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Living long and living well: Tax systems and population ageing

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Abstract

The success of the development project of the 20th century relied on economic growth to lift incomes, and on a tax-and-welfare state to share the wealth. It also relied fundamentally on an unequal and gendered care economy, primarily focused on care of children, in which women bore much of the cost of care. Today, economic and demographic conditions are increasingly unlike conditions of the mid-20th century. Population ageing increases care needs, but also contributes to higher wealth inequality and slower economic growth. Most governments have failed to address the tensions in the gendered distribution of work, care, and wealth. Tax and welfare policies must adjust in the context of these changing conditions to enable a more equal distribution of the cost of care and economic returns, so that we can live long and well in the next 100 years.

Keywords: Tax policy; Transfers; Population ageing; Wealth inequality; Gender inequality; Intergenerational equity

* *This is an earlier version of a chapter forthcoming in: Tsilly Dagan and Ruth Mason (eds) 'Taxing People: The Next 100 Years', (Cambridge University Press, 2025). Author contact:* m.stewart@unimelb.edu.au

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The success of the development project of the 20th century relied on economic growth to lift incomes, and on a tax-and-welfare state to share the wealth. It also relied fundamentally on an unequal and gendered care economy, primarily focused on care of children, in which women bore much of the cost of care. Today, economic and demographic conditions are increasingly unlike conditions of the mid-20th century. Population ageing increases care needs, but also contributes to higher wealth inequality and slower economic growth. Most governments have failed to address the tensions in the gendered distribution of work, care, and wealth. Tax and welfare policies must adjust in the context of these changing conditions to enable a more equal distribution of the cost of care and economic returns, so that we can live long and well in the next 100 years.

I. Introduction

'The economic success of families and nations is defined in terms of their ability to sustainably reproduce themselves.'[1]

The prosperity of most OECD member states since the middle of the 20th century relied on economic growth to lift incomes, and on a tax-and-welfare state to share the wealth. The expansion of the market economy contributed to these countries becoming wealthy,[2] while labour-capital wage negotiations and the regulation of work increased the market return to labor. Public expenditures on security, health, education, and the social safety net did much to equalize disposable incomes of households and contributed to economic growth, so that wealth grew both across the population and within households. Public expenditures were financed by substantial and progressive taxes.

The second half of the 20th century saw the enrichment of OECD member states, and their citizens, after the massive loss of wealth during the depression and world wars. By the end

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[1] NANCY FOLBRE, GREED, LUST & GENDER: A HISTORY OF ECONOMIC IDEAS 325 (Oxford: Oxford University Press 2009).

[2] Economic growth and the building of wealth among OECD member states also benefited from former, or ongoing, empires that embedded inequality in colonial and post-colonial economic relationships, and from exploitation of natural resources, leading to current challenges of climate and environmental degradation.

of the 20th century, more people in developed countries owned wealth than ever before, so that we can think of developed countries as being asset-owning societies. This democratization of wealth was achieved by a mix of tax, transfer, and public investment policies that enabled the mass expansion of home ownership and, more recently, of retirement savings, albeit with varying trajectories in different countries. Wealth has increased overall, and much of this wealth increase has been in private hands, in particular through home ownership and retirement savings.

The symbiosis between market and government leading to growth in both public and private wealth was envisaged by an early advocate of capitalism and taxes. Adam Smith argued in 1776 that the 'statesman's' science of political economy had the aim 'first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services.'[3] By the middle of the 20th century, many governments had become successful 'tax states' that were dependent on and defined by their power to tax in a fiscal bargain with their population, and on growing returns in the market economy.[4] Tax states through expanded revenue collection were able to finance welfare systems and public goods, and this shared the increment to economic growth so that these states achieved some approximation of distributive justice, which has been defined as 'the fair distribution of the benefits and burdens of social cooperation'.[5]

The fiscal bargain of successful tax-and-welfare states also relied fundamentally on a gendered and unequal care economy. For most of the last century, the provision of care was primarily focused on children. Care was done mainly by women in the household, or in low paid work in the market. Care in the home was not taxed because it was not monetized; instead of earning an independent income, women responsible for caring relied on an intra-household economic bargain and did not control the economic return to their household work. Women who worked in the market commanded relatively low wages, or were dependent on parsimonious governmental support for care labour. Market wage growth, which facilitated the accumulation of savings, accrued largely to men.

Today, economic conditions in OECD member states are increasingly unlike conditions of the mid-20th century.[6] Significant demographic change, through increased longevity and declining fertility, is causing rapid population ageing. Since the 1980s, there has been a reversal of earlier equalizing trends in income and wealth. Assets are held more widely than ever before, yet wealth is more unequal, a trend that is reinforced by population ageing. Popular and academic anxiety has been expressed about these shifts in countries around the world.[7] Moreover,

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[3] ADAM SMITH, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS Book IV (1776; 1904 Edwin Cannan compilation of 5th edition of 1789, Methuan & Co), available from econlib.org.

[4] MIRANDA STEWART, TAX AND GOVERNMENT IN THE 21ST CENTURY (Cambridge: Cambridge University Press 2022).

[5] Colin Farrelly, *Taxation and Distributive Justice*, 2 POL. STUDIES REV. 185 185–97 (2004).

[6] THOMAS PIKETTY, CAPITAL IN THE 21ST CENTURY (Harvard University Press 2013).

[7] *Id*. Chancel et al., *World Inequality Report 2022* (2022) https://inequalitylab.world/en/; GABRIEL ZUCMAN, THE HIDDEN WEALTH OF NATIONS: THE SCOURGE OF TAX HAVENS (Chicago: University of Chicago Press 2015); ANTONY ATKINSON, INEQUALITY: WHAT CAN BE DONE? (Harvard: Harvard University Press 2015); ANTONY ATKINSON & THOMAS PIKETTY, TOP INCOMES OVER THE TWENTIETH CENTURY: A CONTRAST BETWEEN CONTINENTAL EUROPEAN AND ENGLISH SPEAKING COUNTRIES (Oxford: Oxford University Press 2010); JANE

despite significant change in the last fifty years, the gender inequality underpinning prosperity remains. Population ageing is a renewed focus of policy, with care at the centre, but tax and welfare policies have not adjusted to address either this challenge or the continued gender inequality in care.

Part II of this paper discusses the impact of demographic trends on dependency in society. Part III explores the implications for work and caretaking and the gender inequality embedded in work and care. Part IV discusses the growth in private wealth across the population, in particular home ownership and retirement saving, and gender inequality in wealth linked to inequality in work and care. Part V explains the need to reorient the tax and transfer system to share care to support a more equal and sustainable sharing of work and caretaking in future.

II. Demography and Dependency

A. The demographic transition

At the start of the 21st century, Nancy Folbre and Julie Nelson observed that the 'sweep of demographic change has transformed the relationship between the family and the economy—and vice versa.'[8] As explained below, this is because it permanently alters the 'dependency burden' in societies. Today, all countries around the world have completed much of a demographic transition from high-mortality, high-fertility societies to low-mortality, below-replacement fertility societies with increased longevity. This slows population growth, while altering the age distribution within countries.[9] The second half of the 20th century saw a human development success, despite the tragedies of holocaust, war, and disaster. A global population boom was followed by declining fertility and improvements in longevity. This generated the conditions for today's trend of slower population growth and even population decline in some countries.[10]

Life expectancy at the birth of the twentieth century was below 50 in most of the world. Today, life expectancy across the globe is 74, and across the OECD is 81.[11] For example,

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RAYNER, GENERATION LESS: HOW AUSTRALIA IS CHEATING THE YOUNG (Sydney: Black Inc. 2016); MAX RASHBROOKE, TOO MUCH MONEY: HOW WEALTH DISPARITIES ARE UNBALANCING AOTEAROA NEW ZEALAND (Auckland: Bridget Williams Books 2021); FRANK STILWELL, THE POLITICAL ECONOMY OF INEQUALITY (Cambridge: Cambridge University Press 2019).

