Welfare Issues and Policy Challenges at the End of the Millennium

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WELFARE ISSUES AND POLICY CHALLENGES AT THE END OF THE MILLENNIUM

edited by Peter Saunders
and Tony Eardley

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Foreword

This report contains the proceedings of a one day conference held in Perth on 26 June 1998, arranged jointly by the Social Policy Research Centre with the School of Social Work and Social Administration at the University of Western Australia and the Western Australian Council of Social Service. The theme of the conference, *Welfare Issues and Policy Challenges at the End of the Millennium,* which forms the title of this report, has a similar focus to an earlier SPRC-sponsored Perth conference, held in 1992, *Beyond Economic Rationalism: Alternative Futures for Social Policy.* This latest conference was sponsored by the Western Australia Department of Family and Children's Services and was opened by the Minister for that Department, the Hon. Rhonda Parker, MLA.

The five papers delivered at the conference are included in this report. Peter Saunders reviews some of the principle arguments advanced by critics of welfare state performance and examines the demographic challenge facing it, its affordability and the crisis of legitimacy in welfare before considering the reforms that are being introduced. Jim Ife goes further afield and looks at the tension between globalisation and localisation and the ways in which they are meeting human need, with a view to seeing whether the two can be integrated. Jenny Chalmers looks more closely at one aspect of the state in providing welfare, that of aged care. In particular, she examines the user pays paradigm and its role in provision of care for the elderly, presenting some policy options. Tony Eardley reports on research on another issue: that of workers who earn low pay and the policy responses to working poverty. Ian Carter's paper is concerned with the non-profit organisations who are taking on an increasingly important role in our society as government contracts out more and more services. He professes the belief that a community is tested by its capacity to look after those in need within its midst.

Together, the papers in this report address many of the research and policy issues that lie at the forefront of social policy development in Australia at the end of the twentieth century.

Peter Saunders
Director

Acknowledgements

The original idea for this conference arose in the course of a conversation between Peter Saunders and Ian Carter which took place during the Anglicare Australia Conference held in Sydney in October 1997.

Once an in-principle agreement to stage the conference had been reached, the tasks involved in organising it and preparing the papers for publication had to be assigned and undertaken. This involved the dedicated and efficient efforts of several people in Western Australia and at the Social Policy Research Centre. A special vote of thanks is due to the contributions made by Shawn Boyle and Ninder Barlow, both of WACOSS, who handled the arrangements for the day with consumate skill and good humour. Their efforts were assisted by the work of Sharon Hancock at the SPRC, who also assumed responsibility for developing the advertising of the conference and overseeing the report through the production stage. Special thanks are also due to Diana Encel for her editorial work and to Gil Srzednicki and Lynda Pawley who assisted in getting the manuscripts ready for final publication. Without the assistance and professional input of these people, it would simply not be possible to produce and publish a report such as this.

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Is There a Future for the Welfare State? Is There a Welfare State for the Future?

Peter Saunders
Social Policy Research Centre
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1 Introduction

Today's Conference provides an opportunity to identify and review the challenges confronting the Australian welfare state at the turn of the century. Analysis and debate over social policy and its institutional expression in the form of a welfare state has been shaped by a climate of crisis for much of the last quarter of a century which had, by its mid-point, committed itself to the goals of welfare - equality, security and rights.

It must, of course, be emphasised at the outset that the concept of a 'crisis' is itself manufactured, and those who have argued the case for fundamental reform of welfare institutions and the values they promote as a response to crisis have done so for strategic as well as for ideological and other reasons.

The policy response to the 'crisis of the welfare state' has, in Australia as in many other countries, been to introduce fundamental reforms to the nature of many welfare policies and programs. These have changed how those programs are organised and financed, the kinds of benefits they offer, and the values and assumptions about roles and responsibilities on which they are based. In the process, the Australian welfare state has been shown to be sufficiently flexible for change - often radical change - to be introduced, while those responsible for the design of policy have shown considerable ingenuity in the reforms introduced.

If we are to believe our politicians and those responsible for advising them within government, the Australian welfare state is increasingly seen as a model from which other industrial (and some developing) countries can learn. This view is somewhat mistaken, in that we have less to teach most industrial countries about social policy than some of our Asian neighbours who have much to gain from studying our approach to social security and other programs.

Within the OECD 'rich club' we may remain something of a 'laggard' when it comes to our level of welfare expenditure, but we are among a small group of (pre-dominantly Anglo Saxon) countries who are at the head of the pack when it comes to policies like targeting and the privatisation of welfare which attempt to realign roles and responsibilities within government, the labour market and the family - often in ways designed to reduce government expenditures on social programs.

The extensive and wide-ranging welfare reforms of the 1980s and 1990s are a reflection both of the *imperatives for change* associated with economic and social trends as well as the *opportunities for change* provided by the system itself. In short, the Australian welfare state needed to change and was generally able to do so. However, while few would dispute the need for social policy to adjust to economic and social change, there is considerable disquiet over the extent and pace of change since the mid-1970s.

Social policy, as the OECD has recently emphasised, must be sustainable but must also provide a degree of certainty and stability through the establishment of a social safety net on which people can rely when unable to enjoy full economic participation (Scherer, 1997). The welfare state is intended to ensure that economic exclusion (which is still a relatively temporary experience for the vast majority) would not translate into social exclusion and ultimately into entrenched patterns of disadvantage transmitted across the generations. At the same time, by guaranteeing citizens a minimum material standard of living, the welfare state would encourage their willingness to accept the dislocations associated with economic change.

Rarely is today's welfare state viewed in such positive terms. Now, it is seen not so much as a vehicle for promoting economic change, but rather as an obstacle to it; not as a provider of state-financed benefits to vulnerable groups, but rather as a burden on the rest of society; not as a means of encouraging social solidarity and citizenship, but as a source of conflict and division; not as an arena for reducing inequality, but rather as a cause of inefficiency and disincentive effects; not as a haven from economic distress, but rather as the unwitting promoter of dependency and the spiral into deprivation and exclusion.

How has this revisionist interpretation of the role and impact of the welfare state come about, and how much truth is there in the view that the welfare state must shrink if it is to survive? To answer this, it is necessary to go beyond the *ideologies* and *values* of those who are critical of state welfare to consider the *evidence* on the positive and negative impacts of the welfare state. Analysis of the welfare state must recognise the role of both ideology and evidence in any overall assessment of its impact. The former must not be allowed to cloud judgements about the latter, even though this has occurred all too frequently over past years as the strengthening winds of ideological fervour have swept through the rather flimsy framework of social policy analysis and evidence.

This paper does not attempt to cover all of this broad terrain. Instead, its more limited goal is to review some of the principle arguments advanced by those who have been critical of welfare state performance. This is done by considering three of the main areas on which the 'welfare crisis' debate has focused. These relate to the demographic challenge facing the welfare state, the affordability question and the crisis of legitimacy in welfare. After reviewing some of the main arguments surrounding each of these developments, the paper considers whether the reforms that are being introduced will produce a welfare state that is sustainable in political and economic, as well as budgetary terms.

2 The Demographic Challenge: Population Ageing

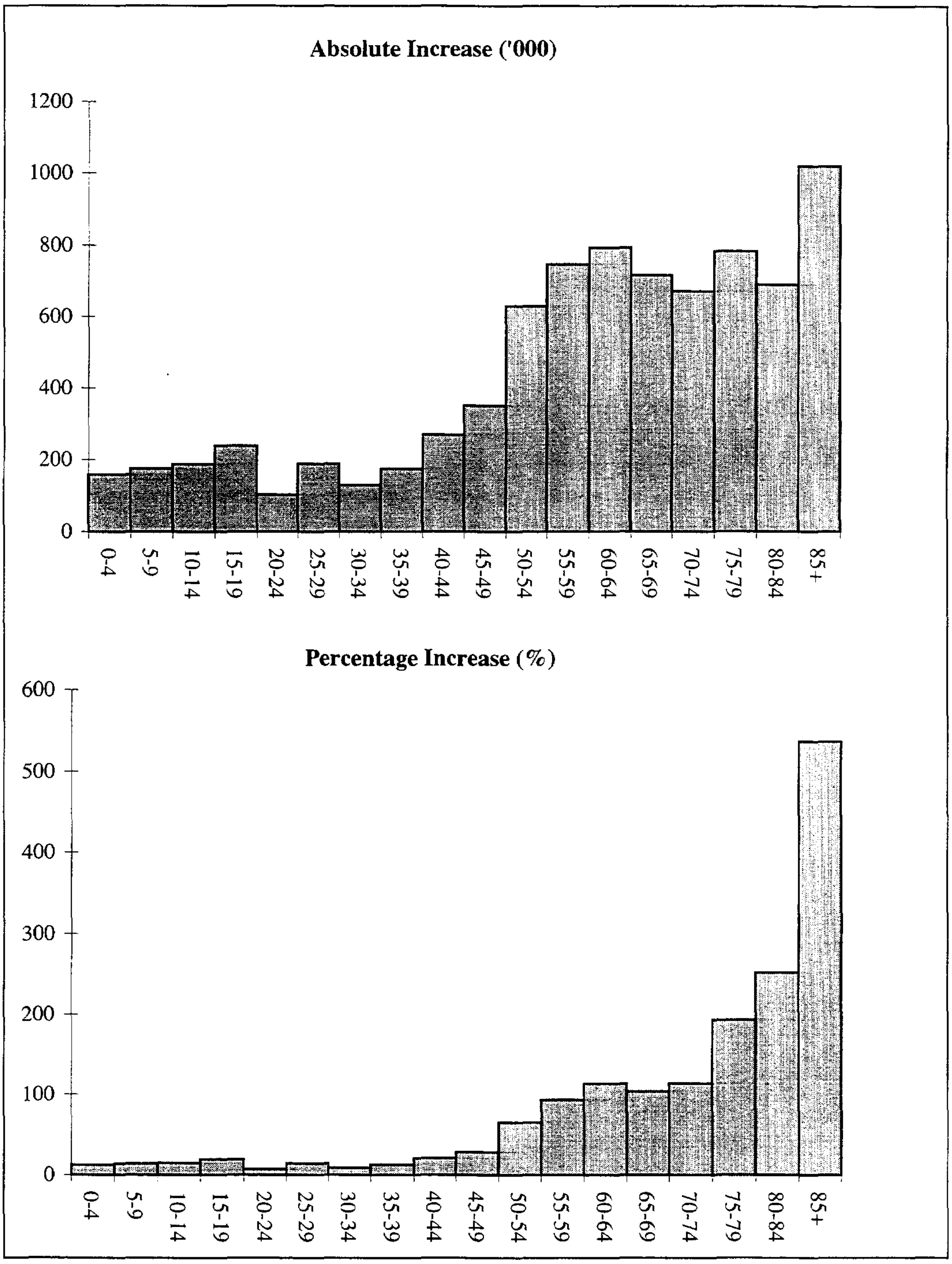
Because so much has been written about the implications of population ageing for social policy, this is the obvious point from which to begin. Many of the basic facts and arguments are relatively well known and will thus be summarised only briefly.

According to the latest population projections prepared by the Australian Bureau of Statistics (ABS), the Australian population will increase from around 18 million in 1995 to between 22 and 28 million by the year 2051 (ABS, 1996). These projections might seem to cover a rather broad range, but this reflects the inherent difficulty of predicting future trends in mortality and fertility - the two determinants of 'natural' population growth - as well as what is likely to happen to the rate of (net) immigration over the next 50 years.

However, even accepting that there are inevitable uncertainties surrounding such long-term projections, the broad features of the longer term trend are fairly clear. One of these is that the rate of population growth is slowing and will continue to do so through to at least the mid-point of the next century. The ABS reports that the current annual rate of population growth of around 1.2 per cent a year will fall to less than half that rate by the year 2051. Although there are many who see this change as desirable on ecological (and other) grounds, it reflects the decline in fertility which is one of the primary causes of the other main long-term demographic change - the ageing of the population.

The extent of population ageing is illustrated in Figure 1 which is based on the latest ABS population projections. The upper panel of Figure 1 shows the absolute population increases projected for different age groups between now and 2051. These range between 100 and 200 thousand for all age groups up to age 39,

Figure 1: Projected Changes in the Age Structure of the Population: 1995-2051



then increase to 350 thousand for age group 45-49, before rising rapidly with age thereafter. The population aged 65 and over is projected to *increase* by almost 3.9 million - equivalent to almost half of total projected population growth, while the *increase* in the population aged 80 and over is over 1.7 million - this latter figure dwarfing the current population over 80 of 464 thousand (ABS, 1996, Table 9.2).

The extent of these changes as they affect the age structure of the population is better reflected in the lower panel of Figure 1 which expresses the projected increases as a percentage of the current population in each age grouping. Not surprisingly, the larger absolute increases projected at the top of the population age pyramid translate into very large proportionate changes relative to those projected at the base of the pyramid.

Whereas the growth rate of the population up to about age 44 is generally between 10 per cent and 20 per cent, those aged 85 and over will experience a proportionate increase of over 536 per cent - equivalent to a more than four-fold increase in absolute numbers.

Between 1995 and 2051, the percentage of the population aged 65 and over is projected to almost double from 11.9 per cent to 23.1 per cent. Relative to the population in the traditional working age range of 15-64 years, the percentage 65 and over will increase from 17.9 per cent in 1995 to 38.5 per cent in 2051. The sheer magnitude of these numbers is sufficient to start the alarm bells ringing, although it should be remembered that some of the estimated increases appear large because they are expressed relative to a very small initial base.

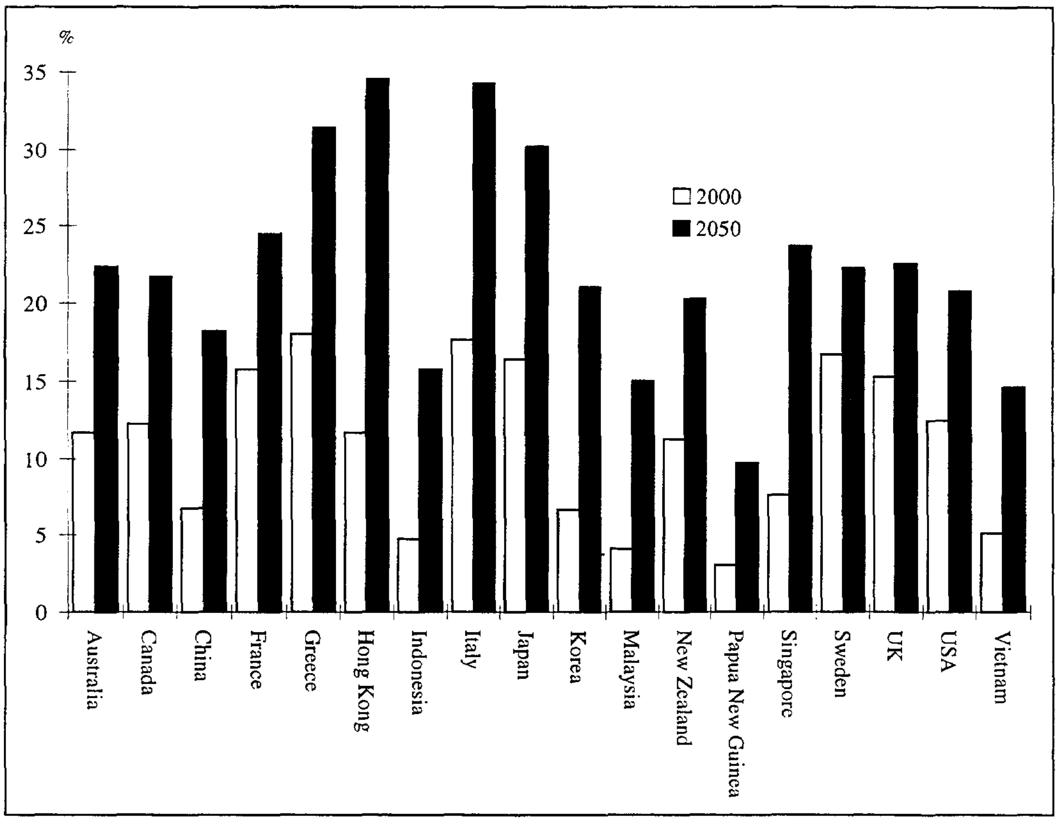
The estimates conjure up alarming images of declining numbers of working age people being crushed by a growing army of older people demanding more money to pay for pensions, hospital beds and nursing homes from the already over-stretched taxes deducted from workers' pay packets. Thus are intergenerational conflicts born from the 'hard statistics' of ageing. Such metaphors are, however, of limited usefulness primarily because they rest on a simplified view of the process of population ageing and consider only a restricted range of responses to it.

It also needs to be remembered that the population projections summarised above, like others before them, could turn out to be very wide of the mark, particularly given the difficulty of predicting future fertility trends (see below). Even so, it has to be acknowledged that an Australia with more than one million people aged 85 or over will lie well outside of historical experience and that alone suggests that the implications of the projections are worthy of further study.

Before doing so, it is instructive to examine the figures a little further. The first point to emphasise is that broadly similar trends to those projected for Australia

Before doing so, it is instructive to examine the figures a little further. The first point to emphasise is that broadly similar trends to those projected for Australia are also projected to occur in many other countries. Indeed, as Figure 2 shows, the projected rate of increase in the population aged 65 and over is a good deal *higher* in many other countries than it is in Australia. Although the projections shown in Figure 2 have been produced by the United Nations and differ from the ABS projections shown in Figure 1, they still indicate an approximate doubling of the population aged 65 and over in Australia by 2050 (ABS, 1998). This places us somewhere in the middle of the 'international league table' of projected increases - similar to countries like Canada, Italy, Japan, New Zealand and the US, but with a lower projected relative increase than in Asia.

Figure 2: Growth in the Percentage of the Population Aged 65 and Over: 2000-2050



Although most of the policy debate generated by such projections has focused on changes in the older population, in fact the projections reflect trends in fertility as well as what happens to mortality. The latter has an important impact on the absolute numbers of older people, but what is of greater policy significance is the *percentage* of older people in the population and this also depends on how rapidly total population size increases as a result of fertility.

Even over the relatively short period of time when ABS has been producing population projections on a regular basis, the total fertility rate (the number of children per woman) has varied between a low of 1.83 to a high of 1.93. In general, the ABS population projection methodology assumes that the fertility rate follows the actual rate and remains constant for much of the projection period.

How much difference the fertility rate makes to the population projections can be gauged by comparing the alternative projection series published by ABS. The latest ABS study makes two alternative assumptions about the future trend in fertility, a 'high profile' which assumes the latest (1994) rate of 1.85 is maintained through to 2051, and a 'low profile' which assumes a decline to 1.75 by 2004 and constancy after that (ABS, 1996: 3). Projections derived from these two alternative fertility assumptions (holding everything else unchanged) show that the percentage of the population aged 65 and over in 2051 will be 23.1 per cent (assuming high fertility) but 24.3 per cent (assuming low fertility).

The difference may not seem large, but when seen in the context of an increase from the current level of 11.9 per cent, the projected end-year difference of 1.2 percentage points corresponds to around 10 per cent of the current size of the older population. In other words, changes in fertility have a potentially substantial impact on the extent of ageing, yet have received relatively little attention in much of the ageing debate. It is important that the issue of ageing is not restricted to a consideration of the older population itself because ageing reflects changes in *population structure* which applies by definition to the population as a whole. Some reading of the literature would appear to imply that population ageing is occurring independently of broader population trends rather than being a reflection of them.

The importance of fertility to future trends in population size and structure has been emphasised recently by McDonald (1997) who describes some of the rather alarming arithmetic of fertility. He notes, for example, that if 20 per cent of all women choose to have no children, while a further 20 per cent choose to have only one child (not entirely unreasonable assumptions given recent trends), the remaining 60 per cent will have to have an average of *3.2 children each* for the total fertility rate to remain at replacement level. This, McDonald notes, is an extremely unlikely outcome for societies geared towards a norm of two children for those planning to have children.

However, of more significance is McDonald's argument that current economic and social policies in Australia are likely to lead to further *declines* in the fertility rate. In particular, he argues that the rejection of the 'family-friendly' industrial relations policies of the 1980s in favour of workplace arrangements which make it more difficult to combine work and family responsibilities, in combination with cutbacks to public services for families with children which effectively privatise the costs of child-bearing, will serve to further reduce fertility and add to the extent of population ageing (McDonald, 1997: 20-21).

The irony is that in trying to avoid the short-run political cost of cutting pension expenditure by directing spending cuts to services which benefit working families, the response is likely to be further reductions in fertility which will add to the extent of ageing in the longer run. Raising the cost of child-rearing borne by families themselves will cause increasing numbers of younger couples to postpone or abandon plans to raise a family, particularly where family finances are structured around the assumption of two incomes.

It needs to be emphasised at this stage that although the logic of this analysis cannot be faulted, the conclusions drawn by McDonald are dependent upon the extent to which decisions regarding whether and when to have children are sensitive to financial considerations and the availability of family support services. Put simply, although government policy may make it less financially attractive to have children, it does not necessarily follow that people will react by choosing to have fewer children. Earlier debates over the (lack of) success of natalist policies in increasing birth rates in the postwar period suggests that the effects at that time were only marginal.

This does not mean that this is still true today. How people responded to social policies in the 'male breadwinner' labour market of the 1950s has little relevance to today's circumstances of labour market volatility and family diversity. It would be surprising if the emphasis given to individualism and the growing importance of market signals in all aspects of life have not had the effect of making people more responsive to financial factors than they once were. This may prove to be one of the longer term legacies of economic rationalism. It should be acknowledged, however, that we still know relatively little about how people's behaviour responds to changes in economic incentives, no matter how often we are lectured on the need to make 'rational' decisions by those who worship at the altar of neoclassical economics.

What is striking about this whole debate, as McDonald points out, is how many of the supporters of an economic liberalist approach to public policy - of which he cites the National Commission of Audit (NCA, 1996) as a prime example - fail to take account of how behavioural responses to changed incentive structures can divert the intentions of their own policy prescriptions. His penetrating analysis of the NCA's recommended responses to the ageing of the population reveals that they are more likely to add to ageing by privatising the costs of child-bearing within the family and thus causing an acceleration of the decline in fertility.

The discussion has already strayed into the area of the policy response to ageing, an issue which, in the minds of many, has become central to the future viability of the welfare state. Underlying this concern is an emphasis on - some might say an obsession with - the impact of population ageing on the public finances.

The basic thesis of those like the World Bank (1994) who see a 'looming crisis' in population ageing is that the commitments implicit in our current welfare programs were based on a series of demographic assumptions that are no longer tenable. The expectations encouraged by those commitments must thus be dampened so as to make them conform to what can now be afforded. Furthermore, this should be done as soon as possible so that people have adequate time to develop alternative plans for meeting their own needs (or at least a good deal more of them) in old age.

On this perspective, ageing is seen as 'a problem' primarily because it represents a *budgetary problem.* Public programs for older people are expensive and if there are going to be more older people, they must be taught to expect less, or to have to pay more now for what they will receive later. In the process of developing the argument, the willingness and/or ability of younger generations to support the increasing numbers of older people - either through taxation or other public revenues, or through private intra-family transfers - has been brought into question, serving to characterise the issue as one of equity between the generations, leading potentially to intergenerational conflict.

In analysing the validity of this perspective, it is useful to distinguish between the *statistical basis* for the claims made about the impact of population ageing, the *inferential basis* on which the implications of the statistics rest, and the *ideological basis* for many of the reforms that have been proposed in response to the 'ageing problem'.

As I have argued elsewhere, the statistical basis for the claim that population ageing will give rise to large and unsustainable pressures on public expenditure is open to question (Saunders, 1996a). Most of the models which project how social expenditures will respond to ageing are mechanistic and simplistic, focusing on the most easily identifiable and quantifiable factors and basing projections on a linear interpolation of current or recent trends. To be fair, many of these models have been designed to provide initial answers to such questions as: 'what will happen to expenditure on health care if current spending levels are maintained in the face of population ageing?', not to provide forecasts of what will happen to either population structure or to public expenditure.

The answer to such questions is that since the need for income support and health services rises with age, the total cost of providing a larger older population with the same level of support and services will increase. Such calculations raise important questions about what is meant by 'providing the same level of service', but they are a useful first step in understanding the extent of the issue and thinking more constructively about how to respond to it.

In practice, however, the statistical projections have tended to be accepted as 'facts' with all the attendant status that attaches to numbers that can be readily expressed as proportions of the government budget or of the national income. The consequence is that the debate has been hijacked by those who want to get the numbers down (and along with them the size of government).

In fact, the public expenditure projections themselves are sensitive to some of the assumptions on which they are based. For example, recent estimates of the impact of ageing on health expenditures produced by the Economic Planning Advisory Council (EPAC), the National Commission of Audit (NAC) and the Australian Institute of Health and Welfare (AIHW) show substantial differences (Podger, 1998). Comparison of the EPAC and NCA projections (which differ in that the former project an increase in the Commonwealth health budget of around two percentage points of GDP by 2031, while the latter estimates an increase of over six percentage points of GDP) shows that the difference mainly depends upon the assumption made about the future growth of real health spending per person.

More significant is the fact that *population ageing itself contributes rather little to the projected growth in government outlays in all of the models.* This point has been noted by Podger (1998: 8), who observes that what matters is not so much the rate of population ageing itself, but the assumed growth of per capita outlays and the performance of the economy, in particular what happens to productivity growth (which affects economic growth and thus how large government spending is relative to GDP).

