

Why Australians Will Never Be Prosperous

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1. Background

Research by The Australia Institute has revealed that, despite being well off by any objective standards, most Australians believe that their incomes are inadequate to meet their needs. A Newspoll survey for the Institute found that 62 per cent of Australians, including 48 per cent of the richest 20 per cent, believe that they cannot afford to buy everything they really need.¹

New information contained in the extensive database compiled by the Household, Income and Labour Dynamics in Australia (HILDA) survey allows further exploration of Australians' attitudes to their financial situation. HILDA is a nationwide, longitudinal survey that explores a range of topics including peoples' wellbeing, family dynamics and workforce participation. In the latest wave for which data are available, Wave 3 conducted in 2003, more than 12,000 people were interviewed.²

Among many other questions, the survey asked respondents the following:

‘Given your current needs and financial responsibilities, would you say that you and your family are: prosperous, very comfortable, reasonably comfortable, just getting along, poor, very poor?’

This paper explores people's attitudes to their financial situation in relation to their household income and wealth. Who considers themselves to be prosperous? Do higher incomes or bigger assets help? Will Australians ever feel satisfied with their financial situation?

2. Prosperity and household income

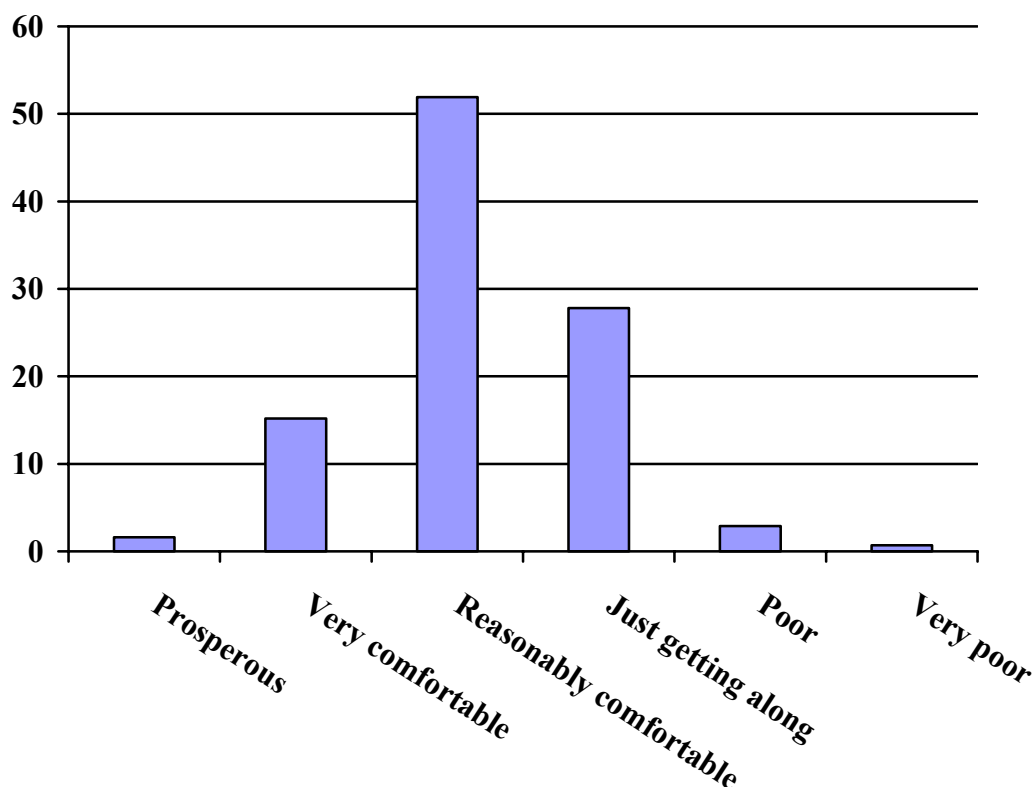
When asked to consider their financial situation in light of current needs and financial responsibilities only 1.6 per cent of the population consider themselves to be prosperous – see Figure 1. Most people (52 per cent) are inclined to say they are

¹ These results are reported and developed further by Clive Hamilton and Richard Denniss in their recent book *Affluenza* (Allen & Unwin 2005).

