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Author:
Shaver, Sheila; Saunders, Peter

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SOCIAL POLICY FOR THE 21ST CENTURY: JUSTICE AND RESPONSIBILITY

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VOLUME 2

edited by Sheila Shaver and
Peter Saunders

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(formerly the Social Welfare Research Centre), please contact:
The Publications Officer, SPRC,
University of New South Wales, Sydney, NSW, 2052, Australia.
Telephone: +61 (2) 9385 7800 Fax: +61 (2) 9385 7838 Email: sprc@unsw.edu.au

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Foreword

In 1999, the Social Policy Research Centre once again hosted the National Social Policy Conference, the sixth time it has done so. The Centre's charter identifies one of its main functions as being the organisation of seminars and conferences on social policy issues. Over the years, the social policy conference has come to have a special place in the SPRC work program. It has also become a regular national forum for people from academia, government and social policy agencies to exchange ideas about research on the issues facing the nation and its policy makers. Its interdisciplinary character and broad range of subject matter have, we believe, encouraged informed critical dialogue about the strengths, weaknesses and directions of Australian social policy.

At the century's end, Australians face a global environment fraught with uncertainty. Changes in taxation, employment, the financial relationships between the Commonwealth and the States and welfare reform are on the domestic agenda. The conference theme, *Social Policy for the 21st Century: Justice and Responsibility*, invites reflection on the policies, the means to fund them, and the kinds of delivery mechanisms that will most effectively contribute to the well-being of all Australians in the next century.

The Keynote and Plenary addresses evaluate the state and direction of social policy developments on the eve of a new century. Jill Roe brought an historian's eye to past and present developments, in order to assess the prospects for the future trends and priorities. Peter Townsend took up the theme of social exclusion and social polarisation, putting these in the context of national and international policy developments. Anne Marie Guillemard, the Centre's 1999 Visiting Fellow, looked at changes in work in later life, and the challenges these pose for employment and employers.

The papers in this and its accompanying volume take up these themes. This volume includes the second Plenary Paper as well as seventeen papers selected from the large number given at the conference. Together, the two volumes provide a balance between analytical, theoretical and practical approaches to social policy which will stimulate interest in a variety of areas.

Peter Saunders
Director

Contents

Poverty, Social Exclusion and Social Polarisation: The Need to Construct an International Welfare State

Peter Townsend
University of Bristol and London School of Economics

1 Introduction

During the last half-century the conventional wisdom has been that poverty can be diminished automatically through economic growth. This has got to change. During the next half-century the world's most fundamental problem - as agreed by the biggest international agencies and a growing number of governments - is that wealth and poverty are becoming more and more polarised and that a different priority has to be followed.

I will argue that any resolution of this problem depends on connecting three concepts - *poverty, social exclusion and social polarisation* - and bringing them into sharper and more distinguishable focus. Together they provide the basis for the scientific breakthrough to explain, and develop the exact policies required to deal with, the problem and steer the international community away from impending disaster.

2 Poverty

Poverty was at the top of the agenda of problems formulated by the Director of the World Bank - Robert Macnamara - in 1960. Despite the mixed story since then of development, indebted nations, multiplying barbarism, extreme inequalities in living standards in most of the former Soviet Union, the East Asian economic crisis, and much more, it is again at the top of the Bank's agenda. From 1990 onwards reports on the subject from the international agencies have multiplied. The number of general, country-specific and methodological reports issued by the Bank that may be said to be poverty-related threatens to swamp us all. The Bank's eagerness is supported by the International Monetary Fund (IMF) and other international agencies, especially United Nations Development Programme (UNDP), and by non-government organisations, especially Oxfam (among many studies are Øyen, Miller and Samad, 1996; Guidicini, Pieretti and Bergamaschi, 1996; Oxfam, 1995). In 1989, John Moore, as Secretary of State in the Department of Social Security (DSS), stated that the problem did not apply to the United Kingdom (Moore, 1989). Early in 1999, Alastair Darling, Secretary of State in the DSS, proudly announced the program to undertake a poverty audit 'and so place the problem at the top of the nation's agenda'. Poverty is a recognised evil but lacks precise definition and a scientifically constructed remedy. The United States has its own definition and measure, which the international agencies do not relate to their priorities for development. Indeed, the amendments recommended by the National Academy of Sciences seems to have served the purpose of bolstering an independent American approach which is becoming highly sophisticated as well as impenetrable from outside (Citro and Michael, 1995). Root and branch reform on an avowed scientific or international basis has not been considered.

In the national as well as the international context there cannot be said to be a public or political consensus about meaning and scale.

3 Social Exclusion

This is even more true of 'social exclusion'. Analysts like Hilary Silver (1994), Graham Room (1995) and Ruth Levitas (1998) have in their different ways written about the potentialities of the concept. It is as Ruth Levitas shows in her new book *The Inclusive Society* (Levitas, 1998) highly 'contested'. Her approach is helpful in revealing the origins and motivations of three alternative models - RED, MUD and SID. These are the redistributive, moral underclass and social integration discourses.

Earlier, Hilary Silver had also adopted three models to illustrate the various treatment of the term. She called these three models: solidarity (breaking of social ties), specialisation (differentiation of individual behaviour and exchange), and monopoly (coercive domination - 'the excluded are simultaneously outside and dominated') paradigms. Each is grounded in a different political philosophy - republicanism, liberalism and social democracy - and each attributes exclusion to a different cause. 'Each provides an explanation of multiple forms of social disadvantage - economic, social, political and cultural - and thus encompasses theories of citizenship and racial-ethnic inequality as well as poverty and long-term unemployment' (Silver, 1994: 539). Ruth Levitas has gone much further than others in showing which policies operate to strengthen which models.

Another procedure is to trace the history of the treatment of social exclusion in different countries and regions. The history covers at least 25 years. Apparently the concept was coined in France to explain the problems which were arising because of poor coverage of social insurance (Gore and Figueiredo, 1996: 9; see also Rodgers, Gore and Figueiredo, 1995; and Gaudier, 1995). The implication was that coverage should be improved so that fewer social problems arose.

For observers in the UK this is ironic. At a time when the institution of social insurance is under threat, the Government has seized on social exclusion as the governing factor in constructing domestic policy - especially at the neighbourhood level. In the 1980s in France the concept was quickly extended to reflect the increasing concern with long-term unemployment, the worryingly large numbers of unskilled workers and the problems of integrating immigrants. In formulations of policy, Jacques Delors, the then President of the European Commission, backed up by a range of organisations like the European Labour Forum (see for example Coates and Holland, 1995), re-iterated these concerns. The problem has been interpreted even more variously in the republics of the former Soviet Union, and related to multiple forms of deprivation (Tchernina, 1996).

What is needed is scientific precision in the operational definitions of both poverty and social exclusion, so that trends and the extent of national and international problems can be properly measured, causes identified and priorities for policy put in place. The best illustrations of social exclusion (for example, Walker and Walker, 1997) are built on a variety of imaginative studies on a common theme rather than on a commonly accepted measure. Current examples are Atkinson and Hills (1998), Burchardt, Le Grand and Piachaud (1999) and Hills (1999). In the Universities of Bristol, York and Loughborough we are about to launch a new national survey of both poverty and social exclusion (Bradshaw et al., 1998). In a complementary paper at the present time I have also tried to illustrate the approach adopted towards the second concept, which is especially problematic (Townsend, 1999).

4 Building on International Agreement

Let me pause. There is scope therefore for an analytical ground-clearing operation. If we are to adopt practical policies to reduce these two problems of poverty and social exclusion we need to be clear about how they are to be distinguished, as well as how they are to be applied cross-nationally rather than erratically and variously in different cultures. I say 'erratically' because the links between country- or region-specific definition and international definition have not been investigated thoroughly or justified - even when the research in question can be acknowledged to be helpful in understanding some internal conditions. 'Erratically' also because the absence of scientific precision makes for political ambiguity - the big escape for holders of wealth. 'Erratically' too, in relation to the international agencies. Here the World Bank's adoption of the crude criterion of $1 a day at 1985 prices for the poorest countries, $2 a day for Latin America and $4 a day for the transitional economies, without regard to the changing conditions of needs and markets, affronts science as it affronts reasoned development of priorities in international policies. In 1997 UNDP topped the absurdity by suggesting that the US criterion of $14.4 a day might be applied to OECD countries (UNDP, 1997).

If measurement is arbitrary and irrational, it is impossible either to concoct the right policies for the alleviation or eradication of poverty, or monitor their effects closely. The World Bank is sticking to the anti-poverty approach of the 1960s, in the teeth of massive evidence of failure. Thus, following reports in the early 1990s (for example, World Bank, 1990; 1993) there is little sign as yet in reports of the mid- and late 1990s of a change in the three-fold strategy that has been re-stated time and again: broad-based economic growth; development of human capital; and social safety nets for vulnerable groups (World Bank, 1996, 1997a, 1997b, and 1997c; Psacharapoulas et al., 1997). Each of these three of course require detailed exposition, documentation and discussion.

The job of social policy analysis is to keep alive alternative strategies and policies that seem to fit the account of global problems and needs. For purposes of illustration one alternative strategy might consist of: equitable tax and income policies; an employment creation program; regeneration or creation of collective, or 'universal', social security and public social services; and accountability and a measure of social control of transnational corporations and international agencies. There are no signs of a debate taking place about the merits of even two alternative strategies, or sets of policies, to establish beyond reasonable doubt which alternative is the most successful - or indeed popular in democratic terms - in reducing poverty and contributing in other ways to social development.

We are dealing here with a strategy that has become the conventional wisdom and that wields extraordinary influence throughout the world. We are compelled to elucidate the international social impact of monetarist theory and neo-liberalism.

The discussion of these doctrines cannot be conducted in over-generalised terms. We have to examine the text and outcomes of international agreements like Maastricht and the Multilateral Investment Agreement. We have to review scientific evidence about key issues, like economic growth. For example, does the empirical evidence in favour of 'trickle-up' growth oblige us to abandon the blithe assumptions about 'trickle down' that have been taken for granted for many years (Newman and Thomson, 1989)?

5 Social Polarisation

Whatever the social or political case for generality or ambiguity in dealing with poverty and social exclusion the possibilities of a consensus on meaning among social scientists might be explored. There are of course problems in adopting restricted meanings, so that measures might be operationalised and disputes about cause reduced if not eliminated.

Present developments in environmental policies offer a model. There are scientific disagreements about exact thresholds of safety or minimal bad effect, and there are attempts to conceal, or distort, the extent of progress in bringing down levels of pollution, for example. But scientific measures and accounts of causes have the effect of restricting the range of argument about appropriate policies and measurable effects.

One possible line of attack is to seek clarification, not just of the meanings of poverty and social exclusion, but of other, related ideas, like deprivation. Another is to get better purchase on structural trends and upheavals.

One virtue ascribed to many interpretations of social exclusion is that it signifies interest in process rather than state, and points to the need to scrutinise actions of governments. But if the problem with the concept of poverty is believed to be to call attention only to a negative state or condition, then the problem of the concept of social exclusion is to call attention only to a negative process. Both concepts direct attention to only parts of the population. As a direct consequence, scientific investigation becomes distorted and priorities for policy hard to establish. By contrast, the concepts of inequality and social polarisation, which correspond with the ideas of state and process, are all-embracing. I consider them to be necessary to the understanding of the other two.

The third of the concepts in the title is therefore the key ingredient. At the turn of this century it is the right focus for scientific accounts of development. It is a structural process creating reverberations the length and breadth of global, national and local society. And while there are other concepts and themes that have to be employed to describe and analyse world social problems, social polarisation is indispensable. Poverty and social exclusion are inevitable by-products. Let me explain.

6 A Personal History of Social Polarisation

In the late 1980s, inequality in the UK became fast-growing. In a book on *Poverty and Labour in London*, reporting a survey of London households, we used the term 'social polarisation' to describe the trend, because it was far from being either small or temporary (Townsend, with Corrigan and Kowarzik, 1987). In its scale and change of direction the trend was also unprecedented, certainly in the history of recorded measurement during the 18th and 19th centuries. Because the causes had to be unravelled, and because it would be strange if rapid polarisation were to happen in one country and not in others, I began to ask whether the process applied elsewhere.

Although the UK was exceptional, I found that inequality was growing in other European countries - including Belgium and Sweden (Townsend, 1991). During a visit to teach and research in the United States in 1992 I found that inequality had widened there during the 1980s as dramatically as in the UK. In one respect the situation there was worse than in the UK. Average earnings of the poorest 20 per cent in the labour market had decreased significantly in real terms between 1979 and 1992.

Let me illustrate. The 1999 Human Development report from the UNDP shows that the industrialised countries with the greatest inequality (as measured by comparing the richest and poorest 20 per cent of their populations) are Australia and the United Kingdom, with the United States third (with a GDP per person ratio of 9.6:1, 9.6:1 and 8.9:1 respectively). These are the countries also with the largest proportions of the population with less than 50 per cent of the median income (UNDP, 1999: 149). Although polarisation is well testified for the UK and the US during the 1980s and 1990s there is some doubt about Australia. Thus, in late 1999, I have discovered that the international agencies' information about income inequality in Australia is hotly contested by organisations in the country, who argue it is misleading and outdated. Too little detail is said to be provided in the agencies' reports about methods of standardising comparisons of trends in income distribution across countries.

Perhaps I should add that while there is no doubt of a predominant trend, variation in the extent of inequality certainly exists in industrial countries. There are, for example, industrialised countries like the Czech Republic, Japan, Spain, the Netherlands and Sweden, where the richest 20 per cent have only 3.9, 4.3, 4.4, 4.5 and 4.6 times, respectively, more income than the poorest 20 per cent (UNDP, 1999: 149).

Turning to Third World countries, I have, over the last 15 years found a similar growing divide - documented for example in *The International Analysis of Poverty* (Townsend 1993a, Chapter 1). There is a problem in a substantial number of countries about civil disorder and war and the impossibility of giving information about collapse into poverty. For many of the other countries qualifications have to be entered, because of scarcity of data in some of the poorest countries for different years, or because of doubts about reliability.

After the collapse of the Soviet Union at the end of the 1980s there was an even bigger growth in inequality in the countries of the Commonwealth of Independent States than elsewhere. The economic transformation had dramatic social effects, including increases in the rates of mortality for different age-groups in the 1990s (Nelson, Tilly and Walker, 1997; Cornia, 1999; Cornia and Pannicia, 1999 forthcoming; Clarke, 1999). In a visit to the Republic of Georgia in the former Soviet Union, on behalf of UNDP, I found severe impoverishment - especially among poor families, sick and disabled people and pensioners, not only because of the collapse of industry but the erosion of unemployment insurance benefits, pensions and other benefits to levels worth a few pence a week (Townsend, 1995 and 1996)

7 A Global Trend

How can the accumulating evidence of this unprecedented trend now be generalised? Reporting in mid-1999, the UNDP found that income inequality had increased 'in most OECD countries in the 1980s and early 1990s. Of 19 countries only one showed a slight improvement' (UNDP, 1999: 37). Data on income inequality in Eastern Europe and the CIS 'indicate that these changes were the fastest ever recorded . In less than a decade income inequality, as measured by the Gini coefficient increased from an average of 0.25-0.28 to 0.35-0.38, surpassing OECD levels' (UNDP, 1999: 39). In China 'disparities are widening between the export-oriented regions of the coast and the interior: the human poverty index is just under 20 per cent in coastal provinces, but more than 50 per cent in inland Guizhou' (UNDP, 1999: 3). Other East and South East Asian countries that had achieved high growth while improving income distribution and reducing poverty in earlier decades, like Indonesia and Thailand were similarly experiencing more inequality (UNDP, 1999: 36).

The gap between countries as well as within countries has widened. The latest studies show how the trend has accelerated. Thus the average income of the poorest 20 per cent of world population was 30 times as large as of the poorest 20 per cent in 1960, but was 74 times as large by 1997 (UNDP, 1999: 36).

Of course, widening inequality has to be addressed at both ends of the spectrum. The pay of executives, and the disposable income and wealth of the richest people in the world has been growing at an astonishing rate. For example the UNDP points out that 'the assets of the 200 richest people are more than the combined income of 41 per cent of the world's people' (UNDP, 1999: 38). The top three have more than the combined GNP of all 43 least developed countries.

A new report for the World Institute for Development Economic Research of the United Nations University confirms the trend. An econometric analysis of 77 countries (accounting for 82 per cent of world population, found rising inequality in 45, slowing inequality in four, no definite trend in 12 and falling inequality in only 12 (Cornia, 1999: vi and 7).

> For most countries, the last two decades have brought about slow growth and rising inequality ... Growing polarisation among countries has been accompanied by a surge in inequality between countries ... Income concentration has risen in many nations of Latin America, Eastern Europe and the former Soviet Union, China, a few African and Southeast Asian economies and, since the early 1980s, almost two-thirds of the OECD countries. (Cornia, 1999: 2)
>
> Since the early 1990s, the international community has made the eradication of poverty its foremost development objective. Yet, the decline of poverty in the years ahead depends also on trends in income inequality, a fact which still attracts little concern by the policymakers. Much of the recent rise in income inequality must thus be viewed with alarm, as it may well prove to be incompatible with poverty reduction objectives'. (Cornia, 1999: vi)

8 Explaining Polarisation

There are several explanations for this process of polarisation.

Defective Structural Adjustment Policies

What are the reasons for this structural change? There is an international analysis which has to be tied in with nationally circumscribed investigation. What has to be accepted is the increasing impact of international developments on national sub-groups and local populations. I mean that exposition of familiar problems to do with gender, ageing, disabled people and families with children, for example, now display over-riding international determinants. I mean also that local problems, like conflict on inner city housing estates, drug problems, closure of local factories, and unsatisfactory privatisation of local services, are generated or enlarged by global market and other international factors.

Among the major policies of the international agencies, national governments and transnational corporations, for which a powerful consensus had been built up during the 1980s and 1990s, are the stabilisation, liberalisation, privatisation and welfare targeting and safety net programs adopted as a result of the world-wide influence of monetarist theory.

For example, the so-called *stabilisation and structural adjustment programs,* that were advocated and supported by the international agencies, have entailed the reduction of subsidies on food, fuel and other goods, retrenchments in public employment, cuts in public sector wages and other deflationary measures. This generates recession but also distributional outcomes which, as Cornia has argued (Cornia, 1999: 11-12) are adverse in the poorer countries compared with industrialised countries, where wage systems are strongly institutionalised and self protecting, and where long-established social security provides a better cushion for downturns in the economy. Policies to cut public expenditure, and target welfare on the poorest, for example through means-testing and the introduction of health care charges, have increased inequality and perpetuated poverty, especially in countries where, because of globalised trade and growing influence of transnational corporations, there has been a particularly rapid concentration of wealth.

In recognising what policies have brought about greater inequality within and between countries we have to understand the similarity of the programs influencing developments throughout the world, at the same time as we recognise that they are calculated to vary in extent and force in different regions. The terminology is not always consistent. Governments as well as international agencies are often eager to adopt new names for conformist (rather than 'convergence') policies, especially when evidence that they are not working begins to accumulate.

In a remarkable shift from its longstanding policies, the World Bank has admitted that poverty has tended to increase during recessions in Sub-Saharan Africa, Eastern Europe, and Latin America and not to decrease to the same extent during economic recoveries. Examples were given in a 1999 report showing that 'crises and recessions may result in irreversible damage to the poor: malnutrition or death from starvation (in extreme cases) and lower schooling levels'. Higher food prices in the stabilisation program in Cote d'Ivoire and elsewhere are cited. 'Sudden fluctuations in income or food availability can be fatal to already malnourished children'. Consequences include lower IQ, retarded physical growth, mental disabilities, lower resistance to infections, and associated problems like dropout from schools (World Bank, 1999: 103; see also Huther, Roberts and Shah, 1997).

Greater sensitivity to the encroachments of poverty also helps to explain the reactions of the international agencies to the financial crisis in East and South-East Asia. The magic wand of liberalisation and structural adjustment programs could no longer be waved, as it had been in Latin America and Africa and then in Eastern Europe and the Commonwealth of Independent States - and in similar strategic form in the industrial countries. The Bank expected poverty rates, especially in Indonesia, to rise very sharply. Revealingly, the Bank no longer emphasises privatisation and extreme targeting. At one point it even suggests that the possible remedies in a difficult situation 'include waiving charges for the poor and extending health care to workers dismissed from their jobs' (World Bank, 1999: 109).

The Concentration of Hierarchical Power

Because of deregulation and privatisation by governments, often at the behest of international agencies, control of labour markets has veered away from states and towards transnational corporations. Paradoxically, states in which the headquarters of the biggest transnational corporations are located have acquired greater power to influence global economic developments. The G7, or G8, has exerted influence on the development of world trade (for example through the World Trade Union and the Multilateral Investment Agreement), and the management of debt.

Thus in trade the emphasis on exports from the poorer countries was supposed to favour rural agricultural production, and diminish poverty by removing the imbalance between rural and urban living standards. This has not worked, partly because of the low wages induced by cash cropping, and the corresponding substitution of employed labour and technology for subsistence farming. This has also had a knock-on weakening effect on the vitality of urban markets. In many countries self-sufficiency in growing a range of crops has given way to a precarious dependence on sales from the export of those crops to finance the purchase of imports at affordable prices. Transnational companies have exceptional power to cut the costs of what they buy and raise the costs of what they sell.

The growth of transnational companies is one of the greatest economic and social changes of the late twentieth century. Only 25 countries of the world are now listed as having larger GDP than the annual value of the sales of the biggest transnational corporations - General Motors. The top ten transnational corporations (General Motors, Ford Motor, Mitsui, Mitsubushi, Itochu, Royal Dutch Shell Group, Marubeni Sumitomo, Exxon and Toyota Motor) have bigger sales than the GDP of Malaysia, Venezuela and Colombia, and some of them more than Saudi Arabia, South Africa, Norway, Greece and Thailand. New Zealand's GDP is dwarfed by the sales of each of these corporations, and Australia's accounts for only about three times the value of the average sale of all ten (UNDP, 1999: 32 and 184-7).

The social policies of transnational corporations take at least two forms. On the one hand their internal policies, in relation to their senior staff and permanent and temporary workers scattered through subsidiary companies in many different countries, have to be explained. On the other hand, the larger role they play in contributing to social change, by influencing developments in world trade, government taxation and redistribution and investment, as well as recommendations for privatisation, also has to be explained (Kozul-Wright and Rowthorn, 1998; Lang and Hines, 1994; Deacon, Hulse and Stubbs, 1997; Hoogvelt, 1997; ILO, 1989).

There are serious shortcomings in both national and international company and social law in relation to transnationals. While capable of contributing positively to social development, one review found that few of them were doing much of consequence. The activities of some were positively harmful (Kolodner, 1994). Recent books on transnational corporations, like that of Korten (1996), have been assembling a case that governments and international agencies are going to find hard to ignore.

One feature of mergers between companies and the absorbtion of work forces overseas into the subsidiaries of corporations is not just the extension of the labour force accountable to management, but the elaboration as well as extension of the hierarchy of pay and rights in the corporation. There are many layers in work forces consisting of scores of thousands, sometimes hundreds of thousands, of employees working full time, part time, permanently and temporarily in 50, 60 or even more countries. Salaries at the top have been elevated, those at the bottom depressed.

This fast-developing occupational system invades the systems of social class in every country, and alters those systems. In Europe and the United States we are aware of the debate about the appearance of an 'underclass,' provoked through the work of Charles Murray and others. Critics have fastened on to the stigmatising and inexact reasoning of the proponents (for example, Katz, 1993). But they have also seized on the possible emergence of an *economic* underclass, consisting largely of long-term unemployed and prematurely retired but also impoverished people. When considering the debate some years ago, I argued that if there were grounds for the emergence of an underclass in this sense, there were grounds also for the emergence of an 'overclass' (Townsend, 1993b). Even if this is a small elite of the super-rich, it is distinctive, not only because of its wealth, but because of its working associations with many different countries and its ephemeral relationships with any social network in the 'host' countries of its members.

This can be characterised as increasing vertical control while diminishing horizontal participation and reciprocation. Some of the social consequences of the new structure of control appear to have been misinterpreted. Thus a lot has been made of the so-called 'culture of dependency' - as a strategy for enforcing further control instead of questioning the new elite's culture of coercion.

The evolving hierarchy comprises new occupational sets, ranks and classes, involving housing and locality and not just workplace. Ideas of supra- and sub-ordination are played out internationally as well as nationally and locally, and are carried over from one context to the other. And this evolving hierarchy is also reflected in the development of the inter-relationships of states and international agencies - by means of disproportionate representation among senior personnel, origins of finance for research, and responsibility for the publication of statistical and other information to the media. There are different senses in which social stratification is becoming strongly internationalised.

Privatisation

The international financial agencies have been eager to encourage privatisation, on grounds that this would enhance global market competition, weaken the intervening role of the state and reduce government taxation so that public expenditure in general, and public services in particular, would cost less and private companies would have greater freedom to manage their affairs as they wanted. But the agencies have thereby adopted a very narrow interpretation of the economic good, and have tended to ignore the fact that economic development is an integral part of social development.

World Bank advocacy of privatisation is explicit or implied in almost every published report of recent years - even in relation to poverty. A key text for the Bank's position was published only in 1997 (Guislain, 1997). The author, Pierre Guislain, is a development specialist who has advised many African countries on their privatisation programs. The book covers a lot of ground and is testimony to the accelerating scale across the world of privatisation. However, it attempts to be dispassionate and is not successful. The arguments especially for public service and cooperative companies is largely absent, and there are no conclusions about the balance that might be struck between the public and private sectors in particular contexts and according to particular objectives. There is a strange indifference to the historical reasons for the growth of public ownership and the welfare state. Certainly there is no dispassionate argument about alternative strategies.

Another Bank report looks at privatisation in different countries and the rapid growth of equity markets in these same countries. The book interprets the process favourably. Privatisation is said to 'kick-start' newly created capital markets such as those in Central and Eastern Europe and the Commonwealth of Independent States. It can 'awaken' moribund markets in Egypt and much of Latin America.

Examples of well-publicised privatisation programs in Argentina and Mexico are compared with the less well-known 'achievements' in Egypt, Morocco and Peru. 'There are many more privatisations to come in developing and transition economies.'

In the analysis by a large number of experts much is made of the necessity of financial deregulation and the privatisation of insurance and the pension funds in order to create the right market conditions. The conflict of public interest in relation to the historical establishment of social insurance (for good reasons) is not discussed.

The rapid growth of privatisation is not, even now, widely appreciated. In 1989, the gross annual revenue from the process was estimated to be $25 billions. In 1994 and 1995, annual revenue reached $80 billions. Over five years, $271 billions were generated. By the mid-1990s the developing and 'transition' countries accounted for much of the revenue. Guislain concludes that privatisation is 'likely to remain a key policy instrument in many countries for decades to come' (Guislain, 1997: 3; see also Lieberman and Kirkness, 1998).

Assets have often been sold extraordinarily cheaply, by market standards. Academic reviews, as in the UK, have failed to demonstrate evidence of privatisation being successful in terms of growth and price. There are examples either way (see, for example, Parker and Martin, 1997).

The Shortcomings of Targeting and Safety Nets

In developing their structural adjustment programs, first in Latin America and Africa, and then in the 'transition' countries of Eastern Europe and the former Soviet Union, the IMF and the World Bank tried to balance the unequal social consequences of liberalisation, privatisation and cuts in public expenditure with proposals to target help on the most vulnerable groups in the population. For some years, and still to a large extent today, this has been presented within the principle of test of means. Even if coverage was poor, large sums of money would be saved if the near-to-poor were no longer subsidised by public funds.

Thus, a report for the IMF seeks to pin responsibility on the transition countries for a failure to transform universal services into targeted and partly privatised services. Unfortunately, this report also reveals serious amnesia about the institutional history of the introduction of legislation establishing public services and social security in particular (see, for example, Chu and Gupta, 1998: 90-2 and 111-12). Ways in which former universal provisions might be modified to allow market competition to grow but not create penury among millions were not seriously considered.

IMF loan conditions demanding lower government expenditures in the poorest countries have led to sharp reductions in general social spending at a time when the poorest fifth of the population in those countries have been receiving only about half their share of education and health expenditures - thus making access worse. This is evidence drawn from the IMF's own studies, which shows that 'the poorest three-fifths of these nations are being excluded from whatever social "safety net" exists for education, health, housing and social security and welfare' (Kolko, 1999: 56).

However, loan conditionalities affect economic security in other ways. There are cuts in the number of government employees and in their salaries, and there are private sector cuts and lay-offs, both of which are designed to raise cost-effectiveness in the world's export markets. Price subsidies for commodities such as bread and cooking oil are cut. Higher value added taxes that are advocated are regressive on income distribution.

In December 1987 the IMF introduced a fresh stage of its existing structural adjustment program - the Enhanced Structural Adjustment Facility (ESAF). Of 79 countries eligible for these ESAF loans, on condition they complied with the IMF in setting 'specific, quantifiable plans for financial policies', 36 had done so. Since World Bank aid also depends on fulfilling IMF criteria there is intense pressure on governments to accede. Critics have now concluded that countries which stayed out of the ESAF program 'began and remained better off by not accepting its advice'. Those accepting the program 'have experienced profound economic crises: low or even declining economic growth, much larger foreign debts, and the stagnation that perpetuates systemic poverty'. The IMF's own studies provided 'a devastating assessment of the social and economic consequences of its guidance of dozens of poor nations' (Kolko, 1999: 53).

The problem applies sharply to rich and not only poor countries. The biggest struggle of the next years is going to be between restriction of social security, or 'welfare', largely to means-tested benefits. Those who have assembled evidence for different European countries over many years (for example, Oorschot, 1999) point out that such policies are poor in coverage, administratively expensive and complex, provoke social divisions, are difficult to square with incentives into work, and tend to discourage forms of saving.

What is notable is the recent tempering of World Bank and other agency reactions. It is now conceded that targeting can include 'categorical' policies affecting vulnerable or disadvantaged groups in the population. The prime example of this shift in policies is the social crisis in Eastern Europe and the former Soviet Union and this is illustrated below (UNDP, 1998).

The World Bank has itself begun to offer grudging concessions.

> Safety nets are programs that protect a person or household against two adverse outcomes: chronic incapacity to work and earn (chronic poverty) and a decline in this capacity from a marginal situation that provides minimal means for survival; with few reserves (transient poverty) ... Although social insurance programs constitute the most dominant form of cash transfer in most countries of Eastern Europe and the former Soviet Union, and provide relief for the poor in the formal sectors, these programs are not addressed here because issues pertaining to pensions were the focus of a recent World Bank policy study - Fox, 1994. (World Bank, 1997a: 2-3)

This is a revealing qualification. When structural adjustment programs began to be applied to Eastern Europe and the former Soviet Union, in the early 1990s, it was clear they would compound the problems of poverty, following liberalisation. Social insurance, and social security generally, were a substantial part of the institutional infrastructures of these states, and the collapse of industry might have led to some external efforts to maintain at least a residual system in order to protect people, especially children, the disabled and the elderly, from the worst forms of destitution and even starvation. Unhappily World Bank and IMF teams lacked expertise in such institutions. They were also influenced by a prevailing ideology of the 'short, sharp shock' following the collapse of communism. An additional factor was that social security systems were weak if not non-existent in the poorest developing countries, and the possibility that structural adjustment as applied to those countries was inappropriate in Eastern Europe.

From an anti-poverty perspective one analyst of events in the former Soviet Union concludes that

> Consideration of social policy has hitherto been dominated by fiscal considerations, which has led to radical proposals for reform of the pension and benefits systems which would have devastating consequences if they did not work as intended. The dependence of many households on age-related pensions and the inability of the majority of wage-earners to support even one dependent make the preservation of the real value of retirement pensions and the restoration of the real value and regular payment of child benefit much the most effective anti-poverty measures in a context in which the introduction of means-tested social assistance is completely unrealistic. (Clarke, 1999: 240)

A report from UNDP is the most explicit concession yet to the need for change in development policies. In describing the growth of poverty in the early 1990s in

Eastern Europe and the former Soviet Union this concedes the strengths of the former institutions of social security.

> Policy-makers attempted to create a relatively egalitarian society free from poverty. Socialist income policy was based upon two main objectives: 1) To ensure a minimum standard of living for all citizens; and 2) To achieve a relatively flat income distribution. (UNDP, 1998: 90)

> Governments regulated overall salaries and fixed minimum wages high enough to ensure a basic standard of living ... At the core of the social security systems were work-related contributory insurance programmes. The public came to expect that most social benefits would depend upon work-related factors such as years spent on the job and wages earned...Social insurance schemes were comprehensive. Pensions, like employment, were virtually guaranteed ... Social insurance itself covered numerous exigencies, including accidents, sickness, parental death and child birth ... Overall, means-tested social benefits were almost non-existent, representing on average less than 1 per cent of GDP. This was due largely to the inefficiency and high administrative costs associated with means-testing programmes. (UNDP, 1998: 90-2)

The *socially inclusive* advantages of these schemes was recognised. Thus, pension programs

> became a kind of contract between generations, whereby people invested their efforts in the collective welfare and were rewarded by a guarantee of supplemental income ... Because social assistance allowances are very low in all transition countries, moving pensions towards means-tested social assistance programmes would push practically all pensioners into poverty. (UNDP, 1998: 108-9).

All in all, this is the first substantial acknowledgement from any of the international agencies I have read in the last 10 years that the 'socialist welfare state' actually had certain strengths (see, in particular, UNDP, 1998: 92-3). What is striking is that the authors go on to claim there is a consensus for active labour market policies and work for social benefits as necessary components of the social insurance system. 'At the core of welfare policy ... there must also be a comprehensive social insurance scheme that compensates all people in time of need' (UNDP, 1998: 105). Funding should be both public and private forms of

Pay-As-You-Go. 'Categorical benefits should be offered to all in need, or at least to all those near or below the poverty line. It is very imortant to avoid providing support only to the "poorest of the poor" while neglecting the relatively poor'. This plea for group or 'categorical' benefits in place of means-tested benefits was qualified by a recognition that some such benefits could be conditional in different ways (UNDP, 1998: 105).

9 Conclusion: The Invention of the International Welfare State

Where does this analysis lead? The 1995 World Summit on Social Development in Copenhagen provides an example on which we can build (UN, 1995). But even that Agreement, and Program of Action, failed to address, or illustrate, the key explanatory concept of social polarisation which I have sought to discuss in this paper, necessarily in relation to the different treatments of poverty and social exclusion.

First, unless a scientific consensus is achieved in operationally defining, and measuring, international forms of poverty and social exclusion, the fact that the defeat of poverty world-wide has been put at the top of the international agencies' agenda will turn out to be empty rhetoric. Perhaps one hope is to build on the 1995 World Summit agreement to measure, and monitor, agreed definitions across countries of 'absolute' and 'overall' poverty. This is up for review at the World Assembly in Geneva in June 2000 (UN, 1999).

Second, unless, the *policy-related* causes of poverty and social exclusion are properly traced and publicised in relation to structural trends in all societies we will find it difficult to discriminate effectively between what are the successful, unsuccessful and even counter-productive measures working towards, or against, the agreed objectives.

Third, since poverty and social exclusion can neither be traced nor explained except in the context of the structural changes embodied in social polarisation, it is this phenomenon that has to be explained.

I have suggested that the *stabilisation and structural adjustment programs* of the 1980s and 1990s have contributed to growing inequality.

I have concluded that the trend is also explained by the *institutionalisation of unequal power.* Far more attention has to be given to the entire hierarchical *system,* and especially rich institutions and rich individuals at the top. The international agencies, regional associations and national governments must begin to analyse the extraordinary growth of transnational corporations, and ask what reasonable limits can be placed upon their powers. All that has so far happened is that agencies like OECD have issued 'guidelines' exhorting corporations to be socially responsible. The ILO has gone further. In 1977 its Governing Board put forward a declaration. This sought to exert influence upon governments, concluding that gradual reinforcement could pave the way for 'more specific potentially binding international standards,' turning codes of conduct into 'the seed of customary rules of international law' (ILO, 1989).

Agencies have tended to be shy of relating observed impoverishment or unemployment to the policies of transnational corporations. And they have not been keen on self-examination either. Their growing role in shaping social as well as economic development badly needs critical examination. This has sometimes been provided by outside observers (Payer, 1982 and 1991; Deacon, 1997; Hoogvelt, 1997) but needs to be addressed institutionally by governments and agencies themselves.

Privatisation is a third issue of the greatest importance, not just because it is an approved development policy of the international agencies, but because little attention is being given to the dangers structurally of creating a 'Big Brother' relationship with the public sector, which can damage public interests and divide society. Research is needed, for example, to systematically compare the performance of the public and private sectors in different fields, and recommend what is the right mix (as well as how the two might be reconstituted).

Finally, I have expressed grave doubts about *targeting and safety nets* as the right strategy to compensate for the inequalities and impoverishment induced by liberalisation and the enhanced power of markets. There are signs that the international agencies are beginning to recognise that, as policy, means-testing is neither easy to introduce nor successful. The advantages of modernised social insurance, for developing as well as industrialised countries, are beginning to command greater interest. I regard this as a sign of hope.

There are of course many other policies required if the damaging structural trend is first to be halted, and then turned round. There are two stages. At the first stage the whole critique has to be pulled together and made more forceful. This includes the reformulation of the measurement of poverty, social exclusion and unemployment. It includes insistence on the monitoring and determined fulfilment of international agreements. And it includes the mobilisation of new coalitions or alliances across countries - of parties, unions, campaigning groups and voluntary agencies - to question the conventional wisdom and promote alternative strategies.

At the second stage, measures for international taxation, regulation of transnational corporations and international agencies, reform of representation at the UN, and new guarantees of human rights, including minimal standards of income, have to be introduced and legally enforced.

