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Poor Statistics

Getting the Facts Right About Poverty in Australia

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EXECUTIVE SUMMARY

In January, CIS published a short paper, *Poor Arguments*, which showed that a Smith Family/NATSEM (National Centre for Social and Economic Modelling) report on poverty exaggerated the number of people who are 'poor' and wrongly claimed that poverty had worsened in the 1990s. The welfare lobby, however, continues to make misleading and inflated claims.

These claims are driving political demands that government increase welfare benefits and play a more active role in managing the economy. They are also being used to justify a political agenda which seeks a redistribution of income and wealth, for there is an assumption that helping the poor involves reducing the incomes of those who are better off.

Some welfare organisations suggest that poverty statistics are unimportant and that the CIS critique of the Smith Family's figures was a distraction from the real business of tackling poverty. But the statistics are crucial, for they are influencing the social policy debate.

- NATSEM and the Smith Family claim that 11 out of 12 different measures of poverty all show an increase during the 1990s and that CIS picked the one measure that is out of line. This is misleading. Their report actually contained six different measures (not 12), and the report's authors warned that two of these should not be used. Of the remaining four, three support our claim that 'relative poverty' rates showed no significant change through the 1990s and only one supports the NATSEM/Smith Family assertions. If anybody has been selective in using the evidence, it is the Smith Family and NATSEM, not CIS.
- Our suggestion that no more than 5% of Australians should be defined as being in 'relative poverty' has been queried, but we show here that it is consistent with other work that NATSEM itself has published. Indeed, other NATSEM publications back up our argument that its report for the Smith Family fails to take account of the large numbers of people who move out of poverty, that the report's estimates are biased because they exclude the value of government services, and that its reliance on self-reported income data may be unreliable.
- The NATSEM research team used measures and procedures in developing its report for the Smith Family which they had characterised in other writings as likely to produce flawed results—specifically, inflated poverty estimates.
- Welfare lobbyists in Australia have linked political action on poverty to a broader egalitarian agenda of income redistribution. They seek to narrow the 'income gap' by reducing higher incomes as well as improving the incomes of those lower down. This sort of thinking is based on a 'politics of envy'—even though these organisations seek to deny it.

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GETTING THE FACTS RIGHT ABOUT POVERTY IN AUSTRALIA

Introduction

This is the second in a series of papers The Centre for Independent Studies (CIS) is producing over the next few months on issues to do with poverty and welfare policy in Australia. Our objective is to develop an understanding of the extent of poverty, the reasons for it, and what can be done to overcome it.

Our work is driven by our belief that the Australian welfare system needs further reform. Too many people today depend on state benefits, and opportunities for developing people's independence and responsibility for their own lives are being missed. But before we can begin to address the policy options that may be open to us, it is important to clarify the nature of the problems that confront us. In particular, we need to be clear about what we mean by 'poverty', how much of it there is, what causes it, and whether the situation is improving or getting worse.

Insisting that we count people properly does not mean that we do not care about them.

Statistics matter!

We addressed some of these issues in the first paper in this series, *Poor Arguments*.[1] There we took issue with a report by the Smith Family which claimed that 13% of Australians are living in poverty and that, despite a decade of sustained economic growth, poverty had worsened through the 1990s.[2] We suggested that neither of these claims should be accepted.

On the question of how many people are poor, we pointed out that *absolute* poverty in Australia is very rare, that on a *relative* measure the proportion is nearer one in 12 than one in eight, and that taking account of other factors neglected by the Smith Family, even this estimate of one in 12 appears too high. As for trends through the 1990s, we cited statistics from the Smith Family's own report which show that poverty did not worsen over the last ten years and that even the poorest households have benefited from economic growth. On both of its key claims, therefore, we found the Smith Family report guilty of exaggeration.

Many commentators accepted what we were saying, but a few reacted to our criticisms by asking whether it really mattered how many people are poor. So what if the proportion is less than 5% rather than 13% (or even 20%), they argued, this still adds up to a lot of people. The real issue is not how many there are, but what to do to help them:

> Whichever way you measure it, too many Australians are living in poverty . . . Inequality and poverty in Australia are preventing many families and individuals from fully participating in our society. (Andrew McCallum, President of ACOSS, Media Release, 17 January 2002)

> We know that there are a lot of families and individuals living poor lives for whatever reason. Anyone can go out into the suburbs and towns and see people who are poor. (Colin Robinson of the Society of St Vincent de Paul, quoted in *The Catholic Weekly*, 17 January 2002)

A spokesperson for Uniting*Care* summed up this reaction by dismissing our debate with the Smith Family as 'absurd and offensive', adding that 'any level of poverty should be seen as unacceptable'.[3]

But the statistics do matter, and it is not offensive or absurd to seek to get them right. Insisting that we count people properly does not mean that we do not care about them. Empirical claims should be questioned if the evidence is not there to back them up—even if they are made by the most worthwhile and well-meaning of charities. Showing compassion need not entail abandoning rationality.

