

INCOME AND WEALTH Peter Travers

Introduction

South Australia's Strategic Plan Progress Report 2006: Income inequality:

Raise the lowest incomes of South Australians relative to those of the average South Australian. (T6.3) (p. 111).

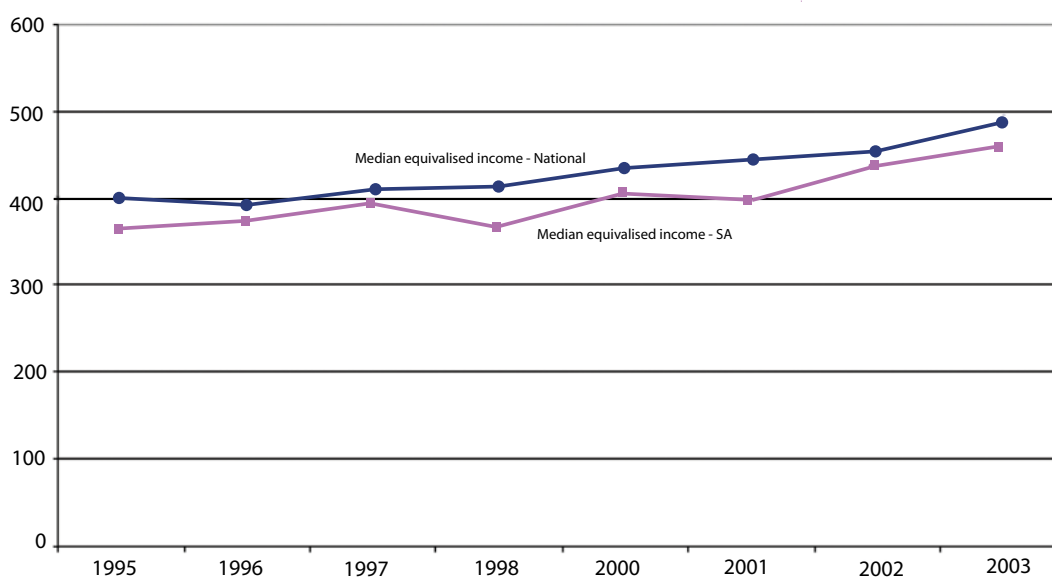
Update of Key trends

The 2006 Progress Report uses the latest reliable data (ABS 2005, giving results of 2003-2004 Survey of Income and Income Distribution) to announce 'no change' since the baseline year 2000-2001. The Progress Report also recommends the use of some supplementary measures to examine the situation more closely. The two ABS surveys most relevant to this recommendation are the 2003-04 Income Survey (ABS

2005) and the 2003-04 Household Expenditure Survey (ABS 2006a). The Household Expenditure Survey is the source of a new estimate of household net worth. The tables used in this chapter are based on these two surveys, using data published very recently (ABS 2006b and ABS 2006c).

Figure 1 shows SA median income over the period 1995 to 2004 compared to the National median. Both are expressed in constant 2003-2004 dollars. Though the SA numbers are more volatile (as one would expect from the smaller State survey sample), the picture is similar: SA median income remains below the national average, but it has risen in real terms by 25.6%, even more than that of the nation as a whole (21.8%). The question then is whether, in a period of rapidly rising national and state prosperity, those gains are being equally shared.

Fig. 1 Median Equivalised Household Income
(2003-2004)

