

MELBOURNE INSTITUTE:
Applied Economic & Social Research

Long-term inequality trends in Australia: Evidence, explanations and international context

Roger Wilkins

Melbourne Institute of Applied Economic and Social Research
The University of Melbourne

Australian Conference of Economists
Wednesday 9 July 2025



Overview

1. Describe long-term inequality trends in Australia as much as the available data permits
2. Briefly compare with selected other countries
3. Show the 'impacts' of the tax and transfer system on inequality over the last 40 years
4. Discuss other drivers of inequality trends
5. Briefly canvas other dimensions of inequality beyond 'annual cash income'

Inequality of *what*?

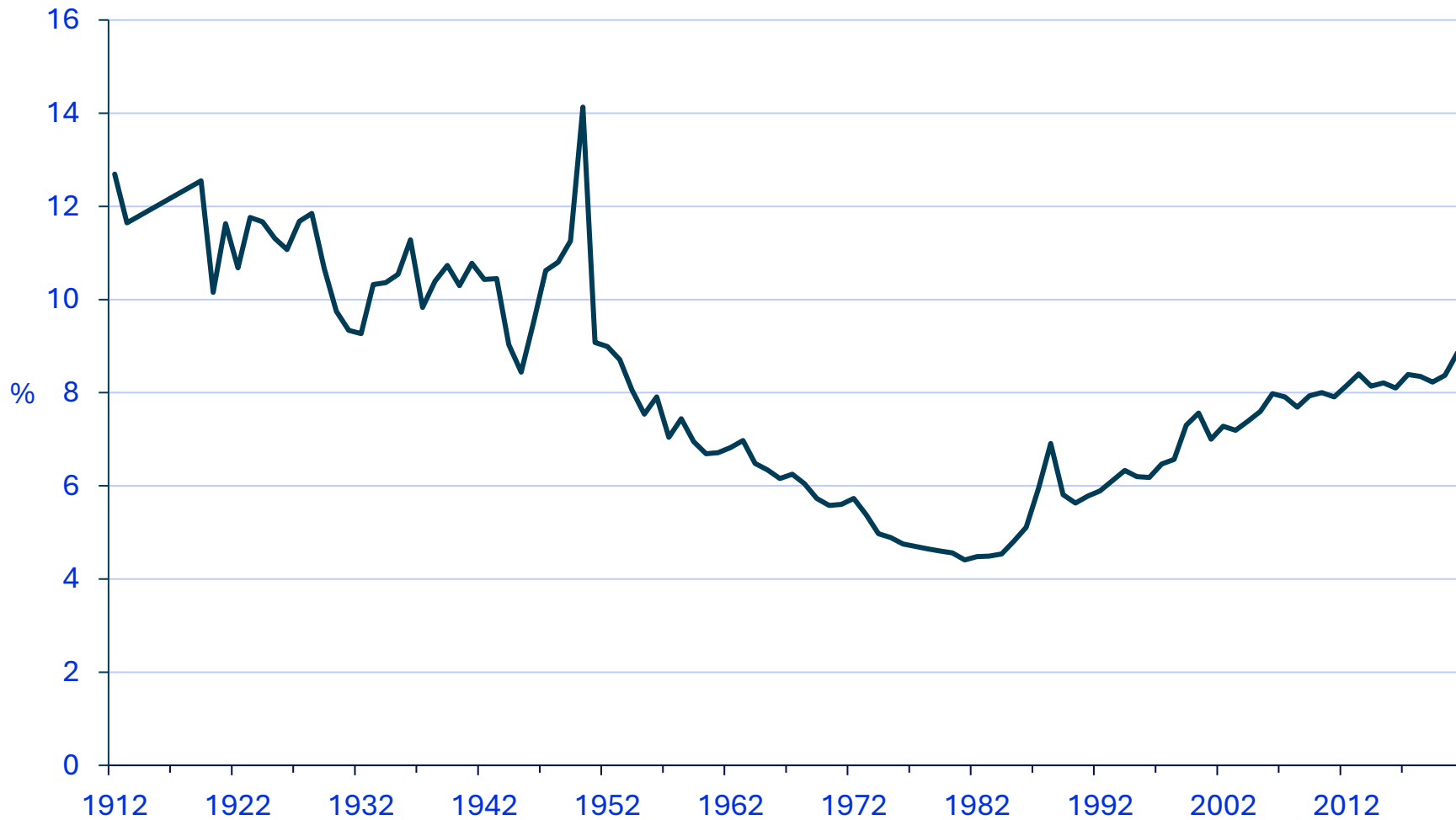
- Typical focus is cash income
 - Usually examine cash incomes after receipt of government cash transfers and payment of income taxes (disposable income)
 - Measure income at the household level (assuming equal-sharing within the household) and adjust for differences in household size using an 'equivalence scale'.
- Some studies focus on 'market' (pre-tax and pre-transfer) income—especially the relatively recent 'top incomes' research drawing on tax data
- Limited number of studies attempt to examine the distribution of better (more comprehensive) measures of economic wellbeing

