

## 7. The Increase in Inequality

### Introduction

7.1 Inequality in Australia is increasing. That is the conclusion in relation to:

- Earnings: see JCG Submissions 2000-2001, Table 4.7, p51, and Saunders: *Household Income and Its Distribution, Australian Economic Indicators, June 2001*, ABS Cat No 1350.0, and Borland, Gregory and Sheehan, Inequality and economic change, pp7-9 in *Work rich, work poor – Inequality and economic change in Australia*, 2001.
- Equivalised disposable income: see Harding and Greenwell, *Trends in Income and Expenditure Inequality in the 1980s and 1990s*, 24 September 2001.
- Wealth distribution: see Kelly, *Trends in Australian Wealth – New Estimates for the 1990s*, 24 September 2001.

7.2 This is an important issue because:

*“A two-tiered society is ultimately an unstable society. It will require ever-greater expenditure on police, prisons, and private security. A two-tiered society is also susceptible to political backlashes against trade, immigration, and vulnerable groups. [However], if adequate steps are taken to bring more people into the circle of prosperity, a strong*

*economy can become even stronger, and nationalist and protectionist backlashes can be avoided.*<sup>14</sup>

7.3 Indeed, the St Vincent de Paul Society recently described the burgeoning gap between the wealthy and the poor and disadvantage as *“the single most important problem facing Australia.”*<sup>15</sup>

7.4 The Commission has noted previously that it does not have a supervening social welfare responsibility either for incomes generally or their distribution: see Safety Net Review – Wages, May 2001 PK 002001 at 38, paragraph 125. However, the Commission is required to have regard to living standards generally prevailing in the Australian community in ensuring fair minimum standards: see *Workplace Relations Act 1996* s88B (2)(a).

7.5 Saunders makes clear that in international terms in 1995 Australia was amongst the most unequal countries in the inequality ranking of countries participating in the *Luxembourg Income Study* and was one of the seven countries where inequality increased by more than 5% over the period: see Saunders at page 51, paragraph 2. Saunders notes, though, that increasing inequality is not inevitable, it is the result of clear policy choices: see page 51, paragraph 5, and page 53, paragraph 9.

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<sup>14</sup> Reich cited in Ackerman, F., Goodwin, N., Dougherty, L., and Gallagher, K. (eds), 1998, *The Changing Nature of Work*, (p.xxv)

<sup>15</sup> *Two Australias - Addressing Inequality and Poverty*, St Vincent de Paul, May 2001, page i.

7.6 By ensuring that award workers, who are concentrated at the bottom end of the earnings distribution do not fall further behind the rest of the community the Commission discharges its onus under the Act and plays its part in ensuring fairness and mitigating increasing inequality.

## **Distribution of Earnings – Wage and Salary Income**

7.7 Whilst we refer to results for earnings, equivalised income and wealth distribution it is the ACTU's submission that the Commission should pay most regard to earnings inequality because:

- Safety net reviews are about earnings – they determine the wages of a significant sector of the Australian workforce;
- The Commission's decision can have a direct (albeit not determinative) impact on the distribution of earnings. The distribution of equivalised income and wealth is affected by a range of factors beyond the control of the Commission;
- A more equitable primary distribution of wages and salaries requires less work of government redistribution measures (income tax and welfare payments, for example);
- As Saunders states:

*“Compensation of employees (which is largely wage and salary income) is the most important source of income – in aggregate and for most households with an employed member. It also allows the degree of inequality that exists among the ‘core’ labour force to be assessed, ...” [page 44]*

- It appears that the longer term trend toward inequality in earnings is flowing through to equivalised income and wealth distribution.

7.8 In ABS Cat No 1350.0 *Australian Economic Indicators* for June 2001 the ABS published an article “Household Income and Its Distribution”<sup>16</sup> by Professor Peter Saunders of the Social Policy Research Centre, University of NSW. (Tag 14 of the Composite Exhibit)

7.9 As part of his analysis, Saunders utilises data from the ABS Income Distribution Survey 1990 and subsequent Surveys of Income and Housing Costs to summarise changes in income distribution for the years 1990, 1994-95 and 1990-2000 for various distributions of income.<sup>17</sup> We refer to Table 5 in the article to look at changes in the distribution of wage and salary income for full time workers<sup>18</sup>.

