

# Income Inequality and Tax-Transfer Policy: Trends and Questions

Ann Harding & Quoc Ngu Vu

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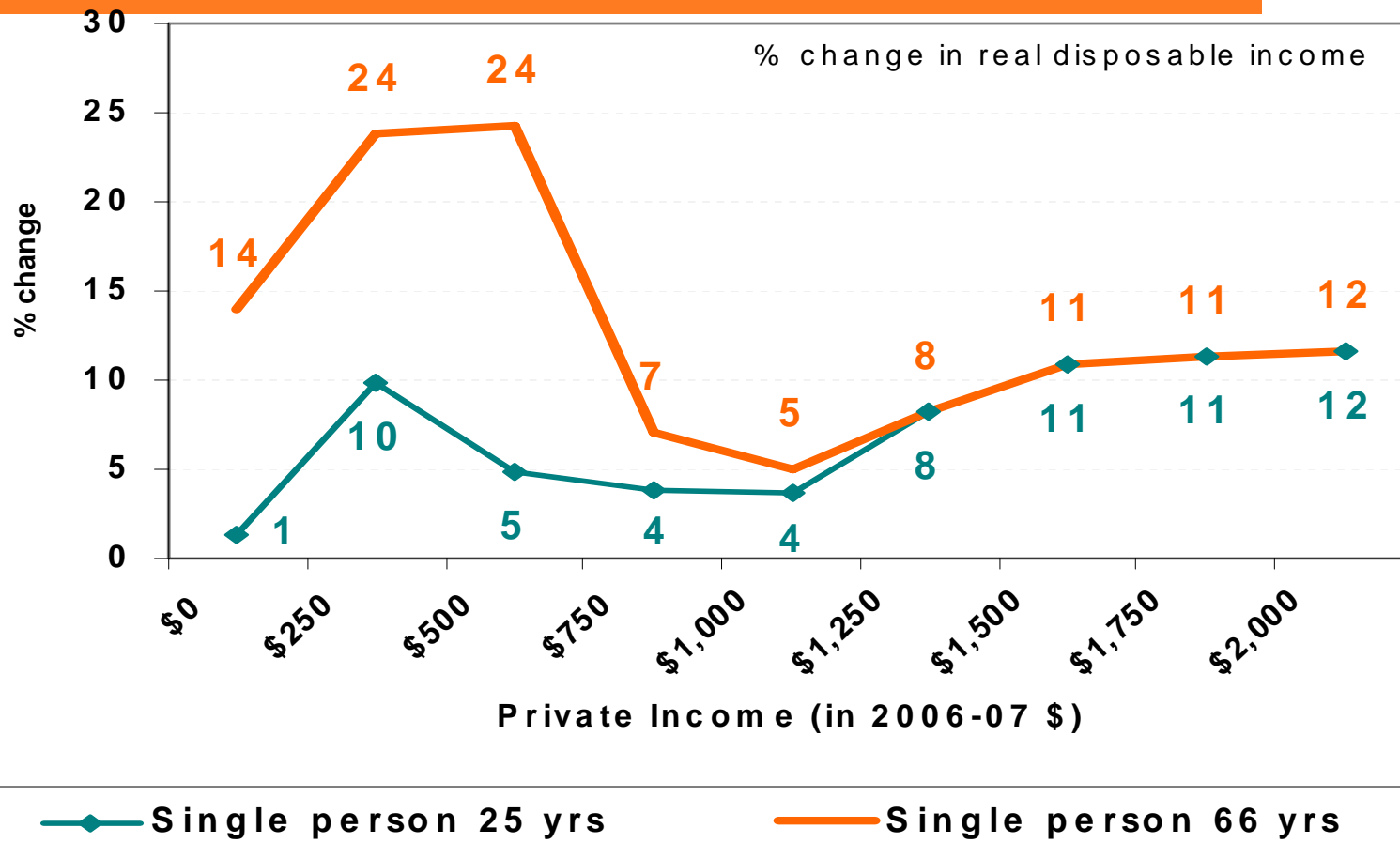
National Centre for Social and  
Economic Modelling (NATSEM)  
University of Canberra



