

Rich-poor gap a \$247b drag on our wellbeing

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The income gap between rich and poor is a bigger drag on the wellbeing of the Australian community than previously estimated, a broad measure of national welfare shows.

The Age-Lateral Economics Wellbeing Index has lifted its estimate of the wellbeing cost of income inequality in 2018 by nearly \$8 billion.

The upward revision was triggered by the release this month of data from the Bureau of Statistics' 2017-18 survey of household income and wealth, which revealed a modest increase in income inequality compared with the previous survey.

The index's authors calculate it would have required a half-a-percent increase in Australia's GDP last year to make up for the decline in community wellbeing caused by less equitable income distribution.

Debates about how to respond to economic inequality have emerged in many Western democracies over the past decade amid growing voter concern about the distribution of wealth and income.

The index puts the cost of income inequality to Australia's collective wellbeing in 2018 at \$247 billion, up 3.8 per cent from the previous year.

During the past five years the annual wellbeing cost of income disparities across the economy has grown by a hefty \$48 billion.

The Age-Lateral Economics Wellbeing Index adjusts GDP figures to take account of changes in knowhow, health, work life, environmental quality and income distribution.

The most recent report revealed weak growth in Australia's wellbeing last year – the index rose by only 0.3 per cent in 2018, the lowest calendar-year increase since 2015.

Income inequality is one of the index's six main components. According to Lateral Economics' estimates, each additional dollar received by the poorest fifth of households adds five times more to the overall wellbeing of the community than each additional dollar earned by the wealthiest fifth. As index author Nicholas Gruen puts it, "a dollar in the hands of those with low incomes tends to meet far more urgent needs than a dollar in the hands of those with high incomes".