

## Book reviews

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Andrew Leigh, *Battlers and Billionaires: The Story of Inequality in Australia*. Redback (ebook) and Black Inc. (pbk): Collingwood, VIC, Australia, 2013; 224 pp.: 9781863956079, RRP: AUD19.95.

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The subject matter of Andrew Leigh's latest book is attracting increasing attention among academic economists as well as among those interested in the study of social development, broadly defined to include changes in our social and political (as well as economic) values and performance. The widespread success and impact of Thomas Picketty's (2014) *Capital in the Twenty-First Century* has placed inequality at the centre of the economic debate for the moment, building on the momentum established by *The Price of Inequality* by Joseph Stiglitz (2010). Both authors express dismay over growing inequality, but whereas Picketty's primary goal is to explain the 'historical dynamics of wealth and income', Stiglitz's main concern is with the consequences – social and political as well as economic – of growing inequality and lack of opportunity, specifically in the United States but by implication in many other capitalist countries also. Accompanying these two contributions are two excellent summaries of the current state of knowledge about income distribution, based, respectively, on two major international collaborations – the Luxembourg Income Study (LIS) project (Gornick and Jäntti, 2013) and the Growing Inequalities' Impacts (GINI) project (Nolan et al., 2014; Salverda et al., 2014).

Inequality is without doubt flavour of the day, and Andrew Leigh is admirably qualified to provide an Australian perspective on the topic, having made several significant contributions to the Australian and international literature and having worked with leading scholars in the field including (Sir) Tony Atkinson, Tim Smeeding and Christopher Jencks. This was mainly when he was Professor of Economics in the Research School of Social Sciences at the Australian National University (ANU), prior to his election as the federal member for Fraser in the 2010 election. His relatively short academic career was punctuated with honours including being awarded (jointly) the prestigious Academy of the Social Sciences in Australia (ASSA) Paul Bourke Award for Early Career Research in 2006 and the Economic Society of Australia's Young Economist Award in 2011 and being elected a Fellow of ASSA in the same year. All this before he had reached 40 and less than a decade after being awarded his PhD in Public Policy at Harvard on the topic 'Essays on Poverty and Inequality'. One might hope that, in the future, economics' loss will be politics' gain although the track record of those who have travelled this road in the past is not good, to say the least. Few

top-rate academic economists have the skills to become public commentators (at least those who remain in academe), and even fewer, it seems, are able to manage the difficult transition from the ivory tower to the parliamentary benches – although Leigh has continued his upwards trajectory there, now occupying the positions of Shadow Assistant Treasurer and Shadow Minister for Competition.

With all the time and effort that this must have entailed (not to mention fathering three children), one can but wonder how he found the time and energy to produce such an excellent little book as *Battlers and Billionaires: The Story of Inequality in Australia*. The focus of this book is, intentionally, on Australia ‘because the first point of comparison for most of us is other Australians’ (p. 14), but this does not prevent (indeed, it necessitates) Leigh’s delving into relevant parts of the international literature on inequality and drawing on some of the international developments, theories and ideas to which the Australian economy (and its citizens) have been exposed. This book is in three broad parts. The first part describes how Australian inequality has changed since records were first kept, covering the period up to federation (Chapter 1) from there to the 1970s (Chapter 2) and from the 1980s to today (Chapter 3). The second part addresses the underlying drivers (Chapter 4) and consequences (Chapter 5) of inequality and the issue of mobility – the relationship between the level of inequality and inequality of opportunity (Chapter 6). Finally, in the third part, Leigh reviews the evidence on public attitudes to inequality (Chapter 7) before considering what is to be done in his concluding chapter.