Recognition of social insurance as one of the best means of building an 'inclusive' society and preventing the slide into poverty, as well as contributing to social and economic stability, would represent one major step forward.

New legal and political institutions for social good in a global economy have to be built. A start would come with new international company and taxation law, combined with the modernisation and strengthening of social insurance and more imaginative planning and investment in basic services like health and education, so that they reflect international and not just national or regional standards.

This amounts to calling for an *international* welfare state (Townsend, with Donkor, 1996). A hundred years ago different governments, including those of Britain and Germany as well as of smaller countries like New Zealand and Norway, responded to the manifest problems of poverty in those days. There were innovations which led to the establishment of national welfare states and a more civilised form of economic development.

At the end of the twentieth century the prospect of even greater social self-destruction, within the phenomenon of social polarisation, looms before us if urgent countervailing measures are not taken. Collaborative scientific and political action to establish a more democratic and internationalised legal framework to protect human living standards has become the first priority.

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Fairness, Equity and Safety Net Wage Adjustments

Siobhan Austen and Alison Preston
Department of Economics
Curtin University of Technology

1 Introduction

Wage rates reflect not only economic considerations, but also the underlying values, norms and structures of the societies in which they are set. Wage rates are not simply the product of economic factors, such as 'what the market will bear', but also perceptions of what is a fair and equitable distribution of rewards across workers, and between workers and their employers. The current debate over safety net wage adjustments (SNAs) in Australia raises some important issues relating to these non-economic or normative considerations.

SNAs were introduced to the Australian wages system in 1993 as part of the shift in wage determination towards enterprise bargaining (AIRC, 1993). They are currently available to all award-covered workers who have been unable to access a wage increase via enterprise bargaining and who depend on adjustments to award rates for their wage increases. Conservatively, about 25 per cent of all Australian workers fall into this category (Peetz, 1998: 541)[1].

The fairness and equity issues that are raised in the debate on SNAs concern, first, the role played by these wage adjustments in protecting the welfare of workers at the bottom end of the earnings distribution. They also concern the role that SNAs play in protecting the relative wages of the other workers who, for one reason or another, have not been able to secure a wage increase through enterprise bargaining.

To date, most of the academic commentary on SNAs has focused on the effects of regulating the wages of workers at the bottom of the earnings ladder, largely under the banner of minimum wage rates (see Dawkins, 1997; Richardson, 1998; Neville, 1996 and 1997; Sloan, 1996; Valentine, 1996). Thus far, the effects of SNAs for the significant minority of workers who may not be 'low paid' but who

1 This estimate of the number of workers dependent on SNAs includes only those workers who are formally entitled to such a wage adjustment (that is, those earning award rates of pay). An additional, large group of workers receive over-award payments and wage increases based informally on the SNA (Rimmer, 1998: 608-9).

still depend on adjustments to award rates of pay for their wage increases have not been fully examined.

In this paper we attempt to focus more attention on the latter issue by discussing the possible effects of a plan by the Federal Government to restrict the scope of SNAs to the low paid (Reith, 1999). We begin by providing a very brief outline of the history and current role of safety net wages, highlighting the issues that have been raised in the first three Living Wage cases. In Section 2 we also briefly describe the proposals that have been made by the Federal Government and by some prominent economists to pare back SNAs and to leave the determination of wage rates to 'market' forces. Section 3 examines the issues associated with these proposals, focusing, in particular, on the question of whether the determination of wage relativities can be safely left to market forces. Section 4 provides a summary and conclusion.

2 Safety Net Wage Adjustments

As was noted in the introduction, SNAs were introduced to the Australian wage system in 1993 as part of a general movement towards enterprise bargaining. Despite some changes to their scope[2], SNAs were retained by the Coalition Government under the 1996 *Workplace Relations (and Other Legislation Amendment) Act* 1996 (*WRA Act* 1996) and have been the focus of three 'Living Wage' cases, the last of which was determined in April 1999.

The Australian Industrial Relations Commission (AIRC) is responsible for establishing and maintaining Safety Net Wages. In performing this function the AIRC is required by the Act to have regard to:

> a) the need to provide fair minimum standards for employees in the context of living standards generally prevailing in the Australian community;
>
> b) economic factors, including levels of productivity and inflation, and the desirability of attaining a high level of employment;
>
> c) when adjusting the safety net, the needs of the low paid. (*WRA* Act 1996; Part VI, Section 88B(2))

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2 Up until the mid-1990s, SNAs were available to all workers who satisfied the test of having failed to receive a wage increase through enterprise bargaining. Since the passage of the *WRA Act* 1996 the AIRC has restricted SNAs to workers whose actual wages (including over-award payments) were close (e.g. within a band of around $10) or equal to award rates of pay (Peetz, 1998: 539).

Any SNA must also preserve the incentive for workers to engage in the process of enterprise bargaining (see AIRC, 1998).

The Living Wage Cases

The task involved in accommodating these various objectives for Safety Net Wages has been evident in each of the three Living Wage cases (1997-1999). Not surprisingly, the submissions of employers and governments to these cases have stressed the potentially negative impact on economic activity and employment of a higher general level of wages. They have also expressed concern about the effects on wage relativities of SNAs, especially the possibility that interference with market determined relativities might generate structural unemployment (AIRC, 1998: 27-8).

In line with these concerns, employers and governments have argued either for no or only limited wage increases in each of the Living Wage cases. They have also argued that if any wage adjustment is awarded it should be limited to workers at the lower end of the earnings distribution, leaving the determination of wage relativities across occupational and industry groups to market forces. For example, The Joint Government[3] submission to the most recent case proposed an $8 per week SNA to be targeted to the low paid and linked to the award simplification process. In other words, the $8 would be available on application to minimum classification rates at or below the equivalent of the C10 (skilled tradesperson) rate in the Metal Industry Award - currently $465.20 per week. Award rates above the C10 rate would not be varied as part of the SNA process.

In contrast, the submissions of the ACTU have emphasised the social function of wages (while at the same time refuting claims regarding the negative allocative effects of SNAs). According to the ACTU, the following principles should guide these wage adjustments: the right of workers and families to a 'decent standard of living'; a fairer and more equal distribution of economic and productivity growth, which reduces income inequality; reference to achievements in the bargaining stream in the setting of Award rates; and equal pay (ACTU, 1997: 2).

Accordingly, the ACTU has typically argued for SNAs that match the increase in wages and salaries recorded in other sectors of the economy (to preserve existing levels of earnings equality), and for these increases to be made available to all award employees. It has also argued for wage increases that compensate for cost of living changes.

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3 The Joint Government Submission was comprised of the Commonwealth Government and the governments of South Australia, Victoria, Western Australia, the ACT and the NT.

Some interesting submissions have also been made regarding the effects of SNAs on the incentives for workers and employers to engage in enterprise bargaining. Employers have emphasised that SNAs should be kept low to encourage workers to engage in bargaining with their employers. However, the ACTU has pointed out that, in the majority of cases, bargaining is an initiative of employers not employees and that employers will have a greater incentive to engage in bargaining (and to negotiate productivity improvements) if the SNA is large, not small (Peetz, 1998: 542).

The AIRC's response to these submissions has given credence to the various arguments put to it. In the most recent decision (April 1999), award rates of up to and including $510 per week were increased by $12 per week, whilst those above $510 were increased by $10. (The ACTU claim was for increases of $26.60 per week for all award rates of pay up to $527.80 per week; and a five per cent increase in award rates of pay above that level-AIRC, 1999: 18).

On the economic effects of this decision the AIRC argued that, due to the small contribution to aggregate wage outcomes of the SNAs, they would have only a limited effect on economic activity. However, the Commission did grant a lower dollar amount in this case than it did in the 1998 Living Wage case due to a concern about a predicted easing in economic growth and a 'desire not to jeopardise the emerging downward trend in unemployment' (AIRC, 1999: 18). The Commission also amended the Economic Incapacity Principle to take into account the possibility that some employers may not have the financial capacity to fund the wage increase.

On the social outcomes, the AIRC expressed its concern about the rising level of earnings inequality in Australia, especially the growing 'gap between the income levels established as a result of bargaining and those determined by the Award system' (AIRC, 1999: 18). Its decision in the 1999 Living Wage case to award an increase of $12 per week for workers earning less than $510 per week reflects this concern, with it being explicitly designed to be in line with the increase in earnings generally (AIRC, 1999: 18).

However, the Commission recognised that the $10 per week wage increase for workers earning more than $510 per week would not fully address the gap between the earnings of these SNA workers and those in the bargaining stream (although it would maintain the real value of their wages). This represented a compromise of the Commission's equity objectives for cost considerations (AIRC, 1999).

Despite this, the fact that the Commission awarded a wage increase to workers earning more than $510 per week at all represents an important interpretation of the social issues involved in the SNAs. As was noted above, employers and several governments submitted that the SNA should only apply to workers classified at or below the C10 rate. This would leave the structure of internal relativities (within each award) subject only to market pressures. Workers employed above the C10 rate who were unable to secure a wage increase through bargaining would see their wage position erode relative both to workers below the C10 rate and to those workers who were able to secure increases in the market. The Commission rejected this submission and in doing so it asserted that fairness entailed not only protecting the wages of those workers at the bottom of the earnings ladder but also protecting the relative wage position of other workers.

The AIRC's comments on its decision in the 1997 Living Wage case (AIRC, 1997) make clear its interpretation of the importance of wage relativities. There it asserted that:

> Such relativities remain an important determinant of the fairness of the minimum wage structure within Awards. How can Award rates be fair if they do not properly reflect the relative skills, responsibilities, etc of jobs covered by the Award? If an Award system has to be fair, then it is no answer, as the Joint Governments suggest, to leave it to workplace agreements to establish appropriate relativities. (AIRC, 1997, 8.2.32)

Proposals for Change

Since the last Living Wage Case the Federal Minister for Employment, Workplace Relations and Small Business, The Hon. Peter Reith, has tabled his 'second wave' of industrial relations reforms as foreshadowed in Reith (1999). The *Workplace Relations Legislation Amendment (More Jobs, Better Pay) Bill 1999* (*WRLA Bill* 1999), which is currently before the Commonwealth Parliament, has a similar flavour to the Government submission to the last (1998) Living Wage case. Paragraphs 88A(b and ba) of the Bill would repeal paragraph 88A(b) of the Act (Awards act as a safety net of fair minimum wages and conditions of employment) and substitute:

> b) Awards act as a safety net providing basic minimum wages and conditions of employment in respect of appropriate allowable Award matters to help address the needs of the *low paid*; and

> ba) Awards do not provide for wages and conditions of employment above the safety net.
> (*WRLA Bill* 1999, Paragraph 88A, *emphasis added*)

The Bill also would insert a new clause into the Act, Paragaph 88c 'Commission not to have regard to relativities within Awards'

> Consistent with ensuring that Awards act as a safety net providing basic minimum conditions of employment in respect of appropriate allowable Award matters to help protect the low paid, in performing its functions under this Part the Commission *must not* have regard to the maintenance of relativities between classification rates of pay within individual Awards. (*WRLA Bill 1999,* Paragraph 88C, *emphasis added*)

Some prominent academic economists have also made recommendations on how future SNAs should be conducted (Dawkins et al., 1998). Their emphasis is very much on the allocative side, arguing that SNAs be frozen for four years and the low paid be compensated through the tax/social welfare system. The principal objective of their plan is to reduce real wage growth and, thus, unemployment. They note that '[e]arnings would be suppressed more for low-skilled than for high-skilled workers'. However, this would have a positive effect on employment as 'the unemployed are disproportionately low skilled' (Dawkins et al., 1998).

Both these proposals would further reduce the importance attached, at the regulatory level at least, to the social function of wages. The 'Dawkins Proposal' would shift responsibility for the protection of the welfare of low-paid workers away from the wage determination system to the tax and social welfare system. Both the Reith and Dawkins proposals would reduce the AIRC's role in protecting the relative wages of workers. Under both proposals the structure of wage relativities would be largely left to market forces.

3 Safety Net Adjustments and Wage Relativities

Many questions are raised by these proposals for SNAs. For example, is the social function of wages unimportant? Can the role that has been played by minimum wage rates in protecting the incomes of the low paid be replaced by the taxation/welfare system? Can the determination of wage rates of workers other than the low paid be safely left to market forces? What would be the likely effects on equity of such a change? Are the gains in allocative efficiency that may come from these proposed changes sufficient to justify the loss of fairness in the wage system?

The pros and cons of using minimum wage controls to protect the welfare of low paid workers has been discussed extensively elsewhere (see Dawkins, 1997; Richardson 1998; Hancock, 1998; Neville, 1996 and 1997; Sloan, 1996; Valentine, 1996). However, the issue of leaving the determination of other wage rates to market forces has received less attention. This is somewhat surprising, given the large number of workers who would be affected by restricting SNAs to the C10 rate, and given that it is less than certain that workers who do earn above the C10 rate would be compensated through the welfare or tax system for any reduction in their real wages.

The argument for the deregulation of wage rates (see Dawkins, 1998 for an overview) derive from competitive wage theory which, in very simple terms, suggests that wage differentials should reflect: the value of different skills in the productive process and how these values vary across workplaces according to the demand for final goods and services; and the cost to workers of acquiring different skills and supplying labour in different workplaces.

This theory suggests that if wage differentials do adjust to reflect changes in, for example, the market value of a particular firm's product, and if labour 'moves' in response to this price signal, then two desirable outcomes will result. First, workers will be paid a wage rate that reflects the market value of their contribution to the productive process. Second, labour will be utilised in the sectors and firms where it is most valued (i.e. allocative efficiency will be achieved). Lower levels of structural unemployment and higher levels of economic performance should flow from this.

The argument against further deregulation of wage rates starts by pointing out the limited relevance of these theoretical models to modern labour markets. Neither the labour market nor most product markets are characterised by perfect competition and, given this, there is no guarantee that deregulation will result in a pattern of wage relativities that correctly signal the efficient allocation of labour, or reward workers according to their contribution to output. For example, textbook economics tells us that a firm with monopoly power in its product market could be expected to pay higher wages than a firm exposed to competitive pressure, regardless of the social value of the two firm's products. Furthermore, employers with some degree of monopsony power may take advantage of their superior bargaining strength to push wages down below the value of the worker's contribution (see Rubery, 1997: 356-7; Peetz, 1998: 538).

Further arguments against the deregulation of wage determination flow from this critique. First, there is a concern that the deregulation of wages will result in further increases in earnings inequality, both across the work force as a whole and between male and female workers. The groups who are most threatened by the processes of 'competition' in a deregulated labour market are those with the poorest bargaining power and these workers typically already earn below average wages (Peetz, 1998: 549). Furthermore, the industries with the poorest record in terms of bargaining wage increases through enterprise agreements (that is, the health and community services, education, retail and hospitality industries (see Rimmer, 1998: 609)) are those with the highest concentration of female workers (see CoA, 1998: 47).

The record of other countries' experience with labour market deregulation also suggests that there is a real risk of exacerbating earnings inequality. For example, Fortin and Lemieux (1997) demonstrate a clear relationship between the decline in the real value of the minimum wage in the United States and both rising general levels of wage inequality and an increase in the gender earnings gap. Cross-country studies also point to a significant inverse relationship between the degree of centralisation of wage-setting and wage dispersion (Borland and Woodbridge, 1999: 104). Supporting this, empirical studies of the Australian system of wage determination suggest that regulation has resulted in a more egalitarian wage structure by improving outcomes for low-wage workers in particular (Norris, 1986: 199).

A further social concern with the deregulation of wage relativities is whether important norms of wage justice will be reflected in a wage structure determined by market forces. Social norms of equity assert that a person's wages should be based on his or her contribution to output and, thus, that workers should be rewarded for their skill, education, training and effort and be paid according to the difficulty, complexity and supervisory responsibility of their job (see Kelley and Evans, 1993: 117). In line with this, the fairness of pay differentials (relativities) between occupations and workers is commonly assessed with reference to the physical characteristics of different jobs. Changes in wage relativities according to the vagaries of the market or worker's bargaining power are typically considered unfair (see Kahneman, Knetch and Thaler, 1986).

Alfred Marshall (1887) emphasised the importance of these community standards of wage justice more than a hundred years ago when he asserted that:

> ... every man who is up to the usual standard of efficiency of his trade in his own neighbourhood, and exerts himself honestly, ought to be paid for his work at the usual rate for his trade and neighbourhood; so that he may be able to live in that way to which he and his neighbours in his rank of life have been accustomed. And further, the popular notions of fairness demand that he should be paid this rate ungrudgingly; that his time should not be taken up in fighting for it; and that he should not be worried by constant attempts

> to screw his pay down by indirect means. (Marshall, 1887: 212-3)

These standards of wage justice have also been identified in a range of modern studies of wage setting. For example, Barbara Wootton (1962: 162) described how the maintenance of wage differentials is 'woven as warp and woof into the texture of wage discussions'. She described how workers and unions couch many of their arguments for wage increases either in terms of changes in the content of their jobs or the 'fairness' of maintaining a particular wage level in relation to a comparable group of workers. Employers also rely heavily on wage comparisons in their approach to wage negotiations and appear to place emphasis on paying wages that at least equal those of comparable employers in their local area (see also Ross, 1948; Piore, 1973; Hyman and Brough, 1975; Rees, 1993; Brown and Sisson, 1975; Dickinson, 1998; Rimmer, 1998: 615). The stability of many occupational wage relativities over long periods of time has also been related to the application of this standard of justice (see Routh, 1965; Phelps Brown, 1975).

However, as Adam Smith foresaw, wage justice is not a certain outcome for all workers in a modern labour market. He noted that the payment of 'just wages' depended on there being virtuous, well-informed traders, prepared to limit the pursuit of their own interests when these interests conflict with the interests of society at large (Stabile, 1997: 298). He perceived that this might occur 'naturally' in small, well-established communities, where close social ties elicit emotional responses such as sympathy and, thus, encourage the exercise of 'self-command' by employers. However, in large urban centres the depersonalisation of social relations could lead to the dissipation of feelings of sympathy for other community members and, hence, '[w]ages below the natural rate might exist, and employers, workers and the community not know or care about it' (Stabile, 1997: 305).

To compensate for the risk of unjust wages, and to ensure that society's interests were not harmed by the operations of markets, Smith formulated a role for a well-informed, *impartial spectator*. This spectator would be a moral guardian who would evaluate whether each individual's actions were virtuous or not, and who would guide behaviour to ensure that society's best interests were served (Stabile, 1997).

Thus, although Smith did have a pessimistic view of wage regulation (for example, in *The Wealth of Nations,* he wrote: 'Whenever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the masters' (Smith, 1976, Vol. 1: 158-9) and regulations are always aimed at lowering them)[4], he clearly perceived risks in leaving the determination of wages entirely to market forces. In a decentralised market economy subject to the pressures of competition, employers may be tempted to pay wages that do not reflect agreed social values or support the long-term interests of their communities[5] (see also Rubery, 1997: 358-9).

Finally, there are also concerns about the economic effects of further deregulation of wage rates. In particular, the above discussion on the importance of norms of equity suggests that employers may be unwilling or unable to vary wage rates according to market conditions (and, thus, to provide the signals to the efficient allocation of labour). For example, if workers do hold to the norms of equity described above, then they may resist attempts to vary their wages according to market conditions. Either the predicted wage changes will not eventuate or productivity may go down rather than up in a deregulated system (see Isaac,1992: 3; Piore, 1973: 378).

4 Summary and Conclusion

The current proposals to pare back Safety Net Wage Adjustments will limit the ability of the AIRC to reflect the social elements of wages in their decisions. These changes to the SNAs will affect the welfare of a large number of Australian workers. Restriction of the SNAs will leave the relative wage position of many workers subject to the influence of market forces and, most likely, a deterioration in earnings inequality and the gender wage gap will result. Given the weak bargaining position of the workers who currently depend on SNAs, there is a strong risk that comparative wage justice will be sacrificed for the promise of gains in allocative efficiency.

The argument that further labour market deregulation would lead to lower levels of unemployment and higher levels of economic growth demands that these proposals for change in the SNA system be given serious consideration. However, detailed information is needed on the nature and size of the predicted effects on employment and productivity to ensure that they are large and certain enough to justify the social costs that would be involved.

There is clearly a need for more research on the issues raised in this paper. In particular, more detailed information on the consequences of the proposed

4 Nevertheless, Smith went on to say 'When the regulation ... is in favour of the workmen it is always just and equitable'(Smith, 1976, Vol.1: 159).

5 A similar idea is reflected in the game theoretic literature on social norms, where it is shown that unfettered competition leads market participants to select actions that are not socially optimal (see Binmore, 1998)

changes in SNAs for earnings inequality, and especially for the relative position of low-wage workers, is needed so that the social costs of these changes can be gauged. The benefits of further deregulation of wage fixation in terms of employment growth and economic performance also need to be better defined before these changes are implemented.

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Working Poverty, Gender and Restructuring in Australia, Canada and New Zealand

Maureen Baker, PhD
Sociology
University of Auckland
Auckland, New Zealand

1 Introduction: Changing Labour Markets and Employment Poverty

Labour markets have never been static in OECD countries, but in recent years they have undergone significant change. Investors can now move capital freely throughout the world, searching for more profitable ventures and lower labour costs. Freer trade, common market agreements, and new information technologies have edged some industries and workers out of the market, but have allowed others to prosper. Manufacturing jobs that were previously unionised have shifted outside the borders of western economies and lost their union protection. Service sectors have expanded, providing more part-time than full-time jobs (Banting and Beach, 1995; Edwards and Magarey, 1995; Van den Berg and Smucker, 1997).

Employment opportunities have changed for existing workers, and many of them have been forced to retrain, to become self-employed, or to take early retirement. Yet the jobs available to new labour market entrants and those seeking re-entry have particularly been altered. Some new entrants are fortunate to find stable and long-term employment, but many others can obtain only part-time or temporary jobs that lack union protection, regular working hours, and employment benefits (Myles, 1996; Jenson, 1996). Both men and women have been affected by these labour market changes, and the employment patterns of men increasingly resemble those more typical of women (Armstrong, 1996; Webb, Kemp and Millar, 1996). A lifetime career with one employer is becoming more elusive and the time between jobs is lengthening for the unemployed (Torjman and Battle, 1999: 15).

Labour markets are becoming polarised into 'good jobs' and 'bad jobs', which augments income and wealth disparities and contributes to the relative decline of real income against inflation and taxes. In most OECD countries, two-income families have increased in order to meet necessities (Castles and Shirley, 1996). Poverty and social welfare costs have been raised by higher unemployment and job insecurity (as well as rising rates of relationship dissolution). Governments have responded by restricting access to social benefits and creating 'employability programs' which require more categories of beneficiaries to retrain and search for paid work (Baker and Tippin, 1999).

This paper begins with a brief outline of the misleading assumptions behind the new employability programs and then discusses why having a paid job no longer guarantees prosperity, especially for low-income mothers. Data are presented to show cross-national variations in low-paid employment in Australia, Canada and New Zealand, and several explanations are given for these variations. The paper ends with a discussion of strategies to reduce employment poverty.

2 Employability Programs: Assumptions and Effectiveness

Increasingly governments are requiring beneficiaries to enrol in programs that help them upgrade their education and employment qualifications, develop their confidence and interviewing skills, and provide community service in return for income support. Yet these new employability programs make several questionable assumptions about the motivations of beneficiaries, the nature of the job market, and the chances of being better off in paid work than on benefits (Evans, 1996; Shragge, 1997).

Employability programs assume that beneficiaries are not 'working', yet some beneficiaries are already caring for children and performing family or community services that they feel are more important than any paid position (Duncan and Edwards, 1996). Other beneficiaries are prevented from finding paid work or keeping a job because they experience chronic illnesses or disabilities, lack child care services, or retain responsibility for a child or other family member who is ill or disabled (Shaver et al., 1994; Gorlick, 1996). Employability programs have been criticised for treating beneficiaries as gender neutral and assuming that they are perfectly free to pursue paid work without other responsibilities or constraints (Fraser, 1997). Yet constraints have been identified by a number of researchers (Hardina, 1997; Mullaly, 1997; Baker and Tippin, 1999). Mullaly (1997) suggests that they have also been implicitly acknowledged by social program managers, as he argues that the Canadian program NB Works has been able to raise its 'effectiveness rate' partly by discouraging low-income mothers with child care problems from enrolling.

Employability programs also assume that unemployed people have failed to acquire the appropriate education and skills, yet many skilled and educated people are out of work. Some of them have lost their jobs through the downsizing of their firms, while others are new entrants to the labour force. In New Zealand, for example, 6.6 per cent of young people under 26 who have acquired a university degree are nevertheless unemployed (Statistics NZ, 1998b: 65). Unemployed people are also assumed to be unmotivated to work, yet considerable evidence suggests that most are already actively searching for employment but that job markets cannot absorb the sheer number of people in need of paid work. In Canada, for example, there were 400 000 job vacancies in 1997 yet there were 1 400 000 unemployed (Torjman and Battle, 1999: 14).

Social research, mainly from North America, indicates that *voluntary* employability programs lead to a modest substitution of earnings for welfare and can be cost-effective in areas of high job growth (Shaver et al., 1994; Lightman, 1995; Evans, 1996; Torjman, 1996). Participants without recent market employment experience, however, have limited opportunities to develop their skills, to move to higher paid jobs, or to improve their income. Furthermore, the most job-ready individuals are not helped greatly (Gueron, 1995). Yet some welfare savings are apparent for the governments.

When jobs are scarce, 'workfare' or *compulsory* employability programs help create a pool of cheap labour and marginalised workers who displace existing employees (Gueron, 1995; Shragge, 1997). Furthermore, those who exit from social benefits and enter the labour force tend to remain poor (Edin and Lein, 1996; Lightman, 1997). Hardina (1997) argued that workfare programs tend to place people in jobs that do not permit them to escape from the welfare system because these programs necessarily involve low skilled and poorly paid work with few long-term prospects, performed by people with few skills and little confidence. Self-respect cannot be increased if the job leads nowhere and mandatory work cannot give people more control over their lives (Jacobs, 1995). Participants are given false hope about their chances of finding well-paying work that enables them to be self-supporting, and beneficiaries sometimes enter a revolving door of welfare to work to welfare (Baker and Tippin, 1999).

3 Low-paid Employment: Cross-national Variations

The OECD defines 'low-paid employment' as work that pays two-thirds or less of the median income of full-time employees (Freiler and Cerny, 1998: 24). This definition is obviously relative, varying by prevailing wage rates in particular jurisdictions. Table 1 shows the incidence of low-paid employment for males and females in seven nations, but I would like to focus on Australia, New Zealand and Canada. Among these three 'liberal welfare states' (Esping-Andersen, 1990), the incidence of low-paid employment in 1994-95 was the lowest in Australia at 13.8 per cent of the labour force, and the highest in Canada at 23.7 per cent. The table also indicates that women in all seven countries are more likely to work in low-

Table 1: Incidence of Low-paid Employment[(a)] in 1994

Country	Total	Men	Women
Canada	23.7	16.1	34.3
Australia (1995)	13.8	11.8	17.7
New Zealand	16.9	14.4	20.7
United Kingdom (1995)	19.6	12.8	31.2
Sweden	5.2	3.0	8.4
Finland	5.9	3.3	8.7
United States	25.0	19.6	32.5

Note: a) Low-paid employment is defined as less than two-thirds of the median wage for full-time employment.
Source: Freiler and Cerny, 1998: 24.

paid positions than men are. In Australia, only 17.7 per cent of women workers are low-wage workers compared to 34.3 per cent in Canada. Yet the table also indicates that the incidence is much lower in the social democratic nations of Sweden and Finland.

A few generations ago, most workers started out in low-paid positions and worked their way up as they gained job experience. Now, the growing casualisation of low-wage work means that there is little career advancement possible yet considerable competition for these jobs (Baker and Tippin, 1999). With a flood of new entrants to the lower end of the job market, wages are depressed and employers can easily retain some employees on short-term contracts or part-time hours, while making others redundant. Many low-wage jobs are being made more 'flexible', typically to the advantage of employers and the disadvantage of employees. As a result, the 'working poor' are a growing phenomenon in many countries (Armstrong, 1996; Webb, Kemp and Millar, 1996).

Schellenberg and Ross (1997) argue that there are three main reasons for labour market poverty: unemployment, low wages, and periods of time spent outside the labour force. I will examine each of these three reasons separately, and make some historical and current comparisons among Australia, New Zealand and Canada.

Unemployment

Before the late 1980s, unemployment rates were much lower in Australia and New Zealand than in Canada, but rates are now comparable, as Table 2 indicates. There are several reasons for past variations. One relates to the fact that both Australia and New Zealand maintained tight government controls over production, imports and exports, and were able to continue with this policy for so many years

Table 2: Comparative Unemployment Rates

	Canada	Australia	NZ
1964	4.3	1.6	1.0 (1966)
1970	5.6	1.6	1.4 (1971)
1984	11.2	8.9	6.8 (1986)
1987	8.8	8.1	6.8 (1986)
1992	10.2	10.1	10.4 (1991)
1996	9.7	8.5	9.8
1998	8.3	8.4	7.5

Source: OECD, *Employment Outlook*, July 1994, 1996, 1997; Baker, 1995: 75, Easton, 1997: 196; Statistics NZ, 1998c; Torjman and Battle 1999.

because of their isolation from markets and a strong liaison between Labo(u)r governments and trade unions (Saunders, 1994; Castles and Pierson, 1995). In contrast, Canada adopted a more laissez-faire and continentalist approach to production and allowed foreign products to enter more easily, especially from the United States. Canada's close proximity to the US has enabled capital to move south of the border in search of lower labour costs, but employees have not had the same option with US work and immigration restrictions (Baker, 1997).

Both Australia and New Zealand restricted non-white immigration to prevent the influx of low-wage workers and competition for local employees (Castles and Shirley, 1996). Canada did not restrict immigration to the same extent but rather accepted larger numbers of immigrants and refugees from a variety of linguistic, racial and cultural backgrounds. Since the 1980s, more immigrants have come to Canada from Third World countries, and unfortunately many are used as a low-wage labour force (Reitz, 1999).

The climate of Australia and New Zealand did not close down production in the same way that it did in Canada. Certain industries in Canada (such as road construction, home building, landscaping and fishing) have always been seasonal and close down for months during the severe winter. New technology has permitted more building to continue during cold spells in some parts of the country, but many industries remain seasonal and produce more in the summer than winter. Consequently, Canadian unemployment rates tend to be higher in the winter. In addition, certain remote regions with a short growing season and a long distance from markets (such as Newfoundland) have always experienced very high unemployment rates.

All three countries were used by their colonial masters to produce agricultural products and raw materials, and manufacturing jobs developed relatively late in their history. In recent years, their manufacturing industries have been negatively affected by globalisation, yet union protection in Australia and the strong alliance between government and labour kept wages high. In New Zealand and Canada, trade unions have been less able to prevent the decline of wages (Castles and Shirley, 1996; Baker and Tippin, 1999).

In all three countries, unemployment rates are high for specific categories of people, such as aboriginal people and young people with little formal schooling (Torjman and Battle, 1999: 9). In New Zealand, for example, Maori comprised 27.7 per cent of all unemployed persons but only 12.3 per cent of the total working age population (Statistics NZ, 1998a: 68). Youth unemployment continues to be much higher in all three nations, and about 30 per cent of 15-19 year olds in Australia were unemployed in the mid-1990s (ABS, 1996).

Slow economic growth in the 1990s has been blamed for high unemployment but this has been less of an issue in Australia than for New Zealand and Canada. In Australia, GDP growth averaged about 3.0 per cent from 1985 to 1996 but only 1.3 per cent in New Zealand (Easton, 1997: 258). In Canada, annual real GDP advanced at an average of 1.3 per cent (Torjman and Battle, 1999: 25).

Most new jobs, especially in North America and New Zealand, have been part-time rather than full-time positions, and employment growth has been fuelled by self-employment. In New Zealand, the number of full-time jobs grew by about 1.3 per cenrt from 1986 to 1991 while part-time jobs grew by 52.1 per cent (Maré, 1996). In Canada, 18.7 per cent of all Canadian workers held part-time jobs in 1998 compared to 12.5 per cent in 1976, and more are now considered to be 'involuntary part-timers' (Maré, 1996: 7). More people also hold multiple jobs and while some people work overtime, others cannot find enough hours to meet their financial needs (Wolcott and Glezer, 1995).

Despite higher rates of unemployment in recent years, governments in all three countries have tightened eligibility requirements for unemployment benefits and other forms of social assistance. Yet actual benefit cuts in Australia have been much less than in New Zealand and Canada (Baker and Tippin, 1999). The Australian Government tightened eligibility on benefits such as the Sole Parent Pension and has recently introduced new employability programs. Yet the New Zealand Government reduced the absolute level of some benefits by nearly 25 per cent in 1991 (Kelsey, 1995: 276) and introduced a workfare program ('Community Wage') in 1998. The government also reduced eligibility for the Domestic Purposes Benefit by requiring mothers to seek paid work when their children were 14 rather than 16 (Baker and Tippin, 1999).

In Canada, the Federal Government tightened eligibility for unemployment benefits (now called Employment Insurance) despite a surplus of $19 billion in the fund, and used the monies to reduce the federal deficit rather than restore eligibility and benefits (Torjman and Battle, 1999: 27). The province of Ontario cut benefits by about 21.6 per cent in 1995 (Lightman, 1997) and several

Canadian provinces now require low-income mothers to seek paid work well before their children reach school age (Freiler and Cerny, 1998).

Low Wages

Another reason for labour market poverty is low wages. In Australia and New Zealand, 'fair wages' and the 'family wage' were established at the turn of the century through trade union negotiations and generalised to all similar workers throughout the country (Castles and Shirley, 1996). In Canada, minimum wages have been set by federal and provincial governments, but have never been bargained for centrally by trade unions and have never been indexed to the rising cost of living. Consequently, these wages rise only when governments choose to increase them, yet employers' groups continually lobby to keep wages low. In all Canadian provinces, the real minimum wage (adjusted to inflation) was higher in 1976 than in 1998. The real minimum wage fell from 1976 to 1998 by a low of 10.2 per cent in Ontario and a high of 37.1 per cent in Alberta (Torjman and Battle, 1999: 20).

A direct correlation exists between union membership and higher wages (Torjman and Battle, 1999: 22), and Australian and New Zealand employees used to have much higher rates of union protection than employees in Canada. Yet trade union membership has fallen in Australia from 58 per cent of all employees in 1975 (ABS, 1980: 188) to less than 31 per cent in 1996 (ABS, 1998: 216). The decline is even more dramatic in New Zealand. In 1945, nearly 60 per cent of the total employed labour force was unionised (Bramble and Heal, 1997: 127) but this fell to only 20 per cent in 1996 (Statistics NZ, 1998c: 323). In addition, the number of work stoppages in NZ has fallen since 1991 and is now as low as the 1960s (Statistics NZ, 1998c: 329). The decline in trade union membership and work stoppages was accelerated in New Zealand by the 1991 *Employment Contracts Act*, which required trade union membership to be voluntary, placed restrictions on strikes and lockouts, and initiated individual employment contracts.

In Canada, less than 32 per cent of employees now belong to unions but this percentage has never been much higher. In recent years, union membership has been maintained by successful organising among (female) part-time workers (Pupo, 1997). Yet the strike rate has fallen dramatically in recent years and unions have accepted real wage cuts every year since 1991 (Torjman and Battle, 1999: 22).

Women's hourly earnings as a percentage of men's have been higher in Australia than in Canada: in the mid-1990s the ratio was 84.4 per cent in Australia, compared with 73.1 per cent in Canada (O'Connor, Orloff and Shaver, 1999: 96). Yet the centralised bargaining system, which historically has been the instrument in maintaining high wages and narrowing the gender gap, is now under threat with the advent of enterprise bargaining (Mitchell, 1995). Yet the *Industrial Relations Reform Act*, which came into effect in 1994, retained higher minimum wages for Australians than Canadians experience (O'Connor, Orloff and Shaver, 1999: 104).

Freer trade and loss of government subsidies in vulnerable industries also encourage low wages. The North American free trade agreements have enabled some high wage jobs to be created in Canada but have also encouraged other business enterprises to move south to jurisdictions where they they can find lower labour costs (Torjman and Battle, 1999: 22). This has forced the workers left behind to take whatever they can find, which in many cases is a series of part-time positions rather than a full-time secure job.

Some governments require employers to pay additional benefits for full-time employees, thus encouraging the growth of part-time and contractual work. Until 1996, Canadian employers could save payroll bills by hiring part-timers because employer premiums for Unemployment Insurance (now called Employment Insurance) were based on a percentage of the total payroll of full-time employees. Now, it includes part-time workers as well, but still excludes consultants and people on short-term contracts (CCSD, 1996). Therefore, more people are being hired on contract, which costs employers less than hiring employees.

Time Outside the Labour Force

Labour market poverty is also perpetuated by time spent outside the labour force. Traditional assumptions about the gendered division of labour within the family, including who assumes primary responsibility for caring of children and other dependants, shapes the 'choices' of women to care or not to care (Jenson, 1996; Millar, 199; Lewis, 1997). Consequently, women's engagement with paid work has been more variable than men's, as women have moved in and out of the job market for marriage, childbearing, childrearing, and their husband's career changes (Davies, 1993; Bittman and Pixley, 1996).

Part-time and irregular work typically remains the domain of mothers (as well as students and retirees) and women's continuing responsibility for caring work contributes to the steady supply of part-time employees (Cass, 1994; Bittman and Pixley, 1996). Yet the percentage of women workers involved in part-time employment varies considerably among the three country and is the highest in Australia, as Table 3 indicates.

