ACOSS AND UNSW SYDNEY

INEQUALITY IN AUSTRALIA 2020

PART 1: OVERVIEW

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http://povertyandinequality.acoss.org.au

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Key Terms

ABS	Australian Bureau of Statistics
ACOSS	Australian Council of Social Service
After tax income	Income from all sources after income tax, the Medicare Levy and the Medicare Levy surcharge are deducted. Also known as net or disposable income. See definition of income below.
Before tax income	Income from all sources, before income tax, the Medicare Levy and the Medicare Levy surcharge are deducted. Also known as gross income.
CPI	Consumer Price Index
Equivalisation	A method of standardising the income of households to take account of differences in household size and composition. For further information see ***http://povertyandinequality.acoss.org.au/methodology***
FTB	Family Tax Benefit
GDP	Gross Domestic Product
GFC	Global Financial Crisis
Gini coefficient	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.
GST	Goods and Services Tax
Household	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).
Net Wealth	The value of a households 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.
PPS	Parenting payment single
Quintile (also known as income or wealth groups)	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.
RA	Rent Assistance

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Foreword

This third 2020 publication from the Poverty and Inequality Partnership between the Australian Council of Social Service and UNSW (Sydney) is written as the global COVID-19 pandemic continues to devastate countries throughout the world. It summarises the extent and effects of income and wealth inequality before the virus hit, and provides a lens through which to assess the impacts of COVID-19 as the pandemic continues and governments and businesses respond. The report includes a preliminary analysis of the likely impact of COVID-19, the associated 'lockdowns', and government income support measures on income inequality.

Prior to COVID-19, inequality in Australia in terms of income and wealth was extensive. Those in the highest 20% by household income had six times the incomes of those in the lowest 20%. Whilst average wealth in Australia was relatively high, it was distributed extremely unequally – those with the highest 20% of wealth had 90 times the wealth of those with the lowest 20%.

The Supplementary Report included shows that the COVID-19 pandemic has already had a profound effect on employment and earnings in Australia, reducing paid working hours by 10% and employment by 6% between March and May 2020. These income losses have impacted women and young people disproportionally. The government has taken unprecedented action to alleviate the economic crisis by almost doubling working-age income support payments, and introducing the JobKeeper wage subsidy program.

This Overview follows the first two publications this year – Poverty in Australia 2020: Part 1 – Overview and Poverty in Australia 2020: Part 2 – Who is affected? It is the latest publication from the 5 year Poverty and Inequality Partnership between ACOSS and UNSW Sydney, a research and impact partnership to reduce poverty and inequality in Australia.

The Overview was prepared by Dr Peter Davidson, in collaboration with Jacqueline Phillips and Penny Dorsch from ACOSS, based on data analysis and guidance from Associate Professor Bruce Bradbury, Senior Research Fellow Trish Hill, and Research Fellow Melissa Wong from the Social Policy Research Centre, UNSW Sydney.

The Partnership is enriched by the involvement of researchers from the City Futures Research Centre; the Centre for Primary Health Care and Equity; and the Faculty of Law. This multidisciplinary approach allows the Partnership to explore the intersection of poverty and inequality with other dimensions of disadvantage – including housing, health and justice.

ACOSS' member and philanthropic partners include Anglicare Australia; Australian Red Cross; the Australian Communities Foundation Impact Fund (and two sub-funds – Hart Line and Raettvisa); the BB and A Miller Foundation; the Brotherhood of St Laurence; cohealth; the David Morawetz Social Justice Fund; Good Shepherd Australia New Zealand; Mission Australia; the St Vincent de Paul Society; the Salvation Army; and The Smith Family.

ACOSS and UNSW Sydney thank all partners for their contributions to the Partnership, along with UNSW Vice Chancellor Ian Jacobs, UNSW Deputy Vice-Chancellor Equity, Diversity and Inclusion Professor Eileen Baldry and the ACOSS Board for their continued support for this work in this challenging and uncertain time.

Dr Cassandra Goldie

Professor Carla Treloar

Executive Summary

The analysis in this publication - which uses the best and latest available data on how income and wealth are shared across the community finds that, in Australia today:[1]

- There is a wide gulf between the incomes of those with the lowest and those with the highest incomes in Australia (the highest 20% has nearly 6 times the income of the lowest 20%).

- This gulf between income groups increased during periods of income growth (1999-2007) and stabilised in periods of income stagnation (2007-2017), suggesting that income growth was unequal but income stagnation was widely shared. During the boom, the average incomes of the highest 20% grew by 40% compared with 32-33% for the lowest and middle 20%.

- Average household wealth in Australia is high by international standards – now surpassing $1 million – but is very unequally distributed (the highest 20%, with average wealth of $3.3 million, have 90 times the wealth of the lowest 20%, with average wealth of $36,000).

- Different kinds of wealth are distributed very differently. While the top 20% hold 55% of owner occupied housing wealth, they own 80% of financial investments and investment property and 61% of superannuation wealth. The average superannuation wealth of the highest 20% is $496,000 - three times that of the middle 20% ($179,000) and nine times that of the lowest 20% ($58,000).

- Wealth inequality has grown strongly over the last 20 years or so, with the average wealth of the top 20% growing ten times faster than the bottom 20%. This has been largely driven by growth in the value of the asset types held disproportionately by the top 20% (investment property, superannuation and shares).

This Overview sets a base-line of data against which to assess the impact that COVID19, high unemployment, and government policies to protect incomes and jobs have on the living standards of different groups in the community. Future reports will closely examine this impact when the data are available. A preliminary analysis of impacts on paid work hours, different population groups and of government payments is included in the Supplementary Report: *The impact of COVID19 on income inequality.*

1 Based on analysis of data from the Australian Bureau of Statistics *Survey of Income and Housing* Confidential Unit Record files for 2017-18.

The highest 20% of households has six times the income of the lowest 20%

When we compare the average incomes of the highest 20% of people ranked by household income after tax, we find a wide gulf between the **$4,166 per week ($297,000 per year before tax) received by the highest 20% and the $753pw ($41,000 before tax) received by the lowest 20%** (who mainly receive pensions and allowances from Centrelink).

Highest 20%

$4,166 /week

Lowest 20%

$753 /week

This is due in part to the make-up of their incomes. The highest 20% receives three quarters (76%) of its before-tax income from wages and 18% from investments, while the lowest 20% relies on pensions, allowances and family payments for over half (54%) of its income. Their social security payments averaged just $425 per week, compared with the $1,023 in investment income (including dividends and interest) and $4,342 in before-tax wages received by the highest 20%.

Further, wages and investment incomes are skewed towards the highest 20%. They receive 44% of all wages (compared with 18% for the middle 20%) and 65% of all investment income (compared with 12% for the middle 20%). The middle 20% of households receive a more modest average of $1,773 per week in wages before tax and $183 in investment income.

Average household wealth has now surpassed $1m, but it is very unequally distributed with the highest 20% having more than 90 times the lowest 20%

Our data show average wealth in Australian dollars per household reached $1,026,000 in 2017. That doesn't mean we're all millionaires now. This figure is inflated by the $6.8 million held (on average) by the highest 5% and the $3.3 million held by the top 20%.

Highest 5%

$6.8m

Middle 20%

$565k

Lowest 20%

$36k

Wealth is much more concentrated towards the top than incomes. **The highest 5% (with $6.8 million) had more than 12 times the average wealth of the middle 20% (with $565,000) and 90 times that of the lowest 20% ($36,000)**, and holds almost two-thirds of all wealth.

Much of our wealth is tied up in property. Half (51%) of household wealth is held in real estate (39% in the main home and 21% in investment properties), compared with 42% in financial investments (21% in superannuation and 20% in shares and other financial investments), and 9% in non-financial assets such as cars.

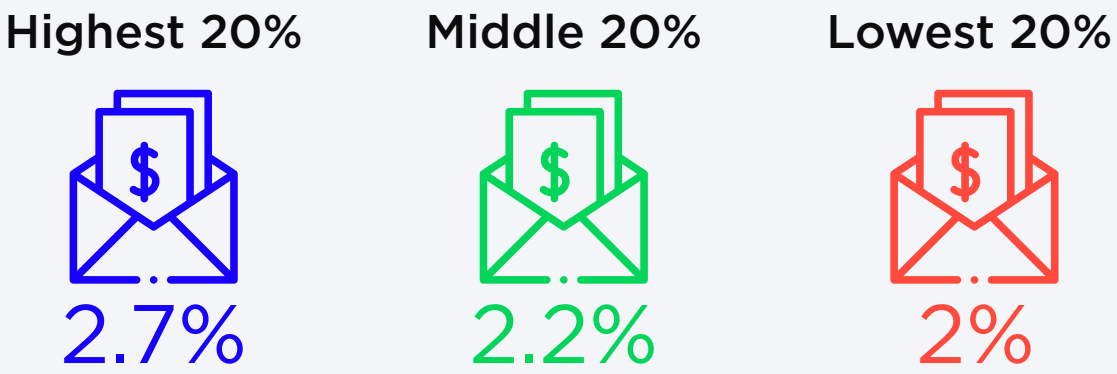
Among these different types of wealth, financial investments and investment property are heavily concentrated in the hands of the wealthiest 20%, who hold over 80% of those assets. They also hold 61% of superannuation wealth and 55% of owner-occupied housing wealth.

In the last 20 years, income inequality has grown during periods of income growth and flattened during periods of income stagnation

During the boom years between 1999 and 2007 (just before the Global Financial Crisis or GFC), household disposable incomes in Australia grew strongly (after inflation) for most people, but so did income inequality. While all income groups from the lowest to highest 20% saw solid income growth on average, growth was skewed towards the highest 20%. The average household incomes (after tax) of the highest 20% rose by 5% a year after inflation, compared with 4.1% for the middle 20% and 3.9% for the lowest. At the very lowest end of the spectrum, many people on 'allowance' payments such as Newstart saw no growth in their incomes at all.[2]

This pattern changed after the GFC in 2008, when incomes after-inflation stagnated across the board. Compared to overall average growth of 4.3% a year during the boom, growth in household incomes after inflation fell to a meagre 0.5% per year from 2007 to 2017. Most people shared in the stagnation. The incomes of the highest 20% rose on average by 0.6% per year, compared with 0.5% for the middle 20% and 0.4% for the lowest 20%.

Over the period as a whole, **average annual income growth (after inflation) was 2.7% for the highest 20%, compared with 2.2% for the middle 20% and 2% for the lowest 20%.** The overall increase in incomes over the 18 years was 48% for the highest 20% compared with 40% for the middle 20% and 36% for the lowest 20%.