A similar point has recently been made by the Economics Department of the OECD, who note that:

> ... it would only be necessary to hold growth in per capita real public health spending to around 1/2 to 1 per cent lower than productivity growth in order to offset the impact of ageing on public health spending. (OECD, 1995: 40)

Achieving this outcome may require OECD governments to make some difficult political choices, particularly given the growing electoral influence of the increasing numbers of older voters, but this is hardly the stuff of economic crises of the 'banana republic' variety.

Of course, it is not difficult to produce the NCA 'horror scenario' by assuming that the growth in per capita social spending is high, while the growth in the economy is low, but this tells us no more than that if things are bad for a long time we will eventually end up in a very bad situation: a proposition which only the NCA and its secretariat of Department of Finance officials could regard as contributing usefully to public debate on what is undoubtedly an important social policy issue.

The negative aspects of population ageing emphasised by bodies like the NCA and the World Bank often also downplays or ignores the many positive features of population ageing. These include the fact that larger numbers of people will enjoy longer lives and more years of healthy living, with fewer deaths occurring at younger ages and with women exercising more choice over when and whether to have children (Podger, 1998). All three developments reflect increased choice and a higher standard of living, trends which are generally indicative of an improved standard of living. To reduce these factors to a series of crude 'dependency ratio' calculations is to distort the situation in ways that are all the more sinister given the value-laden connotations that now apply to the term dependency.

In general, there is much to support the view expressed by Johnson (1996) that while population ageing will require some reforms to pension systems and other public programs for the aged, achieving these reforms presents governments with a series of *political rather than economic challenges*. As Johnson explains, population ageing will require either that a greater proportion of income is transferred from working to retired people, or that the incomes of the retired will have to grow at a slower pace than the incomes of those in work. Engineering the necessary reforms will take political will aimed at altering the *structure* of incomes between those in work and those who have retired. This process will not be made any easier by changing the *form* in which retirement incomes are financed in ways which reduce reliance on pay-as-you-go public pensions and increase the role of occupational superannuation (supported by generous tax concessions).

This emphasis on being either in work or in retirement as the key features of the current demographic transition highlights the fact that the extent of ageing will be eased if more people of *all ages* are participating in the labour market, with correspondingly fewer in retirement or otherwise outside of the labour force. This perspective underscores the importance for ageing of labour market trends such as unemployment and the degree of labour force participation among married women - a feature which brings us back to the issue of fertility from which we began.

It may well be necessary to make adjustments to current policy parameters in response to the ageing of the population, but the magnitude of the policy (as opposed to the political) task should not be overstated. There is a case for reviewing the age of entitlement for the pension which was established in an era when both health status at older ages and life expectancy itself were much lower than they are now. As Mitchell (1996) demonstrates, it is possible by raising the pension age from 65 to 70 to offset most of the purely demographic effect of ageing on the ratio of older to younger groups over the next 30 years. However, raising the pension age will need to be supplemented by measures which discourage early retirement by older workers and encourages young and old alike to invest in human capital (and maximise the benefits of past investment) by working more.

Like many other countries, Australia is currently undergoing an unprecedented demographic transition, of which the ageing of the population is part. This, along with labour market trends reflecting increasing part-time and casual work are presenting a series of challenges to current welfare state arrangements which require a policy response. There is nothing inherent in these developments which makes it imperative to 'roll back the welfare state' to adjust to them. Those who adopt this position are attempting to justify changes which are essentially ideological in nature by presenting their reforms as the only practical response to what is a largely manufactured crisis.

3 The Crisis of Affordability

Can we afford the welfare state? This question has been driving the policy reform agenda for most of the last two decades and in part it lies behind the concern over population ageing. Yet much of the discussion proceeds as if 'the welfare state' is just another commodity that must be tailored to fit within what the public purse can afford. This metaphor is inappropriate for many reasons, most of them to do with the fact that in treating the issue as essentially economic, it ignores the institutional and political factors that define the parameters of the welfare state, how it can be changed, at what rate and with what effects.

Having said this, the appropriate size of government and the ability to fund public programs are issues that require serious analysis. The need for social policy to conform with broader (and often harsher) economic realities is evidenced in the rather ominous remarks of the new OECD Secretary-General who said when introducing the recent OECD Conference, *Beyond 2000: The New Social Policy Agenda*:

> Today, we find that public expenditure on social programmes and the control of public spending are at the heart of daily political debate in parliaments and among the public ... it is encouraging that, despite the political difficulties, there is a broad consensus among member countries around an economic strategy of prudent macroeconomic policy, including fiscal consolidation, structural reform and market liberalisation ... The language of sacrifice is not designed to win hearts and minds. The message we would like to promote from the OECD is that bringing public-sector deficits and debt under control through fiscal consolidation is not an alternative to policies to promote social protection and social well-being: on the contrary, it is a necessary condition for maintaining such policies in future years. (Johnston, 1997: 9)

Before addressing the affordability issue itself, it is informative to consider a few facts about the size and growth of the welfare state. Figure 3 shows that total spending at all three levels of government has continued to grow in Australia - albeit modestly and with some short-run declines - over the last decade. This is true even after allowing for the increase in consumer prices, an adjustment which approximates the level of real tax resources needed to fund government expenditures.

Spending in the four main social areas of education, health, social security and welfare and housing and community amenities has grown more rapidly than government spending as a whole, with the result that the proportion of the total government budget accounted for by these four areas of social expenditure has risen from 50.2 per cent in 1988-89 to an estimated 60.2 per cent in 1997-98. Growth has been most rapid in the areas of health and social security and welfare, where spending increased by 37.0 per cent and 54.4 per cent, respectively, well above the 15.3 per cent increase in total spending.

Turning to international developments, Figure 4 summarises trends in social expenditure in OECD countries between 1980 - the year in which the OECD Conference on *The Welfare State in Crisis* (OECD, 1981) took place - and 1993, the latest year for which the data are currently available (the latest data for Australia, Belgian, Japan and New Zealand in Figure 4 actually refer to 1992).

Although the OECD social expenditure data do not include spending on education or housing, they too show an upward trend in all countries except (West) Germany where there was a small decline. The average increase in social expenditure over the period for the 17 countries shown in Figure 4 was from 20.0

Figure 3: Recent Trends in Australian Social Expenditure: 1988-89 to 1997-98

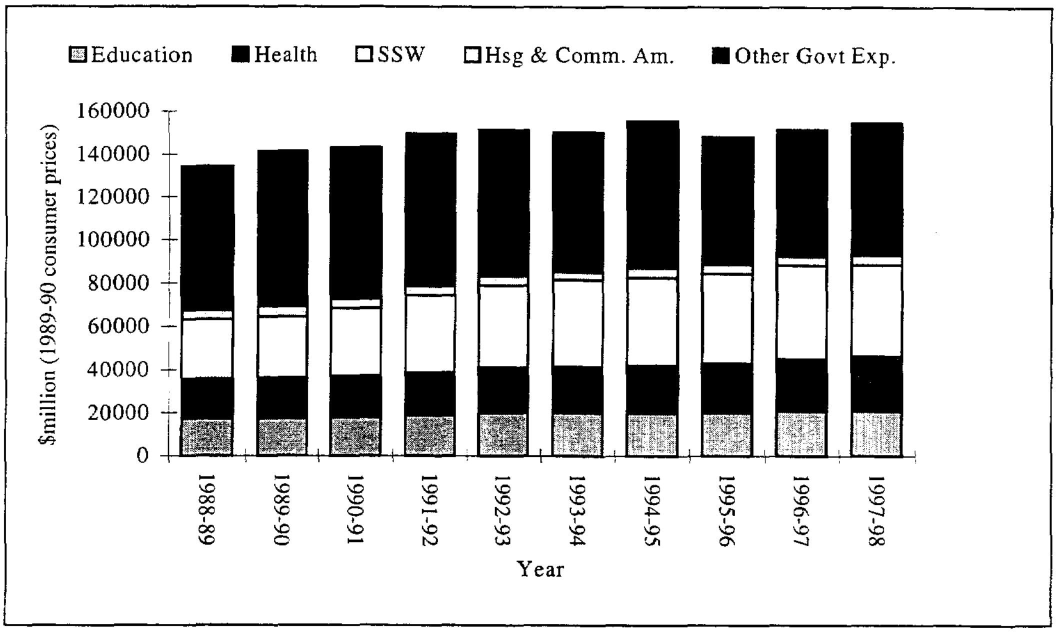
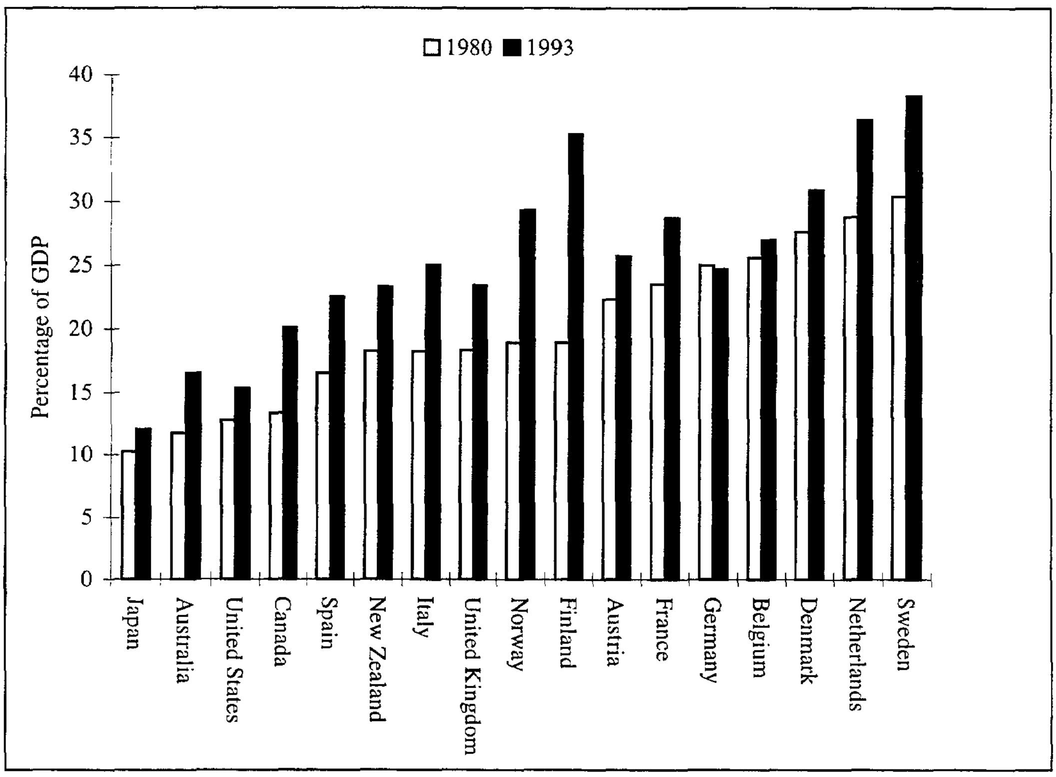


Figure 4: Social Expenditure in OECD Countries: 1980-1993



per cent of GDP in 1980 to 25.6 per cent in 1993. In Australia, social expenditure increased from 11.7 per cent of GDP in 1980 to 16.5 per cent in 1992. Although Australia's ranking in the expenditure ranking moved up one place, its overall ranking (like its level of expenditure) remained well below that in most countries throughout the period; in fact, the Australian social expenditure ratio in 1992 was below that prevailing in 1980 in all but five of the 17 countries.

Thus despite all the political rhetoric about the need for smaller government and the economic arguments for why this was a necessary precursor to improved economic performance, the trend throughout the industrialised world continues in the opposite direction. And at the same time (with some notable exceptions) industrialised countries have been experiencing one of the longest cyclical upswings in the postwar period. Although the rise in social expenditure was partly due to the rise in unemployment during the recession of the early 1990s, this is not the entire explanation for what has happened. Governments may have voiced concerns about the lack of affordability of the welfare state, but have been generally unwilling to translate these words into action.

In discussing the affordability issue, it is important to distinguish between the meaning of 'afford' in a narrow budgetary sense and its interpretation in a broader economic and political sense. The former (budgetary) perspective focuses on the revenue needed to pay for the welfare state and what constraints this imposes on the overall level of taxation and the structure of the public finances generally.

Leaving aside the false dichotomy this implies between 'welfare recipients' and 'taxpayers', the whole approach suffers from the difficulty of assigning taxes paid to specific government programs. Even if welfare spending were to rise, this could be financed within a declining tax burden if government spending on other programs was reduced. There will always be some level beyond which taxpayers will resist further tax increases, but we have little idea where this level might be.

What does seem clear is that the views of many taxpayers will be influenced both by the economic and social effects of welfare budgets and by the nature of the political arguments surrounded such questions, so that ultimately, the question of affordability in its narrow sense is heavily influenced by how the issue is presented and debated in the political arena.

There is, however, a second, and more fundamental meaning of 'affordability' that warrants further comment. This relates to a broader notion of the cost of welfare which includes, in addition to the budgetary cost of welfare programs, those costs that arise from the changes in economic and political behaviour that are a consequence of welfare policies. The economic costs arise from incentive structures which distort choices in the labour and capital markets in ways that are detrimental to economic growth and thus to average household incomes and material standards of living. The political costs include the sense of alienation among voters that results from a proliferation of welfare programs and expanding welfare budgets co-existing with an apparent increase in the severity of the social problems at which they are addressed.

To the extent that these costs are real, they imply that the overall cost (budgetary, behavioural and political) of welfare will be high, possibly so high as to outweigh the benefits. The increased popularity of this view partly reflects the increasing complexity of the economic and social context within which the welfare state operates and what this implies for the demands on the welfare state and the potential solutions it can offer. It also represents an acknowledgment of the difficulty of achieving welfare objectives in an increasingly uncertain and competitive economic environment.

The opening up of the world economy to competition has undoubtedly increased economic insecurity in all nations. While economists emphasise the benefits of competition as a spur to enterprise, profitability and efficiency, there are also losers from the process of competition (witness the number of small businesses that fail), and as more people are exposed to the threat of competition, it is inevitable that insecurity and vulnerability will increase.

As Gøsta Esping-Andersen has recently argued:

> Popular discourse has already recognised the arrival of a new class of losers. Witness labels such as the 'A-team' and 'B-team', or the new underclass. Behind such labels lurks the idea that there is a class of marginals trapped in lifelong underprivilege. But whether this is true or not remains an open question. It is undeniable that bad jobs, low pay, unemployment and poverty afflict more and more people. Yet if people's experience of marginality and want is only temporary, life-chances will probably not be seriously impaired ... We face a real crisis of social polarisation only if the losers of today are losers for life, and if they pass their underprivilege on to the next generation. (Esping-Andersen, 1997: 64)

Avoiding unacceptable polarisation is the main contemporary challenge facing the welfare state. The key issue is how this can be achieved within a climate of increased global competition and in the context of an increasingly diversified labour market and a more complex set of working arrangements within a family and household structure that is also undergoing rapid change. In this situation, there is an increased need for a welfare programs which offset income falls and facilitate integration back into the labour market. Yet at the same time the interventionist sentiment which underlies such initiatives is at odds with the increasingly liberal market philosophy that gives rise to the need for them in the first place. Throughout the industrial world, the welfare state is being squeezed between these contradictory forces.

Australian evidence on the growing need for welfare state income support can be summarised by looking at the trend in poverty over the 25 years since the Poverty Commission (1975) first documented the national dimensions of the problem in the early-1970s. Since then, the poverty trend has been tracked using the Henderson poverty line by researchers within and outside of government, with the most recent estimates being released in June this year by the Australian Bureau of Statistics (ABS, 1998). These trends, summarised in Figure 5, indicate a doubling of the overall poverty rate from 10.2 per cent in the early 1970s to more than 20.5 per cent in 1995-96, most of this increase occurring after 1980.

Figure 5: Trends in Australian Poverty: 1972-73 to 1995-96

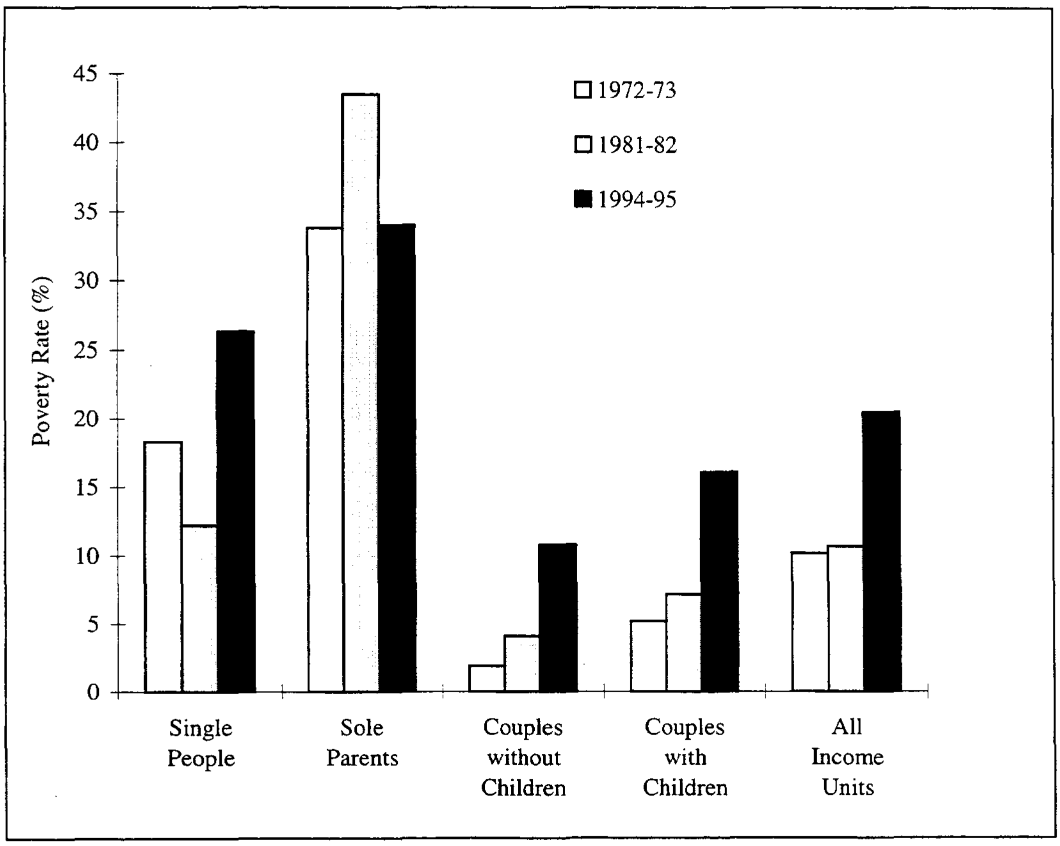


Figure 5 also shows that there are large differences in both the level and trend in poverty among different demographic groups. Most noticeable among these differences is the rapid growth in poverty among single people (particularly younger people) since 1980, the recent increase in poverty among couples (with and without children) and the sharp decline in poverty among sole parents in the 1990s. Some of these differences reflect labour market changes, specifically the rise in unemployment, while others are a consequence of policy changes (which, contrary to popular belief, are not always ineffective in the fight against poverty).

Estimates like those in Figure 5 have been criticised on the grounds that the Henderson poverty line is no longer relevant to contemporary Australian conditions. My own view, as explained elsewhere (Saunders, 1996b) is that while there is truth in some of these concerns, it would be unwise to abandon the Henderson poverty line until there is a better replacement. Many of those who are critical of the Henderson line would prefer to see both it and public discussion of the whole issue of poverty removed from the policy agenda.

Reflecting the concern over the Henderson poverty line, the recent ABS study also provides an estimate of the 1995-96 poverty rate based on the 'international low income benchmark' of one-half of median income (adjusted for needs). By a strange coincidence, the 1995-96 poverty rate derived from this measure is equal to 10.2 per cent, identical to the 1972-73 Henderson poverty rate shown in Figure 5. The lower estimate of the low-income population reflects the fact that one-half of median income for a couple with two children in 1995-96 ($353) was well below the corresponding Henderson poverty line of $496 (ABS, 1998: 125).

These figures thus indicate that the doubling of the poverty rate since 1972-73 partly reflects a rise in the poverty line. If the poverty line today were set some 30 per cent lower (the extent by which the Henderson poverty line exceeds the half median income measure), then there would be no increase in measured poverty since the Poverty Commission reported almost a quarter century ago.

Is the Henderson poverty line really that far out? I think not. Even though there is support for the view that updating the poverty line may have resulted in an upward bias in the poverty trend, the extent of that bias falls a long way short of the 30 per cent required to remove the upward poverty trend entirely. I conclude that poverty in Australia has risen since the 1970s, even if the magnitude of the increase may be somewhat less than is shown in Figure 5.

Returning to the theme of the affordability of the welfare state, two important lessons to emerge from past social policy experience are worth emphasising. The first is that the welfare state can promote economic change by reducing the risk of economic insecurity among the general population. Where there is a strong social safety net and programs that assist those who are required to suffer the adverse consequences of economic change - often simply because they were born at the wrong time or are living in the wrong place - the willingness to accept change will be greater. In this sense, the view that the welfare state is an obstacle to economic growth is flawed, although it does draw attention to the need for welfare policies to be in tune with the new economic and social realities.

Such optimism must be tempered by the second lesson of historical experience, which is that welfare programs can cause behavioural changes which may distort or even subvert their effectiveness. Although the bulk of the empirical evidence indicates that the behavioural responses to tax and transfer programs are generally not great, the evidence also suggests that such effects do exist and should be taken into account when designing social policies. Although the hard evidence of adverse labour supply effects has often been greatly exaggerated for ideological or political reasons, to deny the existence of such effects will lead ultimately to poorer programs and poorer outcomes.

Having said that, it is also important to emphasise that rather little is known about the nature or size of such effects in the Australian context. This is all the more surprising given that our social security system is widely recognised - and actively promoted - as being one of the most highly targeted among OECD nations. One might have thought that in designing the extremely complex social security system that we now have, much effort would have gone into identifying the extent and nature of any labour supply (and other) disincentive effects so as to minimise them.

Not so. Far from being experts in the field, Australian research on the *actual* disincentive effects of tax and social security (as distinct from the *potential* effects as reflected in the very complex calculations used to derive effective marginal tax rate schedules or poverty traps) is virtually non-existent. What little we do know mainly indicates how much more we need to know about this issue before it can be built into our tax and transfer policies.

A recent review of the literature on efficiency and incentive effects of taxes and transfers in Australia concluded with the following words:

> ... current policy directions in a wide range of areas appears to be motivated by an ideological commitment to market liberalism and an ethical preference for a greater degree of inequality. The approach draws on rationalisations concerning efficiency which, while purportedly drawn from economics, can be shown to be internally inconsistent and to

> generate results that conflict with the major findings of the most important developments in economics. (Apps, 1998: 100)

Such lessons are still falling on deaf ears. This is evidenced by the fact that currently both Government and Opposition are actively canvassing the need to lower the high effective tax rates on low- and middle-income earners (the 'battlers') that are a direct consequence of the tax and social security interactions resulting from the targeting policies that both have implemented over the last decade.

Incentive effects are important because they have the potential to add to the cost of welfare and can undermine its effectiveness. They are also sometimes very difficult to identify, particularly when they tempt people into the hidden or cash economy. But they are not inevitable, even where poverty traps exist. To be *encouraged* to reduce one's labour supply is one thing, to *actually* do so is quite another, particularly given the complexities and uncertainties surrounding the labour market and the employment prospects it offers. We know much more about what the system encourages in terms of behavioural response than we do about its actual effects, yet without the latter it is impossible to decide what to do about the former. The resulting vacuum again provides ample scope for uninformed or ideological views (or both!) to hold sway.

To summarise this section, the welfare state continues to grow despite claims that it is no longer affordable. Australia remains at the bottom of the international social expenditure league table and still spends much less on its social programs than most other OECD countries were spending two decades ago. The fact that Australia spends less than other countries does not, of course, mean that we are willing to pay the taxes needed to fund what we do spend. We may spend less than others but still more than we want to. However, the fact that other countries already spend a good deal more than Australia suggests that there is no *logical* reason why we cannot afford the costs of welfare and must therefore spend less.

Against this, the view that there are costs associated with welfare programs that may be indirect, largely hidden and often unintended deserves to receive more attention, and while there is little evidence about the extent of these costs in Australia, more study is needed to establish if they do exist and what should be done about them. Unless the affordability debate addresses these questions, the concern that disincentive effects may exist will continue to provide the basis for a liberal market agenda that threatens the longer term viability of the welfare state.

4 The Crisis of Legitimacy

The claim that the welfare state is in a crisis of legitimacy is related to the issues already discussed, as has been noted by writers such as Ploug (1995). The focus of much of this literature is more explicitly on the politics of welfare and how public opinion and interest group politics affect electoral support for welfare programs.

