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ABSTRACT

This paper presents an assessment of the appropriate value of the per child increment in the Family Package of income support measures for families with children. The assessment is carried out by comparing the proposed structure of payments with the results of research on the 'costs of children'. Aspects considered include the average cost of each child, the changing costs of children with age, economies of scale, and the distinction between income and expenditure patterns.

It is concluded that despite the significant increases in relative payments to families with children further increases are still warranted, both to the basic rates of child payment and to the relative value of Mothers-Guardians' Allowance. Other features of the package such as the constant per child increment, whilst in conflict with the results of research on the costs of children, can be justified as compensation for the additional demands on savings and other resources faced by larger families.

1. WHY COMPENSATE?

In 1987 the Prime Minister of Australia pledged that 'by 1990 no child will need to live in poverty' (Hawke 1987). A major means towards that end was a 'Family Package' which would provide additional income support to low income families with children to compensate them for their additional costs. This paper presents an assessment of the level and structure of this child supplement in the context of the extensive literature on the costs of children.

The emphasis in this literature, and that continued here, is on the *relative* needs of adults and children and hence the relative levels of benefit required in order to ensure that income support recipients are equally well-off despite their varying family composition. From this perspective, the key questions are of how to most effectively target any additional payments to those most in need. It should be clear that this concern is not the same as 'eliminating poverty'. Equitable relativities between the different family types may still leave all in poverty if the overall level of assistance is too low. However poverty is an elusive concept, best seen as a continuum of disadvantage rather than a threshold. Hence this paper focuses on the more modest goal of ensuring that child related payments are sufficient to ensure that children reliant upon pensions and benefits are at least as well-off as adults.

In attempting to assess the appropriate level of child supplement, it is necessary to begin with the question – why compensate families for the costs of children? At the most basic level, income support for such families can be justified on the grounds of social investment in the next generation. Whilst such investment need not be directly related to the costs of children, the amount needed to ensure equal welfare among families with and without children might serve as a neutral starting point from which to consider any such investment. It is the question of the compensation required for equal welfare levels that is considered here.[1]

However the answer to this question is far from clear. Certainly children entail significant direct expenditures by parents, together with indirect costs through loss of workforce participation opportunities, and indeed possibly even greater costs in terms of time and effort. But many people chose to have children even without the prospect

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[1]   It is possible to argue that families with children should receive relatively *more* support than families without children on the grounds of either some measure of self-responsibility for their own poverty being ascribed to adults, or priority being given to the rearing of the next generation. Whilst this approach is not developed here, proponents of this view may consider the conclusions of this 'equal welfare' approach as providing the *minimum* levels of support.

of additional income support, and so for these parents at least, children entail significant benefits also. In the broader context of taxation policy, the Centre of Policy Studies has argued that,

> While it is certainly true that the presence of dependants does indeed reduce the ability to pay, it is debatable whether this should be regarded as a reason for reducing tax liability any more than should the buying of a boat which likewise reduces the ability to pay. (Bascand *et al*, 1985, p.26)

In the context of income support for low income families there are three arguments that have been advanced against such propositions – though none of them are entirely satisfactory. First, one might argue that social policy should be concerned with monetary costs and benefits only. Such a position *by itself* would seem to have little to recommend it.

A justification for this focus, however can be obtained from the observation that for many families choices are effectively constrained so that family composition is effectively given. Couples may not expect to be unemployed or separated when they choose to have children – or such choice may be effectively removed by biological constraints (e.g. women's declining fertility with age). Indeed the presence of widespread savings (and dissavings) constraints means that this argument can be extended to cover the wider population rather than just those with unexpectedly low incomes (Pashardes, 1987).

However this is a shaky basis on which to build support for child related payments. What of those families who clearly choose to have children in the face of low incomes? Or those couples who mutually agree to separate knowing that their material standard of living will suffer? If they consider their well-being improved by these decisions should the state then compensate them further?

A more general argument for child support can be built upon the basis of children being a social resource for which a social contribution is desirable (Cass, Keens and Wyndham, 1983 and Cass, 1986). Whilst the next generation clearly constitutes a social resource, the case for a social contribution to its rearing is not automatic. Even if society as a whole benefits, if the benefits of children to parents outweigh their costs, why should those parents be compensated?

However there *is* a strong case to be made for the payment of child-related benefits. This case stems from a recognition that the question 'what are the costs of children' is really the wrong place to start. The question of costs focuses attention on the parents.

But children are individuals too. To consider them only as 'commodities' 'purchased' by their parents is to miss the central point of income support policy for children. The 'elimination of child poverty' must be concerned centrally with the economic resources *going to* children, rather than simply compensating their parents for the cost of child rearing.

Such a focus clearly reveals the key assumption of income support policy for children, that the allocations of income that parents choose to make between different consumption items will be in the best interests of the child. Such an assumption, of course, is central to our social definitions of parenthood and childhood, and as such seems reasonably secure.

Whilst children may entail both monetary (and indeed non-monetary) costs and non-monetary benefits to parents, only the costs are transferable to the children as resources. In this sense it is meaningful to talk about the 'costs of children' as the basis for income supplements to families with children. Whilst these supplements are often described as 'compensating' the parents for the costs of children, this terminology is misleading as a full evaluation of the costs and benefits of children to parents may imply negligible compensation. Rather, we should think of the costs of children as simply the reverse side of child consumption. It is generally accepted that a key objective of income support policy should be to ensure that families with children have sufficient income to permit the same level of child consumption, relative to needs, as families without children.

Such child costs / consumption entail what is typically described as the *direct costs* of children. These will be the main focus of this paper. The other aspect of child costs which is often referred to is the *indirect costs* which arise from the impact of child care responsibilities on parents' employment (and hence income). These have an indirect effect on children's consumption – entering via the family's total income. Equity considerations may lead to a family with parent(s) who cannot work because of childcare constraints deserving some compensation for these costs. Following the discussion above, the extent of this compensation should depend upon the importance of various constraints on parental behaviour, and possibly on the desired incentives for parenthood and workforce participation.

But such compensation implies a comparison against a family without children where the adults are working. This is generally not appropriate for policies of *minimum* income support, where the comparison is most appropriately made with other minimum income support recipients – who are usually not employed. Hence indirect costs are not of central concern in the determination of levels of the income support

'safety net'. None-the-less some possible exemptions from this general rule will be discussed below.

The rest of the paper is organised into four parts. The next section outlines the various questions which need to be addressed in order to equitably allocate income support for families and considers the different approaches researchers have used to address these questions. These research results are then contrasted with the patterns of relative family need implied by the proposed 'Family Package'. The paper then looks at the implications of the distinction between income and expenditure patterns for family income support. Finally some priorities for further development of income support for children are suggested.

2. EQUIVALENCE SCALES

For most aspects of household consumption it would be expected that the needs of children would be less than those of adults. How much less so is the question set here. There are a number of characteristics of the children and family that may influence these costs. These include;

- personal characteristics such as the age of the child,[2]

- the number of children – because of possible economies of scale,

- and parental characteristics. Typically both parents and childless couples live in their own home, but single adults are more likely to share with other adults (including their parents). Hence the needs of a sole parent family may be greater relative to a single person than are the needs of a couple with children to a childless couple. Also working parents may face greater direct costs for child care and related services.

