WIDENING THE GAP – AN INTERGENERATIONAL LENS ON WEALTH INEQUALITY IN AUSTRALIA

PRESENTATION TO A WEBINAR HOSTED BY ANGLICARE AUSTRALIA

12TH DECEMBER 2024

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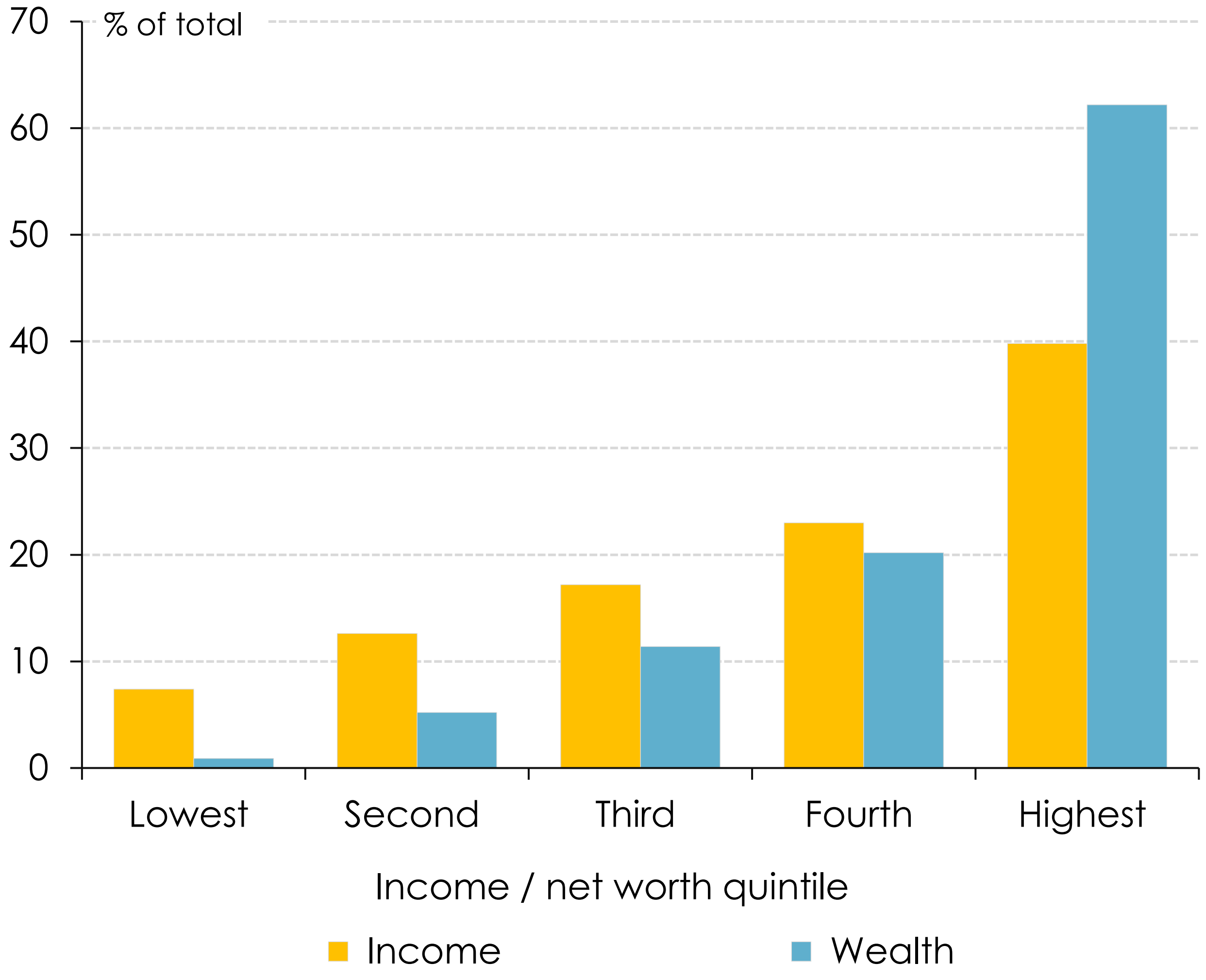
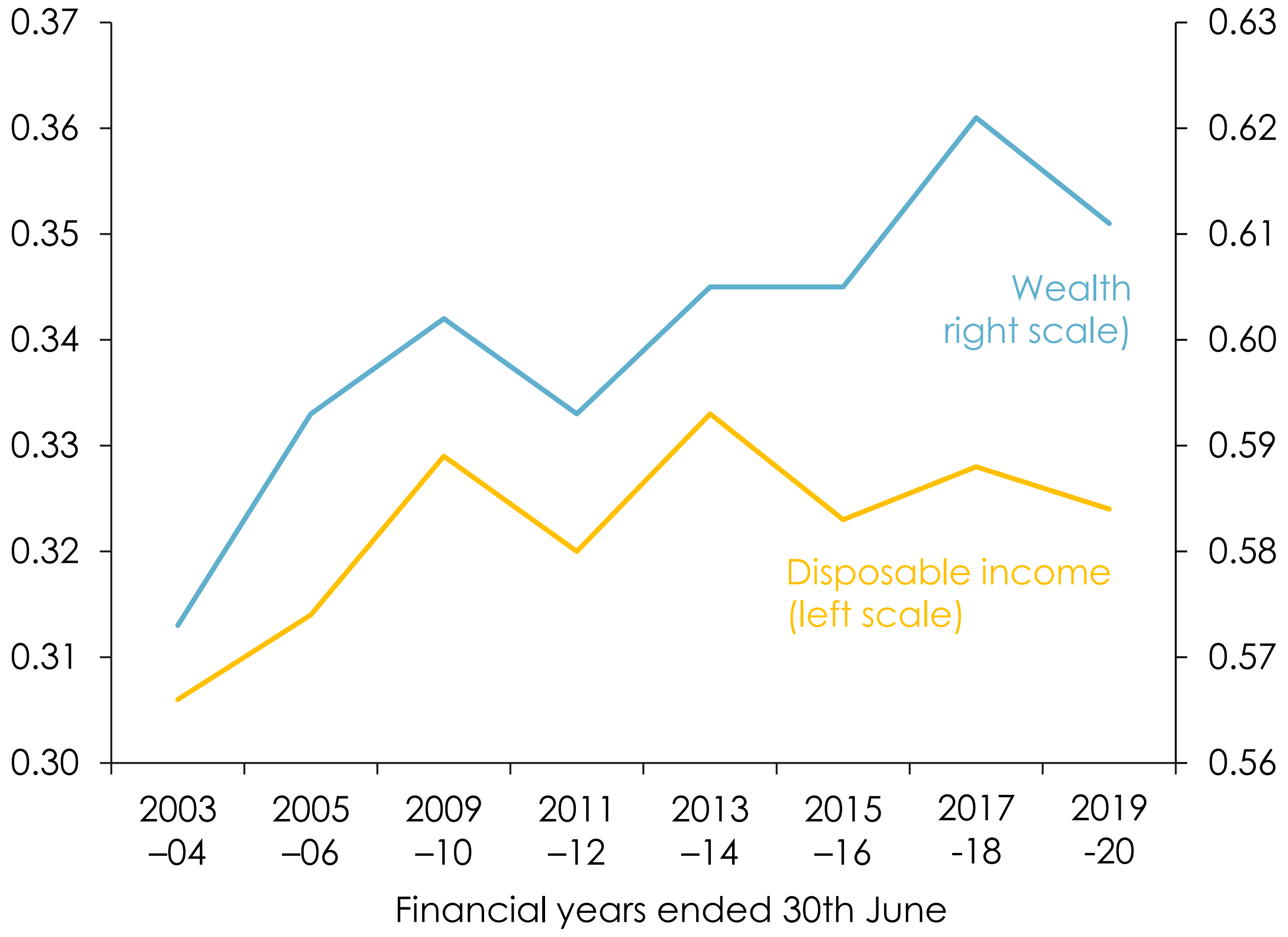
In Australia as elsewhere, wealth is distributed more unequally than income – largely because while income is progressively taxed, wealth isn't

Distribution of household disposable income and wealth by quintile, Australia, 2019-20



Gini coefficients for distribution of household disposable income and wealth, 2003-04 to 2019-20



Note: Household disposable income is 'equivalized' to take account of differences in the size and composition of households. The Gini coefficient is an internationally accepted summary measure of inequality ranging in value from zero representing 'perfect' equality to 1 representing complete inequality. *Source:* ABS, Household Income and Wealth, Australia, 2019-20 and previous issues. The survey which would ordinarily have been conducted in 2021-22 was cancelled due to the Covid-19 pandemic.