Long-term trends in inequality in Australia



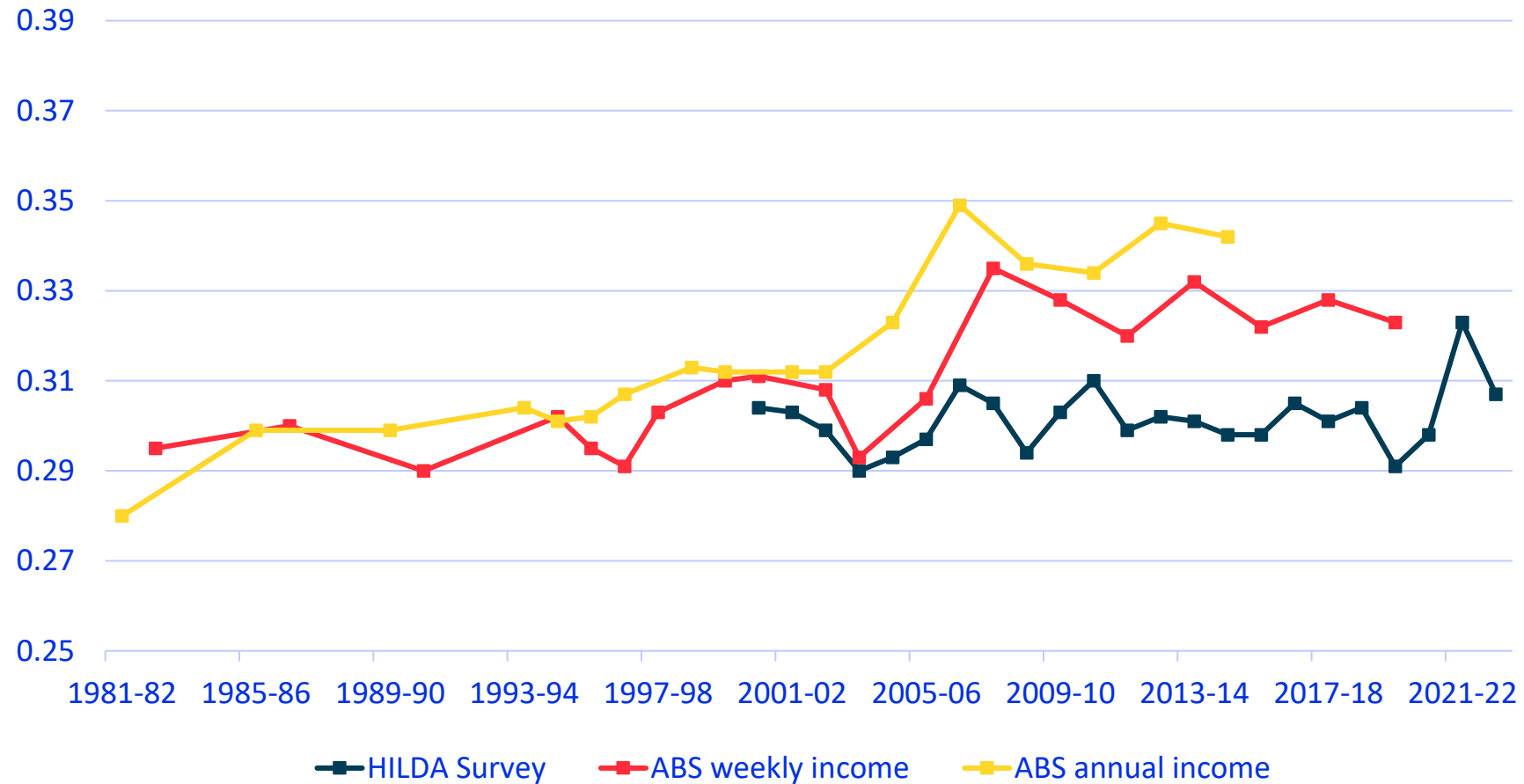
Top incomes in Australia

Income share of the top 1% of individuals (pre-tax income)