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<sup>16</sup> Household Income and Its Distribution, Professor Peter Saunders, Director, Social Policy Research Centre, University of NSW

<sup>17</sup> Saunders notes that a number of changes to survey methodology between 1981-82 and 1994-95 have affected the comparability of some of the data from the 1994-95 survey with those collected in previous years, and that his analysis uses data which estimates some of the impact of these changes in survey methodology for 1990, therefore representing the best estimates that can be produced from the currently available data (Saunders page 43)

<sup>18</sup> Saunders uses two summary measures of inequality. The Gini coefficient varies between zero (complete equality) and one (extreme inequality). The Robin Hood Index indicates the percentage of total income that would need to be distributed away from those with above-average incomes and towards those with below-average incomes in order to equalise all incomes. (page 42)

**Table 7.1: Changes in the Distribution of weekly wage and salary income 1990-2000**

	<b>Wage and Salary Income</b>				
Year	Gini coefficient	Robin Hood Index	P10/P50	P90/P50	P90/P10
1990	0.224	17.0	0.607	1.721	2.833
1994-1995	0.271	18.9	0.609	1.775	2.913
1999-2000	0.275	19.3	0.597	1.832	3.069

Note: Covers full time workers only. Includes wage and salary income from first and second jobs.

Source: Household Income and its Distribution, Peter Saunders, Feature Article: ABS Cat No 1350.0 Australian Economic Indicators June 2001, page 45

- 7.10 We conclude Table 7.1 shows that inequality within the distribution of wage and salary income increased over the decade, including the second half of the decade. The change in the P90/P10 ratio increased sharply in the second half of the decade, and the gain made by the 10<sup>th</sup> percentile in relation to the 50<sup>th</sup> percentile is reversed in the second half of the decade (although as Saunders notes the increase in inequality reflected in the Gini coefficient was concentrated in the first half of the decade (page 47)).
- 7.11 This data is supported by data presented by Borland, Gregory and Sheehan in Chapter 1 Inequality and economic change, in the book *Work Rich, Work Poor Inequality & Economic change in Australia*. This data is based on ABS Cat No 6310.0 Employee Earnings, Benefits and Trade Union Membership.
- 7.12 The authors produce a table which describes earnings distributions for full time males and females in terms of percentile ratios. We reproduce that table, restricted to the period 1990 to 1999.

**Table 7.2: Earnings dispersion – weekly earnings of full time employees in main job, 1990 - 1999**

	P10/P50	P90/P50	P90/P10
<b>Males</b>			
1990	0.593	1.616	2.725
1995	0.594	1.750	2.946
1999	0.590	1.878	3.183
<b>Females</b>			
1990	0.604	1.604	2.656
1995	0.631	1.598	2.532
1999	0.620	1.661	2.679

Source: Work Rich, Work Poor Inequality and economic change in Australia, page 5

7.13 In relation to this period the authors find:

*“Looking specifically at the 1990s ... Earnings for workers with below-median earnings have been relatively stable compared to median earnings. However, there have been very substantial rises in earnings of workers with above-median earnings relative to the median.” [page 7]*

## Income Distribution

7.14 In September 2001, NATSEM released a paper *“Trends in Income and Expenditure Inequality in the 1980s and 1990s.”*<sup>19</sup> (This paper is available at [www.natsem.canberra.edu.au](http://www.natsem.canberra.edu.au) at Publications and Conference Papers).