[8] Nancy Folbre & Julie A. Nelson, *For Love or Money – or Both?* (2000) 14 J. OF ECON. PERSPECTIVES 123, 124.

[9] Laura Blue & Thomas J. Espenshade, *Population Momentum Across the Demographic Transition*, 37 POPULATION DEV. REV. 721 2011.

[10] These trends are affected by migration, including waves of both 'legal' and 'illegal' emigration or immigration which is likely to continue in response to economic, climate and social phenomena. However, in general inward migration does not reverse fundamental demographic trends, as migrants also age and have fewer children. *See, e.g.*, Peter McDonald & Meimanat Hosseini-Chavoshi, *What Level of Migration Is Required to Achieve Zero Population Growth in The Shortest Possible Time?* 4 ASIAN EXAMPLES' FRONTIERS IN HUMAN DYNAMICS 2022.

[11] The COVID19 pandemic led to a reduction in life expectancy. See *Life Expectancy And Healthy Life Expectancy,* WORLD HEALTH ORGANISATION https://ourworldindata.org/grapher/life-expectancy; the WHO estimates that healthy life expectancy is a decade shorter. *Id. Health Indicators 2021, Trends in Life Expectancy*, OECD https://www.oecd-ilibrary.org/social-issues-migration-health/health-at-a-glance-2021_ae3016b9-en.

Australia's life expectancy increased from about 50 in 1900 to 68 in 1950 and is today 84, one of the highest life expectancies globally.[12] Life expectancy is gendered; in most countries, women have a life expectancy of about two years longer than men.

Living longer requires financing consumption for longer and raises the issue of a new and long period of elder dependency. There are many health, housing, and other challenges as we learn how to support those who live into their ninth, tenth, or eleventh decade.[13] Meanwhile, fewer working-age people are available to financially support and carry out care work. On the other hand, living longer permits a longer working life to earn income and to provide support and care for others, and a much longer period in which assets can generate substantial compounding returns. In many countries, the long-lived who accumulated assets since the 1970s (especially the 'baby boomers' born between 1946 and 1964) have benefited from decades of economic growth and rising asset prices, combined with the ability to save in new forms of financial assets and retirement savings vehicles.

The other contributor to demographic change is declining fertility. The standard assumption in the population literature is that a total fertility rate of 2.1 children per woman is 'replacement' fertility, that will generate a stable population, without migration and assuming unchanged mortality.[14] Global fertility rates have declined from 3.2 in 1990 to 2.3 in 2021.[15] In a few African countries, fertility rates remain as high as 4 or 6 live births per woman, but fertility rates in the rest of the world, in particular in most developed countries, are below 'replacement', including the most populous countries in the world: in China, fertility is 1.2 and in India it is 2.0. The latest OECD average is 1.58; the range is from low fertility rates, such as those in South Korea (0.81), Japan (1.33) and Italy (1.25), to 1.8 in France and 2.0 in Mexico, while Israel is an outlier with fertility of 3.0.[16] In the OECD, fertility rates peaked in the 1960s at between 3 and 6; the decline is a product of the last 50 years. For example, Australia's fertility rate peaked at 3.3 in 1965 and declined to 1.63 in 2022.[17] The relationship between fertility and population is complex, and affected by migration. For example, it has been estimated that even accounting for a continued inward migration policy, the Australian fertility rate must be kept at or above 1.6 to maintain a stable and age-balanced population.[18]

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[12] *World Population Prospects 2022*, UNITED NATIONS https://population.un.org/wpp/.

[13] Many governments are seeking to upgrade aged care, while seeking new ways to finance this care: e.g. *Ageing and Long-term Care*, OECD https://www.oecd.org/els/health-systems/long-term-care.htm; *Final Report of the Aged Care Taskforce*, AUSTRALIA GOVERNMENT DEP'T OF AGED CARE https://www.health.gov.au/resources/publications/final-report-of-the-aged-care-taskforce?language=en .

[14] *Fertility Rates*, OECD https://data.oecd.org/pop/fertility-rates.htm.

[15] From 1990 to 2019, the global fertility rate fell from 3.2 to 2.5 live births per woman. Ritchie et. al, *Five Key Findings from the UN 2022 Population Prospects* https://ourworldindata.org/world-population-update-2022; *World Population Report 2022*, UNITED NATIONS https://population.un.org/wpp/ . The author does not take a position on the 'right' level of fertility, or population, for any country.

[16] *Fertility Rates*, OECD https://data.oecd.org/pop/fertility-rates.htm. Without Israel, the OECD average comes down to 1.55.

[17] Population, AUSTRALIAN BUREAU OF STATISTICS https://www.abs.gov.au/statistics/people/population.

[18] Some countries including China, Korea and Japan face a steeply ageing and ultimately declining population; demographers suggest that these countries cannot achieve a stable and age-balanced population at current fertility and migration rates: McDonald &Hosseini-Chavoshi*, supra* note 10.

Declining fertility is caused by a range of factors including economic development, family planning programs, reduced child mortality, increased investment in (and cost of) raising children, urbanization and housing costs, and the education and empowerment of women.[19] For our purposes, what is important is that declining fertility, together with ageing, has a direct impact on the care needs of society, and hence on the cost, type, and distribution of caretaking work. Fewer children reduces childcare obligations on women, a phenomenon that is closely associated with increased gender equality. Nonetheless, gender inequality in work, care, income, and wealth has persisted despite increases in women's workforce participation and access to assets in many countries.[20] This is mainly because of gender-differentiated patterns of work, with unequal wages, and the concentration of women's labor in caring occupations.

B. The dependency ratio

It is common to represent population ageing by reference to the *old-age dependency ratio*, which is the share of the population aged 65 and older to the working-age population (aged 15 to 64). A rise in the old-age dependency ratio implies increasing fiscal transfers from young (working-age) to old.[21] The OECD states that 'population ageing will put unprecedented stress on public finances to finance pension, health and long-term care expenditures.'[22] In most OECD member states, the aged pension, aged care, and aged health care are the largest government social expenditures and often the fastest growing expenditures.[23] For example, in Australia, assistance to the aged is the single largest social welfare function, costing $76 billion in 2021-22 and projected to exceed $100 billion in 2025-26.[24] The fiscal challenge of population aging is a major theme in Australian Intergenerational Reports, which examine a 40-year time horizon.[25]

However, policy anxiety about old-age dependency mischaracterizes the challenge we face. The central issue for fiscal policy is not old age as such, but the society-wide need to fund and provide care, privately or publicly, for those who need it. To examine this issue requires us to think in terms of the *total dependency ratio,* measured as the ratio of dependents (often defined as those below 15 and those aged 65 and over) to the working age population. As Folbre and Nelson explain, this ratio 'is an important indicator of the amount of time, energy, and money the working age population must devote to nonworkers.'[26]

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[19] There is not scope to discuss these issues here; there is a wide literature on causes; see, for example, Pourreza et al., *Contributing Factors to the Total Fertility Rate Declining Trend in the Middle East And North Africa: A Systemic Review*. 40 J. HEALTH POP. NUTR. 11 (2021); Atalay et al., *Housing Wealth, Fertility Intentions And Fertility* 54 J. OF HOUSING ECON. (2021).

[20] *The Pursuit of Gender Equality*, OECD (2017).

[21] *Fiscal Challenges and Inclusive Growth in Ageing Societies*, OECD (2019) https://www.oecd.org/economy/ageing-inclusive-growth; REDONDA ET AL., TAXATION IN AGING SOCIETIES: INCREASING THE EFFECTIVENESS AND FAIRNESS OF PENSION SYSTEMS (Asian Development Bank Institute 2020). . *Fiscal Costs of Ageing Population*, Australian Parliamentary Budget Office (PBO) (2019)..

[22] *Old Age Dependency Ratio*, OECD https://data.oecd.org/pop/old-age-dependency-ratio.htm#indicator-chart.

[23] *Id.*

[24] *Budget Paper 1*, *State 6, Table 6.9*, AUSTRALIAN TREASURY (2022) https://budget.gov.au/2022-23-october/content/bp1/index.htm.