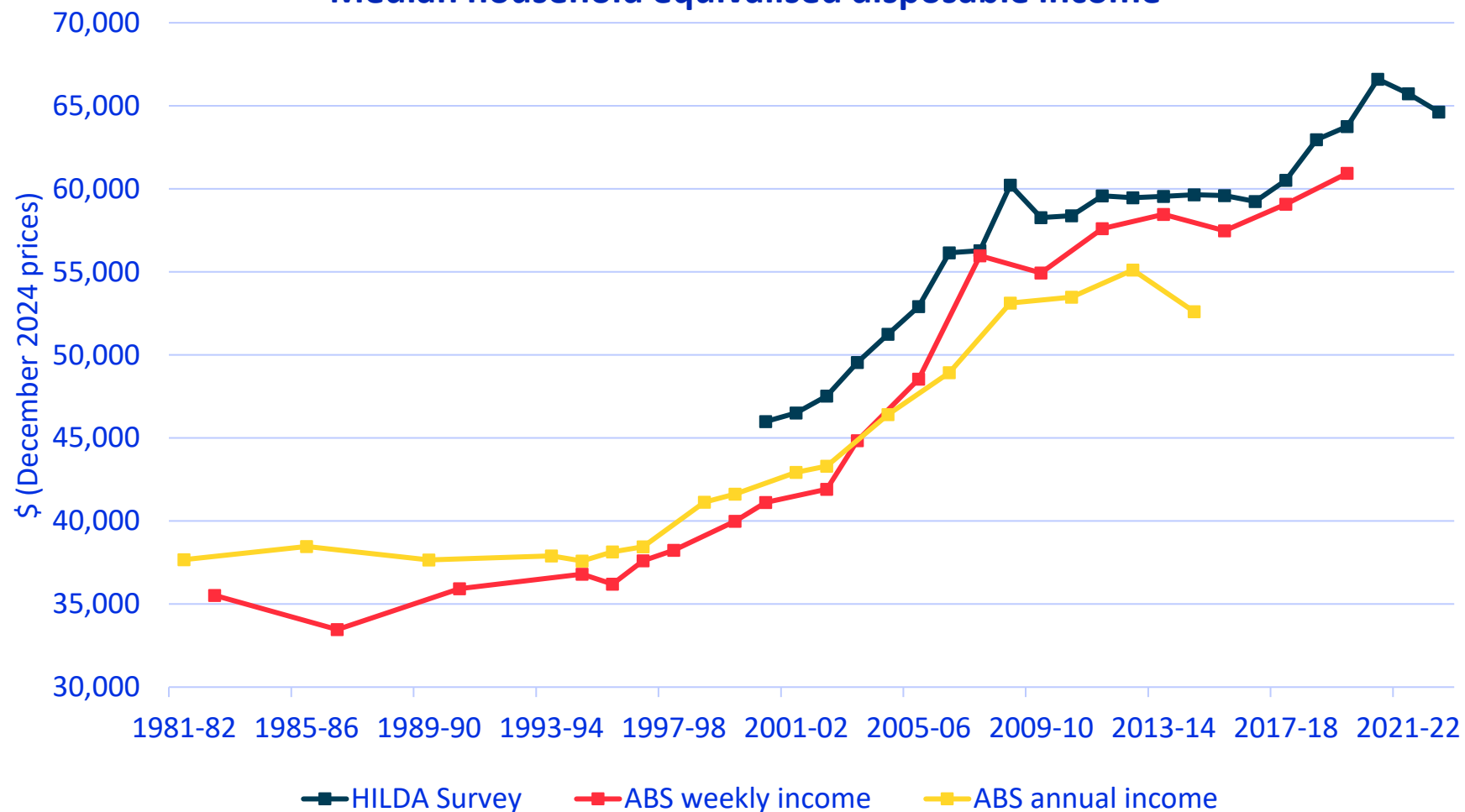
Household survey evidence on income inequality in Australia

Gini coefficient for household equivalised disposable income



Household survey evidence on income levels in Australia

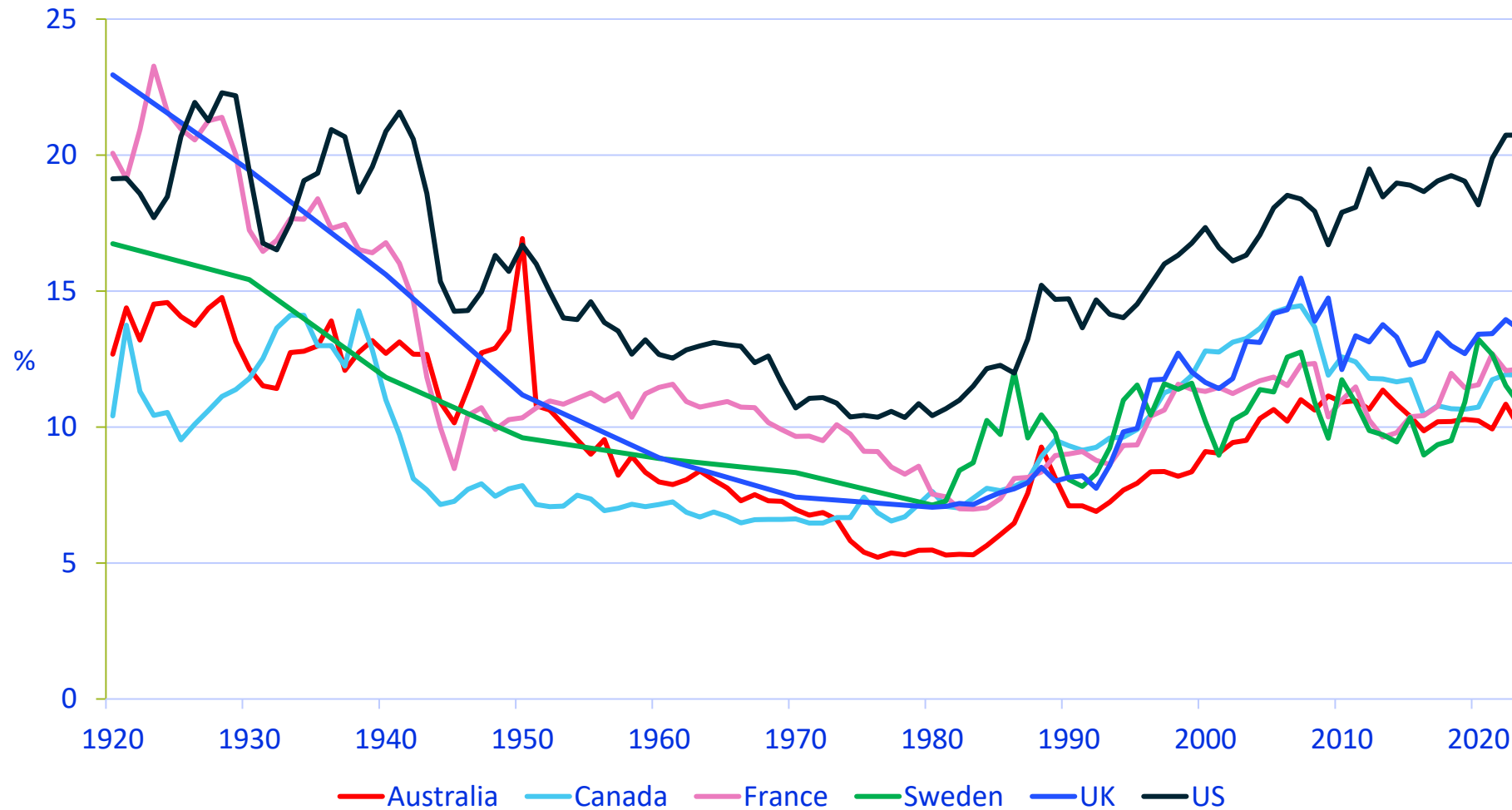
Median household equivalised disposable income



