Boom time - especially if you're a CEO

John Garnaut Economics Correspondent
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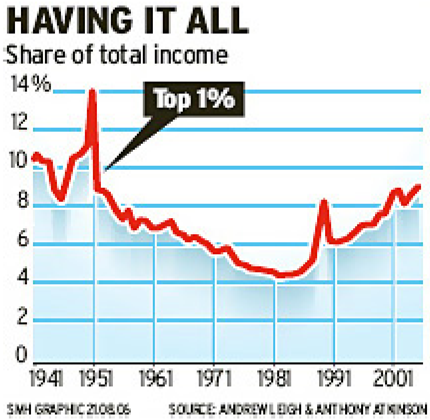
AUSTRALIA'S super rich are earning a larger share of national income than at any time since 1950 - and the huge salaries paid to chief executives may be to blame, latest statistics show.



In 1992 the salaries of chief executives were 25 times the average worker's salary - but by 2002 they were 100 times the average.

In the 2003-04 tax year, the richest 1 per cent of individuals earned 9.2 per cent of individual income - up from 8.8 per cent in the previous year and double their share of 25 years ago.

To enter the 1 per cent club, individuals had to earn more than $148,366 - a rise of more than $12,000 on the previous year. This group had not enjoyed such a large slice of income since a huge rise in wool prices in 1950.

In their study, *The Distribution of Top Incomes in Australia*, the economists Andrew Leigh, of the Australian National University, and Anthony Atkinson, of Oxford University, said the trend was evident in the salaries of judges, top public servants and chief executives.

They believe chief executives have received pay rises so large as to skew the country's income distribution.

"The rapid rise in Australian CEO salaries during the 1990s suggests that much of this recent increase may have been caused by higher executive pay," they said.

The chief executive of Louis Vuitton Australia, Philip Corne, said the luxury goods market had grown rapidly in Sydney despite the city's comparatively lethargic economy.

In 2003-04, an individual had to earn $59,832 to step into the richest 10 per cent and $78,260 for the top 5 per cent.

While the rich are getting richer, inequality is not rising as fast in Australia as in other English-speaking countries because the poor have not been getting poorer. The incomes of Australia's low earners have been bolstered by a strong labour market, generous family welfare and minimum wage standards.

The status of the merely rich, rather than super rich, has remained stable. The income share of the top 10 per cent declined from 34.6 per cent in 1941 to 25 per cent in 1979, before rising again to 32 per cent in 2003-04.

In 1921, when the federal Tax Office first separated tax data for individuals and companies, the top 0.05 per cent of earners received 2.8 per cent of all income. Over the next 60 years their share fell to 0.61 per cent. It has since risen to 2.1 per cent in 2003-04.

Imported bosses get richer quicker
Fleur Anderson
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Australia's rich are getting richer at a quicker pace than everybody else and control the largest share of the nation's income in 50 years, thanks to cuts in the top marginal tax rate, a study shows.

But the fastest growing incomes are not those of Australia's 200 richest people but of the imported chief executives of the country's top 50 companies, according to research by economists Andrew Leigh from Australian National University and Oxford University's Anthony Atkinson.

The earnings of the richest 10 per cent accounted for 31.34 per cent of the nation's total income in 2002, compared with 28.5 per cent a decade earlier.

"Reductions in top marginal tax rates during the 1970s and 1980s appear to have coincided with a rise in the income share of the richest," Dr Leigh said.

In a blow to tax reform advocates who are arguing for a reduction in the top rate of 47 per cent, Dr Leigh said the research suggested the rich would get richer with another cut to the top marginal rate.

Nor was there any evidence a lower tax rate had any effect on the "brain drain" of skilled workers.

In 1992, a typical executive in one of Australia's top 50 companies earned 27 times the wage of an average worker.

But the increasing frequency of global searches for top executives for Australian companies, paying millions of dollars in golden handcuffs and golden handshakes, boosted the typical executive's wage to 77 times that of an average worker.

The arrival of US businessman Bob Joss in 1993 to become Westpac's $7.8 million man started a trend that had pushed up the salaries of the chief executives of top 50 companies faster than the incomes of even the richest 200 Australians, Dr Leigh said.

"We are now paying international salaries to chief executives," he said.

