ACOSS AND UNSW SYDNEY

INEQUALITY IN AUSTRALIA 2020

PART 1: OVERVIEW

SUPPLEMENT: THE IMPACT OF COVID-19 ON INCOME INEQUALITY

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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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The impact of COVID-19 on income inequality

The COVID-19 virus, together with the 'lockdowns' instituted from March 2020 to prevent its spread, plunged the Australian economy into the deepest recession since the Great Depression of the 1930s. In response, the Australian government expects to spend an unprecedented $115 billion (6% of GDP) on wage subsidies, income supports and other measures to mitigate the effects on jobs and incomes.[1]

The health and economic crisis and the government response will have a profound impact on household incomes and how they are distributed. While we lack the data to comprehensively assess this at present, this Supplement outlines what the available data tells us about the impacts on employment and incomes, who is most affected, and whether those impacts are offset by government income support policies.

The impact of the lockdowns and other government policies in response to COVID-19 on the distribution of incomes largely depends on:

- **the extent of earnings losses (loss of employment or reduced hours) and which households are most affected;**
- **the effects of downturns in asset markets on investment incomes;**
- **the scale and distribution of related public income support and tax measures.**

The recession also impacted household wealth, through downturns in asset markets and shifts in household saving (in both directions – via withdrawals from wealth holdings such as superannuation and reductions in spending due to the lockdowns).[2] Here we focus on the impacts on income distribution.

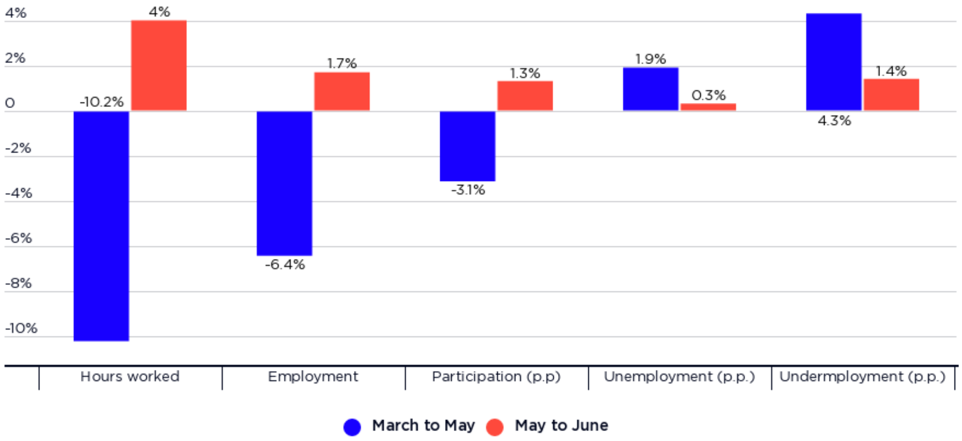
COVID-19 has led to sharp falls in paid working hours

The spread of the COVID-19 virus, and government-ordered 'lockdowns' to contain it, had a sudden and profound impact on employment and earnings. In just three months from March to May 2020, paid hours worked declined by 10% and employment fell by 6%, leaving many more people unemployed, under-employed or out of the paid workforce, and reducing wages paid by 8.3% (Figure 1).

In June, there was a modest recovery in paid working hours and wages as lockdowns were eased, but unemployment and underemployment continued to rise as more people rejoined the paid workforce. The unemployment rate stood at 7.4% in June and is expected to rise to 10% in December, assuming lockdowns are progressively eased.[3] The outlook for employment and earnings is very uncertain.[4]

1 Frydenberg J and Cormann M (2020), Economic and fiscal update, July 2020. In 2020, real GDP is estimated to fall by 3.75%, and unemployment to peak at 9.25% by the end of the year.
2 Adams N et al (2020), Household Wealth Prior to COVID-19: Evidence From the 2018 HILDA Survey, Reserve Bank Bulletin June 2020.
3 Reserve Bank of Australia (2020), Statement on Monetary Policy (August 2020)
4 At the time of writing in August 2020, the Victorian Government announced stricter 'Stage 4' lockdowns in response to a second wave of the pandemic.