In this paper we show how exaggerated claims about the size and nature of the 'poverty problem' are driving much of the contemporary social policy debate in Australia. We show that the Smith Family's contracted researchers at the National Centre for Social and Economic Modelling (NATSEM) ignored some of their own methodological recommendations when they came to write their report, and that both organisations have continued to make misleading claims about what their research really shows. We end by exploring how inflated 'poverty' statistics are being used as part of a wider campaign aimed at bringing about a redistribution of income and wealth.

If we allow ourselves to get the statistics wrong, the likelihood is that we will end up getting the policies wrong too. It is for this reason that we have decided to return to this debate in an attempt to clarify the scale and nature of the problem that social policy has to confront.

Misleading claims: The '12 measures'

One of the key claims in the Smith Family/NATSEM report (hereafter 'SFN report') was that the proportion of people in poverty rose through the 1990s despite sustained economic growth. If true, this means that we cannot rely on a booming economy to reduce poverty, and that the government will have to do it instead. This would then justify the sorts of large-scale political interventions that organisations like ACOSS have been calling for.

In our critique of the SFN report, we suggested that this fundamental claim was untrue. We pointed to evidence in the report itself showing that people on the lowest incomes became better off in real terms through the last decade, and we demonstrated that even on a 'relative' measure, the poverty trend had been stable rather than worsening.

NATSEM and the Smith Family subsequently tried to discredit our argument by claiming that they had measured poverty in no fewer than 12 different ways, and that on 11 of these 12 measures, poverty was found to have increased. They suggested that CIS had fastened on to the only one of the 12 measures that failed to show an increase and that we had therefore been highly selective with the facts.

Gianni Zappala, the Smith Family's Research Manager, argued precisely this when he debated with me on Channel Nine's *Today* programme on the morning of the 16th January, and Ann Harding, the Director of NATSEM who carried out the study and wrote the report, was still arguing it when she debated with me on the ABC's *7.30 Report* that evening. And although Kayoko Tsumori and I outlined the fallacy in what they were saying in an article we published the very next day in *The Age*, the Smith Family and NATSEM have maintained exactly the same argument ever since:

> The report actually refers to 12 measures of poverty . . . importantly, in 11 of the 12 measures poverty was found to have increased and in the one referred to by CIS poverty remained stable. (Smith Family newsletter, *The Enterprising Family*, February 2002, page 3)

> The Smith Family-NATSEM report on poverty looked at 12 measures of poverty in the 90s. Eleven of the 12 measures suggested an increase in poverty between 1990 and 2000 . . . This estimate was attacked by the conservative Centre for Independent Studies which selected the lowest of the 12 poverty measures as their preferred measure. (Ann Harding, *The Australian*, 25 February 2002, page 8)

There is an old adage that if you keep saying something long enough, people will start to believe it. We explained in our *Age* article why these claims are misleading, but the Smith Family and NATSEM keep on making them. So let us explain one more time.

These claims are misleading, but the Smith Family and NATSEM keep on making them.

Repeated measures, not different measures

The SFN report identified six different ways of calculating a poverty line, not 12. Each of these six measures was applied twice (once to data on people's incomes before their housing costs are taken into account, and again to the same data after housing costs have been subtracted). The Smith Family thinks that this adds up to 12 *different* measures, but repeating measures is not the same as using different ones. If there is a bias in any particular measure (as there is in some of these) it is likely to influence estimates every time it is used—using a dud measure twice does not make the results any more reliable or convincing.

What we have, therefore, are six different measures, not 12. Because the SFN report mainly used people's reported incomes before they pay their housing costs rather than after, we followed suit. This leaves us with six different 'before housing costs' estimates from which to choose.

Flawed measures that should have been disregarded but were not

Of these six remaining measures, two were based on the well-known but badly flawed 'Henderson poverty line'. The Henderson poverty line is flawed because it produces absurdly inflated estimates of the number of people in poverty. This is why even NATSEM and the Smith Family baulked at using its results (indeed, their report specifically recommends against using this measure).[4] The problem lies in the way its value over time has been indexed, for the Henderson poverty line actually rises faster than either the Consumer Price Index or average incomes because it combines the two. This means that with no change in people's relative incomes and no change in their real cost of living, more and more people will still fall below the Henderson line every year that goes by—which is precisely why it is such an unsuitable measure of whether poverty is worsening over time.

Despite having warned of this, the SFN report still included no fewer than four poverty estimates based on the Henderson poverty line (two before and two after housing costs). For what they are worth, these suggested that before housing costs are deducted, somewhere between 20.8% and 22.4% of Australians were living in poverty in the year 2000 (after housing costs estimates were 21.2% and 19.0%). Neither NATSEM nor the Smith Family believe that these are defensible estimates. It is therefore disingenuous of them to continue to include them among the '12 different measures' which they say support their position.

