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Lies, Damned Lies and the Senate Poverty Inquiry Report

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EXECUTIVE SUMMARY

A recent Senate Report claims that 'poverty' in Australia is widespread and has been getting worse. It estimates that the number of Australians living in poverty is as high as 3.5 million (18% of the population). But the statistics on which this Report is based are seriously flawed, its use of evidence is partial and selective, and the policies it advocates would make things worse rather than better. The Report is one-sided and misleading. Its treatment of evidence at times falls well short of the standards we should expect of a parliamentary inquiry, and it will do little to help poor people.

- The Report claims that recent increases in prosperity have been 'captured by a few at the expense of the many', but this is false. While the distribution of incomes may have become more unequal, all groups have made substantial and significant gains.
- The Report claims that people living on welfare allowances are 'poor,' but this is based on the use of a poverty line which experts explicitly warned should not be used because it is inflated and generally discredited.
- The Report makes extensive use of evidence based on income statistics which are badly flawed. The Australian Bureau of Statistics has warned that these statistics give 'a misleading impression of the economic wellbeing of the most disadvantaged households', yet the Inquiry never queries their use.
- The Report claims that 'a large majority' of families under the poverty line 'experience long-term financial hardship'. In fact, more than 60% of those under the poverty line in 2001 had moved out of poverty by 2002. The Committee ignores this evidence.
- The Report makes selective use of research on hardship, completely ignoring a key finding that hardship has less to do with how much money people have than with how they use it. The question of 'behavioural poverty' is not addressed.
- The Report claims over one million working households are in poverty, and that working poverty is on the increase. Both claims are false. The proportion of 'poor' people living in wage-earning households has fallen through the 1990s, and the Smith Family finds that 'the risk of poverty among wage and salary earners is fairly low'. The one million figure is logically and arithmetically improbable and appears to be based on flawed income data.
- Most of the Report's 95 recommendations involve additional government spending, but few are costed. There is support for substantially raising pensions and allowances even though this would increase welfare spending by more than $12 billion per year and would exacerbate the problem of welfare dependency.
- The Report represents a manifesto for radical social change involving more government spending, higher taxes and greater regulation of the economy. Its recommendation for a 'national anti-poverty strategy' involving a new statutory authority would ensure a permanent and powerful place for the welfare lobby and its academic supporters directly within the heart of government. Not surprisingly, the welfare lobby strongly supports this proposal.

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There are three kinds of lies: lies, damned lies and statistics.
- Benjamin Disraeli

Introduction

In March 2004, the Senate Community Affairs References Committee published the findings of its inquiry into poverty and financial hardship in Australia. The Inquiry was launched in October 2002 and took 17 months to complete. It involved six senators as full-time members (three Labor, two Liberals and One Independent) and enlisted 29 others as 'participating members'. It employed a five-person secretariat to convene and record 17 separate public hearings in 13 different cities at which presentations were made by more than 150 different organisations or individuals (in addition to 258 written submissions). The total cost to taxpayers has not been disclosed.

This Report claims that 'poverty' in Australia is widespread and has been getting worse. It suggests there is a 'consensus that the numbers of Australians living in poverty generally ranges [*sic*] from 2 to 3.5 million',[1] and it comes up with 95 recommendations for action, most of them involving a lot more government spending. But much of the 'poverty' which the Report claims to find does not exist.

The report is a one-sided and misleading polemic which will do little to help poor people.

The statistics on which the Report is based are seriously flawed, its use of evidence is partial and selective, and many of the policies it advocates would almost certainly make things worse rather than better. The Report follows the opinions expressed by anti-market welfare activists and a few trade unions while ignoring and side-lining any evidence that is incompatible with its core arguments. It is a one-sided and misleading polemic which will do little to help poor people.

In a minority report, the two Liberal Party senators on the Committee seek to distance themselves from the main Report which they describe as 'shallow, naïve and purely political'.[2] It is hard to disagree, for this Report wilfully ignores evidence that would undermine the conclusions it seeks to draw, and it deliberately marginalises those who question the views and opinions it wants to promulgate.

The politics of poverty

'Poverty' is a very emotional word that can evoke strong sympathies and reactions from the public. Welfare activists know this. They know that if they can convince voters that millions of people (especially children) are suffering severe deprivation, then they stand a good chance of winning public support for their programmes of increased taxes, radical income redistribution and expanded government budgets for people like themselves to control and administer. This is why they publish exaggerated poverty estimates using inaccurate data and employing systems of measurement guaranteed to inflate their final figures. They see poverty statistics as a crucial political tool for winning public sympathy for radical social change.

What is so disturbing about the Senate Inquiry is that it puts its official imprimatur on the welfare lobby's propagandist use of poverty statistics. In its submission to the Inquiry, the Australian Council for Social Service (ACOSS)—the organisation that speaks for the welfare lobby—repeated its longstanding yet discredited claim that between 2.5 and 3.5 million people are living in poverty, and on the very first page of its final Report, the Committee concurs with the ACOSS estimate. This sets the pattern for the rest of the Report. Through the next 440 pages, 'evidence' put forward by welfare advocacy groups and trade unions is reported uncritically and is then recycled into 'findings' and recommendations. Contrary evidence is noted in passing and then ignored.

The welfare lobby and its academic supporters put a lot of time, effort and resources into this Inquiry. They wanted three things from it: (a) endorsement of their view that poverty in Australia is widespread and getting worse; (b) acceptance of their agenda for increased taxes and a big increase in government spending (including a significant rise in the value of welfare benefits and an easing of penalties on people who fail to undertake their mutual obligation requirements); and (c) establishment of new structures that would incorporate welfare groups within the heart of government, thereby ensuring them permanent influence across the range of government policy-making now and into the future. They got all three.

Given the biases of the majority of the Committee members, most of their recommendations could have been predicted 18 months earlier, for they merely rehash familiar and longstanding demands made by the welfare lobby and/or by organised labour. Most of the 'findings', too, could have been predicted, for they reflect the claims the welfare lobby has long been making. This Senate Inquiry never seriously attempted to weigh, evaluate and analyse competing claims in this highly contentious area of public policy. Rather, it set out to squash further debate and to marginalise those who question the social policy establishment's view of the problem of poverty and its solutions.

Whatever ACOSS and its allies requested, the Committee endorsed; whatever the trade unions wanted, the Committee assented to. Time and again, the Report outlines what it calls the 'evidence' submitted by this or that lobby group, and then follows it by recommending exactly what the group suggested. Claims made by ACOSS, its welfare allies or a trade union are not queried, and their proposals are not criticised. The Report is a manifesto for expanding the state, pushing up taxes and tightening regulations on the private sector.

While the Report's value as social science is negligible, its potential propaganda value is huge. In the future, whenever their claims are challenged or their proposals are questioned, social policy intellectuals and activists will be able to refer to the authority of a Senate Inquiry to back them up. Their subjective opinions and biases have here assumed the status of 'findings' and 'evidence'. This appears to have been the purpose of the exercise—to shut down a debate that had become troublesome[3] and to give new impetus to a socialist political programme that had stalled.

The Report's claim that poverty today is extensive and getting worse makes little intuitive sense, for real incomes have *doubled* in 30 years as a result of economic growth.