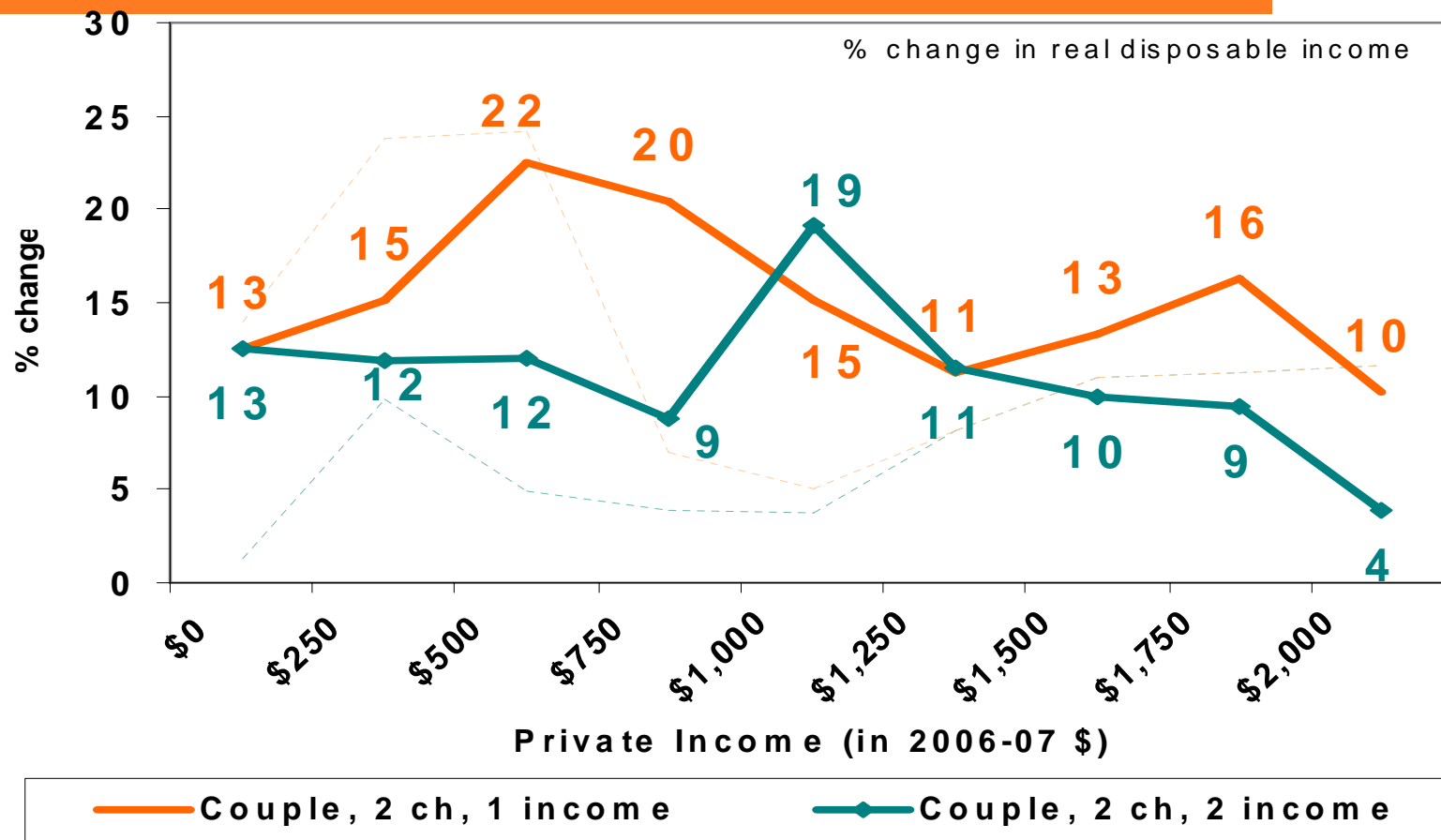
## Isolating impact of income tax and cash transfer changes

- **Uses NATSEM's STINMOD model (Version 06A/v2)**
- **Comparing 1996-97 with 2006-07**
- **Eight 'private income' levels (adjusted for inflation in earlier year – that is, 'real')**
  - \$1000 in 2006-07 -> \$774 in 1996-97 \$
- **Six 'illustrative' family types**
- **Two children aged 8 and 10 years**
- **Two income couples have 50:50 income split**
- **'Disposable' income means after-income-tax, after cash transfers – income 'in the hand'**
- **This methodology isolates the impact of changes in tax and transfer policy from changes in labour force status and earnings growth**