We followed the SFN report's own recommendations and disregarded these Henderson estimates, which left us with just four viable measures.

Three out of four viable measures show no significant change in poverty in the 1990s

Of these four measures, three are variations on a poverty line based on half the median income (they vary only in the way 'equivalent incomes' are calculated for different family types).[5] We selected the one that used the equivalence scale which NATSEM themselves recommend—indeed, NATSEM even modified it to make it more robust. This is the measure which gave us the estimate of 8.7% of the population in 'relative poverty'.

If anybody has been selective in determining which measure of poverty to use, it is NATSEM and the Smith Family, not CIS.

All three of these 'half-median income' measures indicate that there was virtually *no change* in the number of Australians in poverty over the last ten years. Table 16 of the SFN report shows that:

- One measure (the one we used) shows an increase from 8.2% to 8.7%
- One measure shows an increase from 9.8% to 10.1%
- One measure shows a decrease from 12.0% to 11.9%

These are all tiny changes, and given that they derive from estimates based on different random samples at different points in time, they may not be statistically significant once we allow for sampling error. The SFN report nevertheless accepts the two tiny increases as evidence that poverty rates increased, although it treats the one slight decrease as indicating that they remained 'stable'. It would have been more appropriate to interpret all three measures as indicating no significant change.

This leaves just one other measure, and this is the one that the Smith Family chose to use and publicise. This is the measure defining poverty as an (equivalent) income below half the *mean* income. It is this measure that suggests that relative poverty rose from 11.3% of the population in 1990 to 13.0% ten years later (a result which is only achieved because people's incomes at the top of the distribution rose faster than those in the middle or at the bottom).

Far from the SFN report providing 12 different measures of which 11 show a worsening of poverty in the 1990s, the truth is that they provided just four genuinely different, defensible measures, of which three support our claim that nothing much changed during the last decade. If anybody has been selective in determining which measure to use, it is

NATSEM and the Smith Family, not CIS.

Misleading claims: How NATSEM ignored its own good advice

In our critique of the SFN report, we not only took issue with its use of a mean-based measure of 'relative poverty', but also drew attention to a range of other factors which were ignored when calculating the number of people in 'relative poverty'. We identified three factors in particular as important:

1. The report's calculation of the number of people 'in poverty' is *static.* It fails to take account of the fact that many people who fall under the poverty line at any one time are in transition between periods of greater prosperity. The number of people in poverty over an extended period is much smaller than the number whose incomes dip below the poverty line from time to time.
2. The report ignores the *value of government services* such as public schooling and Medicare. Government direct provision may not be the best way of helping the poor, but these services have some value, and we know that they boost the incomes of those at the bottom proportionally more than the incomes of those at the top.
3. The *income data* on which the report based its estimates are unreliable for we know that those reporting low incomes often under-represent what they are actually receiving. It can make more sense to measure people's living standards by what they say they spend rather than what they say they earn.

The proportion of those in 'relative poverty' is probably no higher than 5%.

Taking these three considerations into account, we suggested that the proportion of the population in 'relative poverty' (taken to mean an inability to participate in the normal life of society due to inadequate income) is probably no higher than 5% and it could well be lower than that.

Some journalists were unimpressed by this guesstimate. George Megalogenis in *The Australian* called it 'dodgy' (25 February 2002), and Jill Singer (a *Herald Sun* journalist who simply failed to understand the debate) declared it 'comical.'[6] It was, however, based on some simple insights and assumptions that NATSEM itself has endorsed.

1. Taking account of the turnover of people below the poverty line

Studies in countries where longitudinal surveys have been carried out report that many people move in and out of poverty over quite short periods of time. A recent review of research findings from 11 western European countries found that between half (in Greece) and two-thirds (in Holland) of people falling under the poverty line in one year had escaped from poverty at some point in the next two years.[7] Although we do not yet have our own longitudinal data which would allow us to make comparable calculations, it is unlikely that Australia will prove very different.

This high level of turnover should not surprise us, for temporary hardship is a normal feature of the life cycle. Most of us experience variations in our incomes as we go through life, but these do not stop us from 'participating' effectively in our society, nor do they 'exclude' us from normal activities over an extended period. These periods of hardship do not therefore meet the Smith Family's own criteria of 'poverty'.

Students, people between jobs, self-employed people who hit a lean patch, young people on a gap year after school or college, older people who cut back on their working hours to increase their leisure time—all are among those whose incomes may dip under the 'poverty line' at any one time. These are not the people most of us think of when we talk of the problem of poverty. They are temporarily hard up, and although it is never easy when money is tight, their situation does not require the sort of large-scale government intervention that groups like ACOSS have been advocating on the strength of the SFN report's poverty estimates.