The Senate Committee agrees with the St Vincent de Paul Society[4] that recent debates about the extent of poverty in Australia have 'distracted rational discussion on solutions to a *known* problem'. The Report complains that debates over the measurement of poverty have 'contributed to a sustained policy paralysis'.[5] The implication is that those who have queried the welfare lobby's statistics have in some way been 'irresponsible' by drawing attention to errors in estimates of the size and extent of the problem. The welfare lobby has made clear that it 'knows' all the facts it wants to know about poverty, and it has lost patience with those who persist in challenging its claims. The Senate Committee agrees. But for an official Inquiry whose terms of reference were to investigate 'the extent, nature and financial cost of poverty and inequality in Australia',[6] such pre-emptive closure of open debate and critical argument is unforgivable.

Poverty facts and poverty fiction

False claims about inequality

The Senate Report's claim that poverty today is extensive and is getting worse makes little intuitive sense, for real incomes have *doubled* in 30 years as a result of economic growth, and the Australian Bureau of Statistics (ABS) estimates that average real incomes rose by 12% between 1994 and 2000. However, polemicists have argued that only the 'rich' have benefited from this economic growth, and the Senate Report endorses this claim:

> The evidence to this inquiry demonstrates that the kind of prosperity we are achieving is being captured by a few at the long term expense of the many.[7]

This is false. According to the ABS, the real mean incomes of 'low income' people rose by 8% between 1994 and 2000, compared with a rise of 12% for 'middle income' and 14% for 'high income' people.[8] This suggests that the distribution of incomes has become rather more unequal, but that all groups have made substantial and significant gains. It is simply not true that 'the few' have captured the gains 'at the expense of the many'.

The ABS goes on to point out that 'middle' and 'high' income groups make most of their income from wages and salaries while 'low' income groups rely mainly on government pensions and allowances. The growth in inequality, therefore, has occurred mainly because people who work for a living have come to be more highly rewarded than those who live on welfare. If we want to encourage individual effort and reward hard work, this is not self-evidently a 'bad thing', but the welfare lobby sees this widening gap between earnings and benefits as a negative trend. They want benefits raised.

The Report does not mention that government spending on income support has risen from 3% of GDP in the 1960s to 8% of GDP today. The proportion of adults of working age who rely on government hand-outs for their main or sole source of income has increased from 3% in 1965 to 16% today as existing benefits have been made more generous and new ones have been added.[9] If more spending on welfare were the solution to poverty, as the welfare lobby persistently argues, there should be no poverty left in Australia given the huge increases in spending that have taken place over the last forty years. But the Senate Report never pauses to ponder this paradox.

The Report agrees with the welfare lobby that one in five Australians is living below the 'poverty line' and that big increases in welfare spending are needed to help them get above it. For this one-in-five estimate to be true, it must be the case that welfare benefits are too low to keep non-employed people out of poverty and/or that wages are so low that many employed people have slid into poverty. The Report believes both to be the case. It therefore recommends both that welfare benefits be raised and that the minimum wage should be increased. Neither claim, however, stands up to scrutiny.

Inflating poverty estimates with discredited measurement tools

Like so much else in this Report, the claim that people on welfare are receiving incomes below the poverty line is taken directly from ACOSS. An ACOSS table appears twice in the Report purporting to show that households living on welfare allowances receive an income worth between 68% and 97% of the Henderson poverty line.[10] There are two problems with this table.

The first concerns the use of the Henderson poverty line itself. The Inquiry was warned by the National Centre for Social and Economic Modelling (NATSEM) that there are serious problems with using the Henderson line as a measure of poverty. This warning is grudgingly acknowledged in the Senate Report, but it appears in a footnote 130 pages after the ACOSS table. The problem flagged by NATSEM is never discussed. Here as elsewhere, the Report notes the existence of evidence, but then ignores it and moves on as if the point had never been made.[11]

The footnote mentioning the NATSEM warning reads:

> NATSEM expressed reservations about the updating of the Henderson poverty line over time and that there are grounds for believing that the line is set too high.[12]

Here is what NATSEM has actually written about the use of the Henderson poverty line:

> The Henderson poverty line has been traditionally used in much Australian research. However, we have major concerns about the way the Henderson poverty line has been updated over time to match changes in community incomes . . . According to our analysis, in 1982 the Henderson poverty line amounted to 51.4 per cent of average income. By 1995-96 it amounted to 59.5 per cent of average income. Thus, the reason why the Henderson poverty line is producing a picture of an 'ever-rising tide' of poverty is because it is set at an ever-rising proportion of family income. Presumably, if the current indexing methodology continued unchanged, the Henderson poverty line could reach 70 per cent of average incomes in some 15 years time, which would result in one-third of Australians being in 'poverty'.[13]

'The last decade has seen just about *every element of the Henderson poverty line subjected to criticism*.'

In other words, 'poverty' appears to have been increasing because the way we measure it has been getting more and more generous. NATSEM are not the only researchers who have pointed to the absurdity of this moving yardstick of poverty.

- Rob Bray of the Department of Family and Community Services notes that the Henderson poverty line has today 'generally *fallen into disuse* among researchers' due mainly to the way it has been updated.[14] The Senate Report makes quite extensive use of Bray's paper but never refers to these comments.
- The Senate Report also makes extensive use of the work of Peter Saunders, the Director of the Social Policy Research Centre (SPRC) at the University of New South Wales who rather confusingly shares the same name as the present author. But the Report overlooks Saunders's comment in 1999 that, 'The last decade has seen just about *every element of the Henderson poverty line subjected to criticism*, including how the line has been updated over time'.[15]
- Another Department of Family and Community Services paper comments on 'the *very substantial limitations of the 'Henderson poverty line*' which . . . has grown in real terms by

around 34 per cent' since it was introduced in 1973. The paper continues: 'This means that the statement that "the poor have got poorer" when based on incomes compared to the Henderson line is not correct.'[16] Yet the Senate Report makes precisely this claim based on precisely this measure of poverty.

- The Centre for Independent Studies (CIS) submission to the Inquiry noted that, '*The Henderson poverty line has become hopelessly inflated*', and showed how its value rose at twice the rate of Consumer Price Index during the 1990s.[17] These comments were ignored.

It is astonishing that an official Senate Inquiry can spend 17 months producing a 440 page report on poverty and end up using a 'poverty line' which most mainstream poverty researchers in Australia believe is inappropriate and misleading. ACOSS presumably persists in using the Henderson line because it delivers high and ever-rising estimates of the number of people 'in poverty'. The Senate Committee has followed the ACOSS lead quite uncritically.

It is astonishing that an official Senate Inquiry can end up using a 'poverty line' which most mainstream poverty researchers in Australia believe is inappropriate and misleading.

Discredited measurement tools used inappropriately

Ironically, even though it is grossly inflated, the Henderson Poverty Line does not support the ACOSS contention (accepted by the Senate Inquiry) that people living on welfare benefits are in poverty.

Every quarter, the Melbourne Institute of Social and Economic Research publishes an updated version of the Henderson line (adjusted to take account of the differing needs of different kinds of households) and compares it with what people in these households are entitled to receive on benefits. The Melbourne Institute's figures show that, with the sole exception of a single person living on Newstart (whose income falls about 5% short of the Henderson poverty line for a single person), *every* household type, whether reliant on unemployment allowance or on a pension, receives an income *above* the Henderson line.[18] So how does ACOSS come to the conclusion that all the households living on allowances are below it?