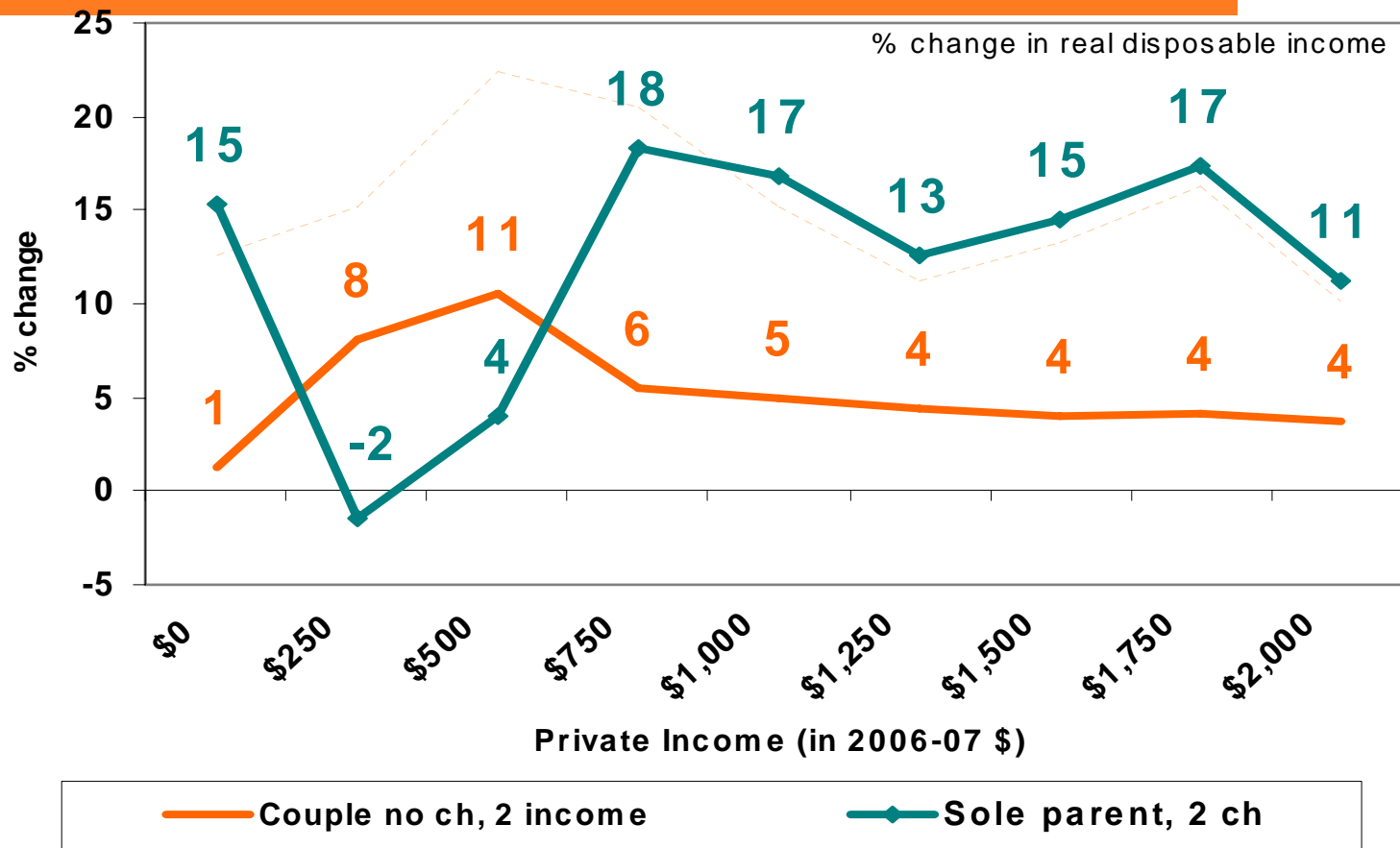
## Aged with some private resources are the big winners



## Single income couples with children on lower to middle incomes also big winners

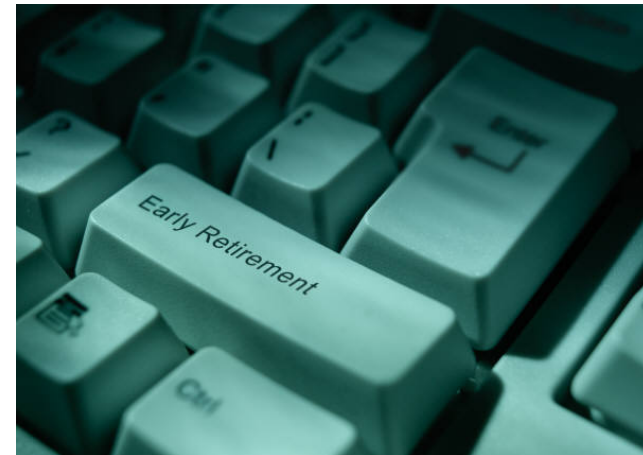


## Two income couples without children do less well: sole parents on welfare with children aged 8+ do poorly



Note: The faint orange line is the single income couple with two children (shown in pervious slide). Note that outcomes for sole parents whose youngest child is aged < 8 yrs would be similar to these. The loss shown above is due to welfare to work changes placing sole parent on NSA.