NATSEM is aware of all this. In a paper published in December 2001, the three authors of the SFN report recognised that their report had relied on static (cross-sectional) data. This meant:

> It is not possible to capture the dynamics of poverty—for example, by determining *whether a large number of people are moving into and out of poverty* or whether most of the poor remain stuck in poverty for extended periods.[8] (emphasis added)

Given the international evidence, it seems reasonable to assume that if they had been able to take account of 'the dynamics of poverty', they would have found that half or more of those whose incomes fell below their 'poverty line' in one survey would have risen above it by the next. If we accept the NATSEM/Smith Family definition of 'relative poverty' as the inability to participate in the normal activities of our society, then most of these people should not be considered 'poor', for their hardship is fleeting and their lives are following a normal path. If we were to take these transitional people out of the figures, the SFN report's estimate of the size of the poor population could probably be halved to perhaps 4% or 5%.

The poorest group's final income was increased by 48% when the value of government services was included.

2. *Taking account of the imputed value of government services*

We also need to take account of the value of the government services that 'poor' people consume. Again, NATSEM is aware of the issue and has actually completed some valuable research on it. In a 1995 paper, Ann Harding noted:

> The impact of public expenditure on such programs as health, education and housing is frequently ignored in studies of income distribution. *This may bias the assessment* of both the relative living standards of different types of families at any particular point in time and the trends in income inequality over time .[9] (emphasis added)

In other words, estimates of how many people are poor, and of trends in poverty over time, may be distorted if we fail to take into account the value of health, education and housing services provided by the government.[10]

To rectify this 'bias', Harding has calculated how much additional income should be imputed to different kinds of households in order to arrive at their 'final income' (the value of their total income in cash and in kind from all sources). She found that non-cash government services added an average of $125 per week (in 1995 prices) to the incomes of individuals in the lowest income decile. Given that their average net cash income (their 'disposable income') was only $260 in 1995, this means that the poorest group's final income was increased by 48% when the value of government housing, education and health care was included.

The SFN report ignored the value of these services, even though Ann Harding herself warns that this is likely to 'bias' poverty estimates. This not only depressed the report's estimate of the incomes of the poorest groups, but also stretched the income gap that it found between those at the bottom and those at the top of the distribution. This is because government services are worth relatively more to those on lower incomes than to those on higher ones. Income inequality would have been about 20% smaller had the report based its estimates on final rather than disposable incomes.[11]

If we were to recalculate relative poverty levels using data on final incomes, we would find fewer people below the half-median poverty line. This again suggests that the 8.7% estimate in the SFN report is too high and should be adjusted downwards.

3. *Taking account of the under-reporting of incomes*

The third reason why this estimate is too high is that the incomes people report to researchers are unreliable, and the lowest reported incomes are probably the least reliable of all. The key evidence for this is that those who report the lowest incomes are often spending much more money than they say they are receiving—a pattern which has led some researchers in this field to suggest that expenditure data may be a better guide to people's actual living standards than income data.

Again, NATSEM agrees with us on this point. In a 2001 paper with Harry Greenwell, Ann Harding reports that people in the bottom decile of reported incomes spend on average a staggering *2.3 times more* than what they say they receive.[12] She thinks this is mainly because many people in this group are going through a temporary period of hardship and are drawing on savings or credit (the point we made earlier about the transitional nature of earnings through the life cycle). Other equally feasible explanations are that leave and severance pay are often overlooked when people estimate their incomes, and that some self-employed people and welfare recipients engaged in the so-called 'black economy' are almost certainly under-reporting their incomes.[13]

Whatever the explanation (and it is probably a combination of all these factors), this under-estimation of actual living standards at the lower end of the distribution skews poverty and inequality estimates quite badly. This shows up when we look at data on what people actually spend. Reviewing this, Harding and Greenwell tell us:

> *It does not appear that there has been a clear increase in inequality* . . . If we look just at trends from 1984 to 1998-99, then the share of total current expenditure for each decile is almost exactly the same—and this is reflected in the Gini coefficient, which shows a statistically insignificant increase from 0.298 to 0.302 .[14] (emphasis added)

NATSEM's analysis of what people spend thus contradicts its insistence throughout the SFN report that poverty and inequality worsened during the 1990s. It suggests, rather, that poverty rates and inequality showed no significant change through this period.

Of course, expenditure data are not faultless any more than income data are (spending on alcohol, tobacco and gambling all appear to be under-reported, for example). But there is no obvious reason why we should prefer income data over expenditure data when looking for a reliable indicator of people's living standards. Given that both are fallible, it was unwise of the Smith Family and NATSEM to have based a major report about poverty solely on data on reported incomes. It is not just CIS that says this—NATSEM says it too:

> Any indicator of resources will be an imperfect measure of a person's standard of living . . . Ideally studies of poverty and deprivation *should attempt to examine poverty using several indicators.*[15] (emphasis added)

The 5% guesstimate

When we claimed that the proportion of people in 'relative poverty' is much lower than the SFN report suggests, we were only following the logic of what NATSEM has itself been saying in various reports over the last few years. NATSEM recognises that there is a lot of movement across the 'poverty line'; it admits that poverty measures should take account of the value of government services; and it acknowledges that income data taken alone provide an inadequate measure of people's living standards.

