A Headlong Dash into the Chasm of Hyperbole

Peter Saunders

The St Vincent de Paul Society’s recent paper, *The Reality of Income Inequality in Australia*, warns of Australia’s ‘current headlong dash into the chasm of inequality’, basing its claims about growing inequality on a partial, selective and misleading interpretation of the evidence. Despite the widespread media attention it has received, the paper’s claims are hugely exaggerated.

The paper’s rhetoric is unsupportable. It warns of a return to a 19th century minimal state, for example, but this is absurd when the federal government is spending $87 billion on welfare payments. The level of net cash transfers made by the government to the poorest 30% of the population is higher in Australia than in Japan, the USA, Italy, the Netherlands, Germany, Denmark or even Sweden.

The paper attempts to discredit a recent claim by the Prime Minister that low income households have enjoyed the strongest growth in private incomes in recent years, yet the PM’s claim is valid. Those defined by the ABS as ‘low’ income earners have seen their private incomes rise much faster than any of the higher income groups.

The report claims there has been a ‘very significant shift to greater inequality’ of disposable (post-tax, post-welfare) incomes, but this is contradicted by the ABS which says the slight increase in inequality picked up in surveys since the mid 1990s is not statistically significant.

According to the ABS, inequalities of disposable incomes have actually been shrinking in the years since 2000, for those at the lower end of the income distribution have been registering the largest gains. The St Vincent de Paul paper makes no mention of this, however.

A fair review of the evidence would conclude that, since the mid 1990s (a) all sectors of the population have benefited from rising living standards; (b) gross incomes, before tax and welfare benefits, have risen particularly fast at the lower end of the income distribution; and (c) average net disposable incomes may have risen a bit faster at the middle and top of the income distribution than near the bottom, but this trend seems to have reversed recently.

The St Vincent de Paul report reflects an unthinking, egalitarian political agenda which is never questioned, explained or justified. It fails to understand that inequality is not always unfair and that equalisation of incomes can be very unjust. The report also reflects the anti-market, anti-capitalist ideology which has characterised much of the output produced by the St Vincent de Paul Society’s research arm since 2002.

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The National Council of the St Vincent de Paul Society (SVDP) has recently released a paper, *The Reality of Income Inequality in Australia*, warning of Australia’s ‘current headlong dash into the chasm of inequality’. The paper makes some alarming claims. It suggests that ‘growing numbers of our people’ are being ‘abandoned to market forces’, that ‘inequality and unfairness’ are ‘entrenched’ in an ‘unfettered growth of injustice and want’, and that we are faced with the threat of ‘severe dislocation’, ‘sharpening divisions’ and ‘discord’ which will lead to ‘increased crime and urban deterioration’. If nothing is done to reverse these trends, the report warns of ‘a return to the dismal social injustices that characterised the dawn of the industrialised era, where people were kicked when down while governments stood idly by’.

What this paper may lack in substance it certainly makes up for in rhetoric.

**Standing idly by?**

The federal government will this year spend $87.6 billion on income support payments. Since the Howard government came to office, the biggest single increase in the Commonwealth budget has been the growth of spending on income support payments, up from 41 to 44% of all federal spending. One in six working-age Australians now receives all or most of his or her income as welfare payments and many more receive top-ups.

It is difficult to detect in these figures any sign of an impending return to the laissez faire of the 19th century, nor any indication that people are being kicked while they are down (whatever that means). On the contrary, the people in the bottom third of incomes in Australia are treated more generously by our welfare system than they would be almost anywhere else on the planet. The level of net cash transfers made by the government to the poorest 30% of the population is higher in Australia than in Japan, the USA, Italy, the Netherlands, Germany, Denmark or even Sweden. Only Norway and Finland transfer more.

Far from ‘standing idly by’, the Australian government thus looms large—arguably much too large—in people’s lives. The last thing we need is even higher taxes in order to fund even more welfare spending, but the St Vincent de Paul Society wants the government to take another 2% of GDP to divert to the people on the lowest incomes. It seems some pressure groups are never satisfied.

