

# The budget's hidden gender agenda

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## Summary

Successive governments have made large changes in taxation and spending measures that have disproportionately affected women. Men have benefitted most from tax cuts while the cuts to services have primarily impacted on women - a double disadvantage.

Before the Global Financial Crisis, income tax cuts were a key feature of fiscal policy for successive Federal Governments. These tax cuts cost the Budget \$169 billion from 2005 to 2012. This fall in revenue has created what the current Government refers to as a 'budget emergency' and has been used as the basis for severe budget cuts to social services.

60 per cent of the income tax cuts flowed to the top 20 per cent of income earners, who are predominately men. Because women earn less on average than men do, women received only 32 per cent of the benefits of these tax cuts.

Because of their lower incomes, women are more likely to benefit from the delivery of government services. We estimate that 55 per cent of the budgeted cuts to services are borne by women.

By considering the ongoing structural disparities between men and women in the home and workforce, the Government could make far better informed decisions about how it taxes and how it provides services. Existing gender inequality is being further entrenched as Australian women are receiving less benefit from tax cuts and shouldering more of the costs of service cuts. Changing these policies could leave women billions of dollars better off.

While the Government may believe that cutting marginal income tax rates will help significantly in lifting workforce participation rates that could then lift long term economic growth, evidence shows that this is not a key motivating factor for workers, particularly not for women. Access to affordable high quality child care is likely to be more effective.

Gender inequality does not appear to be an issue of high priority for the current Federal Government and their budget shows it.

## Introduction

There are two distinct ways in which governments can use fiscal policy to improve the wellbeing of citizens while seeking to balance their budgets. They can collect more tax and spend more money on services or income redistribution, or they can collect less tax and spend less money on services and income distribution.

This paper considers, for the first time, the gender distribution of tax cuts in the last decade, building on earlier work by The Australia Institute that looked at the distribution of tax cuts across income categories. It concludes that, while women account for 50.2 per cent of the population, they received only 32 per cent of the benefit of the income tax cuts introduced by Prime Ministers John Howard (from 2005-06 to 2007-08) and Kevin Rudd (in 2008-09).

Put another way, the cumulative cost to the budget of the 2006 and 2009 tax cuts was \$169 billion, \$54 billion of which went to women and \$115 billion to men. This disparity is a result of the persistent pay inequality experienced by women. Men dominate the top ten per cent of income earners – who received more benefit from those tax cuts than the bottom 80 per cent of taxpayers combined.<sup>1</sup>

When governments attempt to improve the wellbeing of their citizens by cutting income taxes, the benefits of the tax cuts flow mainly to men. If the government is concerned about gender inequality then it needs to consider other methods than just income tax cuts to attempt to improve the wellbeing of its citizens.

The result of the 2006 to 2009 income tax cuts that were handed out during boom times was to reduce the capacity of the budget to generate enough revenue during more normal economic times. Now that the economy has slowed, a budget deficit has been created. The government has responded to this mainly by cutting spending.

These cuts to government spending have disproportionately fallen on women, with 55 per cent of government savings affecting women. While only 32 per cent of the benefits flowed to women in the form of tax cuts, 55 per cent of government savings to fix the budget are borne by women. This has the effect of further entrenching gender inequality.

## The 2006 to 2009 income tax cuts

The first phase of the mining boom, from 2005 to 2009, was driven by unprecedented increases in commodity prices. The mining boom, like all booms, brought with it increases in tax revenue. This temporary increase in tax revenue was spent on large and permanent income tax cuts. These tax cuts took place between 2005 and 2009 and were implemented by both sides of politics.

While at the time the tax cuts were framed as the dividend of good economic management they were in reality the dividend of history's largest mining boom. Since all mining booms are temporary, the increase in revenue was also temporary. Once the first stage of the mining boom faded and the world was hit by the global financial crisis, the budget moved into deficit. These permanent income tax cuts meant that the budget no longer had the same ability to generate revenue. This created what economists call a structural deficit. The result of this is that successive governments have found it difficult to move the budget back into surplus.

