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Public Utility Privatisation and Social Policy: Consumerism or Citizenship?

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1 Introduction

Privatisation, corporatisation, and micro-economic reform have become bywords in the political and bureaucratic management of public utilities in contemporary Australia. While Victoria and possibly Western Australia, appear set to snatch the mantle of privatisation pace-maker from New South Wales, energy and water utilities in every state in the Commonwealth have been subjected to various forms of restructuring and change over recent years. A significant part of the momentum for this change has come from the Federal Government and federal agencies like the Industry Commission and the Trade Practices Commission.

The template being used to restructure, and purportedly to reform, state energy and water authorities is substantially of British origin. Indeed, so derivative is the local endeavour that it even borrows the rationale, arguments and wording used elsewhere to explain its intentions and objectives. The rationale used in Britain to justify public utility privatisation - and which has become the prototype for other privatisation projects such as that of the Victorian Government - is an odd mixture of the economic, the ideological, the political and the folkloric.

Privatisation of the public utilities involves more than the transfer of ownership and the physical re-structuring of the water and energy industries. It also seeks to re-define the relationship between the individual and the state, and in particular the way in which individual and societal needs for essential utility services are met. At its heart, the privatisation project is founded on the paradigm of consumerism. Whether based in fact or folklore, the consumerist agenda occupies an important symbolic place in the case for privatising the public utilities. In contrast to the present situation, which is characterised as begrudging and inefficient service delivery under conditions of public monopoly, ordinary consumers are promised choice, better services and new rights. To use the borrowed language of the Victorian Treasurer, utility consumers are to be empowered.

But is the paradigm of consumerism appropriate to the context of public utility services, which are characterised by a composite of features that distinguish them from other commodities in the market place? These features include, the 'merit' and collective goods aspects of energy and water provision, the demand properties of

essential utility services which give rise to price and income inelasticities, and the network or natural monopoly dimensions to the domestic supply of water, electricity and gas. It will be argued in this paper that the consumerist model is not appropriate because it breaks down when applied to utility services and because consumerism fails to address the central issue of 'entry' or access. It will be suggested that a superior alternative paradigm can be found in the conception of social citizenship.

2 The Paradigm of Consumerism and its Limitations

Consumerism is built on the central dynamic of commodification, involving the designation of most forms of service and exchange as commodities which can be priced and sold. Virtually all human needs are translated into individual wants and market-based interactions become the primary mechanism for satisfying these wants. Consumerism gives expression to this core social and material relationship of the 'individual in the marketplace'. In its more developed form, consumerism articulates a set of procedural rights designed to protect individuals in their engagement with the market and to supposedly make the consumer sovereign. The corpus of these rights are **choice**, **information**, the **power of 'exit'** and the ability to seek **redress** in the event of service failure (through, for example, complaints procedures and compensation measures). In Britain, this paradigm of consumerism is enshrined in the utility privatisation legislation and the Citizen's Charter-related supplements to the original legislation.

The efficacy of consumerism as an organising principle in the public utility arena ultimately rests on the extent to which choice and 'exit rights' can be realised in practice. The other procedural rights are in effect secondary and contingent rights, whose power is only fully realised once the choice and exit conditions are met. For example, the right to information has little meaning (from a consumerist, 'shopping around' perspective) if there is no capacity to choose between different service options and providers. Equally, the ability to complain is likely to have rather less potency in a situation where the service provider, against whom the complaint is being directed, is aware that the complainant does not have the option of taking their business elsewhere, or of substituting one product with another. A right to compensation in the event of service failure can assist as a proxy in this regard, but unless it is extremely punitive, it will have none of the power of actually losing custom through consumer 'exit'.

In Britain, the field of choice available to domestic consumers of electricity, gas and water services is no wider now than it was prior to the industries being privatised. The same is likely to be the case - at least over the medium-term - if and when Australian state public utilities are privatised. Yet, the lack of capacity to choose between different water or energy service providers, in tandem with the non-substitutability of utility services (with the exception of some areas of household energy use) manifestly forecloses the opportunity for consumers to exercise their power of exit. In effect, the ordinary British consumer today has about as much chance of using the key lever of consumer sovereignty as did their

seventeenth century travelling forebears looking to hire a horse from the Cambridge carrier - the eponymous Mr Hobson - where the choice on offer was the one nearest the door, or nothing!

But even if **competition** and choice actually emerge in abundance in the domestic sector in the future - a claim made with rather more vigour by advocates of privatisation in Australia than in Britain these days - will this lead to the realisation of a consumerist nirvana and will it eliminate the need for most forms of public regulation (this is certainly what the apostles of **competitive utopianism**, like the Tasman Institute and the Centre for Independent Studies, would have us believe)? And importantly from an equity perspective, what is likely to be the distributional impact of utility companies competing for the business of domestic consumers?

A sense of scepticism about the unimpeachable virtues of competition might be derived from the a priori observation that historically the competitive market place has done little to promote access and equity objectives in any sphere of human consumption; but it can also be supported by more specific concerns related to the particular characteristics of the utility industries.

Ordinary consumers are currently at a considerable information disadvantage in their relationship with utility providers and **imperfect information**, or the problem of being able to select amongst competing suppliers on the basis of a fully informed assessment of price and service quality, is a fundamental barrier to the attainment of consumer sovereignty. As a consequence, the present high level of information asymmetry between utility suppliers and consumers would need to be removed, in order for competition to function to the benefit of domestic consumers. The removal of information asymmetry entirely is expecting perhaps a bit too much, but consumers will need to be markedly more informed about the utility market place, as well as their own pattern of consumption and expenditure than presently appears to be the case (Gas and Fuel Corporation of Victoria, 1991; Melbourne and Metropolitan Board of Works, 1991).

One of the consequences of this more elaborate information search process is that consumers will incur higher **transaction costs**. In contrast to the supermarket or shopping mall, where the array of consumption choices is visibly laid out before prospective purchasers, utility consumers will probably need to go to some trouble to become more fully informed. For some consumers, these transaction costs will outweigh the benefits gained in terms of price or service quality. For others, either because of disability, language, or the sheer complexity of the task, the opportunity to 'shop around' for utility services is likely to be effectively foreclosed.

Future advances in technology (e.g. sophisticated metering systems) might obviate these information search problems for many domestic consumers. But technology will come at a price, and there is a clear danger that low income consumers may be excluded from the possibility of exercising choice because of an inability to afford access to the technology. This, along with the prospect of utility suppliers targeting the more commercially attractive and income elastic sector of the domestic market, would act to entrench the present **social division** of utility services. The removal of

the obligation to supply, which would seem to be a necessary pre-condition for the introduction of open competition in the domestic sector, could also mean that customers with a track record of debt and payment default may experience problems gaining access to supply at all. The received wisdom in competition theory is that the introduction of multiple and competing suppliers almost invariably leads to decreases in prices. But for some consumers of utility services, the advent of competition is likely to have the reverse result. This will almost certainly be the case for consumers in rural parts of Australia. The removal of uniform tariffs would seem to be an inevitable corollary of competition, as the public monopoly practice of internally subsidising loss-making sectors by profit-making sectors of the market would no longer apply. Under a competitive regime, utility tariffs for customers who have hitherto been the beneficiaries of a degree of cross-subsidisation would almost certainly increase, unless public expenditure is deployed to maintain a level of uniform pricing. On the other hand, the removal of cross-subsidies will potentially result in a welfare gain (in the form of lower prices) for consumers who live in areas where the distribution and supply costs are relatively low. From an equity perspective, the winners and losers from these tariff adjustments premised on economic pricing principles will be defined indiscriminately and without reference to 'ability to pay' or social impact.

In addition to variable pricing outcomes, which may run counter to equity objectives and the strategic interests of the country, there could well be a number of other negative by-products of competition. These could include a decline in overall service quality (as competitors strive for price advantage by reducing supply costs), the abandonment of special services targeted at groups in the community with particular needs, such as older people and people with disabilities and a reduction in research and development effort. Some consumer organisations in Britain, like the Gas Consumers Council and the national energy efficiency charity, Neighbourhood Energy Action, argued along these lines in their recent defence of the retention of the monopoly of British Gas in the domestic gas market.

As well as these practical issues, which cast doubt on the universal benefits of, and indeed prospects for, competition and choice, in public utility services, the elevation of choice as an end to be valued in itself needs to be questioned. The image of the village market, where sellers openly ply their wares and where customers pick and choose amongst a wide array of consumption possibilities, has been an important symbolic metaphor of the market economy in liberal political thought from Adam Smith onwards. But water and energy services are not like commodities traded in the local market or the late twentieth century variant, the shopping town. The capacity to select one's utility services on the basis of an immediate visual evaluation of the price/quality combination obviously does not exist. But more importantly, consumers are likely to want a utility service that is reliable, safe, and value for money, rather than have the ability to exercise fine gradations of choice equivalent to making a decision between a white striped garment or a white plain one. It is the end product, rather than the means of getting there, that is likely to be of most importance to the average consumer of energy and water services.

Even if the conditions of actual, as opposed to rhetorical, choice and 'exit rights' were to be satisfied in the future, it would still leave untouched the fundamental flaw in the consumerist paradigm: namely its failure to address the question of access/entry rights. Access to water and energy services, sufficient to meet personal and household needs, is generally accepted as one of the most fundamental human requirements. Yet clearly, the capacity to gain, and retain, access to requisite levels of utility services is not equally shared by all individuals and households. The **social division** of utility services characteristic of Britain and Australia is related substantially to the prevailing structure of income inequality, and the consequent disparities that exist in the ability to pay for energy and water. In addition, most notably in relation to energy consumption, higher demand costs are imposed on many low-income households as a result of their living conditions i.e. poorly insulated housing, expensive forms of heating, inefficient appliances and the like (Boardman, 1991).

Yet in the face of these structural barriers to entry and access, the consumerist paradigm is mute. Procedural rights and protections - like effective complaint mechanisms and guaranteed standards of service - are important, but in themselves they are insufficient. A panoply of procedural rights is largely ineffective in assisting consumers negotiate their way through the utility service system when, at the core, is the fundamental problem of fuel or water poverty, as the regulatory bodies in Britain are finding out.

Within the circumscribed frame of reference set for them, the utility regulators in Britain have made, generally speaking, a positive contribution to the broad welfare of ordinary consumers in that country. The procedural rights that domestic consumers have achieved in recent years are superior, in most instances, to those that were in place during decades of nationalisation in Britain. These gains have not been delivered by the operation of the market, as the thesis of consumerism asserts though; they have been delivered, ironically, through public intervention in the market via regulation.

But the British regulatory system has been ineffectual in two key areas. First, in dealing with the problems of access and equity under a privatised system, as evidenced by the rising number of households defined as living in fuel and/or water poverty. And second, in coping with the **collective goods** aspects of the utility industries, involving issues such as the development of utility infrastructure in line with strategic economic and social goals, and establishing an effective framework for managing negative externalities, like electricity industry carbon dioxide (CO₂) emissions.

Yet to direct responsibility for these omissions to the formal regulatory bodies alone is really to expect too much of the industry-specific regulatory apparatus. Responsibility for the vital social, economic and environmental policy issues arising from the operation of public utilities is most appropriately the preserve of democratically-elected governments, not quasi-independent, regulatory bureaucrats. However, the **loss of strategic control** of primary areas of infrastructure is the first -

and arguably the most significant - casualty of public utility privatisation. Privatisation casts these profoundly important questions of public policy adrift from the democratic process, as the British public have found to their dismay in the recent controversy over electricity generation and the future of the British coal mining industry.

Consumerism, it is important to recognise then, is essentially an expression of a negative, one-dimensional view of citizenship; it constitutes a repertoire of individualistic protections for those able to make their way in the economic system. It undercuts the very notion of **public** utilities in the sense of collective provision for the collective good. For a more positive framework of social, as well as consumer, protection we need to look elsewhere.

3 An Alternative Paradigm: Social Citizenship

It is hardly surprising that after fifteen years of New Right ascendancy academic commentators and politicians alike have begun to search for different answers to contemporary social and economic problems. The political philosophy of the New Right has been shown internationally to be a seriously flawed and vacuous framework for public policy making. A fertile source of material in this search for a political philosophy more attuned to the issues of contemporary governance has been found in the theory of citizenship, involving *inter alia* a return to T.H. Marshall's seminal account of citizenship written in 1949 (Marshall, 1950).

The present generation of writers on citizenship have sought to apply and adapt Marshall's eloquent and relatively simple thesis on citizenship to the contemporary era (e.g. Heater, 1990; Lister, 1990 and 1993; Andrews, ed., 1991; Plant, 1991 and 1992; Coote, ed., 1992; Marshall and Bottomore, 1992; Mouffe, ed., 1992; Roche, 1992). Yet the basic construction of citizenship, with notably its elevation of social rights to an equivalent status with civil and political rights, remains pretty much the same as that originally articulated by Marshall:

By the social element I mean the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society. (reprinted in Marshall and Bottomore, 1992: 8)

Marshall did not allude specifically to energy and water services in his account of the evolution of citizenship rights, but the character and importance of these services in present-day society would place them firmly within the last part of his definition, namely 'to live the life of a civilised being according to the standards prevailing in the society'. In his recent essay entitled 'Citizenship, rights and welfare', Raymond Plant (1992: 16) updates Marshall's concept of social citizenship by arguing that it implies some limit to commodification and commercialisation, in the sense that the basic welfare goods to which individuals have rights are not ultimately to be subject

to the market mechanism, since the market cannot guarantee the provision of these goods, as of right, on a fair basis to all citizens.

Locating public utility services within a paradigm of social citizenship, as opposed to the paradigm of consumerism, changes the theoretical and practical relationship of the consumer to the water and energy industries. It connotes a recognition of substantive as well as procedural rights (Plant, 1991) and mandates public policy and utility industry action aimed at ensuring that access rights are guaranteed and protected. Because social citizenship, in contrast to consumerism, recognises collective as well as individual rights and responsibilities, it firmly locates strategic decision making on the utility industries firmly within the domain of democratic accountability and public policy.

So what in more specific terms would be different about the public utilities under the social citizenship formulation compared to the extant alternatives of privatisation and commercialisation? First and foremost, a social citizenship approach to utility services would be built on a framework of public ownership of the natural monopoly elements of the public utilities. This would require the retention in public ownership of the entire transmission network and domestic distribution sectors of the energy and water industries, although in the case of the domestic distribution, this need not be in the form of centralised management and control. The ownership status of the other parts of the utility industries could well be considered on a case by case basis; but importantly, the criteria for decision making about their future would be framed around notions of social, as well as economic efficiency, and incorporate longer range considerations of the public interest than has generally been in evidence thus far in the restructuring process.

The enactment of a social citizenship approach would seek to capture some of the gains of independent regulation, although the mode of public regulation would be a more active and equity oriented one than is the case under existing models of privatisation. This would require, in addition to the designation of general consumer-oriented service standards, the setting of performance targets aimed at promoting comparative 'best practice' within and between the different utility industries in relation to social and environmental responsiveness. These would include targets designed to raise the level of energy efficiency in low income households, to prevent the build-up of consumer debt through early intervention and flexible payment arrangements, and to eliminate the barbaric practice of disconnecting domestic consumers for non-payment because of incapacity to pay.

One of the most enduring but disingenuous myths perpetrated by the public utility industries - which well and truly pre-dates the commercialisation/privatisation era of recent years - is that they are a set of basically economic services, with no mandate, nor responsibility, for social welfare. But as the Sheffield welfare rights activist, Martin Fitch (1992: 5), has cogently asked what is it that these providers of essential services supply if not welfare? Enjoyment of the services of the water, fuel and telecommunications utilities is the foundation of well-being - of welfare - in modern societies.

In a very real sense, public utilities are the bedrock of social welfare in contemporary societies. In contrast to the consumerist paradigm, where this is hidden beneath a morass of commercial and technical imperatives, the social citizenship model of the public utilities would express and formalise the foundation contribution of the utilities to economic and social well-being. The current obsession with expunging all manifestations of cross-subsidisation in the public utilities is impracticable, commercially absurd, and in the context of their social function, irresponsible. This does not necessarily mean, of course, that the utility industries should be obliged to engage in the open-ended (and open till) provision of community service obligations (CSOs) and cross-subsidies. But it does necessitate a less purist approach to the internal allocation of costs. It is usually argued that measures aimed at giving financial assistance to low income consumers are best handled through the taxation/social security systems rather than by internal price manipulation, for the reasons that this is more distributionally progressive, is more transparent, and is likely not to impact negatively on efficiency. However, this view tends to overstate the progressivity of the tax system, while at the same time understating the progressivity implicit in some forms of tariff-setting (such as rateable value). And as well as being a possible strength, transparency is also a weakness. External, government-provided concessions and subsidies are rudely exposed to the vagaries of budgetary and cost-cutting processes, as is evident with the energy concessions program in Victoria at this very moment.

Whatever the decision on the treatment of CSOs, under the social citizenship paradigm, utility tariffs would be tightly controlled and constraints would be placed on the utilities ability to generate excessive revenues, much of which is derived from the capacity to extract a form of 'monopoly rent'. In Britain, shareholders have been the primary beneficiaries of cost savings in excess of those anticipated under the price formulae set by the government at the time of privatisation. Although, in recent times, the regulators have sought ways to 'clawback' a proportion of the massive profits made by the utility companies, in the form of lower tariffs to consumers.

Finally, there is much, independent of regulatory encouragement, that the utilities could do at a service delivery level to help low income households maintain access to water and energy services. In payment and debt re-scheduling, on the supply side and in energy efficiency initiatives, on the demand side, for example. This would inevitably involve an element of cross-financing, including the possibility of somewhat higher charges for consumers in general; but this might be seen as a relatively small price to pay for ensuring universal access to essential utility services and for achieving the positive social externalities which would invariably result from this.

4 Conclusion

The paradigm around which the privatisation and restructuring project has been framed is inconsistent with the basic function and importance of public utility services in the individual and collective lives of citizens in contemporary society.

Locating public utility services within the framework of social citizenship is a conceptually and practically superior alternative.

Rather than leading to the withering away of the role of the state, public utility privatisation in Britain has shown that the mechanisms of public policy need to remain centrally engaged in the sphere of public utility activity, if consumers are to be protected and if the strategic resources of the utility industries are to be optimised to the benefit of society at large. In practice, however, wholesale privatisation of the utilities corrodes the edifice of public accountability and control until ultimately, it is in danger of being eaten away altogether.

The formative privatisation projects evident in a number of Australia states need to be turned on their head, both in order to avoid the mistakes made in Britain (many of which may well prove to be irredeemable) and in order to apply, arguably for the first time, the principles of social justice to public utility policy in this country.

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Postmodernising the Australian Family: The Role of Professionals in Managing Women's Autonomy

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1 Introduction

Feminist theorists are currently grappling with the implications of postmodern and poststructuralist modes of analysis for feminist practices (Johnson, 1988; Yeatman, 1992; Phillips, 1992). Since the onset of second wave feminism in the 1960s, feminists have pursued ideals that have strong links with the modernity project and its discourse on individuation. Within modernity discourses, individuals are viewed as the subjects of their own actions, rationally deciding upon their future courses of action. They are 'self-defining', they make their own life choices and respect the life choices of others. The main objective of second wave feminism has been to extend this notion of self-determination to women.

The cluster of values that surround the notion of individuation also underlie many of the practices of the helping professions. For example, the ethical standards of the social work profession translate into practices that respect individual rights, that attempt to enhance self-determination and that purposively cultivate a non-judgemental attitude towards others (McCouat, 1988: 98).

However, the whole idea of a 'self-defining individual' has been challenged by poststructuralists, influenced particularly by the work of Michel Foucault. Writers within the poststructuralist tradition argue that there can be no 'self-defining' individuals, since individuals can only come to know themselves through professional discourses, which have the primary function of regulating, or 'normalising' individuals as the 'subjects' required by the social system. Thus, poststructuralists do not associate professional discourses with the potential to enhance individual liberty. Rather, professional discourses are the very means whereby individuals are oppressed.

1 This project was part of a wider study being undertaken with Professor Lois Bryson, funded by an ARC grant from the University of Newcastle. I am greatly indebted to Professor Bryson for her helpful comments on an earlier draft of this paper.

The most influential example of this tradition is Donzelot's (1980) book, *The Policing of Families*.² Donzelot portrayed welfare agencies as becoming increasingly effective at managing family life according to the normative standards of the dominant culture. Welfare agencies, school bodies, baby health centres etc. act as 'normalising' agencies, seeking out families who are 'dysfunctional' to the system. These families are then put under intense surveillance, made possible through the expanded role of state agencies in the community. Although he recognised the positive outcomes of this process for the well-being of the dominant middle class, he argued that these benefits have been gained at the expense of oppressing the poor, since poorer families are less likely to be able to sustain the middle class normative standards of domestic life and are more likely to be subjected to the punitive power of the state.

Empirical studies in the Australian context have demonstrated considerable support for Donzelot's thesis (Berreen and Wearing, 1989; Sweeney, 1989; Carrington, 1991). For example, Kerry Carrington's (1991: 111) analysis of the court records of delinquents suggests that families in Australia are being selectively policed through welfare agencies. Health and welfare workers assess families according to the dominant, middle class normative standards. Poorer families and families from Aboriginal communities are less likely to be able to live up to these standards and are far more likely than middle class families to have their children removed from their care.

Kerreen Reiger's (1985) work on the role of professionals in modernising the Australian family might also be interpreted as offering some empirical support for Donzelot's thesis, since she attributes much of the success of the modernising process to the power of professionals to withhold services from those failing to demonstrate the appropriate domestic attitude. Poor women, with their greater need for material aid, have been particularly vulnerable to professional pressure to conform to the dominant middle class standards (Reiger, 1985: 87).

However, Reiger (1985: 211) is not convinced that Donzelot's thesis can fully explain the motivations behind the expansion of professional expertise. She believes that his thesis underplays the agency of women, both as mothers and as welfare activists. She also questions Donzelot's claim that the expansion of professional discourse has worked only in the interests of the dominant culture. Professional discourse, she argues, does not always coincide with bourgeois values. This can be seen in the way in which the very act of professional intervention into domestic life breaks down the bourgeois ideal of the 'private' family unit, presided over by the patriarchal father. Moreover, the expansion of professional expertise has undermined bourgeois assumptions as to the 'naturalness' of women's domestic and nurturing activity, which can now more readily be seen as a social construct, requiring community support.

2 Recent feminist work within this tradition has focused on mothering. See, for example, Steedman et al. (1985) and Walkerdine and Lucey (1989).

Reiger's work suggests an important problematic for feminists working within the poststructuralist tradition. Feminists are well aware that forms of regulation are not confined to state instrumentalities or professional discursive practices, yet writers within the poststructuralist position sometimes argue as if state instrumentalities provide the only means of individual regulation and oppression. But family and kinship forms of social organisation may also be very oppressive, particularly to women and children, as Linda Gordon's (1986) historical analyses of domestic violence and child abuse demonstrate. Gordon makes the important point, often overlooked in the 'surveillance' literature, that it is often women who initiate contact with welfare agencies, as a support against their husbands and oppressive kinship structures (Gordon, 1986: 471).

Gordon's work suggests a further problematic for writers working within the poststructuralist tradition. It is often assumed within this tradition that individuals within families all have a common, or unified interest. Donzelot's work, for example, tends to construct a unity of interests among family members, when one would expect that as society becomes increasingly individuated, the interests of family members would increasingly come into a tension.³

Nevertheless, despite these feminist problematics, Foucault's explication of professional intervention continues to shape sociological interpretations of welfare activity. What I want to argue in this paper is that although this mode of analysis has made an important contribution to our understanding of professional intervention into family life, it tends to obscure the emancipatory dimension of welfare activity.

Using a discursive analysis of 16 interviews I conducted with health and welfare agency workers, I will argue that modernity discourses on individual liberation, embedded in and developed through professional expertise, play an important emancipatory role at the cultural level. However, this emancipatory dimension can only be assessed when we examine the way in which professional discourses are extending the major themes of the modernity project to include women.

Feminist writers (Reiger, 1985; Yeatman, 1992) have already pointed out that professional discourses on domestic life extend the terrain of public discussion and public accountability into previously considered 'private' areas of social life. What I intend to do in this paper is to explore the discursive space that has been created through the expansion of professional intervention and draw out the new discursive elements that are appearing. The most important of these are to be found in the 'support' and 'empowerment' strategies that are being used primarily in community-based organisations. I suggest that these new elements reflect the need for professionals working in the area of family services to accommodate the demand for women's liberation that is emanating from the broader women's movement.

3 For further critical discussion of the claims of social control theorists, see Van Krieken (1990).

Finally, in discussing the significance of these new elements, I suggest that the early focus of the modernity project on 'self-determination' reinforced the patriarchal notion of 'autonomy' as an individual achievement. This discourse simply obscured the fact that the liberation of men was supported by women's domestic and caring activity, which, while liberating for men, confined women to the home and domestic duties. However, rather than throw out the whole modernity project, as some writers working within the poststructuralist tradition are wanting to do, I suggest that it is more fruitful to re-conceptualise its goals to accommodate the autonomy of both men and women. When this done, individual autonomy can no longer be seen as an individual achievement. Rather, the focus shifts to the **community** supports that are required if all members of the community are to be sustained as autonomous.

2 The Study

Early in 1992, I interviewed sixteen professionals and para-professionals working in welfare agencies servicing families in the Newcastle/Lake Macquarie area as part of a broader study. The agencies were chosen to include respondents from specialist and generalist teams concerned with the health and welfare needs of families. Respondents were chosen to reflect the diversity of management styles and philosophies which exist in services provided to families.

There were four family support workers, a women's refuge worker and workers from two neighbourhood centres. These agencies were community-based. They were funded through government departments but managed by a committee of volunteers drawn from the local community. There were respondents from three different family counselling services and one youth service, partly funded by the government, but also from the contributions of clients and local religious organisations. These agencies were also managed by community committees, who had strong affiliations with particular religious bodies. Two front-line welfare assistance agencies were also included, both of which were affiliated with church organisations. In addition, there were workers from two specialist health teams. The primary focus of these workers was the special needs of parents with young children. There was also one generalist community health worker.

Copies of documents from the agencies were collected and semi-structured interviews were conducted around the following fields of inquiry:

- staffing: qualifications of staff and selection procedures; desired characteristics of agency workers; work patterns; on-the-job training;
 - types of problem referred to the agency;
 - agency's response; programs offered by the agency;
 - relations with other agencies providing services to families;
 - management; and
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- respondent's evaluation of the service.

3 A Discursive Analysis: The Impact of the Women's Movement on Modernity Discourses

The inclusion of women's right to self-determination in the discourse of respondents was most apparent in the way agency workers perceive 'the cause' of the major social problem they are attempting to address, that of 'family breakdown'. According to the Director of one of the Hunter's most prominent counselling services, the source of this 'problem' can be traced to 'the breakdown of the boundaries defining gendered roles', or 'role confusion'. Another agency worker described the cause of the 'problem' in terms of 'people having fewer rules to live by today'. Yet although the symptoms were of breakdown, of the blurring of boundaries between male and female roles, not one respondent from any agency believed that the solution was to be found in re-defining roles or re-stating the rules. Rather, the solution lay in improving the **process** whereby clients could be assisted to define their own roles and rules. These professionals saw their role more in terms of managing familial relationships, as these shifted to accommodate women's claim to autonomy, than in imposing fixed, normative standards of social behaviour.

Only one respondent, from a frontline welfare assistance agency, expressed concern at the loss of clear norms, or 'Christian standards' to guide her clients in their everyday existence. She believed that there were a significant number of clients who came to her agency for counselling because they expected the workers there to have 'Christian values', as against 'other agencies who take the view that if you have problems and it is too difficult then go your own way'. All other respondents avidly eschewed the very idea of using their own value system, or indeed any prescribed system of values, to guide the lives of their clients. Even counselling services associated with religious organisations now accepted psychological modes of counselling, which since their inception have concentrated on enhancing the individual's potential for self-realisation (Bordin et al., 1962: 17).

The modernity discourse, with its emphasis on the self-defining individual, is embedded in these psychological modes of counselling. Its value system underpinned a number of key themes which emerged from the interviews. In the following, I attempt to draw out those areas where this value system was being specifically applied to female clients. In this respect, it was particularly evident in the emergence of the para-professional, community-based services which explicitly state their objectives in terms of 'support' and 'empowering women', but it was apparent even in the mainstream services, in their staff selection and training procedures and in their actual helping strategies.

3.1 Staff Selection Procedures

Community-Based Agencies

The emphasis on empowering women clients to define and control their own direction in life was most apparent in the community-based organisations. Consistent with the modernity model, the staff selection procedure was specifically geared towards choosing workers with personal attributes suited to adopting a 'non-blaming' and 'non-judgemental' attitude.

According to one family support coordinator, the personal qualities that were valued by staff members were 'flexibility, open-mindedness and a strong belief in people's rights'. These personality traits have long been identified as desirable attributes for counsellors (Cottle, 1962: 38), although the 'strong belief in people's rights' is a more recent discourse, emanating from the American war on poverty programs and taken up in Australia by the Brotherhood of St Laurence as a way of trying to change the power relations of the poor (Liffman, 1978).

However, what is equally valued by these 'para-professional' workers is 'life-experience'. Life experience in the problem areas addressed by the agency was a highly desired, although not always essential, attribute of workers. This desire for workers with 'life experience' ties in with the development of helping strategies clustered around the notion of 'support'. Unlike advice giving, the notion of 'support' depends upon an empathetic, as well as a non-judgemental, attitude. Life experience increases a worker's potential to empathise with clients, without being judgemental.⁴

The significance of this emphasis on personal attributes and life experience can most clearly be seen in the case of the workers at the women's refuge. Here, the primary objective is for a worker to give immediate emotional support and practical assistance to women and children in a crisis situation. It is regarded as imperative that refuge workers be able to relate immediately to these women. This means being able to understand, literally, what a woman is going through at the woman's own level of understanding, and dressing and adopting appropriate mannerisms. Many refuge workers are themselves survivors of domestic violence. Their life experience is more highly valued than any formal, academic qualifications. Even the child care worker was valued more for her 'ability to befriend the children and engender trust' than her ability to instigate educationally sound programs.

The strategy that is being adopted here is clearly one that quite specifically aims to avoid imposing normative standards onto women. Agency workers do not want to appear as 'outsiders', enforcing norms 'from above'. But to do this effectively requires more than the adoption of a value position. It requires the cultivation of a sentiment, 'empathy'. Now, 'empathy' is nowhere to be seen in the early modernity

4 For a more detailed description of the desired characteristics of Family Support workers, see Family Support Services Association (1989:23).

discourses on liberation. In fact, as a sentiment associated with women and nurturing activity, it was something to be **transcended** by the more 'rational' male in the course of achieving liberation.⁵

Yet here, in this broadened discursive space created by the expansion of welfare agencies, we can see empathy being used in an attempt to equalise power relationships, in this case, the power relationship between worker and client. Workers strive to cultivate a more equal relationship with their clients by purposively choosing other women who have been in similar situations. The significance of 'life experience', then, lies in the greater potential for these workers to **understand** the perspective of 'other', rather than dominate 'other' through the imposition of middle class advice. I suggest that the introduction of 'empathy' into the value cluster that surrounds modernity discourses highlights the relational aspects of emancipation which were obscured in its earlier forms.