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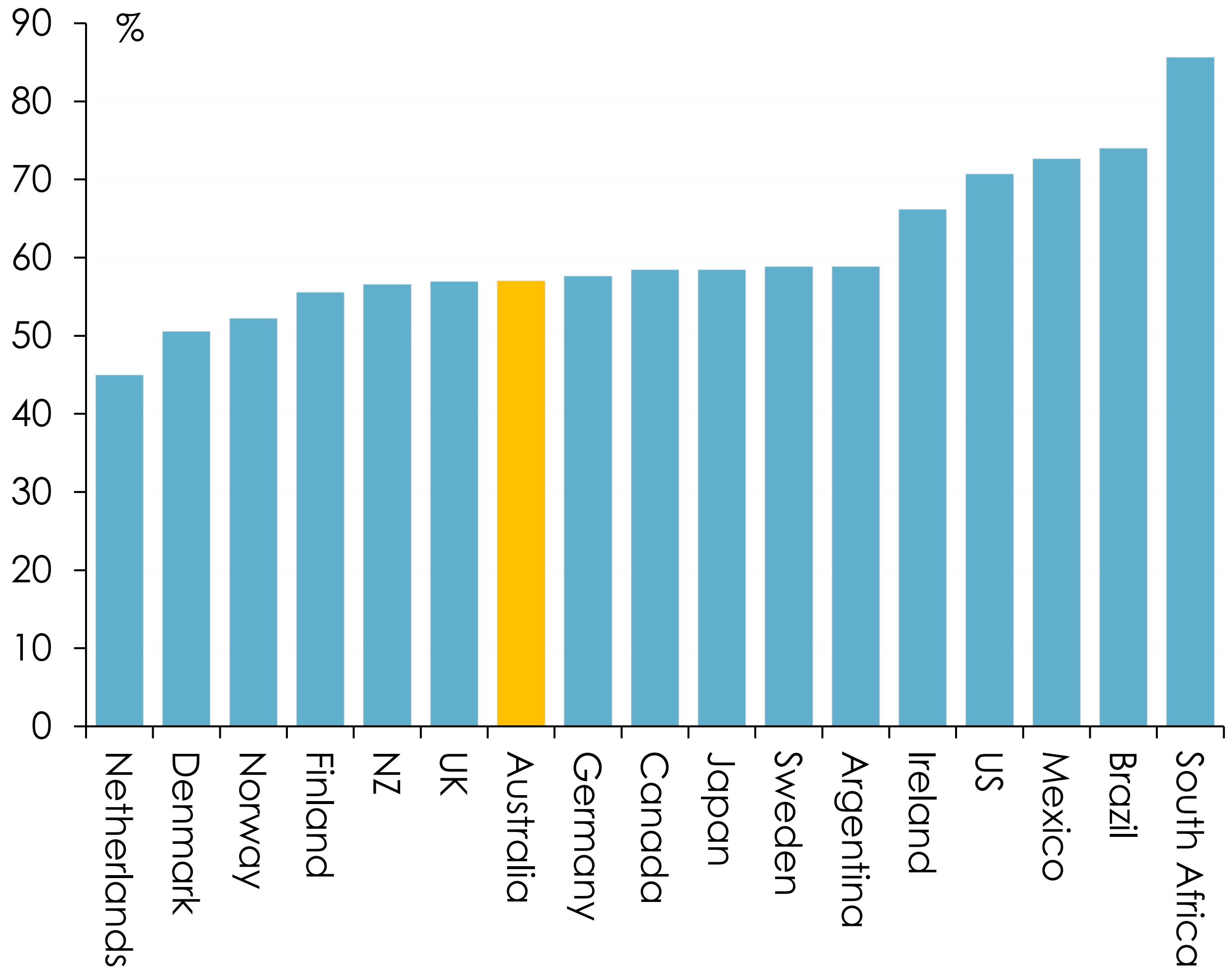
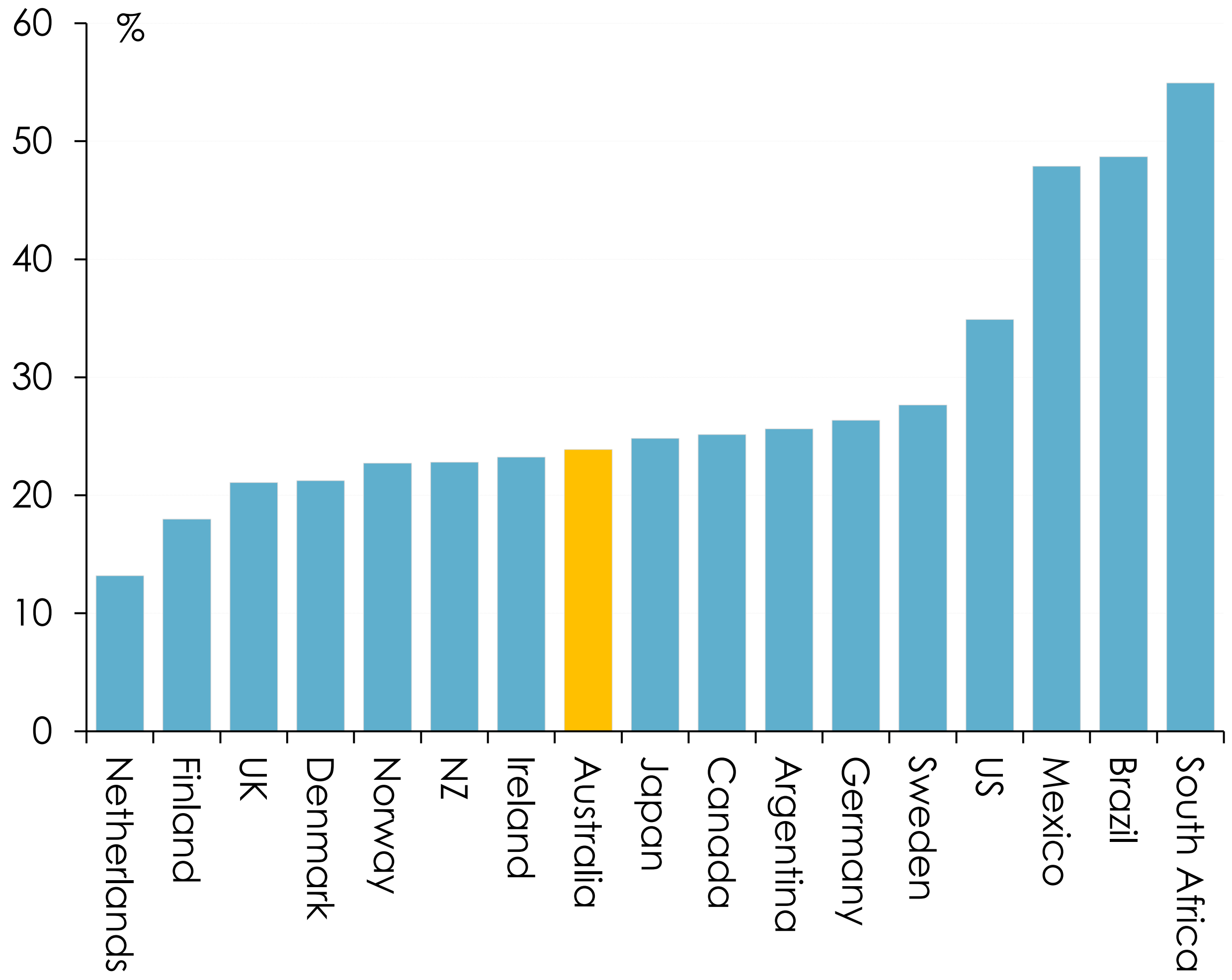
Australia is ‘middling’ in terms of the degree of inequality in wealth distribution compared with other countries

Share of household wealth held by the top 10%, Australia and other selected countries, 2022



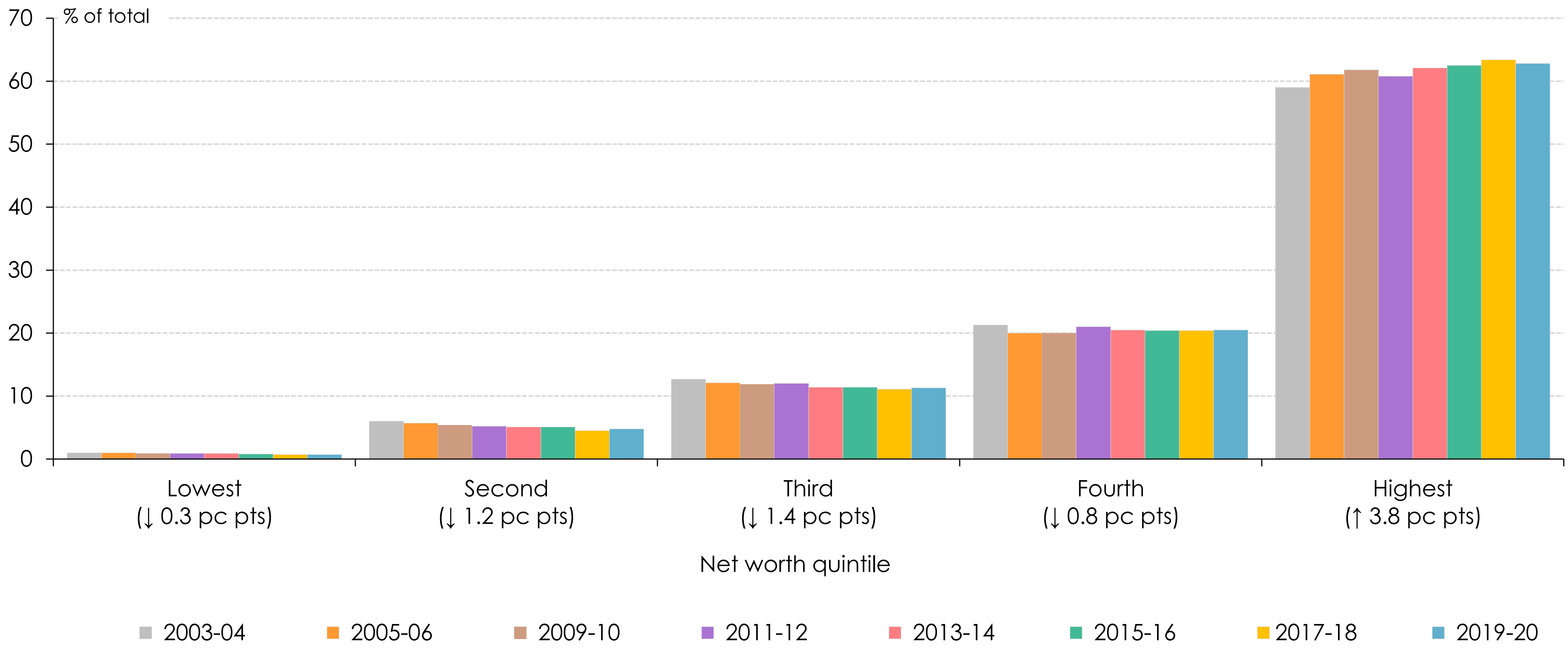
Share of household wealth held by the top 1%, Australia and other selected countries, 2022



Source: World Inequality Database, World Inequality Report 2022, Paris School of Economics and University of California, Berkeley.

The distribution of Australian household wealth has become slightly more unequal since the turn of the century

Shares of total Australian household wealth owned by net worth quintiles



Source: ABS, *Household Income and Wealth, Australia*, 2019-20 and previous issues.