Newton (1998) describes the legitimacy crisis in the following terms:

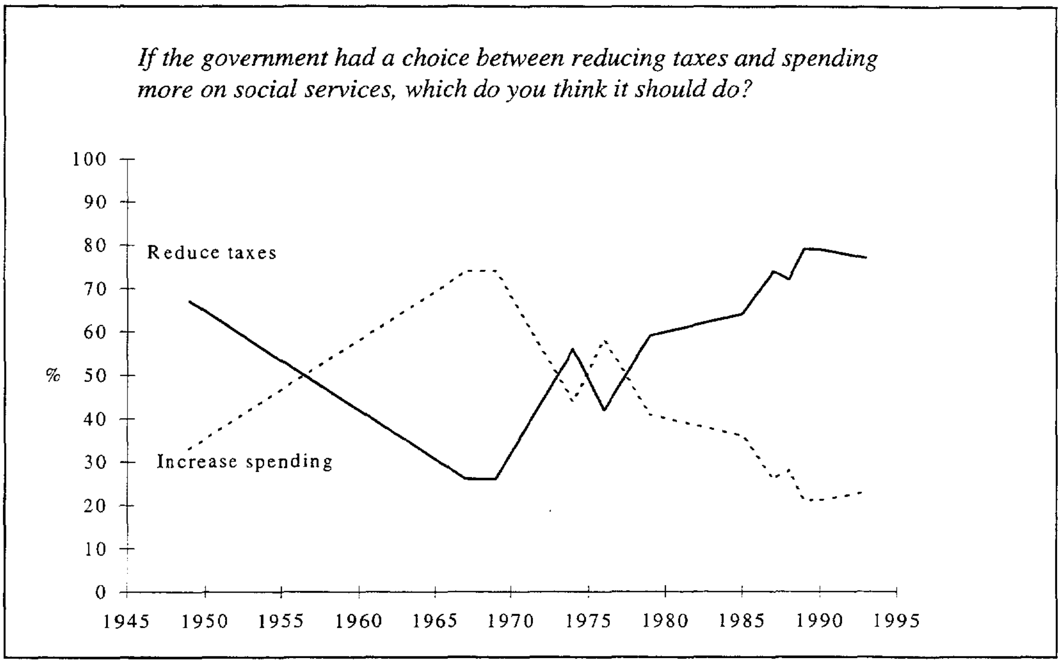
> There are different forms of legitimacy crisis theory but basically the argument is that the modern state is faced with contradictory demands. It must create the conditions for profitable business by investing heavily in infrastructure, while keeping taxes down. It must also legitimize itself and maintain the conditions of social order by providing welfare services. It cannot possibly meet these contradictory demands and so it increasingly alienates both its capitalists and its workers. As a result, public opinion turns against the state, and legitimacy crisis results. (Newton, 1998: 106)

One does not have to agree with the implied role of the state described in the opening sentences of this analysis to agree with the proposition in the final sentence that the electoral support for the state has been eroded and its legitimacy brought into question.

An obvious question to ask, therefore, is whether or not it is true that public opinion *has* turned against the welfare state. Evidence on this issue has generally been derived from public opinion surveys which seek to determine the degree of support for social programs by asking respondents whether they favour more or less welfare spending. The general trend is that the answers to such questions indicate a high level of support for many welfare state programs, although critics have pointed out that since respondents are not confronted with the fact that higher levels of spending must be paid for, these answers are close to useless. In response to this, some studies have attempted to link support for higher spending to the likelihood that taxes will also have to rise and assessed whether this affects the degree of expressed support.

Figure 6 (which is based on studies cited in Saunders, 1995) summarises the Australian public opinion evidence of the last fifty years. After a dramatic change leading up to the mid-1960s, the percentage favouring lower taxes has increased substantially since then, while support for higher spending on social

Figure 6: Public Opinion on Taxes and Spending on Social Services



services has declined. Although there is some short-run variability in the pattern of change (which may reflect variations in survey methodology and the range of response options provided to participants), the long-term trend is clear.

It is difficult to conclude other than that support for higher spending on social services (a rather unusual term in the Australian context) has experienced a long-term decline, while support for lower taxes has risen. For the last decade or so, support for lower taxes has outstripped support for higher spending by a factor of more than three to one. The best that can be claimed by proponents of social programs is that support for higher spending has remained steady since the mid-1980s and has shown a slight increase in the 1990s.

In a study commissioned by EPAC before it was absorbed into the Productivity Commission, economists Withers, Throsby and Johnston (1994) first gauged the overall degree of support for tax increases by asking whether people were prepared to pay higher taxes on the condition that everyone else would also have to pay the changes they nominated. They found that 58 per cent would be prepared to pay 'a little more', 23 per cent were prepared to pay 'whatever was required', while only 17 per cent were 'not willing to pay more'

Respondents were then asked how much they would be willing to pay for specific government programs, having first been informed how much they were actually paying in taxes for each and on the understanding that if their expressed willingness to pay was above their actual payments, their tax burden would have to rise. The results showed a willingness to pay slightly more for education, about the same for health care, slightly less for family assistance and considerably less for unemployment programs.

The results of a study of public opinion on tax and social spending conducted earlier this year also support the view that there is strong support for modest tax increases to fund higher levels of social expenditure. Just under 1000 people over 18 were asked whether they thought that increased spending accompanied by increasing income tax 'by one or two cents in the dollar' was desirable. The responses revealed that the percentage favouring such a change was 49 per cent (in the case of spending on education), 48 per cent (health and aged care), 42 per cent (families in need), 39 per cent (job training for the unemployed) and 37 per cent (the environment) (Baldry and Vinson, 1998).

Although subject to many qualifications, the public opinion evidence reviewed above does not provide strong support for all elements of the Australian welfare state. Neither does it suggest that there is a crisis. In practical terms, voters are rarely presented with the black and white options they are asked to choose between in public opinion surveys. The median voter theorem indicates that the policy platforms of the major political parties are likely to converge as each seeks to identify the electoral preferences (and support) of the median voter. In any case, actual elections are not generally fought over taxes and welfare spending alone and recent political events indicate a large and growing degree of mistrust of politicians and their promises - particularly as election day draws closer.

For all of these reasons, the relevance of public opinion evidence to the 'legitimacy crisis' issue may be only marginal. This does not mean that legitimacy itself is unimportant, only that it may need to be considered in other ways. Certainly, the politics of the welfare state has been an enormously significant factor in its development, despite the cynicism of economists.

The ways in which governments attempt to identify, publicise, negotiate and implement their welfare reforms have an important bearing on the eventual outcomes. As Esping-Andersen notes, there are important lessons to be learnt from comparing how different governments have attempted to re-draw the welfare contract in response to some of the changes described earlier. In particular, he notes that:

> A comparison of governments' policies over the past years reveals ... a very important pre-condition for reform. The average voter's 'veto' is more easily overcome where

> governments can negotiate a broad consensus with strong, nationally encompassing, interest organisations ... [In contrast, a] policy of imposition ... is more likely to trigger massive social unrest ... [T]he ability of countries to achieve positive sum solutions under conditions of acute conflict of interest is closely related to their institutional structure of political mediation. (Esping-Andersen, 1997: 75)

One can debate the relevance of these words to Australian experience over the last fifteen years, in particular to the contrasts between the Accord period and subsequent period of government 'for all Australians'. Although based primarily on OECD experience, the relevance of these comments to what is currently occurring in a number of Asian countries is all too obvious. What is most important is the emphasis this analysis gives not so much to the *nature* of policy reforms, but rather to how coalitions who support change are formed and how the reforms themselves are *negotiated* as they move from the realm of ideas through to legislation and implementation.

5 A Welfare State for the Future?

Most of the above discussion has emphasised the economic and social changes that are redefining the context of state welfare, reformulating the kinds of problems confronting the welfare state, and re-aligning the various interests that are played out in the politics of welfare. Can what many regard as the crowning achievement of 20th century democratic capitalism survive the forces set in train by these changes?

Is there a solution which can achieve a compromise between the forces of global competition and the priorities of national welfare. Or will our wages be set in Beijing today and our benefits in Beijing, or Bombay or Biafra tomorrow?

The welfare state emerged in an era when governance - the ability to govern - was seen as both desirable and achievable. Neither are so regarded today, at least not to the same extent. The welfare state also emerged in an environment of full employment and was based on the assumption that (male) full employment would continue. One of the paradoxes of the welfare state is that, by making it conditional upon the maintenance of full employment, its task was made both easier and less necessary.

However, the success of the postwar welfare state did not ultimately depend on the achievement of full employment. It also reflects the widespread community support for the goals of rights, equality and security and the consistency between these and broader economic and social trends. The parameters of these latter trends are changing radically and threaten the ways in which the goals of welfare are expressed and how the means of welfare are implemented. Will these changes serve to undermine the notion of a welfare state or can it adjust and thrive as a new historic compromise?

The relationship between the welfare state and the economy lies at the heart of this debate, as it has for much of the last half-century. With the demise of the 'male breadwinner' model of the family, new forms of welfare are needed. The rise of the dual-earner couple poses as many challenges for European social insurance as it does for Australasian social assistance. So too does the trend towards an increasingly fragmented labour market characterised by greater polarisation of earnings among workers, and of jobs among industries and regions. Whatever its limitations, the concept of social exclusion highlights the notion deprivation and disadvantage result from processes and has dynamic consequences which need to be better understood (Atkinson, 1997).

These developments raise formidable problems for the welfare state, particularly for the Australian version of a 'wage earners' welfare state' based on a combination of centralised wage determination with protectionism designed to achieve national egalitarianism whilst maintaining international competitiveness (Castles, 1985). Like other nations, Australia is having to evaluate how it can best balance the achievement of national goals within an internationally competitive global trading environment endorsed under GATT and policed by international agencies like the IMF and the World Bank.

These are difficult problems, but they are not insurmountable To summarise the discussion in the previous three sections, the pressures that are currently being exerted on the welfare state will require a policy response, but there is no reason why this should not be successful if handled correctly. In contrast, the trend towards increasing levels of long-term unemployment poses a major threat to the welfare state, as it represents the translation of short-term poverty and deprivation into entrenched exclusion, initially economic but eventually also social. Ensuring that this does not happen must involve state intervention. The fabric of western societies may not be able to withstand the social unrest that will emerge if it is left to market forces to solve the problems of long-term unemployment, exclusion and marginalisation.

But it also needs to be recognised that just as there are no 'quick fixes' to solving these problems, there are also no 'cheap options'. Nor are there any simple ones. Those who argue that all that is required is further deregulation of the labour market along US lines fail to understand how the labour market works and lack an appreciation of the reality of the US experience. Labour market deregulation, along with lower wages may be part of the solution but are not all that is required and may in any case be seen as too high a price to pay. Neither will do much alone to improve the job prospects of the long-term unemployed, and while both may have a positive impact on the number of jobs available, neither will guarantee that they will benefit the long-term unemployed.

What the long-term unemployed need, in the words of the UK Commission on Social Justice (1994) is a 'fair chance', which will require job-related training, assistance with job search, and intensive support strategies for re-integration into the labour market. Those who believe that this will not involve considerable cost - and patience - are deluding themselves. This is one reason why the OECD's endorsement of the need for 'fiscal consolidation' has ominous connotations for the long-term unemployed.

A second major threat to the future of the welfare state arises from the emphasis being given to choice and efficiency in the 'production of welfare' and to the idea that welfare programs should, as far as possible, be restructured so as to embody market values and the practices of private enterprise. It has now become the vogue to argue that, wherever possible, public sector activities should be privatised or contracted out to private (voluntary or commercial) agencies. Whereas the public sector grew in response to the need to correct for various forms of market failure, we have moved rapidly from posing the question 'can the private sector do better?' of all public sector activities to the claim that 'if the private sector *could* do it, then the private sector *should* do it'.

The goal of such moves is two-fold: from the demand side, the aim is to expand the range of choices available to the 'consumers' of welfare benefits so as to maintain the support of an increasingly-affluent middle class who want to exercise choice and at the same time to allow services to respond to the self-interested rational behaviour of users; from the supply side, the aim is to encourage competition between providers in responding to the expressed choices of consumers and thereby to promote efficiency in the delivery of services.

Such an outcome, it is argued, will not only serve to focus the design and delivery of services onto the needs of service users, thus promoting their rights and equity generally, but will also raise efficiency and produce resource gains (the elusive 'free lunch') - thus easing budgetary pressures. The outcome, has been described by Taylor-Gooby as a new public policy paradigm, the central feature of which:

> ... is a reliance on the market rather than planned and bureaucratically delivered provision ... [and in which] ... [t]he main change in the account of motivation is a shift from an approach that relies on assumptions about culture and behaviour to one that stresses the

> contribution of instrumental rationality and interprets rationality primarily in terms of the pursuit of self-interest. (Taylor-Gooby, 1998: 213)

There are undoubtedly some areas of the Australian welfare state where reforms motivated by this new paradigm may produce significant economic and social gains - albeit by moving towards a more highly regulated if less costly welfare state. But there are others where the theory on which they rest should be recognised as having limited practical relevance and others again where the practical difficulties are considerable. (The potential for applying such reforms in the area of Australian aged care are taken up in the paper by Jenny Chalmers in this volume.)

Overall, there is a need for caution before embarking too far down the path towards a privatised, contractual, competitive welfare state. This partly reflects the point alluded to by Powell and Hewitt (1998) in the British context, that the new policy paradigm reflects an attempt to shift the focus of the welfare state debate away from issues of principle towards technical matters of delivery and efficiency, as if there is now broad agreement on matters of principle (Powell and Hewitt, 1998: 9).

The potential for debates surrounding these allegedly 'technical' issues to be diverted to suit other agendas should not be forgotten. For example, much of the recent political debate over changes to family policy in Australia have been couched in terms of expanding the choices of women in particular, when in fact the options being canvassed affect *the terms on which particular choices can be exercised* (by providing incentives which favour one outcome over others) but have no real impact on *the actual range of choices available*. Choice itself is not being promoted, only a particular set of chosen outcomes.

Rather than explore these issues further, the issue to which I wanted to draw attention concerns the possibility that the more that welfare state programs are reformed so as to mirror normal commercial activity, the more the public support on which welfare state programs rely will erode as the boundaries between public and private spheres become increasingly blurred. Will public support for the pension system remain strong if part of the taxes that pay for it go into the profits of the finance companies or banks who have won the contract to 'deliver' the pensions to those who are eligible?

I do not know the answer to such questions, but think that it is important to ask them. As the split between purchasers and providers widens and the scope and influence of the new quasi-markets in welfare expand, who will be able to identify what it is that constitutes the public welfare sector to which we should mobilise our support? Although it is important for the welfare state to adapt to the new 'economic realities' (which are often a fiction created by those who wish to control the economic agenda), it is also important not to lose sight of the fact that one of the main goals of the welfare state is to offset the detrimental consequences of economic change by protecting the living standards of citizens subject to unemployment and other contingencies.

In short, although welfare programs need a degree of consistency with wider economic trends, there is also an important sense in which the success of the welfare state rests upon it being *independent* of such developments. If the mechanisms for the provision and delivery of the benefits of the welfare state become inextricably interwoven into the broader economic canvas, the ability of welfare programs to offer a 'safe haven' in turbulent economic times may be undermined to the point where their continued existence may be brought into question.

There may be some economic sense in treating the unemployed as the access point to public resources delivered according to their successful placement back into the labour market, but there is the risk that the needs of those in entrenched unemployment will miss out in the scrabble to place those with the best job prospects. The system of support for the unemployed must not be allowed to exacerbate divisions among the unemployed to the detriment of those already most disadvantaged. How can we prevent this happening in an increasingly privatised and competitive system?

We need a welfare state that is broadly consistent with economic trends, but one that is also independent of them. The postwar welfare state achieved this through its reliance on the assumption of full employment, as explained earlier. With the demise of full employment, new linkages between the economy and the welfare state are needed. The current directions for welfare state reform are taking us down a path that may result in a more efficient welfare state but one which, if it is unable to maintain political support, will become increasingly ineffective.

In short, the issue as I see it is not so much concerned with whether or not the welfare state can adjust to economic and social changes, but whether in doing so it will remain sustainable in the longer-term. The key issue is thus not whether there is future for the welfare state, but rather whether a welfare state designed for the future in response to a specific set of ideological values, a particular characterisation of 'crisis' and a reform agenda heavily dominated by fiscal considerations will prove as effective and sustainable as it has in the past.

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Localised Needs and a Globalised Economy: Can the Welfare State Bridge the Gap?

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1 Introduction

The theme of this paper is the tension between the global and the local, and what that means for social policy and for a future welfare state. The twin forces of globalisation and localisation are affecting the lives of people, and the meeting of human need, in significant ways which are as yet only partially understood. This paper aims to explore these two opposing trends, and some of their implications, with a view to seeing whether the two can be integrated into a new understanding of welfare and social policy which may better meet human needs in a new century.

2 Globalisation

The literature about globalisation is now substantial, and expanding at an apparently exponential rate. It would be impossible to survey this literature, and do it full justice, in a paper of this length, but there are a number of important points to be made about globalisation which will inform some of the later arguments, and which also serve to emphasise its complex and slippery nature. The word 'globalisation' has been used a great deal, often without clear explication, and there is by no means consensus on what it actually means.

One line of argument suggests that globalisation is in reality something of a myth, and that the claims made for a newly globalised economy and a globalised world are exaggerated (Hirst and Thompson, 1996). This approach suggests that it is still very much the same forces that are in control: a blend of national interest and international capital which has been more or less controlling global, regional and national economies for some considerable time. In this light, globalisation is not really new; there has been world trade and cross-national economic and political activity for centuries, and indeed the modern nation state is a much more recent arrival on the political scene than international economic activity.

The counter argument is that while there is nothing new about international economics, recent developments have been such that global economic activity is now qualitatively as well as quantitatively different. There are several factors which suggest that the current experience of globalisation is essentially new. One is the speed with which economic transactions can take place, resulting in the potential for instant flights of capital, and for money to move around the world in a matter of seconds. This has tipped the conflict between capital and labour very much in favour of capital, simply because it is able to move much more quickly than labour to take advantage of whatever economic opportunities may present themselves. The second factor is the sheer scale of global economic activity; once governments were effectively able to control and regulate world trade, but global economic forces are now such that, with the possible exception of the USA, no national economy or government is strong enough to resist the forces of global capital. The third factor is the inclusiveness of the global economic order; no longer is it a matter of some countries trading with each other while others do not. Isolationism is, effectively, no longer an option, and we are all part of the global economic system whether we like it or not. The fourth factor is the nature of economic activity; much of it is speculative, and the apparent wealth that is created is in reality little more than digitally recorded data stored in computers, far removed from the material basis of wealth creation and the reality of people's lives. A final distinguishing factor which needs to be mentioned at this point is the recognition of the finite nature of the earth and its resources; in previous eras, growth could continue unchallenged as a basic premise of economic and social progress, so much so that growth became equated with development, and remains so in the minds of many economists, journalists and politicians to this day. This is despite the overwhelming evidence and growing community realisation of the impossibility of continued growth, and of the negative social and environmental consequences of policies which assume that growth is both inevitable and desirable (Trainer, 1985; Ife, 1995).

For these reasons, the experience of economic globalisation is essentially different from previous experiences of international economic activity. We are entering a new world, where many of the former taken-for-granted assumptions about the role of the nation state no longer apply, and where the future viability of the nation state is called into question. Globalisation cannot be written off as the latest fashion which will pass; it is here to stay in some form, at least for the short term, and it will require new responses from all sections of the community, not least those concerned with social policy. The discourse of social policy has traditionally been a discourse based in the nation state. Even when social policy has been concerned with international issues, it has done so primarily from within the traditional comparative perspective, comparing the social policy regimes of different welfare states (Esping-Andersen, 1996). Social policy is, effectively, seen as something which must be understood at the level of the nation state, and while that has led to very important and informative research, it is inadequate in an increasingly globalised world. More recently social policy has taken its first tentative steps into a genuinely internationalist discourse, notably with Bob Deacon's 1997 book *Global Social Policy* (Deacon, 1997) though even Deacon's work has a particularly European, as opposed to a global, perspective.

Globalisation has been understood as primarily an economic concept, and the word has most commonly been used to refer to the apparent globalisation of economic activity. This is a significant departure from earlier forms of international activity and co-operation. The internationalist movement, which began towards the end of the 19th century, was concerned with other issues, many of which are central social policy concerns such as social justice, world peace, human rights, environmental protection, and so on. It was this spirit of internationalism which led to the establishment of the League of Nations, the United Nations, and a host of international non-government organisations (NGOs) such as the Red Cross, Amnesty International, Save the Children, Greenpeace, and many more. These organisations did not have a primarily economic focus, but saw economic development as needing to serve other goals, involving some vision of the common social needs of humanity. More recently, however, the internationalist agenda has become dominated by economic activity, and other aims have been subordinated to the goal of economic development, on the assumption that if the economy is healthy other benefits will follow. This, of course, is economic rationalist thinking, and we are seeing the same phenomenon internationally that has become so familiar domestically, with economic interests dominating and social or environmental goals taking second place. It is interesting to note that the language of internationalism, 'we live in one world' and 'the global village' has been appropriated by the disciples of international economic rationalism and is now used in support of the more narrow economic version of 'globalisation'.

This is not to say that the current experience of globalisation is only economic. Alongside economic globalisation we are also seeing the beginning of the globalisation of political and other structures to serve the needs of an international economy. Most obvious, however, is the globalisation of culture, which is seen in the reproduction of mass-produced quasi-American culture in the form of McDonalds, Levis, basketball, Coca-Cola, television sitcoms, and other cultural symbols, perhaps the most important being the English language. This cultural globalisation assists the smooth flow of global capital; the wheels of commerce will run more smoothly if everybody speaks the same language, eats the same food, drives the same cars, wears the same clothes, and generally shares common cultural understandings and consumer patterns. If one really wants to be part of the world economy, and to derive maximum benefit from it, it is necessary to eat, work, play, dress and behave more or less in the American way, and to speak English. Those who are unable or unwilling to do so risk marginalisation from the apparent benefits of economic development The impact of this trend on cultural diversity, with the associated assault on cultural traditions other than those of mainstream America, is a matter of considerable concern, though its further exploration is beyond the scope of this paper.

This cultural globalisation has been driven by economic forces, and does not negate the argument that globalisation has been constructed primarily as an economic concept. But even within the narrow economic understanding of globalisation there are differing views about what it involves, and about how the processes of globalisation are likely to proceed in the future.

The most simplistic view is that globalisation involves the development of a single world market, where nation states and cultural differences become irrelevant under the imposition of one all-encompassing economic system. Such an approach ignores the fact that national allegiances are still important, for example in the passions that can be aroused over national identity and sovereignty as evidenced in places such as East Timor, Tibet, Kurdistan, Bosnia, Northern Ireland and the Occupied Territories. In Australia too, the perceived threat to national sovereignty is frequently resisted, and this has been exploited by populist groups such as One Nation. The international opposition to the Multilateral Agreement on Investment (MAI), forcing the recent postponement of the negotiations, is evidence of the strength of community-level feeling against a globalisation which ignores issues of national sovereignty. The nation state may be in trouble, but it is far too much to suggest that the nation state is dead and that national allegiances no longer count. And while governments may have effectively ceded much of their economic sovereignty, they still have the capacity to affect the course of globalisation and to mitigate its worst effects. The single uniform world market, with no national boundaries, does not seem to be a likely scenario in the immediate future.

More likely is some form of integration of national economies into regional trading blocs, such as can be seen in the formation and strengthening of the European Union, NAFTA, ASEAN, and so on. This recognises geographical proximity and cultural heritage as important components of identity and of economic activity, and suggests that regional bodies will be important players as well as the global regulators such as the World Trade Organisation (WTO) and the International Monetary Fund (IMF). This, of course, is at the heart of Australian attempts to find more of an identity in Asia; to be left out of the newly emerging trading blocs could be bad economic news for a country such as Australia, though the events of 1997 and 1998 suggest that identification with a regional economy can just as easily drag a nation's economy down as set it on the road to new wealth and prosperity.

Regional integration, however, is not fully adequate as a picture of the emerging globalised world, as communications technology and transnational interactions are leading to a radically different set of structures, which Manuel Castells calls the 'network society' (Castells, 1996; 1997). This is a more post-modern formulation of globalisation, which involves loose networks of economic transactions which know no national boundaries, linking particular interests and groups in changing configurations of power. The effect of this, according to Castells, is radically to alter our understanding of space and time (Castells, 1998); these have traditionally been constructed on the basis of outdated structures and forms of communication. The network society links powerful interests across national and cultural boundaries, with effectively instant flows of information and resources, and in doing so makes redundant our conventional understandings of nation, society, economy and community.

The network society will have serious consequences for social policy. While advantaging those at the centre of the new information-based flows of power, it will also disadvantage those who are not part of that process. We are moving, according to Castells, to a world characterised by the contradiction between increasingly placeless power and increasingly powerless places (Castells, 1998). As the national economy becomes simply less relevant, parts of a nation become increasingly marginalised and excluded. And the decline in significance of national economies means that the nation state becomes less able to mitigate the worst effects of such marginalisation. This is in part because of the difficulty in taxing the network society; conventional forms of taxation leave the network society largely untouched, and national governments may face declining revenue with which to assist the victims of the new globalisation.

These victims will be those who are not needed in the new economic order. They include the so-called 'dependent' populations, and communities in the older industrial heartlands, marginal rural areas, and all groups who have relied on either the structures of industrial society or the welfare state. The network society can therefore lead to increasing social and economic inequality, exacerbated by the incapacity of a declining nation state to redress such trends. This pattern will extend across national boundaries, and social and economic inequality between nation states may be reduced while inequality within nation states will increase. The victims of these processes will not necessarily be exploited in the conventional Marxist sense; rather they will be simply excluded as irrelevant to the needs of the global network economy. It has been suggested that perhaps 80 per cent of the world's population will be in this category (Martin and Schumann, 1996).