- Finally, expenditure on children may vary with the total expenditure and the asset holdings of the family.

The most common way of expressing these differences in costs is with the use of *equivalence scales*. These indicate the relative expenditure required by a given family type to obtain the same level of well-being as some reference family type.

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[2]   In some research, such as the 1954 New York study used by Henderson (1975) child costs also differ between boys and girls. Three and half decades later this distinction does not seem relevant (for rich societies anyway).

Typically a married couple with no children is chosen as the reference family. There are three classes of methods used by researchers to estimate such equivalence scales. For an excellent summary of the results of this research the reader is referred to Whiteford (1985). They will only be very briefly summarised here.

The *budgetary* method involves the drawing up by experts of lists of commodities required by families of different types to attain some minimum standard of living. This method was pioneered by Rowntree (1901) in the United Kingdom around the turn of the century and was influential in the establishment of that country's income support policies. A recent Australian example which looks at the expenditures required for children only is by Lovering (1984).

Budgetary methods have the advantage of being, in principle, relatively straightforward and easily understood, a feature of some importance in the policy environment. The other side of this simplicity, however, is that the choice of commodities is unavoidably somewhat arbitrary. Rising living standards, and associated diversity of consumption patterns makes such studies extremely difficult, as they must always face the criticism that the results only reflect the subjective views of the experts doing the analysis.

One way of avoiding such subjectivity is to broaden the scope of 'experts' to include the whole population. This is the essence of the *evaluative* or *consensual* approaches to equivalence scale calculation. These studies use opinion surveys to question people in different family types as to the amount of income they consider adequate, and to compare the average responses across families. Of course 'experts' must still be involved in the survey design.[3] A key assumption of such methods is that people in the different family types have a common reference point for judging well-being. Whether this is so remains an open question.

Given the importance of actual spending patterns of families in determining child costs, an alternative (and the most researched) approach has been to examine the expenditure behaviour of families. This *behavioural* approach has a number of different variants, ranging from those where expenditure on food is the crucial identifying factor of needs, to those which examine expenditure patterns on all commodities. The latter have the potential for providing the most theoretically satisfying explanation of child costs, but at the expense of very large information requirements. (For an introduction to these issues see Deaton and Muellbauer 1980 and 1986.)

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[3]   See Bradbury (1988) for a critical survey of these methods.

The conceptual and practical problems facing attempts to measure child costs on the basis of expenditure patterns are formidable. It is clear that one cannot just simply compare the total expenditures of different family types, as such expenditures are clearly constrained by incomes (and dissaving ability) and so will not automatically provide an indication of underlying needs.[4] Moreover, whilst allocation of income within the family to expenditures on particular commodities can be observed, the actual consumption by different family members cannot. In particular, much of family expenditure is on 'family goods' – goods jointly consumed by family members. Housing and consumer durables are the most obvious examples. The costs of these commodities can rarely be divided in a simple way between adults and children.

If we are serious about comparing well-being rather than simply consumption, further problems arise. One way of considering the costs of children is to note that the presence of children effectively changes the *price* of different commodities. In Gorman's words, 'A penny bun costs threepence when you've a wife and child'.[5] Moreover these price changes will be different for different goods. Going to the movies becomes very expensive if child care needs to be purchased, but hiring videos is just as expensive with and without children. If the income of parents were increased so as to allow them to still go to the movies as often as when they were childless, this would amount to an over-compensation, as the changes in relative prices would allow them to be overall better off than those without children by substituting more videos for movies.

Unfortunately, to take account of all these theoretical issues demands both complicated models and large amounts of information. Thus the simpler behavioural models are inevitably flawed because of theoretical weaknesses, and the more sophisticated models by data limitations. Whilst there are hopes that theoretical and empirical developments will improve these trade-offs, none of the current literature on equivalence scale estimation can be regarded as definitive. But some knowledge, however flawed, is better than none at all. In the next section the 'consensus' of the equivalence scale research is compared with that of the Family Package proposals.

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[4]   Though expenditures do have some relationship with needs, as people with a given level of income tend to save less if family needs are higher (see Manning, 1984).

[5]   Quoted in Deaton and Muellbauer, 1980, p.197.

3. THE FAMILY PACKAGE

In the 1987-88 Budget the Federal government introduced a set of changes in income support for families with children known as the 'Family Package'. The key ingredients of this package (as currently proposed) are,

- significant increases in additional pension and benefit for families with children so that by 1990 total payments for each child (i.e. including family allowance) will be set at 15 percent of the married rate of pension for children under the age of 13, and 20 percent of the married rate for 13 to 15 year olds.

- Maintenance of these relativities in future.

- Increases in rent assistance for all pensioner/beneficiary families to $15 per week (subject to rent test). By mid 1990 it is proposed that rent assistance will be increased to $20, $25 and $30 per week for families without dependants, families with one or two dependants and families with three or more dependants respectively.

- The same rates of Family Allowance Supplement (including rent assistance) will be given to low income families not receiving pensions or benefits (subject to income and assets tests).

This integrated system of payments represented a major increase over previous levels. As of mid 1988, of the one million children aged under 16 who were in families receiving FAS or additional pension/benefit, 38 percent were in families receiving supporting parents benefit/widows pension, 19 percent were children of UB recipients, 6 percent were children of invalid pensioners and 33 percent were in families receiving FAS (Department of Social Security, 1988a,b,c).

Because most recipients of additional payments are pensioners or beneficiaries, and also because the payments have been set in relation to basic pension and benefit rates, this paper will focus upon the relativities implied for pensioner and beneficiary families rather than FAS recipients. The relativities implied between such families are illustrated in table 1. The top section of the table describes the current structure of payments for families receiving supporting parents benefit/widows pension and unemployment benefit (the base rates for pensioner couples with children are the same).