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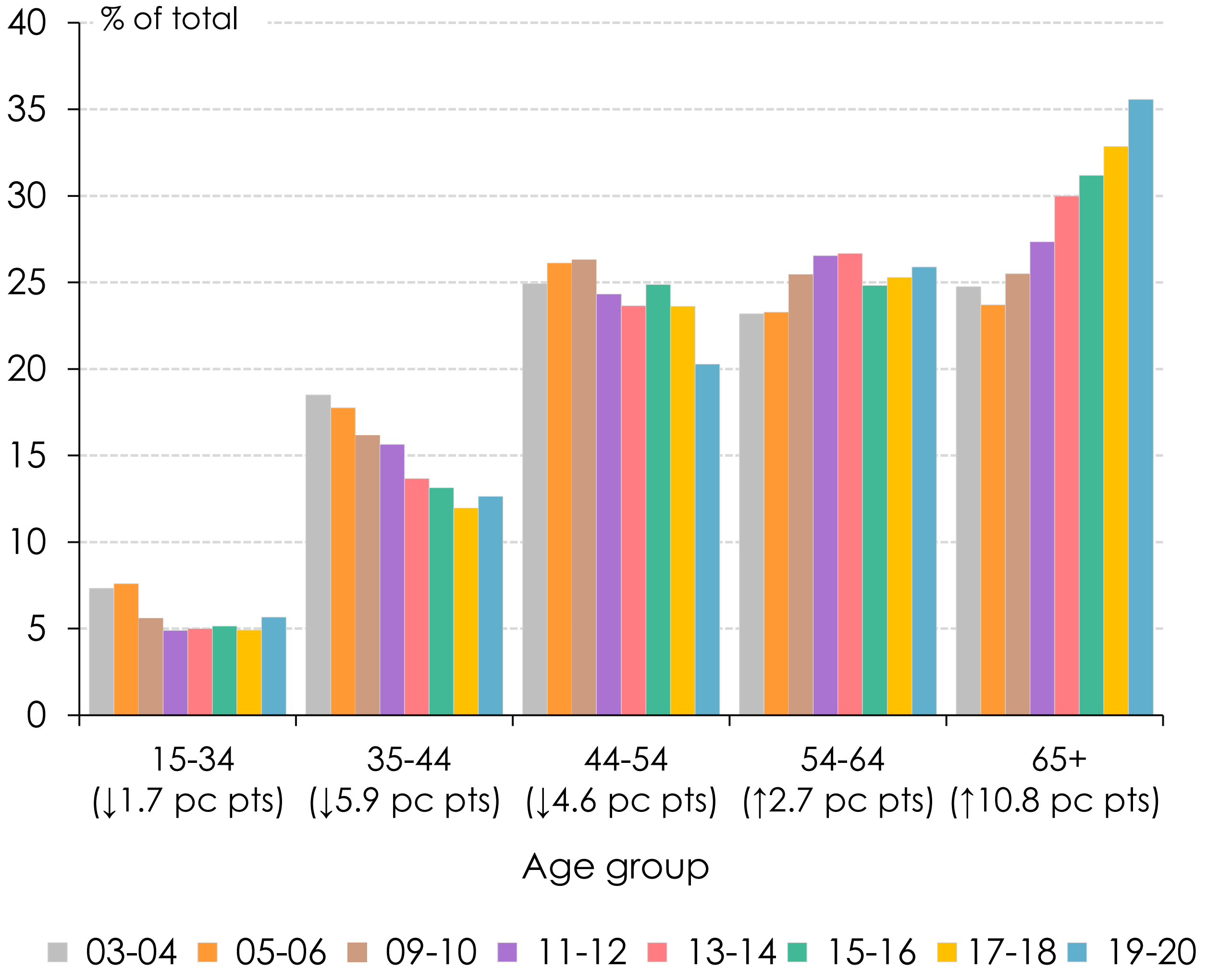
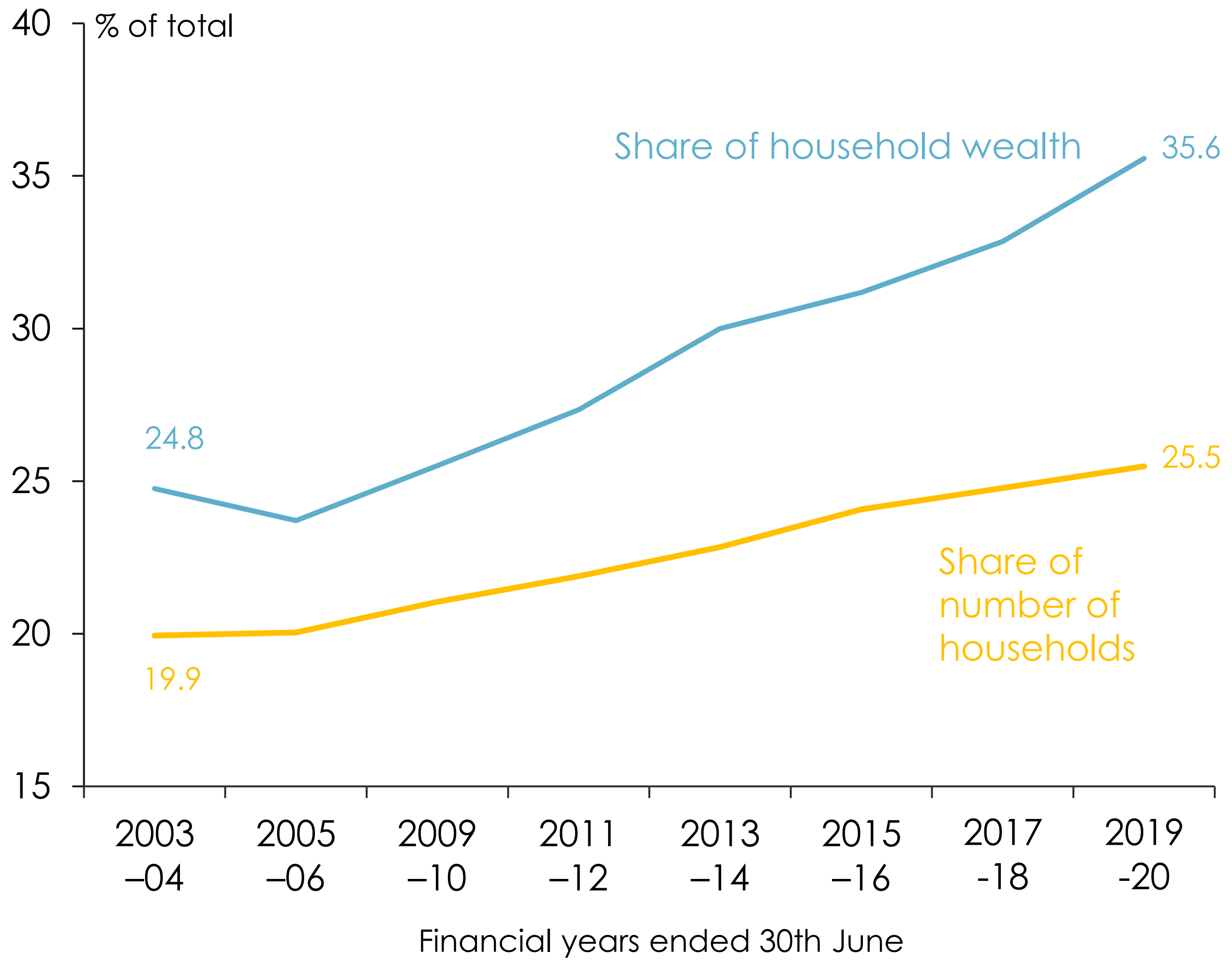
Increasing inequality in the distribution of wealth is much starker when viewed through an inter-generational lens

Distribution of household net worth by age group



65 and over share of number of households and of total household net worth



Source: ABS, Household Income and Wealth, Australia, 2019-20 and previous issues.

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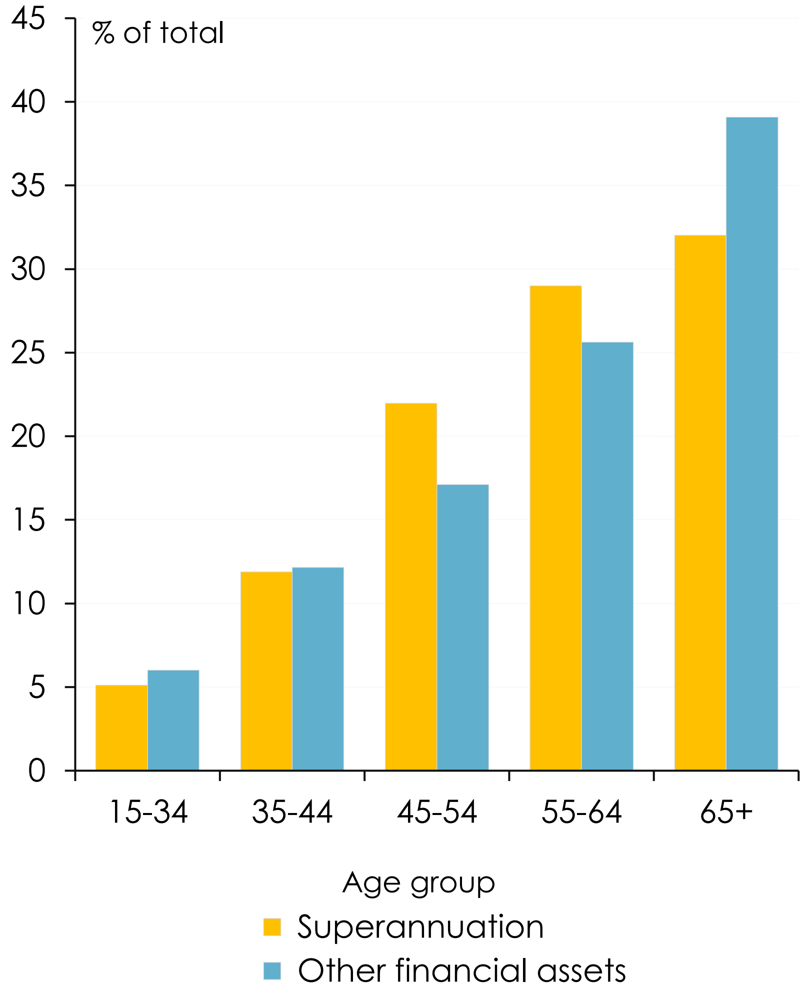
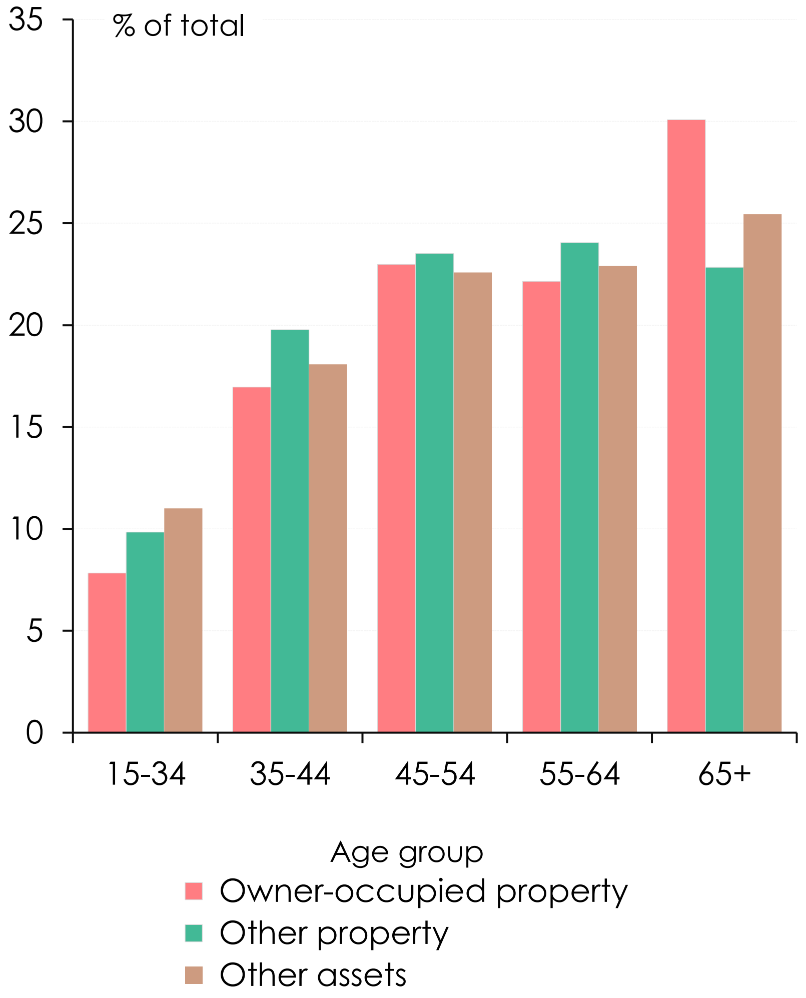
Older Australians disproportionately own financial assets and owner-occupied property – while younger Australians have most of the liabilities

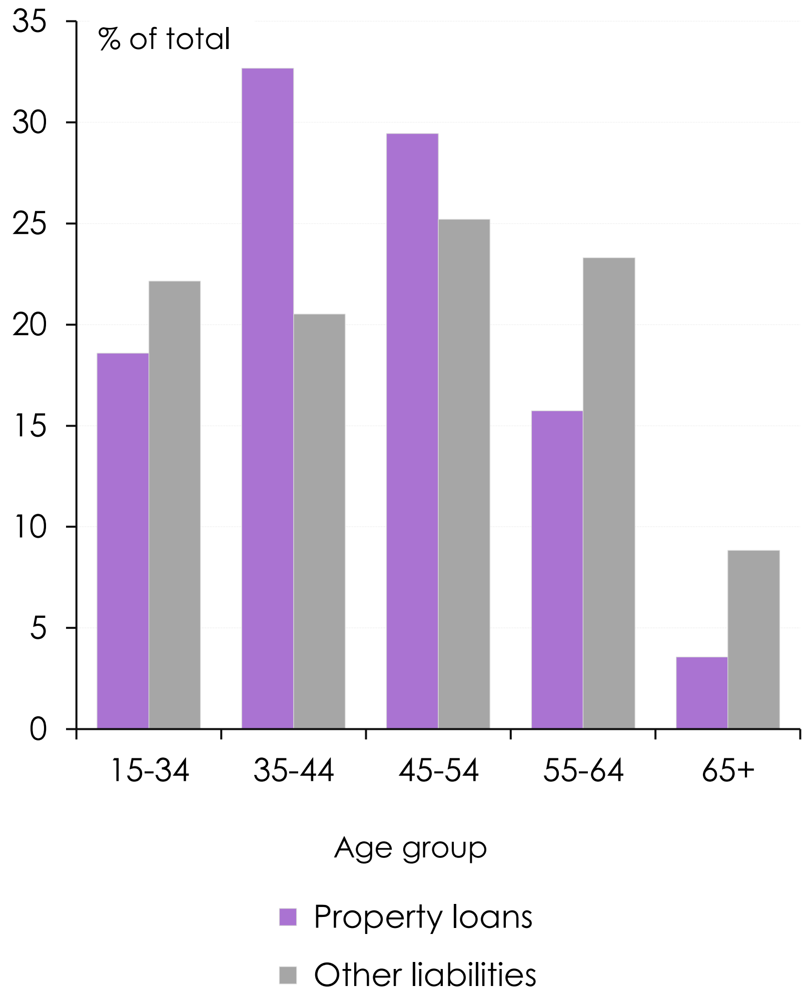
Shares of total household financial assets by age group



Share of total household non-financial assets by age group



Share of total household liabilities by age group



Source: ABS, *Household Income and Wealth, Australia*, 2019-20.

