

# Coalition Senators' Dissenting Report

## Introduction

1.1 The Coalition members of the Community Affairs (References) Committee consider the Chairperson's inquiry report into the Extent of Income Inequality in Australia ("the Report") does not accurately reflect the complex causes of low socio-economic outcomes in Australia and does not provide sufficient evidence that income inequality is, in isolation, a significant factor in these outcomes.

1.2 Coalition members acknowledge that levels of income in Australia vary widely, and that poverty leads to poor outcomes on a number of levels. However the Report fails to make the case that inequality, in and of itself, leads to low socio-economic outcomes. The Report makes numerous sweeping statements about inequality in Australia without adequate evidence; it regularly conflates income inequality with wealth redistribution, it is replete with emotive and unsubstantiated arguments and frequently disregards the significant evidence of Australia's overall egalitarian economic context.

1.3 Coalition members note that during hearings for this inquiry there was a tendency to conflate the issue of income inequality with that of wealth redistribution. Wealth redistribution is a political policy issue and should not be confused with income inequality. As Professor Robert Lucas notes: 'Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution...'

...[O]f the vast increase in the well-being of hundreds of millions of people that has occurred in the 200-year course of the industrial revolution to date, virtually none of it can be attributed to the direct redistribution of resources from rich to poor. The potential for improving the lives of poor people by finding different ways of distributing current production is nothing compared to the apparently limitless potential of increasing production.<sup>1</sup>

1.4 Coalition members also note that during the inquiry, many witnesses stated that the best way to decrease income inequality was through employment. Treasury officials stated that:

Building the capacity of people at the bottom of the income distribution to participate in the workforce by earning a wage or salary is one of the most useful ways that governments can address inequality, particularly in an environment where wages are growing.<sup>2</sup>

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1 Majority Report, p. 5.

2 Mr Nigel Ray, Executive Director, Fiscal Group, The Treasury, *Committee Hansard*, Canberra, 17 November 2014, p. 2.

1.5 The Report also fails to note the substantial tax and transfer system already in place in Australia which seeks to alleviate poverty and has, in contrast to many other OECD countries, led to increases in incomes across all levels and led to Australia being one of the most prosperous and equal societies in the world. Finally, the Report fails to note that it is employment in a strong overall economic context that is the best way out of poverty.

### **Extent of Income Inequality in Australia**

1.6 The Report outlines a number of different statistics and measurements which can be used to measure inequality. The Report notes that different measures, using different underlying assumptions and statistics, will render different findings. The Report takes it as a given that income inequality is rising and is a significant issue, yet Table 2.1 shows that under different measures, inequality has not been a significant economic factor. For example, the Bray (2014) study showed, on one measure, 'No significant change in inequality between 2001 and 2010'.<sup>3</sup>

1.7 In fact, the 2014 Credit Suisse Global Wealth Report notes that, contrary to the narrative of the Report, Australia has the highest median wealth in the world.<sup>4</sup>

1.8 Furthermore, the Report consistently disregards the fact that income is not the only measure of inequality. As Treasury officials noted in their evidence to the committee:

In discussing income inequality and social inequality more broadly it is important to look at a range of different indicators rather than focusing on just one or two metrics. There are also alternatives to income which can be used to measure equity, including the distribution of consumption and wellbeing, as well as various measures of material deprivation.<sup>5</sup>

1.9 Coalition Senators also note that, as Treasury officials noted in evidence, income inequality measures often do not take into account the impact of Australia's tax and transfer system on real income levels. In particular:

Income inequality measures typically do not take into account the effects of in-kind transfers, such as public health, subsidised medicines and education. Equality of access to these services is especially important at the lower end of the income distribution. According to the latest ABS survey of income and households, if in-kind transfers are taken into account average real disposable incomes in Australia for those at the bottom two income deciles have grown by almost as much as the top two deciles over the period 2003–04 to 2011–12.<sup>6</sup>

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3 Majority Report, p. 32.

4 Credit Suisse Research Institute, *Global Wealth Report 2014*, p. 52, <https://publications.credit-suisse.com/tasks/render/file/?fileID=60931FDE-A2D2-F568-B041B58C5EA591A4>

5 Mr Nigel Ray, *Committee Hansard*, Canberra, 17 November 2014, p. 1.

6 Mr Nigel Ray, *Committee Hansard*, Canberra, 17 November 2014, p. 1.

1.10 Almost all the evidence submitted to the Committee included acknowledgement on this point: that overall average income, including in the lowest socio-economic bracket, have risen over the last two decades, even as the gap between the richest and the poorest may have widened. Coalition Senators assert that it is this raising of overall standards through rising employment, low inflation, and strong economic management that is the defining factor in lifting people out of poverty, rather than any arbitrary measure of income inequality.