Table 1 Equivalence Scales for Families with Children

		Sole Parent			Married Couple				
	Single Pensioner	1 dep	2 deps	3 deps	0 deps	1 dep	2 deps	3 deps	4 deps
January 1989 Benefit Rates ($pw)									
Family Allowances		$4.90	$11.88	$20.23		$4.90	$11.88	$20.23	$28.58
UB and SPB									
All children under 13 ($24 ea)	$124.25	$160.25	$184.25	$208.25	$207.10	$231.10	$255.10	$279.10	$303.10
All children 13-15 yrs($31 ea)	$124.25	$167.25	$198.25	$229.25	$207.10	$238.10	$269.10	$300.10	$331.10
Equivalence Scale (inc FA)									
All children under 13	0.60	0.80	0.95	1.10	1.00	1.14	1.29	1.45	1.60
All children 13-15 yrs	0.60	0.83	1.01	1.20	1.00	1.17	1.36	1.55	1.74
Adjusted benefit rates									
Family Allowance (FA)									
(returned to higher levels)		$5.26	$12.77	$21.77		$5.26	$12.77	$21.77	$30.77
UB and SPB (and AUSTUDY)									
All children under 13 ($26 ea)	$124.25	$162.25	$188.25	$214.25	$207.10	$233.10	$259.10	$285.10	$311.10
All children 13-15 yrs ($36.50 ea)	$124.25	$172.75	$209.25	$245.75	$207.10	$243.60	$280.10	$316.60	$353.10
All children 16-17 yrs ($53.55 ea)	$124.25	$189.80	$243.35	$296.35	$207.10	$260.65	$314.20	$367.75	$421.30
Mean no. of children aged 13-15[1]		.16	.28	.47		.28	.22	.64	.72
Mean no. of children aged 16-17[1]		.08	.11	.07		.09	.23	.21	.41
Rent assistance[2]	$18.00	$22.50	$22.50	$27.00	$12.00	$22.50	$22.50	$27.00	$27.00
Average payments (inc. FA)[3]									
Non-renters	$124.25	$170.95	$206.33	$242.38	$207.10	$243.28	$279.05	$317.85	$357.57
Renters	$142.25	$193.45	$228.83	$269.38	$219.10	$265.78	$301.55	$344.85	$384.57
Equivalence Scale (inc FA)									
All children under 13	0.60	0.81	0.97	1.14	1.00	1.15	1.31	1.48	1.65
All children 13-15 yrs	0.60	0.86	1.07	1.29	1.00	1.20	1.41	1.63	1.85
All children 16-17 yrs	0.60	0.92	1.18	1.43	1.00	1.26	1.52	1.78	2.03
Average payment (non-renters)	0.60	0.83	1.00	1.17	1.00	1.17	1.35	1.53	1.73
Incremental child cost		0.23	0.17	0.17		0.17	0.17	0.19	0.19
Average payment (renters)	0.65	0.88	1.04	1.23	1.00	1.21	1.38	1.57	1.76
Incremental child cost		0.23	0.16	0.19		0.21	0.16	0.20	0.18
Whiteford's Survey Results									
Middle Range									
(middle third of results)	0.60-0.69	0.84-0.88	1.04-107	1.31-1.36	1.00	1.15-1.23	1.28-1.41	1.40-1.67	
Mean	0.65	0.88	1.04	1.31	1.00	1.20	1.38	1.51	
Incremental child cost		0.23	0.16	0.27		0.20	0.18	0.13	

Notes:

[1] Calculated from the age distribution of children of pensioners and beneficiaries in the 1985-86 Income Distribution Survey.

[2] Estimated as 90% of the maximum rates proposed for June 1990. The amount for couples without children is calculated as 2/3 of this rate. This is arrived at by noting that one third of married UB recipients have durations less than 6 months and are hence ineligible for rental assistance (DSS 1988b).

[3] These are calculated as the sum of, the base rate of pension benefit (including MGA for sole parents), plus the sum of the per child allowances multiplied by the average number of children in each age range, plus the per-child family allowance multiplied by the average number of children aged under 16.

Rates of benefit and pension payable vary with the ages of children, and so the table provides the maximum and minimum rates available. Below the basic rates is calculated the implied equivalence scales for the two age groups (including family allowance). It is clear that the 15 and 20 percent relativities have not yet been reached – except for the larger families with young children.

To make an evaluation of the fully implemented family package, some adjustments are thus necessary. The second part of the table describes the benefit structure assuming that the desired relativities for the first child and the new rent assistance structure had been reached by January 1989 rather than 1990. Three changes are made to achieve this.

- Family allowances are returned to the weekly equivalent levels which existed before 1989, and which will exist after June 1989. For the first six months of 1989 the timing of pay-days led the government to set the fortnightly rate at a lower level in order to maintain financial year expenditures at the same level.

- In order to reach the 15 and 20 percent relativities, the additional allowances for children are increased to $26 and $36.50 for the younger and older groups respectively (rather than the actual rates of $24 and $31). Because family allowance per child actually increases with the number of children, this implies a slight over-achievement of the percentage relativities for larger families.

- Rent assistance is increased to the level which will apply after mid-1990. However because other components of benefits will be indexed before then, the levels of assistance are deflated by 10 percent to maintain comparable relativities for January 1989.

Also included for each family type is the average number of children in each family aged 13-15 years, and the number aged 16 or 17 years. The latter group will be eligible for AUSTUDY payments (provided they are undertaking an approved course of study) of $53.55 each – though they will not be eligible for family allowances. These numbers are then used to estimate the average payment received by families of each size (including family allowances). Because most children are aged under 13, the average payment is much closer to the younger than the older rates.

Whilst this paper does not deal with the issues associated with the appropriate level of rental assistance, it is important to take account of the effect of rent assistance on family size relativities. As noted above, ultimately it is proposed that rent assistance will increase with the number of children – though not at a fixed rate per child. To

examine the impact of this, the levels of income support for renting families are included in table 1. Complicating this presentation of the impact of rent assistance is the fact that beneficiary couples without children are not eligible for this assistance until they have been in receipt of benefit for six months. The table uses the fact that around one-third of unemployment beneficiary couples without children are of shorter durations (Department of Social Security 1988b) to ascribe an average benefit of $12 (2/3 of 90% of $20) per week to this group.

From these rates of payments, the equivalence scales implied by the three different age rates for non-renters are given, followed by the incremental cost of each child relative to two adults. (These are calculated simply as the difference in the equivalence scales as family size is increased). This panel concludes with the equivalence scales between renters of different family composition.

In the final panel of the table, I draw on the survey of Peter Whiteford to summarise the conclusions of the equivalence scale literature.[6] Around 70 studies for the couples, and 11 studies for the sole parents were examined and the middle third of equivalence scale results extracted. This middle range, together with the overall geometric mean is presented in the table.

Benefits per child

Whilst the methodological problems outlined earlier mean that none of the equivalence scale research can be definitive, some general trends can be discerned. For non renting couples with one or two children, the relative value of the average rate of payment under the Family Package are significantly less than that suggested by the average of the equivalence scale research. However the Family Package equivalences still fall within the middle range of results and for families with three children the equivalences are higher in the family package. These divergences between large and small families stem from the fact that the equivalence scale research suggests significant economies of scale (e.g. the additional cost of the third child is only 65 percent of the first), but additional benefit for children is paid at a flat rate. Additionally, family allowances are paid at a higher rate per child for larger families suggesting, if anything, *dis*economies of scale.

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6   These results are based on unpublished work by Peter Whiteford, and are an update of the results on pp.103-109 in Whiteford (1985). That paper also presented a separate estimate of the relativities based on Australian research only which implied a lower level of child costs. However this divergence is probably due more to the particular methods employed in this research than to any peculiarities of Australian family needs.

For sole parents, the divergence between the research and the Australian results is even greater. Relative to couples without children, non-renting sole parents always fall below the middle range of research results. It is worth noting, however, that the research results here are based on fewer studies, many of them for other countries which may have differing levels of service provision.[7] However it would seem that the government is putting most of its hopes on the child support scheme to lift sole parents out of poverty. This, of course, is of little benefit to those without such support.