Mainstream Agencies

In the mainstream agencies, professional training is essential. Nevertheless, even here the personal attributes of workers are highly valued and likely to be of great importance in the selection of staff for specialist units. Once again, the attributes valued were those likely to enhance the cultivation of a non-judgemental attitude.

For example, staff chosen for the specialist mothercraft facility were required to have their Triple Certificate nursing qualifications, but the interview committee also recognised the need for staff to have certain personality traits and interactive skills. These were the ability to listen and empathise without being judgemental. Also important was the ability to be flexible, that is, to realise that every family is different and requires an individualised approach. This objective of accommodating 'difference' is also clearly expressed as the current objective of Early Childhood Services (Hunter Area Health Service, 1989: 117).

There are two interesting points to note here with regard to the way that modernity discourses are now being applied to women. First of all, this emphasis on nursing staff 'listening' and 'empathising', 'without being judgemental' is a far cry from the modernising rhetoric of the nursing profession as described by Reiger (1985). I shall elaborate more on this important shift in the attitudes being cultivated in nursing staff below.

Secondly, this emphasis on recognising 'difference' and the need to accommodate a variety of lifestyles and cultural values is a strategy that appears to contradict the more pessimistic scenarios painted by poststructuralist writers. One would expect that the extensive social regulation set in train to 'normalise' dysfunctional families would have resulted in standardised family units. Yet, family forms are quite

5 Lloyd (1984) analyses the construction of the emancipated 'man of reason'.

diverse, as are women's roles within these family forms. Moreover, this diversity is recognised as quite legitimate, at least in the discourse of agency workers.

3.2 On-the-job Training Programs

While possessing a non-judgemental attitude is a highly valued attribute of staff selected for all the agencies surveyed, on-the-job training programs for those agencies providing support and counselling for clients are undertaken to enhance and cultivate this attitude. All workers involved in support or counselling activity receive on-the-job training.

There is a generally accepted format for counselling training which all agencies draw on, and which reinforces the cluster of values that surround modernity discourses. The first step in cultivating a non-judgemental attitude is 'self-awareness', that is, developing the ability to know your self, your own motivations, values and prejudices. Training may then be given to enhance one's own personal growth in those areas which contribute towards the ideal counselling attitude, such as increasing one's empathy, sensitivity, openness, warmth and assertiveness. Communication skills are also worked on, to help participants learn 'to be a better listener, to say what you mean, to handle conflicts, to give and receive feedback' and also to better understand 'manipulation and how to resist it'.⁶

While appearing to be non-normative, these communication and interpersonal skills do, of course, still **assume** an ideal - that of greater personal autonomy. But is the notion of 'autonomy' contained within these 'communication' discourses the same as that contained within earlier modernity discourses?

Early theorists of modernity viewed the autonomous individual in terms of his⁷ 'authenticity', that is, his potential to be 'self-defining' and 'self-regulating'. This view of autonomy was most fully elaborated by the Frankfurt philosophers. Individuals became autonomous by virtue of having a strong father-figure to identify with. The patriarchal father was ideal for cultivating a strong sense of self-determination and self-regulation and the family form which most enhanced the father's authority within the family was the nuclear family. This tradition has been very critical of the extension of professional expertise into domestic life for the very reason that they believe professional intervention breaks down the public/private distinction and undermines the authoritative position of the father within the

6 This brief summary of the counselling training program is based on interviews with agency workers as well as a pamphlet issued by one of marriage and family counselling agencies which provide courses for many in-service training programs in the area.

7 I use the male pronoun here to emphasise the fact that these early modernity discourses only had the potential to liberate males.

'private' family unit, thereby destroying the potential for the development of personal authenticity.⁸

What professional discourses on 'communication' appear to be currently articulating, though, is a conception of autonomy as an **attitude** that must be cultivated. It requires the acquisition of considerable interpersonal competence, or skill in **relating** to others who are also assumed to desire autonomy. This is a very different understanding of 'autonomy' to that of the enlightenment thinkers. The autonomous individuals now being cultivated require far more by way of personal attributes. I suggest that the elaborations that are now taking place in the area of 'inter-personal communication' may well be reflecting the need to accommodate women's liberation, since individuals now need more than 'self-assertiveness' to be autonomous. They need, in fact, some of the personal attributes traditionally associated with women. They need to be a 'good listener' and to demonstrate 'empathy', 'warmth' and 'sensitivity'.

3.3 Agency Programs

Listen, hear and validate their feelings. (Triple Certificate Mothercraft Nurse)

Working with families hoping to create the conditions for family members to continue to grow and learn. (Program Development Manager for a welfare agency associated with a large religious organisation)

Helping people find ways of doing things for themselves. (Family support worker)

The Strategy of 'Support'

As I have already mentioned, there appears to be a significant shift that has taken place in the nursing profession since the days of Reiger's analysis of the modernisation of the Australian family. Reiger depicted nursing strategies for the domestication of the home and women in terms of edict-giving, highly structured, behavioural modification attempts. The helping strategies described by the mothercraft nurses in this study described their strategies more in terms of 'support'. Their goal was to create supportive environments where mothers could discover their own ways of dealing with their situations according to their own particular situations and value systems. Compare, for example, Reiger's documentation of the highly

8 Horkheimer's (1972) 'Authority and the Family' is seminal here. The central feature of this tradition's challenge to professional intervention is the 'thesis of the fatherless society', a term coined by Mitscherlich (1973) and elaborated for a wider audience by Lasch (1977). For a feminist critique of his thesis, see Benjamin (1978).

structured sets of instructions that were given to mothers in 1944 with the approach of the Early Childhood Nurse in the 1992 sample.

Nurses in 1944 formulated strict regimes that ordered the mother's day every bit as much as the child's.⁹ To ensure compliance, they played directly on the mother's fears and anxieties. For example, mother's were warned that 'Four out of every five babies who die are bottle fed' and 'The common practice of kissing babies on the mouth may easily cause the death of a baby' (Health Area Health Service, 1989: 115).

The specialist mothercraft nurse interviewed in the 1992 sample, however, described her agency's role in terms of 'support'. The agency's response to mothers experiencing problems with their new babies was to provide a safe, secure place where they could be helped to get themselves and their babies into a daily routine. A reassuring attitude was necessary to build up the mother's confidence in her own nurturing skills.

The support strategy also attempts to utilise local resources and 'common-sense' knowledge, gained through sharing one's experience with others 'in the same boat'.¹⁰ This form of 'support' links mainstream welfare agencies to the community-based organisations and local 'self-help' groups, which are regarded as being better placed to provide immediate and more flexible forms of physical and emotional support. In the community-based agencies, practical assistance can be more readily organised, drawing on local resources. This assistance may take the form of providing transport, helping with child care and housework or whatever has to be done immediately to relieve the burden on the family, but particularly on the mother. It may even take on a subversive quality. For example, the worker from the neighbourhood centre talked about how she helped to organise the residents of a housing commission development into a lobby group to improve transport and recreational facilities in the area, and an important part of the work carried out by agency workers in some family support services is to act as the client's advocate to mainstream government departments.

What is happening in these 'support' strategies, which are directed primarily, although not exclusively, at women is that the clients' attention is being directed away from seeing their problem in terms of their own, individual situation to seeing

9 Reiger takes her examples here from the 1944 *Our Babies* (Department of Health, NSW, 1983), some examples of which also appear in the Hunter Area Health Service's Publication (1989: 113).

10 Dominelli and McLeod (1989) draw attention to the way in which feminist social work shifts the focus from the individual woman to the social context and what all women have in common.

their problem in terms of what they have in common with other clients. This brings the clients' social environment into focus where its shortcomings can be identified.¹¹

Strategies for Resolving Parent/Child Conflict

This is an area where a great deal of uncertainty seems to exist. Nevertheless, the common theme emerged that all family members, including each child, had a perspective of their own which is equally valid. There also appears to be a concerted effort by agency workers to relieve parents of 'the blame' for their children's behaviour which parents feel most acutely. One of the main reasons clients seek help from an agency is because they cannot control the social behaviour of their children and expect that they should be able to do so. Moreover, the socio-cultural milieu in which they are parenting is very likely to reinforce the parent's expectation that they are responsible for their children's social behaviour and **should** be able to control it.¹²

At the agency, however, they are likely to be met by the professional class ideal, the 'non-blaming' attitude. They discover that 'many families experience the same problems' (i.e. that they are 'normal'). What is at 'fault' is the family dynamics, rather than anyone's lack of authority, or inability to assert their authority. Part of the solution is to articulate everyone's perspective of the problem and improve the parent's communication skills.

Attempting to get family members to understand the perspectives of other family members is seen as preferable to reinforcing either parent's view that greater authority over the child needs to be established, which marked professional attitudes in the early twentieth century phase of modernisation. Reiger describes agency workers at this period of time as being unashamedly orientated towards ordering the life of families in the interest of establishing greater parental control over children (Reiger, 1985, Ch. 6).

The idea that all family members have equally valid perspectives also marks an important shift in professional discourse from the more recent psychological discourse on parenting, which stresses the importance of the child's early upbringing. Reiger (1985, Ch. 6) describes how psychological theories emanating from the mid twentieth century increasingly blamed the parents, and the mother in particular, for children's behaviour. The cause of children's disorderly conduct was to be found in their psychological state, primarily in the emotional responses built up through early maternal-infant interaction. It seems that what we are now seeing in

11 Feminist social workers have noted that counselling individual women often involves a shift in focus from the individual women to the commonalities of the problems being experienced by women as a group (Dominelli and McLeod, 1989: 76).

12 I have documented the dominance of this norm in my PhD thesis (Everingham, 1991).

these new techniques of management is an attempt to reverse this mother-blaming process by drawing out everyone's perspective, including the mother's.

It was difficult to establish on the basis of these interviews exactly how conflicting perspectives are reconciled simply through making each member of the family aware of the perspectives of other family members. I suspect that this is an area of considerable uncertainty. However, agency workers who work closest to the everyday existence of parents and give practical assistance as well as support, did recognise the necessity for 'common-sense' to reign in settling parent-child disputes. In practice, they may well advocate 'firmness' and 'setting boundaries'. They may model this attitude towards child-rearing themselves while giving the parents' assistance with tasks.¹³

This more pragmatic intervention from agency workers whose role directly addresses the concrete problems being experienced by mothers may also mediate the currently popular trend to reinstate 'nature' as the mother's guide to nurturing and child-rearing. This trend is closely associated with the psychological discourse of the mid-twentieth century which arose as a reaction to the early modernisation phase and the attempt to regiment mothering according to scientifically formulated principles. Health professionals, feeling the sting of the 1960s counter-cultural attack on modernity, reacted by reverting to pre-enlightenment rhetoric, so that by the 1980s motherhood was again in danger of becoming naturalised.

Advice being given out to mothers in the 1980s contained the theme that 'nature knows best' and that if mothers only did what came naturally, there should be no conflict of interests between the baby and the mother. For example, *New Babies* (Department of Health, NSW, 1983: 18) advocated such an approach, claiming that the old way of trying to impose a routine onto the baby 'led to a lot of **conflict** between parents and children' (emphasis added). It also went 'against the grain of the mothers' intuitive wish to respond to their babies' cries and signals'.

What is significant about this attempt during the 1980s to 'naturalise' early nurturing activity is the associated idea, that if mothers only did what was natural, then maternal-infant conflict would be minimised if not diffused altogether. However, agency workers who work closely with mothers seem to mediate this child-rearing advice with a good deal of pragmatism, which they may be reluctant to admit in the face of the re-birth of 'natural' parenting. For example, the early childhood nurse described the helping strategies of the specialist mothercraft facility in terms of reassuring mothers that their babies will be fine if feeding times are stretched out a bit to allow them some more space. The separate needs of mothers were well acknowledged and the need for mothers to sometimes assert their own interests over those they perceive are coming from their infants was well recognised.

13 This is an observation drawn from my PhD (Everingham, 1992), where I frequently noticed Early Childhood Nurses and child care workers speaking firmly to children in front of their mothers.

4 Conclusion

It is clear that all agency workers in the study are guided by the cluster of values that surround modernity discourses, which emphasise the self-defining individual. However, there are some areas in which discourses on individuation have broadened to accommodate women's liberation. We can see this particularly in the helping strategies of nurses who have moved away from the explicit attempt to define and impose gendered roles, to a supportive strategy which, like the social work objective, aims to help their clients by helping them to manage their familial relationships.

What I want to suggest is that through having to accommodate women's claim to autonomy, professional discourses are inadvertently providing us with important new insights into what autonomy might mean in a society where everyone's claim to autonomy was accepted as a legitimate goal. Rather than throw out the modernity project, as many writers within the postmodern/poststructuralist tradition are wanting to do, I believe that it is more useful for us to re-conceptualise its goals, in a way that includes both men and women.

As the 'support' discourse discussed in this paper makes clear, when women's claim to autonomy is accommodated in modernity discourses, the autonomous individual can no longer be understood as an isolated 'self', achieving 'self-realisation' in a socio-cultural vacuum. Rather, autonomous individuals need to be seen as an achievement of the community. Moreover, autonomy is not something achieved once and for all. One's own claim to autonomy is constantly being contested through one's relationships. Asserting and resolving one's claim appears to require considerable interpersonal competence. Men need to acquire attributes traditionally associated with women and vice-versa.

Feminist theory is currently grappling with the implications of postmodernism and poststructuralism for social policy and feminist theories of the state (see, for example, Johnson, 1988; Yeatman, 1992; Soper, 1991; and Phillips, 1992). Anna Yeatman (1992: 119) has pointed out during the course of these debates that the extension of state instrumentalities into the 'private' sphere may have beneficial effects for women, as previously defined 'domestic' issues are opened up to public debate and greater public accountability. I suggest that the evidence cited in this paper lends some support to this position, but it also suggests a much more active role for feminist-inspired organisations and agency workers than that conveyed by the poststructuralist concept of human agency as 'resistance'. An overall political strategy needs to be devised, based on a feminist-inspired ideal of emancipation for all. I suggest that this ideal is contained within the women's movement. As women struggle to achieve autonomy as women, a new understanding of liberty becomes possible, one that begins with a vision of the community that makes the achievement of individual autonomy for all ultimately possible.

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A Partnership in Care? The Use of Formal Services and Informal Support in the Home by Home and Community Care Clients

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1 Introduction

Many of the most controversial and important features of community support arise from the fact that it represents an innovation in the field of social policy in which private households have become the preferred site for the exercise of public responsibility for some of the most vulnerable and dependent members of our society. Under this arrangement the home has become an arena in which both private and public interests intersect. This intersection, however, is incomplete and ambiguous, and there is no clearly agreed system for demarking the often conflicting responsibilities, rights and preferences of those involved.

In this paper we review evidence from a longitudinal study of community support clients and community support services in a suburban community area. We discuss the factors associated with the use of formal services and informal care, and consider how the characteristics of service provision affect their use. The impact of different patterns of support on the outcomes of care in the home will also be considered.

One of the most important goals of long term care in Australia in recent years has been to provide people in need of ongoing assistance with the choice of remaining in their own homes. The provision of community support services represents one of the chief instruments by which this is to be achieved. As the Nursing Homes and Hostels Review of 1986 noted:

The notion of choice implies that viable alternatives to residential care will be available in the form of community services; that at the point where a residential service becomes necessary, an appropriate and acceptable service will be provided; and that funding arrangements will be neutral in terms of incentives influencing people's choice to seek either community or residential care. (DCS, 1986: 3)

Remaining at home has always been an alternative to residential care for some, but until recently it was an alternative that, to paraphrase Anna Howe, required people to choose between public neglect in the home and the provision of public assistance in nursing homes or hostels (Howe, 1981: 179). The introduction of the Home and Community Care Program (HACC) in 1985, and other related policy developments in the mid 1980s promised to make it a choice between assistance in the home or in a residential setting.

Understanding the use of formal services by those people who remain at home, despite needing ongoing assistance is therefore a central issue for the longer term success of community support. Information on this topic has been systematically collected over a three year period in the study of Community Support Services and Their Users, commenced by the SPRC in 1989 (Fine, 1992). The study was conducted in a suburban community with a population of approximately 200,000 people that we have called Broadleigh. The research followed a group of 60 predominantly elderly people originally referred to the Aged Care Assessment Team who were assessed at the commencement of the project as capable of remaining in their own homes, despite needing ongoing care. A second component of the study has been concerned with the provision of community support services in the area. In this paper we draw together both components of the study and report on the use of services by those who remained at home, and on the factors that appear to have influenced their allocation and use.

Research into the use of community services in the home is discussed in the following section of this paper. This also provides a means of framing the theoretical and methodological perspective that underlies the analysis advanced in subsequent sections. Following this, evidence on the use of support at home and the outcome of care at home for the study's participants is presented, along with information from both participants and service providers on factors affecting the allocation and use of community support services. We conclude, in the final section, by considering the extent to which care in the home represents a partnership between the family and the state and by outlining some of the dimensions affecting the exercise of choice by those who need and those who are responsible for the provision of ongoing care.

2 Supply, Demand and Referral: Comparative Research Perspectives

Studies examining community support, both in Australia and overseas, have typically reported that its success depends largely on the availability of informal care, and that overall, there is frequently relatively little use made of formal services (Chappell, 1985; Bulmer, 1987). A common explanation for this is that there is a problem with the supply of services: either that there are simply too few services to meet need, or those which are available are inappropriate to the population requiring help and or poorly organised for the task (Howe, 1981; Evandrou, 1987; Bliezsner, et al., 1987; Corson, Grannemann and Holden, 1988).

While large scale studies have tended to emphasise aspects of the supply of services that operate at the macro level of decision making, other researchers working in direct contact with potential service users, have focused on issues associated with the demand for services operating at the micro level. In a now rather classic study Elizabeth Moen, for example, reported that, despite the evidence of widespread need for assistance, there was a marked reluctance of elderly people to accept help from formal services or admit the extent of their needs for assistance (Moen, 1978). Employing a similar methodology relying on intensive interviews, Montgomery and Hatch (1987) found that families tend to be 'fiercely independent and fail to seek services until arriving at a point of crisis' (Montgomery and Hatch, 1987: 153).

There have been a number of attempts to examine the link between the supply of, and demand for, services. When examining the question of 'unmet need' associated with the 'underuse of services', Chapman and colleagues studied the need for and provision of assistance amongst all 536 elderly people registered as living in Pimlico, London (Chapman, 1979). It was found that the demand for assistance from community services was closely linked to supply, with the limited supply of services acting as a hidden restriction on demand. Another link between supply and demand was described colourfully as: 'Shoddy goods will not attract buyers' (Chapman, 1979: 66). Other problems identified as limiting the use of services included the difficulty for consumers in learning about what was available and the complex, often stigmatising administrative processes subsequently associated with gaining access. Like other studies based on interviews of potential clients, Chapman also noted that some people also refused to accept help offered. Similar conclusions were also reached in larger and more ambitious studies conducted in the United States (Quadagno et al., 1987) and in Scotland (Hunter, McKeganey and MacPherson, 1988).

Along with supply and demand factors, researchers have also paid attention to the role of professionals as referral agents or gatekeepers to the system of long term care. The significance of 'professional referrals' for the allocation of services to elderly people was particularly well highlighted by Sinclair and Williams in their recent summary of research on this subject (Sinclair and Williams, 1990). Similarly, a recent study of the use of medical and hospital services in Manitoba, Canada, concluded that rather than older people or their families choosing what services they used, it was 'physician practice patterns [that] influence which and how many health care resources are consumed by the elderly' (Roos, Shapiro and Roos, 1984: 35). Recognition of the extent to which this occurs was, indeed, one of the main reasons for the introduction of Geriatric Assessment Teams throughout Australia over the last decade (McLeay, 1982).

In summary, researchers concerned with the provision and use of formal services in the home have tended to approach the subject from either a supply or demand perspective. The professional referral system also appears to be a crucial mediating factor and needs to be taken into account. In attempting to understand the outcomes of community support in this study, we have therefore developed a research methodology that focuses on each of these aspects.

3 The Use of Formal and Informal Support in the Home: Evidence from the Broadleigh Study

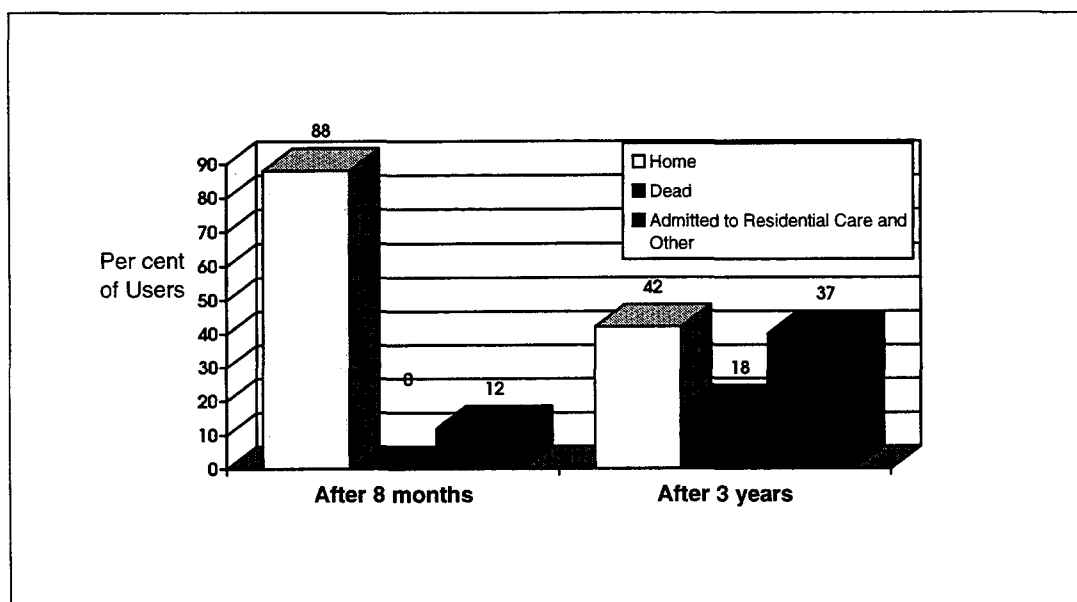
In one component of the Broadleigh study, 60 participants or users of community support were selected from approximately 140 people referred for advice and assessment for possible nursing home placement to the Broadleigh Aged Care Assessment Team (ACAT) in late 1989. About two thirds of the people referred were eligible for inclusion in the study. Only those referred who wanted to remain in their own home and were assessed as being able to remain there, with appropriate help, and who were willing to assist with the research, were considered. From amongst those eligible, the sample was selected so that all thirty of those who lived alone were included, while a random selection was made of thirty other participants who lived with others, usually their spouse, siblings, or in a few cases, children. One third of the sample was identified by the medical staff of the ACAT as suffering cognitive or behavioural problems, usually dementia. The remaining two thirds were affected by conditions of a physical nature. All but three of the participants were aged 65 or over, the majority being between 70 and 90. Four were in their 90s, one of whom has since passed the age of 100. As expected, the sample was predominantly female, the 13 men included representing just over 20 per cent of the sample (Fine, 1992).

Although most participants required regular assistance to remain at home, there were few who, at any one time, were bed bound (Fine, 1992). Typically, those included in the study required help to leave the home. Most were also unable to clean the home or cook for themselves without some assistance. Almost a third of the people in the sample required some form of personal care, generally help with bathing and/or dressing. Approximately 10 per cent were unable to use the toilet without help, a very severe level of disability requiring an intense, almost constant level of personal assistance. In general, those who lived alone were less disabled than those who lived with others. In other respects, however, the profile of disability amongst those who remained at home proved to be remarkably stable over time, perhaps because many of those who required more significant levels of assistance were either admitted to residential care or died.

Almost all participants expressed a strong desire to remain at home as long as possible. Yet only 25 of the original 60, less than half the number included in the study, remained at home three years after it commenced. The remainder were either admitted to nursing homes or hostels, or had died at home. These residential outcomes can be seen in Figure 1.

Forty eight per cent of those who lived alone were admitted to residential care over the three years of the study, compared with 26 per cent of those who lived with others. Those living alone were, therefore, almost twice as likely to be admitted to residential care than those who lived with others. Similarly, the rate of admission of 50 per cent, found amongst those with cognitive and behavioural problems, was considerably higher than the 30 per cent admission rate for those with physical

Figure 1: Residential Outcomes for All Participants: per cent Remaining at Home, Admitted to Residential Care, or Who Died (n= 60)



problems. People who suffered cognitive behavioural problems and were living alone thus faced a twofold risk, as it were, with two out of three such people being admitted to nursing homes. These figures strongly suggest that both the nature of the disability experienced, as well as the availability of a caregiver, as shown in such simple measures as the domestic circumstances of individuals, were important determinants of the longer term viability of support in the home.

3.1 The Use of Formal Services by Participants at Home

One of the reasons for selecting Broadleigh as a research site was that it is widely considered to have a well developed system of community support services in comparison to other areas of New South Wales. Details of the availability of these services in Broadleigh have been provided elsewhere (Fine, 1992 and 1993; Thomson and Fine, 1993). Given the local conditions, and the fact that all participants had been referred to the ACAT it could therefore have been expected that the use of community services by participants would be, if anything, somewhat higher than might be the case in certain other areas of NSW and Australia, or amongst others potential service users who were perhaps not so well linked to the service provision system. Given these expectations, the results we found have been somewhat surprising.

There is, at present, no single measure which successfully captures the full complexity of the use of community support services by people living in their own

homes. We have therefore presented information provided by participants or their caregivers, on the use of services, using a number of different measures.

The regular receipt of different services reported by those still at home at different stages of the study is presented in Table 1. This relatively crude measure, which indicates simply whether a service was received regularly or not at the time of the interviews, shows that Home Care was the most widely used service amongst participants. Just under half the participants at home were assisted by a Home Care staff member. Other services, such as home nursing, Meals on Wheels and day care, were regularly used by only a relatively small proportion of the sample. A wide range of other services, most of which were not part of the HACC program, was also used by participants. These were in addition to other more general community services, such as the normal utility services (telephone, electricity, gas, post and garbage) that are used by participants and the general population, that are not shown in the table.

A more detailed picture of the extent of use of the main HACC services by participants who remained at home is presented in Figure 2. This shows that the majority of participants at home, both early in the study, and those still at home after three years, received either no HACC services whatsoever or were reliant on the assistance provided by only one service, confirming the pattern that appears evident in the data presented earlier. There was, however, some increase in the proportion of participants receiving two or more services over the three years of the study, an increase which was also reflected in the pattern of service use evident amongst those who were admitted to residential care. Only a small minority of clients at home received anything resembling a comprehensive range of assistance, which requires help from several agencies at once.

The measures of service use discussed so far refer simply to the number of services being used, and do not distinguish the frequency or amount of service received by individuals. For those community services that are provided in a fairly standard way, such as Meals on Wheels, which is provided 5 times a week to virtually all recipients, and Community Shopping, organised once a fortnight, this information presented on the frequency of use is sufficient as there is, in fact, little individual variation in their usage possible. Other services, such as respite care, in contrast, tend to be used only infrequently. Comparison of the frequency of use of these services is therefore not particularly revealing. In other cases, however, there is considerable variation possible, as shown in Figure 3. Details provided by participants on the intensity of their use of home care, home nursing and day care services, three of the major HACC services, show that, with few exceptions, services were only used at a relatively low level of intensity.

The Balance of Formal and Informal Care

The evidence of service use we have presented stands in contrast to the importance of assistance provided informally by caregivers, and by those who may be

Table 1: Receipt of Community Support Services by Participants at Home^(a), After 8 months, After 3 years and Prior to Admission to Residential Care

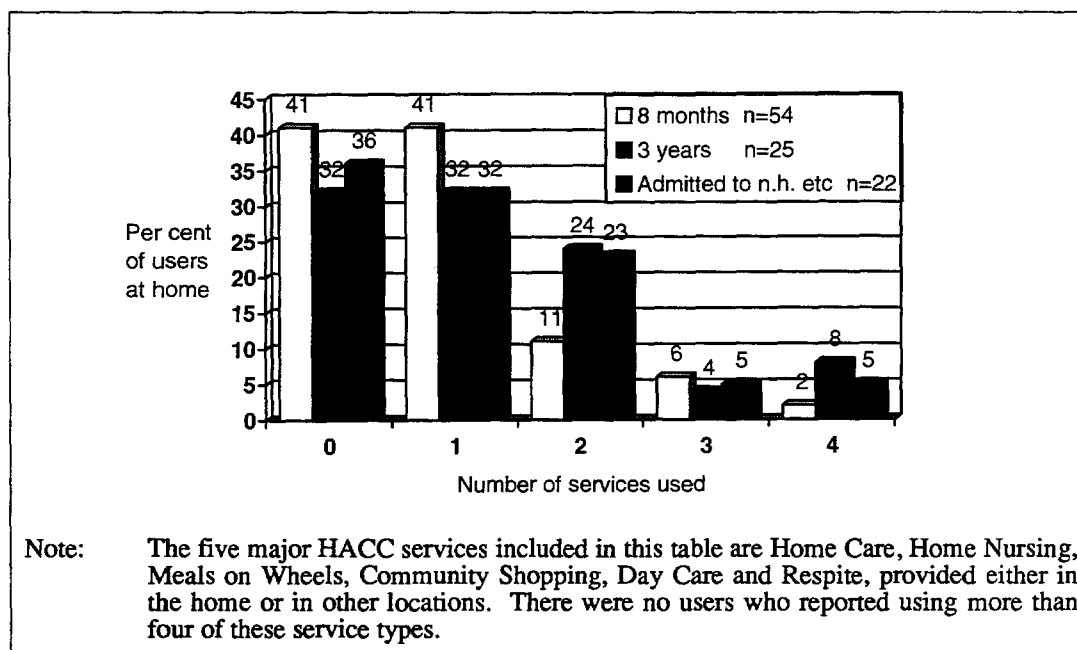
Service Type	8 months no.=54 %	3 years no.=25 %	Prior to admission to residential care no.=22 %
HACC Services			
Home Care	46	48	41
Home Nursing	11	24	23
Meals on Wheels	6	8	32
Day Care	7	20	9
Community Shopping	7	12	0
In home respite	6	8	0
Other respite	4	4	5
Community Options	n.a.	12	14
Assessment Team	72	28	41

Other Community Services Reported by Users and Caregivers

- Guardianship Board
- PADP Scheme (a public scheme for the supply of disability aids and equipment)
- Podiatry
- Community Health Centre
- Community Aid and Information
- Community transport
- Home handyman and Home Maintenance and Modification services
- Royal Blind Society
- Hydrotherapy/other outpatient care
- Italian Welfare (COASIT)
- Public Dental Clinic
- Colostomy Association
- Legacy (voluntary organisation for family of veterans)
- Vital Call (alarm system)
- Library Service
- Private gardener
- Private house cleaner
- Private hairdresser
- Private physiotherapy
- Oxygen cylinders provided by Dept. of Veterans Affairs.

- Notes:
- a) These figures refer to services the users reported as being received at the time of the interview, or, when applicable, in the period immediately prior to their admission to nursing homes or hospitals.
 - b) Details on the use of assistance provided by the Community Options Service, the Assessment Team and services not provided by HACC funded agencies were not collected systematically during the first round of the study and have therefore not been included in this table.