The answer is that there are two Henderson lines, one for people who are employed, the other for those who are out of the workforce. The logic of this is that people who are employed have higher living costs as they have to travel to work each day, buy clothes for work, pay for child-minding, and so on. ACOSS applies the higher of the two lines—the one designed for working households—to people living on unemployment allowances, reserving the lower of the two for those on pensions. The Senate Report follows the same procedure. Because pensions are higher than allowances, and because the Henderson line for non-working households is lower than the line for working households, this produces the finding that people living on pensions (such as Parenting Payment or the Disability Support Pension) have incomes significantly higher than the poverty line, but that those on unemployment benefits are below it.[19]

The Report does not mention that there are two different Henderson lines and that it has selected the higher of the two for its analysis of welfare allowance recipients. Nor does it explain why a poverty line designed to take account of the living costs of employed people should be applied to those who are unemployed. The ACOSS table is simply reproduced without explanation, and from this we are invited to accept that allowances are too low to keep people out of poverty. This conclusion then drives the Report's later recommendation that allowances should be increased to the value of pensions.

Ignoring fundamental flaws in the income statistics

Problems with the definition of poverty are compounded by the Report's failure to recognise the flaws in the income data on which welfare lobbyists rely.

The Report recognises that, 'Most poverty analysis in Australia is based on surveys of household income conducted by the Australian Bureau of Statistics (ABS)', and it identifies some 'limitations' in the ABS income data. It notes, for example, that the data do not include the value of in-kind benefits like travel concession cards and that they exclude most one-off payments.[20] But this is acknowledging trifles while overlooking the elephant in the middle of the living room. The huge problem with the ABS income data is that many of those classified as having the lowest incomes (and who therefore fall under the poverty line) are under-reporting their incomes. The Report ignores this problem, yet it was warned about it in the CIS submission:

> Data on low incomes are unreliable and any recent poverty estimate which is based on ABS income data should be regarded as unreliable.[21]

This is not a matter of opinion or of debate—it is a fact, acknowledged and accepted by no less an authority than the ABS. In its analysis of economic disadvantage and inequality in 2002, the Bureau stated:

> The lowest 10% [of incomes] have been excluded from the measure because of concerns with the fact that the extremely low incomes (close to nil and sometimes negative) recorded for some households in this group *do not accurately reflect their living standards* . . . Households in the lowest income decile mostly recorded incomes (in ABS income surveys) below that which can be provided through income support payments from the social security system . . . If households with very low recorded incomes had been included this would have substantially lowered the average income values in a way that gave *a misleading impression of the economic wellbeing of the most disadvantaged households*.[22]

The ABS recommends that researchers ignore the bottom 10% of reported incomes when analysing data since they are almost certainly inaccurate . . . the Senate Inquiry ignored this advice.

Three compelling reasons have led the ABS to conclude that people at the bottom-end of the income distribution are under-reporting their incomes. First, the welfare system guarantees incomes higher than those they say they are receiving. Secondly, ABS expenditure surveys reveal that those in the bottom decile of reported incomes are regularly spending more than twice as much as they say they are receiving. Only a small part of this overspend can be explained by their use of credit. Thirdly, ABS income surveys routinely fail to account for one-seventh of all the money that the Department of Family and Community Services pays out in benefits. The payments which welfare claimants tell the ABS they receive fall 15% short of the total payments that the Department of Family and Community Services says it is paying out.[23]

So serious is this problem of under-reporting of incomes that the ABS recommends that researchers should ignore the bottom 10% of reported incomes when analysing income data since they are almost certainly inaccurate. It warns that failure to heed this advice results in 'misleading' estimates.

The Senate Inquiry ignored this advice. The authors only mention the under-reporting of incomes once in 440 pages. This is where they discuss a CIS critique of a 2001 Smith Family paper on poverty. The Report says:

> The CIS [says] the ABS data on which the study relies are not sufficiently reliable for conclusions to be drawn about the extent of poverty. The problems include under-reporting of incomes especially by welfare recipients and the self-employed. . . . [24]

This comment is then immediately followed by two paragraphs outlining a March 2002 paper by Peter Saunders of the Social Policy Research Centre which was commissioned by the Smith Family to counter the CIS critique of its findings. But the Saunders paper was published before the ABS announced that the income data for the bottom decile were so flawed that they should not be used (vindicating the CIS arguments). The Senate Committee nevertheless concludes on the basis of the Saunders paper:

> While the ABS data may be unreliable there is no reliable research to support that claim.[25]

This is an extraordinary comment given the evidence about the under-reporting of incomes that has accumulated since the Saunders paper appeared. The ABS now itself admits that the data are so unreliable that they should not be used, and even Saunders recognises there is a problem. In his oral testimony, Saunders told the Senate Inquiry:

> There are problems with the income statistics, it would be fair to say, but I think the ABS is doing the best it can to address some of the problems that currently exist . . . The problems with the income statistics [occur] where there is either a reluctance on behalf of everybody to provide full information to even the ABS about the details of their income or, in some cases, we forget.[26]

In other words, people under-state their incomes because they do not want officials to know how much they are really getting, or they forget to mention some important sources of income.

This is what the CIS submission claimed, yet the Report rejected it.

The validity of the income statistics goes to the core of the question this Inquiry was set up to investigate—the extent and nature of poverty and financial hardship in Australia—but the issue is swept under the carpet.

Turning a blind eye and a deaf ear to contrary evidence

The under-reporting of incomes is just one of several reasons why the Committee's endorsement of the ACOSS figure of 2 to 3.5 million people 'in poverty' must be questioned.

The CIS submission to the Inquiry suggested that in addition to the problem of under-reporting, the welfare lobby's poverty statistics were being inflated by a failure to take account of the value of government services (because these services are worth relatively more to lower than to higher income groups), and by a failure to recognise that half or more of those under any given poverty line at any one time are in transition. The response of the Committee to both of these claims was brief and dismissive:

> The CIS, however, provides little quantifiable data to support their claims.[27]

Yet both of these claims are grounded in strong evidence from independent sources.

The majority of the Committee knew what they wanted to say before they began to take evidence.

The first claim, that taking account of the value of government services would substantially reduce poverty estimates, was based on several sources. These included an Australian government publication (which found that the imputed value of government services significantly reduces estimates of income inequality)[28] and research by NATSEM (which found that the value of non-cash government benefits increases the 'final income' of the lowest income decile by 48%).[29] NATSEM even warns that:

> The impact of public expenditure on such programmes 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.[30]

This means that the Senate Committee's refusal to take account of the value of services in kind has 'biased' its poverty estimates.

The second claim, that at least half of those identified as being under the 'poverty line' are only there temporarily, is grounded in empirical evidence from other countries[31] as well as from Australia.[32] Australian evidence from the new Housing, Income and Labour Dynamics in Australia (HILDA) panel survey was not available at the time The Centre for Independent Studies made its submission, but it became available during the period when the Committee was sitting, and the minority report makes reference to it. This new evidence confirms that most 'poverty' is transitional: 62% of individuals in the bottom income decile in the first year of the HILDA survey had moved up by the second; 10% of them had moved into the top half of the income distribution in just one year.[33]

The Senate Report denies that most poverty is transitional. Indeed, it claims the very opposite:

> While some families move in and out of poverty over time, a *large majority* experience long-term financial hardship.[34]

But this claim is wrong. Here as elsewhere, the Senate Committee has dismissed carefully-documented and verified claims as 'empirically unsupported' while publishing erroneous claims as if they were valid. It is as if the Report had been written back-to-front. The majority on the Committee knew what they wanted to say before they began to take evidence, and the 'evidence' they collected was selected or rejected according to its usefulness in supporting their political and ideological preconceptions.