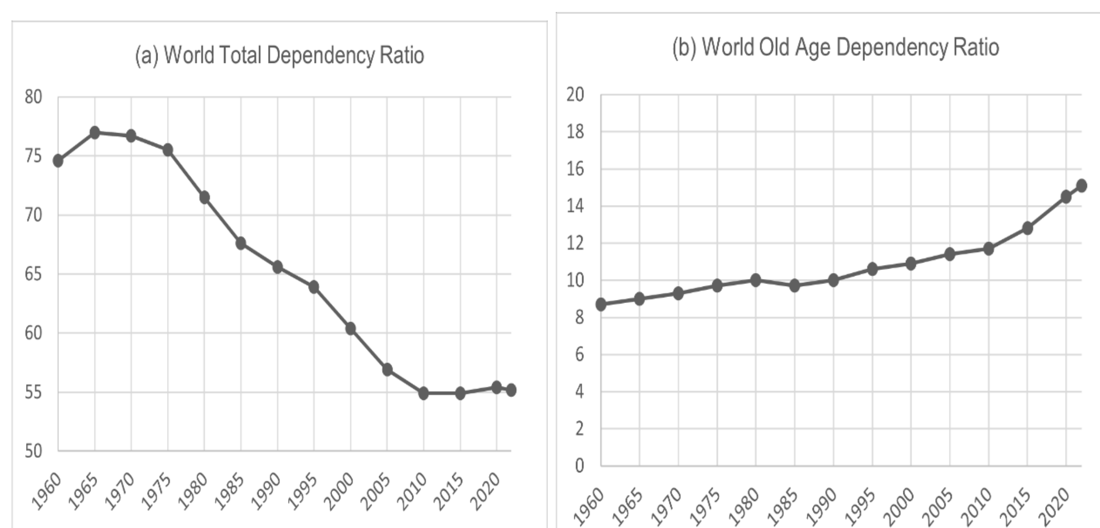
[25] *Intergenerational Report 2023, Chart 2.1*, AUSTRALIAN TREASURY.

[26] Folbre & Nelson, *supra* note 8, at 124.

Dependency ratios are blunt indicators and there are valid criticisms to be made for this kind of population ageing analysis.[27] Other factors, such as automation, may also have a significant effect on workforce participation and dependency. Nonetheless, consideration of the total dependency ratio brings into focus the requirement and need to distribute the benefit and burden of care fairly across society, and it also indicates the importance of expanding workforce participation in the paid labor market to expand both private and public resources for care needs.

Figure 1 compares the old-age dependency ratio to the total dependency ratio for the whole world. It shows that over the period from 1960 to 2022, the global total dependency ratio has *declined* by more than 20 percent (a) even though the global old-age dependency ratio has almost doubled, from 8.5 percent to 14 percent (with an upward trend) (b). While country experiences are diverse, the explanation for this *downward* trend lies in declining fertility. We can see that this global decline hit bottom in about 2012, and the total dependency ratio has now gradually started to increase, but remains far lower in 2022 (55%) than in 1960 (75%).

Figure 1. World total and old-age dependency ratios (% of working age) (1960-2022)

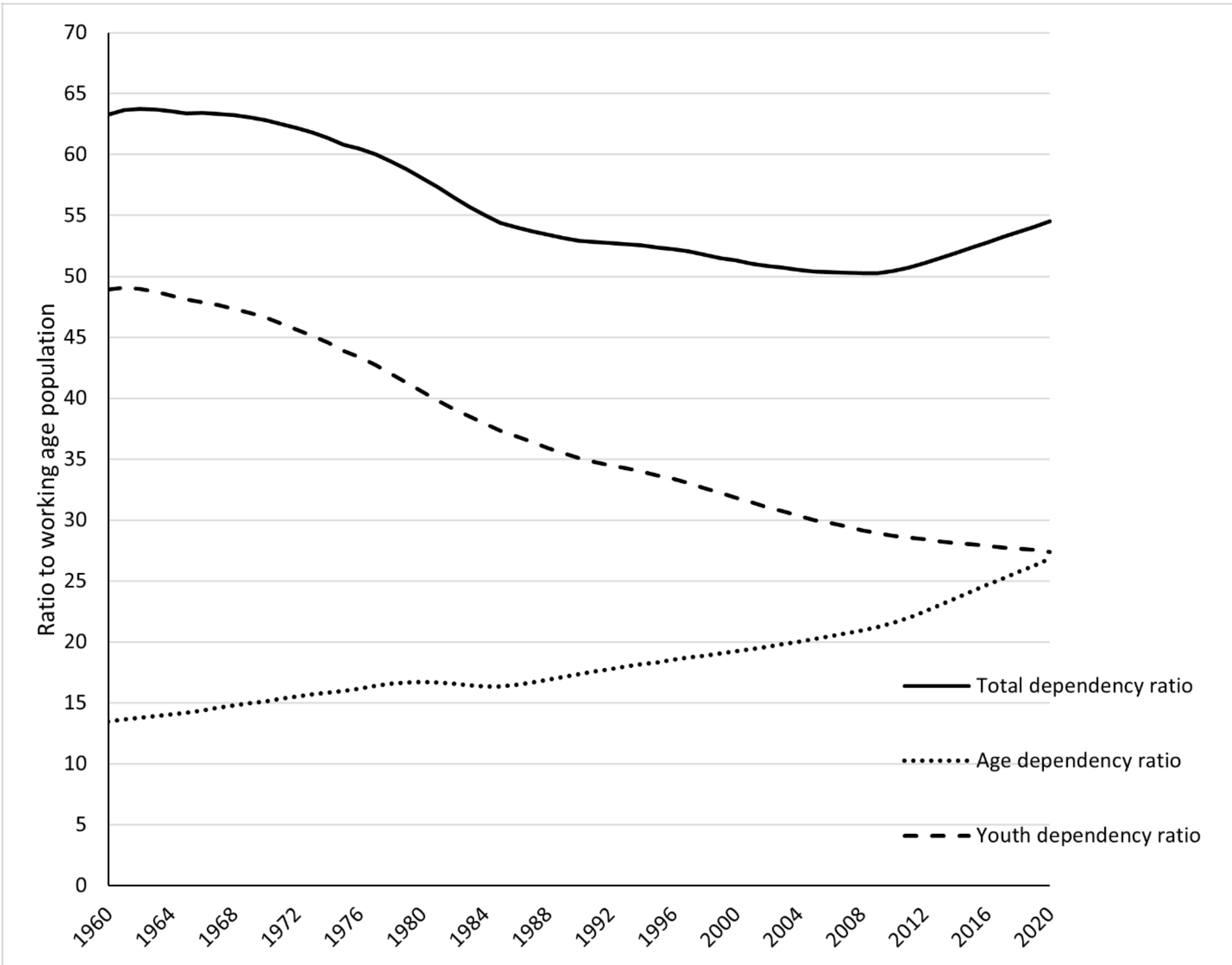


Source: World Bank, working-age population 15-64, https://data.worldbank.org/indicator/SP.POP.DPND

Figure 2 presents the old-age, youth, and total dependency ratios for OECD countries, where population ageing is most acute. The dotted line is the old-age dependency ratio from 1960 to 2021, compared to the dashed line which is the youth dependency ratio; together, they generate the total dependency ratio (black solid line). Figure 2 reveals that the total dependency ratio remains significantly below the high point of close to 65 per cent in 1960, albeit it is now trending up after a long decline.

[27] The age range of 15 to 64 for dependency is less plausible today for many developed countries where young people are dependent and in education for a longer period and a larger proportion of older people continue to work. However, adjustments for Australia do not change the overall trend presented in Figure 3.

