


Middle Class Welfare? The Evolution and Distribution of Taxes and Transfers in Australia and English-Speaking OECD Countries since the 1980s

Elizabeth Adamson, Gerry Redmond & Peter Whiteford

AIFS Conference, Melbourne, 7-9 July 2010

Summary

- Define middle class welfare
 - Organisation of taxes and transfers Australia and other English speaking OECD countries (CDN, IRL, NZ, UK, US)
 - Distributional impact of taxes and transfers in Australia since the 1980s
 - Conclusion – is middle class welfare in Australia really an important issue?
- 

Middle Class Welfare

- Provision & subsidisation of services that the middle class mostly uses
 - subsidies to private schools
 - publicly funded university education
 - subsidies for high art & culture



Middle Class Welfare

- **Tax breaks**
 - superannuation
 - private health insurance
 - savings schemes

- **Grants**
 - first home owner
 - home insulation



Middle Class Welfare

- Support for families with children
 - family allowances
 - income tax credits



 **THE AUSTRALIAN** 1 September 2005

No net tax for 40pc of families

David Uren, Economics correspondent

“ALMOST 40 per cent of families receive more in welfare payments than they pay in tax, challenging claims the low-paid have been unfairly treated by the tax system....”




 **THE AUSTRALIAN** 20 September 2008

The tax-free middle class

George Megalogenis

“HERE'S a tax trivia question that should focus the policy minds, and moral compasses, of Kevin Rudd and Malcolm Turnbull: how many families receive more in handouts from the federal Government than they pay in income tax?

The answer - 42.2 per cent - should shock because it covers every family on the bottom four rungs of the nation's income ladder and a fair portion of those on the fifth. A carefully targeted tax and handout system, in theory, should reduce welfare dependency as affluence spreads. Australia, however, operates on the reverse principle.”



Churning


John Humphreys (2009) *Ending the Churn: A tax-welfare swap*, Centre for Independent Studies, Sydney

“Churn occurs when the government both takes tax and gives welfare to the same person (or family), with no redistribution of income.”

“56% of welfare is churn.”



Questions

- How big is middle class welfare in Australia in comparison with other English-speaking countries?
 - How has provision of middle class welfare in Australia changed since the 1980s?
 - Is there a case for reducing ‘churn’ between income taxes and cash transfers?
- 

Middle Class Welfare in English-Speaking countries


- **Esping-Andersen (1990)**

- three models of welfare state
- all English-speaking countries fit (roughly) in the liberal model
- residual, minimal, means tested.

-But are AUS, CDN, IRL, NZ, UK & US all the same?