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<sup>19</sup> Trends in Income and Expenditure Inequality in the 1980s and 1990s, Ann Harding and Harry Greenwell, NATSEM, Paper presented to the 30<sup>th</sup> Annual Conference of Economists, 24 September 2001

- 7.15 NATSEM utilises the ABS Household Expenditure Survey and the ABS Survey of Income and Housing Costs for data. In their analysis, income is equivalised household disposable income. Income distribution is determined by a ranking of people by their equivalent household income.<sup>20</sup>
- 7.16 NATSEM report that the Gini coefficients derived from the HES data show increased inequality over the period 1988-89 to 1998-99 and Gini coefficients derived from the Income Surveys show increased inequality for the period 1990 to 1997-98. On both sets of data the P90/P10 ratio worsened substantially in the above periods. The HES P90/P10 ratio increasing by 11.2% between 1988-89 and 1998-99 and the Income Survey ratio increasing by 6.3% for the period 1990 to 1997-98. In addition to these indicators of inequality the paper notes that both HES and Income Survey data show a fall in income share for the bottom 10% and middle 20% and an increase for the top 10%.

## **Trends in Australian Wealth – New Estimates for the 1990s**

- 7.17 In a paper released at the same time as the Income Distribution analysis, NATSEM analyses trends in Australian wealth<sup>21</sup>. Specifically, the paper compares the distribution of wealth in 1986 with the distribution of wealth in 1998. (Extracts from the paper have

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<sup>20</sup> NATSEM cautions that the results in the paper need to be treated with some caution given changes in methodology of the Expenditure and Income Surveys over time, the unusually low expenditure by the bottom decile of households in the 1988-89 Expenditure Survey and possible weighting issues affecting the results of the 1993-94 Expenditure Survey.

<sup>21</sup> Trends in Australian Wealth – New Estimates for the 1990s, Simon Kelly, NATSEM, Paper presented to the 30<sup>th</sup> Annual Conference of Economists, 24 September 2001

been included at Tag 15 of the Composite Exhibit. The full paper is available at [www.natsem.canberra.edu.au](http://www.natsem.canberra.edu.au) at Publications and Conference Papers).

- 7.18 The 1986 estimates were derived from the 1986-87 ABS Income Distribution Survey (and were originally published in a paper by Bækgaard<sup>22</sup>). The 1998 estimates were derived from the 1997-98 ABS Survey of Income and Housing Costs.
- 7.19 NATSEM finds that by June 1998 the wealthiest one-tenth of Australian families (income units) has 45% of the wealth and the top half has 93% of the wealth. The bottom half of families (income units) have only 7%. [page 15]
- 7.20 Changes in the distribution of wealth are examined using, among other measures, the Gini coefficient. NATSEM finds that the Gini coefficients for overall wealth show no change in the distribution of wealth. However, the Gini coefficients for wealth excluding superannuation show the concentration of wealth (excluding superannuation) has increased. NATSEM finds:

*“In summary, the key reason that overall wealth inequality has not increased in the twelve years to 1998 is the Superannuation Guarantee, which has offset growing inequality in many other forms of wealth.” [page 16]*

and

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<sup>22</sup> Simulating the Distribution of Household Wealth in Australia: New Estimates for 1986 and 1993, Technical Paper No 14, H Bækgaard, NATSEM

*"In summary, wealth in the form of home equity, business assets and cash deposits became more concentrated between 1986 and 1998 and it appears that the inequality of wealth would have increased had it not been for the introduction of superannuation. Superannuation has neutralised the concentration of wealth in other areas and the overall result is the concentration of wealth has not changed." [page 17]*

7.21 NATSEM is referring to impact of the introduction of award based superannuation and the Superannuation Guarantee [page 14], which apply to employed persons. However, NATSEM also finds:

*"The improvement in wealth for the poor through superannuation is welcome but it may mean an eventual improvement in their living standards rather than an actual one right now. There may not be any improvement of the day-to-day living standards of these families." [page 26]*

and

*"While technically true they have increased wealth, the inability to access the funds until retirement limits its day-to-day value." [pages 27-28]*

7.22 We note that this is an instance where the decisions of the Commission (through the introduction of award based superannuation) would appear to have had a positive impact on reducing inequality albeit in a way which may not have impacted on immediate living standards.