This is important because, as will be discussed in more detail below, the current government's answer to the budget deficit is not to increase revenue but to cut spending. The gender implications of both the tax cuts and spending cuts are significant.

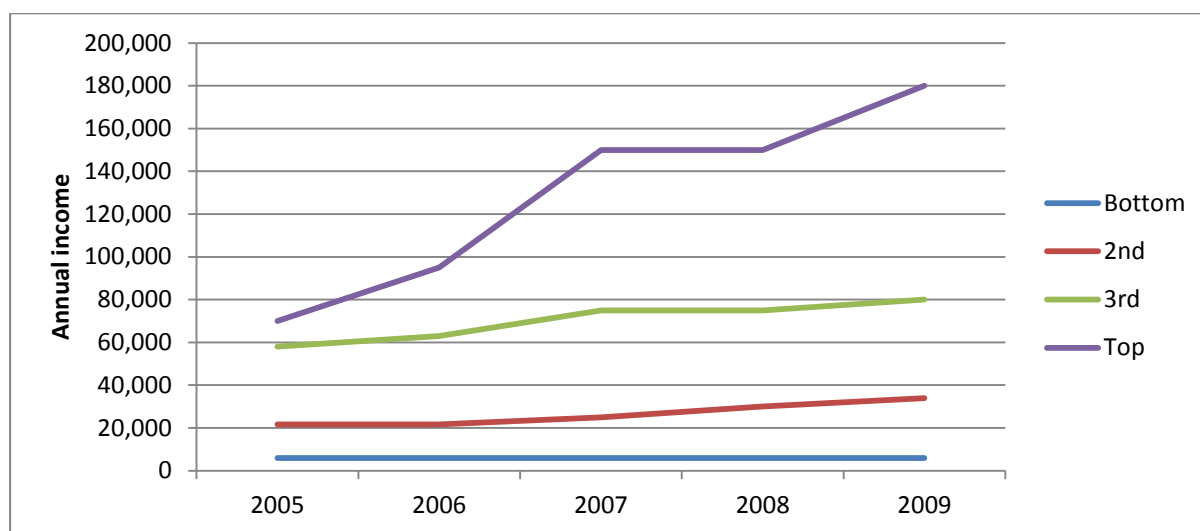
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<sup>1</sup> Grudnoff (2013) *Tax cuts that broke the budget*

Modelling done by National Centre for Social and Economic Modelling (NATSEM) and presented in the Australia Institute's report *Tax cuts that broke the budget*<sup>2</sup> show that the tax cuts have cost the Federal Government \$169 billion in lost revenue between 2005 and 2012.<sup>3</sup>

The tax cuts that the Howard and Rudd governments introduced between 2005 and 2009 primarily increased the higher income tax thresholds, as shown in Figure 1.

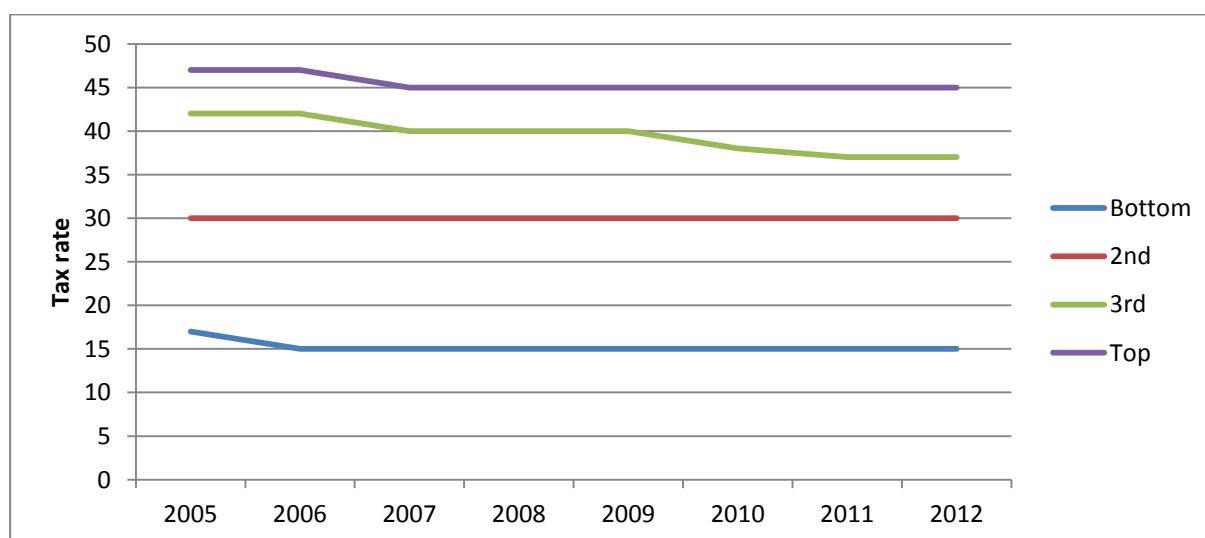
**Figure 1 – Income tax thresholds 2005 to 2009**