2 ACOSS and UNSW Sydney (2020), *Poverty in Australia – who is affected?*

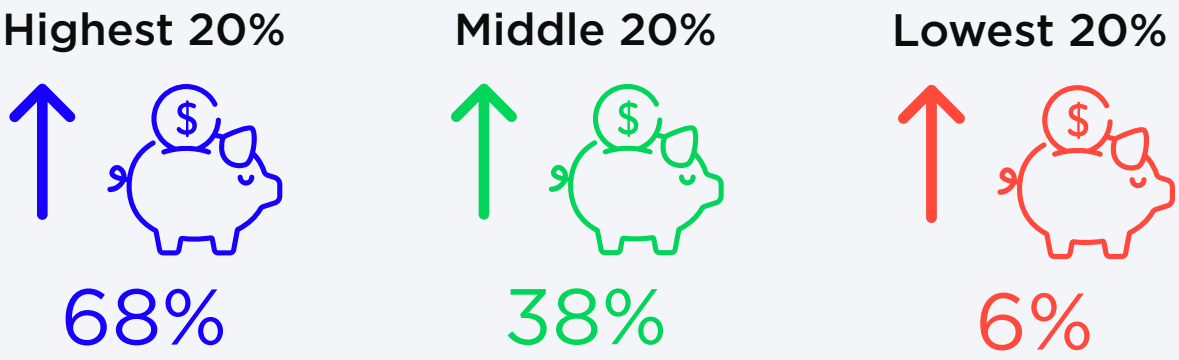
From 2003 to 2017, the average wealth of the highest 20% grew almost twice as fast as that of the middle 20% and over 10 times faster than the lowest 20%

Wealth begets wealth, so wealth inequality is generally more persistent.

Wealth grew both strongly and unequally from 2003 through to 2017, except for a short pause after the GFC. Average household wealth (in 2017 dollars) rose from $657,000 in 2003 to $852,000 in 2009, fell to $817,000 in 2011 (after the GFC), and resumed its growth to reach $1,026,000 in 2017.

From 2003 to 2017, **the average wealth of the highest 20% grew almost twice as fast (by 68%) as that of the middle 20% (38%), leaving the lowest 20% far behind (growing by just 6%).**

This lopsided growth in household wealth was mainly due to the rapid growth in the value of assets that were concentrated in the hands of the highest 20%, including shares and other financial investments (which grew by 74%, backed by a sharemarket boom), and investment property (which grew by 66% due to a property boom) and superannuation (which grew by 141% reflecting rises in share values).



The longer-term impact of COVID-19 and mass unemployment on income and wealth inequality will depend very much on how governments respond

We already know that the impact on employment and earnings of the COVID-19 pandemic and associated lock downs has been stark. In just three months from March to May 2020, paid working hours across the economy fell by 10% and the number of jobs fell by 6%. COVID-19 struck disproportionately at the incomes of lower-paid workers (especially women and young people) and their families. The average wage of people in most affected industries (before COVID-19) was half that of people in least affected industries. The inequality-increasing impact of these job losses was offset (to an extent unknown at this stage) by government action. The JobKeeper wage subsidies and the effective doubling of the JobSeeker Payment protected the incomes of those most affected – with the notable exception of many migrants and casual workers.[3]

The impact of COVID-19 on inequality will depend very much on how these and other policies evolve. Timely, well-targeted and jobs-rich economic stimulus could prevent a further increase in unemployment. A substantial, permanent increase in the Jobseeker Payment would ensure that those who cannot get paid work can meet household costs, and mitigate against the loss of earnings from paid work. Both measures would effectively prevent an increase in income inequality and support Australia's economic recovery from the pandemic. A failure to deliver effective stimulus or boost income support risks a steep rise in inequality from which it may take a long time to recover. Those most affected by losses of employment or paid hours – women, young people and people unemployed long-term - will need support to re-establish their careers.

3 These data are provided in the Supplementary Report. Wilkins R (2020), Who's hit hardest by COVID19? Melbourne Institute Research Insight: 10/20; Coates B et al (2020), Shutdown: estimating the COVID19 employment shock, Grattan Institute; National Skills Commission (2020), A snapshot in time - The Australian labour market and COVID19.

About this Overview

This is the second report on income and wealth inequality released by the Poverty and Inequality Partnership (PIP) between the Australian Council of Social Service and UNSW (Sydney), with the previous report, ***Inequality in Australia 2018*** analysing data from 2015-16. Using the latest available data from the Australian Bureau of Statistics, this Overview provides an overview of the extent of income and wealth inequality in 2017-18, and trends in inequality from 1999-2017.

Forthcoming publications will drill into the 2017-18[4] data to reveal which groups are most advantaged and disadvantaged by inequality, and the main contributing factors.

By tradition, Australians have long believed that ours is an egalitarian country where people receive a fair share of income and wealth based on our efforts.[5] The data shows that the distribution of income and wealth is much more unequal than this belief would suggest.

While we generally accept reasonable rewards for effort and saving, excessive inequality undermines social cohesion and concentrates power in fewer hands. When many people are too impoverished to participate fully in the society and in the economy, this diminishes growth in incomes and employment for all.[6]

The distribution of income and wealth is controversial. It is in everyone's interests that debate on these issues is grounded in the best evidence, yet few beyond the experts have had access to the facts.

This series of publications is designed to provide a baseline of information so that non-expert readers can come to grips with inequality and its causes and effects; and to inform policy responses.

1. Measuring inequality

To measure income and wealth inequality throughout, we rely on the biennial Survey of Income and Housing produced by the Australian Bureau of Statistics (ABS), the latest of which covers financial year 2017-18 (shortened to '2017').

We rank people included in the ABS survey into groups according to the income or wealth of their household. This is based on a simplifying assumption that households typically share their incomes and wealth, though we acknowledge this is not always the case. While measuring incomes and wealth on a household basis is useful for assessing living standards and financial security, it masks differences between household members, including the incomes assets and unpaid labour of household members.[7]

4 Hereafter referred to as 2017 for simplicity
5 Sheppard J & Biddle N (2017), *Is Australia as egalitarian as we think it is?* Australian Broadcasting Corporation 'The Drum', Wednesday 28 October 2015.
6 OECD (2015) *Growing unequal: income distribution and poverty in OECD countries,* Paris.
7 Apps P and Rees R (2011), Household Time Use, Inequality and Taxation, *Household Economic Behaviours*, Springer. pp 57-81

Measuring income inequality

Incomes include wages and salaries, earnings from self-employment, investment income and social security payments, which together form 'gross income'. When ranking households by weekly income, two adjustments are made: income tax is subtracted to rank households by after-tax (disposable) income, and this is adjusted downwards ('equivalised') according to the size of the household (with no downward adjustment for single person households). This last adjustment takes account of the different expenditures required by households of varying size to achieve the same living standard.

We then report the average weekly after-tax incomes for each household income group (for example, the 20% of people living in households with the lowest equivalent income), and the share of all household income received by that group. So that they are readily understood by readers, these average incomes are not adjusted downwards for household size.

Measuring wealth inequality

Household wealth consists of a range of assets including owner-occupied or investment housing, superannuation, financial assets such as shares and bank balances, and other non-financial assets such as cars. To report on household wealth, the current values of various assets held by a household - is tallied, minus any debts owing (for example, home mortgages). The value of wealth holdings is not adjusted for household size in order to rank households by wealth.[8] We also report on the distribution of wealth among the income groups described above.

Measuring changes in inequality

In addition to the distribution of income and wealth in 2017, we report trends in overall levels of income and wealth and their distribution, from 1999 to 2017 for income and 2003 to 2017 for wealth.[9] To ensure consistency over time in view of changes in income definitions used by the ABS, the trend estimates use a different data definition to the estimates for 2017 (so the 2017 estimates will differ in the two sections of the report).[10]

When mapping trends in income and wealth inequality, we use a summary measure of inequality, the 'Gini coefficient' in addition to the other measures described above. The Gini varies across a range from zero (equal distribution to all) to one (where all income or wealth is held by a single household).

8 The reason is that it is harder to assess how household wealth is shared within households. For example, superannuation, being savings for an individual's retirement, is less likely to be shared with other members of that person's current household.

9 Data for wealth are not available before 2003 in the ABS data series used here.

10 For both income and wealth estimates, the trend estimates top-code (cap) the number of children in the household to four. In addition, for the trend income estimates in all years, we use the ABS's pre-2008 income definition (which is less comprehensive than the measure shown for 2017).

Further information

Future publications in this series will examine in more detail the characteristics of people at different points along the income and wealth spectrum, and the main sources of income and wealth held by people with different characteristics (for example people of different ages and family types) in 2017-18.

They will also examine the impact of government benefits and taxes on the distribution of income.

This report uses the same methods as in the previous report ***Inequality in Australia, 2018*** (but with incomes reported in 2017-18 values). For more information on the technical aspects of the analysis underlying this publication see the methodology report for the 2018 study available at: ***http://povertyandinequality.acoss.org.au/methodology/***

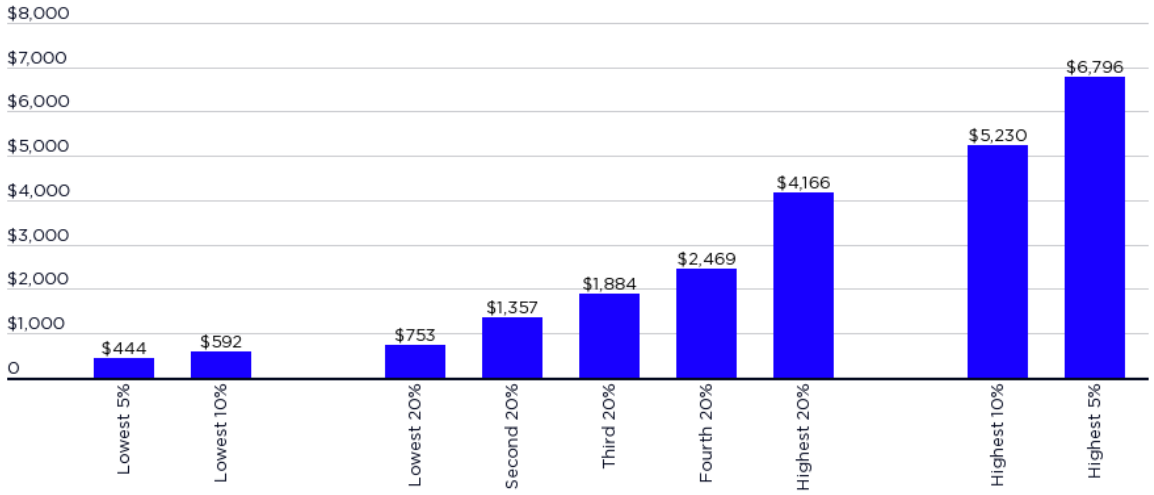
2. Income inequality in 2017

The highest 20% has more than twice the income of the middle 20% and nearly six times that of the lowest 20%

Figure 1 divides the population into five equal-sized income groups according to the after-tax income of the households in which they live. It shows the average income for each group. The average incomes of the lowest and highest 5% and 10% are also shown for comparison. It shows that:

- The average household after-tax income for people in the highest 20% of households is $4,166 per week, more than twice the income of the middle 20% ($1,884 per week) and nearly 6 times that of the lowest 20% ($753 per week).
- The highest 5% (with $6,796 per week) has nearly 4 times the income of the middle 20% and 9 times that of the lowest 20%.
- The highest 20% has 42% of all household after-tax income, more than the lowest 60% combined.

Figure 1: Average weekly after-tax income by household income group in 2017



Note: The population is divided into 'income groups' comprising individuals in households with different levels of after-tax income (after-tax income 'equivalised' or adjusted to take account of household size). Although incomes are equivalised to divide people into income groups, the average incomes for each group shown here are not equivalised.