Taking these three points into consideration, our estimate that 'relative poverty' encompasses no more than 5% of the population seems reasonable. All estimates are to some extent arbitrary, of course, but this one is a lot more realistic than the various estimates of 10% or even 20% scattered through the SFN report.

At every stage, the NATSEM team made decisions that led to higher rather than lower figures of poverty.

Poverty inflation

At every stage of its research for the Smith Family's poverty report, the NATSEM team had to make choices about definitions and measurement which it knew would influence its final estimates. At every stage, it seems that the decisions it made led to higher rather than lower figures. Consider the following decisions made in the course of researching and writing the report:

- Knowing that on any absolute measure the 'poor' became better off in real terms in the course of the 1990s, the researchers decided to focus on 'relative' measures instead;
- Even though they advised that the Henderson poverty line should not be used, they calculated *four* versions of it, and these results were then used to back up their claim that poverty had worsened on 11 out of 12 indicators;
- Tiny fluctuations in sample estimates were treated as significant—an apparent rise of 0.3% in one poverty measure was counted as evidence of a real increase, although an apparent fall of 0.1% on another measure was represented as stability;
- They chose to focus on a definition of relative poverty based on half the *mean* rather than half the *median* income, knowing that a mean-based measure would show a significant increase in 'relative poverty' through the 1990s while a median-based measure would not;
- Despite their own warnings elsewhere about relying on single indicators, they measured living standards using only self-reported income data (which they knew to be unreliable),

and ignored expenditure data which indicated there had been no rise in poverty;

- Lacking longitudinal data, they had to rely on cross-sectional survey results—but although they knew that this was likely to 'bias' both poverty and income inequality estimates in an upward direction, they made no attempt to adjust for this;
- They focused on 'disposable' incomes and made no attempt to measure 'final' incomes, even though they knew from their own previous work that ignoring the value of government services would result in inflated estimates of income inequality.

Why the poverty lobby exaggerates the numbers in poverty

It would be interesting to learn why NATSEM adopted procedures which it had itself warned against in other publications and which were likely to inflate estimates of the number of people in poverty.

Some commentators have suggested that the welfare lobby has an interest in exaggerating poverty because this strengthens their case for more funding. If they can talk up the size of the problem, the government can be pushed into making more money available and the voluntary welfare sector will then enjoy a bigger budget:

> Some people appear addicted to gloom . . . There is a tendency among social activists to stack the deck in favour of bleakness . . . [It] is a useful tool for the welfare lobby. (Paul Sheehan, *The Sydney Morning Herald*, 16 January 2002)

> I don't mean to slam-dunk the Smith Family here . . . but face it, like other welfare organizations, the more poor people it can find, the better off it is. If you eliminated poverty, you wouldn't need the Smith Family, and that's a drag for the Smith Family. (Peter Ruehl, *The Australian Financial Review*, 29 January 2002)

There may be some truth in this, but there is another explanation as well. Underpinning the activities of many Australian welfare groups is the desire to bring about a substantial redistribution of income and wealth. Their aim is not simply to increase the incomes of those at the bottom; they also want to reduce the incomes of those at the top. Their aim is to narrow what they call the 'income gap'.

This is an egalitarian political agenda which has become so entangled with the reduction of 'poverty' that 'poverty' and 'inequality' have now become interchangeable concepts.[16] Equalisation of incomes is pursued in the name of tackling poverty, and exaggerated estimates of the number of 'poor' people are used to strengthen demands that the government take more money away from more 'privileged' groups.

The welfare lobby has an interest in exaggerating poverty because this strengthens their case for more funding.

The politics of envy

According to a recent survey, 83% of Australians believe that 'the rich are getting richer and the poor are getting poorer.'[17] As we have seen, this is not actually true. The SFN report shows that the rich are getting richer and the poor are getting richer too, albeit more slowly. Unfortunately, four out of five Australians either do not know this, or choose not to believe it.

Even more disturbing, the same survey also found that most Australians are more interested in dragging down the incomes of high earners than in increasing everybody's well-being. Given the choice between reducing the gap between rich and poor or making everybody better off, 70% went for the first option and only 28% for the second.[18]

Attitudes like these reflect and feed what has been called a 'politics of envy'. Economist Sam Brittan has defined the politics of envy as the concern to reduce the prosperity of the rich as much as to improve the lot of the poor:

> The acid test of whether or not those who protest about inequality are moved by jealousy and envy is whether their concern is with the plight of the poor or the wealth of the rich. (*The Financial Times*, 13 February 2002)

Such attitudes appear to be widespread among ordinary members of the public, and much of the poverty lobby shares and expresses similar sentiments.