² This paper uses confidentialised unit record file from the HILDA survey. HILDA was initiated and is funded by the Department of Family and Community Services (FaCS) and is managed by the Melbourne Institute of Applied Economic and Social Research (MIAESR). The findings and views reported in this paper are those of the authors and should not be attributed to FaCS or the MIAESR.

reasonably comfortable. Another quarter say they are just getting along. A little under four per cent of people say they are poor or very poor.

Figure 1 Assessment of personal financial situation (per cent)



Source: HILDA Wave 3

It is fair to assume that richer people are more likely to regard themselves as financially comfortable or prosperous, an assessment that will depend on both personal income and household income (the combined earnings of family or household members). Someone with a low personal income may live in a household where the overall income is high because of a primary or higher income earner.

In 2003 the average household income in Australia was \$60,702 with a median of \$48,148. Average household disposable income was \$46,669 with a median of \$38,706.³

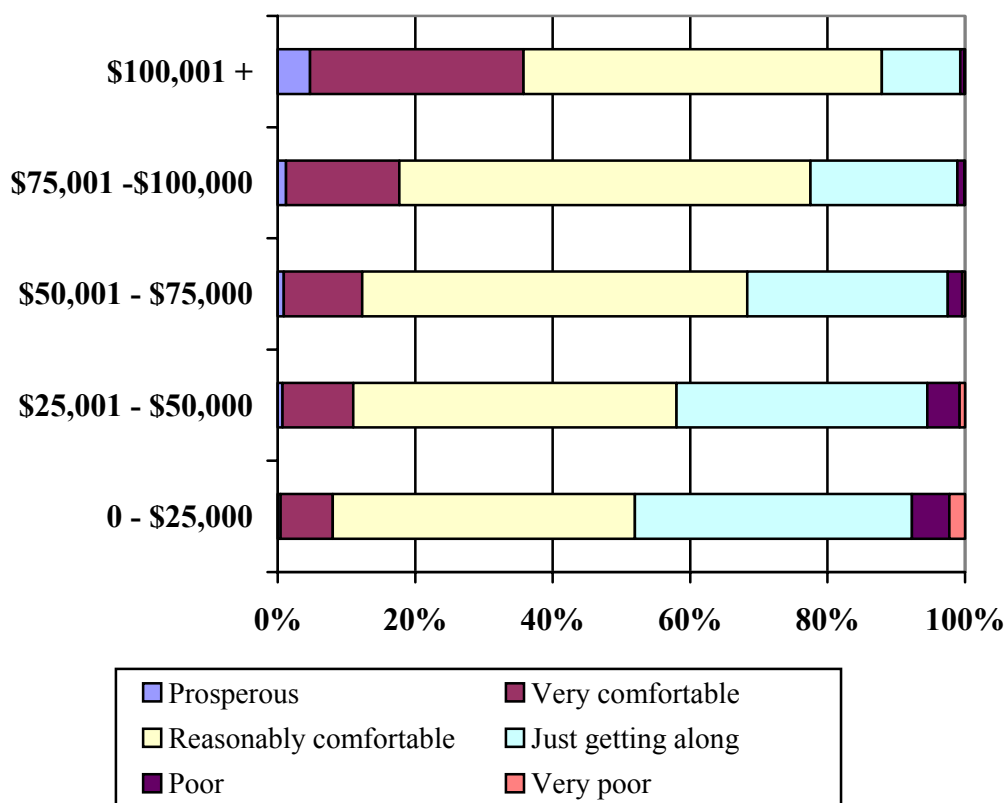
Figure 2 shows how people living in households with various incomes assess their financial situation. Among those who live in households with an income of more than \$100,000, less than five per cent consider that they are prosperous. More than 12 per cent say they are just getting along or are poor.

Among the highest income households, 52 per cent believe they are ‘reasonably comfortable’ which contrasts with the 44 per cent of those in the lowest income group

³ The 0.5 per cent of households that recorded negative incomes have not been included in this analysis.

(less than \$25,000) and 47 per cent in the next lowest (\$25,001-\$50,000) who say they are reasonably comfortable.

