

RICHER, BUT MORE UNEQUAL: PERCEPTIONS OF INEQUALITY IN AUSTRALIA 1987-2005

Gabrielle Meagher and Shaun Wilson

Australia's national income has doubled since 1987. Survey evidence indicates that Australians have registered better economic times, with 80 per cent of Australians saying they were proud of Australia's economic achievements in 2003 compared with 48 per cent in 1995 (Goot and Watson, 2003). However, the strong period of economic growth since the end of the recession of 1990-91 has been accompanied by increasing inequality in the distribution of income. The meaning of poverty has also been hotly debated (Saunders, 2005), as have the roles of work and welfare in redressing it (Carney, 2007; Mendes, 2008).

Stronger growth has complex effects on how much we think about – and tolerate – inequality. When growth is weak and unemployment high, critics have little trouble convincing a public that 'big structures' are the cause of inequalities. But how does the public respond to inequality when growth is robust and continuous, unemployment lower and opportunities greater? Does the public begin to see inequality as a collection of individual failings or worry less about it, believing 'a rising tide lifts all boats'? Following an examination of trends in income and labour market inequality over the last fifteen years, we explore how Australians have responded to the widening income gap. Drawing on data collected in major national and international surveys of social and political attitudes over twenty years, we examine how attitudes to inequality and redistribution change in a time of headline prosperity.

The public's response to inequality depends on how fair they perceive unequal outcomes to be, and how much of a role they see for government

in doing something about it, usually by redistributing income. Over the past two decades, government has used social policy to respond to rising market inequalities in two major ways: the Labor government (1983-1996) targeted its transfer payment assistance to help reduce poverty and both Labor and the Coalition government that followed it increased the generosity of family income support, boosting the incomes of lower-middle income families. Australian spending on family assistance now ranks among the highest in the OECD (Australian Institute of Health & Welfare, 2007).

But these successes, which have helped contain poverty and overall income inequality at the household level, should not distract us from disturbing underlying trends in the labour market – the engine room of inequality. At the end of a long period of growth, and two decades of market-driven reforms, we see more of the American picture: rising earnings inequality in the labour market, runaway pay for executives and senior management and deteriorating conditions among low-skilled workers who, according to van Wanrooy and Buchanan (2007), have lost out under the Coalition government's now discredited *WorkChoices* legislation.

Given these changes, then, we hope to provide a picture of the public's recognition and response to trends in inequality and redistribution. We are guided by two questions: have Australians registered the growing gap in market or private incomes, and if so, who? Evidence suggests more Australians believe the gap between the well-off and less well off has grown, but a further question remains: do they support redressing this? The conventional approach is government-led redistribution. We find that, despite recognising inequality, there has not been any strong increase in support for redistribution. As Christopher Jencks (1972: 232) once pointed out 'The first step towards redistributing income is not, then, devising ingenious machinery for taking money from the rich and giving it to the poor, but convincing large numbers of people that this is a desirable objective'. We probe the data to understand why this might be the case, considering: a lack of real understanding of the inequality 'problem'; a preference for non-redistributive measures to redress inequality; and a possible confidence in the 'rising tide lifts all boats' approach to managing economic opportunity.

Public Opinion and Social Policy

Just how public opinion and citizens' policy preferences affect the structure and evolution of social policy is a rapidly developing field of study. American researchers Clem Brooks and Jeff Manza have recently published a book setting out their theory of 'embedded preferences'. Drawing on developments in political sociology over three decades, they identify three types of 'causal mechanism' that explain the origins of a population's social policy preferences (2007: 30–32).

First is the *interests* people have, deriving from their position in social structures that involve unequal access to or possession of resources – class, race, and gender are all relevant here, and affect policy attitudes.

Second is the *discursive communities* people experience as they participate in major social institutions such as schools, churches and families – and change in these institutions such as secularization or the emergence of mass higher education can contribute to attitudes changing.

The third mechanism Brooks and Manza identify relates to citizens' '*collective memories of welfare state development*' – they cite preference for public versus private social provision as being influenced by historical narratives about the success or failure of past efforts at developing welfare state institutions. They contrast the positive narratives and support for welfare states that emerge around universalistic systems with the lower support for welfare states that are vulnerable to partisan criticism or retrenchment. The latter often generate high levels of resentment towards welfare recipients.

These mechanisms are particularly useful for framing our discussion of why rising perceptions of inequality that we report here – both in objective econometric data and social survey evidence – are not translating at this stage into rising support for redistribution.

Trends in the Distribution of Income in Australia

Attitudes to inequality and redistribution form in the context of an actual distribution of income and a framework of redistributive policies, both of

which can, and have, changed in Australia since the boom began in 1991. In this section, we present some data about major trends in the distribution of income, commenting where appropriate on effects of policy on that distribution.

But before we consider distributional trends, we need to recognise that measuring inequality and poverty and interpreting data are both technically challenging and politically charged. Problems with the quality of income distribution measurement in Australia have been recognised by the Australian Bureau of Statistics (ABS), and economists have attempted to establish the deficiencies of published data and to offer alternative measures (Siminski *et al.*, 2003; Saunders and Bradbury, 2006). Changes to survey methods and to the process of data adjustment after the collection of official income surveys mean that putting accurate time series together is challenging. This is unfortunate for us, because time series are a good way of establishing whether inequality is increasing or decreasing. Even more challenging and contentious is poverty measurement, as the ‘poverty wars’ between Peter Saunders of the Social Policy Research Centre (Saunders, 2005) and Peter Saunders of the Centre for Independent Studies (Saunders, 2004) show. (See also Harding *et al.*, 2007). However, inequality rather than poverty measurement is our focus here and we draw on available critical commentary to interpret the data we use.