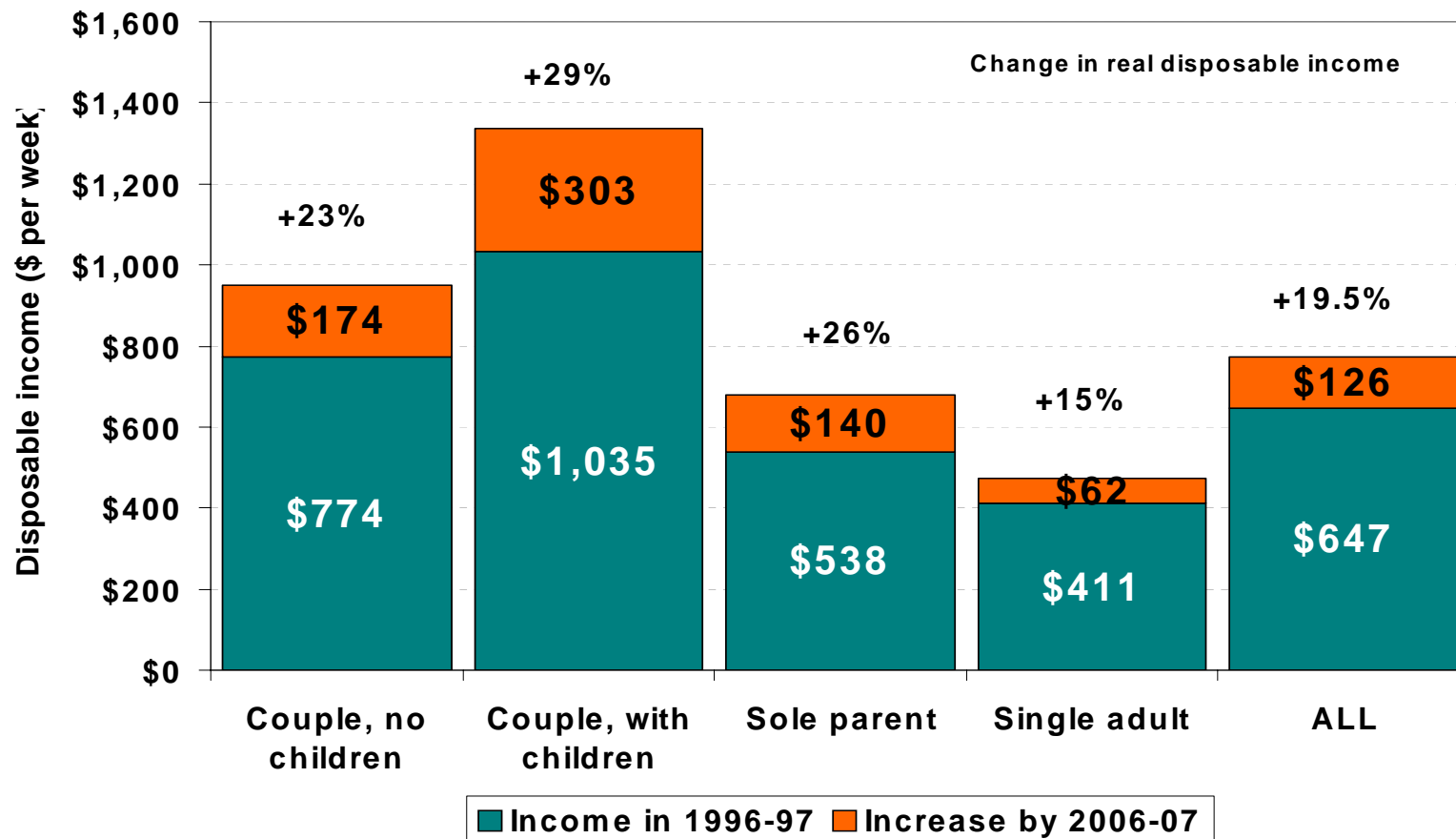
## Taking Other Effects Into Account: Labour Market and Family Composition Changes