We are not all in the middle

Table 1 repeats the average weekly after-tax incomes for these income groups shown in Figure 1, and also compares their average gross (before-tax) incomes which will more familiar to many readers.

This shows that a 'middle income' household (the middle 20%) has an average gross (before-tax) annual income of $116,000.[11]

Many people in households with higher incomes mistakenly perceive themselves to be in the middle of the distribution. A survey by IPSOS for MLC found that in 2015, almost 60% of people in households with $150,000 to $200,000 in annual pre-tax income and almost half those with more than $200,000 classified themselves as 'middle class''.[12]

In part, this misperception stems from a confusion between average wages and average household incomes. A couple with two fulltime average wages ($82,000 each or $164,000 altogether) is likely to place themselves in the middle of the household income distribution, when in fact they are more likely to be in the second-highest 20% - whose average before-tax income according to Table 1 is $159,000.[13]

11 This income is not adjusted for household size.

12 IPSOS research and MLC (2015), 'We're all in the middle, aren't we? Australia today, A look at lifestyle, financial security and retirement in Australia.' MLC. Melbourne. See also Hoy C and Toth R (2019), 'Aligning preferences for redistribution of right-wing and left-wing voters by correcting their beliefs about inequality,' Working paper 4/2019, Tax and Transfer Policy Institute, Australian National University.

13 Their actual placement in the income distribution used in the present research also depends on family size. ABS Average weekly earnings, for November 2017 (fulltime ordinary time earnings for adults).

The main reason the average income of the middle 20% is much lower than this is that a typical household in that income group comprises a couple with dependent children where the father is employed fulltime and the mother is employed part time since she performs most of the unpaid caring work. The income of this typical middle-income household might include, for example, a full-time wage of $80,000, a part-time wage of $30,000 and investment income of around $6,000 per year.

Another reason that the 'middle' has less income than many higher income-earners think is that 'middle' incomes are pulled down by the much lower incomes at the bottom of the distribution. Most people in the lowest 20% have little or no earnings from employment. Those households are typically singles or couples without children or sole parent families whose main income source is social security payments. They have an average gross income of $41,000 a year including $22,000 in social security payments (such as Age Pension or Newstart Allowance and Family Tax Benefits) and $14,000 from wages.[14]

Table 1: Average household incomes for different income groups (2017)

	Lowest 5%	Lowest10%	Lowest20%	Second 20%	Middle 20%	Fourth 20%	Top 20%	Top 10%	Top 5%
Average weekly after-tax income ($)	444	592	753	1,357	1,884	2,469	4,166	5,230	6,796
Average annual before-tax income ($)	24,000	32,000	41,000	79,000	116,000	159,000	298,000	389,000	525,000

Note: These average household incomes are expressed in actual dollars not 'equivalised dollars'. The top row shows weekly after-tax income and the second row shows annual gross (before tax) income

Find where you sit in the household income distribution

To help people see where they lie in the Australian income distribution, we have developed an interactive calculator at ***http://povertyandinequality.acoss.org.au/income-calculator/***. After entering income and family size information into this calculator it will show your position in the overall income distribution. Note that the results from the calculator will be slightly different from those shown in this report as has been designed to show an estimate of the income distribution as at the start of 2020, rather than the 2017-18 distribution shown in this report. It also includes the 1% of households with zero or negative incomes.

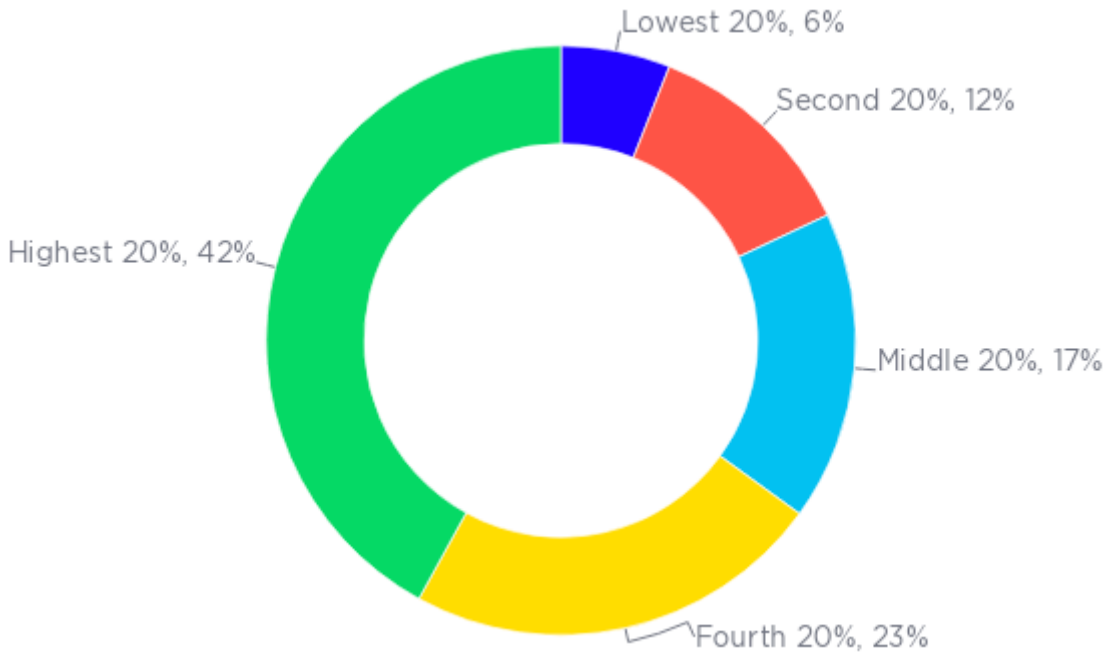
14 More information on the profile of people in the different income groups, and their sources of income, will be provided in the next publication in this 'Inequality in Australia' series.

The highest 20% has 42% of all household after-tax income, more than the lowest 60% combined.

Figure 2 shows how all household income is divided up among five income groups.

The highest 20% has 42% of all household income, compared with 17% for the middle 20% and 6% for those in the lowest 20%.

Figure 2: Shares of national household income (% of total in 2017)

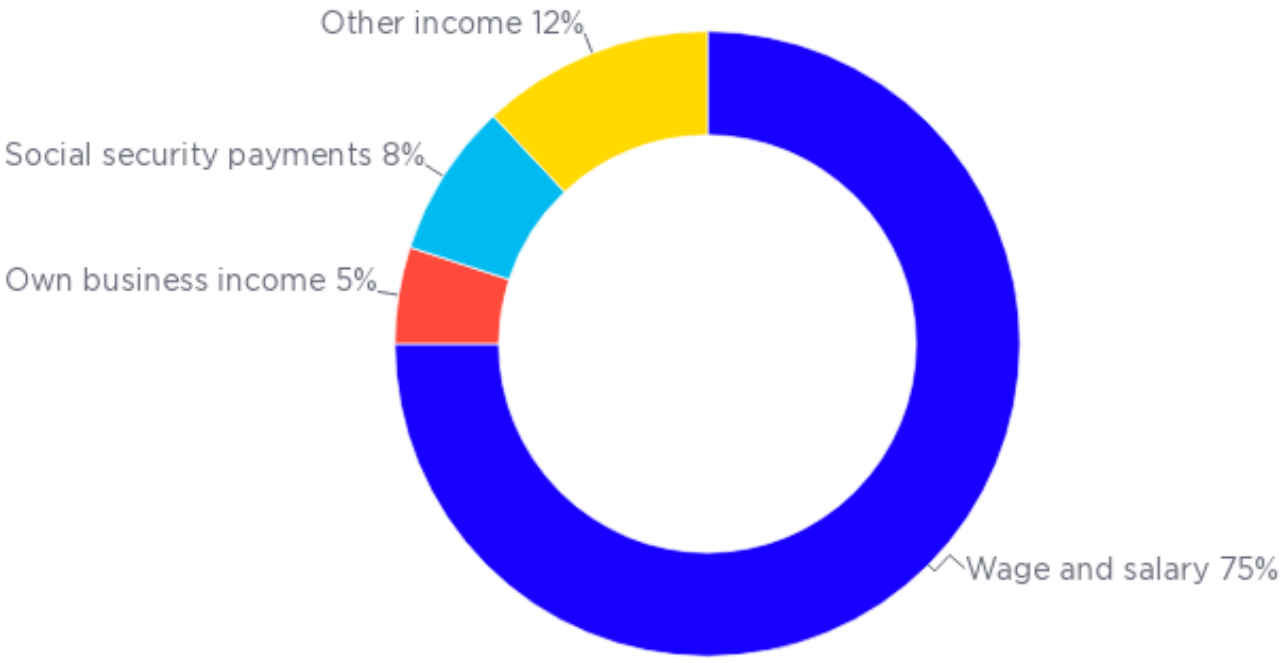


Note: Percentage of gross household unequivalised income received by each income group.

Wages and salaries are by far the largest income source overall, comprising 78% of all income

Figure 3 divides all household income (before tax) into its sources. It shows that wages and salaries are the largest income source (75% of all income), followed by investment and other income (12%), social security payments (8%) and self-employment (5%).

Figure 3: Main sources of household income (% of all income in 2017)



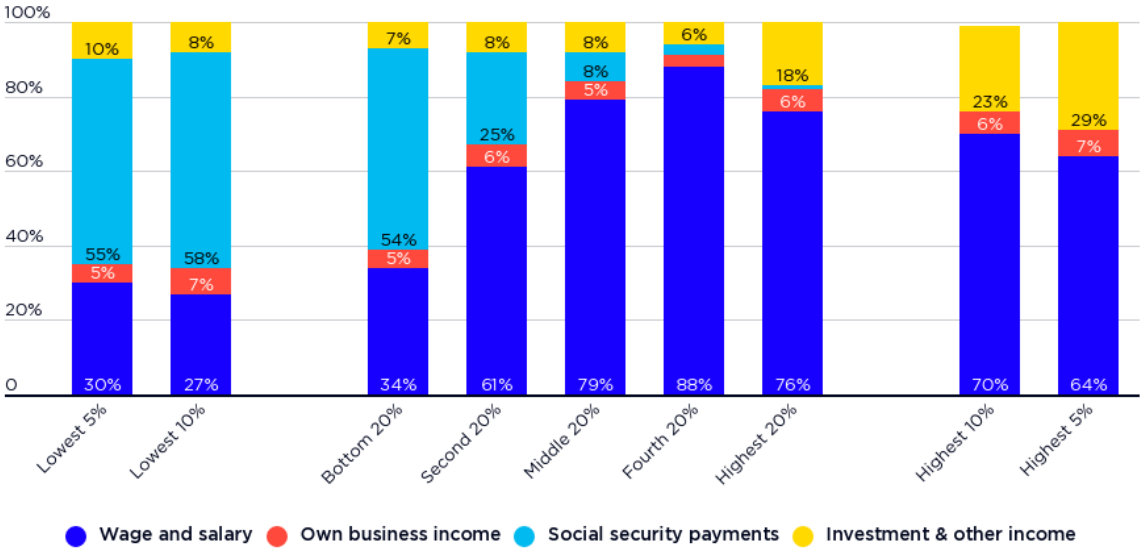
Note: as a percentage of all household income, before tax.