So how has the distribution of income changed in Australia during the boom years since 1991? The most up-to-date statistics come from the ABS Survey of Income and Housing 2005-06 (ABS, 2007). Figure 1 shows the trend in the distribution of *disposable* income (from all sources, including income support, and after income taxes) between *households* (rather than individuals, whose living standards depend partly on resources shared with other household members), adjusted for the number and ages of household members (in other words, *equivalised*). The period measured, 1994-95 to 2005-06, takes in most of the boom years since the end of the recession of 1990-91.

The measure presented here – the Gini coefficient – summarises the distribution of income across the whole population into a single statistic, which varies between 0 (complete equality between units measured; in this case households) and 1 (when one unit receives all the income)

(ABS, 2007: 42–43). The most reliable conclusion we can draw from this data, according to Harding and colleagues (2007), is that income inequality ‘increased between the mid 1990s and 2003–04 – but the direction of any changes after that date is currently unclear’ (2007: 13) – hence the dashed line on the chart past that point.

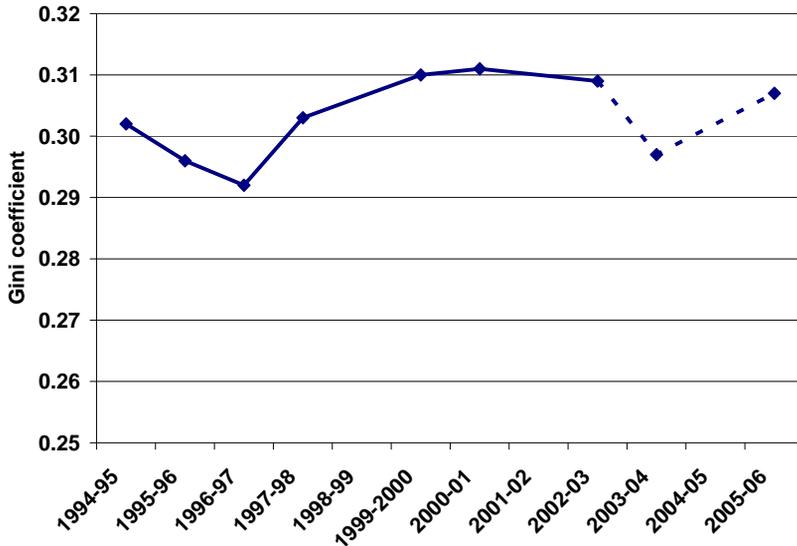
Although Figure 1 presents a summary statistic capturing the impact of cash transfers and income taxes on income distribution, it does not capture all dimensions of change in income distribution in Australia relevant here. First, precisely because the measure records *disposable* income, trends in the distribution of *wages* are masked by the effects of taxes and transfers. This is important because, as we say earlier, the impact of growth has been most stark on the distribution of labour market incomes. This is confirmed by studies based on different data sets, which show that increase the dispersion of wages, particularly in the top half of the distribution, has been pronounced in recent decades (ABS, 2001a; Leigh, 2005).¹ One study reports on increasing dispersion of earnings among males in full-time, non-managerial jobs on adult wages. Between 1990 and 2000, the income of men in the lowest decile of this group fell from 69.5 per cent of median earnings to 65.0 per cent, while the income of men in the highest decile rose from 156.3 per cent to 162.9 per cent (Keating, 2003: 376).²

This is a particularly conservative measure of changing wage dispersion, because it does not incorporate the effects of the rising number of marginal jobs (part-time and casual; see ABS 2001a, Table 4), and of rising managerial earnings (of which, more later), both of which further spread market incomes. More recently, large-scale survey evidence conducted by the Australia@Work project at the University of Sydney illustrates the impact of deregulation on inequality, with low-skill workers on Australian Workplace Agreements suffering reduced pay compared to similarly skilled workers employed under other industrial arrangements (see van Wanrooy and Buchanan 2007: 53).

1 ABS (2001a) uses unpublished data from the Survey of Income and Housing Costs and Leigh (2005) uses taxation statistics.

2 These data continue a trend evident since the late 1960s (Australian Bureau of Statistics 2001). Although the dispersion of female earnings is more compressed, the same pattern is evident (Keating 2003: 376).

Figure 1: Trend in Distribution of Equivalised Disposable Household Income, Australia, 1994-2006



Source: ABS *Household Income and Income Distribution, Australia* (2007)

Two other sources of income gain (or loss) are not encompassed by the headline Gini measure. These are the value of non-cash government benefits (such as education and health care), and the cost of indirect taxes (such as petrol excise, sales taxes and, since 2000, GST). When these benefits and costs are included in household income calculations, alongside cash income and direct income taxes, we arrive at a measure of final income. Available evidence about the distribution of these benefits and costs for three time points – 1993-4, 1998-9, and 2003-4 – suggests two notable developments across the decade measured (see Appendix Table A.1 and ABS 1996, 2001b, 2007b).

The first is that high income households appear to have benefited most from changes to the distribution of non-cash government benefits between 1993-4 and 2003-04. In 1993-4, the average weekly value of

non-cash benefits to households in the top quintile was the second lowest of all five quintile groups; only households in the lowest quintile received less. By 2003-04, households in the top quintile received the *highest* average value of non-cash benefits.³ The second is that the average proportion of final income paid in indirect taxes grew least for households in the top quintile across the decade, while in the poorest fifth of households indirect taxes climbed to an average of nearly one fifth of household final income (17.8 per cent). Past social research suggests the upper-middle benefit most from the provision of public health and education (Goodin and Le Grand, 1985).