## Real earnings up, job numbers up

- **Earlier analysis isolated impact of tax-transfer system for typical families with ‘frozen’ real private incomes**
- **But in the real world:**
  - Pay packets increased (21% increase in full-time AWE for adults);
  - Unemployment fell -> more people in jobs;
  - More families became two income;
  - Population ageing and other social trends changed family composition
- **Following figures show change in real disposable incomes between 1996-97 and 2006-07**
  - Changes are *estimates*, using NATSEM’s STINMOD model
  - Estimates are subject to revision as STINMOD is continuously updated as new data become available
  - All following estimates based on ‘aged’ ABS 00-01 and 02-03 income surveys: new ABS 03-04 data shows spectacular increase in incomes at bottom end

## Change in real disposable income by family type





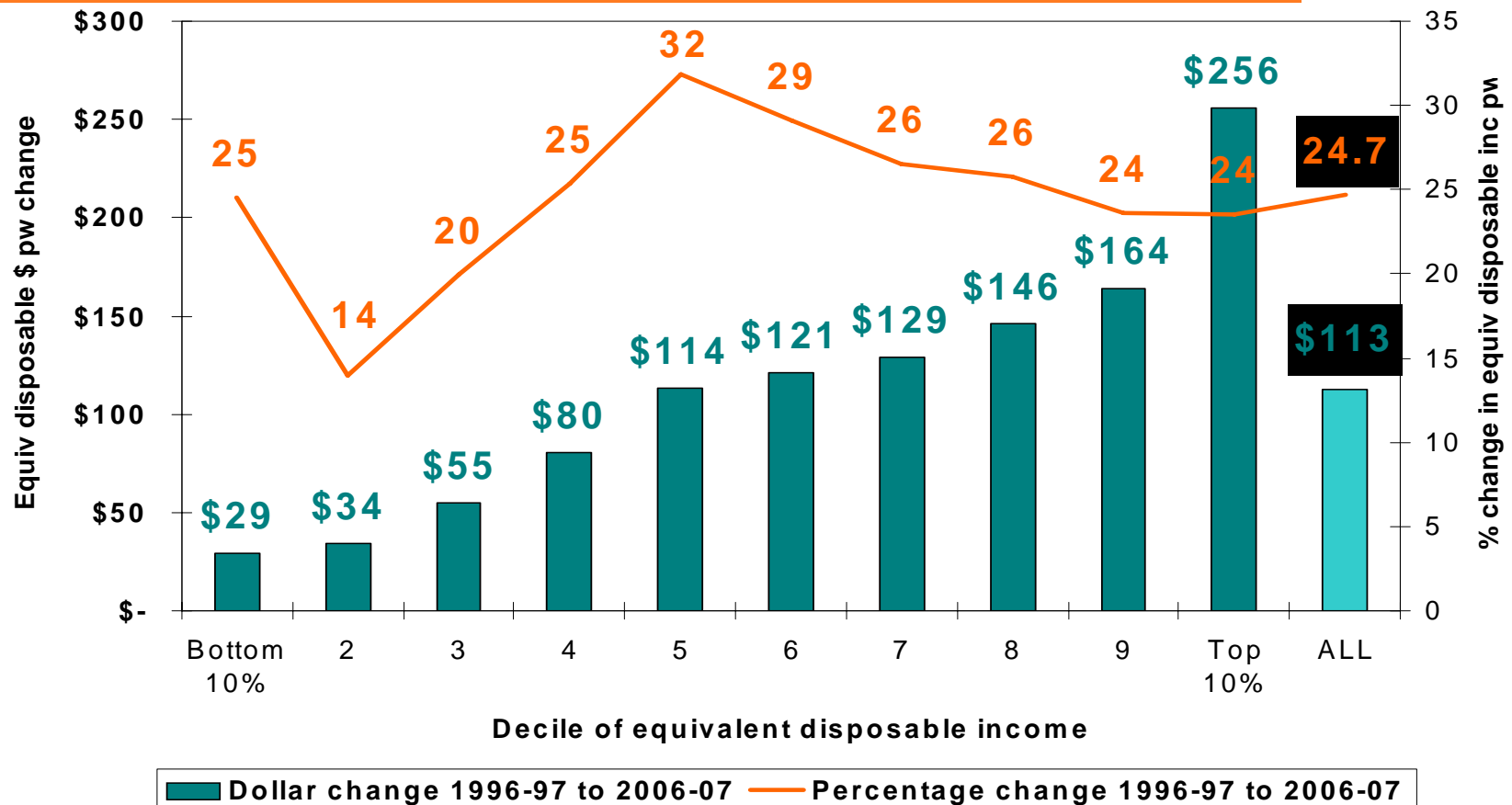
## Have the rich got richer and the poor got poorer?