For renting families, however, the picture is somewhat different. Because it is assumed in table 1 that only two-thirds of renting couples without children will be eligible for rent assistance, the relative value of the incomes of families with children is increased – to levels similar to those implied by the equivalence scale literature. This also assumes that the relative levels of rental assistance to be paid from mid 1990 will be maintained – though the government has given no assurance that rent assistance will be increased in anything other than an ad-hoc manner. Finally, because almost two-thirds of pensioners and beneficiaries with children are not eligible for rent assistance (usually because they are home-owners or public housing tenants, DSS 1988a) the rest of the paper will focus on the patterns of relativities for non-renters.

Given the disparities between the relativities for this predominant group and those implied by the literature, it is perhaps a little surprising to hear that 'the family package bench-marks are based on Australian and overseas research on the costs of children relative to adults' (Howe, 1987). Certainly, research has argued that the pre-existing relativities for children were far too low, and that major changes were needed. The Social Security Review, however, suggested that relativities of the order of 20 to 30 percent more were warranted for the first child of a couple, and 40 percent for the first child of a single adult (Cass, 1986, p.70). Below it will be argued that divergences between income and expenditure patterns mean that child benefits should be even greater than the equivalence scale research would suggest.[8]

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[7] Of particular importance is access to subsidised housing. Sole parents (or any group for that matter) who are able to obtain any subsidised goods or services will obviously have lower income needs.

[8] Another reason why the research results summarised by Whiteford's mean may understate the costs of children is that many of the studies produced estimates of equivalences for average rather than low income families. If children tend to consume proportionately more necessities then the relative costs of children at lower incomes will be higher than at average incomes.

It is not hard to see why the gap between the accepted research results and the policy application arose. The discussion here has been purely of the relative values of pensions and benefits between different groups. The disparity between the relativities described here could be rectified in an expenditure neutral way by decreasing the benefits of those without children whilst increasing child benefits – though this would do little for the goal of eliminating poverty! Within a more realistic policy setting, any change in relativities must imply increased cost. Such considerations, however, cannot explain some of the other divergences between the package and the equivalence scale literature.

Age-related Benefits

The family package division of children into those under 13, and those aged 13 to 15, is also somewhat puzzling. Undoubtedly, a major motivation was simplicity – teenagers vs the rest. In general, however, the literature shows direct child costs growing steadily with increasing age. Compared with the complexity of eligibility conditions, an additional age category would seem to matter little.[9]

It has been suggested that perhaps the family package is a reasonable approximation, as the increased *indirect* costs of younger children may offset their lower direct costs. This argument needs to be evaluated separately for couples and sole parents.

Consider, for example, a couple with a child aged 10, and a couple with a 1 year old. The presence of a young child in the second family may prevent two parents working, but there is likely to be little impact upon the ability of the first parent to enter the workforce.[10] The indirect costs associated with the young child are most likely to be associated with the potential employment of the *second* earner. Compared to the family with a 10 year old child, where both parents may be able to work, the family with the young child will be relatively disadvantaged. However, a family with both parents working is unlikely to be within the scope of the FAS scheme, and so for a comparison of adequate levels of *minimum* income support, these relative indirect costs are not relevant (though they may be considered relevant for more wide-ranging considerations of horizontal equity).

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[9] A reasonably simple additional age distinction might be between those under and over school age (5 or 6 years) – see ACOSS (1989).

[10] When one of the parents cannot provide child care, (e.g. through invalidity) the indirect cost of children for the other parent will be similar to that discussed for sole parents.

For sole parents, however, considerations of indirect costs *are* relevant to minimum income support policy. Thus a sole parent with an older child may be able to work (still remaining within the pension/FAS) system, whilst the parent with a younger child may not. Whilst such indirect costs are more likely to be associated with the age of the youngest child, rather than the number of children of different ages, this does lend some support to the proposition that the uniform rate of payment helps offset some of these variations in indirect costs.

Given that around 40 percent of all child pension/benefit/FAS recipients are children of sole parents, the current age-related structure may be a reasonable approximation to that most desirable – though an additional age group distinction could be equally justified.

Economies of Scale

As noted above, a notable divergence of the pension/benefit scales for families with children from that suggested by the equivalence scales literature is that the latter implies significant economies of scale for larger families, whilst the former does not. Additional pension/benefit/FAS is a constant amount per child, and family allowances per child actually increase with family size.

The Social Security Review has justified higher per child family allowances for larger families on two main grounds. First, larger families are associated with lower wage rates and higher unemployment probabilities of parents, and second, that the increased parental responsibilities in larger families lead to lower levels of workforce participation by secondary earners (Cass, 1986 pp.60-63). Whilst these arguments may be relevant to allowances paid to most families, they would seem to have limited relevance to pension/benefit/FAS payments for children. All recipients of these benefits will be of low incomes, and so there would seem to be little reason to further subsidise large families (though see next section).

An alternative explanation might be found in the difference between *relative* and *absolute* differences in needs. This is perhaps best illustrated with a simple example.

Assume that the relative needs of a married couple with no children, a couple with one and a couple with two children are 1.00, 1.20 and 1.30 respectively. That is the second child costs only half as much as the first. Assume further that benefits are also paid in these ratios, and that for all families benefits are fixed at only half the income

level they might consider, on average, to be adequate. If the benefit level for the couple without children is $100 per week we have the following relationship.

Number of children	Benefit level ①	Adequate income ②	Ratio ①/②	Difference ②-①
none	$100	$200	0.5	$100
one	$120	$240	0.5	$120
two	$130	$260	0.5	$130

Whilst the ratio between benefit levels and adequate income is the same for each family, the shortfall *in dollars* is greater for the larger family - even though the benefit system strictly adheres to the relative needs of the families. However, whilst an absolute shortfall of income relative to needs might play an important role in forcing larger families to seek additional help from welfare agencies etc[11], relative to their needs, the large and small families are still equally disadvantaged. In the next section, however, we will see that when consideration is taken of how families might make up the shortfall between incomes and expenditures a related argument can be put with more force.

However, even without such considerations, there may be a (limited) case for flat rate payments. As noted above, current child payments are on average below the level which equivalence scale research would suggest to be required to maintain equal living standards. If this is the case, families with children will be relatively worse off than families without. Within those families with children, however, maintenance of equal living standards may imply an equal rate of per-child payment even though the equivalence scale suggests otherwise. Again, this can be illustrated with a simple example.

Assume this time that the relative needs of a family with none, one and two children are 1.00, 1.20 and 1.31 respectively (the reason for the slight difference will become apparent below). That is, relative child costs are 0.20 for the first child, and 0.11 for the second. In this case we consider two alternative benefit formulas. First, benefits provide exactly *half* the relative needs of each child (i.e. 0.10 for the first child and 0.055 for the second). Second, both children receive relative benefits of 0.10 (half the

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11   Assistance from welfare agencies is often geared towards assistance in an absolute sense, for
      example in the paying of utility bills. Furthermore, given the stigma associated with welfare
      relief, families may have an absolute threshold of need before they apply for assistance.

needs of the first child, and almost the full relative needs of the second). Again, we compare the benefit entitlements with some adequate equal-welfare level of income (the conclusions apply irrespective of the particular relativity chosen).

