Wealth gap continues as young generation falls behind in Australia

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Several reports issued in Australia over the past two months have pointed to a continuing gulf between the richest and poorest households, with falling levels of cash savings for most households and a sharp decline in the economic position of young people.

In its report, "Levels, patterns and trends of Australian household saving," the National Centre for Social and Economic Modelling (NATSEM) found that in June 2002, the top 20 percent of households owned more than half the total household wealth. Their average worth was $772,000, more than 40 times higher than the poorest 20 percent—whose estimated average assets were only $18,000—and more than double the wealth of the second most affluent 20 percent.

Significantly, the wealthiest group owned almost 90 percent of all shares and 66 percent of rental properties. This has occurred after more than a decade of privatisation of major government enterprises, which Liberal and Labor governments alike claimed would benefit ordinary "mum and dad" investors who bought shares in the privatised companies, such as Qantas and Telstra.

The poorest 20 percent of households possessed almost nothing, while the bottom 40 percent owned just 8 percent of total household wealth. In fact, the only major asset owned by the poorest 20 percent of families was compulsory superannuation funds, which they cannot access until retirement. On average, these funds amounted to $15,000, or 83 percent of their nominal wealth.

By dividing the population into quintiles, the report disguises the extreme concentration of wealth among a very small number of households within the top 20 percent. According to a previous estimate, in 2000, the richest 1 percent owned half of all shares and investments, while the wealthiest 10 percent owned 85 percent.

The paucity of research into wealth distribution makes a direct comparison difficult. A major study by Access Economics in 1998 revealed a similar huge gap. The poorest half of society owned just 5.8 percent of the wealth, whereas the top half owned 94.2 percent. The richest 10 percent then held 48.2 percent, with the top 1 percent owning 15 percent.

The broad definition of savings used in the latest NATSEM study, which includes the family home, as well as shares, rental properties, superannuation and funds deposited in banks and credit unions, works to conceal the full extent of the social chasm by understating the real financial strain facing many ordinary families.

Home ownership was the single most important component of wealth, according to the NATSEM study, representing 20 percent of wealth on average. This was particularly true for "middle" Australia, for whom the value of the family home exceeded the mortgage significantly, and represented up to 63 percent of their net worth. Primarily because of rising real estate prices, the average wealth of all households grew from $199,000 in 1993 to $280,000 in 2002, an increase of 3.9 percent each year, or a total of 40 percent over nine years.

But these statistics are misleading. Home ownership is paper wealth only—it cannot be realised without selling up and buying another home. It can also be wiped out substantially by a property market crash, which has been predicted for some time. Moreover, the average rise in wealth is largely the result of the vast riches held by the affluent few.

The financial reality confronting many households can be judged more accurately by the decline in

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average cash savings, from 15 percent in 1993 to 6 percent in 2002. These figures suggest that most households are struggling to keep up with the cost of living. Rather than saving for the future, they are being driven deeper into debt.

According to the Australian Bureau of Statistics, Australian families now owe a record $597 billion—the equivalent of $81,000 for every household. The average family owes $125 for every $100 of disposable income, and saves only 50 cents out of every $100 earned—one of the lowest savings rates on record. Debts to banks and other lending institutions increased by $21.4 billion in the three months to June this year, and total household debt has increased by 115 percent under the Howard government since 1996.

According to the Standard & Poors credit ratings agency, credit card debt has soared as people increasingly use cards to pay for everyday expenses, rather than for emergencies or necessities, as was the norm in the past. The Reserve Bank recently issued a warning that home loan refinancing has risen by 29 percent over the past two years, as more people borrow against their homes to fund other purchases.

The NATSEM report highlighted another crucial aspect of wealth polarisation. While average worth increased for older families, who had previously entered the real estate market, people in the 25-34 age group experienced a wealth decline of 39 percent between 1993 and 2002, largely as a result of low home ownership rates. This generation has been increasingly priced out of the market, and their average home equity dropped from $106,000 in 1993 to $66,000 in 2002.

In another report, the Committee for Economic Development of Australia found a 10 percent decrease in home purchase rates over the past 10 years for those under 35. People in this age group are more likely to be employed casually or part-time, and many are paying off huge debts. Under the Higher Education Contribution Scheme (HECS), students who cannot afford to pay their fees up front owe tens of thousands of dollars upon completing their degrees. As a result, many young people cannot afford to purchase a home and find themselves locked into renting or living with their parents well into adulthood.

Last week, the Australian Council for Educational Research reported that young people aged 19-25 were living with their parents far longer than previous generations and spending much more time in rented accommodation when they did leave home. More than half (59 percent) of 21-year-olds were now living with their parents, and nearly one-third (28 percent) of 25-year-olds.

These findings point to mounting social tensions ahead. Even if real estate prices continue to rise, they will only serve to hide the true financial situation of most families, who are being driven into unprecedented debt. Many people will enter retirement owing large amounts of money, while young people face a lifetime of economic insecurity and disadvantage.

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