Figure 1: Changes in employment, hours and wages (% from March to June 2020)



National Skills Commission (2020), A snapshot in time - The Australian labour market and COVID19; Australian Bureau of Statistics (2020), ***6160.0.55.001 - Weekly Payroll Jobs and Wages in Australia***

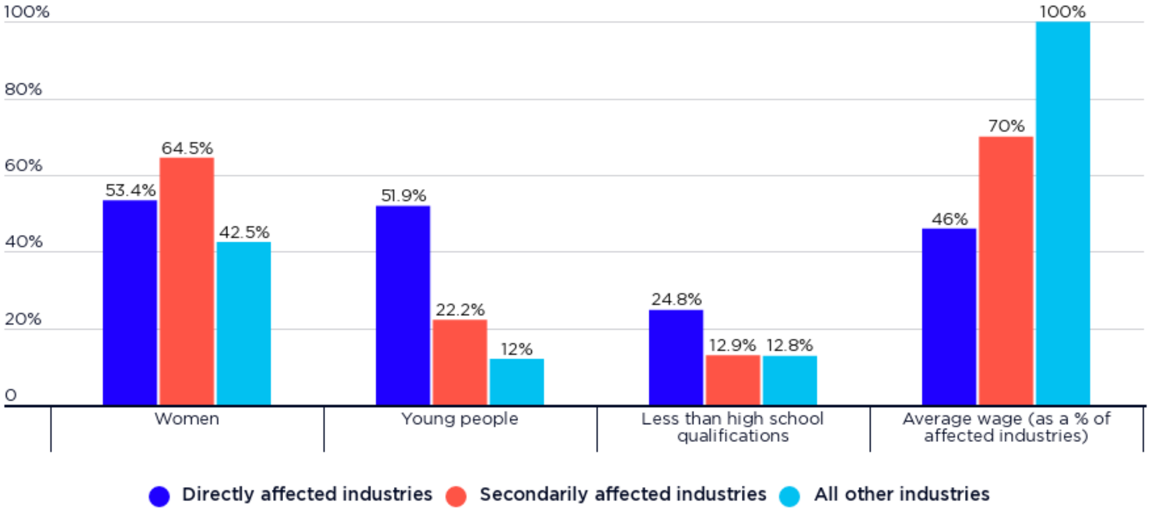
Note: p.p. refers to percentage point reduction or increase.
Data are derived from 'payroll jobs' where a payment was made in the reference week through Single Touch Payroll enabled software and reported to the Australian Taxation Office.
The ABS warns that 'payroll jobs' data do not represent all employment and that seasonal adjustment may not be accurate.

Women, young people and lower-paid workers have been most affected to date

The COVID-19 virus disproportionately impacted the jobs and wages of women, young people, less-qualified and lower-paid workers.[5] Figure 2 profiles people employed (before COVID-19) in the worst-affected industries (including hospitality, arts and recreation. A majority of those workers were women and young people. The most-affected industries were twice as likely to employ workers with less than high school qualifications than the least affected industries. Average weekly wages in the most affected industries were less than half (46%) of those in least affected industries, in part due to the high incidence of part-time employment in the former.

5 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; Cassells R and Duncan A (2020), Job Keepers and Job Seekers: How many workers will lose and how many will gain? Bankwest Curtin Economics Centre Research Brief COVID-19 #3; Daley J et al (2020), The Recovery Book: What Australian governments should do now, Grattan Institute.

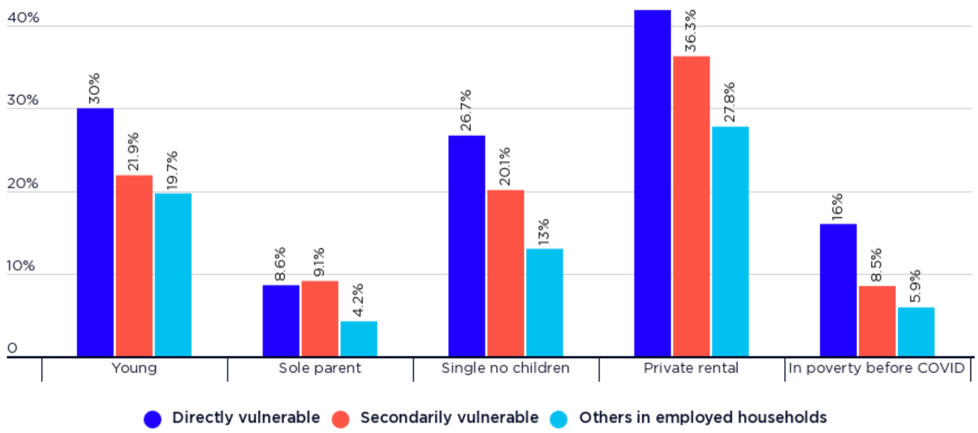
Figure 2: Profile of people in jobs affected by COVID-19



Wilkins R (2020), Who's hit hardest by COVID19? Melbourne Institute Research Insight: 10/20

When we turn from individual to household incomes, we find that those households most vulnerable to loss of employment or reduced working hours were disproportionately younger, single people or sole parent families, living in poverty before COVID-19, and renting privately (Figure 3). After adjusting for household size, the average (pre-COVID-19) household after-tax income of those with paid workers in directly affected industries (not shown in this figure) was 26% less than that of the least affected.