Number of children	Benefit level		Adequate income	Ratio	
	①	②	③	①/③	②/③
none	$100.00	$100.00	$200	0.50	0.50
one	$110.00	$110.00	$240	0.46	0.46
two	$115.50	$120.00	$262	0.44	0.46

In the first case, even though the equivalence scales imply that the cost of the second child is half that of the first, and benefits are fixed accordingly, the larger family is still worse off than the smaller (the family with no children is better off than both). In this case *equal* payments per child (the second option) ensures that the two families with children will be equally well off.[12]

Thus, if the benefit system is such that child benefits for the first child are below the required amount (relative to the needs of those without children) then welfare among those with children can only be equalised by paying benefits for the second and later children which are relatively closer to the required amount. In some cases (as in the example above) this will imply paying equal amounts per child even though the relative additional needs of the later children are lower.

For family allowances, where the level of income support is much below the level required to equalise short-term welfare between families with children vs those

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12   These results can be formalised as follows. If c_1 and c_2 are the relative costs of the first and second child respectively, and s_1 and s_2 are the corresponding relative benefit supplements, then the two families with children will be equally well off when,

$$s_2 = c_2(1+s_1)/(1+c_1)$$

In the example above, $c_1=0.20$, $c_2=0.11$, $s_1=0.10$ and so $s_2=0.10$. The above equation can also be re-arranged to give,

$$s_2/c_2 = (1+s_1)/(1+c_1)$$

If $s_1<c_1$ this implies that,

$$s_1/c_1 < s_2/c_2 < 1$$

That is, if the costs of the first child are under-compensated, then equalising welfare within families with children implies that the costs of the second child should also be under-compensated but to a lesser extent.

without, this argument supports the current practice of paying larger families a higher rate per child.

But such a flat rate argument is less applicable for pensioners and beneficiaries where the levels of child payment relative to that for adults is relatively close to the equal-welfare level. Moreover, this argument may also be consistent with the proposition that increases in child benefit should take priority for the first rather than later children. This is because the flat-rate argument rests upon insufficient compensation being paid for the first child. When this is not the case, it would seem that a rate scale exhibiting economies of scale might be most appropriate.

These conclusions can be altered somewhat when account is taken of the external resources of families of different types. If these are proportionately lower for larger families, then a separate case can be made for flat-rate payments. These issues of external resources, and the financial stresses of low incomes, are taken up in the next section.

4. INCOME, LIVING STANDARDS AND EXPENDITURE

Research on equivalence scales has typically been concerned with the relative amounts that different families need to consume in the market economy in order to have the same standard of living. This consumption is expressed either in terms of minimum budgets or relative levels of expenditure. But income support policy is, as the name implies, concerned with levels of income. What implications does this difference have for the calculation of appropriate relative levels of income support?

The consumption of low income families may differ from their income for a number of reasons. They may be able to draw upon their savings to tide them over a period of temporary low income, or they may be able to borrow from financial institutions (or probably more commonly) from friends or relatives. The other side of this is that they may have substantial debts to pay from previous periods of borrowing. As well as these aspects of dissaving, they may have income sources other than income support. Part-time employment, investment income (particularly for the aged), income from extended family (as opposed to loans), and even various forms of 'black market' employment (though studies have generally found this to be more prominent among employees than the unemployed, OECD, 1986, Chapter III). For all of these reasons, it is generally accepted that (particularly short-term) low income families have levels of consumption above that implied by income support.

Measuring Expenditures

Some data on this phenomena are presented in table 2. This table presents information from the 1984 Household Expenditure Survey (HES) conducted by the Australian Bureau of Statistics, for selected groups of families dependent upon pensions or benefits. Only those households containing a single income unit[13], receiving over three-quarters of their income from government pensions or benefits are included.

Whilst the survey collected information on almost all household expenditures, the transition from these expenditures to consumption is not automatic. Many expenditures are best thought of as savings (e.g. superannuation deductions, and even housing extensions/improvements) as the benefits obtained are either not immediate, or are spread over a longer period than the expenditure would imply. Other forms of consumption, such as the consumption of the services obtained from an asset such as housing, may entail only minimal current expenditures but yield substantial present benefits. For these reasons, it is not possible to obtain a simple linkage between expenditure and consumption.

Two relatively simple measures of total current expenditure are used here. The first is total expenditure of a non-capital nature. This is defined to include all expenditures except capital housing expenses (home purchase and improvements), superannuation and life insurance. Both home loan interest and capital repayments are included[14]. All payments were converted to a weekly basis.

At the top of table 2, both mean and median total expenditures are recorded for the different family types. In all cells mean expenditure is greater than median, reflecting the 'lumpiness' of some expenditure items. Which is the more appropriate measure of central tendency depends upon the research question. In one sense, median expenditure better reflects the typical expenditure patterns of these low income families – discounting the effects of large irregular purchases. On the other hand, such irregular expenses are often just as important to family functioning as smaller more regular expenditures. Even though they are irregular, when they are needed they are important to family finances and so they should be given significant weight

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[13] An income unit is defined as either a single adult, a sole parent, a couple, or a couple with dependent children.

[14] This is contrary to the convention adopted by the ABS which includes mortgage interest only as a current expenditure. However, because of the very strong constraints on variations in housing outlays mortgage principal repayments have also been included.

Table 2   Expenditures and Incomes of Pensioner and Beneficiary Households, 1984[1]

| | Single persons | | Sole parent | | Couple, aged 25 – 54 | | | | | Couple 55+, | |
	aged 25-54	aged 55+	1 dep.	2 deps	0 deps	1 dep.	2 deps	3 deps	4+ deps	0 deps	TOTAL[2]
Approximate sample size[3]	42	336	41	29	18	15	31	12	14	273	**838**
Expenditures											
Total non-capital[4] (mean $/wk)	136	107	173	185	225	228	243	259	317	190	**161**
(median $/wk)	*109*	*89*	*165*	*136*	*144*	*206*	*213*	*256*	*268*	*161*	*133*
Current[5] (mean $/wk)	115	90	151	157	152	201	214	230	235	150	**132**
(median $/wk)	*98*	*79*	*136*	*131*	*139*	*207*	*200*	*235*	*216*	*131*	*110*
Mean current/total	.88	.89	.90	.88	.82	.92	.90	.89	.83	.80	**.86**
Inflated current[6] (mean $/wk)	128	101	168	175	168	223	237	256	261	167	**146**
(median $/wk)	*108*	*88*	*151*	*145*	*155*	*230*	*222*	*261*	*240*	*145*	*123*
Curr. non-housing (mean $/wk)	83	71	110	120	127	145	168	186	172	133	**107**
Incomes											
Total income[7] (mean $/wk)	97	101	130	140	151	158	192	198	240	168	**136**
(median $/wk)	*91*	*94*	*126*	*141*	*147*	*166*	*186*	*201*	*228*	*164*	*142*
Base rate of benefit ($/wk)	79	89	115	134	149	166	186	207	229	149	**122**
Adjusted base rate[8] (mean $/wk)	82	92	123	142	149	167	186	207	229	150	**124**
Income – Expenditure Comparisons											
Mean adjusted expenditure ÷ adjusted base rate	1.56	1.10	1.37	1.25	1.13	1.34	1.28	1.23	1.14	1.11	**1.16**
Mean adjusted expenditure – base rate ($/wk)	46	9	45	33	19	56	52	49	32	17	**20**
Mean total expenditure ÷ adjusted base rate	1.64	1.17	1.41	1.33	1.51	1.36	1.30	1.25	1.39	1.27	**1.27**
Mean total expenditure – base rate ($/wk)	53	15	50	43	76	60	56	52	89	40	**34**

Family type

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Notes to Table 2

1   Source: Australian Bureau of Statistics, 1984 Household Expenditure Survey, Unit Record File (first half). Population: Single income unit households with >75% of their income from pensions (age, invalid, widows, wifes or veterans) or benefits (sickness, unemployment or supporting parents).