Social security payments are a large part of the incomes of the lowest 20%, while investment income is more prominent for the highest 5%

Figure 4 digs a little deeper to profile the income sources of each group.

Wages and salaries comprise most of the before-tax income of all income groups (quintiles) except the lowest 20%. Social security payments are the largest income source for the lowest 20% (54% of their income) but in our highly 'targeted' system these payments comprise 25% or less of total income for all higher-income groups. Investment income only forms a sizeable share of the incomes of the highest income groups, for example 29% of the income of the highest 5%.

Figure 4: Profile of each income group by main source of household income (% of gross income in 2017)

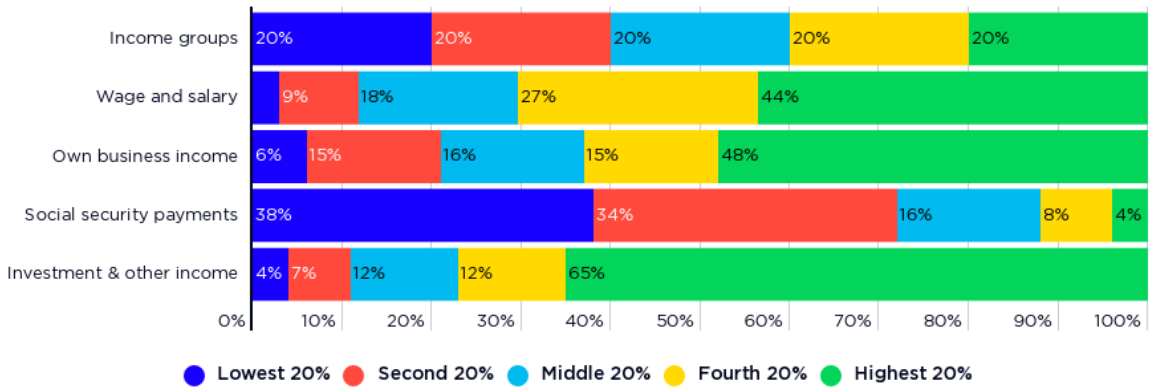


Note: Percentage of total before-tax income from different sources, by income group

The highest 20% receive the lion's share (65%) of investment income while lowest 20% receives over one third of all social security payments (38%)

Figure 5 shows that different income sources are distributed very unevenly among the income groups. The highest 20% receives two-thirds of all investment income and a substantial share of own-business income and wages (48% and 44% respectively). At the other end of the scale, the lowest 20% receives over a third of all social security income (38%) due to the highly-targeted nature of our social security system.

Figure 5: Distribution of income by main income source across household income groups (2017)



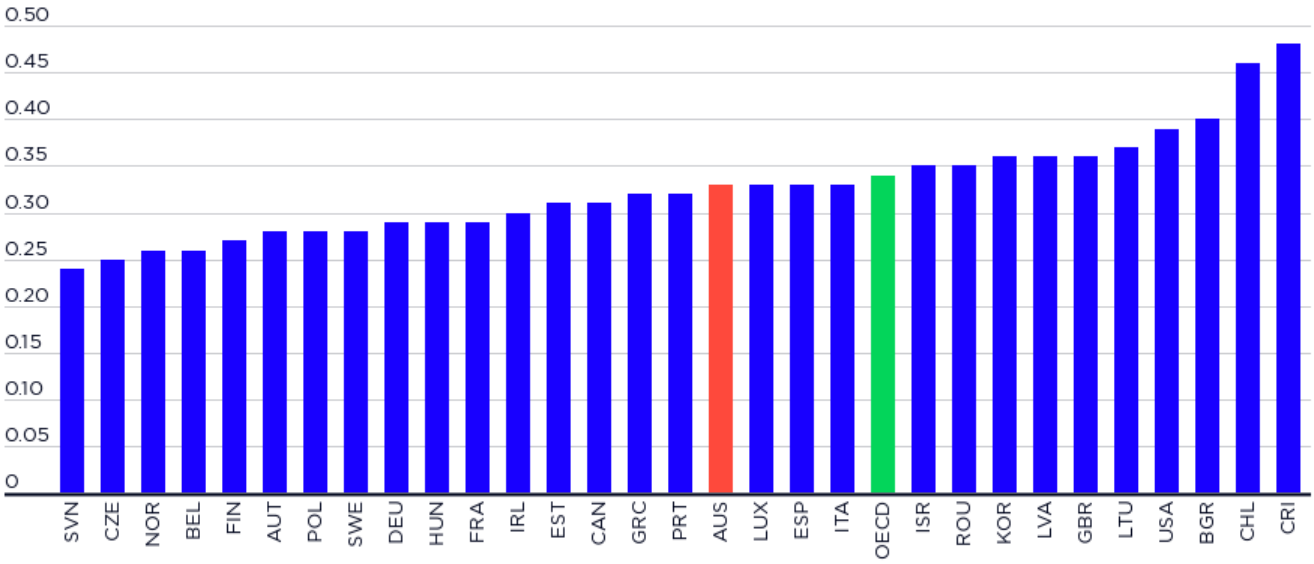
Note: Percentage of each type of income (before tax) received by the income groups.

The overall level of income inequality is close to the average across wealthy nations.

Figure 6 compares inequality in wealthy nations, using the Gini coefficient, a single measure of inequality where a value of zero means that all households have the same income while a value of one means that all income is received by a single household.

This shows that, when measured in this way, income inequality in Australia is close to the average level for wealthy nations, based on data compiled by the Organisation for Economic Cooperation and Development (OECD).

Figure 6: International comparison of income inequality (Gini coefficient) - 2017 or latest year



Source: OECD income distribution data base. Estimate for Australia is for 2018.

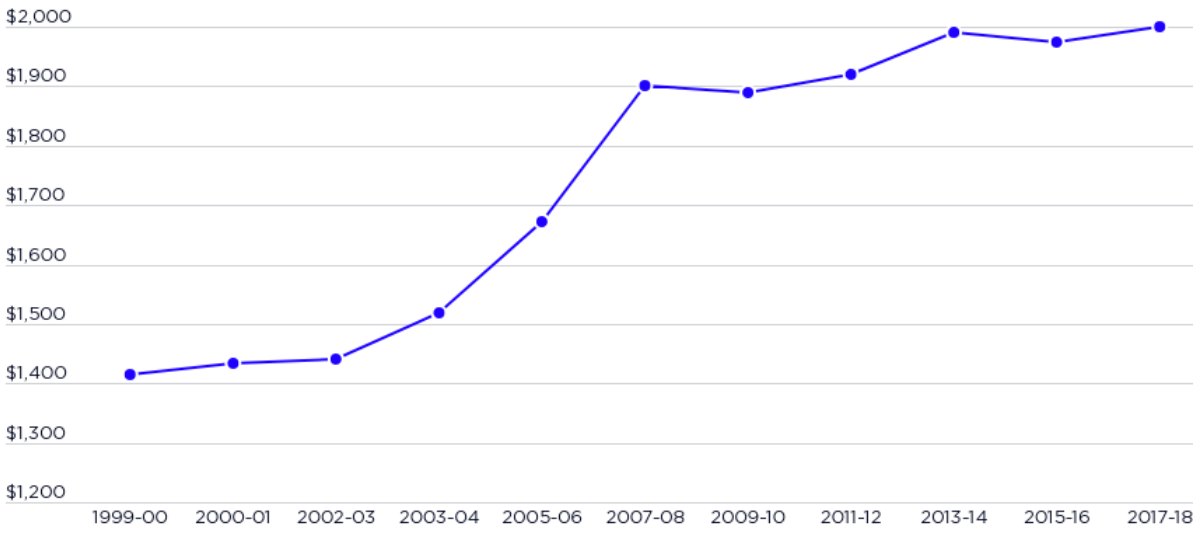
Note, the Australian Gini as measured in this publication is slightly different to that shown here because a different equivalence scale adjustment is used.

3. Trends in income inequality 2000-17

Household after-tax incomes grew strongly up to the Global Financial Crisis in 2008, but growth has been slow since then

Figure 7 shows that household incomes grew strongly in real terms (at an annual rate of 4.3% after taking account of inflation) during the boom period from 1999 to 2007. Following the Global Financial Crisis (GFC) in 2008, income growth has been sluggish, at 0.5% per year.

Figure 7: Trends in real average household after-tax income from 1999 to 2017 (in 2017 dollars)



Income inequality increased during the boom up to 2008, and then plateaued.

Figure 8 shows that inequality of weekly household incomes as measured using the Gini coefficient increased from a value 0.304 in 1999 to 0.319 in 2007, finishing at 0.315 in 2017.

Inequality of *annual* (as distinct from weekly) incomes increased more sharply from 0.305 in 1999 to 0.344 in 2007, falling back to 0.329 in 2014.[15]

Figure 8: Overall trends in income inequality from 1999 to 2017 (Gini coefficients for weekly and annual income)

Note: The Gini coefficient is a measure on inequality whose value is zero if all incomes are equal and one if all income is received by a single household.

Changes in ABS survey methods (for both weekly and annual income) in the early 2000s mean that there is some uncertainty about trends in inequality at that time.

15 This was the last year for which annual income was measured by the ABS. These differences between trends in weekly and annual income inequality may be due to fluctuations in incomes across the year, or measurement issues such as whether respondents accurately recall their incomes.

In the boom years, income growth for the highest 20% surpassed that for middle and low income groups.

Over the whole period from 1999 to 2017, average annual growth in household after-tax incomes for the highest 20% was 2.7% (after taking account of inflation), compared with 2.2% for the middle 20% and 2% for the lowest 20%. Yet this disguises major shifts in income growth and distribution before and after the GFC in 2008.

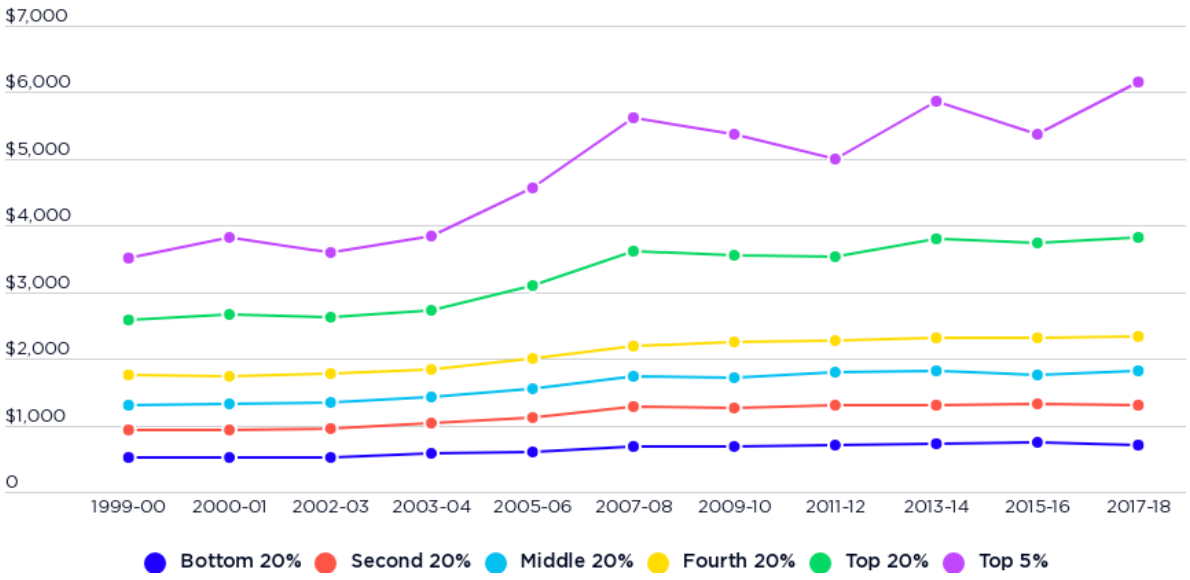
As figure 9 shows, during the boom years, growth in high incomes surpassed that of middle and lower income households. The average after-tax incomes of the highest 20% rose from $2,581 per week in 1999 to $3,619 in 2007 (growth of 5% a year), compared with an increase from $1,308 to $1,733 for the middle 20% (4.1% a year), and an increase from $519 to $680 for the lowest 20% (3.9% a year).