International comparisons of inequality trends



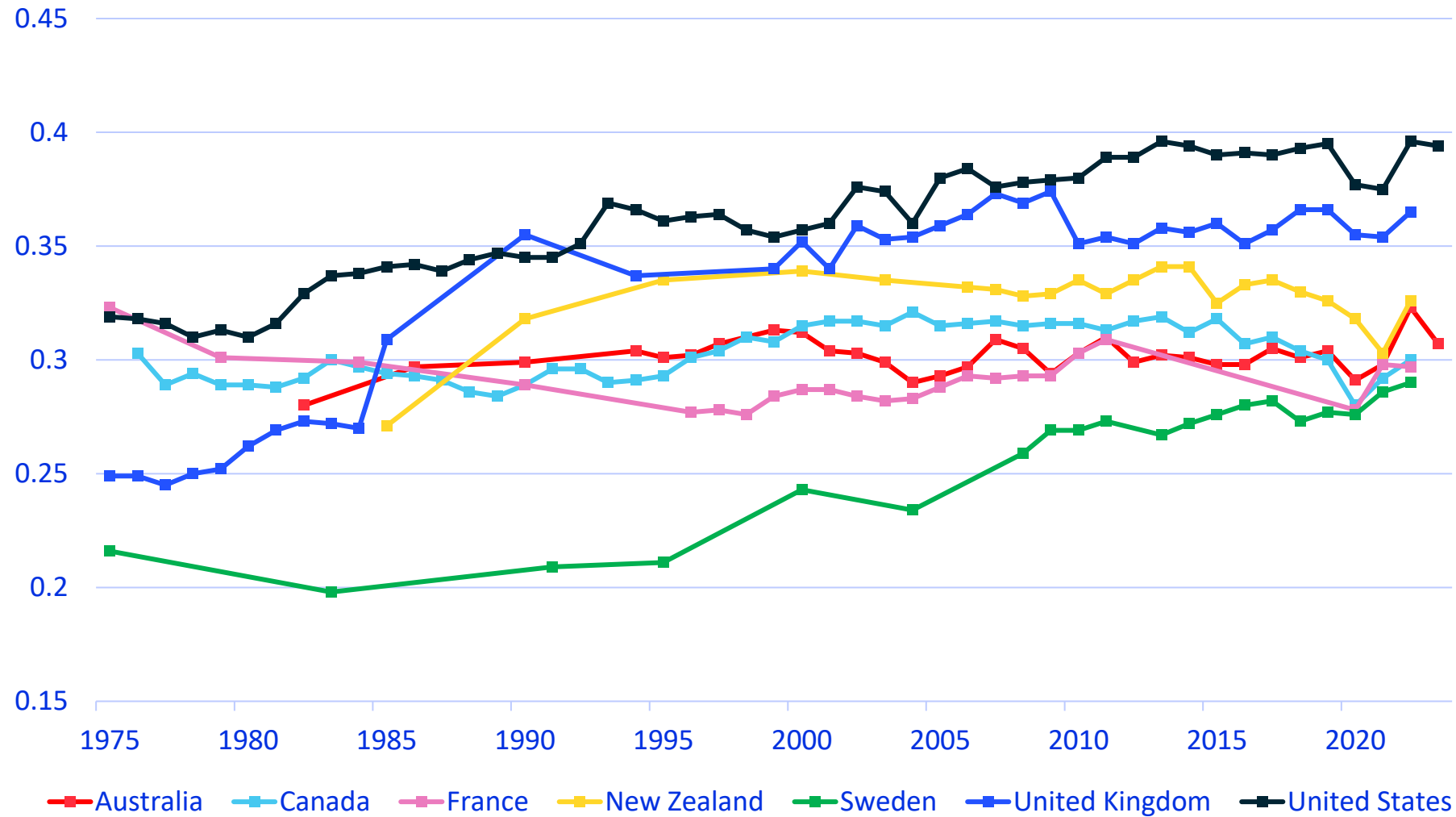
Income share of the top 1% in selected countries (pre-tax national income)



Source: World Inequality Database (Paris School of Economics)