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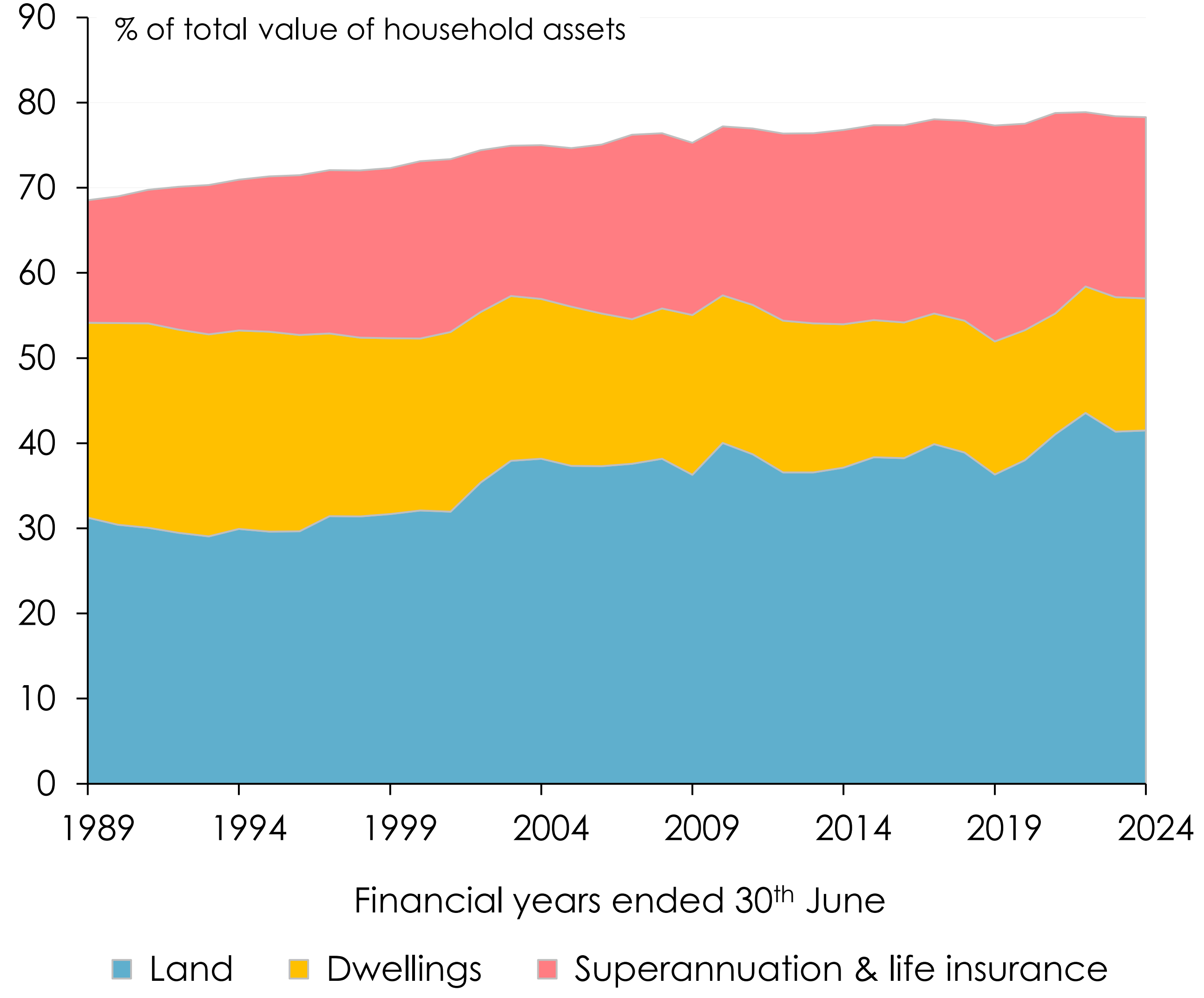
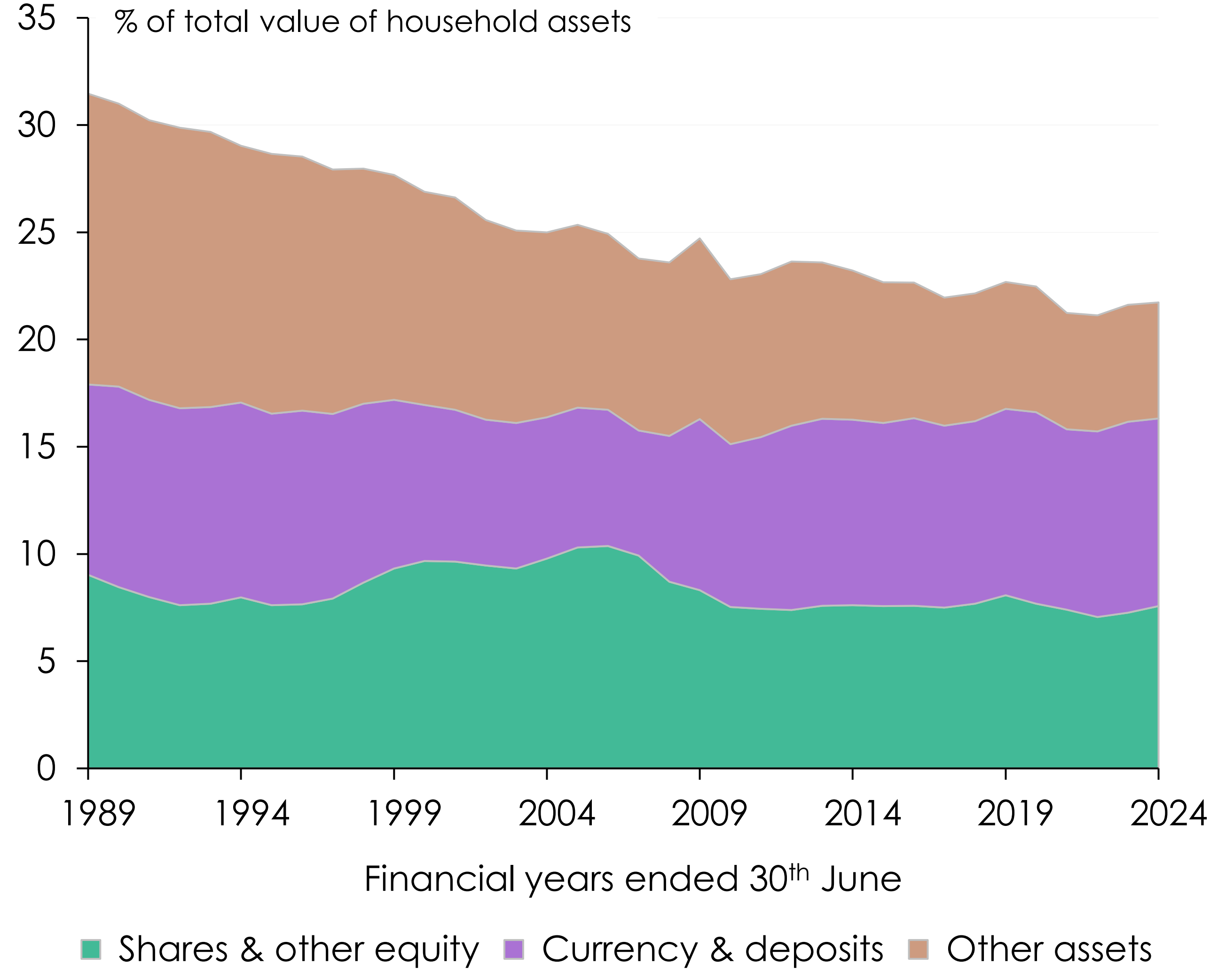
Assets more commonly owned by older households have accounted for a rising share of total Australian household wealth

Composition of Australian household gross wealth by type of asset





Source: ABS, *Australian System of National Accounts*, 2023-24.

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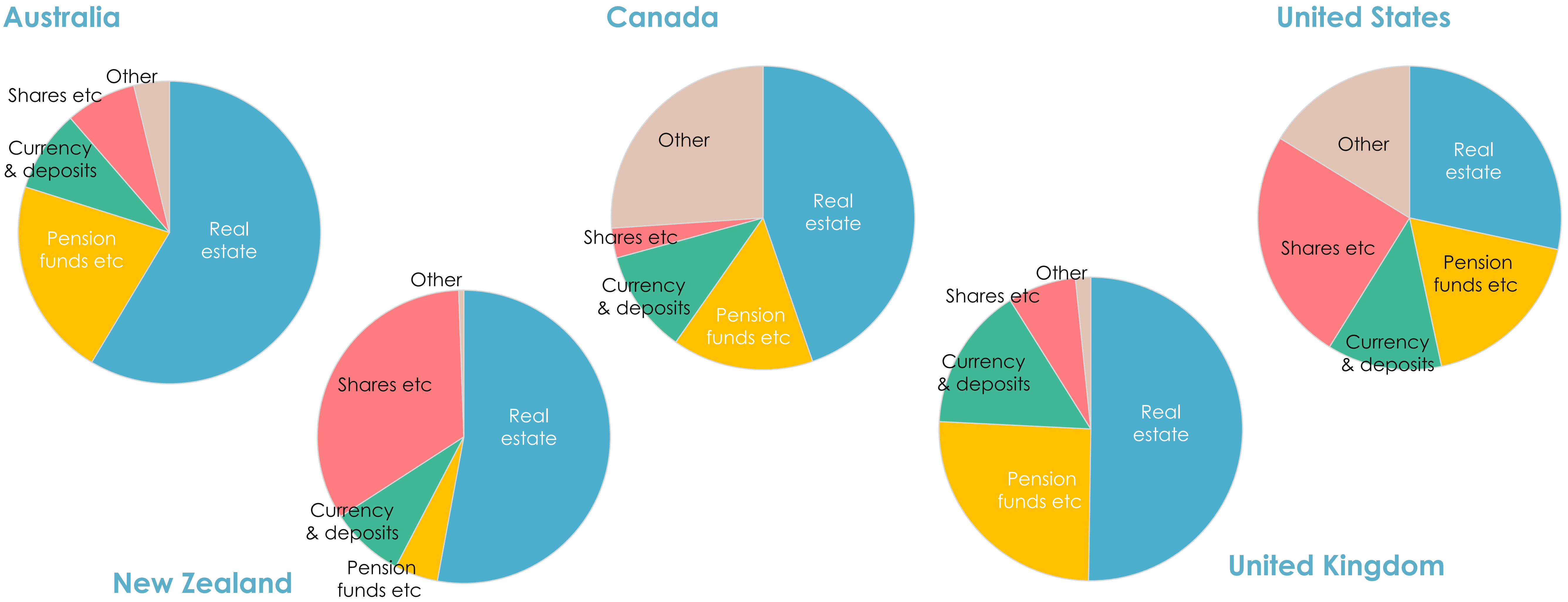
Real estate and superannuation assets make up a large share of Australian household wealth than in any other comparable country