Ignoring crucial questions about the causes of hardship

Rob Bray of the Department of Family and Community Services has tried to go beyond the use of arbitrary income-based 'poverty lines' by conducting a survey focusing on people's actual experience of deprivation. Bray finds evidence of 'some hardship' when people report that shortage of money has led them to skip a meal, go without heating, seek assistance from a charity or sell or pawn something. Eight per cent of the population report having experienced one of these four kinds of hardship in the last year, but because reliance on single indicators in social research can result in erroneous estimates, Bray focuses on those who report they have experienced two or more of these four indicators (what he calls 'multiple hardship'). Bray claims that 'multiple hardship' is a more 'robust' measure of deprivation which 'may be considered as best pinpointing those experiencing particularly adverse outcomes'.[35] He finds that just 3% of the population are in this situation.

A major cause of 'poverty' lies in how people use their money rather than in how much of it they receive.

The Senate Committee uses Bray's data selectively. It ignores Bray's recommendation that we focus on 'multiple hardship,' and instead reports on the number of people experiencing *any one* of the four hardship indicators over a twelve month period. This, of course, generates much larger numbers. The Report does not mention Bray's distinction between 'some' and 'multiple' hardship, preferring to refer simply to 'hardship.' Nor does it note Bray's concern that use of a single indicator rather than multiple indicators may produce less 'robust' results.

The Report also ignores what Bray had to say about the *causes* of hardship. One of the most important results of his research is the finding that fewer than half of all the households suffering multiple hardship are in the bottom 20% of the income distribution:

> Very few, at most one in six, of the households identified as having low incomes under the income distribution measures reported hardship, and fewer than one in eight reported multiple hardship in the previous year . . . Simply focusing on households on low incomes would ignore half the households who have experienced multiple hardship.[36]

This significant finding indicates that hardship and deprivation have less to do with how much money people have coming in than with what they do with it when they receive it. Not only do most people on low incomes report no hardship, but also significant numbers among those on higher incomes say they do suffer hardship.

It is difficult to understand how the Senate Report could have overlooked this finding, for it would have been clear to the Committee from the evidence it published that people on similar incomes report very different levels of 'hardship.' The Report uses Bray's data to construct a bar chart to support its contention that unemployed people, people with disabilities and sole parent families are particularly 'disadvantaged,'[37] but this bar chart shows that the great majority of welfare recipients are *not* suffering hardship on *any* of Bray's indicators. It shows, for example, that nearly six out of ten recipients of Parenting Payment (Single), two-thirds of those on Newstart (unemployment benefit) and seven out of ten of those on Disability Support Pension report *no* evidence of 'hardship' in the previous twelve months.

In sum, fewer than one in six people on 'very low' incomes report any 'hardship,' and the great majority of those living on welfare benefits also report no 'hardship'. The only possible conclusion that can be drawn from these results is that the minority who do end up suffering 'hardship' do not do so because their incomes are inadequate, but because they fail to manage them competently. Bray himself concludes:

> Behaviour is important for some groups in the community—in terms of both increasing and reducing the risk of hardship . . . *A simple focus on across the board changes to overall levels of income and income support would appear to be misplaced.* [Of] households on lower incomes and those reliant on income support . . . only a small proportion reported hardship.[38]

Bray speculates that excessive expenditure on smoking, drinking and gambling (as well as incurring high levels of debt) may be associated with increased risk of hardship, and he does find evidence linking heavy spending on tobacco to the probability of experiencing hardship. Interestingly, the Senate Inquiry also heard evidence that gambling and consumer debt are poverty 'risk factors', and it concluded that more regulation is needed in the provision of these services.[39] But the Report nowhere recognises Bray's key point that increasing people's incomes is not the solution to alleviating their hardship, and that a major cause of 'poverty' lies in how people use their money rather than in how much of it they receive.

Poverty activists and politicians persistently refuse to acknowledge that irresponsible behaviour can be a key cause of poverty. This blindspot was highlighted a week after the

Senate Inquiry published its Report in the following interchange on ABC radio between the ALP Chair of the Committee, Senator Steve Hutchins, and one of the two Liberal members, Senator Sue Knowles:

> *Hutchens:* To a large degree I think Government Senators, and the Government itself, think that people are in poverty to a large degree because it is their own fault . . .
>
> *Knowles*: It's just the most appalling statement that I've ever heard anyone in a responsible position to take. To suggest that any government would say there are a lot of people in poverty because they choose to be in poverty—I've heard some pretty low statements but that takes the cake.[40]

It is little wonder that the Senate Report failed to open up the crucial question of behavioural poverty when even its more conservative members appear so reluctant to acknowledge it. This is truly a case of the Emperor's clothes: everybody suspects that irresponsible behaviour is a key factor explaining why some people end up in hardship while others get by, but nobody is willing to say it. It is politically much easier to argue for increases in welfare benefits than to point out problems in the way people behave, for there are more votes to be gained from being generous than being judgemental. It is not therefore surprising that this Report shied away from confronting the question of behavioural poverty, but this was another of its major failings.

Inventing the 'working poor'

One of the 'findings' of the Senate Inquiry which has attracted most attention is its claim that poverty is widespread among people who are employed as well as those relying on welfare:

> Poverty is increasingly associated with low pay . . . A large proportion of poor people live in households with a wage earner.[41]

The claim is based on a submission from the Australian Liquor Hospitality and Miscellaneous Workers Union and is used as a springboard for a series of recommendations including an increased minimum wage benchmark and further regulation of casual and part-time employment. The evidence cited to back up the claim comes from a 1999 Smith Family paper which defined 'poverty' as an income below half the average income in the population and which found that 24 out of every 100 Australians below this 'poverty line' live in households where at least one person is earning a wage or salary.[42]

What the Senate Report did not say is that this figure is based on incomes after housing costs are taken into account. The 24% figure falls to 15% if 'poverty' (measured according to the Smith Family's definition) is calculated before housing costs. The reason for this huge difference is that many young working families devote a substantial proportion of their income to buying a house, so their post-housing incomes can appear quite small even if their take-home incomes are substantial.

There are arguments for and against measuring poverty before or after housing costs, but the Smith Family papers tend to emphasise 'before housing costs' figures. On this definition, the 2001 Smith Family paper concludes that 58% of 'poor' people live in families where welfare benefits constitute the main source of income, while just 15% live in families where a wage or salary is the main source of income.[43] The Senate Report makes no mention of this 'before housing costs' estimate.

'The risk of being in poverty among wage and salary earners is fairly low.'

This is not the only example of the Senate Inquiry's selective use of the Smith Family's analysis of 'working poverty'. The Smith Family's 2001 paper showed that the proportion of poor people living in households depending mainly on a wage or salary *fell* through the 1990s, but this contradicts the Senate Inquiry claims that 'poverty is increasingly associated with low pay', and it is not mentioned in the Report. The Smith Family paper also explicitly makes the point that, 'The risk of being in poverty among wage and salary earners is fairly low', calculating this at just 3.2% in 2000.[44]

The Senate Report also appears to be misleading in the way it compares 'working poverty' today with the situation thirty years ago. The overview to the Report says:

> This report has challenged the traditional assumptions that joblessness is often a sufficient reason for the presence of poverty. The committee has heard that over 1

million Australians are living in poverty despite living in a household where one or more adults are *in employment*. By contrast, the 1975 Henderson report found that only 2 per cent of households with an adult *employed fulltime* could be classified as poor.[45]

But the 1975 estimate of 2% of employed households in poverty refers to 'adults employed *fulltime*' while the '1 million' estimate for today is based simply on 'adults *in employment*.' We are not therefore comparing like with like. Since 1975, there has been a substantial rise in the proportion of the population participating in the labour force, and much of this has come about as a result of an increase in part-time employment. The Smith Family finds that part-time workers are two and a half times more likely to be 'poor' (on its definition) than full-time workers, and in the body of its Report, the Senate Committee accepts that 'there is a very large reduction in poverty associated with having someone in full-time employment'.[46] In its overview, however, this crucial distinction between full-time and part-time employment is fudged. To make a fair comparison with 1975, the number of households with a full-time worker below the poverty line has to be estimated. This number falls a long way short of one million, even on the Henderson definition.