Source: ATO (2014a) Individual income tax rates for prior years

The rates of tax were also cut but, as Figure 2 shows, apart from the third tax bracket these cuts were quite small.

**Figure 2 – Income tax rates 2005 to 2009**



Source: ATO (2014a) Individual income tax rates for prior years

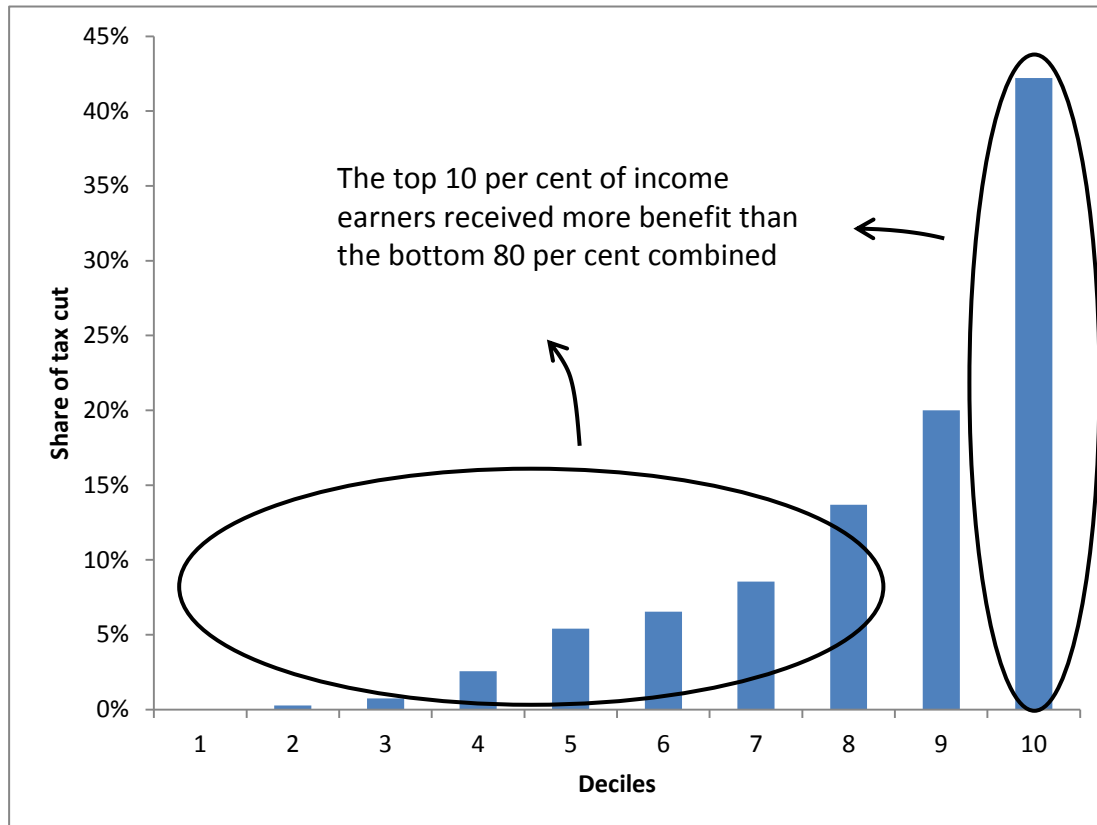
<sup>2</sup> Grudnoff (2013)

<sup>3</sup> The model used by NATSEM is called STINMOD (Static Incomes Model). It is NATSEM's static microsimulation model of Australia's income tax and transfer system and is able to look at, among other things, what revenue the federal government would be able to collect if different tax rates were applied.