## Methodology

- **Calculated average real change in equivalent disposable income unit income over the 10 years**
- **Assigned this income to all persons in income unit and then divided them into deciles**
  - 10% of Australians in each decile
  - ‘income unit’ means couple with dependent children, couple without children, sole parent, single person
  - Employed Gen Y still in parental home is a ‘single person’
- **Calculated equivalent disposable income of the income unit**
  - New OECD equivalence scale
  - All results are for persons, categorised by income of the income unit they live in

## Middle income families and singles made the greatest gains



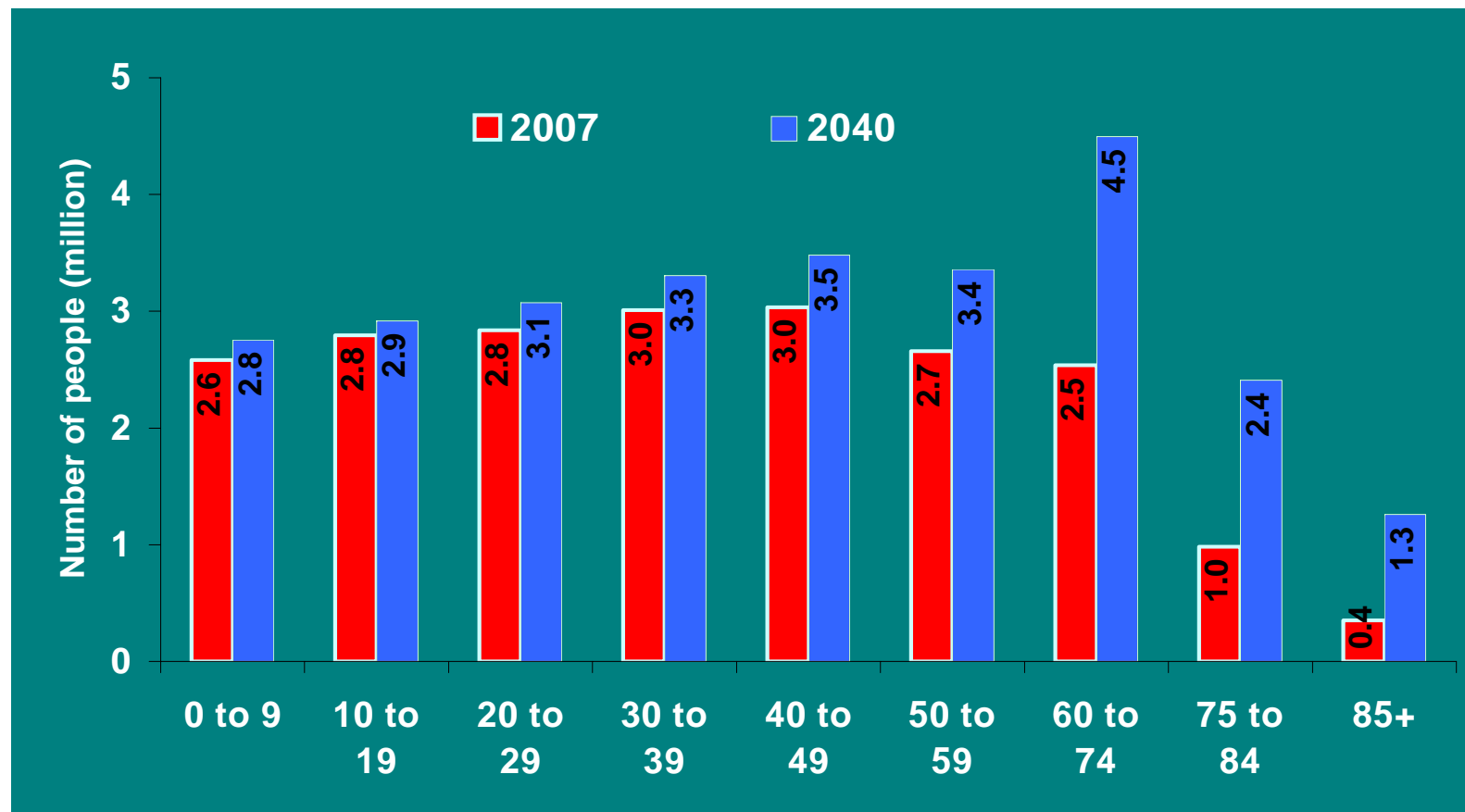
## Conclusions from previous figure

- **Average increase in equivalent disposable income is 24.7 per cent (\$113 pw of equiv disp income)**
- **Largest gains in needs-adjusted income made by the middle one-fifth of the population**
  - 29% and 32% increases
  - About \$115 to \$120 pw in equivalent dollars