Figure 2 Attitudes to financial situation and household income



Source: HILDA Wave 3

Among very high-income households, those earning more than \$150,000 per year (not shown in the figure), only 11 per cent say they are prosperous while 42 per cent say they are reasonably comfortable. Using disposable household income rather than total household income makes no appreciable difference to the figures.⁴

The HILDA survey also asks respondents to assess their level of satisfaction with their financial situation on a scale of 0 to 10, from totally dissatisfied to totally satisfied. Table 1 records the results.⁵ Overall, the majority of people express satisfaction with their financial situation (68 per cent giving a rating of six or more).

However, it is clear that a person's household income is not a strong indicator of satisfaction with their financial situation. Among the lowest income group nine per

⁴ Disposable income is an estimate of after tax income, including family tax benefit and childcare benefit but excluding windfall income.

⁵ The HILDA survey asked respondents the following question:

I am now going to ask you some questions about how satisfied or dissatisfied you are with some of the things happening in your life. I want you to pick a number between 0 and 10 that indicates your level of satisfaction with each. The more satisfied you are the higher the number you should pick. The less satisfied you are, the lower the number.

cent say they are totally satisfied with their financial situation, the *same* proportion as in the highest income group.

Table 1 Satisfaction with financial situation and household income (per cent)

	0- \$25,000	\$25,001- \$50,000	\$50,001- \$75,000	\$75,001- 100,000	\$100,001 +	Total
Totally dissatisfied	2.0	2.2	1.0	1.2	0.6	1.4
1	3.1	3.0	1.8	0.9	0.7	1.9
2	5.3	4.9	3.5	2.9	1.8	3.7
3	7.3	6.7	4.6	3.1	2.8	5.0
4	8.0	7.0	5.7	4.4	4.9	6.1
5 – neither	17.3	15.7	15.4	14.4	9.6	14.4
6	8.8	14.1	13.9	13.7	10.5	12.2
7	15.6	15.0	19.5	21.6	22.3	18.7
8	16.4	15.9	20.3	21.4	24.4	19.6
9	7.3	8.9	6.9	9.3	13.2	9.2
Totally satisfied	8.8	6.6	7.4	7.0	9.2	7.8

Source: HILDA Wave 3

3. Prosperity and wealth

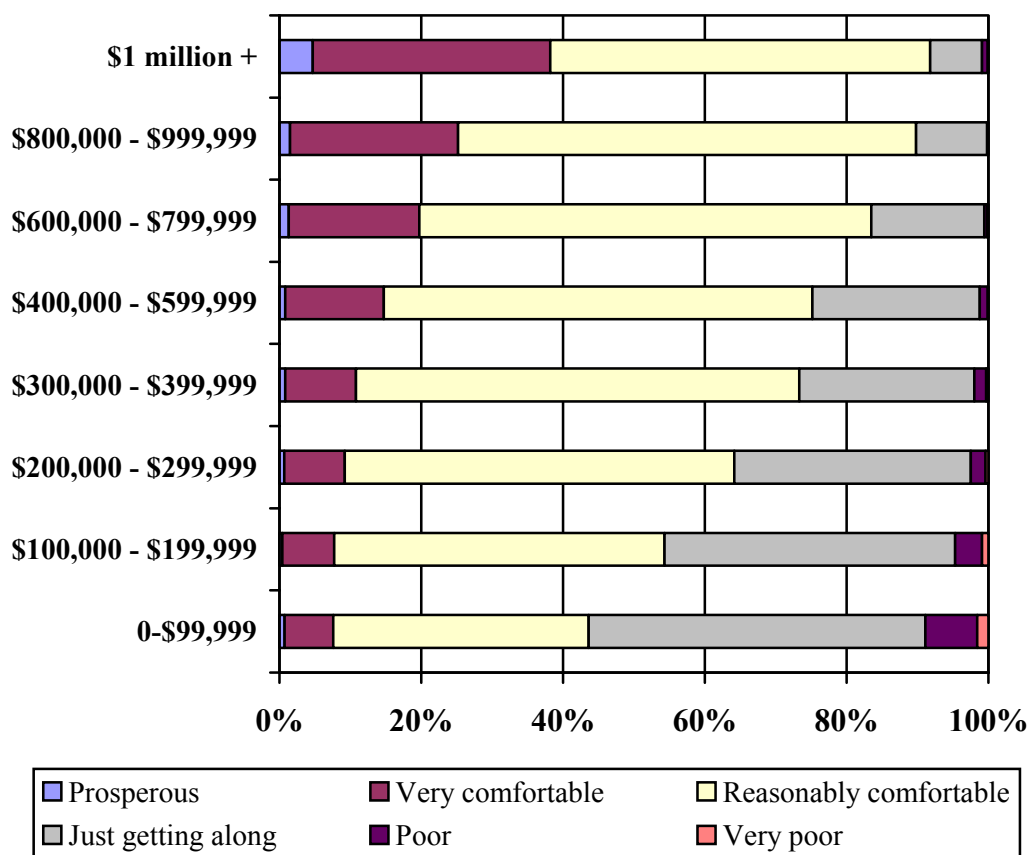
In some respects, wealth is a more enduring indicator of financial security than income. So, does the wealth of a household make a difference to whether people consider themselves poor or prosperous? Wealth is defined as net worth, that is, the assets of a household (including the home and other property) minus its debts. According to HILDA Wave 2 data, in 2002 total household assets averaged \$410,859 with a median of \$203,160. The net worth of households averaged \$348,441 with a median of around \$186,500.⁶