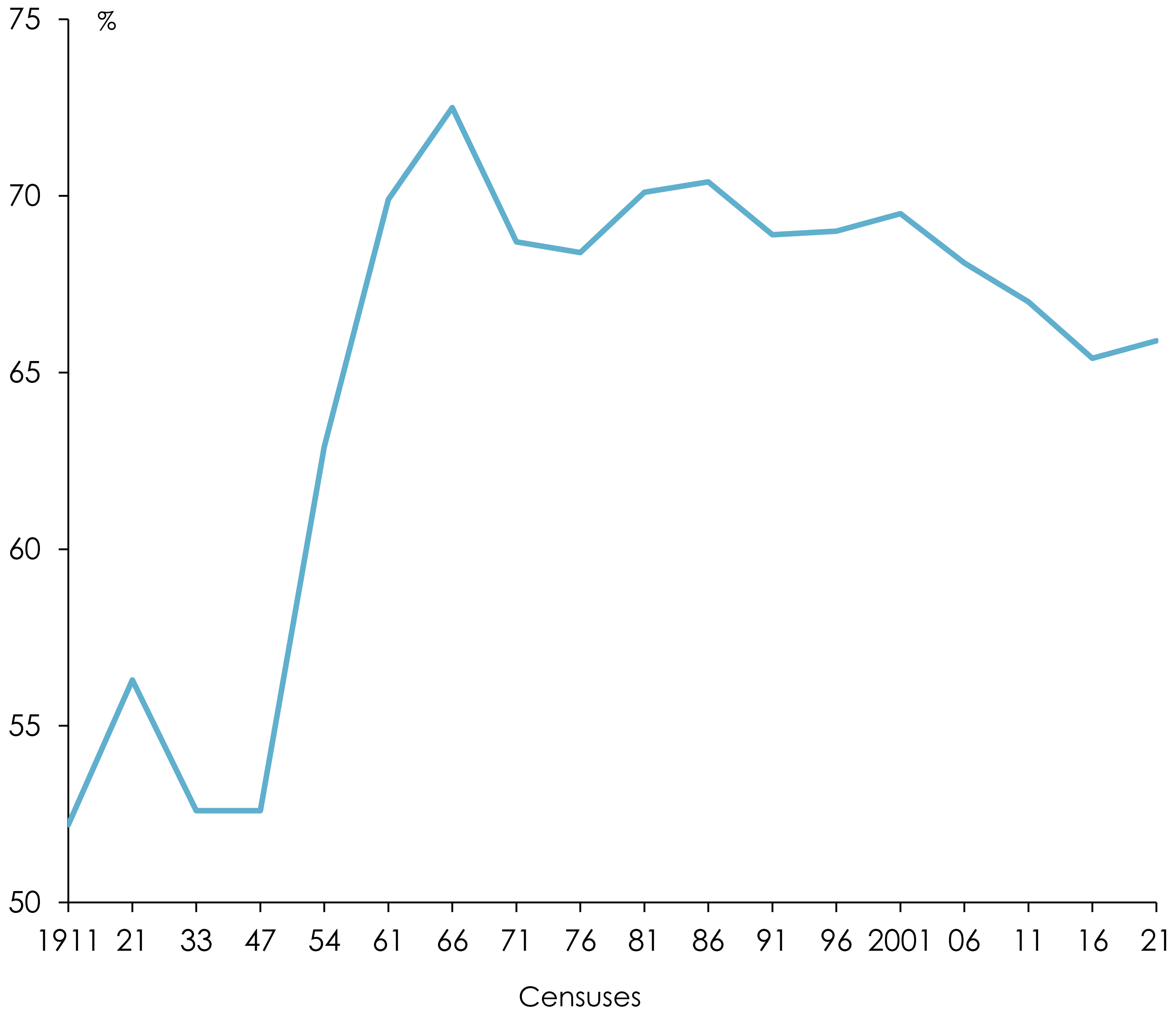
Composition of household assets, Australia and other similar countries



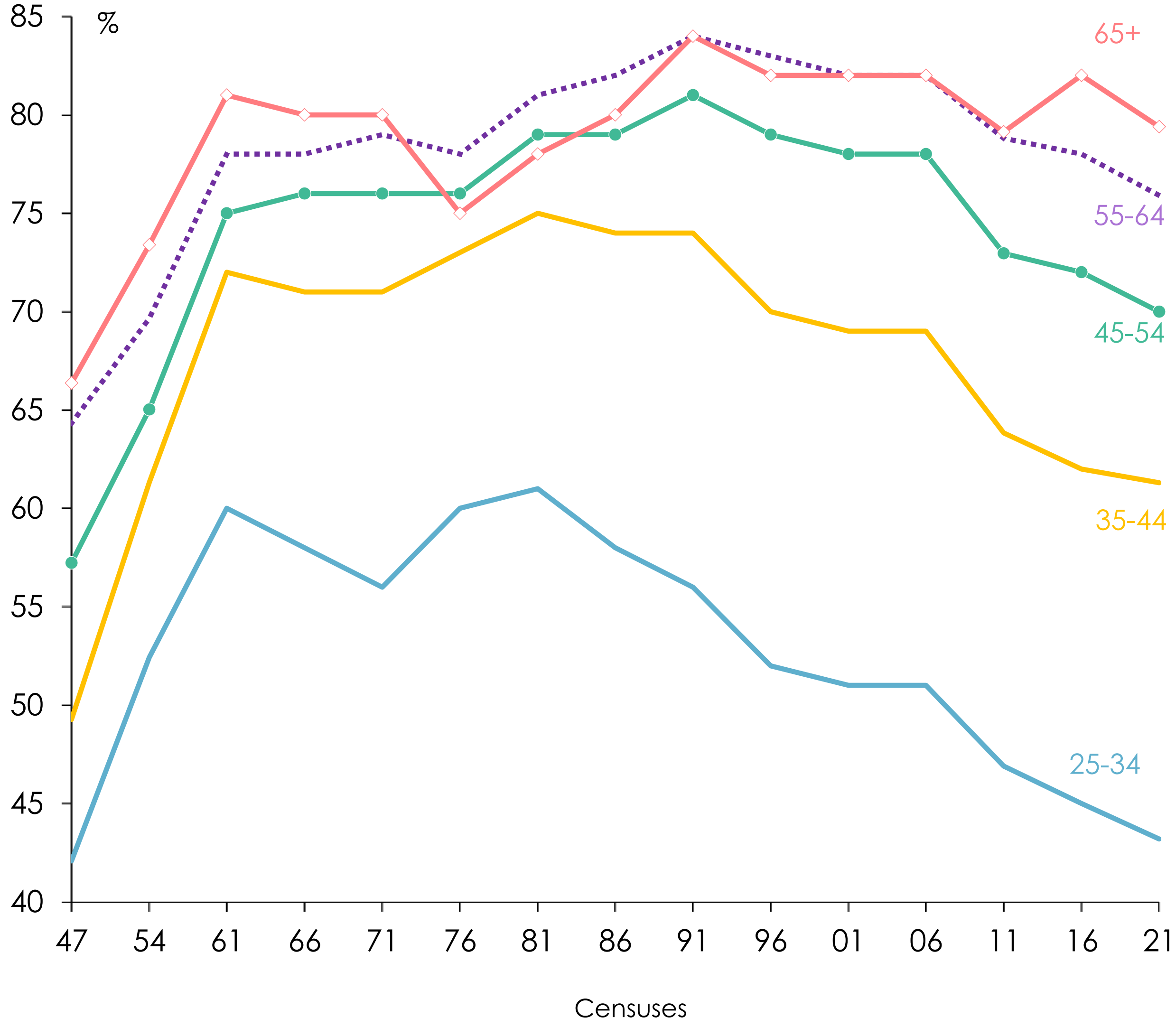
Note: Australian, Canadian and US data are as at end-June 2024; New Zealand as at end-March 2024; and UK as at end-December 2023. *Sources:* ABS, Australian System of National Accounts, 2023-24; Statistics NZ, National accounts (income, saving, assets and liabilities), June quarter 2024; Statistics Canada, National balance sheet and financial flow accounts, second quarter 2024; UK ONS, The UK national balance sheet time series, 2023; US Federal Reserve, Financial Accounts of the United States, 2024:Q2 release.

Home ownership rates among Australians aged under 45 are back to where they were in the late 1940s and 1950s