2   Includes omitted categories – i.e. single persons under 25, sole parents with more than two children and couples aged 55+ with dependants.

3   The estimates are based on a weighting of the HES file to total sample size.

4   Includes both interest and capital component of mortgage repayments.

5   Includes diary expenditures plus those collected on a 'last payment' basis.

6   Current expenditure divided by 0.90. That is, assuming current expenditures are 90% of total.

7   As recorded by the HES.

8   That is, cases receiving pensions and renting having $10 added to base rate.

in the calculation of average family needs. For this reason the discussion here will focus on the trends in mean rather than median expenditures and incomes.

Another source of variations in expenditures stems from the fact that the reference periods for the commodities comprising the total expenditure varied significantly. Expenditure on most items was recorded by a two-week (4 week in rural areas) diary kept by adult household members, but for items purchased less frequently a recall questionnaire was used. The reference period for these expenditures ranged from the last 12 months for items such as rates, telephone installations, vehicle purchase, registrations and insurance, and overseas holidays, to the 'last payment made' for items such as utility bills, telephone rental, housing payments etc.

Since many pensioners and beneficiaries may be only short-term recipients, some may have made significant expenditures on these recall items when their incomes were higher. To examine this an additional variable has been created, 'diary expenditure' covering expenditures made either during the diary period, or on a 'last payment' basis. Excluded from this variable are items such those mentioned above, together with medical payments, purchase of household durables, and holidays. Non-capital expenditure levels relevant to the recipients' current situation, therefore lie somewhere between the 'total' and 'diary' levels given in the table. Given that only some recipients would have experienced changes in circumstances, and that even long term recipients must make some expenditures on these recall items, the true level of expenditure probably lies closer to the 'total' than the 'diary' levels of expenditure. For the sub-population recorded in table 2, diary expenditure averaged 86 percent of total expenditure. For those family types with dependents, the average ratio of diary to total expenditure was somewhat higher at 89 percent.

Also presented in the table is a variable 'inflated current expenditure'. This is simply current expenditure divided by 0.9. If we assume that current expenditure represented 90 percent of total expenditure then this can be used as an alternative measure of total expenditure. Whilst this choice of ratio is relatively arbitrary, this measure does have the advantage of not being influenced by between group fluctuations in expenditure on recall items. For most groups the average inflated current expenditure levels are similar to the total expenditure measure in the table. The main exceptions are the two groups of couples without dependants. For the younger group, this difference is mainly due to the fact that one unemployed couple purchased a boat. Given that this purchase may well have taken place before they became eligible for benefits, it would seem more appropriate to base estimates of current expenditure on the inflated measure.

In the second panel of table 2 average income as recorded by the HES[15] is presented along with indicative rates of pension or benefit applying to the different groups in mid 1984. The 'adjusted base rate' adds $10 to income units renting and receiving pensions and benefits other than unemployment benefit.

The final panel of the table presents some comparisons of total expenditure and inflated current expenditure with this adjusted base rate of pension or benefit.

Income and Expenditure Patterns

In general, for all family types, average expenditure levels are significantly above pension and benefit rates. In 1984 couples with dependants were spending around $50 per week more than the benefit level, sole parents around $40 per week more, couples without children about $20 per week more, younger single persons $46 and older single persons $9 (based on inflated current expenditure). Given the discussion above, and the very small sample size for the younger groups, it should be clear that these figures can only be taken as indicative only. For example, the additional expenditure figure for young couples without children would be of the same order as those with children if the total expenditure measure, rather than the inflated current expenditure had been used.

How should these patterns be interpreted? It is not automatic, for instance, that these expenditure patterns should have any direct relevance for income support policy. One issue is the role ascribed for such policy. If its role is to provide *by right* a minimum level of income for those satisfying certain conditions, then by definition, income alone is what counts. It is difficult though to arrive at a sensible set of relativities for families of different types within such a framework. A more common goal of income support can be found in terms of poverty alleviation. Poverty in this sense is usually conceived as some minimum level of consumption. This minimum may be set relative to community norms, and may include allowances for expenditures needed for social participation and so on, but the important point here is that income is only a *means* rather than an end.[16]

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15   Income is defined in the HES as gross weekly income before tax from all regular sources. Lump-sum payments, capital gains, gifts and the value of home-produced goods were not included, and certain 'incomes' such as gambling wins, and income from sale of consumer durables counted as negative expenditures.

16   See Atkinson, 1985, for a discussion of these two approaches towards poverty measurement.

The most obvious way in which income may be expected to diverge from expenditure is through the running down of savings or accumulation of debt (dissaving). Clearly families reliant upon income support for short periods will be more able to dissave than those reliant for longer periods. In Australia this has been reflected in distinctions between pensioners and beneficiaries, and payments available only to longer duration beneficiaries. The focus here however is on the implications of differing dissaving patterns across families of different compositions.

Table 2 indicates that significant differences exist between family types. But there are two quite different interpretations that can be placed on these patterns. If a family type appears to be dissaving significantly this may be because either,

- they have greater access to financial resources (savings etc) than other families, or,

- their needs, relative to their incomes, are much greater than other families, and so they are forced to run down assets or go into debt.

These two points may be summarised as *dissaving ability*, and *dissaving needs*. The policy implications of these two interpretations would seem to be quite opposing, and expenditure data are only of limited use in distinguishing between them. To do so we must implicitly, if not explicitly, develop a more systematic model to explain patterns of savings and dissaving. Such a model should, in particular, address the question of why some families rather than others may be able to save or dissave more than others.

The simplest model may be to consider savings as a function of income and expected future income. Those with higher incomes and lower relative future incomes should be expected to save more. Restricting attention to non-retired couples, the most important influence on savings is likely to be income level. Assuming that ability to dissave is to a large extent conditional on previous savings, this implies that previous incomes should exert a significant influence upon dissaving ability.

This argument suggests therefore that dissaving ability should be greatest among couples without children (because more will previously have had both spouses employed) and lowest among larger families (the Social Security Review's point about lower incomes among large families). However, among families currently eligible for benefit (as opposed to all families) these differences in previous income are likely to be relatively small (for example, if one member of a two earner family became unemployed or disabled, the family may be still ineligible for assistance). In any event, it would seem very unlikely that families with more children would have

greater savings than those without children.[17] A similar argument applies when alternative sources of income are considered. Child care responsibilities are, if anything, likely to lessen the ability of parents with children to earn additional income (whether legal or 'black market') whilst receiving benefits.[18]

The situation of sole parents is more difficult to predict on this basis. Whilst the income potential of sole parents is very low, many may have access to marital assets which would permit dissaving.