Gini coefficient in selected countries

Household equivalised disposable income



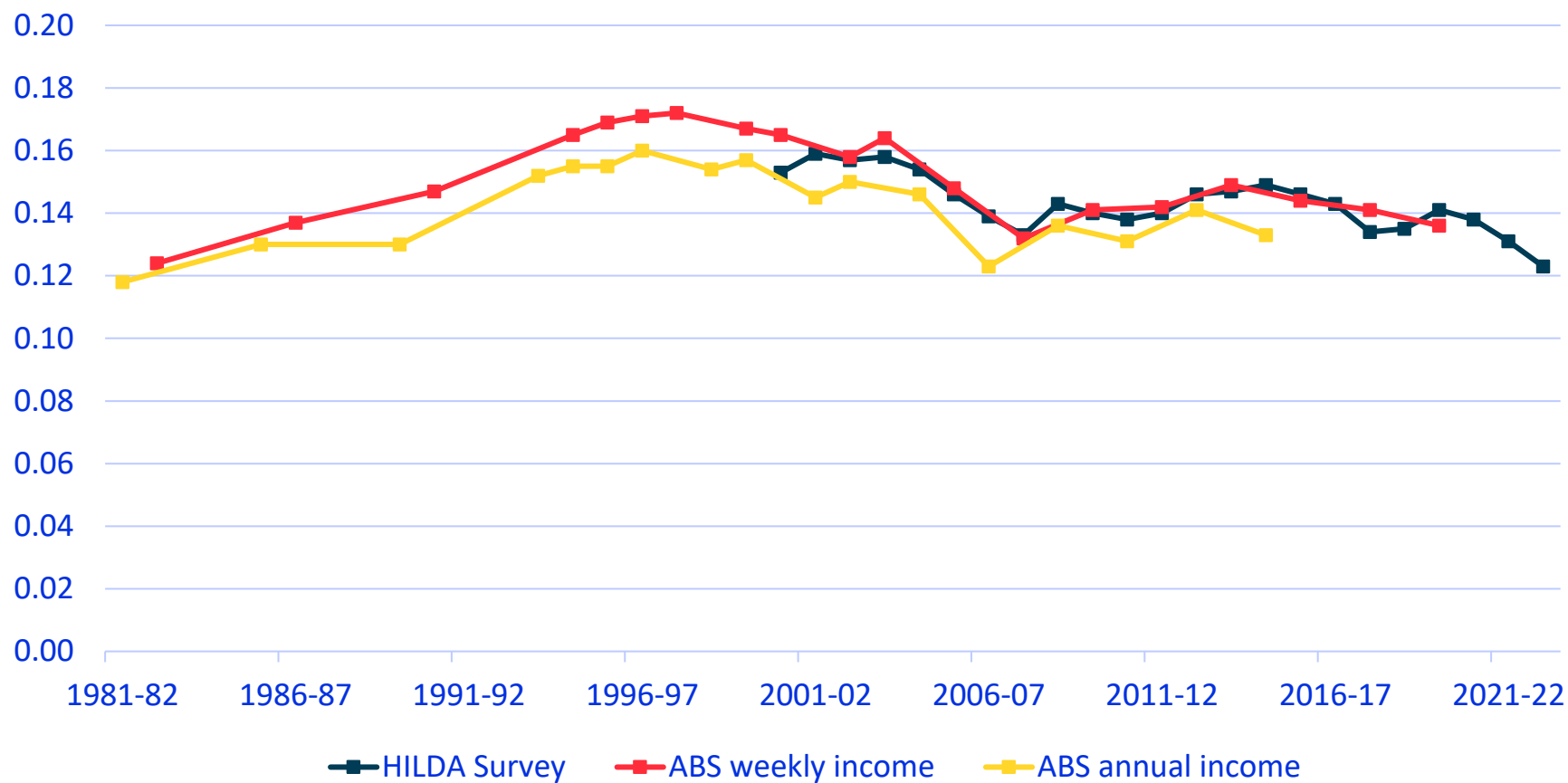
SOURCES: Australia: ABS Survey of Income and Housing until 2000, HILDA Survey 2001-
Other countries: OECD and Luxembourg Income Study