## Where Award Workers Sit on the Earnings Distribution

- 7.23 Award workers are overwhelmingly concentrated in the bottom of the earnings distribution.
- 7.24 The ACTU commissioned unpublished data from the ABS EEH May 2000 survey for the purpose of comparing award workers with the rest of the community. In order to provide a proper insight we asked the ABS to adjust all casual rates downward by 5/6 to reflect an average casual loading of 20%. This allows us to look at the distribution of base rates of pay and avoids any artificial inflation of the earnings profile of award workers by reason of the higher proportion of casuals amongst that group.
- 7.25 Our percentile data relates to non-managerial adult average ordinary time earnings (AHOTE). We use AHOTE because it allows for the inclusion of part-time workers in the comparison. Unfortunately, the ABS is only able to provide meaningful AHOTE data for non-managerial employees (figures for the ordinary hours of managerial employees are unreliable). The exclusion of managerial employees and juniors means that the below data will understate the extent to which award dependent workers are concentrated at the bottom end of the wages distribution. This is because:
- Managerial employees have higher earnings on average than non-managerial employees and are less prevalent amongst award only employees than they are in the total population; and
  - Junior employees earn less than adults and are more prevalent amongst the award only population.

7.26 We also note that the data we present was collected in 2000. As we demonstrated in Chapter 2, over the last two years the Percentage wage increase received by award workers was less than that received by the rest of the community. In other words, the data we present paints a more favourable picture than exists today.

7.27 Table 7.3 below provides a summary of adjusted non-managerial adult AHOTE for award only private sector, award only and all employees. It should be noted that all figures are 2000 dollar amounts. The table shows that award only private sector employees earn less than all award only employees and that both award only cohorts earn substantially less than the total non-managerial adult population.

**Table 7.3: Percentile Data for Adult Non-Managerial Employees Average Hourly Ordinary Time Earnings**

<b>Persons</b>	<b>Award only, Private sector</b>	<b>Award only</b>	<b>Non-managerial Adults</b>
pct10	10.60	10.68	11.63
pct20	11.47	11.62	12.55
pct25	11.70	11.81	13.01
pct30	11.93	12.11	13.56
pct40	12.45	12.55	14.75
pct50	12.89	13.19	16.11
pct60	13.62	14.03	17.84
pct70	14.60	15.20	20.13
pct75	15.20	16.13	21.53
pct80	16.17	17.19	23.16
pct90	18.89	21.08	27.50

7.28 Focussing for the moment on private sector award only employees, the non-managerial adult AHOTE data tells us;

- 44% earn less than C10 (\$13.35 per hour, \$507.20 per week,

\$26,450 p.a in 2001 – 2002 terms)

- the same Percentage, 44% are found in the bottom 20% of all non-managerial adults and thus constitute nearly half of the employees in this quintile (46.4%)
- 29% earn less than the equivalent of \$25,000 p.a in 2001 – 2002 terms
- 80% earn less than non-managerial adult median earnings (ie 80% of private sector award only employees are concentrated in the bottom half of the wages distribution for the community as a whole).

7.29 Whilst the corresponding figures for award only employees are less they paint a similar picture:

- 40% earn less than C10 and are in the bottom quintile of adult non-managerial AHOTE. It is to be noted that all such employees are in the private sector;
- 26% earn less than the equivalent of \$25,000 p.a in 2001 – 2002; and
- 75% earn less than the non-managerial adult median (ie  $\frac{3}{4}$  of all award dependants are in the bottom half of the wages distribution)

7.30 From whichever perspective one analyses the data award only employees and particularly private sector award only employees are overwhelmingly concentrated in the bottom of the earnings distribution. A significant wage increase in these proceedings will ameliorate the broader trends in inequality of earnings. An increase

which fails to allow award workers to keep pace with the community will exacerbate that trend.

## **Conclusion**

- 7.31 Earnings inequality is increasing. So it would appear is income inequality and inequality in the distribution of wealth. Whilst the Commission does not have a supervening social welfare responsibility it is required to take account of living standards generally prevailing in the community.
- 7.32 Awarding the ACTU claim will ameliorate the trend towards inequality because it will provide a moderate but significant increase to workers who are clearly amongst the lowest paid.