Perceptions of financial situation by net worth are reported in Figure 3.⁷ Among the ten per cent of Australians who live in households with a net worth of \$1 million or more, only five per cent regard themselves as prosperous. A third (34 per cent) say they are very comfortable but the largest group (54 per cent) say they are only reasonably comfortable. Interestingly, eight per cent regard themselves as poor or just getting along.

⁶ Reported in Melbourne Institute 2003, *HILDA Survey Annual Report 2003*, p. 18.

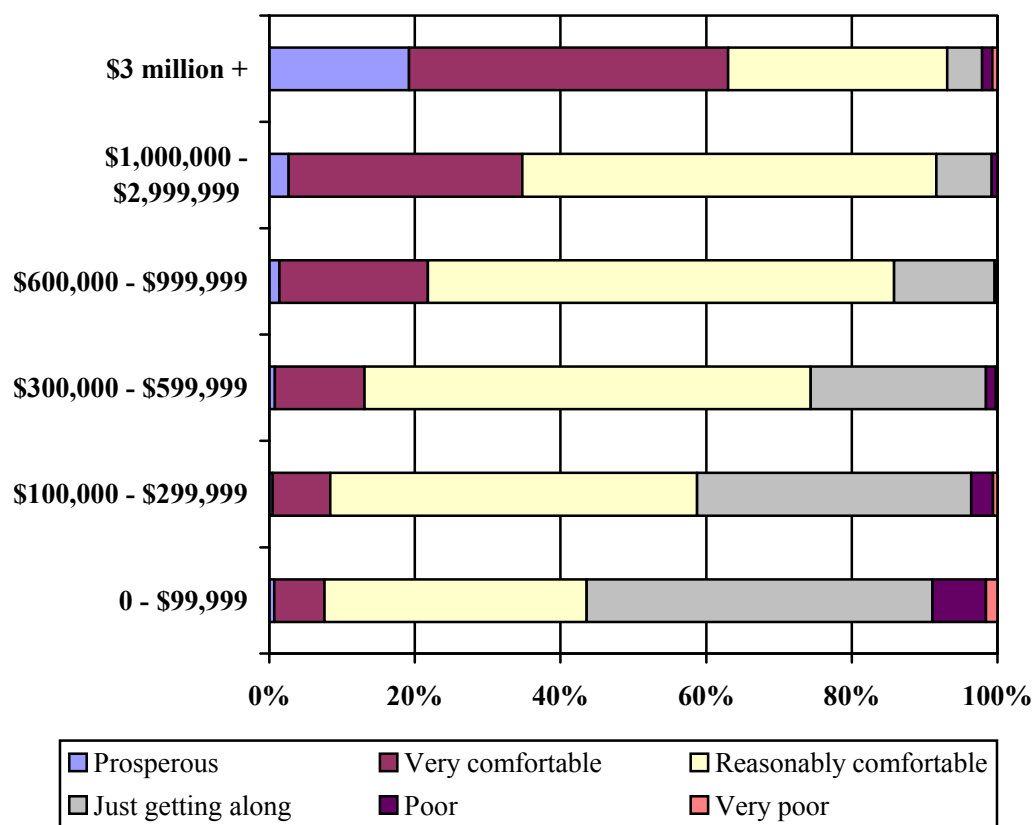
⁷ Of the 7245 households in Wave 2 of HILDA, 4.3 per cent reported negative net worth and are not included in this analysis. Household assets are top-coded at \$4 million. In other words, households with assets equal to or greater than \$4 million are recorded as having assets of \$4 million. Net worth is top-coded at \$3 million.