The highest 5% of households saw their incomes grow more sharply during the boom, from $3,514 a week to $5,611, at a brisk annual rate of 7.5%.

A rising tide lifted all boats, but those at the top rose faster.

After the GFC, growth in household income generally flat-lined, along with the trend in income inequality.

Figure 9: Trends in average weekly after-tax income from 1999 to 2017 (in 2017 dollars)

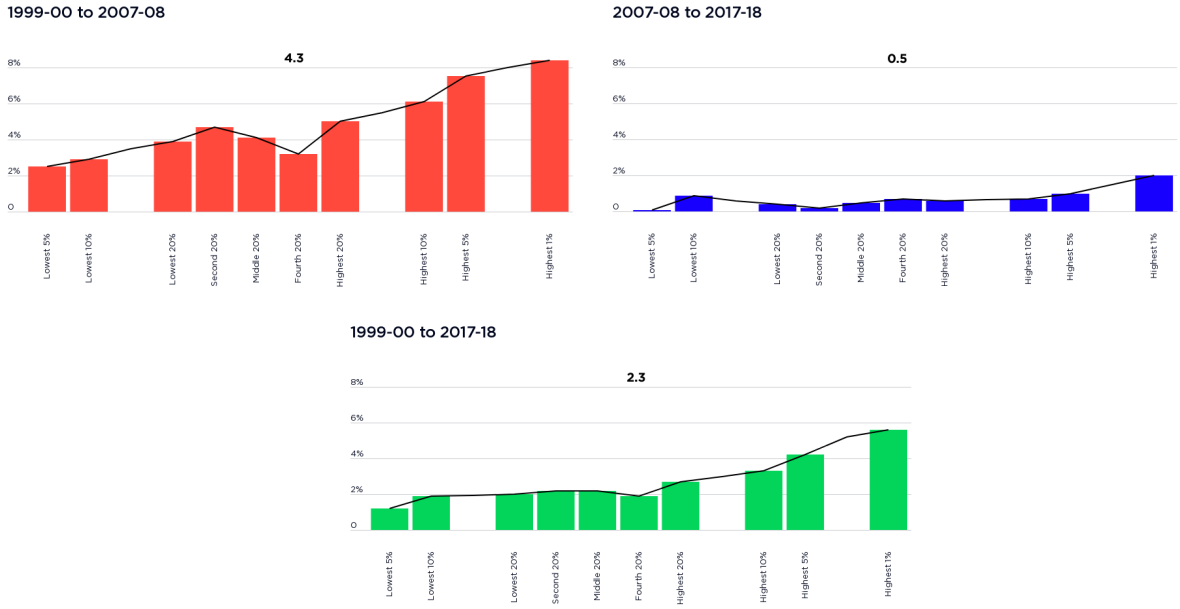


To shed more light on these trends, figure 10 breaks the average annual increases in household incomes into two periods, up to and after the GFC.

It shows that the average incomes (after inflation) of the highest 20% rose by an average of 5.0% per year during the boom and 0.6% afterwards. The incomes of the middle 20% rose more slowly - by an average of 4.1% per year during the boom and 0.5% afterwards. The incomes of the lowest 20% grew more slowly again - by 3.9% a year in the boom up to 2007, but just 0.4% from 2007 to 2017.

Over the period as a whole, average annual income growth (after inflation) was 2.7% for the highest 20%, compared with 2.2% for the middle 20% and 2% for the lowest 20%. The overall increase in incomes over the 18 years was 48% for the highest 20% compared with 40% for the middle 20% and 36% for the lowest 20%.

Figure 10: Annual percentage increase in weekly after-tax income, before and after the GFC in 2007-08



Note: average annual increases in household after-tax incomes, after taking inflation into account.

Over the whole period, the share of all household income accruing to the highest 20% rose by 1.1%, while that going to the middle and lowest 20% declined by 0.3% and 0.2% respectively

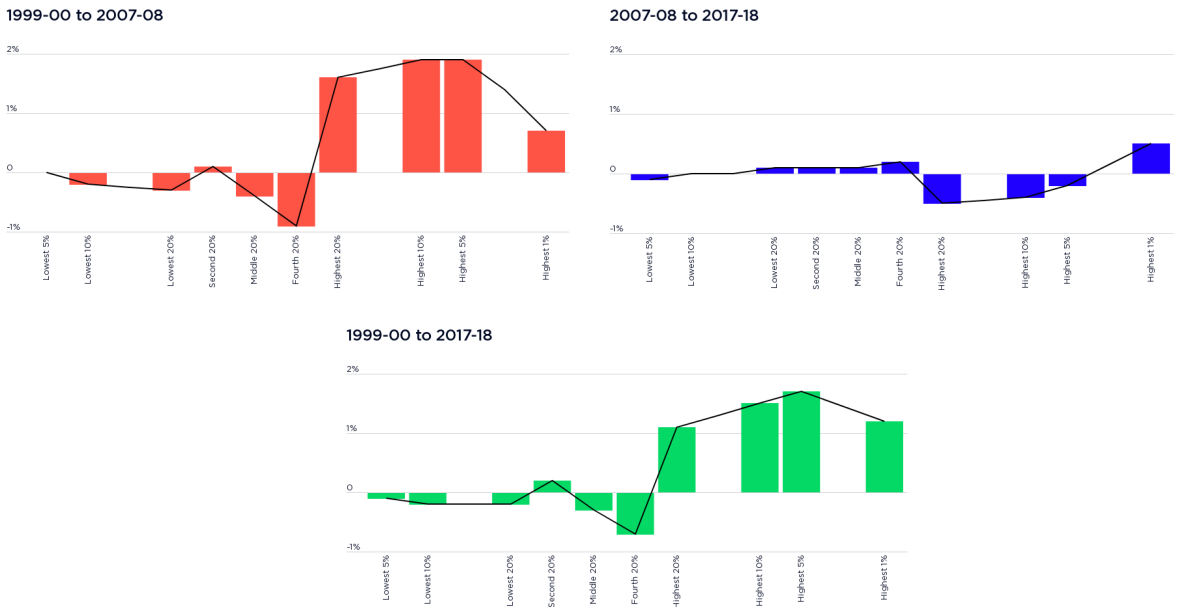
Figure 11 shows how the share of income received by different groups changed before and after the Global Financial Crisis (GFC).

Before the GFC, the share of the highest 20% rose by 1.6% while those of the middle and lowest 20% fell by 0.4% and 0.3% respectively.

After the GFC, there was a slight reversal in this trend towards less equal income shares. The share of the highest 20% fell by 0.5%, while those of the middle and lowest 20% each rose by 0.1%.

Over the whole period, the income share of the highest 20% increased by 1.1%, at the expense of the middle 20% and lowest 20%, whose shares fell by 0.3% and 0.2% respectively.

Figure 11: Changes in income shares (% of all income) before and after the GFC in 2007-08



Note: changes in the proportion of all income received by each group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4. Wealth in 2017

The remainder of this Overview deals with the distribution of wealth among households, including owner-occupied housing, superannuation, financial investments, investment property and non-financial assets such as cars. We compare the wealth holdings of households ranked by both wealth and income levels, and trends in the level and distribution of wealth from 2003 to 2017. When calculating the value of wealth holdings, associated debt (for example home mortgages) is subtracted from the value of assets.

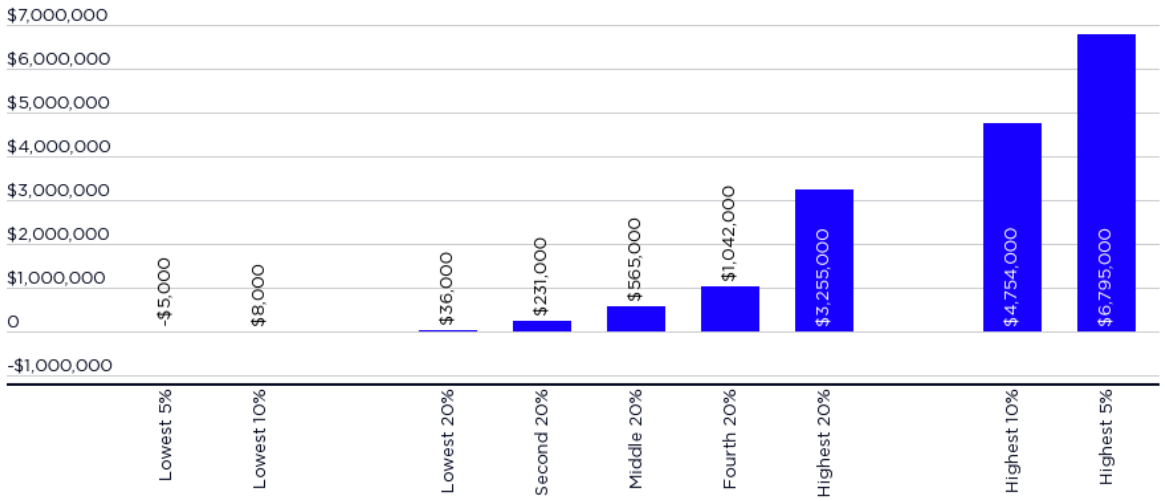
Wealth is much more concentrated at the top than incomes

Since wealth is largely income accumulated over time by people who can afford to save, it is much more unequally shared than income.

The average wealth of the highest 20% of wealth-holders is $3,255,000 – six times that of the middle 20% who had a more modest $565,000; and over 90 times the wealth of the lowest 20% (with just $36,000).

The average wealth of the highest 5% is $6,795,000.