Drivers of changes in inequality



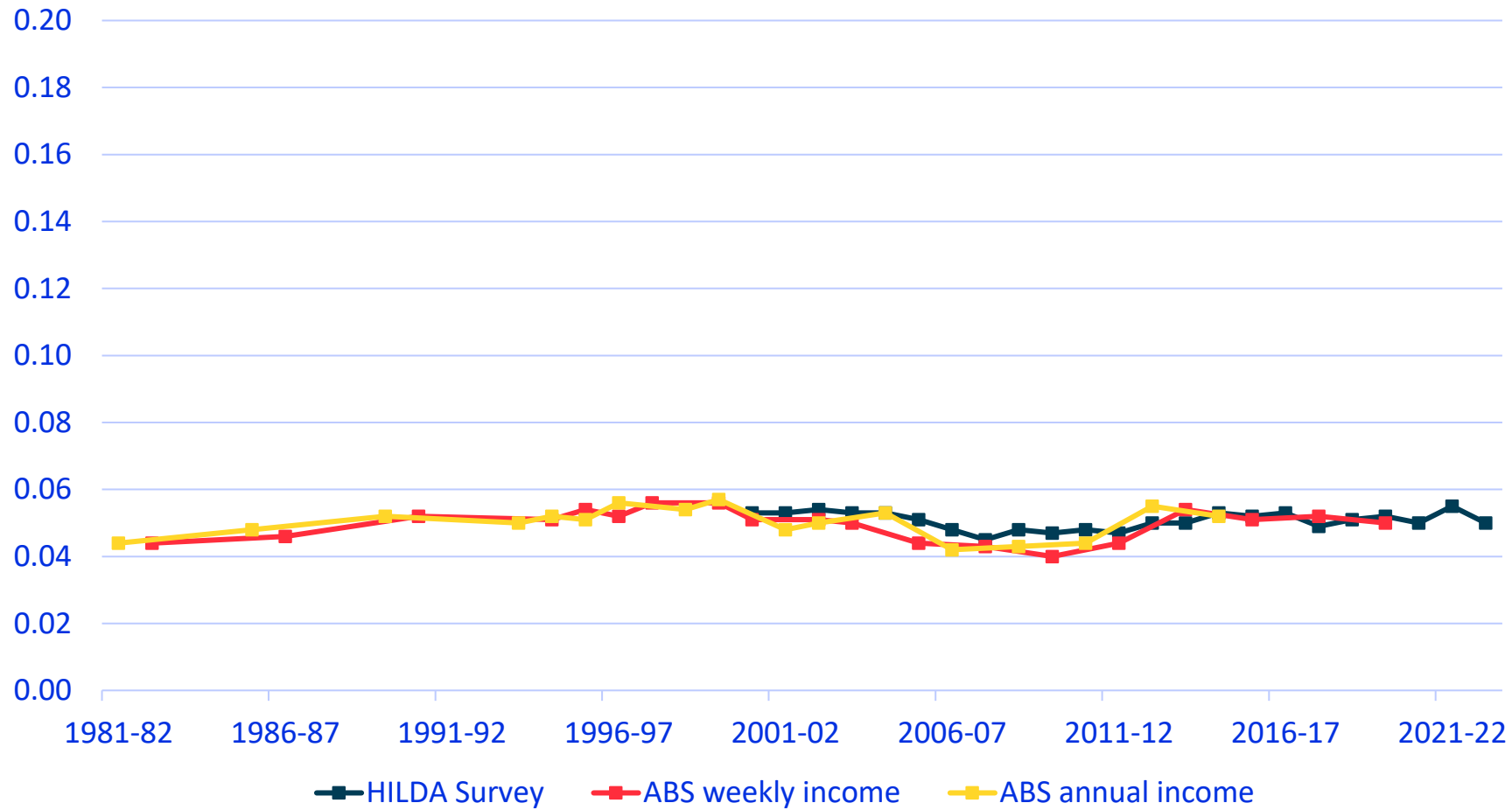
Effects of taxes and transfers on income inequality in Australia

Decrease in the Gini coefficient in moving from market income to disposable income



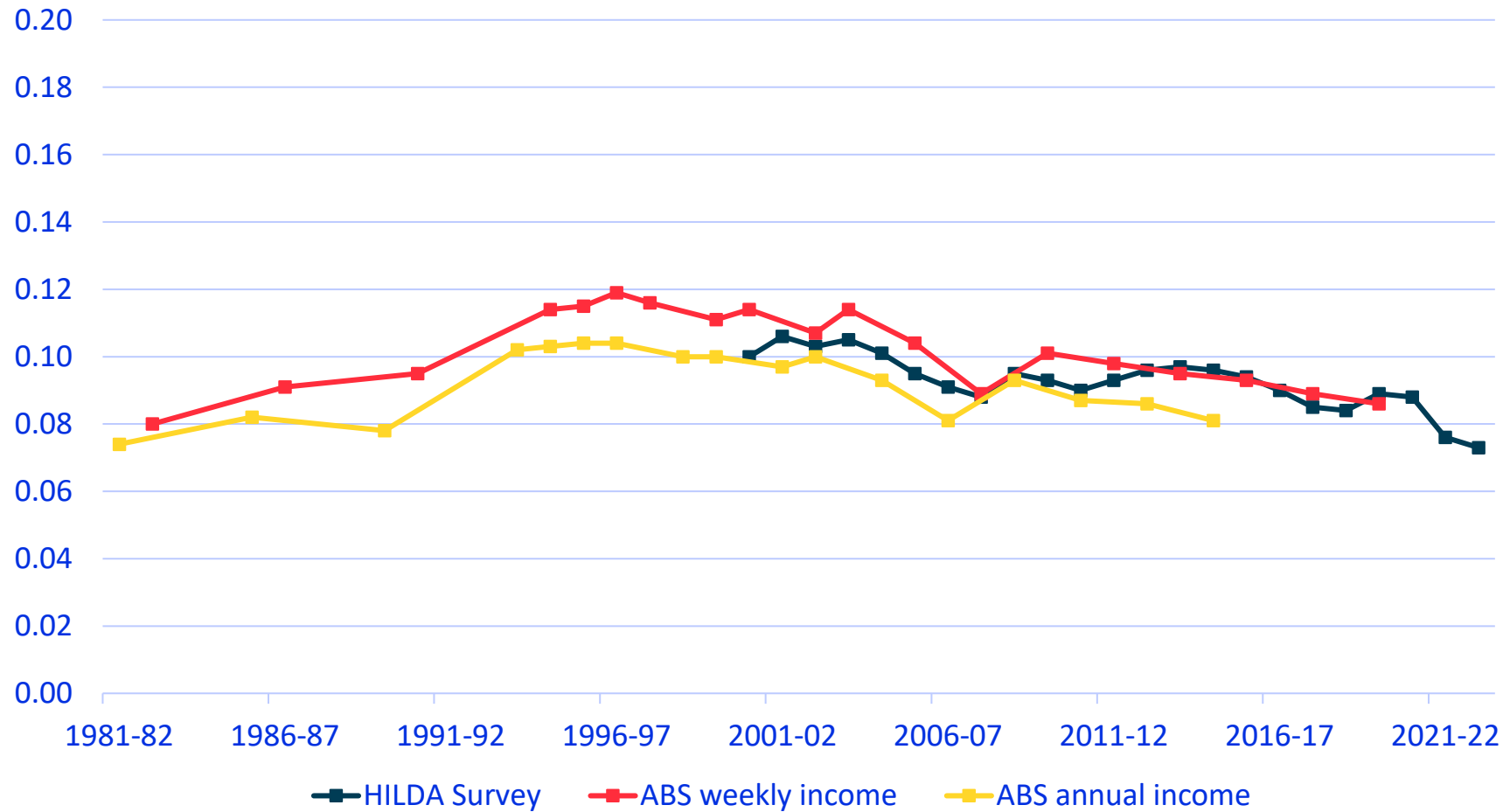
Effects of taxes on income inequality in Australia