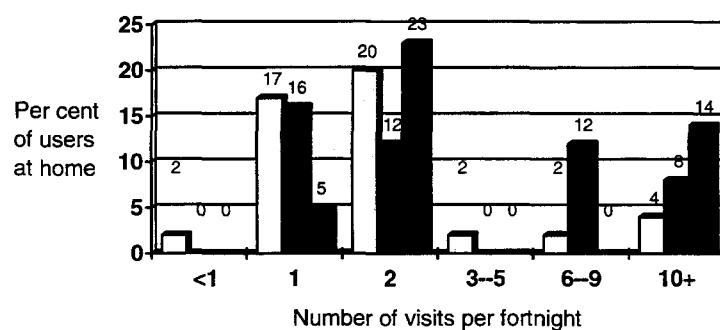
Figure 2: Number of Main HACC Services Used



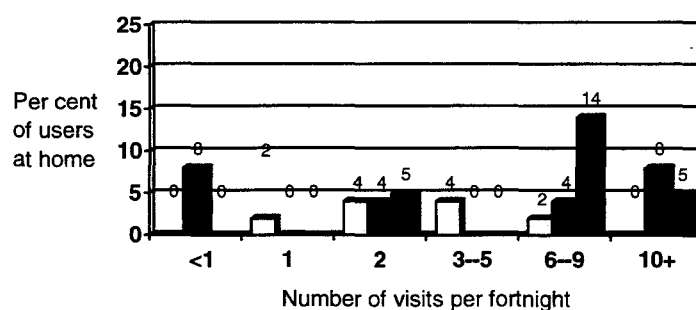
considered to constitute the broader informal social support networks that most of the users in the study referred to. Eighty per cent of all users in the first months of the study, and 84 per cent of those at home after three years identified at least one person who helped them remain at home by providing assistance on a regular basis. Typically, people identified as caregivers were related to the users by close ties of kinship or marriage, with only a few individuals reporting that they relied on help provided by someone not related to them in this way. As shown in Table 2, caregivers were also most likely to be women. In the first months of the study approximately 70 per cent of all caregivers identified were female. Although this changed due to the death of some users and the admission of others to residential care, females still constituted almost 60 per cent of all caregivers for those at home three years later. Daughters were most frequently encountered, with over one in four users nominating a daughter as their main source of assistance. The next most numerous group were the participant's spouses, who represented the caregivers of a similar proportion of the sample. Siblings were the next most commonly encountered group. There were also a few caregivers who were other family relations and a small number who were described as friends or neighbours. In addition, most users who remained at home also reported receiving significant help from others in their support network (Fine, 1992; Fine and Thomson, 1993).

Approximately three quarters of users relied on informal help provided by their primary caregiver for the performance of household activities such as shopping, cleaning and cooking. A similar proportion only left the home when helped by

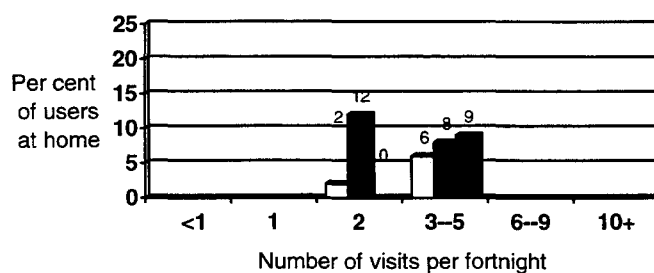
Figure 3: Frequency of Use of Three Major HACC Services by Participants at Home: After 8 Months, After 3 Years and Prior to Admission to Residential Care



3b: Home Nursing.



3c: Day Care.



□ 8 months n=54 ■ 3 years n=25 ■ Prior to admission n=22

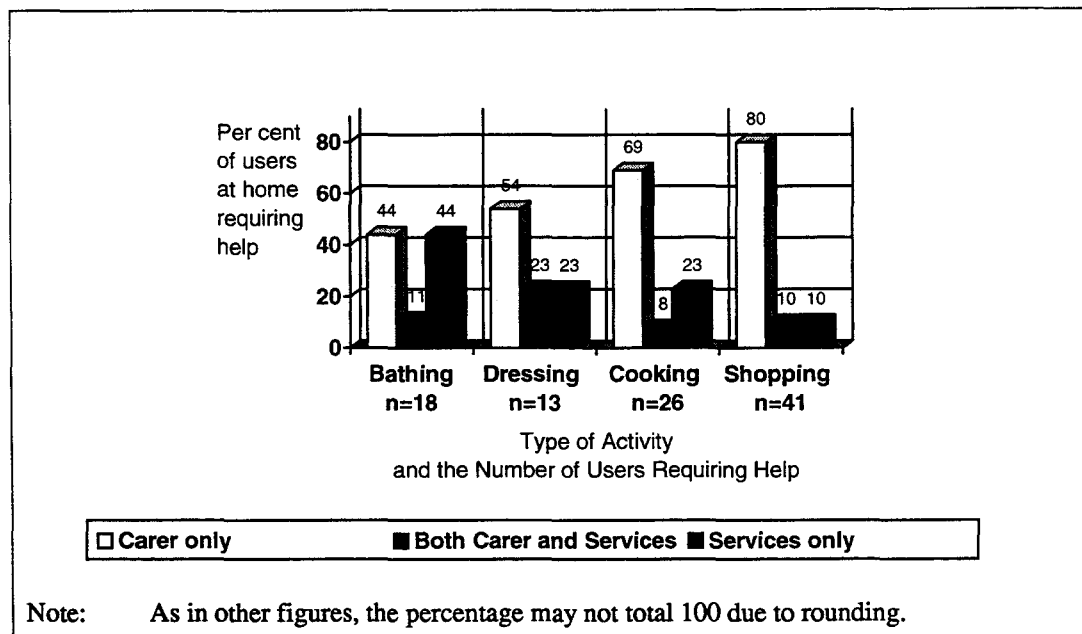
Table 2: Relationship of Participants at Home to Main Caregiver, After 8 Months and 3 Years

Relationship of Main Caregiver	8 months		3 years	
	No.	%	No.	%
Wife	6	11	2	8
Husband	7	13	4	16
Sister	4	7	4	16
Brother	1	2	-	-
Daughter	15	28	6	24
Son	4	7	4	16
Other Female	5	9	-	-
Other Male	1	2	1	4
No Carer	11	20	4	16
All participants at home	54	100	25	100
All Carers	42	100	19	100
Female	29	69	12	57
Male	13	31	9	43

informal supporters, in some instances relying on assistance provided by other family members. In matters of personal care, which requires daily or almost daily attention, the main caregiver provided help on either a daily or continual basis to over a quarter of the sample (Fine, 1992).

The significance of the help provided by caregivers with a number of specific tasks is particularly clear when compared with that provided by community support services, as can be seen in Figure 4. This presents information collected from 45 users (including some who were subsequently admitted to residential care) covering their time at home in the first 16 months since their initial referral. In all activities except bathing, the proportion of participants assisted by caregivers far exceeded the proportion assisted by services. All assistance provided by services for shopping and cooking, and a high proportion of the assistance provided by services for activities as bathing and dressing actually went to users with physical problems living on their own, who did not have a co-residential caregiver to assist them. In other activities, such as shopping and cooking which did not require such intensive intervention, the proportion of people assisted by services was considerably lower. This suggests that service delivery emphasising personal care is being targeted at those who live alone, while other activities which can be managed more successfully by a non-resident caregiver, are being undertaken predominantly by informal caregivers.

Figure 4: Source of Assistance for Participants Requiring Help with Selected Activities at Home, after 16 Months



4 Explanations for the Use and Non-use of Services

Although it has been possible to present only a small proportion of the evidence here, it became apparent during the course of the research that there was a general pattern of domestic self sufficiency, in which dependence on informal caregivers and a measure of self reliance was combined with an apparently minimal use of community support services. To understand the decision making processes of those most directly involved, we sought explanations from two perspectives: that of participants and where applicable their main caregivers who represent potential clients of services; and that of a number of the major providers of community support services in Broadleigh. These perspectives represent the demand and supply sides of the provision of community support, as they are manifested at the micro-level of decision making affecting individual clients.

4.1 Participants' Perspectives

As could have be expected given the sample chosen for the study, the overwhelming majority of participants expressed a strong desire to stay in their own home as long as possible. The value of remaining at home was in almost all cases considered to be self-evident. Home was indeed, for most, the natural and common sense place to live.

Part of the meaning attached to living at home appears to be that it offers a measure of autonomy and control. In contrast to their experience of care in hospitals and their image of dependency in nursing homes, the home was described by participants as offering a form of safe haven, a private domain in which they could still prevail. Often it was spoken of in almost defiant terms, as the last remaining sphere of their lives over which they could continue to exercise control. The private, personal and familiar nature of the home thus tended to be associated with independence, an attitude which appeared to be fairly readily translated into a reluctance to ask for, or accept, help from the public sphere outside.

Yet despite their reluctance to accept assistance, most of the participants did require help on a regular basis. Although this dilemma could never be completely resolved, it was possible to minimise the intrusiveness and loss of control involved in receiving assistance by accepting help provided by a member of the household or family member when this was available. It was often only when such informal assistance was not available or when it was considered inappropriate, that assistance from more formal and impersonal sources would be sought.

Many of issues associated with the non-use of services by participants and their caregivers are illustrated in the following case study:

Following her referral to the Aged Care Assessment Team, the only form of assistance Mrs Olive Osborne, a 78 year old woman with physical problems, received was attendance at a 'mobility therapy group' held one morning each week over an eight week period. As her health deteriorated, she gradually became more dependent on the assistance provided by her flatmate and that provided by her daughter. Although she suffered incontinence, was no longer able to cook or clean for herself, and was unable to leave the home without assistance, she explained that she had not requested more help because she did not think she needed it. At one stage, Mrs Osborne reported, she had attempted to enquire about attending a day care centre, but when she failed to make contact she had decided to let it pass.

In reply to questioning about the assistance she received and the lack of services at home, she explained that:

I don't need more help from services now. But if Charlie broke down, I would.

Charlie, her flatmate and caregiver elaborated on this:

She wouldn't want services at home, not if I could help it. They take away your dignity. If you have to rely on their help its a sort of loss of life.

As well as holding a rather optimistic view of the extent of her disability and exhibiting a strong desire to remain independent, Mrs Osborne and her caregiver also showed that they lacked knowledge of services and were uncomfortable about asking for assistance from them. Mrs Osborne was nevertheless prepared to accept informal assistance from her flatmate and daughter, and indicated that she regarded this as preferable to help from services.

This brief case study serves to illustrate a decision making process similar to that followed by many other of the study's participants. Initially, there was a reluctance to admit that help was required, and particular effort was made to maintain some semblance of independence and autonomy. As the need for help became undeniable, it was provided by another member of the household and by non-resident family members, in this case as in many others, primarily by a daughter. Only when this informal care was inadequate, or when one of the caregivers indicated that they were unable to provide the assistance necessary on their own, was seeking help from services likely to be considered appropriate.

Even when Mrs Osborne and her caregivers did seek help, however, it was as if there were a series of hidden barriers to confound them. Not only did they lack knowledge of what was available and how to gain access to it, the referral system seemed incapable of making up for this deficiency. Although Mrs Osborne visited her general practitioner regularly (by taxi), he did not refer her on to community services that could have helped her in the home. And despite having been admitted to hospital several times in the months before her last interview, on no occasion had the discharge planning led to a referral to community support services. Nor had she been referred to the ACAT to be reassessed after three years.

In attempting to determine attitudes towards service use with greater precision, we asked users and their caregivers directly about their preferences. Some, in particular those with cognitive behavioural problems, were simply unable to answer for themselves. It became apparent that in such cases, any initiative to use services would have to come from a caregiver, if there was one, or from someone else with knowledge and authority, such as the general practitioner. Others, like Mrs Osborne and her caregivers, indicated that they preferred to remain independent and make do as long as possible without help. If they did need help, however, they would be prefer it from someone in the family rather than from a community service.

Surprisingly, an almost equal number stated that if they needed help they would rather approach community services than family members. This was particularly the case amongst those living on their own, who indicated that they viewed services as a means of remaining independent. Yet although many clients said they preferred help from family or from services, those interviewed, with only a few exceptions, seemed in practice reluctant to ask directly for help of any kind for themselves.

Often, it appears, despite their attachment to their home, participants were prepared to accept admission to residential care if their needs exceeded their capacity to

remain independent at home. For example, a typical off the cuff reply to persistent questioning on this matter was:

Well if I really needed such a lot of help I wouldn't try and stay here any longer. I'd be ready for a nursing home then, if any would take me.

The preparedness of many to philosophically accept admission to a nursing home, without first trying intensive support in the home, seems to belie the commitment that most clients expressed towards remaining at home. But it is an understandable opinion from people who regard the home as a private refuge in which they can be independent.

Unless medical crisis forced their hand, a strategy that many participants and their caregivers actually pursued in practice when confronted with difficulties at home appeared to be that the subject would be discussed with family and, over the phone or perhaps in person, with friends. If the advice or offers of help did not lead to the problem being solved, it may later have been raised with their doctor. The family doctor, in this way, appears to be a particularly important mediator of demand, able to either interpret tentative inquiries as problems requiring solutions and referrals, or pass them off as the chronic complaints of patients for whom there is no cure.

4.2 Service Providers' Perspectives

In attempting to understand factors affecting the allocation and utilisation of formal services from the perspective of those who were directly responsible for their delivery, we were able to draw on information obtained from a number of sources. First, the coordinators of all community support services in Broadleigh were interviewed at length during the study. In total over thirty separate agencies were consulted in this way. Second, for three years, we attended regular regional meetings such as the monthly HACC Forum in Broadleigh at which many of the local service providers were present. Through this and the incidental contacts that followed, we were able to learn much about the sorts of problems confronting service providers in the area. Thirdly, we conducted focused interviews with representatives of eleven different services, representing each of the main types of service provided, after the completion of fieldwork with the users. These interviews focused on questions concerned with the use of services in the home, in part by discussing three case studies drawn from the work with service users. One of these case studies was that of Mrs Osborne, presented above. Drawing on our more general understanding of the issues confronting services in Broadleigh, we focus here on two of the major themes which emerged in these final discussions: respect for the clients' right to choose; and the importance of referrals. Unfortunately time permits us to discuss each of these themes only briefly.

One of the fundamental reasons for the existence of publicly funded community services was said by most service providers to be to enable clients¹ in need of assistance to choose whether to remain at home or seek admission to residential care. Following on from this, respect for the client's choice about whether to accept assistance in the home, was said to be the guiding principle behind the allocation of assistance by services. While this sounds rather like an open invitation to clients to select their own menu of services, in practice it appears that respecting clients' choices usually meant that (potential) clients were given the opportunity to refuse assistance.

To determine how much or what type of help any particular applicant should receive, most coordinators rely on a personal 'assessment' conducted in the home of the potential client. In determining the amount of assistance to be provided, they stressed that it was important to be guided by what the applicant and caregiver said they thought was necessary. Most coordinators explained they had learnt from experience that unless a client (and, where applicable, their caregiver) wants help, there was little point in providing it. Not only was it legally not possible to force a person to receive assistance against their will, but it was also impractical, and liable to prove to be a waste of precious time and resources. Coordinators also stressed the positive value of recognising the desire of clients to be independent, and the importance of fostering and supporting informal caregiving for those who remained at home.

But despite this apparent consensus concerning the significance of clients' choice in the decision making process, there were major differences in the way it was actually implemented. The coordinators of some services, for example, indicated that they regarded the client's preference to remain at home as almost inviolable. In these cases every attempt would be made to provide enough help to keep the client at home, even if they qualified for nursing home care. The levels of assistance that some clients were said to receive under these sorts of arrangements far exceeded those that we have documented amongst the participants of the Broadleigh study. In contrast, the coordinators of other services explained that while the client's (and/or caregivers') own preferences were important, they were at times unrealistic, and could not be implemented without withdrawing services from other legitimate clients. In such cases their choice would often be formally respected but the limits of the assistance that could be provided by the particular agency made clear. Through time, it was hoped that such clients would either adjust to the realistic level of service, or realise that their decision was not practical and be persuaded that their security and quality of life would be enhanced by leaving the home. This rather different approach to respecting clients' choices recognised the limited resources available to the service and attempted to work within these limits to assist as many clients as possible.

1 The users of services were referred to differently by the separate services as being clients, patients, or people. For consistency, we have used the term client throughout this paper.

Before assistance can be provided, a referral, that is, an application for advice or assistance, must be received by the service providing agency. The importance and frequent failure of referrals, the main mechanism for obtaining assistance from services, was a closely related theme to emerge from discussions with service coordinators.

There were two major types of problems in the system of referrals identified by service providers. The first was associated with the failure of many clients and caregivers to request advice or assistance when they needed it. Often, it was believed, this was because consumers simply did not know what was available. In other instances, however, it was clear that some potential clients were reluctant to ask for help even though they knew what was available. Whether this was because they were, in the words of one experienced coordinator, 'too independent' or 'too stubborn to admit they need help', or for some other reason, such as adverse preconceptions of the agency or agencies involved, was not always possible to determine.

The second type of problem identified concerned the regular failure of certain medical practitioners, other health professionals and service providers to refer potential clients for assistance. In some cases these, too, were considered to reflect a degree of ignorance and lack of information on behalf of the professionals and others involved. In other cases, particularly those involving apparently routine hospital discharge procedures, staff were considered to be working under great pressure, and were said to be preoccupied with developments in their own sphere of responsibility. Other instances were also given in which the failure to refer was attributed to the professional's animosity towards community services.

Despite their acknowledgment of a series of problems associated with the non-use of services, most of the service coordinators with whom we spoke indicated they were more often confronted with having to try to stretch resources sufficiently to be able to meet an apparently almost insatiable demand for their services. In this, they were faced with a rather unenviable dilemma. Although their resources were limited and they did not have the capacity to accommodate all demands for assistance made on them, it was necessary to be able to respond as quickly and effectively as possible to an almost continual stream of new referrals. To ensure that their operating capacity was not exceeded, although they provided as much assistance as could be reasonably expected, a variety of different approaches were used. These included the frequent review of cases and priorities for assistance, the provision of assistance to many first time applicants on a temporary trial basis, and limitations on the frequency and timing of assistance.

5 Conclusion

Community support is essentially a mixed system in which several separate elements, each probably inadequate and incomplete on their own, are combined. These elements include the individual's own capacity for independence in the activities of daily living, informal assistance provided by family members and

others, various professional agents (such as the General Practitioner, medical specialists, pharmacists and so forth) who extend advice and information, as well as the assistance provided by community support services.

Many critics regard community care as an abdication of government commitment. For example, Finch and Groves have argued that 'community care equals care provided by the family, and in practice, care provided by the family equals care by women' (Finch and Groves, 1980: 494). Yet it is possible to argue that at least some community support programs, such as HACC, represent an attempt to move away from the 'all or nothing' model of social provision inherent in an exclusive reliance on residential care. Reforms introduced in the 1980s ensure that residential care services remain available to those in need at the same time as services available to assist people in their homes have been increased. The increase in these services, at least has the potential to enable state funded services to work together with informal caregivers, ultimately forming a partnership in care. This vision of state action is one expressed succinctly in the slogan, 'Sharing Community Care', adopted by the Commonwealth Department of Community Services in 1986.

As we have shown in this paper, however, the ideal of a partnership in care has only been partially achieved in practice. Although considerable use was made of services by a few of the participants in the study, the majority did not receive assistance at a high level of intensity. The availability of informal care appears to remain the most crucial factor in determining its longer term viability. Thus, if community support is a partnership, it is a rather unequal one, in which one partner does most of the work in the home, while the other pops in just occasionally. The partnership may at times be a congenial one, but it lacks the feeling of longer term security which might arise from a serious *de jure* commitment on behalf of both partners.

It is not possible, on the basis of the evidence presented in this paper, to reach definitive conclusions about the causes of the low levels of usage of formal services in the home by community support clients we have documented. Nevertheless it seems clear that a range of factors are involved, including the relatively subdued demands for assistance made by potential clients, the limitations of supply based on the limited availability of services, and the problems and blockages which exist in the system of referral.

Given this complexity, the concept of encouraging clients to make a simple choice between residential care and support in the home is problematic. In practice the demand for assistance, and the supply of formal services, as well as the mediation and referral process, which affect such decisions, are all tightly bound together and difficult to unravel. Factors such as the clients' level of disability, their disposition towards accepting help and the availability of informal care, operating at what might be considered the micro-level of decision making immediately surrounding the individuals concerned, take place within the context of broader policy developments occurring at the macro-level. The sorts of macro-level factors that affect decisions about long term care in Australia include the organisation, control and availability of services and the bureaucratic/administrative structure of the different support

programs, both residential care and at home; economic conditions and longer term developments in the labour market that affect the availability of informal care as well as constrain the development of social policy; and shifts in the prevailing ideologies of welfare provision.

The coordinators of community support services, like the clients and their caregivers with whom we spoke, were often faced with having to make invidious choices about the amount and type of assistance they could provide individuals in need. Yet, like those of clients, the decisions that service coordinators were able to make were tightly constrained by a set of parameters over which they had little control.

Not surprisingly, given the intertwining of their lives, service personnel and clients appeared to share many of the same values. Maintaining independence by supporting those in need of care to remain at home, and supporting them in making choices about the sort of assistance they receive there are just two of these. Although it is tempting to identify such values, associated with independence, choice and the privacy of the home, as unique and typically Australian, the series of preferences involved in this process have also been identified in a number of overseas studies. These values were first identified in the United States by Marjorie Cantor, who coined the term 'hierarchical compensatory model' to describe the hierarchy of preferences involved (Cantor and Little, 1985; Cantor, 1989; Fine, 1992). They were also identified in a study of community care in Britain by Qureshi and Walker, (1989; Qureshi, 1990). Finch and Mason have argued that this cross-cultural value system should not be regarded as a universal and natural system of beliefs. Instead, they claim, it must be understood as a form of hegemonic, conservative and patriarchal ideology, which stresses self care and private self sufficiency over public responsibility, idealises the values of the family and identifies women as preferred caregivers to men (Finch and Mason, 1990).

It is clear that at present the high levels of nursing home provision in Broadleigh, as elsewhere in Australia, continue to provide some relief of the pressure that can build up when those in need of ongoing care are supported in their home for long periods. If the present policies are continued, however, the availability of nursing home beds will decrease in coming years, placing a considerably greater strain on those concerned with community support. It seems clear that if this approach is to be a success, far greater attention will have to be given to promoting both the provision and appropriate use of community support services.

By encouraging people to remain in their own home, the Home and Community care Program and related policies in Australia, has paradoxically transformed the home for those in need of care from a largely private domain, in which it was the responsibility of individual households and families as to how they chose to live, to a site for the exercise of public responsibility. Yet this transformation has not been complete. Those involved often appear to want to retreat to the privacy of the home, relying on as little outside support as possible. Policy makers, who do much to determine the way in which community services are provided, and service providers who have the responsibility for allocating them, do little to discourage this, and

indeed appear to actively support it. But if people in need of care are effectively to be supported to remain at home, a rather different emphasis, if not an entirely different approach will be needed. As part of coming to terms with the sorts of developments likely to be required, a recognition of the limitations of the choice currently being offered is required.

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Saving for Retirement: The Benefits of Superannuation for Individuals and the Nation

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Retirement Income Modelling Task Force¹

1 Introduction

The philosophical foundations for the Commonwealth Government's current approach to retirement income policy were set out in the 1989 Statement by the Honourable Brian Howe, (then) Minister for Social Security entitled *Better Incomes: Retirement Income Policy into the next Century*. The foreword gives the following rationale for the Government's policy:

At the beginning of the next century the 'baby boom' generation will begin retiring if current early retirement patterns persist. From 2011 the demand for age pensions will increase rapidly.

It will be possible to meet the needs of an ageing population better by increasing the level of saving and by expanding labour market opportunities. However, future generations will probably expect higher levels of income and services. Consequently, **a flexible and sustainable retirement income policy which delivers fair and adequate incomes needs to build on the twin pillars of the age pension system and private saving such as superannuation.**

The policy framework detailed in this statement recognises the very close links between retirement income policy, as a key element of the Government's social Justice Strategy, and macroeconomic and microeconomic reforms. Increased saving for retirement not only improves retirement income adequacy but also improves investment and future economic growth and hence our capacity to finance retirement income outlays.

¹ The Task Force is equally financed by the Departments of Treasury, Finance and Social Security from the reallocation of existing resources. The views expressed in this paper are those of the authors and do not necessarily reflect the views of the Departments financing the Retirement Income Modelling (RIM) Task Force or of their Ministers or advisers.

Changes to superannuation will also assist labour market reform by promoting greater mobility and flexibility in working patterns. Award restructuring will also improve women's labour market opportunities and, together with improved access to superannuation, will enhance their capacity to save for retirement.

The issues confronting our retirement income system are well known and the solutions are generally agreed even though there may be some differences about details.

It is critical that we as a community implement the goals of this retirement income policy. **The goals need to be translated into action over the next decade to ensure that future retirees, as well as those who are already retired, have better and more adequate income in retirement.** (Howe, 1989: iv)

The themes of adequacy, coverage and savings were also stressed by the Treasurer, the Honourable John Dawkins in his June 1992 Statement on *Security in Retirement: Planning for Tomorrow Today*. His foreword states:

This package reflects the importance with which the Government views long term financial security and stability in retirement. It streamlines the rules for superannuation. It makes it easier to understand, much fairer for low income earners, and more certain in its effects.

Over the long term, our measures will also generate a larger pool of investible funds - Australian funds for investing in Australia. It will diminish our need for foreign borrowings and enhance Australia's capacity to develop industry and create employment. (Dawkins, 1992: iii)

The *Security in Retirement* statement added a major support for the second pillar of retirement income policy: compulsory superannuation in private funds enforced through the Superannuation Guarantee Charge. The SGC schedule of minimum contributions from employers is set as shown in Table 1.

The Statement also said that 'The Government also envisages a taxation trade-off to allow for a universal employee contribution of 3 per cent later in the SGC implementation period' (Dawkins, 1992: 3) The SGC both would raise retirement incomes and would also give low income earners greater access to concessionally taxed savings. The complex Reasonable Benefits System which had been based on final average salaries was also simplified to flat lump sum limits of \$400,000 and \$800,000 in total. Combined with the highly progressive age pension, the Treasurer concluded that 'Taken as a whole, the Government's retirement income policy is progressive' (Dawkins, 1992: 2).

Table 1: Schedule of Minimum Employer Contributions

Period	Employer's payroll \$1m or less	Common rate	Employer's payroll Over \$1m
1.7.92 - 31.2.92	3%		4%
1.1.93 - 30.6.93	3%		5%
1993-94	3%		5%
1994-95	4%		5%
1995-96	5%		6%
1996-97		6%	
1997-98		6%	
1998-99		7%	
1999-2000		7%	
2000-01		8%	
2001-02		8%	
2002-03		9%	

The Government has established the Retirement Income Modelling Task Force to analyse the long term effects of retirement income policy on individuals and the economy. The Task Force's Terms of Reference are at Appendix One. This paper analyses new evidence from the existing models of the Task Force on the adequacy, intragenerational equity, and effects on national saving of the Government's retirement income policy.

The results on national saving were published on 29 June 1993 in the FitzGerald report on *National Saving: A Report to the Treasurer*. Dr FitzGerald has stressed the importance of the Government's retirement income strategy as a major component in recovery of Australia's saving and investment performance.

2 Measuring the Benefits and Costs of the SGC Policy for Individuals

Cost-benefit analysis provides an appropriate methodology for assessing Government investment projects which occur at different points in time (see Department of Finance, 1991). The methodology requires the quantification of costs and benefits in dollar terms and their conversion to net present values using an appropriate discount rate. As part of the RIM project, Colin Brown (1993) has devised a methodology for doing this for retirement income policy using the INDMOD computer model to give appropriate estimates for individuals, and the National Mutual Retirement Income Policy Model (RIP) to obtain aggregate results.

The Government's statements on the goals of retirement income policy show that it has decided that an income maintenance approach is more appropriate in the longer term than a policy which aims only at poverty alleviation. That is, the Government

has decided that the appropriate goal of retirement income policy is to improve the replacement percentage that disposable retirement incomes are of pre-retirement disposable incomes. This policy operates in concert with an underlying objective of maintenance and improvements to the age pension which will prevent poverty in retirement. This suggests that the best way to measure the **benefits** of retirement income policy is by the improvement in disposable retirement incomes as a percentage of pre-retirement disposable incomes.

The costs of the Government's retirement income policy are the costs of its tax concessions and of its age pension outlays (both Age Pension and Service Pension). The most often used estimate of the costs of the Government's retirement income tax concessions, that in the *Tax Expenditures Statement* (TES) (Department of the Treasury, 1992), is not appropriate for assessing the **long term** costs of tax concessions for three main reasons (see Brown 1993 for a full analysis; Brown notes that it is still appropriate for short term costs):

- The TES estimate follows international practice in estimating revenue forgone as though each year is the first year of the policy, rather than differences in the net present values of accruing costs. In particular, the accrual of counterfactual savings diverges sharply from their first year relativity with superannuation because the higher taxation of interest leads to lower accumulations of counterfactual savings and therefore to lower estimates of tax on interest forgone.
 - The TES estimate assumes that all superannuation saving would otherwise have been received, in the absence of superannuation saving, as wages and that all of the increase in disposable income would be saved and taxed at marginal rates. The fact is that all available evidence suggests that increases in disposable income are largely spent rather than saved. FitzGerald and Harper (1993: 28) argue that **more than half of SGC compulsory savings would be net additions to savings**. Conversely, they believe that **less than 50 per cent of any increase in disposable income would be saved in a fully taxed form**, and hence have used a conservative saving offset factor of 0.5 in their analysis. Most RIM analysis also uses this 50 per cent saving offset rather than the 100 per cent saving offset assumed in TES. However, our analysis of financial assets presented in the next section appears to confirm Fitzgerald and Harper's hypothesis that the saving offset factor (on our converse definition) is less than 50 per cent. **The practical importance of this 50 per cent saving offset assumption is that compulsorily preserved superannuation will be modelled as adding to the stock of private savings as well as changing its form when compared to the counterfactual policy scenario of wage rises and investment of 50 per cent of the resulting increase in take home pay in ordinary savings accounts.**
 - The TES estimate treats the superannuation fund earnings taxation rate at its nominal rate of 15 per cent. INDMOD and RIP assume an effective tax rate on
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fund earnings of 7 per cent which allows for the effects of dividend imputation and the taxation of only real, realised capital gains.

Correcting for these deficiencies in the TES estimates of tax concessions leads to the following **measure of the annual costs to Government of retirement income policy**:

- Tax on non-concessionally taxed superannuation contributions and earnings in the year
- less Tax on concessionally taxed superannuation contributions and earnings in the year
- plus Tax on retirement income in the year with non-concessionally taxed accumulation
- less Tax on retirement income in the year with concessionally taxed accumulation
- plus The age pension payable in the year with a concessionally taxed accumulation
- less The age pension payable in the year with a non-concessionally taxed accumulation.