But what of the SVDP report’s claim that we are set on a ‘headlong dash into the chasm of inequality’? The report bases this claim on two sets of figures, both taken from the 2002-03 Australian Bureau of Statistics (ABS) Survey of Income and Housing. The first refers to the distribution of private incomes; the second to the distribution of equivalised disposable incomes. The SVDP report’s claim rests on a partial, selective and at times misleading interpretation of these two sets of data.

**Have private incomes at the bottom end increased faster than those at the top?**

First, the report looks at the distribution of *private incomes* between 1994-95 and 2002-03. Private incomes are what people earn from wages, salaries, investments and so on. They do not include the tax they pay on these incomes or the additional welfare benefits they receive from the government. They therefore tell us nothing about the money in people’s pockets, so they are irrelevant to an analysis of how people’s living standards are changing. All they tell us is what is happening to gross incomes before the government gets involved.

The reason the SVDP researchers are so interested in what is happening to people’s private incomes is because they want to challenge a recent claim by the Prime Minister that, ‘Low income households have enjoyed the strongest growth in private incomes over the period from 1997-98 to 2004-05’. The SVDP researchers seek to discredit this claim by dismissing it as a ‘mathematical illusion’.

But there is no illusion here. The Prime Minister based his statement on a conference paper delivered in March 2005 by Ann Harding, the Director of the National Centre for
Issue Analysis

The SVDP report ignores the income data on the second decile, but this evidence clearly undermines its claim that the changes referred to in the Prime Minister’s speech were ‘illusory’.

Social and Economic Modelling (NATSEM). Harding’s paper compared average private incomes for different income deciles over the period from 1994-95 to 2002-03. She found that, while the top 80% of earners increased their private incomes by roughly the same amount over this period (rises of between 31% and 38%), the bottom decile registered a 165% increase and the second-bottom decile enjoyed a 53% increase (see Table 1).

This means that the bottom two deciles increased their share of total private income relative to those above them. In 1994-95, for example, the second decile earned 15% of what the ninth decile earned and just 10% of what the top decile earned (before tax and benefits were included). By 2002-03, however, its share had risen to 17% of that received by the ninth decile, and 11% of that received by the top decile. In short, as the Prime Minister suggested in his speech, private incomes grew more strongly at the bottom of the income distribution than at the top.

Table 1: Average private household income, 2005

<table>
<thead>
<tr>
<th>Decile</th>
<th>1994-95</th>
<th>2002-03</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 10%</td>
<td>$16</td>
<td>$42</td>
<td>165%</td>
</tr>
<tr>
<td>Decile 2</td>
<td>$196</td>
<td>$301</td>
<td>53%</td>
</tr>
<tr>
<td>Decile 3</td>
<td>$410</td>
<td>$553</td>
<td>35%</td>
</tr>
<tr>
<td>Decile 4</td>
<td>$546</td>
<td>$741</td>
<td>36%</td>
</tr>
<tr>
<td>Decile 5</td>
<td>$688</td>
<td>$910</td>
<td>32%</td>
</tr>
<tr>
<td>Decile 6</td>
<td>$788</td>
<td>$1,085</td>
<td>38%</td>
</tr>
<tr>
<td>Decile 7</td>
<td>$962</td>
<td>$1,258</td>
<td>31%</td>
</tr>
<tr>
<td>Decile 8</td>
<td>$1,085</td>
<td>$1,472</td>
<td>36%</td>
</tr>
<tr>
<td>Decile 9</td>
<td>$1,283</td>
<td>$1,752</td>
<td>37%</td>
</tr>
<tr>
<td>Top 10%</td>
<td>$1,989</td>
<td>$2,751</td>
<td>38%</td>
</tr>
</tbody>
</table>


The SVDP report does not reproduce the whole of Harding’s table, but only the first and last rows (relating to the bottom and top deciles). It suggests that the 165% increase recorded for the bottom decile means very little since the raw numbers are so small (an increase from $16 average weekly income in 1994-95 to $42 in 2002-03), and it suggests we should look at the absolute changes in dollar values instead. But this argument does not justify the claim that the PM’s comments were ‘based on a mathematical illusion’:

- It is perfectly normal and legitimate to measure changes in inequality in relative terms—i.e. in terms of changes in ‘percentage shares’—for inequality is inherently a relative concept (i.e. it entails comparisons between groups). If high earners increase their incomes by a bigger proportion than low earners do, then relative income inequality will rise; if the reverse happens (as in this case) then relative income inequality will fall. All summary measures of income inequality are based on this principle. The SVDP claims that, ‘Only absolute data can provide us with an accurate picture’, but this is inconsistent with everything the poverty lobby has always argued about the importance of relative measures, and it is undermined anyway by the use of relative measures elsewhere in the SVDP’s own report.