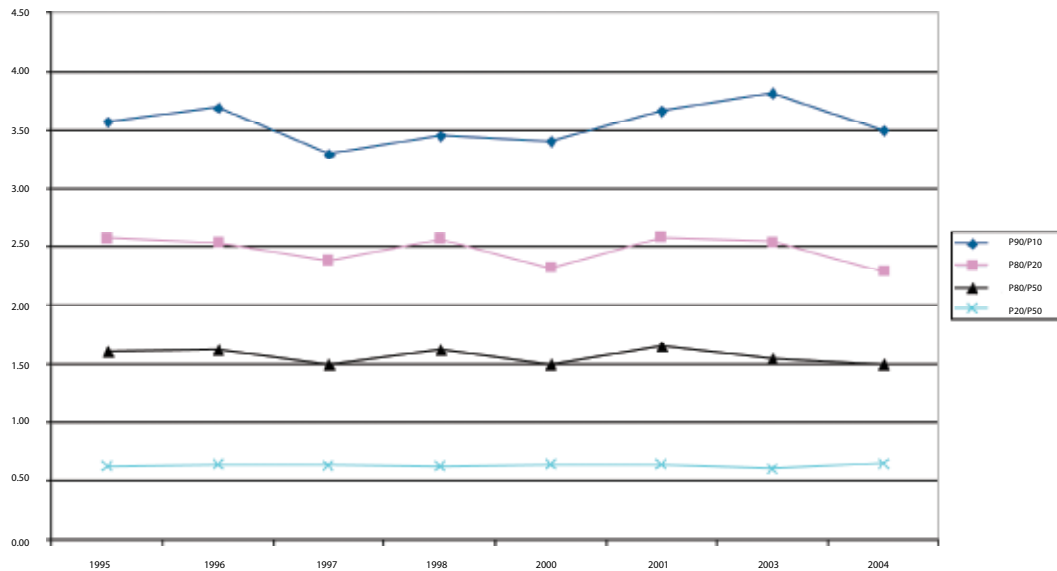


Source: ABS 2006b

Figure 2 shows the relationship over the years between incomes of people at the top of selected percentiles of the income distribution. For instance, the P90/P10 ratio that hovers around 3.5 tells us that income at the 90th percentile is 3.5 times greater than income at the 10th percentile. This ratio has remained relatively stable over the period. Similarly, the

P20/P50 ratio tells us the size of the income of persons at the 20th percentile relative to the median SA income. In 2004, the ratio of .65 is once again much as it had been over the whole period. There are stronger suggestions of change in relation to the advantage of the more prosperous 80th percentile, which has lost ground relative both to the median and to those at the 20th percentile.

Fig 2. Inequality, South Australia
Ratio of incomes at top of selected percentiles

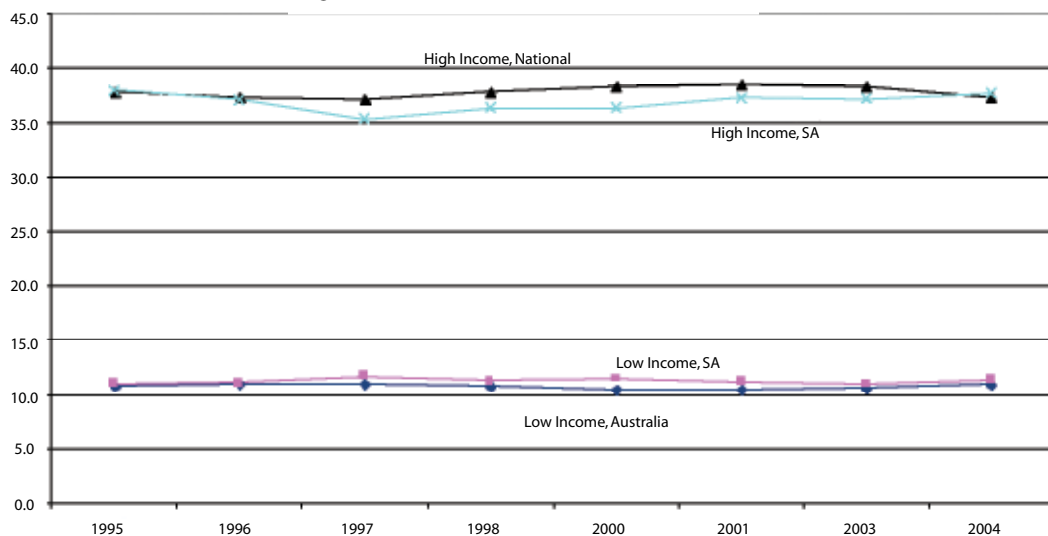


Source: ABS 2006b

Figure 3 looks at income distribution in terms of income share, and specifically, the share of total income enjoyed by the most affluent 20 percent, and that of the low income group. (Note that the ABS uses the 2nd and 3rd deciles rather than the 1st and 2nd to define low income. The 1st decile includes many people with quite large assets for whom income is not a good measure

of their standard of living.) The SA low income group are very similar to the National picture and show little change over the period. The SA high income category had been notable in that it was losing ground relative to others. However, the trend has been reversed and the most affluent 20 percent end the period with around 38 percent of total income, just as they were in 1995.