Further, while the proportion of final income paid in both direct and indirect taxes increased in all income groups between 1993-94 and 2003-04, it increased *least* in the top quintile and *most* in the middle quintile, with the second poorest quintile not far behind the middle. Available data do not incorporate the most recent rounds of significant tax cuts to the top of income tax scale, which further reduce the average income tax paid by earners in high income households. Taken together, these findings suggest that measuring the distribution of disposable household income may not capture all benefits and costs that shape a household's standard of living, and that some gains by high income households have not been captured in this measure.

The findings also suggest that the extent to which the Australian welfare state redistributes benefits (cash and in kind) from higher to lower income earners was somewhat diluted between 1993-4 and 2003-4. Certainly, much of the Howard government's policy measures benefitted the middle and higher income earners, through regressive tax changes, such as the introduction of GST alongside income tax cuts for high income earners, while also offering more generous welfare to the same groups, through measures such as tax rebates for private health and child care, extended Medicare benefits and better funding to private schools.

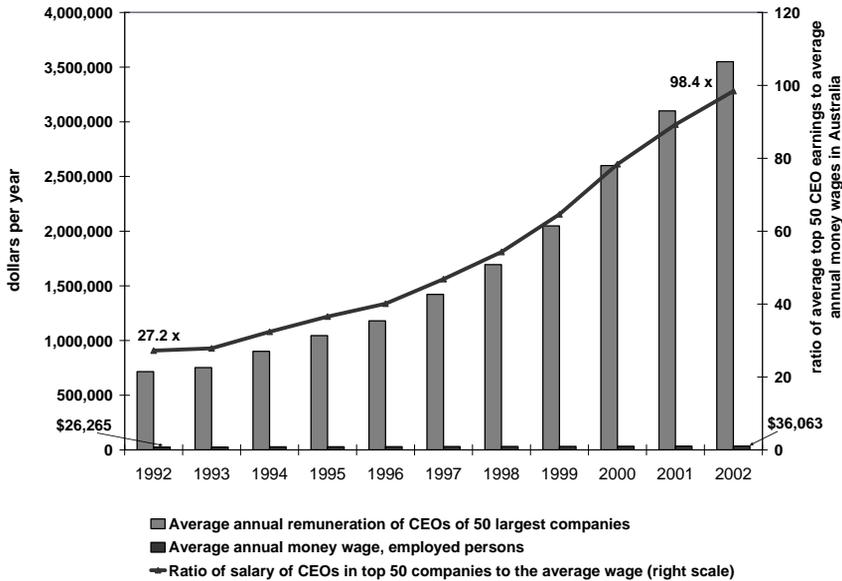
3 The distribution between quintiles is partly explained by household composition – the data in Table A.1 represent gross, not equivalised, income quintiles, and so do not take into account household size and age structure. However, the ranking of quintiles by household size has not changed between 1993-4 and 2003-4: the average size of households increases monotonically with quintile of gross household income in both periods (see ABS, 1996, Table 1 and ABS, 2007, Table 10).

So far we have focused on the distribution of income as a whole. We have seen evidence of increasing inequality in disposable income from the mid-1990s to 2002-03, and have assessed the implications of changes to indirect taxes and benefits to the distribution of income, more broadly defined. That the top has been ‘pulling away’ during this time, in some ways at the expense of the middle and bottom, seems clear. In the final part of this section we present some data about the ‘top of the top’, the income share of which Andrew Leigh has shown to be a reasonable proxy for income distribution overall⁴ (Leigh, 2007), and which we will show later to be particularly salient to the analysis of Australian attitudes to income distribution.

Figure 2, derived from Atkinson and Leigh (2006), shows the increase in the average annual remuneration of the chief executive officers (CEOs) of the 50 largest companies in Australia, compared with the average annual money wage of employed persons. The line on the chart (see right hand axis) shows the ratio of average CEO earnings to the average wage of ordinary workers. This chart shows stark evidence of the rapid rise in incomes, for this very select group of high income earners, in the decade after the boom began. In 1992, the average income of a top 50 CEO was 27.2 times greater than the average annual money wage of an employed Australian. By 2002, the average remuneration of a top 50 CEO was 98.4 times the annual wage of an Australian worker (Atkinson and Leigh, 2005). This development has not gone unnoticed in Australian society – reports of shareholder revolts against executive remuneration packages are common in the business press, and the former Treasurer, Peter Costello, is on record urging restraint among CEOs (Kitney and Hepworth, 2007).

4 Leigh uses regression analysis to estimate the correlation between top income shares derived from taxation data, and other measures of inequality such as the Gini co-efficient. This is not the same data set we borrow from Atkinson and Leigh (2006), but the general point stands.

Figure 2: Average Annual Incomes, Top 50 CEOs and all Employed Persons, 1992-2002



Source: Atkinson and Leigh (2006)

Australian Attitudes to Inequality and Redistribution, 1987-2005

To build a bridge between the actual distribution of income discussed above, and Australian attitudes to inequality and redistribution discussed below, we explore Australian beliefs about what people in different occupations do earn and what they should earn. Our data here come from the International Social Survey Program (ISSP), which has conducted a Social Inequality survey three times: in 1987, 1992 and 1999.⁵ The

5 A fourth Social Inequality survey is planned for 2009, and the data will be available in 2010 or 2011.

questionnaire includes the following item: ‘We would like to know what you think people in these jobs actually earn, before tax’. A list of occupations follows, with the jobs listed varying somewhat across the three surveys (see Table A.2). Next is an item which asks ‘What do you think people in these jobs ought to be paid – how much do you think they should earn each year before taxes, regardless of what they actually get?’. The list of jobs is the same as in the ‘actually earn’ list in each survey year.