- **Incomes at top of income spectrum increased by about 1/4**
  - Even after the large 2006-07 tax cuts
- **Strong income gains across the board** (except for decile 2 -see below)
- **Impact of population ageing already evident**
  - No. aged 75 yrs+ grew by about 390,000 in 10 yrs to 06-07 (ABS)
  - No of singles in decile 2 up by 360,000, to almost 1m
  - No of persons living in 'couple without children' units in decile 2 grew 214,000, to about 3/4 million
  - Singles now make up almost 1/2 of all the 2.08 m Aussies in decile 2
  - So suspect income outcomes for decile 2 are being driven by outcomes for max rate single and couple pensioners with little or no private resources (many of them aged pensioners)

## Implications for the future

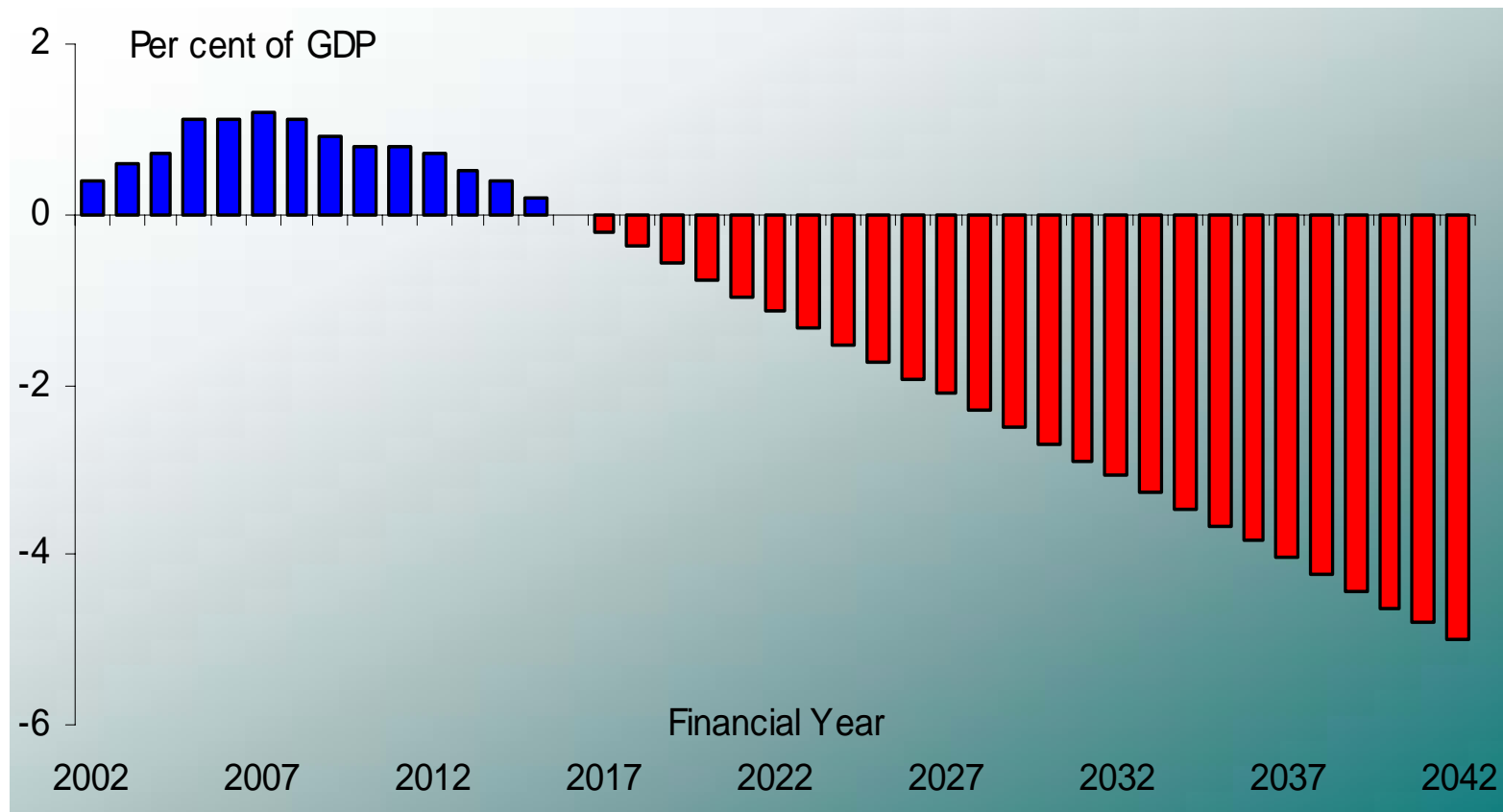


## ABS projects doubling in number of Aussies aged 60 yrs + by 2040



Source: ABS Population Projections

## Projected revenue and spending under current policy: deficit > 5% of GDP



Source: Australian Treasury, *Intergenerational Report*, Budget Paper No. 5, 2002-03