Historically, women's entry into paid work has been influenced by many factors other than their own ambitions. These include their family status, numbers of children, the age of their children, their husband's wages relative to the cost of living, the prominence of feminist ideologies concerning the importance of paid

Table 3: Part-time Employment as a Percentage of Total Employed: 1995

	Part-time Employment	
	Male	Female
Australia	11.1	42.7
New Zealand	9.3	36.1
Canada	10.6	28.2

Source: Derived from O'Connor, Orloff and Shaver, 1999: 72.

work for women's self-sufficiency, and high rates of marriage breakdown (Davies, 1993; Bittman and Pixley, 1996). Paid work among mothers is also influenced by the extent of government support for child rearing at home versus support for employment issues such as pay equity, maternity benefits and childcare (Baker, 1995; O'Connor, Orloff and Shaver, 1999).

In Canada, mothers are now more likely to remain in the full-time labour force throughout their child-bearing years, but a substantial percentage in Australia and New Zealand work part-time when their children are young (O'Connor, Orloff and Shaver, 1999). Re-entry into the work force after maternity and child-raising continues to be a problem for mothers, with the growing competitiveness of job markets and the rapid obsolescence of skills and experience (Baker and Tippin, 1999). This is exacerbated by 'male' job cultures and assumptions that are incorporated into labour legislation and social programs, including the idea that paid work can be separated from personal and family life. These assumptions, as well as structural barriers such as lack of affordable child care, augment problems for women seeking employment and promotion, especially mothers with young children (Baker, 1996).

A US study by Edin and Lein (1996) indicated that 85 per cent of her sample of low-income mothers wanted to find a paid job but that only 13 per cent were ready to do so immediately. The rest believed that the costs would be too high. Neither social assistance nor low-wage work provided sufficient funds to meet the subsistence needs of these mothers and their children. Therefore they made ends meet through a set of survival strategies that included unreported income from side jobs, illegal underground activities such as selling of sex and drugs, and loans and exchanges from their social networks. Yet these activities did not help them to move into the legitimate labour force. When they accepted low-wage work, it often cost them more than they receive from social assistance, as the extra costs for child care, transportation, clothes and food outweighed the advantages of accepting a job. At the same time, paid jobs reduced their opportunities to exchange services with neighbours, placing them at a disadvantage within their personal networks. Furthermore, the paid jobs available to these mothers usually devalued their previous life experiences, failed to offer sick leave or paid vacation, and provided unstable income (Baker and Tippin, 1999). Comparative studies have confirmed these findings and indicate that at least for lone mothers, marriage to a male breadwinner rather than finding paid work is a more effective way to exit from poverty (Hunsley, 1997).

In summary, low-wage work is more prevalent among women, involves risk-taking, and does not guarantee a higher income than receiving social benefits. Low-paid work is also more prevalent among indigenous people and certain cultural minorities. In New Zealand, for example, full-time employed Maori had a median income of $24 100 compared to $28 800 for non-Maori (Statistics NZ, 1998a: 78). Also, new immigrants who experience language problems or whose qualifications are unacceptable to the host country are over-represented in low-paid jobs.

4 Reducing Poverty Among Low-wage Workers

Neo-liberal governments, politicians and economists often argue that keeping inflation low and the dollar high is more important than reducing unemployment. The assumption is that if the business environment is favourable, foreign and national investors will establish new enterprises or expand existing ones, and thereby create more jobs. Yet many foreign-owned companies that take over national firms, downsize and export their profits (and sometimes jobs) outside the country. Furthermore, low inflation may encourage financial speculators to move their capital outside the country where return rates are higher and profit-making is faster.

This suggests that governments need to fight unemployment and inflation at the same time. Governments can alleviate unemployment by reducing the work week, legislating against over-time work, and requiring employers to provide longer holidays more paid and unpaid leave (Battle and Torjman, 1999: 30-1). These statutory requirements would anger employers but would force them to hire more workers to maintain production.

Continued high unemployment keeps wages low, as workers who are afraid of losing their jobs will accept wage cuts or agree to work for a lower rate than they actually need to live. One obvious way to reduce poverty among low-wage workers is to raise the minimum wage, although this is politically difficult in countries with strong employer group lobbies. Employers argue that high wages kill jobs and encourage capital to move to low-wage areas. Yet there are many reasons why employers might be willing to remain in a 'high-wage' jurisdiction, such as enjoying political stability or attracting a skilled labour force. In Canada, only five per cent of employees now work at the minimum wage, which suggests that raising the minimum wage would not affect employers as much as they suggest (Torjman and Battle, 1999: 20).

Employers should also be required to pay the same wages and pro-rated benefits to part-time workers as to full-time workers. The Canadian Government made a small gesture in this direction in 1996 when they required employers to make contributions for Employment Insurance on the basis of the total wage bill rather than wages for only full-time workers. Yet the Canadian Government still does not require employers to include such payments to contract workers, which makes them more cost-effective (CCSD, 1996).

Another way of reducing low-paid work is through wage subsidies. In some jurisdictions, governments have topped up the hourly pay of low-wage workers in order to bring their incomes closer to what they need to participate in society as full citizens. One problem is that wage subsidies help perpetuate low-wage work (Shragge, 1997), but they also allow people to eat and they provide some work experience that might help low-wage workers find a better position in the future. This assumes, of course, that these better paid positions are available.

Raising educational levels by encouraging young people to stay in school and subsidising life-long training may help some individuals to find higher paid jobs. Yet over the years, many countries have experienced 'education inflation', in which qualifications keep rising as more people upgrade their formal schooling and training. Nevertheless, a correlation continues to exist between educational attainment and employment incomes. Yet women still earn less than men regardless of education, although this gap is smaller in Australia than in Canada (O'Connor, Orloff and Shaver, 1999: 96)

Reducing women's time spent outside the paid work force may also improve their wages because job interruptions interfere with progression through the ranks and discourage career planning. Certainly, governments need to guarantee that mothers will be provided with paid maternity or parental leave, as well as leave for family responsibility, to enable them to retain their jobs. Yet New Zealand still has not introduced paid parental benefits and Canada has eroded the value of such benefits with cuts to the Employment Insurance program, which covers maternity and parental benefits (Baker and Tippin, 1999). Social attitudes also need to change about the gendered division of labour in the home, as domestic responsibilities prevent women from working full time or trying for promotion (Wolcott and Glezer, 1995; Bittman and Pixley, 1996).

5 Conclusion

Women, along with certain cultural minorities, are more likely to be working for wages that are below the median, but cross-national variations are apparent among

Australia, Canada and New Zealand. Of the three countries, Australia has the best record with the lowest percentage of women in low-paid employment and the highest female wage rates relative to men. Canada has the worst record but New Zealand may soon be catching up.

Australia's current pay advantage has been explained by reference to its past government control over production and imports, its restrictive (and racist) immigration policies, previous high rates of unionisation, and the centralised bargaining system. Historically, these policies have contributed to high wages and low unemployment. Yet globalisation, technological change, and freer trade agreements have changed much of this and have polarised the labour force in all three countries (Castles and Pierson, 1995; Armstrong, 1996). Some workers have benefited from these trends, including women with tertiary degrees who are childfree and geographically mobile. Other women, especially low-income mothers, and certain cultural minorities remain disproportionately among low-wage workers.

The neo-liberal restructuring of paid work and social programs continue to aggravate the problems of the working poor and beneficiaries. Many firms, especially in the manufacturing sector, are downsizing in order to remain competitive in a world of freer trade and the rapid movement of capital. At the same time, governments are restricting eligibility to social programs, using the assumption that nothing should prevent the rational unemployed person from finding and keeping work. New employability programs also imply that paid work allows beneficiaries to exit from poverty, but these assumptions are not valid for certain categories of recipients (such as low-income mothers), except where the job market is booming.

Solutions to employment poverty are available but they require more government intervention and spending in the economy, education and labour market. At the present time, this would require considerable political will to counteract the strong lobby from the political right who argue for less government intervention. Yet the door may be opening a crack, as even the New Zealand National Government recently admitted that relying on the private sector to train workers and create jobs has not worked. Hopefully such comments are followed by greater acknowledgement that public investment in education, employment, and programs to alleviate work-family conflict are essential to reduce the growing gap between the haves and have-nots.

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What has Happened in New Zealand to Income Distribution and Poverty Levels?

Brian Easton
Economic and Social Trust on New Zealand
Centre for Social Policy
Massey University, New Zealand

1 Introduction

In a recent article, the London *Economist* (10 April 1999) describes the 'bad point' of New Zealand's economic reforms which began in the mid-1980s as 'a big increase in inequality'. In fact the New Zealand economy has generally had a poor growth performance, higher unemployment, and a worrying current account deficit ever since the reforms (although price levels have been more stable). Table 1 is a comparison between the overall economic performance of the Australian, New Zealand and OECD economies since 1985. There is no doubt the New Zealand economy has done worse (Easton, 1997a: 142-7 and 1997b: 257-8). Why this has happened, and why the New Zealand economic performance has been inferior to the Australian one, belongs elsewhere. For this paper, *The Economist's* observation emphasises just how widespread is the view that New Zealand has a more unequal income distribution, as a result of the policy changes of the last one and a half decades. But *The Economist* comment gives no sense of the magnitude of the increased inequality, nor its causes, which are the focus of this paper.

The standard way in New Zealand to trace household income changes is to use household income reported in the Household Economic Survey, adjusted first to a disposable (after tax and benefit) income basis, and then adjusted for household composition using a household equivalence scale. There are difficulties with the resulting measures, but as far as is known the problems are not sufficiently strong to invalidate the results to be presented here (Carson and Easton, 1999).

A number of research teams have used this approach over the years (Mowbray, 1993; Krishna, 1995; Easton, 1995; Stephens, Waldegrave and Frater, 1995; Podder and Chatterjee, 1998; Statistics New Zealand, 1999). There are two key studies. First, Mary Mowbray (1993) has provided estimates for the 12 available

Table 1: Economic Performance: 1985-1998

	New Zealand	Australia	OECD[a]
Inflation Private Consumption Deflator (% p.a.)			
1985	17.3	6.7	6.9
1998	1.3	1.9	3.3
Average (1985-1998)	4.6	4.1	5.5
Inflation GDP Deflator (% p.a.)			
Average (1985-1998)	4.5	3.9	5.4
Unemployment (% of Labour Force)			
1986	4.0	8.1	7.1
1998	8.2	8.1	6.5
Average (1986-1998)	7.2	8.6	6.6
Employment Growth (% p.a.)			
Average (1985-1998)	0.8	1.9	1.2
GDP Volume Growth (% p.a.)			
Average (1985-1998)	1.7	3.1	2.7
Labour Productivity Growth (% p.a.)			
Average (1985-1998)	0.9	1.2	1.5
Terms of Trade Change (% p.a.)			
Average (1985-1998)	0.9	-2.1	0.5
Export Volume Growth (% p.a.)			
Average (1985-1998)	3.9	7.1	6.9
Import Volume Growth (% p.a.)			
Average (1985-1998)	5.3	6.6	7.2
Current Account Deficit (% GDP)			
Average (1985-1998)	3.7	4.8	0.2

Note: a) G7 for unemployment
Source: *OECD Economic Outlook*, December 1998. The New Zealand figures do not always correspond to the official figures, but are used here for consistency. The OECD consists of 28 economies. The 1998 data are estimated.

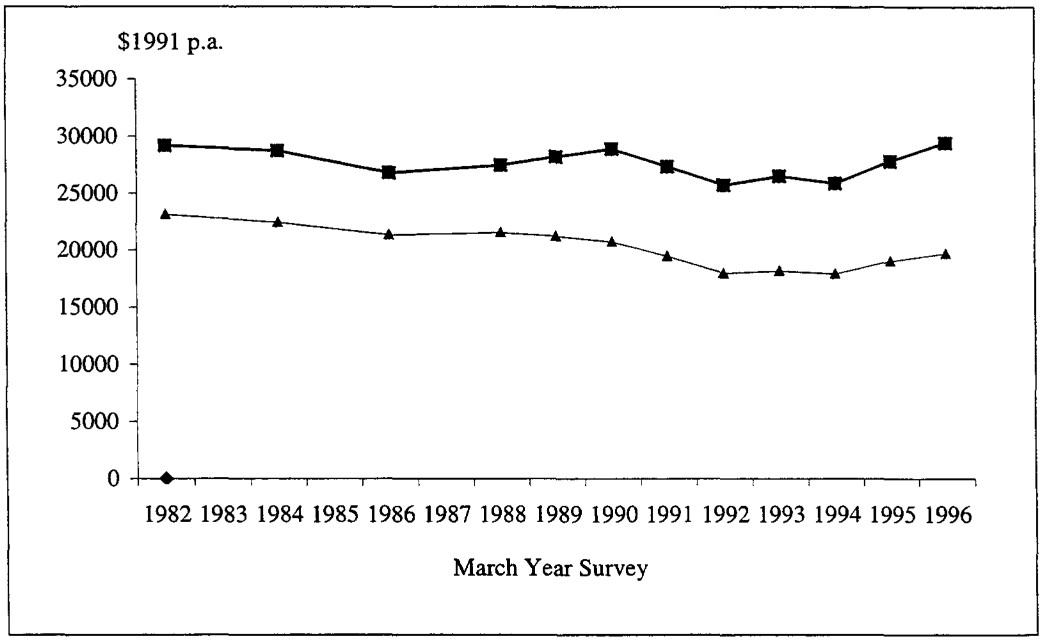
years between 1981/82 and 1995/96.[1] Second, and more recently, Statistics New Zealand (SNZ) (1999) has provided estimates for the four years 1981/82, 1985/86, 1990/91, and 1995/96. For a number of reasons the SNZ data might be expected to be more authoritative than the Mowbray (and other) studies. However it is not as comprehensive, so both are used here. In any case, all the studies tell broadly the same story.

1 The 1995/96 year is for households who reported their previous year's income between April 1995 and March 1996. This gives an average of the incomes for the year ended September 1995.

2 Average Incomes

The equivalent disposable income of a household might be thought of as a sophisticated per capita measure of the household spending power, in which household economies of scales and differences between adults and children are allowed for.[2] The Mowbray data are summarised in Figure 1 and Table 2. They show the mean income falling from $29 200 (for a household of two in 1991 dollars) in 1982 to $25 710 in 1994, and then recovering slightly to $29 420 following the upswing to 1996, a gain of .06 per cent p.a. over the 14 years. This pathetic figure is further evidence of the poor performance of the New Zealand economy over the period. In summary, over a 14 year period of reforms, the spending power of households has been stagnant.

Figure 1: Mean and Median Equivalent Disposable Income



The median income falls from $22 402 in 1982 to $19 680 in 1996 (an average fall of .92 per cent p.a. over the period). The divergence between the mean and the median is an example of the increasing inequality of incomes. It means that the increase in inequality has not been simply a share shift from the poor to the rich, but a shift from the middle incomes to high incomes also. As a result, those in the bottom 80 per cent of the income distribution have experienced a fall in their real incomes over the period.

2 Indeed dividing by numbers of household inhabitants to give per capita income is using a crude household equivalence scale

Table 2: Household Equivalent Disposable Income

	March Survey Years											
Deciles	1982	1984	1986	1988	1989	1990	1991	1992	1993	1994	1995	1996
Income shares (percentages)												
Bottom	3.5	3.2	3.9	2.5	3.7	3.8	2.4	2.7	3.1	2.8	2.9	3.0
2	5.4	5.5	5.7	5.6	5.4	5.2	5.3	5.3	5.2	5.2	5.1	4.9
3	6.2	6.2	6.5	6.4	6.2	5.9	5.7	5.8	5.7	5.7	5.6	5.4
4	7.2	7.2	7.4	7.3	7.0	6.7	6.5	6.4	6.3	6.4	6.3	6.1
5	8.6	8.4	8.5	8.4	8.0	7.7	7.7	7.6	7.4	7.5	7.4	7.3
6	9.7	9.6	9.7	9.7	9.2	9.0	9.1	9.0	8.7	9.0	8.9	8.7
7	11.2	11.1	10.9	11.2	10.6	10.4	10.6	10.7	10.4	10.7	10.6	10.2
8	13.0	12.9	12.5	12.9	12.6	12.3	12.6	12.7	12.6	12.9	12.6	12.4
9	15.1	15.3	14.9	15.2	15.0	15.2	15.4	15.7	15.5	15.7	15.5	15.4
Top	20.1	20.5	20.1	20.8	22.3	23.9	24.8	24.1	25.1	24.2	25.2	26.8
Decile average ($1991 thousands)												
Bottom	10.3	9.3	10.4	6.9	10.5	11.1	6.7	7.0	8.2	7.1	8.2	8.7
2	15.9	15.7	15.2	15.4	15.3	15.0	14.4	13.7	13.8	13.4	14.1	14.3
3	18.2	17.9	17.4	17.6	17.4	17.0	15.6	15.0	15.0	14.9	15.5	15.9
4	21.1	20.7	19.8	20.0	19.8	19.3	17.9	16.4	16.7	16.5	17.6	18.0
5	25.1	24.1	22.8	23.0	22.6	22.1	21.1	19.5	19.6	19.3	20.5	21.4
6	28.2	27.6	25.8	26.6	25.8	25.8	24.8	23.2	23.1	23.2	24.7	25.4
7	32.5	31.9	29.2	30.7	29.7	30.1	28.9	27.6	27.6	27.7	29.4	30.0
8	37.8	37.2	33.5	35.4	35.4	35.5	34.3	32.7	33.3	33.4	35.0	36.4
9	44.1	43.9	39.9	41.8	42.3	43.9	42.1	40.4	41.1	40.6	43.1	45.2
Top	58.5	58.9	53.7	57.2	62.8	69.0	67.7	61.9	66.6	62.6	70.0	78.8
Median	23.1	22.4	21.3	21.5	21.2	20.7	19.5	17.9	18.1	17.9	19.0	19.7
Mean	29.2	28.7	26.8	27.5	28.2	28.9	27.3	25.7	26.5	25.9	27.8	29.4
Ratio	0.79	0.78	0.80	0.78	0.75	0.72	0.71	0.70	0.69	0.69	0.68	0.67
Below RCSS poverty line (%)	11.7	12.4	12.5	13.4	12.3	12.6	14.6	18.0	17.3	19.6	14.9	14.5
Gini coefficient	0.26	0.26	0.25	0.26	0.28	0.30	0.31	0.30	0.32	0.31	0.32	0.32

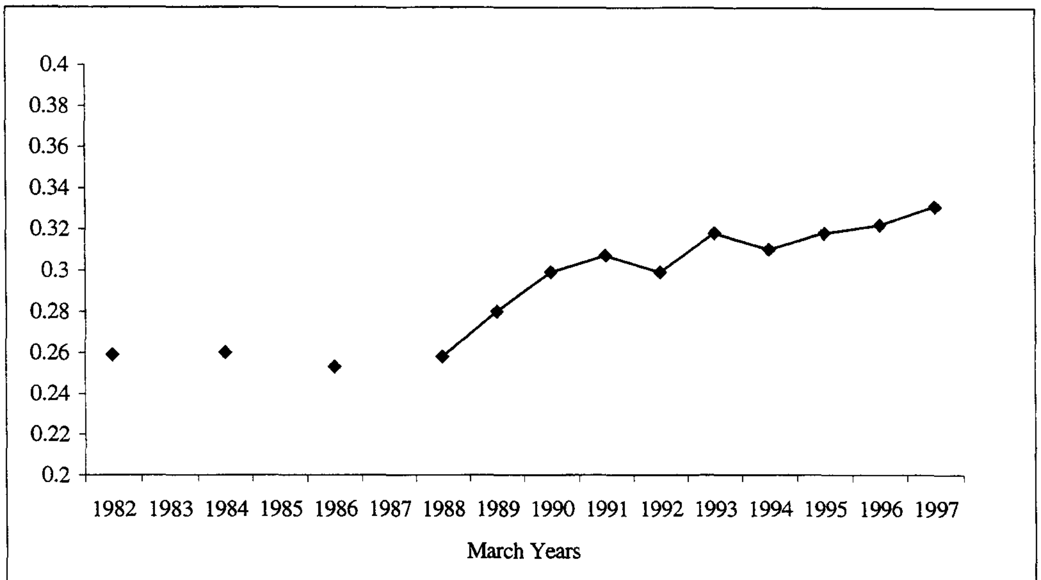
Source: Mowbray (1993) plus update, except gini coefficients are from Statistics New Zealand (1999).

3 The Distribution of Income

A common means of comparing changes in incomes over a period is to use the gini coefficient. A rise in the coefficient usually means there has been an increase in inequality.[3] The SNZ gini coefficient estimates are shown in Figure 2 and Table 2. There appear to be three phases. Between 1981/82 and 1987/88 (or possibly

3 For the conclusion to be unambiguous the Lorenz curves must not cross.

Figure 2: Gini Coefficient



1986/87) the gini coefficients are broadly constant, indicative that the degree of inequality remained broadly constant too. The coefficients then rise sharply to 1990/91, from about .28 to .31. SNZ notes the increase is statistically significant. Afterwards, the inequality seems to rise more slowly up to .33 in a six year period. The standard deviation of the household distribution might be thought of as increasing by just over a fifth to 1991, and by a half to 1997, compared to what it was in the mid-1980s.[4]

The picture from the gini coefficients is reinforced by Table 3.3 and Figure 3, which show the household deciles. The top decile of households increases its share from 20.1 per cent of total income in 1982 to 26.8 per cent p.a. in 1996. The second decile holds its share (15.1 to 15.4 per cent) and the remainder experience a decreasing share. Given that the average real disposable (equivalent) income hardly changed, we find that those in the top decile experienced a 34.8 per cent rise in their spending power between 1982 and 1996 (equivalent to 2.2 per cent p.a.), the second to top decile experienced a 2.5 per cent rise, and the remaining 80 per cent had a 10.1 per cent fall over the 14 year period. The bottom 30 per cent have experienced an average fall of 12.6 per cent, for the proportional reductions tend to be largest as one moves down the income distribution.

Why the rise in inequality? First, observe the most rapid increase occurs in the period when the government is cutting the top income tax rate - it was 66 per cent

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4 To convert gini coefficients into coefficients of variation see Easton, 1983: 33.

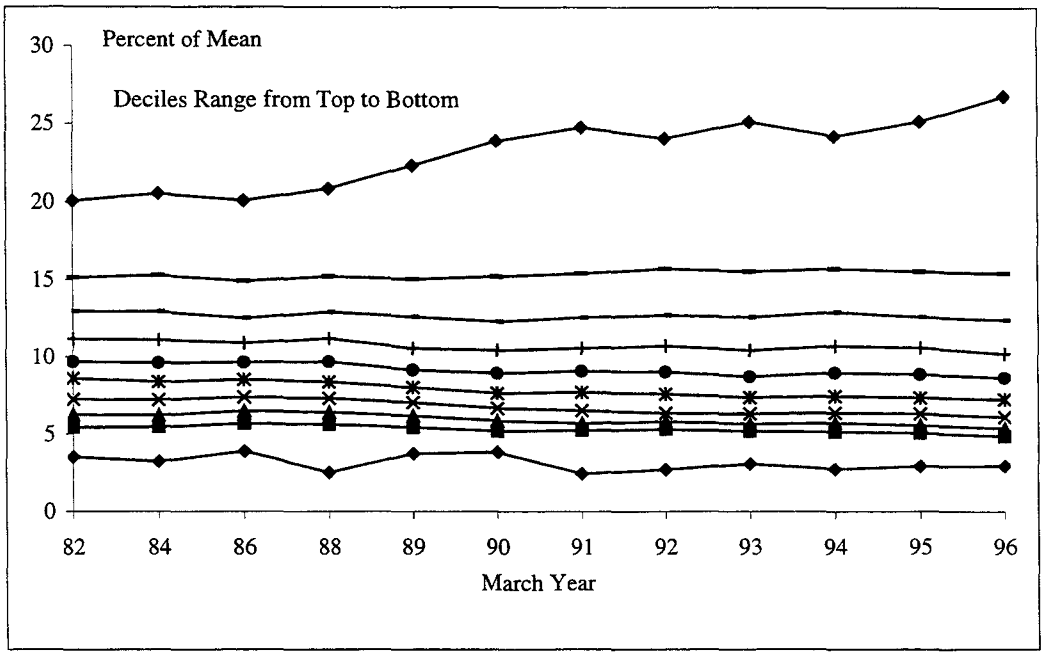
Table 3: Household Equivalent Disposable Income

	March Survey Years			
Deciles	1982	1986	1991	1996
Income shares (percentages)				
Bottom	3.9	4.1	3.7	3.6
2	5.4	5.5	5.1	5.0
3	6.2	6.5	5.6	5.5
4	7.2	7.4	6.4	6.3
5	8.4	8.5	7.7	7.4
6	9.7	9.6	9.0	8.7
7	11.1	10.8	10.5	10.3
8	12.9	12.4	12.4	12.3
9	15.0	14.9	15.1	15.0
Top	20.1	20.3	24.3	25.8
Decile Average ($1996 '000)				
Bottom	11 900	12 200	11 600	11 400
2	16 700	16 500	15 900	15 900
3	19 200	19 300	17 400	17 600
4	22 300	22 000	20 000	19 900
5	25 900	25 300	23 800	23 500
6	30 000	28 500	28 000	27 800
7	34 300	32 200	32 600	32 600
8	39 800	37 100	38 700	39 200
9	46 500	44 300	47 000	47 700
Top	62 100	60 500	75 600	82 200
Median	27800	27000	26000	25600
Mean	30900	29800	31100	31800
Ratio	0.90	0.91	0.84	0.81

Source: Statistics New Zealand, 1999.

in the year to March 1986 and was 33 per cent by 1990. This lifted the relative income of those in the top decile, who were the main beneficiaries of the tax cuts. This is sufficient to explain most of their income increase. In order to fund the reduction in income taxation for those at the top, the government cut social security benefits and other government spending (sometimes by the imposition of user charges), withdrew tax concessions, and allowed income tax rates to rise on lower incomes via fiscal creep (i.e the effect of raising real taxes by not changing tax brackets for inflation). Since there was little income growth, the net effect of the

Figure 3: Equivalent Disposable Income by Decile



fiscal changes was to switch income from the poor and those on middle incomes to the rich.[5]

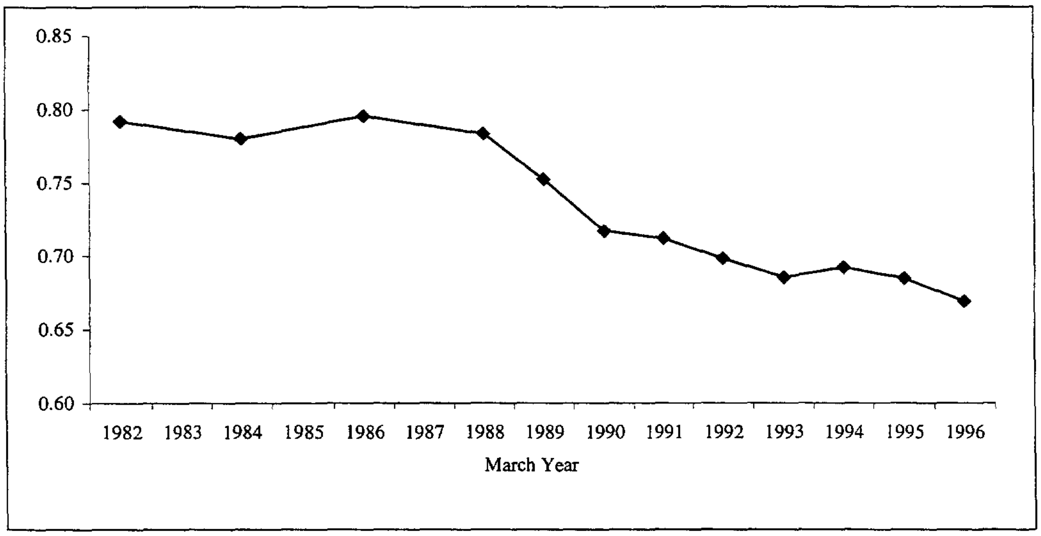
Thus far we have explained the increasing inequality by the deliberate actions of government taxation and spending decisions. Did the market economy, especially market liberalisation, also add to inequality? When I last did a comprehensive review I had only data up to 1993. I concluded that there was no evidence of an impact of market liberalisation on overall income inequality. I argued that the measures were so widespread they impacted on everyone, and so no part of the market income distribution especially benefited or suffered. Instead there was considerable turbulence within the distribution (Easton, 1996).

The addition of more recent data allows some reassessment. Inequality appears to have continued to increase after 1991, despite there being no major changes in the fiscal stance. While income tax cuts tended to favour middle incomes and families and benefit eligibility continued to be tightened, the changes were minor in comparison to the earlier changes. Because there are only a few observations it may be that the increase in the observed inequality is explicable in terms of statistical

5 An Australian audience is likely to ask what was the effect of GST. The research evidence suggests that GST did not in itself increase inequality. However, the resulting income tax cuts were skewed towards the rich, so the total package of GST plus income tax cuts increased inequality.

noise or the business cyclical, and there is really stability of income inequality. On the other hand, the trend increase is sufficiently perceptible to raise the possibility that, in contrast to the period before 1988, there is a systematic market mechanism which is increasing inequality. If there is, it can be traced in the ratio of the median to the mean (Figure 4). Up to 1988 the ratio hovered in the .78 to .80 range. As we would expect, following the pro-rich fiscal measures, it fell to about .7 in 1992. But it appears to be continuing to fall, and was at .67 in 1996. Those who believe that more liberalised markets generate inequality have the current evidence on their side.

Figure 4: Ratio of Median to Mean



A table provided in the recent SNZ *Incomes* supports this conclusion (Statistics New Zealand, 1999, Figure 4.9: 60). If households are ranked by market income, there has been an increase in the share of market income of the top two deciles, and a corresponding fall in the share of the bottom seven deciles. Market income deciles do not simply relate to equivalent household income deciles, and the relationship changes over time. Nevertheless, the data are suggestive that, at the very least, rising unemployment has undermined the income of those in the lowest deciles. Unemployment was markedly higher in the mid-1990s compared to the mid-1980s - probably more than double when labour force participation rate changes are allowed for. It is also possible that there has been a widening in the dispersion of pay rates (especially at the very top of the distribution), and that changes in rates of return on investments are impacting on the income distribution, but neither is yet evident in the available data.

4 What Has Happened to Poverty?

Given that the real disposable (equivalent) incomes of the bottom three deciles have been falling, it might be thought unquestioned that poverty has been rising in New Zealand.

However there are some who contest this common sense. The most notable recent contribution is from Roger Kerr (1999), the executive director of the Business Roundtable, which consists of the chief executives of the large corporations which have been both major advocates of the reforms and their largest (relative) beneficiaries. In a recent paper he argued:

> What does the [SNZ] study tell us about poverty, as opposed to changes in the distribution of incomes? Between 1982 and 1996, according to Statistics New Zealand, there was no increase in the proportion of individuals or households with an income of less than 50 or 60 per cent of median disposable income. On the basis of these poverty benchmarks, between 6 per cent and 12 per cent of households were in poverty over the period.
>
> These measures of poverty are similar to measures used by Stephens, Waldegrave and Frater. Using a benchmark of 60 percent of median disposable income, the latter found that the percentage of households in poverty fell from 13.7 percent to 10.8 percent between 1983/84 and 1992/93. At a benchmark of 50 percent, poverty was stable at 4.3 per cent of households. The period examined did not reflect fully the economic recovery that started during 1991. Nevertheless, the study suggests that fewer households were in poverty than reported by Statistics New Zealand. *Neither study suggests a rise in reported poverty since the reforms began.*
>
> The Statistics New Zealand study contradicts three claims that have frequently been made. First, the claim that the rich are getting richer *while the poor are getting poorer* is simply not true. People on high incomes have increased their share of total disposable income while middle income earners suffered a significant loss of income share. However, there was no

> significant change in the share of income of low-income households. (Kerr, 1999: 3; italics in the original)[6]

The point here is not that Kerr is seriously misrepresenting the statistics (especially Statistics New Zealand, who do not even imply that 50 per cent of the median is a poverty line). Rather he is using a poverty line indexed to the median, which as we have seen, has been falling relative to the mean. Consider the situation where the government takes income from those in the middle of the income distribution and gives it to the rich, without affecting the total income. The effect will be to depress the median, and hence the poverty line. Thus the numbers in poverty will fall according to the Kerr poverty line, even though they have had no change to their incomes, and inequality has increased.

There is a case for indexing the poverty line for changes in mean incomes in the long run (Easton, 1980 and 1995). However since average incomes have hardly changed, in practice a constant price poverty line is satisfactory for New Zealand analysis over this period.

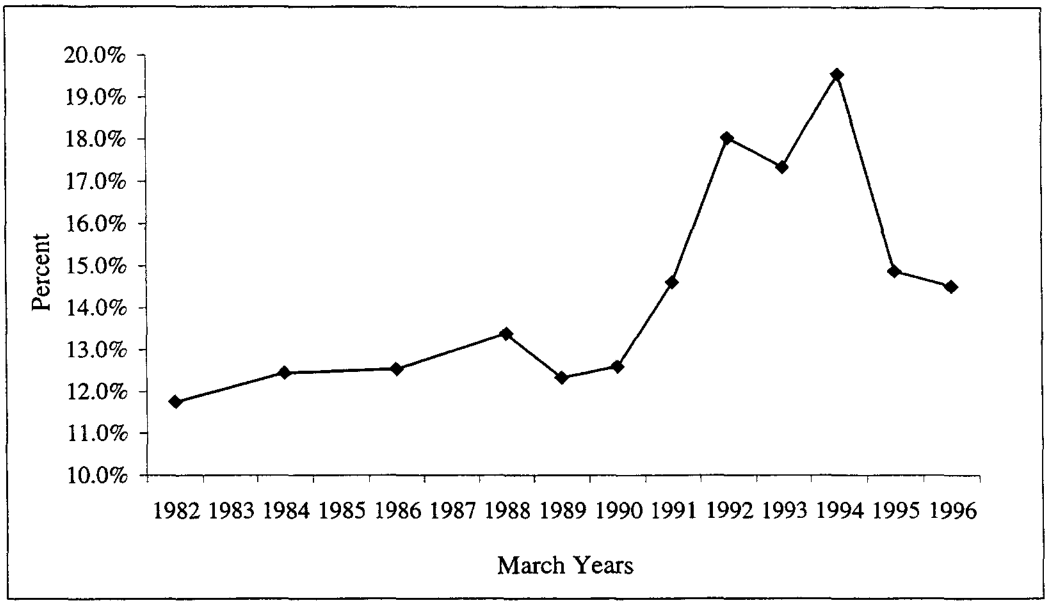
Figure 5 and Table 2, report poverty levels if the standard (constant price) poverty line is used, based on the assessment of the 1972 Royal Commission on Social Security. It shows poverty rising slightly up to 1990, and then increasing dramatically in the early 1990s following the benefit cuts and the severe economic downturn. As the economy went into a cyclical upswing, poverty levels fell (probably as a result of increased labour market engagement), but still remaining above the level of the 1980s. The level depends on the precise poverty line, but the pattern remains broadly the same. In summary, using the RCSS poverty line, poverty numbers inched up from 11.8 per cent to 12.6 per cent in the 1980s, rose dramatically to 19.6 per cent in 1993, and by 1996 were 14.5 per cent. If a constant price poverty line is used, poverty has definitely increased (and that would be also true were it indexed to mean real incomes).

Kerr contradicts himself a little later, writing:

> Relative poverty can only be reduced by raising the income of those who are judged to be in poverty at a faster rate than that of other groups. A doubling in everyone's income, for example, would have no effect on the reported level of poverty according to a relative poverty standard.
>
> An absolute income or expenditure threshold, on the other hand, focuses debate on the explicitly identified commodities

6 In the quotation above, Kerr is referring to Stephens, Waldegrave and Frater (1995); see Easton (1997c) for a commentary and Stephens, Waldegrave and Frater (1997) for a reply.

Figure 5: Percent Below RCSS Poverty Line



> and expenditure patterns that are necessary to avoid hardship. It is likely to show substantially less poverty than that reported in the studies discussed earlier. An absolute standard recognises that an increase in real income reduces poverty. This is simply common sense. (Kerr, 1999: 5)

So Kerr has now switched to favouring an absolute standard for a poverty line. I will not rehearse the case for and against this view, with which every social policy analyst is familiar. The point, is on page 3 of his speech Kerr relies on an indexed relative poverty line (plus some misreading of the statistics) for his argument. By page 5, he is opposed to an indexed poverty line, favouring a constant price one.

So while there is considerable agreement that the income distribution has become more unequal, it would have been less than comprehensive to have implied that there is a unanimous view on the course of poverty. Nevertheless real incomes have fallen at the lower end of the income distribution. Poverty must have risen on any commonsensical definition.

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Britain in Europe: Issues of Work and Welfare

Catherine Jones Finer
Comparative Social Policy
University of Birmingham

1 Introduction

This paper comments on problems of unemployment, employability and social security in Europe, as seen from a British perspective.[1] It opens with an account of the new social policy in Britain, setting this against the background of evolving social policy relations between member countries in the European Union (EU). Next follows an outline review of the current extent, distribution, characteristics and labour market contexts of unemployment around Europe. The paper then looks more closely at the British government's 'behavioural' strategies for enhancing individual employability, by contrast with some of the more corporatist, solidaristic traditions of labour market management - and social security - still obtaining in the heartlands of the EU. It concludes that, since neither class of approach is likely to prevail to the exclusion of the other, the resultant policy 'compromise' is likely to bear all the damaging hallmarks of another EU form of words in place of action.