Figure 3: Average Annual Incomes of Unskilled Workers and Corporate Chairs, Mean Estimates, Australia, 1987, 1992 and 1999

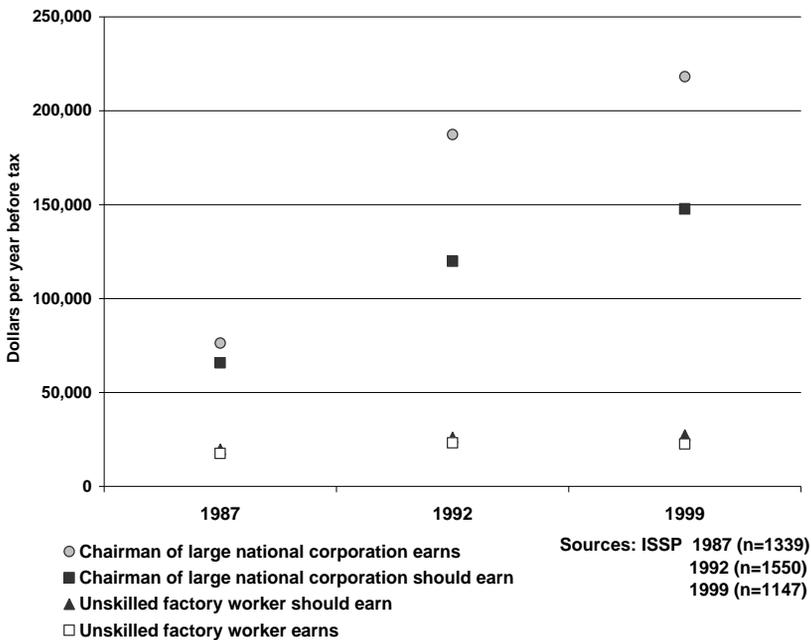


Figure 3 shows the mean or average estimates on these two questions, for two jobs – ‘unskilled factory worker’ and ‘chairman [*sic*] of a large

national corporation'. These are the jobs that Australians thought actually earned the lowest and highest amounts in the three surveys – unskilled factory workers at the bottom and chairmen of large national corporations at the top.

Respondents estimated that an unskilled factory worker earned around \$17,500 in 1992, rising to around \$22,000 in 1999. The average value of respondents' estimates of what the chairman of a large national company earns came in at \$76,000 in 1992, rising to about \$220,000 in 1999. Clearly, Australians registered the increase in incomes at the top of the distribution that we saw so dramatically documented in Figure 2.

How do respondent estimates of what these occupations *do* earn and what they *should* earn compare? The answer to this question gives some insight into perceptions of, and tolerance for, income inequality. For an unskilled factory worker, the average value of responses to the 'should earn' question was about \$19,700 in 1992, rising to a bit over \$27,000 in 1999. There is a consistent pattern here: Australians think that unskilled workers deserve to be paid more – in 1992, about 12 per cent more, in 1999, around 21 per cent more. The comparison of 'does' and 'should' earn estimates for the chairman of a large national company stands in stark contrast. The average value of estimates of what a chairman should earn was around \$65,000 in 1992, rising to a bit over \$150,000 in 1999. There is a consistent pattern here, too: Australians think that chairmen deserve to be paid *less* – in 1992, about 14 per cent less, in 1999, around 33 per cent less. (See Appendix Table A.2 for more a more detailed report of this data for these and other occupations.)

We can bring the two sets of estimates together to gain some insight into Australian perceptions of legitimate income differences, and how these changed between 1987 and 1999. In 1987 Australians thought that chairmen *actually* earned about 4.3 times more than unskilled factory workers, and that they *should* only earn 3.3 times as much. In 1999, they thought that chairmen actually earned around 10 times more, but that they should earn only around 5.4 times as much. When we compare the Australian public's estimates of what highly paid corporate executives earn with the data on actual earnings presented in Table 3, it is clear that Australians still significantly underestimate actual earnings, *even though* they have recognised that earnings for this group have grown

significantly. And while Australians underestimate the extent of inequality between these jobs at the top and bottom of the distribution, they still express a preference for *less* inequality, wanting to pull down the pay in the higher paying job and bring up the pay in the lower paid job.

Thus far we have inferred attitudes about inequality from responses to questions about actual and legitimate earnings for specific jobs. However, social surveys routinely ask respondents directly to evaluate the distribution of income overall. Table 1 reports Australian responses to two similar statements: ‘Differences in income in Australia are too large’, asked by the ISSP in 1987, 1992 and 1999, and ‘The gap between those with high incomes and those with low incomes is too large/too small’, asked by the Australian Survey of Social Attitudes (AuSSA) in 2003 and 2005. We can see that an increasing majority of respondents agrees that income differences or the income gap is too large in Australia – more than four fifths agreed in 2005, up from around two fifths in 1987.

Table 1: Attitudes to Income Differences and Redistribution, 1987-2005, per cent Agree

	1987	1992	1999	2003	2005
Differences in income in Australia are too large [ISSP] ^a	60.7	63.1	68.3		
The gap between those with high incomes and those with low incomes is too large/too small [AuSSA] ^b				84.4	81.7
It is the responsibility of the government to reduce the differences in income between people with high incomes and those with low incomes [ISSP] ^a	44.1	42.5	47.6		
Government should redistribute income from the better-off to those who are less well-off [AuSSA]^c				43.7	38.8

Sources: ISSP 1987, 1992 and 1999; AuSSA 2003, 2005.