The Smith Family/NATSEM report is a case in point. As we pointed out in *Poor*

Arguments, this report focuses on issues of income distribution (whether some people have more than others) rather than on the question of need (whether people have enough to maintain themselves at a decent level). The choice of a half-mean income poverty line ensures that this will be the case, for it grounds the analysis in a comparison of what 'the rich' and 'the poor' are getting rather than asking whether the less well-off are getting enough.

We were not the only commentators who noted how the SFN report reflected and contributed to a political culture of envy:

> However well-intentioned, the danger in exaggerating the scale of the poverty problem is that it preys on unhealthy Australian tendencies to envy those who do well for themselves. It fuels opposition to the sort of economic reforms that have made the great majority of Australians better off. (Editorial in *The Australian*, 17 January 2002)

> Rather than working out ways of making rich people poor, Australia should be working out ways of making poor people rich. Some Australians still feel guilty about acquiring wealth; welfare groups fuel that guilt by advocating increased taxes and public spending. (Robert Skeffington in *Business Review Weekly*, 24-30 January 2002, page 2)

The report focuses on income distribution rather than on the question of need.

Comments like these touched a nerve, and the Smith Family's Research and Social Policy Manager, Rob Simons, moved swiftly to deny any charge that their report had involved envy of the rich:

> The report does not encourage the financially disadvantaged to envy more fortunate Australians. (Letter in *Business Review Weekly*, 28 Feb-6 March 2002)

But then he went on:

> In relative terms, increases of incomes of the poor during the past decade have been minor compared with those at the top. In other words*, the gap has widened. This has bad consequences for social cohesion as well as people's ability to participate in society. Hence there is a need to bridge the gap.* (Letter in *Business Review Weekly*, 28 Feb-6 March 2002, emphasis added)

This response unintentionally reveals the assumptions on which a politics of envy depends:

- It assumes that increasing inequality necessarily undermines *'social cohesion'*, but why should it? Why should a widening income gap necessarily create social fragmentation and conflict? Social cohesion will only be undermined if those with less come to envy and resent those with more. Egalitarians assume that they will, for they think inequality breeds resentment, but there is no sociological law that says that it must. If people can see that others have come by their riches legitimately, and if they recognise that the opportunities are there for them to do likewise, then class-based resentments like these need never arise.[19]
- The letter similarly assumes that increasing inequality prevents those with less from *'participating in society'*, but again, why should it? Why assume that an increase in one person's income will make it less possible for another to participate effectively in social life? In a growing economy, it is quite possible for one person to win without another losing. But the poverty lobby treats the economy as if it were a zero-sum game in which people can only benefit at the expense of others. The Smith Family and ACOSS repeatedly argue that widening inequalities 'exclude' those on lower incomes from 'participating', but what exactly is it that these people could participate in before that is now supposedly denied them as a result of others getting richer?[20] The real concern driving comments like these is not that those at the bottom can now do less than before (for this is patently not the case)—it is that those at the top can do more.[21]
- The most telling phrase in the letter is the one referring to the need to *'bridge the gap'*

between 'the poor' and 'those at the top'. In proposing this as his solution to the problem of poverty, Rob Simons is adopting a political agenda of income redistribution without even thinking about it. The language of 'bridging the income gap' is all about tackling poverty by redirecting money from higher income earners to those who are less well-off, for you bridge a gap by working from both ends. Rather than asking how those on low incomes might improve their lives, his attention is fixed on distributional questions (how much money different people have). This kind of thinking focuses the policy agenda on distributional solutions (taking cash from those with more and giving it to those with less).

There is a phoney debate going on—egalitarianism is being pursued under the guise of reducing poverty.

Because it constantly addresses the issue of poverty by comparing the incomes of those at the bottom with the incomes of those at the top, the poverty lobby repeatedly advocates policies that involve shifting money and resources from one group to another. In this way, the debate about poverty has become hopelessly entangled in an agenda of egalitarianism rooted in an unedifying politics of envy.

Conclusion

The Smith Family/NATSEM poverty report is misleading. It contains exaggerated estimates of the number of Australians in poverty, and it wrongly claims that poverty worsened in the 1990s. We have pointed out the weaknesses and fallacies in this report, but both organisations continue to defend it. Their principal defence—that 11 out of 12 different measures show an increase in poverty rates through the 1990s—is in itself misleading. So it is that one obfuscation begets another.

We have suggested that the basic problem stems from NATSEM's use of measures which are known to overstate the scale of poverty. In their other work, Ann Harding and her colleagues acknowledge that these procedures can 'bias' poverty estimates, but this did not prevent them from using them in this case.