On the face of it, it seems unlikely that many employed people will be receiving a total income below the Henderson poverty line, because this would mean that workers would have to be receiving about the same or less (in wages and income support) that welfare claimants can get full-time on benefits (for most welfare benefits guarantee an income fairly close to the Henderson poverty line applied to households with a head in the labour force). There may be some unregistered workers (e.g. illegal immigrants) working in 'black economy' jobs where wages are below the welfare floor and cannot be supplemented by welfare benefits, but in general, the welfare floor sets what economists call a 'reservation wage' below which people will refuse to work. It is therefore most unlikely that more than a few thousand employed workers are below the Henderson poverty line when their total income (from wages and income support) is taken into account.

The same conclusion is reinforced by some simple mathematics. As the minority report points out, the federal award minimum wage is currently around $431 per week. Even after tax, a single person earning this amount should be well clear of the Henderson poverty line of $201 (or $298 including housing costs), and a minimum wage family with children will receive various income support top-ups which will ensure that they too are well above the line. As the minority report concludes, the estimate of 'one million working poor' appears to be based on an uncritical acceptance of flawed income survey data where respondents have reported 'implausibly low hourly rates of pay (well below the minimum wage) or levels of family payments and income support well below the rates for which such a household would be eligible'.[47]

The estimate of 'one million working poor' appears to be based on an uncritical acceptance of flawed income survey data.

None of this is to deny that many low wage workers do face a real problem when they try to increase their take-home incomes. But the problem is not that their wages are too low, but that when they increase their earnings, they get squeezed by a combination of increased taxation and steeply reduced income support payments. Unfortunately, although it recognises the existence of this 'poverty trap,' the Senate Inquiry has little to say about how it might be resolved. It simply demands that the Commonwealth government should do something about it.[48]

A note on the recommendations

The Senate Report makes 95 recommendations, many of which directly echo the proposals put to the Committee by welfare lobby groups and trade unions. Some of these recommendations are familiar Labor Party policies (e.g. government promotion of employment opportunities and targets for labour force participation, the old Working Nation proposal that people who have been unemployed for two years should be given six months employment, and criticisms of recent legislation supporting labour market deregulation). Several take their cue from current trade union campaigns (e.g. recommendations urging an increased minimum wage, more rights for casual workers, more controls on labour hire workers, and new regulations on minimum hours for part-time workers).[49] But the biggest influence appears to have come from the welfare lobby groups with their demands for more spending on welfare.

Most of the 95 recommendations involve specific proposals for additional government spending. For example, the Report calls for:

- Increased funding to build new public housing
- More funding for early childhood education
- Commonwealth funds to pay for school breakfasts in disadvantaged areas
- More funding for TAFE colleges
- More spending on preventive health
- A dental health programme for people on low incomes
- Increased funding for debt counselling and community education on the use of credit
- More funding for child care
- New intensive services for disadvantaged families
- A community education campaign to teach new parents about nutrition
- Funding to expand the New Apprenticeships scheme
- Additional funding for organisations dealing with young, homeless people
- Additional funding for indigenous communities including incentives to employers, bigger housing programmes, literacy and numeracy education, child care, legal services and support for ex-prisoners
- Increased spending on transport, hospitals and schools in regional areas
- Increased spending on education for older workers
- Additional funding for the aged homeless
- A new disability allowance (on top of the Disability Support Pension)
- Increased funding for emergency poverty relief

This wish-list develops in response to the varied demands of the dozens of welfare and community groups that gave evidence to the Inquiry. Like Father Christmas, the Committee seems to have felt that everybody should be given something, and it has drawn its recommendations from an apparently bottomless sack of goodies. Very few of these proposals are costed.

The Committee . . . has drawn its recommendations from an apparently bottomless sack of goodies. Very few of these proposals are costed.

Among the recommendations is a specific set of proposals relating to welfare benefits. Despite the fact that welfare spending has increased from 3% to 8% of GDP in forty years with little apparent success in reducing 'poverty,' the Committee remains convinced that a lot more money needs to be spent boosting the value and scope of income support payments. In a proposal which it admits would cost $1.4 billion in its first year, the Report backs an ACOSS and Brotherhood of St Laurence suggestion that all welfare allowances should be raised to the value of pensions.[50] It also puts forward a battery of proposals aimed at increasing welfare spending on younger people (e.g. a proposal that rent assistance be extended to cover students on Austudy, a suggestion that the parental income test for Youth Allowance be increased, and a recommendation that the age at which applicants are deemed to be independent of their parents should be reduced from 25 to 21).

The Report also discusses the proposal of some welfare groups that the value of pensions and allowances should be raised from 25% to 30% (or even 35%) of average male earnings. Noting a departmental estimate that an increase to just 30% would cost $11 billion in the first year, the Report continues:

> The Committee believes that while the cost of increasing the rates of social security payments would be substantial, the Commonwealth government should have, as a long-term goal, a commitment to increasing the rate of both pensions and allowances to a substantially higher rate than the current 25 percent of MTAWE [Male Total Average Weekly Earnings] benchmark at present applied to pension payments.[51]

To put this suggestion in context, the total cost of the social security bill, including age pensions, is currently around $60 billion. The Committee apparently thinks it would be appropriate to increase this by a further $12.5 billion per year.[52] This would necessitate a huge increase in taxation at a time when personal taxation has never been higher. It would also almost certainly increase the rate of welfare dependency by making benefits relatively more attractive than they are now. The effect would be to narrow the gap between welfare incomes and post-tax earned incomes while reducing still further the incentives and rewards available to those who try to improve their situation by working harder and earning more. It is difficult to think of a more disastrous strategy for reducing 'poverty'.

In its final two recommendations, the Committee follows the 'unanimous insistence from the community sector'[53] for a national poverty strategy. 'There is', says the Report, echoing ACOSS and many other welfare lobby groups, 'an urgent need for a comprehensive national approach to the alleviation of poverty in Australia.'

Critics have dismissed this as little more than a desire to create more talking shops and more bureaucracy, but the aim is rather more sophisticated than that. Specifically, the Committee recommends:

> That a comprehensive anti-poverty strategy be developed at the national level and that this involve:
> - an initial summit . . . to highlight the importance of the issue and agree on a timetable for action
> - a commitment to achieve a whole of government approach. That is, coordinated action across policy areas . . . to reduce poverty . . .
>
> That a statutory authority or unit reporting directly to the Prime Minister be established with responsibility for developing, implementing and monitoring a national anti-poverty strategy . . .