Overall home ownership rate, 1911-2021



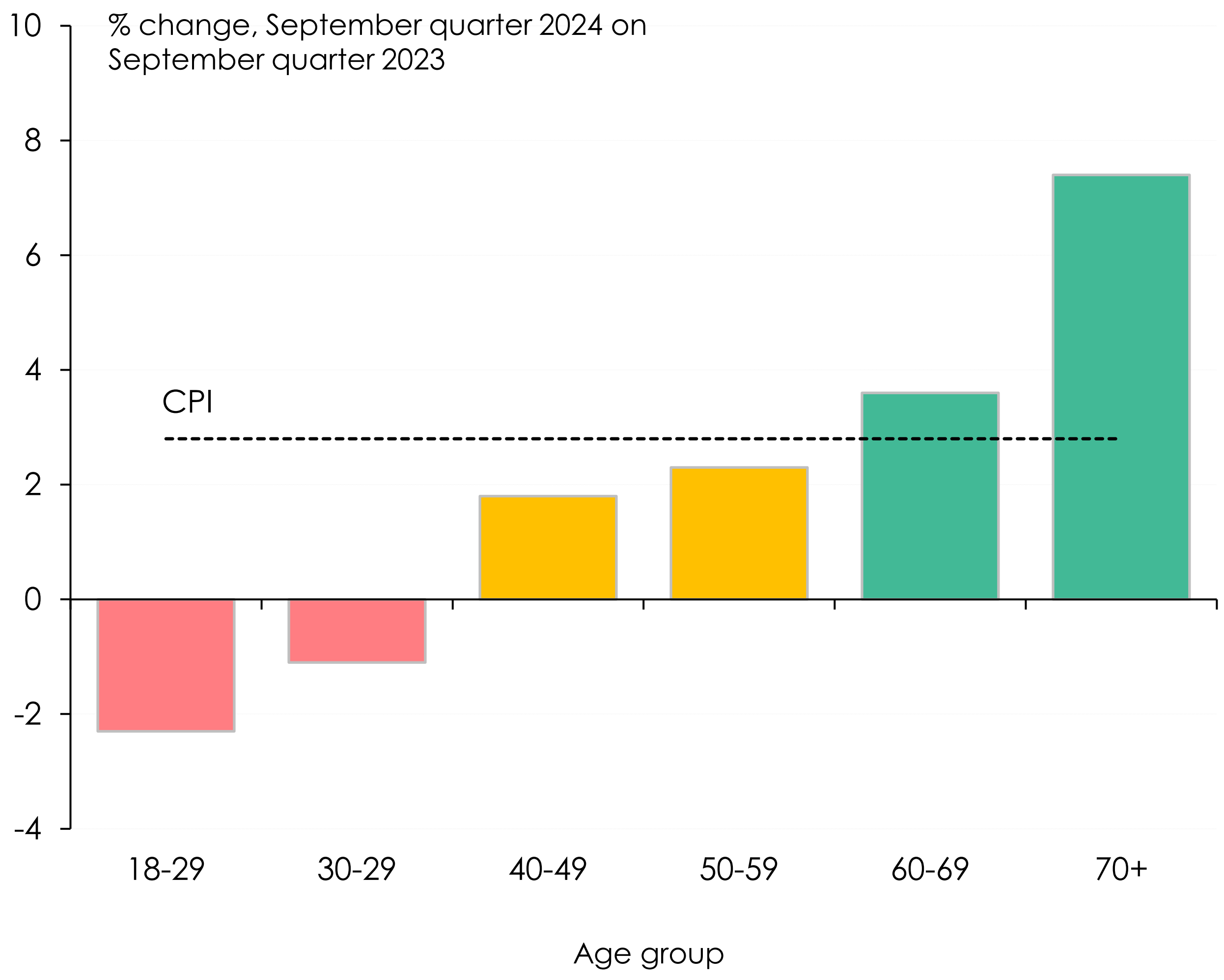
Home ownership rates by age, 1947-2021



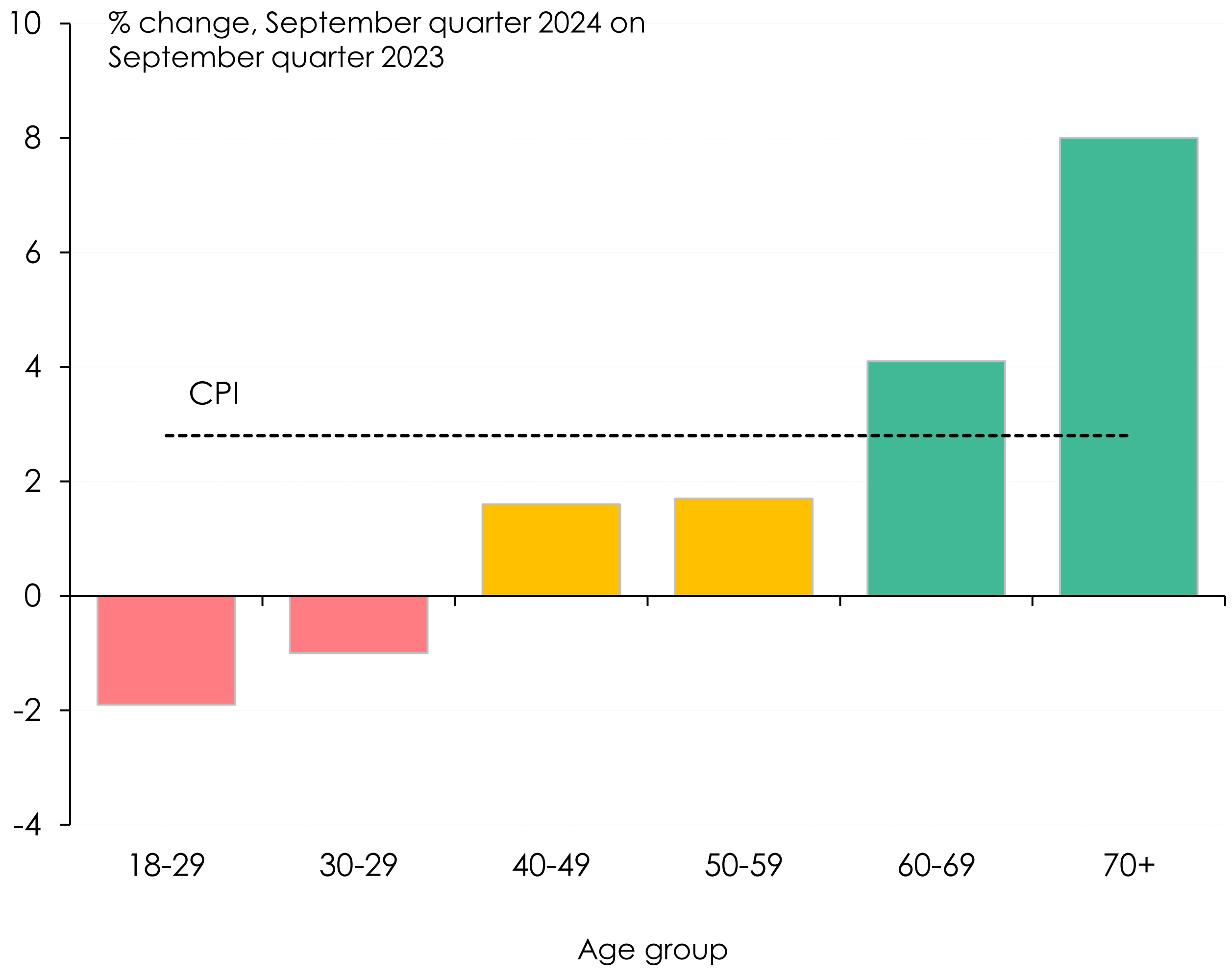
Sources: Advisory Council on Inter-Government Relations, *Australian Housing Policy and Inter-government Relations*, Discussion Paper No. 14 (1981); ABS, *Housing: Census*, 2021 and previous issues; Judy Yates, *Submission to the Senate Economic References Committee on Affordable Housing*, 2015; Rachel Clun, 'Mortgages in retirement triple, outright ownership halves for most age groups' *The Age*, 17th July 2022.

Younger households have borne the brunt of the 'cost of living crisis' while older households have been very little affected

Per capita spending on 'essential' items by age cohort, year ended September quarter 2024



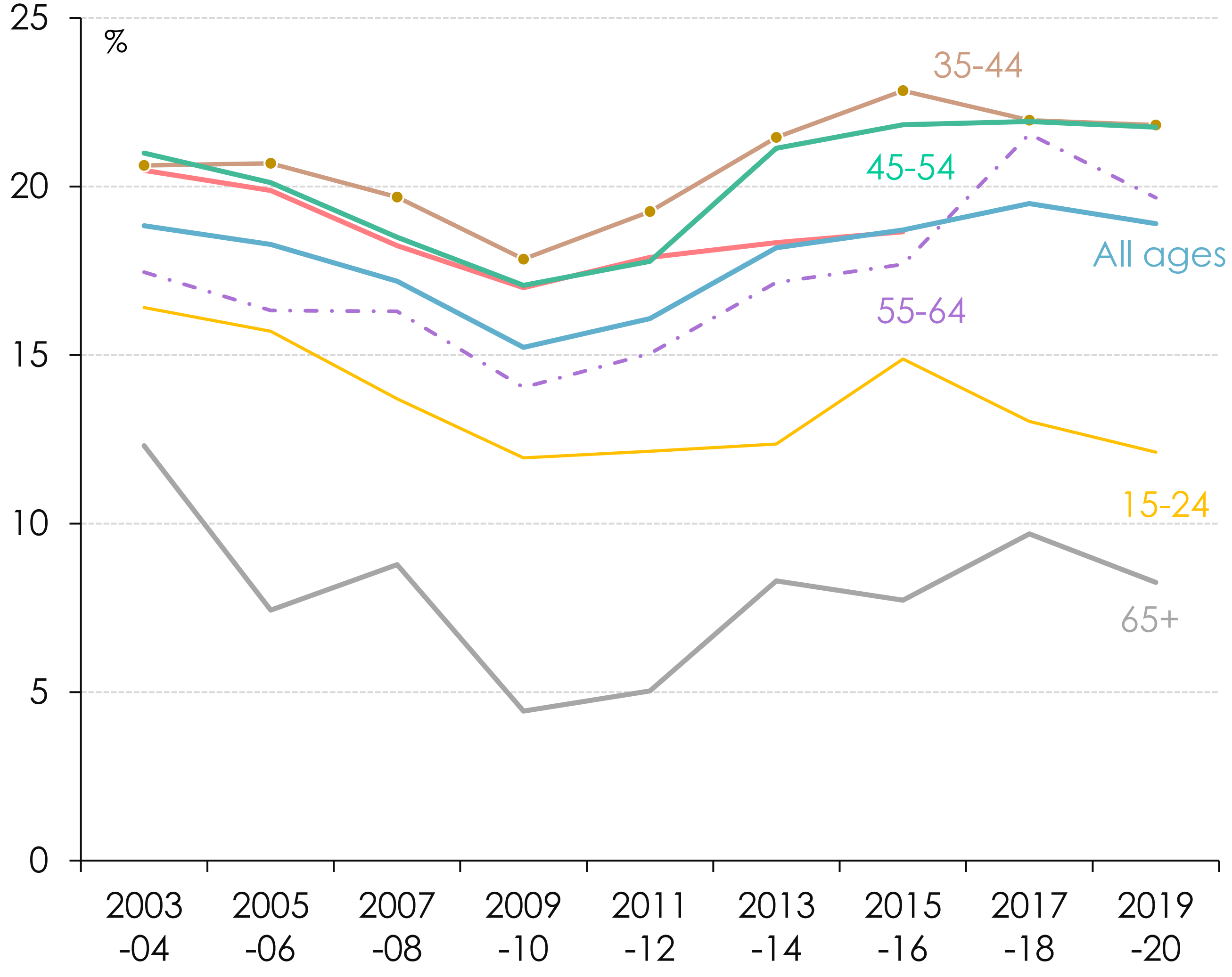
Per capita spending on 'discretionary' items by age cohort, year ended September quarter 2024



