

# OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*

[www.oecd.org/els/social/inequality](http://www.oecd.org/els/social/inequality)

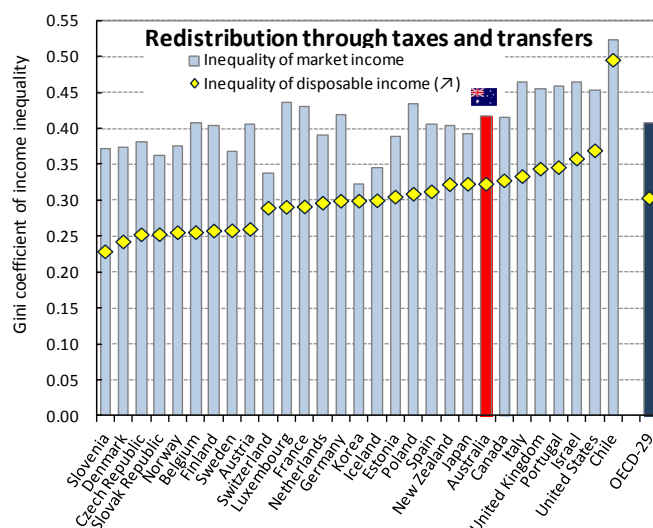
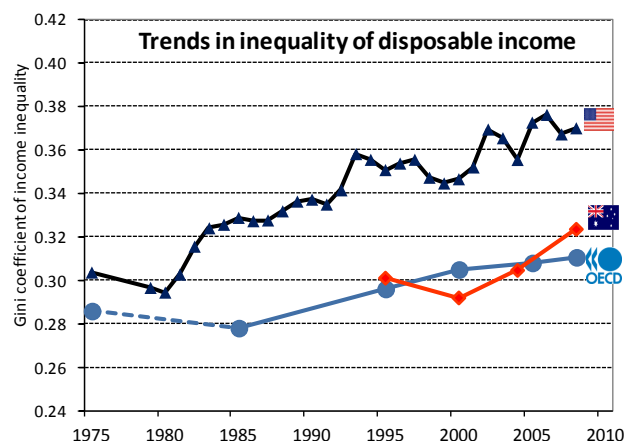
(Under embargo: Monday 5<sup>th</sup> December 2011, 11am Paris time)

## COUNTRY NOTE: AUSTRALIA

Income inequality among working-age people has been rising since 2000 and is today above the the OECD average. In 2008, the average income of the top 10% of Australians was 131 300 AUD (88 800 USD), nearly 10 times higher than that of the bottom 10%, who had an average income of 13 700 AUD (9 300 USD). This is up from a ratio of 8 to 1 in the mid 1990s.

The growth in inequality since 2000 was driven by two forces in different periods: widening disparities of market incomes (gross earnings, savings and capital) between 2000 and 2004 and weakening redistribution since 2004. According to the latest data, taxes and benefits reduce inequality by 23%, which is about OECD average.

[Figure6.1]



Notes: The Gini coefficient ranges from 0 (when all people have identical incomes) to 1 (when the richest person has all the income). Market incomes are labour earnings, capital incomes and savings. Disposable income is market income plus social transfers less income taxes. Incomes are adjusted for household size. Data refer to the working-age population. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>

### Key findings:

- The richest 1% of Australians saw their share of total national income almost double, from 4.8% in 1980 to 8.8% in 2008 [Table9.1]. Moreover, that of the richest 0.1% rose from 1% to 3%. At the same time, top marginal income tax rates declined markedly, dropping from 60% in 1981 to 45% in 2010.
- Labour market changes have been a key driver of inequality trends in Australia. The earnings gap between the 10% best and least paid full-time workers increased by a fifth between 1980 and in 2008.
- Employment income makes up only a third of household income in the bottom quintile in Australia (compared to an OECD average of two thirds). This suggests jobless households face a much higher risk of falling at the bottom of the income distribution.
- As in most other countries, the divide in hours worked between higher- and lower-wage earners in Australia is growing, confirming a trend seen in most OECD countries. Since the mid-1980s, annual hours of low-wage workers fell from 1300 to 1100 hours, those of higher-wage workers remained stable at around 2300 hours. [Table4.A1.2]
- Societal changes, such as more single parent families and people living alone, and people marrying within similar earnings classes, also contributed to rising household earnings inequality. At the same time, higher employment rates for women helped reduce household earnings inequality. Growing disparities and declining employment rates among men are the main drivers, explaining about two-thirds of the increase.

- The tax-benefit system in Australia has offset just over half of the rise that occurred in market income inequality during the past two decades, a percentage that is higher than in many other OECD countries.
- Nonetheless, since the mid-1980s, taxes have become less redistributive. Both progressivity and average tax rates have declined. And since the mid-1990s the overall redistributive effect also weakened. In most cases, out-of-work income as a proportion of in-work income has fallen, in part due to allowance rates failing to keep pace with wage growth. Only lone parents, whose income support is tied to an average earnings measure and who benefitted from more generous family benefits, were excepted. The flattening of the personal income tax system in the mid-2000s (e.g. through increases to the top threshold) also contributed to a reduced capacity of redistribution.
- Spending on public services in Australia is higher than the OECD average but spending on cash transfers is lower [Figure 8.1]. Overall, these services such as education, health or care cut inequality by 17%, a little less than the OECD average.

### **Key policy recommendations for OECD countries from *Divided We Stand***

- Employment is the most promising way of tackling inequality. The biggest challenge is creating more and better jobs that offer good career prospects and a real chance to people to escape poverty.
- Investing in human capital is key. This must begin from early childhood and be sustained through compulsory education. Once the transition from school to work has been accomplished, there must be sufficient incentives for workers and employers to invest in skills throughout the working life.
- Reforming tax and benefit policies is the most direct instrument for increasing redistributive effects. Large and persistent losses in low-income groups following recessions underline the importance of government transfers and well-conceived income-support policies.
- The growing share of income going to top earners means that this group now has a greater capacity to pay taxes. In this context governments may re-examine the redistributive role of taxation to ensure that wealthier individuals contribute their fair share of the tax burden.
- The provision of freely accessible and high-quality public services, such as education, health, and family care, is important.

#### **The roles of globalisation, technological progress and regulatory reforms**

*Divided we Stand* also looks into the impact of global developments on rising wage dispersion and employment trends over the past quarter century up to the 2008-09 financial crisis. For the OECD area as a whole, the following key findings emerge:

- Globalisation, i.e. the rapid trade and foreign direct investment integration that occurred in all OECD countries over the past quarter century did not – per se – play a major role in driving growing wage dispersion. However, globalisation pressure affected domestic policy and institutional reforms (see below).
- Technological progress led to higher wage differentials: advances in information and communication technologies in particular have been more beneficial for workers with higher skills.
- Regulatory reforms and changes in labour market institutions increased employment opportunities but also contributed to greater wage inequality. More people, and in particular many low-paid workers, were brought into employment. But one of the consequences of more low-paid people in work is a widening distribution of wages.
- The rise in the supply of skilled workers provided a sizeable counterweight to offset the increase in wage inequality resulting from technological progress, regulatory reforms and institutional changes. The upskilling of the labour force also had a significant positive impact on employment growth.