## The income distribution of the 2006 and 2009 tax cuts

The income tax cuts mainly introduced changes to the top two brackets. It is not surprising then that most of the benefits of the tax cuts flowed to higher income earners. More than 60 per cent of the tax cuts flowed to the top 20 per cent and more than 42 per cent flowed to the top 10 per cent. In fact, more of the tax cuts flowed to the top 10 per cent than went to the bottom 80 per cent. Figure 3 shows the distribution of the tax cuts by decile.

**Figure 3 – Distribution of tax cuts by decile**



Source: Grudnoff (2013)

The most striking effect of the cuts was to reduce the number of people in the top tax bracket. In 2004-05, according to Australian Taxation Office (ATO) statistics,<sup>4</sup> 13 per cent of tax payers fell into the top tax bracket. By 2011-12 that had fallen to just three per cent of tax payers. Those 10 per cent of tax payers that fell out of the top tax bracket saw their top marginal tax rate fall from 47 per cent to 37 per cent. Even those tax payers whose income continued to put them into the top tax bracket would have seen \$110,000 of their income taxed at 37 per cent rather than 47 per cent.

The size of the revenue lost because of the income tax cuts was determined by modelling what the budget outcome would have been if the tax rates from 2004-05 were used. The difference between the actual budget outcome and the modelled budget outcome shows the size of the tax cuts.

<sup>4</sup> ATO (2014b) *Taxation statistics 2011–12*

## Modelling lost revenue

The aim of the modelling was to look at the size of the lost revenue that was created by the cuts to income taxes between 2005 and 2009. This is important because at the time the income tax cuts were made the budget did not move into deficit because of the windfall tax gains from the mining boom. The fact that the budget was in surplus was, at the time, used to justify the tax cuts as being fiscally responsible. The true effect of the tax cuts was not apparent until the economy moved out of the boom time conditions.

STINMOD was used to model seven years from 2005-06 to 2011-12. Over that period the total value of the tax cuts was \$169 billion. Table 1 shows the yearly break down of the tax cuts.

**Table 1 – Size of income tax cuts (\$million)**

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Income tax cut	4,819	12,142	19,549	27,914	30,938	35,932	37,584	168,878

Source: Grudnoff (2013)

As shown in Figure 2 above, income tax cuts were stopped in 2009. After this the cost to the budget continued to increase as income levels continued to rise and more people entered the higher tax brackets which enjoyed the greatest benefit of the tax cuts.

## Income and gender inequality

Australian men earn significantly more than women for a number of reasons, including because they work longer hours, enjoy more years without career interruption and generally work in higher paid occupations and industries.<sup>5</sup>

A major reason that women work fewer hours and take time out of the labour market is related to child rearing and other caring responsibilities. However, even when attempts are made to control for reduction in the labour market experience that may result from time spent rearing children, a significant difference in the incomes of men and women persists. Similarly, the fact that occupations that are dominated by women typically have significantly lower incomes than occupations dominated by men has also been widely documented. Overall, the Workplace Gender Equity Agency estimates that, when differences in hours of work and education levels are controlled, women still earn 18 per cent less than men.<sup>6</sup>