Figure 3 Attitudes to financial situation and household wealth (net worth)



Source: HILDA Wave 2

A small proportion of Australians (just over one per cent) live in households that have a net worth of \$3 million or more. They are unambiguously millionaires. In Figure 4, which shows an alternative aggregation of household wealth, the attitudes of those with a net worth in excess of \$3 million are shown. Just one in five of them (19 per cent) say they are prosperous. Remarkably, 7 per cent say they are poor or just getting along. At the other end of the spectrum, of the one quarter of Australians who live in households with a net worth less than \$100,000, nearly half (48 per cent) say they are just getting along, twice the proportion of the general population.

Figure 4 Attitudes to financial situation and household wealth (net worth)

Source: HILDA Wave 2

Degrees of wealth do make a difference when asked to rate their financial satisfaction on a scale of 0 to 10 – see Table 2. While only 5 per cent of those with net worth under \$200,000 say they are totally satisfied, this rises to 14 per cent for those with net worth in excess of \$800,000.

Table 2 Satisfaction with financial situation and household wealth (per cent)

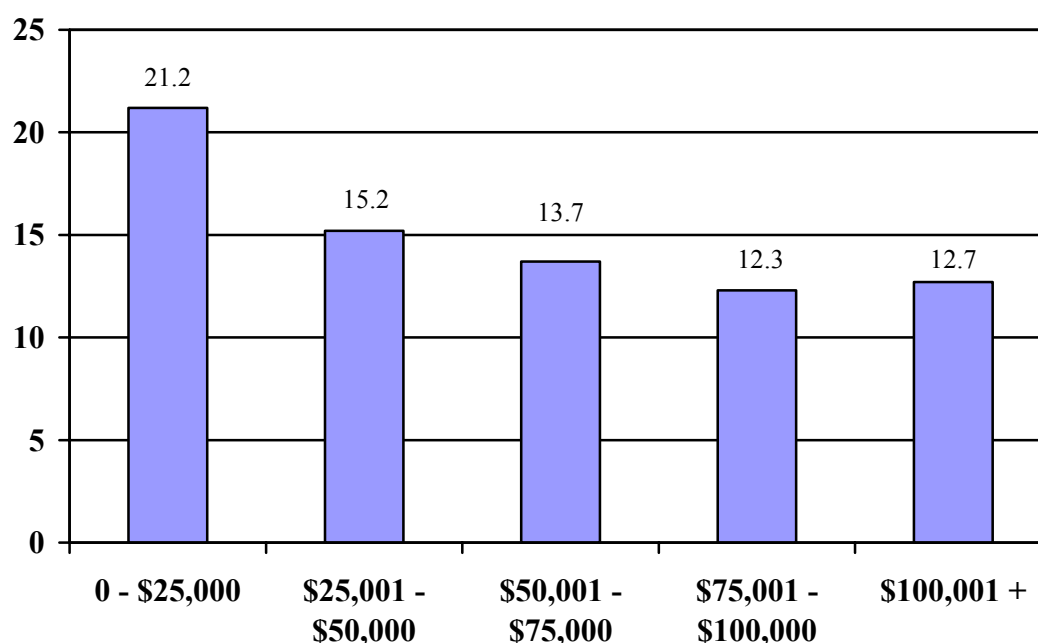
	0 - \$199,999	\$200,000- \$399,999	\$400,000- \$799,999	\$800,000 +	Total
Totally dissatisfied	4.4	1.7	0.9	0.8	2.5
1	4.3	1.8	1.3	0.6	2.6
2	7.8	3.9	2.2	1.7	4.9
3	8.2	5.4	3.3	2.2	5.7
4	8.8	7.2	5.4	3.7	7.0
5 – neither	19.2	16.4	14.1	10.1	16.2
6	12.0	13.4	14.0	9.9	12.4
7	14.4	19.1	19.8	19.3	17.2
8	12.0	16.6	20.6	23.9	16.5
9	4.5	6.9	10.4	13.4	7.5
Totally satisfied	4.6	7.5	8.2	14.4	7.4