2.1 Projected Outcomes for Individuals

Table 2 presents the benefits to a single male and costs to government of the SGC policy under seven scenarios designed to show sensitivity to key long term policy assumptions in the modelling. These scenarios are:

- A. Current legislated schedule of minimum employer contributions for the SGC for a male who is 25 in 1992 and who retires at 65, investing all superannuation benefits in a rollover annuity. The estimates are based on an age pension indexed to AWE, CPI growth at 4 per cent pa, AWE growth at 5.5 per cent pa, and a 50 per cent saving of counterfactual increases in disposable income. The Government bond rate used as the discount factor is set at 8 per cent. The fund earning rate is set equal to the bond rate. Brown (1993) discusses the sensitivity of this analysis to the bond rate. Administrative charges are set to \$1.70 per week.
 - B. Employee co-contributions to superannuation in addition to employer contributions (this hypothetical policy is one way for the Treasurer's envisaged long-term policy to be implemented). Employee contributions are set at 1 per cent of gross income in 1998-99 rising to 3 per cent in 2000-01. Otherwise as for Scenario A.
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- C. 30 per cent savings of counterfactual increase in disposable income. Otherwise as for Scenario B.
- D. All benefits taken as a lump sum and invested at simple interest, rather than being rolled over into an annuity. Otherwise as for B.
- E. All benefits taken as a lump sum of which 50 per cent is dissipated. Otherwise as for Scenario B.
- F. Age Pension indexed to CPI rather than AWE giving real age pension levels which are substantially lower after 40 years. This scenario corresponds to current social security legislation but not to current Government policy which is to adjust the single rate pension to 25 per cent of AWE on an ad hoc basis. The most recent increase to this AWE benchmark was on 28 January 1993. Otherwise as for Scenario B.
- G. An employee born in 1950, rather than 1967, receiving SGC minimum employer contributions from 1992 and making employee co-contributions from 1998-99. This baby-boomer retires in 2014-15 rather than 2031-32 as in the rest of the scenarios. Because the retirement is far earlier the real values of retirement income for this example are considerably lower than for the other scenarios.

The results of the analysis are best presented graphically. Figure 1 shows the replacement income resulting from the different policy scenarios. In all scenarios where the age pension is indexed to AWE the policies lead to higher replacement income ratios for those on low incomes rather than for those on high incomes. The combination of the age pension income tests and superannuation tax concessions is highly progressive. When the pension is indexed by the CPI, a single male on AWE for his working life will receive negligible age pension. In the other AWE indexation scenarios, age pension is received by those with higher pre-retirement incomes. In scenario F, the overall progressivity result is less affected by the age pension income test. At higher incomes, the flat rate reasonable benefit limits announced in *Security in Retirement* (Dawkins, 1992) have also improved progressivity.

Figure 2 shows that the gain to the individual from the retirement income policy exceeds the cost to Government in all scenarios. This is because the compounding earnings in concessionally taxed superannuation funds yield greater benefits to individuals, than the tax concessions (less reduced age pension outlays) are costs to government. Scenario C shows the largest net gain because it has the lowest estimated tax concessions cost from the 30 per cent offset factor. The 50 per cent lump sum dissipation scenario shows the lowest gains in retirement incomes and the worst net cost-benefit because the reduction in age pension outlays raises the cost to government. Analysts such as Knox (1991) and Bateman and Piggot (1993) have commented on the potential for double dipping to undermine the Government's retirement income policy. However, Kalisch (1992) comprehensively reviewed the data on use of lump sum superannuation payments and concluded that they were largely used for income generating investments or housing and that there was no

Table 2: Gains in Replacement Incomes and Cost-Benefit Analysis of SGC Policy Scenarios for a Single Male^(a)

Scenario/Measure	Wages as Percentage of AWE (1992 \$ Values)					Wages as Percentage of AWE (% of pre-retirement disposable income)				
	67%	100%	150%	200%	300%	67%	100%	150%	200%	300%
Scenario A: Employer only contributions at SGC minimum. 100% of benefits converted to rollover annuity, age pension indexed to AWE. 50% savings offset.										
NPV ^(b) of net gain to members retirement income	6,222	8,669	12,037	15,315	26,223	20.0	19.7	20.0	20.5	25.2
NPV of net cost to government	(332)	148	602	119	3,504	-1.1	0.3	1.0	0.2	3.4
NPV of net policy gain from tax concessions	6,555	8,521	11,435	15,196	22,719	21.1	19.4	19.0	20.3	21.8
NPV of disposable retirement income	24,112	26,966	31,139	36,001	49,817	77.6	61.4	51.8	48.2	47.9
Percentage of age pension	96.3	76.0	40.1	11.7	0.0					
Scenario B: Phased 3% employee co-contribution. Contributions at SGC minimum. 100% of benefits converted to rollover annuity, age pension indexed to AWE. 50% savings offset.										
NPV of net gain to members retirement income	7,009	9,924	14,972	21,238	36,687	22.5	22.6	24.9	28.4	35.3
NPV of net cost to government	(1,584)	(2,371)	(2,121)	(1,502)	2,653	-5.1	5.4	-3.5	-2.0	2.5
NPV of net policy gain from tax concessions	8,593	12,295	17,093	22,740	34,034	27.6	28.0	28.4	30.4	32.8
NPV of disposable retirement income	26,486	30,282	36,802	45,307	64,745	85.2	68.9	61.2	60.6	62.2
Percentage of age pension	85.6	55.9	16.1	0.0	0.0					
Scenario C: 30% savings offset. Phased 3% employee co-contribution and employer contributions at SGC minimum. 100% of benefits converted to rollover annuity, age pension indexed to AWE.										
NPV of net gain to members retirement income	9,148	12,387	17,954	24,939	41,653	29.4	28.2	29.9	33.4	39.9
NPV of net cost to government	(3,035)	(4,709)	(5,743)	(6,583)	(5,611)	-9.8	-10.7	-9.6	-8.8	-5.4
NPV of net policy gain from tax concessions	12,183	17,096	23,697	31,522	47,174	39.2	38.9	39.5	42.2	45.3
NPV of disposable retirement income	26,486	30,282	36,802	45,307	64,745	85.2	68.9	61.2	60.6	62.2
Percentage of age pension	85.6	55.9	16.1	0.0	0.0					

Table 2: Gains in Replacement Incomes and Cost-Benefit Analysis of SGC Policy Scenarios for a Single Male^(a) (Continued)

Scenario/Measure	Wages as Percentage of AWE (1992 \$ Values)					Wages as Percentage of AWE (% of pre-retirement disposable income)				
	67%	100%	150%	200%	300%	67%	100%	150%	200%	300%
Scenario D: All benefits taken as lump sum and invested. Phased 3% employee co-contribution and employer contributions at SGC minimum. Age pension indexed to AWE. 50% savings offset.										
NPV of net gain to members retirement income	7,236	10,377	14,842	19,601	18,690	23.3	23.6	24.7	26.2	18.0
NPV of net cost to government	(1,832)	(1,882)	(1,415)	(1,391)	(5,495)	-5.9	-4.3	-2.4	-1.9	-5.3
NPV of net policy gain from tax concessions	9,068	12,259	16,257	20,992	24,185	29.2	27.9	27.1	28.1	23.3
NPV of disposable retirement income	26,984	30,899	36,651	43,419	46,485	86.8	70.4	61.0	58.1	44.7
Percentage of age pension	84.8	73.6	53.9	43.3	35.0					
Scenario E: All benefits taken as lump sum and 50% invested. Phased 3% employee co-contribution and employer contributions at SGC minimum. Age pension indexed to AWE. 50% savings offset.										
NPV of net gain to members retirement income	3,849	4,719	5,908	6,688	(245)	12.4	10.7	9.8	8.9	-0.2
NPV of net cost to government	328	1,256	3,246	3,545	(1,213)	1.1	2.9	5.4	4.7	-1.2
NPV of net policy gain from tax concessions	3,521	3,463	2,662	3,143	968	11.3	7.8	4.4	4.2	1.0
NPV of disposable retirement income	21,121	22,472	24,466	26,446	21,648	68.0	51.2	40.7	35.4	20.8
Percentage of age pension	96.5	91.5	83.2	74.7	59.3					
Scenario F: Age pension indexed to CPI. Phased 3% employee co-contribution and employer contributions at SGC minimum. 100% of benefits converted to rollover annuity. 50% savings offset.										
NPV of net gain to members retirement income	6,579	10,485	20,563	28,812	45,344	21.2	23.9	34.2	38.5	43.6
NPV of net cost to government	(2,013)	(1,809)	3,470	6,073	11,310	-6.5	-4.1	5.8	8.1	10.9
NPV of net policy gain from tax concessions	8,592	12,294	17,093	22,739	34,034	27.7	28.0	28.4	30.4	32.7
NPV of disposable retirement income	18,954	23,654	35,080	45,307	64,745	61.0	53.9	58.4	60.6	62.2
Percentage of age pension	45.1	2.3	0.0	0.0	0.0					

Table 2: Gains in Replacement Incomes and Cost-Benefit Analysis of SGC Policy Scenarios for a Single Male^(a) (Continued)

Scenario/Measure	Wages as Percentage of AWE (1992 \$ Values)					Wages as Percentage of AWE (% of pre-retirement disposable income)				
	67%	100%	150%	200%	300%	67%	100%	150%	200%	300%
Scenario G: Employee born in 1950 Phased 3% employee co-contribution and employer contributions at SGC minimum ONLY. 100% of benefits converted to rollover annuity. Age pension indexed to AWE. 50% savings offset.										
NPV of net gain to members retirement income	838	1,289	1,885	2,173	2,813	12.6	13.7	14.7	13.6	12.7
NPV of net cost to government	133	306	546	394	153	2.0	3.3	4.3	2.5	0.7
NPV of net policy gain from tax concessions	705	983	1,339	1,779	2,660	10.6	10.4	10.4	11.1	12.0
NPV of disposable retirement income	4,461	5,052	5,863	6,456	7,665	67.2	53.9	45.7	40.4	34.5
Percentage of age pension	100.0	99.1	93.2	74.8	37.5					
Notes:										
a)	Unless stated otherwise, these scenarios assume a male commencing superannuation at age 25 and retiring at 65, the minimum SGC employer contribution rate for large companies, an employee co-contribution of 3 per cent in 2000-1 phased in from 1 per cent in 1998-99, a constant CPI of 4 per cent and AWE growth 5.5 per cent, a bond rate of 8.0 per cent, and effective tax rate of the superannuation fund of 7 per cent and weekly fees of \$1.70.									
b)	NPV is net present value.									

Figure 1: Progressivity of Replacement Incomes: Scenarios for a Single Male

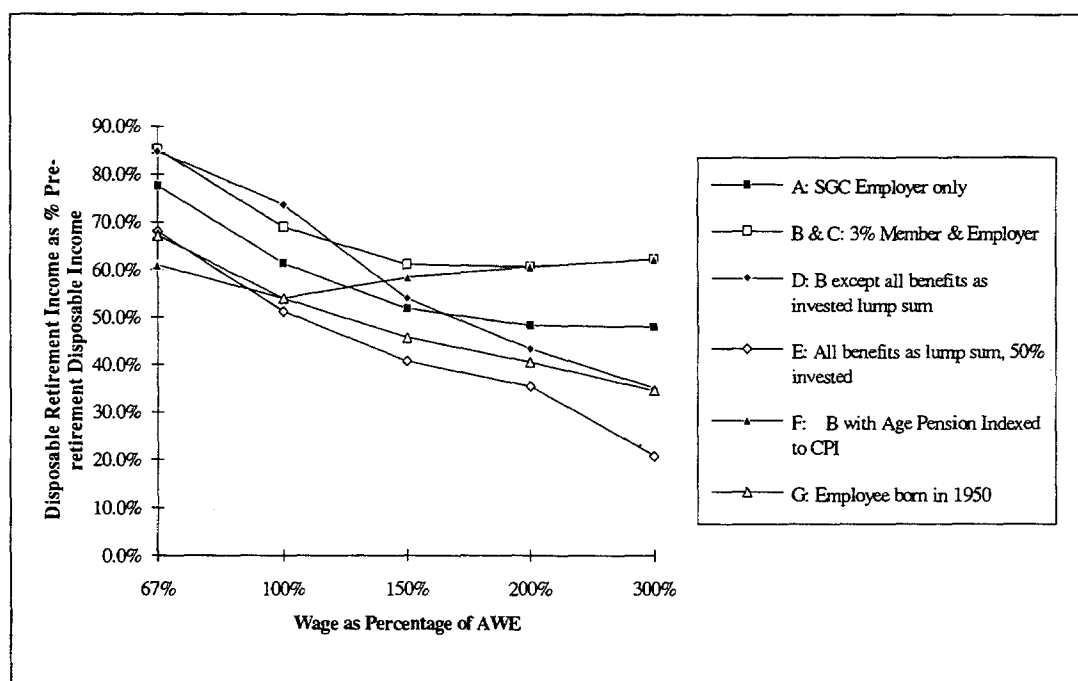


Figure 2: Net Gain from Tax Concessions as a Percentage of Pre-retirement Income

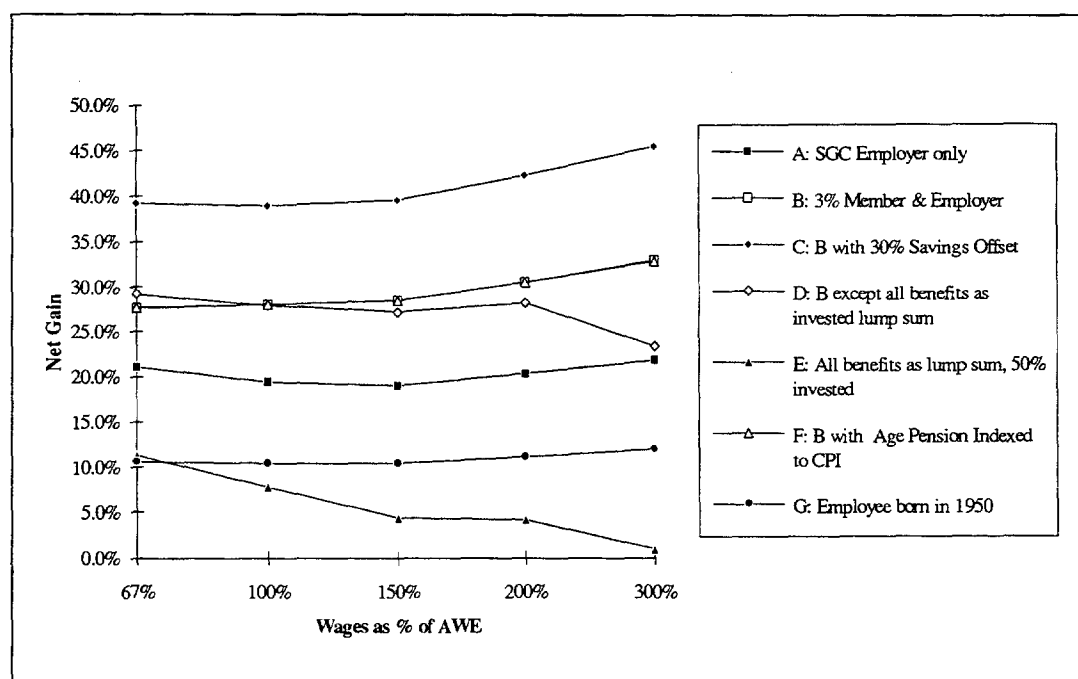
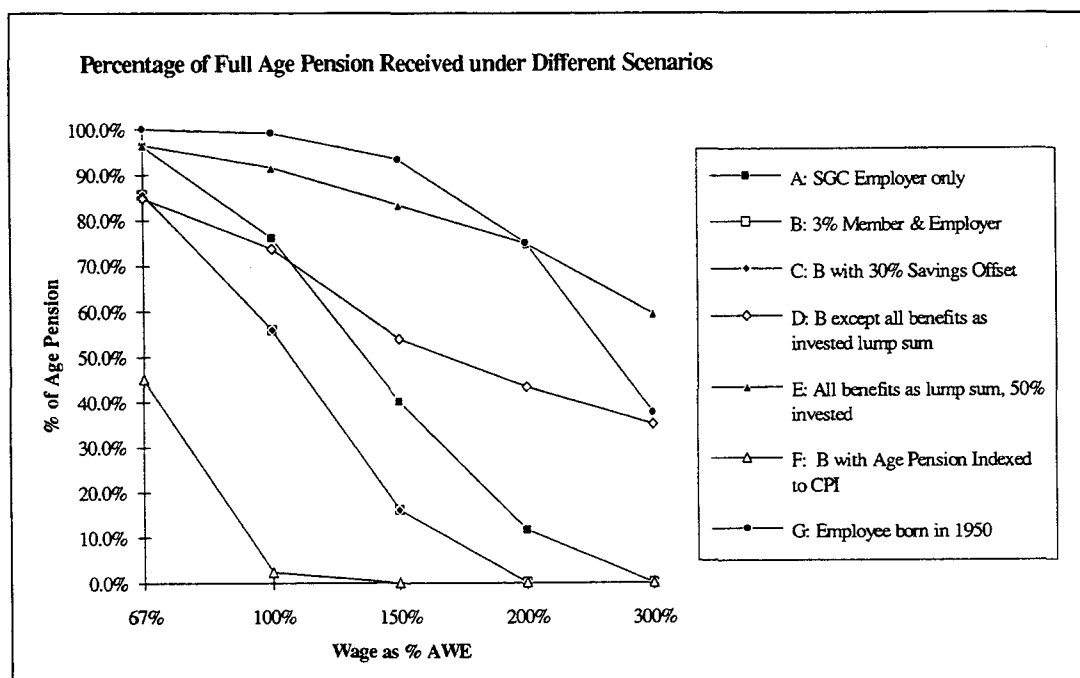


Figure 3: Percentage of Full Age Pension Received under Different Scenarios

evidence of former high income earners restructuring financial arrangements to withdraw the pension. Partly as a pre-cautionary measure, the Government has implemented full preservation of SGC contributions, and announced full preservation of all superannuation benefits from 1 July 1996 (less an amount which broadly equates to what can now be taken on resignation) and raising the preservation age to 60 by the year 2025.

Figure 3 shows the effect that the different scenarios have on receipt of age pension. Obviously, with only SGC contributions, the 1950 baby boomers will receive higher percentages of age pensions than cohorts born in 1967 or subsequently. The aggregate results later in the paper demonstrate that the major effects of current SGC policies on age pension outlays will be after 2015. The result suggests that policy measures which raise superannuation contributions sooner could improve the capacity of the government in twenty years' time to absorb the cost of the baby boomers. If earnings grow faster than consumer prices, indexing the pension to CPI only could produce age pension savings. Such a policy would be a break with current Government policy of keeping the value of pensions stable relative to community living standards (as measured by AWE). Increased superannuation could make the age pension, maintained at 25 per cent of AWE, more affordable and sustainable.

In summary, this hypothetical analysis has shown that the long term benefits to the individual from the SGC-induced increase in the adequacy of retirement incomes

exceeds the long term costs from the tax concessions and age pensions (when the bond rate is used as discount factor for the cost-benefit analysis). Brown (1993) has shown that this positive cost benefit applies to a number of bond rate and fund earnings rate assumptions. He has also shown that the use of the Department of Finance's 8 per cent real discount rate (4 per cent above the real fund earning rate) leads to zero net present values, i.e. costs equalling benefits. The SGC policy appears to be a sound long term investment but it may well be challenged by those concerned at the short term costs. Later sections of this paper will examine the relevant aggregates.

Measured by replacement rates, the SGC policy is progressive (see Figure 1) and may well assist the maintenance of age pension relative to community living standards. That is, the income maintenance policy reflected in the SGC may well be necessary to maintain the poverty alleviation policy.

3 The Distribution of Superannuation and Non-superannuation Savings

The previous section has demonstrated the importance of estimates of the rate of saving from disposable income for estimating the tax expenditures arising from superannuation tax concessions. This section analyses the distribution of non-superannuation financial savings for individuals in the SGC target population in order to test the FitzGerald and Harper (1993) hypothesis that less than 50 per cent of marginal increases in disposable income from wage rises in lieu of superannuation would be saved. Plans for extending this distributional analysis are presented.

The section goes on to examine whether it is likely that the net additions to national savings from the SGC will be from all of those in the SGC population or whether it is likely that they will be mainly from lower income groups.

FitzGerald and Harper (1993) based their hypothesis on Andrew Dilnot's (1990) distributional analysis of wealth from the 1986 Income Distribution survey. This section updates that analysis by using results derived from the ABS 1989-90 Income and Housing Survey (IHS) unit record data (Australian Bureau of Statistics Cat. No. 6543.0, 1991). The scope of the analysis is the SGC population which has been defined as persons with wage and salary income over the 1989-90 tax threshold of \$5100 who are under 65 years of age and who are not part-time workers under 18 years of age. The survey does not have data on superannuation coverage and cannot be used to directly study the substitution between superannuation and other forms of saving nor the population who would actually rather than potentially have increased superannuation under the SGC policy.

The value of non-superannuation financial assets must be imputed from the income and housing survey. Following Dilnot, the value of interest bearing deposits has been estimated by dividing annual interest income by the bond rate then current of 13.2 per cent. The value of shares has been imputed by dividing dividends by a then current average yield rate of 6.10 per cent. The attempt to impute the value of rental

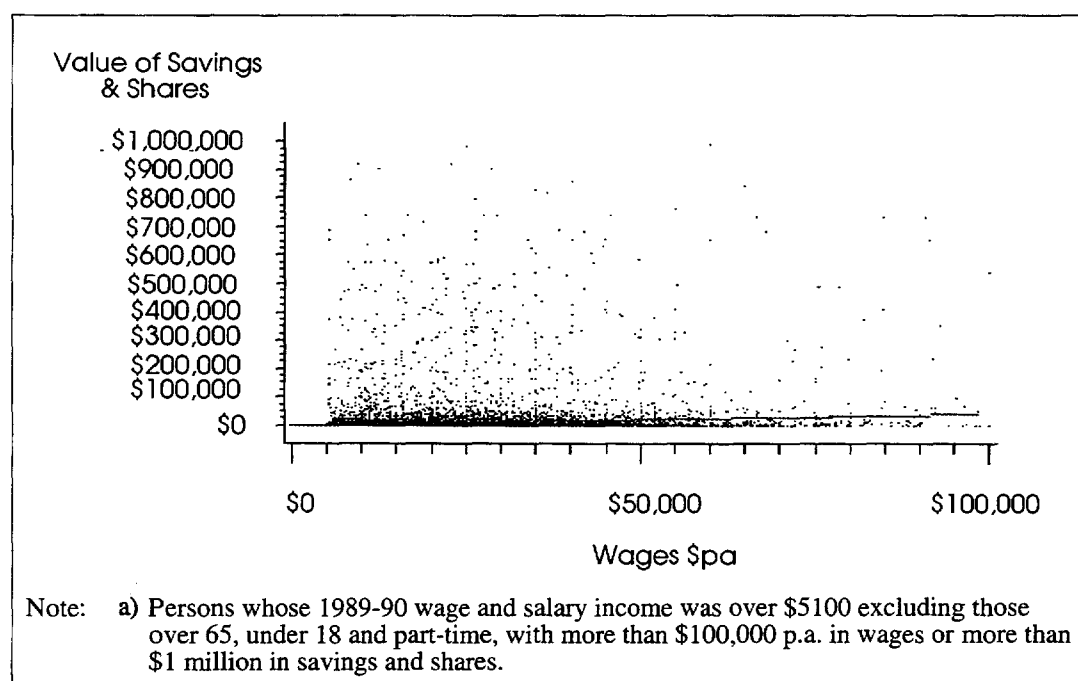
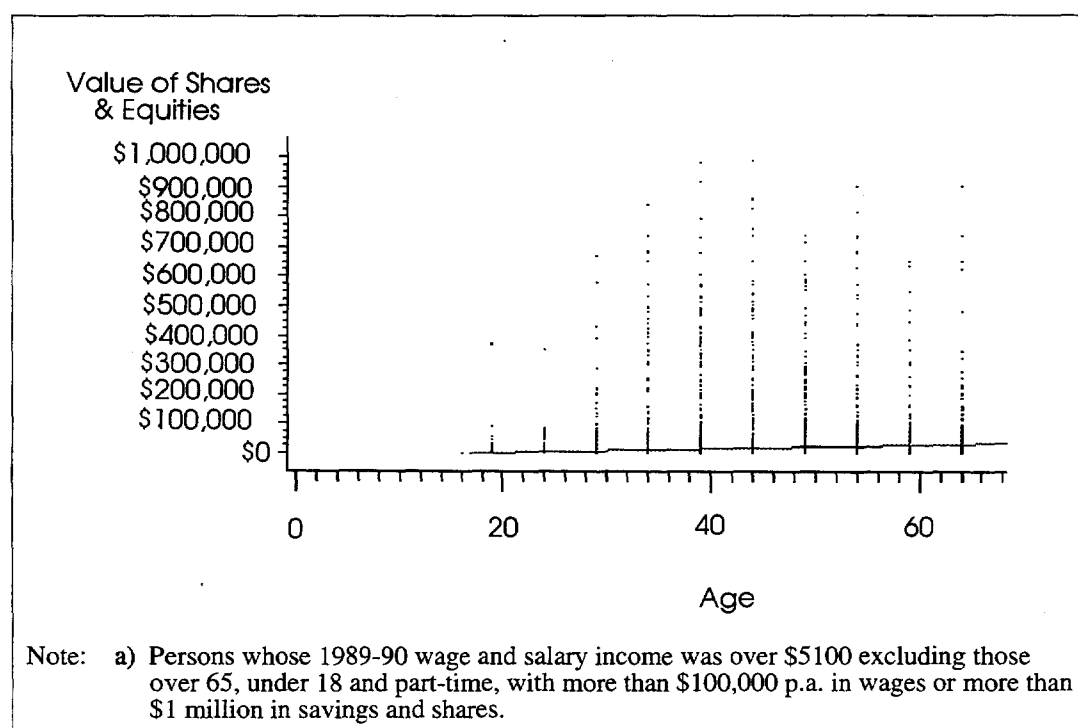
property was discarded because of the widespread incidence of rental losses. The IHS data yield estimates that there were 211,500 persons in the SGC population with rental losses with an average loss of \$4477 pa. In contrast, there were only 184,000 with rental property profits at an average of \$698 pa, but with a median value over \$2000 pa. This suggests that many of those making profits had substantial deductions. The survey cannot give estimates of financial assets which do not yield current income such as insurance and accruing superannuation.

The estimate for interest income from the Income and Housing Survey appears reasonable. The survey estimates total interest income at \$14,292m for 1989-90 for the whole population whereas Income Tax Statistics for 1989-90 estimates \$12,628. The higher estimate in the IDS is consistent with pensioners earning interest but not submitting tax returns. The dividend income estimate from the IHS appears too high. The IHS estimate is \$6,533m whereas Income Tax Statistics estimates \$2,036m. This suggests that the dividends item in the survey is capturing some other income sources. Although the financial asset incomes appear to extend beyond interest and dividends, the completeness of this analysis of fully taxed financial assets is uncertain: it does appear to be a reasonable guide to the likely distribution.

Figure 4 shows the immense variation of the imputed value of financial assets (imputed interest bearing deposits) by wage income within the SGC population and Figure 5 shows the same distribution by age of individuals. Although the regression lines in both figures show positive slope it is clear that current wage income and age in isolation do not explain much of the variation in financial assets. This has been confirmed by a regression analysis which showed that current wage, current age and gender only explained 1.6 per cent of the variation in financial assets in the SGC population. Although the estimates of the beta coefficients were highly statistically significant and positive, the highly skewed distributions of financial assets make simple parameter estimates of dubious use.

The variation in financial assets and the skew in their distribution are also highlighted by the percentile distributions of financial assets shown in Table 3. The mean estimates of financial assets are between the 80th and 90th percentiles for the SGC population and for each of the sub-populations shown. The standard deviation for each sub-population is many times greater than the mean.

This table shows how most of the SGC population have quite small financial assets. Fifty per cent of the SGC population have imputed financial assets less than \$454, sixty per cent have less than \$1,136 and seventy per cent have less than \$2,272. If the bulk of the SGC population have very low financial assets, this suggests that less than 50 per cent of any increase in take-home pay in lieu of superannuation would be saved. Only 30 per cent of the SGC population would appear to have financial assets in excess of that taken to pay a quarterly electricity bill and a large bankcard debt. And there is no evidence that the top 30 per cent of savers save all increases in their disposable income. If the 50 per cent savings replacement factor used by RIM and by FitzGerald and Harper (1993) might be too high, then the 100 per cent

Figure 4: Relationship Between Investment Assets and Wages for SGC Population^(a)**Figure 5: Relationship Between Investment Assets and Age for SGC Population^(a)**

estimate used in the Tax Expenditures Statement methodology looks untenable. The TES estimates are far too high in their first year, as well as in out years.

Table 3 also shows that there are appreciable rises in decile and quartile boundary values with rising income and with rising age. Further analysis will try to estimate slopes of these increases. It seems likely that both inheritance and accumulation explain the observed differences. The RIM Task Force will try to estimate accumulation using factors such as income, age (or years since started work), gender, housing equity, income of spouse, variations in income from sources other than wages and investments, public/private sector, occupation, education, marital status and number of children. Inheritance is more difficult to isolate using proxies on the data set. Immigration status might be one proxy but we welcome suggestions for any others. It could be argued that the extreme values of financial assets may well have arisen from inheritance or Lotto wins. They may add no insight into accumulation processes and could be excluded. The analysis might also be conducted within (say) quintiles of financial assets or for other sub-populations to prevent heterogeneity bias. In analysing the data, interactions will be tested but polynomials and exponentials might only be fitted when suggested by theory or by the pattern of the single factor residuals. We welcome comments on how this analysis might be done appropriately.

The relationship between wage income and superannuation coverage is stronger than between wages and non-superannuation financial assets. Table 4 shows superannuation coverage as a function of wage income in 1989. The probability of being covered by superannuation increases with income and full-time work. Within the employed population, coverage is not predicted by gender once pay rate and full-time status are taken into account. However, much of the existing coverage (about 30 per cent) will be at the award superannuation level (3 per cent) and it seems likely that the rise in the SGC contribution rate will elicit new savings from a broad range of private sector workers.

The interim conclusion from the analysis above is that net additions to investment funds are likely to come from the increased superannuation coverage of part-time workers and those on lower incomes and from the increase in contributions for those workers with low levels of contributions. These wage and salary earners would not have saved in fully taxed forms a major portion of any wage rises received in the absence of superannuation. The Treasurer's 1992 envisaged increase in contributions to 12 per cent (note: FitzGerald, 1993, advocates 18 per cent) is likely to draw additional savings from a wide range of the wage and salary earner population if the superannuation is fully preserved. If non-means tested withdrawals of vested superannuation for purposes such as housing occurs, then there is not likely to be significant additional saving. Further analysis is needed to determine the extent of substitution in untaxed savings in the form of housing.

The effects of this increased saving on aggregate tax concessions, age pension outlays and private savings available for investment are the subjects of the next section.