The Committee identifies poverty as a problem to be solved by 'comprehensive' government action. This sidesteps the argument that poverty is best tackled by promoting economic growth and raising everybody's standard of living, and asserts instead the principle of planned intervention by government agencies, aided and abetted by 'experts'. The Report makes clear its sympathy for the view that existing social and economic policy priorities require 'reordering', and that the 'benefits of economic growth' must be reallocated by requiring the more affluent sections of the population to 'surrender' more of their wealth in taxes.[54] The focus of a new anti-poverty strategy is thus placed squarely on redistribution rather than wealth creation, and on politics rather than economics. A 'comprehensive strategy' means there is a pivotal place for those who believe in redistribution and the pursuit of social objectives by means of government power.

By demanding a 'whole of government' approach, the Senate Report seeks to ensure that government policies are subordinated to an 'anti-poverty' strategy. Every relevant branch of government at federal, state and local levels—employment, health, education, income support, community services, housing—is to be locked together in pursuit of this overarching objective, which means every new policy and area of spending is to be made subject to the test of how it impacts on the anti-poverty strategy. There will be no getting out from under this blanket coverage, and no wriggling off the hook, for 'progress' on the 'strategy' must be reported to Parliament at regular intervals, and academics will be funded to do research on how well or badly things are turning out. Other objectives, such as increased economic competitiveness, lower taxes, improved quality of teaching, or reduced welfare dependency will be subordinated to the core objective of poverty reduction.

Poverty is best tackled by promoting economic growth and raising everybody's standard of living.

The Report emphases 'the need for [new] structures to be established to support any anti-poverty strategies adopted'.[55] The point of new structures is to consolidate one set of interests while marginalising others. From the outset, this is a corporatist strategy tying together 'Commonwealth, State and local governments, the welfare sector, unions, the business sector, community groups, income support customers and relevant experts in the field'.[56] Those who are included will be expected to support the orthodoxy, and those who are excluded will be marginalised and rendered powerless. Like any corporatist strategy, the aim is to transcend the tiresome debates and diversity of views which makes concerted action so difficult and which lead to 'sustained policy paralysis'.[57] A new statutory authority reporting directly to the Prime Minister would ensure a permanent and powerful place for the welfare lobby directly within the heart of government. From being 'outsiders' pressuring government to increase spending, lobbyists would become insiders, a permanent fixture in the state apparatus, monitoring, researching, advising and directing from within the citadel itself.

The hidden agenda

The terms of reference of the Senate Inquiry required it to 'report . . . the extent, nature and financial cost of poverty and inequality in Australia'.[58] But 'poverty' and 'inequality' are two different phenomena posing very different political and economic questions. Put crudely, poverty is about having insufficient money on which to live, while inequality is about having less money than somebody else does. The first is about need, the second is about envy. The Committee never satisfactorily distinguishes the two; indeed, it runs them together from the very beginning.

At the start of the chapter on 'defining and measuring poverty', the Committee tells us that it wants to define poverty in 'relative' terms, and it explains what it thinks this means:

> Relative poverty refers to individuals or families that have low incomes or other resources relative to other individuals or families.[59]

But this specification of the problem makes it impossible to distinguish 'poverty' from 'inequality', for the former is defined in terms of the latter. If poverty means having a lower income than somebody else, then it means inequality.

Having successfully chained the two concepts together in this way, the Committee concludes that 'poverty' can only be reduced by reducing inequality. On the first page of the 'introduction' to the 'overview', for example, we are told:

> Rapid growth of inequality—especially during the last decade—is driving more and more Australians into deprivation and disadvantage.[60]

[The Report] is a manifesto for radical social change involving more government spending and greater regulation of the economy.

Empirically, this claim makes no sense, but politically it is crucial. In the last decade, low, medium and high income groups have all seen their real living standards rise substantially. People living on welfare as well as those living on wages and salaries have improved their situation. It does not therefore make sense to say that growing inequality has led to increased deprivation and disadvantage—it patently has not. Income inequalities have widened (though not by a lot), but this does not mean that poverty has worsened.

Politically, however, linking poverty to inequality is crucial in underpinning a broader strategy aimed at 'structural' social change. This strategy only becomes clear in the final pages of the Report when 'structural changes' are put forward to tackle the 'underlying causes' of social problems. We read of the need to 'reorder social and economic priorities' and to renew the 'national commitment to egalitarianism'. We learn of the inadequacies of the 'free market . . . as a social tool', of the need for increased tax rates to force more affluent earners to 'surrender' more of their wealth, and of the equal priority to be given to 'social, cultural and environmental policies' as to economic ones. We are told that 'growth does not provide properly for the well-being of all Australians' and that 'it increases disadvantage' because it 'produces new inequities and further despoils the environment'.[61]

By the time it reaches its conclusion, this has become much more than a report about poverty—it is a manifesto for radical social change involving more government spending and greater regulation of the economy. This report is written by and for people who believe in economic planning and social engineering, who think we should organise our society according to 'targets' and 'benchmarks', that we should convene 'summits' and 'task forces', and that 'the whole of government' has to be mobilised in pursuit of grand 'strategies'. It is a report written by and for people who find market freedoms distasteful, who abhor competition, who distrust individual success and who reject the pursuit of economic growth.

Little of this is likely to appeal to most voters, so these objectives are wrapped up in a language calculated to overcome their resistance. The 'fair go' is to Australians what motherhood and apple pie is to Americans—it is a quintessential national value, not to be criticised or questioned. Recognising this, the authors of this Report ground their proposals in repeated appeals to 'fairness':

> The strong economic gains of the last two decades have not been shared *fairly.*
>
> What we found is that Australia is *losing the fight for the fair go*, that inequality is accelerating.
>
> The Commonwealth's indifference to, or acceptance of, increasing poverty and inequality . . . is out of step with the views of Australians who *believe in a fair go for all.*
>
> If we are serious as a community about our claim to be a fair society—indeed *the land of the fair go*—then concerted action is required.[62]

The authors of the Report do not explain what they think 'fairness' means. They simply assume that equalising people's incomes is 'fair' while allowing people to benefit from their own hard work and enterprise is not. But fairness is more complicated than this.[63] Australian ideals of fairness encompass meritocratic notions of 'just deserts' and free market notions of 'voluntary exchange' as well as socialist ideals of 'equal outcomes'. A recent survey found that only one-third of Australians think of fairness in terms of greater income equality; many more think of it in terms of rewarding hard work or honouring voluntary agreements. The Senate Report ignores these alternative conceptions of fairness. Like socialist warriors of old, the Committee is convinced that any increase in income inequality is 'unfair' and must be 'corrected', no matter how it has arisen. They enlist the ideal of fairness in support of their call for higher taxes on those who work and higher benefits for those who do not, even though the majority of Australians do not agree that such policies are fair.[64]

Conclusion

The authors of this Report repeatedly fail to consider research and evidence that threatens to cast doubt on their political programme. We have seen in this paper that they make assertions about poverty and inequality that are false, they ignore evidence which does not fit the arguments and proposals they want to advance, they use measures of poverty which they were warned are misleading, and they use income statistics which they were told were wrong. This is a one-eyed, misleading, inaccurate and deeply ideological report masquerading in the guise of a serious and impartial Inquiry. It is not a Report of which the Senate can be proud.

Endnotes

1 Senate Community Affairs References Committee, *A Hand Up Not a Hand Out* (Canberra: Commonwealth of Australia, March 2004), page xv.

2 'Balancing the Picture on Poverty', in *A Hand Up Not a Hand Out*, p.444.