^a Response categories: ‘Yes!’, Yes, ‘?’, No, No!’ in 1987 and 1992, and ‘Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree’ in 1999.

^b Response categories: ‘Much too large, Too large, About right, Too small, Much too small’.

^c Response categories: ‘Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly disagree’

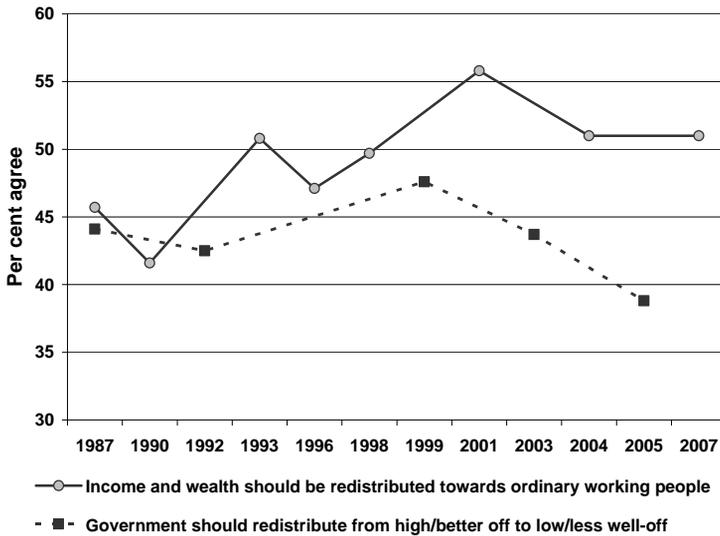
One obvious remedy for income inequality is redistribution by the government, and social surveys have also included questions about this. The two bottom rows of Table 1 report Australian responses to two similar statements about the redistributive role of government. Here we see that a minority, albeit a large one, of respondents agree that it is the responsibility of government to reduce income differences.

What is striking, then, is the gap between the large majority of respondents who think differences in income are a problem, and the much smaller proportion who think the government should redistribute income. This is a kind of puzzle – why is redistribution relatively unpopular, if inequality is widely recognised as a problem? We devote most of the remainder of this paper to exploring this gap.

Perhaps we have the beginnings of a clue to this puzzling gap in Figure 4. This chart shows that while support for *government* redistribution from high income (better off) to low income (less well-off) people seems to be falling, support for redistribution (by an unspecified mechanism) to *ordinary working people* seems on the rise. Possibly, people in the middle are looking ‘up’ the distribution to the growth of earnings at the top when they think about redistribution, rather than looking ‘down’ to the poor.

Figure 3 suggests that the growth of incomes at the very top of the distribution is not considered legitimate by many Australians. Popular coverage of very high incomes, say of corporate executives, portrays them as rewards executives give themselves, rather than as rightful earnings; certainly, reports of prodigious ‘golden handshakes’ and lavish bonuses that appear at best loosely tied to performance appear regularly when corporate chiefs change jobs. People in the middle (‘ordinary working people’) may see themselves as appropriate recipients of redistribution from the top. Perhaps if they looked ‘down’ to the poor when thinking about redistribution in the abstract, they might be more inclined to see redistribution by government as a more appropriate remedy.

Figure 4: Attitudes to Income Differences and Redistribution, 1987-2005, per cent Agree



Sources: AES 1987, 1990, 1993, 1996, 1999, 2001, 2004, 2007
 ISSP 1987, 1992, 1999
 AuSSA 2003, 2005

Further evidence in support of this interpretation comes from responses to some other questions probing attitudes to inequality, responses suggesting that the legitimacy of very high incomes is decreasing. One argument for inequality is that it motivates investment and rewards effort, and so is fundamental to increasing and sustaining prosperity (Kelley and Evans, 1993: 76-80). Yet a shrinking minority of Australians seems to agree with this line of argument. In 1987, 29 per cent of Australian ISSP respondents agreed that 'Large differences in income are necessary for Australia's prosperity'; by 1999, only 20 per cent agreed. Meanwhile, the proportion agreeing with the statement that 'Inequality continues to exist because it benefits the rich and powerful' increased from 57 to 64 per cent across the same period (ISSP 1987, 1999).

Another explanation would fit the ‘resentment politics’ story of the 1990s. According to this story, middle Australian voters *had* registered improved safety nets for poorer Australians, but felt they were left to shoulder the costs of economic reform and were missing out on the benefits of prosperity. Part of Howard’s eleven year electoral success, then, may be explained by his response, not just to the populist symbolism of that period, but his explicit efforts to recognise middle Australia and re-organise social and tax policy to their benefit.

Table 2: Who Supports Redistribution – to the Middle and Poor – and Who Doesn’t? 2005

	Gap too large ^a	Ordinary working people don’t get fair share ^b (1)	Support redistribution to less well off ^c (2)	Redistribution gap (diff. between 1 and 2)
Liberal-National voters	79	51	28	-23
Labor Voters	93	77	52	-25
Green Voters	93	77	60	-17
Voters with No Party ID	89	60	38	-22
Government run for big interests (low pol. trust)	93	77	48	-29
Can’t trust others (low social trust)	88	68	40	-28
Prefer lower taxes (over social spending)	82	63	37	-26
Unemployed can find work	84	61	37	-24
Total (average)	87*	63	41	-22

Source: Australian Survey of Social Attitudes 2005.