2 The New British Social Policy

We start with and from a paradox. Prime Minister Tony Blair has made no secret of his admiration for former Prime Minister Maraget Thatcher - and indeed for much of the legacy of *Thatcherism* - yet he is also passionately convinced that Britain, under his leadership, should be 'at the heart of Europe'. These twin themes have proved hard to reconcile in practice, not merely because Thatcher herself was famously 'anti-Europe', but because those elements of Thatcherism intrinsic to Blair's vision of Britain as a 'young', 'entrepreneurial', *stakeholder*

1 Having lectured recurrently on European social policy (sic), to audiences including students from various parts of Europe, the author is familiar with the latter's frequent sense of shock at encountering British perspectives - including British university student perspectives - at first hand.

society are intrinsically at odds with predominant German, French, Italian as well as Scandinavian notions of labour market management.[2]

Within Britain, Blair's notion of the 'Third Way' (between or conceivably above the old *left* and *right*) has if anything attracted more attention from social policy commentators than was accorded Thatcherism in the 1980s. Cynics would say that this is because Blair's stance is less clear cut, consistent and comprehensible than was Thatcher's. Whereas more sympathetic observers might suggest this is because Blair has had a much more difficult and steeper hill to climb.

Margaret Thatcher had been engaged in revamping a Conservative Party already disillusioned by the performance record of a welfare state which had never exactly been of its own making, so much as a consequence of wartime fervour and the first postwar Labour Government. Thus, for her to declare, by 1979, that the 'burden of welfare' was as inimical to national economic performance as it was to individual and family self-reliance, was merely to state, in confrontational, tough-minded terms, what many if not most Tory supporters had already come to believe (e.g. Kavanagh, 1990).

By contrast and much more recently, albeit on the back of Neil Kinnock's efforts in particular, Tony Blair has had to work to convert the core membership and elected representatives of a hitherto professed *socialist* party away from what had been its bedrock commitments to a high public spending, 'egalitarian' welfare state (however ineffective this may have proved in practice – e.g. Le Grand, 1982), towards the vision of a lower public spending, *welfare society:*[3] one which attached explicit importance not merely to 'Thatcherite' values of self-help and personal responsibility, but to such 'old-fashioned ideas' as familial obligation and collective, voluntary forms of community care and control. The wonder should be not that Blair has experienced difficulty in effecting such a transformation of 'old' into 'new' Labour, but that he managed it at all, to such (1997) electoral effect. (If one effect of this year's Scottish and Welsh Devolution is to give fresh heart and voice to 'Old Labourites' on the Celtic fringe, this will manifestly, albeit puzzlingly, have been trouble of Blair's own making.)

Certainly at Westminster the Blair administration stands firm as an advocate of 'Thatcherism with a human face'. In labour market terms, this means that it is committed, above all, to maximising the employment and employability of such working age people as hitherto seemed all too likely to be in receipt of indefinite

2 Interestingly enough, Blair's notion of 'stakeholdership' as being essentially a stockmarket-type, risk-sensitive venture, hardly squares with the egalitarian notions of workers as stakeholders (in their companies) espoused by the 'Rhineland model' of industrial relations. See below, Table 6.

3 Compare Japan's 're-assertion of identity' from the 1970s (e.g. Takahashi, 1997).

relief from the state. In developed world international terms, it forms part of a liberal renewal which so far has not and arguably cannot take in continental welfare state Europe. Bill Jordan (1998) has introduced what he sees rather as the *Clinton-Blair* project in the following terms:

> The new politics of welfare is far more than a plan to reform the social services. It takes the moral high ground, and mobilizes citizens in a thrust for national regeneration. It deals in ethical principles, and appeals to civic responsibility and the common good. Above all, it bids to recreate a cohesive community, through the values of self-discipline, family solidarity and respect for lawful authority ...
>
> [The first feature] of the new politics of welfare ... is its appeal to *national renewal* through a strong work ethic and high rates of participation in the formal economy ...
>
> The second is its claim of *moral authority* in the implementatiion of measures to restrict the payment of benefits and put stronger conditions around eligibility for social protection ...
>
> The third is its *denial of the continuing relevance of class and exploitation* as factors in the analysis of social justice. (Jordan, 1998: 1-2)

This is not to suggest that (northern) continental Europe and Scandinavia are not interested in pursuing social justice via the promotion of 'cohesive communities'; but it is to suggest that the British approach can seem idiosyncratic by European standards; even - given the rumours of community breakdown in Britain[4] - like shutting the proverbial stable door after the horse has already gone.

Even so, British talk of flexible labour markets could yet prove catching, not merely in southern Europe, with its less developed notions of anything approaching solidaristic welfare statism, but even in welfare state northern Europe; such may be the force of globalised competition as *reinforced*, ironically enough, by the institutions of the European Single Market and of Monetary Union; at least to the extent that the institutions of the EU prove incapable of curbing British 'excesses' and to the extent institutionalised Europe loses sight of its social mission in the dash for growth at all costs. It took the grandly named *Comite des Sages* (which included such luminaries as Britain's former Labour

4 Especially in deprived, multi-ethnic, inner-city neighbourhoods

and former SDP MP Dame Shirley Williams) to stake out the high profile counter position.

> Europe will be a Europe for everyone, for all its citizens, or it will be nothing. It will not tackle the challenges now facing it - competitiveness, the demographic situation, enlargement and globalization - if it does not strengthen its social dimension and demonstrate its ability to ensure that fundamental social rights are respected and applied. (*Comite des Sages,* 1996: 23)

Such was the appeal of this since famous declaration that social policy and associated academics right across Britain, for instance, were emailed at length[5] in an effort to drum up support for the cause - as well as to publicise the declared 'book of the cause' (Beck, van der Maesen and Walker, 1997 *The Social Quality of Europe*).

> What we are proposing is a new standard by which to assess *both* economic and social policies ... This standard is called social quality. This may be defined initially as the extent to which citizens are able to participate in the social and economic life of their communities underconditions which enhance their well-being and individual potential. (Beck, van der Maesen and Walker, 1997: 2)

Yet the times seem against them. Certainly the EU looks ill-equipped to orchestrate any such program.

3 The Social Quality of Europe

The original common market as set up under the Treaty of Rome (1957) had been just that: a set of arrangements designed to ensure common conditions of and access to economic activity throughout all the member states. Considerations of social policy - save those actually pertaining to the free movement of labour along with goods and services - were conspicuously not part of this agenda. With the qualified exception of Italy, the original signatories were already established welfare states each in their own right, with no wish and no perceived need to see this area of national customs and practices interfered with. Indeed, the 'great age of the welfare states' by then under way was, in its inherent inter-national jealousies, antithetical to the very idea of there being a supranational social policy community in the making. Subsequent additions to the membership of the

5 To the extent of five A4 pages of print-out, single spaced.

European Economic Community/ European Community (EEC/EC) only added to its heterogeneity in social policy terms, to the extent that practically every typology of welfare states subsequently produced (admittedly most of them by and for Europeans) ended up with members of the European 'Community' distributed right across its range of categories (Baldwin, 1996: 38-9).

Unfortunately for organised Europe however, this trend towards mounting social policy diversity took place over a period when it was increasingly being felt, in 'pro-European' circles, that the Community was in need of a Human Face: i.e. an own social policy identity. It was no longer enough, from the 1970s, to presume that Europe could simply be about market regulation, with popular well-being (and contentment) left to the ministrations of the separate welfare states. The welfare states were themselves discredited (albeit to varying degrees); rising unemployment was no advertisement for a mere market-led Europe; Brussels could seem the epitome of distant, self-serving big government. In short, organised Europe was in need of a user-friendly face-lift.

But how was this to be achieved ? The mainstream social policy territory of the welfare states was still sacrosanct to them as sovereign states. Since members of the European Commission were hardly in a position to claim superior democratic credentials, the best they could contrive was to initiate programs and build up responsibilities in areas *additional* to the established concerns and activities of the welfare states; and to do this also without facing member governments with 'excessive' calls for money. Witness therefore the poverty in so many respects of the EC's poverty programs from 1975, so scrupulously designed in both their application and evaluation as not to offend against national or local sensibilities, and thence so unremarkable in their effects (see for example Room, 1986). Witness also the use of European Regional funds to redistribute resources and opportunities - again on a needs-be modest scale - not directly between citizens of the Community but via the offices of intermediate governing bodies and organisations already in being. Just so was it possible, in the words of one commentator, for 'The regionalization of social policy ... to preempt the Europeanization of social policy' on a true citizenship basis' (Andersen, 1995: 158).

Nevertheless, there were those who saw or wished to see in the Delors era (1985-95) a sign of more positive things to come:

> The renewal of European integration after 1985 quickly captured the imagination of many scholars. Their enthusiasm sometimes obscured deeper dynamics, however, particularly in social policy. Some foresaw the contagion of integration leading to the construction of a federal European welfare state ... That such criteria were unrealistic should have been

> more evident. The EC was constitutionally barred from most welfare state areas, and it was not a nation state, let alone an instrument for the social democratic rebalancing of the international economy. (Ross, 1995: 357-8)

By the time of President Delors's departure from office (1995), the talk was rather of the extent to which the pressures of the Single Market, compounded by the approach of European Monetary Union (EMU), could be prevented from forcing 'downward competition' on the welfare states, as they vied with one another to attract outside investment and struggled to approximate to Maastricht-style qualifications for EMU (Leibfried and Pierson, 1995; Beck, van der Maesen and Walker, 1997). Paradoxically in the latter respect, this one bold measure intended to ensure an ever closer union between the member states of the EU was turning out, in advance, to be one of the biggest single causes of tension and disunity, especially in its potential hard hitting consequences for public social expenditure.

Even so, deep-rooted aspirations continue to die hard. Beck and colleagues (1997) were vigorous in their defence of that

> social quality of Europe [which] revolves around such concepts as optimal social participation, integration, solidarity, a sense of belonging and a sense of purpose to one's existence. *Fundamental to these concepts are employment, security of income, adequate housing and good health.* (Beck, van der Maesen and Walker, 1997: 1; emphasis added)

UK liberalism, no matter how 'fair-minded' on occasion, had never gone in for concrete promises of this order. In any case, even the Beveridgean and Keynesian undertakings of early 20th century 'New Liberalism' (to be melded into welfare state Labourism) had been definitionally abandoned under Margaret Thatcher.

By contrast, key continental governments within the EU have never specifically reneged on a postwar conviction that the safeguarding of employment (especially) was central to the business of government. Hence the difficulties arising from their failures to deliver on this front; and the bitter irony of seeing their problems compounded by the need to meet the run-up requirements (however fudged in practice) of EMU. Hence, by the same token, the near wistful tone of *The Social Quality of Europe*; most of whose contributors, in the downbeat quality of their analyses, serve effectively to undermine the message the editors of the volume had been hoping to put across: namely that the promotion and safeguarding of social quality first and foremost (jobs included) in EU Europe constituted a workable proposition.

4 Recent Incidence and Characteristics of Unemployment, Viewed in Context

It is not enough, it should go without saying, merely to report the most recent, 'rival' unemployment statistics, without reflecting on the nature of their composition, the manner of their collection, the labour markets and the systems of industrial relations they represent. Nevertheless, according to the OECD, the UK by 1996 was doing better than France, Germany, Italy and even Sweden on its overall unemployment rate (Table 1). Not that this applied equally to both sexes, let alone equally to those entrapped in long- vs short-term unemployment (Table 2). Unemployed males seemed if anything more likely to be experiencing long-term unemployment in Britain especially, especially if they were 'traditional manual working class' and hence lacking in transferable, let alone computerisable skills (Table 3). (See also Clasen, Gould and Vincent, 1998).

Table 1: Crude Rates of Unemployment (Percentages)

Year	France	Germany	Italy	Sweden	UK	Australia
1970	2.4	0.6	5.3	1.5	2.2	1.6
1975	4.0	4.0	5.8	1.6	3.2	4.8
1980	6.2	2.9	7.5	2.0	6.4	6.0
1985	10.2	7.1	9.6	3.0	11.2	8.2
1990	8.9	4.8	10.3	1.8	6.9	6.9
1995	11.6	8.2	11.9	9.2	8.8	8.6
1996	12.3	9.0	12.0	10.0	8.2	8.6

Source: OECD, adapted from Bamber and Lansbury (1998), Table A.6: 337.

Table 2: Annual Rates of Long-term Unemployment in Germany, Britain and Sweden, Percentage of Labour Force and Percentage of Unemployment: 1995

Percentage of Labour Force	Germany	Sweden	Britain
Total	4.0	1.9	3.8
Males	3.3	2.4	5.0
Females	5.0	1.3	2.3
Under 25s	2.4	2.5	4.3
All unemployed	48.7	20.2	43.6
Unemployed males	45.9	23.4	49.6
Unemployed females	51.3	15.9	32.3
Unemployed 15-25s	26.8	12.7	27.2

Sources: Adapted from Clasen, Gould and Vincent (1998), Tables 2: 8 and Table 3: 10.

Table 3: Employment Shares for Blue- and White-collar Workers: 1981-1991[(a)]

	White Collar		Blue Collar	
	1981	1991	1981	1991
Germany	35.4	31.9	58.4	61.2
UK	30.7	28.4	65.3	68.6

Note: a) Definitional changes make data for years later than 1991 difficult to interpret
Source: OECD, adapted from Bamber and Lansbury (1998) Table A.4: 335.

Not surprisingly, such dismal statistics tend to be directly related to the incidence of those leaving full-time education without much if any formal qualification; though 'latest evidence' is in this respect confusing to the extent that it makes no allowance for the backlog of change - or lack of change - over the past half-century (e.g. Green, Wolf and Leney, 1999).

Of most direct and immediate importance, however, has to be the politics of labour market policy-making. One of Margaret Thatcher's most striking achievements - as she herself saw it - was the reduction of the once famous British trade union movement to the role of an 'also ran' in the policy-making process. True, she was facing a movement decentralised and already to an extent demoralised after the infamous 'winter of discontent' of 1978-9.[6] True, also, she was facing a Labour party effectively bereft of rival campaigning leadership at the time. Nevertheless she was able to utilise the occasion of the Miners Strike in the 1980s as part of a strategy for 'doing down the unions', in a way and to an extent her predecessor Ted Heath had never managed to do (vis a vis the Union of Mineworkers) a decade before. The fact that the UK fell from an employee 'union membership density' of 45 per cent to 29 per cent over the decade 1985-1995 (by contrast with Germany's slide from 35 to 30 per cent or Sweden's slip from 86 to 83 per cent over the same period) (Table 4), speaks for itself. It was all the more telling since Britain, hitherto, had been portrayed as operating a much more adversarial industrial relations system (in keeping with its adversarial style of party politics) by comparison with the 'social partnership' norms of such as Sweden and Germany (Table 5). The 'Rhineland Model' of industrial relations, in particular, seemed to afford little scope for the range of work force 'flexibilities' (i.e. vulnerabilities?) favoured by Blair (Table 6).

6 When even the grave-diggers had gone on strike - to media-led public disgust.

Table 4: Union Membership Density (Percentages)

	1985	1995
France [(a)]	15	11
Germany[(b)]	36	30
Italy [(a)]	42	38
Sweden[(b)]	86	83
UK[(a)]	45	29

Notes: a) Replies by governments
b) Replies by workers organisations
Source: Adapted from Bamber and Lansbury (1998), Table A.22: 359.

Table 5: 'Adversarial' versus 'Social Partnership' Systems of Employment Relations

Feature	Adversarial	Social partnership
Internal Labour Market Structures	Fragmented, narrow, numerous job classifications/boundaries; occupationally-based unions;	Broader job classifications and greater internal redeployment; industry-wide unions
Decision making	Greater managerial controls re access to information; Decentralised bargaining removed from key decision-making centres	More statutory-based consultation/access to information; more centralised labour-management decision making
Other	Voluntaristic or market-based system; weak vertical integration of labour organisations;	Statutory-based system i.e. greater state involvement; strong vertical integration of labour organisations

Source: Adapted from Bamber and Lansbury (1998), Table 1.1: 8

Table 6: Characteristics of the 'Rhineland' Approach to Labour Market Management

- The treatment, by companies, of workers as stakeholders, on a par with shareholders in their importance to the business; and the setting of high and stable employment as an explicit management target.
- A lower priority on the part of businesses for the achievement of the maximum return on capital (than is the case eg in the US).
- A smaller role for the stockmarket in the provision of capital for businesses, with a consequently larger role for banks.
- A collective approach to wage determination and, as a result, greater uniformity of pay levels across industries and between different groups of workers.
- Widespread regulation of the conditions and terms of employment.
- Strong public support, a powerful consensus, for state-provided welfare systems.
- High levels of public expenditure on social security.

Source: Adapted from Smith, 1999: 19.

5 Britain's New Deals for the Jobless

The essence of Blair's approach has been to couple the economic case for a less regulated labour market (*always* true of Britain by continental European standards, but Blair, following Thatcher, was out for even less regulation) with a moral crusade geared to impressing on everyone the duty of contributing to the common good (i.e. the national economy), via work, any work, to the best of their ability; and to couple this with the *quid pro quo* of an education/training drive (including lifelong learning initiatives) geared to rendering more of the people more employable for more of their lives. Theoretically it all fitted together, at the level of the individual at least. Unemployed people became entitled to a Jobseeker's Allowance (which replaces both the former unemployment insurance benefit and means-tested Income Support), provided they signed a Jobseeker's Agreement with an Employment Service Adviser who is thereafter supposed to monitor their progress into employment - or preparatory training of some sort. So far, maybe, so good. In practice, however, the New Labour project has been bedevilled by three sets of problems.

First and most vociferously expressed has been the opposition of 'Old Labour' to the very idea of targeting particular groups - notably lone mothers and the disabled - for high profile 'New Deal' treatment at all. Certainly it raises awkward questions about New Labour's much touted commitment to *the family,* as well as to the rights of the disabled to decide as far as possible for themselves. The Blairite response has been to emphasise the multi-faceted, long-term nature of the government's approach to lone parenthood (everything from better sex education, better access to contraception, and better access to child care facilities), and the fundamentally respectful, egalitarian thrust of its policies in respect of the disabled (let those who can, do whatever and however much they can), on the grounds that this justifies its expectation that most adult people, for most of the time, should feel both enabled and obliged to be in paid employment.

However the second problem relates to the feasibility in practice of getting significant proportions of the targeted 'problem' groups into real jobs in any case. Too many of them (as under previous piecemeal initiatives) seem to be ending up on 'make-work experience' programs, or temporarily subsidised jobs (for just so long as they are subsidised) and/or on education/training programs of questionable relevance either to their own career prospects or to the economic interests of the nation. To an extent - to put the best gloss on the situation - this could prove a temporary problem, in advance of latest educational reforms working through (e.g. Green, Wolf and Leney, 1999). To an extent, however, it could point to problems of employability more deep-rooted.

Meanwhile, third, no matter how 'employable' the labour force might be rendered, this still does not, of itself, ensure that jobs will be there for the taking in relevant local portions of the global economy, no matter how 'competitive' (by local standards) the terms on which people are prepared to work. The elevation of 'national renewal' to the status of a prime moral as well as economic objective (Jordan, 1998), does not and cannot mean that every would-be stakeholder stands to gain the same order of reward from participation in the venture - if indeed any reward at all (Jones Finer, 1998). It could even be that Blair's insistence on boosting participation in the *formal* economy damages the ability of certain groups to get by for themselves in the *in*formal (hitherto benefits-backed) economy (e.g. Evason and Robinson, 1998). Certainly a recent survey by the Joseph Rowntree Foundation (Turok and Edge, 1999), has cast doubt on the ability of *New Deal* programs, targeted at the most noticeably out of work, actually to affect local labour markets in areas of chronically high unemployment.

> Britain's 20 major cities have lost 500,000 jobs since 1981, while the rest of the country has gained 1.7 million jobs ...
>
> The decline of manufacturing is responsible for much of the job loss ... The contraction of male manual jobs is particularly important.
>
> Service industries have grown more slowly in the cities than elsewhere ...
>
> One of the main effects of urban job loss has been to increase 'hidden' unemployment ...
>
> National policy-makers seem unaware of the 'jobs gap' in Britain's cities ... Many policies misdiagnose urban unemployment as caused by inadequate skills and motivation, rather than a lack of jobs ... (Turok and Edge, 1999: 1)

The strongest evidence of job creation in such areas would seem to have been within the employment services and education/training sectors.

We should know by now that postmodern styles of economic growth are not rich in their capacity for creating jobs for numbers of ordinary people; that is, for people ill-qualified to undertake more than mundane tasks. Which is another way of agreeing with Bill Jordan's contention (1998: 2), that 'the denial of the continuing relevance of class and exploitation' as factors in the calculation of social justice amounts, in effect, to an admission that a stakeholder society is bound to have its losers but that it is best, for all concerned, for such losers to think of blaming themselves first, rather than society *per se*. If, in truth, globalisation has rendered the national project (*any* such national project) untenable, then at least we are forewarned - or should be. However, the fact that such a failed project could contribute to a growth in shadow, totally unregulated economies not merely at home but worldwide, seems not yet to have penetrated the highest echelons of policy-making in Britain, at least.[7]

6 Britain at the Heart of Europe? Does Europe Have a Heart?

There is total agreement between the member states of the EU about the importance of (un)employment as an issue. The difficulties come, of course, over what should be done about it. The notion of 'full employment' is still cited as a policy ideal, even as experts vie with one another to explain why northern Europe's years of labour shortage, in the wake of World War II, are unlikely to be repeated in the forseeable future; and why a mix of ageing populations does not promise best for an ever-adaptable, competitively employable labour force throughout Europe. The prospect, if anything, would seem to be for a 'two tier/two speed' European labour market, in two separate but overlapping respects:

- between *more* versus *less* regulated labour markets (the former offering enormously different prospects to those fortunate enough to be in work, as against those not so fortunate); and
- between a *more* versus a *less* inegalitarian distribution of income, not merely between those in and out of work, but between today's favourably skilled workers and the rest.

Figure 1 tries to put these two sets of distinctions together, which is not easy. The key differentiation would seem to be between the 'rich regulated' versus the 'rich unregulated' countries of Europe: the former spelling a relatively static if not egalitarian response to the setting of wages and working conditions, by contrast with the latter's dedication to the principle of winners and losers as being essential to the functioning of a successful marketplace - which includes getting people into jobs. Where the countries of less developed Europe - including those of Eastern Europe queuing up for admission to the EU - should be situated on this dual continuum (e.g. what weight should be attached to traditions of regulation as against the force of current economic circumstance?) remains to be seen.

7 Compare the experience of public authorities in southern Italy.

Figure 1: Split Between the Job and Remuneration Prospects of Today's Suitably Skilled and the Not so Skilled

	Greater	Lesser
More regulated labour markets (protective of those who have jobs)	e.g. Germany, France, North Italy	e.g. Scandinavia
Less regulated labour markets	e.g. Germany (re ethnic minorities) UK, Southern Europe	e.g. Ireland?

Against such a background, recent EU publications on labour market policy (European Commission, 1997a, 1997b) are full of agreed nostrums about the need to tackle the skills gap, together with the importance of building flexibility into working patterns, wages and salaries, etc., in the wake of the Amsterdam Resolution (June 1997) which opined that the three goals - completion of the single market, monetary discipline and job creation - have to be pursued in parallel. So far, so unexceptionable. What is anything but clear, unfortunately, is how the main lines of an appropriate supporting strategy are to be agreed on, let alone achieved.

Employment in Europe: An Employment Agenda for the Year 2000 (European Commission, 1997b) is packed with unexceptionable observations as to what seems to be wrong with the operations of the European labour market, together with unexceptionable - precisely because they are so non-specific - suggestions as to what might be done to remedy the problems identified. The latter are always presented in an up-beat, public relations, 'can do' tone; and no countries are specifically cited - whether as leaders or laggards in any respect. The EU's eventual response included the following:

> The creation of an Employment Committee provides a forum for promoting coordination between Member States on employment and labour market policies. This Committee will monitor employment policies in the Member States and the Community and advise the Council and the Commission on such issues;
>
> the Commission will draw up employment policy guidelines which will be discussed and approved by the European Council ...
>
> there will be monitoring and surveillance of Member States employment policies in the light of these guidelines;

> employment will be taken into account in all Community policies and actions, accompanied by an examination of all relevant existing Community policies to ensure that they are geared towards job creation. (European Commission, 1997b: 15)

So far so acceptable to all; which is perhaps to say so meaningless by the very same token. To be sure, Blair's latest attempts to restate *The Way Forward* in employment strategic terms, had the ostensible backing of German Chancellor Schroeder; but attracted the hostility of French Prime Minister Jospin in proportionate measure. To ask for labour market 'flexibility' was the same as to ask for labour market 'insecurity': an attack on the French postwar settlement itself (itself - in the shape of Le Regime Generale - superficially inspired by Britain's Beveridgean example).

> Advocates of the French model argue that joblessness is a hangover from the days when the French pushed up interest rates to punishing levels to defend the *franc fort*. With the economy now on the upturn, joblessness will fall, as it has been doing gently since mid-1997. But this is only part of the story. The chief problem is a sticky labour market, caused mainly by the hefty social-security charges the employers have to pay for their workers, and by the high cost of laying them off ...
>
> Most worrying, a quarter of all those aged under 25 have no job at all, and little chance of finding one soon. Two-fifths of the unemployed have been without work for over a year, half of those for more than two years. A recent French study showed that the unemployed in France take five times as long to find a new job as in America; yet those in work are five times less likely to lose their jobs. In short, there is a huge gap between those with and without work. (*Economist Newspaper* 5.6.99, 'France Survey': 10-11)

7 Conclusion

Britain has always had an uneasy, ambivalent social policy relationship with continental Europe, as has continental Europe (France *par excellence*) with Britain. Present stand-offs, in effect, over the conduct of employment relations and of the labour market serve to highlight deeper differences as to both the nature of the 'good society' and the manner in which this should be contrived (or maintained) and thence (or hence) governed.

Certainly it raises questions for all concerned as to where the present Britain best belongs: to its geographically neighbouring 'community' of Europe, or - even yet - to the geographically more scattered but culturally and ideologically more coherent world of ex-imperial, anglophone states? Globalisation could conceivably serve to open up such questions, all over again.

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Two Ways to Support Families with Children

Katja Forssén
Department of Social Policy
University of Turku
Finland

1 Introduction

Every now and then researchers have argued that the welfare state is in crisis. In the 1950s the welfare state was said to create inflation and in the 1960s it was accused of being too bureaucratic. Later, in the 1990s, increasing unemployment rates and family instability have been seen as new signs of the welfare state crisis. Families are one of the institutions that have undergone a deep transformation during the past fifty years. Family size has declined, divorce rates have increased, lone-parenthood and births outside wedlock have became more general than earlier. Women's labour force participation rates have risen so that the traditional breadwinner and housewife model is no longer valid (Cornia, 1997). The design of contemporary welfare states reflects a risk structure that is closer to that of earlier generations than of young families today (Esping-Andersen, 1999). Governments have tried to adopt new legislation with regard to working mothers and single parents and new measures had to be introduced in order to better support the new families. The way in which different welfare states have answered these new tasks varied greatly across countries. While some countries have developed their policies to support new types of families, others have maintained their support for a more traditional family (Gauthier, 1996). Family policy in many countries is criticised as being unable to meet needs of the modern family life.

The aim of this study is to evaluate how the welfare state has succeeded in answering these new risks. This study focuses on family support which is a central area when trying to find answers to increasing family instability. In this study Australia and Finland are taken as examples of two extremely different welfare state regimes. In Australia, family benefits are mainly income tested. Child day care is weakly subsidised by government. Women's labour force participation rate is lower than in Nordic welfare states. The goal of Australian family policy seems to be to support families in need rather than universally redistribute the cost of children. In Finland, the main goal of family policy is social integration, sought by maintaining high-quality public services that are reasonably priced and available to all who need them. In Finland the high labour force participation rate of women is possible because of a comprehensive day care system. Marian Sawer (1991) has analysed Australian social policy development from the feminist point of view and writes that the social policy outcomes achieved by women in Australia (femocracy), still lag well behind the achievements of two generations of social democratic government in Sweden. For example, Australia has still not achieved paid maternity leave. In general Australian social policy development has been described as shifting from entitlement to contract. In Finland, social policy structure is still based on universalism although the deep recession decreased the level of benefits.

The structure of this study is as follows. In the first part of the paper there will be a description of the history of welfare state developments in both countries. This is followed by showing the outcomes of these totally diverse family policy systems.[1] Finally the results are put in a wider context.

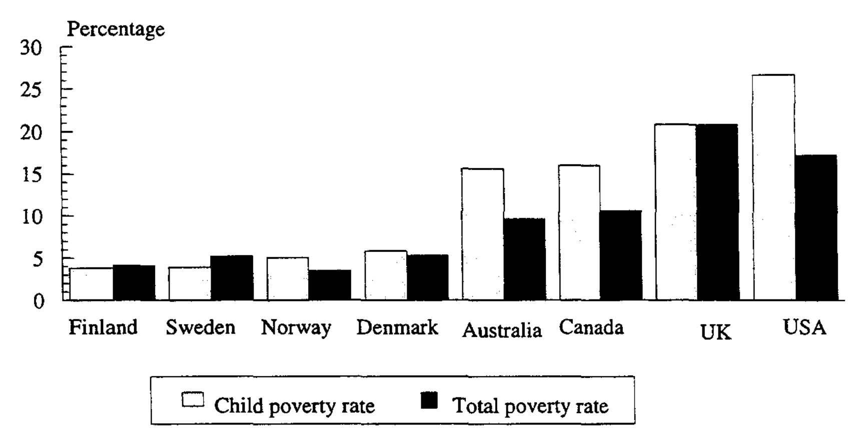
2 Development of Universal and Selective Family Policy Systems

Children's welfare has been one of the central policy targets in all industrialised welfare states. This special interest in children's well-being can be explained in many ways: it is said that the well-being of children is not only an indication of a society's moral worth, children are also human capital, the most important resource for a society's future (Bradshaw, 1997; Ringen, 1997). The support targeted to children and their families has also been one of the most controversial welfare state functions. There are many values involved in the ways families with children ought to live and who is responsible for guaranteeing children's well-being. In OECD countries, views continue to diverge about the acceptability of state intervention to the family. In liberal welfare states, the family is viewed as so untouchable an institution that the state must not interfere with the way it functions. In the Nordic countries, the state has long participated in the equalisation of the costs caused by children. The degree to which family support systems have been developed depends to a great degree upon ideological and historical factors. What is considered as self-evident in Nordic countries is in many other countries considered to be too much intervention into family privacy.

1 In the present study, the focus is specifically on child poverty (50 per cent of median incomes), as poverty figures are obtained by multiplying the number of poor families with children by the number of children in them. The resulting figures show the number of children living in poor households. It may be estimated that the child poverty rate will be somewhat higher than the poverty rate of families with children. This is because a high number of children is a poverty risk factor. The procedure used here gives families with children a weight according to the numbers of children in them, whereas the use of household units gives equal weight to families regardless of the number of children. The data used in this study are based on Luxembourg Income Study Database.

By looking at the outcomes of different policy making styles it is possible to identify two most diverse family policy systems, the Nordic one and the liberal one (see Figure 1). In the Nordic countries, families with children are supported not only by income transfers but also by comprehensive social services, whereas in liberal countries the support for families with children is almost totally limited to means-tested benefits. The notion that the responsibility for children's welfare belongs to the family has survived in liberal countries. This is reflected in tough means-testing for benefits and services and a lack of individual social rights, these reflected in the high child poverty rates that have grown worse in many countries in the past few years (Forssén, 1998). From the point of view of child poverty, social policies in the liberal countries can be characterised as neglectful of children. The absence of comprehensive family policies is linked to an overly high regard for family privacy.

Figure 1: Poverty in Childhood and in the Total Population in the Nordic and Liberal Welfare States: Late 1980s/Early 1990s (Percentages)



The aim of this paper is to develop a deeper understanding of why some welfare states have been able/willing to build universal family policy systems and some have not. This question cannot be solved by concentrating only on the current situation. The existing family policy system cannot be understood without knowledge of its history, because it has been transformed through time as a result of compromises between many different interest groups. This paper describes the development of universal and selective family policy systems. Finland is taken as an example of a universal family policy system and Australia as an example of a selective family policy system.

Development of Finnish Family Policy

The Finnish welfare state is often said to have begun with the 1937 National Pension Act, which contained many of the characteristics of the current universal social security system. The year 1937 marked a transition point in the history of Finnish social policy, as it put the state in the central role of organising social security. However, the national pension benefits at that time were fairly small. The true beginnings of a universal family support system are found at the inception in 1947 of the family wage system, which was replaced the following year by the child allowance system. The maternity grants paid to mothers with insufficient means since the year 1937 have not been counted as the beginning of the universal family policy because they were need-assessed.

Because the coverage and financial effects of earlier legislation connected to families were minor, we cannot talk of a universal Finnish family policy before the reforms enacted in the 1940s. Throughout its existence, the child allowance system has been a major element in the totality of the family policy. It has maintained its characteristics of a universal support for nearly fifty years, though from time to time, the possibility of limited eligibility and taxing the allowance have been suggested. However, in both family policy as well as in social policy generally, there was a move away from poverty relief implications early on, as emphasis was switching to the social rights of the citizens. The child allowance reform in 1948 has been seen as the turning point that proved that the political paradigm had changed.

After the Child Allowance Act, there were no other significant family policy reforms for a long time. In the 1960s, the emphasis was on the general social insurance system, which of course also served families with children. Among other benefits, a maternity allowance was established, but in the beginning, its economic meaning for families was insignificant. In the 1970s, the economic circumstances of families with children came into a new focus, and services for families began to be developed. One of the main changes in family policy in the 1970s was the introduction of new laws which strengthened children's legal and economic position. The Children's Day Care Act came into force in 1973. In the 1980s, major improvements were made in the small children's care system, providing parents with a genuine choice between paid labor and staying at home, as well as alternatives for children's care. The home care support system allowed parents the opportunity to care for their children at home for the first three years of the children's lives, which was exceptional even by Nordic standards. In 1994, the family support reform extended the legal right for day care and simplified the income transfer system in its family policy segment. Tax deductions for children, that had been in force for over 70 years, were discontinued and the child allowance simultaneously raised. This benefited low-income families with children most, while the tax deduction system had favored middle-income and high-income families.

The family support reform prove that child allowances and social services have been considered an important instrument in securing the well-being of families. The high regard for family policy was demonstrated in the 1990s, in that the legislative proposals on family policy reforms passed all the political decision-making processes despite the country's being in the throes of a deep and long recession. The various political groupings appeared to share common values in supporting families with children. The improvements in small children's care were made as outlined, but savings measures were extended to other family policy benefits.

Development of Australian Family Policy

The development of Australian income security policy has had an emphasis on the principles of incentive and merit rather than rights or needs. The leading principle has been the male breadwinner ideology. The range of groups and risks covered has been extended as social attitudes have changed in relation to which groups are seen to 'deserve' assistance. The key question in Australian social policy has always been which level of government ought to play planning and delivery roles (Mishra, 1990).

In the beginning of this century Australia was seen as a world leader in income security policy. Australia together with New Zealand were frequently regarded as laboratories for path-breaking social experiment. More recently, however, the combination of low aggregate social expenditure and widespread means testing manifested by these nations have given them the reputation of being amongst the worst laggards of social development during the Golden Age of the welfare state (Castles, 1996). The entry of the Commonwealth Government into the provision of social security came in 1908 with the Invalid and Old-Age Pensions Act. A year earlier, in 1907 the minimum wage set at a level sufficient to meet the needs of a working man, his wife and children was introduced.[2] This was based on the principle of need rather than capacity of employers to pay. The first family policy

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2 The principle of the living wage was formulated by members of the labour movenment and by liberal politicians, judges and churchmen in the late 19th century. The living wage debate was surrounded by notions of social justice, and the protection of low-wage earners from being driven below subsistence levels. This was translated into the rights of adult male workes to a basic minimum wage which allowed them and their families to be maintained in reasonable comfort. When it came to fixing the living wage for women, different principles were assumed to be operating. When the first declaration of a living wage for women was made in New South Wales, the court could not consider that the female worker had any other responsibilities besides supporting herself (Cass, 1983: 54-61.)

benefit came into force in 1912 when the Maternity Allowance was introduced. This was a lump-sum payment made on the birth of a child.[3] In 1915, a child deduction was introduced which reduced the tax liability of taxpayers with children under 16. This was extended in 1936 to provide a tax deduction to taxpayers with dependent spouses (Bradbury, 1996). During the Second World War there were some attempts made to assist families through the introduction of Child Endowment in 1941 and the Widows Pension in 1942 (Wiseman, 1995).

The introduction of regular payments to mothers had been a political issue for many years before their introduction. The development and introduction of child endowment is strongly connected to the living wage question. Child endowment was supported by labour and feminist movements. Payment of child endowment to mothers was seen as a just recognition of their economic contribution as child-rearer and housewife (Cass, 1983). For some conservatives, child endowment was a means of removing family needs from the wage-setting process, and hence of suppressing wage demands. Other conservatives opposed it on the grounds that it would undermine the father's responsibility to provide for his children (Bradbury, 1996). Child endowment could not be separated from the issue of total control of wage regulation. The government stated that any system of child endowment it was likely to adopt would involve a reduction in wages.[4] The circumstances of war made a child endowment scheme necessary. It ensured that the exigencies of war did not take necessary food and clothing from children. Child endowment payments for two children were at their peak value in 1950 when they represented 11 per cent of the basic wage. Their value decreased through the two decades to 1971 when transfers for two children represented three per cent of the basic wage. It was the rediscovery of poverty at the end of the 1960s which brought the issue of child endowment back to the political agenda. To alleviate child poverty immediately, the Poverty Commission increased cash transfers to the mothers of dependent children and abolished regressive taxation deductions (Cass, 1983: 54-84).

The beginning of Australian social security has been described by using the concept of 'working class life course'. In 1950, Australia's GDP per capita levels was fifth highest in the world and there was an extensive and state regulated system of minimum wages leading to greater wage compression than in most other countries. A combination of Keynesian demand management and measures protective of local industries had led to extremely low levels of unemployment. Australia maintained full employment until the mid-1970s. Wage earners and

3 Maternity Allowance payment was seen as a means of increasing the (white) birthrate – as Asiatic and Aboriginals were excluded (Bradbury, 1996).