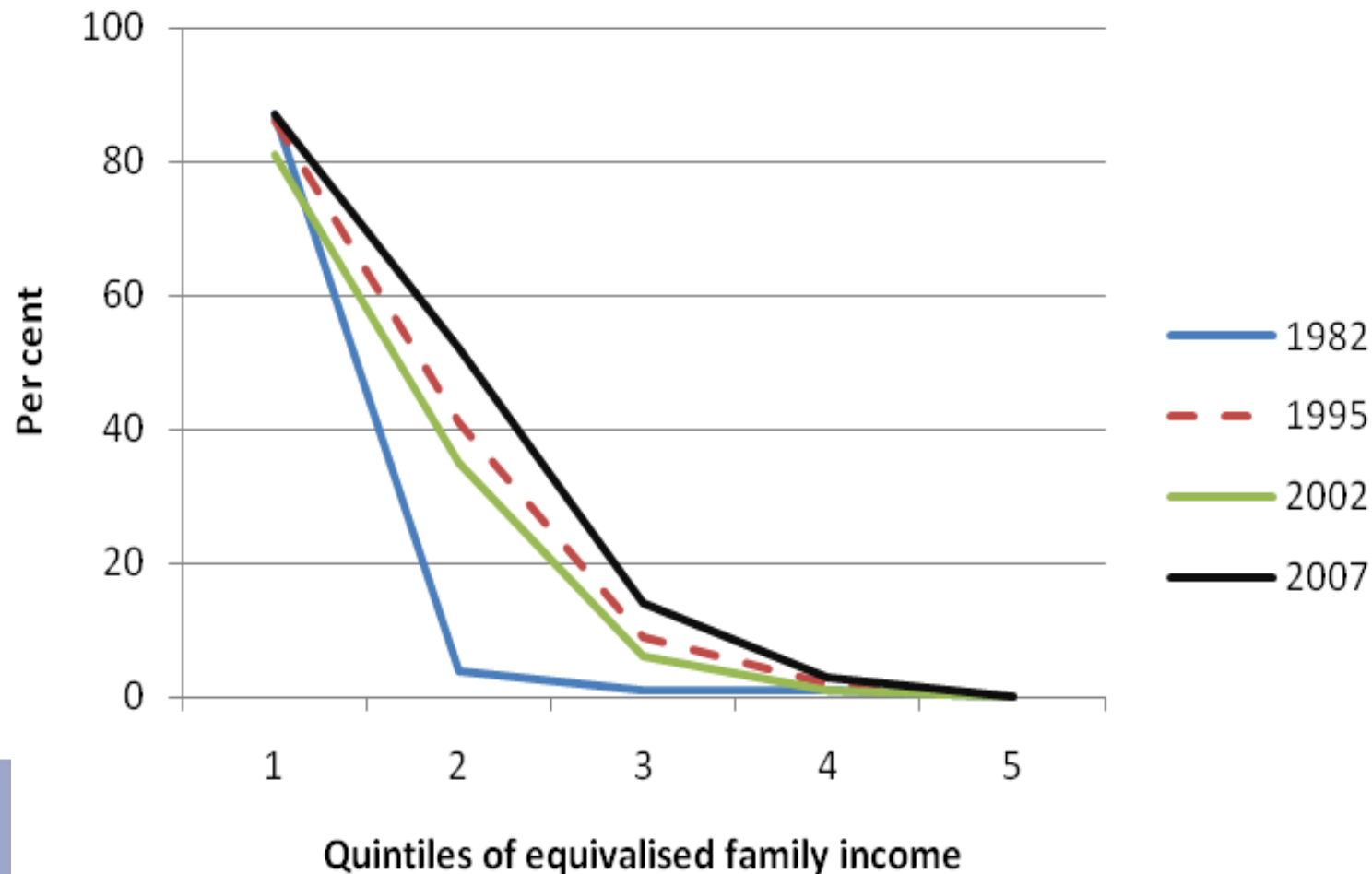
- CDN & US – minimal residual
- IRL – Generous residual
- AUS (+ recently NZ & UK) means tested & broad based

Australia - means tested system but not residual
(means tests exclude the rich rather than targeting on the poor)



Who gets middle class welfare?

Australian couple families with children paying no net tax, by family income quintile, 1982-2007 (per cent)