^a Total ‘too large’ responses: ‘The gap between those with high incomes and those with low incomes is too large/too small’

^b Total ‘agree’ responses ‘Ordinary working people do not get fair share of nation’s wealth’

^c Total ‘agree’ responses ‘Government should redistribute income from the well-off to the less well-off’

* excludes missing cases, which are reported in previous table

To better understand resistance to redistribution in the face of widely recognised inequalities, we do two things. We identify those voter groups who recognise that ‘ordinary people do not get their fair share of the nation’s wealth’ but who *do not* support government redistribution from the well-off to the less-well off (see Table 2). We then further explore this resistance to redistribution using multivariate analysis (presented in Table A.3).

Table 2, column 1 demonstrates near-universal recognition that income gaps are too large, with Labor, Green and voters who think government is run for big interests all scoring highest on this measure (with 93 per cent agreement). These voters are also most likely to agree that ordinary people do not get a fair share of the nation’s wealth (77 per cent), with Liberal-National voters least likely to agree (51 per cent). Where bigger differences start to emerge is when we locate voter groups who do not support redistribution. The groups most likely to ‘defect’ from redistribution are ranked by subtracting support for redistribution from agreement (column 3) with the statement that ordinary working people do not get their fair share of the nation’s wealth (column 2). This score is reported in column 4 of Table 2.

As can be seen, the largest ‘defections’ are registered among respondents with low trust in government (29 per cent), those with low trust in others (28 per cent) and those who prefer lower taxes to more social spending (26 per cent). The least likely to shift position are the left-of-centre group, Green voters, who drop only 17 points to 60 per cent support for redistribution to the less well-off and, who alongside, Labor voters are the only groups reported with majority support for traditional redistribution.

Although Table 2 presents bivariate relationships that are easy to follow, our analysis is strengthened by looking at a multivariate model in Table A.3. A logistic regression model is best for this categorical data. We use a two-level dependent variable:

Those who agree that ordinary people do not receive their fair share but *do not* support redistribution

versus; Those who recognise the inequality/‘fair share’ problem and do support redistribution.

In other words, we seek to find out what factors determine support for redistribution among respondents who recognise the inequality problem. (The 37 per cent of respondents who disagreed with the statement that ‘ordinary working people don’t get a fair share’ were excluded altogether).

We include three simple blocks of independent variables, measuring: social demographics; attitudes to government; and political identification. (All question and coding details are provided in the notes to Tables 2 and A.3 respectively). Although the explanatory power of the final model we presented here is limited, the results are useful.

Which voters were most likely to defect from support redistribution? They are: higher income earners; Liberal or National voters; those with no party identification; and voters hostile to welfare (on a scale measure). Taken together, these factors represent different ideological and material motives for rejecting goals of the welfare state.

We single out the question of trust in political institutions for further discussion. Not trusting government is a very plausible explanation for rejecting government-led redistribution. In this analysis, we use a survey item asking whether government is run for big interests, or for the benefit of all.⁶ But respondents holding the view that governments look after big interests were no more likely to hold anti-redistribution views.

We undertook some further modelling to better gauge the significance of this result. Our sense is that most of the impact of this ‘big interest’ view is registered on perceptions of inequality: respondents holding this view are much more likely to recognise the inequality problem. Because of the strength of their views, we speculate, some of these respondents still support government-led redistributive strategies. Others in this group, perhaps, mistrust government more fundamentally. The net result, however, appears to be a divided group and little overall effect, probably masking more complex pattern of trust and mistrust of government that either suits further analysis or another style of research. We hesitate to

6 Other variables measuring trust were chosen for the analysis: the conventional measure of political trust, trusting governments to do the right thing, tends to reflect support for the *governing party* at the time, rather than generalised political trust. This skews results and their interpretation.

suggest, however, that declining political trust presents no harm to social-democratic policy.

Conclusions

Australians clearly recognise the improvement in economic fortunes since the beginning of the 1990s, as measured by conventional consumer confidence measures (see Low 2008 Figure 5.3) and in social survey evidence cited at the beginning of the paper. But, at the same time, the evidence also shows that the public has registered an increase in inequality since the 1990s – confirming what the income statistics show. Perhaps the strongest pointer of this trend in attitudes is the rising number of Australians reporting to Australian Election Study researchers since 1987 that income should be redistributed towards ordinary *working* people. We speculate that rising perceptions of inequality are being generated most from experiences of the labour market. Certainly, this is where the income gap has widened most.

Widening inequalities at work limit the ability of government-led redistribution to change both perceptions of inequality and reality. With Labor's moderately successful emphasis on improving income support for poorer Australians over the 1980s and early 1990s, we think the survey data confirms Michael Pusey's (2003) arguments about a broad and disgruntled middle, stressed in the labour market, wary of increasing benefits going to the top and cool towards further help to those below them.

That perceptions of a growing gap have not translated into more support for redistribution poses an interesting problem for researchers and progressives. Our analysis suggests that resistance to redistribution comes from middle and higher income earners and overlaps with respondents hostile to welfare. These resistances are somewhat 'institutionalised' in the Australian model (combining residual welfare and visible taxation), mapping to both the interests and narratives shaping attitudes towards the welfare state that Brooks and Manza describe. These resistances are long-term and will only be overcome with difficult institutional rebuilding.

Howard's response – redistributing tax cuts and welfare spending to middle and higher income earners (evident in a weakening redistributive impact of policy) – registered the mood of middle Australia. But, in the end, his government's *WorkChoices* policy increased inequality in the sphere in which public probably registers it most: in the workplace.

Although the public is yet to fully recognise it, break-away income growth among top income earners may set the stage for the politics of redistribution in years to come. How will democracies limit ever more excessive incomes and wealth by the richest? With tougher economic times, tolerance for this kind of inequality may reduce sharply. As ever, policy ideas and public discussion will continue to make a difference to how public frustrations are channelled.