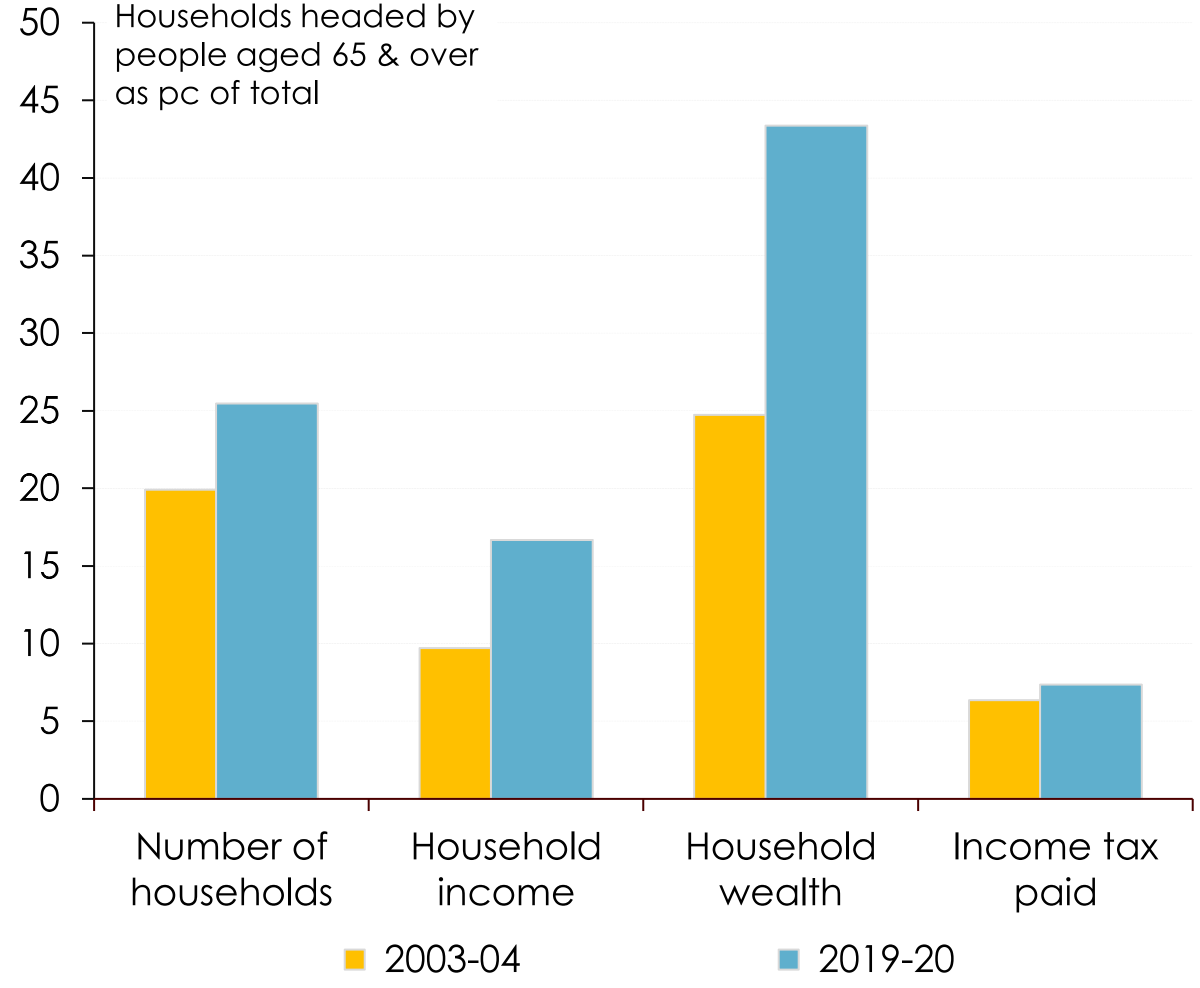
Source: Commonwealth Bank of Australia, *CommBank iQ Cost of Living Insights*, November 2024. Data derived from transactions by CBA customers.

Australia's income tax system has become increasingly generous towards older Australians

Average tax rate by age group



Over 65s as share of number of households, gross income, wealth and tax paid



Source: ABS, *Household Income and Wealth, Australia*, 2019-20 and previous issues.

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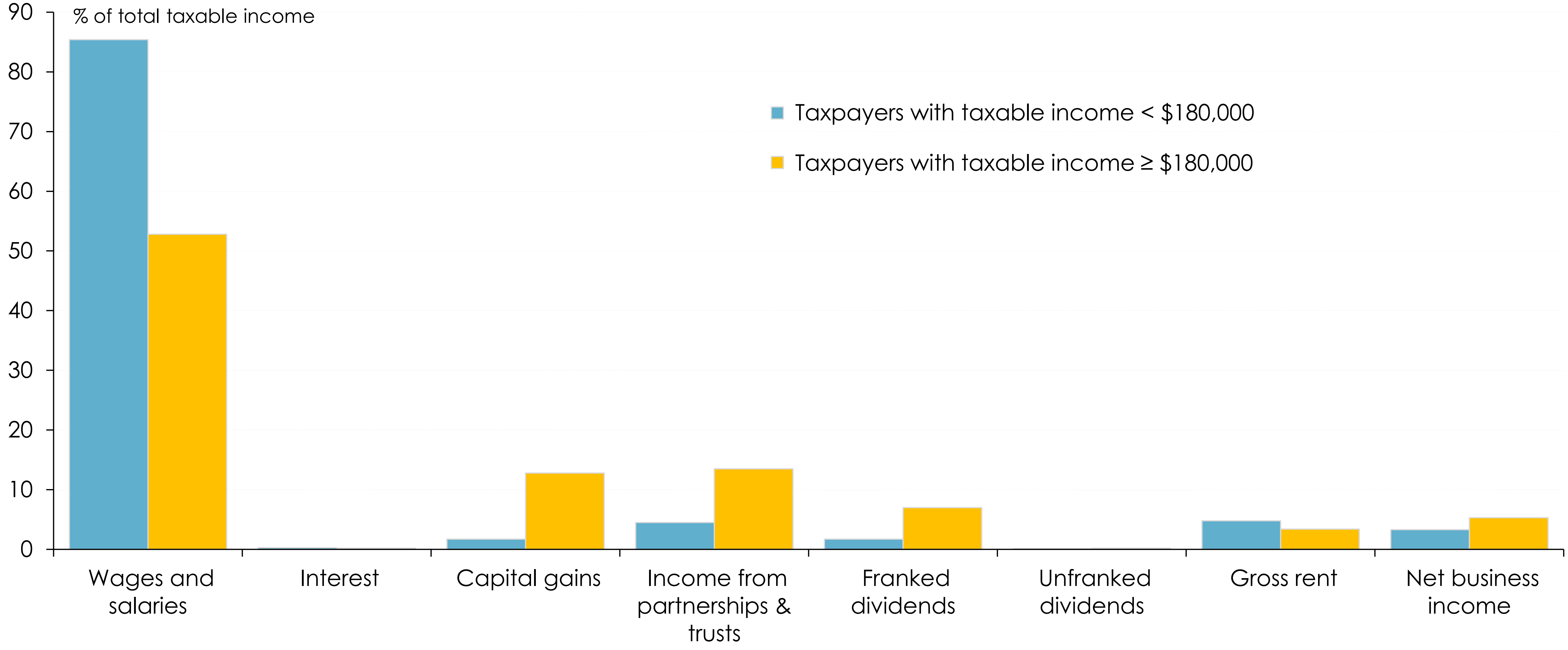
Australia's income tax system taxes income from most forms of wealth more lightly than income from wages and salaries (or interest)

Sources of taxable income – top rate and other taxpayers, 2021-22



Source: Australian Taxation Office, *Taxation Statistics - Table 4: Selected items, by sex, taxable status, state/territory and taxable income range*, 2021-22 income year.

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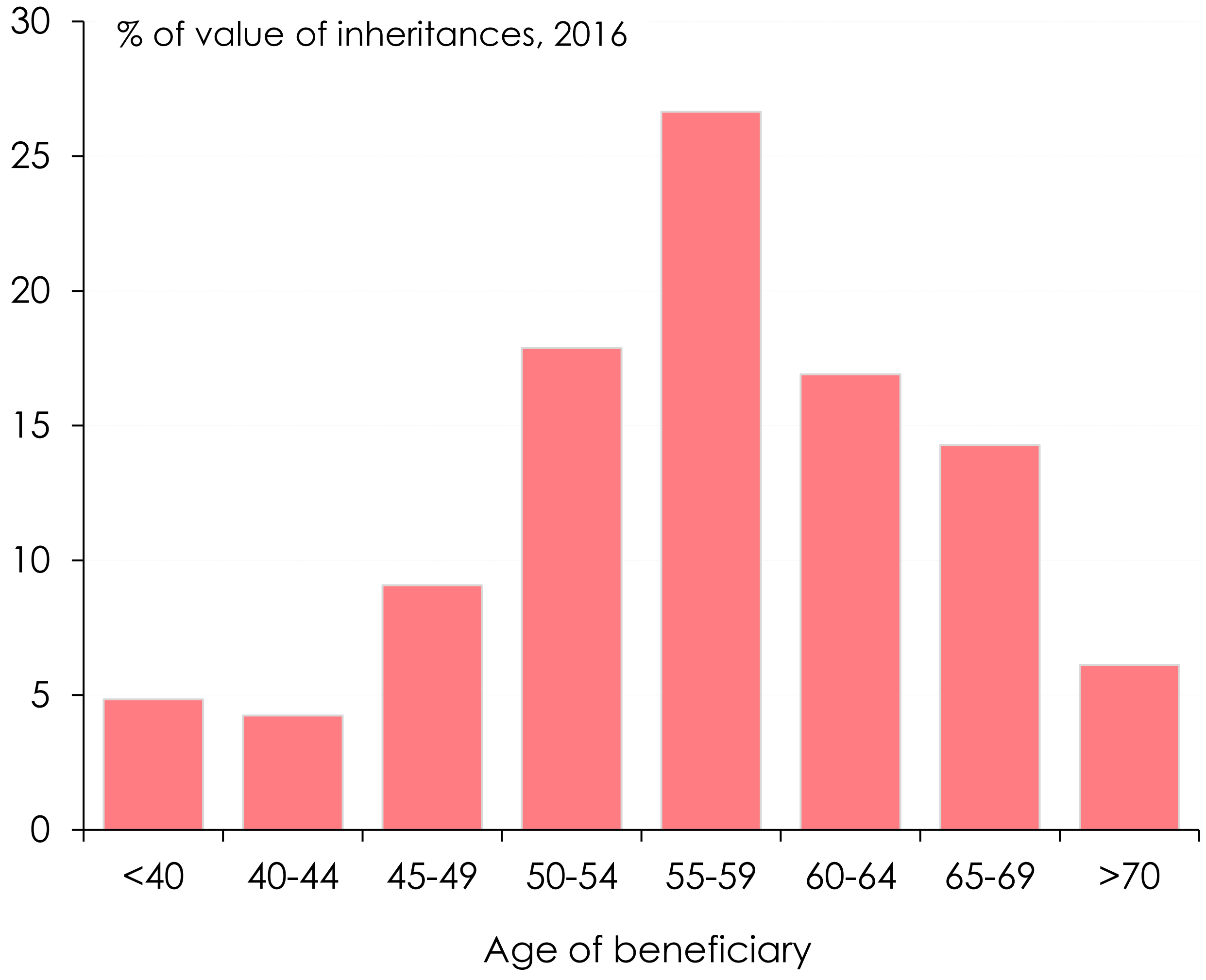
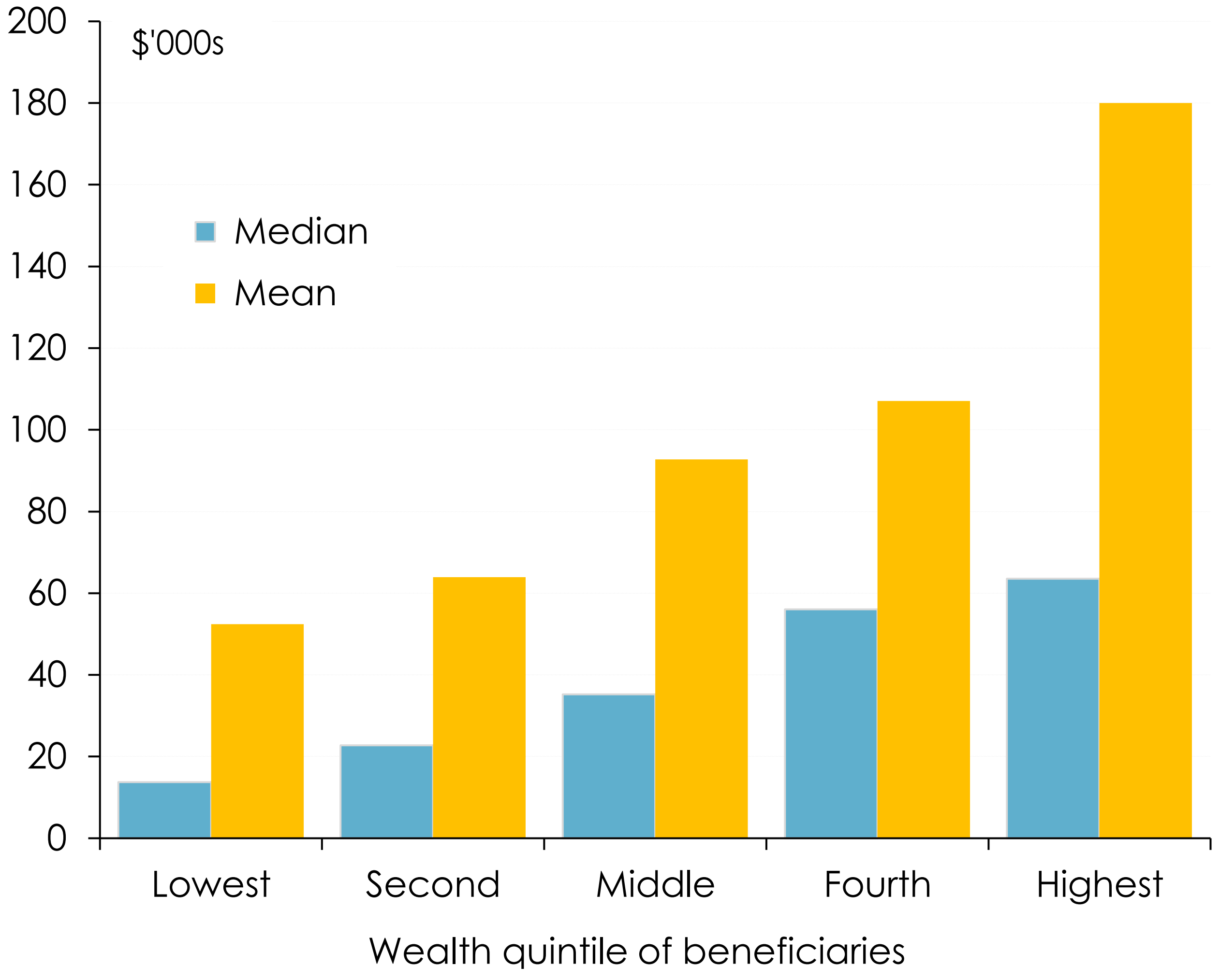
82% of inheritances by value go to people aged 50 or over – and most go to people who are already in the upper half of the wealth distribution

