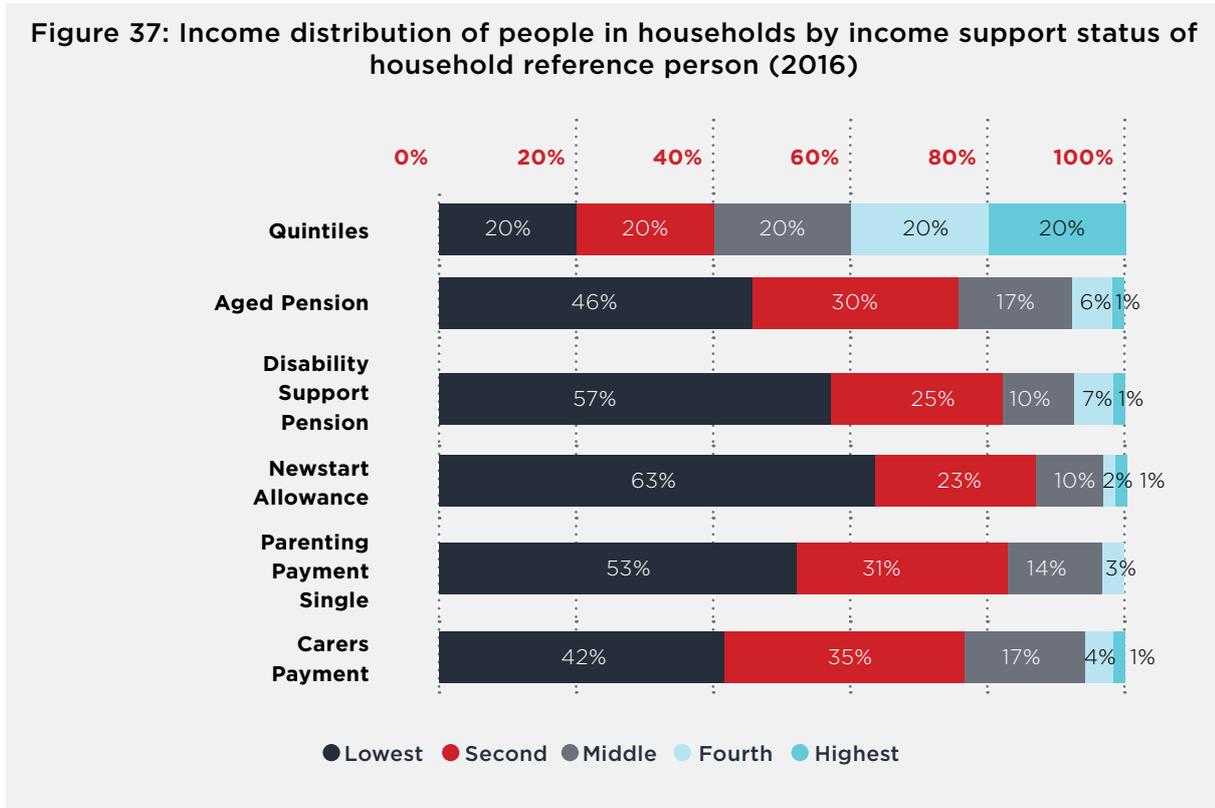
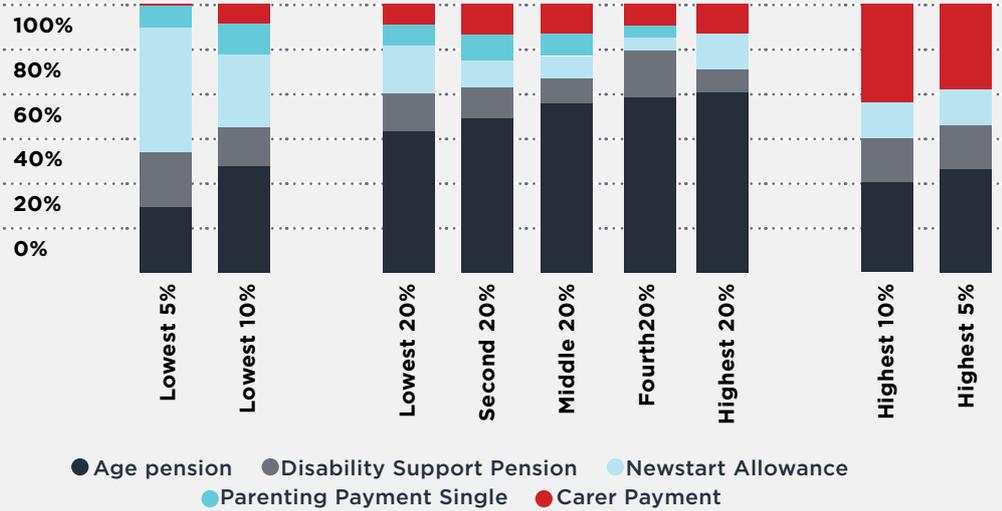


Figure 38 shows the composition of each income group, according to whether the reference person of the household receives a specific income support payment.

This shows that, as we move further down the income scale, an increasing proportion of people in households where the reference person receives income support rely on the lowest payment, Newstart Allowance: from 16% of the lowest 20%, to 30% of the lowest 10%, and 47% of the lowest 5%.

Within the lowest 20% income group, of the income support payments received by the household reference person, 51% receive Age Pension, 16% receive Newstart Allowance, 15% receive Disability Support Pension, 9% receive Parenting Payment Single and 8% receive Carer Payment.

**Figure 38: Profile of each income group by income support status of household reference person (2016)**



*Note: These data are restricted to individuals in households where the reference person receives an income support payment. As indicated above, this group comprises 21% of the overall population. The income groups are the same for other graphs in this Chapter, and represent the whole population. For example, the 67% figure for people in the highest 20% who live in households where the reference person receives an Age Pension is 67% of a small number of people, since few people in the highest 20% are in households where the reference person receives any form of income support payment.*





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