When the Smith Family published these inflated poverty estimates, it predictably led to demands from ACOSS and others that the government should increase spending on welfare benefits while reversing its liberal labour market reforms. These inflated estimates also proved useful to those hoping to advance an egalitarian political agenda involving an attack on the incomes of people at the top as well as an increase in the incomes of those at the bottom.[22]

CIS is happy to engage in a debate about equality, inequality and the desirability or otherwise of confiscating people's earnings in order to reduce the so-called 'income gap'. But at the moment, there is a phoney debate going on, for the egalitarian case is being pursued under the guise of reducing poverty. We all want to reduce poverty, but we should not assume that this involves redistributing money from higher income earners. Poverty is not the same as inequality, and policies designed to flatten income differences between people should not be confused with policies designed to reduce poverty.

Endnotes

1 Kayoko Tsumori, Peter Saunders and Helen Hughes, 'Poor Arguments: A Response to the Smith Family Report on Poverty in Australia', *Issue Analysis* No. 21 (Sydney: The Centre for Independent Studies, January 2002).

2 Ann Harding, Rachel Lloyd and Harry Greenwell, *Financial Disadvantage in Australia 1990 to 2000* (Camperdown, NSW: The Smith Family, 2001).

3 Quoted by Lyle Dunne in the *Adelaide Review (*February 2002).

4 'Although the results for the Henderson poverty line are also included within this report for comparative purposes, we do not recommend the use of this poverty line' (p. 27). Interestingly, the Australian Council of Social Service prefers to use the Henderson poverty line and even calls it 'the best available measure' (ACOSS Media Release, 17 January 2002). This may be because it generates such enormous estimates of the size of the poverty problem, and like many other welfare bodies, ACOSS prefers to use inflated figures.

5 The SFN report adjusted people's incomes to reflect their living costs. A family consisting of two adults and two children, for example, has higher living costs than a household consisting of two adults with no children. NATSEM tries to make them comparable by reducing the income attributed to each of the four members of the first household and inflating the income attributed to each member of the second. Obviously, the assumptions you make about how to inflate or deflate incomes to achieve 'equivalence' will have a major bearing on the results you get. The

SFN report used three different 'equivalence scales', which is why there are three different estimates of poverty based on the half-median income definition (although for some reason they used only one equivalence scale when calculating estimates based on half the mean income).

6 Ms Singer's column (18 January 2002) completely confused the Smith Family and CIS positions: 'According to CIS', she wrote, 'it is preferable to base poverty estimates on average rather than median income.' We wrote to the editor of the *Herald Sun* pointing out this fundamental error, but our letter was not published. Ms Singer's limited understanding of this debate contrasts sharply with the intensity of her opinions about it, for in addition to dismissing our 5% estimate as 'comical', she called CIS 'callous', criticised our lack of 'compassion' and denied our claim to 'independence'. Strong views coming from somebody who does not know her mean from her median.

7 C.Whelan, R.Layte, B.Maitre and B.Nolan 'Persistent Income Poverty and Deprivation in the European Union' *European Panel Analysis Group Working Paper* no.17 (Dublin: Economic and Social Research Institute, April 2001).

8 Harry Greenwell, Rachel Lloyd and Ann Harding, 'An Introduction to Poverty Measurement Issues', NATSEM Discussion Paper No. 55 (Canberra: NATSEM, August 1995), 8, emphasis added.

9 Ann Harding, 'The Impact of Health, Education and Housing Outlays on Income Distribution in Australia in the 1990s', NATSEM Discussion Paper No. 7 (Canberra: NATSEM, August 1995), emphasis added.

10 Giving the example of health care, my namesake at the Social Policy Research Centre (UNSW) has suggested that government-funded services should not be included as part of people's incomes because they are only used when people have a need for them and thus do not improve living standards: 'Those groups who use these services the most do so because their needs are greatest, so that it is not legitimate to claim that social wage benefits raise them out of poverty.' (Peter Saunders, 'The Role, Value and Limitations of Poverty Research', SPRC *Discussion Paper* 53 Kensington, NSW: University of NSW), 16. The argument is unconvincing. It clearly does not apply to government provision in areas such as education and housing, and even in respect of Medicare it does not really hold. What Medicare provides is free health care *insurance*, and if the government did not make this available, individuals would have to pay for it themselves out of their disposable incomes, whether or not they actually need treatment. All these government services relieve rich and poor alike of the need to buy them and thereby raise their living standards (although we might all be even better off if we had the cash instead and bought these services for ourselves in the marketplace).