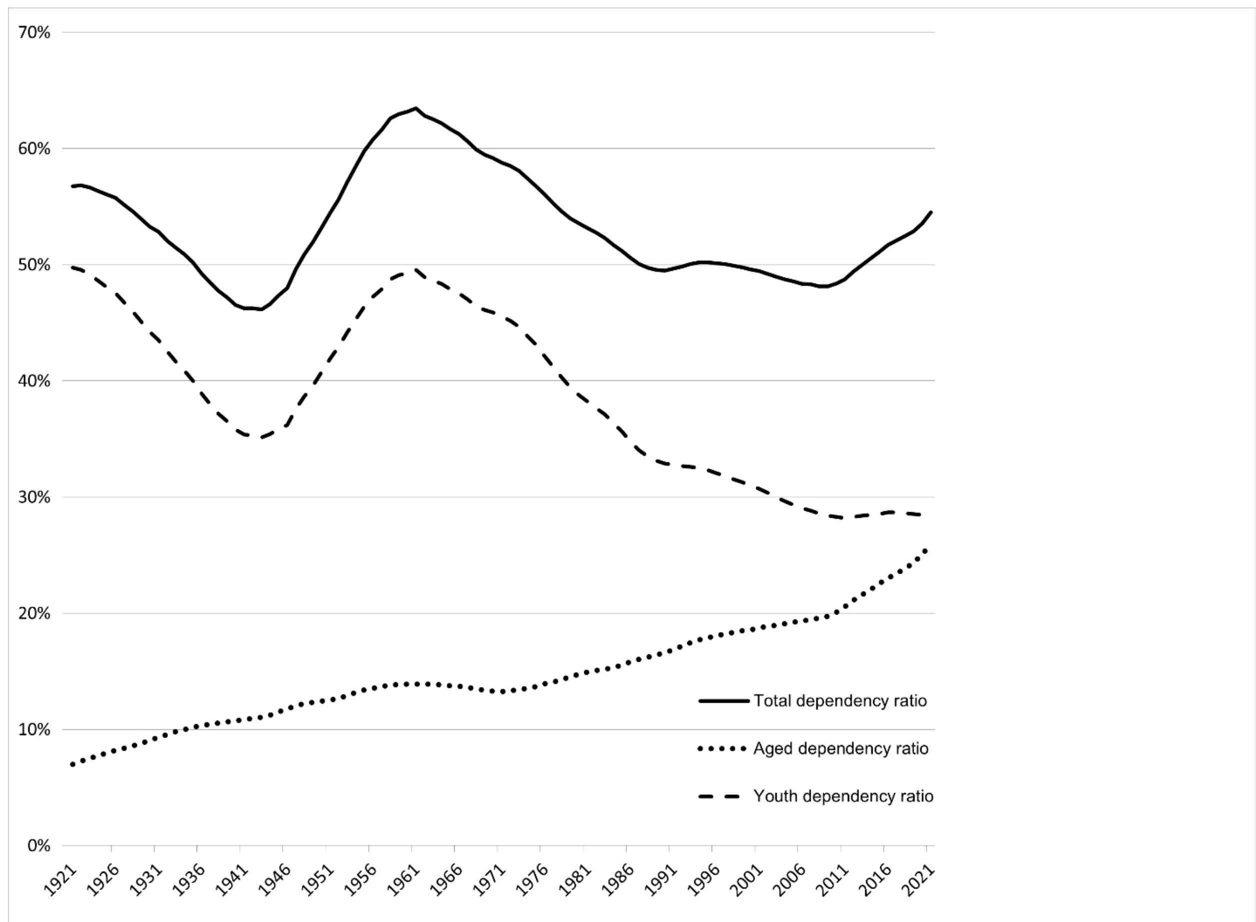
Figure 2. OECD age, youth, and total dependency ratios (% of working age) (1960-2021)



Source: UN Population Data, OECD member states

Figure 3 presents the story for Australia, for which we have long-run data showing the rise and fall of the dependency ratio over the last century, encompassing most of the tax and welfare era since federation in 1901. The dotted line is the old-age dependency ratio, compared to the black line which is the youth dependency ratio; together, they generate the total dependency ratio (blue). While the old-age dependency ratio has more than doubled from below 10 percent in 1921 to 25 percent in 2021, the child or youth dependency ratio declined significantly since the 1960s, so that the total dependency ratio also *declined*.

Figure 3. Dependency ratios (Australia) (%), 1921-2021



Source:
https://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/ACFD01ECA5FD8A88CA25848800154862/$File/31010_mar%202019.pdf;
https://www.abs.gov.au/ausstats/abs@.nsf/0/632CDC28637CF57ECA256F1F0080EBCC?Opendocument

The upward trend in the old-age dependency ratio around the world warrants attention from policymakers, but it is not the crisis sometimes suggested. The total dependency ratio has been above 50 percent in all countries throughout most of the last century. What has changed is the shape of care needs: who needs care (the old, versus the young), and the distribution of wealth, work, and caretaking resources.

III. Gender Inequality, Work, and Care

The primary burden of care in the 20th century was focused on children and fell largely on women in an unpaid, or under-paid, care economy. The work of women as caretakers (in

Martha Fineman's language[28]) underpinned the accumulation of wealth, and its unequal distribution, which persists today. We return to discuss wealth in Part IV. Here, we focus on work and care, and relate this to population ageing and gender inequality.

The total dependency ratio discussed in Part II.B shows us that the challenge of population ageing is not only, or even mainly, about how to care for the elderly. It is important to ensure continued investment in children, distributed equitably across society, to support our prosperity and wellbeing in future. The care of children requires resources 'far greater than those required, on average, by a retiree. Every child requires at least a decade of parental and public investment in their education. Most importantly, every infant and preschool child requires full-time care. Time use data reveal that a child is extremely costly in terms of parental time.'[29]

Market (paid) work is recorded in gross domestic product (GDP). An increase in market work contributes to economic growth, measured as the increase in GDP, or GDP per capita, which is an increment to the stock of national wealth. However, GDP fails to observe and measure the stock of human capital, and the value of social and household reproduction required to generate it.[30] Marilyn Waring's ground-breaking book *Counting for nothing: What men value and what women are worth*[31] argued that the value of care comprises a large fraction of the value of 'market' exchanges of goods and services. Leaving aside social reproduction through child bearing, the International Labor Organization (ILO) estimates the value of unpaid care work as comprising half of the value of GDP; in Australia, the ILO estimated unpaid care work at the minimum wage as 41.3 percent of GDP.[32] A more recent market-wage-replacement estimate found that unpaid care of children comprised 24.6 percent of GDP, while the total value of unpaid work including volunteer, domestic, care of adults and children was estimated at 33.9 percent of GDP.[33] If we were to measure it as an 'industry' sector, unpaid childcare would be the single largest industry (19.9 percent of industries).[34]

By the middle of the 20th century, the tax-and-welfare system of most OECD states had been built on the basis of a paradigmatic waged worker (the male 'breadwinner'), who worked full time for four decades before a short, pensioned retirement (as already noted, life expectancy was much shorter). The breadwinner supported a family, in which his spouse (the female

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[28] Martha Fineman, *Cracking The Foundational Myths: Independence, Autonomy, And Self-Sufficiency* in FEMINISM CONFRONTS HOMO ECONOMICUS: GENDER, LAW, AND SOCIETY (Fineman & Dougherty, eds.) (Cornell: Cornell University Press 2005)

[29] Patricia Apps, *Gender Equity In The Tax-Transfer System For Fiscal Sustainability* in TAX, SOCIAL POLICY AND GENDER: RETHINKING EQUALITY AND EFFICIENCY (M. Stewart, ed.) (Canberra: ANU Press 2017)

[30] *Gross Domestic Product,* International Monetary Fund https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/gross-domestic-product-GDP. GDP also fails to measure environmental assets and degradation. Alternative approaches are being developed but are still in their infancy: e.g. the concept of 'gross ecosystem product': Ouyang, et al., *Using gross ecosystem product (GEP) to value nature in decision making*, 117 PROCEEDINGS OF THE NAT'L ACADEMY OF SCI. 14593-601 (2020).

[31] MARILYN WARING, WHAT MEN VALUE AND WHAT WOMEN ARE WORTH (Sydney: Allen & Unwin 1988).

[32] *Care work and care jobs for the future of decent work*, International Labor Organisation (ILO) https://www.ilo.org/global/publications/books/WCMS_633135/lang--en/index.htm, Figure 2.4, 50.