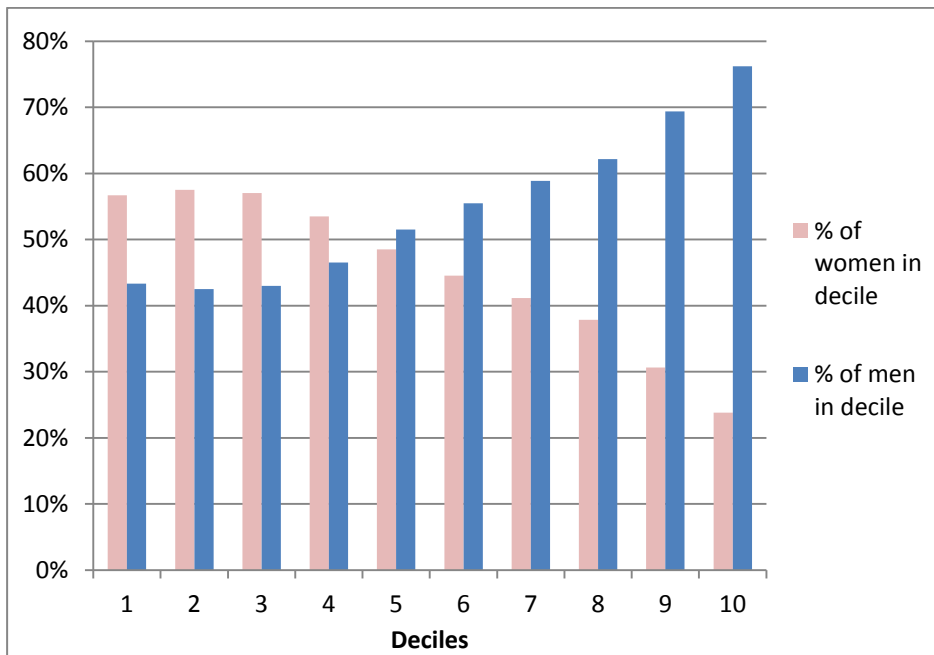
Figure 4 depicts the nature and extent of the inequality between the incomes of men and women. It shows the proportion of men and women that make up each decile of the income distribution. While women are over-represented in the bottom four deciles, they are underrepresented in the top six deciles. Indeed, while women account for only 45 per cent of the workforce<sup>7</sup> they account for 57 per cent of the bottom decile and 24 per cent of the top decile.

<sup>5</sup> WGEA (2014) Gender pay gap statistics

<sup>6</sup> WGEA (2014)

<sup>7</sup> ATO (2014b)

**Figure 4 – Number of males and females by decile**

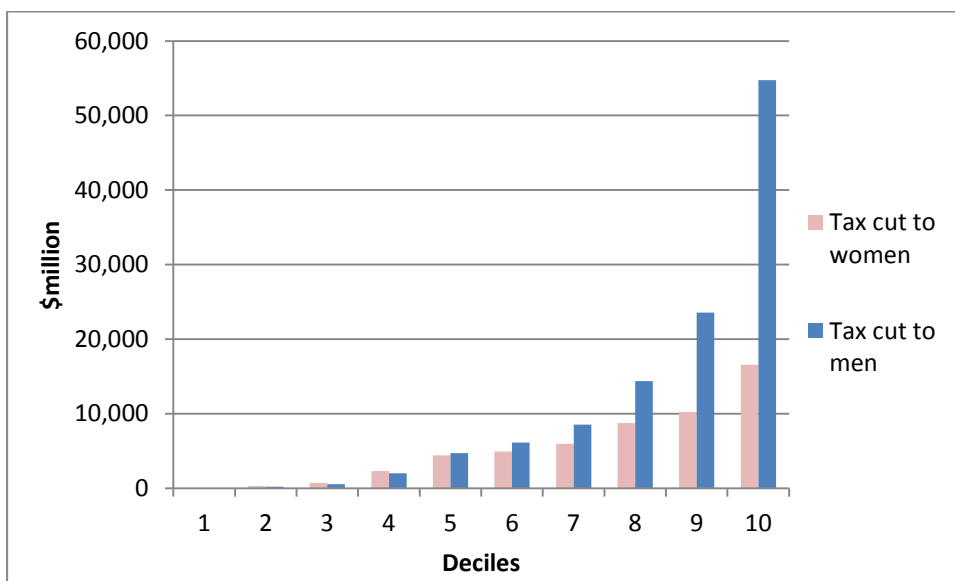


Source: ATO (2014b) Taxation statistics 2011–12

A function of the tax cuts being primarily targeted at high-income earners, combined with women being under-represented in high-income deciles was that most of the benefits of the tax cuts flowed to men. Men received \$115 billion, or 68 per cent, of the tax cuts while women received \$54 billion, or 32 per cent, of the tax cuts.