Figure 3: Profile of people in households whose jobs are affected by COVID-19 (% of those affected)



Wilkins R (2020), Who's hit hardest by COVID19? Melbourne Institute Research Insight: 10/20

Note: Directly and secondarily vulnerable refers to the risk of job loss or reduced hours of employment in sectors directly and indirectly impacted by lockdowns, respectively.

Government income support policies have so far shielded many low income-earners from income losses

The above figures suggest that the pandemic and associated lockdowns substantially increased inequality of earnings (from wages, salaries and self-employment). However, that is not the whole story.

In response to the pandemic, the Australian government estimates it will spend $84 billion over the six months from March to September 2020 on the two largest income support schemes for those affected by reductions in earnings and their employers: the ***JobKeeper*** wage subsidy scheme for employees of organisations experiencing substantial declines in turnover, and the ***COVID Supplement*** received by people on employment-related payments such as JobSeeker Payment, Youth Allowance and Parenting Payment.

The Jobkeeper Payment, which is passed on from employers to their employees, and to self employed people affected by the lockdowns, is a flat $750 per week paid to individual workers regardless of previous earnings and hours worked. The government recently announced that from September 2020 to January 2021, this would be reduced to $600 per week for workers employed for 20 hours a week or more and $375 per week for workers with shorter part-time hours.[6]

The COVID Supplement is $275 per week for each single or partnered individual in receipt of one of the above income support payments. For a single adult, it roughly doubles the Jobseeker Payment of $283 per week. Unlike the Jobkeeper Payment, the COVID Supplement and the income support payments to which they are linked are income-tested according to family income.

6 Australian Government (2020), ***Extension of the Jobkeeper payment.***

Generally speaking, they are not paid once single incomes exceed $27,000 and when those of a couple exceed $107,000. This means they are restricted to families in the lower half of the (unequivalised) family income distribution.[7]

The government recently announced that from September 2020 to January 2021, the COVID Supplement would be reduced to $125 per week, and the income test 'free area' for the Jobseeker Payment would be increased from $53 per week to $150 per week. Together with the above changes to the Jobkeeper Payment, this sharply reduces financial support for those affected, though a greater number of households will receive both Jobkeeper and Jobseeker Payments.[8]

Given the income tests applied to the COVID Supplement and the likely concentration of recipients of the Jobkeeper Payment in lower-income households for reasons outlined above, most of the benefit of these payments is likely to go to households in the lower half of the income distribution.

Consistent with the Australian tradition of flat-rate, targeted income support the Jobkeeper and Jobseeker payments place a floor (minimum guarantee) under the individual and household incomes of most workers affected by employment losses and reductions in paid hours, as shown in Figure 4. However, not all benefit: temporary visa-holders and casual employees continuously with the same employer for less than one year are excluded.[9]

For single adults receiving Jobkeeper Payment, that floor is close to the fulltime minimum wage while for those receiving the COVID Supplement it is somewhat lower. Since there is no part-time rate of Jobkeeper Payment, it is often higher than part-time wages.[10] This is illustrated by the post-COVID incomes of the couples shown in figure 4 (who earn one fulltime and one part-time wage, adding up to one-and-a-half times a fulltime wage at the minimum hourly wage rate). Their Jobkeeper Payments are significantly higher (before tax) than one-and-a-half minimum fulltime wages, though this will change after September 2020 when a lower part-time rate of Jobkeeper Payment is introduced.