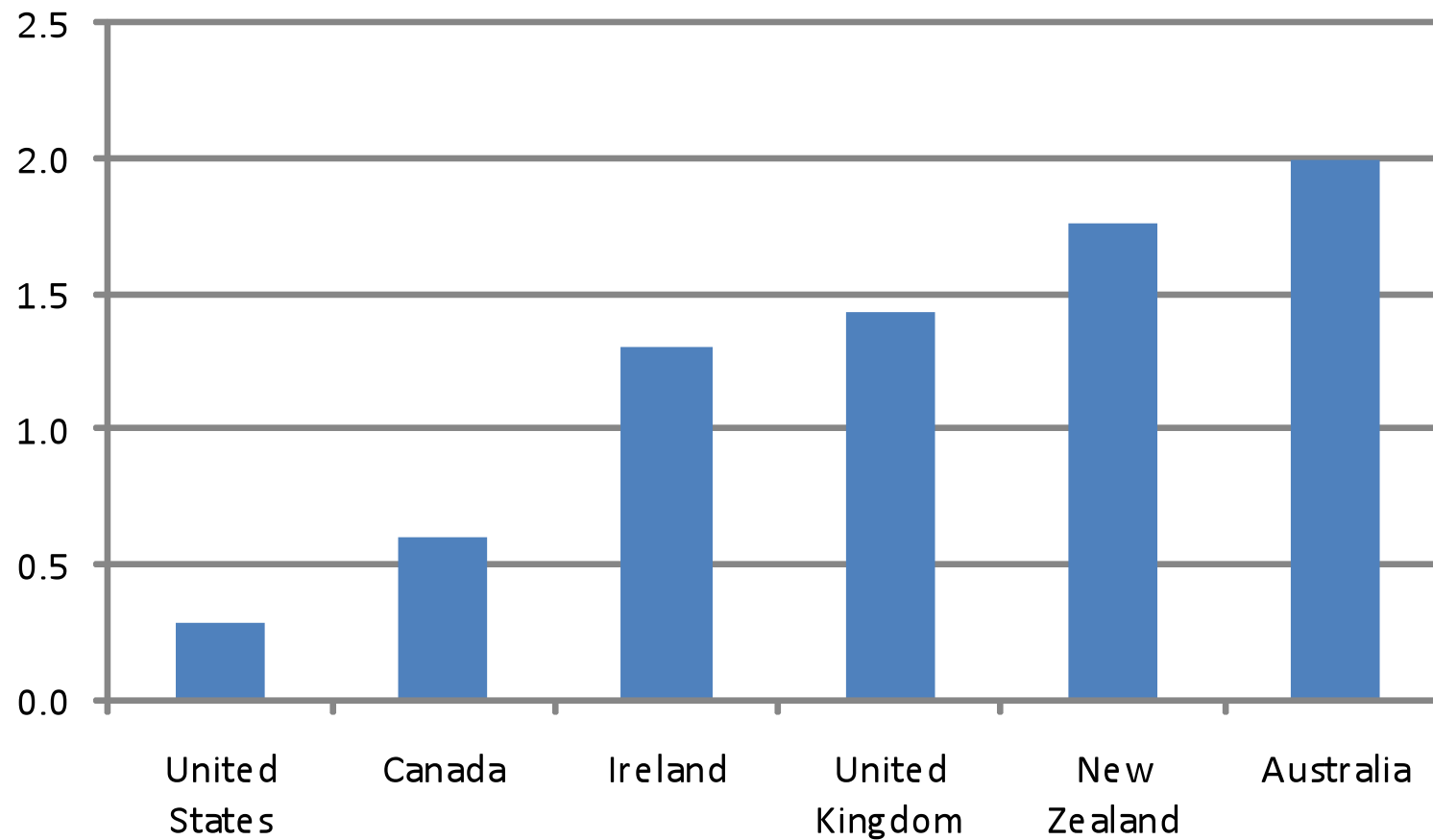
Key factors in welfare state design

- Size of the welfare state
- Targeting
- Types of family/work configuration supported
- Effectiveness in terms of protection from poverty