Table 3: Distribution of Imputed Financial Assets^(a) in the SGC Populatio^(b) in 1989-90

Population	Percentile ^(c)								Mean \$	Standard Deviation \$	Estimated Persons
	25% \$	50% \$	60% \$	70% \$	75% \$	80% \$	90% \$	95% \$			
(Value of Financial Assets that Stated Percentage of Population is below)											
Total SGC ^(b)	0	454	1,136	2,272	3,598	5,522	18,939	50,136	18,958	142,372	6,304,947
Income Groups											
Below \$20,000 pa	0	189	576	1,515	2,273	3,788	13,705	28,371	12,583	68,930	2,414,886
\$20K - \$35K pa	0	477	1,038	2,083	3,030	4,545	15,152	37,288	15,615	138,988	2,715,587
\$35K - \$50K pa	91	1,136	1,991	3,788	5,886	8,530	28,788	75,758	21,462	91,374	838,120
Above \$50,000 pa	492	3,788	8,333	16,393	25,758	41,667	115,795	350,924	85,476	405,284	336,354
Age Groups											
17-24 years	0	98	326	758	1,136	1,515	3,788	7,576	2,180	13,201	1,167,418
25-34 years	0	379	758	1,515	2,273	3,598	11,334	25,417	12,646	133,669	1,833,742
35-44 years	0	606	1,439	3,030	4,545	7,576	25,076	84,866	23,944	118,451	1,710,734
45-54 years	0	1,136	2,273	4,848	7,576	12,121	37,879	122,164	34,327	240,976	1,111,607
55-64 years	91	2,727	5,303	9,697	15,152	22,871	60,606	136,364	30,478	106,968	481,446

- Notes:
- a) Financial assets are ordinary savings plus shares. The value of ordinary savings was imputed by dividing interest income by the bond rate of 13.2 per cent. The value of shares was imputed from dividends using a yield of 6.10 per cent.
 - b) Persons whose 1989-90 wage and salary income was over \$5100 excluding those over 65 or under 18 years and part-time.
 - c) This analysis was performed using PROC UNIVARIATE in SAS with the frequency of each observation set to the integer part of its weight. The analysis would vary slightly if full weights were used in a user written procedure.

Source: Analysis of the Unit Record Data of the 1989-90 ABS Income and Housing Survey.

Table 4: Probability of Having Superannuation Coverage by Usual Weekly Pay, Full-Time/Part-time Status and Gender

	Usual Gross Weekly Pay in Current Job (\$)						Total Persons	Average Pay \$pw
	Under 200	200- <400	400- <600	600- <800	800- <1000	1000 and over		
Part-time Males								
Covered ('000)	28.7	34.1	10.8	5.7	2.2	1	82.5	307
Total ('000)	149.1	74.1	18.7	6.7	2.2	1.9	252.8	217
Percentage covered	19.2	46.0	57.8	85.1	100.0	52.6	32.6	
Part-time Females								
Covered ('000)	216.5	265.9	55.4	13.9	3.9	0.3	555.9	256
Total ('000)	560.0	377.3	71.1	15.2	4.9	0.6	1029.0	206
Percentage covered	38.7	70.5	77.9	91.4	79.6	50.0	54.0	
Part-time Persons								
Covered ('000)	245.2	300.0	66.3	19.6	6.1	1.2	638.4	262
Total ('000)	709.1	451.4	89.8	21.9	7.1	2.5	1281.8	209
Percentage covered	34.6	66.5	73.8	89.5	85.9	48.0	49.8	
Full-time Males								
Covered ('000)	74.7	516.3	1100.7	612.8	315.7	188.3	2808.5	607
Total ('000)	139.5	676.7	1245.8	659.9	342.9	205.1	3269.9	586
Percentage covered	53.5	76.3	88.4	89.9	92.1	91.8	85.9	
Full-time Females								
Covered ('000)	50.9	402.2	621.7	229.4	60.2	15.4	1379.7	488
Total ('000)	90.0	536.3	710.1	248.8	67.2	16.1	1668.6	468
Percentage covered	56.6	75.0	87.6	92.2	89.6	95.7	82.7	
Full-time Persons								
Covered ('000)	125.6	918.5	1722.4	842.2	375.9	203.7	4188.2	568
Total ('000)	229.5	1213.0	1955.9	908.7	410.1	221.2	4938.5	546
Percentage covered	54.7	75.7	88.1	92.7	91.7	92.1	84.8	
Employed Males								
Covered ('000)	103.4	550.4	1111.5	618.5	317.9	189.3	2891.0	598
Total ('000)	288.7	750.8	1264.6	666.6	345.1	207.0	3522.6	421
Percentage covered	35.8	73.3	87.9	92.8	92.1	91.4	82.1	
Employed Females								
Covered ('000)	267.4	668.1	677.1	243.3	64.1	15.6	1935.7	421
Total ('000)	650.0	913.6	781.2	264.1	72.1	16.7	2697.6	368
Percentage covered	41.1	73.1	86.7	92.1	88.9	93.4	71.8	
Employed Persons								
Covered ('000)	370.8	1218.5	1788.6	861.8	382.0	204.9	4826.7	527
Total ('000)	938.7	1664.4	2045.8	930.7	417.2	223.7	6220.2	477
Percentage covered	39.5	73.2	87.4	92.6	91.6	91.6	77.6	

Source: ABS Superannuation Survey, November 1991.

4 Aggregate Modelling

Earlier in this paper we demonstrated the capacity of individual or hypothetical modelling to address issues of intragenerational equity and the likely increases in retirement incomes for postulated individual situations. As a significant part of the policy context is the changing age structure of the Australian population, it is clear that in order to adequately assess in a comprehensive way the relative merits of current and possible alternative retirement income policies, aggregate models are also needed. Specifically, these can inform the assessment by giving information for each year of the projection period on:

- the aggregate costs of Age and Service Pensions for the particular policy being evaluated;
- the estimated total annual costs of tax concessions given to superannuation savings using an appropriate long term conceptual framework (see discussion in earlier Section and Brown, 1993); and
- the overall change in national savings from the policy, being the sum of net increases in private savings arising from extra superannuation and associated earnings together with any increase in public savings arising from reduced pension costs offset by any increases in tax concessions (see further discussion below).

We noted in the introduction that the stated objectives of retirement income policy include increasing national saving and equity and security considerations. This information from aggregate modelling enables a direct assessment of the impact on national savings of one policy scenario compared with another. It also provides an indirect assessment of the affordability of pensions and tax concessions over time in different policy contexts.

4.1 The Retirement Income Policy (RIP) Model

The aggregate model used by the task force is an adaptation of the National Mutual Retirement Income Policy Model. It projects age by sex cohorts covering the full Australian population and estimates aggregates for superannuation and retirement incomes by modelling the accumulation and payout phases for each major type of superannuation and the interaction with the tax and age pension systems.

While in essence this aggregate model seems to represent only a totalling over the population of an individual model such as used in the above analysis, in fact the model is large and intricate. This arises because of complexity in the Tax and Social Security systems and because of the need to handle additional transitions like premature death and disability, early payouts of superannuation on changing jobs, less than full vesting of benefits, the fact that a cohort may have more than one superannuation accumulation, labour force participation issues and so on. The strengths and weaknesses and key assumptions of RIP are discussed below and in

Appendix Two. The results of sensitivity analyses to assess the robustness of the model are also presented.

4.2 National Savings

An important objective of Australia's retirement incomes policy is to increase the level of national savings.

Increased national savings will play an important part in maintaining living standards in the face of an ageing population. Increased aged dependency will mean that Australia will have a potentially diminishing labour force with which to produce the goods and services necessary to maintain its living standards. Maintaining Australia's living standards will therefore require a combination of

- a substantial change in workforce participation patterns, for instance a movement to later retiring ages or further increases in the workforce participation of women;
- substantial increases in labour productivity; or
- substantial earnings from foreign investments.

Increased national savings through superannuation provides an avenue for financing the investment in Australia and to reduce our reliance on foreign savings to finance such investments. Investment is an important means of raising the productivity of Australian industry, thereby compensating for a diminishing proportion of the population of working age. Further if some of the extra savings were to be invested overseas this would assist Australia to maintain its living standards by giving us an extra claim over foreign production.

4.3 Results

The analysis of results presented here follows the broad framework of Chapter X of the Government's *Security in Retirement* (Dawkins, 1992): that is, the changes in private savings and changes in public savings are separately accounted for in each of the policies being compared. However, in deriving the results there has been some clarification of the concepts used in specifying alternative savings that would have taken place in the absence of superannuation and more complex analysis to overcome some structural limitations of RIP. The principal differences are:

- an improved calculation of tax expenditures is incorporated to overcome the overstatement in standard RIP output of the accumulation of funds which in the absence of compulsory and concessional superannuation would have been saved and taxes paid on the interest;
 - while the 0.5 (private) savings replacement assumption continues to be used, this is treated as an input savings assumption. It is not assumed (as in *Security*
-

in Retirement, following Harper and FitzGerald, 1993) that notwithstanding the different tax treatments of savings, an offset of 50 per cent of gross private savings will be the outcome; rather the accumulation of 50 per cent of available funds as an input is calculated separately in an additional RIP run;

- the counterfactual used for the evaluation of policy impact is the continuation of the pre-SGC situation with award and voluntary superannuation; an equivalent retirement income counterfactual is not used (thereby reducing the scope for debate);
- foreshadowed extensions of the policies are explicitly modelled; and
- the analysis is continued out some 60 years, allowing the system's stabilised characteristics to be more easily discerned.

The results of the base runs at Figures 6 and 7 indicate the components of the net impact of the Superannuation Guarantee Charge on annual national savings as a percentage of GDP in the particular year. The results support the beneficial impact on national savings of compulsory superannuation. There is a rapid build up of private savings (both gross and net) which continues on. The modelling indicates no significant savings in net pension costs for many years but after some 30 years, net public savings become positive (as significant net savings in the pension system continue to grow and eventually outweigh the costs of the tax concessions). There is an indicated long term annual increment to net national savings of about 1 1/4 per cent of GDP.

At Figure 8 we present similar summary information on the net impact of the proposed 3 per cent compulsory co-payment by individuals, with those already paying 3 per cent or more paying no extra.

A **further** net addition to total annual national savings is indicated of over one per cent of GDP upon full build up of the policy.

Similarly Figure 9 shows the net impact of a measure canvassed in FitzGerald (1993) requiring the self employed to contribute at SGC plus individual co-contribution rates. This analysis indicates a **further** additional positive impact on net annual national savings of about 0.4 per cent of GDP over the longer term.

A number of caveats need to be borne in mind with the analysis:

- the analysis is only a partial one in that consequential flows through to the economy are not specifically modelled; for example, we do not model tax concessions for superannuation leading to higher other taxes or higher costs to employers of superannuation possibly reducing their capacity to reinvest capital. Nor do we model the moderation of earnings growth because of higher superannuation or the additional productivity likely to flow from the increase in net national savings;
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Figure 6: Gross Annual Superannuation Savings from Employer SGC As a Percentage of GDP

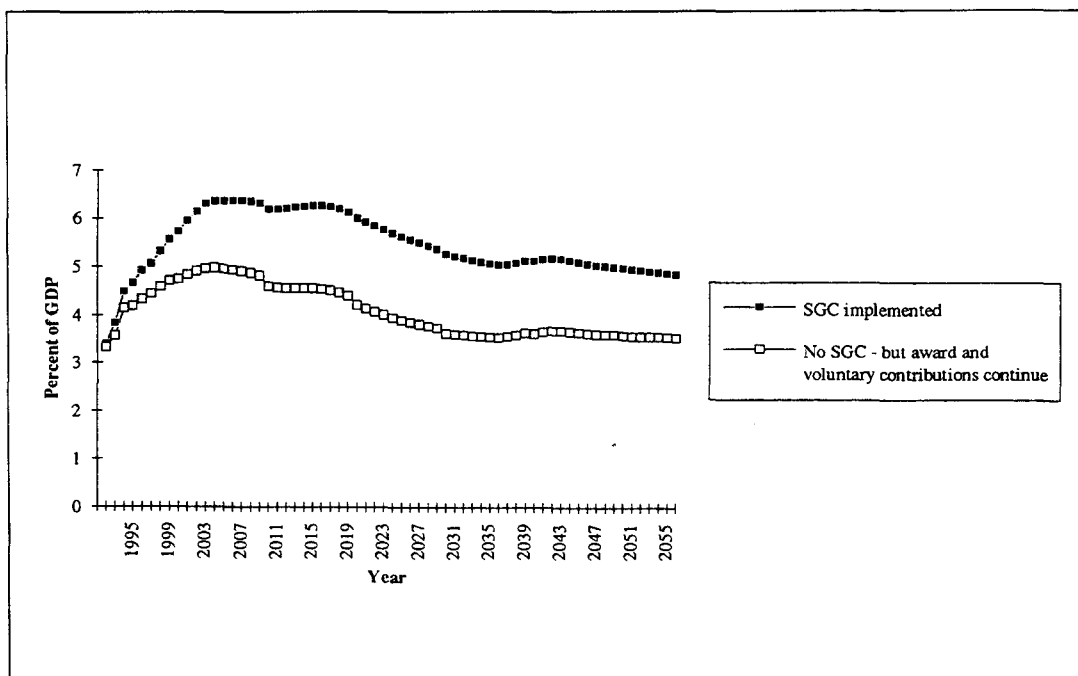


Figure 7: Net Effects of Employer SGC Contributions on Components of Net National Saving Compared to the Pre-SGC Situation including 3 per cent Award Superannuation

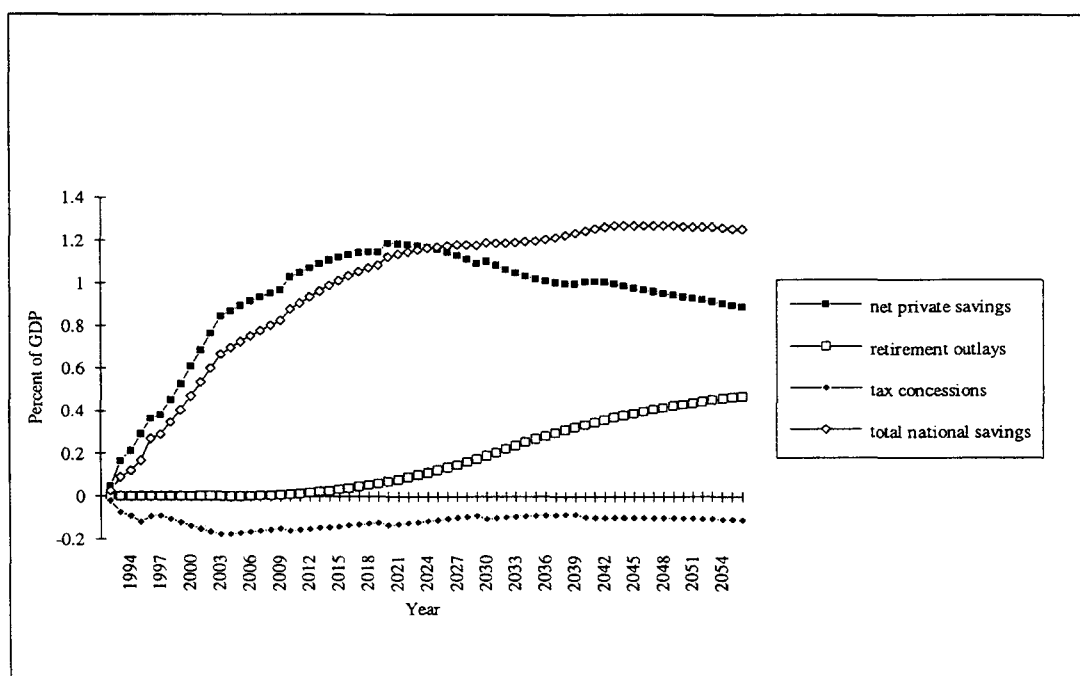


Figure 8: Additional Net Annual Savings from a 3 Per Cent Co-contribution Components of National Saving

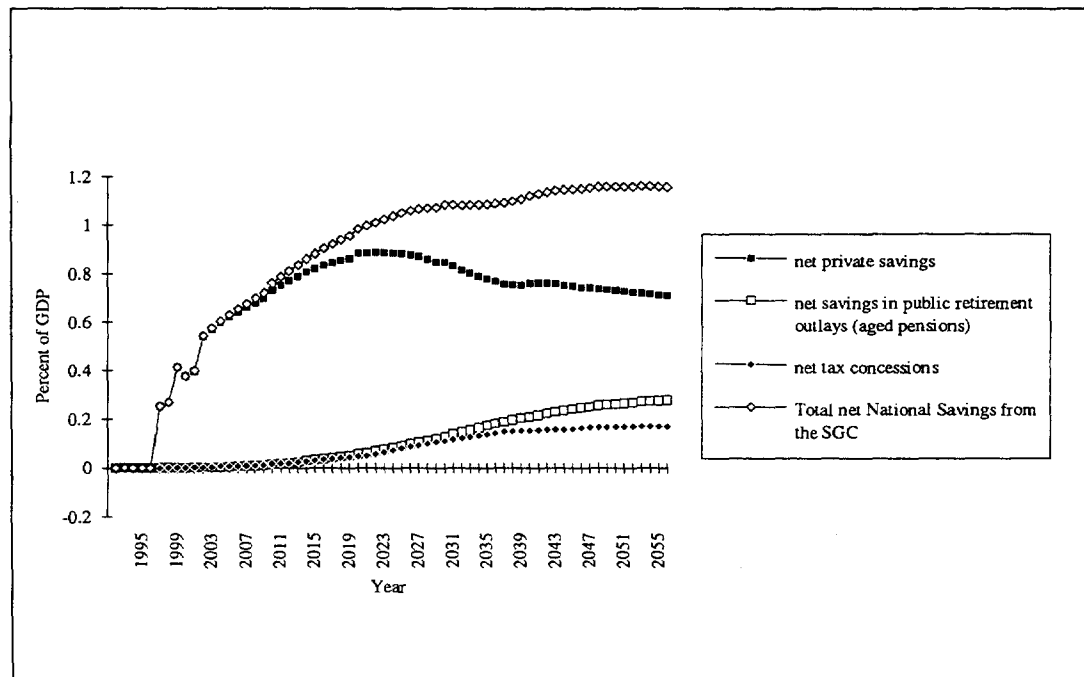
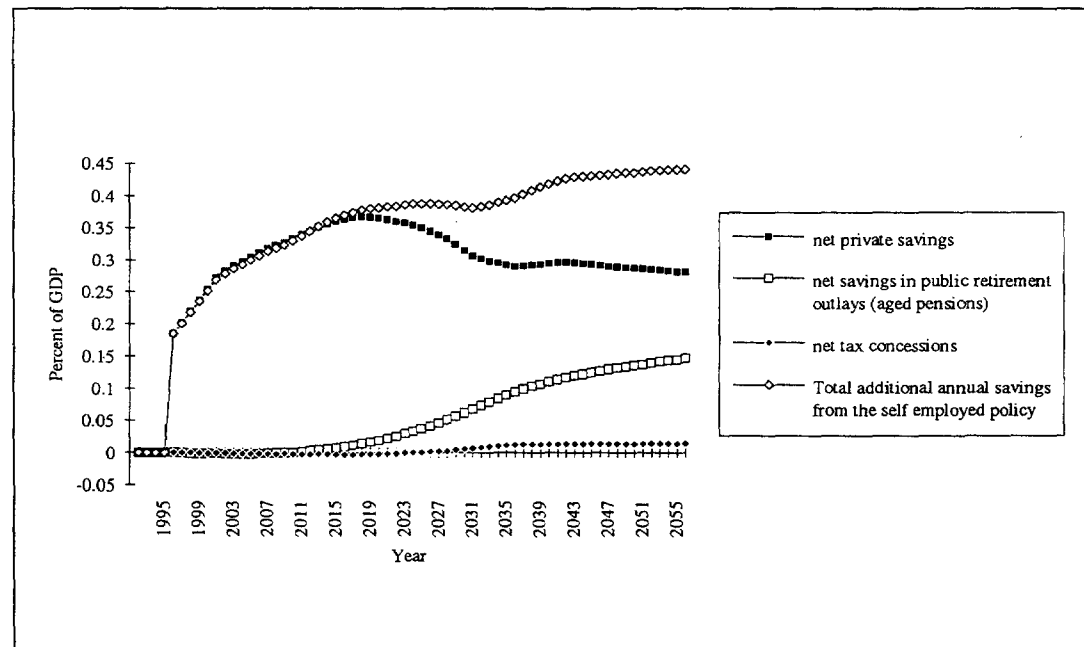


Figure 9: Additional Annual Saving from Compulsory Coverage of the Self Employed Compared to Current Employer SGC and the Proposed 3 Per Cent Member Co-contributions Components of National Saving



- the results are for a plausible set of economic parameters but of course are not forecasts and there is sensitivity to various assumptions, including:
- the savings replacement ratio mentioned above (the analysis is clearly sensitive to the 0.5 savings offset assumption-see below);
- the real earning rate of super funds (4 per cent above CPI, 2 1/2 per cent above AWE); and
- the assumed growth of GDP (3-4 per cent medium term, 2 per cent from 2010 as the growth in population of working age slows down).

A more extensive statement on the RIP model and its strengths and weaknesses is at Appendix Two.

4.4 Sensitivity Analysis

Using the updated analysis of the impact of the SGC on national savings and tax expenditures as the base case, sensitivity testing has been carried out using the RIP model to assess the impact of variations in important variables which have significant uncertainty in their values. In some cases this uncertainty may be reduced by further research; in other cases, given the time scale of the modelling, significant residual uncertainty will remain.

4.5 Savings Replacement Rate

In the absence of compulsory and concessional superannuation, monies that would otherwise be invested in superannuation are available (after tax) to individuals to either invest or consume. The proportion that they would invest is termed the 'savings replacement ratio' and is clearly very difficult to determine precisely. The analysis in the preceding sections of this paper can be interpreted as justifying a relatively low value. The principal runs assume a ratio of .5 and sensitivity analyses have been carried out using ratios of .25 and .75. Some graphical results are in Figure 10. The level of overall national savings varies by some plus or minus 20 per cent of the 0.5 outcome in the long term (a little more in the shorter term). The earlier analysis suggests that the .25 ratio which gives the more positive impact is more likely than the .75 ratio.

The impact on tax expenditures is shown at Figure 11 and is very pronounced in the longer term. There is clearly a data irregularity which has been shown to come from 5 year grouping in our population model (PEOPLE, 1990); this does not destroy principal findings but is untidy and a remedy is being investigated.

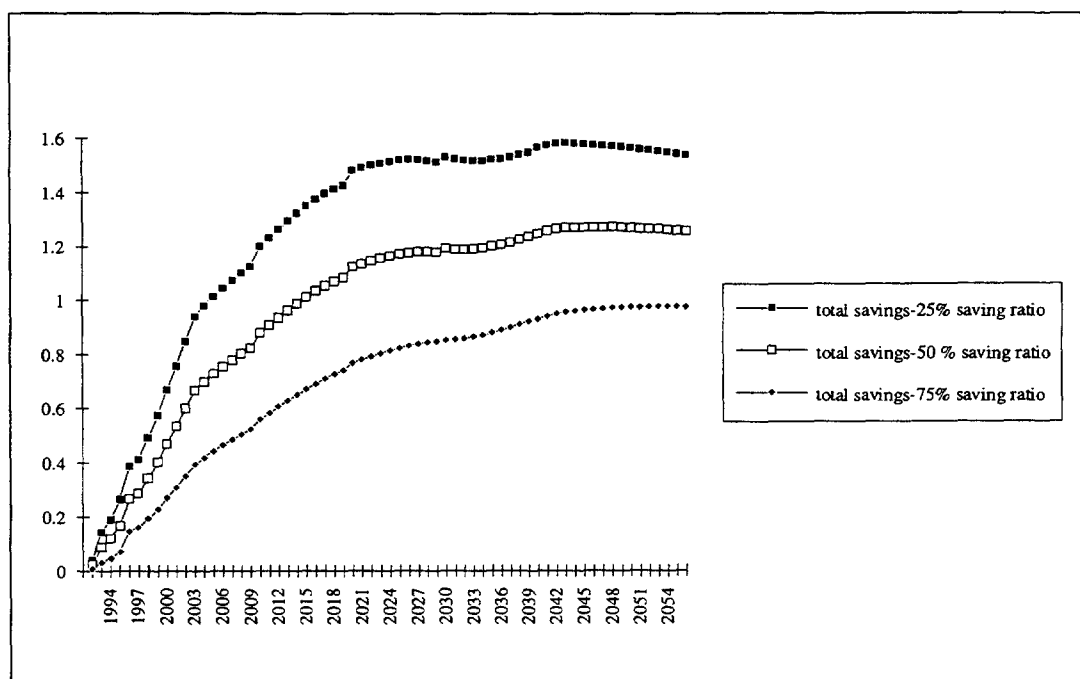
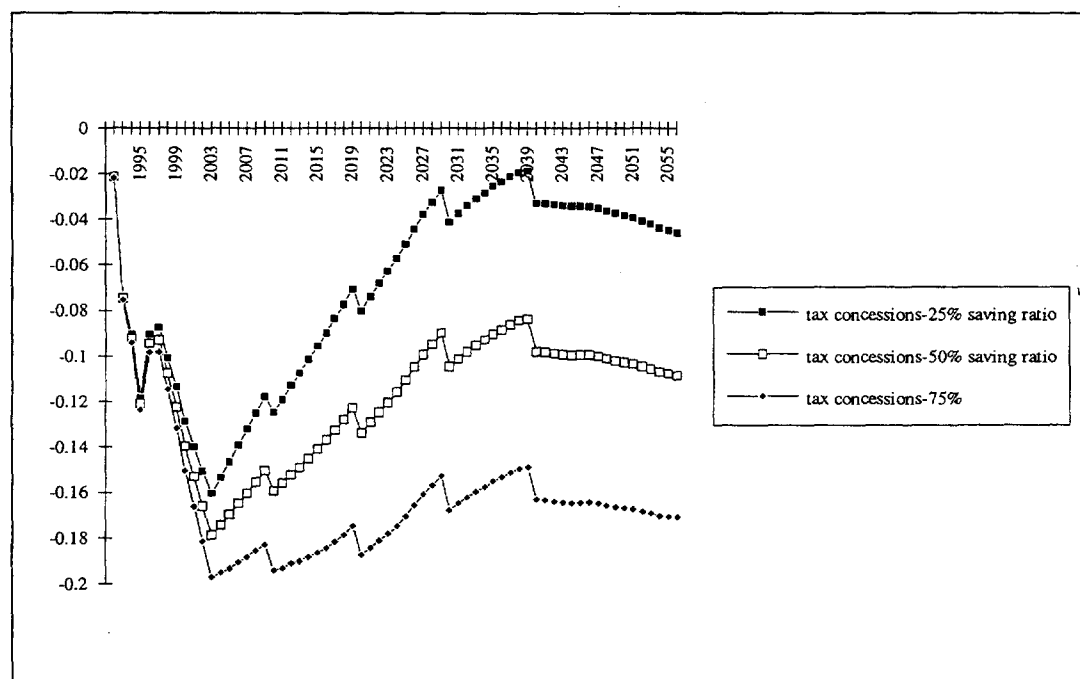
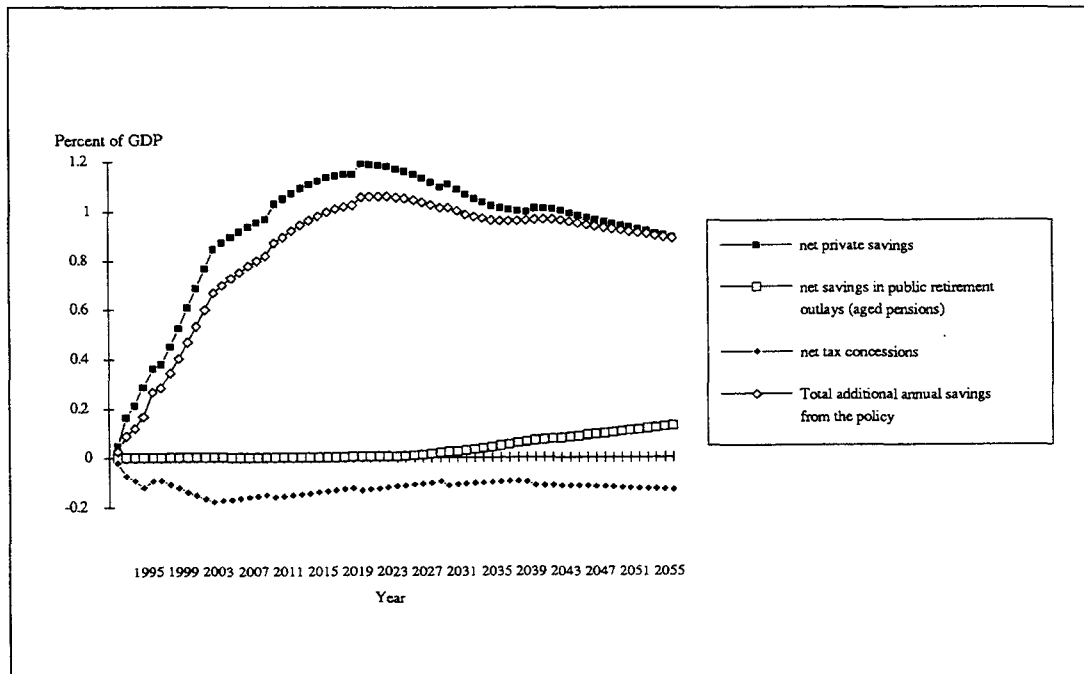
Figure 10: Sensitivity Analysis: Net Annual National Savings to Savings Offset**Figure 11: Sensitivity of Tax Concessions to Savings Offset**

Figure 12: Employer SGC Contributions Assuming \$73,000 Dissipation (Indexed) of Retirement Benefits Components of Net National Saving



4.6 Lump Sum Dissipation

At retirement some individuals will use some of their accumulated savings for immediate consumption rather than income generation. Kalisch (1992) has concluded that there is little evidence of inappropriate dissipation now but estimating future trends when superannuation accumulations will be bigger remains uncertain. Changing the assumptions in RIP from an assumption of zero dissipation to \$30,000 indexed to AWE reduces the value of national savings in the longer term by some 12 per cent of the zero dissipation outcome. Figure 12 shows the impact of an assumed dissipation of \$73,000 indexed (compare with Figure 7). The build up of national savings remains very similar to the zero dissipation case, but the savings in pension payments over the longer term are much lower to the extent that public savings remain negative throughout. Over the longer term, original national savings are reduced by 28 per cent.

4.7 Interest Rates

Opinions will vary about the most appropriate long term real interest rates to apply. One sensitivity run changing the real interest rate from four per cent to 4 1/2 per cent increased the overall national savings from the SGC by some 10 per cent.

There remain further possible areas for sensitivity analysis. Nonetheless, taken together, these sensitivity tests show that the national savings impact of the SGC and related policies appears to be quite robust to reasonable variations in critical parameters. (The tax expenditures are somewhat more sensitive.)

Such a substantial ongoing increase in national savings (an annual increment of some 2 1/2 per cent of GDP in the longer term following full implementation of current and foreshadowed policy) should make a valuable contribution to financing the investment necessary to maintaining Australia's living standards in the context of an ageing population. In particular, such additional national savings would help relax the current account constraint on Australia's economic growth performance, permitting faster economic growth without the build up of foreign debt that results from domestic savings falling short of the levels necessary to finance investment in Australia. The FitzGerald report on National Saving stated that the expected increases in savings are 'not simply a "by-product" but is crucial to its effectiveness as retirement incomes policy' (FitzGerald, 1993: 49).

5 Summary and Conclusions

This paper has used current and envisaged Government policies in the retirement income area to demonstrate how such policies can be assessed in detail in terms of their objectives such as adequacy, progressivity, positive cost-benefit, and additions to national saving. In this assessment some of the issues involved in setting up appropriate models and in estimating known critical parameters have been highlighted. The Task Force is using a methodology which differs significantly from that used in the Treasury's Tax Expenditures Statement. It is clear that despite the strengths of the current models it would be desirable to develop and expand them and also to refine our estimates of parameters through further research. The RIM Task Force will create a new aggregate group model which will model marginal as well as average policies and which will show the effects of different labour force experience for those on lower incomes.