[33] PricewaterhouseCoopers, *Understanding the Unpaid Economy*, PwC Economics and Policy, Economic Views Australia https://www.pwc.com.au/australia-in-transition/publications/understanding-the-unpaid-economy-mar17.pdf.

[34] *Id.*

'homemaker') provided full time care for the breadwinner and children. This gendered breadwinner-homemaker household was represented in many tax systems as a joint tax unit, and the system provided exemptions and deductions to assist in family support. As direct government support through payments to families with children grew, this family unit was also the basis for the welfare system which used joint income to determine eligibility for income support. Today, many families in OECD countries have transitioned towards one-and-a-half or dual earner households and no longer fit the traditional 'breadwinner-homemaker' mould.[35] Declining fertility has significantly reduced the care burden, helping to drive a transition, but private investment of time and money in each child has grown dramatically.

Australia provides an example of the incomplete sharing of care and the impact on women's work and income. As in most OECD countries, women's workforce participation has risen in Australia since the 1970s but it remains significantly lower than men's, in particular where there are care obligations. Women do about two-thirds of unpaid caretaking work and three-quarters of paid caretaking work.[36] Just over half of women's labour contribution is unpaid, while the lower pay in female-concentrated sectors adds 4.5 percentage points to the gender wage gap.[37] Twenty percent of households with children are sole-headed, predominantly by women, and these households face particularly acute challenges of low income and care burden.[38]

Figure 4 shows that female hours of paid work per week in Australia are significantly lower than male hours over the life course, and dip dramatically when women become parents. In contrast, male parents work more hours than other men throughout child rearing years. One important reason, addressed in Part V below, is that tax-and-welfare systems create economic disincentives for paid work and inhibit full sharing of care.[39]

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[35] Bierbrauer et al., *The Taxation of Couples*, CEPR Discussion Paper 18138 (2023); In Australia, about 70 percent of families with children have both parents employed: *Labour Force Status of Families*, Australian Bureau of Statistics (ABS), https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-status-families/latest-release .

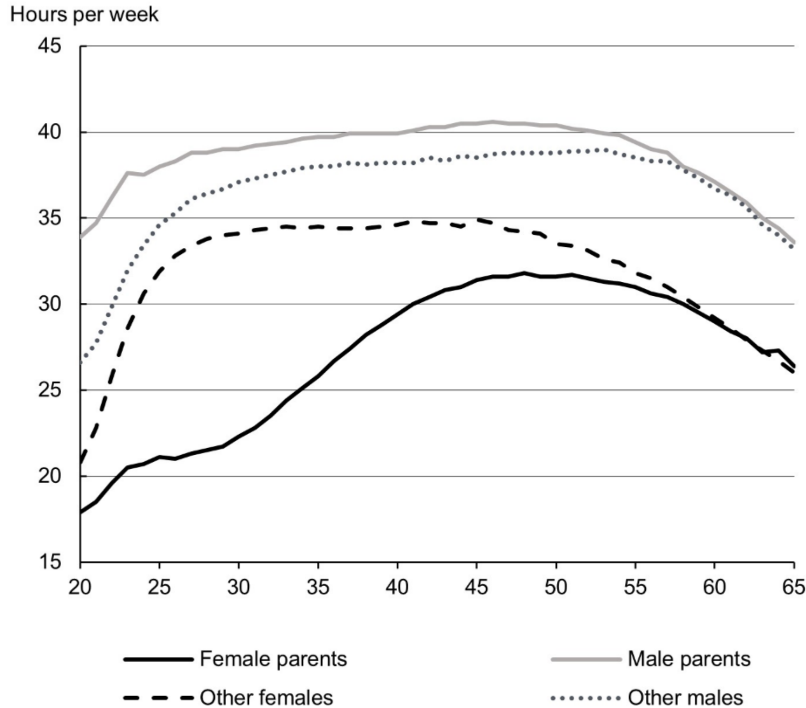
[36] I.L.O*., supra* note 35.

[37] Leonora Risse, *By how Much is 'Women's Work' Undervalued in the Economy? And why Does it Matter?* AUSTRALIAN CONFERENCE OF ECONOMISTS (2023).

[38] ABS, *supra* note 38.

[39] Apps, *supra* note 30.

Figure 4: Average paid work hours, age 20 to 65, Australia (2021)



Source: Adapted from Treasury, *Advice on amending tax cuts to deliver broader cost-of-living relief*, Chart A3, available https://treasury.gov.au/tax-cuts/treasury-advice ; Australian Bureau of Statistics Census of Population and Housing, 2021.

A recent study of social policy in ten European countries presented the distribution of public and private resource transfers between generations and revealed the scale of private resources in money and time dedicated to care of children.[40] Figure 5 shows that infants and children in these societies receive large positive private transfers of money and time and some public transfers. Not surprisingly, working-age people are net contributors of public taxes and private transfers of time and money. The elderly mainly receive public transfers and small private transfers of time in very old age. Overall, children receive more than twice in net transfers than do the elderly.

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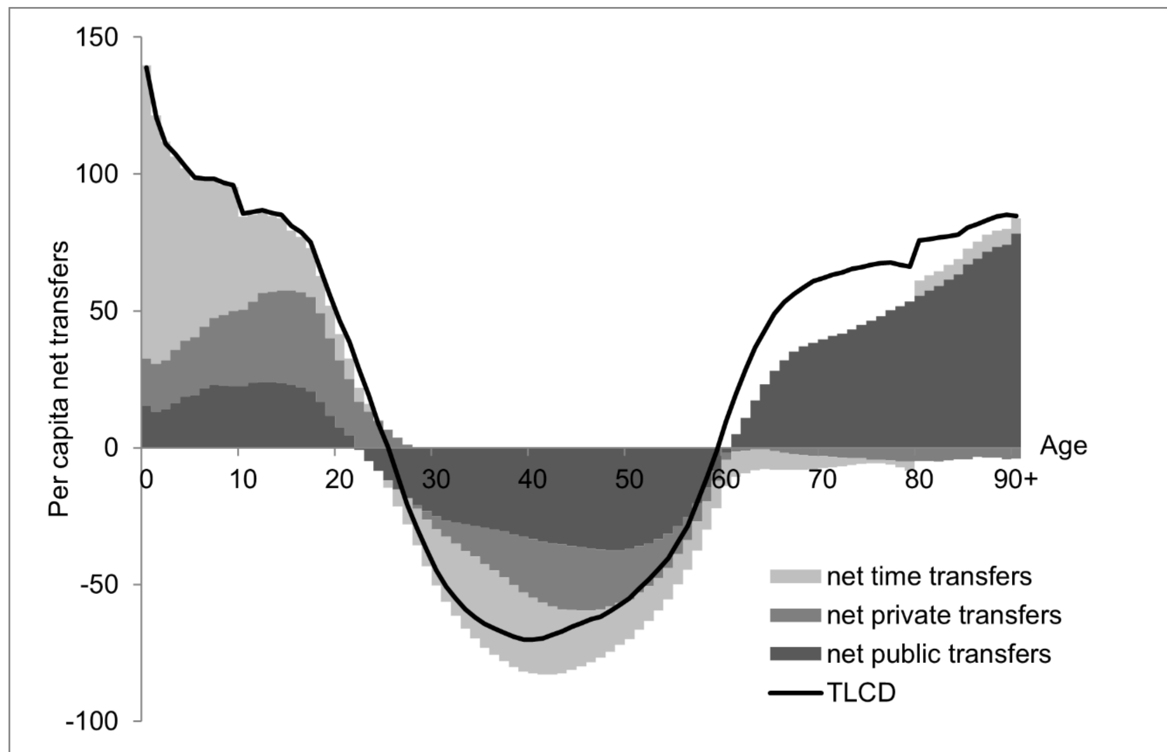
[40] Gal et al., *Pro-Elderly Welfare States within Child-Oriented Societies* 25 J. OF EUR. PUB. POL. 944-58 (2018). The transfer of time for care was quantified through time use survey data.