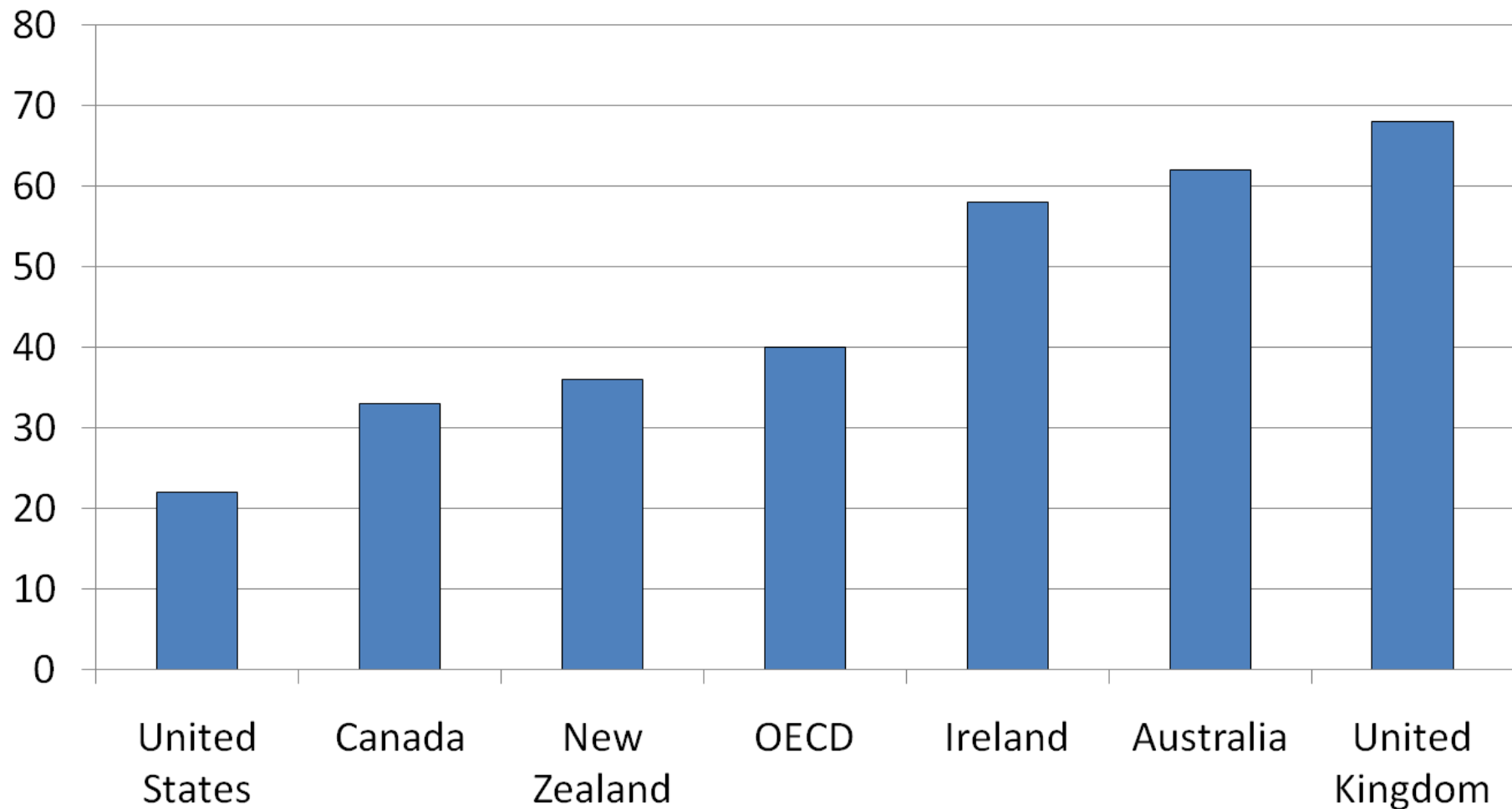
Size of the welfare state

Public expenditure on family allowances and child related tax credits, 2005 (per cent GDP)