There is a wealth of valuable information in this book – an amazing achievement since the main text runs to less than 150 pages and is an easy read: ideas are explained well, the evidence is laid out methodically and a number of innovative ways are used to bring home to the reader exactly what the extent of inequality is and how it has changed. Readers keen to understand the evidence and arguments in more depth can delve into the 45 pages of Endnotes (418 in total), while those who just want to digest the essence of the arguments can stick to the main text and enjoy ‘a darn good read’. Not everyone wants to understand the intricacies of the Gini coefficient, although it is important to know whether inequality has changed, by how much, whether the degree of change is substantial, historically (compared with the past) and comparatively (compared with other countries), and what are the underlying causes and consequences. Leigh’s easy-going yet rigorous style lays out ‘the facts’ in a way that all can understand and decide for themselves whether or not they should be concerned – for themselves, for future generations or for Australian society.

I particularly liked some of the devices used to illustrate the extent of inequality and how it has changed, including the variant on Pen’s famous ‘Parade of Dwarves’ (attributed by Leigh to Harvard’s David Ellwood) in which he visualises a ladder, each of whose steps represents a million dollars of wealth. While around half of all Australians lie midway between the floor and the first rung and a household in the top 10% of the wealth distribution is about knee-high, mining magnate Gina Rinehart is a veritable giant, at nearly 10km tall. Another useful descriptive device is the list of all-time rich Australians (with wealth in excess of 0.17% of gross domestic product (GDP)), derived by splicing together estimates from 1790 to 1980, produced by William Rubenstein, with (since 1984) those who have made it onto the *BRW* rich list. The time series plot not only puts recent developments into a fascinating long-term perspective but also highlights

how unusual developments since the 1980s have been, the increase over this period contrasting with a massive declines between 1810 and 1850 and between 1890 and 1980.

These figures are driven by changes in the distribution of wealth, but *Battlers and Billionaires* (as its title proclaims) is about the distributions of income and wealth (rather than the joint distribution of income and wealth), and it is here that Leigh is able to draw directly on his own research, particularly on the top end of the income distribution. One striking general finding is that the decline in male income inequality in the four decades to the end of the 1970s (when ‘male breadwinner’ families were the norm) was as large as the 1970s difference between inequality in Australia and in the more equal Scandinavian countries. This juxtaposition of a time series national trend with cross-country cross-sectional differences puts to rest the notion that nations have limited ability to change their distributional profiles. It highlights the fact that this is a choice that each country can – and does – make for itself.

The period since 1980 (what Leigh calls ‘The Great Divergence’) is characterised by rising inequality in Australia and within most other Organisation for Economic Cooperation and Development (OECD) countries. The latest OECD figures show a steady rise in the average OECD Gini coefficient of around 11% between the mid-1980s and 2011, with the Australian figures (although beset by a series of definitional and methodological changes) showing a similar pattern (OECD, 2014). Leigh also shows that the long-run trend in top income inequality in Australia (as elsewhere) is more dramatic, the share of the top 1% doubling from around 5% in 1980 to 10% in 2005 – 10 times their proportionate share – before falling back slightly. That’s a very large slice of the cake being captured by a very small group of people. The recent peak is similar to that experienced during the Korean war period and before that, in the 1930s. Perhaps of greater concern is that Leigh estimates that around one-third of the rise in top incomes in recent decades has been a direct result of cuts in top income tax rates, reinforcing the point made earlier about the role of policy choices in driving long-run changes in inequality. These tax cuts have been made in the name of ‘trickle-down economics’ – what Galbraith described as the idea that ‘in order to make the poor richer you must first make the rich richer’ – although there is little hard economic evidence to support what has always been a largely ideological slogan. Even if there were, timing would be an important determinant of the social attractiveness of such an approach: as Leigh notes, ‘it takes quite a while for the pie to grow enough to make up for the fact that the poor have received a smaller slice’ (p. 88). If the aim is genuinely to assist the poor, would it not be better to pursue policies that are known to raise their incomes more quickly, even if this might involve some re-slicing of the cake?