In contemplating such a future, it is easy to resort to conspiracy theories, and such formulations are common among critics of the forces of globalisation and the power of trans-national capital. In reality the picture is more complex, as there are a number of different forces and organisations influencing the course of globalisation (see Deacon, 1997), and it is not necessarily being driven by a single group of interests. A simple listing of the international organisations involved shows this complexity: the World Trade Organisation, the OECD, the World Bank, the IMF, the United Nations (which itself has many agencies working to different agendas), regional groups such as the European Union, APEC and ASEAN, specific economic interest groups such as OPEC, and a large range of NGOs with a multiplicity of interests. While the current form of globalisation can be characterised as the realisation of economic rationalism on a global scale, it is not necessarily being imposed by a single group, and is highly contested. It is important not to underestimate the extent of global pluralism, as this opens up the possibility for action to influence the future direction of globalisation.

Globalisation, then, is a complex and contested phenomenon. It is clear that we live in a globalised world, but far from clear the form that globalisation will take. It is currently dominated by economic forces and imperatives, but the same criticism can be made of this as is commonly made of economic rationalism at the national or local level, namely that the market alone is not always the best mechanism for the equitable meeting of human need. Social conditions have to be taken into account as well as economic concerns, and social policy must be considered alongside economic policy if some form of civil society is to be developed and maintained, and if quality of life is to be enhanced and safeguarded according to fundamental assumptions about human rights. Hence it is important for social policy researchers and writers to be taking globalisation seriously, to be entering the debate strongly, and to be articulating forms of social policy which might be appropriate in the newly emerging globalised world.

3 Localism, Sub-politics and the Reinvention of the State

For social policy, the central problem posed by globalisation is that despite the increasingly global nature of the forces which shape people's lives, human needs remain essentially local and personal. Hence the gap between human problems and their causes is widening. Social policy, which is about providing mechanisms to resolve those human problems, can be thought of as caught in a dilemma about whether to provide services at the local human level by seeking to address the immediate problem of human need, or to seek change at a macro-level in order to deal with the structural causes of the problem. This traditional dilemma for social policy is reinforced by the impact of globalisation, which serves to exacerbate the gap between the two. The traditional role for the welfare state has been to link the personal and the structural, providing a bridge between C. Wright Mills' (1970) categories of private troubles and public issues. There is a serious question as to whether, in the age of globalisation, the welfare state can continue to do so. But before pursuing this question, having considered globalisation, it is necessary to examine the other side of the dialectic, namely the personal and the local, which reflects the reality of life for the vast majority of the population, and will inevitably continue to do so.

Alongside the process of globalisation, there is a countering tendency towards localisation, either as a deliberate strategy to counter globalisation and to provide a grounding for human experience, or as a simple reaction to a world which is apparently moving beyond the control of ordinary people.

There are several indications of such a trend. One is the increase in interest in communitarian solutions, particularly in the United States (Etzioni, 1993). Another is the insistence of Green political theory that ecologically sustainable answers to environmental and social problems lie with local action and community-based organisations (Ife, 1995; Porritt, 1984). A further indication is the continuing interest in community-based structures such as alternative currency schemes, self-help groups and local action campaigns (Ekins, 1992). A much more concerning trend, which also indicates localism, is the development of militia-style groups and extremist isolationist political parties as a reaction to globalisation and to people's apparent loss of control over life choices. These various localising tendencies are reinforced by the apparent longing for an experience of meaningful human community; it is important to note that despite the erosion of community which has been caused by 200 years of industrial capitalism, the idea of human community remains attractive and powerful, and is seen by many as the ideal basis for some form of culturally diverse and politically pluralist post-industrial society, in direct contrast to the perceived universalism and uniformity of the globalised world.

This has its intellectual counterpart in the rise of relativism and of postmodernism. Writers in this tradition have seen the world not as developing a monotonous uniformity as a consequence of globalisation, but rather as fragmenting with the collapse of over-arching structures and meta-narratives (Harvey, 1989; Kumar, 1995). This is more consistent with Castells' network society (Castells, 1996) than with other conceptions of globalisation, and is contradictory to the idea of the single global market controlled by the WTO and maintained by the IMF. In such a world, the local becomes prominent, and global, or even national, strategies and policies become inappropriate and counter-productive.

It should be noted that it is still an open question whether the decline of the nation state, as a consequence of globalisation, will lead to the creation of alternative social policies and programs driven internationally (for example through UN organisations or regional groupings), or whether it will simply leave vulnerable individuals, families and communities with fewer social and economic supports. The current emphasis on economic globalisation, largely to the exclusion of social and cultural factors, does not show much promise in this regard. The decline of the welfare state, forecast for many years, now appears to be a reality, particularly in the English-speaking countries. If the welfare state is to survive in a viable form for the meeting of human need it will have to be transformed and reinvented, and one must remain sceptical as to whether a strong welfare state is viable in the era of a weakened nation state.

In this light, the emphasis on the local as a possible site for the solution of social problems is hardly surprising. The feeling that the state can no longer provide, so people have to do it for themselves, is a frequent justification for a reliance on the market, despite the manifest problems of a market-based system for the equitable meeting of human need. But it is also a justification for a range of community-based initiatives, from local currency schemes and informal child care arrangements through to vigilante groups and local militias. In some instances, such initiatives are a result of deliberate programs of community development. In others, they represent more spontaneous reactions to the inability of the state and the dominant economic system to meet human needs adequately at a local level. They represent both some of the most promising, and some of the most concerning, developments in contemporary society.

Ulrich Beck, in his analysis of politics in the postmodern world, has discussed the importance of sub-politics, which is politics arising from the actions of individuals as they seek to make sense of the world in their own way, rather than through imposed and increasingly irrelevant macro-structures (Beck, 1997). Beck suggests, in an analysis which echoes the thoughts of earlier anarchist writers, that it is in the working out of such forms of sub-politics that new forms of power and process may emerge. Such a view does not see the decline of the welfare state as creating a vacuum, but rather as opening up the opportunity for other forms of action, and for the legitimising of a sub-politics of welfare. It is possible, therefore, to look towards a reinvention of welfare grounded much more in civil society than in formal government structures. Such a formulation echoes the concerns with citizenship, civil society and social capital, which have been of interest to social policy writers in recent years (Cox, 1995). It also resonates with the older idea of the 'welfare society', though contrary to Wilensky and Lebeaux's well-known claim that 'welfare state will become welfare society' (Wilensky and Lebeaux, 1965:147), it suggests that 'welfare society' may only emerge as a result of the decline and disintegration of the welfare state through a return to the local and through the working out of the sub-politics of welfare.

While such a perspective undoubtedly opens up the potential for significant progressive change, it also opens up some possibilities which many would view with considerable alarm. In many western nations racism has, at least to some degree, been held in check by strong government policies and welfare state programs. The decline of the state could remove one of the most significant checks on racism, and, as postmodernist relativism erodes the meta-narratives of human rights and social justice, racist scapegoating and xenophobia may well increase. Similar arguments can be made about gender and sexuality, and the modest gains which have been made in these areas could be quickly reversed in a society of localism and sub-politics. There can be no guarantee that social and economic inequalities would be reduced in such a society; indeed it may well be that they would be exacerbated.

4 Policy Challenges and Options

The welfare state, like all institutions of modern society, is facing contradictory forces: on the one hand towards globalisation, and on the other towards localisation, fragmentation and relativism. Each has its opportunities, and also its dangers. Globalisation holds out the promise of a genuine internationalism, where universal human rights are the basis for social and economic development and the formation of a new global community in which the dreams of the internationalists are at last realised. It also hold out the dangers of increased inequality, marginalisation, cultural uniformity, global environmental degradation, and ultimate disempowerment, as wealth and power are concentrated in the hands of a small global elite. In Castells' terms, it leads to increasingly placeless power, and increasingly powerless places (Castells, 1998). Localism, on the other hand, holds out the promise of empowered local communities, ecological sustainability, cultural diversity, structures which genuinely meet human needs and are able to be controlled by the people themselves, and enriched quality of life. It also promises the dangers of increased racism, sexism, prejudice, intolerance, and a denial of universal human rights and the meta-narratives of social justice.

The first challenge for policy is to address both these trends, seeking to maximise the benefits and limit the negative consequences. This requires policy initiatives directed at global change and also at local community development. At another level, however, a second challenge for social policy is more ambitious, namely to address the dialectic itself, by linking the global and the local; making collective sense of individual local actions, and linking global change to local experience and local programs.

The first of these challenges, to redirect policy concerns to the global and the local, suggests a number of strategies. One is to move beyond the conventional comparative approach of international social policy, to a concern with policy at regional and global levels. This involves seeking to increase social policy inputs into the deliberations of the global players, such as the IMF, the World Bank, the World Trade Organisation, and so on, and also contributing to and promoting the work of UN social policy agencies such as UNESCO, the ILO and UNICEF (Deacon, 1997). There is also potential to work with the NGO counterparts to these governmental organisations, and important sites for policy development and promotion are bodies such as Oxfam, Save the Children, Amnesty International, and so on. At regional level, there are a number of important policy options which might be pursued. For example, the regional groupings of relevance to Australia, such as APEC and ASEAN, do not concern themselves with social security and labour standards in the same way as the European Community. Advocacy of social policy objectives to be instituted alongside economic objectives seems a natural and obvious position for a nation such as Australia to take in its contribution to regional structures.

The debates around human rights illustrate this very clearly. Many of the same voices that are advocating free trade, the opening up of markets, our right to interfere in other people's economies and our willingness to welcome those who want to interfere in ours, take an opposing view when it comes to matters of human rights, urging caution, cultural sensitivity and a respect for national sovereignty. This contradiction should be of particular concern in the development of an appropriate social policy response to globalisation. At national level, the lesson of recent years is clearly that economic policy must be linked to social policy and that both should proceed together, with a sound foundation in human rights, and that economic policy divorced from social imperatives creates social division, inequality and social exclusion. It is now just as important, if not more so, to make the same argument at the international level, as the emerging structures of the newly globalising world are being driven largely by the imperatives of economic policy, and not by the imperatives of social policy.

Along with increased attention to the global aspects of social policy, an increasing emphasis on the local is a natural policy consequence of the argument thus far. This would require a more familiar range of policy strategies aimed at supporting community-based initiatives and community development programs. Such an approach will be required if there is to be a continuing decline in the resources available to the welfare state, which seems an inevitable consequence of the globalisation of the economy and the current direction of economic policy. An increased reliance on the resources of the local community, both monetary and non-monetary, is a potential way to deal with this decline in resourcing, and to redirect initiative for the meeting of human need to the local community level. There are well-documented problems with the community-based approach to service provision, including issues of territorial equity, gender, confidentiality, and so on (Ife, 1995). The community-based approach cannot be simply a case of central government withdrawing and letting something loosely called 'the community' take over. Rather it requires a deliberate strategy of community development accompanied by appropriate policies and programs to deal with the equity and access issues. If there is to be a move to the local as the site of structures and processes for the meeting of human need, it will be far better achieved if it is deliberately facilitated by government, rather than happening by default as governments become unable to provide the level of welfare state services to which people have become accustomed.

Such policy directions are relatively straightforward consequences of the two shifts to the global and the local. However, as indicated above, the more ambitious challenge for social policy is to address the global/local dialectic and find ways in which the two can be linked.

5 Linking the Global and the Local

One way in which the two can be linked is through a link between human rights and human needs. The universal social justice discourse has been largely couched in terms of human rights, including consideration of the implications of the Universal Declaration of Human Rights, adherence to human rights treaties and conventions, the linking of human rights concerns to the economic mechanisms of aid and trade, and so on. A concentration on internationalist social policy would most likely include ideas of universal human rights as a central feature. By contrast, the discourse of locally based social policy tends to be about needs: assessing the nature and extent of community need, identifying groups in need, working to have human needs met, and so on. The tension between the needs-based and the rights-based approaches to social policy has of course been significant for many years, and underlies many of the debates around contemporary social policy issues. However in the current climate the discourse of needs fits more comfortably with the local, and the discourse of rights is stronger in debates at the global level.

One way in which the local/global gap might be narrowed, then, is by a stronger conceptual linking of human rights and human needs, promoting a merging of the two discourses. This can be approached by noting that statements of need imply certain assumptions about rights, and that the meeting of need is the way in which human rights are realised: the *right* to shelter relates to meeting people's housing *needs*, for example. In this way, a strong link can readily be made between human rights, which can be regarded as universal, and human needs, which can be regarded as relative. Thus the universal right to shelter will translate into very different housing needs depending on culture, climate, geography, and so on. Similarly the universal right to education may be contextualised as very different needs in different situations; it may not necessarily equate to the need for a school building in some circumstances (e.g. very remote communities which can be served by distance education), though in other circumstances it clearly will.

A parallel approach is to work on the ways in which human needs might be universalised, and human rights might be located more locally, so that the dualism of rights as universal and needs as relative can be further broken down. In this regard the work of Doyal and Gough (1991) on a universal theory of human needs, and the work of Galtung (1994), among others, on the contextualisation of human rights, are particularly significant. Such work can lead to a reconstructing of the social policy discourse so that it more comfortably spans the global/local, universal/relative and rights/needs dichotomies.

At the more practical level, significant work has been done in regard to the reconstruction of globalisation, so that it does not reflect merely the imperatives of economic rationalism on a world scale, but rather also involves empowerment, participation and social development. This is represented in the powerful formulation of 'globalisation from below' by Brecher and Costello (1994), which seeks to define an international agenda involving the linking of community groups, disadvantaged communities and grass-roots action projects. The technology which has made possible 'globalisation from above', with its instant electronic transfer of information and funds, can also be used to establish globalisation from below, linking communities, action groups, neighbourhood associations and individual citizens in global networks (not unlike Castells' networks of power and finance) with a view to social development, and sharing in the struggle to meet human needs appropriately, effectively and efficiently. The move to a more *community-based* approach to the meeting of need can thus, at the same time, involve a move to a more *globalised* approach; it is simply a more postmodern form of globalisation, allowing for diversity and complexity, and indeed recognising that it is from such diversity and complexity that creative change can develop.

This links with the work that has been done on new social movements, and their capacity to generate significant change in a way that no longer seems to be possible for more conventional political parties (Jennett and Stewart, 1989; Pakulski, 1991). It is perhaps in the politics of social movements, aligned with Beck's sub-politics (Beck, 1997), rather than in the formal political and policy-making structures, that creative alternative politics will be established.

Such a view is also echoed by Vaclav Havel, in his discussion of 'anti-political politics', which is a perhaps less academic version of Beck's 'sub-politics'. Havel describes anti-political politics as:

> ... politics not as the technology of power and manipulation, of cybernetic rule over humans or as the art of the utilitarian, but politics as one of the ways of seeking and achieving meaningful lives, of protecting them and serving them. I favour politics as practical morality, as service to the truth, as essentially human and humanly measured care for our fellow humans. It is, I presume, an approach which, in this world, is extremely impractical and difficult to apply in daily life. Still, I know of no better alternative. (Havel, 1984: 269)

Havel also refers to his 'antipolitical politics' as politics 'from below', or 'the solidarity of the shaken', practised by:

> ... those who dared resist impersonal power and to confront it with the only thing at their disposal, their own humanity. Does not the perspective of a better future depend on something like

> an international community of the shaken which, ignoring state boundaries, political systems and power blocs, standing outside the high game of traditional politics, aspiring to no titles and appointments, will seek to make a real political force out of a phenomenon so ridiculed by the technicians of power - the phenomenon of human conscience? (Havel, 1984: 271)

Such a view of politics requires a significant reformulation of the conventional tenets of social policy, but there are signs that the enormous challenge that this presents is being taken up, at both the intellectual and the practical levels. Intellectually, this can be seen in the interest in postmodernist, poststructural accounts, and in the research of writers such as Bob Deacon (1997) and the theoretical work of others such as Ulrich Beck (1997). And at the practical level it can be seen in the actions of many community groups around the world which are turning away from the conventional economy and its associated welfare state structures, in the belief that these no longer meet their needs, and instead are trying to set up their own community-based alternatives (Ekins, 1992). It can also be seen in the implementation of globalisation from below strategies, as community groups increasingly make links and engage in effective action in a way that mirrors the emerging network society noted by Castells (1996, 1998).

If this is to be the future, existing structures for the delivery of social services will be found to be, for the most part, quite inadequate. However, this does not mean that the welfare state, in its traditional form, will cease to exist overnight. Just as previously dominant institutions for the meeting of human need, namely the family, the market and the Church, still have a residual role to play (and in the case of the market has made something of a comeback, despite its manifest inadequacies in the equitable meeting of need), so it is likely that the welfare state will remain in some residual form, though most likely in a more limited role.

The title of this paper was 'Localised needs and a globalised economy: can the welfare state bridge the gap?'. The answer is that the welfare state by itself, in its traditional form, almost certainly cannot do so. However it can act to facilitate the bridging of the gap, by directing its policies towards the global and the local, rather than trying to maintain and support structures at intermediate levels, which run the risk of increasing irrelevancy in the face of the counter forces of globalisation and localisation. And imaginative social policy can play a major role in the process, which has already begun, of shaping the sub-politics of welfare and promoting the effective linking of the global and the local.

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Who Pays for Aged Care? The Aged Care Debate

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1 Introduction

Signalling its intention to shift at least some of the responsibility of paying for aged care from general revenue taxation to the user the Howard Coalition Government, during its first term, introduced means-tested annual fees for those entering nursing homes as a source of capital funds.[2] Means testing was also introduced to weekly fees for both hostels and nursing homes and there was widespread introduction of user charges in Home and Community Care (HACC) services.

In a continuation of the trend towards de-institutionalisation commenced by the Labor Government in 1985, the Coalition Government also substituted funds towards HACC from institutional care.[3] Gibson (1998) explains that although de-institutionalisation is an international trend, Australia's policy of substitution from institutionalised care to de-institutionalised care does not seem to be in tune internationally. She argues that levels of provision of both seem to be complements rather than substitutes.

The Coalition Government also made changes to the mandatory minimum numbers of beds allocated to concessional residents in nursing homes and hostels. Concessional residents are generally those receiving a full aged pension. The Coalition Government has allowed nursing homes and hostels to be more flexible in meeting the mandatory requirements, allowing them the opportunity to allocate beds to those who can meet more of the cost with their own resources.

1 This paper is based largely on Fine and Chalmers (1998).

2 In terms of its fund raising capability this is a similar device to the accommodation bond paid on entry to a hostel.

3 As well as an increase in the availability of HACC there has been an increase in the intensity of provision which could be appropriately delivered at home. Within residential care there has been a substitution from nursing home to hostel beds. We have also seen the emergence of an interface between home and residential care in the form of respite care.

In effect the Government is shifting financial responsibility onto the individual, based on ability to pay. In turn it is allowing the individual user more choice within the system. While services and assistance continue to be targeted towards those most in need, in terms of physical or mental frailty, hostels and nursing homes have more flexibility in the proportion of their elderly residents who receive the maximum level of Government support allowing the opportunity for quality differences within the Government approved sector.

In 1998, the Commonwealth Government initiated a feasibility study to review the option of private insurance for aged care. In this instance it argued that Australians have sufficient wealth to pay for aged care as individuals and, since we are fussier than our parents about service standards, we are prepared to pay for choice. This suggests that the ideology surrounding aged care has shifted from government provision towards user pays.

The objective of this paper is to discuss whether the user pays paradigm is relevant to aged care and to consider some of the ways Australians might pay for aged care in the future.

2 Defining User Pays

The Martin Committee, in its report on banking and deregulation explained that

> The term 'user pays' refers to the general practice of charging customers in such a way that the prices they face reflect the costs of providing the goods or services. The philosophy of user pays is not an end in itself but is held to lead to desirable consequences. It avoids (often arbitrary) cross subsidies. It also increases economic efficiency as clients face appropriate price signals rather than being encouraged to over consume some apparently 'free' services and under consume others. (Martin, 1991, paragraph 7.1).

User pays pricing is, within mainstream economics, the precondition for an efficient economy because it relies on markets to link producers and consumers. According to Martin's explanation, increases in efficiency arise because the price of an item faced by the consumer reflects the cost of producing that item. The phrase 'user pays' is commonly heard in an environment of deregulation since the goal of deregulation is said to be market efficiency. A crucial part of deregulation in Australia, as in New Zealand and the United Kingdom, has been a movement away from universal provision of certain services financed by general government revenue towards user pays pricing designed to meet full cost recovery or higher profit targets which pay dividends to the government.

However reliance on markets is not necessarily equitable. As Richardson (1996) explains:

> There is no doubt that user pays can be a powerful mechanism for ensuring efficient delivery of services. But by definition it also means that only those who have the money can buy the service. A transfer from a mechanism by which a particular service has been allocated on different criteria to one in which it is allocated according to ability to pay is going to change the distribution of income, probably making it less equal. (Richardson, 1996: 17)

Because reliance on commercial markets is not necessarily efficient for all goods and services we consider in a later section whether the user pays approach is appropriate for aged care. We also discuss the financial pressures on government which may warrant an increasing reliance on users to pay for aged care.

3 Aged Care in Australia: What is it, Who Provides it, Who Pays for it and Who Uses it?

Aged care comprises residential and home-based care. In most countries there are two distinct forms of institutional provision: the nursing home (or high level residential care facility) which developed as a substitute for hospital care for those needing ongoing, round the clock nursing and medical care; and the home for the aged or 'hostel' (low level residential care facility), which primarily provides secure and sheltered accommodation and meals to those who, for reasons of social isolation, infirmity or poverty, are not able to remain in their own home. Residential care also, traditionally, had the function of providing a form of social housing to those who did not own or otherwise securely occupy a home of their own.

Australian aged care is provided by a combination of Commonwealth, State and local governments, the voluntary sector and private for-profit organisations all underpinned by the unpaid labour of family and friends. Nursing homes are predominantly privately run for-profit or privately run by not-for-profit religious and charitable organisations and include a small number of State Government facilities. Aged care hostels, operated predominantly by non-profit, generally religiously affiliated organisations, provide mainly a supported accommodation service, supplemented by personal and some nursing care for those requiring it.

and forms of providing care.[4] There is a substantial amount of legislation regarding the standard and type of care and the government controls the demand for aged care services by judging those who can use the services[5] (Law Reform Commission, 1994). Commonwealth funds are paid directly to nursing homes and hostels and indirectly through State Governments for HACC providers.

Individual users of aged care also make a direct financial contribution. The capital costs of hostels and nursing homes are met by residents and the Commonwealth Government. Hostel residents pay means-tested accommodation bonds on entry and nursing home residents pay a means-tested annual fee. The means-tested resident contribution to recurrent funding of nursing homes and hostels is set at a minimum 87.5 per cent of the aged pension. The Commonwealth Government contribution is the difference between the resident's contribution and a predetermined rate approximating recurrent costs. The system of reimbursement for nursing homes is Australia-wide. The level of the predetermined rate depends on the dependency level of the resident.

Those living in their own homes gain support from Home and Community Care (HACC) funded agencies and other similar services. Community services funded under HACC are funded jointly by the State and Commonwealth Governments[6] and are provided by a range of independent non-profit bodies, as well as by agencies approved by State and local government. Private for-profit services recently entered this sector, having been made eligible to receive funds under the HACC program. Most provision is undertaken by locally based, non-profit, voluntary organisations.

Until the reforms which the Howard Government attempted to introduce in 1996-97, the Commonwealth Government's involvement in aged care was based mainly on the use of non-market subsidies and regulatory control of provision through such mechanisms as residential care benchmarks and control over the gateways to admission to a hostel/nursing home (Duckett, 1997). State Governments also have an important part to play, through the licensing of nursing home provisions, the joint funding of HACC services with the Commonwealth, and through their administration of HACC services and other public health care services operated by or under the control of State Departments of Health.

4 The number of residential beds and the level of residential fees are controlled by the Commonwealth Government. The Commonwealth Government also pays a capital subsidy to approved hostels and nursing homes and covers some of the recurrent costs.

5 Aged care assessment teams determine an individual's eligibility to residential care but home-care assessment is less organised and clear-cut.

6 The level of Commonwealth funding is proportional to the State Government's level of provision.

and through their administration of HACC services and other public health care services operated by or under the control of State Departments of Health.

User charges, of course, are not new in Australia and already form a key component of the funding system for aged care. Payments amounting to approximately 25 per cent of the cost of services have been longstanding feature of the residential care system in Australia. Although poorly documented and less standardised, a comparable proportion of the costs of home and community care services are also paid directly by users. In nursing homes, what was called the Standard Resident Contribution was set at 87.5 per cent of the Age Pension. This contributed around 25 per cent of the total funding (DHHLGCS, 1993). For most residents this was met from the age pension, but an equivalent amount was required to be met from their own resources by those who were not full pensioners.

Aged care combines health care, personal care, accommodation and domestic support. All these services have private sector equivalents, but Commonwealth-funded aged care is provided as a conglomerate service. Commonwealth-funded service provision is heavily regulated and targeted to those most in need. If admitted to a service the individual user makes a financial contribution. The hostel and nursing home user has some choice whilst the choice of the HACC service user tends to be restricted to the services provided in his/her locale. Those with the financial resources can and do pay for private market services.

At any point in time only a relatively small proportion of Australians live in hostels and nursing homes. In 1996, six per cent of those aged over 75 lived in a hostel with another seven per cent living in nursing homes (AIHW, 1997). As shown in Table 1 the probability that an individual aged 65 will require permanent care in a hostel before she/he dies is 20 per cent. Similarly the individual has a one in three chance of needing permanent nursing home care. The probability of any person being admitted increases with age and the probability of admission for females is greater than for males at any age.