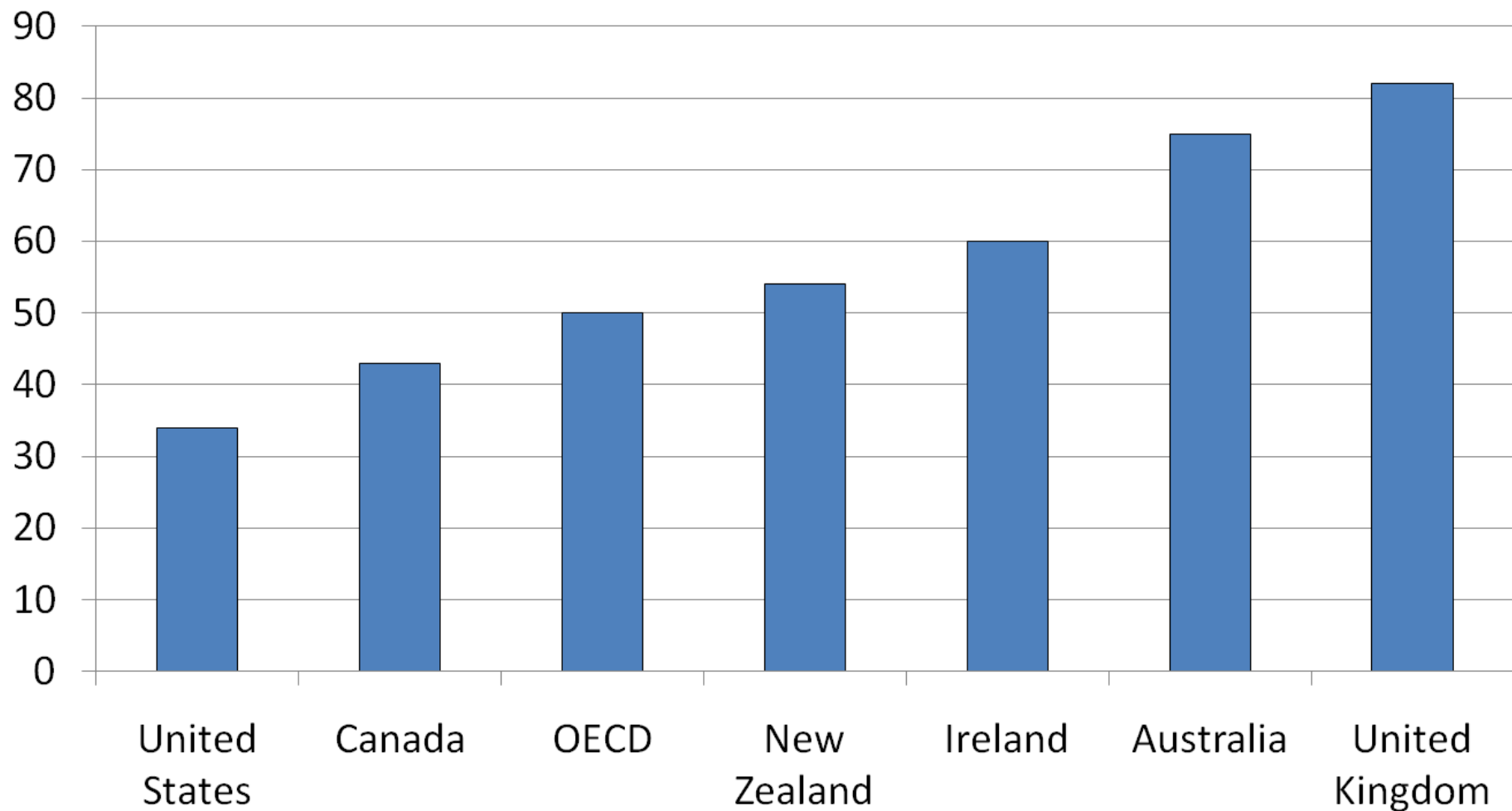
Size of the welfare state

Level of benefits for non-working couple with two children, 2005
(per cent median income)