4 The living wage kept impacting on wages. From 1907 to early the 1970s the concept of the family wage justified paying men more than women doing the same work on the grounds that the man needed to support a family (Sawer, 1990).

those dependent on them experienced a relatively high level of social protection throughout this period. The same could not be said of those outside the labour force and dependent on social security (Castles, 1996).

After the good and early start of family policy in the 1940s, it was not until the 1970s that the next major changes occurred. The most important of these was the introduction of the Supporting Mother's Benefit in 1973. Before that, never-married mothers were excluded for quite a long time from the social security system. In 1973, the situation of single parents improved when the supporting mother's benefit was extended to never-married mothers. It allowed single mothers and separated wives with children to claim a benefit from Department of Social Security for the first time. Prior to this, the only federal income support or assistance was for widows. In 1977 for the first time, men were able to receive income support as single parents. And in 1989 it was combined with the Widows' Pension for widows with children. The Family Allowance Scheme was introduced in 1976. It replaced child endowment and tax rebates for dependent children. The resultant additional revenue was disbursed in the form of large increases in child endowment.

The main change in the 1980s was a significant expansion in family payments to low-income families. The introduction of the Family Income Supplement, and its expansion into the Family Allowance Supplement was accompanied by significant increases in the rates of additional benefit and pension paid to families with children. In 1987 child endowment lost its universal feature when means-testing of the Family Allowance was introduced. According to Bradbury (1996) these changes led to family allowance being further targeted at the lower end of the income distribution.

Mitchell (1999) has analysed the development of Australian family policy during the past fifteen years. At the beginning of 1990s, family policy was the fastest growing area of social policy in Australia. A range of child care payments was introduced, new child care places were created, the real value of social security payments for children increased. The Child Care Rebate and Maternity Allowance were a direct response to the movement of married women into the labour market. The Child Care Rebate was introduced to assist working parents with the costs of child care. The Home Child Care Allowance was introduced in 1994 to provide a direct cash transfer for those parents who care for their children at home (Mitchell, 1999).

Australian family policy had previously been concerned with direct income support but as a result of these changes the scope of family policy expanded to include the needs of women, especially working mothers. This growth in family policy benefits may be traced to a range of social, economic and political pressures on successive ALP administrations throughout the 1980s. Earlier family policy had been concerned with direct income support for children and dependent spouses. Under the Howard Government, family policy faced quite a number of cutbacks and changes. Mitchell (1999) argued that operational subsidies to support family day care services, occasional care and community-based long day care centres ceased after 1997. Vromen's and Paddon's study (1998) shows that cutbacks made to government subsidies have led to fee increases and withdrawal of children from child care.

Family Policy Trends in Australia and Finland

Table 1 compares the main features of Australian and Finnish family policy systems. It shows that policy development during the first part of this century had some similarities in these countries. Poverty reduction, population reproduction and economic redistribution were goals in both Australian and Finnish early family policy systems. One early difference in Australian and Finnish family policy systems is how the concept of the family wage was adopted. The link between traditional gender roles within families, the labour market and the state is clearly seen in the concept of the Australian family wage. In Finland the same concept was introduced in 1947 but because it was considered to be an unequal system (it excluded self-employed, farmers) it was replaced by universal child allowances in 1948.

Development after the 1960s started to make bigger differences in the structure of these two countries' family policy. Finland introduced universal, paid maternity leave. This is the first step toward support for women in the labour market. The Day Care Act was introduced in both countries in the early 1970s. In the beginning there was more need for day care than there were day care places in both countries. The turning point of this common development dated from the 1980s. Australia moved more strongly towards a means-tested support system while Finnish family policy started to answer the gender equality question. The goal during the most recent period of Finnish family policy has been to faciliate combining work and home lives and enhancing gender equality. This development started in the 1970s and strengthened in the 1980s and 1990s, involving day care, home care support and paid care leaves. This was made possible by compromises made by main political parties. During the deep recession the economic well-being of families with children was affected most seriously by tax increases, reduced child deduction in state taxation, cutting down the parental allowance, and the changes in the computation basis of housing allowance. However, the fundamental features of Finnish social security system were not transmuted by the implemented cuts. One factor which shows that ideology or policy has not changed is that in the 1999 new benefit 'part-time parental leave' is under consideration. All in all it seems that the development of the Finnish family

Table 1: The Main Family Policy Reforms in Australia and Finland

Family Policy Reform	Finland	Australia
Family wage	Family wage system **1947**. Developed to prevent across-the-board pay rises. Employers were obliged to pay additional wages to all employees with dependent children (FIM 500 /month/child). Was in effect only one year.	Living Wage **1907**. Men's wages have been based upon the principle of enabling the male worker to meet the needs of the whole family (parents and two children)
Child allowance	Child Allowance Act **1948**. At the time the most comprehensive single system of equalising national income. Paid for children under 16 years of age. 1962: staggered according to number of children. 1973: additional supplement for children under 3 years of age. 1986: also included 16-year-olds (received the sum paid for the first-born child). 1994: supplement for under 3-year-old children discontinued. 16-year-old children's benefit staggered.	Child endowment **1941** provided for a flat rate payment of 50 cents for the second and subsequent children under 16 without means test. The first child was excluded on economic grounds and on the ground that the existing basic wage was considered to provide for the needs of two parents and one child. In 1976 it was replaced by Family Allowance.
Maternity allowance	**1937**. The first measure towards equalisation of family expense by giving lump-sum payment for each birth. First targeted only to poor mothers (need-assessment totally removed in 1949). Involves public health objectives.	**1912**. It provided for the payment of $10 for each birth, was granted without means test. Date of abolition was October 1978. Maternity allowance was reintroduced in February 1996.
Maternity/ paternity leave (paid/unpaid)	**1964**. Was first paid for 54 days. Paternity leave from year 1978. Considerable increase in 1982. Parental leave from year 1985. In 1999 the length of the parental leave is 281 days.	---
Child care	Child Day Care Act. **1973**. All children may receive day care. Children who need day care for social and educational reasons had priority. In 1990, legal right for all children under 3 years of age, in 1996 legal right to day care for all children under 7 years of age.	Child Care Act **1972** says that government should be a major catalyst in the development of children's services as well as a major provider of funds. Subsequent governments in Australia were to depart from the policy in emphasizing the private nature of child care responsibilities.
Children's home care support	**1980**. Intended to support children's home care after parental allowance period. The support was first based on Cabinet decisions; Children's Home Care Support Act in 1985. Extended to all children under 3 years of age gradually between 1985 and 1990. Replaced from the beginning of 1997 by care allowance system. Additional allowance by municipalities.	The Home Child Care Allowance (HCCA) **1994**. It provides a direct cash transfer for those parents who care for their children at home. The expenditure on the HCCA was funded by the cashing out of a tax rebate previously available to the working partner who supported a non-working spouse.

Table 1: The Main Family Policy Reforms in Australia and Finland (continued)

Family Policy Reform	Finland	Australia
Support for single parent families	Single parents without incomes were entitled to get benefit under Poor Law **1922**, Public Assistance Act in 1956 and Public Welfare Act in 1982. In 1994 single-parent supplement was introduced under the child allowance act.	**1973.** Supporting mother's benefit. In 1977 it became Supporting Parents Benefit. Allowed single mothers and separated wives with children to claim a benefit from DSS for the first time. Prior to this, the only federal income support or assistance was for widows. In 1977, for the first time men were able to receive income support as sole parents. Also requirements to seek maintenance from the father of the child was waived. In 1987 legislation was amended to cover only sole parents with children under 16. Twelve weekly review forms were introduced and initially, failure to lodge the form at the relevant social security office on the specified day resulted in non-payment of benefits. In the late 1980s mobile review teams were formed. Their jobs was to interview sole parent pensioners with a view to ensuring that they were 'receiving their correct entitlements'.
Tax deductions	Tax Concessions **1920 –1993**. In the 1920 Income and Property Tax Act, the right to child deductions was granted to lower income classes; in 1924 this right was extended to involve all taxpayers. Tax concessions have been granted on the basis of providership and number of children in the family. Amendment in 1935. Child deductions were raised. Wife's earned income to be taxed separately from the husband's income. Surtax to individuals with no dependants. From the 1980s, tax deductions to families with children included municipal tax deductions for children, single-parent deduction and child care and child maintenance deductions in the state taxation. Additional child allowance for mortgage loan interest deduction, additional child allowance for health care expense deductions, child maintenance deduction and spouse deduction were also considered to be tax measures in family policy. In 1994, all deductions related to family policy were discontinued.	In **1915**, a child deduction was introduced which reduced the tax liability of taxpayers with children aged under 16. This was extended in 1936 to provide a tax deduction to taxpayers with dependent spouses, and to widower taxpayers who had female relatives caring for their dependent children. In 1950 was widened to cover students 16-21 years old. In 1975 Sole Parent Rebate was introduced. In 1975 the concessional deduction for a dependent spouse was replaced with a Dependent Spouse Rebate and Child Endowment and the tax rebate for people with dependent children was replaced by Family Allowance in 1977. In 1995 Dependent Spouse taxation Rebate (for families with children) was replaced by Basic Parenting Allowance which is a social security payment rather than a rax rebate.
Law on child maintenance	**1976**. The child has a right to adequate maintenance and parents have the duty of supporting their child according to their ability. When parents are unable to support their child, maintenance is to be paid for the child by the municipality.	In **1987** the Child Support Agency was set up under the mantle of the Australian Taxation Office. It was given the responsibility for collection of child support or maintenance payments from non-custodial parents. In 1989 a formula was introduced to determine the amount of child support to be paid by a new non-custodial parent.

Sources: Bradbury, 1996; EPAC, 1996; Forssén, 1998; Harper, 1972; Kuusi, 1964; Mitchell, 1999; Taskinen, 1996; Waris, 1980.

policy has been quite stable. The development of publicly provided day care shows that all the major changes made in that field have improved the situation of families with children.

In Australia, the Federal Government's role in welfare production has been shifting. In the first part of the 1970s there were attempts at greater centralism. In the late 1970s and early 1980s there was a rhetoric which emphasised a more limited federal role, although there was little action to substantiate that rhetoric. In the mid- to the late 1980s there was little rhetoric but substantial action in attempting to shift responsibility from the Commonwealth to other levels of government. These activities were part of cost saving rather than ideological measures. The early 1990s saw debates about 'new federalism', and strong signs of centralisation (Graycar and Jamrozik, 1993). Later, with the new Liberal Government, there was a clear shift to the opposite direction. Instead of centralisation the government has given its support to privatisation and decentralisation.

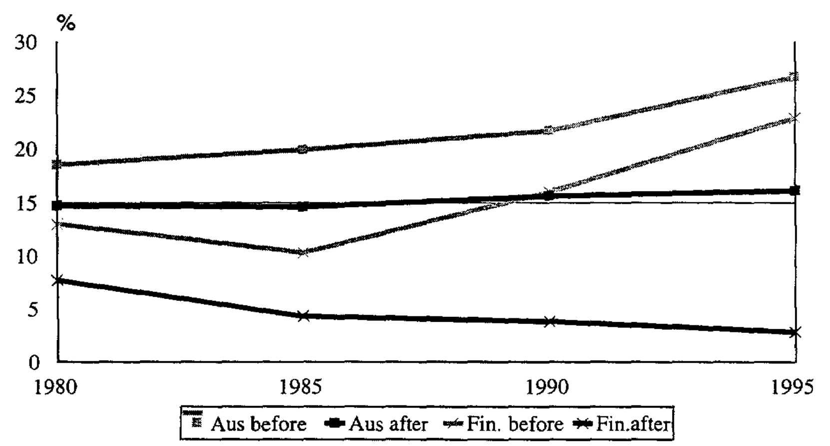
The recent development of Australian family policy seems to be more unstable than the Finnish one. The support system which increases compatibility of work and family life and gender equality has not developed as it has in Finland. One piece of evidence for that is the lack of paid maternity leave. Also the development of day care services has been fragmentary, depending on the ruling political party. Although both the Liberal and Labor Parties are attempting to make political capital out of the family, there are significant differences in their approach. The Labor Party has been more inclined to accept diversity in the form of the family and the need to support primary carers. The Liberal Party has given priority to strengthening the traditional family and its role as an alternative to welfare state provision (Sawer, 1990). These ideological differences explain the cycles made in family policy structure during the past decades.

3 The Outcomes of Different Family Policy Systems

The development of the social security system is also reflected in child poverty rates. Figure 2 shows in more detail, from the point of view of incidence of child poverty, the main developments that have taken place in Finnish and Australian social policy and the welfare of families with children in the past fifteen years.

In Finland child poverty rates after income transfers have declined steadily. Before income transfers almost every fourth child would have been living in poverty. In 1995, child poverty before income transfers in Finland were almost at the same level as they were in Australia, but the after income transfers poverty rate is clearly at a lower level than in Australia.

Figure 2: Development of Child Poverty in Finland and in Australia Before and After Income Transfers: 1985-1995 (Percentages)



Unlike the child poverty rates in Nordic countries, those in Australia have been high and stable. Although there was a great expansion of family policy in the 1990s, child poverty rates seem to have remained quite high. It seems that the Labor Government did not totally succeed in fulfilling the Hawke Governments 'no child in poverty' promise made in 1987. On the other hand, the development in the before-transfers poverty rate was increasing from 1989 to 1994 (22 per cent to 27 per cent) which indicates that without any economic support from the government the after-transfers child poverty rate would also have increased.

Table 2 provides some facts about income inequality and poverty according to family structure and age of the youngest child. During the period 1985 to 1995 income inequality has been much stronger in Australia than in Finland. Inequality especially among children under seven years of age has grown. This has been the case also in Finland; the gini coefficient for small children in 1987 was .18 and in 1995 .21. In Australia the same values were .26 and . 29.

During the years 1985 to 1994 the child poverty rates in Australia has grown from 14.6 per cent to 16.1 per cent. In particular, child poverty among those under seven years of age has increased from 17.3 per cent to 20 per cent. Children living in single-parent families are facing poverty much more often than those in two-parent families. In 1994, every third child living in single-parent families was poor. The similar poverty rate in Finland was 4.7 per cent.

Table 2: Trends of Inequality and Child Poverty in Finland and Australia

	Aus 85		Fin 87		Aus 89		Fin 91		Aus 94		Fin 95	
Gini coefficient	Pre[(a)]	Post[(b)]	Pre[(a)]	Post[(b)]	Pre[(a)]	Post[(b)]	Pre[(a)]	Post[(b)]	Pre[(a)]	Post[(b)]	Pre[(a)]	Post[(b)]
All children	.38	.27	.30	.18	.40	.28	.31	.18	.43	.28	.37	.20
Children under 7 years	.39	.26	.30	.18	.41	.28	.31	.17	.45	.29	.38	.21
Children over 6 years	.37	.26	.29	.18	.37	.27	.29	.17	.40	.26	.34	.18
Poverty	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post
All children	19.9	14.6	14.21	4.3	21.7	15.6	15.1	3.8	26.7	16.1	19.3	2.8
Children under 7 years	21.9	17.3	7.1	4.3	25.7	19.6	20.0	4.0	30.3	20.0	24.0	8.6
Children over 6 years	17.6	11.4	10.4	2.3	17.7	11.8	9.4	2.4	23.0	12.2	14.1	4.2
Single parent families	72.5	52.0	31.1	4.9	71.0	51.1	35.4	3.7	72.7	34.0	45.2	4.7
Two parent families	14.6	11.4	12.1	3.7	15.7	11.6	12.6	2.9	20.4	14.1	15.1	5.4
Poverty gap[(c)]	Post[(b)]		Post		Post		Post		Post		Post	
All children	30.7		23.4		32.0		21.5		26.4		16.9	
Children under 7 years	30.4		23.8		33.5		19.6		26.5		15.9	
Children over 6 years	31.3		22.9		29.6		25.1		27.0		21.1	
Single parent families	29.2		23.3		32.1		27.3		25.9		15.2	
Two parent families	31.4		24.8		33.2		21.3		25.3		17.6	

Note: a) Pre = before income transfers
b) Post = after income transfers
c) Percentage of average poverty gap from the poverty line.

The poverty gap tells us how deep is the poverty children are usually facing. In both countries the later poverty gap has gone down from the earlier years but the average poverty gap is bigger in Australia than in Finland.

All in all it seems that from the point of view of child poverty, the Australian welfare state has not succeeded in fulfilling new demands of postmodern society. In both countries the number of single-parent families has been increasing. In Australia, every third child living in single-parent families is poor. In Finland the same percentage is 4.7. It seems that younger children are at greater poverty risk than older ones. Every fifth Australian child under seven years of age was poor. The same figure in Finland was 8.6 per cent. Poverty risk is connected to factors in the labour market. Table 3 shows that there is huge difference in women's labour force participation rates in Australia and Finland. In Australia single mothers work less than women in two-parent families. In Finland most of the women in both family types work full time. In Australia if women are working they work mostly part time. These different patterns of paid work is connected to the way in which day care is provided in these countries. Affordable day care might be one of the reasons which explains these differences in child poverty rates and women's labour force participation rates between these countries.

Table 3: Women's Labour Force Participation Rates in Australia and Finland (percentages)

	1980	1985	1990	1995[(a)]
Part Time				
Single-parent families (AS)	14	15	19	20
Two-parent families (AS)	24	27	33	32
Single-parent families (FI)	7	6	6	4
Two-parent families (FI)	10	10	8	8
Full Time				
Single-parent families (AS)	24	21	26	23
Two-parent families (AS)	19	20	25	24
Single-parent families (FI)	71	81	81	61
Two-parent families (FI)	63	65	63	62

Note: a) Finland 1993, Australia 1994.
Source: OECD Panel on Factors Affecting the Labour Force Participation of Lone Mothers; Bradshaw (1996).

4 Conclusions

This study has shown that family policy matters. The Nordic family policy model has improved the well-being of families with children. In many countries children living in single-parent families are at great risk of poverty; in Finland this is not a case. It seems that low poverty risk is connected to the availability of day care services and especially to the availability of affordable day care places. Affordable day care is also an incentive for women to participate in the labour market. In fact it has been shown that in Nordic countries it is the earnings-related social security benefits that encourage people to work even in the situations where higher disposable incomes would be received by staying at home (Forssén and Hakovirta, 1999). This is against the common argument about the welfare state crisis which says that generous benefits increase 'voluntary unemployment'.

This study began by presenting the argument that welfare states are unable to meet the needs of new social risks. From the point of view of family policy it seems that the Nordic model of family policy has been able to change or widen its functions so that the needs of new family patterns are taken notice of. In Finland the development of family policy was slow and in its beginning it had many targeted features. The beginning of Australian family policy was more rapid and advanced but it changed to the opposite direction during the past three decades. Castles (1985) says that the Australian welfare state should be understood as a wage earner's welfare state. Because of the strong male breadwinner ideology, the Australian welfare state can be seen treating women differently than men. Although there have been changes which have moved Australian social security from difference towards equality (Shaver, 1993) the very latest trend affected by the Liberal Government has turned this positive development. Cuts in day care can been seen as a signal for women to leave the labour force and return home.

It seems that the role of family policy for society's future has became more important than it has been. As Esping-Andersen (1999) says familialism at the micro-level is now counter-productive to family formation and labour supply. This means low fertility, lower household incomes and a higher risk of poverty. At the macro-level, it implies a waste of human capital mainly because educated women's labour supply is suppressed. But above all, lower levels of paid female employment mean also a smaller tax base and low fertility now threatens the basic financial viability of welfare state (Esping-Andersen, 1999: 70). From this point of view it is difficult to understand why many leading welfare states lack a comprehensive family policy system.

Many of the key features of Australian social policy continue to be based on the older assumptions of male full employment and female dependency. Working hours are still arranged in ways which take no account of the need to pick up children from school or kindergarten. Career opportunities and decent superannuation still depend on a continous employment history uninterrupted by time off to have children. The income security system is only slowly adjusting to the idea that women might have a right to independent incomes rather than only being dependants of male partners (Weeks and Wilson, 1995). The transformation of the nature and distribution of work is therefore one of the toughest and most significant dilemmas now facing social policy makers in Australia (Dalton et al., 1996).

By the late 1960s, Finland like all Scandinavian welfare states, had developed universal income maintenance programs. A truly distinct Nordic model came into being with the shift towards active labour market policies, social service expansion, and gender equalisation in the 1970s and 1980s. This strategy permits women to harmonise careers and fertility. It has helped absorb unskilled workers in well-paid employment. It has also generated equality; it seems that the difference in men's and women's earnings and life cycle behaviour is rapidly eroding. The two-earner, double-career household is now the norm and poverty rates for children living in single-parent families are insignificant (Esping-Andersen, 1996). So it seems that Nordic countries have succeeded in answering the new demands of family life better than countries belonging to liberal welfare regimes.

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The Impact of Enterprise Bargaining on Wage Dispersion in Australia 1988-96

Scott Matthew Hook[1]
Productivity Commission
Canberra

1 Introduction

Australian governments, since the mid-1980s, have commenced a process of economic reform that has affected the macro- and micro-economy. A vital component of economic reform has been the deregulation of the wages system and establishing an explicit link between wages and a firm's performance. However, changes in the wages system do not occur in a vacuum, the steady erosion of the role of the award system has implications for wage dispersion and, more generally, income distribution.

This paper reviews wages outcomes at an industry and firm level. Using data from the Australian Bureau of Statistics (ABS), the Department of Employment, Workplace Relations and Small Business (DEWRSB) and the Australian Centre for Industrial Relations Research and Training (ACIRRT), the paper finds that enterprise bargaining is not growing at a uniform rate in all industries and workplaces. In addition, there is growing evidence that a weakening of the safety net provided by the award system, by not maintaining relevant award wages, has led to lower relative wages for some employees. As a result, enterprise bargaining is probably contributing to the fragmentation of wages in the work force over time for full-time male non-managerial employees. This has implications for other groups in the labour market, in particular, women, youth, part-timers and the less skilled.

This paper is divided into several sections. The next section examines the economic factors that helped develop enterprise bargaining. This is followed by an explanation of the methodology used to analyse wage dispersion and the spread of enterprise bargaining. The next section presents the results of an examination of wage dispersion. This is done by evaluating the level of

1 The opinions expressed in this paper are those of the author and in no way reflect the views of the Productivity Commission.

remuneration that accrues to adult males in full-time non-managerial employment (an advantaged group in the labour market) arising from the introduction (or absence of) enterprise agreements on either an industry basis or at a firm level. Finally, the implications of the results are discussed.

2 The 1980s and 1990s: An Era of Change

The wage system and the source of changes in wages and conditions are important, as wages are a key determinant of living standards. In 1993-94 wages made up 72.7 per cent of household income (ABS, 1995). As a result, increases in dispersion can adversely affect living standards, reduce economic efficiency and possibly lead to social unrest.

However, all changes in dispersion cannot be linked to enterprise bargaining. This is just one of a range of factors, such as changes in industry and employment composition, the strength of unionisation, the individual circumstances of workplaces and industries, market structure of the industry and the impact of technology, which can affect employee earnings.

Overall, earnings differentials have been shifting for the past 20 years and reflect a range of factors, including bargaining strength. For example, changes in inequality have been noticed for some time.

Saunders (1992a) and EPAC (1995) highlighted that the growing dispersion of *wages* appears to be the greatest single factor leading to growing inequality of *income*. Over the past two decades there has been an increasing gap between high- and low-wage earners as shown in research by King, Rimmer and Rimmer (1991), and Borland (1996). This has occurred at the same time as Gregory (1993) was discussing the shrinking of the middle-income groups.

Over the last 20 years, the move away from a centralised wage system has been slow and incremental, rather than revolutionary with large leaps in structure. Green (1996a) suggested that if any factor was decisive in the shift to decentralised wage bargaining in Australia it was the reduction in tariffs which became the key ingredient of globalisation along with the integration of the economy into the world capital markets. The macroeconomic problems of the 1980s created the reform momentum that carried through into the 1990s.

The move to enterprise bargaining in the 1990s reflected an increasing market orientation, as wages are now closely linked not only with firm performance but also with world competitive standards. The emphasis is on overall efficiency gains and a move away from intervention and the influence of specific interest groups.

Enterprise Bargaining

Enterprise bargaining is based on the proposition that the parties to bargaining are best placed to assess their interests and to engage in negotiations to produce a balanced outcome based on these interests. As a result, the focus has moved to employee productivity and firm competitiveness. Improving Australia's productivity performance, which has been below the OECD average, has been an important goal.

Reform promises changes. As Jamrozik (1994) noted, the move from wage determination by arbitration to enterprise bargaining has been justified on the grounds of the need for labour market flexibility, greater efficiency, and an increase in productivity. It has also been suggested that workplace agreements will provide greater wage flexibility and hence reduce unemployment. The arguments for the further deregulation of the labour market and the spread of enterprise bargaining (Niland, 1978; Sloan, 1995) suggest that labour market flexibility - allowing direct negotiation between employers and employees on wages and conditions - will enable enterprises to adopt more appropriate conditions of work and pay rates. In return, there is the prospect of higher productivity arising from an improvement in efficiency for those industries that may have previously faced restrictive employment practices.

However, there is some opposition to labour market reform. Buchanan and Callus (1993), for example, suggest that the gains are not possible, as the labour market is not a homogenous product but is distinguished by differences in employee skills, experience and the type of employment. In addition, in recent years, many workers, unions and labour economists have expressed doubts that these changes are generating a fair or equitable outcome for a large number of employees (Gregory, 1993; Buchanan and Callus, 1993; Borland, 1996).

This concern about the hybrid wage setting system provides the foundation for the paper in the area of wage institutions and their outcomes.

Growth of Enterprise Bargaining

Federal enterprise bargaining was formally introduced in October 1991 as the centrepiece of labour market reform in Australia. Since then the system has spread. In 1995, 3277 Part VIB[2] agreements commenced. In that year, the Department of Industrial Relations estimated 48 per cent of all workplaces (with at least 20 employees) had some form of agreement, registered or unregistered, on

2 These are Federal certified or enterprise flexibility agreements reached in accordance with the provisions of Part VIB of the *Industrial Relations Act 1988*, which came into effect in March 1994.

average covering 63 per cent of employees in those workplaces. This represented coverage of almost 25 per cent of all wage and salary earners.[3]

However, this coverage has been patchy. Some parts have been moving ahead faster than others both in terms of coverage and bargaining, while other parts of the labour force increasingly depend on the safety net. Safety net reliant workers include those in the wholesale and retail trade and recreation and personal services industries which have low unionisation, high levels of casual and part-time employment, and a high proportion of females and young people.

3 Analysis of Wage Dispersion

Methodology

The particular focus of the paper is an examination of the impact of changes in the industrial relations system on wage dispersion for adult male full-time non-managerial employees by industry. The conclusions are based on an empirical analysis, at an industry level, of earnings data for high- and low-income earners measured against institutional change in the industrial relations system and a case study of vehicle employees.

Empirical data on wages from the survey on the Distribution and Composition of Employee Earnings and Hours (EEH) (ABS, Cat. No. 6306.0) and details drawn from Awards and Enterprise Agreements are used in the statistical work in this paper. The data are used to analyse the impact of changes in wages over time between industries. This enables an examination of the impact of industrial relations deregulation while excluding some significant compositional effects from sex, part-time/casual employees and managerial status. It does not, however, cover all compositional factors, such as country of birth, age, skill, experience, public and private sector and intra-industry changes.

The two measures of wages used to compare wages outcomes are *base pay* from the EEH survey, and the *award rate* from the Award Rate of Pay Indices (ARPI) survey. ARPI measures increases in the award pay rate for all employed persons covered by an award, while excluding any increases arising from enterprise bargaining. Base pay measures the movement in wages for all employed persons, inclusive of increases due to enterprise bargaining, but excludes overtime payments and payments by result.

3 According to the Workplace Bargaining Survey in 1995, 46 per cent of all workplaces with 20 or more employees (employing 40 per cent of all employees) indicated they paid the $8 Safety Net Adjustment increase to some of their employees in 1995.

By comparing changes between award rates and the broader level of earnings some idea of the gap between those relying on the safety net and others who are a part of enterprise agreements can be ascertained.[4]

Results

An indication of the impact that enterprise agreements is having on the wage system is shown in Table 1. This table shows increases in annualised wages from award rate increases (ARPI) and rises in the base pay over the same period. For the purpose of the analysis the period 1988 to 1991 is used to represent pre-enterprise bargaining and the period between 1992 and 1996 to represent the enterprise bargaining system.

The results provide some interesting analysis of the impact of the changing wages system. Consider manufacturing, an industry with a high rate of enterprise bargaining. In period one base pay rose by 6.3 per cent and the award rate rose by 5.6 per cent. This reflects the way the old system operated, with rises being mainly sourced from increases in the award rate. In the second period, with enterprise bargaining, the *base pay* rose by 5.0 per cent, whereas the *award rate* rose by only 1.3 per cent. After the introduction of enterprise bargaining there is an apparent slow down in the increase in the award allowing the establishment of a group of haves and have-nots in the labour market, determined by access and success in enterprise bargaining. The same can be seen in other industries.

Could the spread of enterprise bargaining have contributed to an increase in wage dispersion over the 1992-1996 period? Before making any conclusions on causation or correlation, the ratio of the earnings of the lowest 25 per cent, median and highest 25 per cent of all full-time non-managerial adult male employees were compared. Unfortunately the ABS measures do not permit an exact comparison with Table 1 but it appears that the wider spread in rises in *base pay* to the *award rate* experienced by some parts of the work force have been translated into a widening dispersion in wages[5] (Table 2).

Low-paid employees have lost ground relative to other employees over the period under examination, but the situation changes according to the industry. For

4 However, official data sources are becoming increasingly unable to measure the movement in wages. The growth of individual contracts and a slow update of awards have made ARPI irrelevant. This ABS series has been discontinued.

5 A ratio over one indicates a larger level of earnings relative to other employees over the period examined; as a result any increases represent an increase in dispersion and falls indicate a decrease.

Table 1: Annual Average Rates of Growth in Award Rates of Pay and Base Pay Earnings for Full-time Adult Male Non-managerial Employees[(a)]

	1988-1991	1992-1996
Mining		
Base rate of pay	8.5	8.5
ARPI	4.9	1.1
Manufacturing		
Base rate of pay	6.3	5.0
ARPI	5.6	1.3
Construction		
Base rate of pay	5.9	3.7
ARPI	5.0	1.4
Wholesale		
Base rate of pay	5.7	3.3
ARPI	5.6	1.7
Retail		
Base rate of pay	7.4	3.4
ARPI	6.2	2.2
Transport and storage		
Base rate of pay	5.8	3.1
ARPI	4.9	0.8
All Industries		
Base rate of pay	6.4	4.4
ARPI	5.3	1.3

Note: a) ARPI includes the legislated minimum rate of pay but not any payments negotiated under formalised enterprise awards and agreements. It also includes managerial employees. Base pay refers to award or agreed rate of pay for paid ordinary time hours. It includes base pay from workplace agreements, all allowances and penalty payments but not over award or service increments. It measures only non-managerial employees. Some caution should be given to the results since during the period of comparison there was a change in the industry classification system from the Australian Standard Industrial Classification (ASIC) to the Australia and New Zealand Industrial Classification (ANZSIC). The data in Table 1 have not been backcast so there is not a one to one concordance, but at the one digit aggregation the impact should be only minor. Growth rates are calculated at an annual average growth rate.

Sources: ABS, Cat. Nos 6306.0 and 6312.0, various years.

example, manufacturing (which had a faster and wider spread of enterprise bargaining) has seen the ratio between the top 25 percentile and the bottom 25 percentile, rise from 1.55 to 1.66. Whereas the retail and wholesale trade industries, on the other hand, which had the lowest rate of growth in enterprise bargaining, has seen only a small change in dispersion. For all wage and salary earners, middle- and high-income earners have had wages increase at a faster rate

Table 2: Changes in Wage Dispersion by Industry[a]: 1988, 1992 and 1996 (measured by quartile)[b]

	1988	1992	1996
Manufacturing			
75 to median	1.26	1.29	1.31
median to 25	1.23	1.22	1.27
75 to 25	1.55	1.57	1.66
Wholesale and Retail			
75 to median	1.21	1.24	1.25
median to 25	1.17	1.17	1.19
75 to 25	1.42	1.44	1.49
Transport, storage and communication			
75 to median	1.25	1.23	1.26
median to 25	1.18	1.21	1.23
75 to 25	1.47	1.49	1.55
Public Administration			
75 to median	1.22	1.23	1.21
median to 25	1.29	1.21	1.24
75 to 25	1.57	1.49	1.50
All industries			
75 to median	1.27	1.27	1.27
median to 25	1.22	1.24	1.27
75 to 25	1.55	1.58	1.62

Note: a) The smaller number of industries compared to Table 1 arises as the ABS did not make all industry data available for all years.
b) Quartiles here are a way of ranking all full-time non-managerial male wage and salary earners so that the 25th percentile represents the 25 per cent of wage and salary earners who earn the lowest wages/salaries and the 75th percentile represents the 25 per cent who earn the highest.

Source: ABS, Cat. No. 6306.0, various years.

than the bottom 25 per cent of wage and salary earners. The only exception is Public Administration.

There appears to be a high level of correlation between the increased spread in the growth of wages between the base rate of pay and the award rate of pay, and the rise in the dispersion of wages between the top 25 per cent of male wage and salary earners and the bottom 25 per cent of male wage and salary earners. However, without analysing it in isolation no firm inferences about enterprise bargaining being a source of this change can be made.

Do the data in Tables 1 and 2 provide evidence for linking enterprise bargaining and wage dispersion? On first inspection, there appears to be some symmetrical relationship between enterprise bargaining and wage dispersion. It is possible, however, that the rises may have come from a variety of other sources, such as changes in education and technology. Nevertheless, the shift to enterprise agreements appears to be a plausible, contributing explanation for the increased spread in pay rates. This is especially the case if better organised employees are able to obtain outcomes with higher rates of rises relative to the low paid who have either little bargaining power or are unable to obtain agreements. Since around one-third of employees continue to rely on the safety net adjustment for wage rises, there is a substantial risk that the relative earnings of part of the work force will continue to fall.

Case Study: Vehicle Employees

This section examines the impact enterprise bargaining has had on one particular class of employees working under the Vehicle Industry Award 1982. The manufacturing industry provides a good case study as it has had the highest concentration of formalised bargaining at the federal level, making up over 36 per cent of agreements in 1995. The employees covered are mainly semi-skilled vehicle workers who assemble trucks and buses. According to the most recent Employee Earnings and Hours Survey (ABS, Cat. No. 6306.0) the number of employees earning under \$400 (the closest to the award minimum of \$359.4) is around five per cent of the full-time adult non-managerial male manufacturing work force (unfortunately there are no statistics for earnings or numbers at the disaggregated industry level). For the purpose of the paper it is assumed that around five per cent of vehicle employees receive the award rate.

The bargaining employees work for Mercedes Benz, a well known multi-national that has been involved in making enterprise agreements in 1992, 1993 and 1995. Thus the enterprise agreement has had several iterations to evolve beyond the problems of short-term cost-cutting and one-off improvements that might have been the basis for the first generation of the agreement.

The wage results experienced by these employees are compared to those who are benefiting only from safety net increases provided under the award. A review of the award and Mercedes Benz enterprise agreements leads to the conclusion that both have the same type of work classification structure, although the award tends to be more prescriptive, while the Mercedes Benz work classifications have changed with successive agreements and reflect a more flexible approach to duties. Table 3 shows pay rates and changes in growth rates over the period.

Despite the jobs being similar there are some differences in pay levels. By 1997 this difference was between \$90-\$100 a week for what are generally similar positions. This may represent several things, such as bargaining power by

Table 3: Changes in Vehicle Employee Wages: 1993 to 1997[a]

	Vehicle Employees Award			Mercedes Benz Enterprise Agreements		
	June 1993 ($)	May 1997 ($)	Annual average wage rise (%)	Nov 1993 ($)	Nov 1997 ($)	Annual average wage rise (%)
Lowest Classification (V1 and V4B)	325.4	359.4	2.5	392	471.4	4.7
Middle Classification (V3 and V3B)	364.6	398.6	2.3	420.9	505.2	4.7
Highest Classification (V4 and V1B)	417.2	451.2	2.0	454.5	544.5	4.6

Note: a) Both time periods have been rounded to four years for the annual average calculation.
Source: Industrial Registry (various years)

employees and the union or a premium paid by Mercedes to maintain skilled employees. More importantly, there has been a substantial difference in the rate of growth over the four years between 1993 and 1997 in the minimum amount to be paid to each employee. Over the almost four years to May 1997 the fastest rate of growth for the award was the V1 classification, which rose by an annualised average rate of 2.5 per cent. This was markedly lower than for a similar level of classification at Mercedes Benz for which pay rose by an annualised average rate of growth of 4.7 per cent over a similar period of almost four years. It appears that the difference represents the benefits that are occurring to those employees in enterprise agreements and matches the evidence in the previous section that similar rises were occurring at an industry level between the base rate of pay and the award minimum.

Overall, the gap in the rate of increase between the two minimum rates is 2.2 per cent for the most junior position rising to 2.6 per cent for the most senior position. This type of spread over a period of time can only result in a spread of wage dispersion among employees doing much the same type of work with the similar type of skills and experience. Another problem arises from the apparent narrowing of relativities between high- and low-wage earners. The succession of flat dollar increases has meant that in some cases the return for skill in award workplaces is worsening. This may affect employee decisions on training and employer allocations between capital and labour in the workplace.

This case study has built up additional evidence of the changes that have occurred in similar occupations. There appears to be an increasing gap emerging between those employees who are in unions and employed by forward thinking employers willing to invest in employees and those workers who rely on the award and do not have the benefit of bargaining power or forward thinking employers.