## Budget will be under tremendous pressure

- **Baby boomers now aged 46 to 61 years -> many already retiring**
- **Insufficient savings: median superannuation of female baby boomers in 2004 was \$8,000 (males \$30,700)\***
- **NATSEM building APPSIM dynamic microsimulation model with 13 govt agencies as partners, to simulate future impact of policy changes**

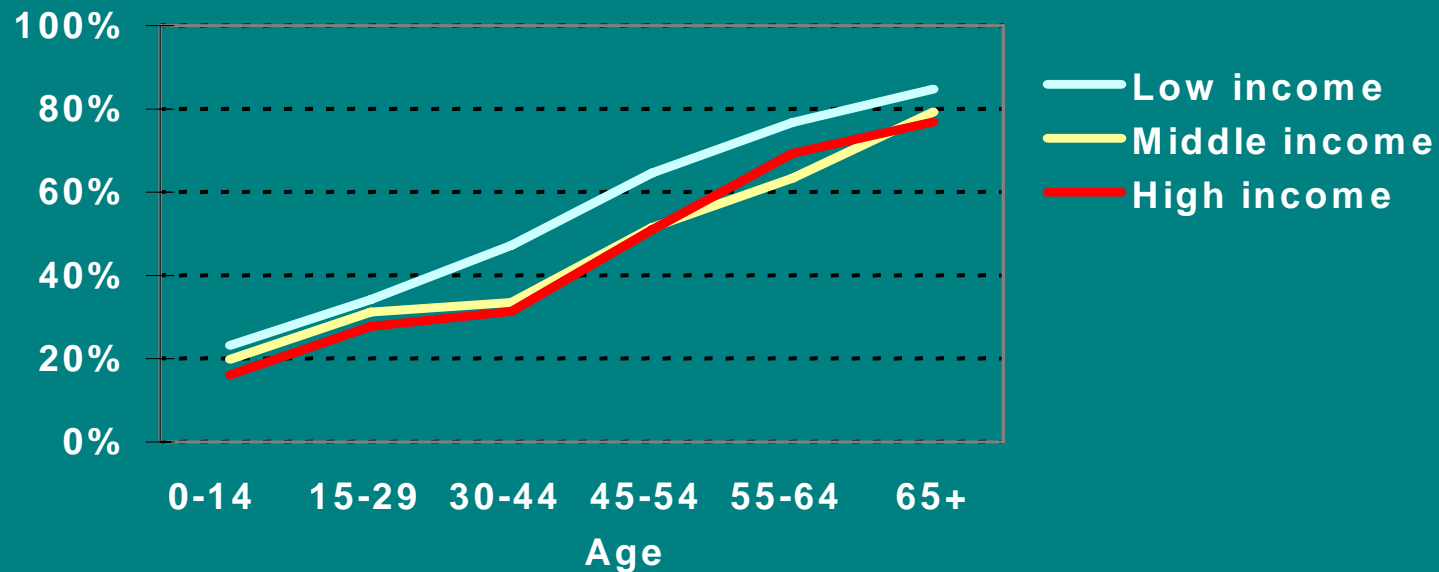


## Work incentives and labour supply to become a major issue



## Improving health to allow greater labour force participation now a high policy priority

Percentage of population with at least one national health priority condition, 2001



These conditions include Asthma, Diabetes, Injury prevention, Mental health, Cancer and Cardiovascular health

Source: Walker et al, 'Does Your Wealth Depend on Good Health', available from [www.amp.com.au/ampnatsemreports](http://www.amp.com.au/ampnatsemreports)

## Conclusions

- **Aged with some private resources and traditional families have benefited most from structural changes in tax-transfer policy**
- **Substantial gains in real after-tax income in past decade (driven primarily by earnings growth)**
- **Income increases across the income spectrum**
  - But greatest for middle one-fifth of Australians
  - Population ageing already evident in income outcomes
- **Can we maintain current largesse given population ageing?**

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