3 In 2001 the Smith Family published a report claiming that 13% of Australians were living in poverty and that things were getting worse (A. Harding, R. Lloyd, and H. Greenwell, *Financial Disadvantage in Australia 1990 to 2000*, Camperdown NSW: The Smith Family, 2001). In a series of publications, CIS researchers queried both the statistics used in the report and the system for measuring 'poverty' (much of this was summarised in P. Saunders and K. Tsumori, *Poverty in Australia*, Sydney: The Centre for Independent Studies, 2002), and the ensuing debate prompted contributions from various other sources including academics and welfare lobby groups. The Australian Bureau of Statistics admitted, however, that its income survey data were so badly flawed that they should not be used to make poverty estimates, and this effectively brought the debate to a shuddering halt, for all those who had been claiming that a large section of the population was in poverty had been using these flawed ABS income data (see ABS, *Measuring Australia's Progress*, ABS Cat. 1370.0, Canberra: Commonwealth of Australia, 2002; ABS, *Household Income and Income Distribution*, ABS Cat 6523.0, 23 July 2003).

4 St Vincent de Paul researchers explicitly embrace Marxist rhetoric in their critique of contemporary economic and social institutions. One has claimed, for example, that 'the market is part of the problem, not the solution', that the partial sell-off of Telstra was a 'social crime', that attempts to curb trade union power represent 'a frontal assault on a well-organised section of the working people', that 'the poor . . . are systematically dispossessed materially, socially and politically', that we need a 'strategic economic development . . . plan' instead of relying on market transactions, and that '5 million disadvantaged Australians' are engaged in what he calls 'a daily struggle' (selections from J. Falzon, *Third Way: Empty Promise*, Paper delivered to the 4th Path to Full Employment Conference, University of Newcastle, 4-6 December 2002). In a paper delivered to the Australian Labor Party at the time when the Senate Inquiry was being set up, the Director of the St Vincent de Paul Society's Social Justice Committee claimed that three million Australians are 'poor, disadvantaged and disenfranchised', and he went on to attack a wide range of government policies on health, schooling, privatisation and repayment of debt. The same paper described as a 'myth' the view that 'increases in taxes are bad', and bemoaned what it called the 'Americanisation of Australia'. See T. McCarthy and J. Wicks, 'Greed, Poverty and Compassion', Paper delivered to ALP Round Table on Poverty (18 October 2002).

5 *A Hand Up Not a Hand Out*, paras 2.99 and 18.14, emphasis added.

6 Parliament of the Commonwealth of Australia, *Extract from Journals of the Senate* No.42 (22 October 2002), section 12, para 1.

7 *A Hand Up Not a Hand Out,* p.xxii.

8 Australian Bureau of Statistics, *Household Income and Income Distribution,* ABS Cat No.6523.0 (Canberra: ABS, 23 July 2003), p.5.

9 Peter Whiteford and Gregory Angenent, *The Australian System of Social Protection: An Overview* Occasional Paper No. 6 (Canberra: Department of Family and Community Services, 2001).

10 The table appears in the Overview (p.xx) and again in Section 5 (as Table 5.2). Clearly the Report's authors believe it is crucial to their argument.

11 Another example concerns the problem of 'relative poverty'. Early on in the report, the CIS argument that 'relative poverty' measures confuse the distinct concepts of poverty and equality is acknowledged: 'It has been noted that poverty may increase even as inequality is reduced . . . Equally it is possible for poverty to be reduced even as inequality widens. This has been the case in recent years in the United States' (para 2.11). But having acknowledged this difficulty, it is then ignored. The very next paragraph begins: 'The acceptance of poverty as a relative concept means that poverty and inequality are related.' The report quotes approvingly from another source claiming that, 'The eradication of relative poverty will require some reduction of inequality' (para 2.12). In other

words, having accepted that poverty can be reduced while inequality increases, it immediately goes on to accept that poverty cannot be reduced without reducing inequality! The contradiction is never resolved but is simply put aside and forgotten for the rest of the report.

12 *A Hand Up Not a Hand Out*, footnote 3, p.241.

13 A. Harding and A. Szukalska, *Trends in Child Poverty 1982 to 1995-6,* Paper delivered to Australian Association for Social Research conference (1999), p.6. Available from www.natsem.canberra.edu.au

14 R. Bray *Hardship in Australia,* FaCS Occasional Paper No.4 (Canberra: Commonwealth of Australia, 2001), p.49, emphasis added.

15 P. Saunders, 'Budget Standards and the Poverty Line', *Melbourne Institute of Applied Economic and Social Research* (1999), p.43, emphasis added.

16 P. Whiteford and G. Angenent, *'The Australian System of Social Protection: An Overview,* FaCS Occasional Paper No.6, 2nd edition (Canberra: Commonwealth of Australia, 2001), p.88, emphasis added.

17 Inquiry submission No.45, point 4, emphasis added.

18 Melbourne Institute, *Poverty Lines: Australia* (various dates), Table 4.

19 For example, the ACOSS table reproduced in the Senate report (Table 5.2) shows (for the September 2002 quarter) that a sole parent with one child would receive a total weekly welfare payment of $365. This puts them below the Henderson poverty line for a household whose head is 'in the workforce' ($377) but above the poverty line for one whose head is 'not in the workforce' ($322).

20 *A Hand Up Not a Hand Out*, paras 255 and 258.

21 Inquiry submission no.45, point 7.

22 ABS, *Measuring Australia's Progress*, (see n.3), p.40 and footnote 2, emphasis added.

23 Throughout the history of ABS income surveys, the Department of Family and Community Services records have shown that more is being given out in benefits than the ABS Income surveys pick up. Traditionally, the income surveys have accounted for only about 85% of all welfare spending, but even this 85% figure has been slipping lately: by 2000/01 it was down to 78%. This could influence judgements of income inequality over time, a problem that ABS has been addressing. Its solution has been to re-weight the value of reported benefits to get it back to 85% of the FaCS spending data. It has done this by inflating the estimate of the number of people reporting they receive benefits (not by inflating the value of the benefits the receive). This obviously means that the reported incomes of those at the bottom stay the same as before while the number of people at the bottom increases. However, this procedure can do nothing to rectify increased under-reporting of incomes in recent years and is bound to result in increasing inequality estimates (because we now have more people estimated to be receiving the low reported incomes). Furthermore, the weighting still only gets us back to the 85% level of under-reporting so the fundamental problem in the data still remains, and ABS continues to warn that we should not use the bottom decile of incomes as the data are too unreliable (i.e., the gross mismatch of reported incomes and reported expenditure persists).

24 *A Hand Up Not a Hand Out,* para 3.19.

25 *A Hand Up Not a Hand Out*, para 3.21.

26 *Hansard (Senate Community Affairs References Committee),* Tuesday 27 May 2003, Sydney, CA 437. When Saunders says the ABS is 'addressing some of the problems', he is probably referring to the re-weighting of data to get back to the benchmark of 85% of income support payments being covered in ABS income surveys. It is important to emphasise that ABS can do nothing to correct for the massive under-reporting of incomes in the bottom decile, which is why it continues to ignore the bottom decile in its income distribution analyses.

27 *A Hand Up Not a Hand Out*, para 3.9.

28 D. Johnson, I. Manning and O. Hellwig, *Trends in the Distribution of Cash Income and Non-Cash Benefits* (Canberra: Australian Government Publishing Service, 1995). The paper shows that the Gini coefficient in 1993/4 falls from 0.315 for the distribution of disposable incomes to 0.244 for the distribution of what they call 'social wage income', a measure that includes the imputed value of health, education and other government services.