Since there is no published information on the number of times an individual might be a resident it is not possible to say precisely how much time in total an individual could expect to remain in residential care over his/her lifetime. However, we can say something about the length of time per admission. Table 2 shows the length of stay of nursing home admissions for 1995-96. One of the striking features of the data on the use of residential care facilities is the substantial proportion of nursing home residents with quite short lengths of stay. As might be expected, those admitted for respite care tended to stay for no more than three months. But even amongst those in permanent care, nearly 40 per cent of those in nursing homes were there for less than six months. In most instances

Table 1: Probability of Future Hostel and Nursing Home Use at Various Ages, by Type of Care and Sex: 1994-95

	Age						
Type of care by sex	65	70	75	80	85	90	95
Hostels							
Permanent care							
Males	0.12	0.14	0.17	0.22	0.31	0.39	0.38
Females	0.26	0.29	0.34	0.45	0.57	0.60	0.43
Persons	0.20	0.22	0.27	0.35	0.48	0.54	0.42
Permanent and respite care							
Males	0.17	0.19	0.22	0.27	0.36	0.44	0.41
Females	0.33	0.35	0.41	0.51	0.63	0.65	0.45
Persons	0.25	0.28	0.33	0.42	0.53	0.58	0.44
Nursing Homes							
Permanent care							
Males	0.25	0.28	0.32	0.39	0.48	0.56	0.60
Females	0.39	0.42	0.48	0.59	0.76	0.95	0.94
Persons	0.33	0.36	0.41	0.51	0.66	0.83	0.85
Permanent and respite care							
Males	0.27	0.30	0.34	0.40	0.49	0.57	0.61
Females	0.41	0.44	0.50	0.61	0.78	0.97	0.95
Persons	0.34	0.37	0.43	0.53	0.67	0.85	0.86

Source: AIHW, 1997, Table 8.10.

Table 2: Nursing Home Admissions by Length of Stay and Type of Care, Australia: 1995-96

	Nursing Homes	
Length of stay	Permanent Care	Respite Care
	Percentages	
less than 1 month	16.0	75.1
1-2 months	7.6	15.9
2-3 months	5.0	8.0
3-6 months	9.2	0.8
6 months +	62.1	0.1
Total (number)	32 962	11 282

Source: AIHW, 1997, Table 8.18.

the short stay was due to the death of the resident, but there is also evidence of significant numbers of residents returning home after a period of convalescence. In other cases residents transferred from one nursing home to another, whilst in some cases short stay was due to admission to hospital. The AIHW estimated the expected length of stay of permanent residents (i.e. excluding respite and other similar short term admissions) based on nursing home and hostel data for 1995-96. The median length of stay for permanent nursing home admissions was almost one year. But, as Table 3 shows, almost a third of nursing home residents stayed for less than three months, and around one in six (17 per cent) remained for less than a month. What emerges is a very different pattern of service utilisation between nursing homes and hostels. Requiring residents of hostels to pay for a place to live for two to four years is clearly quite different to requiring those admitted to nursing homes to pay for a bed in a facility in which they are to receive health care for an unpredictable but generally relatively short time prior to death.

Table 3: Cumulative Expected Length of Stay of Permanent Hostel and Nursing Home Residents: 1995-96

Length of stay	Hostels	Nursing Homes
	Percentages	
1 month	3.4	17.0
2 months	7.4	25.2
3 months	11.0	30.3
4 months	13.7	34.3
6 months	18.4	40.0
1 year	30.2	50.2
2 years	48.9	64.4
3 years	62.4	74.4
5 years	78.6	87.0

AIHW,1997: Table 8.19

4 Can We Continue to Fund Aged Care Through General Revenue Financing?

Although the field of aged care accounts for a much smaller proportion of Commonwealth Government expenditure than does income support for older people (see Table 4), it is nonetheless a significant item in the budgets of both Commonwealth and State Governments.

The ageing of the population has become a defining characteristic of all advanced countries and many developing ones in the late 20th century. As the historian Peter Laslett notes:

> Within the last hundred years, and to a considerable degree within the last fifty years, the populations of Europe, North America, Australasia and Japan have become far and away the oldest populations of which we have knowledge. (Laslett, 1995: 3)

Table 4: Commonwealth Expenditure on Age Pension and Age Care

Item	1995-96 (actual) $m	%	1997-98 (est) $m	1998-99 (Budget) $m	1990-00 (est) $m
Age Pensions and Allowances and Partner Allowance	12 441.0	79.8	13 617.8	14 413.4	14 993.3
Residential Care Subsidies: Low Care Needs (Previously Hostels)	527.8	3.4	694.1	722.5	757.6
Residential Care Subsidies: High Care Needs (Previously Nursing Homes)	2064.5	13.2	2238.0	2261.7	2309.6
Home and Community Based Provisions[(a)]	564.1	3.6	851.6	1018.1	1086.4
Total (A)	15 597.4	100.0	17 401.5	18 415.7	19 146.9
Total Commonwealth Outlays (B)	126 705.2	12.3[(b)]	136 613.4	141 570.3	146 565.9

Notes: a) Calculated by summing amounts for Home and Community Care and Community Aged Care Packages, Nursing Care for Veterans and Dependants and Home Nursing Service.
b) Aged pension and aged care (A) as a percentage of total Commonwealth outlays.

Source: Commonwealth Budget Statements 1996-97 and 1998-99, Budget Paper No. 1

What Laslett terms the 'demographic transition' has taken place at an 'amazing pace', but when considered in historical perspective, the rate of social and economic change involved is relatively predictable and graduated in policy and planning terms. Although the extent of demographic change in Australia has been less pronounced than in most other comparable countries, population ageing has been under way for most of the 20th century. It is projected to continue until the middle of the 21st century when as many as one in five Australians will be older than 65, the 'traditional' age of male retirement and of eligibility for the age pension (Saunders, 1996; Clare and Tulpule, 1994).

Australian governments have taken stock of the extent of existing and projected demographic change. A number of practical policy initiatives have been undertaken in recent years at both Commonwealth and State levels. By far the most ambitious has been the Commonwealth Government's extension of mandated private pension schemes with the introduction of the Superannuation Guarantee Levy in 1983. These measures were intended to reduce pressure on future public expenditure on the age pension by developing an alternative source of funding for retirement incomes based on compulsory, earnings-linked, retirement superannuation schemes for all employees (Piggott, 1997; Schulz, Borowski and Crown, 1991). In *Averting the Old Age Crisis*, the recent international review of the financing of old age related provisions undertaken by the World Bank, the range of measures introduced by the Australian Government was singled out as a model for its features of cost effectiveness and long-term financial viability (World Bank, 1994).

The *National Commission of Audit* (NCA), established by the Coalition Government shortly after its election in March 1996, recommended the introduction of measures in the field of aged care to increase funding by users, developing a more market-based approach to their utilisation and shifting responsibility for funding away from government.

As part of a wide-ranging but brief review of the management and financial activities of the Commonwealth Government, the NCA considered the costs associated with providing health care for an ageing population well into the next century. Setting out its 'working hypotheses' as a series of dot points, the Commission argued that:

- demographic change will increase pressure, overall, on Commonwealth finances.
- that pressure will come mainly through health and social security (mainly retirement income) programs and policies.
- attention therefore needs to be directed to what improvements can be made to such programs and policies. (NCA, 1996: 136-7).

Although it is not possible to fully criticise the report here, it is important to note that these 'working hypotheses' were not supported by factual evidence and were indeed hotly disputed by a number of international experts who reviewed the work (see, for example, ABC Radio National, 1996).

5 Can User Pays Apply to Aged Care?

For markets to operate efficiently, consumers need to be well-informed about the choices they make. Some services, like health care, are dominated by *informational asymmetry* between the consumer and producer. The patient needs the doctor's service because the doctor has knowledge which the patient lacks. If the patient knew enough to assess accurately the validity of the diagnosis and the proposed remedy the patient could self-medicate and the physician's services would not be necessary. Because the consumer of health care does not have the same level of knowledge as the seller, the 'market for health services' is quite different from that for most common goods or services.

In many day-to-day economic activities, such as shopping, the consumer makes a conscious decision, a choice, to make a purchase. In health care it is typically a service provider (the doctor or therapist) who decides the level of services the consumer is to use. Consumers are not able to assess issues such as adequacy, quality and effectiveness of medical care themselves, but are dependent on the advice of medical practitioners who are themselves suppliers of medical services. That is why health economists, such as Fuchs (1978), term much of the demand for health care 'supply induced demand'.

Many of these characteristics are also shared by aged care. In Australia, prior to the introduction of Aged Care Assessment Teams (ACATs) in the 1980s, for example, criticism was made of the fact that some doctors recommended that substantial numbers of older people be admitted to nursing homes which they, as medical practitioners, either owned outright or in which they had major financial interests (Senate Select Committee, 1985). Recognising the need under these circumstances for an independent assessment to be made of an individual's need for such care, ACATs were established and given sole power to determine the need of consumers for nursing home admission. The consumer of care is quite clearly not the only person who decides on care, or who can decide. Later the assessment process was extended to cover hostel care, and increasingly older people are turning to ACATs to advise on their need for other forms of ongoing care. This arrangement, while clearly an improvement over the previous practices, serves to emphasise how impractical it is to attempt to treat the use of aged care as a normal consumption item over which consumers can exercise choice.

For user payments to endow consumers of aged care with sovereignty, there would need to be a contract to provide goods and services established between the user and the seller. But this raises the question of who, precisely, is the consumer? It may be the service user, but equally, it may be argued that the real consumer is their family, community or government. If any of the latter were to be considered consumers, as would appear reasonable, questions are raised about the best way to enable the family, community or government to exercise their responsibility.

Is there, then, a clear relationship between seller and user in aged care? Dementia is a clear case where the person in need of care does not have the level of rationality required to meet the economic criteria of perfect information and informed choice. It is also problematic for someone who is socially isolated to have full knowledge of their alternatives. Indeed, it could be argued that the reason most individuals enter nursing homes is their inability to live as before. In an economic sense, this mean that they usually do not have the capacity to exercise anything resembling true consumer choice.

Nevertheless, arguments that user payments serve to grant people 'consumer sovereignty' are sometimes heard in the field of aged care. It is sometimes asserted that exercising choice, through having to pay for something (and thereby sacrificing the use of the money for something else) gives a certain legitimacy and status to a transaction, which in turn may empower the user. (The concept of empowerment of the consumer is not found in economic theory.) On the other hand, getting something for free, especially where people would in the normal course of events, be expected to pay for it, can be demeaning and carry with it something of the stigma of charity. Indeed this view is shared by at least some older people. In recent research undertaken with community care clients in New South Wales (Fine, 1992), small user charges on community services for older people were relatively readily accepted and their payment, or the withholding of payment, was regarded by the consumers as enabling them to express views about services they used. An important qualification placed by the consumers on the charges was that they needed to be kept 'fair' and remain within their capacity to pay.

Given the widespread promotion of market mechanisms as solutions to all sorts of issues, it is perhaps necessary to remind ourselves that market-based approaches are not acceptable or applicable in all cases in which transactions take place involving people. Slavery was made illegal long ago and legislation exists to prohibit the sale of human organs. In other instances, such as medical care, a complex system of regulation and subsidy has developed in an attempt to ensure access for all regardless of ability to pay. Tobin (1973) argues that:

> ... willingness to accept inequality is ... tempered by a persistent and durable strain of what I shall call *specific egalitarianism.* That is the view that certain ... commodities should be distributed less unequally than the ability to pay for them. (Tobin, 1973: 448)

6 How Can Users Contribute to Aged Care?

Firstly, can the elderly individual afford to pay for aged care when he/she needs to use it? Savage's (1998) analysis of the 1993-94 Household Expenditure Survey provides a cross-section view of the ability of the aged population to meet the costs of aged care in terms of level of income and sources of income. She shows that average weekly income after receipt of government cash transfers across all households was $723, of which $626 (or 87 per cent) was private income. In contrast she found that average weekly income for lone-person households aged over 65 was $213. Most of the income was derived from government direct transfers with only $65 coming from private sources. In couple households, those with the reference person aged at least 65 received an average gross weekly income of $390. Of this, 52 per cent came from government direct transfers.

As a point of comparison, the annual fee for nursing homes is currently set around $4000 and weekly fees are at least about $150 per week. It would be unfeasible to increase the financial responsibility of the individual user if the user only had recourse to their own income. The following brief survey of international experience in paying for aged care provides some insight into other ways of paying for aged care.

Throughout the OECD, government programs provide a large portion of funds for long-term care (LTC). At one end of the continuum the overwhelming majority of long-term care is directly financed by the public sector, for example in Sweden, Denmark, Finland, Norway and Austria. At the other end, in countries like the USA, United Kingdom and Germany, government involvement is limited to means-tested welfare programs.

Wiener (1994) identifies two major private sector initiatives available for individuals who pay for LTC: private insurance and loan mechanisms allowing people to tap home equity without having to sell the family home. These private financing initiatives are most prevalent in the USA. According to Wiener (1994), only three to four per cent of elderly Americans and even fewer younger people own private insurance for LTC and only a few thousand home equity loans for LTC purposes have ever been written.

Private Insurance

The Australian Government is currently considering the benefits of private LTC insurance. The private insurance market for LTC is most active in the USA. There is also activity in the United Kingdom, France, Israel, Germany and

Belgium. For those who use LTC, private insurance reduces the overall cost of that care. Of course those who do not ultimately need LTC are 'out of pocket'.

In the USA, private LTC insurance has been marketed by insurance companies for a number of years and deliberately encouraged in a number of States through the provision of financial incentives. Despite this, the take-up rate for such insurance has been low. Friedland (1997) suggests that while the market for private LTC insurance in the USA has expanded dramatically, 'it has not yet become a significant form of financing long-term care' insurance. He observes:

> Altogether it would be too generous to say that more than one per cent of the elderly had any form of long-term care insurance. The proportion of the non-elderly population with such protection is virtually nonexistent. (Friedland, 1997: 140)

A report by the OECD is somewhat more optimistic (OECD, 1996). Citing slightly different figures, it suggests that growth in the private LTC insurance market has been considerable in recent years. Part of this growth comes from the addition of care options to existing life insurance polices, but much comes from the increase in the number of companies marketing various LTC products. At the end of 1992, it is claimed, a total of 2.93 million policies were sold by 135 insurers. This represented 'an average annual increase in policies sold of 29.4 per cent for the years 1987-92' (OECD, 1996: 210, citing figures from Coronel, 1994). Most of this growth in policy holdings represents purchases by consumers of policies well in advance of expected use. The OECD notes, however, that despite this growth:

> Less than 1 per cent of current nursing home expenditures are being financed by private long-term care insurance. Even in the longer term, the global effects on payment for care will probably be fairly modest. Projection of current trends suggests that between 10 and 30 per cent of the elderly could have private long-term care insurance by the year 2020. If, at the top of the range of estimation, 30 per cent of the elderly have private long-term care insurance in 2020, then aggregate out-of-pocket expenditures for long-term care would be reduced by 6 per cent and Medicaid costs reduced by 3 per cent in comparison with likely funding patterns if no elderly people had purchased their own insurance. Those holding private insurance, however ... would be likely to reduce their anticipated out-of-pocket costs for nursing home care by about half. (OECD, 1996: 210)

Private LTC insurance is predicted to have such a small impact on public expenditures because policy holders tend to be individuals who would not qualify for public assistance.

According to Wiener (1994), Japan had the fastest expanding market in private long-term care insurance after that of the United States in the early 1990s. A problem for policy holders, however, was the shortage of services available to buy with the benefits. Furthermore, despite the growth in the market, only a small proportion of older Japanese were actually covered by valid insurance, with many of the 1.5 million policy holders being too young to receive benefits.

Glennerster (1996) and Wiener (1994) suggest the following reasons for the perceived lack of popularity of private LTC insurance.

On the part of the insurer, the total cost is unpredictable since the insurer has no claims experience and there is a large amount of time between the date of purchase and use. There are unforeseen changes in the disability or mortality rates and utilisation patterns; inflation in nursing home and home care costs can dramatically change a profitable policy into a highly unprofitable one.

Demand tends to be limited by *myopia.* Younger people seem to be relatively ignorant of the personal risk of frailty or disability in later life. While often prepared to contribute to retirement savings schemes, younger people seem reluctant to insure for the risk of needing LTC, especially as they will not need care for thirty or forty years from the time of the initial payments. Those LTC policies which are sold in the USA are taken out almost exclusively by those nearing retirement age. Bolivier (1991: cited in Wiener, 1994) reports the finding from a UK public opinion survey in the UK that only five per cent of people saw the need to individually provide for nursing home fees as a major priority.[7]

Demand may also be limited by *ignorance.* Most people have little idea of what is involved in providing high quality care for older people. Further, costs change over time with developments in health care and treatment regimes, so that even the most well-informed will be unsure about future costs. Because the time between contributions and pay out can be very long, there is also considerable uncertainty about what will be covered by the policy when LTC may be needed.

Glennerster (1996) argues that *differential risk ratings,* for example gender related risk ratings, can be another barrier to LTC insurance. Given women's greater longevity and disproportionate need for ongoing care, private insurers

7 Individuals may be reluctant to insure against needing aged care partly because of their confidence that government support will continue.

income is typically lower than men's income. Glennerster rather optimistically observes that as women's incomes increase relative to men's, this barrier to demand may be reduced.

Another problem associated with private insurance is *adverse selection.* Those most likely to take out insurance are those with the poorest health and highest potential cost profiles. If insurance companies are not able to charge differentially the 'common to all' premium must rise. Hence relatively low-risk individuals are driven out of the market. To alleviate adverse selection problem pre-existing conditions and ailments are often excluded from coverage or attract a higher premium.

Another important reason is moral hazard. Wiener (1994) interprets Doty's (1988, cited in Wiener, 1994) observation that LTC utilisation rates vary dramatically across OECD countries, to mean that social, not strictly medical, considerations are the key determinants of long-term care usage. Hence the fear that as the price of LTC drops with insurance people will be encouraged to use more long-term care than they otherwise would.

Care provided informally by families and others exceeds the contribution of formal care in all countries, including the USA. There is a natural fear amongst insurers that the entitlements of contributors could lead to the removal of familial obligations to care.

Social LTC Insurance Scheme

National LTC Schemes (often termed social insurance) appear to have a number of advantages over private schemes.

First, such schemes are universal so adverse selection is not a problem. Each citizen is required to join the scheme and contribute (if able to), just as each citizen is entitled to benefits if they need care. Second, membership of such schemes is not limited to those with the financial ability to buy insurance. Because contributions are means tested and proportional to income, those with the lowest incomes pay either nothing or a very small amount of their income. Contributions can increase with income, so that the contributions of those on higher incomes effectively help extend cover to all groups. Third, Osberg (1995) argues that such a system also makes it possible to contain the costs of provision since there is a single insurer rather than multiple, competing insurers. Fourth, there appears to be a political legitimacy and acceptance of national insurance schemes in those countries in which they exist that makes them popular amongst voters. This phenomenon appears to be similar to the effect that Australian politicians of both major parties have discovered with the Medicare scheme.

Yet the following brief review of international experience with social LTC insurance reveals a number of difficulties associated with dedicated national insurance programs.

National long-term care insurance was first introduced in the Netherlands in 1968. It covered all long-stay care, including nursing homes, psychiatric hospitals and home care general, and was not restricted to aged care. Initially it operated with a premium of one per cent of earnings, but this quickly increased to cover rising costs. The increased costs came from expansions in the program (partly the result of population ageing) and through cost-shifting from the general health funds, as creative ways were sought to transfer costs from the acute health system to long-term care facilities. By the 1990s premiums had increased to over four per cent of earnings. To limit the premium increase there had been a reduction in the available services. In a major reform aimed at increasing administrative efficiencies and removing opportunities for cost-shifting, LTC insurance was combined with the general health insurance (Timmermans, 1992). In 1998, premiums for health and LTC cover for each employee were set at 8.85 per cent of gross earnings (Second Chamber, 1990-91; Tweede Kamer, 1997-98: 104). These contributions provide cover for all Dutch citizens.

More recently, a number of other countries have also introduced various forms of national LTC Insurance. Israel implemented the Community Long Term Care Insurance Law (CLTCI) in 1988, which was deliberately intended to finance community care but not care provided in residential institutions. Premiums for the insurance were set at 0.2 per cent of wages. It has always been necessary for the government to supplement the scheme with general revenue funds (Morginstin, Baich-Moray and Zipkin, 1992; Naon, 1996). Germany also introduced a form of Long-Term Care Insurance in the 1994. Contributions were set at one per cent of salary in 1995, rising to 1.7 per cent of salary in mid-1996, with employers and employees each paying half. Benefits are paid from long-term care insurance funds held by the health insurance schemes (OECD, 1996). To ensure that benefits do not exceed contributions, eligibility conditions are strict and total payments limited.

The German, Israeli and the revised Dutch systems share a number of common features. First is the emphasis on care in the home. Second is the intention to limit entitlements. Third, the systems allow the insured person to receive a cash allowance instead of the eligible service. In both Germany and Israel, cash allowances, paid out at a lower rate than the equivalent level of services, have proven popular to carers as a form of income and to consumers as a means to purchase services (Naon, 1996; Alber, 1996; Eisen, 1997). One reason for accepting cash appears to be that it is difficult in many areas to obtain specialised services. This may also be a short-term effect as new services are developed to meet the increased demand for support at home.

After a period of promoting private sector provision and user charges to reduce the burden on public health and social services, social LTC insurance is to be introduced in Japan (OECD, 1996). The main aim of the Long Term Care Insurance Bill, which is to be enforced from 2000, is to finance the expansion of aged care services necessary to support Japan's ageing population. It is also being introduced to relieve current pressures on resources in Japan's hospital system, in which it is common to find up to half the beds occupied by older people who remain in hospital for over a year due to lack of alternative facilities (Nishimura, 1997, 1998; OECD, 1996). A particularly interesting feature of the LTC social insurance scheme is that it appears to enjoy enormous popularity, both amongst the younger population, who do not have to pay contributions, and amongst those over 40, who are required to contribute. Amongst this older age group, it need not be assumed that altruism and community spirit are the only incentives for supporting a compulsory levy on all income. The prospect of receiving either a direct benefit as a consumer, or an indirect benefit, as the child or sibling of a consumer or family caregiver, also appears to be a quite powerful incentive.

National long-term care insurance represents an important funding mechanism for LTC in a number of countries. It represents a form of user payment which spreads the costs of contributions among a large pool of potential beneficiaries over a period of many years. To maintain a direct link between contributions paid and benefits received, it is necessary to either increase premiums as occurred in the Netherlands over a number of years, to restrict the benefits available, the approach followed in Germany, or to supplement premiums with general revenue, as has occurred in Israel. The most viable approach may be to use some elements of each of these approaches. Because a discrete program of LTC insurance also creates incentives to shift costs from the acute health system, it is also necessary for clear program boundaries to be established. An argument can also be made for the insurance to be provided though the same funding mechanism as the general health care system.

In the end result this system is very similar to a hypothecated tax system.

7 Conclusion

To provide a secure system of ongoing care to future populations of older Australians it is important to ensure that funding is adequate and viable over the longer term. A range of different approaches to more closely link the individual user of aged care with the individual payer has been recommended for Australia.

These include a social insurance scheme linked to superannuation contributions (DHHCS, 1991; DHHLGCS, 1993), long-term care insurance intended for people with disabilities of all ages (Walsh and de Ravin, 1995), and other proposals for developing a social LTC insurance program (McCallum and Geiselhart, 1997). Another proposal canvassed at a recent conference organised by the New South Wales Ageing and Disability Department involved the use of housing equity to fund care. This approach was reported to have not worked overseas and to be problematic in the Australian context. There are also some who advocate the direct use of superannuation funds (ADD, 1997). Although it is clear that detailed analysis of a range of different funding schemes would be necessary were the Australian people to seek to change the basis of funding for aged care, this paper is not the place for a comparative evaluation.

Whilst user contributions have been, and are likely to continue to be an important pillar of funding, user pays has at best only a limited role to play in the funding of aged care. As the long history of intervention in the market by charities and by governments has shown, market models of finance have not worked well in the field of aged care. Many of the reasons for the emergence and enduring need for such intervention in the market are relatively simple. By virtue of their age and their health, those in need of care are unable to earn income through work and are unable to pay for their own care through their limited income resources. The large amounts of money that could be involved if ongoing care is required, particularly in the case of nursing home care, is also likely to exceed the capacity to pay of those with even modest savings.

Glennerster (1996) argues that it is important to keep in mind four basic objectives when developing a secure system of financing for aged care.

1. Give security to people reaching retirement through the knowledge that they will not face catastrophic costs or be a stressful burden on their family;

2. Ensure that the care received will be an agreed and integrated pattern of services and family support, and not dominated by a set of perverse institutional and financial incentives;

3. Ensure that claims on public and private budgets are sustainable; and

4. Encourage individual savings. (Glennerster, 1996: 18-19)

He further proposes that:

> The perverse results of trying to provide universal health care alongside selective, public assistance based systems of long term care are becoming unsustainable. There is no clear distinction to be made between the two. Long term care and health care for the aged have to be financed from the same pot and as part of the same system ... Housing or the costs of residence need to be treated in a comparable way across the board. (Glennerster, 1996: 19)

These principles are not compatible with a system based on user charges imposed at the point of consumption. A system based for a large part on market principles, as the American evidence has shown, is likely to operate as a segmented system of care. A small proportion of better-off users have access to care by virtue of their continuing high income in old age, or though private insurance cover. Others must sacrifice all their life savings to gain access to the support they require. In such systems, however, a substantial public assistance program is still required, both to pay for those without sufficient resources in any form, and to pay for the costs of those who have used their assets but continue to require care.