Decrease in the Gini coefficient in moving from gross income to disposable income



Effects of transfers on income inequality in Australia

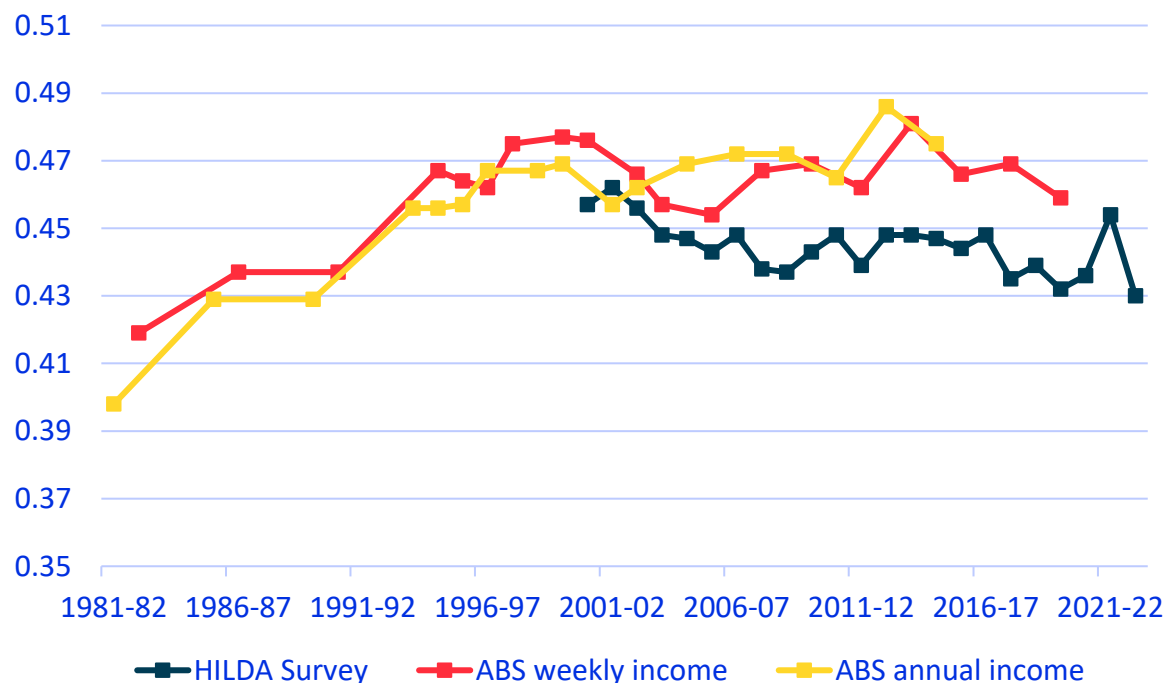
Decrease in the Gini coefficient in moving from gross income to disposable income



Drivers of changes in market income inequality

Market income inequality in Australia

Gini coefficient for household equivalised pre-tax pre-transfer income



Labour market earnings

- Earnings inequality (among employed people) has tended to rise since the early 1980s
- Effects of employment changes have varied over time:
 - 1980s and 1990s: Half the growth in market income inequality was due to employment changes (Johnson and Wilkins 2004)
 - 2000s and 2010s: Employment changes acted to decrease the Gini coefficient by approximately 1.5 points

Business and investment income

- Inequality in this income source has tended to rise over the last 40 years

Drivers of growing 'market' income inequality identified in international literature

Commonality of trends across many advanced economies suggests there may be some common causes:

- Labour market changes
 - Increasing returns to skill due to:
 - Technological change
 - Globalisation
 - Declining unionisation
 - Rise in 'assortative mating' combined with growth in women's employment participation
- Factor income shares: rising share of capital income and growing concentration of ownership of capital
- Policy settings: tax, labour market, product market competition, etc.