Gabrielle Meagher is Professor of Social Policy and Co-convenor of the Social Policy Research Network, Faculty of Education and Social Work, University of Sydney.

G.Meagher@edfac.usyd.edu.au

Shaun Wilson is a Senior Lecturer in the Department of Sociology, Macquarie University.

Shaun.Wilson@scmp.mq.edu.au

Primary Data Sources

Primary data sources include the Social Inequality Modules of the International Social Survey Program (ISSP) fielded in 1987, 1992 and 1999 and available online at: <http://www.issp.org/data.shtml>. We have also drawn on the Australian Election Studies (AES) 1987–2004, and the Australian Survey of Social Attitudes (AuSSA) 2003 and 2005, all available from the Australian Social Science Data Archive (ASSDA) at the Australian National University in Canberra, and online at <http://assda.anu.edu.au/>.

References

- ABS (1996) *Household Expenditure Survey, Australia: the Effects of Government Benefits and Taxes on Household Income, 1993-94*, Cat no. 6537.0, Canberra: Australian Bureau of Statistics.
- ABS (2001a) 'Household Income and Its Distribution', in *Yearbook Australia, 2001*, Cat. no. 1301.0, Australian Bureau of Statistics, Canberra.
- ABS (2001b) *Government Benefits, Taxes and Household Income, Australia, 1998-99*, Cat. no. 6537.0, Canberra: Australian Bureau of Statistics.
- ABS (2007a) *Household Income and Income Distribution, Australia, 2005-06*, Cat. no. 6523.0, Canberra: Australian Bureau of Statistics.
- ABS (2007b) *Government Benefits, Taxes and Household Income, Australia, 2003-04*, Cat. no. 6537.0, Canberra: Australian Bureau of Statistics.
- Atkinson, Anthony B. and Leigh, Andrew (2006) *The Distribution of Top Incomes in Australia*, Discussion Paper No. 514, Centre for Economic Policy Research, Canberra: Australian National University. See data file at <http://econrsss.anu.edu.au/~aleigh/pdf/TopIncomesPanel.xls>
- Australian Institute of Health and Welfare (2007) *Australia's Welfare 2007*, Australian Government, Canberra.
- Brooks, Clem and Manza, Jeff (2007) *Why Welfare States Persist: The Importance of Public Opinion in Democracies*, Chicago: University of Chicago Press.
- Carney, Terry (2007) *Welfare reform? Following the 'Work-First' Way*, Social Policy Working Paper No. 7, Melbourne: Brotherhood of St Laurence and Centre for Public Policy.
- Goodin, Robert E. and Le Grand, Julian (1985) *Not Only the Poor: the Middle Classes and the Welfare State*, Allen & Unwin, Sydney.
- Goot, Murray and Watson, Ian (2005) 'Immigration, Multiculturalism and National Identity' in Wilson, Shaun, Meagher, Gabrielle, Gibson, Rachel, Denemark, David and Western, Mark (eds) *Australian Social Attitudes: The First Report*, UNSW Press, Sydney.
- Jencks, Christopher (1972) *Inequality: A Reassessment of the Effect of Family and Schooling in America*, Harper Colophon Books, New York.
- Keating, Michael (2003) 'The Labour Market and Inequality', *Australian Economic Review*, Vol. 36, No. 4.
- Kelley, Jonathan, and Evans, M. R. (1993) 'The Legitimation of Inequality: Occupational Earnings in Nine Nations', *American Journal of Sociology*, Vol. 99, No. 1 (July).
- Kitney, Damon and Hepworth, Annabel (2007) 'Results Mean Big Dollars and Big Questions', *Australian Financial Review*, November 16.
- Leigh, Andrew (2005) 'Deriving Long-Run Inequality Series from Tax Data', *Economic Record*, Vol. 81, No. 255.

Leigh, Andrew (2007) 'How Closely Do Top Income Shares Track Other Measures of Inequality?', *The Economic Journal*, Vol. 117, No 524.

Low, Chin Nam (2008) 'Consumer Sentiment, Economic Activity and News Heard' <http://www.melbourneinstitute.com/research/macro/Consumer%20Sentiment,%20Economic%20Activity%20and%20News%20Heard.pdf> [accessed: 28 April 2008]

Mendes, P. (2008) *Australia's Welfare Wars Revisited: The Players, the Politics and the Ideologies*, Sydney, UNSW Press.

Pusey, Michael (2003) *Middle Australia: The Experience of Economic Reform*, Cambridge University Press, Cambridge.

Saunders, Peter (2004) *Lies, Damned Lies and the Senate Poverty Inquiry Report*, Issue Analysis No. 46, Sydney: Centre for Independent Studies.

Saunders, Peter (2005) *The Poverty Wars: Reconnecting Research With Reality*, Sydney, UNSW Press.

Saunders, Peter and Bruce Bradbury (2006) 'Monitoring Trends in Poverty and Income Distribution: Data, Methodology and Measurement', *Economic Record*, Vol. 82, No. 258, September.

Siminski, Peter, Peter Saunders and Bruce Bradbury (2003) 'Reviewing the Intertemporal Consistency of ABS Household Income Data through Comparisons with External Aggregates', *Australian Economic Review*, Vol. 36, No. 3.

