Australia: Income distribution study details growth of social inequality

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A paper released earlier this year by the Australian National University's Centre for Economic Policy Research, *The Distribution of Top Incomes in Australia*, provides details on the massive growth of social inequality that has taken place in Australia over the past *25* years.

The authors, A.B Atkinson and Andrew Leigh, tracked the history of income distribution to the top 10 percent, 5 percent, 1 percent, 0.5 percent, 0.1 percent, 0.05 percent and 0.01 percent of income earners from 1921 until 2002. They drew particular attention to the general pattern of changes in income distribution between the years 1921 to 1980, compared with 1980 to 2002.

The paper was based on "top incomes for whom information is available in the income tax returns". The authors explained that tax statistics are a valuable source of data for long-term income trends, and are particularly useful in gaining an estimate of the relationship between the incomes of those at the top and the rest of the population. They also explained, however, that there are statistical distortions associated with utilising tax data, as "the figures relate only to taxpayers". That is, those with "zero incomes" are excluded from the total. In addition, the "Household Gross Returnable Income" measured in the study, is income solely of households and individual persons before tax. It excludes "non-household elements, such as charities, life insurance funds and universities ... employers' social security contributions, and non-taxable transfer payments." The total also excludes "non-household income and imputed rent".

Nevertheless, the study revealed that "taken overall, the 60 years from 1921 were apparently a period of major decline" in the share of income going to the wealthiest taxpayers. For example, in the 1920's, the top 1 percent of the population received around 10 percent of the total income. By 1980, their share had fallen to under 5 percent. Over the same period, the income share of the top 0.5 percent fell from approximately 9 percent of the total income to 2.95 percent. The share of the top 0.1 percent fell from around 4 percent to approximately 1 percent.

From 1980, this trend radically reversed. The income share of the top 1 percent rose from under 5 percent in 1980 to 9 percent in 2002. The share of the top 0.5 percent soared from 2.95 percent to approximately 6 percent over the same period. The share of the top 0.1 percent, which had fallen to approximately 1 percent of the total in the 1980s, more than doubled to over 2 percent by the end of the 1990s.

The most striking aspect of this data is the speed with which a greater proportion of total income returned to the wealthiest sections of the population. The historic turnaround in the distribution of income was presided over by the Labor governments of Hawke and Keating, which held power from 1983 to 1996.

Atkinson and Leigh noted that within the general income distribution trend from 1980 on, "there is a distinct spike in 1988, following a large reduction in the top marginal tax rate (from 60 percent in 1985-86 to 49 percent in 1987-88) and the property price boom of the 1980s". The Hawke-Keating governments cut the top marginal personal tax rate even further in 1990, down to 47 percent.

The introduction of the "imputation system" in 1987 by the Labor government was another major factor in the enrichment of the top 10 percent of taxpayers. In this system, the report explained, "part of any corporation tax paid is treated as a pre-payment of personal income tax". In the pre-1987 tax system, company tax was levied on corporate profits and then shareholders were subject to personal income tax on the amount they received from dividends. Following the changes made by the Hawke-Keating governments, shareholders have been able to use a proportion of the tax that is paid by the company as credit against their own personal tax liabilities. Therefore, the greater the percentage of income that an individual reaps from share dividends, the more personal tax they are able to avoid.

Atkinson and Leigh noted that from the mid-1950s until the end of the 1970s, each group within the top 10 percent of taxpayers increased the proportion of income that they derived from salary and wages. The corresponding fall in the overall share of income going to the richest, they observed, "was due entirely to a reduction in non-salary income accruing to the top 1 percent."

The imputation system, combined with a subsequent cut in the corporate tax rate from 47 percent to 36 percent, reversed this process. Billions of dollars flowed to the wealthy, who rapidly increased the proportion of income they derived from non-salary sources such as dividends, and reduced the proportion coming from salary and wages. The increasing non-salary income underpinned the overall increase in the share of income going to the top 10 percent.

In 1984-85, according to the paper, the top 10 percent obtained a little over 80 percent of their income from salary and wages. By 1988-89, this had fallen to 70 percent. Over the same period, the figure for the top 1 percent fell from over 60 percent to under 40 percent. By 1988-89, the top 0.1 percent of taxpayers was obtaining less than 20 percent of *its* income from salary and wages, compared with 40 percent in 1984-85.

The proportions only altered slightly in the following decade. In 2002, the top 10 percent of income earners still only derived 70 percent of their income from salary and wages; the top 1 percent, approximately 47 percent; and for the top 0.1 percent, just 30 percent.

The redistribution of income to the wealthy continued under the conservative coalition government of John Howard, which came into office in 1996. In 1999, the Howard government introduced the Goods and Services Tax (GST) which shifted the tax burden onto consumption. Personal income tax rates and the corporate tax rate were cut again, with the benefit overwhelmingly flowing to the rich. The most recent 2006-2007 budget delivered the third consecutive large tax cut to top income earners and businesses.

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The resurgence of social inequality can be corroborated by comparing the salaries of federal MPs, High Court judges and a typical CEO in the largest 50 companies as a ratio of the average worker's salary.

According to Atkinson and Leigh, the "relative earnings of members of parliament and top public servants declined from 1921 to the late 1980s, but rose through the 1990s". The "most dramatic change", they found, has been the remuneration for top CEOs over the last period. In 1992, a typical CEO received 27 times the wage of an average worker. By 2002, this had risen to 98 times. In actual dollar amounts, the average annual wage rose from $26,265 in 1992 to $36,063 in 2002. Over the same period, salary remuneration alone for a CEO in the 50 largest companies rose from $A715,566 to $A3,550,000. The exorbitant rise in CEO pay relative to an average worker's wage is so high that Atkinson and Leigh suggested it alone could "be a significant factor explaining the rise in top Australian incomes during recent decades".

Along with the obscene levels of wealth accruing to CEOs, Atkinson and Leigh also documented the "wealth share of the richest 200 Australians (0.001 percent of the 2002 population)". These 200 people increased their share of the national wealth from 1 percent in 1984 to 2 percent in 1999, and held 1.7 percent in 2002. Again, their wealth share exhibited a peak in the late 1980s.

Atkinson and Leigh observed: "At the start of the twenty-first century, the income share of the richest 1 percent of Australians was higher than it had been since 1951, while the share of the richest 10 percent was higher than it had been since 1949."

The report does not analyse data beyond the year 2002. That the growth of social inequality has continued over the last four years is underscored, however, by the *Business Review Weekly* (BRW) Rich List 2006. According to the BRW, the total wealth of the richest 200 individuals reached more than $100 billion for the first time, up from $83.7 billion in 2005. The minimum wealth needed to qualify was $130 million, 13 times higher than the $10 million when the list was first published in 1983.

The data presented in Atkinson and Leigh's report illustrate the essential unity of purpose of both of Australia's leading big business parties. Over the past quarter century, successive Labor and Liberal governments have consciously worked to drive down the social position of the working class in order to provide corporations and investors with "internationally competitive" rates of profit. The result is the concentration of an ever-greater proportion of income and social wealth in the hands of a small financial and corporate elite, a process that is underway throughout the world.