- Had the PM’s comments rested solely on the huge percentage increase registered by the bottom income decile, there would have been some grounds for caution—not because the percentage increase is a ‘mathematical illusion’, but because the income data on the bottom 10% of earners are known to be unreliable and should probably not be used. However, Table 1 shows that the second decile also enjoyed a much higher relative increase in private incomes than any of the groups above it did, and these data are almost certainly reliable. The SVDP report ignores the income data on the second decile, but this evidence clearly undermines its claim that the changes referred to in the PM’s speech were ‘illusory’, and that a ‘chasm of inequality’ is opening up in this country.

Far from being based on an illusion, the PM’s comments about changes in private incomes were valid and justifiable.
Few other researchers would suggest on the basis of the ABS data that Australia is embarked on a ‘headlong dash’ into inequality.

**Have disposable incomes become more unequal?**

Of course, what really matters to people is not what has been happening to their gross (private) incomes, but what has been happening to their disposable incomes, after tax payments and welfare benefits have taken place. Here, the evidence is that there may have been a slight increase in inequality since the mid 1990s, although the trend in the last couple of years has been running the other way, and the overall pattern is far from clear.

The big story from the ABS income surveys is that all groups have experienced a substantial rise in their real incomes since the mid 1990s. Between 1994-95 and 2002-03, average real disposable incomes in Australia rose by 15%. The rise was slightly greater for those at the top (16%) than for those at the bottom (12%) of the distribution, which indicates that inequality of disposable incomes may have widened a little. We need to exercise caution before rushing to such a conclusion, however, for all these figures are taken from sample surveys, and in any survey we have to allow a margin for error.

The ABS itself believes there has probably been ‘some increase in inequality’, but it hedges its conclusions with all sorts of warnings and reservations. Applying three different summary measures to the data it collected between 1994-95 and 2002-03, the ABS concludes: ‘Over the whole period, all indicators show an increase in inequality, although none of the movements are significant at the 95% confidence level.’

The 95% confidence level is the lowest level of probability the research community conventionally accepts when assessing whether differences in sample populations indicate actual differences in the whole population from which the samples were drawn. To be on the safe side, some researchers insist on a 99% confidence level, especially when dealing with larger samples like those used in the ABS surveys, but 95% is generally regarded as indicating a ‘statistically significant’ result. It means that 19 times out of 20, a difference as great as that found in the sample statistics would not have occurred had there not be a difference in the population from which the samples were drawn.

So what the ABS is telling us when it says that none of these measures achieves the 95% confidence level is that the income gap found in the various samples taken from the mid 1990s to 2002-03 did not widen sufficiently to warrant the conclusion that income inequality in the population really did increase during this period. The difference thrown up between the surveys could simply be the result of sampling error.

The SVDP report says nothing about any of this. Indeed, it not only ignores the warnings of the ABS; it contradicts them by stating explicitly that the change in the Gini coefficient (one of the summary measures of inequality) is ‘very significant and displays a strong shift to greater inequality’. Yet the ABS tells us quite plainly that the shift in the Gini coefficient fails to achieve statistical significance. For the SVDP report to claim this shift is ‘very significant’ indicates either that the SVDP researchers do not understand the statistics they are quoting, or that they have insufficient regard for the customary rules and ethics governing the reporting of this kind of research.