A principal conclusion is that the benefits to individuals and the nation of compulsory superannuation including the envisaged extension to member co-contributions are supported by the analysis. The broad benefits, such as significant increases in individual retirement incomes and in national saving appear quite robust to reasonable variations in critical parameters. It is also the tentative conclusion that the savings offset factor used in estimating retirement income tax concessions should not be higher than 50 per cent and that lower estimates appear justified. The distributional analysis of savings suggests that additional savings flowing from the SGC policy will come from the much greater coverage of lower income groups and part-time workers and also from workers over a relatively wide income range who currently have low levels of superannuation contributions from their employers or themselves.

Appendix One: Task Force on Retirement Income Modelling

Terms of Reference

General

To develop a capacity for modelling the impact of retirement income policies over the next half century (see attached Press Release) and to provide advice to departments and Ministers as required on policy options affecting retirement incomes.

Specific

- 1 The RIM Task Force will construct state-of-the-art computer based dynamic simulation models, of both an aggregate and individual-based (hypothetical) type capable of providing quantitative answers to the following issues:
 - 1.1 The impact over a fifty year time horizon of various retirement income policies (in the taxation, social security, labour market and superannuation regulation areas) on:
 - the quantum and distribution of retirement benefits
 - the age pension system and the social security system generally
 - the quantum and distribution of superannuation tax concessions
 - the fiscal balance
 - superannuation assets
 - private sector saving
 - national saving
 - workforce participation and retirement patterns
 - 1.2 The sensitivity of model results to key parameters, including:
 - demographic variables
 - retirement benefits commutation patterns
 - lump sum dissipation patterns
 - fund earnings rates
 - key macroeconomic and microeconomic variables
 - the retirement age decision
 - contribution/earnings patterns over the life cycle
 - relevant tax, superannuation and social security parameters
 - 2 The technical aspects of the construction of these models will be supervised by a RIM Steering Committee (comprising officers of the Treasury, the Department of Finance, the Department of Social Security, the Australian Government Actuary, Dr Vince FitzGerald and Professor John Piggott) which will approve model specifications and development timetables, and regularly review progress.
-

- 3 While the development of the models is proceeding, the Director of the Task Force will be required to ensure that each of the Departments referred to in 2. above has access to confidential advice on the longer term implications of policy options under consideration, on the basis of the models as they stand, together with adequate explanations of the capability and limitations of the models as at the time the advice is provided.
- 4 The models will be fully documented on an ongoing basis, and the Director of the Task Force will be required to ensure that at appropriate stages of the models' development, and on completion of the development work, each of the Departments referred to in 2 has full access to models and associated data and training in the use of the models.
- 5 The Task Force will have regard to the relevant academic and official work in the retirement incomes area. It will be expected to establish contacts with others working in the area, including overseas, and to publish details of modelling methodologies employed in its work.
- 6 The progress of the Task Force will be reviewed at the end of its first year of operation when these Terms of Reference may be amended.

Notes

It is noted that the Task Force will have access to the National Mutual retirement Income Policy Model on terms set out in an existing agreement of 1 May 1992 between National Mutual Life Association and the Department of Finance (copy attached) and will therefore be responsible for ensuring that the terms of the agreement with National Mutual are complied with.

Appendix Two: The National Mutual Retirement Incomes Policy (RIP) Model

The Retirement Incomes Policy Model (RIP) is a model to estimate stocks and flows of superannuation funds and the impact on savings and costs to the Government's budget of various retirement income policy options. It was developed by National Mutual Operations Research and made available to the Retirement Incomes Modelling Task Force. The Task Force has used the model for policy analysis and has also substantially developed its capability.

The RIP model is based upon **person cohorts** (people of common sex and age) which are aged a year at a time and their superannuation benefits accumulated taking account of parameters such as wage levels, employment rates, inflation and rates of return on assets. At retirement the detailed interaction with the Tax and Social Security systems is accounted for.

The model incorporates three major phases:

- a population phase based on ABS data which projects the total Australian population by age and sex for each year in the future, allowing for births, deaths and immigration;
- a superannuation dynamics phase which takes output from the population projection and projects:
 - the number of people employed in each year;
 - the number of people in each type of superannuation fund modelled (public and private sector, categorised by the type of superannuation contributions concerned); and
 - the numbers retired because of death, disability or age retirement for each person cohort for each year of the projection; and
- an accounting phase which uses the outputs of the first two phases of the model to keep track of the total superannuation assets of each person cohort, allowing for contributions, earnings, benefit payments and tax. It calculates the relevant cash flows for each person cohort in each year and stores the results. On retirement, the model splits the accumulated superannuation benefits of each age cohort up according to an income distribution and calculates the tax payments arising, the age pension payable, and the continuing retirement income stream from superannuation.

Aggregating the results in each year across all the person cohorts allows calculation of total stocks and flows for the Australian population within the model. The model also estimates the tax expenditure on superannuation for each year.

Recent Developments

Key developments of the model have been:

- An improved estimation of tax expenditures, using extra model runs initially but upon further development through incorporation of additional accounts.
- The facility to model the accumulation of non superannuation assets endogenously, with accumulation rates as a function of age sex and time (good data for the rates is not yet available).
- A considerable extension of the time scale of the modelling to 2056 (rather than 2029).

Strengths and Weaknesses

The strengths of the RIP model are:

- its completeness, particularly the detailed modelling of superannuation processes including different account types and preservation and vesting rates and the modelling of disability and death benefits as well as age retirement.
- the very extensive parameter set which gives the facility to access a wide range of policy options without modifying the model's structure.

The weaknesses of the model are seen as:

- the very limited ability to allow for variation within an age, sex cohort:
 - Specifically there is only a limited 4 point, exogenously supplied, salary distribution which will give only a crude interaction with e.g. the complex Social Security income and assets tests;
 - the model does not include a married, not married variable; and
 - similarly there is effectively no ability to allow for variability in labour force experiences;
- the 'tontine' effect: even if a member of a person cohort joins the group later e.g. a migrant, they share equally upon retirement with all others in the group. This can also be a significant problem, where for a new policy, a new group start contributions at a specified time and are mixed in with existing contributors (some development work is under way to try to overcome this);
- the model is deterministic and does not allow for stochastic variations in outcomes (due to random fluctuations in, say, earning rates);
- the unusual object oriented language Smalltalk in which the code is written. While this is intrinsically a powerful and versatile modelling language it is:
 - not well known and takes a lengthy period to master; and
 - uses extensive computing resources and time.

Apart from the last point, the weaknesses of RIP are intrinsic to grouped models. Finer scale subdivision of the group is required and this is envisaged in a model being designed by the Task Force. Alternatively, dynamic microsimulation techniques can be made which focus on tracking the experiences of individuals or very small groups.

Base Parameter Assumptions

Population: Rates underlying ABS Series A (projected through PEOPLE model).

Economic: Current and recent rates projected from 1995 on at:

- 4 per cent inflation;
-

- 8 per cent earnings rate for superannuation funds (after costs but before tax);
- 5 1/2 per cent growth in Salaries and AWE.

Taxation

- Current income taxation rates, changed in 1996 to Government indicated rates; and
- 15 per cent earning tax on superannuation funds - assumed to be an effective 7 per cent rate.

Savings Replacement

- 50 per cent of available funds released in the absence of compulsory and concessional superannuation would be saved; and
- these alternative savings to superannuation taxed at 24 per cent marginal rate .

Retirement

- Pension rates and tests for income and assets tests indexed to AWE; and
- retirement stream comprises 20 per cent non-indexed annuity and 80 per cent conversion of lump sum to simple interest income stream earning 7 1/2 per cent pa. Nil dissipation of lump sums in base case.

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New Estimates of Poverty and Income Distribution in 1990: The Effects of Reweighting the 1990 Income Distribution Survey

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1 Introduction

The National Centre for Social and Economic Modelling (NATSEM) was established at the University of Canberra in January 1993, with core funding from the Commonwealth Department of Health, Housing, Local Government and Community Services. The purpose of NATSEM is to develop microsimulation models and techniques, and to use these models and microdata to undertake research across the spectrum of social and economic policy. The models developed will be available for use by government departments, welfare groups, academics and other interested organisations and individuals.

Microsimulation models are relatively new tools which produce detailed analyses of the distributional impact of policy changes. Such models are computer programs, most of which apply the rules of government revenue and expenditure programs to population samples contained in microdata files (generally issued by the Australian Bureau of Statistics). STINMOD, NATSEM's first static microsimulation model, is able to provide a picture of what Australia is like now and what it will look like the day after a policy change (Paul et al., 1993). DYNAMOD, the NATSEM dynamic population model, will 'age' a sample of the current Australian population for the next one to 50 years, to provide estimates of the future characteristics of the population (Antcliff, 1993).

The base data set for STINMOD is generated from the ABS 1990 Survey of Income and Housing Costs microdata file, with numerous complex adjustments to the original data to make it more closely represent the 1993 world. The base dataset for the first year of DYNAMOD is currently also the 1990 Income Survey (although this is likely to be changed in the future to the 1990 Census public release file). An important question which NATSEM has been exploring during the past six months is therefore how well the 1990 Income Survey reflects the 1990 world. Clearly, if the original source data do not represent the world very well, then the distributional models built upon this data will also not be as accurate as they could be. An

extensive process of validation has thus been undertaken, both of the 1990 Survey and of the two earlier income surveys conducted in 1982 and 1986.¹ Strenuous attempts have also been made to make the three income distribution surveys conducted in the 1980s directly comparable, with exactly the same scope and variable definitions. It has not been possible to complete this work yet, so this paper only deals with 1990 estimates of poverty and income distribution, rather than the estimates for the entire decade.

2 Magnitude of the Weighting Problem

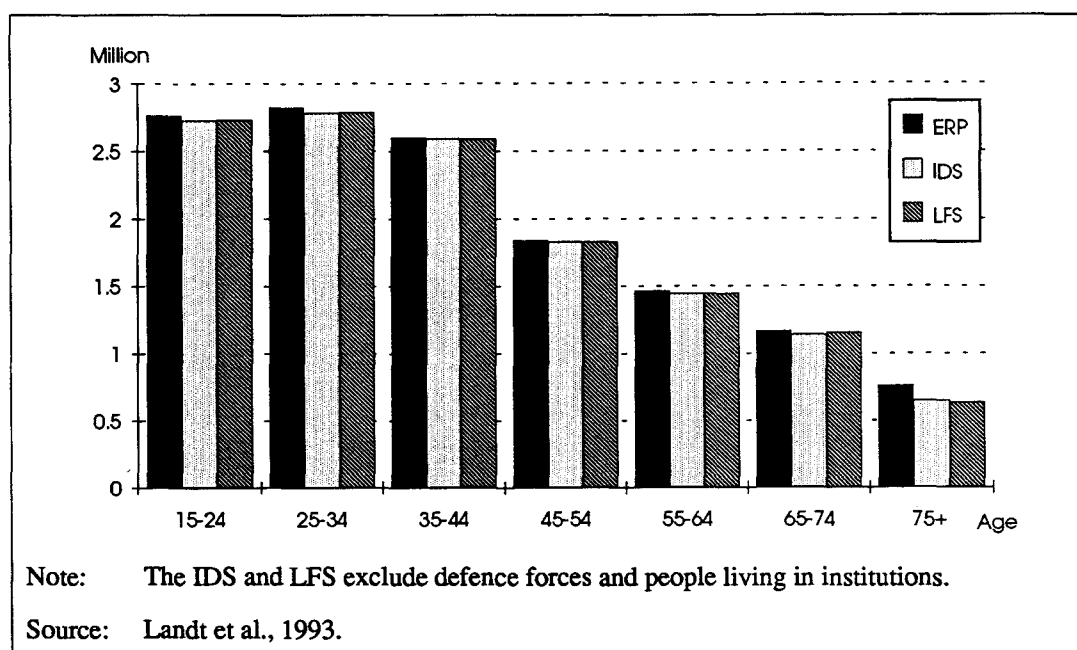
Similar problems emerge in sample surveys of income conducted in all OECD countries and create difficulties for microsimulation modellers. These problems include undercoverage of the population (e.g. due to the difficulty of capturing itinerant groups within the survey net), higher non-response rates for some population subgroups, sampling error, and refusal to answer all questions (Citro and Hanushek, 1991: 126). While the quality of ABS data is extremely high and compares well to overseas surveys, there are questions revealed in the Bureau's own validation studies about how well ABS income and expenditure surveys match up to other benchmark data, such as the National Accounts, taxation statistics or Department of Social Security statistics (Wayte, 1991).

The following discussion concentrates upon how estimates produced from the 1990 Income Distribution Survey (IDS) data compare to estimates produced by the ABS from two other sources: the monthly Labour Force Survey (LFS) and the annual estimated resident population. Both the IDS and the LFS are sample surveys, although the monthly LFS has a much larger sample of about 33,000 dwellings, compared to the 16,000 dwellings in the 1990 IDS. The resident population estimates are produced annually by the ABS (Cat. No. 3201.0), and are based upon updated Census estimates. The LFS estimates used in the following figures are derived from the November 1990 LFS survey. (This month was selected because the IDS survey was conducted between October and December 1990). The estimated resident population numbers were obtained by averaging the relevant figures for June 1990 and June 1991.

As Figure 1 shows, both the IDS and LFS sample estimates for people aged 15 and over very closely match the Census-based estimates. There are some differences, particularly at the older ages of 75 and above, because 200,000 institutionalised people and 70,000 defence force personnel are included in the population estimates

1 It must be emphasised that this validation process has been undertaken with the full co-operation of the Australian Bureau of Statistics, and that it would not have been possible had officers within the Bureau not provided such whole-hearted co-operation. NATSEM would particularly like to thank Heather Crawford, Harry Kroon and Keith Blackburn for their help and support.

Figure 1: Comparison of Population Estimates by Age and Sex From the 1990 Income Distribution Survey, the November 1990 Labour Force Survey, and the Estimated Resident Population Series

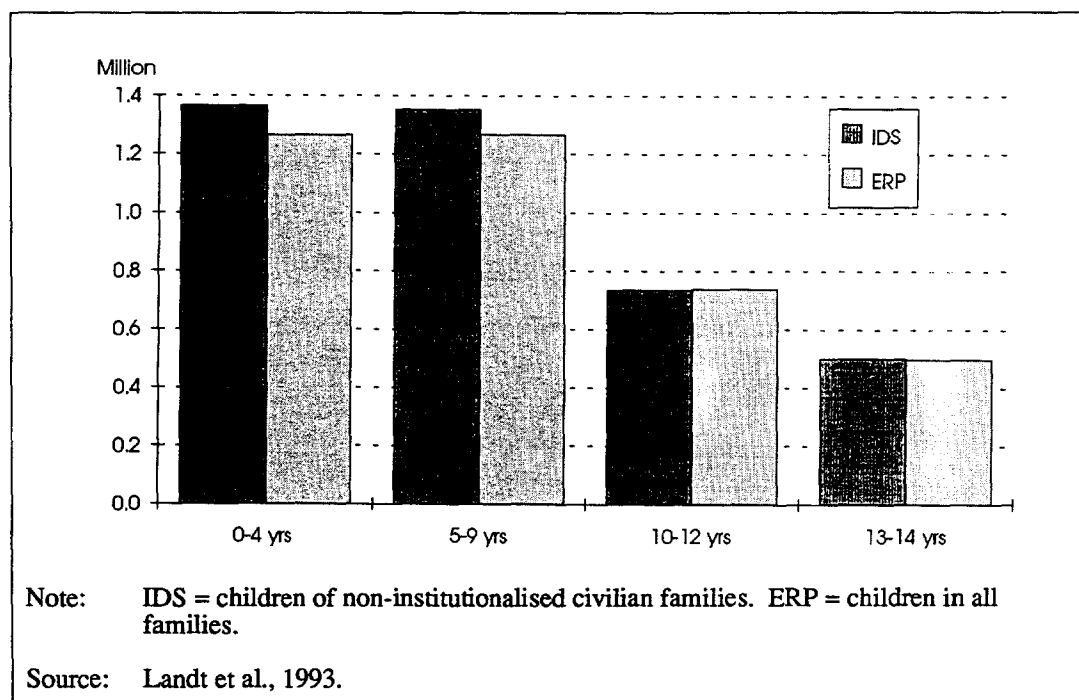


but excluded from the LFS and IDS statistics presented here. At this level of aggregation, by age and sex, there thus appears to be little difference between the three estimates.

Given this lack of difference, the data presented in Figure 2 are initially suprising. The IDS estimates suggest that there were 1.364 million children aged 0 to 4 in Australia at the end of 1990, while the resident population data finds only 1.265 million: a difference of about eight per cent. (This is using the harmonic mean of the weights of everybody in the income unit to calculate the number of children in the unit, which is the standard ABS methodology). Similarly, while the ERP indicates that there were 1.267 million children aged 5 to 9 in Australia, the IDS estimates 1.352 million: a seven per cent discrepancy. For the two older child age ranges shown in Figure 2, estimates from the two data sources are extremely close. Figure 2 shows the number of 0 to 14 year olds in Australia according to the three data sources, categorised by age.

It was this overestimate of the number of children in Australia produced using the IDS that originally prompted NATSEM to look more closely at the IDS estimates. In the following figures, the IDS, which was conducted between October and December 1990, has been compared to LFS estimates for November 1990. Extensive work has been undertaken to ensure that the population included in the scope of these estimates is as comparable as possible and that the definition of

Figure 2: Estimates of Number of Children From the 1990 Income Distribution Survey and the Estimated Resident Population Series



family status used in the two surveys is the same. (For example, the institutionalised population have been excluded from the LFS estimates because they are not within the scope of the IDS. Similarly, defence force personnel have been excluded from the IDS because they are not within the scope of the LFS.) While the definitions of 'unemployed' and 'not in the labour force' differ between the LFS and the IDS, the definitions of working full- and part-time are highly comparable.

The figures suggest that the IDS **consistently overestimates the number of married males and females employed full-time**, compared to estimates from a Labour Force Survey conducted at the same time. For example, as Figure 3 shows, the IDS estimates that there are 835,000 married males aged 25 to 34 working full-time, about 92,000 more than the comparable LFS estimate of 743,000. Similarly, as Figure 4 illustrates, the IDS finds that there are 339,000 married females aged 25 to 34 working full-time, while the LFS estimate of only 295,000 is 13 per cent lower. While the comparable figures for part-time work are not presented here, the pattern is the same: an overestimate of the number of married males and females working part-time, compared to the LFS estimate.

For non-married individuals, the pattern is exactly the opposite. As Figure 3 suggests, the IDS estimates that there are 349,000 single males aged 25 to 34 working full-time, compared to some 419,000 in the LFS: a 20 per cent difference. Similarly, the IDS estimates that there are about 185,000 non-married females aged

Figure 3: Estimated Number of Full-time Employed Males From the 1990 Income Distribution Survey and the November 1990 Labour Force Survey

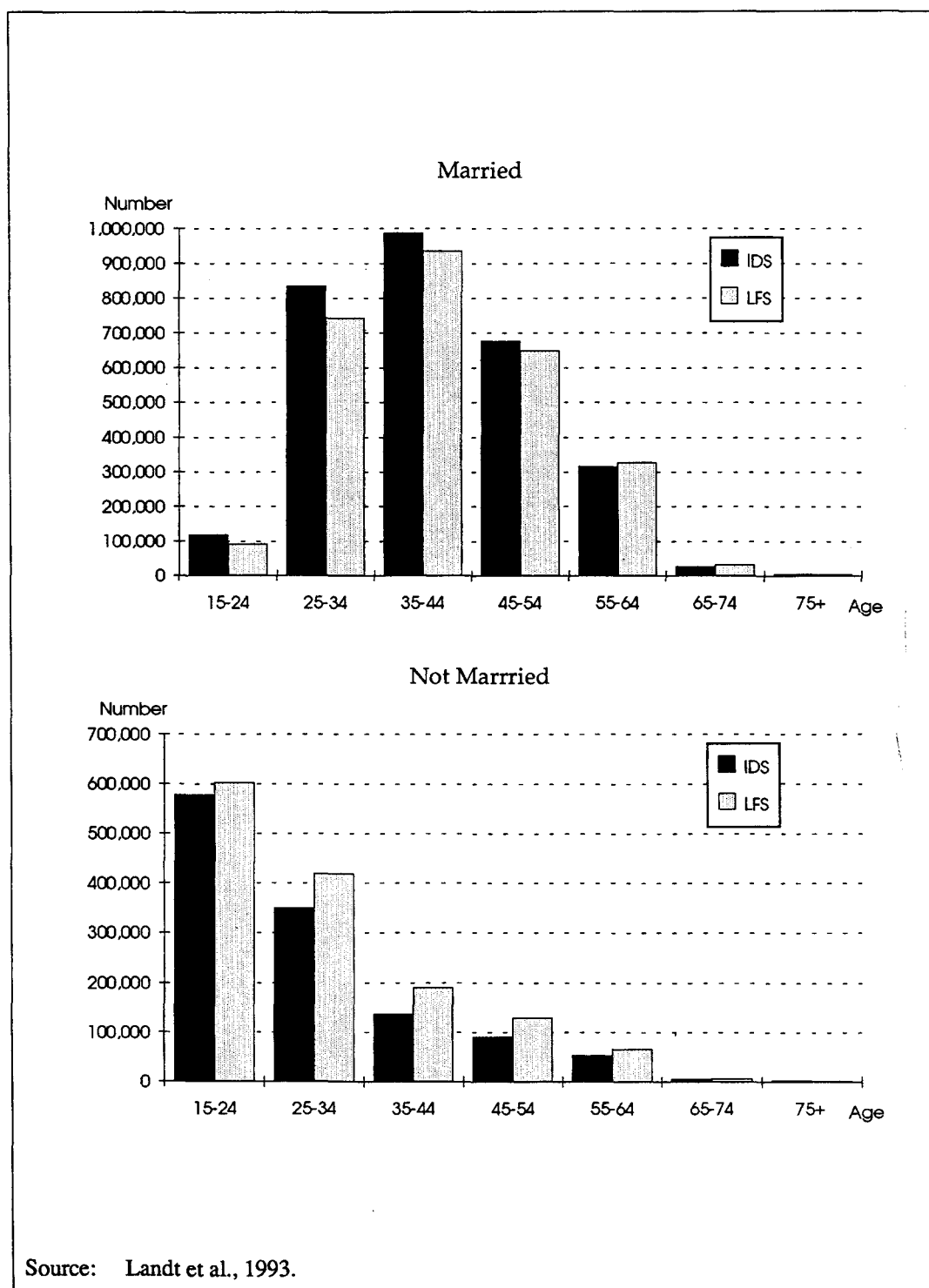
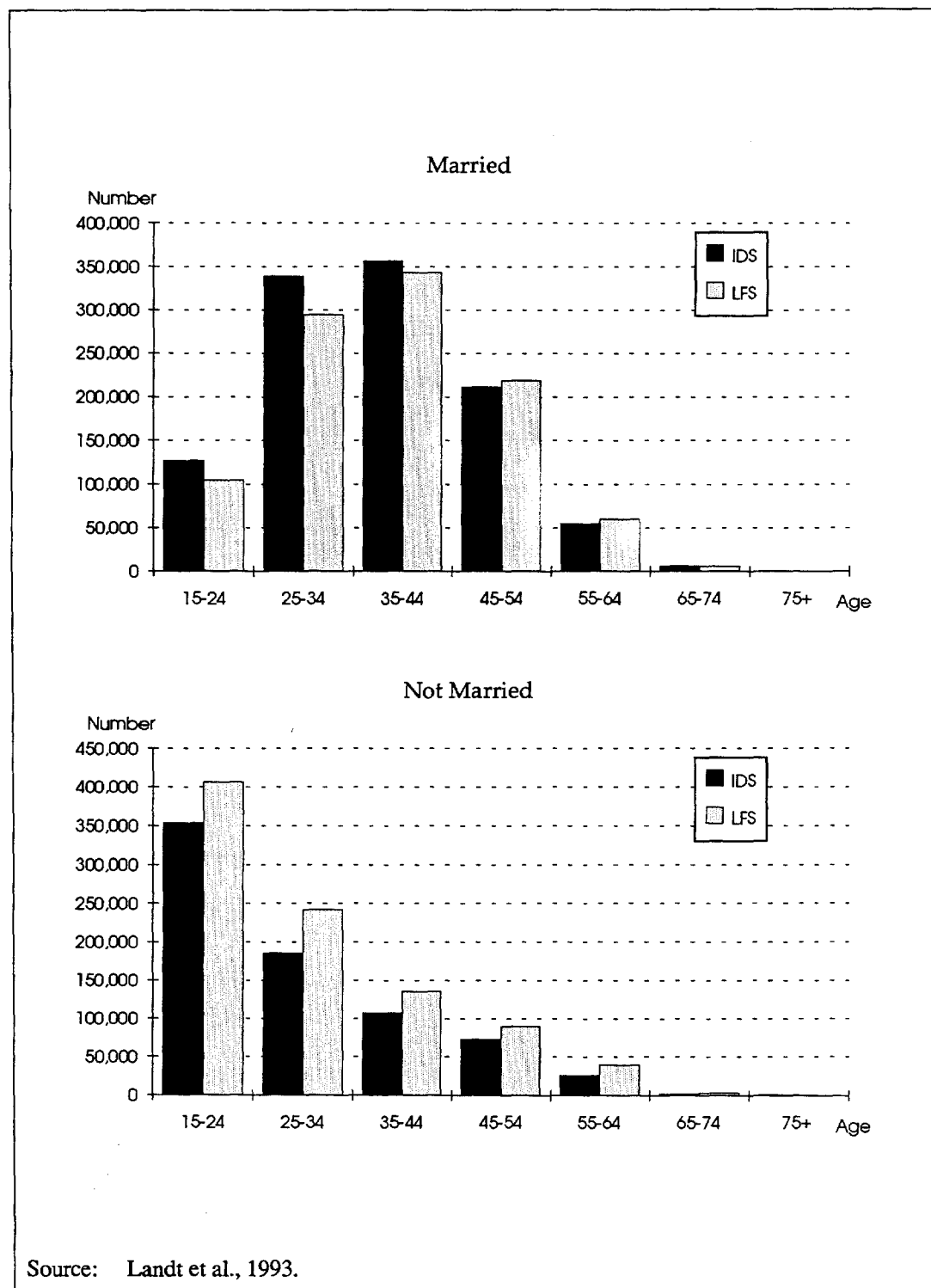


Figure 4: Estimated Number of Full-time Employed Females From the 1990 Income Distribution Survey and the November 1990 Labour Force Survey



25 to 34 working full-time, compared to 242,000 in the LFS. This is a difference of about 57,000, or almost one-quarter of the LFS estimate. Again, the pattern is similar for non-married males and females working part-time.

The figures thus suggest that the IDS consistently over-estimates the number of married people and consistently underestimates the number of non-married people. Why is there such a difference between the estimates produced from two surveys with the same sampling frame conducted during the same time period? The answer seems to lie in the higher non-response rate for the 1990 IDS. According to the ABS, the non-response rate after sample loss for the 1990 IDS was 22.8 per cent. This compares to only 4 per cent for the Labour Force Survey.

The results presented above suggest that those who did not respond to the 1990 IDS were systematically different to those who did. For example, they suggest that the ABS interviewers encountered difficulty in interviewing the correct number of single, full-time employed males and females - who presumably were less often at home. On the other hand, interviewers found it easier to get to 'housebound' groups, such as married males and females with young children. As a result, for example, it appears that for females aged 25 to 34, a disproportionate number of those actually picked up in the ABS sample were married with young children, rather than single or childless.

How does this eventually affect the population estimates? The Bureau assigned every one of the 30,444 people within the 1990 IDS a 'weight'. For example, they might have decided that the first person in the sample represented 300 comparable Australians. In this way, even though only 30,000 people were in the IDS microdata file, estimates were produced for the entire Australian population.

To decide how many Australians a particular person within the IDS sample represents, the ABS essentially looks at age, sex, State and part of State benchmarks, using the estimated resident population data. For example, the ABS might estimate that in 1990 there were 14,000 males aged 25 living in the capital of Western Australia. If 46 of the 30,444 people who responded to the IDS had these four characteristics, then they would each be given a weight of 304 ($14,000/46$). On the other hand, if 100 males aged 25 living in Perth had responded to the IDS survey, then they would be given a weight of only 140. In this way, the ABS ensures that the population estimates for 15 year olds and over produced by the IDS closely match the estimated resident population series. The same weighting methodology is used by the LFS, which is why all three estimates matched up so well in Figure 1.

However, when there is substantial non-response, this weighting methodology does not work as well. Let us take females aged 25 to 34 again as an example. If far too many of those females living in Sydney aged 25 to 34 who responded to the IDS survey were married and had children, then when their records were weighted up to age/sex/State/part of State benchmarks, the estimates of the number of females of this age living in Sydney with young children would be much too high. Conversely, the estimated number of 25-34 year old females without children living in Sydney would be too low. This seems to be what has happened with the 1990 IDS.

3 Reweighting the 1990 IDS

The only way to overcome this problem is to reweight the entire IDS sample, using benchmarks based upon a wider range of family and labour force characteristics, rather than just age/sex/State/part of State. NATSEM has been evaluating various reweighting strategies during the past 12 months. Most reweighting strategies used in Australia by microsimulation modellers until now have been employed to bring older sample surveys up-to-date, rather than to correct the original weights supplied by the ABS. Analysts have generally reweighted the records of individuals according to LFS benchmark data by sex, family and labour force status (Bradbury, 1990; King, 1987). The more detailed reweighting strategy developed by NATSEM should not only correct for problems in the 1990 IDS, but also result in more accurate base data for microsimulation models of the 1993 world.

NATSEM has reweighted the 1990 IDS using detailed data from the November 1990 LFS. Validation work by NATSEM has suggested that reweighting to age/sex/State/labour force status/family status and education status benchmarks produces more accurate results than more simplified reweighting matrices (Landt et al., 1993). Without going into the details of the extremely complex reweighting process (described in detail in Landt et al., 1993), Figures 5 and 6 show how the reweighted IDS estimates appear to be much closer to the LFS estimates than those derived using the original IDS weights. As Figure 7 indicates, the revised weighting strategy also moves the estimates of the number of young children closer to the resident population benchmarks. However, these results are still not perfect, in part because the LFS benchmark data which are used to reweight the IDS also contain too many young children relative to the population benchmarks. NATSEM is still considering the question of whether further adjustments could be made to improve the estimates of the number of young children. While more work is needed before reaching a definite conclusion, these promising results suggest that a complicated reweighting matrix nonetheless produces a better outcome than more simple reweighting strategies and that reweighting the IDS to account for differential non-response can improve the accuracy of estimates of the size of population sub-groups.

The above discussion thus suggests that the original IDS weights were not very reliable, and describes how the magnitude of the problem was reduced by using a more complicated weighting strategy. This raises the obvious question of whether - and by how much - estimates of poverty and income distribution in 1990 have been affected by the unreliable weights attached to the original 1990 IDS micro-data tape.