Average age of recipients of inheritances – Victoria, 2016



Recipients of inheritances by net wealth quintile – Victoria, 2016



Note: Data derived from analysis of probate data for 'final estates' (ie those without a surviving spouse) from Victoria for 2016,
Source: Danielle Wood and Kate Griffiths, Generation Gap: Ensuring a fair go for younger Australians, Grattan Institute, August 2019.

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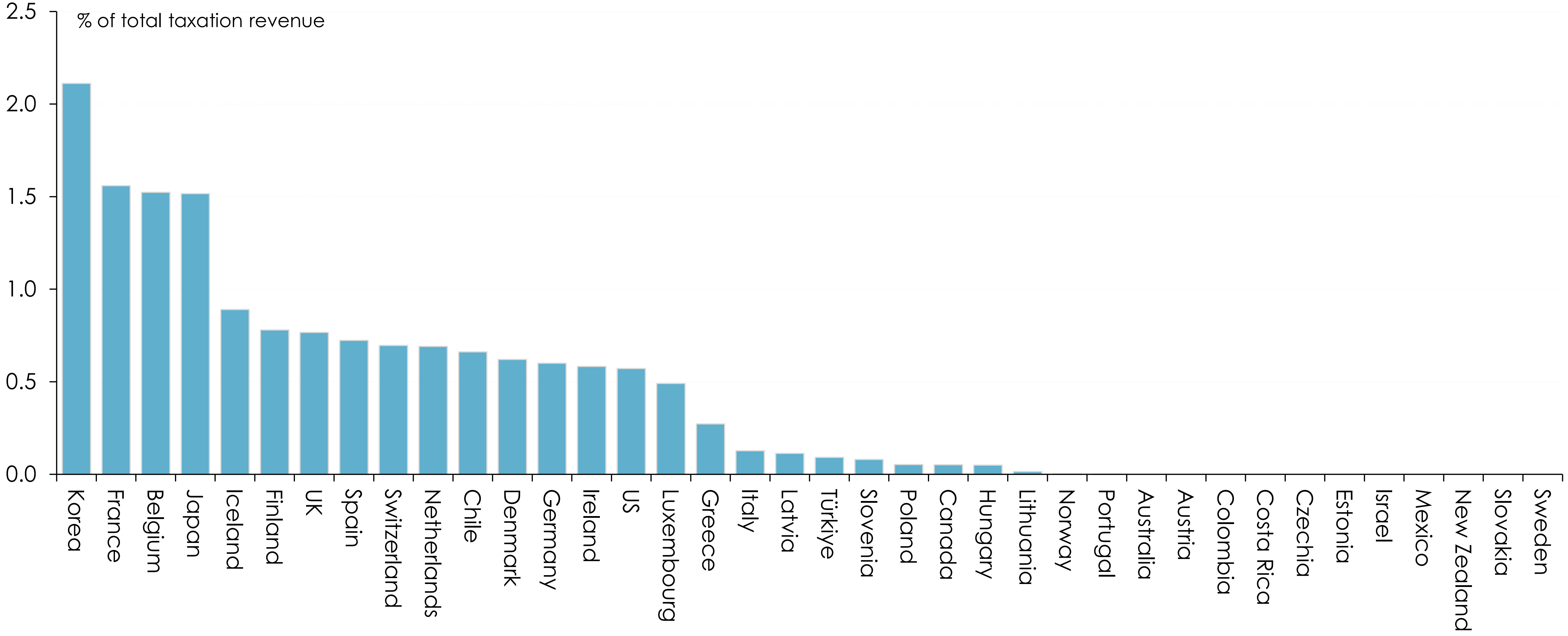
25 out of 38 OECD countries – including (significantly) the US and the UK – retain some form of inheritance tax – Australia is an 'outlier'

Revenue from estate, inheritance and gift taxes – OECD countries, 2022



Source: OECD, Revenue Statistics 2024.

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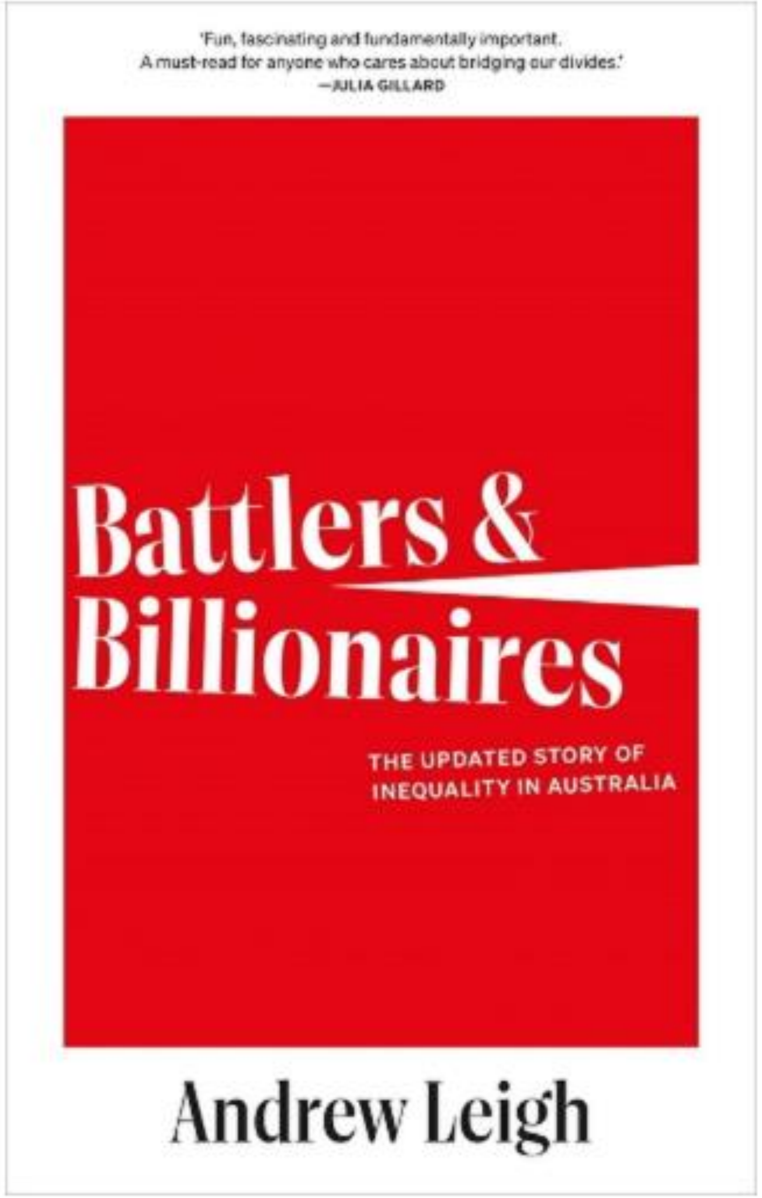
What could be done to slow or reverse this rising tide of intergenerational inequality in the distribution of wealth?

- **Stop doing things that make housing less affordable …**
  - first home-owner grants, stamp duty concessions, mortgage deposit guarantee schemes, untargeted shared equity schemes, generous tax breaks for property investors

  … and start doing (or do more of) things that would make housing more affordable
  - reform planning & zoning laws and regulations, reduce taxes & charges on new builds, address the factors preventing the construction of affordable apartments for families
- **Reduce the concessionality of the tax treatment of superannuation**
  - replace the 15% flat tax on contributions and earnings with a 15% rebate from the otherwise applicable marginal tax rate
  - reduce the tax-free threshold for payments out of superannuation funds
- **Reduce the concessionality of the tax treatment of income from investments relative to wage & salary income**
  - revert to the 1985-1999 model of taxing capital gains at the full marginal rate less an allowance for the impact of CPI inflation (or at the very least reduce the capital gains tax discount from 50% to 33% or 25%)
  - restrict 'negative gearing' to investment in newly-built rental properties
  - 'look through' trusts for tax purposes
- **Replace stamp duties on land transfers with a broadly-based land tax (with no exemptions for owner-occupied properties)**
  - and if states won't do it, re-introduce a federal land tax (as existed between 1910 and 1954) and give the revenue to the states and territories on the condition that they abolish stamp duties on land transfers
- **Re-introduce inheritance taxes**
  - but ensure that the thresholds are indexed so that inflation doesn't drag relatively small estates into the tax net (as it did in the 1960s and 1970s)

Andrew Leigh also has some excellent ideas …



- **Maintain strong economic growth underpinned by improved productivity**
  - which in turn requires a commitment to open markets (welcoming foreign investment, migrants and imported products) and policies which encourage innovation (including good public infrastructure, appropriate regulations and incentives for R&D)
- **Improve our education system – particularly for the most disadvantaged**
  - incentives for the best teachers to work in the most disadvantaged schools, better programs to keep young people engaged, and high-quality early childhood programs for extremely disadvantaged children
- **Acknowledge the role that family structure plays in perpetuating advantage and disadvantage across generations**
  - build up evidence on 'light touch' programs that encourage relationship stability
- **Recognize the role that unions play in reducing inequality**
  - which doesn't require a return to 'closed shops'
- **Make sure that welfare programs continue to be targeted towards those most in need**
- **Maintain a progressive income tax system**
- **Evaluate social policies well (eg through randomized trials)**
- **Keep a check on monopoly power through strong competition laws**
- **Recognize the link between inequality and social isolation**

Important information

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