The research also found the incomes of senior public servants, High Court justices and chief executives had increased faster than the income of the average worker over the past decade.

The Association of Chartered Certified Accountants yesterday urged the Australian government to consider introducing a hybrid flat tax system in which the first $15,000 earned would be tax-free before a 30 per cent flat tax rate cut in.

Rich Aussies get richer

March 14, 2006 - 7:23PM

A rapid rise in chief executives' salaries and the lowering of top tax rates contributed to Australia's very rich becoming even richer over the past two decades, an economist says.

Australian National University (ANU) economist Dr Andrew Leigh today released a report he co-wrote with Sir Anthony Atkinson of Oxford University, in which they used taxation statistics to calculate the share of Australia's income that went to richest groups.

Dr Leigh said the country's richest one per cent had almost doubled their share of income since 1980.

"By 1980, the top one per cent had just five per cent of national income, less than half their share in the 1920s," he said.

"Since 1980, the pattern has reversed. By 2002, the most recent year in our study, the top one per cent held nine per cent of national income.

"At the start of the 21st century, the income share of the richest groups in Australia is higher than it has been at any point since the Korean War."

He contributed this, in part, to the large salaries that Australian companies provided to attract overseas candidates for chief executive roles.

"It used to be the case that Australian companies drew executives (only) from Australia," Dr Leigh said.

"That's no longer the case. Now it's quite normal to get CEOs from US, Britain and Canada."

The internationalisation of the English-speaking executive market had caused the income of the very rich in other English-speaking countries to increase rapidly over the same period also, he said.

Over the same period, the top marginal tax rate decreased from 60 per cent to 48 per cent.

And it wasn't just chief executives' salaries that had risen.

Politicians, senior public servants and some judges have also seen a rapid rise in their salaries.

Dr Leigh said those professions had kept the rise in their salary packages in line with company executives.

"I think those professions are...responding to changes in the labour market," he said.

He said Australians were not necessarily complacent about the changes in income distribution, instead many Australians were unaware of just how much top chief executives were paid.

"It's startling. A CEO in one of these companies made 92 times the average wage in 1992 and in 2002 it was 98 times the average wage."

AAP

So, it is the rich what gets the pleasure

By Josh Gordon, Canberra
March 15, 2006

THE share of national income captured by
Australia's wealthiest individuals has leapt to its highest since the Korean War. It is due to huge pay rises for top chief executives and the "super-rich".

Appearing to contradict claims that Australia is now a more egalitarian society, research by the Australian National University and Oxford University has concluded that the richest 1 per cent of the population has almost doubled its share of national wealth.

The report, by ANU economist Andrew Leigh and Oxford's Sir Anthony Atkinson, found that the wealthiest 1 per cent of Australians now took 9 per cent of national income, compared with a 5 per cent share in 1980.

Using 80 years of taxation data, it found the wealthiest 1 per cent now have a greater share of national income than at any time since 1951, while the share of the richest 10 per cent is higher than at any time since 1949.

Dr Leigh said the rapid rise in cash salaries paid to chief executives during the 1990s was the main explanation.

In 1992, a chief of one of the country's top 50 companies earned 27 times the wage of an average worker, Dr Leigh said. By 2002, this had risen to 98 times the wage of an average worker.

Over the decade to 2002, average annual cash payments to CEOs leapt by a whopping 396 per cent, from $715,566 to $3,550,000. Over the same period, average annual wages grew by 37 per cent.

The report comes as business groups and others increase pressure to slash Australia's top tax rate from 47 per cent, a move Treasurer Peter Costello says would benefit only the wealthiest 3 per cent of taxpayers.

The report also found that pay rates for other elite groups — including "super rich" in the top 0.1 per cent, judges, politicians and senior bureaucrats — had surged at a rate far outstripping average annual earnings.

Various tax overhauls over the past three decades also helped explain the increase inequality. In 1970, the top tax rate was 69 per cent, falling to 60 per cent in 1980 and 47 per cent in 1990.

"Beyond this, it is possible that skill-biased technological change, and evolving social norms about inequality, may have helped underpin the rise of the rich," the report said.

It found Australia had very unequal wealth in after Federation. In 1921, the richest 1 per cent had 12 per cent of income.