Figure 12: Average household net wealth by wealth group ($000 in 2017-18)

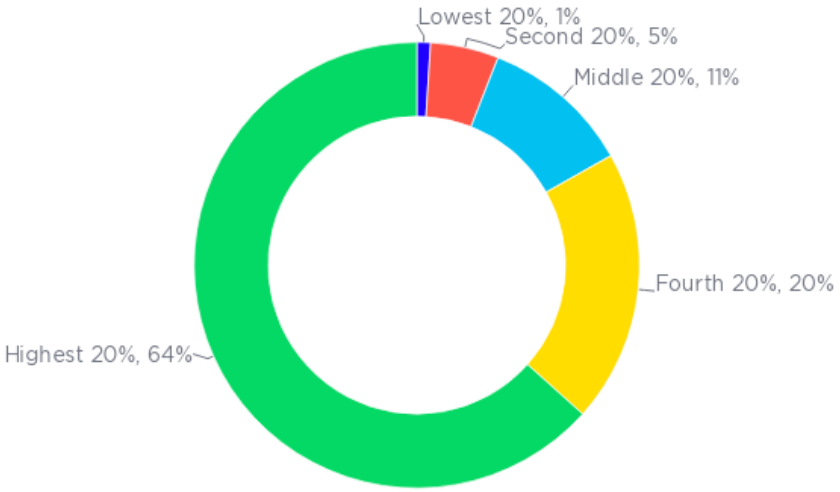


Note: Wealth is adjusted for debt. An equivalence scale is not applied to adjust wealth for household size.

The wealthiest 20% hold almost two-thirds of all household wealth (64%), more than all other households combined

Figure 13 shows how wealth is divided up among households. The wealthiest 20% holds 64% of all wealth, followed by 20% for the next-wealthiest 20%. The remaining 60% of households have just 17% of wealth between them.

Figure 13: Shares of all wealth held by wealth groups (% in 2017-18)

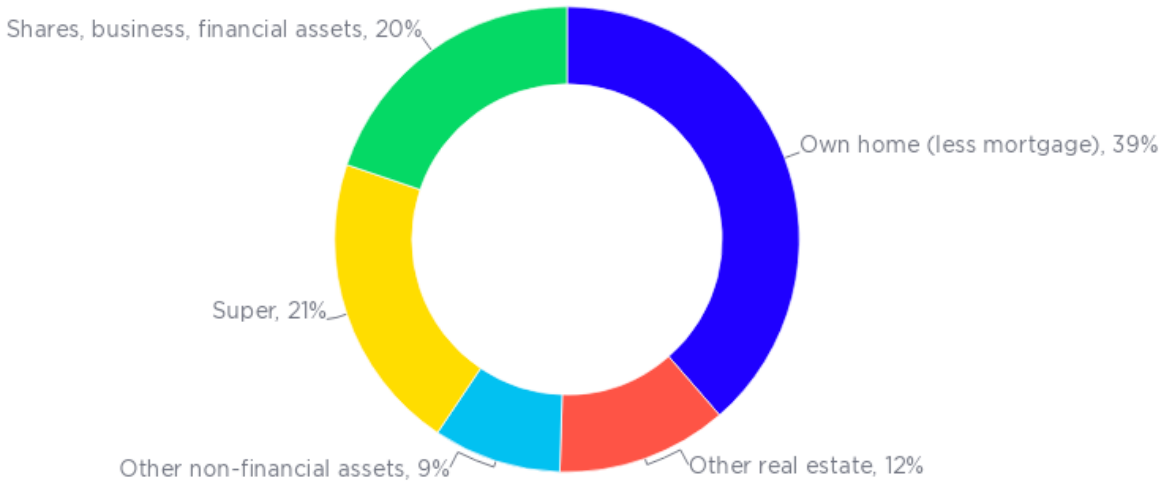


Note: Wealth is adjusted for debt.

Half (51%) of household wealth is held in real estate (39% in the main home and 12% in investment property), compared with 41% in financial investments

Figure 14 shows that 39% of household wealth is held in owner-occupied housing, 12% in investment property, 21% in superannuation, another 20% in shares and other financial assets (such as bonds and bank accounts), and 9% in other non-financial assets such as cars.

Figure 14: Types of household wealth (% of all wealth in 2017-18)



Note: Wealth is adjusted for associated debt.

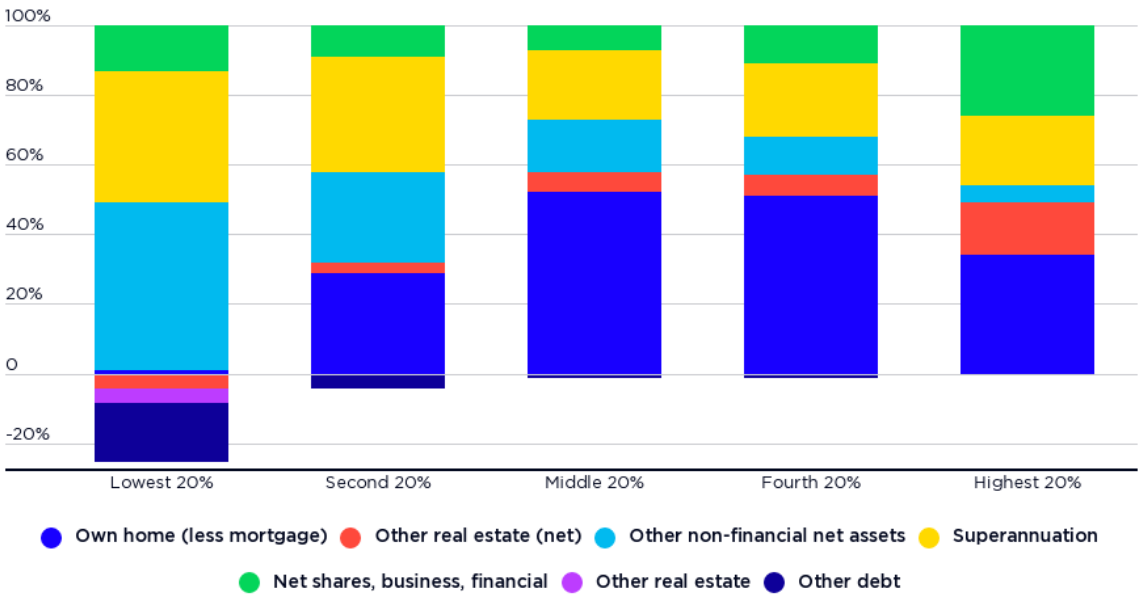
The wealthiest 20% hold more of their wealth in shares, financial and property investments than other groups.

As we move up the ladder, the pattern of wealth holdings changes (Figure 15). At the bottom of the wealth ladder, the most valuable asset holdings of the lowest 20% are 'other non-financial assets' such as cars (48% of their wealth holdings) and superannuation (38%). Since they are younger and have relatively low incomes, few own their homes.

Moving up the ladder, the proportion of wealth held in owner-occupied housing rises (from 29% for the second-lowest 20% to 51% for the second-highest). The proportion held in superannuation declines from 33% to 21%.

At the top of the ladder, the wealthiest 20% hold relatively less of their wealth in the main home (34%) than those in the middle, and more of it in shares and other financial investments (26%) and investment property (15%).

Fig 15: Profile of wealth held by each wealth group (% of wealth by type in 2017)



Note: Wealth is adjusted for associated debt.

Since these are net wealth holdings (asset values minus associated debt), values may be negative (as is the case for investment property held by the lowest 20%) and overall shares of gross wealth may exceed 100%. For ease of interpretation, the shares of own-home, superannuation, shares, and other assets have been adjusted so that they add up to 100% in the left hand bar (lowest 20%). This alters the composition of wealth holdings for this group slightly when we compare the (negative) value of net investment property holdings with the values of holdings other asset classes.

Ownership of financial assets such as shares and investment property is highly concentrated, with over 80% of both held by the highest 20%.

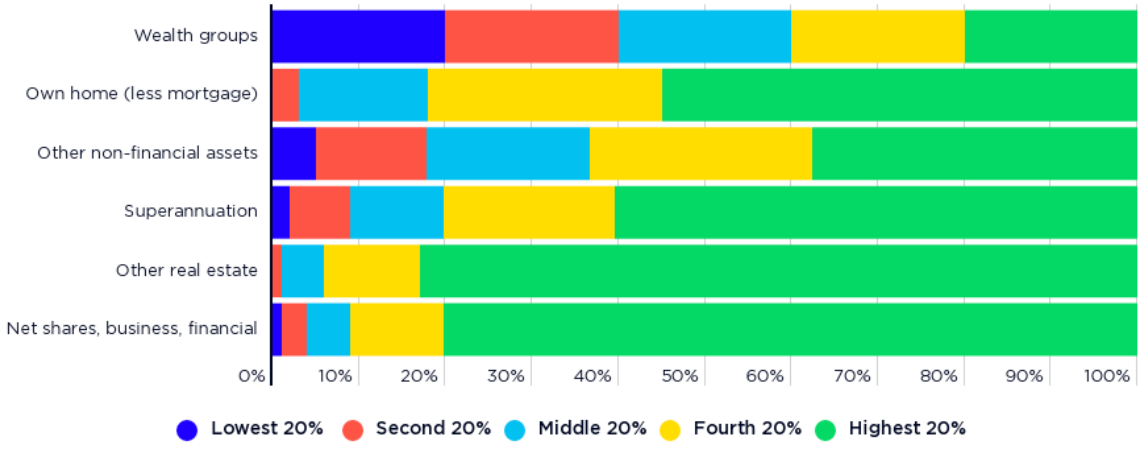
Figure 16 shows how different types of wealth holdings are distributed across wealth groups.

Ownership of share and other financial investments, and investment property, is highly concentrated in the hands of the wealthiest 20% (who hold 81% and 83% of these forms of wealth respectively).

Superannuation is also very unequally shared, with 61% by value held by the highest 20% and 20% by the second-highest.

Owner-occupied housing is somewhat more equally distributed, with 55% by value held by the highest 20% and 27% by the second-highest.

Fig 16: Shares of wealth held across wealth groups by wealth type (per cent in 2017)



Note: Wealth is adjusted for associated debt.

When wealth is compared across household income groups (rather than by wealth), it is somewhat more evenly distributed, due to high levels of outright home ownership among retirees.

When we compare average wealth among households ranked by income (as distinct from wealth), a somewhat different picture emerges (Figure 17).