Implications

Enterprise bargaining appears to be contributing to a fragmentation of the work force over time. The ability to secure wage increases varies across occupations, industries and workplaces and appears to be influenced by such factors as unionisation, industry concentration and bargaining infrastructure. However, at the same time it is important to acknowledge that employees doing the same type of work have never been uniformly treated in terms of remuneration due to the large number of awards/industries. Despite this, the new system appears to be contributing to the opening of gaps between employees faster than previously. Creating a gap between successful bargainers and those that rely on the safety net.

Estimates by Buchanan et al. (1997) found that by 1996 the number of employees depending only on awards for wage rises was 35 per cent, while awards and registered agreements covered 30 per cent (those covered only by registered agreements was five per cent), and individual contracts covered the remaining 30 per cent. It is that 35 per cent who rely only on the safety net that may face falling relative earnings as wages fail to maintain the pace set by enterprise agreements.

4 Conclusion: Enterprise Bargaining and Wage Dispersion

There is a widening gap between those obtaining wage increases from enterprise bargaining and those employees depending on the safety net adjustment. Wages are rising for a group of 'insiders', such as manufacturing employees, relative to a wider group of 'outsiders' who would include people working in low skill areas such as wholesale and retail trade. Insiders have been able to take advantage of factors such as their skill, capital intensity and the lack of product market competition to obtain higher than average wage increases, whereas outsiders appear to have carried a disproportionate burden of wage restraint. This may also reflect the poor measures of productivity changes for most service industries adversely affecting the quantum of wage increases. Duality is recognisable in the labour market.

Changes in living standards and productivity are increasingly being linked by enterprise bargaining. The combination of increased competitive pressures associated with other forms of deregulation, such as the reduction of tariffs, is changing the distribution of income between labour and capital. Wages are not, any more, perceived as the primary source of welfare. Hence, the role of wages under enterprise bargaining is linked to enterprise performance and decoupled from wider social objectives.

There have also been some concerns raised about relying on enterprise bargaining for wage increases in the future. Many critics have maintained that the narrow pursuit of productivity outcomes, to the exclusion of notions of fairness and comparability in pay determination, may be counter-productive in the long run. There also appears to be danger in decoupling wage relativities and differentials across industries and workplaces through productivity bargaining which may risk the accumulation of skill by labour. This may have macroeconomic implications if unions, in a period of economic buoyancy, demand pay comparability with other industries or firms leading to increased industrial disruption and wage leap-frogging.

The Dual Labour Market

In some cases, enterprise bargaining appears to be creating fragmentation of the wages system that will result in a dual labour market. I have given a practical example of this by showing that one group of unionised employees in a multinational were enjoying rising real wages while those depending on the award were only seeing small rises in income.

These two groups might be described as the 'core' and the 'periphery'. A core of unionised semi-skilled employees, who have firm-relevant skills, have negotiated on hours of work, improved multiskilling and reduced demarcation issues all of which improve flexibility. Hence, a firm is induced to pay higher than the market clearing wage to induce greater levels of productivity from the labour hired; whereas, employees on the periphery in areas with low levels of skill and unionisation, such as retail trade, seem to have enjoyed fewer wage rises. These employees do not have the leverage with employers. Leverage appears related to levels of unionisation, relevant job skills and experience and employment demand.

At present, workers on the periphery are covered by the award system. These provide certain community-accepted standards such as sick leave and annual leave provisions. Moreover, the award system has reduced the average pay differential between men and women by the Equal Pay Decisions in 1969 and 1974. It follows that if dispersion is rising among males then disadvantaged groups of the labour force, such as women and young people, will be further disadvantaged by any reduction in award minimums, as they are over-represented in the periphery.

Further deregulation under enterprise bargaining holds out the prospect that lower wages will be found in those workplaces where workers are not in a position to bargain with employers. Some economists would argue that this is necessary to enable an increase in employment, although low paid unskilled positions may create a long-term disadvantaged group. At the same time, these may also be the stepping stone to better employment.

Do Bargaining Structures Matter?

The Australian *Industrial Relations Act 1988*, and subsequent legislative amendments, also incorporated into the *Industrial Relations Reform Act 1993*, have been 'historic' in their substantial reorientation of the industrial relations system towards the prevention and settlement of disputes through direct bargaining at the enterprise level.

In the end, an increase in the spread of earnings differentials can reflect a range of factors, including better returns to skill, bargaining strength, education, or greater wage flexibility. However, the difficulty with exploring any explanation is trying to separate the institutional changes from the other structural changes or shifts in supply and demand in the labour market.

This paper has shown that an increase in wage dispersion has occurred during the time that enterprise bargaining was introduced as part of the later Accord agreements (between the ACTU and the Federal Labor Government from 1988 to 1996). The Accord was originally aimed at ensuring wage justice for the low-income earners, but research by Saunders (1992b) indicates that the 1980s were a decade of rising inequality, which in part reflected important wider international factors and structural change.

Deregulation is about the redistribution of power in the labour market. This transfer of power favours some parts of the labour market, such as organised labour, the skilled and those whose employment is in demand. At the same time, it disadvantages the poorly organised and unskilled. If the research indicates that wage dispersion can increase for full-time male employees then there is the prospect that disadvantaged groups in the labour market face the prospect of much greater increases in dispersion. Alternatively, there appear to be substantial welfare effects to the economy from an improvement in labour market efficiency.

Can we go back to the previous system? This paper has explored how on the one hand the current structure does not appear to be producing results that are satisfactory for economy wide equity. More importantly, additional reform, such as has occurred in New Zealand, could see safety net adjustments and legislated safeguards diminish even further. At the same time, the reforms have not reached an end point since the pressures that initially started reform still remain. Enterprise bargaining promises an opportunity to build cooperation between workers and management. This is a key ingredient in the workplace to enable improved competitiveness, productivity, increasing levels of employment and better job security. The agreements at Mercedes-Benz seem to be moving in that direction.

Are bargaining structures important to wage dispersion? The analysis presented in this paper suggests that enterprise bargaining is one of several factors influencing wage dispersion. As a result, it appears important to use minimums, like the safety net, to stop employers misusing flexibility and productivity gains to reduce labour costs through retrenchment, casualisation and concessional bargaining. Such actions can further marginalise the vulnerable and industrially weak workers, as well as jeopardising the national long-term strategy for workplace reform and increased productivity. At the same time, wage flexibility threatens to break down barriers between social security and the formal labour market by relying on a surplus pool of labour placing a downward pressure on wages. To complement the reduced role of wages, government can assist those adversely affected groups in the work force by improvements in the tax-welfare system.

If these sort of trends continue over the long run, there is a fear that wage-setting may become a function of bargaining strength and economic leverage that will work against labour market efficiency and accelerate the spread of wage relativities.

To end, it must be recognised that a substantial proportion of the work force can be expected to remain reliant on the safety net provided by award payments. The wider social and economic impacts of increasing wage dispersion and also the relationship between minimum wages and welfare benefits have wider social and economic impacts. In particular, falls in minimum pay may force changes in welfare. For example, lower wages may be matched by lower welfare benefits to avoid reducing the incentives of potential workers to enter the labour market - the discouraged worker effect. Similarly, market pressure may lower community standards of minimum wages and conditions.

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Changes in the Distribution of Personal Income of Indigenous and Non-indigenous Australians Between 1976 and 1996

B. H. Hunter and M.C. Gray
Centre for Aboriginal Economic Policy Research
Australian National University, Canberra

1 Introduction

The myth of equality in Australian society is clearly exposed by the large income gap between indigenous and other Australians. Taylor and Hunter (1998) estimate, in aggregate terms, that indigenous incomes would have to increase by $1.6 billion per annum (in 1996 dollars) to achieve income equality. This number is remarkable given that indigenous people only constitute about two per cent of Australia's population. This paper describes this income gap in detail and teases out the reasons for the low levels of income experienced by many indigenous Australians. The time frame adopted in this paper permits a fresh perspective on the major forces shaping Australia's income distribution.

The validity of inter-censal comparisons of indigenous income depends, in part, upon who identified as indigenous in the 1996 Census, but did not in previous censuses. Hunter (1998) has shown that it is possible to dismiss bogus identification or 'census vandals' as a major factor underlying the large non-biological increases in the indigenous population. The apparent lack of compositional change in the indigenous population also means that census data can probably be taken at face value.

Rather than mechanically updating previous income data, this paper attempts to shed new light on the income deprivation of indigenous Australians by tracing changes in income over the life cycle for indigenous and non-indigenous males and females. The unit of analysis used is a 'cohort' which can be uniquely identified in successive censuses by its sex, age and indigenous status.

The census data on income indicate pre-tax income from all sources rather than separately identifying sources of income. Census income therefore reflects a complex interaction between age, social security/transfer payment system, labour income, assets and other private income. It is not possible to interpret the results of this study in terms of conventional economic studies of labour income unless we restrict our attention to a select sample of individuals in each census (Daly, 1995; Preston, 1997). However, the necessary restrictions are incompatible with the cohort approach which requires that information on all individuals in a particular demographic group be used. Consequently, our analysis must be interpreted in terms of gross income and cannot be compared directly to wage studies.

This cohort analysis provides the first 'longitudinal' data on indigenous income. Whilst there is no pretence in this paper to be following the same individuals across time, Deaton (1985) and Hunter and Gray (1998) describe how carefully constructed cohorts permit a 'pseudo panel' or 'longitudinal' analysis.

The paper is divided into four sections. First, the income gap between indigenous and other Australians is examined using the overall income distributions for indigenous and other Australians in the 1996 Census. Second, the overall changes in income distribution of indigenous Australians between the 1976 and 1996 censuses are described. Third, the changes in the income gap for this period are analysed by tracing the experience of ten-year age groups of indigenous and other Australians. The final section reflects on the implications of our results for policy.

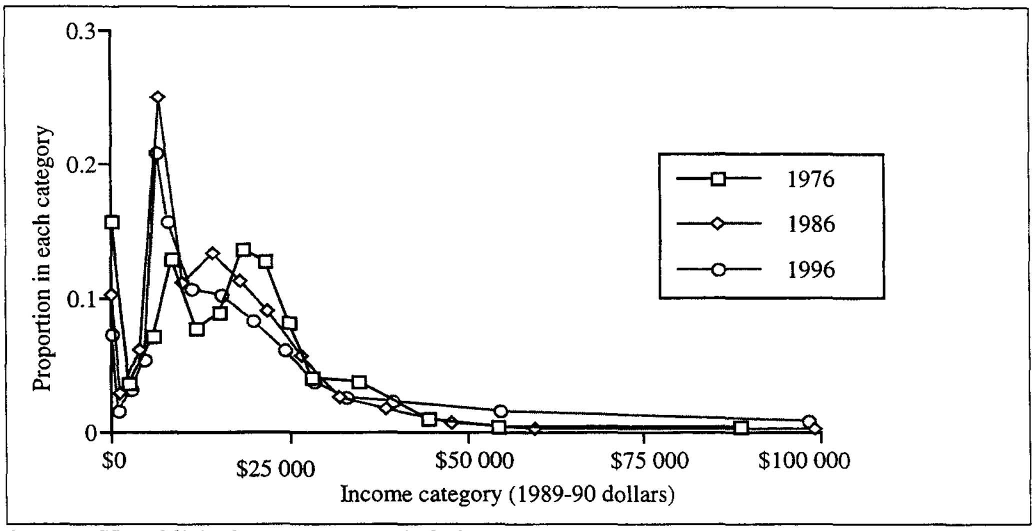
2 The Income Gap Between Indigenous and Non-indigenous Australians, 1996

In 1996, the overall average income for indigenous adults was $14 200 which was 30 per cent less than the average of $21 100 for the total population. While this is in part due to relatively low levels of indigenous employment and the consequent dependence of indigenous people on welfare payments, it also reflects their overall lower occupational status and educational attainment. For example, the average income for indigenous people in full-time employment (excluding the indigenous Community Development Employment Projects, CDEP, scheme) estimated from the National Aboriginal and Torres Strait Islander Survey (NATSIS) was $27 300, 13 per cent below the average income for all full-time employed people. The income gap is much larger when the income of all non-CDEP employed indigenous people is considered with average income falling to $21 142, or 24 per cent lower than the average income of all non-indigenous employees. This reflects the much greater reliance on low status and part-time work by indigenous workers (Taylor and Hunter, 1998).

Indigenous people are over-represented in almost all income categories below $20 800 (in 1996 dollars) and under-represented in all categories above this income. The index of dissimilarity of 19.7 between these distributions indicates that around one-fifth of indigenous people would have to shift their income bracket in order to achieve an equivalent income distribution to that of non-indigenous people.

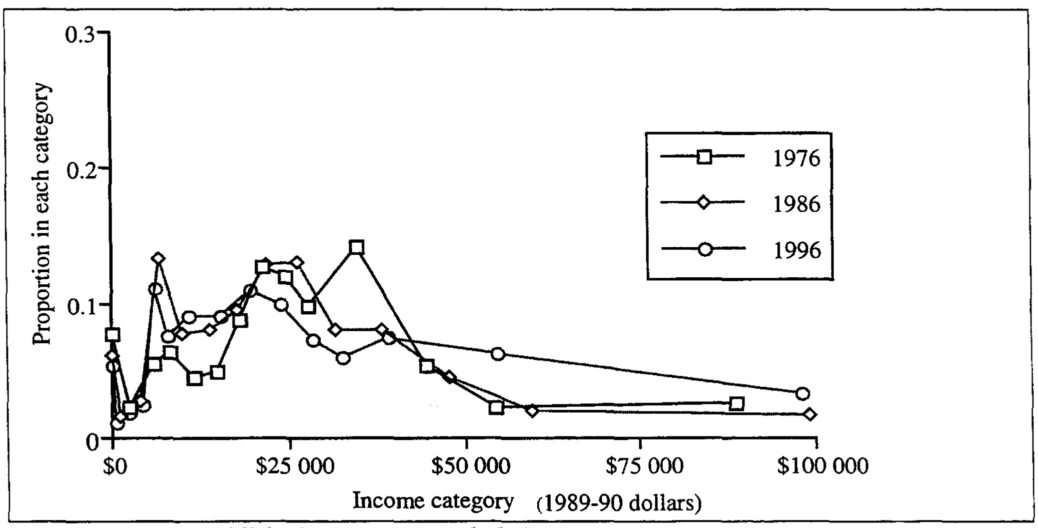
The income distributions for indigenous and non-indigenous males and females for the census years of 1976, 1986 and 1996 are presented in Figures 1 to 4. The annual income categories for the populations aged 15 years and over are the same as those used in the various censuses but have been converted to 1989-90 dollars using a weighted average of the consumer price index (CPI) for Australia's eight capital cities. This conversion allows an analysis of the changes in real income between 1976 and 1996. All reported incomes in the remainder of this paper are expressed in 1989-90 dollars.

Figure 1: Personal Income of Indigenous Males Aged 15 and Over: 1976-1996



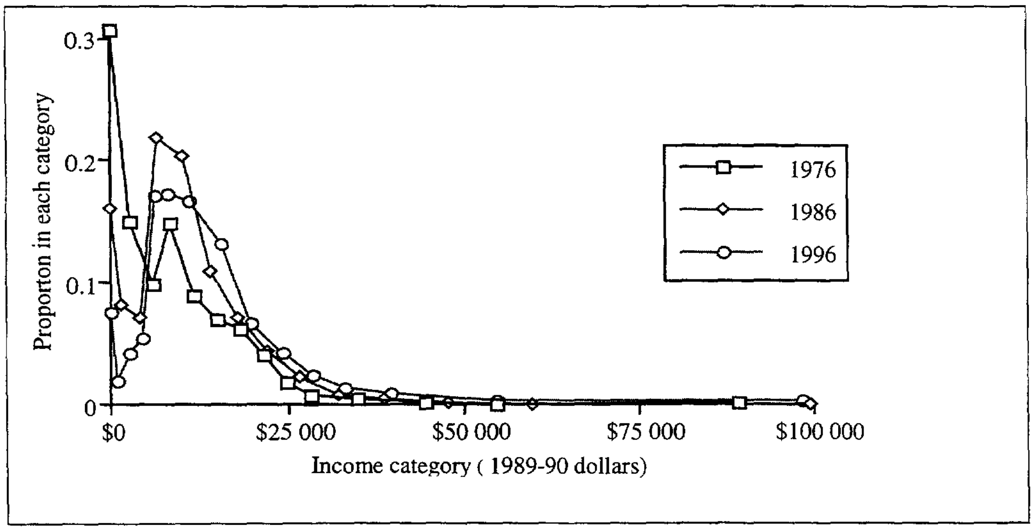
Source: Unpublished census cross-tabulations.

Figure 2: Personal Income of Non-indigenous Males Aged 15 and Over: 1976-1996



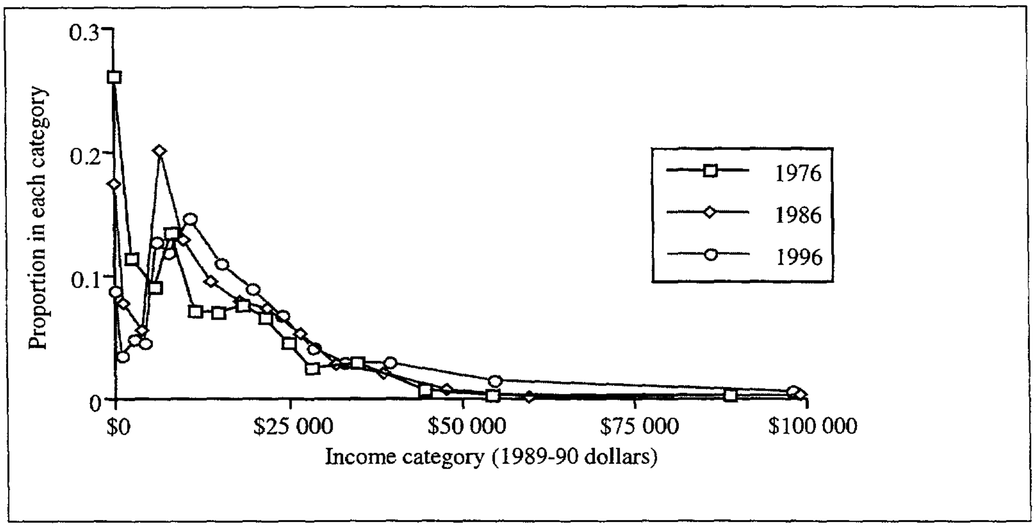
Source: Unpublished census cross-tabulations.

Figure 3: Personal Income of Indigenous Females Aged 15 and Over: 1976-1996



Source: Unpublished census cross-tabulations.

Figure 4: Personal Income of Non-indigenous Females Aged 15 and Over: 1976-1996



Source: Unpublished census cross-tabulations.

The remainder of this section focuses on the 1996 distributions identified by the round markers in the respective figures. Breaking the income distributions down by sex shows that the differences between the indigenous and non-indigenous populations in 1996 are largely driven by the distinct nature of the non-indigenous male income. The 'tri-modal' nature of non-indigenous male incomes is indicated in the three 'bumps' in Figure 2. The first bump (or mode) corresponds to the income levels of those who are outside the labour force and the unemployed (including welfare recipients). The second and third bumps correspond to those in part-time and full-time work respectively. The income distributions for indigenous males and indigenous and non-indigenous females have no second or third bumps. This difference reflects the higher proportions of non-indigenous males in employment, especially full-time employment and the higher wages when in employment as compared to the other groups (Hunter and Gray 1998). There is a broad similarity in income distributions for indigenous and non-indigenous females, notwithstanding the fact that non-indigenous females have higher wages and better access to employment. This may reflect the fact that that many non-indigenous females are either outside the labour force or receiving social security payments.

3 Changes in Australian Income Distribution: 1976-1996

The distinct nature of the non-indigenous male income from the 1996 Census is also apparent in the 1976 and 1986 Censuses. The censuses examined indicate that between 1976 and 1996 non-indigenous males are more likely to have a job. However, the second and third modes are much less pronounced for non-indigenous males in 1976. This probably indicates a greater homogeneity in the types of jobs held by males in the 1970s. The vast majority were full-time jobs which were constrained to pay a minimum amount specified by the award system. The disappearing middle phenomenon is apparent in Figures 1 and 2 with substantial declines in middle income ranges. However, this trend of a disappearing middle is particularly pronounced among non-indigenous males with substantial increases in both the very high and, to a lesser extent, low-income categories (between $3 000 and $10 000). The fact that there was some fall in the income ranges associated with low-paid jobs for indigenous males in the 10 years between 1986 and 1996 may lend some weight to Belchamber's (1996) hypothesis that increasing wage dispersion is better described as a 'vanishing bottom' than a 'disappearing middle'. The trend towards the disappearing middle is not apparent among the female income distributions because of the large secular increases in employment rates leading to larger numbers of both low-paid and well-paid workers (Hunter and Gray, 1998). Notwithstanding the fact that any metaphors used to describe changes in the income distribution will breakdown if pushed too hard, it is clear that increases in the high-income categories are substantial for all groups, especially non-indigenous males.

Hunter and Gray (1999) use an alternative method for describing changes in income distributions by examining relative income deprivation. Their results are entirely consistent with the perhaps more intuitive analysis presented above. Between 1976 and 1996 the proportion of indigenous males with no income fell by more than 50 per cent. This coincided with a haemorrhage in indigenous male employment and participation (Table 1). The explanation for this must lie in the gradual increased coverage of Australia's indigenous population by the social security system. While the income levels of indigenous people remain exceptionally low, the relatively good news is that indigenous males are being treated more equitably by Australia's welfare institutions. The income distributions for indigenous females also reflect the increased coverage of indigenous people by the welfare system. Of particular significance is that the proportion of females with no income between 1976 and 1996 fell by 23 and 16 percentage points for indigenous and other Australian females, respectively. There are several reasons for this fall in the proportion of indigenous and non-indigenous females with no income.

The large secular changes in female employment and participation in the labour market will have reduced the proportion of females with no income significantly (Table 1). However, Table 1 shows that changes in labour force status cannot be the only factor because female employment only increased by 6.8 and 8.6 percentage points for indigenous and other Australian females. While increases in the labour force participation rates were slightly higher than changes in female employment, secular changes in labour force status cannot explain the extremely large reductions in the proportion with no income. The fact that the proportion of indigenous persons with no income is now broadly similar to that observed among other Australians may indicate that there is little room for indigenous incomes to improve through extending the coverage of general citizenship rights such as social security payments.

Table 1: Long-run Trends in Employment and Participation Rates: 1976-1996

	Males		Females	
	Non-indigenous	Indigenous	Non-indigenous	Indigenous
Employment/population ratios[a]				
1976	76.3	56.2	41.8	25.1
1986	68.6	42.2	42.9	23.9
1996	64.6	47.8	48.6	33.7
Participation rates				
1976	79.4	68.8	44.0	30.2
1986	75.2	66.0	47.5	36.3
1996	71.5	63.5	53.0	42.3

Note: a) CDEP scheme employment accounted for 2.9 and 0.6 percentage points of indigenous male and female employment in 1986. This increased to 11.6 and 6.1 per cent respectively by 1996.

Source: 1976-96 - Census of Population and Housing; Daly (1995); Hunter and Gray (1998).

The recent trend towards 'individualisation' of welfare payments, typified by the changes embodied in the *Social Security Act 1991*, will also have contributed to the fall in the proportion of females with no income. The policy change of increasing 'individualisation' of welfare payments resulted from a prolonged debate about the efficiency and equity of paying the bulk of welfare payments to one partner in a coupled income unit (Edwards, 1983). One of the major changes in the Act was the separation of the Parenting Payment Partnered allowance from the Newstart allowance. The process of individualisation mean that welfare payments are now more likely to be paid to both married partners rather than one partner (usually the male).

The results of the study by Hunter and Gray (1999) of relative income deprivation between 1986 and 1996 also reflect this policy change. Hunter and Gray find that females experienced large falls in relative income deprivation, especially among the very poor sector. The fact that indigenous females generally experienced substantially larger falls in income deprivation than their non-indigenous counterparts, especially among those with less than 40 per cent of the median income, indicates that individualisation has had more effect on the section of the community most likely to receive welfare payments.

The converse effect of individualisation of social security payments is that there has been a slight rise in most measures of male income deprivation. However, the overall effect of individualisation appears to have been a reduction of poverty and an increase in the financial independence of a substantial section of the Australian community. While individualisation of welfare is a major factor it is not the only factor at work, with a substantial fall in the number of indigenous males with less than 40 per cent of the median income. It is likely that improvements in targeting of social security payments in the last 15 years may have had a positive impact on indigenous males who are particularly deprived (see Mitchell, Harding and Gruen, 1994, for a discussion of increased targeting of welfare in Australia in this period).

Finally, the rise of the CDEP scheme, has also played a role in improving the coverage of indigenous people in the welfare system. Between 1976 and 1996 the proportion of indigenous males and females employed in the CDEP scheme increased from nil to 11.6 and 6.1 per cent in 1976, 1986 and 1996, respectively.

4 A Cohort Analysis of Income Distribution, 1986 and 1996

The income distributions presented above do not allow easy comparisons of the changes in the income distributions because the income categories differ slightly between the 1986 and 1996 censuses. Since the original income categories overlap when converted into 1989-90 dollars the categories for 1986 and 1996 are adjusted to give a consistent set of income categories. This is achieved by assuming that people are uniformly distributed across each of the income categories.

The 1986 and 1996 censuses are cross-sectional data sets which, in principle, include the entire Australian population. However, they can be treated as 'panel data' by grouping individuals into cohorts, and treating the averages within these cohorts as individual observations that vary over time. These cohorts are defined such that each individual is a member of only one cohort, which is the same for all time periods. In this paper, cohorts are defined on the basis of year of birth, sex and indigenous status. In this section, we define cohorts by ten-year age groups starting with those five to 14 years old in 1986. The detailed results are presented in Hunter and Gray (1999). A graphical presentation of changes in the income distributions for selected cohorts are presented in Figures 5 to 10. The figures are grouped to facilitate comparison between indigenous and non-indigenous cohorts.

Figures 5 and 6 illustrate the changes in the income distributions for indigenous and non-indigenous males aged between 15 and 24 years in 1986. The indigenous cohort experiences a large change with over 20 per cent of the cohort moving from no income to a small income between 1986 and 1996. This change is likely to be related to the fact that many people in this cohort left home and were no longer financially dependent upon their parents. While there is an analogous change for the equivalent non-indigenous male cohort the major difference arises from the size of income that most of these individuals can expect in 1996. Indigenous cohorts seem to move into the range associated with welfare payments, part-time employment, or exceptionally low pay, while non-indigenous males in this cohort move into a range associated with better paid employment and full-time jobs.

For females aged between 15 and 24 years in 1986 the situation is a similar (Figures 7 and 8). In contrast to the male cohorts, there is less difference in the changes experienced by indigenous and non-indigenous females than for their male counterparts. That is, while the non-indigenous female cohort are more likely to be in higher income groups in both 1986 and 1996, there are only small changes in the respective distributions between these two censuses. The income gap between the indigenous and non-indigenous cohorts is evident for both males and females at a young age and it is greatly exacerbated by the better employment prospects of non-indigenous male youth as they enter the work force en masse.

The cohorts aged between 25 and 34 years in 1986 have entered their prime labour force years by 1996. The processes evident for the younger cohort continue for this group, with some notable exceptions. For example, there is some evidence of further movement of males in this cohort into better paid employment, albeit rather small changes in the case of indigenous males. There are also large increases in the proportion of the cohorts with income in the range associated with welfare or part-time employment ($2831 to $11 322). For indigenous males, this change appears to be associated with a loss of low-paid

Figure 5: Income Distribution of Indigenous Males, Cohort Aged 15 to 24 Years Old: 1986

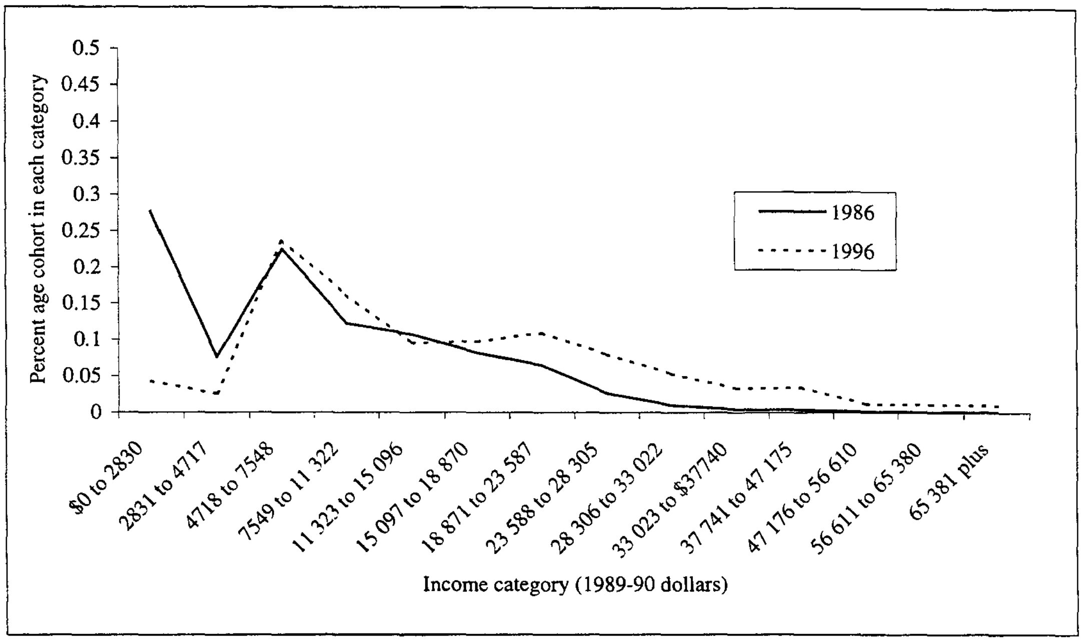


Figure 6: Income Distribution of Non-indigenous Males, Cohort Aged 15 to 24 Years Old: 1986

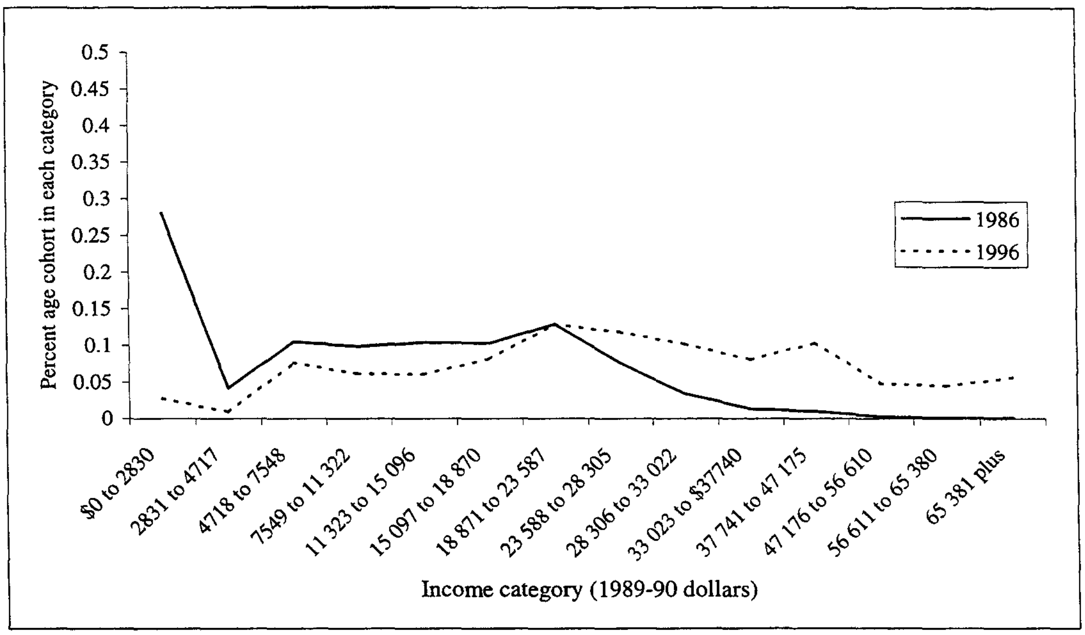


Figure 7: Income Distribution of Indigenous Females, Cohort Aged 15 to 24 years old: 1986

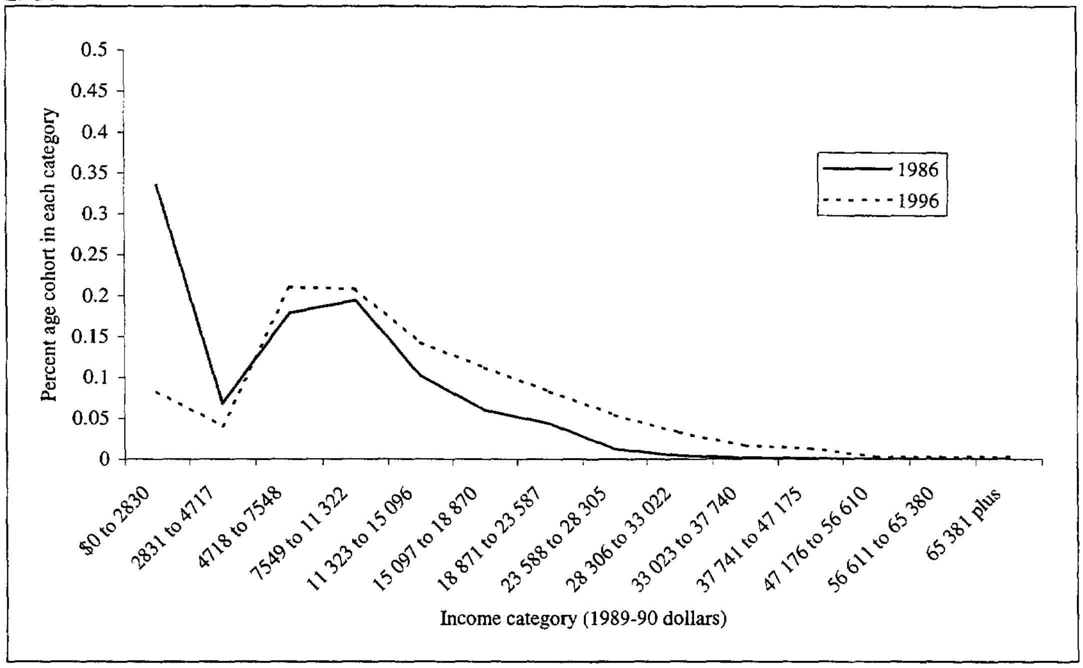
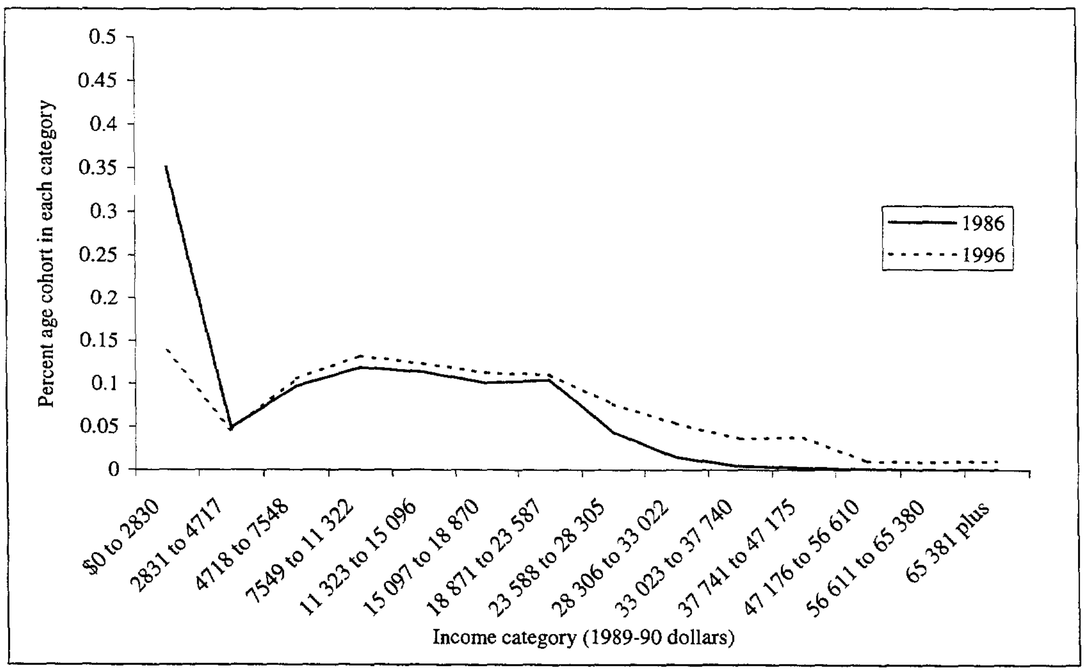


Figure 8: Income Distribution of Non-indigenous Females, Cohort Aged 15 to 24 years old: in 1986



jobs – paying between $11 322 and $28 306. The movement to welfare reliance among non-indigenous males is associated with the loss of some slightly better paid jobs – paying between $15 097 to $37 741. However the fact that non-indigenous job losses are concentrated among lower paid employees appears to challenge Gregory's assertion that the disappearing middle is associated with the demise of middle management jobs (Gregory, 1993; Belchamber, 1996).

The process of individualisation of welfare payments is particularly evident for females aged between 25 and 34 years in 1986. Indigenous and non-indigenous females in this age group were more likely to have no income in 1986 than their counterparts in 1996. Of itself, this observation might indicate that females experienced large increases in labour force participation. Given that the largest change in the income distributions were concentrated in the range associated with welfare it is more likely that the changes embodied in the *Social Security Act 1991* have ensured that more females receive government payments. The advent of Parenting Payment Partnered allowance will have a particularly strong influence on the distributions in this part of the life-course traditionally associated with raising families.