For couples, if the above argument is accepted, then some interesting conclusions follow. If the dissaving ability is assumed to be not increasing with family size, then the fact that in table 2 families with children are observed to dissave more than couples without, suggests that dissaving *needs* must be greater for the larger families. This is consistent with the fact that the levels of supplementary assistance available to families with children in 1984 was significantly below the 15 and 20 percent per child proposed in the family package – and so we would expect to see families with children being more financially stressed.

Some evidence on the extent of financial stress of these families is available in the HES. Whilst levels of debt were not collected, the survey did record the amount of interest paid by each family on personal loans and credit cards. Some statistics on this are given in table 3. For married couple families the average amount paid per week was $1.44, $1.42, $2.04, $8.52 and $5.13 for those with none, one, two, three and four children respectively. Just as interesting are the proportions with some interest expenditures, which increases steadily with numbers of children. The maximum figures given indicate that a small number of families were very stressed by credit repayments in 1984.

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[17]   Some indirect evidence on this can be obtained from the HES. Whilst levels of savings were not collected, income from investments was. Among all mid-aged married couple families with children (not just those with income support) this income averaged $20 per week. For those without children the average was $22 per week, a statistically insignificant difference.

[18]   Moreover, there is evidence that longer duration beneficiaries are more likely to have larger families (Whiteford, 1987). Hence larger families on average would be expected to have smaller savings resources than smaller families. In addition, unemployed couples without children are on average older than those with dependants and so, if anything, likely to have additional resources.

Table 3   **Interest Payments on Consumer Credit Among Pensioner and Beneficiary Families, 1984**

		Approx Sample Size	Mean $/pw	% with some	Maximum $
Single	25-54	42	1.40	23	25.45
	55 +	336	.17	11	9.10
Sole parent	1 child	41	1.15	22	27.18
	2 children	29	1.85	51	21.61
Married Couple 25-54					
	0 children	18	1.44	31	21.95
	1 child	15	1.42	36	28.75
	2 children	31	2.04	54	13.33
	3 children	12	8.52	57	43.37
	4 children	14	5.13	71	14.72
Married Couple 55 +		273	0.33	15	27.83
Other		27	2.89	36	32.39
TOTAL		838	0.78	20	43.37

Source: Australian Bureau of Statistics, 1984 Household Expenditure Survey, Unit Record File (first half). Population as for Table 2.

Implications for Income Support Relativities

These results support the notion that income support for families with children, relative to those without, was insufficient in 1984. How are they relevant to a consideration of the family package? We would expect with the introduction of this package that the patterns shown in tables 2 and 3 will change significantly.

Nonetheless the discussion of the previous sub-section does point to two facts that should be of continuing relevance.

- Pensioner and Beneficiary families of workforce age spend significantly more than their income from pension or benefit and,

- there does not seem to be any reason to suppose that the dissaving *ability* of families with more children should be any greater (in dollar terms) than those of smaller families. The observed tendency for families with children in 1984 to dissave relatively more thus probably reflects greater needs at that time.

These two facts together are important for equivalence scale analysis because they imply that a given equivalence established by the income support system may not be reflected in the same expenditure relativities. This is because the component of expenditure available from other sources will not follow the same family size equivalence as the income support component.

Assume, for example, that in 1984 pensioner/beneficiary couples could on average spend an additional $20 per week (roughly the figure for adjusted expenditure of couples without children in table 2) without incurring 'excessive' debt. Assume also that the married rate of benefit was set at $150 per week, and that allowances per child were paid at the rate of 20 percent of the married rate for each child. Then the following income and expenditure patterns would be observed for the different size families.

Number of children	Benefit level	Relative benefit	Expenditure level	Relative expenditure
none	$150	1.00	$170	1.00
one	$180	1.20	$200	1.18
two	$210	1.40	$230	1.35
three	$240	1.60	$260	1.53
four	$270	1.80	$290	1.71

Whereas the family with four children has 1.8 times the income of the couple with no children, it has only 1.71 times the expenditure level. An income equivalence of 20 percent results in each child receiving only 18 percent of the level of expenditure of couples.

This relationship can expressed more generally as,

$$
\left(\begin{array}{c} \text{Income} \\ \text{cost per} \\ \text{child} \end{array}\right) = \left(\begin{array}{c} \text{Expenditure} \\ \text{cost per} \\ \text{child} \end{array}\right) \times \left(\begin{array}{c} \text{Expenditure} \\ \text{inflator of} \\ \text{reference family} \end{array}\right)
$$

Where the *expenditure inflator of the reference family* is the total expenditure divided by the income of that family, the *expenditure cost per child* is the desired relative expenditure per child (e.g. 20 percent of the reference family), and the *income cost per child* is the income per child required to maintain this expenditure equivalence in the face of constant supplementary expenditures. Thus, to turn the above example around, the expenditure inflator is 1.133 ($170/$150), the 'desired' relative expenditure per child is 18 percent, and the income relativity required to achieve this is 20 percent.

The difference between the income and expenditure equivalences is thus a function of the level of supplementary expenditure undertaken by families. The above example followed the level of expenditure of childless couples shown in table 2 – with the implication that the impact of this effect is only modest. However the estimates in that table can be regarded as suggestive only, given the very small numbers in the sample (e.g. only 18 couples without children). If we were to assume instead that families with children could generally spend around $50 extra, the expenditure inflator becomes 1.33 and an income supplement per child of 27 percent is required to attain an expenditure equivalence of 20 percent.

It may be argued that such considerations, whilst interesting, are not really relevant to income support policy as that policy is only concerned with relativities at the very lowest level of subsistence. Relativities among those able to dissave may not be considered relevant. Whilst logically tenable, such an argument does not seem very relevant given the widespread, and understandable, goal of low income families to maintain their level of consumption as long as possible. That savings will be depleted much faster with large families *is* something that is relevant to income support policy.

5. CONCLUSIONS

This paper has compared the structure of payments proposed in the family package with the conclusions of the body of research on equivalence scales. The main conclusions of this comparison are as follows.

- Comparing the basic rates of payment with the equivalence scale research, the relativities proposed for children in smaller families seem to be generally inadequate (though for two parent families they fall within the middle range of results).

- For sole parent families the discrepancy is even greater. This is compounded by the proposed exception of Mothers - Guardians Allowance from the indexation process. For some sole parent families, the extension of the child support scheme will alleviate this discrepancy, but many will continue to be relatively poor.

- In terms of the structure of rent assistance proposed for mid-1990, families renting will face relativities much more in line with the equivalence scale research (because many couples without children are excluded from rent assistance). However, it is not clear that this structure will be maintained. The appropriate *level* of rent assistance (in relation to housing costs etc) has not been considered here.

- The dependence of child benefit on children's ages would seem warranted, though the particular division chosen is apparently arbitrary. A case could be made for the introduction of an additional age tier (possibly separating pre-school children).

- One of the most notable divergences from the literature concerns the lack of any implicit economies of scale for large families. Whilst the equivalence scale research is almost unanimous that such economies exist, this policy structure has probably been guided by observations of relative hardship among large families. These two perspectives can be reconciled by noting that even when economies of scale exist, if payments for children relative to adults are generally inadequate, equity between *families with children* may best be obtained by paying a flat rate per child. This result stems from the fact that the relatively adequate adult component will form a larger proportion of the smaller family's income.