Broadening the measure of economic wellbeing



More adequately capturing the economic resources available to individuals and households

More complete measures of income account for:

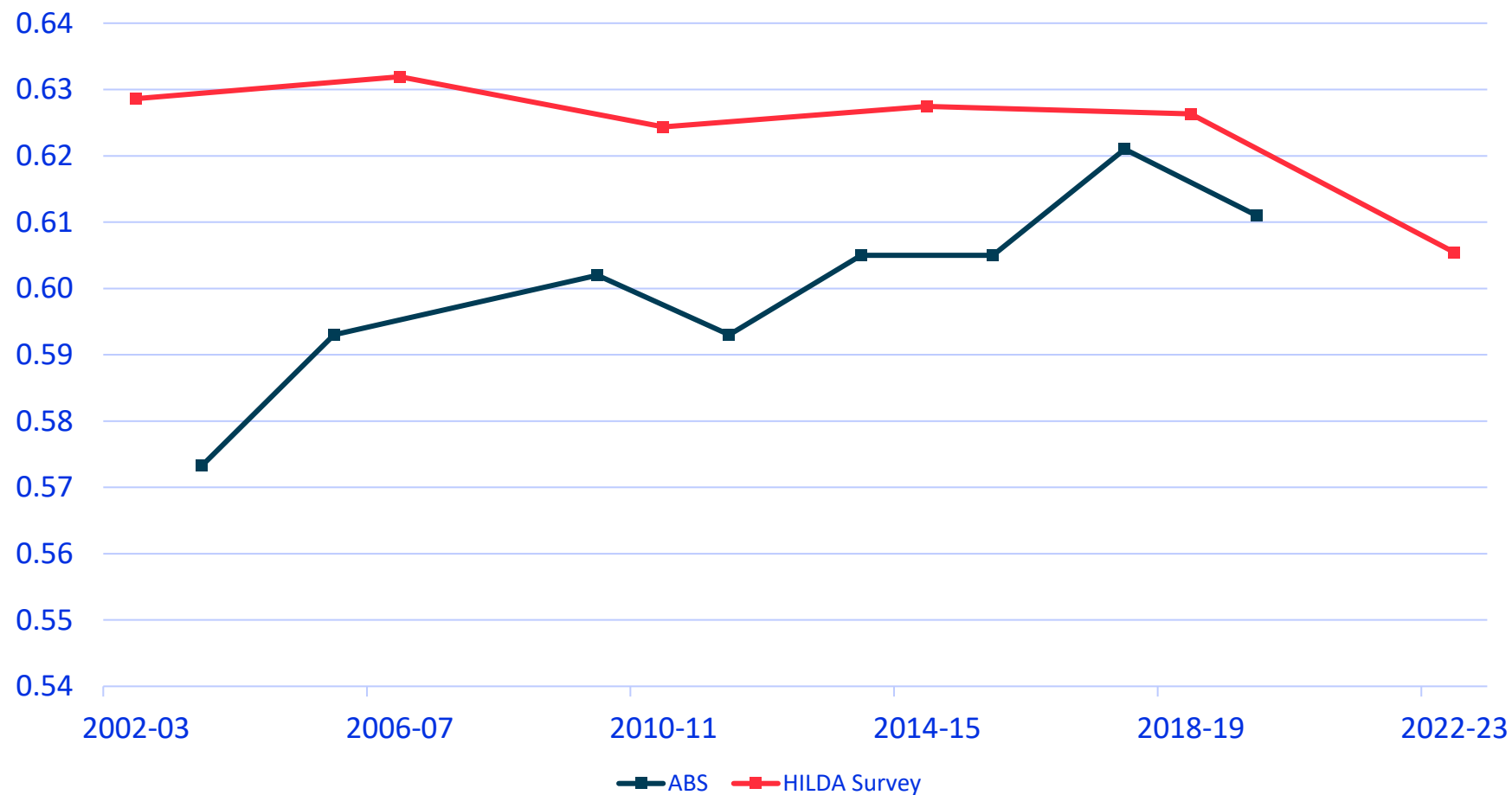
- **‘Irregular’ income** (e.g., inheritances) [slightly increases inequality]
- **‘Social transfers in-kind’** (e.g., education, health insurance value of public health, public housing) [considerably decreases inequality]
- **Indirect taxes** (e.g., GST) [slightly increases inequality]
- **Imputed rental income** on owner-occupied housing and public housing [slightly decreases inequality]
- **Employee non-cash benefits** (largely salary sacrifice) [slightly increases inequality]
- **Capital gains and losses** [considerably increases inequality]

There is also the issue of wealth

In principle, not necessary to account for wealth when examining inequality in lifetime income, but in practice monitoring shorter-term inequalities requires us to examine the distribution of wealth directly.

Inequality of the distribution of wealth across Australians households

Gini coefficient for household net wealth



Concluding comments

- Top income shares in Australia have steadily risen since the early 1980s
- Measures of overall inequality show less change – although when focusing on market income, there was considerable rise in the 1980s and 1990s
- Internationally, the general trend in developed countries has been for inequality to rise over the last 40-50 years
- There are a number of potential drivers of rising inequality, many of which reflect market forces
- However, the tax and transfer system in Australia is doing less to reduce inequality now than it did 25 years ago