Figure 5: Per capita public, private and time transfers and the total lifecycle deficit by age in Europe



Note: The gap between the black line and the grey or black transfers is the transfer life course deficit in public and private transfers of money and time at different ages through the life course. Source: Róbert Iván Gál, Pieter Vanhyusse and Lili Vargha, 'Pro-Elderly Welfare States within Child-Oriented Societies' (2018) 25(6) Journal of European Public Policy 944–58, Figure 2.

IV. Wealth Inequality

A. The growth of private wealth

Globally, privately held wealth is highly unequal, as the top 10 percent of the population captured 52 percent of total income and 76 percent of total wealth.[41] The wealth owned by the top 1 percent of wealth holders is growing significantly faster than that held by the bottom 50 percent. The top 1 per cent captured 38 percent of the global increment in wealth for the period between 1995 and 2021, while the bottom 50% saw a 2 percent increase in their wealth. Data on long-run trends in wealth in specific countries is difficult to come by, but an analysis of available studies for ten OECD member states indicates that wealth concentration declined through the twentieth century but this trend has now flattened out and may be reversing.[42] Thomas Piketty has suggested that both income and wealth inequality has returned as a core characteristic of 21st

[41] Chancel et al., *supra* note 7.

[42] Jesper Roine & Daniel Waldenstrom, *Long-run trends in the Distribution of Income and Wealth* in HANDBOOK OF INCOME DISTRIBUTION (Anthony B. Atkinson & Francois Bourguignon, eds.) (2015).

century capitalism.[43] Developed countries may be becoming increasingly like European countries during the 19th century, where individual prosperity depends more on the ability to harness wealth handed down by gifts or inheritance, than by earnings in the market. The building of private wealth has combined with privatization or running down of publicly owned assets, creating a phenomenon that the World Inequality Database calls 'rich societies and poor governments'.[44] Poorer governmentshave less capacity to respond to fiscal challenges including that posed by population ageing.

While global wealth inequality has increased, within OECD member states the last century saw the expansion of private wealth holdings to create an asset-owning middle class. Most private wealth is held in housing (especially home ownership) and retirement savings, except for the very rich who hold their wealth in business equity. In OECD member states, more than two thirds of households own their own home.[45] This was achieved in the last century through the expansion of mortgage debt markets enabling the purchase of housing by wage-earners. This changed the nature of both work and wealth, 'securitizing' human labour in a new way.[46] Tax systems also helped – home ownership is exempt from tax, or even subsidized (through mortgage interest deductibility) in most countries. However, this trend has reversed in the 21st century, as home ownership seems increasingly out of reach for young people in many countries.[47] Meanwhile, the wealth of older generations who already own a home has increased relative to younger generations.

The extent of public or private saving and ownership of financial assets, especially retirement savings, differs across countries. Public retirement systems have achieved redistribution and prevented poverty in old age for the mass of the population in OECD member states, but population ageing has generated concern that this is fiscally unsustainable and sharpened the political debate around provision for old age. In France, where 37 percent of the population are older than 65, riots followed proposals to raise the age for pension eligibility, a change that was widely perceived as a real cut in people's wealth held in the public pension fund.[48] In the United States, there is ongoing debate about the social security fund because benefits will need to be cut by 23 per cent in 2033 unless more tax revenue is applied; this is a political choice, not an actuarial constraint.[49] Yet, as illustrated in Figure 5 above, the total transfer of public and private resources to support the elderly is lower than to the young.

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[43] Piketty, *supra* note 6, at 518.

[44] Chancel et al*., supra* note 7.

[45] *Housing Tenures*, OECD (2022), https://www.oecd.org/housing/data/affordable-housing-database/housing-market.htm.

[46] LISA ADKINS, THE TIME OF MONEY (Stanford: Stanford University Press 2018); JEFFREY CHWIEROTH & ANDREW WALTER, THE WEALTH EFFECT: HOW THE GREAT EXPECTATIONS OF THE MIDDLE CLASS HAVE CHANGED THE POLITICS OF BANKING CRISES (Cambridge: Cambridge University Press 2019)

[47] Boris Cournede & Marissa Plouin, *No Home for The Young? Stylised Facts and Policy Challenges*, OECD (2022) https://www.oecd.org/housing/topics/affordable-housing/.

[48] Peter Whiteford, *Why the French Are Rebelling and Australians Aren't* on AUSTAXPOLICY: TAX AND TRANSFER POLICY BLOG (2023) https://www.austaxpolicy.com/why-the-french-are-rebelling-and-australians-arent/.

[49] Alicia Munnell, *Congressional Republicans Want Big Cuts to Social Security* CENTER FOR RETIREMENT RESEARCH https://crr.bc.edu/congressional-republicans-want-big-cuts-to-social-security/.

At the end of the twentieth century, OECD member states began to 'provide tax advantages and other financial incentives (e.g., subsidies) to encourage savings for retirement'.[50] The OECD recommends policies to support private 'asset-backed' pensions to ensure adequacy of income in retirement. In Australia, a need-based public age pension established a century ago remains the basis of old-age support but it is supplemented by a mandatory private retirement savings system (superannuation) that commenced in 1992. While the mandatory nature of this scheme ensures wide application across workers, the lion's share of benefits from the scheme has accrued to the top of the income distribution. The top 20 per cent received nearly 70 percent of the benefits of low-taxed superannuation in 2023.[51] Tax concessions increase inequality in retirement saving while their substantial fiscal cost reduces the availability of revenues to fund public pensions.[52]

The theory of lifecycle saving argues that individuals can accumulate these savings while of working age and will consume them when old.[53] This theory developed by Franco Modigliani and others during the middle of the 20th century supports a 'consumption tax' approach in which savings are exempt from income tax, and then taxed when dissaved, or consumed, in retirement. The theory assumes that people would save to consume in retirement, rather than seeking to leave bequests from such savings (although a bequest motive may be built into this lifecycle savings model). The theory does not take account of windfall gains, such as increasing house prices, and nor does it predict the significant unequal impact of tax concessions for saving that go to the rich. Fifty years later, we can observe that private retirement savings systems have expanded retirement wealth holdings, but at the same time have increased wealth concentration. Overall, they have delivered much better retirement living standards for the top 20 percent while failing to solve the challenge of elder support for society as a whole.

An ageing population with fewer working-age people is also contributing to slower economic growth and this in itself may produce greater wealth concentration. Piketty and Saez predict an increase in wealth inequality as an inevitable consequence of a growth rate (g) that is lower than the rate of return to capital (r), generating the famous r > g equation.[54] They identify reduced tax rates since the 1980s as a key contributor to this trend. Top income tax rates exceeded 60 percent in the 1960s but in most OECD countries have are now below 50 percent.

B. Gender inequality in wealth

Twentieth century capitalism legitimated the 'pursuit of wealth … for everyone'; but the pursuit of wealth was not possible for most women.[55] The work of women as caretakers was fundamental to economic prosperity in tax-and-welfare states but the private economic returns to

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[50] *Annual survey on financial incentives for retirement savings*, OECD (2022) https://www.oecd.org/daf/fin/private-pensions/financial-incentives-retirement-savings-country-profiles-2022.pdf

[51] *Tax Expenditures and Insights Statement*, AUSTRALIAN TREASURY https://treasury.gov.au/publication/p2024-489823.

[52] Michael Doran, *The Great American Retirement Fraud* 30 ELDER L.J. 265 (2023).

[53] Franco Modigliani, Life-Cycle, *Individual Thrift, and the Wealth of Nations* 76 AM. ECON. REV. 297–313; Franco Modigliani, *The Role of Intergenerational Transfers and Life-Cycle Saving in the Accumulation of Wealth* 2 J. OF ECON. PERSPECTIVES 15–20 (1998).

[54] Thomas Piketty & Emmanuel Saez, *Inequality in the Long Run* 344 SCIENCE 838, 841 (2014).