However such a conclusion whilst relevant to the relatively small family allowances is less relevant to the family package rates which are closer to the desired level (but see following points).

Finally, the paper examined the distinction between income and expenditure patterns for low income families. Two main points were made.

- Many pensioner/beneficiary families spend considerably more than their income as they try to maintain their previous level of consumption.

- It is unlikely that families with children will have any additional resources with which to finance this supplementary expenditure compared to those without children.

These two facts together imply that to achieve equity in consumption, families with children (and in particular large families) need a greater income compensation than equivalence scales would suggest. This additional compensation can be considered as compensation for the additional demands on the savings and other income sources of large families.

What do these conclusions suggest for future modifications to the family package proposals? The key results from this study are summarised in table 4. This table carries across the average equivalence scales calculated in table 1 for non-renters. The top panel again contrasts these scales with the 'mean research' equivalence scale.

Compared to the yardstick of the research, couples with one and two children are generally worse off than those without. For larger families, the combination of the economies of scale implied by the research, together with the flat rate of child assistance means that they are relatively slightly better off than families without children. Compared to couples, sole parents are even more relatively disadvantaged (as noted above, these conclusions change somewhat for renters).[19]

When some allowance is made for the extra demands of children on savings, the picture of the first panel is accentuated. The second panel of the table describes the relative expenditure levels of families headed by couples if it is assumed that they can all dissave a uniform amount equal to 13 percent of the income of the couple without

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[19] Single adults are also relatively disadvantaged – though still in the central range of the research results. Because of the differences in both needs and rates of payments for single persons with age it is difficult in this short paper to draw firm conclusions for this group.

Table 4   Evaluating the Family Package Equivalence Scales

		Sole Parent			Married Couple		
	Single Pensioner	1 dep	2 deps	0 deps	1 dep	2 deps	3 deps
Simple Comparisons							
Mean Research equivalence scale	**0.65**	**0.88**	**1.04**	**1.00**	**1.20**	**1.38**	**1.51**
Family Package							
Average payments	$124.25	$170.95	$206.33	$207.10	$243.28	$279.05	$317.85
Equivalence scale	**0.60**	**0.83**	**1.00**	**1.00**	**1.17**	**1.35**	**1.53**
Relative to research mean	92%	94%	96%	100%	98%	98%	102%
With Adjustment for Savings Patterns							
Low dissaving assumption							
(13% of mc+0)							
Expenditure under family package				$234.02	$270.20	$305.97	$344.78
Expenditure/income				1.13	1.11	1.10	1.08
Expenditure equivalence scale				**1.00**	**1.15**	**1.31**	**1.47**
Relative to research mean				100%	96%	95%	98%
High dissaving assumption							
(33% of mc+0)							
Expenditure under family package				$275.44	$311.62	$347.39	$386.20
Expenditure/income				1.33	1.28	1.24	1.22
Expenditure equivalence scale				**1.00**	**1.13**	**1.26**	**1.40**
Relative to research mean				100%	94%	91%	93%

children (this is the dissaving rate of couples without children in table 2). That is, a constant amount of $26.92 is added to the incomes of each family type. The expenditure equivalence scale thus shows the relative levels of 'expenditure ability' of the families of different size.

Even under the low dissaving assumption, families with children are significantly worse off. In expenditure terms the first child receives 15 percent of the amount of a couple, compared to a suggested 20 percent from the research, and 17 percent in the family package *income* equivalence scale. For renting families (not shown in the table) this analysis also leads to the conclusion of relative disadvantage among larger families (though not as great as for non-renting families). Whereas the comparison of income levels in the first panel of the table suggests that for couples with three children the research relativities will be more than maintained, comparison of these likely *expenditure* patterns suggest that larger families will be disadvantaged in a similar fashion to the smaller. This is because of the assumption that larger families will have no more external resources (including savings) to draw on than will smaller families.

These points should not be taken as fundamental criticisms of the family package. It would be unfair to deny the government's claim of the family package being an 'historic step towards establishing new standards in our society' (Howe, 1987). However the conclusions of this paper do suggest some priorities for further income support improvements.

- *Significantly increase the basic rates of payment per child.* If payments were increased by a further 5 percentage points of the married rate (i.e. to 20, 25 and 30 percent for those aged under 13, 13-15 and 16-17 respectively) the income equivalence scale targets would be over-achieved (1.22, 1.45 and 1.68 for families with 1, 2 and 3 dependents[20]). However the expenditure equivalence scales under the low dissaving assumption would be just achieved for the first child, and only just exceeded for the second (1.20, 1.40 and 1.61). With the high dissaving assumption the scales would only be achieved for the third child (1.18, 1.34 and 1.51). A cheaper option for the government would be that proposed by ACOSS (1989) for an additional age category, with rates of payment of 15, 20 and 25 percent for children aged 5 or less, 6-12 years and teenagers respectively (the rates for AUSTUDY recipients were not specified).

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[20] These results are obtained by adding 5, 10 and 15 percent of $207.10 to the average payments and expenditures in table 4 for couples with 1, 2 and 3 dependants respectively.

• *Maintain the constant per-child structure.* Whilst the literature suggests economies of scale, these are easily outweighed by the additional demands on saving and other resources of larger families. Indeed there may even be a case for extending additional assistance to large families through the family allowance system.

• Finally, and probably most important, these results suggest a need for a *significant increase in the rate of mothers-guardians allowance, and indexation of this to the married rate of pension.* The current rate is around 6 percent of the married rate. A comparison with the equivalence scales from the research would suggest that to maintain parity with couples without children a relative payment of around ten percent would be justified.[21]

To some such marginal suggestions may seem to be merely technocratic fiddling at the edges of the income support system. In one sense this is quite true – welfare of low income families could be more simply raised by a general increase in pension and benefit rates or a more general equalisation of income and wealth. This approach could dispense with the sometimes complicated reasoning of the paper here. Given, however, the evident constraints on these options, the paper has attempted to identify areas in family assistance where priority for marginal increases should be directed. With around one quarter of Australia's children being directly affected by the policies discussed here, such small changes would appear worthwhile.

POSTSCRIPT

On April 12, 1989 the Commonwealth Government released new proposals for changes to income support for families with children. Whereas in this paper it was assumed that the 15 and 20 percent bench-marks would be achieved by increases to FAS payments, the government has decided to reach this goal via a combination of increases in family allowances and increases in FAS payments for older children. This alternative approach will have little impact upon the conclusions of this paper. It was also announced that mothers-guardians allowance would in future be indexed to

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[21] In terms of tables 1 and 4, increasing MGA to ten percent of the married rate would imply adding $8.70 to the average payments to sole parents. This would give relativities (compared to a couple) of 0.86 and 1.03 for sole parents with one and two children respectively. These equivalences are still lower than or equal to the equivalences suggested by the research. This assumes that the rates per child are to remain constant at their present bench-marks. On the other hand it also does not make any allowance for the dissaving ability of sole parent families relative to couples.

price increases along with all other family payments (though the basic rate was not increased).

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