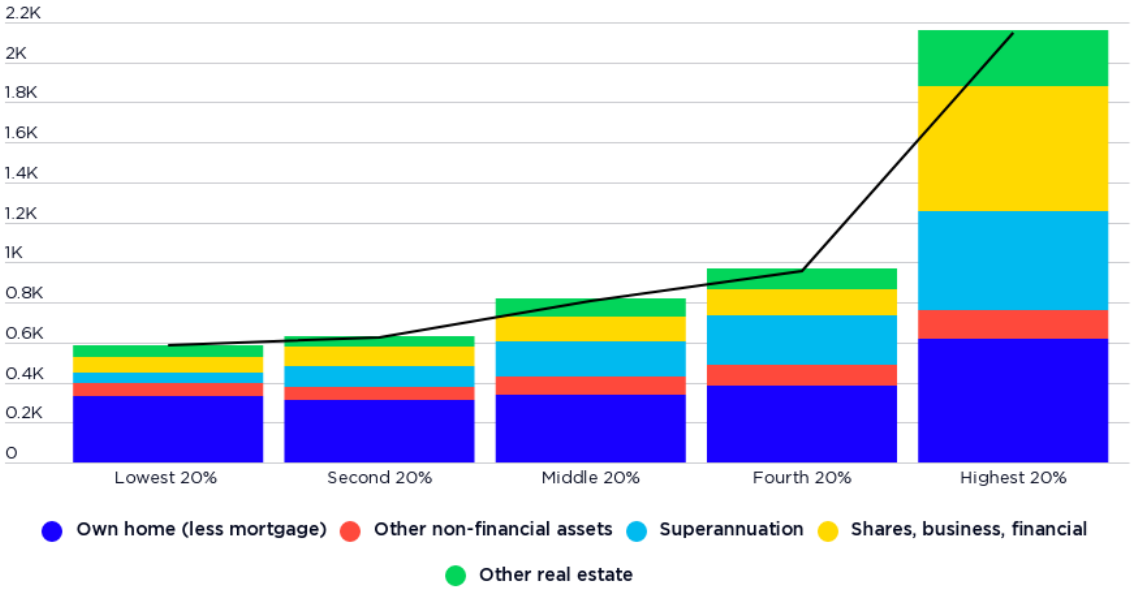
The wealth of the highest 20% by income is valued at $2,148,000 – almost three times as much as the middle 20% and four times as much as the lowest 20%.

One reason that inequality is moderated when we compare wealth in this way is that the lowest 20% of households by income, many of whom are older people, have homes with an average value of $335,000 after mortgage debt is subtracted.[16] The average value of wealth in owner-occupied homes is fairly consistent across income groups, with four of the five groups holding no more than $400,000 in wealth in this form. The highest 20% have homes worth an average of $496,000 after mortgage debt is subtracted.

On the other hand, shares and other financial assets are heavily concentrated in the hands of the highest 20% by income. Their average holdings are worth $622,000 - five times that of the middle 20% ($124,000) and nine times that of the lowest 20% ($73,000).

Superannuation and investment property holdings are less skewed towards the top, but still very unequally distributed. The average superannuation wealth of the highest 20% is $496,000 - three times that of the middle 20% ($179,000) and nine times that of the lowest 20% ($58,000). The average investment property holdings of the highest 20% are worth $281,000 - three times that of the middle 20% ($88,000) and four times that of the lowest 20% ($63,000).

Fig 17: Average net wealth by wealth type by income group ($000s in 2017)



Note: Average wealth holdings of households ranked by income rather than wealth. To place households in the income groups (as distinct from the wealth groups in Figures 12-15), income is adjusted by the equivalence scale.

16 This average figure includes those low income earners that do not own their homes.

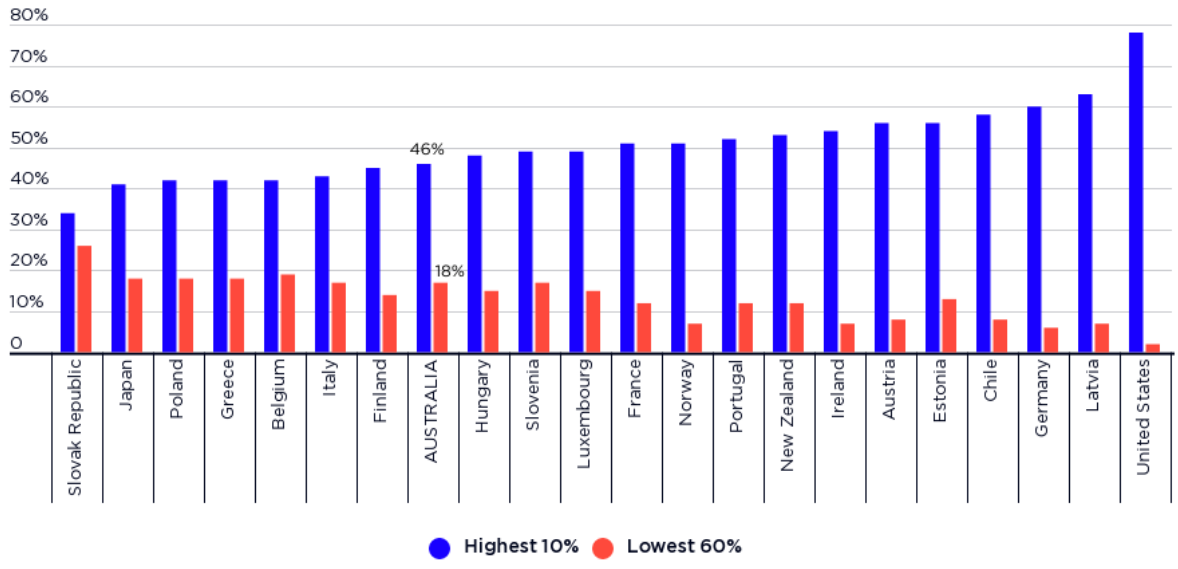
In 2019 Australia had the fourth highest average wealth level per adult ($US386,000) in the world and the 11th highest number of people with $US10 million or more.

According to Credit Suisse research, in 2019 Australia had the fourth-highest average wealth level per adult ($US386,000) in the world, behind Switzerland, United States, and Hong Kong. Australia fell a little in these rankings following a 6.9% decline in wealth per Australian adult compared with 2018, largely due to a 6% decline in house prices in 2018-19.[17]

Despite its modest population, Australia had the 11th-highest number of high-wealth individuals (with 30,000 holding $US10m in wealth or more) in the world, behind US, China, Japan, UK, Germany, France, Italy, Canada, India and Korea.

OECD data for 2015 (the latest available) suggests that while almost half of all wealth (46%) is concentrated in the highest 10% of households in Australia, wealth inequality is lower than in most wealthy nations (Figure 18). According to the OECD, in Australia the highest 10% of households by wealth held almost half (46%) of all wealth – the 19th highest share among 28 OECD countries surveyed. The lowest 60% of wealth-holders held 17% of all household wealth – the 10th highest share in the countries surveyed.[18] The relatively high share of wealth held by the lowest 60% in Australia may be due to the large proportion of wealth in owner-occupied housing (39% of all wealth in the latest ABS data), which is relatively equally distributed.

Figure 18: Wealth inequality in wealthy nations: Shares of wealth held by highest 10% and lowest 60% of households



Balestrai C and Tonkin R (2018), Inequalities in household wealth across OECD countries, Paris, OECD. ***https://doi.org/10.1787/7e1bf673-en***

17 Credit Suisse (2020), Global wealth data-book 2019. A major reason for the high level of reported wealth in Australia is that other wealthy countries have much more generous public pension systems. Future pension entitlements are not included in wealth, whereas private saving for retirement in Australia (e.g. via home ownership and superannuation) is included.

18 Comparing wealth distributions across countries is difficult due to different methods in valuing household wealth. An OECD report found that in 2010 Australia's wealth distribution was more equal than the OECD average. Whereas the highest 10% of households by wealth owned 50% of wealth on average across the OECD, in Australia the highest 10% owned 45% of wealth (Murtin F and and d'Ercole M 2015, Household wealth inequality across OECD countries: new OECD evidence OECD Statistics Brief No. 21, Paris). However, the OECD average was skewed upwards by the United States, which had very high wealth inequality

5. Trends in wealth inequality

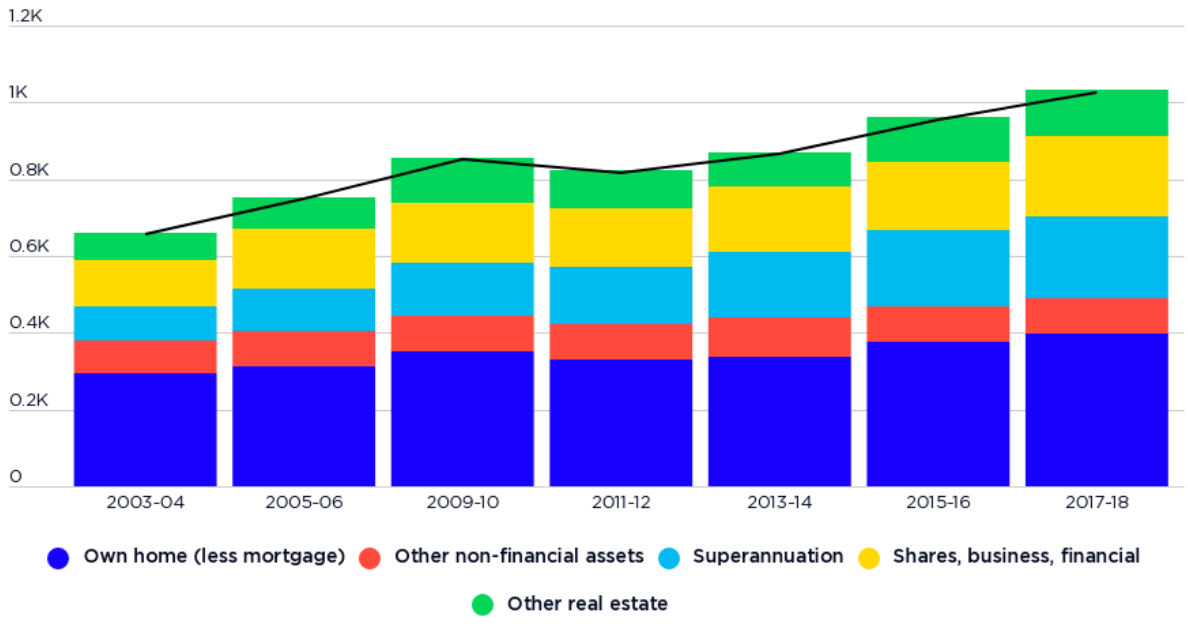
Wealth inequality increased from 2003 to 2009, declined slightly after the GFC, and resumed its growth afterwards. The post-GFC decline was largely driven by the decline in the average values of shares and investment property (after taking account of inflation) among high-wealth households.[19]

From 2003 to 2017, the overall value of household wealth rose by 56% after inflation, led by strong growth in the value of superannuation, shares and other financial investments, and investment property.

In that time, the average value of superannuation held by households (including those who do not have it) rose by 141% from $89,000 to $214,000, shares and other financial assets rose by 74% from $121,000 to $210,000 and investment property rose by 66% from $71,000 to $119,000 (Figure 19).[20]

The average value of the largest asset - owner-occupied housing - grew at a more modest 35% from $294,000 in 2003 to $398,000 in 2017, along with 8% growth in the value of other non-financial assets from $86,000 to $92,000. However, house prices still surpassed average wage increases, diminishing housing affordability.[21]

Figure 19: Trends in household wealth by type from 2003 to 2017 ($000s)



Note: Wealth is adjusted for associated debt.

19 From 2009 to 2013, the average real value of investment property (minus associated debt) fell by 24%. Between 2009 and 2011, the average real value of shares and other financial assets fell by 3%.
20 These figures are net of any associated debt.
21 Daley J, Coates B, and Wiltshire T (2018), Housing affordability: re-imaGining the Australian dream, Grattan Institute Report 2018-04, Melbourne.