The benefit of the tax cuts became more unequal as incomes rose, as Figure 5 shows. The top 10 per cent of income earners received \$71.3 billion in tax cuts, but women only received 23 per cent of that. The top one per cent of income earners received \$20.3 billion in tax cuts but women only received 21 per cent of that.

**Figure 5 – Distribution of tax cuts by gender and decile**



Source NATSEM and ATO (2014b) Taxation statistics 2011-12



The income tax cuts that were made during the mining boom made income gender inequality in Australia worse by increasing the after-tax incomes of men far more than women.

## The effect of the budget cuts on women

As discussed above, the income tax cuts reduced the ability of the budget to generate income. This created what economists refer to as a structural deficit. The effect of this was to make it difficult for successive federal governments to move the budget from a deficit to a surplus.

The current government's response to the deficit is to cut spending. These spending cuts primarily impact on people with lower incomes. Analysis of the budget by Treasury found that the budget cuts impacted lower income earners far more than higher income earners.<sup>8</sup> Given the fact that those on lower incomes are over-represented by women, the budget cuts have impacted more harshly on women than on men.

The Australia Institute has used budget analysis by NATSEM<sup>9</sup> and census data to look at the impact of the government's budget on men and women.

NATSEM modelled the effect of the Federal Budget cuts on different types of household<sup>10</sup> and on each quintile (fifth or 20 per cent) of the population by income. Census data shows how many of each type of household are in the population and also the portion of men and women that are found in each type. Women are more prevalent in lower income households and as these households bear the bulk of cuts to government services, low-income women are more heavily affected, as shown in Table 2 below.

**Table 2 – Budget impacts by income quintile**

	Cost per average adult	Average cost per male per quintile	Cost per average female per quintile	Difference between average female and average male
Poorest 20% of households	\$2,221.52	\$1,847.57	\$2,566.73	-\$719.16
Second poorest 20% of households	\$769.52	\$664.40	\$866.54	-\$202.14
Middle 20% of households	\$1,345.40	\$1,311.49	\$1,376.70	-\$65.21
Second richest 20% of households	\$1,653.73	\$1,691.50	\$1,618.86	\$72.64
Richest 20% of households	\$77.37	\$78.83	\$76.02	\$2.81

Source: NATSEM (2014)

Across the whole population, the figures in Table 2 average out to show that 55 per cent of the changes to household disposable income are borne by women.

<sup>8</sup> Treasury (2014) Final distributional analysis for 2014-15 budget

<sup>9</sup> NATSEM (2014) NATSEM Independent Modelling of 2014-15 Federal Budget

<sup>10</sup> NATSEM refer to the different make-ups of their household types as 'cameos'. The cameos have different numbers of parents, dependents and income earners.

This represents a double hit to women. The initial income tax cuts further entrenched gender inequality and the response to the structural deficit the income tax cuts created will make gender inequality even worse.

It is unfortunate that gender inequality issues do not seem to be a high priority for the Abbott Government. The government's current cabinet only includes one woman, the Foreign Minister Julie Bishop, and the Minister for Women's Affairs in the cabinet is the Prime Minister Tony Abbott. It is not surprising, then, that an Australia Institute poll found that only 17 per cent of people believe that the government is actively pursuing gender equality.

### The costs to women of relying on tax cuts

Government fiscal policy can improve people's lives in three ways. The government can provide them with services, it can provide them with income support or it can reduce the taxes collected from them. As shown above, however, relying on tax cuts delivers significantly larger benefits to men, in particular high-income earning men. Women, who on average earn less, are more likely to benefit from the delivery of services.

Alternatively, if the government had chosen redistribution over tax cuts, a per-person grant of \$2,140 in 2011-12 could have been paid to every Australian aged 18 years and over. That is, if instead of spending \$169 billion on tax cuts the government had spent \$169 billion on a 'citizenship bonus', then each decile would have received the same amount of benefit and, in turn, men and women would have received financial benefits proportionate to their share of the population rather than to their income.