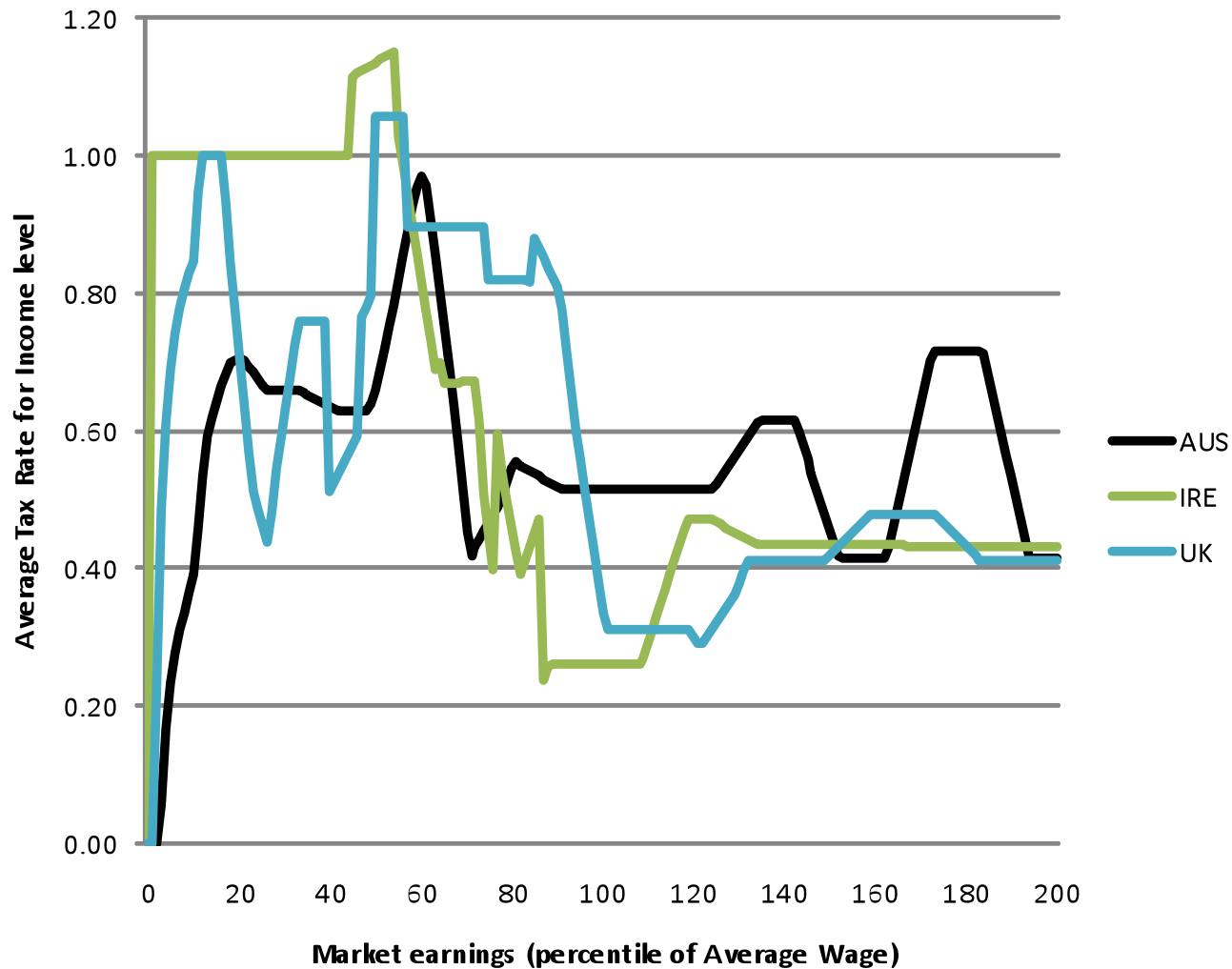
Size of the welfare state

Net income of couple with one earner on minimum wage and two children, 2005 (per cent median income)