29 A. 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).

30 As above, p.54, emphasis added.

31 C. Whelan et al., 'Persistent Income Poverty and Deprivation in the European Union', *European Panel Analysis Working Paper* No.17 (Dublin: Economic and Social Research Institute, 2001). The report shows that across 11 European countries, at least half of those under the poverty line in one year were above it the next.

32 *The Sydney Morning Herald* (13 August 2002).

33 Calculations made by Kayoko Tsumori from HILDA data sets, waves 1 and 2.

34 *A Hand Up Not a Hand Out*, para 11.13.

35 R. Bray, *Hardship in Australia,* (see n.14), p.24.

36 R. Bray, *Hardship in Australia,* p.51.

37 *A Hand Up Not a Hand Out,* figure 5.1 and paras 5.21 and 5.22.

38 R. Bray, *Hardship in Australia*, p.72, emphasis added.

39 Recommendations 33 through 40 outline proposals for waiving debts to utility companies, greater controls on credit providers and pawnbrokers, and stronger regulations on gambling, together with more money for 'financial counselling' and 'support services for problem gamblers'. But nowhere in the report is the possibility mentioned that people might bring about their own hardship as a result of their own behaviour.

40 *Australia Talks Back,* ABC Radio National (17 March 2004).

41 *A Hand Up Not a Hand Out*, para 3.26.

42 *A Hand Up Not a Hand Out*, para 3.23.

43 A. Harding, R. Lloyd, H. Greenwell, *Financial Disadvantage in Australia 1990 to 2000*, (see n.3), Table 3. The rest are made up of 9% with 'other income sources', 9% reporting a zero or negative income, and 8% with their own business.

44 A. Harding et al., *Financial Disadvantage in Australia 1990 to 2000*, p.11.

45 *A Hand Up Not a Hand Out,* p.xviii, emphases added.

46 *A Hand Up Not a Hand Out*, para 4.15.

[47] *A Hand Up Not a Hand Out*, p.457. The poverty line figures are from Melbourne Institute, *Poverty Lines: Australia,* September Quarter (2003), Table 1. The minority report estimates that 'for a single person, a full-time minimum wage should put them $70 to $150 a week above the usual poverty lines', and that 'the net total income of a minimum wage couple household that is renting, with a single income earner and two children, is around $680 per week—$130 to $250 a week above the commonly used poverty lines for such a household.'

[48] The problem is created by the fact that income tax is levied on all earnings over $6,000 p.a. while income support payments for low-income working families are heavily means-tested. An increase in earned income thus incurs tax at 30 cents in the dollar as well as triggering a fall in FTB of another 30 cents, thereby creating an 'Effective Marginal Tax Rate' (EMTR) of at least 60%. The Senate Inquiry report demands that something should be done about this, but it has little idea what, recommending simply that, 'The Commonwealth Government [should] review social security income tests' to reduce high EMTRs on part-time workers and low income families (Recommendation 15). Clearly, any reduction of EMTRs must involve reduced taxation, weaker means-testing of benefits, or both, but the Inquiry does not back either option. CIS has suggested that action on tax should involve raising the zero-rate threshold, but the Inquiry has nothing to say about this. A group of leading economists has been arguing for the introduction of an earned income tax credit to counter the increased income tax which low-paid workers have to pay, but the Inquiry rejects this. The Inquiry backs an increase in the minimum wage, but these same economists have forcibly pointed out that increasing the minimum wage would do little to improve the living standards of low income families since most of the increase will disappear in higher tax and lower income support. The Inquiry ignores this warning. See Peter Dawkins, 'A Plan to Cut Unemployment in Australia', *Mercer-Melbourne Institute Quarterly Bulletin of Economic Trends* 1/99 (1999), pp.48-59; P. Dawkins, A. Duncan and J. Freebairn, *Modifying Income Support in the Australian Tax and Transfer System,* Paper delivered to the 'Pursuing Opportunity and Prosperity' conference (Melbourne: University of Melbourne, November 2003).

[49] For a critique of the campaigns on the minimum wage and casualisation, see K. Tsumori, *Poor Laws (2): The Minimum Wage and Unemployment*, Issue Analysis No.28 (Sydney: The Centre for Independent Studies, 2 December 2002), and K. Tsumori, *How Union Campaigns on Hours and Casuals are Threatening Low Skilled Jobs*, Issue Analysis No.44 (Sydney: The Centre for Independent Studies, 22 January 2004).

[50] *A Hand Up Not a Hand Out,* para 5.30.

[51] *A Hand Up Not a Hand Out*, para 5.35.

[52] $1.4 billion to raise allowances to the level of pensions, plus $11 billion to raise pensions to 30% of the average male wage. Statistics on current spending levels are from ABS, *Government Finance Statistics* Cat. No. 5512.0 (Canberra: ABS, 27 June 2003).

[53] The phrase comes from the Director of the Uniting Care Centre for Social Justice. See N. Preston, 'Recent Policy Has Abandoned the People in Pursuit of the Bottom Line', article 2077, www.onlineopinion.com.au (18 March 2004).

[54] *A Hand Up Not a Hand Out*, paras 18.48 and 18.54.

[55] *A Hand Up Not a Hand Out*, para 18.33.

[56] *A Hand Up Not a Hand Out*, para 18.46.

[57] The Inquiry complains of the 'sustained policy paralysis' which has followed the absence of agreement in the debate over poverty in Australia. *A Hand Up Not a Hand Out*, para 18.14.

[58] Parliament of the Commonwealth of Australia, *Extract from Journals of the Senate* No.42 (22 October 2002), section 12, para 1.

[59] *A Hand Up Not a Hand Out*, para 2.4.

[60] *A Hand Up Not a Hand Out*, para xv.

[61] *A Hand Up Not a Hand Out,* paras 18.48, 18.49, 18.54, 18.58, 18.61.

[62] *A Hand Up Not a Hand Out*, pp. xv, xxii, xxv, emphases added.

[63] P. Saunders, 'What Is Fair about a "Fair Go"?', *Policy* 20:1 (Autumn 2004), pp.3-10.

[64] The survey findings suggest that when egalitarians appeal to the Australian belief in the 'fair go' to justify their arguments for greater equality of income and wealth, they are misrepresenting popular conceptions of what fairness means. It is true that most Australians think that 'fairness' is an important criterion of public policy, but this no longer means (if it ever did) that they want income differences flattened. In the survey, only 33% agreed that, 'In a fair society, nobody should get an income a lot bigger or a lot smaller than anybody else gets'; 60% agreed that, 'In a fair society, people's incomes should depend on how much other people value the services they provide'; and 85% agreed that, 'In a fair society, people's incomes should depend on how hard they work and how talented they are'.

These results have significant policy implications, not least in respect of taxation where only 3% thought the income tax paid on an income of $60,000 was unfair because it was too low (compared with 46% who thought it was unfair because it was too high, and 51% who considered it fair and reasonable). Even considering an income of $120,000, only 9% thought it would be fair if people paid more tax, while 45% thought the existing level of tax was unfair. These results offer little support for the Senate Inquiry's notion of a 'fair go'. Many Australians think even higher earners are paying too much tax rather than too little, and that people should be allowed to keep what they legitimately earn.

Further details on this survey are available on request from the author.

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