Van Wanrooy, Brigid, Sarah Oxenbridge, Buchanan, John and Jakubauskas, Michelle (2007) *Australia@Work: the Benchmark Report*, Workplace Research Centre. Online available at: www.wrc.org.au

Table A.1: Distribution of Costs and Benefits of the Australian Welfare State to all Households,
by Gross Income Quintile, 1993-4, 1998-9 and 2003-4

	A	B	C	D	E	(A+B+C)- (D+E)	Government cash benefits as a proportion of final income ^c	Indirect benefits as proportion of final income ^c	Income taxes as a proportion of final income ^c	Indirect taxes as a proportion of final income ^c	
	Private Income	Social assistance benefits in cash (total) ^a	Total selected social transfers in kind	Taxes on Income	Indirect taxes ^b	Final Income					
	Average value per week (\$)										
1993-4											
Lowest 20%	13.48	138.17	112.53	2.06	28.90	233.22	59.2%	48.3%	0.9%	12.4%	
Second	168.00	185.50	156.77	18.01	43.17	449.50	41.4%	34.9%	4.0%	9.6%	
Third	503.51	88.76	140.62	80.33	58.96	593.59	15.0%	23.7%	13.5%	9.9%	
Fourth	860.00	49.07	133.72	171.19	73.81	797.79	6.2%	16.8%	21.5%	9.3%	
Highest 20%	1586.18	22.59	131.46	412.86	96.60	1230.77	1.8%	10.7%	33.3%	7.8%	
1998-99											
Lowest 20%	**14.85	141.56	144.30	**1.81	38.21	260.70	54.3%	55.4%	0.7%	14.7%	
Second	205.90	204.63	211.55	20.74	55.27	546.06	37.5%	38.7%	3.8%	10.1%	
Third	612.34	97.07	195.96	105.19	73.97	726.22	13.4%	27.0%	14.5%	10.2%	
Fourth	1039.55	49.41	194.32	221.73	98.95	979.63	5.0%	19.8%	22.9%	10.1%	
Highest 20%	1953.52	28.21	193.17	531.47	129.23	1514.18	1.9%	12.8%	35.1%	8.3%	
2003-04											
Lowest 20%	46.46	216.69	202.08	**0.05	70.26	394.81	54.8%	51.2%	0.0%	17.8%	
Second	323.15	232.01	249.32	36.68	102.57	664.82	34.9%	37.5%	5.3%	15.3%	
Third	812.49	117.55	229.22	140.18	141.57	877.51	13.4%	26.1%	16.0%	16.1%	
Fourth	1369.56	75.62	254.21	260.61	179.82	1198.76	6.3%	21.2%	21.7%	15.0%	
Highest 20%	2471.82	40.04	256.32	626.11	241.27	1900.80	2.1%	13.5%	32.9%	12.7%	

(Source: ABS 1996, 2001, 2007b)

** Relative standard error is greater than 50%, so results considered unreliable.

^a Excludes overseas pensions.

^b Includes GST after 2000.

^c These may sum to more than 100% because of the impact of taxes interchanges between the summation of income from different sources and the calculation of final income.

Table A.2: Actual and Legitimate Earnings by Occupation, Australia, 1987, 1992 and 1999, Mean Values in Dollars Per Year

	1987		1992		1999	
	Does	<i>Should</i>	Does	<i>Should</i>	Does	<i>Should</i>
Unskilled factory worker	17,550	19,738	23,098	26,114	22,533	27,374
Farm worker	18,956	22,989	24,411	28,898		
City bus driver	21,423	23,064				
Secretary	21,879	23,494				
Bank clerk	24,200	24,874				
Skilled factory worker	25,340	27,355	30,190	32,642	32,288	37,758
Bricklayer	29,734	29,333				
Small shop owner	30,631	33,776	43,495	49,009		
Doctor in general practice	67,484	59,513	94,148	81,922	103,179	98,225
Cabinet minister in federal government	68,670	54,906	107,430	78,970	129,591	98,947
Chairman of a large national company	76,319	65,734	187,292	119,912	218,098	147,680
Shop assistant in a department store			24,755	27,342	24,294	29,145
Solicitor			122,813	83,510	139,160	101,918
Owner-manager of large factory			101,693	88,875	113,176	107,452
High court judge			164,832	112,355	195,689	142,653

Source: ISSP Social Inequality Modules 1987, 1992, 1999

Table A.3: Who Worries about Inequality but Opposes Redistribution? 2005

Dependent variable: Agree that ordinary people don't get their fair share, but do not support redistribution	Odds Ratios	Sig
Men	0.954	
Older	1.001	
Higher Income	1.034	*
University educated	0.880	
Attitudes to Government		
Low political trust (big interests)	0.832	
Prefer lower taxes (over social spending)	0.995	*
Sympathetic to welfare	0.95	**
Political identification (ref: all others)		
Liberal-National ID	1.736	**
No Political ID	1.476	**
N	1271	
-2 log likelihood	2494.760	
Nagelkerke R-sq	0.049	

Source: AuSSA 2005. * sig at $p \leq 0.05$ ** sig at $p \leq 0.01$

Question and coding details (in brief):

Older is age in years (continuous); **Higher income** is 14 point scale of resp. individual income (interval); **University educated** (resp. completed Bachelor's degree or higher); **Low political trust** (Two 'run for a few big interest' responses to 'federal government is run for a few big interests or for the benefit of all' coded as 1; other responses =0); **Prefer lower taxes** (two responses 'favour reducing taxes' to 'favour reducing income taxes or increasing social spending on health and education' coded as 1; other responses =0); **Sympathetic to welfare** is a four variable unweighted scale with Cronbach's alpha of 0.79, considered 'good'. (Questions in the scale are: 'Most unemployed here could find job if wanted to'; 'Limit length of time people can get welfare'; 'Welfare makes people lazy and dependent'; 'If welfare more obligation to find work'); **Liberal-National ID** is a dummy variable for respondents who identify as Liberal or National voters; **No Political ID** is a dummy variable for respondents who claim no political party identification.

Model was checked for multicollinearity using linear regression VIF results.