Fig. 3 Income Shares, High and Low Income
National and SA, 1995-2004
(High = 9th & 10th deciles; Low = 2nd & 3rd deciles)



Source: ABS 2006b

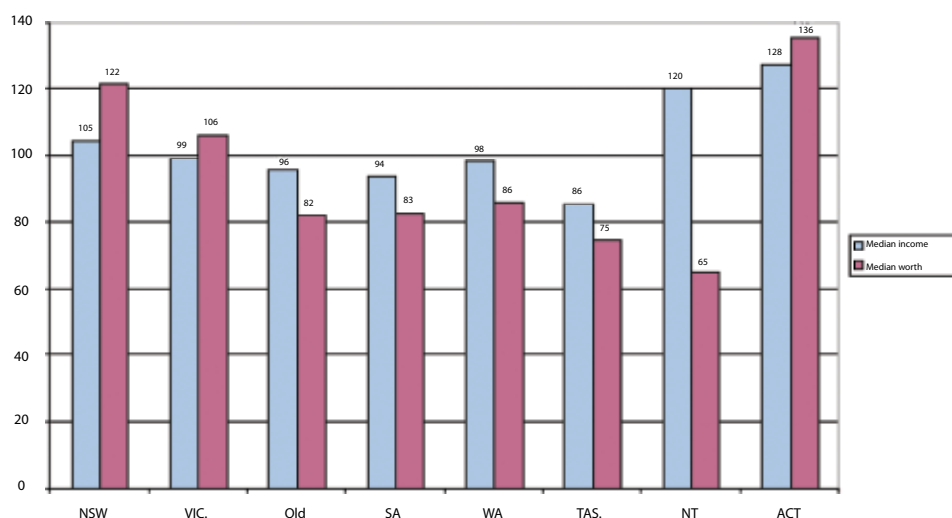
The final chart, Figure 4, makes use of a new measure of material well-being released by the ABS in 2006: an index of household net worth. Net worth is the difference between

household assets and household liabilities. By far the largest asset on average is the net value of the family home, followed by superannuation, and the net value of businesses. Though

net worth is very unequally distributed, it can give a different picture of living standards than one based on income only. Figure 4 shows the median income and median net worth of each State and Territory relative to the National median. Sydney house prices strongly influence the NSW figures, while the even higher ACT median reflects both high house prices and high superannuation assets. The high income and very low net worth shown in the NT data (which exclude nearly a quarter

of the population living in remote areas) reflect a youthful population with the highest level of liabilities in the nation. The relatively older age-distribution in SA is part of the explanation for the State having the lowest level of median liabilities on the mainland. SA median net worth is 83% of the National median, a reflection of the relatively lower house prices. Since this is the first release of official household net worth data, it will serve as a useful baseline for future comparisons.

Fig 4. States and Territories: Income and Net Worth Relative to National Median 2003-04



Source: ABS 2006c

The overall picture is one of rising real State prosperity that parallels a rapid rise in national prosperity. The kinds of measures used here are very broad brush and do not show the efficacy of individual State-level policies. They do, however, suggest that whether one looks at the State compared to the Nation or at income bands within the State, there is very little change in relative position over the period 1995-2004. The situation is very different if we consider real gains in prosperity over the period. What we find is that though relative positions have changed little or not at all, real gains in income are very significant at every income level. What this adds up to is that though the supplementary measures recommended by the Strategic Plan Progress Report do not alter the picture of 'no change' in relative standing, they do bring out clearly the more positive way of saying the same thing: State prosperity has risen rapidly; just as rapidly as it has for Australia as a whole.

A final caveat should be added that though the measures used here are the best available, they are based on survey data and they must of necessity remain in broad aggregations. Just as the broad brush measures do not tell us much about the efficacy of particular policies, they are also not well suited to measuring the fortunes of individuals within broad income and net worth bands. For instance, the top income range used here (top 20 percent) shows no gain in income share over the period. What it does not show (and could not show, given the

small sample numbers) is what is happening within this income band. Indeed, Paul Krugman has suggested that if we wish to understand what is happening at the top of the US income distribution, we would need to focus on fractions much smaller than 10 percent, and even less than 1 percent (Krugman 2002). Though the situation is probably not as extreme in Australia, his warning is worth heeding. At the bottom end of the income distribution, Krugman's warning also applies. Though these figures give us the reassuring news that 'on average' the low income band have held their own in a time of rapidly rising prosperity, they tell us little about individual fortunes and individual hardship.

References

ABS 2005, Household Income and Income Distribution, Australia, 2003-04, cat. 6523.0.

ABS 2006a, Household Expenditure Survey, Australia, 2003-04, Cat. No. 6530.0

ABS 2006b, Australian Social Trends, cat. 4102.0.

ABS 2006c, Household Wealth and Wealth Distribution, Australia, 2003-04 Table 27. States and Territories – All Households, Household characteristics. Cat. No. 6554.