ECONOMICS

2005 HSC: Analyse government policies that may influence the distribution of income in Australia.

The government has adopted fiscal policy and microeconomic reforms in recent years to promote a more equitable distribution of income in Australia. In particular, with the advent of the 2012-13 Federal budget, the government announced key reforms to improve the sustainability of: the progressive taxation system and taxation as per the Henry Tax Review, superannuation and transfer payments. Such policies have been crucial to the redistribution of income from high-income earners to low income earners in Australia, as it is through government intervention, that the share of final income received by the lowest 40 per cent of income earners has increased from 9.7% to 28.2% in 2009-10.

PROGRESSIVE TAXATION SYSTEM

Australia's Progressive Taxation System of personal income means that the more income a person earns, the more tax they pay as a percentage of their gross income. The progressive taxation system has been key to delivering a fair and equitable distribution of income through redistributing resources from high-income earners to low-income earners who need assistance most. The tax-free threshold has been increased from $6000 to $18,200 in the 2012-13 Federal Budget to help reduce the tax burden low-income earners. The taxation revenue the government receives from this is redistributed to low-income earners in the form of transfer payments, benefits and assistance. This includes social wage such as the Medicare system for health care and subsidised education, housing through state government provision to act as a safety net for lower-income earners. Government benefits primarily assist those in the lowest 3 quintiles, while government payments to the unemployed, low income earners and elderly are the primary mechanism for reducing disadvantage in Australia. Thus, the government's use of the progressive taxation system has been instrumental in providing a more equitable distribution of income and wealth.

FISCAL POLICY

The government's implementation of fiscal policy to influence levels of government taxation, transfer payments and other assistance has had the greatest impact on the distribution of income and wealth. Fiscal policy is the government's use of government spending and taxation to influence resource allocation, redistribute income and affect economic activity. The 2012-13 Federal Budget is explicitly redistributive, through redistributing profits from the mining sector through revenue from the Mineral Resources Rent Tax to lower-income earners in the forms of repayments such as the Spreading the Benefits of the Boom package. This package is aimed at reducing income inequality that may arise from the implementation of the Carbon Tax, including a $2.1bn Schoolkids Bonus over 5 years and a $1.8bn increase in the Family Tax Benefit Part A to assist lower-income households. A majority of the tax cuts in the 2012-13 Federal Budget are aimed at assisting lower-income earners, including the latest tax cut by $10/week for workers earning $25,000/p.a and a cut by 5c/week for those earning more than $80,000. Thus, the redistributive role of fiscal policy has aimed at reducing income inequality.

SUPERANNUATION

The introduction of compulsory superannuation since 1992 has significantly impacted upon the distribution of income and wealth since then. In the 2012-13 Federal Budget, employers must contribute an increase to 12%, from a previous 9% of an employee's wages to a superannuation fund that is inaccessible until their retirement. Those earning more than $300,000 have also had their superannuation tax breaks cut, to further provide an equitable distribution of income and wealth. Although superannuation assets boost the wealth of all wealth quintiles, it has been instrumental for the lowest quintile – or lowest 20% of households. In 2006, the ABS calculated that, without superannuation, the wealth of the lowest quintile would be 22% lower. Thus, compulsory superannuation has helped to reduce inequality in wealth distribution and also increase available income flows to all retirees.

MONETARY POLICY

Despite this however, changes in monetary policy may negatively impact upon income inequality. If the RBA increases interest rates through open market operations as a preventative, counter-cyclical measure to lower unsustainably high economic growth or inflation, income inequality may instead be increased. This will increase the transfer of wealth from low to higher income earners, as low-income earners are predominantly borrowers, who must now pay higher levels of interest. In contrast, higher income earners are predominantly savers, thus increasing their level of wealth and income and income inequality.

TARGETING WELFARE

There has been an increased emphasis on the strict targeting of welfare to the most disadvantaged groups in society and the strengthening of eligibility criteria to receive income support, in the government's welfare policy. This is designed to reduce income inequality through reducing welfare dependency to encourage greater participation in paid work, as those living under welfare have marginally lower incomes than those undergoing paid work. Such initiatives include the Work for the Dole program that requires the long-term unemployed to attend basic work. This provides a base level for skills and a job-related reference to increase their prospects of obtaining employment, while also making it unattractive to remain on welfare, thus reducing income inequality through reducing long-term unemployment, and strict targeting of welfare.

Long-term unemployment, or those being unemployed for more than a year, contributes greatly to income inequality. Policies to reduce long-term unemployment include initiatives to target hysteresis, or the loss of skills and motivation from persistent unemployment.

LABOUR MARKET POLICIES

The decentralisation of the labour market, in the government's move away from national wage fixing and industry awards, has widened income inequality between wage earners. The implementation of enterprise bargaining has favoured higher average wage increases for workers with greater skills and bargaining power rather than for less skilled workers who rely upon industrial awards for wage rises. Despite this however, elements of social wage, including the safety net of Modern Awards, the ten National Employment Standards and annual adjustments to the National Minimum Wage provide minimum levels of income and working conditions to workers with low skills and bargaining power in the labour market. Furthermore, the Fair Work Act 2009 introduced a 'Better Off Overall Test' for negotiated enterprise agreements in an attempt to improve equality.

The effective conduct of macroeconomic policy, together with the tax-transfer system, the safety net of minimum wages and employment conditions, and the social wage elements of government spending are important mechanisms for creating a more equal distribution of income and wealth in Australia. Despite this, the tax-transfer system needs continual reform to provide an equal distribution of income, as only part of Henry Tax Review has been implemented in the 2012-13 Federal Budget. However, the government's steps towards improving income inequality are commendable as it is fundamental to further economic growth and stability within the Australian economy.