[55] Folbre, *supra* note 8, at 324 (quoting Robert Heilbroner).

market labor and capital investment accrued mostly to men. The link between gender inequality in caretaking work and the wealth of women and men is exhaustively demonstrated in *The Gender of Capital* by Céline Bessière and Sibylle Gollac.[56] This is not an easy task, because it requires examination of the intrahousehold distribution of care and wealth, which is not immediately visible in wealth statistics which utilize household-level data. Most wealth statistics incorporate a basic assumption that net assets of a household are equally distributed between adults in the household (often, male and female spouses). Reliance on this household unit for assessing wealth has the effect of 'masking the reality of individual ownership and control of assets.'[57]

Women could not accumulate wealth while carrying out caretaking responsibilities, as they did not earn, save, consume, and dissave like the paradigmatic male worker. The wealth data that is available reveals a substantial gender wealth gap. The Women's Budget Group in the UK has estimated a gender wealth gap of 35 per cent on average, accumulating over the life course.[58] Gender inequality in caretaking responsibilities translates over the life course into inequality in wealth. Private or public retirement systems that rely on contributions from labour income entrench the gender gap arising from care responsibilities, while older women rely more heavily than men on public pensions. The gender gap in retirement savings is caused mainly by women's lower participation in the workforce, as well as the gender wage gap.[59] The average gender gap in superannuation saving at ages 20-24 is minimal, but it grows to more than 30 per cent over working life until retirement. Women are thereby denied fair access to a share of the economic increment to economic growth of the last few decades.

Women accumulate wealth in home ownership, more than any other kind of asset, especially through joint ownership in a couple. However, a gender wealth gap is also apparent in ownership of housing. One Australian study has examined wealth by gender of single-adult households.[60] In 2010, single-male-headed households had average wealth that was 23 percent larger, and median wealth that was 70 percent larger, than single-female-headed households. The gender wealth gap between separated or divorced single-male-headed and single-female-headed households was 21 percent and between never-married single male and female headed households was 48 percent. The gender wealth gap is driven by the large differentials between the net worth of single male- and female- headed households when younger. Single men may be better able to borrow and invest in higher value housing than single women because higher wages enable men to service a larger mortgage, or because of discrimination in credit markets. The lower earnings of young single female-headed households sets up a lifelong gender wealth

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[56] CÉLINE BESSIÈRE & SIBYLLE GOLLAC, THE GENDER OF CAPITALTRANS (Juliette Rogers, trans.) (Harvard University Press 2023).

[57] *Id.* at 9.

[58] *Why taxation of wealth is a feminist issue: A gendered analysis of wealth in Great Britain*, Women's Budget Group (UK) (2023) https://wbg.org.uk/analysis/reports/why-taxation-of-wealth-is-a-feminist-issue-a-gendered-analysis-of-wealth-in-great-britain/.

[59] *Id.* Guyonne Kalb, TAXES, TRANSFERS, FAMILY POLICIES AND PAID WORK OVER THE FEMALE LIFE CYCLE in TAX, SOCIAL POLICY AND GENDER: RETHINKING EQUALITY AND EFFICIENCY, (M. Stewart, ed.) (Canberra: ANU Press 2017).

[60] Austen et al., *Exploring Recent Increases in The Gender Wealth Gap Among Australia's Single Households* 26 ECON. AND LABOUR RELATIONS REV. 3 (2015).

gap, while the inability to borrow and invest in higher value housing while young means women benefit less from growth in house prices.

V. Reorienting the Tax System to Share Care, Reduce Inequality and Ensure Sustainability

A. Individual progressive taxation of labour income

Progressive income taxation on an individual unit is a highly effective policy to raise revenues and fund the delivery of income support, paid parental leave, public childcare, and other policies to support individuals doing caretaking. Without taking a position on how many children are needed in society, a reasonably age-balanced population will be more fiscally sustainable. It should not be controversial to say that children are socially valuable. Nonetheless, it is commonly argued that the taxes of paid workers are used to subsidize caretakers and that workers who fund taxes cannot afford the fiscal cost of public support for care. As suggested by Martha Fineman, we need to turn the argument around, to reveal that it is the caretakers of people (including children and others) who support the state and the economy.[61]

In the last 30 years, tax-and-welfare systems have changed in response to changing work and family patterns, including through funding expanded public childcare and parental leave subsidies and a shift in many countries from joint to individual tax units; combined these policies have reduced effective tax rates on women's work.[62] However, most tax-and-welfare states still provide relatively little in public support for caretaking of children. This produces the result, as shown in Part III, that market work, income, and caretaking, remain unequal by gender.

Support for caretaking does not imply returning to a breadwinner-homemaker model of privatized care and dependency of caretakers. Rather, to achieve a gender-equal distribution of work and care while enabling us to support caretaking needed in an ageing population requires a reallocation of the resources that women have historically provided privately into the public sphere. This will enable women to earn more market income because the cost and delivery of care is shared, contributing to fiscal sustainability.

To achieve this outcome requires detaching tax rates and means testing for transfers from joint 'spousal' or 'family' units and recognizing each of us as individuals in fiscal systems. Far from undermining the family, this would support us better in our familial relationships and caretaking responsibilities, and would enable the tax and welfare systems to respond better to the changing forms and nature of these relationships. There is substantial evidence that an individual unit removes the economic bias against market work by women, who are usually secondary earners, by applying an equal tax rate to each individual's earnings.[63] This step is

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[61] Fineman, *supra* note 29.

[62] *Tax Policy and Gender Equality: A Stocktake of Country Approaches,* OECD (2022).

[63] See a detailed discussion of both work disincentive and equity effects in Stewart, *supra* note 4; *see also* Bierbrauer et al., *supra* note 38; *see also* Borella et al., *Marriage-related taxes and Social Security benefits are holding back women's labour supply in the US*' VOXEU.ORG (2019).

needed to generate the social and economic transition that is needed; we are only part-way there, as indicated by the continuing lower participation of women demonstrated in Part III above.

The full individualization of the tax-transfer system goes hand in hand with strengthening the taxation of labour income of individuals, protecting progressive tax rates, including maintaining or increasing top tax rates. The wage tax base remains essential for sustainability of the tax-and-welfare state; for example, in Europe (including the United Kingdom), half of all taxation is collected from labour income.[64] To be resilient in future, therefore, the base for progressive income tax on labour income and payroll tax contributions needs to be shored up by greater enforcement and closing of loopholes.

Progressive taxation on an individual unit would also contribute over time to reduce wealth inequality, and to support gender equality in income and wealth: those who earn less income – often women – will pay less tax, while those who can save more – higher earning men – will have less capacity to save to excess. A recent US study confirmed that 'the marked decrease in tax progressivity is by far the most powerful force for the cumulative increase in wealth inequality' in the United States.[65] The level and progressivity of income taxation on both earned and investment income over the life course, 'increases the returns on savings, leading to higher wealth accumulation, especially among the rich for whom wages (earnings) are a smaller part of wealth' (ibid.). Higher income tax rates on higher earnings from work are both equitable and efficient, as labour supply elasticity is generally low for high wage earners and there is, therefore, little warrant for reducing tax rates on high earnings.

It is important to carry through this logic to the social welfare system for workers and caretakers. Most OECD member states deliver social support through cash transfers to support individuals who are unemployed or receive low wages. There is significant diversity in the design of payments, but many systems are means tested on income to target them to the lowest income individuals. Most 'work credits', for example the Earned Income Tax Credit (EITC) in the United States, are tested on joint income. The EITC is one of the largest US welfare programs in its federal system and is delivered through the tax code.[66] The UK Government has in the last few years carried out an extensive reorganisation of welfare payments, aiming to replace working credit and other benefits with a Universal Credit.[67] The withdrawal rates and conditions of all these types of targeted income support payment also generate high effective marginal tax rates on labour income, creating poverty traps in the system for low-income workers, or those who engage in insecure, seasonal, or casual work.

The provision of public support for caretaking encompasses a social contribution to the care of children, during time out of the paid workforce, or to facilitate the elderly to continue to

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[64] European Commission Directorate-General for Taxation and Customs Union, *Taxation Trends in the European Union* PUB. OFFICE OF THE EUR. UNION, (2019).