1.11 This is best illustrated in the Report's figures in section 2.61 which show that:

In WA, the gross household income of the top eight deciles increased by an average 46.5 per cent between 2003–04 and 2011–12 (compared with 26 per cent nationally). In comparison, the bottom two deciles only increased their income by an average of 28 per cent (compared with 23 percent nationally).

1.12 The Report uses these figures in an attempt to illustrate how a fast paced period of strong economic growth increases inequality. However the Coalition Senators note that the significance of these figures is that they show how strong economic growth lifts incomes for everyone at a greater rate than would otherwise be the case. Note that the 28 per cent average of income increase for the bottom two deciles in WA is, in fact, 2 per cent greater than the average increase in income nationally over that period. Given this fact, it is simply not credible for the Report to assert that the greater proportional rise in income for the top eight deciles is adversely impacting the bottom two deciles.

1.13 There is further evidence of the inadequacy of using inequality to measure poverty in the use of the Gini Coefficient in the Report and by many of the submitters. A stark example is the case of Tasmania, where many participants in the inquiry noted Tasmania's economic disadvantage. Section 2.19 the Report notes 'in 2011–12 Tasmanian households recorded the lowest mean net worth at \$601 000 or 17 per cent below the average for all Australian households.' Yet in Figure 2.3, Tasmania has the lowest Gini Coefficient number of all the states. That is, Tasmania is more equal.

1.14 Therefore, greater equality in Tasmania has, in fact, led to worse outcomes for all. This stands in contrast to the situation in Western Australia where there is greater inequality but everyone is, on average, better off.

### **The impact of income inequality on access to health, housing, education and work in Australia, and on the quality of the outcomes achieved**

1.15 The Report includes a lengthy chapter on the disadvantages people in lower socio-economic circumstances. While Coalition Senators acknowledge and express concern about the impact living in poverty has on outcomes in health, education, and overall quality of life, the Report fails to draw any meaningful and specific links between these poor outcomes and inequality. Coalition Senators stress that correlation does not equal causation.

1.16 In the field of education, the Report notes that price signals have the potential to exclude those from lower socio-economic background to attain higher education, particularly at the diploma level. The Report fails to note that it is this very issue that the Coalition Government is seeking to address through its higher education reform announced in the 2014–15 Federal budget where HELP-style loans will be available for sub-graduate degrees. This reform is not mentioned anywhere in the report, including in the section devoted to budget analysis.

1.17 The Report does, however, note that it is employment participation that will best address the causes of poverty. In section 4.125, the Report quotes a Deloitte Access Economics study which states that 'a further three per cent increase in workforce participation amongst workers aged 55 and over would contribute an extra \$33 billion to GDP.' This is another area the Coalition Government is directly addressing through the mature-age worker incentive payments in the *Restart* programme. The Report does not make note of this policy.

### **Budget Context**

1.18 Coalition Senators also draw attention to the overall budget context in which the inquiry has been undertaken. With Government debt on a trajectory towards \$667 billion, the Coalition Government has produced a budget that seeks to begin the long task of paying down the debt and creating a firm economic foundation into the future. The Report is critical of some of these measures on the basis of inequality, but fails to note the intergenerational inequality that would result from failure to deal with this debt issue.

1.19 As Treasury stated in their evidence:

In light of the current budget situation and Australia's ongoing current account deficit, prudent fiscal policy is required to ensure that we grow the economy to support employment growth and address inequality.<sup>7</sup>

1.20 The Report fails to take account of the debt and deficit context and assumes that policy changes, such as increasing certain welfare payments, can be implemented without any cost. Coalition Senators reject this thesis and note that burdening future generations with debt is a damaging form of inequality.

### **Conclusion**

1.21 Coalition Senators affirm that Australia is a prosperous, egalitarian society, which provides security and opportunity for all. While there is no doubt of some significant issues with poverty in Australia, and much work can be done to improve opportunity and circumstances for Australians, the Report into the extent of income inequality in Australia adds little to this debate. History has shown that a strong economy that provides employment opportunities is the best way to build a

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7 Mr Nigel Ray, *Committee Hansard*, Canberra, 16 November 2014, p. 2.

prosperous society. Arbitrary comparisons between relative income levels pale in significance compared to Australia's capacity to grow wealth and lift people out of poverty through employment and education.

1.22 The Report comprehensively fails to make the case that it is inequality that is a driving source of poor socio-economic outcomes and does not meaningfully engage with the Government policies from the recent budget that seek to address some of these outcomes.

### **Recommendation 1**

**1.23 That the Senate implements the Government's agenda to build a strong and prosperous economy for the benefit of all Australians.**

**Senator Zed Seselja**

**Senator Linda Reynolds**