11 People in the top decile enjoyed an average disposable income in 1995 of $1,375 per week, and they received $100 worth of government services. Government services therefore supplemented their final incomes by just 5%, as compared with a 48% top-up received by those in the bottom decile. Comparing their disposable incomes, the people in the top decile are on average five times better off than those at the bottom, but comparing their final incomes, they are less than four times better off. The difference shows up clearly in measures of income inequality like the 'Gini coefficient'. Ann Harding reports that the Gini coefficient falls from 0.376 to 0.342—'an appreciable decline'—when government services are included in the calculation of people's incomes. A. Harding, 'The Impact of Health, Education and Housing Outlays', 21(see note 9). To get a sense of how significant this change is, the Gini coefficient measuring income inequality in Australia rose from 0.295 in 1988/89 to 0.311 ten years later—a 5% increase. See Ann Harding and Harry Greenwell, *Trends in Income and Expenditure Inequality in the 1980s and 1990s,* Paper presented to the 30th Annual Conference of Economists (Canberra: 24 September 2001). This has caused a lot of fuss among egalitarians, yet it is only half as big a change as that which occurs when we add the value of government services to data on disposable (cash) incomes.

12 Harding and Greenwell, *Trends in Income and Expenditure Inequality*, 18 (see above note).

13 Helen Hughes has discussed this in 'The Politics of Envy' *Policy* 17:2 (Winter 2001), 13-18. She estimates that under-reporting of 'black incomes' is depressing income estimates by about 20% on average, and that data on the lowest reported incomes are the most seriously affected. Taking this into account, she estimates that no more than 5% of the population is in 'relative poverty', even when measured by the Henderson poverty line.

14 Harding and Greenwell*, Trends in Income and Expenditure Inequality,* 14 and 16, emphasis added. (see note 11)

15 Harry Greenwell, Rachel Lloyd and Ann Harding, 'An Introduction to Poverty Measurement Issues', 15, emphasis added. (see note 8)

16 Lyle Dunne helpfully reminds us of the difference: 'Poverty is about not having enough, and inequality is about not having as much as others' (*Adelaide Review,* March 2001, p. 10) Such distinctions are lost on much of the welfare lobby.

17 Survey carried out in January 2000. Results available at www.newspoll.com.au

18 Australians may not be alone in this. Recent American research reported in *The Economist* (16

February 2002, p. 65) found that a majority of people will actually impoverish themselves if that is what it takes to reduce the incomes of others who have more than they do.

19 This was precisely Durkheim's argument in his classic study of the conditions required to ensure social cohesion, *The Division of Labour in Society* (Toronto: The Free Press, 1933). Essentially, it makes the case for a meritocratic society, and as I have argued elsewhere, meritocratic principles are widely accepted as 'fair' (see Peter Saunders, *A Fair Go: Do We Want to Live in a Meritocracy?,* Bert Kelly Lecture No. 2, Sydney: The Centre for Independent Studies, 17 March 1999).

20 This mantra of 'participation' and 'exclusion' has been repeated so many times by the poverty lobby over recent years that one suspects that even they no longer know what they mean by it. Twenty thousand kilometres and a third of a century away, there was once a poverty survey which found that people's participation in 'normal' social activities like 'eating meat three times a week' or 'having friends to dinner' seemed to tail off as incomes fell (Peter Townsend, *Poverty in the United Kingdom*, London: Penguin, 1979) but comparable research has not been carried out in Australia, nor has it been done in more recent and prosperous times. The supposed inability of the poor to 'participate' in society is simply taken as a truism. Nobody bothers to ask what it means or whether it is even true. We shall address this language of 'social participation' and 'social exclusion' in more detail in our next paper, *Poor Concepts*.

21 This idea that the rich are as much of a problem as the poor is exemplified in the contribution to the debate by the other Peter Saunders. Writing in *The Australian Financial Review* (13 February 2002), he argued that 'social exclusion' occurs at both ends of the income distribution: 'At the top end, people chose to exclude themselves from the broader community by only using private schools, private hospitals, private estates and even private security.' Given that 'social exclusion' is self-evidently something to be avoided, the choices made by the rich are presumably a 'bad thing'. The implication seems to be that affluent people should be *required* to 'participate'—for example, by forcing them to send their children to government schools or even by shutting down their exclusive gated communities and private hospitals.

22 ACOSS, for example, told the government that, 'Progressively increasing all social security payments so that they are in line with the Age Pension' is a 'critical first step' in tackling the rise in poverty (Media release, 17 January 2002). Anglicare went further, suggesting that the Australian government should model its policies on the ruinously expensive Nordic welfare states (Ann Nevile, *State of the Family 2002*; in 'Australia Is Not Sweden, *Policy* 17: 3, Spring 2001, 29-32, I examine the left's fixation with Scandinavian welfare systems and explain why such systems would prove disastrous if implemented here). As for individuals, George Megalogenis warned in *The Australian* (25 February 2002) that, 'There is no room left for passive government' and suggested that 'some good old-fashioned socialism may be in order', while Janet McCalman in *The Age* (19 January 2002) thought that 'the casualisation of labour, the weakening of the trade unions, the loss of the basic wage and margins set by a conciliation and arbitration court' had all 'made the rich richer but . . . have made the poor poorer.'

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