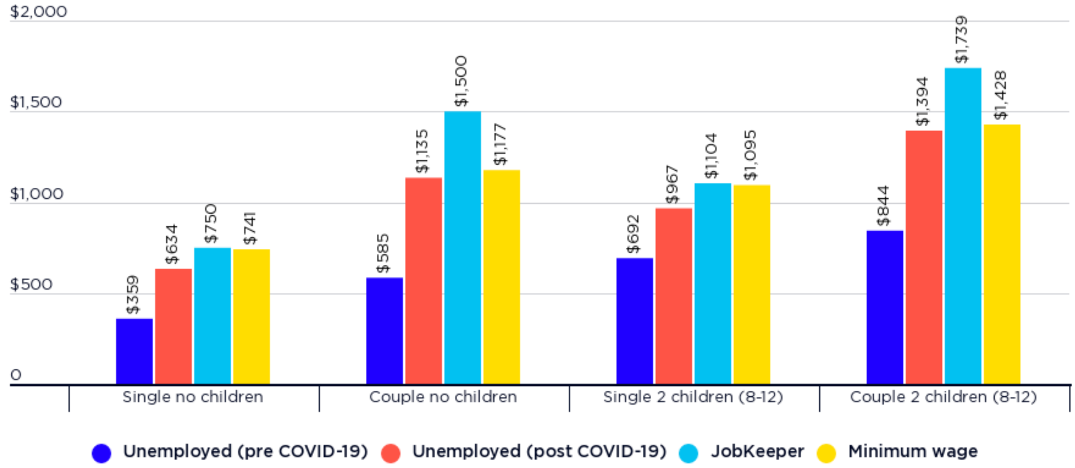
7 Centrelink (2020), Guide to Australian government payments July-Sept 2020. As Table 1 in the main report indicated, the average before-tax income of the middle 20% of households was $110,000 in 2017.

8 Australjan Government (2020), ***Extension of additional income support for individuals.***

9 Whiteford P (2020), ***Open letter to the Prime Minister – extend Coronavirus support to temporary workers.*** Tax and Transfer Policy Institute, Australian National University, Canberra.

10 As noted, this will change from September 2020.

Figure 4: Household incomes before and after COVID-19 ($ per week before tax in July 2020)



Sources: ABS (2019), Survey of income and housing 2017-18; ABS (2019), Survey of Employee Earnings and Hours, 2018; Services Australia (2020), Guide to Australian Government payments (July-Sept 2020).

Note: As discussed, these settings will change significantly from September 2020, due to recently-announced changes to Jobkeeper and Jobseeker Payments.

Maximum adult weekly rates of income support (before tax) in July 2020 compared with minimum wage in July 2020, median fulltime wages (before tax) in May 2018, and median household incomes (before tax) for each family type in 2017-18.

Median wage is for fulltime adult non-managerial workers, including overtime and other supplementary payments Assumptions: Couples earn 1.5 times the (minimum or median) wage of single people, and receive two Jobkeeper Payments. Children are 8-12 years. All families are eligible for Rent Assistance (but not all receive it due to the income test). Median household incomes are for singles and couples without children aged 35-54 years, all sole parents and all couples with children aged 5-14 years (note that this includes households without wages).

So far, these new income supports have offset much of the increase in earnings inequality from COVID19

Both Jobseeker and Jobkeeper payments are much higher than pre-COVID rates of Jobseeker Payment for people who were unemployed, and well below median fulltime wages and median household incomes (before tax), for each of the family types shown.

This suggests that households in the lower half of the income distribution have benefited substantially from the Jobkeeper and Coronavirus Supplement payments, offsetting all or some of increase in earnings inequality from COVID-19 and the lockdowns.[11]

11 Coates B et al (2020), op cit.

Preliminary research on the impact of the recession and public income support responses on poverty finds that:

- Without these income support changes, the recession would have almost doubled the number of people in poverty in June 2020 from 3,018,000 to 5,772,000;

- When JobKeeper Payment and the Coronavirus Supplement are taken into account, the number of people in poverty at that time was actually reduced by 13% to 2,613,000;

- By December 2020, the reductions in income supports announced in July will increase poverty by one third to 3,489,000.[12]

The impact of COVID-19 on income inequality over the next few years will depend very much on how these income support policies evolve

COVID-19, the lock-downs, and the associated surge in unemployment and under-employment will greatly increase income inequality by sharply reducing earnings in the lower half of the household income distribution. This increase in private income inequality (before taxes and transfers) has been offset to an unknown extent by the government's unprecedented policy response, especially the new income support payments for those affected. Public policies can fully offset the increase in private income inequality by:

- timely economic stimulus to prevent a further downturn in employment and incomes,

- a substantial, permanent increase in Jobseeker and related payments,

- retaining Jobkeeper Payment for as long as required to maintain paid jobs directly affected by COVID19 and associated lockdowns, and

- investment in employment assistance and training for those who have lost employment or paid working hours, particularly women, young people and those unemployed long-term.

Otherwise, those on the lowest incomes would no longer be shielded from the effects of higher unemployment and income loss, and it is likely that COVID19 will leave a legacy of greatly-increased income inequality and poverty.

12 Philips B et al (2020), COVID-19 JobKeeper and JobSeeker impacts on poverty and housing stress under current and alternative economic and policy scenarios. ANU Centre for Social Research and Methods.