Looking at the pattern across these income surveys (summarised in Table 2), the ABS may be right in believing that there has probably been some increase in income inequality, even though the changes are not statistically significant. However, even if the gap in disposable incomes between the top and the bottom of the distribution has widened since the mid 1990s, it is clear that it has not widened by very much, and few other researchers would suggest on the basis of the ABS data that Australia is embarked on a ‘headlong dash’ into inequality:

- Ann Harding’s 2005 paper suggests there has been ‘a modest increase in disposable income inequality from 1994-95 to 2002-03’. She also warns, however, that her forthcoming research will show that ‘final income distribution [was] largely unchanged between 1995-96 and 2001-02’ (final incomes take account of the value of government health, education, housing and welfare services as well as cash transfers—items that the SVDP report completely overlooks).
- Peter Saunders, the head of the Social Policy Research Centre at the University of New South Wales (and no relation to the present author), is a passionate egalitarian whose work is cited approvingly in the SVDP report. But even he is guarded when
it comes to assessing recent trends in inequality. He wrote in 2002: ‘The increase in inequality was greatest between 1986 and 1994-95, after which there is little overall distributional change’. As we shall see, ABS data indicate that inequality has, if anything, narrowed rather than widened since he wrote this assessment.

**Never let the facts get in the way of a good story**

The SVDP report is oddly inconsistent when it comes to choosing time periods as the basis for its comparisons. Most of the report compares 1994-95 with 2002-03, for this is the period covered by the ABS income surveys on which the SVDP paper is based. When it reports changes in summary measures of inequality, however, the SVDP paper cuts out the first two years and compares 2002-03 with a base year of 1996-97. Why the change?

Table 2 shows that disposable income inequality (as measured by both P90/P10 ratios and by Gini coefficients) fell between 1994-95 and 1996-97, and then rose again. Selecting 1996-97 for their base year therefore allows the SVDP researchers to maximise the apparent recent growth in inequality by taking its lowest point as their point of comparison.

| Table 2: Income distribution measures (years excluded by the SVDP report in shaded area) |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                                 | 94/95 | 95/96 | 96/97 | 97/98 | 99/00 | 00/01 | 02/03 |
| Gini coefficient                | 0.302 | 0.296 | 0.292 | 0.303 | 0.310 | 0.311 | 0.309 |
| P90/P10 ratio*                  | 3.77  | 3.73  | 3.66  | 3.77  | 3.89  | 3.98  | 4.00  |

*The ratio of the income of people at the 90th percentile in the distribution to the income of those at the 10th percentile.


This is not the only example of selectivity in this report, for it also fails to mention trends which run counter to its argument. Of particular importance here is the recognition by the ABS that, although inequalities may have widened somewhat over the whole period between 1994-95 and 2002-03, they appear to have been shrinking in the years following the 2000 survey when those at the lower end of the income distribution were registering the largest gains: ‘Between 2000-01 and 2002-03, real mean income for low income people…grew by 4%, compared to 2% for both middle income people and high income people’.

The SVDP report makes no mention of this finding. It would, of course, have made it much harder for them to report that Australia is dashing headlong into the chasm of inequality had they admitted that for the last two years on record we seem to have been moving in the opposite direction.

**What the report should have said**

A fair-minded review of the income survey data since the mid 1990s would have identified the following key findings:

- This has been an unprecedented period of sustained economic growth from which all sectors of the population have benefited. On average, real living standards after tax and welfare transfers have risen by 15% in less than ten years.

- Gross incomes, before tax and welfare benefits, have risen particularly fast at the lower end of the income distribution.

- Since the mid 1990s, average net disposable incomes have probably risen a bit faster for those at the middle and top of the income distribution than for those near the bottom, although this is not certain, and the trend seems to have been going the other way in more recent years.
The existence of inequality is neither ‘fair’ nor ‘unfair’, ‘just’ nor ‘unjust’. It all depends how it has come about.
All these arguments reflect a core commitment to an anti-capitalist political ideology which has transcended the focus on social deprivation.

All of these arguments reflect a core commitment to an anti-capitalist political ideology which has transcended the focus on social deprivation. These researchers do not just want to end poverty; they want to revolutionise society.

To anyone who has studied Marxism, the concepts, arguments and mode of analysis revealed in much of the St Vincent de Paul Society’s research output is unmistakeably Marxist. Even its choice of language mimics the sacred texts of Marx and Engels. Compare, for example, the polemical claim on the St Vincent de Paul website that:

The accumulation of wealth on the one hand is connected with the accumulation of poverty on the other.

with the following well-known quote from Marx's Capital:

Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation, at the opposite pole.