Another argument that has received support from conservative groups and has currency among the political elite is that what matters is not so much the degree of inequality in economic outcomes but the opportunity provided to individuals to realise their full economic potential. On this view, policy should strive to ensure that opportunity is equalised (whatever that means) and not be so concerned that some do better than others in the resulting competition for economic success. Indeed (it is argued), a wider dispersion of economic outcomes will generate greater rewards for those who attain success and provide stronger financial incentives to encourage others to strive to achieve it. Leigh rightly casts serious doubt on this line of reasoning, noting that those countries that have more

equal income distributions also tend to do better in terms of income mobility. The problem with equal opportunity policies is that they run into resistance from those who seek to protect established advantages, and these, of course, have grown as a result of the recent rise in inequality. Why should someone at the top of the distribution favour greater inter-generational mobility that is likely to threaten the economic status of their own children – since mobility necessarily involves movements down as well as up the distributional ladder – particularly when their children now have further to fall than in previous decades? Instead, their optimal strategy will surely be to seek to intervene in the political process to persuade policy-makers to introduce policies (like tax cuts for the rich) that protect and entrench their current economic advantages, as Stiglitz has argued, is already happening in the US. These arguments have resonance in Australia, where they are given greater potential by our absence of any form of taxation of the ownership or transfer of wealth – surely one of the great policy failings of the Fraser Government, which had the opportunity to fill the void created when State Governments abolished gift and estate duty but instead chose inexplicably to follow suit.

When it comes to the causes of growing inequality, Leigh identifies three main culprits in the Australian case: technology and globalisation, de-unionisation and tax cuts (p. 81). This assessment contrasts to some extent with that provided by the OECD (2012), where it is argued that the impact of technology and globalisation is complex and at times offsetting in terms of their impact on inequality. The impact of declining unionisation is not addressed explicitly by the OECD although it does acknowledge that changes in labour market regulation have been important. It identifies the growth in average educational attainment as ‘the single most important factor contributing not only to reduced wage dispersion among workers but also to higher employment rates’ (p. 31) and notes later that the decline in the redistributive impact of the tax-transfer system since the mid-1990s was ‘driven chiefly by *benefits* or, to be more precise, by changes in their recipient patterns and generosity ... benefit targeting seems to have played less of a role’ (p. 38; italics in the original). There is, of course, no reason why the factors identified by the OECD as being of overall importance should be equally important in each country. The causes identified by Leigh are similar to those that emerge from the latest LIS research (see Gornick and Jäntti, 2013) although more attention is given there to the role of changes in capital markets, including the link between the level of interest rates and CEO salaries. Overall, however, the literature suggests that the conclusions reached by Leigh are broadly valid, but warrant further, ongoing examination.

One serious omission (highlighted by the OECD analysis) from Leigh’s discussion of the ‘drivers’ of inequality in Chapter 4 is the Australian welfare system. It is noted later that the Australian welfare system has traditionally been one of the most highly targeted in the OECD, and Leigh argues that ‘we need to make sure that welfare spending continues to be targeted towards those most in need’ (p. 145). Yet, the link between how such benefits are designed and delivered and the resulting impact on inequality is not discussed, although the evidence on the redistributive impact of cash benefits (in Australia and elsewhere) is clear in showing that they play a major role in achieving greater equality. Leigh’s failure to adequately address the relationship between how programmes are structured and the degree of political support they attract is of particular concern, given his current role (and growing influence) in the Australian Labour Party (ALP), where

welfare policy remains fixated on the notion that since targeting concentrates support on those who need it most, it follows axiomatically that greater targeting must deliver better distributional outcomes. This approach flies in the face of evidence showing that although Australia ranks well internationally in relation to the degree of its welfare targeting, it does not rank so well in terms of its poverty rate. Targeting is a means, not an end, and it is important to keep the focus on what is achieved, not just on what is done to get us there. Given Leigh's strong support for the need to evaluate social programmes using rigorous methods including randomised control trials (RCTs), his tame acceptance of the rationale for targeting is surprising.