Glennerster's four principles could be readily adopted in Australia. A system of LTC social insurance, possibly modelled along the lines of the Superannuation Guarantee Levy (SGL), could be linked in with the existing Medicare insurance program. Such a program could be funded though general taxation revenue collections or contributory funding. To ensure that aged and extended care become clearly user-funded programs, it may be desirable for a savings component to be introduced, making it comparable in many ways to the SGL, as recommended in the Mid-Term Review of Aged Care (DHHCS, 1991; DHHLGCS, 1993). Drawing on the experience in Japan, an option for the funding of such a scheme could be to increase premiums for those aged 40 or 45 and above whose incomes, after costs of children, exceed a certain threshold. The aim of such a system of financing would be to enable those who needed health care to receive it for the same cost in any setting (home, hospital or residential facility), whilst still being responsible for the payment of their costs of accommodation, food and other aspects of material support.

Despite attempts to require users to increase contributions, recent experience suggests that it is not possible to generate additional funding of this order of magnitude simply from additional charges levied on users at the point of entry to nursing home care. Rather than selectively imposing charges only on those who need nursing home care, one alternative worthy of canvassing may be death duties, earmarked to cover the costs of LTC. Although this may not appear to be an option that is politically favoured, in the short term, the high level of home from users would appear to be increased means-tested charges, further increases in general taxation, or the development of a system of social insurance, along the lines discussed above.

In the final analysis, households and families fund any aged care services provided, whether this is through direct payments from users, through general taxation revenue, through insurance or other savings and risk spreading mechanisms, or through any combination of these approaches. It could be argued that because of its administrative simplicity and capacity for exerting cost control pressures, it would be useful to consider further the implementation of a national LTC insurance scheme. To promote the integration of service delivery and prevent problems of cost-shifting it would be valuable to consider the extent to which it is possible to tie the administration of such a scheme to the existing system of national health insurance, Medicare. Contributory funding, however, would need to be along lines that would encourage savings over a person's lifetime. Such an approach offers considerable potential long-term advantages, enabling the development of a more integrated, and therefore potentially efficient system of care to develop.

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Low Pay and Poverty: The Challenge for Social Policy

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1 Introduction

What has been happening to wages and the distribution of earnings among households in Australia? Are more people receiving low pay and if so who are they? To what extent does individual low pay equate to poverty amongst households? If working poverty is growing significantly, what should be the policy responses? These are questions which are looming large on the social and economic policy agenda in Australia, and the answers will arguably tell us something important about the kind of society Australia is becoming.

There have always been people with low earnings in Australia, but the structure of the postwar 'wage earners' welfare state', with centralised wage fixing and help for lower paid workers through awards by the Industrial Relations Commission, has to a large extent protected families with a wage earner from poverty. Thus, in the early 1970s, the Poverty Enquiry estimated that less than two per cent of families with a working age adult in full-time employment could be described as poor (Burbidge, 1981). Poverty therefore has mainly been seen as an issue for people unable for some reason to get access to market earnings.

Many would argue that this situation no longer holds. There is increasing talk of a problem of 'working poverty' in Australia, arising from changes in the structure of employment and growing inequality in the distribution of wages. If this is the case, it presents a distinct challenge for social and economic policy in Australia. Working poverty has long been a serious social problem in the USA (Bane and Ellwood, 1989; O'Connor and Smeeding, 1993) and to a lesser extent in the UK (Webb, Kemp and Millar, 1996), and it is a problem for which there are no simple policy answers once it becomes established. There are indications that the political fallout from such a development in Australia could be substantial. Commentary on the success of One Nation in the Queensland State elections has suggested that a significant element of the party's support derives from the

1 I am grateful to George Matheson for analysis of the Surveys of Income and Housing Costs unit record files used in this paper.

anxieties of people who feel themselves permanently on the margins of poverty in spite of their paid labour.

A number of recent developments have kept working poverty on the public agenda. The ACTU's Living Wage Case, for example, has expressly attempted to link the question of low pay with that of household poverty and deprivation (Buchanan and Watson, 1997; Harcourt, 1997). There has also been evidence from grassroots agencies such as the Brotherhood of St Laurence about the increasing difficulties faced by low-income people with whom they have direct contact (see, for example, Taylor and Challen, 1998).

It is frequently argued by business and some economists that wages at the lower end need to fall further in order to stimulate employment and protect against further job losses. One approach has been to argue that the welfare needs of the low paid in a time of high unemployment are best met through the tax and social security system rather than by increases in minimum wages. Thus there have been calls for some form of negative income tax to protect low-paid families against the impact of (beneficially) falling wages (Dawkins, 1997). One problem with means-tested support for the low paid is that it tends to create poverty traps, and more radical proposals involve the full-scale abolition of most social security payments and replacement with rebates and credits through the tax system (Sullivan, 1998). The Labor Party has also proposed an earned income tax credit along US (and now UK) lines, as part of its alternative to the Coalition's GST plans, to deal in a targeted way with the problem of poverty traps for low to middle earners, but their proposal does not involve major changes to the existing system of family payments.

The social security system already plays a major role in guaranteeing the living standards of a large number of low-wage earners with children, mainly through the higher rate of what has recently been re-named Family Allowance. The proportion of families receiving this form of payment has increased rapidly since the mid-1980s (although since 1993 the rise has levelled off for a number of reasons), and some commentators assume that these families are by definition 'working poor' (e.g. Birrell, Maher and Rapson, 1997).

I have argued elsewhere (Eardley, 1997) that getting a means-tested supplement does not automatically make the recipient poor, especially when one of the main reasons for the existence of the payment is to alleviate poverty. Much of the growth in the clientele for these payments has resulted from expansion in their scope and generosity. Nevertheless, these payments do mainly go to people with incomes well below the average and their increasing significance has to be partly a response to a greater concentration of lower earnings amongst these families. Although taxes and transfers have played an important role in mitigating the effects of primary wage dispersion for low-income families, increasing reliance on family income supplements can bring its own problems.

This paper is part of an ongoing project of the Social Policy Research Centre charting the growth of working poverty in Australia and other industrialised countries[2]. It addresses the questions outlined above, using an analysis of trends in low pay and poverty from the early 1980s up to the mid-1990s based on the ABS Surveys of Income and Housing Costs (SIHC). It also updates and extends earlier work presented in a paper to the 1997 National Social Policy Conference (Eardley, 1997). Survey data can only tell part of the story - we also need more qualitative information on the experiences of people surviving on low wages - but they do help us to get a clearer idea of whether there really is a new phenomenon of working poverty developing in Australia and if so what form it is taking.

Before presenting my own analysis, I start by summarising other evidence on what has been happening to wages and the disposable income of families in recent years. The paper concludes with a brief discussion of policy responses in the light of the empirical evidence presented.

2 Background

As was stated earlier, poverty amongst families with a member in full-time work was rare in the early 1970s. Since then, however, a number of significant changes have taken place both in the structure of the labour market and the distribution of earnings. First, women's participation in paid work has grown substantially. In 1970, their participation rate was around 40 per cent overall and 35 per cent for married women (ABS, 1986). About 73 per cent of all women in paid work had full-time jobs, dropping to 64 per cent for married women. Eighty three per cent of men were in the work force and 97 per cent of those with jobs worked full time. Currently, just under 54 per cent of all women are in the work force and the rate for married women is slightly higher, at 55 per cent (ABS, 1998). (There are some recent signs of a fall in participation by women with children, which has been attributed to changes in child care provision and assistance, though it is too early to tell how significant this is).

However, much of the increase has come in part-time work, so that only about 57 per cent of all women workers and 54 per cent of all married women are now in full-time jobs. Meanwhile men's participation has dropped to 73 per cent and their rate of full-time employment to 88 per cent. There is still only a small minority of men working part time, but the proportionate increase in the rate of part-time employment has in fact been greater for men than for women over the

2 Working But Poor: A Comparative Study of Low Incomes in Work.

last decade. The effect of these changes on household earnings distributions is complex, but it seems clear that there has been a degree of polarisation, through an increase in both dual-earner families and in families with only a part-time earner (or no earner at all).

Secondly, the dispersion of primary earnings has been increasing. One of the effects of the Government/ACTU Accord in the 1980s was a fall in real wages at the lower end and a widening of the gap between low and high incomes (Borland, 1996). Since then the shift towards enterprise bargaining and individual agreements have seen the wage distribution widen further. March 1998 figures on enterprise agreements show that since 1993, people in the top quartile of pay outcomes under the current agreement have received increases of at least five per cent annually, whereas those in the bottom quarter have only received two to three per cent per annum (Department of Workplace Relations, 1998). The lowest paid, of course, mostly do not have access to enterprise agreements but rely on minimum Federal or State awards. Data from the Melbourne Institute of Applied Economic Affairs show that during the 1970s minimum award wages moved in line with the 'benchmark' Henderson poverty line for a family of four, but that since 1980 they have fallen below this line (cited in ACOSS, 1997). Greater inequality in wages has also been caused by shifts in the type of work available. Job growth has been concentrated in lower paid sectors such as private sector services.

Primary earnings of individuals, of course, are not the only determinant of the disposable income of families or households. This is affected not only by family composition and the number of earners, but also by the impact of taxes and social security benefits. Part of the trade-off negotiated by the ACTU under the Accord in return for wage moderation was an increase in the level of social wage. Substantial increases in social security benefits in the late 1980s were targeted particularly on families with children, because of a recognition that child poverty had been on the increase since the early 1970s (Saunders and Whiteford, 1987), and family payments have continued to expand both in scope and value in the early 1990s (Eardley, 1997).

While the changes in taxes and benefits between the beginning of the 1980s and the mid-1990s had the net result of maintaining lower paid working families' disposable incomes in real terms, they had less impact in moderating the effect of increases in market earnings achieved by higher paid families (Landt and Beer, 1998). Thus inequalities in net family incomes have also widened. As a consequence it has been estimated that by 1989-90, five per cent of families with incomes below the Henderson poverty line had a member in full-time work (Saunders, 1994).

The evidence does, therefore, point to a continuing increase in working poverty, linked to these changes in the distribution of earnings and the composition of the work force. As a first step in trying to untangle the relationship between low pay and poverty since the early 1980s, I now move on to examine the trends in individual low pay.

3 Trends in Low Pay

Definitions

The first problem with this exercise is that there is no straightforward definition of 'low pay'. Wages are both payments for work carried out and a means of subsistence. Pay can therefore be seen as 'low' relative to the work involved or relative to the worker's needs and those of the household in which s/he lives (see Eardley, 1997, 1998, for further discussion of this issue).

Measuring low pay also requires making decisions about what type of worker should be used as the standard for comparison and where to draw the line. Here, because we want to include both full- and part-time workers, and both men and women, the measure is based on an imputed hourly pay rate, calculated by taking gross weekly pay from first and second jobs and dividing it by the number of hours normally worked each week. The threshold for low pay is taken as two-thirds of the median hourly rate for all waged workers.[3]

The arguments for this measure have been made in an earlier paper from the working poverty project (Eardley, 1997). It should be noted, however, that although such a measure has been used elsewhere for international comparisons, it is, in the end, an arbitrary decision and one which is sensitive to the particular shape of earnings distributions in different countries. As the analysis below demonstrates, the award system in Australia has produced a wage profile where a large proportion of hourly pay rates are bunched in an area close to the median and a relatively small proportion are below the two-thirds threshold. This means that the number of respondents falling into the low pay category in a survey sample is inevitably fairly small, thus limiting the level of sub-group analysis possible[4].

3 Self-employed earners are excluded from this analysis as accurate earnings are difficult to determine, especially on an hourly basis.

4 It has also been necessary to reduce the sample further by excluding a number of employed individuals recorded as having hourly earnings below $1.00. There are possible reasons why such low recorded rates of pay might be real, but analysis of the 1994-95 and 1995-96 SIHC unit records has revealed an unusually large number of respondents with zero incomes. This is being investigated in order to establish whether it is an artefact of the new method of continuous data collection introduced from 1994-95 or whether it represents a real change. For the purposes of comparison with earlier years it seems safer at this stage to exclude these cases.

This definition of low pay can be seen retrospectively as slightly above the minimum adult wage level recently laid down by the Australian Industrial Relations Commission for 1997 (AIRC, 1997). In its judgement on the ACTU Living Wage claim, the AIRC set the adult minimum at \$9.50 per hour (and has subsequently raised it further). Our 1994-95 threshold of \$8.65 per hour, for example, represented 52.3 per cent of the mean adult full-time rate in November 1994, based on a 38 hour week, while the 1997 safety net ruling represented 50.7 per cent of the equivalent hourly rate in November 1997 (ABS, 1997). Our threshold thus captures people a little above as well as below the level set as a minimum.

Low Pay Estimates

Table 1 shows the percentage of men and women in low pay (by our definition) between 1981-82 and 1995-96. The survey unit record files up to 1994-95 only give hours of work within bands, so the mid-point of the relevant band has been used to estimate hourly rates of pay, while those working over 50 hours are assumed to be working exactly 50. Using the actual hours for 1994-95 and 1995-96 has the effect of lowering the pay threshold slightly compared with that derived from the mid-point of hour bands, and reduces the overall rate of low pay by just over half of one percentage point, with a greater reduction for women. It is not possible to tell whether the same effect would operate in the earlier years.

It is worth noting that this analysis differs in several ways from a similar exercise carried out for 1989-90 by Richardson (1997). She bases her hourly rates for that year on the average distribution of actual hours within the hour bands in 1994-95. This seems defensible, but not necessarily preferable to using the mid-points, as it does not take into account any changes in patterns of working hours for particular groups in the 1990s. She also deems all those reported as working more than 40 hours per week as actually working 40 hours, on the grounds that there is danger of confusing the problem of very long hours, which produce apparently low hourly rates often as a result of unpaid overtime, with the problem of low wages. Again, there is an argument for this approach, but it seems to me that the low imputed hourly rates produced by extra long hours are none the less real and deserve to be recorded in the analysis. The fact that unpaid overtime may be included in the imputation of hourly pay rates does, however, provide one reason why a considerable number of people appear to be receiving below-award rates.

Richardson takes a higher threshold for measuring low pay (\$9.50 for 1990), on the grounds that the focus of interest is not only on those on the lowest levels of pay, but also in the broader group who might be affected by a rise (or fall) in the

Table 1: Individuals[(a)] with Low Pay: 1981-82 to 1995-96

Year	Low Pay Threshold (2/3 median hourly rate[(b)])	Percentage with Low Pay		
		Men	Women	Persons
1981-82	$5.33	9.8	22.4	14.6
Numbers[(c)]		303 000	429 000	732 000
1985-86	$6.03	11.8	17.2	14.0
Numbers		412 000	401 000	813 000
1989-90	$7.78	10.8	15.9	13.0
Numbers		402 000	436 000	839 000
1994-95	$8.65	13.1	15.5	14.1
Numbers		512 000	466 000	977 000
(Actual hours	*$8.61*	*12.9*	*14.1*	*13.4)*
1995-96	$8.83	12.7	15.8	14.1
Numbers		485 000	493 000	977 000
(Actual hours	*$8.80*	*12.5*	*15.1*	*13.7)*

Notes: a) Individuals included are those aged 15-64 (men) and 15-59 (women), receiving current income from employed work. Those identified by their labour force status as self-employed are excluded, as are those with recorded hourly pay rates of less than $1.00.

b) Hourly pay rates are based on current gross weekly earnings from first and second jobs, divided by total hours normally worked in first and second job. For 1981-82 to 1989-90 these are defined only by mid-points in hour bands, as before 1994-95 actual hours were not available.

c) Numbers are weighted and rounded to the nearest thousand.

Source: ABS Surveys of Income and Housing Costs, unit record files

AIRC safety net awards. She also, as we do below, sets a lower threshold for young people. Her estimate, that around 17 per cent of employees received low wages in 1989-90, is consequently higher than the one presented here. In the end, all these differences serve to emphasise that any discussion of low pay is a matter of judgement and some fairly arbitrary decisions about how to measure it.

Bearing this in mind, and allowing for the effect of sampling errors in the survey, Table 1 does not suggest that there has been a significant change overall in the proportion of low-paid individuals in the labour force over this period, according to our measure. However, the trends are rather different for men and women. For men, there appears to have been relatively little change for up to 1989-90, but an increase in the early 1990s. For women, however, there has been a noticeable decrease in low hourly rates of pay on a percentage basis, such that the relative risk of being in low pay compared to that of men more than halved between 1981-82 and 1994-95.

In the final year of the analysis, however, the decrease for women seems to have levelled off or possibly reversed. In spite of the downward trend in low pay among women, the absolute number with low hourly wages grew because of their increased labour market participation. However, the expansion of low pay in numerical terms was still much greater among men, representing about three-quarters of the total increase.

This is in line with OECD analysis of comparative trends in wage inequality, which suggests that despite fluctuations during the latter half of the 1980s, the dispersal of male full-time earnings between the top and bottom deciles was not much greater in Australia in 1990 than in 1985 (OECD, 1996). Since 1990, however, the ratio has been rising steadily. For women working full time the dispersal ratio has been falling slowly but steadily since the mid-1980s. However, this is a somewhat misleading picture, since women are much more likely to be working part time than men. Part-time work is also increasingly casual work. This comes with a loading which can make hourly rates higher on paper than those for full-time work, which is one possible reason why women's average hourly rates have increased simultaneously with an increase in part-time work. Another reason may be that the increase in women's labour market participation has not taken place evenly across socioeconomic categories and there is growing polarisation of opportunities between women in and out of the labour force (Probert, 1997).

In spite of the relative improvement in hourly rates of pay, the proportion of women with low levels of *weekly* earnings is still considerably greater than that of men. Thus the social capacity of women's earnings to keep themselves or their families out of poverty may similarly be lower, although this depends on the proportion of family incomes their earnings represent.

As significant as sex here, however, is the difference by age. If we look at the prevalence of low pay, according to our definition, among different age groups, we find that it is consistently high among young workers (Table 2). Because of a difference in the way ages were grouped in the 1981-82 SIHC, the higher rate for young workers in that year is a little misleading. There are no clear patterns of change for other age groups, except that there is some sign of a steady increase among the over-50 year olds. Young workers are a relatively small proportion of the work force, but their high rates of low pay mean that they make up a large proportion of all the low paid. Thus in 1985-86, employees under 21 were 16.8 per cent of all employees but 47.8 per cent of the low paid, while in 1995-96 they were only 10.3 per cent of employees but still 45.1 per cent of the low paid.

Table 2: Prevalence of Low Pay[a] by Age: 1981-82 to 1995-96

	Percentage in Low Pay				
Age	1981-82[b]	1985-86	1989-90	1994-95	1995-96
Under 21	(71.8)	56.4	52.9	57.5	59.2
21-34	9.0	8.4	7.7	9.8	9.1
35-49	7.8	8.5	9.0	7.9	8.3
Over 50	6.6	8.2	10.2	10.2	10.7
All employees	14.6	14.0	13.0	13.4	13.8

Notes: a) Low pay is as defined in Table 1, based on the mid-point of hour bands.
b) In 1981-82 the SIHC grouped ages 20-24, so for this year the 'under 21' category includes only those aged under 20.
Source: ABS Surveys of Income and Housing Costs, unit record files

Australia currently has a system of 'junior' wages payable to people under 21, so we would expect young people often to be earning lower wages than adults. It might therefore be more realistic to apply a junior low-pay threshold to these workers to see what proportion are in low wage work even according to this standard. This analysis is presented in Table 3, using a junior low-pay threshold of 52.6 per cent of the adult threshold, based on the ratio established in the AIRC 1997 wage case ruling, which set a minimum wage of $5.00 for juniors ($9.50* 0.526). Actual junior award rates vary by industry and are set on a sliding scale according to age. In the retail industry, for example, which is a major employer of young people, 16-19 year olds would typically receive 70-90 per cent of the adult rate, depending on their age. However, ABS earnings data show that the overall average ratio of junior full-time ordinary hourly rates to those of adults has generally been closer to the AIRC minimum wage level, fluctuating between 0.48 and 0.53 over the period 1990 to 1996 (ABS, various years, Catalogue 6306.0). Separating out young people also, of course, has the effect of raising the adult median, so we should expect to find a greater proportion of adults in low pay by this measure.

As was stated earlier, given that wage-bargaining in Australia is still in the process of change and both the award and safety net systems still exist, albeit in reduced form, we would not expect huge numbers of people to have wages well below safety net levels. What the above analysis shows is that since by definition half of all employees must have rates no higher than the median, around 40 per cent of adult employees over the observation period had hourly pay rates clustered between two-thirds of the adult median and the median itself, or

Table 3: Adults and Juniors(a) with Low Pay, 1981-82 to 1995-96

		Percentage with Low Pay		
	Low Pay Threshold 2/3 adult median hourly rate(b)	Adults		
Year		Men	Women	Persons
1981-82	$5.64	5.4	18.1	10.2
Numbers(c)		153 000	304 000	457 000
1985-86	$6.31	7.2	13.4	9.6
Numbers		224 000	269 000	493 000
1989-90	$8.00	7.5	12.5	9.6
Numbers		252 000	306 000	558 000
1994-95	$9.00	9.0	12.1	10.3
Numbers		319 000	322 000	641 000
1995-96	$9.14	9.2	12.4	10.6
Numbers		317 000	343 000	660 000
	2/3 adult median hourly rate* 0.526(b)		Juniors (under 21)(d)	
1981-82	$2.97	12.6	9.4	11.1
Numbers		34 000	22 000	56 000
1985-86	$3.32	8.5	6.6	7.6
Numbers		32 000	21 000	53 000
1989-90	$4.21	6.0	6.4	6.2
Numbers		21 000	19 000	40 000
1994-95	$4.73	17.2	9.1	13.3
Numbers		63 000	31 000	94 000
1995-96	$4.81	17.9	13.3	15.6
Numbers		63 000	48 000	111 000

Notes:
a) Individuals included are those aged 15-64 (men) and 15-59 (women), receiving current income from employed work. Those identified by their labour force status as self-employed are excluded, as are those with recorded hourly pay rates of less than $1.00.
b) Hourly pay rates are defined by mid-points in hour bands (see Table 1).
c) Numbers are weighted and rounded to the nearest thousand.
d) In 1981-82 the SIHC grouped ages 20-24, so for this year 'Junior' includes those only those aged 15-19 and 'Adult' includes those aged 20 and upwards.

Source: ABS Surveys of Income and Housing Costs, unit record files between $9.14 and $13.71 per hour in 1995-96. If we count all employees aged over 15 together, we find just under 27 per cent with hourly wages between two-thirds of the overall median and the median itself ($8.83 - $13.24 in 1995-96).

Figure 1 shows the distribution of imputed hourly pay rates in 1985-86 and 1995-96, by sex. In both cases the bunching in the area just below the median can be seen, but the relative improvement in women's pay between the two years is also evident from the movement of large numbers out of the pay band just below two-thirds of the median. The most striking feature of the charts is the increase in the proportion of workers with hourly rates above twice the median (represented by the final column in all charts). This is a graphic representation of the increase in earnings dispersal and has taken place for both men and women. The charts also show that men's pay is distributed somewhat further into the upper pay regions than women's.

In spite of the widening earnings gap, however, Australia continues, at present, to have a relatively flat earnings distribution at the lower end. It is worth noting that, according to the same threshold as used here, 22 per cent of employees were found to be in low pay in the UK in 1994 (Webb, Kemp and Millar, 1996)[5].