The other side of the increase in welfare payments to females has been a corresponding decline in welfare payments to males. This appears to be more important for indigenous males where there are substantial falls in the $11 323 to $15 096 income range potentially associated with the total welfare paid to very large families who are entitled to many allowances (Daly and Hunter, 1999).

The cohorts aged between 35 and 44 years (Figures 9 and 10) in 1986 tend to be moving out of the work force by 1996 and consequently experience a decline in income between 1986 and 1996. This trend is consistent for both males and females irrespective of their indigenous status. The only difference between the cohorts is that the size of the income loss depends upon the level of income the 1986 jobs paid. For example, large numbers of non-indigenous males cease working in better paid full-time jobs whereas the other cohorts appear to predominantly cease working in low-paid, part-time jobs.

The individualisation of the welfare system has a consistent impact on female cohorts aged over 35 years in 1986. That is, between 1986 and 1996 there are substantial falls in the number of women who have little or no income of their own in almost all cohort groups.

The trend noted earlier accelerates with the vast majority of persons in the cohorts aged between 45 and 54 years in 1986 moving out of the work force between 1986 and 1996 (Hunter and Gray, 1998). While it is unsurprising that indigenous male and female cohorts should leave low-paid and part-time employment in this period, the non-indigenous male cohort appear to leave relatively large numbers

Figure 9: Income Distribution of Indigenous Females, Cohort Aged 25 to 34 years old: 1986

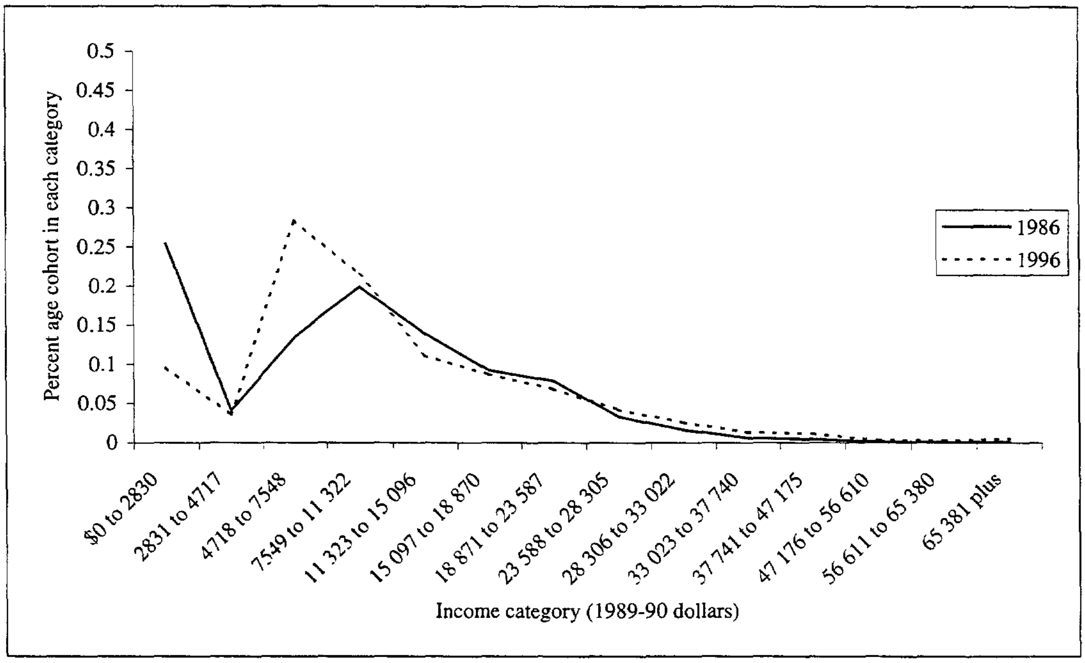
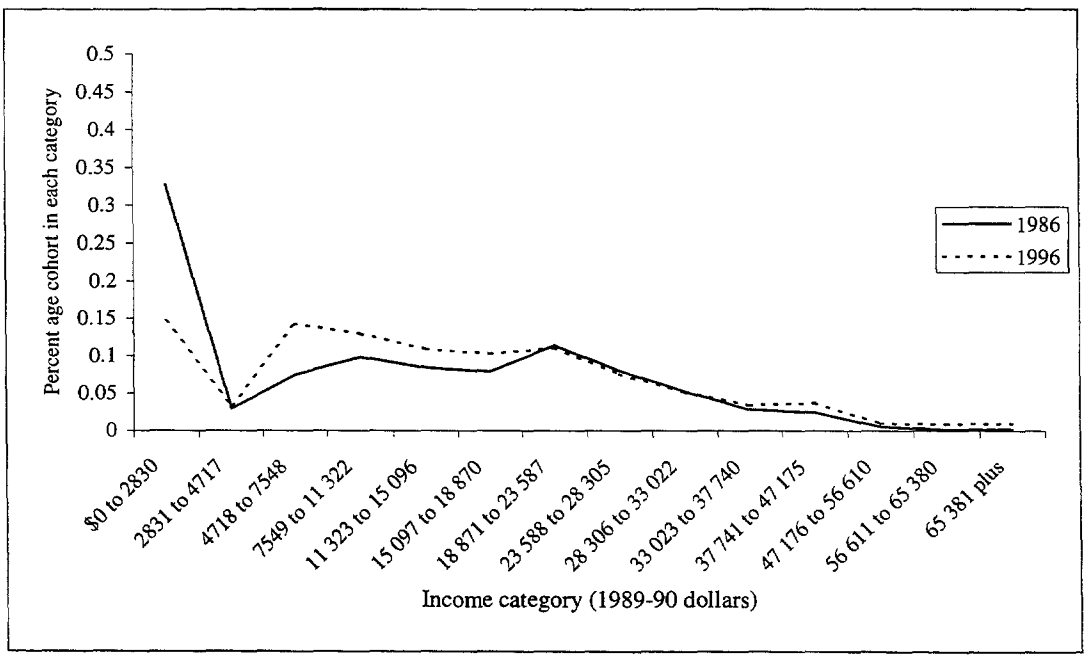


Figure 10: Income Distribution of Non-indigenous Females, Cohort Aged 25 to 34 years old: 1986



of lower paid positions. While there are still substantial numbers of well-paid 45 to 54 year old non-indigenous males in 1986, there are more receiving less than average weekly earnings (that is, between $11 323 and $28 305). One explanation is that career paths for older non-indigenous males have been more interrupted by structural change or choice than the conventional wisdom among economists suggests. This finding is reminiscent of the finding by Gregory and Hunter (1996) that there was a substantial loss of manufacturing jobs in low-income neighbourhoods that were not replaced by jobs in the growth sectors of the economy.

The stylised facts established in these older cohorts are replicated for those aged 55 and over in 1986. That is, workers continue to leave the work force but the relativities between indigenous and non-indigenous and male and female cohorts are maintained. There is even evidence that individualisation of welfare payments also increased the financial independence of older females, particularly non-indigenous females. Not only did older females have an income in the range associated with welfare, but also there appeared to be a substantial increase in the amount of money received from the government. Therefore poverty or relative deprivation among older female cohorts was reduced by the dual impact of greater incorporation within the welfare system through individualisation and an increasing generosity of welfare payments in the late 1980s and early 1990s (Mitchell, Harding and Gruen 1994).

5 Conclusion

The relationship between income and an individual's well-being can be very tenuous, especially among the indigenous population. Hunter (1999) illustrates that problems related to health, housing, arrest and victimisation are apparent even among relatively well off indigenous families. Hunter concludes that income deprivation is not the only factor involved and policy needs to recognise the behavioural inter-dependencies between these problems. One important underlying factor is the marginal attachment of many indigenous people to the labour force and therefore to Australian society at large.

In terms of target groups within the indigenous population, just over 80 per cent of adults can be said to currently depend on some form of government support to prop up their presence in the labour force or to sustain them outside of it (Taylor and Hunter, 1998). Evidence from NATSIS points to a number of structural reasons for people requiring welfare support including poor health, high arrest rates, family responsibilities, discouraged worker effects due to lack of local job opportunities and lack of qualifications and skills (ABS/CAEPR, 1996). Reducing these effects requires change over the long term, in some instances intergenerationally.

In view of the large numbers of indigenous people whose expected wages are lower than their social security entitlements, the productivity of the indigenous labour force needs to be addressed (Daly and Hunter, 1999). The substantial returns to indigenous education identified by Daly (1995), especially for degree qualifications, shows that improving educational outcomes remains the most likely means of significantly augmenting individual productivity. One alternative is for the indigenous incentives to work to be addressed through the tax system. For example, a negative income tax, or analogous tax proposals, could be used to boost the expected wages of indigenous people so that the effective marginal tax rates are reduced. The tax credit proposal by the so-called 'five economists' could provide one basis for appropriate reform (Dawkins, 1999).

While the financial incentives to work need to be addressed for indigenous income and employment to converge towards the national average there is no question that, collectively, indigenous people want to work as much as other Australians. If all the people who indicated they want to work in NATSIS are included in the work force, then the indigenous participation rate would be 67.2 per cent, about 15 per cent more than are currently looking for work. This statistic is substantially higher than the record high in Australia's overall participation rate in 1995 of 63.8 per cent. Almost one-sixth of the indigenous population have been discouraged from seeking employment. It is imperative that policy attempts to address all the employment needs of the current, potential and future indigenous labour force.

In addition to the above analysis, Hunter and Gray (1999) use the cohorts constructed for this paper to conduct the first pseudo-longitudinal or pseudo-panel regression analysis of indigenous income. We encourage anybody who is interested to read this paper. The main messages from this necessarily technical regression analysis are two-fold: first, that the returns to indigenous education have probably been overestimated by existing studies; and second, that it is important to collect data on individuals over time so that unobservable characteristics such as school quality or ability can be controlled for in a formal way. A forthcoming Centre for Aboriginal Economic Policy Research discussion paper presents the analogous pseudo-panel regression analysis of labour force status which confirms many of the assertions made in this paper about changes in labour force status of various cohorts (Gray and Hunter 1999).

Notwithstanding data limitations, this analysis provides several important and positive insights. Individualisation of welfare payments has resulted in an increase in financial independence among many females. This result is likely to have been missed by studies that focus on traditional poverty analysis where the poverty line is set high enough so that fluctuations in welfare payment are not identified. The intra-family redistribution inherent in individualisation is a positive force promoting equality within the home, if not between households.

The other insight is that the generosity of welfare payments or improved targeting of benefits has materially advantaged extremely poor indigenous people. While this is a positive outcome in its own right, it is important to bear in mind the interaction between tax, welfare, productivity and incentives to work. As long as all these policy instruments are effective, it is appropriate that welfare be targeted to those in immediate need, while tax and productivity enhancing policies focus on the incentive to work.

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Options for Assisting Low-wage Earners

David Ingles[1]
Ken Oliver
Department of Family and Community Services

1 Introduction

There are calls from academic economists for reducing growth in award wages as a means of reducing unemployment. The 'five economists' in an open letter to the Prime Minister suggested a four-year freeze on awards, the impact of which was to be offset by a new tax credit (Dawkins et al., 1998b; Dawkins, 1998 and 1999). They expect this to reduce the aggregate growth in real wages by some three to four per cent; and reduce the level of unemployment by 1.5 to two percentage points to about five to 5.5 per cent. Dawkins and colleagues propose that new tax credits be introduced to compensate low-income families.

This paper does not discuss the likely efficacy of the wage/tax trade-off. Rather, it is concerned with possible policies for compensating low-wage earners, noting that some such measures may be required by movements in market incomes quite independently of any explicit decision to freeze awards.

2 Current Assistance for Low-wage Earners

Developments in Family Assistance

It is not always recognised that Australia already has in place a substantial system of in-work assistance for low-wage earners with family responsibilities.

Extension of children's benefits to low-income workers in the 1980s generally had the effect of reducing replacement rates or, equivalently, increasing incentives for unemployed family heads to take up work. Family Payment (FP) thresholds are now about half of median incomes for families with dependent children (currently

1 This is a shortened version of the paper presented at the SPRC Conference in July 1999. The authors thank those FaCS staff who have provided helpful comments; however, the views expressed in this paper, along with any errors, are those of the authors. They do not represent the views of either the Government or FaCS.

Electronic copies of the full paper may be requested from david.d.ingles@facs.gov.au the threshold is $23 400 pa, if one child, for first tier payment, and $65 940 for the second tier). Moreover, the first-tier benefits do not fully abate until family incomes are well into the medium family income bracket (between 70 per cent and 100 per cent, depending on number of children and eligibility for Rent Assistance, RA). These limits will be further extended, and rates increased, under the Government's 'A New Tax System' (ANTS) reforms (Costello, 1998).

The US does not have a system of family payments (outside of food stamps). This is one reason there is an Earned Income Tax Credit (EITC) in that country, and a reason why it might not necessarily be appropriate to Australia.

Current Assistance for Individuals and Couples Without Children

In general, single low-wage earners who do not have dependent children receive relatively little or no cash assistance under the current system. The implicit assumption is that single people without child dependants, and who are employed full time, are able to support themselves from their earnings. It is unlikely that this assumption will soon be called into question. A single adult's full-time wage would need to be below about $250 pw for them to be eligible for payment under the allowance income test. Currently, full-time minimum award wages are approaching $400 a week, and the Federal Minimum Wage is $385.40 a week.

In the case of a couple, the July 1995 changes introducing a partly individual basis of assessment means that, where one partner is in a low-wage job, the other can get assistance (subject to the means test) if he or she is prepared to seek full-time work. This means that the social security system will supplement the income of the couple, through that partner, up to the point where their total earnings is around $520 a week – or higher, if Rent Assistance is payable.[2]

The bottom line is that the social security system already provides substantial in-work assistance to those low-wage earners most likely to be at risk of poverty, and there are options to further develop the existing system in ways supportive of low-waged work.

3 Main Options for Directing Additional Assistance to Low-wage Earners

The following are the main options considered in this paper:

- the negative income tax;

2 Note that for a couple where one is on payment, RA is payable at the full rate for the couple.

- earned income tax credits;
- wage subsidies for low wage earners (including reductions in payroll taxes, and hours-conditioned in-work payments);
- changes to social security parameters (including major reforms to rationalise EMTRs) and to rent assistance; and
- reductions in income tax burdens on the low-paid.

The Negative Income Tax (NIT)

There are several radical NIT or guaranteed minimum income (GMI) options that have been proposed to address effective marginal tax rate (EMTR) problems affecting welfare to work transitions. The most recent is the negative income tax proposal of Dawkins et al. (1998a).

The NIT in its pure (i.e. non-categorical, linear tax) form has a number of significant problems. These problems include:

- the very high marginal tax rates required across the whole population if the basic income guarantee level is to be at the same rate as existing categorical payments (this is estimated as 57 per cent by Dawkins et al.);
- the consequent possibility of a more general work and saving and/or tax avoidance response;
- the apparent extension of assistance to those whose need may not be great, such as those voluntarily not in the work force, or those self-employed who are able to declare artificially low incomes; and
- if the tax definition of income is adopted in the unified system, the social security system loses the ability to distinguish those with substantial assets.

Because of problems with the 'pure' linear tax NIT, Dawkins et al. (1998a) propose a number of modifications which allow the required tax rate to be reduced to 50 per cent or less, for example, by retaining categorisation and by higher initial marginal tax/taper rates.

Given this, and all the problems that will therefore remain - proving eligibility, definition of the income unit, the time period for assessment, etc. - it might seem preferable to stick with the current system and adopt a more incremental approach, albeit paying particular attention to low-income earners.

Conclusion on the NIT

The NIT is probably not practicable in its pure form. However, in the modified form which retains categorical tests of eligibility and a higher initial tax rate, the NIT is a very attractive concept, and one which is not all that greatly different in its effects to the current tax/transfer system, assuming that were to be reformed to rationalise tapers and tax interactions.

While we favour a more incremental approach to reform, the end-point we might wish to arrive at may eventually not be all that different to that sought by Dawkins et al. (1998a), or by Keating and Lambert (1998a and 1998b).

Earned Income Tax Credits (EITCs)

Earned income tax credits have been advocated in Australia by the ALP in the 1998 federal election, by Keating and Lambert (1998a, 1999), and by several economists who see these as a useful trade-off for restraint in award wage growth. Internationally, the US EITC is by far the largest scheme of this sort.

Opposition Election Proposals

In the 1998 election, the Australian Labor Party (ALP) proposed a set of income tax cuts using credits, the value of which reduced as income rose. These are very similar in effect to an EITC ('A fairer tax system *with no GST*'). Labor proposed a 'tax credit for working families' worth up to $3300 pa for a family with two children. The credit was to be restricted to earned incomes.

This credit was to phase in at the rate of 10 cents in the dollar, up to a maximum income of $30 000 pa for one child, plus $3000 for each extra child up to four. Maximum credit would apply over a plateau range of $10 000 pa (i.e. up to $40 000, and then phase out at a rate of 15 cents in the dollar. Thus, it would fully phase out at roughly $60-75 000, depending on the number of children.

The ALP proposal can be clearly discerned as a means of focusing tax cuts on a particular target group.

Keating and Lambert Proposal for EITC

This proposal accompanies the Keating and Lambert (1998a and 1998b) plan for a major revision of income tests, which would lower EMTRs for allowees and families. The main part of the plan involves grouping all family assistance payments, Rent Allowance (RA) and Youth Allowance, and tapering them sequentially at a 30 per cent taper. With the EMTR for allowees and low-income families coming close to 60 per cent, the overall effect of the Keating and Lambert scheme - combined with their proposal to reduce allowance tapers to 50 per cent - is actually very similar to the modified NIT proposed by Dawkins and his colleagues (1998a).

Keating and Lambert, while supportive of an earnings credit, note that it implies another increase in EMTRs over the income range where it is phased out. In their plan, this is addressed by incorporating the credit within the group of family payments that are phased out at the common 30 per cent rate.

Because the earnings credit would be combined with family assistance payments, the level of income at which it was tapered would vary according to the size of these other payments. For single individuals and couples without children, there are no such payments so the cutout (on the latest version – *Australian Financial Review* 16.11.98) would be $28 200 pa. Beyond that, the credit reduces at a taper of 30 per cent. This level of threshold avoids the taper overlapping with social security allowance tapers, although it does interact with the income tax to produce an EMTR of 64 per cent.

The estimated cost is $1060 million, or about 0.4 per cent of the total wage bill. The cost would rise in subsequent years if it were to be raised as part of a four-year program of wage restraint, reaching $4.5 billion in the fourth year.

If confined to families with dependent children, in the first year an estimated 860 000 families would benefit at a cost of $460 million. By the fourth year, the cost trebles to $1.4 billion. However limiting the credit to families with dependent children would undermine its credibility as an offset to the proposed award wage freeze.

The proposed credit is very similar to a cut in the first marginal rate of income tax, partly financed by an increase in tax on incomes above the allowance/family payment cutouts. However the cut, and increase, is on a family unit rather than an individual basis.

The US Earned Income Tax Credit (EITC)

The US EITC was originally introduced in 1975 as a way of relieving the burden of social security payroll tax on low-wage working parents (Sholtz, 1996). It has grown substantially since its inception, and in 1997 cost the US Government $US27 billion (about two per cent of total federal receipts). In Australia, this would be equivalent to around $5 billion pa. The recipient population numbers 20 million families. The EITC has been described as the 'cornerstone of the Clinton Administration's welfare reform agenda' (Dickert, Houser and Scholz, 1995: 42). Following cuts to welfare and related payments to sole parent families (formerly AFDC, now TANF), it now costs almost twice the $16 billion spent on traditional 'welfare'.

The EITC is a refundable credit against the Federal income tax. Its distinctive feature, as opposed to more common forms of welfare, is that at low-income levels the credit increases with earnings.

Three schedules apply: one for taxpayers aged 25-64 with no children (this is relatively minor, at $306 pa), one for taxpayers with one child and one for those with two or more children. In 1996, for example, the credit rate for a taxpayer with two children is 40 cents in the dollar up to an income of $US8900 pa, reaching a maximum of $US3556, and phases out at the rate of 21.06 per cent above $US11 610. By the time the family income reaches $US28 495 the EITC is fully abated. Some two million of those who receive the credit receive no actual tax refund since the credit serves to partially offset their tax liability.

The scheme acts as a marginal earnings subsidy: the effective tax rate on low incomes is *negative*. Within the phase-in range, an extra dollar of earnings brings in $1.40 to the household. Another feature of the scheme is that it applies to *family* income, and there is no differentiation between couple and sole parent families.

The bulk of benefits are paid as an end-of-year tax refund. Since 1979, eligible taxpayers have been allowed to receive a proportion of their credit in advance of annual filing of tax returns; however, this option is taken up by less than one per cent of claimants. For poor families, this gives rise to what might appear to be a significant cash-flow problem. This is partially addressed by the availability of food stamps, which are paid monthly.

EITC Issues

The US EITC has been analysed in terms of a number of issues. Detailed examination of these issues is in Ingles (1999). The findings are summarised below.

- Do marginal earnings subsidies have any role in optimal tax/transfer schemes?
    - The answer here is that such subsidies reduce EMTRs arising from the interaction of tax and social security benefits. If such reductions are required, an obvious alternative is to do this directly through one or both of these systems.

- Does it reduce the wage paid by employers?
  - The answer is that it may do, but this can be helpful if wages would otherwise be above their market clearing levels.
- What are the incentive effects of the EITC?
  - This is a complicated question. While an EITC reduces EMTRs in the phase-in range, it reduces average tax rates in the plateau range, and increases EMTRs in the phase-out range. Its overall impact on work effort is theoretically indeterminate. Empirical studies have tended to find that the EITC creates a strong participation effect for sole parents, which is offset partly but not wholly by a substitution effect reducing participation by married women.
- Does it create too severe a 'marriage penalty'?
  - It seems not. The marriage penalty created by the US EITC has not been found to affect behaviour. In any case, it is no greater than that created by normal welfare schemes assisting sole parents.
- Is there potential for fraud?
  - Fraud has been a serious problem with the US EITC, with overpayments of some 25-30 per cent of total program spending. It is not clear whether recent efforts to stem the overpayment problem have been successful.
- Should the tax office be involved in the assessment of 'need'?
  - Using the Tax office to run a welfare program creates several difficult issues. The inability to means test against assets is one example. Another major problem in the Australian context is that an EITC based on family income would necessarily have to treat de facto and married couples in the same manner. This is not a problem in the US system, since only a formal definition of marriage applies.
- Should benefits be delivered through the tax or the welfare system?
  - The main effect of an EITC in Australia would be to reduce effective marginal tax rates on low-income earners. This points to the possibility, if such an effect is desired, of effecting such reductions directly through modifications to tax/transfer policies.

- How effective is the EITC in combating poverty?
  - The US EITC is reasonably *effective*; doubts revolve around how *efficient* it is. Many of the recipients of the EITC have incomes that place them above the (admittedly meagre) US poverty line, even before receipt of the credit. The break-even income in the EITC is well above the poverty line for most families. It has been estimated that when the 1993 reform is fully phased in, approximately half of total EITC payments will go to households with incomes above their poverty lines. The fraction of total EITC payments that directly reduce the poverty gap will fall from 47 per cent (pre-1993) to 36 per cent (post-1996). Thus, it is clear that the EITC is not nearly as well targeted as traditional anti-poverty programs. This is exacerbated by non-compliance.

Conclusion on the EITC

The US EITC is essentially a device to help low-income families by increasing the progressivity of the tax/transfer system and by reducing (or even making negative) effective tax rates on them. Its existence, and the emphasis placed on it in US politics, reflects the American public's dislike of 'welfare'. In the Australian context, where the welfare system is better accepted, these results are also achievable by changes to income tax or social security parameters.

The main argument for an EITC in the Australian context is to reduce income tax paid by, and EMTRs facing, low-income earners. The last part of Section 3 considers reform of the income tax rate structure as an alternative to the EITC.

Other Wage Subsidies

Wage Rate Subsidy

The wage rate subsidy was widely discussed in US policy circles in the 1970s (see Browning, 1973) and has now been revived somewhat (see for example Phelps, 1997 and Layard, 1996). In effect, the wage rate subsidy creates a reduction in EMTRs that diminishes as the wage rate approaches the cutout point. This can be shown to have advantages in terms of work incentives.

Despite its theoretical advantages, the wage rate subsidy has a serious practical obstacle, that its calculation requires knowledge of not only the employees pay but also the hours. Hours are not easy to verify.

A low-wage subsidy has resurfaced in the current Australian policy debate in the form of proposals to remit payroll tax on low-income earners (see e.g. Debelle and

Borland, 1998: 357). Presumably this policy means that, instead of payroll tax thresholds/exemptions being based on the aggregate size of the firms payroll, they would be based on the fortnightly or annual pay of the individual employee. Whereas current state payroll taxes provide an incentive to firms not to grow above the exemption limit, the proposed alternative would provide an incentive to part-time work.

That said, the proposal is no different in principle to the low-earnings thresholds embodied in many or most social insurance contribution rate structures. Many countries are looking to reduce payroll tax burdens on low-wage earners, it being widely accepted that the real incidence on such taxes is on the net pay of those workers (OECD, 1999: 97).

There is no barrier in principle to making the general structure of payroll tax more like that of a social security contribution with an explicit low-pay threshold. Indeed, it would seem likely to be a considerable improvement on the current situation.

It should however be recognised that the low wage exemption proposal limits the available net cuts in taxes to five to six per cent, depending on the existing payroll tax rate (it varies slightly between States, as do the exemption levels).

Employment or Hours-conditioned In-work Payments

These are used in the UK and Ireland (see OECD, 1999: 96), and have been experimented with in Canada. Basically, eligibility for an in-work income supplement such as those for children depends not only on low income, but also on working a certain minimum number of hours.

At first glance, it may seem an unnecessary complication to vary payments according to hours as well as income. After all, the one is reflected in the other. That said, there might in fact be economic benefits. The reason is that the introduction of an hours criterion makes a welfare payment more akin to a wage subsidy. The hours requirement virtually turns the supplement into a wage rate supplement. This has the work incentive benefits already discussed in the previous section. Further, it helps draw a clear line between unemployment payments and in-work benefits.

In Canada, the Self-Sufficiency Project (begun in 1992) tests the use of time-limited earnings supplements to help lone parents leave welfare. This Canadian experimental project has apparently been quite successful (Lin et al., 1998).

The issue for Australia is whether we wish to stick with the (hoped for) simplicity of our quasi-GMI approach, or supplement it with new tools such as employment-conditioned benefits. Such tools probably make more sense, in our system, if the taper rates on the GMI are high. The alternative is to go down the road of reducing EMTRs within the existing framework.

Changes to Social Security Parameters

The current system provides benefits to the poorest in our society in a manner not too far removed from a negative income tax or GMI scheme, albeit of the categorical type. However, it is a GMI characterised by poor design, excessive complexity, and unwanted overlaps with the tax system and other income transfers (Ingles, 1998a). If assistance were reduced more gradually and predictably with increasing private income, the system would become much friendlier to low-income earners. At the same time earnings replacement rates would improve: that is, become lower.

Means Test Tapers and Effective Marginal Tax Rates (EMTRs)

Table 1 summarises ETRs for a range of family types, following the introduction of ANTS (Costello, 1998). The effective average tax rate in each cell can be calculated by subtracting the gain from 100, and reading the result as a percentage. For example, a $10 gain translates to an ETR of 90 per cent. ANTS addresses high ETRs for working families (especially for those with incomes above the allowance cutouts), and also for sole parents. However, few changes are proposed to tapers on allowances. After family payments, this is the area with the highest ETRs.

A possible reason for not changing these tapers is that the allowance system needs to avoid incentives for combining part-time work and benefit receipt. On this view, allowees should be encouraged to 'jump right out' of the system on obtaining a job. However, with declining relative wages for the low skilled, and an increasing incidence of part-time and casual work, the 'jump right out' approach may prove increasingly inconsistent with labour market realities in the years ahead. (For a discussion of optimal tapers, see Ingles, 1998b.)

High ETRs arise from both tapers and payment of income tax. Although an EITC is therefore a possible means of addressing this issue, another response is to reduce the taper on allowances, from its current 70 per cent (beyond on initial free area and 50 per cent taper zone) to say, 50 per cent.

It can be shown that, even under the current system, a low-income earner will almost always be better of by working than on benefit, even if he has to combine work and benefit income. An allowee couple (renting) will be entitled to maximum payment of $354.7 a week under ANTS (projected, July 2000). If one partner is able to earn the minimum wage set by the Commission (here projected

Table 1: Net Income Gain to Family Unit from Increasing Earnings by $100 Increments for Various Family Types at July 2000

Family/Income Status	Basic Allowances and Family Tax Benefits: Rent Assistance	Basic Allowances and Family Tax Benefits: Maximum Weekly Benefit $	Net Gains Made Over $100 per week Gross private Income Ranges[d]: $0-100	$101-200	$201-300	$301-400	$401-500	$501-600	$601-700	$701-800	$801-900	$901-1000
Single NSA[a], no	without RA	177.15	45.38	**21.29**	**23.18**	78.89	66.23	68.50	68.50	68.50	68.50	64.65
children	with RA	218.28	45.38	**21.29**	**19.83**	41.11	66.23	68.50	68.50	68.50	68.50	64.65
NSA/PA couple, no	without RA	319.72	45.38	**24.22**	**21.39**	**19.85**	*8.97*	68.50	68.50	68.50	68.50	64.65
children	with RA	358.63	45.38	**24.22**	**21.39**	**19.85**	*8.19*	30.38	68.50	68.50	68.50	64.65
Min. wage/PA couple, no	without RA	426.94	44.67	43.71	78.50	78.89	66.23	68.50	68.50	68.50	68.50	64.65
children[b]	with RA	465.85	44.67	**21.05**	62.26	78.89	66.23	68.50	68.50	68.50	68.50	64.65
NSA/PP (partnered)	without RA	388.68	45.38	**24.22**	**27.58**	31.39	*8.83*	44.82	47.77	68.50	68.50	64.65
couple, 1 child[c]	with RA	436.82	45.38	**24.22**	**27.58**	31.39	*8.83*	44.82	38.50	38.50	59.63	64.65
NSA/PP (partnered)	without RA	445.51	45.38	**24.22**	**27.58**	31.39	*9.95*	43.69	38.50	39.73	68.50	64.65
couple, 2 children	with RA	493.64	45.38	**24.22**	**27.58**	31.39	*9.95*	43.69	38.50	38.50	38.50	47.75
Min. wage/PP	wiithout RA	567.66	39.10	*13.85*	47.54	48.89	59.48	68.50	68.50	68.50	68.50	56.48
(partnered) couple, 2 children[b]	with RA	615.79	39.10	*13.85*	47.54	48.89	36.23	43.62	68.50	68.50	68.50	56.48
PP (single), 1 child	without RA	291.07	79.15	42.30	38.74	35.76	35.76	**29.34**	66.56	68.50	68.50	64.65
	with RA	339.31	79.15	42.30	38.74	35.76	35.76	**29.34**	38.50	48.42	68.50	64.65
PP (single), 2 children	without RA	329.11	82.53	42.30	37.92	36.55	42.00	36.12	68.50	68.50	68.50	64.65
	with RA	377.25	82.53	42.30	37.92	36.55	42.00	**19.74**	38.50	66.75	68.50	64.65

Notes:
- a) NSA = Newstart Allowance; PA = Partner Allowance; PP = Parenting Payment
- b) The Federal minimum wage is $373.40 gross per week (full-time wage)
- c) Calculations for the one child scenarios assume that the child is under 5 years of age and for the two children scenarios, that 1 is under 5 years and 1 is between 5 and 12 yeas of age.
  Where both partners are on income support, calculations assume private income is received by NSA partner. Where one partner is on a minimum wage, calculations assume private income is received by their spouse.
- d) Italics = Net Gains of between less than $15 per week
  Bold = Net Gains of between $15-30 per week

Source: FACS Modelling Unit, 'A New Tax System' (ANTS) model.

to rise by $10 to $395.40 a week), a naive calculation of replacement rates gives a figure of 89.7 per cent. In fact this couple is potentially eligible for a part-benefit[3], giving them a disposable income of $467 pw, and their actual replacement rate is 76.0 per cent - still high, but not unsustainably so.

If the minimum wage were reduced by 20 per cent to $316, the naïve estimated replacement rate (ERR) becomes 108 per cent, but the disposable income of the couple is now $448 and that actual ERR inclusive of part benefit is 79 per cent. That is, the impact of a large fall in the minimum wage is drastically attenuated by the increase in part benefit that flows out of that fall. Only single beneficiaries would not benefit from this mechanism; their ERR rises from 53 per cent to 66 per cent.

A reduction in allowance tapers to, say, 50 per cent reduces the ETRs for allowees to roughly 65 per cent and improves the ERR for the minimum wage couple to 69 per cent (compared with 76 per cent). With a 50 per cent taper and a 20 per cent lower minimum wage the ERR would be 72 per cent (compared with 79 per cent).

A disadvantage of reducing tapers at the bottom end is that this tends to have the effect of increasing the *average marginal tax rate* across the whole population. Reform of EMTRs is like pushing on a balloon that bulges in places. If you push in one place, it will bulge out somewhere else. The *average* EMTR can be reduced only by three strategies:

- increase the tax base;
- reduce maximum benefit levels; and/or
- *front-end load* tapers, by having high tapers on basic benefits and little or no free areas. The problem with front-end loading is that it most affects those on very low private incomes, many of whom may be particularly sensitive to work disincentives.

Although the current system already pursues the third of these approaches (front-end loading) to a considerable extent, there are clearly limits on how far this can be pushed without creating serious poverty traps for those trying to earn their way out of the system. Moreover, the arguments for 'front end loading' become weaker, the further we move into that part of the income distribution where many families are located.

This might be a reason for having less severe tapers on family payments than the basic tapers on allowances.

3 Assuming that the non-working partner is willing to seek work, or has dependent children.

One problem with a relaxation of allowance tapers is not so much the direct cost - likely to be under $500m - but the flow-on cost if the family payment (FP) threshold is to be lifted sufficiently to prevent 'sudden death' loss of automatic full-rate FP on coming off an allowance. This latter cost is likely to be considerable. Another problem is that unemployment-related payments were not originally designed as a widespread system of in-work subsidies, and their administration is not attuned to this task.

Keating and Lambert Proposal for Reform of Family Payments

Keating and Lambert (1998a and 1998b) have recently put forward a proposal designed to rationalise means tests for families. This proposal is updated in their Submission to the Senate Inquiry into tax reform (Keating and Lambert, 1999). Their EITC scheme is actually an adjunct to this proposal.

Their method is to first establish a family's potential entitlement for assistance, and then establish their actual entitlement based on their assessed financial means. For pragmatic reasons, pensions and allowances would continue to have different free areas. However, all allowance tapers would become 50 per cent. At the new family payment threshold of $28 200 pa 'second tier' payments would start to abate at a rate of 30 per cent. This tier includes Family Tax Benefit (A and B), Youth Allowance and Rent Assistance, but does not appear to include child care assistance.

This plan is essentially a means of introducing a common initial taper of around 60 per cent. Like the NIT, it would have the general effect of improving earnings replacement rates for low-wage earners.

Rent Assistance Options

Another option might be to reform the Rent Allowance means test to extend RA further into the income distribution. RA for families currently tapers after all FP is lost, and at the same rate: 50 per cent, but to become 30 per cent under ANTS. By contrast, RA for allowees tapers, once the basic allowance is lost, at the allowance taper rate of 70 per cent. If this were reduced to the same 30 per cent rate proposed for families, and provided free of activity test it could be transformed from a benefit essentially restricted to our categorical clients, to one which is a general form of in- or out-of-work assistance to low-income earners facing high rental costs. There would also be an improvement in earnings replacement rates for such people.

Income Tax Rate Structure

In general, the effect of the EITC is to increase the progressivity of the tax/transfer system. It reduces EMTRs on low-income earners (including those currently affected by high EMTRs under the allowance tapers), and increases them on those further up the income scale. Given the current pattern of EMTRs on low-income earners, this may be desirable.

There is certainly a case for reducing income tax burdens on low-wage earners, notwithstanding the ANTS improvements. Many individuals and families with relatively low incomes are required to pay income tax. For families with children, their incomes are then supplemented by direct family payments and rent assistance. This sort of 'churning' seems to be inefficient. While an EITC is one means of addressing this inefficiency, there may be other approaches.

Current Tax Thresholds and Effect of 'A New Tax System'

Inclusive of the low-income rebate of $150, the current income tax threshold is $6150 pa. It is not easy to state the tax threshold where there is a spouse and dependent children, because such families have the option of using tax assistance provided through the Dependent Spouse Rebate (DSR), or accessing an equivalent cash payment through the basic component of Parenting Payment. In the former case, the DSR of $1452 pa means that the primary earner threshold is effectively increased by $7260, to $13 410. If there are no children the DSR is $1324 and the effective threshold is $12 770.

Basic Parenting Payment (BPP) is $1692.60 pa. If BPP is regarded as an offset against income tax, it effectively raises the tax threshold for a primary earner to $14 613. In reality, however, the primary earner faces a positive effective marginal tax rate beyond $6150.

The threshold for a secondary earner is much less. The DSR shades out by $1 for every $4 by which the spouse's income exceeds $282 pa. BPP reduces on the allowance income test, that is, at 50 per cent and 70 per cent above $1560 pa. What this means is that the effective tax threshold for a family varies greatly, depending on the distribution of income within the family, and whether there are children.

ANTS will increase the tax threshold to $6000, or an effective $6882 inclusive of low-income rebate. Single income families with a young child will have an effective tax threshold of $13 882, made up of the new $6000 threshold plus the equivalent (through Family Tax Benefit - FTB(B) cash benefits) of $2000 for one dependent child and a further $5000 for single income families with a child under five years of age, plus $882 from the low income rebate. The fact that FTB(A and

B) are refundable tax credits complicates these tax threshold calculations. In practice, positive effective marginal tax rates commence at familial incomes well below the calculated tax threshold. The loss of BPP as spousal income rises beyond $1560 pa, combined with the loss of FTB(B) as her income rises beyond $4587 pa, has a similar effect.