4 Income Distribution Estimates

To examine this issue, a series of programs calculating decile shares, income levels and poverty rates were run using both the original IDS weights and the revised NATSEM IDS weights. Technical details about such issues as the income unit used

Figure 5: Estimated Number of Full-time Employed Males from the Original 1990 IDS, the November 1990 Labour Force Survey, and the NATSEM Reweighted IDS

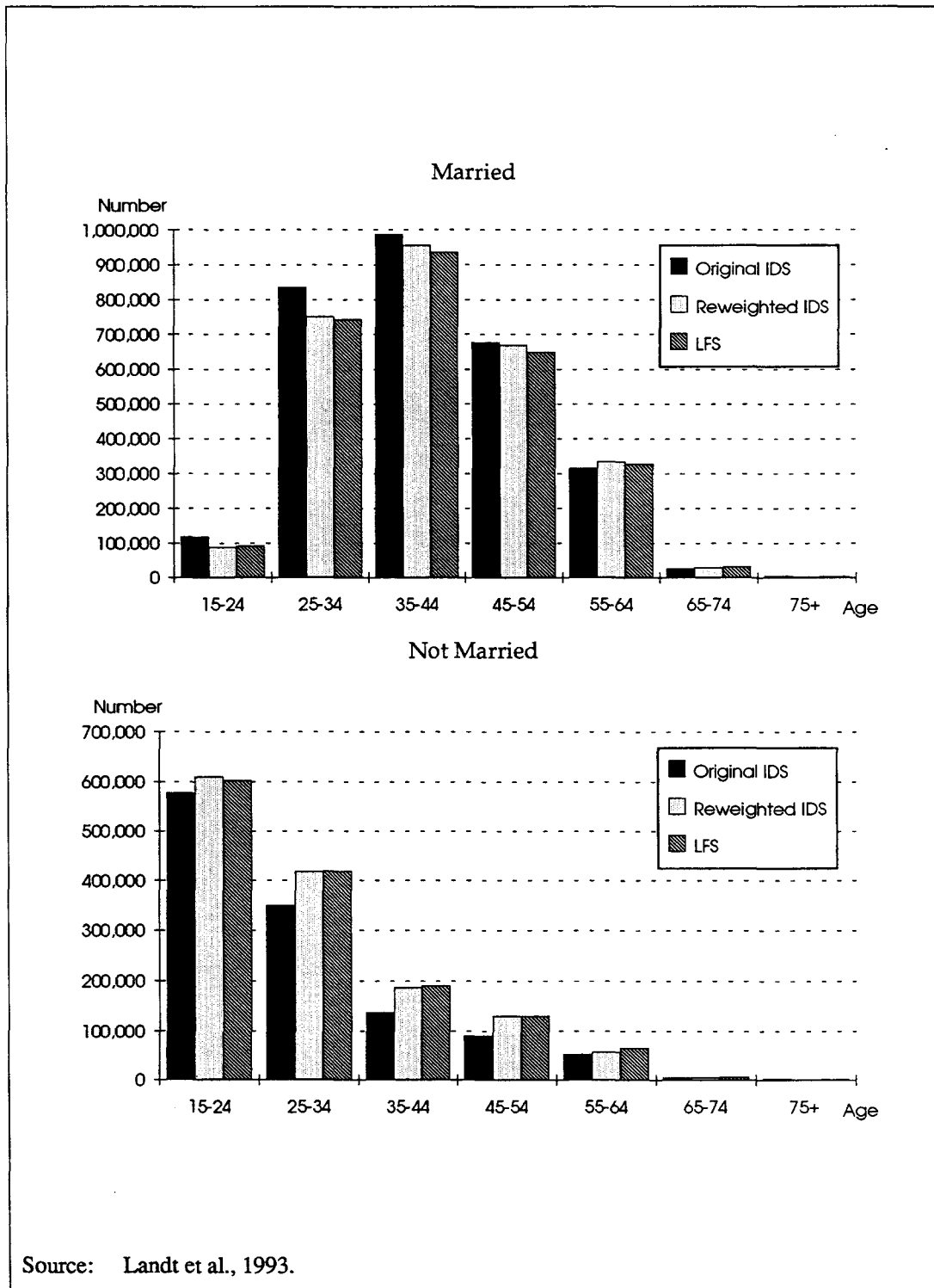


Figure 6: Estimated Number of Full-time Employed Females from the Original 1990 IDS, the November 1990 Labour Force Survey, and the NATSEM Reweighted IDS

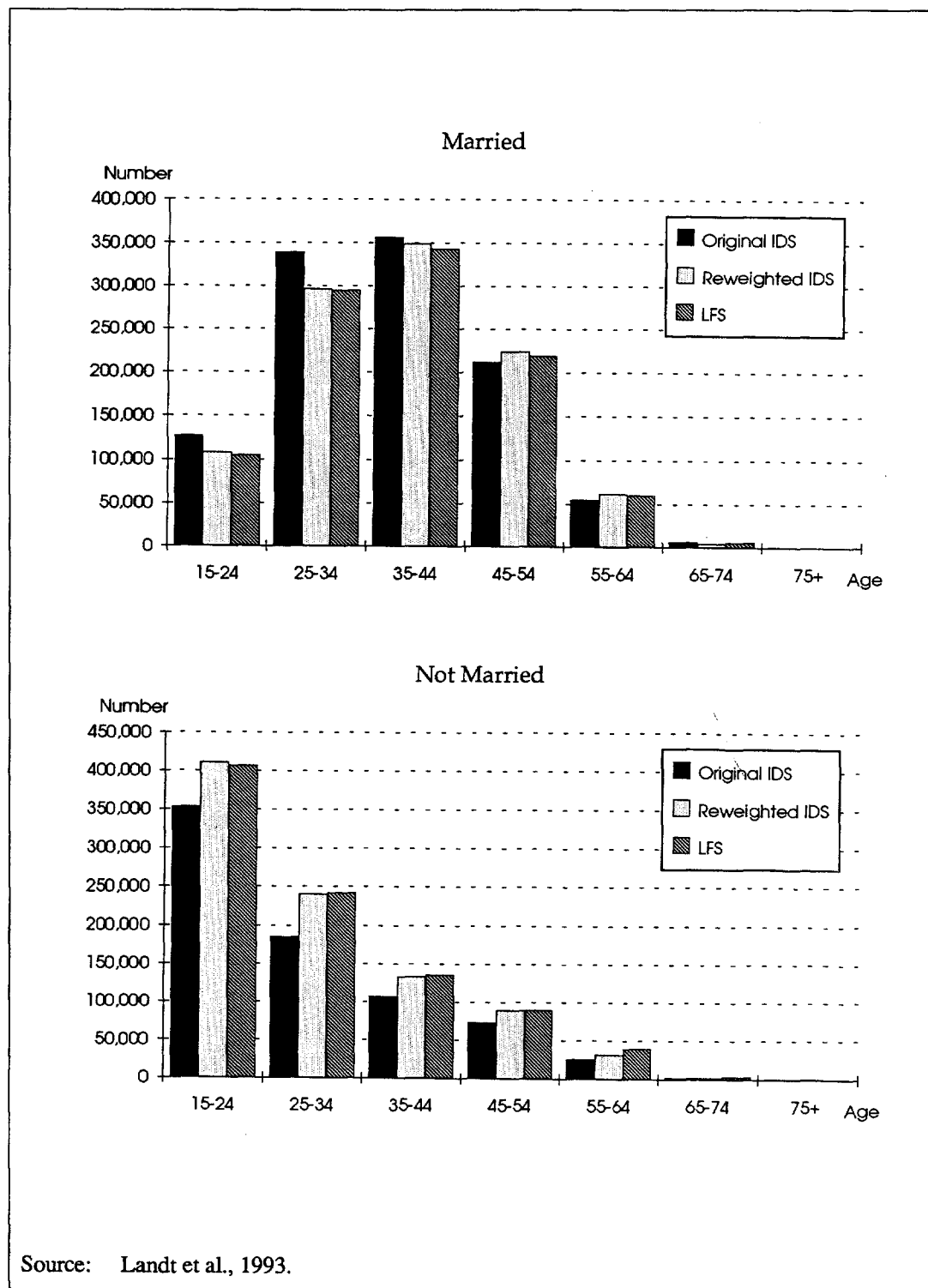
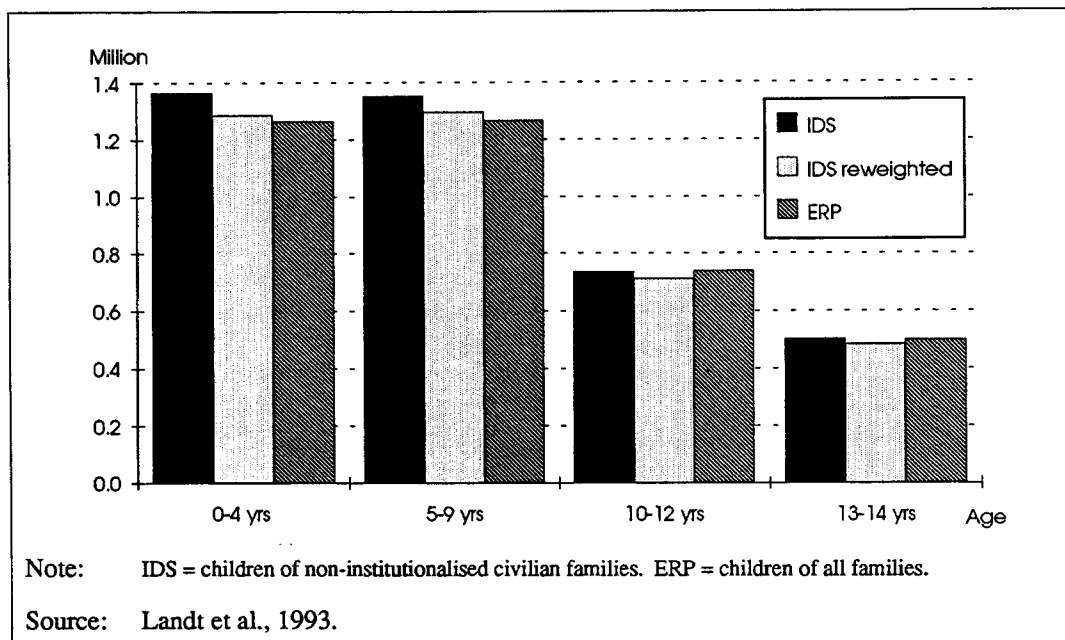


Figure 7: Estimated Number of Children from the Original 1990 IDS, the November 1990 Labour Force Survey, and the NATSEM Reweighted IDS



and the weighting of results are described in Appendix One. In the following analysis, two different equivalence scales have been used to put families of differing size and composition on an equal footing. These are one constructed by the OECD, which many would regard as being rather generous in estimating the additional income required by those with children, and the Whiteford scale, which is the geometric mean of 59 equivalence scales surveyed by Whiteford (1985).

Is the distribution of individuals, classified by their family type, very different in the original and reweighted IDS? As Table 1 indicates, there is relatively little difference between the two data sources in the **proportion** of individuals living in various types of families. The proportion of individuals living in families headed by a single aged person or an aged couple in 1989/90 is slightly higher in the reweighted IDS: up from 9.8 per cent of all individuals in the original dataset to 10.5 per cent in the reweighted dataset. The proportion of all individuals aged less than 65 living alone in the reweighted dataset is 9.6 per cent: somewhat higher than the 8.3 per cent in the original survey. Finally, as one would expect, there is a two per cent fall in the proportion of individuals living in families headed by a married couple with dependent children: down from 50.9 per cent in the original survey to 48.9 per cent in the reweighted survey.

However, there is a more substantial difference between the two surveys in the **number** of individuals living within each family type. For example, in the original IDS, 8.3 million people were in families headed by a married couple with dependent

Table 1: Proportion and Number of Individuals Living Within Various Family Structures in Original and Reweighted 1990 IDS

		Family Type						
		Aged Single	Aged Couple	Single No ch ^(a)	Couple No ch ^(a)	Sole Parent	Couple with ch ^(a)	Other
Original	%	3.3	6.5	8.3	21.7	6.1	50.8	3.3
Reweighted	%	3.6	6.9	9.6	21.1	6.6	48.9	3.3
Original	'000	548	1,069	1,352	3,546	992	8,318	543
Reweighted	'000	531	1,006	1,395	3,071	961	7,130	483

Note: a) Children means dependent children. Such children are defined as children aged less than 18 still living in the parental home. Non-dependent children (aged 18 or more living at home), or non-dependent other relatives may be present within most of the family types listed above. The single adults with no children category, however, refers to single adults not living with any relatives.

children, whereas in the reweighted IDS the number is only 7.1 million. Similarly, while there are 3.55 million people in the original IDS living in families headed by a married couple without dependent children aged less than 18, there are only 3.07 million in the reweighted IDS. Estimates of the number of individuals within the remaining family categories are all very slightly lower in the reweighted IDS than in the original IDS, with the single exception of single non-aged adults living alone, whose numbers are slightly higher.

Do the above differences affect decile shares or the composition of families within each decile? For this analysis, all individuals were ranked by the equivalent disposable income of their family in 1989/90, and then divided into ten equally sized groups (termed deciles). The analysis was repeated for both the OECD and Whiteford equivalence scales. Once again, only minor differences in the proportion of individuals belonging to different family types within each decile were observed. For example, as Table 2 indicates, in the original IDS 47.5 per cent of all those individuals ranked in the lowest OECD equivalent income decile belonged to families headed by a married couple with dependent children. In the reweighted dataset, the proportion dropped slightly to 45.7 per cent. Similarly, in the original IDS, 9.3 per cent of all individuals in the bottom decile were single adults whereas, in the reweighted IDS, the proportion rose slightly to 10.6 per cent.

While these results used the OECD equivalence scale, the directions of change were the same using the Whiteford equivalence scale. That is, the proportion of individuals in the bottom decile who were elderly or belonged to 'married couple with children' families decreased slightly, while the proportion who belonged to

single adult, sole parent or 'married couple without children' families increased slightly. Generally speaking, these patterns were repeated in every decile.

Once again, however, although the proportions were similar, the actual numbers were often very different. For example, in the original IDS, there were 778,000 people belonging to 'couple with dependent children' families whose OECD family equivalent income was so low as to place them within the bottom 10 per cent of all individuals. The comparable figure for the reweighted IDS was only 665,000 (Table 2). Because it gives a much lower weight to children, the Whiteford scale produces a quite different picture of which types of families are represented in the lowest income decile. When this scale and the original IDS weights were used, there were 226,000 individuals living in families headed by an aged person or couple in the bottom decile. As Table 2 shows, this fell by 18 per cent, to 185,000, when the revised IDS weights were used. The number of individuals living in 'couple with children' families also fell, by 14 per cent - from 630,000 people to 542,000 people - when the reweighted IDS was used.

Another issue worth examining was whether the reweighting process affected the share of disposable income accruing to individuals within each decile. Table 3 suggests that the reweighting process has not altered the distribution of disposable income between deciles. For example, those in the top decile received 19.71 per cent of all disposable income (i.e. income after the receipt of cash transfers such as age pension and the payment of income taxes) in 1989/90, using the original IDS weights and the OECD equivalence scale. Use of the revised IDS weights changed this proportion only slightly, to 19.99 per cent. Thus, using either set of weights or equivalence scale, the top 10 per cent of all individuals lived in families which received about one-fifth of all disposable income. Similarly, the bottom 10 per cent of all individuals lived in families which received only about three per cent of all disposable income in 1989/90.

5 Poverty Estimates

There are a number of commonly used methods of measuring poverty in Australia. The following analysis replicates the methodology described in detail in Harding and Mitchell (1992), which essentially involves ranking all families by an income measure adjusted for their needs, and then setting the poverty line at 40, 50 or 60 per cent of the median equivalent family income. Other details of the methodology used are described in Appendix One. It must be emphasised that this method is by no means the only way of measuring poverty, and that methods using the updated Henderson poverty line have enjoyed great popularity in Australia. There has not, however, been time to undertake comparable analysis using the Henderson poverty line before this conference (adjusted by either trends in average household income or the CPI), but this will be undertaken in the near future. Rather than attempting the impossible task of providing definitive estimates of poverty in Australia, this section merely attempts to show the difference which is made to one set of poverty estimates by using the NATSEM reweighted IDS.

Table 2: Distribution of Individuals within Deciles by Family Type in Original (Old) and Reweighted (New) 1990 IDS

Family Type	OECD Equivalence Scale Deciles of Equivalent Family Disposable Income 1989/90									
	1 Old	1 New	2 Old	2 New	3 Old	3 New	4 Old	4 New	5 Old	5 New
Number '000										
Aged single	39	32	200	180	126	132	60	65	39	39
Aged couple	75	63	262	234	227	209	170	170	92	96
Single no children	153	154	146	148	81	98	79	74	69	72
Couple no children	132	121	150	139	137	115	193	161	224	182
Sole parent	425	394	146	141	88	92	76	76	72	65
Couple with children	778	665	708	591	921	760	1012	868	1098	961
Other	34	29	24	24	57	52	45	43	44	41
Per cent %										
Aged single	2.4	2.2	12.2	12.4	7.7	9.1	3.7	4.4	2.4	2.7
Aged couple	4.6	4.3	16.1	16.0	13.9	14.3	10.4	11.7	5.6	6.6
Single no children	9.3	10.6	8.9	10.1	5.0	6.7	4.9	5.1	4.2	4.9
Couple no children	8.1	8.3	9.1	9.5	8.4	7.9	11.8	11.0	13.7	12.5
Sole parent	26.0	27.0	8.9	9.7	5.4	6.3	4.7	5.2	4.4	4.5
Couple with children	47.5	45.7	43.3	40.5	56.3	52.1	61.9	59.6	67.1	66.0
Other	2.1	2.0	1.4	1.7	3.5	3.6	2.7	3.0	2.7	2.8
Family Type	Whiteford Equivalence Scale Deciles of Equivalent Family Disposable Income 1989/90									
	1 Old	1 New	2 Old	2 New	3 Old	3 New	4 Old	4 New	5 Old	5 New
Number '000										
Aged single	137	114	221	218	73	78	39	42	21	21
Aged couple	89	71	337	301	244	241	112	116	92	90
Single no children	234	232	141	156	89	89	75	80	77	76
Couple no children	145	131	171	147	165	148	212	189	263	212
Sole parent	366	336	179	170	96	95	86	94	77	69
Couple with children	630	542	551	433	906	745	107	896	1064	954
Other	36	30	37	34	61	63	46	41	43	33
Per cent %										
Aged single	8.4	7.9	13.5	14.9	4.5	5.4	2.4	2.9	1.3	1.5
Aged couple	5.4	4.8	20.6	20.7	14.9	16.5	6.9	8.0	5.6	6.2
Single no children	14.3	15.9	8.6	10.6	5.5	6.1	4.6	5.5	4.7	5.3
Couple no children	8.9	9.0	10.5	10.1	10.1	10.2	12.9	13.0	16.1	14.6
Sole parent	22.3	23.1	10.9	11.7	5.9	6.5	5.3	6.5	4.7	4.8
Couple with children	38.5	37.2	33.6	29.7	55.4	51.1	65.2	61.4	65.0	65.5
Other	2.2	2.1	2.3	2.3	3.8	4.3	2.8	2.8	2.7	2.2

Table 2: Distribution of Individuals within Deciles by Family Type in Original (Old) and Reweighted (New) 1990 IDS (Continued)

Family Type	OECD Equivalence Scale Deciles of Equivalent Family Disposable Income 1989/90									
	6 Old	6 New	7 Old	7 New	8 Old	8 New	9 Old	9 New	10 Old	10 New
Number '000										
Aged single	27	23	11	14	11	13	11	10	24	22
Aged couple	83	79	35	38	32	29	35	36	57	50
Single no children	81	79	92	93	157	154	24	262	255	260
Couple no children	306	266	391	342	473	415	677	575	864	755
Sole parent	73	87	48	46	41	35	13	16	9	10
Couple with children	1017	881	985	862	851	745	576	477	371	318
Other	52	43	74	63	72	64	85	80	58	44
Per cent %										
Aged single	1.7	1.6	0.7	1.0	0.7	0.9	0.6	0.7	1.4	1.5
Aged couple	5.1	5.4	2.1	2.6	2.0	2.0	2.2	2.5	3.5	3.4
Single no children	5.0	5.4	5.6	6.4	9.6	10.6	14.6	18.0	15.6	17.8
Couple no children	18.7	18.3	23.9	23.5	28.9	28.5	41.4	39.4	52.7	51.8
Sole parent	4.4	5.9	3.0	3.1	2.5	2.4	0.8	1.1	0.6	0.7
Couple with children	62.1	60.4	60.2	59.1	52.0	51.2	35.2	32.8	22.6	21.8
Other	3.2	3.0	4.5	4.3	4.4	4.4	5.2	5.5	3.5	3.0
Family Type	Whiteford Equivalence Scale Deciles of Equivalent Family Disposable Income 1989/90									
	6 Old	6 New	7 Old	7 New	8 Old	8 New	9 Old	9 New	10 Old	10 New
Number '000										
Aged single	13	12	8	13	6	6	12	12	17	15
Aged couple	53	50	30	32	28	30	29	28	54	46
Single no children	100	90	126	131	179	187	174	190	156	164
Couple no children	298	252	371	322	449	406	652	532	820	730
Sole parent	72	82	50	52	43	38	11	12	13	12
Couple with children	1036	914	86	850	867	734	688	611	523	451
Other	65	60	64	55	65	57	71	71	54	40
Per cent %										
Aged single	0.8	0.8	0.5	0.9	0.4	0.4	0.7	0.8	1.0	1.0
Aged couple	3.3	3.4	1.9	2.2	1.7	2.1	1.8	1.9	3.3	3.2
Single no children	6.1	6.2	7.7	9.0	10.9	12.8	10.6	13.0	9.6	11.3
Couple no children	8.2	17.2	22.7	22.1	27.4	27.9	39.9	36.5	50.1	50.0
Sole parent	4.4	5.6	3.0	3.6	2.6	2.6	0.7	0.8	0.8	0.8
Couple with children	63.3	62.6	60.3	58.4	53.0	50.3	42.0	42.0	31.9	30.9
Other	3.9	4.1	3.9	3.8	4.0	3.9	4.3	4.9	3.3	2.8

Table 3: Proportion of Disposable Family Income in 1989/90 Received by Individuals in Each Decile, in Original and Reweighted IDS

		Decile of Equivalent Disposable Family Income									
		1	2	3	4	5	6	7	8	9	10
OECD Scale											
Original	%	3.23	4.83	6.30	7.56	8.89	10.16	11.72	13.00	14.59	19.71
Reweighted	%	3.22	4.81	6.20	7.55	8.92	10.15	11.75	13.03	14.39	19.99
Whiteford Scale											
Original	%	2.79	4.43	6.16	7.65	8.77	10.05	11.52	12.84	14.83	20.97
Reweighted	%	2.79	4.33	6.09	7.58	8.82	10.06	11.53	12.72	14.78	21.30

The first question of interest is clearly whether using the reweighted IDS produces different estimates of the proportion or number of individuals in poverty. Table 4 suggests that the reweighting process makes almost no difference to aggregate poverty rates, although the reweighted poverty rates are almost always slightly lower. For example, using the 50 per cent of median income poverty line and the original IDS, the poverty rate after the receipt of government cash transfers and the payment of income taxes is 9.5 per cent using the OECD equivalence scale and 10.4 per cent using the Whiteford equivalence scale. When the reweighted IDS is used, the proportions change only marginally, to 9.3 and 10.3 per cent respectively.

There is more difference, however, in the **number** of Australians in poverty. (These figures are of the number of individuals in poverty - including children - on the basis of their equivalent family income.) For example, using the 50 per cent of median income poverty line and the Whiteford equivalence scale, some 200,000 fewer individuals were in poverty using the reweighted IDS than using the original IDS. Reweighting the IDS, as shown earlier, lopped about 200,000 'non-existent' children off the 1990 IDS estimates, so that the aggregate population being considered in this particular study fell from 16,370,000 individuals to 14,580,000 individuals. The difference in the number of individuals in poverty between the original and reweighted IDS (which sometimes exceeds 300,000 people), suggests that this reduced number of children and the reweighting process has affected poverty measurement substantially.²

² It should also be noted that, with the poverty lines used here, the poverty line was recalculated after the re-estimation of each family's equivalent income caused by the reweighting process. It is possible that a poverty line which remained fixed after this reweighting (such as the Henderson poverty line), might lead to sharper differences in measured poverty rates between the original and reweighted IDS surveys.

Table 4 : Number and Proportion of Individuals in Poverty in 1989/90 Using the Original and Reweighted Income Distribution Survey

Post-tax/transfer Poverty Rates	OECD Scale		Whiteford Scale	
	Original IDS	Reweighted IDS	Original IDS	Reweighted IDS
40% of median				
• %	5.5	5.4	5.5	5.4
• number '000	894	784	900	780
50% of median				
• %	9.5	9.3	10.4	10.3
• number '000	1,555	1,356	1,697	1,497
60% of median				
• %	17.2	16.5	18.5	18.5
• number '000	2,820	2,398	3,021	2,699

Is there a difference in the poverty rates by family type, as a result of the reweighting process? Table 5 suggests that the reshuffling introduced by the reweighting process does have some effect on poverty rates by family type. For example, under either the OECD or Whiteford equivalence scale, the poverty rate among families with a head aged 65 or more is lower. Under the OECD scale, the poverty rate for individuals in families headed by an aged couple fell from 6.8 per cent with the original IDS to 5.4 per cent with the reweighted IDS. Similarly, using the Whiteford scale, the poverty rate for aged couples is 7.4 per cent in the reweighted IDS: about 13 per cent lower than the 8.5 per cent recorded in the original IDS. Poverty rates for single adults without children and sole parents are also slightly lower in the reweighted IDS.

Of more importance, however, is the change in the number of individuals in poverty. For example, using the original IDS database, some 737,000 Australians living in families headed by a married couple with dependent children were living below the OECD 50 per cent poverty line. In contrast, using the reweighted IDS, only some 368,000 such individuals are below this poverty line. For most other family types, the numbers in poverty are reasonably close, irrespective of whether the original or reweighted IDS is used. The exception is sole parent families where, using the OECD scale, the original IDS estimate is almost 40,000 higher than the reweighted IDS estimate.

These figures also suggest that the reweighted IDS will produce fewer children in poverty than the original IDS. While Table 5 showed the number of adults and children in poverty on the basis of their equivalent disposable family income, Table

Table 5: Estimated Proportion and Number of Individuals in Families in Poverty Using the Original and Reweighted IDS (50 % of median income poverty line)

		Family Type						
		Aged Single	Aged Couple	Single No ch	Couple No ch	Sole Parent	Couple with ch	Other
OECD								
• original	%	6.3	6.8	11.0	3.5	40.1	8.9	5.8
• reweighted	%	5.4	5.4	10.2	3.7	38.4	8.7	5.8
• original	'000	35	72	148	125	406	737	32
• reweighted	'000	29	54	141	112	368	623	28
Whiteford								
• original	%	27.4	8.5	18.1	4.3	38.2	7.8	6.6
• reweighted	%	23.1	7.4	16.9	4.4	36.1	7.8	6.2
• original	'000	150	91	245	151	379	646	36
• reweighted	'000	123	75	235	134	346	554	30

Table 6: Estimated Number of Children in Poverty in 1989/90 Using the Original and Reweighted IDS (50 % of median income poverty line)

Equivalence Scale	Original IDS	Reweighted IDS
OECD Scale	651,740	569,875
Whiteford Scale	580,225	513,030

6 traces the number of children living in families whose equivalent disposable family income is below the 50 per cent of median income poverty line. Using the original IDS weights and the OECD equivalence scale, about 650,000 children were in poverty on the basis of their family income in 1989/90. However, using the more reliable reweighted IDS, this dropped to 570,000 children. Using an equivalence scale which is less generous towards the needs of children did not change this conclusion. Thus, using the reweighted IDS and the Whiteford equivalence scale, an estimated 513,000 children aged less than 18 were living in poverty in 1989/90: almost 70,000 less than the 580,000 estimate produced using the original IDS weights.

6 Conclusions

Comparison of estimates produced from the 1990 Income Distribution Survey with those from a Labour Force Survey conducted during the same time period suggest that the IDS overstates the number of married people (and thus children) in Australia, and understates the number of non-married people. The National Centre for Social and Economic Modelling has been experimenting with ways to reweight the 1990 IDS, to improve the accuracy of population and other estimates derived from it. The figures presented in this paper suggest that a complex reweighting strategy (described in detail in Landt et al., 1993) produces results which more closely match those found in the Labour Force Survey.

A series of programs assessing poverty and income distribution were run using both the original IDS weights and the new weights developed by NATSEM. The results suggested that income distribution estimates expressed as shares or rates would probably not change greatly due to the reweighting procedure. Thus, conclusions drawn from comparison of the 1990 IDS with earlier income distribution surveys, which rested upon Gini coefficients or decile shares, would probably not be affected. However, conclusions about income trends during the 1980s which were based upon examination of the number of people with particular characteristics or within deciles could be erroneous.

Poverty estimates appeared slightly more sensitive to the reweighting procedure than estimates of the aggregate income distribution. It must be emphasised that this conclusion was based upon using a poverty line which was recalculated after the data were reweighted, and that it is possible that poverty lines which remained at exactly the same level despite the reweighting (such as the Henderson poverty line) might show a greater difference between the original and reweighted estimates. Although there was almost no difference in poverty rates for the entire population as a result of the reweighting, there was some difference in the poverty rates for different family types. For example, poverty rates for individuals living in families headed by an aged person or couple, or by a sole parent, fell slightly due to the reweighting.

For some types of families, the estimated number of people in poverty in 1989/90 fell substantially. For example, using a poverty line set at 50 per cent of median income and the OECD equivalence scale, the number of individuals living in 'married couple with children' families with incomes below the poverty line was 623,000 using the reweighted dataset. This was 114,000 lower than the estimate realised using the original dataset. Similarly, the estimated number of children living in poverty using the reweighted dataset was considerably lower. For example, using the reweighted dataset, the Whiteford equivalence scale and the 50 per cent poverty line again, the estimated number of children living in families with incomes below the poverty line was 513,000 in 1989/90. This was almost 70,000 lower than the comparable estimate derived from the original IDS.

Although conclusions remain tentative, this again suggests that previous research which rests upon examination of poverty rates will be more robust than that which rests upon examination of the number of individuals or families in poverty.

Subsequent research by NATSEM has suggested that the earlier 1986 and 1981 Income Surveys suffer from similar problems to the 1990 survey in their weighting methodology (assessed against larger Labour Force Surveys conducted during the same time period). However, the magnitude of the problem differs between the three surveys. NATSEM is currently finalising a project to reweight all three of the surveys, and will publish new poverty and income distribution estimates for the 1980s when the project is completed.

Appendix One

The income unit used in the analysis of income distribution and poverty in this paper is the family. This means that it has been assumed that all related individuals living within the same household share resources and can be treated as one income unit. This is considerably wider than the income unit definition used by the ABS in which, for example, a grandmother living in the home of her grandchildren and daughter is treated as a separate income unit. (Subsequent research has suggested that the precise income unit used can make a significant difference to poverty and income distribution estimates - see Harding, 1993).

To construct family income units, it was necessary to go back to the IDS tape and reconstruct family relationships. Following ABS practice, the (original or revised) weight assigned to each family was calculated by taking the harmonic mean of the individual weights of all people aged 15 or over living in the family. This means that the population estimates are somewhat lower than those derived by simply adding the weights of every individual on the file. To ensure that families of six or more were not given exactly the same importance as families of only one person, all estimates were weighted by the number of people within the family. All estimates are thus for numbers of individuals, not for numbers of families.