This kind of reasoning lies behind the abject failure of the last ALP Government to address the most blatant inequity in the current welfare system – the lack of appropriate indexation of Newstart Allowance (NSA) paid to the unemployed. This in turn reveals a failure to confront the underlying challenge, which is that improving the welfare system as part of a broader strategy to tackle inequality in Australia must involve improving the adequacy of welfare benefits and that this will require increased government spending. Greater targeting and increased benefit conditionality are easily sold to an electorate regularly fed on a diet of dole bludger claims and alleged abuses of the welfare system, but policy must be driven by evidence not sloganeering – as Andrew Leigh would be the first to acknowledge. The Australian welfare system is widely seen by policy-makers and the public as a drain on the national budget – something that must be curtailed before its evil consequences undermine the basis of everyone's prosperity. It is the job of progressive political leaders to address these fallacious arguments head-on, yet the ALP's failure to increase the level of NSA makes its claim to be the pro-redistribution party of 'the battlers' ring hollow.

This discussion highlights two other issues that are addressed in *Battlers and Billionaires*, which relate to the consequences of inequality and the nature of public attitudes to inequality. Leigh is sceptical about much of the evidence on the social consequences (in terms of health outcomes and criminal activity) of growing economic inequality, describing it in several places as 'fragile'. He does not deny that an individual's health depends on their *own income* (indeed, one of the most chilling statistics in this book is that those Australians with incomes in the top quintile live on average 6 years longer than those in the lowest quintile) but is unconvinced by evidence purporting to show that changes in *other people's income* (that drive changes in inequality) can lead to such effects. Similarly, he argues that changes in inequality are not a major contributor to movements in the crime rate (pp. 100–101). These conclusions are again broadly supported by results from the LIS and GINI projects, particularly the latter, where the project leaders note in their Introduction to Salverda et al. (2014) that the sheer complexity of the issue requires more sophisticated theories and methods and better data before any definitive conclusions can be reached.

On the matter of public attitudes, Leigh draws on the literature to show convincingly that most Australians (again, we are not alone here!) have little idea of how much inequality actually exists and know even less about where they fit into the overall picture. The vast majority have little idea what other people earn and think that they themselves fall into the middle of the distribution, but there is a clear (and growing) majority support for redistribution from rich to poor. This is true, although doubts have been raised about

how to interpret responses to the question: ‘Is the gap between the rich and the poor too large?’ and it is not always the case that those who agree with the affirmative proposition favour government efforts to do something about it (Saunders and Wong, 2013). One can, for example, believe that the income gap that exists is too large but still oppose government redistribution because it is seen as ineffective or likely to lead to other problems. It is here that Andrew Leigh the politician has a unique opportunity to change the way in which such debates are framed, by seeking to influence public opinion on matters relating to inequality and redistribution. He is already taking on this challenge and deserves to be applauded for doing so.

The recommendations set out in the final chapter provide a useful basis from which to develop a coherent strategy for bringing redistribution back onto a political agenda that is lop-sided without it. The main components are hardly surprising: strong economic growth, more and better education, supporting families, more power to the unions, welfare targeting (see above), progressive taxation, improved evaluation of social (and economic) programmes and a sustained focus on the merits and importance of egalitarianism. What is surprising (but encouraging) is that such a coherent and comprehensive egalitarian strategy has been advocated by someone who is close to having real power and influence – a powerful combination as William Beveridge (1955) understood all too well. Andrew Leigh’s book has succeeded in his goal of stirring debate about inequality. It has alerted readers to his fear ‘that we will sleep-walk into a more unequal Australia without realising what is being lost’ (p. 141). His background in academic economics and his growing importance in political circles augur well for the future of debate in Australia about what kind of society we want and how our economic (and social) policies can help us to get there. An informed debate on these issues led by someone with the power to bring about change is long overdue but shows little sign of emerging from our current woeful political posturing and values. Bring it on, Andrew!

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