As a result of the income tax cuts, men received \$115 billion in benefits and women received \$54 billion in benefits. Under a scenario where a citizenship bonus was paid instead of the tax cuts, men would have received \$84.1 billion and women would have received \$84.8 billion. Women would have been about \$31 billion better off.

While a citizenship bonus is a relatively crude way to distribute income back to the people, it highlights the extent of the gender inequality of income tax cuts. There are other methods of distributing money back to citizens using the tax and transfer system – these include methods that reduce both the gender inequality as well as the income inequality.

### Tax cuts and the 'incentive to work'

The orthodox economic view that is particularly strong in important policy-determining departments like the Federal Treasury is that the main motivating factor for working is disposable income. That is, income after tax. This means that a common argument for income tax cuts is that it will increase participation rates and encourage people to work more hours.

The argument is that higher rates of after-tax pay makes working more hours more attractive and increases participation, as more people want to work and less people want to stay at home. The economic theory also says that higher living standards are dependent on the three Ps: Population, Productivity and Participation. Most macroeconomic models, including the ones used by the federal Treasury, indicate that the three Ps are the only things that can increase economic growth in the long run – put another way, increases in the three Ps are the only way to increase our living standards over time.

The central importance of participation in long-term living standards is part of the reason that income tax cuts are given such a high level of importance by the federal Treasury. The

theory says that if income taxes are reduced, it will increase after-tax incomes and encourage more people to seek out work. Women in particular are seen as an important group since their participation rates are lower than men's. This assumption – that higher disposable income leads to higher rates of participation – is part of orthodox economic theory.

This assumption has been tested and has been found to be less useful in relation to female participation. An international study of female participation published by the OECD found that childcare subsidies and paid parental leave had a strong effect on full-time participation for women. Female education, cultural attitudes and low unemployment rates were also important for female participation.<sup>11</sup>

The Australia Institute has undertaken a survey to look at what might motivate people to take a higher paying job. The top three responses were:

- The quality of the work
- Travel time
- Flexibility with working hours

Consideration for paying additional tax on income ranked ninth out of 13 options. The survey results seem to indicate that taxation is not a large motivating factor.

Travel time featured as the second most important issue. If the government wanted to encourage higher rates of participation rather than cutting income tax it might consider more funding for mass transit systems. Better public transport would lower travel times and increase participation.

Flexibility with working hours ranked number three overall and number one by women surveyed. People highly valued the ability to juggle life and work. This flexibility is most important when raising children. The Australian Bureau of Statistics (ABS) made a similar finding.<sup>12</sup> The ABS asked people who wanted a job but who were not actively looking for work why they were not actively looking. The number one reason for women was that they were caring for children. If the government wanted to increase participation, especially among women, then more funding for quality childcare would have a significant impact.

While tax rates will have some effect on participation rates they are not the only effect. If the government was interested in pursuing policies to increase participation, particularly among women, then more funding to quality childcare is a good place to start. Cutting tax to high income earners is likely to be less effective.

## Conclusion

The ways in which successive governments have conducted large changes in taxation and spending have seriously disadvantaged women. Large income tax cuts were introduced that primarily benefited high-income earners. To pay for this, the current government is trying to cut income payments and social services. These cuts primarily disadvantage low-income earners. Since women disproportionately represent low-income earners in Australia they have been rendered relatively worse off by these changes.

Measures of gender inequality such as the gender pay gap appear to be getting worse. Despite this, the issue is being largely ignored – particularly by the federal government. This

<sup>11</sup> Jaumotte (2002) *Labour force participation of Women: Empirical evidence on the role of policy and other determinants in OECD countries*

<sup>12</sup> ABS (2013) 6220.0 - *Persons Not in the Labour Force, Australia, September 2013*

leads to a situation where major government fiscal policy is contributing to the problem. Unless the government is prepared to take the issue of gender inequality seriously, then it is unlikely to improve.

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