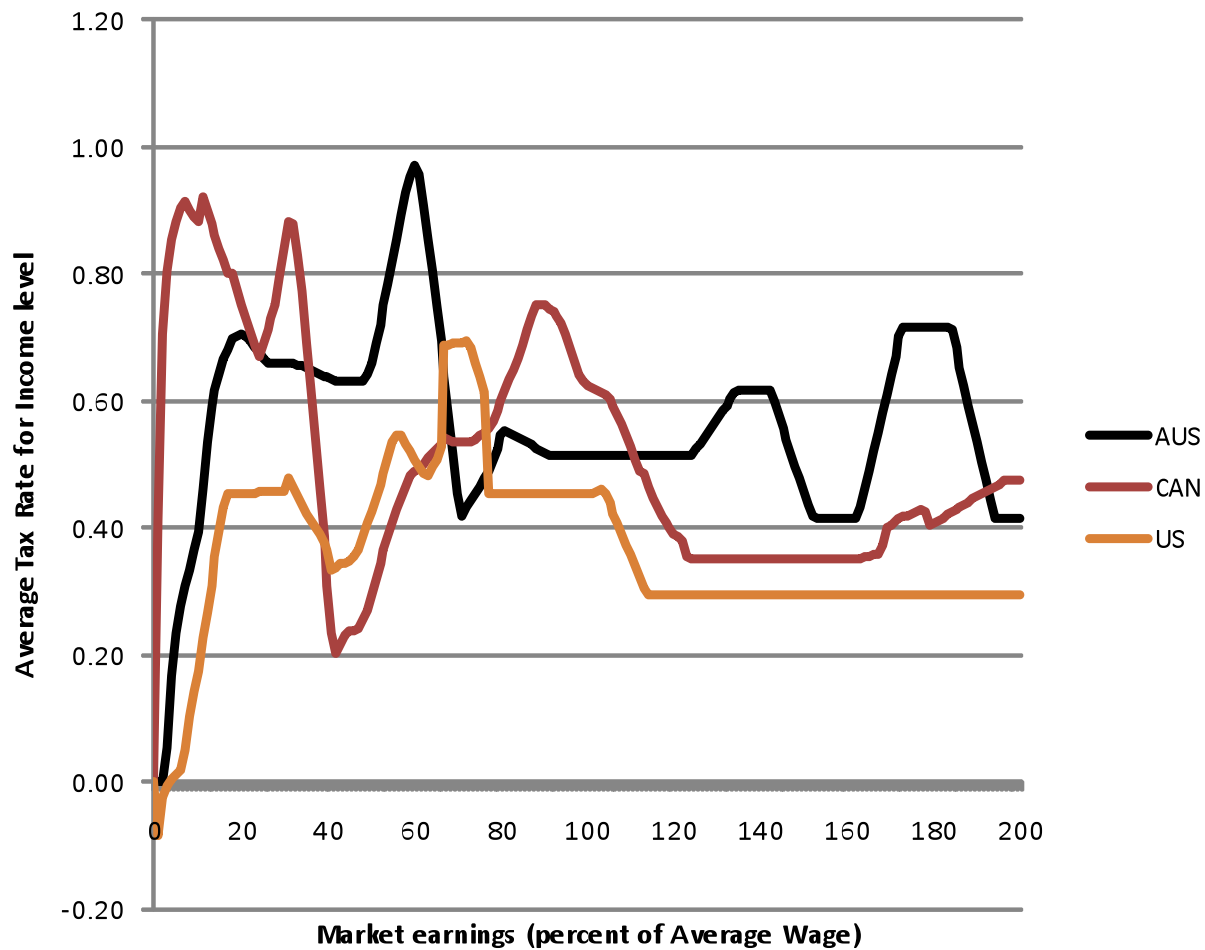
Targeting

Average effective tax rates by percentiles of average earnings, single earner couple with 2 kids, Australia, Ireland and UK, 2008