[65] Hubmer et al, SOURCES OF US WEALTH INEQUALITY: PAST, PRESENT AND FUTURE IN NATIONAL BUREAU OF ECONOMIC RESEARCH MACROECONOMICS ANNUAL (Eichenbaum & Hurst) 391-455. (Chicago: University of Chicago Press. 2020)

[66] A useful summary is at Center for Budget and Policy Priorities, *Policy Basics: The Earned Income Tax Credit,* https://www.cbpp.org/research/policy-basics-the-earned-income-tax-credit .

[67] UK Government, https://www.gov.uk/universal-credit .

work without losing economic security. The fiscal response of many governments to the COVID-19 pandemic brought the idea of universal income support for individuals to the forefront, as economic shutdowns prevented people from working and many people relied on government payments of unprecedented universality and size. It is worth societies considering the potential of a broadly applicable 'negative' income tax or basic income, that could be utilized to support both caretaking and the renewal of creativity and productivity through human capital development that will be needed to increase economic growth.[68]

These changes would help us to reconceptualize the -and-welfare state to support a combination of public contributions and private earnings for different cohorts of workers, caretakers and dependents. This will facilitate paid work by a diverse workforce, no longer the single paradigmatic 'breadwinner' worker, over a longer life course and in multiple and diverse family, social and care contexts. More universal income support could also smooth high effective marginal tax rates that create poverty traps at lower incomes.

B. Comprehensive taxation of savings and wealth

The second element of sustainable fiscal policy requires more comprehensive taxation of savings and wealth. This would address inequality and increase revenues for public support of caretaking in an ageing population.

The largest impact will be achieved if we reorient our systems to increase taxation of wealth across the mass of the population. This is, as discussed above, linked to the taxation of savings over the life course. Gal et al (Figure 5 above) show that children and young people are net recipients of benefits in care and time in private and public provision. When children become adults, they work and derive market income during the middle years of life and contribute taxes, mostly on this labour income, to finance government and redistribution. During this time, individuals enjoy growing private income for consumption and saving, which is frequently concessionally taxed; and they purchase assets. As individuals age and retire from the workforce, they pay less tax, draw down on private savings and depend on substantial public support. However, experience shows that the lifecycle savings theory that proposes exemption or low taxation of retirement savings – essentially consumption-tax treatment – does not work in practice. Indeed, it has been shown to contribute to significant wealth and gender inequality, and it cannot solve the problem of fiscal sustainability for supporting the elderly across the population.

It is less clear whether high and progressive tax rates on capital income and gains are the answer. At the turn of the last century, personal income taxes in many countries including the United Kingdom, Australia, and New Zealand applied higher tax rates to 'unearned income' from property than to labour income. It was strongly felt as a matter of policy and politics that the higher tax rate on 'unearned' income was 'desirable and just.'[69] Today, most countries apply

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[68] *See, e.g.* Amitai Etzioni & Alex Platt, BASIC INCOME: THE SOCIAL CONTRACT REVISITED (Oxford: The Foundation for Law, Justice and Society, 2008); Daniel Hemel & Miranda Fleischer, *Atlas Nods: The Libertarian Case for a Basic Income* 2017 WISC. L. REV. 1189 (2017).

[69] MARTIN DAUNTON, JUST TAXES: THE POLITICS OF TAXATION IN BRITAIN, 1914–1979 (New York: Cambridge University Press 2002).

the reverse policy, as tax rates for capital returns are usually lower than for earned income. The income tax base of many countries does not capture the appreciation in value of many of the assets of the middle class who accumulate wealth in the home or retirement savings.

Lower tax rates on capital are a consequence of policy responses to economic globalization, which facilitates mobility of capital, and more generally to the ability of taxpayers to plan around taxes on capital income. However, it is important to recall that the significant reduction in tax rates on capital was also driven by an economic policy orientation since the 1980s that is no longer the consensus. It is recognized today that low taxes on retirement savings and other assets have encouraged excessive accumulation far beyond retirement needs, generating increased wealth concentration that is about to generate a wave of bequests. In this context, it is clear that we need to wind back, or cap, the tax concessions for retirement savings schemes. More effective taxation of other components of wealth, including land, financial assets, and bequests, is achievable in many countries. Some governments are beginning to expand taxes on immobile assets, including land. These tax reforms are unlikely to collect as much as broad-based income and consumption taxes but are still necessary to address inequality.

Even if the base and rates of the progressive income tax were consolidated and enhanced for labour and capital income, such a reform could not address wealth of the top 1 or 0.1 percent who derive economic return in capital gains, corporate entities, or by holding assets for the long term. The very rich do not 'realise' most of their wealth, which accrues in corporate equity and other entities, as income; to capture this requires a net wealth tax and improved taxation of bequests.[70] A consumption tax can be effective to capture some return from this cohort, but the share of their wealth consumed by the top 1 percent is very small. As countries expand international tax cooperation to enforce taxation, it may be possible to put a floor on tax competition and collect more tax on mobile capital.[71]

VI. Conclusion

In a capitalist economy, 'the economic success of individuals can be defined in terms of their income or wealth,' but the same parameters cannot apply to states. Rather, 'the economic success of families and nations is defined in terms of their ability to sustainably reproduce themselves.'[72] Achieving success in social reproduction so that we can live long and live well in today's era of population ageing requires us to place the goal of sharing the cost of care at the centre of policy making, without exploiting women.[73] Many states today face challenges including an ageing population, slowing economic growth, and increasing inequality. These are interdependent with current patterns of work and care in these states. Resourcing care is not a new problem, as revealed by the total dependency ratio discussed in Part II: the existence of

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[70] *See, e.g.*, CHRISTENSEN ET AL., SURVIVAL OF THE RICHEST: HOW WE MUST TAX THE SUPER-RICH NOW TO FIGHT INEQUALITY (Oxfam International 2023); EMMANUEL SAEZ & GABRIEL ZUCMAN, THE TRIUMPH OF INJUSTICE: HOW THE RICH DODGE TAXES AND HOW TO MAKE THEM PAY (New York: W. W. Norton & Company 2019).

[71] While acknowledging that this may require no less than a revisioning of the social contract. *See, e.g.*, Tsilly Dagan, *Tax and Globalization: Toward a New Social Contract* OXFORD J. OF LEG. STUDIES (forthcoming 2024).

[72] Folbre, *supra* note 1, at 325.

[73] Martha Nussbaum, *Capabilities and Social Justice* 4 INT'L STUDIES REV. 123, 134 (2002).

approximately half the population being dependent on those of working age is a consistent feature of our social and economic structures. While most concern is expressed about caring for the elderly, our bigger challenge is how to solve the problem of sharing care for children. This also present us with an opportunity. In an era of declining fertility, it is possible to reconfigure our tax-and-welfare systems to recognize that all of us are workers and caretakers, dependents and providers, through the life course.

To achieve a fiscally and socially sustainable society calls for 'substantial social and economic transformations', many of which are focused on care.[74] These include: 'reducing the opportunity costs of having children, family-friendly working conditions, employment security for young people, housing costs, and gender equity '.[75] This can be achieved, in part, by modifications to the tax-and-welfare system as explained in this chapter, because this is a powerful tool available for states to achieve the distribution of benefits and burdens and the delivery of public benefit. It is now acknowledged by policymakers in the OECD and around the world (albeit reluctant in some quarters) that increasing women's paid workforce participation is important to manage this demographic transition. However, the other side of the coin—managing the provision of caretaking —has not been so well developed. The large investment in children that we need can only be achieved if caretaking is more fully socialised. This paper proposes reorienting tax systems to strengthen the progressive individual income tax on labour income and apply more comprehensive taxation of capital and wealth, to support expanded public investment in care of children utilizing universal systems of income and care support. For us to be living long, and living well in the next 100 years, we need to manage the demographic transition to a society that supports caretaking and shares the economic increment fairly across society.

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[74] McDonald & Hosseini-Chavoshi*,* *supra* note 10, at 15.
[75] *Id.*