These researchers seem to be affronted as much by affluence as by poverty. Donors, believing their money goes towards aid for the poor, may be surprised to learn they are helping finance anti-capitalist propaganda when they make their online contributions or put their coins in a street collector’s tin.

According to the Catholic Encyclopedia, the original St Vincent from whom this charity takes its name carried out numerous good works on behalf of the poor including caring for orphans, founding a hospice, creating an asylum to give work to the unemployed, and establishing rural food kitchens. The encyclopedia says nothing about defending trade union militancy, raising taxes, or organising political opposition to free markets.
Endnotes

1 Thanks to Andrew Norton for helpful feedback on an earlier draft of this paper.


3 Budget Paper No.1, 2005-06.

4 ‘Bring on the Big Budget Bucks’, Weekend Australian (8-9 May 2004).

5 Peter Whiteford and Gregory Angenent, The Australian System of Social Protection—An overview Occasional Paper No.6 (2nd ed.) (Canberra: Department of Family & Community Services, 2002).


9 The Reality of Income Inequality in Australia,4; St Vincent de Paul Society Media Release.


11 See, for example, the Society’s endorsement of a relative poverty approach, remarked in the final report of the Senate report, A Hand Up, Not a Hand Out (Commonwealth of Australia, 2004), para 2.5.

12 The report happily uses summary inequality measures like the Gini coefficient and P90/P10 ratios which are based on a relative rather than absolute conception of inequality.

13 The ABS has repeatedly warned researchers not to use the income data on the bottom decile, many of whom claim to have zero or even negative incomes. I have discussed this problem in a number of publications, most recently Peter Saunders, ‘Lies, Damned Lies and the Senate Poverty Inquiry Report’ Issue Analysis No.46 (Sydney: The Centre for Independent Studies, April 2004). Academics and social welfare pressure groups continue to disregard it, however.

14 The ‘bottom’ is defined by the ABS as deciles 2 and 3, for following its own advice it ignores the unreliable income data for decile 1.

15 Household Income and Income Distribution, 10.

16 As above, 42, emphasis added.

17 The Reality of Income Inequality in Australia, 3.


19 The Reality of Income Inequality in Australia, 3.

20 Household Income and Income Distribution, 5.

21 I have discussed competing conceptions of fairness in Peter Saunders, ‘What is fair about a fair go?’, Policy Vol.20, No.1 (Autumn 2004), 3-10. This article includes public opinion data indicating that support for an egalitarian principle of fairness is much weaker in Australia than support for a meritocratic one.

22 The budget delivered tax cuts to all workers but allowed those on above-average incomes to retain a greater proportion of their earnings by raising the top rate threshold. Before the budget, the top tax threshold was one of the lowest in the OECD. The top quarter of income earners pays nearly two-thirds of income tax while the bottom quarter pays just 3% of it. See Sinclair Davidson, Who Pays the Lion’s Share Of Income Tax?, Policy Monograph No.63 (Sydney: CIS, June 2004).

23 ‘The market exists as a structure for the generation of profit. It rewards those who have capital. It does not exist to serve the needs of those it exploits or excludes... The market is part of the problem, not the solution’. And: ‘Real political security for the people of Australia means a concrete commitment to strategic economic development that does not rely on the market but engages all levels of government in a plan’. John Falzon, ‘Third Way; Empty Promise’, Paper to The Path to Full Employment Conference, University of Newcastle (December 2002), 2 and 7.

24 The 1998 wharf dispute is described as ‘a frontal assault on a well-organised section of the working people’ (‘Third Way; Empty Promise’, 3-4). See also: Terry McCarthy and John Wicks, ‘Greed, Poverty and Compassion: Where to Australia?’, Presentation to ALP roundtable on poverty, Canberra (18 October 2002), 5.

25 ‘Third Way; Empty Promise’, 1 and 3; St Vincent de Paul media release (12 March 2002); A Hand Up, Not a Hand Out, 113.

26 ‘Greed, poverty and compassion’, 5 and 7; The Reality of Income Inequality in Australia, 5.

27 ‘Greed, poverty and compassion’, 8-9; Terry McCarthy interview on ABC Life Matters (30 June 2003).


30 http://www.newadvent.org/cathen/15434c.htm