An equivalence scale is used to put families of different size and composition on the same footing. For example, it is obvious that a family of six people with an income of \$50,000 is unlikely to enjoy the same standard of living as a single person with an income of \$50,000. However, there is no agreement within Australia or internationally about what is the 'right' equivalence scale. Sensitivity analysis using two different equivalence scales is conducted in this paper. The OECD scale gives a single adult a value of 1, second and subsequent adults a value of 0.7 and each child a value of 0.5. This means, for example, that this scale assumes that a couple without children require 70 per cent more income than a single adult to reach the same standard of living. The Whiteford scale gives a single adult a value of 1, second and subsequent adults a value of 0.56 and each child a value of 0.32.

The poverty line for a single person was calculated by arraying all individuals by ascending equivalent disposable family income, picking the middle person, and then

calculating 40, 50 or 60 per cent of the family income of that person. In the original IDS, the OECD median family income was \$12,225, while the Whiteford median family income was \$14,416. In the reweighted IDS, the OECD median family income was \$11,994 and the Whiteford median family income was \$14,139. The relevant poverty lines were thus set at 40, 50 or 60 per cent of these medians.

In calculating period income, income during 1989/90 from private sources and government cash benefits was summed, and negative incomes were reset to zero. Families where any person arrived in Australia during 1989/90 or after June 1990, was away from Australia for the full period, changed marital status during 1989/90 or was overseas for more than 12 weeks during 1989/90 were excluded from the analysis. This was because their period incomes were not a reliable indicator of their standard of living.

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Creating the Conditions of their Own Existence: Credit Rating Agencies and Australian Social Policy

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1 Introduction

During recent years credit rating agencies (CRAs) have come to acquire a very high profile in Australian politics. During the week that this paper was written, for example, the CRAs got two rather prominent mentions in the press. The first was a consequence of the Tasmanian Government framing its recent budget explicitly with a view to improving its credit rating (see the *Australian Financial Review*, 12 July, 1993), and the second as a result of the controversial credit rating downgrade that one key CRA - Moody's - dished out to Telecom (*Australian Financial Review*, 14 July, 1993).

The interesting thing about both these events is that they capture quite neatly not just the increasingly public role played by CRAs in Australian politics, but the crucial part they now play in actually shaping the public and social policy agenda in Australia. As we will see later, the Tasmanian Government is acting just like its counterparts in other States by having as one of its main budgetary objectives the achievement (or maintenance) of an AAA rating, which translates into a very tough fiscal stance in which deficits and debts are to be avoided at all costs. Moreover, the Telecom downgrade nicely captures the quite overt political way in which the CRAs seem to go about their business in Australia: it is difficult to believe that Moody's was unaware that the week they chose to attack Telecom's credit worthiness happened to be the first week of the telephone ballots that will very much determine the future role of Australian public enterprise within the telecommunications industry.

In this paper we wish to elaborate on these themes by focusing on the role that CRAs now play in helping to shape the social policy agenda in Australia. We wish to emphasise at the outset, however, that what we have to say is the result of our preliminary work on a research topic that we intend to give far more attention in the coming months.

Our paper is divided into three main parts.

The first section below plots the rise of the CRAs in Australia and in the process demonstrates the considerable influence the CRAs have now come to enjoy. We track the way that this has occurred, particularly during recent years, and draw attention to the way that the CRAs have more and more come to focus on the State, rather than Federal, tier as the target of their evaluative work.

The following section examines the adequacy of the evaluative work undertaken by the CRAs by looking at the criteria they use to rate sovereign debt, and by examining the degree to which they apply these criteria consistently and appropriately both within and between nation states. We demonstrate that the CRA methodology involves the questionable application of private sector accounting principles to the public sector, and in ways which, far from being objective and value free, often are open to considerable debate and criticism precisely because of their highly value laden nature. We argue moreover that the rise of CRAs now leaves Australian Labor governments in particular with an unenviable choice: an AAA rating or social democracy, but not both.

The final section offers some tentative conclusions about why the CRA's evaluations take the form that they do. We do this by exploring the institutional structure of the CRA industry, and point to three factors as being crucial to the rise to power of the CRAs: first, financial deregulation; second, the enthusiastic way that the Commonwealth Labor Government has gone about exposing the soft underbelly of the State governments to the CRAs in a desperate and dangerous attempt to bring the States more and more under the control of the Commonwealth; and third, the highly concentrated and competitive nature of the CRA industry, which has seen the CRAs actually manufacture credit rating differences between the States.

We begin, though, by plotting the rise of the CRAs in Australia.

2 A Potted History of the CRAs

In general terms, we can identify three key phases in the CRA's history in Australia. In the first formative years from 1980 through to 1986, the CRAs establish themselves in Australia, albeit with a focus on different markets: Australian Ratings concentrates on reviews of private and public agencies and organisations for subscribing investors, while Moody's initially concentrates on doing reviews of particular debt issues by companies seeking to raise finance through the Euro markets. Australian Ratings makes money through subscriptions, Moody's does it by being hired by a company wishing to raise some capital through the debt markets (Hutchinson, 1992: 17; Anderson, 1992).

In the second phase, from around 1986 though to 1990, the CRAs first begin to turn attention on sovereign debt, downgrading Australia in 1986 for the first time ever. At the same time, Moody's starts to turn away from its European focus, and instead begins to do work on local debt issues. In this way the two credit rating companies

begin for the first time to enter into competition with one another in a full scale way (Hutchinson, 1992: 17; Anderson, 1992).

In the third phase, which stretches from around 1990 to the present, Australian Ratings is acquired by the giant US ratings agency, Standard and Poor's, and the CRAs engage in a highly publicised battle for market share. During this time, the CRAs shift attention away from the Commonwealth and focus instead on the States. During this phase all States begin to frame their budgets primarily with a view to getting or retaining an AAA rating (Anderson, 1990a and b; and 1992; Toohey, 1992). Two examples show how far this process has gone, and point to some of the implications for social policy. In 1991 the Greiner government admitted that the threat of an imminent credit downgrading had prompted it to issue an urgent mini-budget statement promising public sector job cuts of 12,500 and spending cuts of \$6.2 billion over three years (see *Australian Financial Review*, 1991, 3 July: 5; see also Anderson, 1990a and 1992). In Victoria in 1992, the Kennett government, at a cost of \$2 million, set up a Commission of Audit to examine the State's finances and, among other matters, 'make recommendations as to a course of action...to secure restoration of Victoria's AAA credit rating' (Victorian Commission of Audit, 1993: 212). The Audit Commission recommended that spending cuts of \$1 billion would be necessary 'to ensure an eventual upgrading to AAA within ten years' (Victorian Commission of Audit, 1993: 140).

The importance of this shift in focus by the CRAs from the Commonwealth to the States should not be underestimated, particularly in terms of Australian social policy. For while many perceive the Commonwealth to be far more important in social policy terms, in terms of public sector employment, the provision of urban infrastructure and the delivery of the social wage it is the States that are arguably of greater significance. In any given year the State's account for around two thirds of public sector employment, over half of all public sector capital formation, and up to two thirds of social wage spending (see the data in Tables 1 and 2). An attack on the States is an attack on the heart of Australia's welfare state.

3 How Do the CRA Ratings Rate?

One of the reasons why the CRAs have come to enjoy such a high public profile is because they often are assumed to be dispassionate, objective assessors of government finances in an area where independent assessments are so difficult to find. In particular, it seems to us, many assume that the CRAs are well qualified to comment objectively on government finances precisely because they cut their teeth over a long period of time doing the same work on private companies.

We take the view, however, that these are very shaky assumptions to make. Our reservations stem from four sets of concerns, which we will examine in turn.

Table 1: Public Sector Aggregates: Share of Each Level of Government, 1988/9

Tier	Own Purpose Outlays ^(a) Percentages			Employment
	Current	Capital	Total	
Commonwealth	53	31	50	25
State	43	56	44	66
Local	4	14	5	9
Total	100	100	100	100

Note: a) Totals may not add due to rounding.

Source: Commonwealth Government, 1990:13.

Table 2: Outlays by Government Purpose Category by Level of Government, Percentage Distribution 1989/90

Government Purpose Category	Level of Government			Total	Total ^(a) Million \$
	Local	State	Common- wealth Percentages		
General Public Services	11	30	59	100	9,761
Defence	0	0	100	100	7,757
Public Order and Safety	3	84	14	100	5,048
Education	0	90	10	100	17,998
Health	1	55	44	100	18,757
Social Security and Welfare	1	8	91	100	28,189
Housing and Community Amenities	25	66	9	100	4,961
Recreation and Culture	33	40	27	100	3,507
Fuel and Energy	26	53	21	100	3,852
Agriculture etc.	0	28	72	100	4,846
Mining, Manufacturing and Construction	10	37	53	100	978
Transport and Communications	13	44	43	100	14,076
Other Economic Affairs	3	38	59	100	2,507
Other	5	63	32	100	18,978
Total	5	45	49	100	141,213

Note: a) Totals may not add due to rounding.

Source: Australian Bureau of Statistics (1991), *Government Financial Statistics*, AGPS, Canberra, Cat. No. 5512.0.

3.1 Inconsistencies in Assessments

For those who bother to follow the activities of the CRAs and the ratings they have applied over recent years to Australian governments, one of the most striking things to emerge is not just the degree of difference between the ratings each agency has given to different governments (which itself is quite striking), but also the inconsistencies that obtain in each CRA's evaluations of the same governments (see Table 3).

Table 3 provides some interesting data in this regard, by showing each State's credit rating along with various indicators of fiscal performance. The table shows that there are now wide discrepancies between the State's ratings, with New South Wales and Queensland sitting on top of the pack, Western Australia wedged in the middle, and South Australia, Victoria, and Tasmania languishing toward the bottom. The table also suggests, however, that these rankings are highly problematic, involving as they do some rather contestable questions of judgement. One of the most glaring inconsistencies concerns the ranking given to Victoria, which according to Moody's, is the least credit worthy of all the States. Yet Victoria's Gross State Product (GSP) per person is higher than all the other States, its public sector outlays are the lowest of all the States, and its current account deficit and net debt are only slightly out of line with South Australia and Tasmania. On these measures it is difficult to see how Victoria could be given such a low rating.

Even more perplexing, though, is the ranking the CRAs give to the Commonwealth Government relative to the States. The CRAs quite understandably have made it clear publicly that they view the Commonwealth as the rock in Australia's federation, with the Commonwealth being an important source of financial backing for the States. The Victorian Commission of Audit (1993), for example, in its summary of the State rating process pointed out that,

Although the Commonwealth provides neither an explicit nor an implicit guarantee of State obligations, the perception (by the CRAs) that the Commonwealth would work with a State experiencing severe financial difficulties to ensure ultimate repayment is a factor underpinning the ratings of all Australian States ... The relatively high level of Commonwealth financial support compared with other federations...is also regarded as a positive influence on the ratings of Australian States. (Victorian Commission of Audit, 1993: 134)

It would be reasonable to assume, then, that the Commonwealth would enjoy a higher credit rating than each of the Australian State's. After all, it would be difficult to envisage any circumstance where the Commonwealth could be deemed less likely to repay its debts than one of its constituent regional governments. In their official rankings, however, the CRAs have taken a different view, and the quite extraordinary situation has now arisen in which the CRAs rate the Commonwealth's

Table 3: Credit Rating and Various Fiscal Indicators, Australian States and the Commonwealth Government (General Government Sector)

	Net Debt/ GSP (1990)(a) %	Interest/ Total Revenue(b) (1990/1) %	Current Account Deficit/ GSP(b) (1990/1) %	Outlays/ GSP(b) (1990/1) %	GDP per capita(c) (1990/1) \$	Moody's Rating(d)	AR/S&P rating(d)
New South Wales	9	10	-0.2	15.6	22,700	Aaa	AAA
Queensland	-3	10	-2.2	15.9	29,500	Aaa	AAA
Western Australia	4	9	-0.5	15.9	22,800	Aa1	AA+
South Australia	6	18	0.6	26.1	19,300	Aa2	AA
Victoria	13	15	1.1	15.5	23,000	A1	AA
Tasmania	15	15	0.4	22.2	17,700	Aa2	AA-
Commonwealth	4.4	6.1	1.9	25.9	21,900	Aa	AA

Sources: a) Australian Bureau of Statistics, *Public Sector Debt, Australia*, Cat. No. 5513.0; Australian Bureau of Statistics, *Australian National Accounts, State Accounts*, Cat. No. 5220.0.
b) Australian Bureau of Statistics, *Government Financial Estimates*, Cat. No. 5501.0, Australian Bureau of Statistics, *Australian National Accounts*, Cat. No. 5220.0.
c) State Finance Victoria (1992), *Independent Review of Victoria's Public Sector Finances*, September: 7.
d) *Australian Financial Review*, (1992), 11 December: 30.

ability to repay its debts as being below that of Queensland, New South Wales and Western Australia, and only on a par with South Australia. This is a very difficult judgement to reconcile with the available evidence.

It could be argued in opposition to this that it is misleading to compare CRA State Government and Commonwealth rankings. The ratings, it might be argued, are relative to particular standards, and the Commonwealth's position is best understood not in the context of regional government rankings but international rankings. As we will see, however, the international rankings involve similar highly questionable matters of judgement.

3.2 International Variations

Table 4 shows the international credit ratings given by one CRA (Standard and Poor's) to various OECD governments. The table also provides various fiscal indicators for each government. Once again, what is striking are the clear inconsistencies in the ratings that have been given. Compare for example Australia with the UK. Australia's general government public debt and deficits are both less than half the size of the UK's. On these indicators, it would surely be safe to

Table 4: General Government Net Debt and Deficit (% of GDP) and Credit Rating, Selected OECD Countries, 1993

Country	Rating (S&P)	Debt/GDP %	Deficit/GDP %
Netherlands	AAA	61.3	+1.2
USA	AAA	40.5	-2.1
Germany	AAA	24.7	-0.6
UK	AAA	41.1	-5.3
Japan	AAA	5.5	+0.7
Belgium	AA+	125.8	+4.3
Canada	AA+	55.7	+0.5
Sweden	AA+	13.3	-7.6
Australia	AA	19.7	-2.6
Finland	AA-	17.5	-4.8
Victoria	AA	18.8	-1.8

Source: Standard and Poor's; OECD.

assume that Australia would have the higher credit rating. In fact, the opposite is the case, and by quite a margin, for whereas the UK enjoys a AAA rating, Australia is rated a full two notches below this level. More dramatic still is the case of Belgium, with a debt/GDP level 500 per cent higher than Australia's, but still a better credit rating.

3.3 Political Values and CRAs

Perhaps the most worrying reason for questioning the way that the CRAs go about doing their business concerns the increasingly and transparently political way they approach the task of rating governments. The most glaring example of this is to be found in the decision by Moody's to downgrade Victoria immediately following the State election on 3 October 1992, and immediately before the first, very tough economic statement on 26 October 1992.

What was especially worrying about this downgrading decision is that it involved a very unusual two notch reduction, which served to create an unprecedented degree of spread between the credit ratings of Australian States (*Australian Financial Review*, 1992, 26 October). On any balanced criteria, however, the Moody's decision was a very difficult one to square with the facts. Victoria was rated below Tasmania and South Australia, and below many private companies. Yet it is surely a nonsense to suggest that any of Australia's states, including Victoria, is less credit worthy than the strongest of Australia's companies. The States have monopoly over the right to raise tax revenue, and would be able to mobilise the support of the Commonwealth should the need arise. Indeed, in this sense it is surely a nonsense to give any of the

States and the Commonwealth anything other than a AAA rating, for it is almost inconceivable that, in the foreseeable future, they would renege on their debt obligations. This is a point which even those who might be expected to be strong supporters of the CRAs readily acknowledge. In answering the rhetorical question of what represents a debt crisis in relation to the States, prominent right wing economists Des Moore and Michael Porter (1991) comment that,

At one end of the spectrum the most obvious answer is that a debt problem exists when there is an incapacity to service and/or repay outstanding borrowings; a 'problem' of that order would, however, be not a problem, but a crisis. In the case of a State Government *it is most unlikely that such a situation would ever arise...*, given the assets held and the power to tax. (our emphasis) (Moore and Porter, 1991: 6-2).

Why, then, the severe treatment of Victoria? One plausible answer is to be found in the following statement by the Victorian Treasurer, Alan Stockdale, shortly after the Moody's decision and immediately prior to the Economic Statement:

The budget situation we have discovered since the election is beyond our worst fears in opposition... Last week, Moody's downgrading of Victoria two rungs on the credit rating ladder graphically illustrated the consequence of excessive debt... There is no alternative to fundamental reform of the Victorian public sector... Victoria is facing a financial crisis because of Labor's mismanagement and incompetence. (quoted in *Age*, 1992, 28 October: 15).

It does not take too much imagination, in other words, to interpret the Moody's decision as an overtly political one given at least tacit approval by the incoming State Government as a good way to get public support for its extraordinarily tough budget strategy.

3.4 Standard and Poor's Dubious Criteria

This brings us to the final point we wish to raise concerning the adequacy of the CRA's assessments. Given that there are some very good reasons for questioning the ratings the CRAs dole out, the question surely arises as to what the CRA evaluative criteria actually are. In their *Sovereign Ratings and Assessments* report (July, 1993), Australian Ratings/Standard and Poor's summarise their criteria in this way:

A sovereign external debt rating reflects a government's **willingness and ability** to repay publicly issued debt in a timely manner and is based on the country's overall creditworthiness.

The...willingness to repay...involves an assessment of the **political risk** associated with a government's economic and political self-interest in honouring its obligations. The likelihood of a government refusing to repay...is largely a function of the country's internal political and social stability and the degree of harmony characterising its external relations.

A government's capacity to support its current and anticipated level of external debt involves an economic risk assessment...of its debt servicing capacity (and) balance of payments flexibility...(which) in turn involves the analysis of the country's economic structure, growth and management. (Australian Ratings/Standard and Poor's, 1993)

Both core criteria involve clear questions of values, and could be measured in any number of different, but essentially contestable, ways. This is especially so with respect to State debts, in part because one agency, Moody's, do not make the criteria publicly available (Anderson, 1992). Australian Ratings/Standard and Poor's, however, are more open. They use five principles to guide their assessments of State debts, all of which involve either a questionable application of private sector accounting principles to the public sector (as is the case when they try to estimate a government operating surplus, a notion which is a nonsense in itself), or else an assessment of the short and medium term future economic ability of States to meet debt obligations that involve

qualitative as well as quantitative factors, (which) **inevitably involve judgements about the future** ...and prospective opinions extending for the life of outstanding debt issues. (Australian Ratings/Standard and Poor's, 1993: 6, our emphasis)

The problematical nature of the CRA assessments is made especially clear when consideration is given to some of the statements made by senior CRA executives when commenting on recently revised ratings. For example, after downgrading the Victorian Government's credit rating for the first time in 1990, a Moody's official was quoted in *The Age* (21 June 1990: 1) as citing 'factional problems' within the ALP as a key reason for the downgrading. Even more worrying, perhaps, is the recent comment by Australian Ratings/Standard and Poor's that it chose not to downgrade Victoria's credit rating in the way Moody's had recently done because, following the election of the Kennett Government, Victoria now has a government in place 'which is ideologically committed to downsizing the government...' (Australian Ratings/Standard and Poor's, 1993: 12).

More worrying still is the view recently expressed publicly by a Moody's executive concerning a government's rating and its social policy. The executive in question, assistant vice-president of the Sovereign Risk Unit, Stephen Taran, commented that,

We are not in the game of giving approval to one or another approach to economic management or type of political system. It may not be worth it to a government to have a Triple-A if it means abrogating certain social objectives that it wants to achieve...' (quoted in the *Australian Financial Review*, 1992, 12 February).

Or as Kenneth Wiltshire has recently pointed out,

(The States) are starting to realise that if they want five-star ratings from Moody's, the pressure will be on to cut social expenditure and move resources to the economic side of the budget because Moody's weights its analysis by classifying social infrastructure as non-revenue earning and, therefore, non-productive. (quoted in Anderson, 1990b)

The point, then, is that Governments face a trade off, which should be of grave concern for social democracy in Australia: Governments can have a Triple-A or an elaborate welfare state, but they can't have both.

4 A Tentative Explanation

So far, then, we have made two main points. First we have shown that the CRAs have become increasingly influential, particularly in terms of the State governments. We have also shown that the criteria used by the CRAs are arbitrary and open to dispute, particularly because of their value laden nature. In the process we have suggested that the CRA ratings are a highly problematic process, which threatens the viability of the Australian welfare state. What we want to do now is address the question of why this is so.

In our view, there are two broad sets of factors implicated in the rise of the CRAs. The first, somewhat paradoxically, concerns one of the CRA's earliest and most trenchant critics, the Commonwealth Government. There can be little doubt that the rise of the CRAs in Australia was made possible by the Commonwealth's enthusiasm for financial deregulation, and the rapid bout of credit growth this facilitated during the entrepreneurial paper boom of the mid-1980s. It is no coincidence that it is during this phase of Australia's history that Australian Ratings experienced rapid growth, and Moody's decided to set up shop, apparently servicing the needs of our entrepreneurs.

In addition, and more interestingly, we pointed out earlier that one of the key developments of the 1990s was the CRAs shifting their attention from the Commonwealth to the States. This did not happen by chance, but was very much engineered and made possible by the Commonwealth. This it did by implementing at the 1990 Premiers' Conference new Federal-State financial arrangements in which the States would be required to take over their portion of the Commonwealth debt that had been built up under the 1927 Financial Agreement. What this move did was

to expose the States' soft underbellies to the sharp teeth of the CRAs, who immediately began to rate and re-rate the States with some enthusiasm. Victoria was the first to feel the heat, having its credit rating downgraded almost as soon as the 1990 Premiers' Conference had concluded. As the Victorian Commission of Audit explains:

The agreement at the June 1990 Premiers' Conference that the States would progressively take over responsibility for debt previously issued by the Commonwealth on their behalf resulted in the rating agencies, and the financial markets in general, scrutinising more closely differences in the credit worthiness of the States. Before this agreement, all the States were rated AAA, the same as the Commonwealth. (Victorian Commission of Audit, 1993: 134)

As a consequence of this remarkable decision, not only did the Commonwealth manage in a single blow to increase dramatically the power of the CRAs, but it simultaneously ensured higher overall borrowing costs for the public sector as a whole. On the day following the two notch downgrading of Victoria in 1992, the *Australian Financial Review* ran a story hinting at the problems this downgrading might cause for the public sector as a whole:

London investors holding government issued Eurobonds were said to be greatly confused, since the Moody's decision to drop Victorian paper to A1 from AA2 implies that many institutional investors might have to sell the bonds because their minimum standard is double-A rated debt. Mr Michael Aubrey of Hambros Bank in London said that 'Moody's have created a most confusing situation in Australia, Europe and the Far East. We were expecting a Moody's downgrade of Victoria to AA3, but not to A1 and that quickly led to a widening of the spread on Victorian paper on Friday' ... Mr Aubrey said the decision also left international investors confused about Australia. 'We now have NSW with a Triple-A rating and Victoria with a single-A rating and that is a wide gap for States within the same country. It could make Australian debt less attractive to international investors'. (*Australian Financial Review*, 1992, 26 October. Emphasis added)

It would be quite wrong to think that the Commonwealth's decision to turn the CRA's heads in the direction of the States may have been the product of an oversight, which is likely to be reversed in the near future. Indeed the opposite is true for at the most recent Premiers' Conference the Commonwealth with the approval of the States agreed to put in place new Loan Council arrangements involving the States being completely transparent to the money markets with respect to all their financial dealings, while at the same time establishing new

'benchmarking' criteria by which it will be possible to identify those States that spend 'too much' on social policy (*Australian Financial Review*, 1993, 6 July). As the press releases following the Loan Council Meeting and Premiers' Conference made clear, the Commonwealth has decided to shift the burden of regulating and overseeing State social and budgetary policy from intergovernmental, democratically based, forums to the money markets and their representatives within the CRAs:

The new arrangements are designed to enhance the role of financial market scrutiny as a discipline on borrowings by the public sector...The major feature of the new Loan Council arrangements is the change in philosophy of how the Loan Council operates, from an approach based on rigid compliance, to one based on the establishment of a framework that is both credible and transparent...This evolution in Loan Council arrangements broadly reflects the evolution of financial markets and their interaction with the public sector. (quoted in the *Australian Financial Review*, 1993, 6 July: 10)

The second set of factors enabling the CRAs to become so influential concerns the CRAs themselves. We pointed out earlier that in the second phase of their presence in Australia, the CRAs began to enter into full competition with one another, a process which began in earnest around the time that the Commonwealth decided to introduce the new financial relations with the States. The problem for Moody's in particular was how to increase their market share, given that their business depends fundamentally on being invited by companies to do an evaluation of them, rather than, as is the case with Australian Ratings/Standard and Poor's, by selling reviews to subscribers. The option they seem to have embraced enthusiastically was to turn their evaluative powers into a major marketing tool, by carrying out highly contentious ratings on entities that had not invited them to do so. In other words, rather than go down the path of price competition, Moody's chose the more logical one for a duopolist, that of competition through marketing (or product differentiation). Between 1990 and 1992, Moody's took on the Victorian Government three times, the NSW Government, Coles-Myer, James Hardie, and some other smaller private sector players. Their efforts earned them a lot of publicity, but also a string of criticisms from prominent politicians, bankers and industrialists. In response to a credit downgrade, the head of James Hardie's, David Say, was quoted as saying 'It's absolutely outrageous ... (Moody's) are trying to create a market for themselves' (*Australian Financial Review*, 1992, 19 November: 1). And in response to a similar downgrade of his company, Brian Quinn, the then head of Coles Myer had this to say:

I would have thought that the responsible course of action would have been to wait to find out the facts of our performance before making a pre-emptive judgement ... The proposed announcement was not discussed with the company before the decision was made, and we frankly believe that it

flies in the face of the facts. (*Australian Financial Review*, 1992, 6 March)

Nor has it been only those who have been downgraded who have voiced their reservations. In March 1992, the *Australian Financial Review* ran a lead article in its banking and finance section with the headline, 'BT chief blasts rating agencies'. The report went on to say that:

A leading banker has claimed that ratings agencies are answerable to no-one and have a greater influence on bank management than shareholders or official regulators...Earlier this week Mr Ferguson (head of Bankers Trust) said the agencies were the regulators operating in the private sector (but) 'they are much tougher in their approach than public sector regulators, harder to get to, answerable to nobody and not particularly interested in seeing banks lend aggressively again to get an economy going'. (*Australian Financial Review*, 1992, 6 March: 54)

Somewhat remarkably, each of the two major CRAs themselves has some interesting things to say about the way the other operates. In an extraordinary report carried in the *Australian Financial Review*, the head of Australian Ratings/Standard and Poor's was quoted as being highly critical of Moody's. The report is worth quoting at length:

The chairman of Australian Ratings, Mr Duncan Andrews, yesterday defended the Treasurer... by criticising... Moody's Investors Service over its sensational threat last month to downgrade Australia's credit rating. Mr Andrews...said he was extremely cynical of Moody's announcement... 'It seems to me that the most fundamental aspects of the ratings process have not been satisfactorily handled', Mr. Andrews said. 'First, Moody's announced publicly that they were considering downgrading Australia. This was done prior to discussion with Canberra. Second, Moody's knew, believe me, that this announcement would get them enormous international publicity...Third, Moody's-oriented stories have been appearing in some newspapers. The source is unknown, but these have tended to defend Moody's position. The \$A is the fifth most traded currency in the world', he said...Mr Andrews said he believed independence, objectivity, absence of conflict of interest and impartiality were the fundamental requirements of a ratings agency. 'Moody's appear to have foregone this critical element as regards its rating of Australia'. (*Australian Financial Review*, 1989, 28 July: 8).

Extremely strong stuff, and from people who could reasonably be expected to be guarded in their criticisms.

5 Summary and Conclusion

To bring this all to some sort of sensible conclusions, then, it is worth reviewing the points we have tried to make. First, the CRAs do not carry out impartial and objective assessments of the public sector (nor, indeed, does this appear to be the case with respect to many private companies). Second, the credit rating process is an arbitrary one, with no clear criteria for distinguishing between and within nation states. Indeed, we agree wholeheartedly with Michael Pusey (1991: 296, footnote 46) when he says that the whole credit rating process when applied to nation states is a 'potent ideological fiction'. What we would argue is that it is a fiction that the CRAs themselves have manufactured. The CRAs operate in a highly concentrated industry, in which profits can only be had by differentiating the products being rated. If this means manufacturing differences then so be it.

Only in this way, we argue, is it possible to understand the extraordinary inconsistencies in the ratings revealed in Tables 3 and 4 above. And it is precisely in this context that we argue the role of the CRAs should be understood. It is our view, in sum, that, with considerable assistance from the Commonwealth, the CRAs have successfully managed to create the conditions for their own existence, and in the process may well have done so largely at the expense of Australian social policy.

There is one final point that needs to be made. Perhaps the key underlying issue in the whole problem of credit ratings is the threat they pose to national and state sovereignty and ultimately to democratic government itself. The power and influence of CRAs has now increased to the point where, as Bryan Toohey has put it, 'a few words from Roger Nye (Moody's Australian special advisor) can press the button that blasts (an Australian) Government from office' (*Sydney Morning Herald*, 1989, 3 January).

We have seen that CRAs have enormous influence in the financial markets, yet their actions are based on narrow and contestable financial criteria which are applied inconsistently and often inappropriately to the public sector. We have seen also that they proceed in Australia from an underlying value base strongly biased towards theories of small government.

Most importantly CRAs appear to have handed a powerful yet dangerous weapon to Australian politicians. Almost every reduction in public spending and employment, every cut to an existing social program, every harsh new labour law, can be defended on the basis that it is necessary to maintain the State's credit rating. But as these politicians are now beginning to learn it is a weapon that comes with a heavy price. Like Tolkien's magic ring it begins to exert an alarming influence on the autonomy of its possessor, and it demands ever more sacrifices.

Appendix One: A Potted History of the CRAs

Phase:	Event
1) Formative 1981-1986	<ul style="list-style-type: none"> • Australian Ratings formed (1981) • Moody's opens Sydney office for Australian borrowers seeking access to Euromarkets • Australia's sovereign debt downgrade from AAA to AA1
2) Consolidation and Restructure 1986-1990	<ul style="list-style-type: none"> • Moody's hires first local analyst, and begins directly to compete with Australian Ratings by focusing on local debt markets • Moody's and Australian Ratings downgrade Australian sovereign one more notch • Australian Ratings acquired by Standard and Poor's
3) Intense competition Duopoly Style June 1990-	<ul style="list-style-type: none"> • Victorian Government credit rating downgraded by Moody's and Australian Ratings to AA1 • Premier Greiner announces mini-budget to maintain AAA rating (12,500 job losses, \$6.2b spending cuts over 3 years) • State politicians begin to use AAA rating in many political ways: <ul style="list-style-type: none"> • Premier Greiner goes to election on theme of 'NSW-the Triple A State' • NSW independent MP urged not to pursue political corruption charge against a Government minister because of AAA implications • NSW Premier criticises youth job subsidies on same grounds • Victorian Premier Kennett urges unions not to strike because of CRA views • Tasmanian budget presented in terms of CRA views • Moody's downgrades Coles-Myer and James Hardie • Victoria's credit rating downgraded by Moody's two notches immediately following the October election and immediately preceding October economic statement. Australian Ratings/S and P leave rating untouched.

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