Source: HILDA Wave 2

4. Life satisfaction and income and wealth

The HILDA survey asks respondents about their level of overall satisfaction with life.⁸ As many previous studies have shown, few Australians express dissatisfaction with life overall. However, the weakness of the relationship between reported life satisfaction and income and wealth is surprising. Figures 5 and 6 show the proportion of Australians who say they are ‘totally satisfied’ with life overall in each income group and each wealth group. Remarkably, the proportion who indicate they are totally satisfied with life overall *declines* as income increases, but is more or less unaffected by differences in wealth.

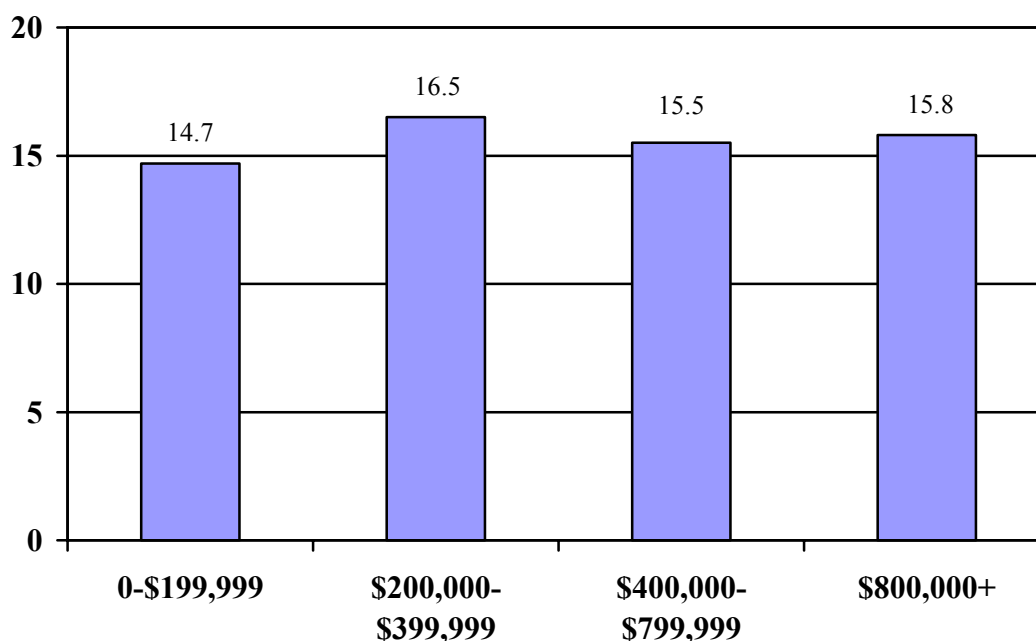
Figure 5 ‘Totally satisfied’ with life by household income (per cent)



Source: HILDA Wave 3

⁸ Respondents are asked to assess their satisfaction on the 0 to 10 scale for a series of issues including their financial situation. The last question is: ‘All things considered, how satisfied are you with your life?’

Figure 6 ‘Totally satisfied’ with life by household net worth (per cent)



Source: HILDA Wave 2

5. Some implications

Governments frequently declare that their objective is to create a prosperous Australia but any objective assessment would surely conclude that most Australians are already prosperous. However, the results reported in this paper indicate that few Australians *feel* prosperous. Even among the burgeoning group of millionaires and those with very high incomes, only one in twenty regard themselves as prosperous. Elsewhere we have dubbed these people the ‘suffering rich’.

These findings raise the question of whether Australians will ever be satisfied with their financial circumstances. Far from the belief that higher incomes and more assets will create a prosperous nation, it seems that the relentless emphasis on growth and higher incomes will in fact generate more dissatisfaction. Official emphasis on prosperity may result in faster income growth but, in all likelihood, it will also increase the desired standard of living even more thus leading to a greater sense of deprivation.⁹

⁹ These issues are discussed in depth in Clive Hamilton, *Growth Fetish* (Allen & Unwin 2003).