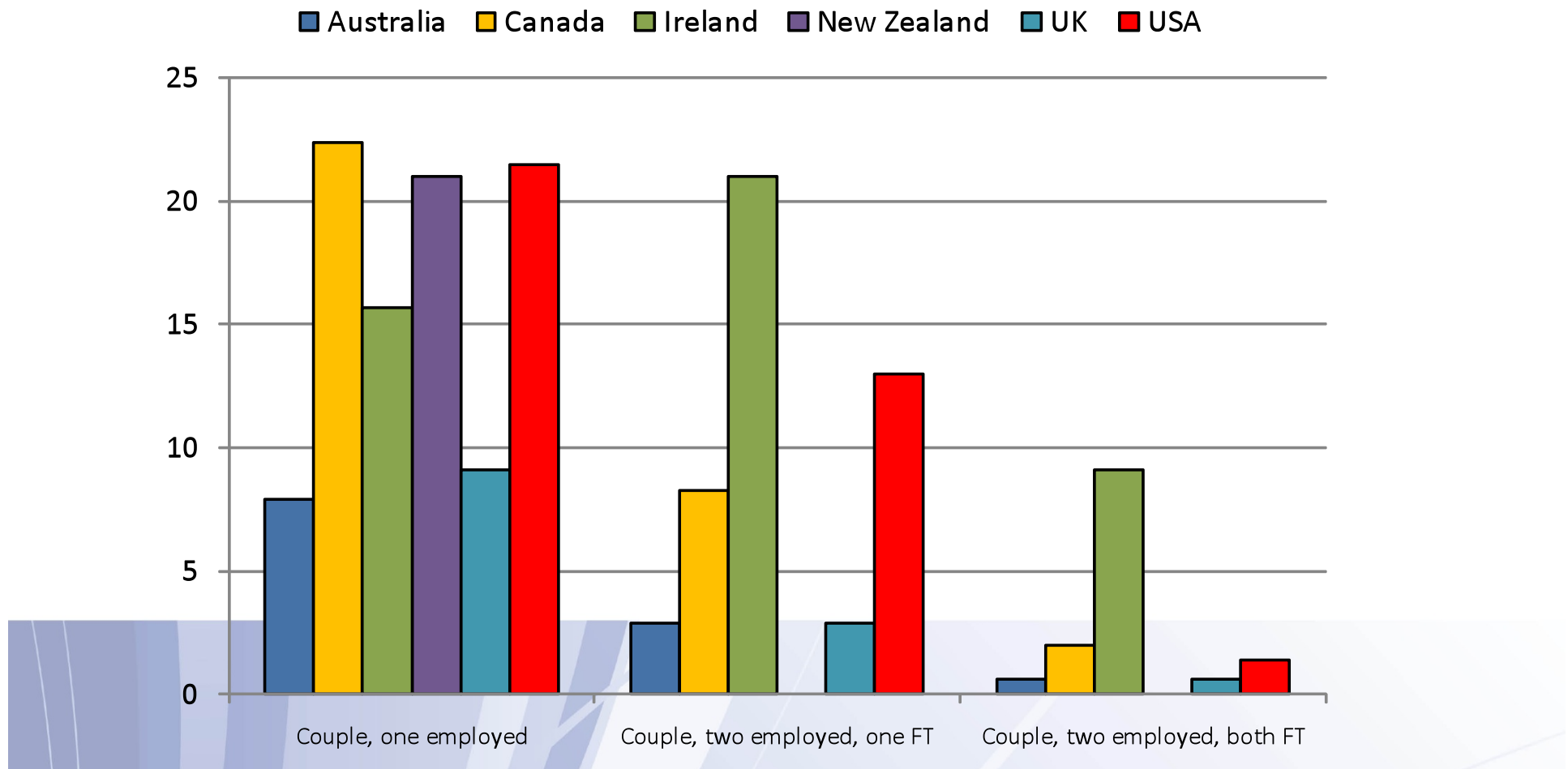
Targeting

Average effective tax rates by percentiles of average earnings, single earner couple with 2 kids, Australia, Canada and US, 2008



Poverty in English speaking countries

Households with incomes less than 50% of median income, English speaking OECD countries, 2005



Conclusion

The Australian tax benefit system does facilitate some middle class welfare to families with children (but mainly if you define the middle class as being in the bottom half of the income distribution)

But...

- it offers considerable income protection to families with children*
- it is effective in reducing child poverty*
- it maintains reasonable levels of effective marginal tax rates for single earner families*
- → Equity issues?*