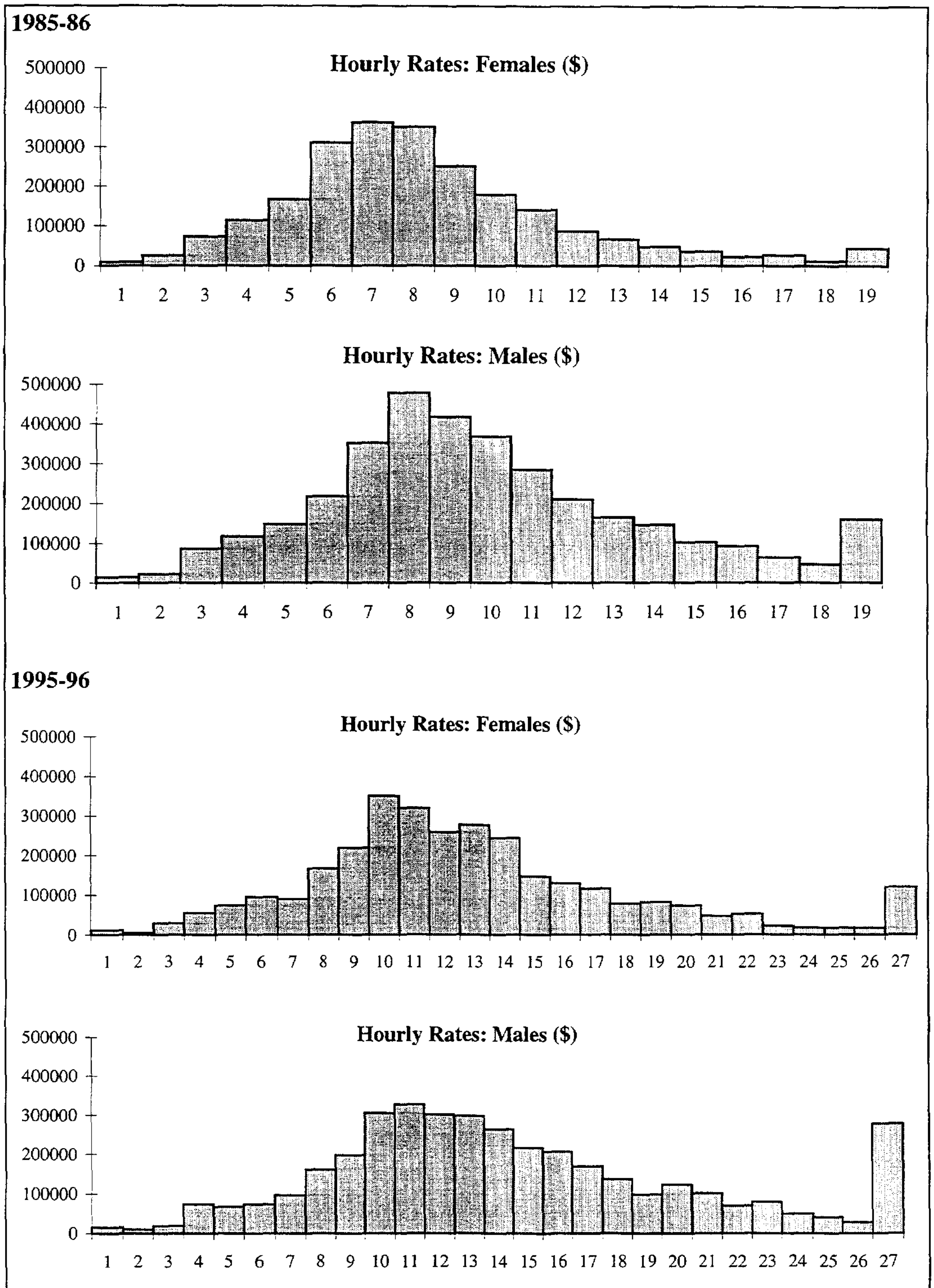
Low Pay Amongst Young Workers

One striking aspect of the analysis presented in Table 3 is that the proportion of young people in low pay on the basis of a junior wage threshold appears to have more than doubled in the 1990s. How can we explain this? First, it seems to stem partly from a reduction in the size of the pool of young people in the labour market and not in education or training. In the last two decades the proportion of all those aged 15-19 years not in school or tertiary education but in the labour force dropped from just over half in 1979 to 41 per cent in 1988 and only 28 per cent in 1998 (ABS, various dates, Catalogue No. 6203). This has led to a concentration of disadvantage amongst the shrinking pool of young non-students, which can be observed from the persistently high headline rate of youth unemployment - though it is often forgotten that this represents a large percentage of an increasingly small population.

By contrast, the proportion in education and also in the labour force increased from eight per cent in 1979 to 17 per cent in 1988 and 28 per cent in 1998.

5 It appears that Webb et al. do not exclude respondents with apparent zero or close to zero hourly pay rates, though this is unlikely to make a large difference. Their sample also only includes employees aged over 16. The two studies are, nevertheless, broadly comparable.

Figure 1: The Distribution of Hourly Pay Rates: 1985-86 and 1995-96



Source: ABS Surveys of Incomes and Housing Costs, 1985-86 and 1995-96, unit record files.

Comparison of 1989-90 and 1994-95 SIHC data shows a big increase in part-time work - often with very short hours - particularly among young men, and disproportionately concentrated among the lowest paid. This suggests a shift in the availability of employment for many young people towards very low-paid, part-time, probably casual work, and is clearly also influenced by greater numbers of students accessing part-time work.

As the numbers of young people in the SIHC samples are relatively small, particularly in the new continuous surveys which have smaller overall sample sizes than before, we combined the 1994-95 and 1995-96 samples to look at the position of students and compared it with that in 1989-90. At the end of the 1980s, 34 per cent of all waged workers under 21 were also in school or tertiary education and students made up 52 per cent of all the young low-paid workers. The overall rate of junior low pay was 6.2 per cent, but for students it was higher, at 9.5 per cent, while for non-students it was only 4.5 per cent. By the mid-1990s, the low pay rate doubled for both students and non-students, to 18.3 per cent and 9.2 per cent respectively. The overall rate, however, more than doubled (to 14.2 per cent) because the proportion studying and working expanded to 55 per cent and students came to make up 71 per cent of all the young low paid.

Not only are an increasing proportion of young low-paid workers primarily students, but most of them also live with their immediate family or other relatives. In 1994-95 and 1995-96 (combined), nearly 84 per cent of all waged workers aged under 21 and almost 97 per cent of the young low paid lived with relatives.

The junior low pay threshold adopted is, of course very low (only $4.81 per hour in 1995-96), and the growth of low pay amongst the young has not been exclusively amongst students. Nevertheless, in numerical terms it appears that low pay amongst young people is predominantly an issue for those combining education and part-time work. In 1989-90 there were an estimated 40 000 young people who were low paid by our definition, of whom 21 000 were students. By the mid-1990s the overall number had grown to around 99 000 and 70 000 of these were students. Later the paper looks at income unit poverty rates for young as well as adult workers, but it does seem that for many young people being in low pay is likely to be a transitional state and one which may perhaps be seen as less serious than that of prime working-age employees.

It should also be noted that if we use actual hours in the estimates of hourly pay rather than mid-points the effects are larger than those noted in Table 1. Low pay in 1995-96 for young men drops to 13.3 per cent and for young women to 7.3 per cent. This may be a result of the increase in short working hours, which alters the relationship between actual hours of work and those based on the mid-point of the ABS-defined bands.

Characteristics of Low-paid Workers

Aside from sex and age, what are the characteristics of the low paid compared to other employees? Table 4 presents a breakdown by key characteristics for 1981-82 and 1995-96. Some variables are categorised differently in the two surveys, but the table allows us to make some broad comparisons. It shows that low-paid workers are less likely to be or to have been married than other workers, which is not surprising given that a large number are young. Single employees and working sole parents are also more likely to be low paid than members of couples, as are those with few or no qualifications. A number of changes over time in the labour force as a whole are reflected in changes to the composition of the low paid, but perhaps most interesting is that by 1995-96, in spite of a substantial increase in the overall level of part-time work, the proportion of the low paid who were in part-time jobs fell compared to 1981-82.

In terms of housing tenure, the low paid are somewhat less likely than higher paid workers to be purchasing a home, although the gap has narrowed somewhat since 1981-82. By 1995-96 the low paid were also proportionately less likely than in 1981-82 to be in some 'other' form of accommodation, which includes living rent free with parents or family. Apart from that there was little overall change. One interesting question, however, whether low-paid single adults live on their own or in larger households. Although for the survey they are counted as separate income units we might expect it to be difficult financially for many to live on their own even if they wish to. Analysis shows that in 1995-96, just over 12 per cent of all adult single person employees were in low pay by our measure. Of these, only 28 per cent lived in a household consisting of a single income unit.

A further important question is how far low pay is a particular problem for immigrants, people of non-English-speaking background or indigenous people. This is a matter of some controversy, since there is an argument that a concentrated ethnic 'underclass' is forming in certain areas of Australia's cities (see, for example, Birrell and Seol, 1998), although other research casts some doubt on this analysis (Castles et al., 1998). The SIHC itself provides only limited information on migration, place of birth and ethnicity in a form which is consistent over the various survey dates. It cannot in itself, therefore, throw much light on this question. Nevertheless, Table 4 does show that while they are still a small group, employees born overseas but outside Europe have nearly doubled as a proportion of the working population over this period. Their hourly pay situation, however, differs little on average from that of employees generally, even though it has apparently deteriorated somewhat. In 1981-82 they represented 5.8 per cent of all employees and 5.5 per cent of the low paid, whereas by 1995-96 they made up 9.2 per cent of employees but 10.2 of the low paid.

Table 4: Key Characteristics of Low Paid and Other Employees: 1981-82 and 1995-96

Year and characteristics	Low Paid	Not Low Paid	All Employees
		Percentages	
1981-82			
Marital Status			
Married	53.6	63.3	62.3
Never married	40.4	29.9	30.9
Labour Force Status			
Full-time	59.7	88.5	85.5
Part-time	40.3	11.5	14.5
Highest Qualification			
None since school	72.9	51.7	53.9
Trade qualification	7.9	18.9	17.3
Degree	3.3	7.8	7.4
Family type			
Married couple	55.2	63.3	62.5
Sole Parent	3.4	1.9	2.1
Single person	41.1	34.7	35.3
Housing Tenure			
Owner (outright)	17.9	15.8	16.0
Purchaser	26.4	38.6	37.4
Renter	37.5	37.5	37.5
Other	18.2	8.1	9.1
Place of Birth			
Australia	75.8	74.4	74.5
Europe	18.6	19.8	19.7
Oceania	1.8	1.5	1.5
Other	3.7	4.4	4.3
1995-96			
Marital Status			
Married	52.5	61.9	60.8
Never married	40.5	31.0	32.1
Labour Force Status			
Full-time	66.2	77.7	76.4
Part-time	33.8	22.3	23.6
Highest Qualification			
No qualifications	58.6	46.7	48.0
Skilled vocational qualification	18.4	15.1	18.1
Degree	5.4	12.6	11.8
Family type			
Married couple with dependants	38.2	38.8	38.7
Married couple without dependants	21.6	26.0	25.5
Sole Parent	4.3	3.2	3.3
Single person	35.9	32.1	32.5
Housing Tenure			
Owner (outright)	24.6	23.5	23.6
Purchaser	28.1	37.6	36.6
Renter	33.9	31.4	31.7
Other	13.4	7.4	8.0
Place of Birth			
Australia	78.0	76.6	76.7
Europe	11.8	14.3	14.1
Oceania	3.2	2.4	2.5
Other	7.0	6.7	6.7

Note: Some variables are categorised differently in the two surveys
Source: ABS Surveys of Income and Housing Costs unit record files

4 Low Pay and Poverty

So much for the low pay picture. We now move on to look at the intersection of low pay and poverty. We would not expect all workers with low hourly rates of pay to be in poor families. As Table 4 shows, more than one-third of the low paid are single people without dependants. There are a whole series of intervening factors, including household composition, the number of paid workers in a family and number of hours worked by individual family members, quite apart from additional factors such as housing costs.

To see how far and in what ways low pay and family poverty overlap, it is necessary to locate our low-paid workers in the families (or in this case the income units) where they live. For this purpose two measures of poverty are used: first the Henderson Poverty Line (HPL), which for all its acknowledged limitations remains currently the most broadly accepted measure of income poverty; and, secondly, HPL plus ten per cent, both as a test of sensitivity of the analysis to the poverty line itself and in recognition of the argument that the community expects wages, plus social security support where appropriate, to provide a standard of living significantly above basic poverty levels (ACOSS, 1997).

Table 5 gives an indication of the change in the relationship between low pay and poverty, as measured here, over our observation period. It shows the percentage of employees, both full- and part-time, living in ABS-defined income units with equivalent disposable annual incomes below, or within 10 per cent above, the Henderson Poverty Line, according to whether they were currently receiving low hourly pay rates.

The most striking feature of this analysis is the large apparent rise in the percentage of young people living in poor income units, irrespective of whether they are low paid themselves, especially between 1989-90 and 1995-96. Part of the explanation is likely to be that those who are in the labour market and working are counted as income units in their own right even if they are still living with their parents. As we have seen, low-income young people represent an increasing proportion of a decreasing population and many of them are students. Despite being counted as separate income units it seems improbable that many could realistically live on their own incomes alone without some intrafamilial transfers. For these reasons it is common practice to exclude young people living with their parents from poverty analyses, although that raises further questions about how to treat the households of which they are a part.

The data are perhaps more reliable as an indicator of what is happening amongst adults. In 1981-82, the vast majority (nearly 97 per cent) of all employees did not

Table 5: Percentage Poverty Rates Amongst Employees: 1981-82 to 1995-96

	Adults				Youth			
Year and poverty status	Low Paid	Not Low Paid	All Employees	Total Employed Work Force	Low Paid	Not Low Paid	All Employees	Total Employed Work Force
1981-82								
Income unit with equivalent income below HPL	11.3	2.2	3.1		31.5	8.5	10.2	
Numbers	48 000	87 000	139 000		7000	26 000	33 000	
Income unit with equivalent income within 10% above HPL	14.3	3.2	4.3		33.4	9.6	11.4	
Numbers	60 000	123 000	184 000	4.286m	8000	29 000	73 000	327 000
1989-90								
Income unit with equivalent income below HPL	15.7	4.3	5.4		38.8	14.2	15.2	
Numbers	85 000	219 000	304 000		8000	65 000	73 000	
Income unit with equivalent income within 10% above HPL	19.8	6.3	7.6		49.5	18.6	19.9	
Numbers	108 000	320 000	428 000	5.619m	10 000	85 000	95 000	478 000
1995-96								
Income unit with equivalent income below HPL	20.0	5.9	7.4		49.7	33.4	35.9	
Numbers	132 000	327 000	459 000		55 000	210 000	257 000	
Income unit with equivalent income within 10% above HPL	25.7	7.3	9.2		53.3	37.1	39.6	
Numbers	170 000	405 000	575 000	6.221m	59 000	224 000	283 000	714 000

Notes: (a) Low pay is as defined in previous tables, using separate adult and junior thresholds
(b) Income is annual equivalent disposable income and poverty is determined using the simple Henderson Poverty Line after housing costs.

Source: ABS Survey of Income and Housing Costs unit record files live in income units in Henderson poverty or even close to it. More than one in ten low-paid workers did, and one in seven were close to the poverty line, but still the degree of overlap between individual low pay and family poverty seems to have been small. During the period, the overall poverty rate steadily increased, so that by 1995-96 the rate amongst waged workers apparently more than doubled, with a slightly smaller increase amongst the low paid. It appears that around one in five low-paid adult employees now live in Henderson poverty, or over a quarter if we take the less stringent poverty line. It should be noted that the poverty measure here is based on annual income, while that for low pay is based on current income. Clearly some individuals' pay rates are likely to have changed during the course of the year over which annual income is measured and some will have been out of work for part of the year. Thus it could be argued that Table 5 presents a misleading picture.

It is true that using current income produces lower estimates of working poverty. In 1989-90, for example, the adult poverty rate drops to 3.4 per cent for all employees, 15.6 per cent for the low paid and 2.1 per cent for those not low paid. Using combined data for 1994-95 and 1995-96, we find that the overall poverty rate falls to 4.2 per cent, with 18.9 per cent and 2.5 per cent for the low paid and non-low paid respectively. Nevertheless, annual income is generally likely to be a more appropriate indicator of poverty. It is also noticeable that using current income makes the poverty rate drop considerably less for the low paid than for those not low paid, which suggests that the former's overall family income status is more consistent than that of higher paid workers. It also thus produces a higher estimate of the proportion of all employees in poor income units who are individually low paid.

This is still a long way from saying low pay equals poverty. Clearly for a large majority of employees it does not. Also, Table 5 shows that much the biggest increase in family poverty in numerical terms took place among those employees who were *not* low paid by our measure (from around 87 000 in 1981-82 to 327 000 in 1995- 95).

A further illustration of the complex relationship between individual low pay and family income distribution is given in Table 6. It shows the location of individual low-paid workers (both adults and youth) amongst the quintile distribution of equivalent income units. Thus in 1989-90, 7.7 per cent of all employees and 19.8 per cent of those with low hourly rates of pay lived in families whose equivalent disposable income placed them in the bottom quintile of incomes.

The table shows that over the first half of the 1990s there was a substantial, overall shift downwards into the bottom two income unit quintiles, with the percentage of all employees in the bottom quintile more than doubling, to 17.4

Table 6: Individual Employees by Equivalent Income Unit Quintiles: 1989-90 and 1994-96 (combined), percentage distribution

	Income Unit Quintiles[a]					
Year and low pay status[b]	1	2	3	4	5	Total
1989-90						
Low paid	19.8	21.4	23.0	22.1	13.7	100
Not low paid	6.4	13.6	22.1	28.6	29.3	100
All	7.7	14.3	22.1	28.0	27.9	100
Numbers ('000)[c]	468	874	1351	1708	1701	6101
1994-96 (combined)						
Low paid	37.0	24.2	16.6	13.1	9.0	100
Not low paid	15.1	19.5	21.4	22.0	22.0	100
All	17.4	20.0	20.9	21.1	20.7	100
Numbers ('000)[c]	1138	1307	1362	1375	1349	6531

Notes: a) Because the quintile groups are based on the individual and income unit sizes vary across equivalent income groups, the numbers in each quintile are not the same.
b) Low pay for adults and youth is based on their different respective thresholds
c) Numbers are weighted and rounded to the nearest thousand

Source: ABS SIHC 1989-90, 1994-95 and 1995-96, unit record files

per cent. Again, however, we see that this downward shift took place proportionately as much amongst those not low paid by our definition as amongst the low paid. While by the mid-1990s a considerably larger proportion of low-paid workers lived in families in the bottom fifth of the income distribution than in 1989-90, nearly 40 per cent were still in the third quintile or above. Another way of looking at this is to say that the percentage of employees in families in the bottom quintile who were low paid actually fell slightly over the period, from 23.9 to 22.3 per cent. This was mainly because the size of the bottom quintiles grew relative to the upper ones.

It seems then that individual low pay, while significant, is only one of the factors contributing to the increase in working poverty. As was mentioned in the introduction to the paper, the composition of the work force has changed considerably, both in terms of male and female participation and full- and part-time work. It seems likely that this has resulted in a greater polarisation of household earnings and a concentration of lower earnings in poorer households.

Table 7 gives a breakdown of low-paid employees in income units below the Henderson Poverty Line by key characteristics, again for the two end years of our observation period. It indicates that since 1981-82 there has been some shift in poverty amongst this group towards men, full-time workers and single people, and away from women, sole parents and couples with children. This is consistent with the earlier finding that men appear to have fared worse over this period in terms of low pay than women. The shift towards poverty amongst those with full-time work may also be connected with this change, since men are still more likely to be working full time than women.

Table 7: Low-paid Employees in Income Units below HPL, by Key Characteristics: 1981-82 and 1995-96

	Percentages	
Characteristics	1981-82	1995-96
Sex		
Male	47.4	53.3
Female	52.6	46.7
Labour Force Status		
Full-time	52.7	63.0
Part-time	47.3	37.0
Family Type		
Couple with dependants	37.9	31.8
Couple without dependants	5.2	7.0
Sole parent	11.5	9.0
Single person	45.4	52.1

Source: ABS Surveys of Income and Housing Costs, unit record files

The drop in the proportion of the working poor who are sole parents might seem surprising at first sight, since other data suggest an intensification of poverty amongst this group. These two trends are not inconsistent, however, because the former is caused by a drop in participation in paid work by sole parents over this period which has then contributed to the latter. The move towards single person poverty is likely to be associated partly, though not only, with the growth of low incomes amongst employed youth, and the HPL methodology has some particular limitations in measuring poverty amongst both these groups.

The growth in family poverty amongst full-time workers would seem to undermine the proposition that it stems from insufficient weekly hours of work, unless that work is becoming more casual and intermittent. This is indeed a possibility, since it is known that casual and contract work are making up an increasingly large proportion of all employment (Burgess and Campbell, 1998). However, this proposition is given only limited support by analysis of the SIHC data. If we break down the income unit poverty status of the individual employees in 1995-95 and 1995-96 (combined), we find that while there is some relationship between family poverty and less than full-year work for individuals, it is not a particularly conclusive one. The vast majority (93 per cent) of all employees were in work for at least three-quarters of the previous period (however long that was)[6]. Just under a quarter of individual employees in families below the Henderson poverty line had less than this level of consistent paid work, compared with five per cent of those not in poverty.

5 Discussion

What, then, do we conclude from this analysis and what are the policy implications? First, some cautionary notes: many of the results are tentative and a good deal more work is needed both to be sure that the overall picture is accurate and to fill in all the important details. Secondly, it should be emphasised that the findings reported here rely on judgements both about what is an appropriate threshold for low pay and how to measure it, and on the use of the HPL as a poverty standard. All these judgements are, of course, open to question. Thirdly, the analysis has been restricted mainly to one data source and to a narrow concept of income poverty rates, without taking into account a whole range of other issues, such as poverty gaps, non-cash income and the persistence of low wages or poverty over time. Nor does it consider questions of working costs or the relative costs of housing for different individuals or family groups, although both of these are to some extent built into the Henderson methodology. Also, the paper does not look in detail at shifts in the industrial composition of the work force, and has only touched briefly on important questions of how low pay and poverty interact with immigrant or ethnic status. Finally, the self-employed are excluded from the analysis because of data difficulties, but there is other evidence to suggest that low incomes amongst this group are by no means all illusory (Eardley and Bradbury, 1997).

6 It should be noted that in the new continuous survey respondents are no longer asked how many weeks during the previous year they were in work. Instead information is accumulated on how many months of employment they have had over a previous period, which can vary up to a maximum of eight months depending on when in the survey cycle they were interviewed. Thus the variable is rather less meaningful than that previously recorded.

Bearing in mind these caveats and limitations, the overall story can be summarised as follows.

- There is little sign of a major change in the *overall* proportion of workers with low hourly pay rates, but there has been an increase for men, balanced by a decrease for women.
- Nearly half the low paid by this measure are young people under 21. Even using a low junior threshold the proportion of young people in low pay seems to have more than doubled, but this is partly a result of the shrinking pool of youth in the work force, among whom disadvantage is concentrated, and partly reflects a growth in part-time work by young people in education.
- Low-paid workers are more likely than other employees to be single and unqualified, but interestingly the proportion who are in full-time work has increased, to two-thirds in 1995-96.
- In 1995-96 nearly three-quarters of single low-paid adult workers lived in a household with other income units and it appears virtually all the young, single low paid live with their families.
- There appears to have been a slight increase in the rate of low pay among workers born overseas but not in Europe, although this is still not much higher than that for all employees.
- Low pay does not equal poverty. Most low-paid workers do not live in income units with annual incomes below or within 10 per cent above the HPL and the biggest increase in family poverty has been among employees not in low pay. However, the overall increase in working poverty has been substantial.
- Among low-paid workers in poverty, there has been a shift away from couples with children and sole parents towards single people, and from women to men, from part-time to full-time workers and middle-aged to young workers. However, HPL methodology has some limitations in dealing with poverty among single people and the young, so we should be cautious about these conclusions.

What does this suggest for policy? First, it seems that the phenomenon of working poverty in Australia is real, even if the dimensions and details are still unclear. Letting wages fall at the bottom end of the distribution seems likely to exacerbate this further, even if it would not affect all those in or close to poverty, unless compensatory support is provided through the tax and social security system.

Increased family payments cannot be the whole answer, however, even though they clearly have helped to reduce poverty amongst the low paid with children since the early 1980s. For a start, half the low paid in poverty do not have children. Extending income-related support to low earners without children, whether through social security or through a tax credit, would not only be expensive but in the context of increasingly individualised wage bargaining might stand a risk of being captured over time by employers through even lower wages unless a strong and enforceable minimum wage platform is in place.

Means-tested payments can enhance incentives for unemployed people to take lower paid work, but they also create poverty traps and may act as a disincentive for women in couples to look for work of their own. Quite apart from the possible personal benefits for women of having paid work of their own, disincentive effects of means-tested payments are important if it turns out that the best way of avoiding working poverty for couples with children is to obtain a second income rather than rely on an earnings top-up. In earlier work undertaken as part of the current project it was found that for families with a low-paid full-year, full-time worker, getting a second income was, indeed, in most cases more effective as a means out of family poverty than relying on in-work social security benefits (Eardley, 1997).

In this context the Family Tax Initiative (FTI), introduced in 1997, is of interest. Microsimulation estimates by Landt and Beer (1998) show that while it was progressive in giving the greater percentage of extra disposable income to families in the lowest deciles of market income, the main beneficiaries have been single income families (as was intended), not only because of the structure of the payments but also because these families are more likely to have children under five years of age. The other effect of the FTI is to extend the poverty trap considerably. Redmond (1998 forthcoming) shows that the FTI tends to counteract the potential incentive effects of the 1995 partial individualisation of social security benefits and the introduction of Parenting Allowance.

The danger is that if wages are allowed to fall on the assumption that family incomes will be protected by social security, the payments may end up failing to meet their income support goals even while spending on them increases to the point where it loses public support.

Looking at it from the other perspective, what happens if we raise minimum wages? Clearly this would affect more than just the poor, while some workers whose individual pay is slightly above the minimum, but whose income unit is still poor, might not benefit. More work is needed on the extent to which lower paid individuals' family units are below the poverty line to see what the impact of this would be, though there is an argument for raising the pay of lower paid individuals irrespective of their family situations. It is interesting to see that the OECD has concluded that the international evidence does not support the idea that higher minimum wages have a major cost in jobs - not for adults anyway (OECD, 1998). It seems to have more impact on youth employment, however, which highlights the question of what should be done to assist the relatively small but still significant pool of very low-paid young workers, since raising their wages might have an adverse effect on employment.

Overall it appears that what is needed to combat working poverty is a combination of strategies. This would include judicious increases in safety net wages and awards affecting workers in particularly low-wage industries; better enforcement of the minima which currently exist, since some employees seem not to be receiving pay rates which they should; carefully designed and targeted support through the tax and social security systems which minimises poverty traps; and special attention to the situation of low-paid young workers. Further work to be undertaken as part of this project will involve looking cross-nationally at the impact of different policy structures on levels of working poverty.

We do not yet have a full explanation of the causes and dimensions of working poverty in Australia, but the evidence points to it being a real and growing phenomenon which will require policy attention if we do not want to store up intractable problems for the future.