Wealth inequality increased from 2003 to 2009, declined slightly after the GFC, and resumed its growth afterwards

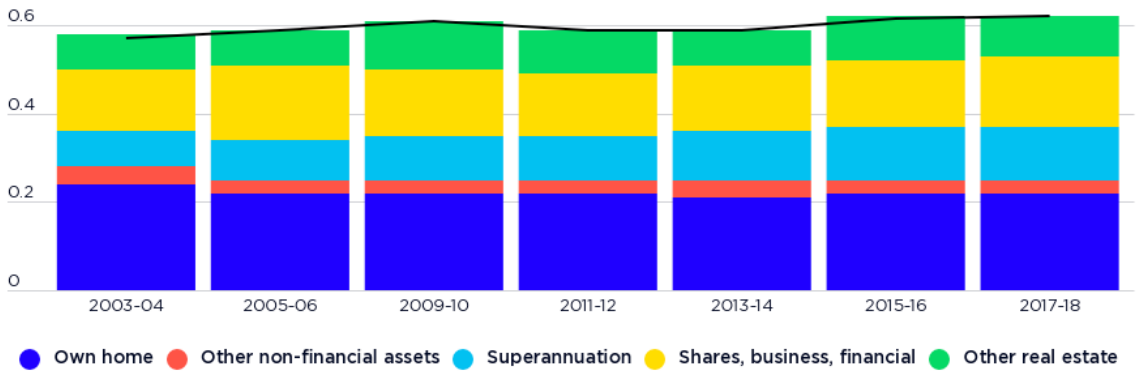
During the boom years from 2003 to 2009, the Gini coefficient for wealth inequality increased from 0.57 to 0.62. After the GFC it fell back to 0.59, then continued to rise to reach 0.62 in 2017.

This increase in wealth inequality was mainly generated by growth in the overall value of superannuation, shares and other financial investments, and investment property - all of which were relatively concentrated in the hands of high-wealth households from the outset (though they became less concentrated over time). Conversely, the proportion of wealth held in owner-occupied housing and other non-financial assets (which were more evenly distributed in 2003) declined, so their overall contribution to growth in wealth inequality was negative (Figure 20).[22]

Breaking the overall increase in the Gini coefficient of 0.05 (0.62 minus 0.57) down into its components:

- superannuation contributed 0.04,
- shares and other financial investments contributed 0.02, and
- investment property contributed 0.01;
- offset by reductions in the contributions of owner-occupied housing (-0.02) and other non-financial assets (-0.01).

Figure 20: Trends in wealth inequality (Gini coefficient) by asset type from 2003 to 2017



Note: This graph show the contribution of each asset class to overall wealth inequality.

22 The contribution of each type of wealth to overall wealth inequality depends on its overall value and its concentration in the hands of wealthier households. When we isolate the impact of changes in the concentration of wealth by asset type, owner-occupied housing and other non-financial assets became much more concentrated in the hands of wealthier households while shares and other financial investments and investment property became slightly more so (though more unequally shared at the outset). However, the impact of changes in the overall value of different assets was greater than changes in concentration. That is, increases in the overall value of wealth held in forms that were distributed more unequally from the outset (such as superannuation) were the main cause of higher wealth inequality, rather than changes in the way each type of wealth was distributed among households. These factors will be discussed in more depth in the next Inequality in Australia report.

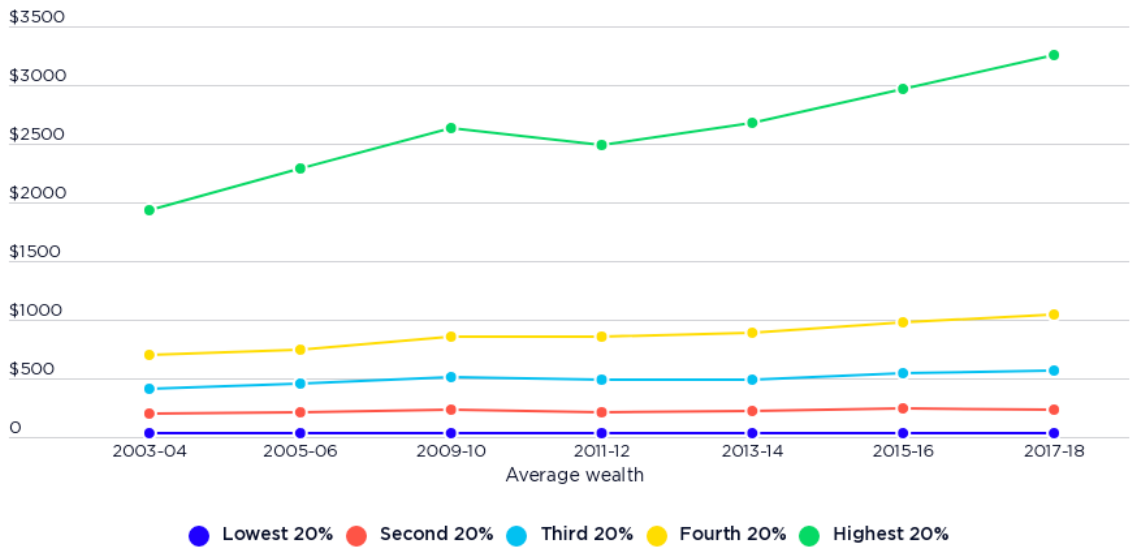
The sum of these contributions is the Gini coefficient for each year, which rose from 0.57 in 2003-04 to 0.61 in 2015-16. The Gini coefficient is a measure on inequality whose value is zero if all wealth is equal and one of all wealth is held by a single household.

From 2003 to 2017, the highest 20% of households by wealth left the other 80% behind

Figure 21 shows that the average value of the wealth of highest 20% rose sharply after inflation from $1,938,000 in 2003 to $3,255,000 in 2017, while growth in the value of wealth held by the rest of the population was more modest. The average wealth of the middle 20% rose from to $415,000 in 2003 to $565,000 in 2017; while that of the lowest 20% rose from $34,000 in 2003 to $36,000 in 2017.

A notable feature of this graph is the decline in average wealth of the highest 20% just after the GFC (between 2009 and 2011), due in large part to falls in sharemarket and investment property values.[23]

Figure 21: Trends in average wealth by wealth group from 2003 to 2017 ($000s)



Note: Average household wealth minus debt, in thousands of 2017 dollars

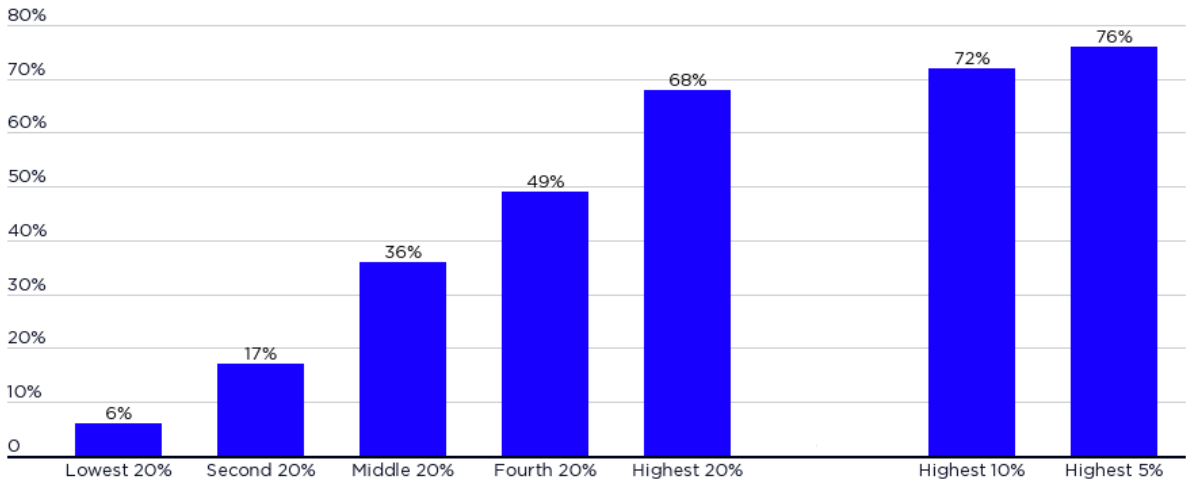
23 From 2009 to 2011, the average value of investment property held by the highest 20% fell (after inflation) from $614,000 to $538,000 and that of shares and other financial investments fell from $737,000 to $693,000.

From 2003 to 2017, the average wealth of the highest 20% grew by 68% compared with 6% for the lowest 20%

Figure 22 shows the divergence in fortunes between high-wealth households and the rest in starker terms.

From 2003 to 2017, the average wealth of the highest 20% grew by 68% in real terms, easily surpassing the 36% increase for the middle 20% and 6% for the lowest 20%.

Figure 22: Increase in average wealth by wealth group, from 2003 to 2017 (%)

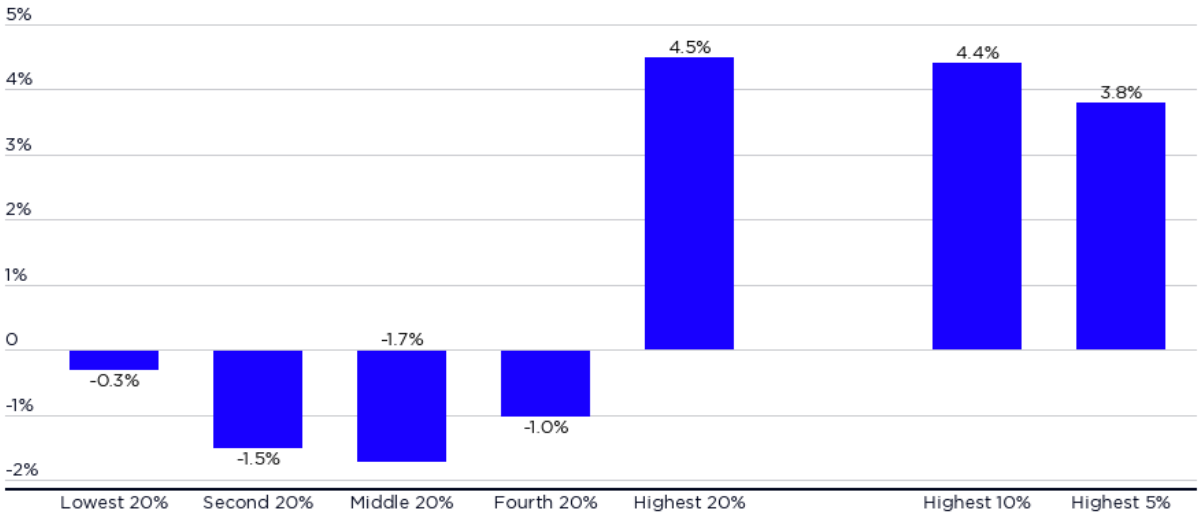


Note: Overall percentage change in average household wealth by wealth group

From 2003 to 2017, the share of wealth held by the wealthiest 20% rose by 4.5% while that of the rest of the population declined.

Figure 23 shows how the share of all wealth held by different groups changed from 2003 to 2017. Then share of the wealthiest 20% grew by 4.5%, while that of the middle 20% declined by 1.7%.

Figure 23: Change in wealth shares by group, from 2003-04 to 2017-18



Note: Overall change in shares of all household wealth held by wealth groups

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