Possible Policy Options

Raising the tax threshold is expensive. With almost 8.5 million taxpayers, a $1000 pa increase in the threshold costs almost $1.7 billion. This could be partly financed by imposing a higher initial marginal rate (currently 20 per cent, and to become 17 per cent under ANTS). The effect of the higher initial rate is to quarantine the benefits of the threshold increase to low-income earners. For example, a $5000 pa threshold increase could be recouped by the first rate step ($20 000) if the initial marginal rate were raised from 17 to 26.4 per cent.[4] Only those with incomes between $6882 and $20 000 would benefit, with the maximum gain being $850 at an income level of $11 000.

One objection to raising the tax threshold is that this is not target-efficient, because it benefits high-income earners, secondary earners, income splitters and the like. This objection is partly addressed by the proposal to raise the initial marginal rate, although it remains true that many low-income earners who would benefit are in families with high incomes.

Another reason for wishing to raise tax thresholds is both to decrease interactions between means tests and income tax. However, tax thresholds apply to *individual taxpayers*. If the emphasis is to be on greater assistance for low-income *families* (including couples) our options become more difficult.

Extra assistance equivalent to an increase in the family tax threshold could be achieved through increase in the spouse rebate or its social security equivalent, BPP. The problem with the latter is that it extends benefits right to the bottom of the income scale, and so does not improve incentives. A problem with both approaches is that they confer additional benefits right up the family income scale if there is a non-earning spouse.

Ingles (1998a) has suggested that there is a case for a partial family unit basis to the income tax. The aim is to smooth tax and transfer interactions; since the transfer system is necessarily based on the family unit (the alternative being too expensive), this forces the tax system to adopt a similar unit, *especially at the*

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4 Note that this policy is not revenue neutral. Rather, it is designed to confine any net benefit to those taxpayers below the designated income point.

bottom end. This is already the case with the Medicare Levy, whose 'shade-in' provisions take into account income by the taxpayer's spouse.

If the spouse is not working then using the DSR to achieve the higher threshold for a couple spreads assistance all the way up the family income scale. An alternative approach would be to change the low-income rebate (LIR) so that there was a separate, higher rebate for a couple (compared with a single taxpayer) and a separate, combined income withdrawal threshold. The rebate could be quite large, or at least could be phased in so that it became large. This would be a back-door means of implementing a family unit tax structure for low-income earners.

Suppose, for example, that the LIR for singles was not $150 pa but $1000, and that for couples was $2000. The effective tax threshold for singles would become (6000 + 1000/.17 = $11 882; and for couples with one earner, (6000+ 2000/.17) = $17 765 (or $23 764 with two earners). While this will exacerbate some high EMTRs over the Newstart Allowance/PP taper range, the effects would be modest. However, the revenue costs of this proposal are likely to be considerable.

To implement a family unit tax system more thoroughly, the tax threshold could be abolished and replaced entirely by low-income rebates of, say, $2000 for singles and $3000 for couples. This would produce tax thresholds of $11 765 and $17 647 respectively. If it were further desired to reduce the benefits of a family tax base at higher income levels, this could be achieved by abolition of the DSR. This would still leave the issue of families with children gaining equivalent benefits through BPP. Perhaps this, too, could be abolished. The effect would be to have a fully family-based tax system at the low-income end, a transition through the middle income ranges, and a fully individual basis at the top end.

Some will be horrified at the proposal for a partial family unit tax system. However, it is a logical consequence of greater tax/social security integration. The tax system is based predominantly (but not wholly) on the individual; the social security system mainly on the couple. Since an individual basis of entitlement is not possible in the social security system - it is simply not affordable - the two systems can only be made more compatible by moving the tax system at least partially towards a family basis. And while the EITC is one means of achieving this, it is a rather ad hoc mechanism. There are advantages in seeking a more systematic set of design changes.

A complication is that the Tax office would need to assess who is and who is not a couple, lest individuals living together are advantaged relative to married couples. This is already a contentious area in income support policy. It requires a degree of intrusion into people's domestic arrangements that may not be permitted to the Tax office.

4 Conclusion

Low-wage earners can be helped in many different ways. A lot depends on the objectives we are seeking to achieve, and whom we wish to help.

If we wish to ensure that low pay does not result in poverty then the present system, with minor refinements, is probably adequate to this task (Option 1). For families with dependent children, substantial in-work assistance is already provided to low-wage earners. In addition, low-wage couples can receive unemployment assistance if one of them is willing to seek full-time work. For the medium term future, low pay is unlikely to cause poverty for single individuals or working couples without children, so the lack of social security supplements for these groups is not an immediate issue. If supplementation were required, it should relate in the first instance to those with high housing costs. Hence the option in an earlier section for changes to the rental assistance scheme.

Although the current system addresses poverty, lower minimum rates of pay may start to cause problems of earnings replacement rates. The answer here (we exclude the 'solution' of cutting benefits) is to ease EMTRs for those on the margins of the welfare system. This is already being done for family assistance, under ANTS. For couples coming off allowances, EMTRs are currently very high. Two approaches are possible. One is to directly reduce allowance tapers (Option 2). A problem with this strategy is it may create a whole new class of people receiving a part-allowance, and this may not be a desirable development from either a policy or an administrative view. Easing allowance tapers would extend already existing trends for them to become in-work supplements for low-paid workers. This would require a new philosophy as to the role of unemployment payments in particular, which have not hitherto been (widely) seen as a form of low-wage subsidy.

The alternative solution is to reduce income tax payments for those on the welfare margin (Option 3). This has the advantage, compared to Option 2, of keeping people out of the welfare system. It also helps in terms of tax/welfare interaction generally, which cause significant EMTR problems. Many of those who would benefit from easier tapers also pay income tax; often in substantial amounts. Reducing income tax on the low paid will therefore reduce churning, compared to the easier taper option, and it also helps those outside of the formal social security system. However, it is likely to be even more expensive than Option 2, as it is more difficult to confine the benefits to a small target group.

The EITC is one version of this strategy (Option 3a). It can be tightly targeted if it is based on the family rather than the individual. But it may be better to explicitly change the tax unit – particularly at the low-income end – to reflect relative needs of families. A number of approaches for doing this are explored.

Another problem which policy might seek to address is that of increasing inequality, rather than poverty (the two are related, but not identical). However, the policy response to this is not likely to be greatly different to Options 2 and 3. Once we move from a focus on poverty alleviation to one where we are concerned about work incentives for those on the margins of the welfare system, we inevitably end up giving extra assistance to those on relatively low to middle incomes.

A third possible objective is to 'buy' award wage restraint before the Industrial Commission. In this context, a virtue of the EITC is that it would be a highly visible and saleable offset to any scheme of award wage restraint, and might make such a scheme acceptable to the Industrial Commission (and, with less likelihood, the trade union movement). However, it might only be a matter of time before the credit was scrapped and its effect embodied in the formal structure of income tax rates. (In saying that we acknowledge that we would have made the same comment about the Medicare Levy, twenty-five years ago, and the Low Income Rebate, six years ago, and been completely wrong!)

A problem with an EITC as a compensation mechanism is that it limits compensation to a sub-group of the affected population. Indeed, this is precisely its point (from a cost perspective), but it is a serious weakness from a political perspective. In particular it implies that the union movement would be extremely unlikely to support the wage/tax tradeoff as currently envisaged by its proponents.

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Low Wages: Taking a Lifetime Perspective

Deborah Mitchell[1]
Research School of Social Sciences
Australian National University

1 Introduction

Over the course of the past decade it has become increasingly apparent that the standard employment relation (SER)[2] was fast becoming the exception, rather than the norm, of employment patterns in Australia. The driving force behind this change is largely related to a shift away from the manufacturing base of the economy towards the service sector. Service sector employment lends itself more readily to contractual employment; is characterised by small-to-medium rather than large enterprises; has a less unionised work force; requires more flexible responses to downturns in demand; and therefore leads to less secure tenure of employment within both the firm and the particular industry. In place of the SER, we now find a new set of employment patterns described as transitory employment relations (TER), characterised by work which is casual and non-permanent, part-time or part-year. In order to maintain continuity of employment, labour market participants may also have to re-train and move into several different areas of employment, rather than along a single career track (Mitchell, 1998a).

In addition to these longer term shifts in the Australian economy - and partly reflecting the institutional accommodation of these shifts - a radical re-organisation of the wages system and the industrial courts which governed working conditions has taken place in two stages. First, under successive Labor administrations of the 1980s a series of Wages Accords were negotiated as agreements between the Australian Council of Trade Unions and the Federal Government. These Accords had the effect of holding down real wage growth, partly as a trade-off of wages-for-benefits (the social wage). These Accord processes commenced the gradual dismantling of the regulation of wages (and to some extent employment conditions) by the Federal and State industrial courts.

1 Thanks are due to Ann Evans for Assistance with the Life Course data set.

2 That is full-year, full-time employment within the one occupation or industry for most of an individual's employment history.

The second stage of change came with the policy shifts of the Howard Government, which completed the weakening of the centralised wage fixing system by disbanding the Federal industrial court, in favour of individual contracts, with only a modest minimum wage determination role left with the Industrial Relations Commission.

In the wake of these major changes to both the security and 'one career' nature of employment, we also find that up to one-third of primary breadwinners can now anticipate at least one lengthy spell of unemployment during their working lives (Keating and Mitchell, 1999). Thus, the proportion of the work force who face both lower real wages - as a result of the de-regulation process - and longer durations on low incomes - as a result of the spread of transitory employment relations to a larger proportion of the work force, is increasing at a rapid pace.

It is in this context that this paper seeks to analyse a set of conditions not seen in Australia in the postwar era: that of a considerable proportion of the work force facing the prospect of a 'lifetime of low wages'. Section 1 starts with some theoretical considerations of why we need to distinguish between short and long term receipt of low-wages. It then moves on to link these concerns to labour market de-regulation and what the shift away from wage regulation implies for low-wage earners. Section 2 provides a brief overview of the characteristics of low wage earners as identified in standard labour market literature. This is contrasted with new empirical evidence drawn from a recent panel study which examines the characteristics and prospects of a group of current low-wage earners. Section 3 draws out the links between the theoretical issues and the empirical evidence. Section 4 concludes with some observations on the policy responses which may be required to overcome some of the possible impacts of labour market de-regulation.

Earning a Low Wage: Theoretical Concerns

The social problems arising from the short-term receipt of a low wage are well documented in the Australian literature. However, as the title of this paper suggests, the primary focus here is on identifying additional concerns we may have when we take a life time perspective. There are two ways in which long-term considerations may differ from short-term concerns: first, does *starting* on a low wage lead to disadvantage in later life?

A similar question has been posed by Hutton (1991) in her cohort studies of youth unemployment in the UK. The aim of this research was to examine the longer term outcomes of certain cohorts of young people who entered the labour market at times of very high youth unemployment (early 60s and mid-70s). In particular, to ascertain whether these cohorts were unduly affected by the early experience of unemployment, for example, whether this had an impact on their subsequent employment histories and their wage outcomes, vis-a-vis adjacent cohorts. The findings of these studies showed that twenty to thirty years later, there were no appreciable differences on either of these counts.

In this context, we need to consider whether starting on a low wage has implications for an individual's longer term capacity to attain a standard of living enjoyed by those who start on middle to high wages. In other words, does the receipt of low wages early in an individual's working life, even though they may eventually move up the wages ladder, have some lingering impact on their life course chances? If so, what are the factors most likely to be associated with such an outcome? And what sort of indicators might reasonably reflect such short-term disadvantage? As an example of the former, we might be concerned to discover whether low wages are associated with other labour market related disadvantages such as a lack of access to training or promotion opportunities which might impede an individual's rate of progress on the wages ladder. An indicator of the long-term impact, especially in the Australian context, might be the ability of the low-wage starters to access home ownership at an early enough age to ensure completion of mortgage repayments by retirement.

These are matters for empirical investigation, and like the studies on youth unemployment cited above, Section 2 indicates that current studies of the Australian labour market show that after five to ten years, very few of those who started on a low wage (especially in the past) are likely to exhibit any major differences from middle to high wage starters on these counts. Thus, the empirical evidence is likely to present a picture of degrees of difference, rather than disadvantage on all fronts (compare Travers and Richardson, 1993: 201-2).

One possible disadvantage - which stems from government mandated changes to retirement savings - is that low-wage earners are unlikely to make up the differences in occupational benefits enjoyed by those who start on middle to high wages. Theoretically, this is one area in which we might anticipate disadvantage for low-wage earners, irrespective of the future course of an individual's earnings profile. Moreover, it has implications for the specific design of superannuation schemes eg: whether low wage earners are in defined or accumulated benefit schemes. Defined benefit schemes will clearly produce better retirement incomes for those earning low incomes even for short periods, while accumulated benefit schemes will magnify earnings differences over the life course, especially where those differences occur early in the working life.

A second set of concerns which arise from taking a life-time perspective on this issue is: what is the impact of *persistent* low wages on well-being?

When individuals receive a low wage over a long period of time does such disadvantage in the labour market accumulate, spilling over into other aspects of their lives? In the preceding discussion it was noted that a short duration on a low wage is the lot of many entrants to the labour market and unlikely to lead to severe long-term disadvantage. But the same cannot be said of persistent low wages. Here our concerns should focus on more than the satisfaction of immediate material needs. It is possible that an extended duration on low wages may substantially alter an individual's life course by: reducing their capacity to form autonomous households; distorting their fertility intentions; inhibiting their social participation and so on. Outcomes of this kind are of great concern - and following Walzer's (1985) notion of *blocked exchanges* - obliges us to consider whether government intervention in the wages system is justifiable on social justice grounds.[3] Alternatively, whether governments should engage in some form of compensation for losers from the de-regulation process (Argy, 1998).

Whereas much of the economics literature that deals with regulation of the labour market tends to focus on the short-term impacts of government intervention and generally does so from an individual perspective, the case of long-term duration on low wages may require us to consider outcomes which extend beyond the lifetime of a particular individual or cohort, taking into consideration the impact on those dependent on a low-wage earner, or future generations who may have to shoulder the public pension burden of those unable to save for their old age. Thus, a second concern arising from persistent low wages is the inter-generational implications of cumulative disadvantage. The social science literature has identified such concerns in constructions of inter-generational transmission of poverty (Coffield, Robinson and Sansby, 1980; Atkinson, 1989) and latterly, the notion of an 'underclass' (Jencks, 1989; Hochschild, 1991; Hunter and Gregory, 1996).

A shift of focus to inter-generational concerns raises issues of social mobility. In the sociological literature, social mobility refers primarily to the degree to which a society is 'open' i.e. where an individual's own attributes and achievements are the primary determinants of their life course chances rather than the inheritance of [dis]advantage from the parental generation. There are a number of institutions, policies and practices which encourage 'openness' in a society: access to education and health care of a socially acceptable standard; employment practices which are non-discriminatory and which reward merit and/or experience; an absence of barriers to social participation, and so on. In this sense it could be

3 Walzer argues that no single sphere of life should be allowed to dominate others e.g. 'wealth' should not be able to buy 'justice'; that there should be a boundary between advantage (disadvantage) in the marketplace and other spheres of life. See also the discussion in Travers and Richardson (1993: 1-13).

argued that one of the key components in maintaining social mobility in Australia in the past has been the wage-setting system, in particular the ability of the industrial tribunals to set and enforce minimum wages that enabled a reasonable standard of living to be maintained.[4]

Regulation of Wages in Australia

The institutions which have regulated the labour market in Australia have intervened on many fronts including wage setting. Of particular interest here are the actions of these institutions to:

- prevent the payment of unacceptably low wages, through the establishment of legally enforceable minimum wages; and
- ensure some progress over an individual's life course - however modest that progress may seem - through the award wages system which previously recognised seniority (years of experience) in award wage structures.

Indeed, Australia's wage-setting institutions evolved historically as the major element of our equality strategies and have acted as a substitute for the redistributive mechanisms of the welfare state found elsewhere in the OECD nations (Castles, 1985). That this strategy succeeded in bringing about favourable outcomes for most workers is clear from both time series evidence in Australia and in historical comparisons with other OECD nations (Castles and Mitchell, 1994). This reliance on these institutions to deal with equality in the wage distribution, allowed the Australian welfare state to address only poverty alleviation goals, which enabled it to develop a fairly low cost but reasonably effective social security system. However, as the progressive dismantling of the wages system ocurred over the 1980s and real wage growth - especially for those at the bottom end of the wages distribution - was held down, a rising number of low-income earners found themselves increasingly reliant on social security transfers to top-up their wages (Mitchell, 1997).

In effect, the de-regulation of the wages system has left a gap in our policy arrangements which deal with income inequality and relative living standards, relying instead on the social security system to maintain the 'working poor'. The implications for low-wage earners, are more than just a re-packaging of their income, which is the way some analysts have viewed this shift. It is possible that the passive receipt of transfer top-ups may discourage younger low-wage earners from actively investing in their human capital, for example through additional

4 See Sloane and Theodossiou (1996) for a discussion of the impact of earnings mobility on family living standards.

training, thereby trapping them in low-wage jobs. Becoming reliant on the social security system as a means of putting together a reasonable family wage, may also affect a breadwinner's perceptions of their ability to meet mortgage repayments, or plan their future with any certainty.[5]

These are fairly speculative views on the impact of wage de-regulation and so the following sections will examine the empirical evidence on the characteristics and prospects of low-wage earners. In particular, seeking to identify those in receipt of low market incomes for an extended period of their working lives. It is this group of people who are likely to be most at risk of cumulative disadvantage, leading to measurable deficiencies in occupational, material and social benefits when compared with those who earn middle to high wages over their life course.

2 Identifying Low-wage Earners: Empirical Evidence

In the past, low wages in the Australian labour market were primarily associated with new entrants to the labour market and institutionalised wage discrimination against women.[6] In the case of recent entrants to the labour market, cross-sectional data show that the returns to experience are highest over the first five years of employment and this seems to be a fairly consistent finding. Table 1 (based on Preston, 1997) shows the average wage rise for an additional year of experience after one, five, 10 and 20 years in the labour market. The table shows very similar outcomes in 1981 and 1991, indicating that while the Accord processes may have reduced real wages over this period, the returns to experience have not changed markedly over the decade. Thus we may reasonably assume that, on average, new entrants to the labour market can expect their wages to rise by four to five per cent for each year of their first decade of employment, after which their wage growth begins to slow.

In the context of this study, the cross-sectional evidence suggests that the first ten years in the labour market is the period in which most wage earners should move out of the ranks of the low paid. The exceptions, those who have been in the labour market for ten or more years and are currently receiving a low wage, may be part of the group of persistent low-wage earners that are the focus of this study.

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5 These perceptions are reinforced by the fact that banks and other financial institutions do not include social security income in their repayment capacity calculations.

6 The evidence supporting this contention is extensive and well documented, see for example: Gill, 1994; Mitchell, 1998b

Table 1: Effect on Wages of One Additional Year of Experience, Full-time Males: 1981 and 1991

Current labour market experience	1981 Percentage increase	1991 Percentage increase
Years		
1	4.8	4.7
5	4.1	4.0
10	3.2	3.2
20	1.5	1.4

Source: Preston, 1997

Second, because of wage-setting traditions that have disadvantaged women relative to men, gender may also play a part in identifying low-wage earners. While the rapid closure in the gender wage gap over the 1980s - at least on an hourly wage basis - has no doubt reduced the potential size of this part of the low-wage population, women who are unskilled or spend lengthy periods out of the labour market for family reasons may also endure low wages for long periods of time after re-entering the labour market (Rimmer and Rimmer, 1994) . While it is true that many of these women live in households with another wage earner and may benefit from a higher joint income, it is also the case that when partners separate, the wages of these women put them below the poverty line.[7] For this reason, we should not give any less weight to the potential impact of de-regulation on women's long-term earnings and the disadvantages they may suffer as a consequence.[8]

While this cross-sectional evidence does point us towards the groups which may be most likely to receive low wages for extended periods, it is only longitudinal data on individuals which will most clearly establish the existence and size of a persistent low-wage group, their demographic and employment characteristics, and indicate whether the de-regulation of the wages system has contributed to their status of persistent low-wage earners. At present such a data set does not exist in Australia, the closest data set available for this purpose is the first round of a panel study of the life course completed in 1998.[9] This data set is used in the following sections to: identify a group of current low-wage earners; describe their

7 See Webb, Kemp and Millar (1996) for a fuller discussion of this issue.

8 It has been argued (Mitchell, 1995; Bennett,1995) that one of the consequences of enterprise bargaining will be an increase in the 'gender wage gap'.

9 Data used in this study is drawn from the Negotiating the Life Course Project, Research School of Social Sciences, Australian National University.

demographic characteristics; examine their labour force histories; and identify their access to occupational welfare, training and promotion opportunities.

Life Course Data

The primary source material of the Life Course Project is a panel study which will follow a random sample of approximately 2400 people, currently aged between 18 and 54 years, over a ten year period. The first survey, carried out in 1997-98, comprised nearly 300 questions covering a range of issues including: demographic, educational, labour market, all sources of income, superannuation, family relationships, household time-use, child care arrangements, tenure status as well as asking a series of attitudinal questions on workplace, family relationships, household organisation and responsibilities. The survey also gathers basic demographic, educational, employment and income characteristics of the respondent's partner. A central feature of the survey is the compilation of a complete employment, educational and training history of the respondent from 15 years of age. On average, around 450 separate items of data were collected from each respondent.

For the purposes of this study, 'low-wage earners' were defined as those whose take home pay in the survey period was less than $400 per week. In choosing this figure, the aim was to identify wage earners on less than $10 per hour (after tax) for a standard 40 hour week. The sample discussed below does include some part-time workers who earned slightly above this on an hourly rate (up to $12 per hour) but whose total earnings were well below $400 per week. This approach allows us to identify those on low wages both in terms of hourly pay and total take home pay.

In selecting the low-wage sample and the base wage/salary comparison group, the self-employed were excluded primarily because their wages are not affected by wage regulation. Empirically, this group also raises two operational problems: first, it was difficult to separate wages and business income for many in this group; and second, their reported hours of work made it difficult to calculate reliable hourly wage rates. The sample also excludes the unemployed.

Characteristics of Low-wage Earners in the NLC Data

Using the above definition, we identified a 'low-wage' group of 230 people from a total wage/salary sample of 1382 people, around 17 per cent of those who worked for wages in the week prior to the interview. Table 2 provides a brief summary of key differences between the low-wage group and other wage/salary earners. Table 2 confirms the findings of other cross-sectional studies in respect of the characteristics of the low-wage population, viz: that low-wage earners are predominantly women and younger men; the majority of the low-wage group did not complete secondary education; both men and women in this group work significantly less hours than other earners, although the men in this sample did work close to what is considered full-time hours; on average, both women and men in the low-wage group earn well under half the wages of the comparison group; low-wage earners are more likely to be employed in the private sector; and only 54 per cent of low-wage earners have permanent employment, compared with a 72 per cent permanency rate for other earners.

Table 2: Comparison of Selected Characteristics of Low-wage Earners with All Others

Characteristic	All other wage earners	Low-wage earners
	48% female	75% female
Average Age		
(F)	36 years	35 years
(M)	35 years	29 years
Average salary		
(F)	$571 per week	$231 per week
(M)	$773 per week	$294 per week
Average hours per week		
(F)	34 hours	25 hours
(M)	46 hours	40 hours
Employer	70% Private	80% Private
Employment status	72% Permanent	54% Permanent
No. of years of full-time education since 15		
(F)	3.9 years	2.4 years
(M)	4.1 years	2.7 years
Proportion of full-time work since 15		
(F)	45% years FT work	34 % years FT work
(M)	70% years FT work	57% years FT work
Proportion of part-time work since 15		
(F)	17% years PT work	24% years PT work
(M)	3% years PT work	8% years PT work
Self contribution to superannuation		
(F)	48% cont. super	33% cont. super
(M)	62% cont. super	45% cont. super
Employer contribution to superannuation		
(F)	90% emp. cont. super	83% emp. cont. super
(M)	90% emp. cont. super	87% emp. cont. super

In addition to these characteristics, the Life Course data also allow us to consider some of the longer term issues which were discussed in Section 1. For example, whether low pay is associated with other disadvantages such as the ability to save for retirement.

Table 2 indicates that in this respect, low-wage earners are mainly reliant on their employer's contributions to their superannuation savings. The real difference between this group and middle to higher earners, is that their own contribution rates are far lower. Only one-third of women low-wage earners contribute to their super funds, compared with nearly one-half of women on middle and higher wages; while 45 per cent of low-wage men self-contribute, compared with 62 per cent of all other male wage earners.

Using the work history data, we can also begin to gain a picture of whether these current low-wage earners have a history of regular, full-time employment (the standard employment relation). We find that women in the low-wage group have spent only one-third of their working lives in full-time employment, and low-wage men around 60 per cent.

Low-wage Sub-groups

While Table 2 covers only a small part of the Life Course data, we see a number of areas in which the low-wage group appears to be substantially different from all other wage/salary earners. But it is also the case that within the low-wage group, there is substantial variation in these characteristics. In analysing the various aspects of the labour force histories of the low-wage group, four sub-groups were identified for further analysis:

- *recent entrants* to the labour market, defined as those under 25 years of age, N=51;
- *married women working part time*, formed the largest sub-group, N=82;
- a group of 25-34 year olds who should be reaching the *peak* of their earnings growth, N=46; and
- *others*, primarily older men who were formerly in blue collar occupations and older women who no longer have dependent children, N=51.

Table 3 gives a more detailed breakdown of the labour force participation histories, wages, education and other job characteristics for each of these groups.

Those defined as recent entrants have spent an average 3.5 years in the labour market and only a small percentage have had one break in their employment. They were the second lowest paid group in terms of their weekly earnings, but worked on average 34 hours per week. This group has the highest permanency rate (similar to the rest of the wage and salary earners in Table 2). Reflecting the general trend to higher school retention rates, only 40 per cent of recent entrants have incomplete secondary education.

Table 3: Work and Education History, Wages and Hours

	Sub-group %	Years in labour force Mean	Year out of labour force Mean	1 break from labour force participation %	2 breaks from labour force participationp %
Low-wage group					
Recent entrants	22	3.5	0.3	12	0
Married women PT	35	16.1	7.1	38	40
'Peak' earners	20	10.2	2.1	25	18
Others	22	20.1	5.7	49	24
	$ per week Mean	**Hrs per week Mean**	**Incomplete secondary**	**Permanent job %**	**>1 paid job %**
Low-wage group					
Recent entrants	269	34.2	40	70	14
Married women PT	154	16.5	63	33	19
'Peak' earners	296	36.7	53	60	9
Others	321	37.2	67	64	13

Married women working part time, naturally have much lower hours and consequently the lowest weekly earnings; they also have the lowest rate of permanency among these groups and surprisingly, they are the group most likely to have more than one paid job. Nearly two-thirds of the group did not complete their secondary education. Around 40 per cent of this group have had at least one break from work, while a further 40 per cent have had two breaks. On average they have spent seven years out of the labour force.

For the peak earnings group, most were working close to full-time hours, earning around $8 per hour, after tax. Around 60 per cent were permanent employees and over half did not complete their secondary education. Just over 40 per cent of this group have had one or two breaks in employment, and these breaks average around 10 to 14 months duration.

For the remainder of the sample, who have been in the labour force longest, half have had at least one break and a further 24 per cent, two breaks. The most striking aspect of this group, is the very low levels of completion of secondary education (around two-thirds did not complete), reflecting the older average age of this group. This group had the highest weekly earnings, although on an hourly basis their pay rates were similar to the peak earnings group, and they were slightly more likely to have permanency.

In summary, the majority of the low-wage group exhibit the characteristics of *transitory employment* discussed at the outset of this chapter. In particular, the dominance of casual and contract work amongst this group and the lengthy breaks in employment (with the exception of recent entrants) suggest that many of these workers have earned low wages for much of their working life. In the following section we examine whether low wages are associated with other disadavantages of both a short-term and long-term nature.

3 Low Wages and Associated Disadvantage

While public debate surrounding the deregulation of the labour market has mainly focused on wages, it is important to recall that a second major element of the regulatory framework of the various industrial courts was concerned with occupational benefits and other working conditions. The determinations of the industrial courts resulted in widespread access to paid annual holidays, sick leave and long service leave amongst the Australian work force. As a result of negotiations under the Accord processes, superannuation entitlement was added to the range of occupational benefits in the late 1980s. As de-regulation proceeds, concerns have been raised by the trade unions as to whether these basic occupational entitlements will be lost. In the top panel of Table 4, we consider the extent to which the low-wage status of each group is associated with lack of access to customary occupational benefits.

Access to paid recreation and sick leave for these sub-groups is strongly associated with permanency. Around 70 per cent of married women working part time do not have access to paid recreation or sick leave. In the remaining groups, around 30 to 40 per cent do not have access to these entitlements. It would appear that the casualisation of jobs which has increased as de-regulation has proceeded, has resulted in a 'double disadvantage' for many in this group: low wages combined with a loss of paid leave entitlements.

As noted earlier, self-contribution to superannuation is quite low across these groups, but most notably among the recent entrants and peak earners groups which both work nearly full-time hours. Although working part time, the married women group have similar levels of coverage. The older workers in the remaining group are much more likely to have coverage through their own contributions, this may reflect heightened awareness of approaching old age.

In the bottom panel of Table 4 we report the respondent's views on their job security, training and promotion prospects, as these will have a significant bearing on future earnings. When asked about their job security, the peak and older earners were most likely to express feelings of vulnerability. Similarly these

Table 4: Access to Occupational Benefits, Training and Promotion Prospects

	Sub-group	Super contribution Self	Super contribution Employer	Paid rec.leave	Paid sick leave
			Percentages		
Low-wage group					
Recent entrants	22	27	87	72	75
Married women PT	35	28	72	34	28
'Peak' earners	20	28	83	55	60
Others	22	51	94	66	57

	Not expect promotion	Dissatisfaction with access to Training	Dissatisfaction with access to Promotion	Dissatisfaction with Job security	Dissatisfaction with Earnings
			Percentages		
Low-wage group					
Recent entrants	41	26	22	6	24
Married women PT	68	18	15	10	23
'Peak' earners	56	16	31	28	35
Others	67	21	23	28	38

two groups were most dissatisfied with their earnings. In terms of future outlook, lack of access to training opportunities was felt most strongly by recent entrants to the labour market, while peak earners were more concerned about their promotion opportunities. When asked to evaluate promotion prospects in their current job, nearly 70 per cent of married women working part-time felt that they were unlikely to be promoted; two-thirds of the older workers did not expect promotion, nor did more than half of the peak earners; while 40 per cent of the recent entrants did not expect promotion.

In the current climate of de-regulation, it may not only be these low-wage earners who feel less secure in their job or dissatisfied with their opportunities for promotion and training: these assessments of the future may also be shared by middle and higher income earners. To test this, Table 5 compares the responses of the 'peak earners' sub-group with their middle and higher paid counterparts. The table also reports a number of other differences which may give some indication of whether the low-wage status of this particular group may be affecting the achievement of important life course events. This group has been chosen as it represents the age band in which most major life course events occur: for example, establishment of independent living arrangements, marriage, birth of children. The table reports chi-square tests of significance for all variables except wages and social security benefits.

Table 5: Comparison of 25-34 year-old Low-wage Earners with Reference Age Group

Characteristic	Low-wage group N=46	Other 25-34 years N=404
Never married *	58%	39%
Still living at home **	23%	6%
Receives social security	40%	33%
Wage/salary	$297 per week	$696 per week
Social security benefits	$44 per week	$16 per week
Permanent employee **	60%	83%
Paid recreational leave **	55%	83%
Self-contribution to super **	28%	43%
Emp. contribution to super *	83%	93%
Dissatisfaction access promotion	31%	23%
Dissatisfaction job security *	28%	15%

* Chi square significant at five per cent.
** Chi square significant at one per cent.

In this sample of 25-34 year olds, around 10 per cent of the 450 respondents were in the low-wage category. The average age of both groups is identical (29.9 years). The wage difference between the two groups is sizeable: on average, nearly $400 per week. Social security benefits add around $44 (or 13 per cent) to the net income of the low-wage group. Given these financial considerations, it is not surprising that the low-wage group differs significantly from other earners in their marriage rates (de jure and de facto) and their ability to establish independent living arrangements.

As noted earlier, low-wage earners are less likely to have permanency and consequently have lower levels of access to a range of occupational benefits. There are also significant differences between the two groups in respect of superannuation contributions made by both the employee and employer. Should this pattern persist, around 20 per cent of the low-wage group will have no retirement savings at the end of their working lives and a further 50 per cent will have only their employer's contributions.

In relation to the dissatisfaction with employment, training and promotion prospects, the low-wage group did not vary markedly from the middle and higher income earners, although they were slightly more likely to feel that their jobs were less secure. Again, an assessment strongly linked to the higher rates of casual employment amongst this group.

Earlier in this paper we speculated on some of the possible effects that might be observed among persistent low-wage earners. The evidence in this section clearly suggests that the 25 to 34 year old low-wage earners suffer a number of disadvantages compared with their middle and higher paid counterparts. First, the level of wages must have a strong effect on the ability of these workers to contribute to their own superannuation accounts. While this disadvantage may not be apparent at this stage of their lives, the longer term effect will be seen in their reliance on social security pensions in retirement. There may also be a financial link with the much larger proportion of the group who are still living with their parents. Again, the low incomes earned by this group may not be sufficient for them to enter the rental market and/or they may be remaining at home until they have accumulated sufficient savings to enter into home ownership. Low wages also have a strong association with a lack of permanent employment status and this, in turn, affects access to other benefits such as paid recreation leave and the lack of job security reported by the respondents. Taken together, these multiple disadvantages may partly explain why we observe a much lower marriage rate for this group (60 per cent) as compared with 40 per cent for the counterpart group.

4 Conclusions: Prospects and Policies

The findings of this study confirm a number of our expectations about the low-wage population: first, the low-wage population is predominantly female, reflecting lower levels of educational attainment for women, broken patterns of labour force participation due to child bearing/rearing, predominance of casual and part-time work, and probably some residual wage discrimination. Second, recent entrants to the labour market comprise just over 20 per cent of this low-wage sample. Third, as other studies have found, there is a substantial pool of older workers who, in their late 40s, have experienced a substantial spell of unemployment for the first time in their working lives. Most of these people did not complete secondary education and very few have returned to study since leaving school. Finally, an unexpected group of low-wage earners emerged during the analysis who are in an age group which, in Australia, is usually reaching the peak of growth in earnings.

The future prospects for these groups vary considerably. For the recent entrants, a great deal will depend on their level of education, if the peak earners group can be taken as a guide. The survey participants in this group remain comparatively optimistic: 60 per cent expect to be promoted in their current job and very few are worried about their job security. However, around a quarter of these recent entrants were dissatisfied with their access to training.

Married women working part time have the lowest weekly earnings, even though it is this group which is most likely to have more than one paid job. Two-thirds are casual employees and they have the lowest levels of occupational benefits of the four groups. Around 70 per cent of these women do not expect to be promoted in the foreseeable future.

The prospects for the peak earners appear quite bleak. Most of this group have had at least one spell out of the labour market and more than half do not expect to be promoted in their current job. This group is most likely to feel insecure in their current job and one-third (mostly men) are dissatisfied with their earnings.

The prospects for the older workers in the sample, are similarly poor. About half of both the men and women in this group have had at least one lengthy spell out of the labour market, and two-thirds do not expect to be promoted in their current job. Off-setting this however, the Life Course data reveal that the majority of this group are currently owner-occupiers and most contribute to superannuation.

What do these findings imply for the push towards greater labour market de-regulation? My comments here primarily address issues of de-regulation from the viewpoint of the younger low-wage earners in the sample as it is these workers who will bear the full effects of current changes.

The outlook for the group I have described as the *'peak earners'* should alert us to problems which may spread to younger cohorts of workers. This group entered the labour market in the mid-1980s and are essentially the first cohort to experience a de-regulated labour market for most of their working lives. In addition to currently earning low wages, members of this group feel most dissatisfied with their lack of access to promotion opportunities and have a much lower rate of permanency and job security. The group also has a very low level of self-contributed superannuation savings. Taken together the poor prospects for this group and their lack of savings for old age, indicates that this group are at risk of accumulating disadvantage over their working lives and this may eventually spill into their retirement years. While a direct causal link cannot be established with low wages, it appears that some of this group are lagging behind their better paid counterparts in respect of the establishment of independent living arrangements and in their partnering rates.

For this particular group of low-wage earners, current policy arrangements offer very little in the way of either direct income support or labour market programs. On the income support side, this is partly a legacy of the fact that this age group has traditionally experienced wage growth over this stage of their life course and, apart from child benefit transfers, not regarded as being in need as compared with other low-income earners. More recently, government policy has increasingly acted to further exclude young adults from income support arrangements for both education and social security purposes, requiring parents to support adult children well into their twenties. Thus, one of the policy issues which needs to be considered in this context, is whether wage supplementation - especially for those without children - should be formally established as a legitimate function of the social security system.[10]

On the labour market side, past and present policies and programs have been primarily designed to deal with the unemployed. The up-grading of the skills of those currently in the labour market is not seen as a policy priority. However, it is exactly this type of program which is most needed by this particular group of the low paid - especially those who have not completed their secondary education. Increasingly, as transitory employment spreads, the on-going need for re-training will spread to other age groups. Essentially, our policy perspectives on the labour market need to be enlarged to enable all workers to anticipate their training needs and receive financial and service supports in order to maintain continuity of employment across the life course.

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10 Compare with the UK, where this function was formally established under the 1986 Social Security Act (Webb, Kemp and Millar, 1996: 2).

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