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Beyond Cloudstreet

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One of my favourite books is Tim Winton's outstanding novel *Cloudstreet.* It tells the story of the day-to-day existence of a family living in Perth and I quote from a wonderful section early in the book when one of the main characters, Sam Pickles, comes to terms with the realities of his life after he has lost a significant part of one of his hands. He and his friend Joel try to move beyond the tragic accident.

> The furious, puckered pink scars on Sam's hands subsided round the finger stumps - the colour of a monkey's bum, some wag in the bar suggested. He'd learnt to button himself and roll a fag. Now he could look at the club on the end of his arm without having bile rise in him. He got restless. In the end, Joel ferreted him out. Fishing was the place to start. (Winton, 1991: 21)

Winton goes on to describe an evening's fishing which Sam shares with Joel. Sam, feeling sensation in his non-existent fingers, comes to believe that something momentous is about to happen, and is not surprised when Joel, 'whose luck ran like a fountain', hooks a large fish. Sam and Joel share in a great struggle to bring it ashore, a struggle which became too much for Joel.

> He turned to Joel and *there* was the surprise. Joel was on his knees clutching his heart. Sam Pickles stood and watched man and fish flap on the sand until neither moved. He stood there a long time after everything was still ... The facts racked themselves up like snooker balls. He was bereaved. He was unemployed. Minus a working hand. Homeless. Broke ... Sam tried to decide which he would drag back first, man or fish. It wasn't going to be easy. The lamp burned low. He tried to weigh it up. He sat down to nut it out. (Winton, 1991: 22)

That beautiful quote reminds me always of the day-to-day realities of all of us in the community and in the society where we live. It reminds us that: 'There, but for the grace of God, go I'. And that, I think, is an important beginning to reality as we look at the future of where we are going. When we think about *Cloudstreet* and beyond and the realities for all the people in the community, for Sam Pickles, for Joel and for all of us: 'There, but for the grace of God, go I.'

There are lots of different ways of looking at poverty and inequality. We can look at it in a broad and complex sense, by examining issues to do with the international state of abject, desperate poverty in third world countries, in the so-called developing countries. We can route it back to issues of absolute poverty or relative poverty and definitional issues. But that is not really what I want to focus on in my address. We have recently been given a challenge by the United Nations in terms of the International Year of the Eradication of Poverty and the International Decade for the Eradication of Poverty. Boutros Boutros-Ghali, the then United Nations Secretary General, on Monday, 18 December 1995 launched the International Year for the Eradication of Poverty and the beginning of the Decade with a wonderful speech. He said in his speech:

> The leaders of the world met in Copenhagen last March. They committed themselves to eradicating poverty on our planet. They pledged decisive national actions and international cooperation. They recognised in this mission an ethical, social, critical and economical imperative of humankind. The facts about poverty are now well known. But too often they are ignored. (Boutros Ghali, 1995)

He went on to present data on poverty, painting a picture of increasing numbers suffering great deprivation and to ask how this can be allowed to go on.

> An ethical progression of humanity takes place when moral ideals lead to specific legal obligations. The next step in this progression must be to accept that existing poverty is not only inconsistent with social harmony and a durable political order but morally wrong.
>
> ... Today we are aware of yet another compelling reason for giving priority to poverty eradication. The foundation of democracy is the idea of equality. It confers on each citizen the same capacity to participate in the political process as every other. But poverty denies the growth of democracy where it is sought. It cripples it where it exists. Poverty abridges, indeed denies this capacity. (Boutros-Ghali, 1995)

It is a long address by Boutrous Boutros-Ghali but I believe the sections that I have highlighted focus on what are critical issues: issues to do with the broader social and economic consequences of poverty and the impossibility of addressing many of these broader issues without first addressing poverty and the basic democratic right of people to the concept and idea of equality.

A number of things have happened within the context of Australia. Certainly, the Henderson Commission of Inquiry into Poverty (1975) was a seminal document within Australia's history of poverty research. The Henderson Commission addressed issues to do with understanding the nature of poverty in Australia, attempting to map out the dimensions of poverty in this country. As the report stands, it is still the benchmark in terms of ongoing comparisons to do with issues of poverty in this country. It was recently reviewed in a wonderful book, *Australian Poverty Then and Now* (Fincher and Nieuwenhuysen, 1998). A range of authors, many of whom were involved in some way in the original 1975 Henderson Commission, or have since worked on the issues evolving out of it, have come together in this publication to review the realities of poverty twenty-two years later. The sad reality that we need to look at is that that report, which many would argue is one of the next seminal publications in this country, came up with the simple answer to the question, 'how we are going with respect to poverty in this country?'. They said and I quote:

> Has there been progress on poverty? The principal general question arising from a comparison of Australia then and now is whether since 1975, Australia has made progress in reducing the share of the population defined as living in poverty ... But, the answer is not encouraging (and without major government redistribution programs it would have been worse). On many counts, there has not been progress in reducing poverty. A strong part of the explanation of this is the rise of unemployment in the mid-1970s and its persistence over the decades at levels that were literally unthinkable when the Henderson Report was commissioned.
>
> ... On the centrally important income measure, Henderson found 12.5 per cent of income units to be very poor (with incomes below the poverty line) and a further 8.1 per cent to be rather poor (with incomes up to 20 per cent above the poverty line). The corresponding estimates in 1996 show that the proportion of income units in poverty had increased by about one-third (16.7

> per cent below the poverty line and a further 13.7 per cent classified as rather poor) to a total of 30.4 per cent in 1996 compared with 20.6 per cent in 1973.
>
> The prime single cause of this unfortunate and very substantial rise is the great increase in the share of the population who were unemployed in 1996, compared with twenty years earlier. (Fincher and Nieuwenhuysen, 1998: 3-4)

The author's conclude their introduction to the book:

> Redistributive government programs have helped limit the rise of poverty in the face of higher joblessness. Unfortunately, however, recent reductions in these programs make the outlook for the poor all the more sombre. The conditions causing poverty are thus even stronger today then when Henderson wrote. This is all the more reason why his work should be continued, and his highlighting of inequity and its causes sustained. (Fincher and Nieuwenhuysen, 1998: 9)

This is a sobering assessment and certainly many of us would argue that what has happened in this country is that not only has the gap between the rich and the poor become wider in the last twenty years but probably a more accurate assessment is that the rich have got richer and the poor have become more numerous. It is a sobering assessment when you put it in the context of the realities of what our focus should be as a country, as we try to address the broader needs of all people in our community. In 1945, over fifty years ago the White Paper, *Full Employment in Australia,* said and I quote:

> The maintenance of conditions which will make full employment possible is an obligation owed to the people of Australia by Commonwealth and State Governments. Australian governments will have to accept new responsibilities and to exercise new functions, and there will need to be the closest collaboration between them. Unemployment is an evil from the effects of which no class in the community and no State in the Commonwealth can hope to escape, unless concerted action is taken. (Parliament of the Commonwealth of Australia, 1945)

That reality is one which we need to face up to. Fifty years on, the central issue of unemployment, the issues of poverty arising from unemployment remain with us and are clearly growing. I sadly believe that in facing these realities we must ask ourselves some broader questions. I believe we need to begin by saying that current economic thinking and current development paradigms either do not work in solving inequality and poverty or implicitly involve inequality, or have not kept up with changes and, indeed, one could argue all of the above. Professor Charles Handy, former Head of the London School of Business, has actually become one of the leaders in highlighting some of the realities of the problems with our economic system. He said and I quote:

> As the economic system has grown more complex, it has also grown more Darwinian. The highly skilled prosper; the skilled survive, and the unskilled are the victims. As Darwin pointed out, the species will adapt to survive, but it takes generations. Many become extinct in the process.
>
> It is easy to say that we should do something about all those obstacles and the independent life that faces so many of us. But that will cost money, time and effort - things that won't be forthcoming without a change of heart and mind. As long as it is each to ourselves, as long as success and self-esteem is measured by the scorecard of materialism, so long will it be a selfish, uncaring and shortsighted world. (Handy, 1996: 205)

Another writer, Christopher Lasch, has said:

> Sooner or later the market tends to absorb ... all institutions including those that operate according to principles antithetical to itself - schools and universities, newspapers, charities, families. It puts an almost irresistible pressure on every activity to justify itself in the only terms it recognises: to become a business proposition, to pay its own way, to show black ink on the bottom line. It turns news into entertainment, scholarship into professional careerism, social work into the scientific management of poverty. Inexorably, it remoulds every institution in its own image. (Lasch, 1996: 98)

I think those fairly sobering quotes indicate that many eminent thinkers around the world agree that my broad assessment of the incapacity of current economic thinking and development paradigms to provide the answers for problems of unemployment and poverty needs to be faced up to seriously. We do need to move on and understand that the world is rapidly changing around us and the current thinking that we have been using for so long is not making any distinguishable change in the day-to-day realities of peoples' lives. And it is that day-to-day reality of peoples' lives which I like to focus on. As chief executive of Anglicare, I was recently involved in running our winter appeal. This year we used the theme 'real people - real lives - real difference', because I think we very easily forget, in the context of trends, trend analysis, statistics and more statistics that it becomes very easy for us to ignore the real people that we are talking about, people who live in our community, next door to us, down the road, in the suburb next door, in the house next door. That is the reality that we need to face.

Austin, who is the cartoonist in the West Australian, did a wonderful cartoon some years ago where a Paul Keating-like character stands in front of a game show set with his hands around a couple saying:

> And it's the Wilson's from Cootamundra, the lucky one millionth contestants on Just Jobless. Do you want to take your prize or come back next week and risk being seasonally adjusted?

That to me highlights the horrible reality that all of us, not just politicians, but all of us can become deluded and almost numb to the day-to-day realities that face us. I believe that there are four interlinked themes in terms of poverty and inequality in this country and our community. The first one is loneliness, not just in terms of traditional stereotypes of aged people and single parents but also young people who even when they are in a crowd, even when they are with many many of their friends, are alone, unsure of where they are going, unsure of their future, unsure of who they are. The second theme is insecurity, not just resulting from insecure relationships which we focus on so much in our community (and certainly that is a reality with increasing levels of divorce and separation), but also resulting from a change from permanent full-time jobs to an increasingly part-time, casual and insecure labour market. The realities of insecurity are a dominant theme in the lives of many people in our community. The third theme is hopelessness. It pervades the lives of far too many members of our community; drug use, alcoholism and suicide are just symptoms of a much broader malaise that we must face up to. The fourth theme in some senses is the summary and an interlinking theme to each of the other three, and that is, loss of control. The loss of control in the lives of so many people in our communities, in our relationships in finances, into our very identities often leads to fear and major psychological damage. For many people, whether they turn up to a financial counselling service, a relationship counselling session or just to talk to someone, the reality that so often comes through is that they feel as though they have lost control of their lives. If we reflect on those four themes and we think about them in the context of a development paradigm which is clearly failing us, when we talk about them in terms of increasing inequality in our community, I think we see the realities of much of the trouble and the concern that we see all around us.

Challenge for us also goes well beyond that. We need to think about what the roles of all of the different parts of our community are. Certainly we do need to think about a balance between the three critical elements of our society, between the state, the market place and the community. The community embraces family, the community centre and the church, much of which is clearly not part of the state or the market place. I would argue that the market place at the moment is dominating far too strongly the overall level of debate and the overall level of control which is going on within our community. We need to find a balance as people like Putnam (1996) and Eva Cox (1995) have talked about, which has an adequate and clear focus on the particular strengths and weaknesses of the state, the market and the community and family and we need to develop that sense of social capital in our community which is the glue that holds our community together. It is that kind of focus which we need to look at in our lives.

One of my favourite cartoonists and writers is Michael Leunig. And at this stage I want to focus on a wonderful quote from him in his famous Curly Pyjama letters - from Mr Curly to Vasco Pyjama. In this letter he talks about the value of rest.

> *It is worth doing nothing and having a rest;* in spite of all the difficulty it may cause, you *must* rest Vasco - otherwise you will become restless! I believe the world is sick with exhaustion and dying of restlessness. (Leunig, 1995)

He goes on to extol the value of tiredness, 'the most suppressed feeling in the world' and the need to 'learn about it and make a generous place for it in your life and enjoyment will surely follow' (Leunig, 1995).

To me that is a very important letter, not only in a personal sense because it makes me, every time I read it and from the very first time I read it, it makes me focus on what are the important priorities in my life. It makes me think, every time someone asks me to do something else, about what is important to me and how I need to learn to sometimes do nothing and have a rest, to focus on what is really important in the lives of myself and those around me and what is important in terms of where we are going as a community.

I turn now to what I think is one of the critical issues for us to face up to and that is the role of the not-for-profit community sector in looking at what is happening in terms of our community. Australia's not-for-profit sector is a very large and growing part of our community and economy. Mark Lyons and Susan Hocking (1998) have recently presented a snapshot of Australia's not-for-profit sector with some of the facts about the non-profit sector which highlight why I want to focus on their role in the community.

- In 1995/96 nonprofit organisations in Australia spent between $27 billion and $43 billion in operating expenditure depending on the definition used.
- That was between 6.2 per cent and 9.8 per cent in growth domestic product.
- Even by the core definition, the nonprofit sector has a larger turnover than the communications industry, or the accommodation industry, cafes and restaurants. By the extended definition, it is larger than the mining industry.
- Even by a smaller core definition the nonprofit sector is as large as the NSW and Victorian Governments combined; it is almost four times the size of local governments in Australia.
- Australia's nonprofit sector employed between 564 000 and 668 000 people. This was between 11.0 per cent and 13.0 per cent of private sector employees and between 6.8 per cent and 8.1 per cent of the workforce.
- The largest number of employees is to be found in the community services industry followed by leisure, education and health.
- Australians volunteered 374 million hours for nonprofit organisations in 1994/95
- Australians gave $2.8 billion dollars to nonprofit organisations in 1997. (Lyons and Hocking, 1998: 1)

That is a quick snapshot of a very large and important sector of our community. But we need to face up to the realities that there are significant challenges which face the non-profit community sector. In terms of income to the sector there are continuing to be significant donations by many individuals and philanthropic organisations but we now operate in an environment where the grant has almost become the exception rather than the rule. My organisation, Anglicare, now only gets a grant from a lotteries commission. Everything else we get now comes in the form of some commercial tender or contract whether it be fixed price or competitive price. So the world of competitive tendering and contracting is now the world of the daily existence of most non-profit community organisations. Many organisations now have to rely on, or increase, their capacity to build up commercial income and fundraising income to enable them to carry out functions which they believe are important in the community. We have many mixed models of funding, with core income from government and commercial fees and other fee-based income offsetting the lack of total income from government. Also, the focus in this country on trying to concentrate on philanthropy through the Prime Minister's Round Table is an encouraging but important sign which needs to be continued in terms of the income capacity of the non-profit sector.

In terms of expenditure a lot has happened as well. Where we used to be, in many cases, in an award-free environment, we now have awards, enterprise agreements and work place agreements as the day-to-day matter of our human resources. We have many many thousands of volunteers. We have donated goods and services. We have to look at the real costs of running our services and we need to face up to some of the challenges of potential changes in the taxation treatment of not-for-profit agencies. Both Coalition and Labor Governments look at taxation of the public sector in terms of fringe benefit tax exemptions and the tax deductibility status of many things which affect the not-for-profit sector. All of these changes are major challenges to the expenditure capacity of organisations in this sector.

In terms of organisational development, corporate and strategic planning, mixed management strategies and marketing plans are now day-to-day realities for many organisations, particularly large organisations. But the challenge is to ensure that we do not become like the state, that we do not become like the market place, but that we actually evolve as a sector that plays a clear and unequivocal role, with clear and unequivocal processes in the way we operate.

We are about fundamental underlying values of democracy and objectives, and that balancing of mission, vision and social objectives against the day-to-day commercial and economic realities of running an organisation, that ongoing tension and balance is one which we should be paying far more attention to as we try to play our role in redressing inequality in this community in which we live.

The fourth issue, in terms of challenges facing the community sector, is the broader environmental issue. I have already talked about the contracting and tendering environment in the context of a move towards smaller government. We also need to face up to the reality that there is an increased demand for services in many of the service areas that we look at. It is partly to do with the increasing inequality in our community but also to do with the changing nature of the society that we live in. The role of the family in delivering so many of the social needs of the community was paramount many years ago but it is increasingly changing. The role of government, which 20 or 30 years ago was certainly a critical player in delivering many of these services, is also changing and government throughout is relinquishing more and more services which they previously would have run and are then increasingly contracting them out the to the public, the private and the not-for-profit sector. So we have a changing role of the state, the market and the family in the community. The tensions which I talked about earlier on, that Putnam (1996) and Cox (1995) talked about in terms of the balance and the role of all of those building social capital in our community, that challenge also brings day-to-day reality to agencies. We are in many senses right at the cornerstone, right at the nexus of that ongoing tension and balance because we play our role in trying to meet the needs of people in our community and the pressures on the small side are massive.

The last issue which I want to briefly touch on in terms of environmental issues is the pressure on small and medium-size agencies. WACOSS and ACOSS as state and national peak bodies are clearly very concerned that all these environmental and organisational pressures which are facing organisations are putting an increasingly large pressure on the small and medium-size agencies in the not-for-profit and community sector. The pressure is becoming very large and very deep. While there is some truth in the need for change, we need to resist it in terms of ensuring that there is a fine and clear balance between the role of small individual community-based agencies, medium-size agencies and large agencies, between agencies which have a geographical or interest group focus against those groups which are larger and have a much broader focus and in many cases have divisional structures and very large state-wide focuses. All of that balance needs to be found in a non-profit sector. We need to celebrate and protect the particular role of small, medium and large agencies, which focus on one particular service and those providing a diverse range of services to the community. These are some of the critical issues facing us.

Some of the keys to me in terms of the future of the non-profit sector focus on ten points.

- The future role of the non-profit sector would first be ensured by having a viable mission. To help in the understanding of exactly what our role in the community is the role of the mission statement. We can so easily be carried away with it, we need to come back and say unequivocally and clearly what is our role in the community, what is the role of our organisation? Let us understand it, let us focus on it and let us be with it.

- The second issue is to have a board which has the capacity to reflect the particular changing nature of the community around us. It needs to have business skills as well as community skills, as well as the skill focused on a particular operation of the organisation. It needs to be about a balanced board.

- The third issue is to have skilled and motivated staff and I would say a family friendly work place, to be a place which in many cases can hallmark the best elements of the market and the state and to actually be a work place which is conducive to work in and has many of the possibilities which some of the other organisations cannot have.

- The fourth issue is to ensure that we do have accountability in control, to ensure that we are seen as viable organisations to take public money to deliver services.

- The fifth issue is to ensure that we have an adequate marketing plan and focus for all our services. You could say that marketing is the buzz word of the market but it also has to become a focus for the community and the community sector. Without it, our capacity to deliver service to those people who really need it in a way that they want it delivered, will be diminished.

- The sixth issue is to actually have a vision in terms of a future direction of the agency, to actually have that 'light on top of the hill' which provides the focus for moving on and to create an organisation which is dynamic rather than static.

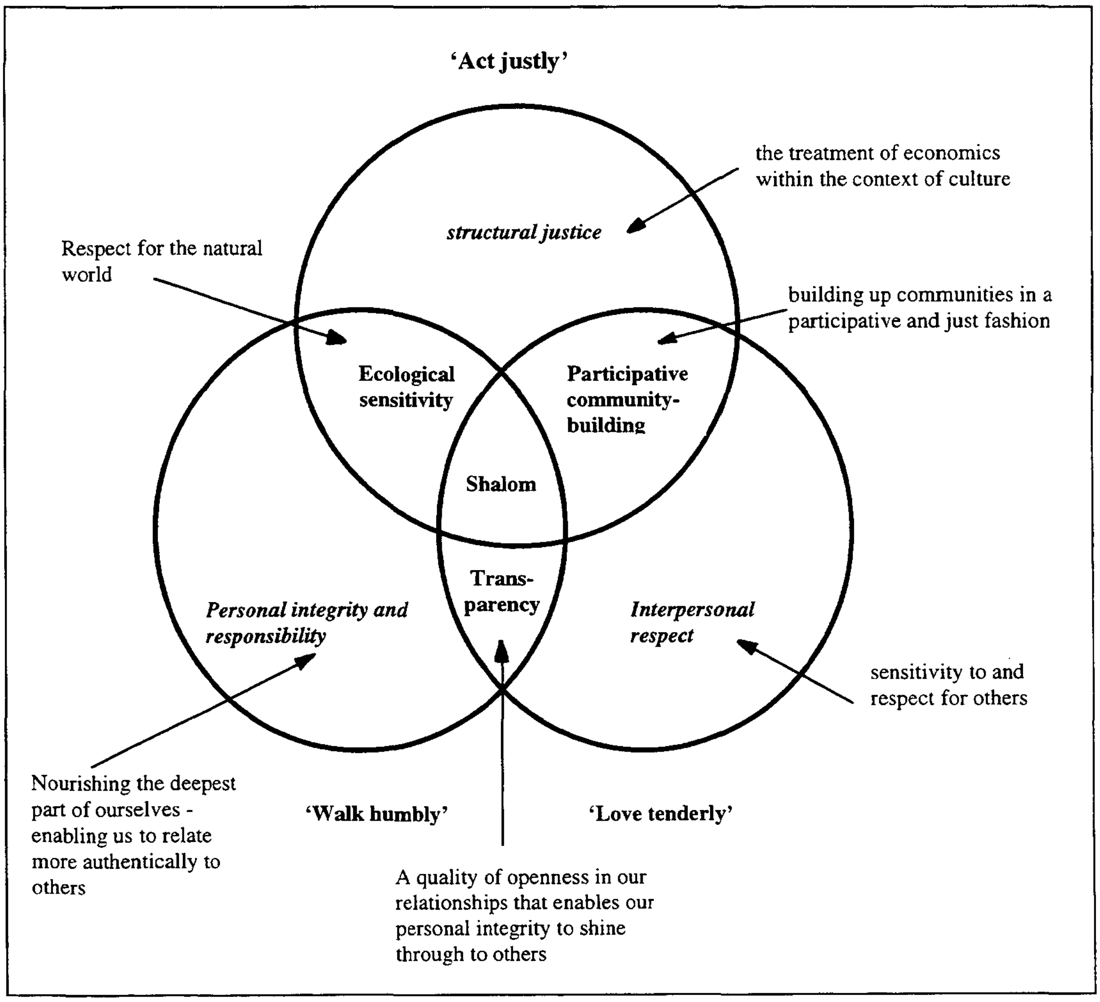
- The seventh issue is to be an organisation which has its financial capability and its management understood and which is an organisation which has the capability of moving on with some sense of independence. It is important I think to actually create a sense of financial independence and that means increasing the capability of doing commercial work within the context of a non-profit organisation and to increase capacity to attract cash and income donations from a number of sources.

- The battle is to actually become an organisation which is focused on being one of the social entrepreneurs, to create that new vision and that new balance between the economic and the social, between the needs of the market and the needs of the state, an organisation which effects that balance between the mission and vision of an organisation and the commercial realities; and that *is* a social entrepreneur.
- On the ninth basis we need to be responding to the rapidly changing conditions around us.
- Lastly we need to focus on management. I have come up with a quote that management is the art of policy compromise and that is the critical issue for us as we focus on the needs of the future of the community sector.

So in conclusion, I suppose I would like to focus on two important messages. One is the need to focus in a broad sense on the integrated approach to understanding the nature of the individual, the nature of where we are going as a society. To me it lies at the heart of where we are going. It has some relationship to the concept of trust in social capital but to me it is far more personal than that. It comes to me in a concept of integral spirituality, and I draw from a wonderful publication called 'Integral Spirituality - Resources for Community Justice, Peace and the Earth' (Dorr, 1990). The publication drew together the trend of a wonderful quote from the Bible which is: 'This is what God asks of you, only this: that you act justly, that you love tenderly, that you walk humbly with your God'. That quote from *Micah,* Chapter 6, Verse 8 is one of the more well-known quotes from the Bible, from the Old Testament. For me it can be used in a Christian, a spiritual and in a broad secular sense.

In trying to focus in the end on where we all should be concentrating our energies, I have drawn a wonderful Venn diagram (Figure 1) which leads us to circles which focus on that quote from the Bible. So 'act justly' becomes structural justice or social justice; 'walk humbly' becomes personal integrity and responsibility; and 'loving tenderly' becomes interpersonal respect. Those are the three cornerstones of where we, the community, goes. Like any good Venn diagram, the three circles overlap and the overlap between structural justice and personal respect becomes participative community building, building up communities in a participative and just fashion. The overlap between structural justice and personal integrity and responsibility becomes ecological sensitivity and respect for the natural world and the overlap between personal integrity and responsibility and interpersonal respect becomes transparency, a quality of openness in our relationships that enables our personal integrity to shine through to others. At the heart of it all it is the concept of *shalom,* the biblical word which means 'all-invasive peace' in every sphere of our lives. I have used that model in many circumstances, particularly among Christians, to describe one of the motivating forces in terms of my life and my work, but in that kind of integrated personal community environmental approach which I believe is the challenge for all of us as we face up to inequality in our community. The incapability of our society, of our government, to focus on the balance between the economic, the social and the environmental and the interplay between those three is one of the fundamental failings of our community.

Figure 1: Integral Spirituality



Source: Dorr, 1990

To return to Tim Winton's quote, to Sam Pickles, to Joel, 'there but for the grace of God go I'. I am one of those people who believes that the true worth of the community is tested by its capacity to look after the least well off in the community. And by that test poor communities in this world are failing and that is the challenge which we must face as we move in to the new millennium.

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